Australian Government

Australian Government Submission

to the

Fair Work Commission Annual Wage Review 2021

26 March 2021

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Acronyms and Abbreviations

ABS	Australian Bureau of Statistics
AENA	Average Earnings in the National Accounts
AWOTE	Average Weekly Ordinary Time Earnings
CCS	Child Care Subsidy
CPI	Consumer Price Index
EEH	Employee Earnings and Hours
FT	Full-time
FTB	Family Tax Benefit
GDP	Gross Domestic Product
GFC	Global Financial Crisis
HILDA	Household, Income and Labour Dynamics in Australia
LPC	Low Pay Commission
MYEFO	Mid-Year Economic and Fiscal Outlook
NAB	National Australia Bank
NILF	Not In the Labour Force
NMW	National Minimum Wage
NLW	National Living Wage
NSA	Newstart Allowance
JSP	JobSeeker Payment
OECD	Organisation for Economic Co-operation and Development
PPP	Parenting Payment Partnered
PPS	Parenting Payment Single
PT	Part-time
RBA	Reserve Bank of Australia
SME	Small and Medium Enterprise

UK	United Kingdom
US	United States
WA	Western Australia
WPI	Wage Price Index
YA	Youth Allowance

1. Introduction

1. This submission provides the latest evidence on the economy, labour market, low-paid workers and inequality to assist the independent Expert Panel ('the Panel') conducting the Annual Wage Review.
2. The impact of the COVID-19 pandemic on the Australian economy has been unprecedented. It has had a significant, negative impact on the Australian labour market. While the economic recovery is well underway, the unemployment rate remains above its pre-pandemic level and particular groups, including long-term unemployed people and youth, are particularly predisposed to ongoing labour market disadvantage. Recent wage growth, as measured by the Wage Price Index (WPI), has slowed since March 2020 and is expected to remain subdued, reflecting elevated spare capacity in the labour market.
3. In the 2020-21 Mid-Year Economic and Fiscal Outlook (MYEFO), following an expected fall in real Gross Domestic Product (GDP) of 2½ per cent in 2020, the economy is expected to grow by 4½ per cent in 2021. The recovery has been underpinned by the Government's economic support packages and strong health outcomes, which have helped drive a recovery in consumer and business confidence.
4. However, the risk of domestic outbreaks and ongoing disruptions to other major economies mean the economic environment remains uncertain. Although the vaccine rollout is underway, COVID-19 outbreaks that would necessitate further containment measures remain a significant risk and even localised outbreaks could have an impact on consumer and business confidence weighing on consumption and investment (see Chapter 3).
5. Given the current uncertainties in the domestic and international economic outlook, the Government therefore urges the Panel to take a cautious approach, taking into account the importance of creating jobs for Australians and ensuring the viability of the businesses, particularly small businesses, which provide the jobs which are crucial to the economic recovery and the wellbeing of Australian families.
6. Despite a substantial improvement in labour market conditions since the height of the downturn, with employment now 3,600 above its pre-pandemic level, there is still significant spare capacity in the labour market. The unemployment rate remains 0.6 percentage points higher than it was in March 2020, with 805,200 Australians unemployed (89,200 more than in March 2020). Groups, such as youth and the long-term unemployed, already facing disadvantage in the labour market have been particularly hard hit by the economic downturn, with the youth unemployment rate 1.3 percentage points above its March 2020 level, while the long-term unemployed must now compete with more highly skilled jobseekers who are out of work. Even though employment has returned to its pre-COVID level, this still represents a year of foregone employment growth (see Chapter 4).
7. Small businesses are more likely to be impacted by the Panel's decision, as around 35 per cent of non-managerial employees working in small businesses are paid award classification wages. As such, small businesses are more likely to rely on awards to set pay and conditions for their employees than larger businesses. Small businesses make

an important contribution to output and employment, and with over 2.3 million actively trading small businesses in Australia, they are a significant part of the Australian economy. Small businesses have been profoundly impacted by the COVID-19 pandemic and the associated lockdowns and travel restrictions, with a significant share required to operate under modified conditions (64 per cent in September 2020) (see Chapter 5).

8. Over the long run, productivity growth is essential for real income growth and improved living standards. Labour productivity in the market sector has grown at an average annual rate of 1.7 per cent over the latest cycle (2011-12 to 2017-18), slightly above the annual average growth of 1.5 per cent recorded for the 2003-04 to 2011-12 cycle and below the average of 2.5 per cent growth from 1998-99 to 2003-04 (see Chapter 6).

9. While the available evidence on the impact minimum wages increases have on employment is mixed, moderate increases are thought to have negligible employment impacts, while larger increases are thought to have more notable negative employment impacts. Studies show that greater impacts on employment are likely when the economy is in a recession or a prolonged slowdown (see Chapter 7).

10. Income inequality in Australia has been broadly stable for more than a decade leading into the COVID-19 pandemic. While data showing the impact of the pandemic and resulting economic downturn on inequality is not yet available, the latest data showed that the Gini coefficient for equivalised household disposable income was 0.328 in 2017-18, slightly below the 0.336 recorded in 2007–08. The national minimum wage bite (the ratio between the national minimum wage rate and median full-time earnings) has also been broadly stable for over a decade, remaining at around 52 to 54 per cent since 2008.

11. Australia's targeted tax-transfer system has played a key role in reducing income inequality, redistributing income between households through a targeted system of cash payments, in-kind support and a progressive income tax system. The impact of minimum wage increases on income inequality is more ambiguous, as minimum wage and award-reliant workers can be found across the household income distribution. However, increases to the minimum wage have, over recent years, been important for maintaining the real disposable incomes of many low-income households (see Chapter 8).

12. The weekly gender pay gap was 13.4 per cent in November 2020 (seasonally adjusted), a historic low, after trending down since the most recent peak of 18.7 per cent in 2014.

13. As part of its JobMaker plan, the Government introduced the Fair Work Amendment (Supporting Australia's Jobs and Economic Recovery) Bill 2021 ('the Bill') into Parliament on 9 December 2020. The Bill passed Parliament on 22 March 2021. The casual employment reforms in the Bill give employers greater certainty about their obligations and the confidence to hire. These reforms define what it means to be a 'casual employee' and gives eligible casual employees a statutory pathway to permanent full-time or part-time jobs. In the event an ongoing employee is misclassified as casual, the reforms ensure any identifiable casual loading amounts paid to the employee can be offset against claims for leave and other entitlements, to address any potential for 'double-dipping' on entitlements. Improving certainty for employers about their obligations is expected to facilitate an environment more conducive to investment, encourage employment and promote wage growth.

14. The Panel should note the Superannuation Guarantee is legislated to increase by 0.5 percentage points on 1 July 2021.

15. The evidence provided in this submission is relevant to the minimum wages objective (s.284) and the modern awards objective (s.134) in the Act, to which the Panel must have regard in making its decision. A number of considerations are outlined in these objectives, including:

    - The performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth (s.284);
    - Promoting social inclusion through increased workforce participation (s.284 and s.134);
    - Relative living standards and the needs of the low paid (s.284 and s.134);
    - The principle of equal remuneration for work of equal or comparable value (s.284 and s.134);
    - Providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability (s.284);
    - The need to encourage collective bargaining (s.134);
    - The need to provide additional remuneration for: employees working overtime; or employees working unsocial, irregular or unpredictable hours; or employees working on weekends or public holidays; or employees working shifts (s.134);
    - The need to promote flexible modern work practices and the efficient productive performance of work (s.134);
    - The need to ensure a simple, easy to understand, stable and sustainable modern award system for Australia that avoids unnecessary overlap of modern awards (s.134);
    - The likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden (s.134);
    - The likely impact of any exercise of modern award powers on employment growth, inflation and the sustainability, performance and competitiveness of the national economy (s.134).

2. Minimum wages and low-paid workers

Key Points

- The Panel's decision directly affects employees paid the national minimum wage rate and those whose pay is set by a modern award. Less than 2 per cent of Australian employees are paid at the rate of the national minimum wage (currently $19.84 per hour). Up to 21.0 per cent of Australian employees (or 2.2 million employees) had their pay set by an award in 2018.
- The 'minimum wage bite' (the national minimum wage rate as a proportion of the median wage of all full-time employees) is 52.7 per cent in 2020 and has been broadly stable between 52 and 54 per cent since 2008. In the most award-reliant industries, the lowest adult minimum wage rates in the applicable awards are 52.7 per cent of the median wage of all full-time employees.
- Low-paid employees are defined by the Organisation of Economic Co-operation and Development (OECD) as those earning less than two-thirds of the median hourly wage. Less than one-third of Australia's 2.2 million award-reliant workers are classified as low paid.

2.1 Coverage of the Panel's decision

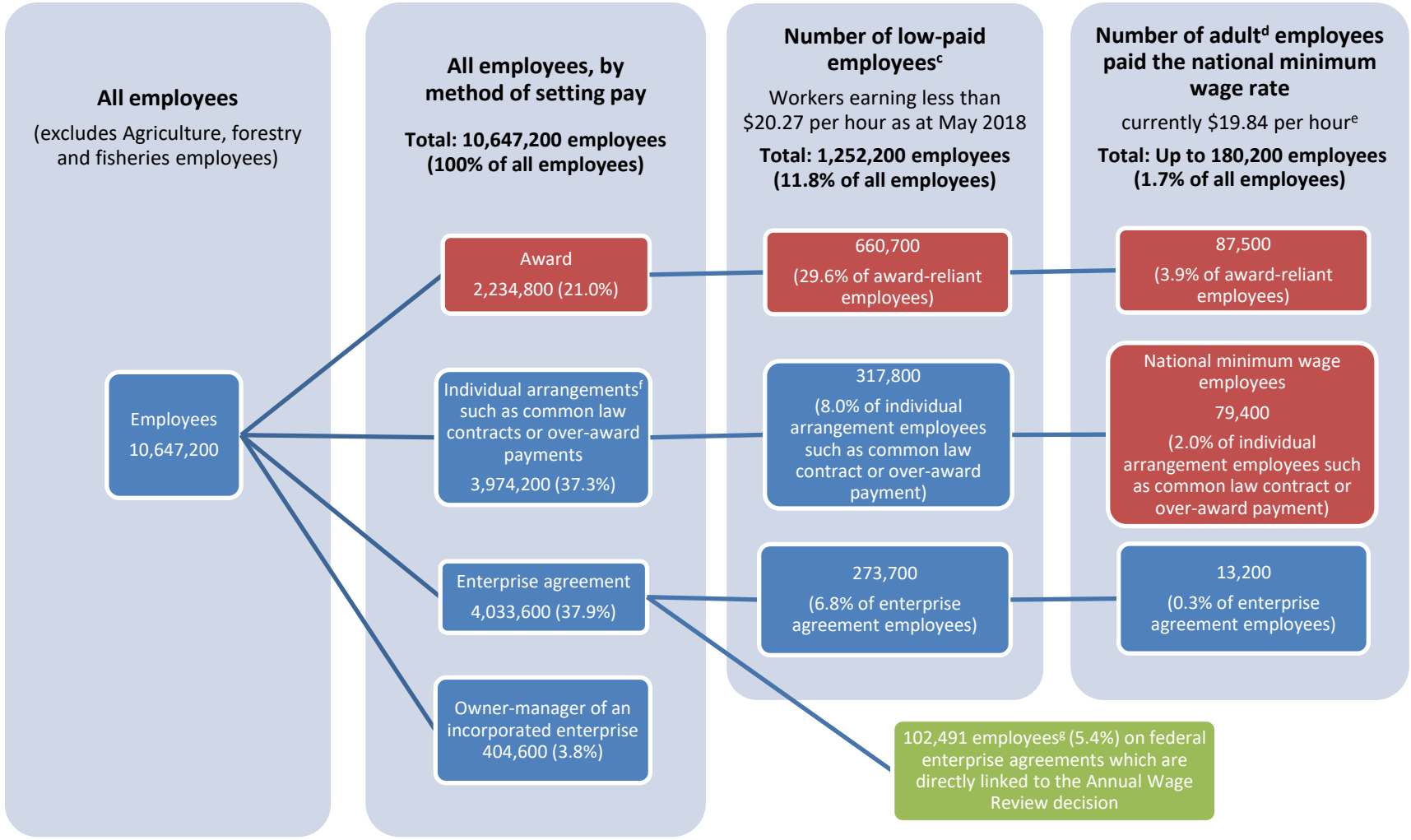
16. Australia's minimum wage system is unique. It sets out not only a national minimum wage rate, but also a range of wages and conditions across 121 industry and occupation-based modern awards. These modern awards set around 2,000 adult award rates of pay across hundreds of classifications. These rates of pay vary widely, from the current national minimum wage rate up to $185,826 per year (Air Pilots Award 2020).

17. A key dataset used in this chapter is the Australian Bureau of Statistics' (ABS) *Employee Earnings and Hours (EEH), May 2018* publication which reports on pay setting methods. This publication was expected to be updated in early 2021 (for the May 2020 reference period) however this was delayed due to the COVID-19 pandemic's impact on the ABS' ability to survey businesses. The next update for this publication is expected in early 2022 (for the May 2021 reference period).

18. Chart 2.1 shows the employees directly affected by the Panel's decision. They are employees paid the national minimum wage rate, those whose pay is set by a modern award, and those workers whose pay is set by collective agreements that are linked to the Annual Wage Review and designed to maintain wage relativities.

19. Chart 2.1 also shows the number of low-paid employees and the estimated number of employees paid the national minimum wage rate.

Chart 2.1: Number of employees by method of setting pay and whether they are low paid, May 2018[a] [b]



Source: ABS *Employee Earnings and Hours, May 2018,* published and unpublished data (including the Attorney-General's Department calculations); Workplace Agreements Database, December 2020.

Note: Chart 2.1 includes state system employees who will not be directly impacted by the Panel's decision. These employees include most state and local government employees as well as most private sector employees in Western Australia who are not employed by constitutional corporations. Due to data availability, not all state system employees can be easily identified, hence the analysis in this submission includes both national and state system employees. (a) All numbers are for May 2018, except for the number of employees on agreements linked to the Annual Wage Review decision (in green), which is for the September quarter 2020. (b) The Fair Work Commission sets award classification wages and the national minimum wage. These workers are coloured red in the chart. (c) Low-paid employees are defined as employees earning less than two-thirds of the median hourly wage. In May 2018, the median hourly wage was $30.40 and employees earning below $20.27 per hour were considered low paid. (d) This excludes workers paid junior, apprentice and disability rates of pay. (e) The national minimum wage rate in May 2018 was $18.29 per hour. Employees paid at or below $18.50 per hour in May 2018 are considered to be paid the national minimum wage rate (this uses an upper error band of 21 cents). (f) The ABS classify employees in the individual arrangement category if they have their pay set by an individual common law contract or arrangement, whether or not written, including where employees receive over-award payments. (g) This data is derived from the Workplace Agreements Database. It includes the number of employees covered by agreements current as at 31 December 2020 with a clause which states that the entirety of the Annual Wage Review decision will be applied in full and automatically to wages. These workers may also be low paid or earning the national minimum wage rate and thus also covered in the boxes above.

2.1.1 National minimum wage employees

20. The national minimum wage rate for adults is currently $753.80 per week ($19.84 per hour or $39,197.60 per year). This is around 2.4 times the new base rate of the JobSeeker Payment for singles without children ($310.40 per week) and 52.7 per cent of the ABS' estimate of full-time median weekly earnings ($1,430.00 per week) (ABS *Characteristics of Employment, August 2020*).[1] There are also separate special national minimum wage rates for juniors, apprentices, trainees and workers with disability.

21. The Attorney-General's Department estimates that around 180,200 Australian employees (or 1.7 per cent) are paid the national minimum wage rate (currently $19.84 per hour) (ABS *Employee Earnings and Hours, May 2018*).[2]

2.1.2 Award-reliant employees

22. In 2018, up to 21.0 per cent of Australian employees (or 2.2 million) had their pay set by an award. This is lower than the 2016 published figure of 22.7 per cent, but higher than the revised 2016 figure of 20.6 per cent.[3]

23. Table 2.1 shows the level of award reliance by industry, as at May 2018. The industries with the highest award reliance were Accommodation and food services (with 43.2 per cent of employees having their pay set by an award), Administrative and support services (39.5 per cent), Other services (34.1 per cent), Health care and social assistance (31.0 per cent) and Retail trade (29.3 per cent).[4]

24. Award-reliant industries were significantly affected during the COVID-19 pandemic. Between February 2020 (closest quarter to the onset of the pandemic) and May 2020 (the trough in the labour market), employment declined across all the five most award-reliant industries. Despite considerable signs of recovery over the period, employment remains below its pre-COVID-19 (February 2020) level in two of the five most award-reliant industries. More detailed analysis is provided in Chapter 4.

[1] Following the advice from Services Australia, the new JobSeeker payment rate will take effect from 1 April 2021.

[2] These include those employees on awards, covered by enterprise agreements and national minimum wage employees. National minimum wage employees are classified as employees who are: paid the adult rate, non-managerial, have their pay set through an individual arrangement, and with average ordinary time earnings of up to $18.50 per hour. The earnings of casual employees are divided by 1.25 to adjust for the casual loading.

[3] Since the 2016 release of EEH, the ABS has further refined its Method of Setting Pay framework, meaning that a sub-set of the employees who were considered to be paid on an Award only basis in 2016 would be considered to have been paid according to a Collective Agreement under the new treatment in 2018.

[4] 'Other services' includes a broad range of personal services, religious, civic, professional and other interest group services, selected repair and maintenance, and private households employing staff. Services provided include hair, beauty, diet and weight management, death care, religious events promotion and administration and repair and maintenance of equipment and machinery.

Table 2.1: Award reliance across industries (proportion of award-reliant employees in each industry, all employees), May 2018

Industry	Award-reliance (%)	Award-reliance (no. of employees)
Accommodation and food services	43.2%	346,999
Administrative and support services	39.5%	258,085
Other services	34.1%	128,641
Health care and social assistance	31.0%	454,851
Retail trade	29.3%	320,261
Rental, hiring and real estate services	26.4%	54,109
Arts and recreation services	21.1%	35,901
Manufacturing	19.4%	137,225
Wholesale trade	14.6%	68,011
Construction	14.1%	111,787
Transport, postal and warehousing	11.3%	50,119
Public administration and safety	10.6%	78,778
Education and training	9.5%	99,692
Professional, scientific and technical services	6.8%	57,593
Information media and telecommunications	6.5%	9,791
Financial and insurance services	4.7%	19,126
Electricity, gas, water and waste services	3.9%	3,918
Mining	0.9%	1,435
Agriculture, forestry and fishing	N/A*	N/A*
All industries	**21.0%**	**2,236,323**

Source: ABS *Employee Earnings and Hours, May 2018*, all employees.
* This survey does not cover enterprises primarily engaged in Agriculture, forestry and fishing.

2.1.3 Award wages

25. Award minimum wages range from the national minimum wage rate of $753.80 per week ($39,197.60 per year) up to $3,573.58 per week ($185,826 per year, Air Pilots Award 2020). The national minimum wage rate of $753.80 per week is equivalent to the base rates of the 42 of the 121 modern awards, while the wage rates of workers in the other pay point classifications of the 42 awards as well as the base wage rates of the remaining 79 modern awards are all above the national minimum wage rate.[5]

26. The majority of award-reliant workers are paid higher wages than the national minimum wage, with the latest data showing that the median full-time award-reliant wage ($1,100.00) was 58.3 per cent higher than the national minimum wage rate as at May 2018 ($694.90).[6] This means that the median weekly full-time wage for award-reliant employees ($1,100.00) was 75.3 per cent of the median weekly full-time wage for all employees ($1,460.00) (ABS *Employee Earnings and Hours, May 2018*).

[5] The base rate is the lowest pay point in a modern award. It includes the wage rates for introductory, induction or training rates but excludes apprenticeship wage rates.
[6] The full-time median wage for award-reliant workers only includes non-managerial employees paid at the adult rate.

27. The ‘minimum wage bite’ refers to the national minimum wage rate as a proportion of the median wage of all full-time employees including owner managers of incorporated enterprises. In Australia, the minimum wage bite is currently 52.7 per cent. More information on the minimum wage bite is provided in Chapter 8.

28. Table 2.2 shows analysis of the lowest adult rate (excluding the introductory rates) in awards for the most award-reliant industries (Accommodation and food services, Administrative and support services, Other services, Health care and social assistance, and Retail trade) as a proportion of the median wage of all full-time employees. The selection of awards is based on the mapping methodology developed by the former Fair Work Australia (Preston *et al.* 2012).

Table 2.2: Wages across mapped awards, August 2020

Modern award	Industry (Primary)	Weekly minimum full-time rate ($)	Proportion of median full-time wage (%)
Hospitality Industry (General)	Accommodation and food services	$775.40	54.2%
Restaurant Industry	Accommodation and food services	$775.40	54.2%
Registered and Licensed Clubs	Accommodation and food services	$775.40	54.2%
Fast Food Industry	Accommodation and food services	$827.80	57.9%
General Retail Industry	Retail trade	$827.80	57.9%
Pharmacy Industry	Retail trade	$827.80	57.9%
Vehicle Repair, Services and Retail Award	Retail trade/Manufacturing[7]	$753.80	52.7%
Cleaning Services	Administrative and support services	$804.90	56.3%
Clerks – Private Sector	Administrative and support services	$801.40	56.0%
Contract Call Centres	Administrative and support services	$805.10	56.3%
Hair and Beauty Industry	Other services	$827.80	57.9%
Fitness Industry	Other services/Arts and recreation services	$753.80	52.7%
Children's Services	Education and training	$771.00	53.9%
Aged Care	Health care and social assistance	$801.40	56.0%
Health Professionals and Support Services	Health care and social assistance	$801.40	56.0%
Social, Community, Home Care and Disability Services Industry	Health care and social assistance	$811.30	56.7%
National minimum wage rate	-	**$753.80**	**52.7%**

Source: ABS *Characteristics of Employment, August 2020*; Fair Work Commission 2021; Preston *et al.* 2012.
Note: The Children's Services Award is primarily mapped to the Education and training industry. It has been included due to having secondary mappings to the Administrative and support services and Other services industries, which have relatively high award-reliance.

[7] The industry-award mapping in the table is based on the tool created by Preston *et al.* 2012, which mapped awards to industries as at 2011. Therefore subsequent changes to awards that affect their coverage are not captured in the mapping, such as the FWC's amendment to the *Vehicle Manufacturing, Repair, Services and Retail Award 2010* in 2020, which removed Manufacturing employees originally covered by this award into the *Manufacturing and Associated Industries and Occupations Award 2020*.

29. Of the mapped awards, the Vehicle Repair, Services and Retail Award and Fitness Industry Award specify the lowest adult weekly full-time wage that is equal to the national minimum wage rate. The lowest rate in the remaining fourteen awards is higher, giving a higher proportion than the national minimum wage bite (52.7 per cent) (ABS *Characteristics of Employment, August 2020*).

30. At the C10 equivalent classification level, all the examined awards with a comparable qualification level specify a minimum weekly full-time rate of $877.60, resulting in a bite of 61.4 per cent.[8,9]

2.2 Who are the low paid?

31. Sections 134.1 and 284.1 of the *Fair Work Act 2009* state the Panel, in reviewing and determining minimum and award wages, must have regard to the relative living standards and the needs of low-paid workers. In this submission, consistent with the Organisation for Economic Co-operation and Development (OECD) definition, low-paid workers are defined as workers earning less than two-thirds of the median hourly wage.

32. Analysis relating to low-paid workers in this submission is based on the ABS Employee Earnings and Hours publication, and the Household, Income and Labour Dynamics in Australia (HILDA) survey, depending on data availability. Using 2018 ABS data (the latest), earnings below $20.27 per hour are considered low paid, while the threshold for low-paid workers is $21.10 per hour if using the 2019 HILDA survey. Appendix A contains a detailed discussion of the methodology used to calculate the number of low-paid workers.

33. Using ABS data, there were about 1.3 million low-paid employees in 2018, comprising 11.8 per cent of all employees. Of the up to 2.2 million award-reliant employees, 29.6 per cent of award-reliant workers were low paid (ABS *Employee Earnings and Hours, May 2018*) (see Chart 2.1).[10]

2.2.1 Characteristics of low-paid workers

34. Low-paid workers have a diverse range of characteristics. Analysis by the Attorney-General's Department using the HILDA survey shows that in 2019:

    - Just over half (52.6 per cent) of low-paid workers were female, while 47.4 per cent were male.
    - Low-paid work tended to be concentrated among younger workers.[11]

[8] The C10 classification is the minimum award rate set under the Manufacturing and Associated Industries and Occupations Award 2020 (and predecessor awards) that has traditionally been used as a benchmark for setting minimum wages across awards. It is not possible to identify a comparable qualification level for Cleaning Services Award to a C10 equivalent level. The Fast Food Industry Award and the Clerks – Private Sector Award do not specify certain qualifications but specify responsibilities for experienced employees performing duties equivalent to being qualified to a certain qualification level.

[9] Workers at the C10 equivalent classification level are not low paid as their equivalent minimum hourly rate $23.09 is above the low-paid threshold of $21.10 if using the 2019 HILDA data.

[10] We report two measures of low paid: firstly from the ABS which has a bigger sample size and is more robust, and secondly, from HILDA which allows for more detailed analysis, albeit on a smaller sample.

[11] Low-paid thresholds for workers aged under 21 years have been deflated by the relevant junior minimum wage rates. See Appendix A for further detail.

- Over half (58.2 per cent) of low-paid workers were aged under 30, with 14.1 per cent aged between 15 and 19 years, and over a quarter (28.8 per cent) in the 20-to-24-year-old age cohort.
- A further 13.1 per cent of low-paid workers were aged over 55 years.
- Just under a quarter of low-paid workers were full-time students (23.3 per cent).
- Low-paid workers lived in a range of households. About 61.3 per cent of low-paid workers were single without children, 21.0 per cent were a member of a couple without children, 15.1 per cent were a member of a couple with children and 2.6 per cent were single parents.[12]
- Excluding the loading of typically 25 per cent that is paid to casuals, about 60.9 per cent of low-paid workers were casuals. If the casual loading is included in the analysis, hourly wage rates for casuals would be above the low-paid threshold.[13]

35. The characteristics of low-paid workers indicate that low-paid jobs are an important pathway into the workforce:

    - 37 per cent of people who entered the workforce did so by taking a low-paid job.
    - 43 per cent of workers aged under 25 years entered the workforce through low-paid work.
    - 42 per cent of those with Year 12 qualifications or below entered the workforce through low-paid work.

36. Around two-thirds of workers who enter low-paid employment leave within one year (66.0 per cent), with most of these (75.3 per cent) moving to higher paid work. Chapter 7 discusses the 'stepping stones' effect of low-paid jobs in more detail.

37. Appendix A provides further detailed characteristics of low-paid workers, including occupation, industry and education.

2.2.2 Low-paid workers and household income

38. The minimum wages objective under the *Fair Work Act 2009* requires the Panel to consider relative living standards and the needs of the low paid. In general, household income is a better proxy of economic wellbeing than individual income.[14] As noted by the Panel in its 2018-19 Decision:

> *"The relative living standards of employees on the NMW and award-reliant employees are affected by the level of wages that they earn, the hours they work, tax-transfer payments and the circumstances of the households in which they live. The net effect of these factors is summarised in the notion of equivalised household disposable income."* (Annual Wage Review 2018-19 Decision [2019] FWCFB 3500, para 15).

[12] The 'children' households refer to households with a resident child aged under 15 years. Households with either non-resident children or resident children aged 15 years and over are classified in the 'no children' households.

[13] The casual loading is provided to compensate employees for a range of entitlements that casual employees do not receive, including not receiving paid annual or sick leave.

[14] The Government acknowledges that in some households, household income is not shared among household members, e.g. shared household arrangements.

39. There are two ways to examine the spread of low-paid workers across the household income distribution. The first is to examine the distribution of low-paid workers across households with at least one employee (referred to as employee households). The second is across all households (including jobless households and retiree households).

40. The analysis on the income distribution across employee households is provided to assist the Panel to consider the living standards of low-paid workers relative to other employees.

41. However, under s.134 and s.284 of the *Fair Work Act 2009*, the Panel is also required to consider the need to promote social inclusion through increased workforce participation, in addition to the living standards of those who have a job. Examining the income distribution across all households, rather than just employee households, gives a more complete picture of relative living standards for both employees and those who can work but do not have a job, hence it is included in this submission.[15]

42. Under both methods, it is important to ensure that income is adjusted for household needs, due to differences in size and composition, as this will impact on living standards for the household.[16] Chart 2.2 compares the distribution of low-paid employees across the household disposable income distribution using both of these methods.[17]

43. Across *all* households, low-paid employees are broadly spread across the income distribution, with 54.8 per cent of low-paid employees residing in the lower five income deciles, and 45.2 per cent in the higher five deciles.[18]

44. When considering *employee* households only, low-paid workers remain spread across the income distribution.[19] However, there are a higher proportion of low-paid employees in the lower deciles than the top deciles. For example, 62.1 per cent of low-paid employees are in the lower five income deciles, with 29.6 per cent in the lowest two deciles and 11.3 per cent in the highest two deciles.

[15] The Government recognises there are some households where not all the members of the household are in the labour force, such as households only containing retirees.

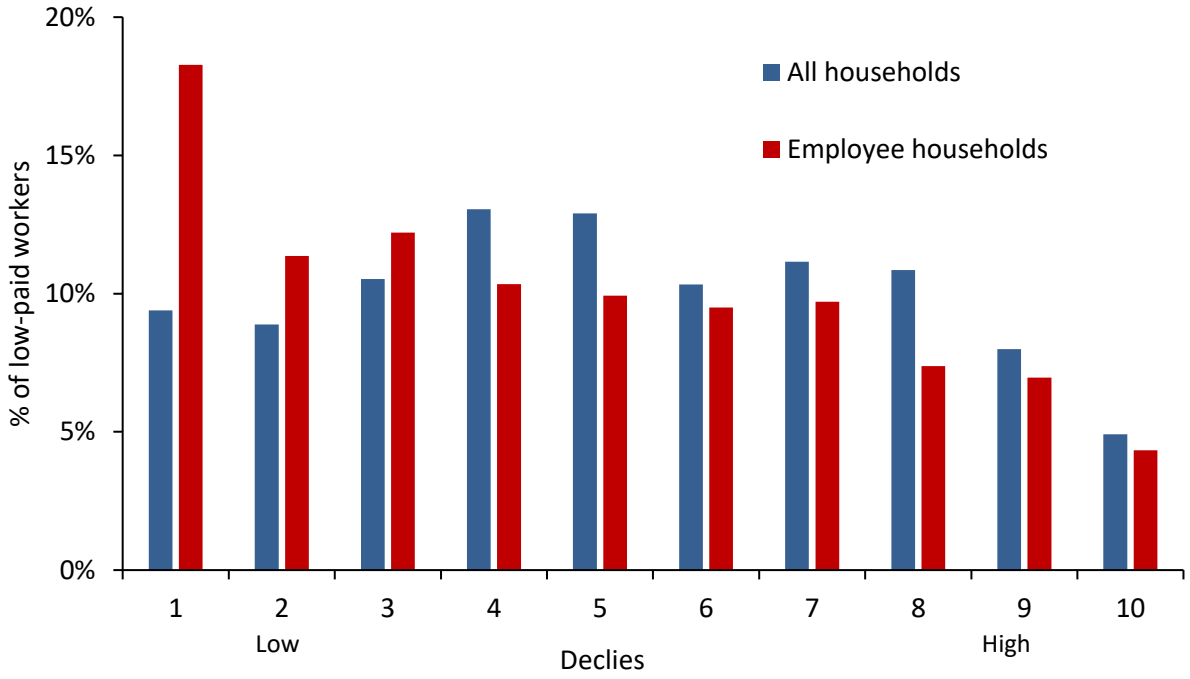
[16] Household income is adjusted for household needs, including household size and composition, using the OECD equivalence scale. This gives a weight of 1 to the first household member, 0.5 to each subsequent adult and 0.3 to each child aged under 15 years.

[17] Disposable household income refers to household private income plus government transfers, less taxes.

[18] The first decile includes the bottom 10 per cent of individuals as ranked by household disposable income; similarly, the second decile includes the next 10 per cent of individuals, and so on.

[19] The Government's submission typically details further analysis on the distribution of low-paid employees however the latest results (for 2019) are similar to the results in the Government's submission to the 2019 Annual Wage Review (which used 2017 HILDA data) and as such, have not been provided here.

Chart 2.2: Distribution of low-paid employees, by equivalised household disposable income, comparing all households and employee households, 2019



Source: Attorney-General's Department analysis using the *HILDA* Survey, release 19 (December 2020), wave 19

3. Economic Environment

Key Points

- Australia's economic recovery from the COVID-19 driven downturn in the first half of 2020 is well underway.
- The labour market recovery has outperformed expectations to date, but there remains significant spare capacity.
- Wage growth, as measured by the WPI, has been subdued since March 2020.

3.1 Introduction

45. Australia's economic recovery is well underway with the economy growing strongly in the September and December quarters of 2020. This is consistent with Australia's success in controlling the spread of the COVID-19 virus and the staggered easing of restrictions. In the 2020-21 MYEFO following an expected fall in real GDP of 2½ per cent in 2020, the economy is expected to grow by 4½ per cent in 2021. The recovery has been underpinned by the Government's economic support packages and strong health outcomes, which have helped drive a recovery in consumer and business confidence. Nevertheless, there is a long way to go until the economy fully recovers. The risk of domestic outbreaks and ongoing disruptions to other major economies means the economic environment remains highly uncertain.

3.2 International outlook

46. COVID-19 continues to pose a significant challenge for the global economy but vaccine developments are progressing well with vaccination programs beginning to occur, which will bolster confidence in the outlook.

47. Record increases in new COVID-19 cases and the reimposition of restrictions in some countries following the 2020-21 Budget weigh on the MYEFO forecast of economic activity in the December quarter.

48. In the 2020-21 MYEFO, global GDP is expected to fall by 4 per cent in 2020 and then recover over the remainder of the forecast period, growing by 4¾ per cent in 2021 and 3¾ per cent in 2022. Major trading partner growth is expected to fall by 2½ per cent in 2020, before recovering by 5¾ per cent in 2021 and 4 per cent in 2022.

49. There remains substantial uncertainty around the global recovery. The efficacy, timing and take-up of vaccination programs globally are unknown and, until vaccination programs are completed, living with COVID-19 will likely involve sporadic outbreaks that will weigh on business and consumer confidence and could lead to periodic restrictions on activity. Nonetheless, a faster than expected availability and take-up of vaccines globally is an upside risk to the global outlook.

50. Significant uncertainty about the longer-run implications of the COVID 19 shock also persists. It will take time to rehabilitate labour markets and repair damaged household and business balance sheets, with the degree of scarring still unclear. There is also uncertainty around how persistent trade redirection and the reduced movement of

people associated with this shock will be, with the risk that uneven recoveries will continue to weigh on global supply and demand for longer than expected.

3.3 Domestic outlook

51. The initial economic recovery as of the 2020-21 MYEFO was stronger than 2020-21 Budget expectations. Following a fall in real GDP of 2½ per cent in 2020, the economy is expected to grow by 4½ per cent in 2021. Australia's economic and health outcomes continue to compare favourably to other countries and the Australian economy is forecast to outperform all major advanced economies in 2020.
52. Since the 2020-21 Budget, there have been encouraging developments in relation to COVID-19 vaccine research. Australia has secured access to a number of global vaccine candidates and will roll out vaccines that prove safe and effective.
53. COVID-19 outbreaks, especially those that would necessitate further containment measures, remain a significant risk and even localised outbreaks could have an impact on consumer and business confidence weighing on consumption and investment. Substantial renewed outbreaks in key trading partners could also slow the domestic recovery, including further delaying the opening of international borders. In contrast, a faster than expected rollout of the vaccine in Australia poses an upside risk to the recovery.
54. The extent of any longer lasting economic effects from the COVID-19 pandemic are difficult to predict. The virus has induced significant labour market dislocation and lower migration, which will have a permanent effect on the size of the population. The effect these factors will have on labour through scarring or on productivity in the medium term, and in turn on potential GDP, is a source of significant uncertainty.

3.3.1 Business conditions

55. Business investment is expected to remain subdued in the near term as businesses defer investment due to continued uncertainty around the pandemic (including the impact on international supply chains), subdued domestic demand and weak export demand in certain sectors. As a result, in the 2020-21 MYEFO, new business investment is forecast to fall by 8½ per cent in 2020-21, before growing by 5 per cent in 2021-22.
56. Non-mining business investment is forecast to decline by 11 per cent in 2020-21, before growing by 7½ per cent in 2021-22, following record falls in business conditions and confidence over the first half of 2020. The easing of containment measures, recovering confidence as well as the Commonwealth and state and territory government policies announced in recent budgets are expected to support a recovery in business investment.
57. In the 2020-21 MYEFO, exports are forecast to fall by 7 per cent in 2020-21 and grow by 3 per cent in 2021-22. The fall in 2020-21 is driven by international travel restrictions while the increase in 2021-22 is driven by a lift in mining exports. Recent trade actions on Australian exports have so far affected a relatively small proportion of total exports, despite material impacts on specific firms and regions.
58. Services exports are expected to fall by 32½ per cent in 2020-21 and by a further 3 per cent in 2021-22. Tourism drives most of the decrease in 2020-21, while

international education exports drive the decrease in 2021-22 as the number of foreign student arrivals remains low and some existing students depart. Although services exports will begin to recover once international travel picks up, they will take some time to return to pre-COVID-19 levels.

59. In the 2020-21 MYEFO, the terms of trade are forecast to rise by ¾ per cent in 2020-21 before falling by 13¼ per cent in 2021-22. Stronger than assumed commodity prices in the period since the 2020-21 Budget contribute to the small rise in the terms of trade in 2020-21, while the larger fall in the terms of trade in 2021-22 largely reflects the assumed decline in iron ore prices.

3.3.2 Consumption and dwelling investment

60. Household consumption has been recovering from lows seen during the peak of the COVID-19 pandemic. Consumption fell by a record 12.3 per cent in the June quarter 2020. Since then, consumption has grown by 7.9 per cent in the September quarter 2020 and 4.3 per cent in the December quarter 2020 but is still 2.7 per cent below its pre-COVID level (December 2019) (ABS *National Accounts: National Income, Expenditure and Product, December 2020*). Following a 3 per cent decline in 2019-20, in the 2020-21 MYEFO, household consumption was forecast to increase by ½ per cent in 2020-21 and 5 per cent in 2021-22.

61. Robust household balance sheets are expected to support consumption growth going forward. The household savings ratio fell in the December quarter 2020 but remained elevated at 12.0 per cent, while household gross income was resilient throughout the pandemic, supported by Government policy.

62. Dwelling investment is forecast to fall by 2 per cent in 2020-21 before falling by 2½ per cent in 2021-22. Looking forward, the construction of detached houses is expected to grow strongly in the near term, partially driven by housing policies (including HomeBuilder) and lower interest rates. In contrast, the outlook for medium- and high-density dwellings remain subdued and construction is expected to remain weak to the June quarter 2022 as a result of reduced demand for inner-city high-density dwellings.

3.3.3 Employment

63. Nationally, 876,000 jobs have been created since May, more than the 873,000 jobs lost between March and May (ABS *Labour Force, Australia, February 2021*). The additional number of employed people working zero hours for economic reasons has also fallen from its peak of around 720,000 people in April 2020 to be around 66,500 people in February 2021.

64. Differences in the recovery across states and territories appear to have dissipated, with employment in all states within 2 per cent of their March 2020 level. This follows recent strong employment growth in Victoria, which represented over 55 per cent of the national increase in employment between September 2020 and February 2021.

65. Female employment suffered a larger decline in the initial stages of the pandemic, but has since rebounded, making up 56 per cent of the employment growth since May. As of

February 2021, employment is 19,500 persons (or 0.3 per cent) higher than the March 2020 level for females, and 16,000 persons (or 0.2 per cent) lower for males.

66. In February 2021, the participation rate remained steady at its equal-record high of 66.1 per cent, with large numbers of people having been encouraged to return to the workforce due to the improving economic conditions and supportive policy environment. This historically elevated participation rate has meant that the unemployment rate has remained elevated despite strong employment growth.

67. The underemployment rate, which considers those people who are employed but want more hours, has fallen from its peak of 13.8 per cent in April 2020 to 8.5 per cent in February 2021. Despite this, spare capacity in the labour market remains elevated, with 89,200 more unemployed people in February 2021 than in March 2020, and total hours worked down 0.7 per cent over the same period.

68. Following strong growth in the September and December quarters of 2020, employment growth is expected to be more gradual over 2021. As of 2020-21 MYEFO, employment was expected to rise by 4 per cent through the year to the June quarter 2021, and 1¾ per cent through the year to the June quarter 2022, which is around its long run average but still faster than expected population growth.

69. In the 2020-21 MYEFO, the unemployment rate was forecast to peak at 7½ per cent in the March quarter 2021. The unemployment rate was expected to fall to 6¼ per cent by the June quarter 2022, in line with the recovery in activity, reaching 5¼ per cent by the June quarter 2024. In addition, the participation rate was forecast to remain around 66 per cent through to the June quarter 2022.

3.3.4 Wages

70. Average Weekly Ordinary Time Earnings (AWOTE) increased by 3.2 per cent through the year to November 2020 (ABS *Average Weekly Earnings, November 2020*). Over the same period AWOTE increased by 2.8 per cent in the public sector and 3.2 per cent in the private sector. Average compensation per employee (on a national accounts basis) rose by 0.5 per cent in the December quarter 2020, to be 2.6 per cent higher through the year (ABS *Australian National Accounts: National Income, Expenditure and Product, December 2020*).

71. Both measures of average earnings increased sharply throughout 2020 before softening towards the end of the year. This in part reflects the JobKeeper Payment and sharper declines in employment in lower paid jobs. As employment continues to recover and policy shifts from the support phase to the recovery phase, these compositional effects will unwind, temporarily weighing on average earnings in the near term.

72. Recent wage growth, as measured by the WPI, has slowed since March 2020 and is expected to remain subdued over the forecast period, reflecting elevated spare capacity in the labour market.

73. The WPI grew by 0.6 per cent in the December quarter 2020 to be 1.4 per cent higher through the year, reflecting fewer end of financial year wage reviews, delayed enterprise agreement increases as a result of the COVID-19 pandemic and the staggered implementation of award increases following the Panel's 2020 Annual Wage Review decision (ABS *Wage Price Index, December 2020*). Through the year to the December

quarter 2020, both private (1.4 per cent) and public (1.6 per cent) wage growth remains subdued.

74. Among the five most award-reliant industries, through the year wage growth in the December quarter 2020 was 0.3 per cent in Accommodation and food services, 0.9 per cent in Administrative and support services, 1.4 per cent in Other services, 1.6 per cent in Health care and social assistance and 1.0 per cent in Retail trade.

75. A declining unemployment rate is expected to support a gradual pick up in wages over time. In the 2020-21 MYEFO, the WPI is forecast to grow by 1¼ per cent through the year to the June quarter 2021 and by 1¼ per cent through the year to the June quarter 2022, before gradually rising over the remainder of the forward estimates.

3.3.5 Inflation

76. Price pressures are expected to remain weak across the forecast period, reflecting the excess capacity in the economy. Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase from -0.3 per cent through the year to the June quarter 2020 to 2¼ per cent through the year to the June quarter 2021, driven by further unwinding of childcare policy changes and excise indexation.

77. The Consumer Price Index (inflation) is forecast to be 1½ per cent through the year to the June quarter 2022, with measures of underlying inflation expected to remain near record lows over the first two years of the forecast period.

4. Labour market developments

Key Points

- COVID-19 has had a significant, negative impact on the Australian labour market, with employment and hours worked declining sharply from March 2020 (when Australia recorded its 100th COVID-19 case) to the trough in May 2020.
- Since then, however, against the backdrop of declining COVID-19 cases and easing restrictions, labour market conditions have rebounded more strongly than initially anticipated, with employment now 3,600 *above* its pre-pandemic level.
- Despite the improvement in employment, the unemployment rate remains 0.6 percentage points higher than it was in March 2020, with 805,200 Australians unemployed (89,200 more than in March 2020). Young people have been disproportionately affected by the pandemic compared with all other age groups.
- Encouragingly, there has been a steady recovery in recruitment activity as measured by the Internet Vacancy Index. The number of newly advertised jobs has now increased for 10 consecutive months, exceeding its pre-pandemic level (up by 14.3 per cent).
- Positive news around the effectiveness of COVID-19 vaccines has also boosted confidence although the availability of supply, timeliness of distribution, take-up rate challenges and the possibility of reduced vaccine effectiveness against new variants, pose some downside risk to the labour market recovery, going forward.
- A legacy of this pandemic, however, may be higher *long-term* unemployment than the level to which we have become accustomed.

4.1 Broad labour market conditions

78. Underlying labour market conditions are one of the factors to which the Panel must pay regard when making its decision about the national minimum wage rate and award classification wages, as the decision may impact on employers' plans to hire new staff or offer more hours. This chapter outlines the most recent developments.

79. The COVID-19 pandemic radically affected the Australian labour market, with employment falling sharply, by 872,800 (or 6.7 per cent) between March 2020 (when Australia recorded its 100th case of COVID-19) and the trough in May 2020.

80. Reflecting falling COVID-19 cases and easing restrictions in most jurisdictions, however, employment has rebounded strongly (up by 876,400 or 7.2 per cent) between May 2020 and February 2021 and is now 3,600 *above* the level recorded in March 2020 (ABS *Labour Force, Australia, February 2021*).

81. Against the backdrop of an unprecedented hit to the labour market from the pandemic, the unemployment rate has risen from 5.2 per cent in March 2020, to 5.8 per cent in February 2021 (albeit down from its peak of 7.5 per cent recorded in July 2020), with 805,200 Australians now unemployed.

82. The youth labour market has been disproportionately affected (despite a strong rebound since May 2020), with youth employment still 74,100 (or 3.8 per cent) *below* its

pre-pandemic level in March 2020. In line with the hit to employment for the cohort, the youth unemployment rate has risen from 11.6 per cent in March 2020 to 12.9 per cent in February 2021, although it remains below the peak of 16.4 per cent recorded in July 2020. This equates to an additional 21,000 young people becoming unemployed since March 2020.

83. The long-term unemployed have also been negatively affected and are now competing against more highly skilled job seekers who have recently lost their jobs as a result of the pandemic. Long-term unemployment has risen by 30,100 (or 17.1 per cent) since the onset of COVID-19 to now stand at 206,600 in February 2021, and is likely to increase further over the course of 2021.

84. COVID-19 has also had a significant, negative impact on a number of sectors, with employment falling in 13 of the 19 broad industries between February 2020 (the closest quarter to the onset of COVID-19) and May 2020 (overall low point in the COVID-19 employment downturn). Further recovery in employment has not been uniform across all industries (see Table 4.2). Overall, employment remains below its pre-COVID-19 level (February 2020) in eight of the 19 broad industry groups (ABS *Labour Force, Australia, Detailed, February 2021*).

85. Of the five most award-reliant industries, employment remains below its pre-COVID-19 level in Accommodation and food services (down by 86,200 or 9.2 per cent) and Administrative and support services (down by 51,500 or 11.9 per cent).

86. Employment now exceeds the level recorded in February 2020 in the remaining three most award-reliant industries; Retail trade (up by 77,600 or 6.2 per cent), Other services (up by 16,100 or 3.3 per cent), and Health care and social assistance (up by 13,900 or 0.8 per cent).

4.2 Employment and participation

4.2.1 Employment and participation broad overview

87. The ABS defines a person as employed if they are aged 15 years and over and worked for pay, profit, commission or payment in kind during the *Labour Force Survey* reference week. The definition of employment aligns closely with the International Labour Organisation guidelines.

88. The labour force includes those people who are either working or looking for work. The participation rate is the labour force expressed as a percentage of the civilian population aged 15 years and over.

89. COVID-19 has had a significant, negative impact on the Australian labour market. Against the backdrop of the shutdown of non-essential services and trading restrictions, as well as school closures, employment initially contracted sharply, by 872,800 (or 6.7 per cent) between March 2020 and the trough in the labour market in May 2020 (see Chart 4.1).

90. Part-time employment accounted for 61.0 per cent of the decline in employment between March 2020 and May 2020, falling by 532,800 (or 12.9 per cent), while full-time employment decreased by 340,000 (or 3.8 per cent) over the period.

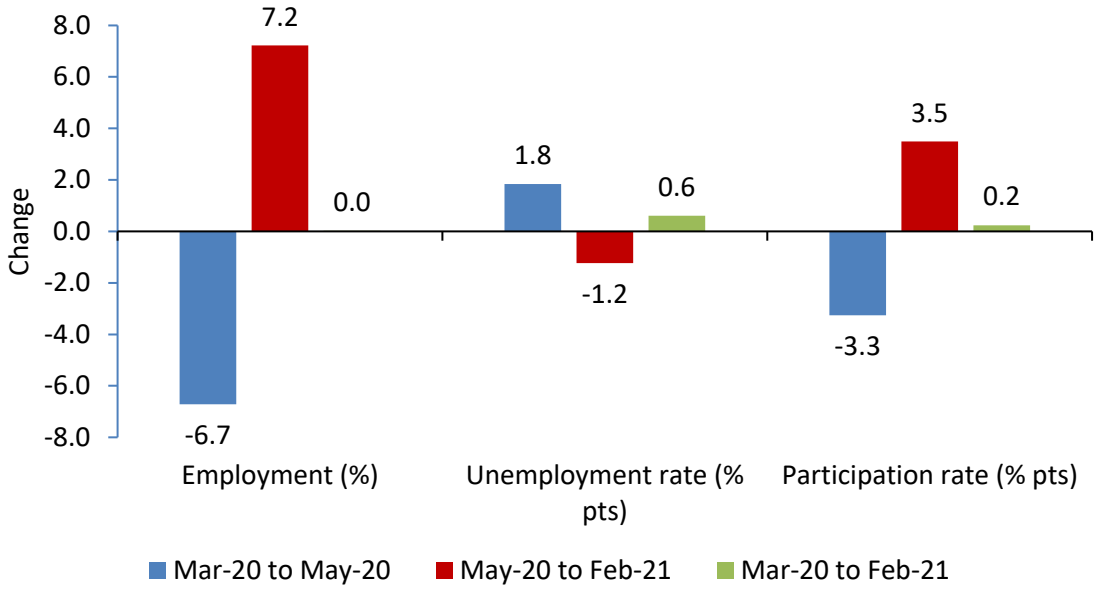
91. In addition, 667,300 people left the labour force between March 2020 and May 2020, pushing the participation rate down by 3.3 percentage points to 62.6 per cent in May 2020.

92. Reflecting the significant decline in COVID-19 cases and the subsequent easing in restrictions, employment has rebounded strongly since May 2020, increasing by 876,400 (or 7.2 per cent) to stand at a near record high of 13,006,900 in February 2021.

93. Part-time employment has recovered strongly since May 2020 (up by 518,100 or 14.4 per cent), while full-time employment has also risen by 358,300 (or 4.2 per cent).

94. Since May 2020, the labour force has risen by 760,100, which has pushed the participation rate up by 3.5 percentage points, to a near record high of 66.1 per cent in February 2021, as fewer COVID-19 cases, eased restrictions, and strengthening conditions in most areas have encouraged people to enter the labour force in search of work.

Chart 4.1: Change in key labour market indicators



Source: ABS *Labour Force, Australia, February 2021*, seasonally adjusted data.

95. Despite a substantial improvement in labour market conditions since May 2020, several key labour market indicators have not returned to their pre-COVID-19 levels. For example, aggregate hours worked remain 11.8 million hours below the level recorded in March 2020, and the unemployment rate remains 0.6 percentage points above its pre-pandemic rate. While full-time employment is now 18,300 (or 0.2 per cent) *above* the level recorded in March 2020, part-time employment remains 14,700 (or 0.4 per cent) *below* the level recorded in March 2020.

96. Notably, the reduction in COVID-19 cases and the easing of restrictions has buoyed business and consumer confidence and encouraged more people to enter the labour force, which is now 92,800 *above* the level recorded in March 2020. Further, the participation rate is 0.2 percentage points *above* the rate recorded in March 2020.

97. With respect to an age breakdown of participation rates, the largest increase recorded between March 2020 and February 2021 was for persons aged 55 to 64 years (up by 1.0

percentage point to stand at 67.9 per cent in February 2021) (see Table 4.1). By contrast, the participation rate for persons aged 25 to 34 years fell by 0.5 percentage points to stand at 84.9 per cent.

Table 4.1: Participation rates by age cohort and change since March 2020

Participation rate	15 to 24 years	25 to 34 years	35 to 44 years	45 to 54 years	55 to 64 years	65 years and over
March 2020 (%)	68.3%	85.4%	85.5%	84.8%	66.9%	14.7%
February 2021(%)	68.6%	84.9%	86.4%	85.1%	67.9%	15.3%
Change, March to February (%pts)	0.3%pts	-0.5%pts	0.9%pts	0.3%pts	1.0%pts	0.6%pts

Sources: Data for the 15-24, 25-34, 35-44 and 45-54 age groups are ABS *Labour Force, Australia, February 2021,* seasonally adjusted data. Data for the 55-64, and 65 years and over age groups are ABS *Labour Force, Australia*, *February 2021,* National Skills Commission seasonally adjusted data.

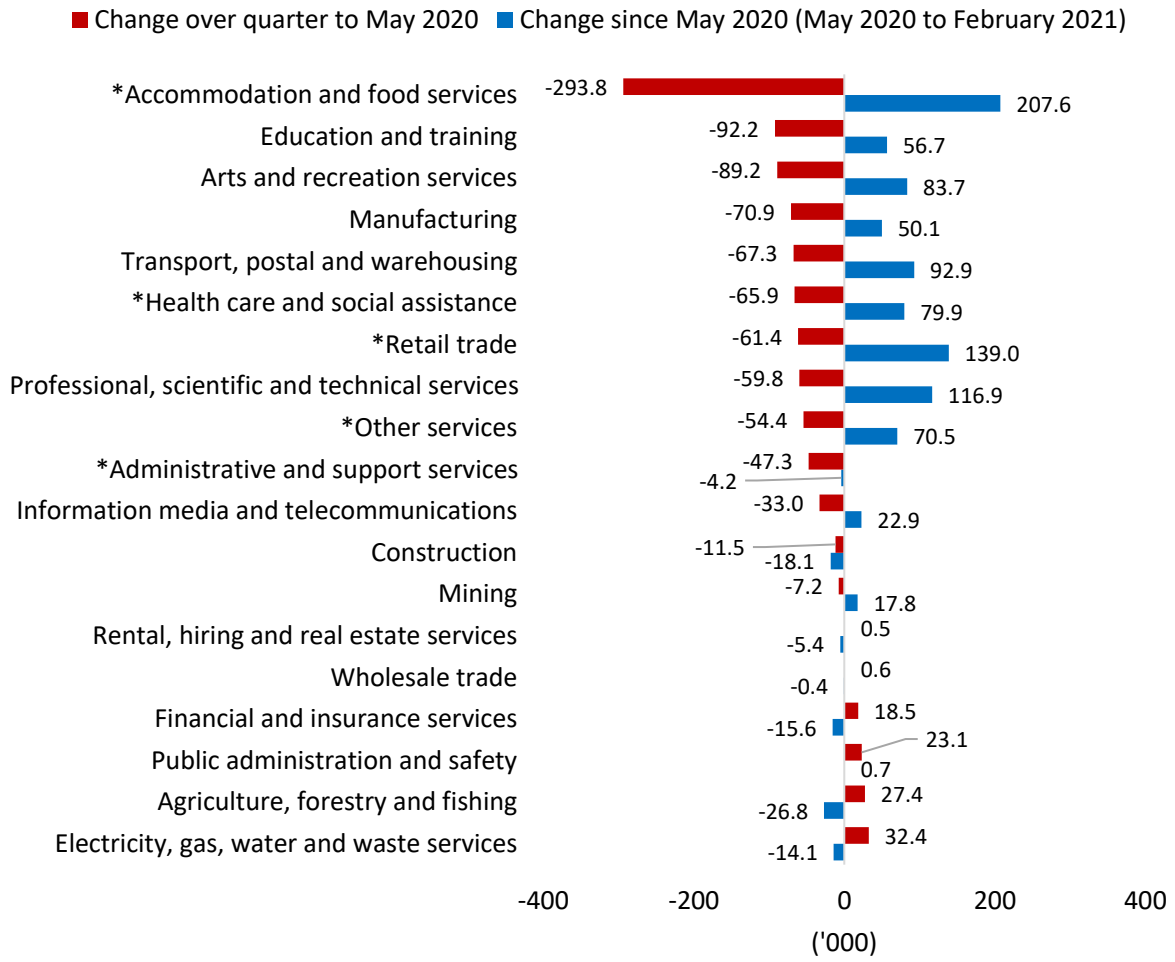
98. Persons aged 35 to 44 years had the highest participation rate of 86.4 per cent in February 2021 while the lowest participation rate was 15.3 per cent for those aged 65 years and over.

4.2.2 Employment by industry

99. Labour market conditions have varied considerably across Australian industries, with COVID-19 affecting some sectors more than others.

100. Employment fell in 13 of the 19 broad industries between February 2020 (the closest quarter around the time of the onset of the pandemic) and the trough in the labour market in May 2020, including all of the five most award-reliant industries (ABS Labour Force, Australia, Detailed, February 2021). Of these, the largest decrease in employment was recorded in Accommodation and food services (down by 293,800 or 31.4 per cent), followed by Health care and social assistance (down by 65,900 or 3.7 per cent), Retail trade (down by 61,400 or 4.9 per cent), Other services (down by 54,400 or 11.1 per cent), and Administrative and support services (down by 47,300 or 10.9 per cent).

Chart 4.2: Change in employment by industry ('000)



Source: ABS *Labour Force, Australia, Detailed, February 2021,* seasonally adjusted data.
**denotes the five most award-reliant industries.*

101. Between May 2020 and February 2021, however, four of the top five most award-reliant industries were among the 12 broad industries to record an increase in employment (see Chart 4.2).

102. Despite considerable signs of recovery over the period, employment remains below its pre-COVID-19 (February 2020) level in eight of the 19 industries, including in two of the five most award-reliant industries (see Table 4.2).

103. The two largest decreases in employment between February 2020 and February 2021 were recorded in the award-reliant industries of Accommodation and food services (down by 86,200 or 9.2 per cent) and Administrative and support services (down by 51,500 or 11.9 per cent). The strength of decline in employment for these two industries was the most pronounced of all industries over the period.

104. By contrast, a rise in employment was recorded over the period for the three remaining most award-reliant industries. Retail trade recorded the largest increase (up by 77,600 or 6.2 per cent), followed by Other services (up by 16,100 or 3.3 per cent) and Health care and social assistance (up by 13,900 or 0.8 per cent).

Table 4.2: Employment by industry and change between February 2020 and February 2021

Industry	Employment, Feb-21	Employment change, Feb-20 to Feb-21	
	(no.)	(no.)	(%)
Agriculture, forestry and fishing	325,400	550	0.2
Mining	252,100	10,600	4.4
Manufacturing	902,000	-20,800	-2.3
Electricity, gas, water and waste services	151,100	18,300	13.8
Construction	1,153,900	-29,700	-2.5
Wholesale trade	390,900	230	0.1
Retail trade	***1,322,000***	***77,600***	***6.2***
Accommodation and food services	***851,000***	***-86,200***	***-9.2***
Transport, postal and warehousing	673,900	25,600	3.9
Information media and telecommunications	206,300	-10,100	-4.7
Financial and insurance services	469,700	2,900	0.6
Rental, hiring and real estate services	214,900	-4,900	-2.2
Professional, scientific and technical services	1,225,100	57,100	4.9
Administrative and support services	***383,100***	***-51,500***	***-11.9***
Public administration and safety	848,400	23,800	2.9
Education and training	1,089,600	-35,400	-3.2
Health care and social assistance	***1,809,700***	***13,900***	***0.8***
Arts and recreation services	242,500	-5,500	-2.2
Other services	***505,400***	***16,100***	***3.3***
All industries total	**13,016,600**	**4,900**	**0.0**

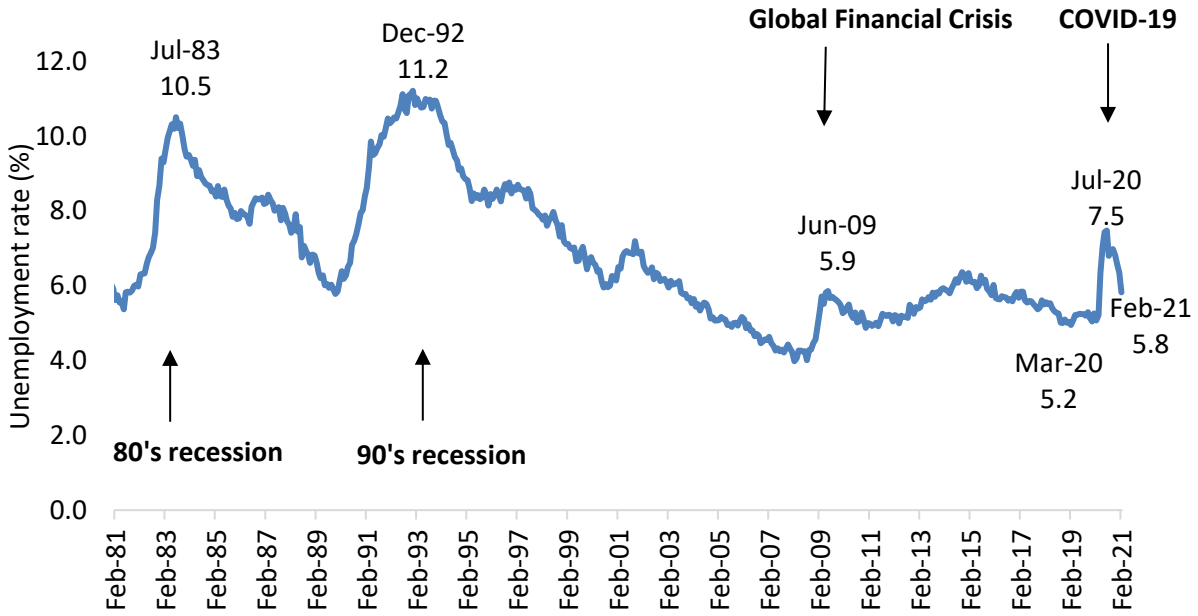
Source: ABS *Labour Force, Australia, Detailed, February 2021,* seasonally adjusted data.
Note: Bold italics signify the five most award-reliant industries.

4.3 Unemployment

105. The ABS defines a person as unemployed if they are aged 15 years and over and were not employed during the survey reference week, had actively looked for work at any time in the last four weeks and are currently available for work. The unemployment rate is the number of unemployed people expressed as a percentage of the labour force.

106. Prior to the onset of the pandemic in March there were 716,000 unemployed persons in Australia, with the unemployment rate standing at 5.2 per cent (see Chart 4.3).

Chart 4.3: Unemployment rate, February 1981 to February 2021, per cent



Source: ABS *Labour Force, Australia, February 2021,* seasonally adjusted data.

107. Following the onset of COVID-19, the number of unemployed persons increased substantially by 205,600 (or 28.7 per cent) between March and May 2020. Against the backdrop of falling employment and rising unemployment, the unemployment rate increased sharply to 7.1 per cent in May 2020, before peaking at 7.5 per cent in July. This compares with the peak of 5.9 per cent recorded in the immediate aftermath of the Global Financial Crisis (GFC).

108. The rise in the unemployment rate in the initial months of the pandemic (given the magnitude of the fall in employment), however, was mitigated considerably by the large number of people who left the labour force between March and May 2020.

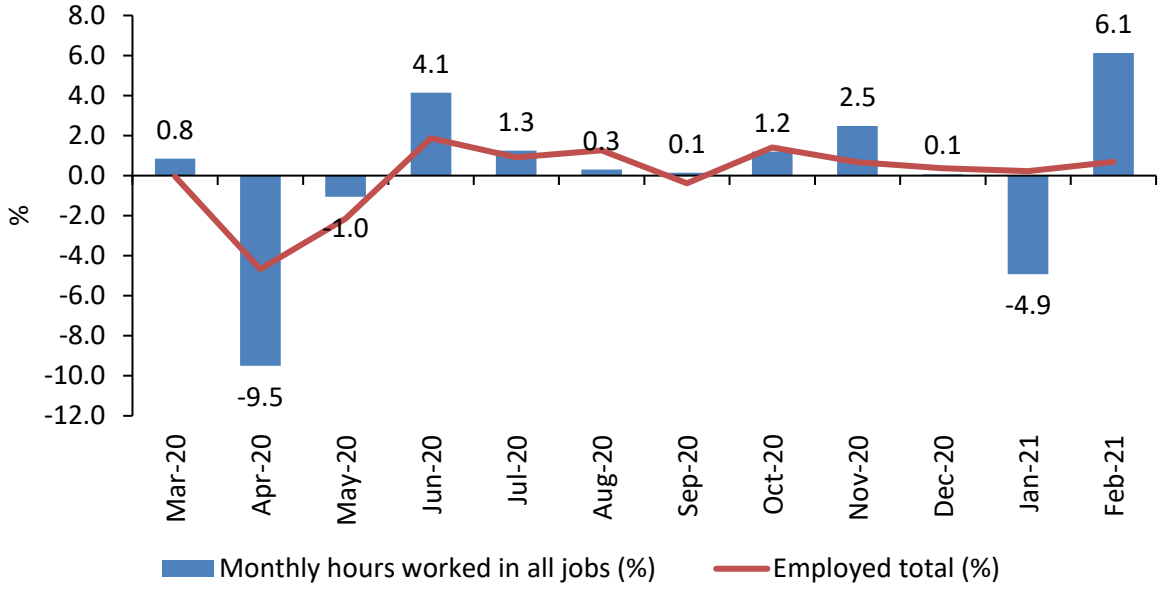
109. Since July 2020, against the backdrop of improving labour market conditions, the unemployment rate has decreased by 1.6 percentage points, to stand at 5.8 per cent in February 2021, but is still 0.6 percentage points higher than in March 2020. Moreover, 805,200 Australians remain unemployed, 89,200 (or 12.5 per cent) higher than the level recorded prior to the onset of the pandemic in March.

4.4 Hours worked and underemployment

110. The ABS defines underemployed workers as those persons aged 15 and over who are not fully employed and want, and are available for, more hours of work. The underemployment rate refers to the number of underemployed workers, expressed as a percentage of the labour force.

111. Given that businesses often reduce the hours of their workers as an early response to a labour market shock, it is not surprising that the number of monthly hours worked in all jobs declined significantly, by 185.7 million hours (or 10.4 per cent), between March and May 2020 (see Chart 4.4).

Chart 4.4: Monthly change in employment and hours worked, year to February 2021, per cent



Source: ABS *Labour Force, Australia, February 2021,* seasonally adjusted data.

112. As COVID-19 cases abated and restrictions have eased, however, monthly hours worked have recovered somewhat, increasing by 173.9 million hours (or 10.9 per cent) between May and February 2021 to stand at 1,766.8 million hours, although they remain 0.7 per cent below their pre-COVID-19 level.

113. The number of people who worked zero hours due to economic reasons (defined as people who were either stood down, had insufficient work or no work available) rose from 76,400 in March 2020 to a peak of 766,800 in April 2020, but has since declined to 126,500 in February 2021.

114. In line with the reduction in hours worked, the level of *underemployment* increased sharply by 501,100 (or 41.5 per cent) between March and May 2020. The increase in underemployment between March and May was due principally to a rise in the number of underemployed *full-time* workers who worked part-time hours for economic reasons (up by 615,800), while the number of underemployed part-time workers who would prefer to work more hours actually contracted over the period (down by 103,100).[20]

115. Underemployment has fallen by 529,700 (or 31.0 per cent) since May 2020 to 1,178,700 in February 2021 and is now *below* the 1,207,300 recorded in March 2020.

116. Similarly, the underemployment *rate* increased at the onset of COVID-19 rising from 8.8 per cent in March 2020 to a record high of 13.8 per cent in April 2020. The underemployment rate has since declined to 8.5 per cent in February 2021 and is now 0.3 percentage points *below* the rate recorded in March 2020.

117. Reflecting the impact of COVID-19 on hours worked, the share of total underemployment accounted for by underemployed full-time workers rose from 9.4 per

[20] Henceforth referred to as 'underemployed full-time workers' and 'underemployed part-time workers'.

cent in March 2020 to a peak of 42.9 per cent in May 2020 before declining to 14.1 per cent in February 2021.

- Prior to April 2020, underemployed part-time workers had routinely comprised at least 90 per cent of total underemployment in each month since monthly underemployment data became available in July 2014.

118. Of the 19 broad industries, Retail trade held the largest share of underemployed workers in February 2021 (accounting for 17.0 per cent of all underemployed workers), followed by Accommodation and food services (15.2 per cent) and Health care and social assistance (14.7 per cent) (ABS *Labour Force, Australia, Detailed, February 2021,* National Skills Commission seasonally adjusted data). All three of these industries are among the five most award-reliant industries and account for 46.9 per cent of all underemployed persons in February 2021 combined. It is important to note that Accommodation and food services and Retail trade employ a large number of young and lower skilled workers.

119. Between February 2020 and February 2021, underemployment increased in 12 of the 19 broad industries, including one of the five most award-reliant industries. Of these five industries, an increase in underemployment was recorded in Administrative and support services (up by 4,700 or 7.9 per cent). By contrast, of these five industries, underemployment decreased in Accommodation and food services (down by 33,900 or 15.6 per cent), Health care and social assistance (down by 19,700 or 10.0 per cent), Retail trade (down by 9,900 or 4.6 per cent), and Other services (down by 5,400 or 9.8 per cent).

4.5 Job opportunities in the labour market

120. Nationally, according to the Internet Vacancy Index, online job advertisements fell sharply as a result of rising COVID-19 cases, the subsequent shutdown of non-essential services, and the imposition of trading restrictions (National Skills Commission, *Internet Vacancy Index*, February 2021) (see Chart 4.5).[21]

- The Internet Vacancy Index reached a series low point of newly advertised jobs in April 2020, declining by 57.5 per cent (or 96,600 job advertisements) over the two months from its pre-pandemic level.[22]

121. Since then, job advertisements have increased for 10 consecutive months and are now 2.7 times higher than the level recorded at the April 2020 low point (up by 120,600 job advertisements). Over the month to February 2021, job advertisements increased by 7.0 per cent (or 12,600 job advertisements).

122. While the Internet Vacancy Index headline annual growth figure (of 24.8 per cent) reflects a strong recovery in recruitment activity following the COVID-19 downturn, it is

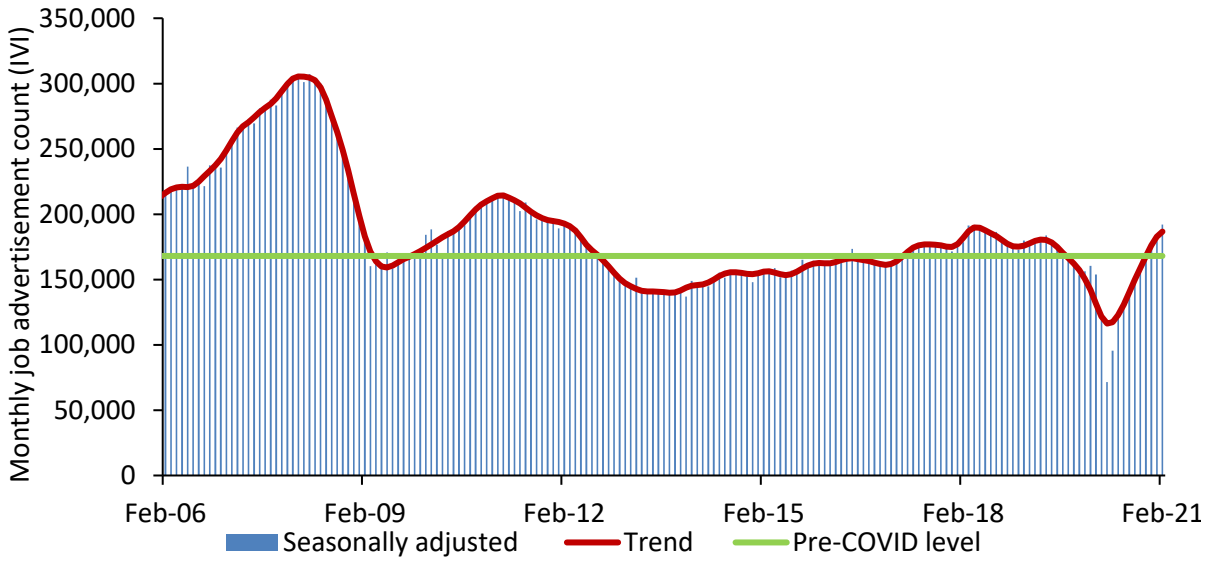
[21] The Internet Vacancy Index is based on a count of online job advertisements newly lodged on SEEK, CareerOne and Australian JobSearch during the month. The index does not reflect the total number of job advertisements in the labour market as it does not count jobs advertised through other online job boards, employer websites, or in newspapers. Nor does it count vacancies filled using informal methods such as word of mouth.

[22] Pre-COVID-19 job advertisement levels are defined as the 12-month average in the seasonally adjusted series to February 2020.

important to note that current recruitment activity levels (192,000 jobs advertised in February 2021) are equivalent to those observed in early 2018 (March to May).

123. Nationally, the level of job advertisements now exceeds its pre-pandemic level (up by 14.3 per cent or 24,000 job advertisements). Further, over the year to February 2021, job advertisements have increased by 24.8 per cent (or 38,100 job advertisements).

Chart 4.5: Internet Vacancy Index, February 2006 to February 2021



Source: National Skills Commission, *Internet Vacancy Index*, February 2021.

4.6 Key groups in the labour market

124. A number of groups (including the long-term unemployed and youth) tend to possess characteristics that may predispose them to labour market disadvantage, for example, less experience, greater time out of the workforce and lower skill levels. They are also more likely to seek employment in low-paid jobs and are therefore likely to be more adversely affected by large labour market shocks and economic uncertainty.

4.6.1 Long-term unemployed

125. A person is classified as long-term unemployed if they have been unemployed for 52 weeks or longer and as very long-term unemployed if they have been unemployed for 104 weeks or longer.

126. There are a number of factors that can influence a person's likelihood of becoming unemployed and, subsequently, long-term unemployed, such as their educational attainment level, age, English proficiency, if they have a disability, their Indigenous status, and their geographical location.

127. Of the 805,200 people unemployed in February 2021, 206,600 (or 25.7 per cent) were long-term unemployed. Of these, 106,100 (or 51.3 per cent) were very long-term unemployed (ABS *Labour Force, Australia, Detailed, February 2021*) (see Table 4.3).

Table 4.3: Unemployment numbers, February 2021 and change since March 2020

	Feb-21	Change since Mar-20	
	('000)	('000)	(%)
Total unemployment	805.2	89.2	12.5
Long-term unemployment	206.6	30.1	17.1
Very long-term unemployment	106.1	5.9	5.9

Source: ABS *Labour Force, Australia, Detailed, February 2021,* seasonally adjusted data.
Note: Long-term unemployment numbers also include those who are very long-term unemployed.

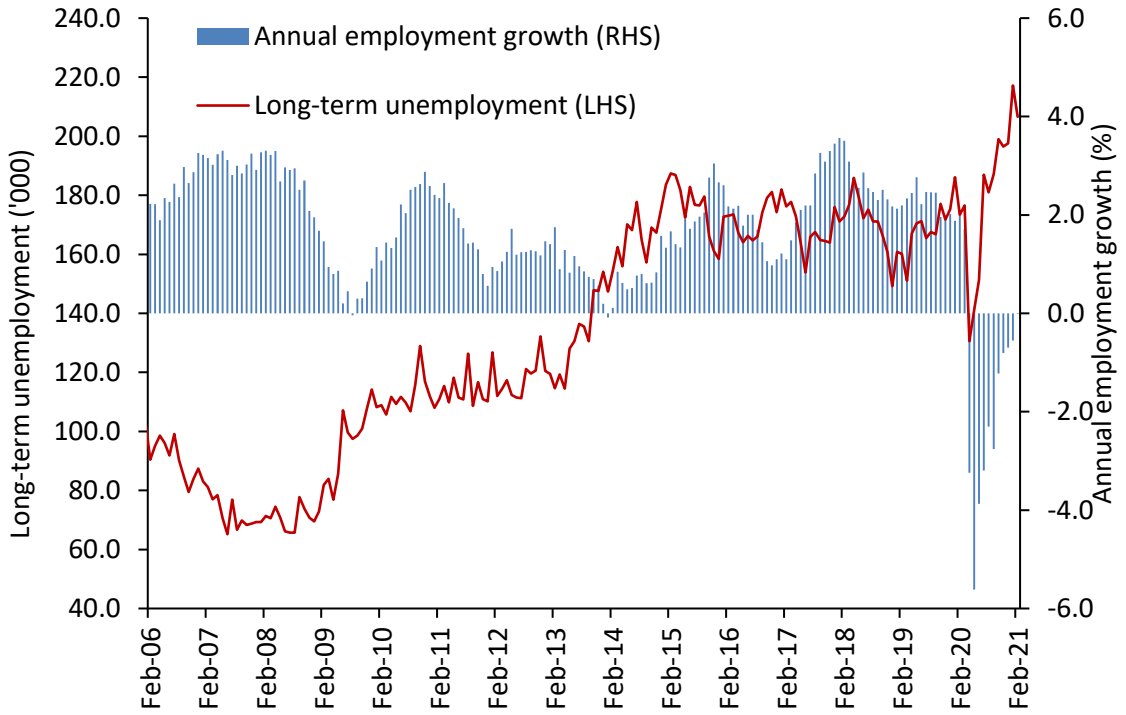
128. Prior to COVID-19 (in March 2020), no inroads had been made into long-term unemployment despite a period of strong and sustained employment growth (See Chart 4.6). For instance, employment increased by 1,060,800 (or 8.9 per cent) over the four years to March 2020, while long-term unemployment rose by 3,000 (or 1.7 per cent) over the period.

129. Against the backdrop of rising COVID-19 cases and trading restrictions, however, the number of long-term unemployed declined dramatically in April 2020, as many people left the labour force.

130. Since then, reflecting declining cases and an easing of restrictions, many have re-entered the labour force, with long-term unemployment now 30,100 (or 17.1 per cent) higher than the level recorded in March 2020.[23] Males have now recorded a larger rise (up by 23,600 or 24.7 per cent) than females (up by 6,500 or 8.0 per cent) over the period.

[23] The method used by the ABS to calculate long-term unemployment means that if a long-term unemployed person moves from unemployment to NILF and then back to unemployment once again (without any period of employment), they will still be classified as being long-term unemployed.

Chart 4.6: Annual employment growth (%) and long-term unemployment ('000)



Sources: Annual employment growth is from ABS *Labour Force, Australia, February 2021,* seasonally adjusted data. Long-term unemployment is from ABS *Labour Force, Australia, Detailed, February 2021*, seasonally adjusted data.

131. The increase in long-term unemployment since March 2020 has been due principally to a rise in the number of people who have been unemployed for 52 to under 104 weeks, up by 24,200 (or 31.7 per cent), to 100,500 in February 2021.

132. The number of people who are very long-term unemployed has also risen by 5,900 (or 5.9 per cent) over the period, to 106,100 in February 2021.

133. It is also worth noting that there are now 59,100 more short-term unemployed people (unemployed for less than 52 weeks) than there were in March 2020, a large number of whom may flow through the '12-month gate' in the coming months.

134. The proportion of the total unemployment pool accounted for by the long-term unemployed has risen by 1.0 percentage point since March 2020.

135. Youth (persons aged 15-24 years) comprised a substantial proportion (27.9 per cent) of the total long-term unemployment pool in February 2021, compared with their 15.0 per cent share of the civilian population aged 15 years and over.

136. In light of the vulnerability that the long-term unemployed cohort faces during any economic downturn, and given that the long-term unemployed will likely be competing against more highly skilled job seekers who have been stood down during the pandemic, considerable upward pressure is likely to be placed on the long-term unemployment series over the course of 2021.

137. Notably, people who have been unemployed for a significant length of time on average face greater difficulty finding subsequent work due to skill depreciation, loss of motivation, screening out by employers, and marginalisation from the labour market.

This 'scarring' effect can lead long-term unemployed persons to believe their own re-employment prospects are poor.

4.6.2 Youth

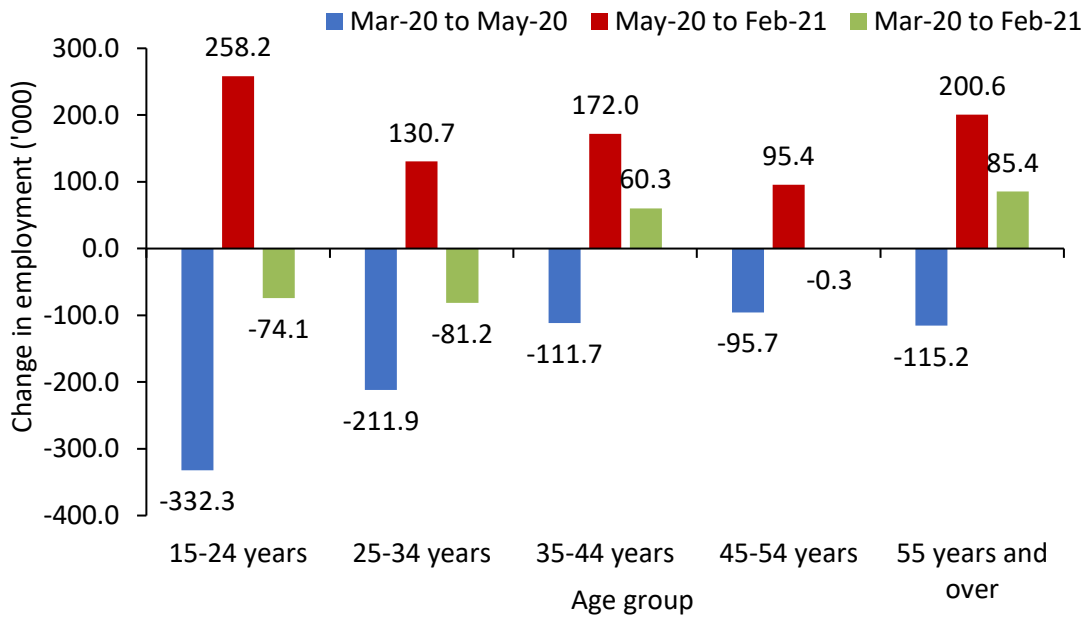
138. Young people are particularly vulnerable during large economic and labour market shocks as they tend to have fewer skills and less experience than their prime-age counterparts. They are often the first to be retrenched and may face particular challenges regaining employment as they are often competing with more highly skilled job seekers.

139. While *all* cohorts were negatively affected by the pandemic, the youth cohort (persons aged 15–24) was particularly hard-hit, as they are overrepresented in industries that have been most severely affected by the impact of COVID-19.

140. Youth employment contracted sharply in the initial months of the pandemic, declining by 332,300 (or 17.1 per cent) between March and May 2020 (see Chart 4.7). Youth accounted for 38.1 per cent of the total decline in employment between March and May, despite comprising just 14.9 per cent of overall employment in March 2020.

141. Since May however, youth employment has recovered somewhat, rising by 258,200 (or 16.1 per cent) to 1,865,100 in February 2021, although it is still 74,100 (or 3.8 per cent) below the level recorded in March 2020. The decrease in youth employment between March and February 2021 has been due in large part to a fall of 64,800 (or 7.7 per cent) in youth full-time employment, while part-time employment has declined by 7,700 (or 0.7 per cent) over the period.

Chart 4.7: Change in employment by age ('000)



Source: ABS *Labour Force, Australia, February 2021,* seasonally adjusted data.

142. In line with a fall in youth employment, the youth unemployment rate has increased from 11.6 per cent in March 2020 to 12.9 per cent in February 2021, although it remains

below the recent peak of 16.4 per cent recorded in July 2020. This has equated to an additional 21,000 young people becoming unemployed since March 2020.

143. Further, while all cohorts recorded a decline in actual hours worked between March and May 2020, youth recorded the largest fall (in percentage terms), down by 19.2 per cent over the period, followed by those aged 25 to 34 years (down by 9.1 per cent) and those aged 45 to 54 years (down by 7.1 per cent).

144. Reflecting the decline in hours worked for young people, the youth *underemployment* rate also increased from 19.1 per cent in March 2020 (at the beginning of the pandemic) to a record high of 23.6 per cent in April 2020, before declining to 16.8 per cent in February 2021. By comparison, the underemployment rate for all persons stood at 8.5 per cent in February 2021.

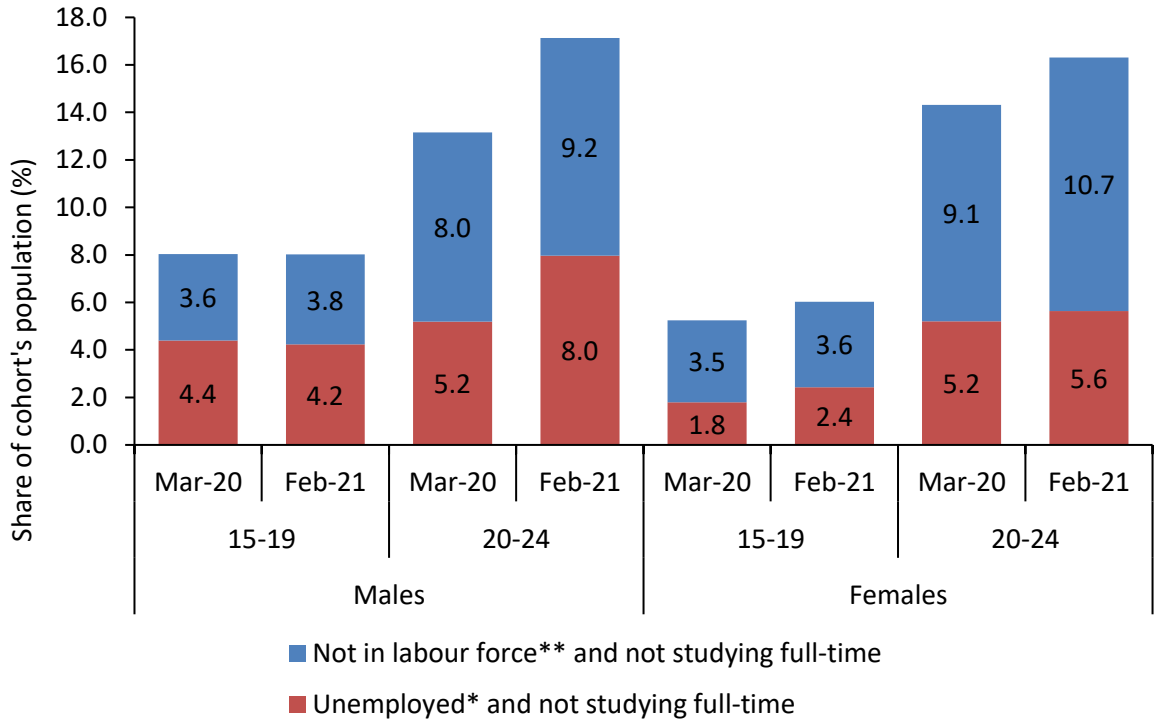
145. While most youth are either engaged in some form of work or full-time education, 12.1 per cent were not in work and not attending full-time education (and are commonly referred to as disengaged youth) in February 2021. While a proportion of this group may for various reasons be voluntarily outside the labour market, many are at risk of ultimately failing to make a successful transition to employment.

146. Over recent decades, youth disengagement has been intrinsically linked with the pace of economic and labour market activity. For instance, youth disengagement declined from a peak of 22.0 per cent in January 1993, following the early 1990s recession, to a trough of 8.5 per cent in October 2007, prior to the onset of the GFC. After rising to a post-GFC peak of 15.5 per cent in January 2013, the proportion of youth who were disengaged declined, to stand at 10.4 per cent in March 2020, before increasing again after the onset of COVID-19 to a recent high of 14.6 per cent in May 2020. Since May, however, youth disengagement has again declined, to 12.1 per cent in February 2021.

147. Within the youth cohort, since March 2020, males aged 20 to 24 years recorded the largest increase in the proportion who were disengaged (up by 4.0 percentage points, to 17.1 per cent in February 2021), due to an increase in both the proportion who were unemployed and not attending full-time education and the proportion who were not in the labour force (NILF) and not attending full-time education (see Chart 4.8).

148. A greater share of disengaged young women are NILF compared with their male counterparts, particularly for those aged 20 to 24 years.

Chart 4.8: Disengaged youth by gender and age, March 2020 and February 2021, per cent



Source: ABS *Labour Force, Australia, February 2021*, original data.
Note: *Unemployed refers to persons who were not employed during the reference week, and: **Had actively** looked for full-time or part-time **work** at any time in the four weeks up to the end of the reference week and were available for work in the reference week; or were waiting to start a new job within four weeks from the end of the reference week and could have started in the reference week if the job had been available then.
**Not in the Labour Force refers to people who are neither employed nor unemployed.

4.6.3 Gender

149. Women were particularly hard-hit in the initial months of the pandemic, with employment declining by 471,300 (or 7.7 per cent) between March and May 2020, compared with a smaller fall of 401,500 (or 5.9 per cent) for males (see Table 4.4). This reflects, in large part, the overrepresentation of females in industries that were most severely affected by COVID-19, such as Accommodation and food services, and the fact that they were more likely to be employed on a casual basis, where job losses were greater.

150. Since May 2020, however, female employment has increased by 490,900 (or 8.6 per cent) and is now 19,500 (or 0.3 per cent) *above* its pre-pandemic level. While male employment has also risen between May and February 2021 (up by 385,500 or 6.0 per cent) it remains 16,000 (or 0.2 per cent) *below* the level recorded in March 2020.

151. *Full-time* employment for women has increased by 60,100 (or 1.8 per cent) between March and February 2021, while *part-time* employment has decreased by 40,500 (or 1.4 per cent). By contrast, over the same period, full-time employment for men has *declined* by 41,800 (or 0.8 per cent) while part-time employment has increased by 25,800 (or 2.0 per cent).

Table 4.4: Key labour market indicators by gender

	February 2021	Change between March 2020 and February 2021		Change between March and May 2020		Change between May 2020 and February 2021	
		('000)	(%)	('000)	(%)	('000)	(%)
Female							
Employment ('000)	6,174.2	19.5	0.3	-471.3	-7.7	490.9	8.6
Unemployment ('000)	362.6	29.8	8.9	90.1	27.1	-60.3	-14.3
Unemployment rate (%)	5.5	-	0.4 pts	-	1.8 pts	-	-1.4 pts
Participation rate (%)	61.4	-	0.3 pts	-	-3.6 pts	-	3.9 pts
Underemployment ('000)	645.3	-43.3	-6.3	171.5	24.9	-214.8	-25.0
Underemployment rate (%)	9.9	-	-0.7 pts	-	3.5 pts	-	-4.2 pts
Male							
Employment ('000)	6,832.6	-16.0	-0.2	-401.5	-5.9	385.5	6.0
Unemployment ('000)	442.6	59.4	15.5	115.5	30.1	-56.1	-11.2
Unemployment rate (%)	6.1	-	0.8 pts	-	1.9 pts	-	-1.1 pts
Participation rate (%)	71.0	-	0.2 pts	-	-2.9 pts	-	3.1 pts
Underemployment ('000)	533.4	14.7	2.8	329.6	63.5	-315.0	-37.1
Underemployment rate (%)	7.3	-	0.2 pts	-	5.0 pts	-	-4.9 pts

Source: ABS *Labour Force, Australia, February 2021,* seasonally adjusted data.

152. Between March and May 2020, 381,300 women left the labour force, pushing the female participation rate down by 3.6 percentage points to 57.5 per cent in May 2020, the lowest rate recorded since October 2006.

153. In line with the easing of restrictions, however, 430,600 women have re-entered the labour force since May 2020, with the female participation rate increasing by 3.9 percentage points to a near record high of 61.4 per cent in February 2021, *above* the 61.1 per cent recorded in March 2020, prior to the pandemic.

154. The initial decline in the labour force for men was slightly less stark, with 286,000 males leaving the labour force between March and May 2020, resulting in a 2.9 percentage point decline in their participation rate to 67.9 per cent the lowest rate on record since the inception of the monthly labour force series in February 1978. Since May 2020, however, the male labour force has increased by 329,500, with the male participation rate rising by 3.1 percentage points to 71.0 per cent in February 2021. The male participation rate is now 0.2 percentage points higher than in March 2020.

155. Over the entire COVID-19 period (March 2020 to February 2021), and reflecting movements in employment and changes in the labour force participation rate, the female unemployment rate has risen by 0.4 percentage points, to 5.5 per cent in February 2021. The male unemployment rate also risen over the period, by 0.8 percentage points, to 6.1 per cent in February.

156. Females recorded a particularly large fall in hours worked between March 2020 and the trough in hours worked in April 2020, down by 12.0 per cent (or 88.3 million hours), compared with a decline of 7.7 per cent (or 80.5 million hours) for males.

157. Since April 2020, however, hours worked for women have increased by 14.3 per cent (or 92.7 million hours), compared with a rise of 6.7 per cent (or 64.4 million hours) for men. Hours worked for females are now 0.6 per cent (or 4.3 million hours) *above* the level recorded in March 2020. By contrast, hours worked for males remain 1.6 per cent (or 16.2 million hours) *below* their pre-pandemic level.

158. Reflecting the significant decline in hours worked in the initial months of COVID-19, female *underemployment* increased by 243,500 (or 35.4 per cent) between March 2020 and the trough in April 2020, to a record high of 932,100, while male underemployment rose by 369,700 (or 71.3 per cent), to 888,400, also a record high.

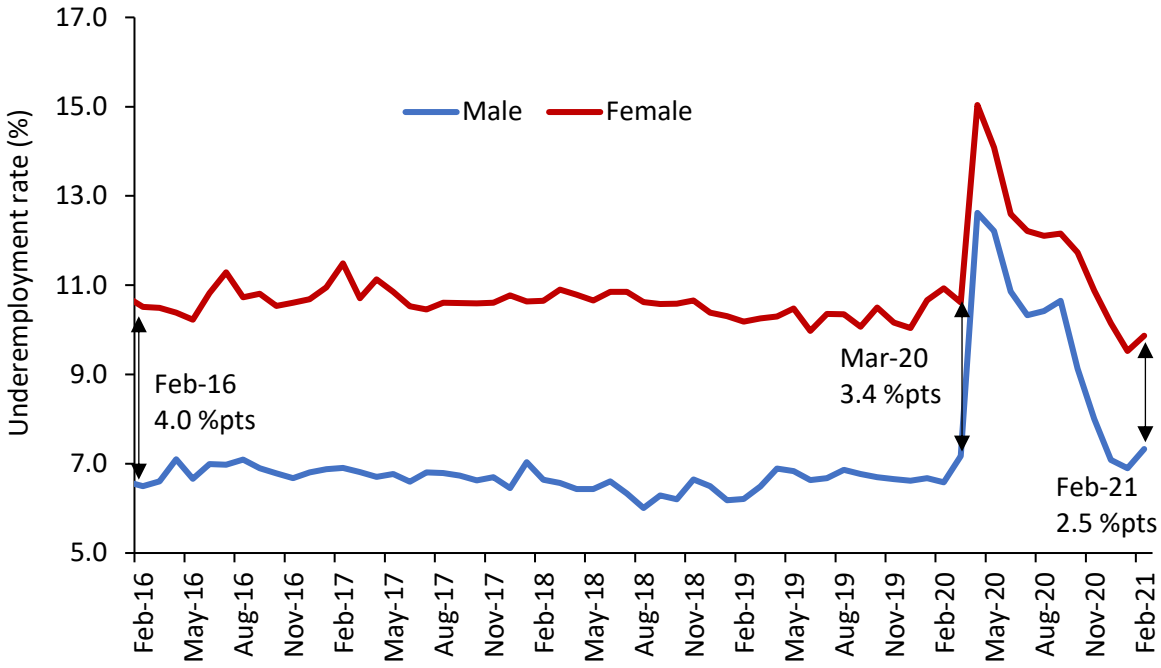
159. Since the April 2020 trough, however, female underemployment has fallen by 286,800 (or 30.8 per cent) to stand at 645,300 in February 2021, while male underemployment has also declined by 355,000 (or 40.0 per cent) to stand at 533,400.

160. Similarly, the underemployment *rate* for both women and men surged in the initial stages of the pandemic, to record highs of 15.0 per cent and 12.6 per cent, respectively, in April 2020.

161. Since the April 2020 trough, however, the female underemployment rate has fallen to 9.9 per cent in February 2021, while the male underemployment rate has also declined, to 7.3 per cent. The female underemployment rate is now 0.7 percentage points below its pre-pandemic rate.

162. The female underemployment rate has consistently tracked higher than the male underemployment rate. Since the onset of COVID-19, however, the gap between the male and female rates has narrowed somewhat, due to the significant decline in male *full-time* employment that occurred between March 2020 and February 2021 (with male full-time employment declining by 41,800 over the period, compared with a rise of 60,100 for females) (see Chart 4.9).

Chart 4.9: Underemployment rate by gender, February 2016 to February 2021, per cent



Source: ABS *Labour Force, Australia, February 2021,* seasonally adjusted data.

4.6.4 Single parents and jobless families

163. In June 2020 (latest available data), there were 7,228,200 families in Australia, an increase of 108,900 (or 1.5 per cent) over the last year (ABS *Labour Force Status of Families, June 2020*). Couple families accounted for 84.3 per cent of all families, while 14.2 per cent were one parent families (the remainder were classified as 'other' families e.g. a brother and sister sharing accommodation). Around 79 per cent of one parent families were headed by female.

164. Given the unprecedented, negative impact of COVID-19 on the Australian labour market, it is not surprising that the number of jobless families with children increased significantly, by 32,500 (or 12.2 per cent) over year to June 2020, to stand at 299,500. This compares with an increase of 22,900 (or 8.3 per cent), or an annual average growth rate of 0.8 per cent, over the last decade.

165. The ABS has highlighted that the annual increase in jobless families (of 11.5 per cent) thus far in the COVID-19 recession is larger than the rises recorded in previous recessions of 9.9 per cent in 1982 and 9.0 per cent in 1992, respectively.

166. The unemployment rate for the head of one parent families with children stood at 10.4 per cent in June 2020, well above the 4.2 per cent recorded for parents in couple families with children.

4.7 Labour market conditions by skill level

167. Low-skilled workers are more likely to be on the minimum wage or award-reliant than higher-skilled workers, making an examination of labour market developments by skill level important, particularly in the context of the COVID-19 pandemic.

168. As shown in Table 4.5, over the 10 years to February 2021 (latest available data), employment growth has been dominated by Skill Level 1 (commensurate with a bachelor's degree or higher) occupations, as the workforce has become more highly educated and employment has transitioned towards services-based industries.

169. The share of employment at the lowest and middle occupation skill levels (Skill Levels 5 and 3, respectively) has decreased commensurately, with the share of employment in Skill Level 4 remaining fairly constant.

170. The COVID-19 pandemic has had an uneven impact on employment by occupation skill level. Between February 2020 and February 2021, employment decreased in every skill level group except Skill Level 1 (up by 202,200 or 4.8 per cent).

171. Skill Level 5 occupations (the lowest skill occupations) recorded a large decline in employment between February 2020 and February 2021 (down by 101,000 or 4.9 per cent), reflecting the ongoing transition towards a higher skilled, services-based economy and the considerable impact of COVID-19 restrictions, which disproportionally affected many lower skilled occupations.

172. In May 2020, Skill Level 5 employment fell to its lowest level in 18 years (since May 2002). Between May 2020 and February 2021, however, employment in Skill Level 5 occupations increased by 203,500 (or 11.7 per cent) and recorded the strongest increase in percentage terms of all skill level groups over the period.

Table 4.5:Employment growth by occupation skill level

Occupation Skill Level	Employment level, February 2021	Employment change, February 2020 to February 2021		10-year change in employment	
	('000)	('000)	(%)	('000)	(%)
Skill level 1 (highest)	4,419.9	202.2	4.8	1,126.2	34.2
Skill level 2	1,597.4	-28.1	-1.7	192.4	13.7
Skill level 3	1,908.5	-28.1	-1.5	39.5	2.1
Skill level 4	3,127.1	-42.8	-1.4	468.9	17.6
Skill level 5 (lowest)	1,947.1	-101.0	-4.9	-2.1	-0.1
All occupations total	**13,016.6**	**4.9**	**0.0**	**1,863.6**	**16.7**

Source: ABS *Labour Force, Australia, Detailed, February 2021,* National Skills Commission seasonally adjusted data (Data for all occupations are ABS seasonally adjusted data).
Note: Skill Level 1 is commensurate with a Bachelor degree or higher qualification; Skill Level 2 is commensurate with an Advanced Diploma or Diploma; Skill Level 3 is commensurate with a Certificate IV or III (including at least 2 years on-the-job training); Skill Level 4 is commensurate with a Certificate II or III; Skill Level 5 is commensurate with a Certificate I or secondary education.

4.8 Labour market conditions by state

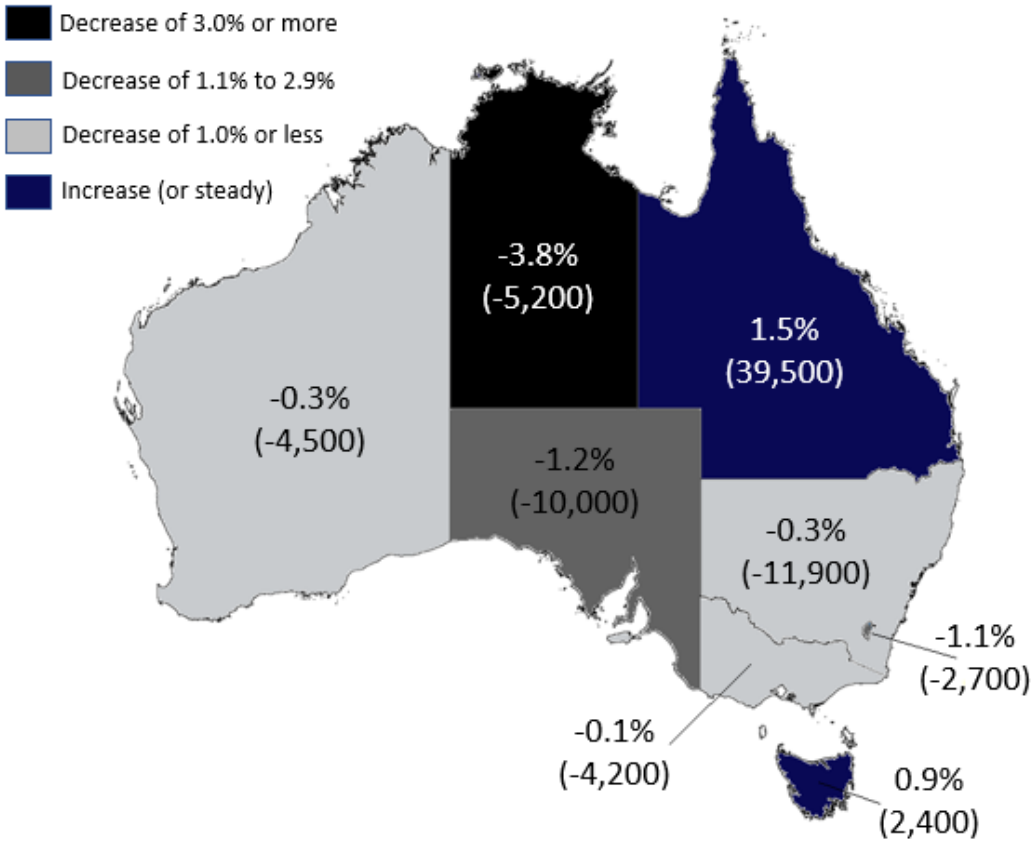
173. The impact of the COVID-19 pandemic on the labour market has also been evident across the states and territories. Since March 2020, employment has fallen, and the unemployment rate has risen in most jurisdictions. Encouragingly, since May all jurisdictions have recorded an increase in employment and a decrease in their unemployment rate (with the exception of the Australian Capital Territory where the unemployment rate has remained steady).

174. Some jurisdictions have been more severely affected than others, due to a range of factors, including ongoing COVID-19 cases, each jurisdiction's industry composition and its demographics (population size and age structure) (see Chart 4.10).

175. Reflecting the outbreak of COVID-19 cases in Victoria from late June, and the subsequent implementation of restrictions that occurred in the state, employment in Victoria continued to decrease between July and September (down by 86,200 or 2.6 per cent), at the same time most other jurisdictions were recording a strong rebound.

176. Encouragingly since September, the state has recorded five consecutive months of strong employment growth, with the level of employment up by 236,800 (or 7.4 per cent) over the period and now only 4,200 (or 0.1 per cent) below its pre-pandemic level. The state's unemployment rate has fallen from a peak of 7.5 per cent in June 2020, to 5.6 per cent in February 2021.

Chart 4.10: Change in employment between March 2020 and February 2021, by state and territory, per cent

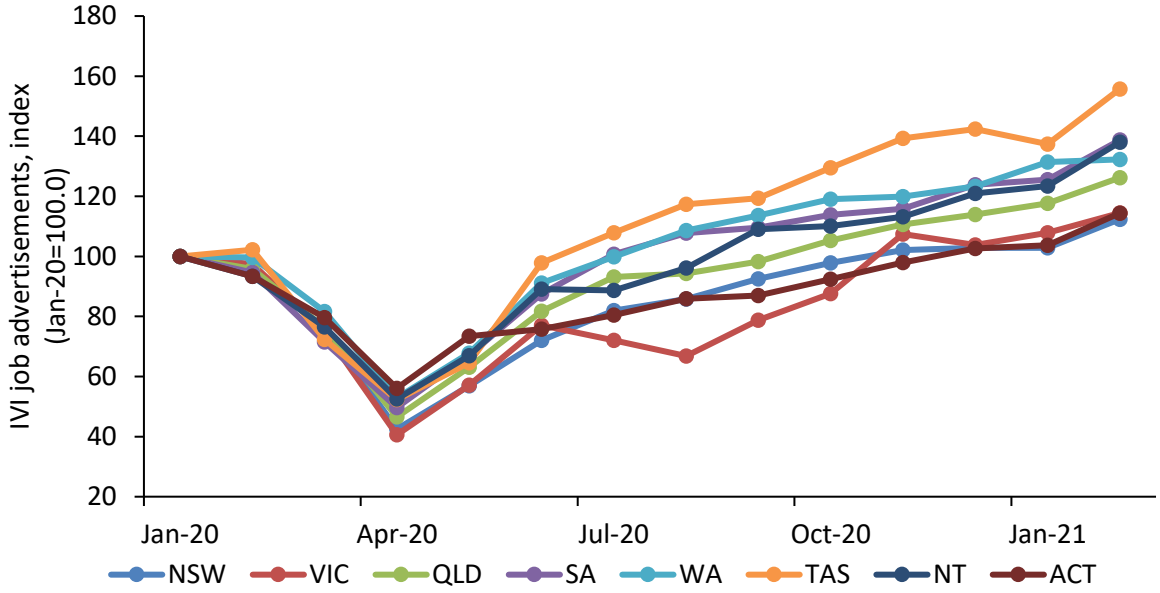


Source: ABS *Labour Force, Australia, February 2021,* seasonally adjusted data.

177. According to the Internet Vacancy Index, and reflecting the lifting of COVID-19 restrictions, the recovery in recruitment activity in Victoria is now consistent with other jurisdictions. Overall, Victorian recruitment activity has shown strong recovery from the COVID-19 downturn, more than doubling from its April 2020 series low point (up by 181.9 per cent or 29,500 job advertisements).

178. Encouragingly, job advertisements now exceed pre-COVID-19 levels across all jurisdictions, highlighting the widespread gains in recruitment activity over recent months (see Chart 4.11).

Chart 4.11: Index of job advertisements, by state/territory, January 2020 to February 2021



Source: National Skills Commission, *Internet Vacancy Index*, seasonally adjusted data, February 2021.

4.9 Labour market conditions by region

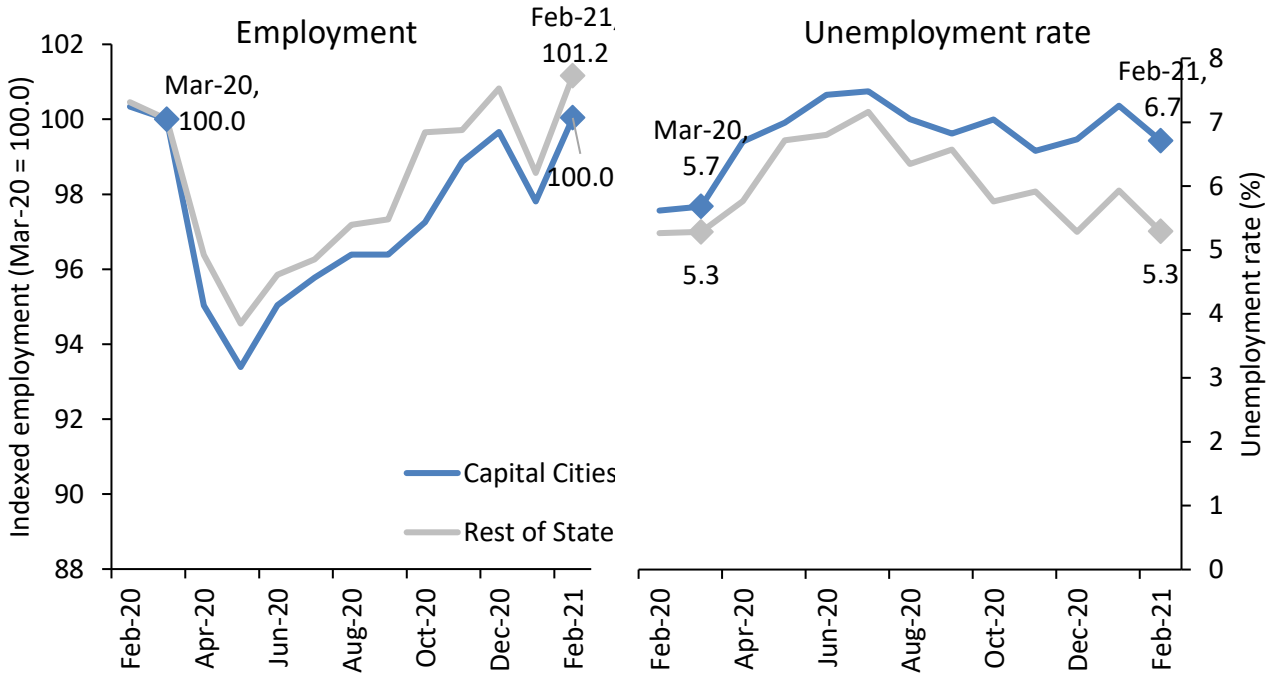
179. Capital Cities have recorded significantly larger numbers of COVID-19 cases which, when combined with associated economic and social restrictions, has resulted in Capital City labour markets being harder hit by the COVID-19 pandemic than their Rest of State counterparts. While employment now exceeds its pre-pandemic level in both Capital Cities and Rest of State areas, employment in the former has increased by just 3,400 (or 0.0 per cent) between March 2020 and February 2021.[24] In addition, the unemployment rate in Capital Cities has increased by 1.0 percentage point over the period, to 6.7 per cent in February, although the participation rate has risen by 0.4 percentage points since March, to stand at 68.2 per cent in February.

180. By comparison, in Rest of State areas, the level of employment has risen, by 46,200 (or 1.2 per cent) since March 2020, while the unemployment rate was steady, at 5.3 per cent in February 2021 (see Chart 4.12). Against the relatively stronger backdrop, the participation rate in Rest of State areas has risen by 0.7 percentage points, to 63.4 per cent in February 2021.

181. Labour market conditions were notably more subdued in the Capital Cities compared with their Rest of State counterparts in New South Wales, Victoria, Queensland, and Western Australia.

[24] The percentage rise in employment was 0.038 per cent, which rounds to 0.0 per cent.

Chart 4.12: Capital Cities and Rest of States, employment (Indexed, Mar-20=100.0) and unemployment rate (%), February 2020 to February 2021



Source: ABS *Labour Force, Australia, Detailed, February 2021*, original data.

182. The impact of COVID-19 has affected all regions across the country, with all ABS Statistical Area Level 4s recording an increase in their jobactive caseload (as a proportion of the labour force) between 15 March 2020 (prior to the shutdown of non-essential services and the introduction of trading restrictions) and 28 February 2021, while under two thirds (63.2 per cent) of regions have recorded an increase in their unemployment rate over the period.

4.10 Outlook

183. Labour market data have been stronger than expected in recent months and the broader easing of restrictions has lifted spirits, as well as consumer and business confidence. Positive news around the apparent effectiveness of COVID-19 vaccines has also boosted confidence although the logistical challenges associated with supply chains and the vaccine roll-out, as well as uncertainty around new and emerging variants, pose some downside risk to the outlook.

184. There is considerable stimulus in the system, however, as well as Government incentives for firms to employ and invest. That said, some uncertainty continues to surround the labour market outlook, particularly in view of the withdrawal of JobKeeper payments and the expiry of temporary insolvency protections for businesses.

185. Also supporting the signs of a recovery, staffing expectations have grown substantially since April 2020. In the four weeks to 5 March 2021, 21 per cent of employers expected to increase staffing levels in the coming months, while 2 per cent expected to decrease staffing levels. By contrast, in the four weeks to 24 April 2020, only 3 per cent of

employers expected to increase staffing levels over the coming months and 21 per cent expected to decrease staffing levels.

186. The legacy of this pandemic, however, may be an extended period of long-term unemployment that is higher than that to which we have more recently become accustomed.

5. Small business

Key Points

- Small businesses are a significant part of the Australian economy. They represent over 97 per cent of total businesses and employ 41 per cent of the working population. They also account for 34 per cent of total employees on award classification wages.
- The COVID-19 pandemic has profoundly impacted small businesses. Lockdowns and travel restrictions have interrupted their normal operating conditions. As a result, small business confidence and conditions declined sharply to historic lows in the June quarter 2020.
- The Australian Government's Economic Recovery Plan has provided significant support for small businesses with whole-of-economy measures, such as JobKeeper and the Cash Flow Boost. The 2020-21 Federal Budget also unveiled further business support measures, such as the JobMaker Hiring Credit and temporary full expensing.
- While small business confidence and conditions are recovering, it is uneven across industry sectors. Uncertainty remains at elevated levels and may potentially increase as government support is removed.
- Small businesses more commonly rely on awards rather than negotiating enterprise agreements to set pay and conditions, and therefore are more likely to be impacted by changes in minimum and award classification wages. There is reason to be cautious on any wage decision, taking into account the importance for small firms in a recovery phase to retain staff and invest, and while government support is adjusted.

5.1 Introduction

187. Section 3(g) of the *Fair Work Act 2009* states that the objects of the Act are to be met through an acknowledgement of the special circumstances of small and medium-sized businesses. This small business chapter contains information to help inform the Panel on the impact of COVID-19 on small businesses and highlights the importance of the small business sector to Australia's economic recovery.

5.2 Small business in Australia

5.2.1 Importance of small businesses in Australia

188. Small businesses are a significant part of the Australian economy and make an important contribution to output and employment. They are diverse, operate in all sectors of the economy, have varying levels of employment, and conduct business under different legal structures.

189. There were 2,361,778 actively trading small businesses in Australia as at June 2020, accounting for more than 97 per cent of all businesses (ABS *Counts of Australian*

Businesses, including Entries and Exits, July 2016 to June 2020).[25] Of these small businesses, 814,913 (or 34 per cent) were small businesses with employees.

190. As at 30 June 2019, small businesses contributed around 32 per cent of private sector value added and employed over 4.7 million Australians, or 41 per cent of private sector employment in Australia (Chart 5.1).

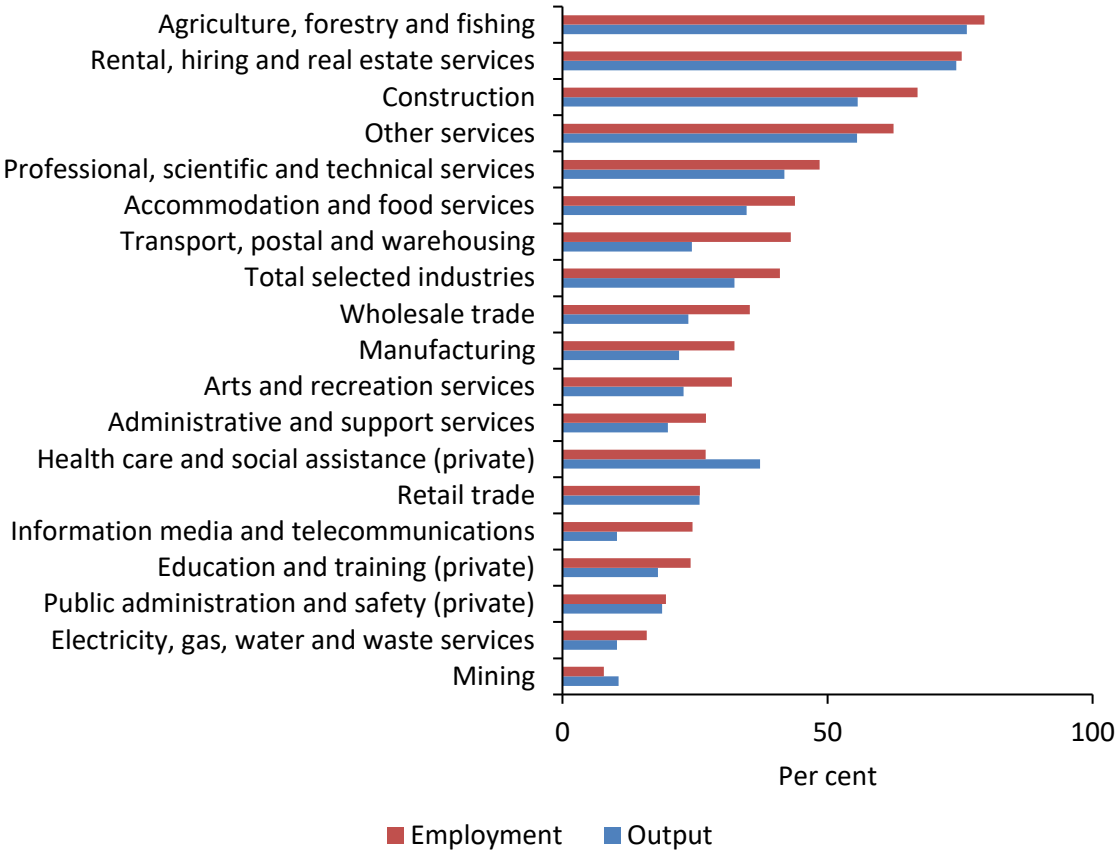
Chart 5.1: Small business share of private sector output and employment, 2018-19

Source: ABS *Australian Industry*, 2018-19.
Note: Measures private sector output (Industry Value Added) and employment (number of individuals employed). Components may not sum to 100 per cent due to rounding.

191. Small businesses operate in every sector of the Australian economy, although their contribution to output and employment varies between sectors (Chart 5.2). Small businesses represent a large share of output and employment in Agriculture, forestry and fishing, Rental, hiring and real estate services and Construction. Small businesses represent a smaller share of output and employment in Mining and Electricity, gas, water and waste services.

[25] For the purpose of this submission, small businesses are defined as a business employing 0 to 19 employees. This is consistent with the definition used by the ABS. We note that small businesses are defined as a business employing 0 to 14 employees for the purposes of the *Fair Work Act 2009*.

Chart 5.2: Small business share of total private sector output and employment by industry, 2018-19



Source: ABS *Australian Industry*, 2018-19.
Note: Charts 5.1 and 5.2 include non-employing small businesses, as the ABS *Australian Industry* publication does not distinguish between employing and non-employing small businesses. Nonetheless, the data referred to in these charts are the appropriate basis for highlighting effects on the small business sector, as labour costs have a direct and immediate bearing on the propensity of non-employing small businesses to take on workers. Other services include a range of services including Repair and maintenance and Personal care services.

192. Small businesses contribute to a greater proportion of employment compared to output in almost every industry, which suggests that small businesses may be more labour intensive (that is, on average have lower labour productivity) than larger businesses within the same industry.

193. As a share of annual turnover, labour costs also comprise a significant component of total expenses for small businesses.[26] In 2018-19, small business labour costs across all industries in the private sector accounted for 16 per cent of total expenses (ABS *Australian Industry, 2018-19*).[27] Labour costs for small businesses vary across industries

[26] Labour costs refer to 'wages and salaries' and does not include gross mixed income, which represents earnings that are difficult to classify between salaries and profits for an owner-manager of an unincorporated business.
[27] This is potentially a conservative indication of earnings due to small business owners choosing to take out returns in the form of equity and dividends rather than wages and salary. Once this is accounted for, the ratio is likely to be slightly higher than for medium and large businesses.

and can range from as high as 37 per cent in Education and training (private) to as low as 4 per cent in the Mining industry.

194. Small businesses also contribute through their role in providing goods and services to regional areas, where it may be less feasible for large businesses to do so because of the low potential for economies of scale. Across each state in Australia, small businesses tend to be more likely to be located in regional areas compared with larger businesses (Nicholls and Osmond 2015).

5.2.2 Award coverage

195. According to the latest ABS *Employee Earnings and Hours* data (May 2018), small businesses account for around 34 per cent of total employees on award classification wages.

196. Around 35 per cent of non-managerial employees in a small business are paid award classification wages. This compares with 32 per cent for businesses with 20-49 employees, 30 per cent for businesses with 50-99 employees and 17 per cent for businesses with 100-999 employees.

197. For all businesses, the proportion of non-managerial employees with their pay set by an award is higher in certain industries, including the Accommodation and food services industry (45 per cent), Administrative and support services (41 per cent), Other services (38 per cent), Health care and social assistance (32 per cent), and Retail trade (30 per cent). Together, these industries account for 67 per cent of all award rate non-managerial employees (ABS *Employee Earnings and Hours, May 2018*). Small businesses account for a large share of employment in these industries: 44 per cent, 27 per cent, 62 per cent, 27 per cent, and 26 per cent respectively (ABS *Australian Industry, 2018-19*).

5.3 Impact of COVID-19 on small businesses

5.3.1 Overview

198. Small businesses have been significantly impacted by the COVID-19 pandemic and the associated lockdowns and travel restrictions. Business conditions dropped sharply, and normal operating conditions were interrupted due to these public health measures.

199. In May 2020, 73 per cent of small businesses were operating under modified conditions due to the COVID-19 pandemic. By September 2020, a significant share (64 per cent) continued to operate under modified conditions. (ABS *Business Indicators, Business* Impacts *of COVID-19, May 2020*; ABS *Business Indicators, Business Impacts of COVID-19*, *September 2020*).

5.3.2 Small business data

200. To support policy makers during the COVID-19 pandemic, the ABS started releasing, on a monthly basis, the *Business Indicators, Business Impacts of COVID-19* (with the first release in March 2020). Selected insights from this release are included to highlight the impact of COVID-19 on small businesses, with comparisons also made to medium and large businesses.

201. To supplement ABS data, the Government has utilised business surveys to gain a better understanding of developments in the small business sector. As noted in previous Government submissions, the Government examines a range of survey measures rather than one single measure. The surveys commonly used and available include those published by the National Australia Bank (NAB) and Sensis. These two surveys have samples ranging from around 600 to over 1000 respondents.

202. The Reserve Bank of Australia (RBA) has concluded that while it is important to interpret the survey information with care, business surveys provide useful information about current and future economic activity, and also provide information on parts of the economy that is not readily available (Park 2011; Alymer and Gill 2003). The studies also note that in many instances, the survey data provide more timely information than official data. Further, the information provided by the main business surveys is highly correlated with official data produced by the ABS (Park 2011).

5.3.3 Business conditions for small businesses

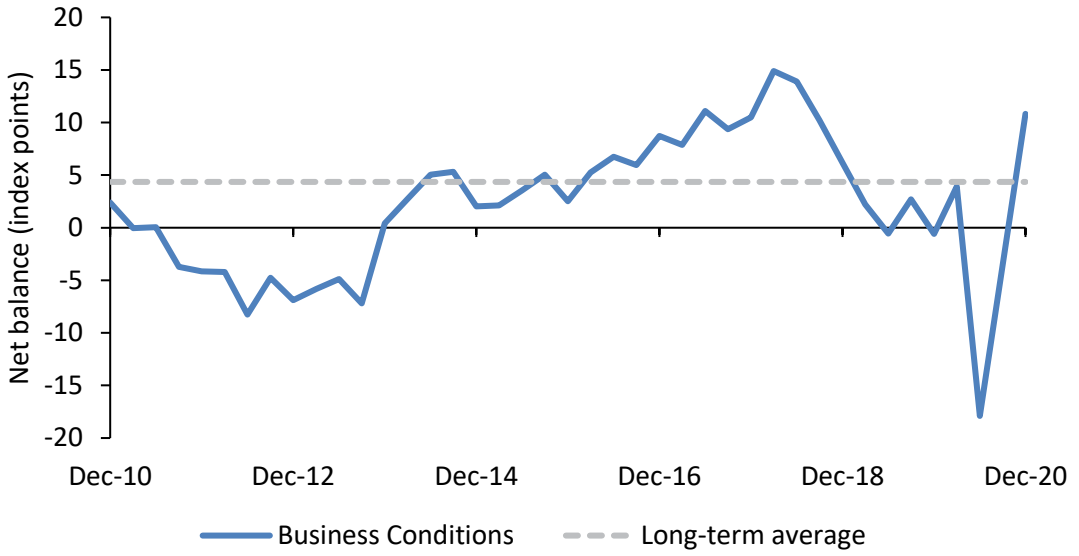
203. Small business conditions declined steeply alongside the introduction of lockdowns and travel restrictions. Persistent uncertainty in the trading environment has also resulted in some business conditions remaining subdued or below long-term average levels, despite signs of a recovery in recent months. In particular, it is observed that small businesses have been unevenly impacted by the COVID-19 pandemic. This varying impact across industries is shown below.

204. The COVID-19 pandemic has detrimentally affected the cash flow of small businesses. In May 2020, the proportion of small businesses with decreased revenue (with respect to the previous month, i.e. April 2020) was 71 per cent. In March 2021, whilst this proportion had decreased to 22 per cent, small businesses still appeared to be faring worse than large businesses, where only 16 per cent experienced a decrease in revenue. (ABS *Business Indicators, Business Impacts of COVID-19*, *May 2020;* ABS *Business Conditions and Sentiments, March 2021*).[28]

205. The NAB Quarterly Small and Medium Enterprise (SME) survey (2020 Q4) shows that small business conditions are now above the long-run average, improving by 14 points to 11 index points in the December quarter 2020 (Chart 5.3).

[28] Large businesses in the ABS *Business Indicators, Business Impacts of COVID-19* survey are defined as businesses with an employment size of 200 or more persons.

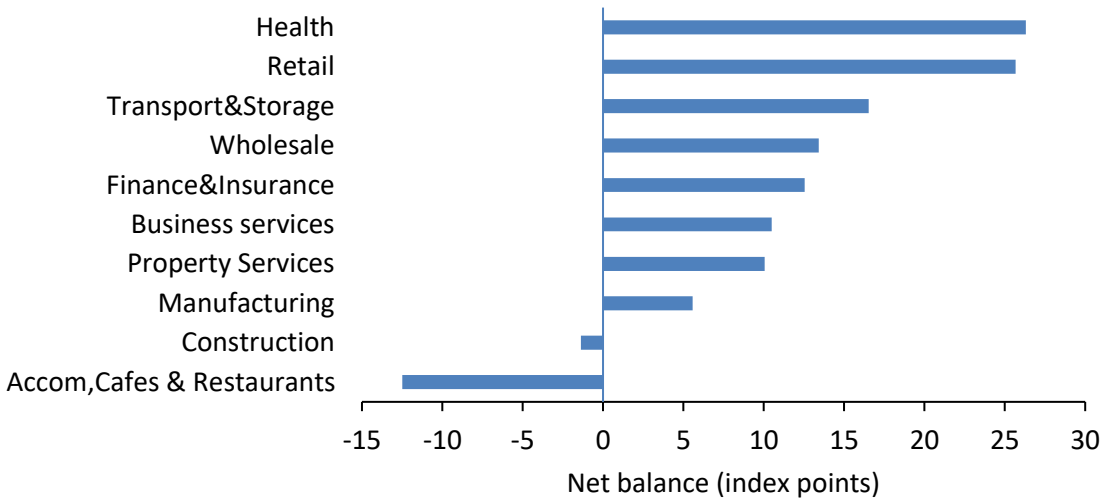
Chart 5.3: NAB Small Business Conditions



Source: NAB Quarterly SME Survey 2020 Q4 (February 2021), seasonally adjusted data.
Note: Small business is defined here as firms with a turnover between $2 million and $10 million. The general definition of small business for taxation purposes is $10 million turnover or less. The long-term average is the average value since June 2006.

206. At an industry level, the latest survey results suggest conditions are improving after being weakened greatly from the COVID-19 pandemic. However, some industries are faring better than others (Chart 5.4). For instance, 6 out of 10 industries are above their long-run averages. Industries still below their long-run averages consisted of Accommodation, cafes and restaurants and Construction, which still have a negative net balance; and Business Services and Finance & Insurance.

Chart 5.4: NAB Small Business Conditions by industry, December quarter 2020



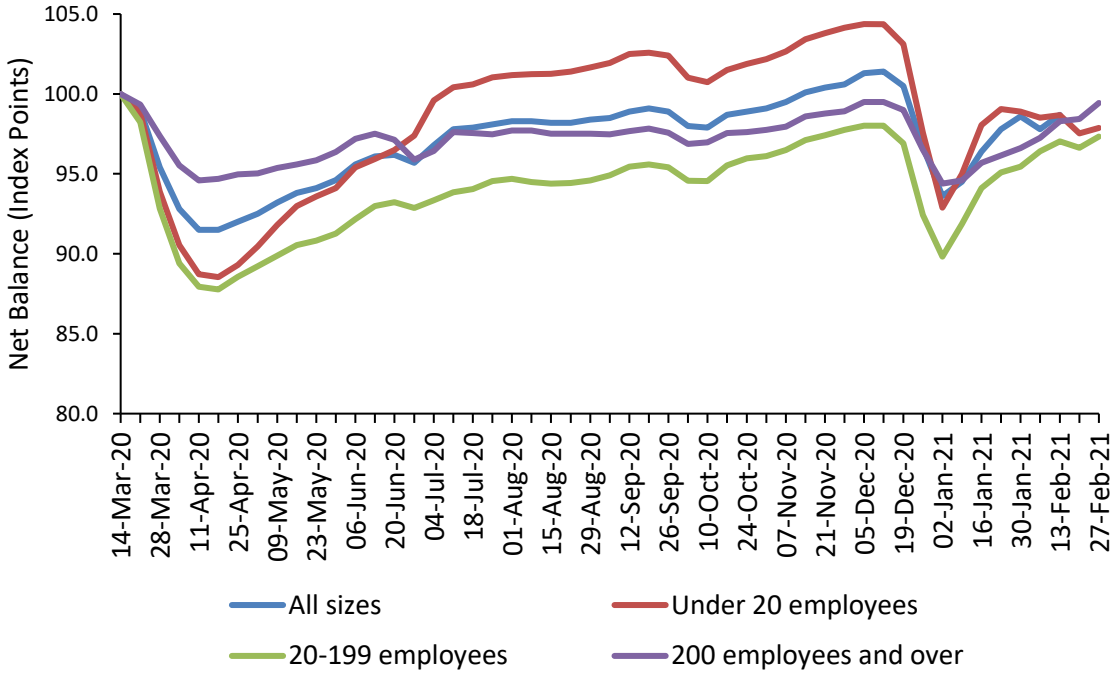
Source: NAB Quarterly SME Survey 2020 Q4 (February 2021), seasonally adjusted data.
Note: Small business at the industry level is defined here as firms with a turnover of between $2 million to $10 million.

5.3.4 Labour market

207. The COVID-19 pandemic initially weakened employment conditions for small businesses, although there are signs of recovery.

208. ABS data (*Weekly Payroll Jobs and Wages in Australia, week ending 27 February 2021*) provides a timely view on the employment conditions of small, medium and large business (Chart 5.5). Although the most recent data must be treated with caution as it is subject to revisions, data until early December 2020 shows that small business had a greater employment recovery than medium and larger businesses.

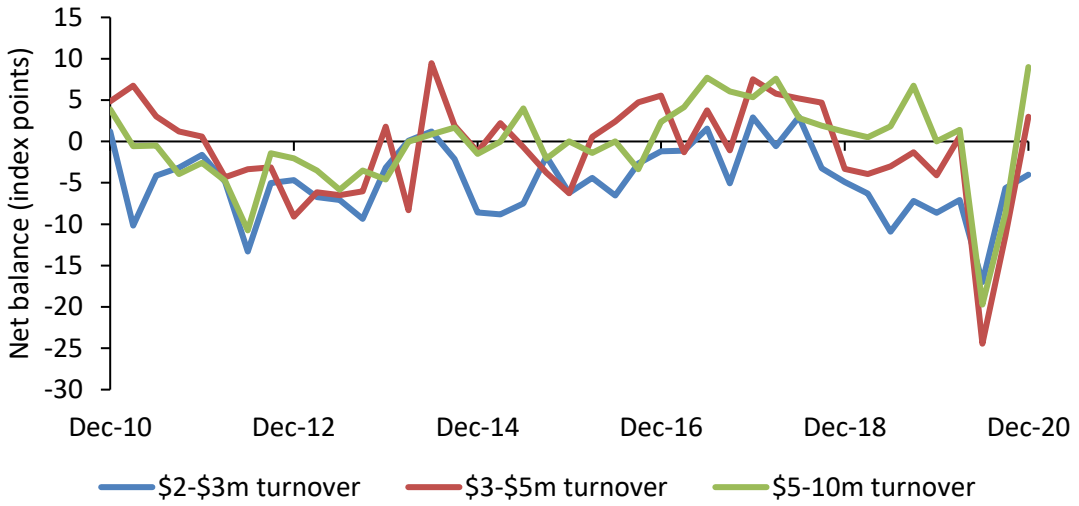
Chart 5.5: Payroll jobs by employment size



Source: ABS *Weekly Payroll Jobs and Wages in Australia, week ending 27 February 2021.*
Note: The ABS notes that care should be exercised when focusing on recent movements in payroll jobs. Payroll jobs and wages estimates (including percentage change movements and indexes) are revised in each release across the time series. Estimates currently presented in the Weekly Payroll Jobs and Wages in Australia release are an original data series and are not yet able to be produced with seasonal impacts removed (i.e. seasonally adjusted). More information about data limitations and revisions can be accessed on the release website.

209. The NAB Quarterly SME Survey 2020 Q4 indicates that small businesses in the smallest turnover category have a lower outlook for employment decisions than other small businesses in higher turnover categories (Chart 5.6).

Chart 5.6: NAB Employment Index by turnover



Source: NAB Quarterly SME Survey 2020 Q4 (February 2021), seasonally adjusted data.

210. According to the MYOB *Business Monitor: Budget Edition* (September 2020), 42 per cent of small businesses surveyed accessed JobKeeper. Of those, 82 per cent said their business was able to keep operating because of it, and 37 per cent indicated they would not be trading today without it. In the *Spring 2020 Sensis Business Index* (December 2020) survey, nearly one in three small businesses (31 per cent) reported that when the JobKeeper program finishes at the end of March 2021, it will have a major impact on their business.

5.4 Small business developments

5.4.1 Government's commitment to small businesses

211. Given the importance of small business, the Government has introduced temporary measures that support small business and the economy to overcome the challenges posed by the COVID-19 pandemic. These measures have focused on supporting small businesses to retain or hire more employees and ease cash flow issues.

212. To date, JobKeeper has been instrumental in supporting job retention, maintaining employment links and business cash flow, and providing income support to eligible employees during the peak of COVID-19. At the time of this submission, JobKeeper's end is imminent. The Government has committed funding to help bridge small businesses back to normal trading, after its conclusion. This includes temporary full-expensing, temporary loss carry-back, the Tourism Aviation Network Support and the SME Recovery Loan Scheme.

213. Similarly, before the Boosting Cash Flow for Employers measure ended in December 2020, it helped small businesses to ease cash flow issues so they could keep operating, pay their rent, electricity and other bills and retain staff. Since 1 February 2021, the JobMaker Hiring Credit has been providing support to small businesses to employ more young people.

214. As part of the Government's industrial reform agenda, the *Fair Work Amendment (Supporting Australia's Jobs and Economic Recovery) Bill 2021* was recently passed, which will provide certainty to small businesses with staff on casual work arrangements.

215. The Government has made changes to Australia's insolvency framework to better serve Australian small businesses, their creditors, and their employees. The reforms, which commenced on 1 January 2021, introduce new insolvency processes suitable for small businesses, reducing complexity, time, and costs.

216. While the Government has provided significant support to small businesses, given the continuing uncertain global and domestic economic outlook, higher labour costs during this challenging period could present a major constraint to small business recovery and may dampen employment in the sector.

6. Productivity, labour costs and wage setting

Key Points

- Over the latest productivity growth cycle (2011-12 to 2017-18), labour productivity growth has been subdued, with latest data showing that productivity growth slowed in recent financial years.
- Despite a trend of slowing productivity growth, there has been a significant increase over the year to December 2020 as a result of a single strong quarter of productivity growth recorded in the June quarter 2020. The productivity growth recorded in this quarter should be considered in the context of the broader economic environment and not be considered the start of a new trend.
- The economy-wide wage share is below the long-term average, while the wage shares for the five most award-reliant industries are in line with their long-term trends.
- Approximately 37.9 per cent of employees were covered by enterprise agreements in May 2018 (latest data available). Enterprise bargaining provides a direct avenue for firms and workers to negotiate wage increases which are consistent with their particular circumstances, and which encourage productivity growth.

6.1 Productivity growth and wages growth

217. Productivity growth is essential for real income growth and improved living standards over the long run, through some combination of higher sustainable wage increases for workers, lower prices for consumers, and higher profits for business. Real wages growth and productivity growth tend to move together, however, there are often short-run deviations which reflect labour market and economic conditions.

218. As the Reserve Bank Governor Philip Lowe has stated, productivity growth is a key driver of wages growth:

> "*We also need to keep focused on the critical task of raising national productivity. After all, lifting productivity is the key to building on our current prosperity and ensuring sustained growth in wages and incomes*." (Lowe 2018)

219. Productivity growth is subdued and remains below the peak of the 1990s. In 2019-20, labour productivity in the market sector increased by 0.6 per cent. This follows growth of 0.2 per cent in 2018-19 and 0.7 per cent in 2017-18 (ABS *Australian System of National Accounts, 2019-20*). This compares to 1.7 per cent average annual growth in the latest productivity growth cycle (2011-12 to 2017-18).

220. Alongside below average productivity growth, Australia has experienced relatively subdued wages growth in recent years, in part due to changes to Australia's terms of trade. Prior to the fall in the terms of trade in the early 2010s, the high prices of resource exports increased the purchasing power of Australian employees and delivered an uptick in real wages. Australia's terms of trade declined between 2012 and 2016 before increasing by more than 25 per cent up to December 2020, once again boosting the purchasing power of Australian employees (ABS *Australian National Accounts: National Income, Expenditure and Product, December 2020*).

221. The impact of movements in the terms of trade on households' income can flow through indirectly, via relative price changes in the economy, and independently from the direct effect of the commodities price boom on nominal wages. Recognising the indirect transmission of the terms of trade effect on household consumption and the purchasing power of wages, the Fair Work Commission noted in their 2016-17 Annual Wage Review decision:

> "*that in earlier years the NMW and award rates were intentionally not raised commensurately with the growth in national income that flowed from the very high terms of trade. The Panel judged at the time that growth in national income from this source was too volatile to provide a sound foundation for growth in enforceable minimum wages. We are still of that opinion.*" (*Annual Wage Review 2016-17 [2017] FWCFB 3500*, para. 244)

6.2 Trends in labour productivity growth

6.2.1 National labour productivity

222. Productivity growth measures can be volatile, cyclical and subject to revisions. The ABS therefore advise that productivity growth cycles be used to assess changes in labour productivity over time. The onset of COVID-19 has significantly affected productivity data with data for the June 2020 quarter being an outlier. The change in productivity in June is the result of the change in the number of employed.

223. There were 651,500 less employed persons in June 2020 than before the onset of COVID-19 (February 2020) (ABS *Labour Force, Australia, February 2021*). Job losses were disproportionally felt by low-income earners (ABS *Characteristics of Employment, August 2020).* When low-income earners are removed from productivity calculations by becoming unemployed, it increases average productivity which results in the appearance of productivity growth. As low-income earners return to work, this effect will dissipate.

224. ABS System of National Accounts data and ABS National Accounts data both show slowing productivity growth over recent financial years. However, the latest National Accounts data shows productivity increasing by 2.5 per cent over the year to December 2020 (ABS *Australian National Accounts, December 2020*). This growth can be entirely attributed to the 3.4 per cent increase over the quarter to June 2020, which is the quarter with the most job losses and significant gap between government subsidies, and so should not be considered the start of a new trend.

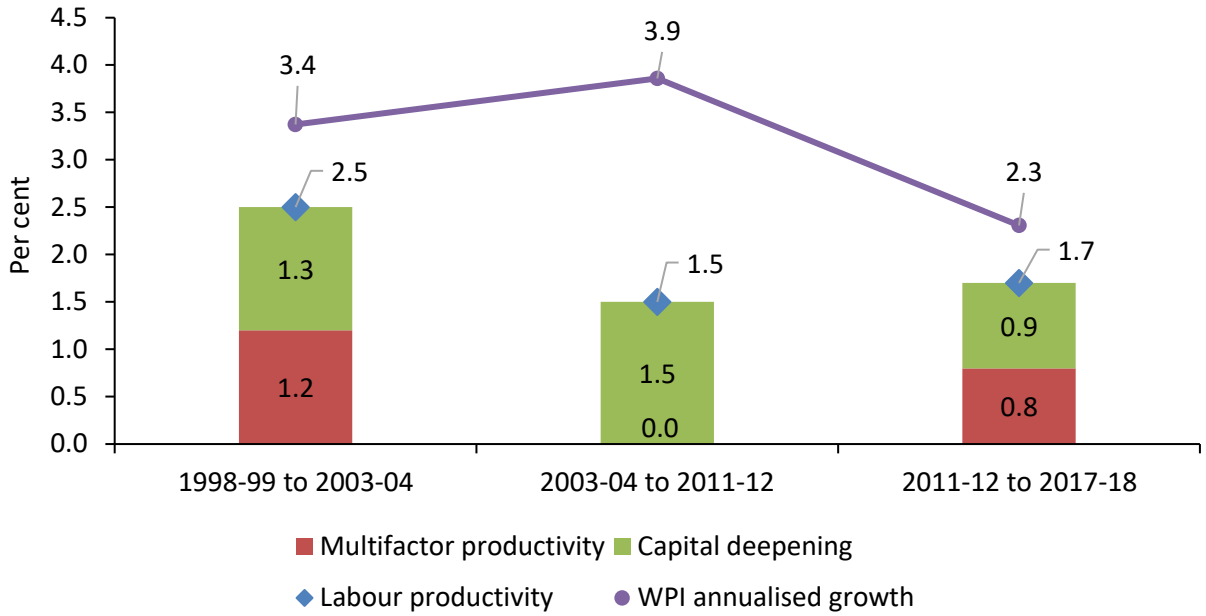
225. Over the latest cycle (from 2011-12 to 2017-18), labour productivity in the market sector has grown at an average annual rate of 1.7 per cent, slightly above the annual average growth of 1.5 per cent from 2003-04 to 2011-12 and lower than the 2.5 per cent growth rate from 1998-99 to 2003-04.

226. Chart 6.1 decomposes labour productivity over growth cycles into its two components:

- Capital deepening, which is a measure of the change in the amount of capital per unit of labour.
- Multifactor productivity, which measures the efficiency of use of labour and capital inputs in producing output.

227. Chart 6.1 also shows the divergence between wages growth and labour productivity growth during the previous cycle (2003-04 to 2011-12) linked to the mining boom. Wages growth and labour productivity growth have been more closely aligned during the latest cycle (2011-12 to 2017-18).

Chart 6.1: Contributions to labour productivity in the market sector and wages growth



Source: ABS *Australian System of National Accounts, 2019-20,* original data, ABS *Wage Price Index, December 2020,* seasonally adjusted data.
Note: 2011-12 to 2017-18 is the latest complete productivity cycle according to the standard ABS definition. Totals may not equal sum of the components due to rounding. They are calculated from underlying, more detailed data.

228. Australia experienced strong productivity growth in the 1990s as a result of microeconomic reforms, which liberalised markets and improved the efficiency of labour and capital in producing output (multifactor productivity). As shown in Chart 6.1, labour productivity growth averaged 2.5 per cent per year during the 1998-99 to 2003-04 productivity cycle, higher than later productivity growth cycles. Since the peak in the 1990s, most growth in labour productivity has been driven by investments in machinery, capital, and equipment (capital deepening), rather than improvements in multifactor productivity.

229. The slowdown in labour productivity growth, relative to stronger performance in the 1990s, is not unique to Australia. The OECD noted in its 2017 Economic Survey of Australia that *"along with many OECD countries, productivity growth [in Australia] has slowed since its peak in the 1990s… but remains in line with its longer-term average"* (OECD 2017).

230. One possible reason for the slowdown is structural. Australia, like many developed economies, has seen a move away from tradeable, capital-intensive goods and towards non-tradeable, labour-intensive services, which is reflected in lower economy-wide productivity (Productivity Commission 2017).

231. Unique to Australia is that productivity growth has slowed over the past two cycles as a result of the mining investment boom. As mining firms invested in building their capital

stock, Australia's capital inputs increased without a similar increase in outputs. As the capital becomes operational and outputs grow, the mining investment boom's drag on productivity growth is expected to unwind.

6.3 Real producer wage and real consumer wage

232. Real wage growth can be measured by the real producer wage and the real consumer wage (Treasury 2017).

233. Real producer wages are from the perspective of producers and show the cost of labour for producers compared to the price of their outputs. The real producer wage is measured using Average Earnings in the National Accounts (AENA) deflated by the GDP deflator.

234. Real consumer wages are from the consumers' perspective of how wages compare with the cost of goods and services for consumers. The real consumer wage is calculated by AENA deflated by the prices consumers pay for goods and services (in this case, the household final consumption deflator).

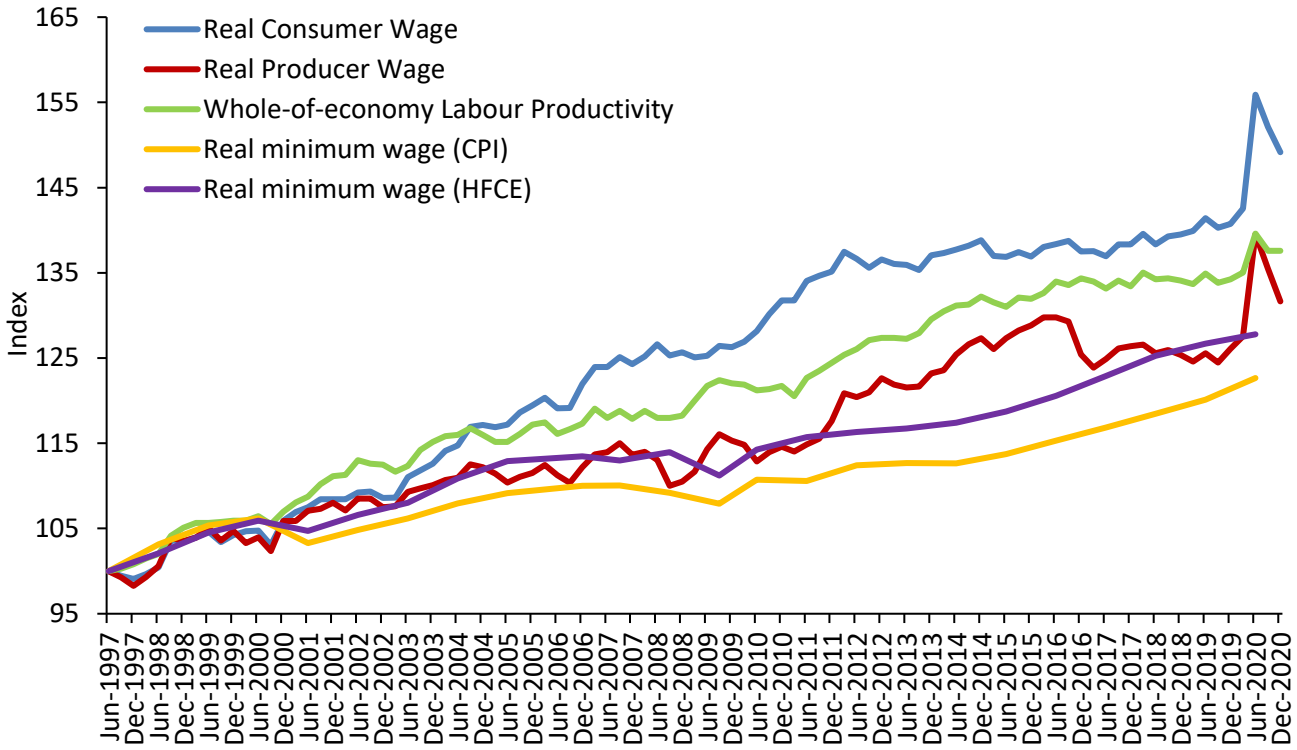
235. Consumer and producer prices (which determine real producer and consumer wages) are expected to move together in the long run, with the real producer wage and real consumer wage growing together as productivity grows. However, their growth patterns can deviate when relative prices change (Chart 6.2). During the terms of trade boom in the early 2000s, producer prices were disproportionately affected by rising commodity prices, which did not flow through to consumer prices to the same extent. As such, producer prices grew faster than consumer prices, which saw a wedge open between the real consumer wage and the real producer wage (with real consumer wages higher when compared to real producer wages) (see Productivity Commission 2019 for a more detailed analysis).

236. Over the medium term, the gap between producer and consumer wages has been driven by changes in the terms of trade. Between 2012 and 2016, the real producer wage increased against the real consumer wage as Australia's terms of trade declined. Since 2016, the real producer wage declined following the sudden improvement in Australia's terms of trade in late 2016 and was steady until the onset of COVID-19.

237. In contrast, the real consumer wage has been broadly flat between 2012 and the onset of COVID-19. Recent years have also seen the growth in the real minimum wage outpacing labour productivity growth.

238. In the two quarters to September 2020, the JobKeeper subsidy has contributed to increases in employees' income, which flows into both real consumer wages and real producer wages, see chart 6.2 (ABS *Australian National Accounts: National Income, Expenditure and Product, December 2020*). As the JobKeeper Payment is wound back, we expect the sharp increase in real consumer wages and real producer wages to be largely unwound. It should be remembered these measures are highly variable and should be interpreted in a long-term context.

Chart 6.2: Real wages and whole-of-economy labour productivity, June 1997 to December 2020



Source: ABS *Australian National Accounts: National Income, Expenditure and Product*, *December 2020,* seasonally adjusted data.

Note: The real consumer wage is AENA per hour deflated by the household consumption deflator; the real producer wage is AENA per hour deflated by the GDP deflator; labour productivity is GDP per hour worked; the real minimum wage is the minimum wage deflated by either the consumer price index or the household consumption deflator. Real minimum wage (HFCE) being higher than the Real minimum wage (CPI) means that since 1997, the minimum wage has increased by more relative to household spending than it has when compared to inflation. All series indexed to June 1997.

6.4 Wage share

239. The wage share is total wages earned as a proportion of total factor income in the economy. Total factor income also includes capital share and gross mixed income share. Between 2005 and the onset of the pandemic, the wage share has fluctuated within a range of around 51 to 55 per cent (Chart 6.3). The transitional impact of the mining boom and resulting misalignment of wages and labour productivity growth largely explains these fluctuations in the wage share.

240. The latest data (December 2020) shows the wage share at 50.9 per cent, below the long-run average (since September 1959) of 54.9 per cent (ABS *Australian National Accounts, December 2020*). The profit share is lower than the wage share, at 30.0 per cent.

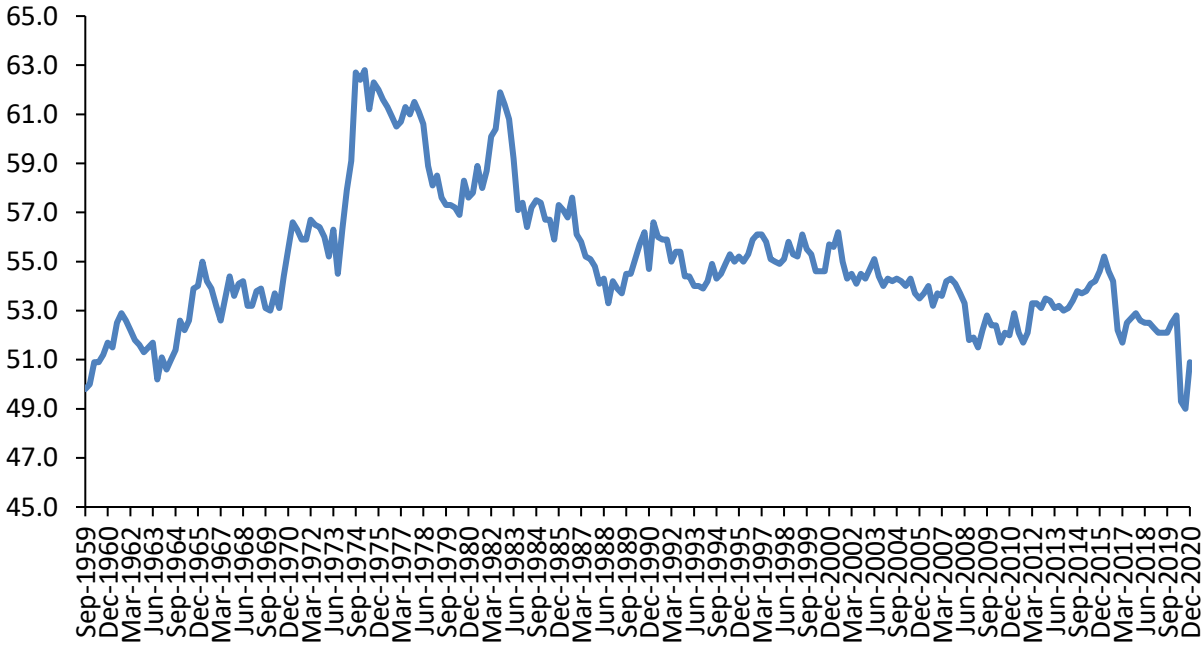
241. The recent rise in the profit share is in part the result of the government COVID-19 recovery subsidies. The ABS stated in June 2020 that the *"Government support to business through payment of subsidies resulted in a strong rise in profits."* (ABS *Australian National Accounts: National Income, Expenditure and Product, June 2020*).

Since these increases in profits, the profit share has increased 2.7 percentage points in the two quarters to September 2020, while the wage share declined 3.8 percentage points over the same period. As government subsidies are wound back, we expect the profit share to return to pre-pandemic levels.

242. Wage shares vary across industries, with capital-intensive industries, such as Mining, tending to have lower wage shares. The expansion of the Mining industry, relative to other industries, and the decline in the wage share within the Finance and insurance industry, along with an increase in income earned in the housing sector accounted for much of the decline in the overall wage share in the 1990s and 2000s (ABS *Estimates of Industry Multifactor Productivity, 2016-17*; La Cava 2019).

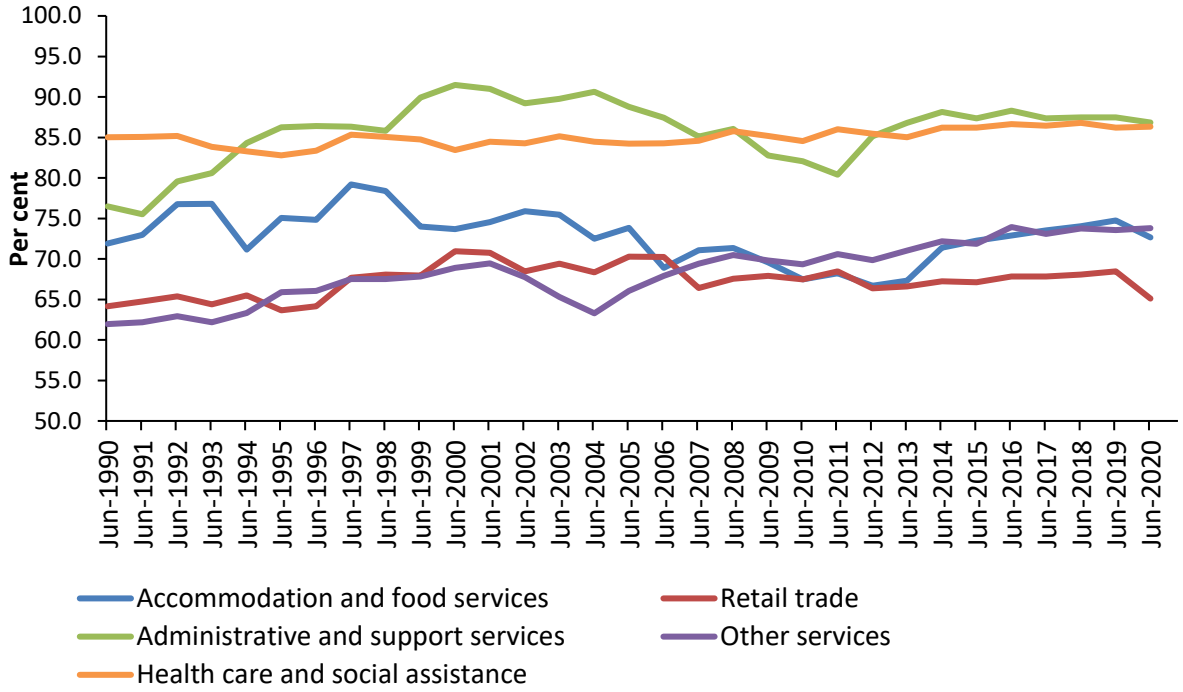
243. Among the five most award-reliant industries, which are relatively more labour-intensive, the industry wage share tends to be higher than the overall wage share and has not exhibited an apparent trend of decline (Chart 6.3).

Chart 6.3: Wage share of total factor income, September 1959 to December 2020



Source: ABS *Australian National Accounts: National Income, Expenditure and Product, December 2020,* seasonally adjusted.

Chart 6.4: Wage shares of total factor income in the five most award-reliant industries, June 1990 to June 2020



Source: ABS *Australian System of National Accounts, 2019-20,* original data.
Note: Industry level wage share data is calculated differently in ABS *Australian System of National Accounts* and ABS *Estimates of Industry Multifactor Productivity*, with the former tending to be lower as a result.

6.5 Promoting productivity growth through bargaining

244. The object of the *Fair Work Act 2009* is to provide a balanced framework for cooperative and productive workplace relations that promotes national economic prosperity and social inclusion for all Australians. It achieves this through several mechanisms, including through ensuring a guaranteed safety net of fair, relevant, and enforceable minimum terms and conditions and through achieving productivity and fairness through an emphasis on enterprise level collective bargaining.

245. The modern awards objective must ensure that modern awards, together with the National Employment Standards, provide a fair and relevant minimum safety net of terms and conditions, taking into account a number of things including the need to encourage collective bargaining.

246. The *Fair Work Act 2009* enables employers and employees to negotiate enterprise agreements to create flexibility and increase wages. Enterprise agreements can be tailored to suit the needs of a particular business, can better meet the needs of both employers and employees, and can lead to productivity gains. Former Prime Minister Paul Keating has said that *"the key to enterprise productivity is enterprise bargaining"*, as enterprise bargaining allows firms to share the gains in labour productivity between wages and profits (2007).

247. Studies are broadly supportive of a link between productivity growth and enterprise bargaining. For example, Connolly, Trott and Li (2012) find that workplace agreement coverage has a significantly positive effect on labour productivity, noting that the effect

may take time to fully materialise. The 2012 Fair Work Act Review Panel report also supported this conclusion:

> "*It is widely, though certainly not universally, agreed among analysts that these economic reforms…including the transition to enterprise bargaining… removed impediments to more efficient production. These reforms may account for a significant part of the upswing in productivity through the 1990s.*"

248. Recent years have seen a decline in the approval of new federal enterprise agreements, particularly in the private sector. There were 9,988 agreements current (not expired or terminated) at 31 December 2020, down by 60.3 per cent from a high of 25,150 agreements in December 2010 (Attorney-General's Department, Trends in Federal Enterprise Bargaining Report, December quarter 2020).

249. This decline is driven primarily by a reduction in agreements covering a small number of employees. While the decline has occurred across almost all industries, several industries such as Construction, Manufacturing, Retail trade, and Accommodation and food services have declined at a much sharper rate.

250. OECD data demonstrates an overall decline in bargaining coverage since the mid-1980s across many OECD countries (OECD 2017). There may be several reasons for this, including structural changes to Western economies, the effects of globalisation, and changing employer and employee attitudes.

251. Despite the reduction in the number of federal enterprise agreements approved, over one-third of all employees are still covered by enterprise agreements (37.9 per cent of all employees in 2018, compared to 38.5 per cent in 2016) (ABS *Employees, Earnings and Hours, May 2018*).

7. Employment impacts

Key Points

- Low-paid jobs can act as gateways to the workforce, and often lead to higher paid work, particularly for at risk groups such as new labour market entrants, long-term unemployed people and less skilled workers.
- While the available evidence on the impact minimum wages increases have on employment is mixed, moderate increases are thought to have negligible employment impacts, and larger increases are thought to have more notable negative employment impacts. However, the ability of employers to respond to wage increases during a downturn would likely be compromised exacerbating negative employment impacts.
- Minimum wage levels largely determine the incentives to encourage people to look for and accept work.

7.1 The importance of low-paid work

252. The *Fair Work Act 2009* requires that the national minimum wage rate and modern award wages be set at a rate that will promote the performance and competitiveness of the national economy. To support employment growth, it is important that job opportunities are available for at risk groups, including low-skilled people, long-term unemployed people, people with disability, Indigenous Australians and youth.

253. Jobs provide benefits to individuals, their families, and communities. A job boosts incomes, skills and self-confidence, and provides an opportunity for social engagement. People who are unemployed tend to have poorer health and lower levels of community engagement and wellbeing compared to those in work (Productivity Commission 2013).

254. As noted earlier in chapter 4, economic downturns show that involuntary unemployment can have a 'scarring impact' on individuals' labour market outcomes as well as negative social, mental and health effects, which underscores the importance of keeping Australians in work (Gray *et al.* 2009).

255. The Productivity Commission (2013) found that the most important drivers of income growth for low income households are workforce participation and the number of hours worked. Compared to unemployed people, people in jobs have a higher level of wellbeing and lower levels of financial stress.

7.1.1 Stepping stones effect

256. Over a third (37 per cent) of people who enter the workforce do so by taking a low-paid job.[29] Low-paid jobs are a particularly important pathway for younger and less educated workers, with 43 per cent of workers aged under 25, and 42 per cent of those with Year 12 qualifications or below, entering the workforce through low-paid work.

[29] Low paid is defined as earning less than two-thirds of the median hourly wage, as outlined in Chapter 2 and Appendix A.

257. Low-paid employment is often temporary and can act as a stepping stone. As shown in Table 7.1, almost two-thirds of workers who enter low-paid employment leave within one year, while 84.0 per cent who enter low-paid employment leave within two years. Most of these workers move into higher-paid work, and this is more likely the longer the worker has been in low-paid work (Table 7.2). The median increase in hourly wages for those moving from low-paid to higher paid jobs was 58 per cent (Attorney-General's Department analysis using the HILDA Survey).

Table 7.1: Duration in low-paid employment, per cent

Duration in low-paid employment	Less than 1 year (%)	1 to 2 years (%)	2 to 5 years (%)	More than 5 years (%)
Proportion	66.0	18.0	13.4	2.6

Source: Attorney-General's Department analysis using the HILDA Survey, release 19 (December 2020), balanced panels waves 1 to 19 with longitudinal weights.
Note: Data is based on flows into low-paid work, not the number of people in low-paid work at a point in time. Numbers are mutually exclusive.

Table 7.2: Destination on leaving low-paid employment, per cent

Duration in low-paid employment	Higher paid work (%)	Left the labour force (%)	Unemployment (%)
Less than 1 year	75.3	17.2	7.6
1 to 2 years	77.0	15.4	7.6
2 to 5 years	81.2	13.2	5.7

Source: Attorney-General's Department analysis using the HILDA Survey, release 19 (December 2020), balanced panels waves 1 to 19 with longitudinal weights.
Note: Those remaining in low pay for 5 years or more are not shown due to a small sample size.

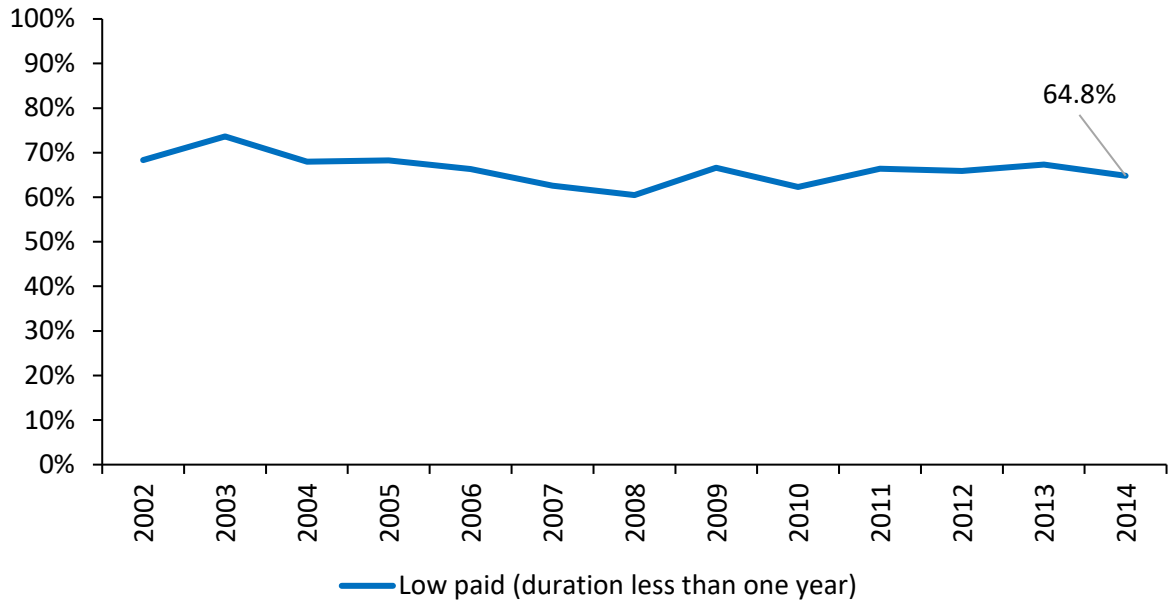
7.1.2 Stepping stones effect during an economic downturn

258. It is not clear how the COVID-19 pandemic will impact low-paid employees stepping up into high-paid employment. HILDA data covering the period of the COVID-19 recession is not yet available. However, it is possible to look at whether the stepping stone effect held during the economic downturn caused by the GFC. Although comparing the downturn caused by COVID-19, primarily a supply side shock, to the GFC (a demand side shock) is not an exact like-for-like comparison, they do share key similarities. Specifically, both economic shocks increased spare capacity in the labour market largely driven by a reduction in hours worked and increased underemployment.

259. While the impact of the GFC was felt on different parts of the economy at different times, the underemployment rate, as a measure of spare capacity, indicates its impact on the labour market. Immediately after the onset of the GFC, the underemployment rate increased from a low of 5.7 per cent in August 2008, to 7.6 per cent in May 2009. Similarly, immediately after the onset of COVID-19, the underemployment rate increased from 8.8 per cent in March 2020 (pre-COVID-19) to 13.8 per cent in April 2020 (the peak of underemployment caused by COVID-19). Although both events saw increases to the underemployment rate, the pandemic had a much greater and faster impact upon the labour market compared to the GFC (ABS *Labour Force, Australia, February 2021*).

260. Chart 7.1 looks at important aspects of the stepping stone effect over time to illustrate the impact before, during, and after the GFC. Of the employees that were low paid in 2014, 64.8 per cent left low-paid employment in less than one year. In addition, the chart shows that the share of low-paid employees remaining in low-paid employment for less than one year is stable over the entire period averaging 66.2 per cent. This is notwithstanding the impact of the GFC, which led to rising spare capacity in the labour market from around August 2008.

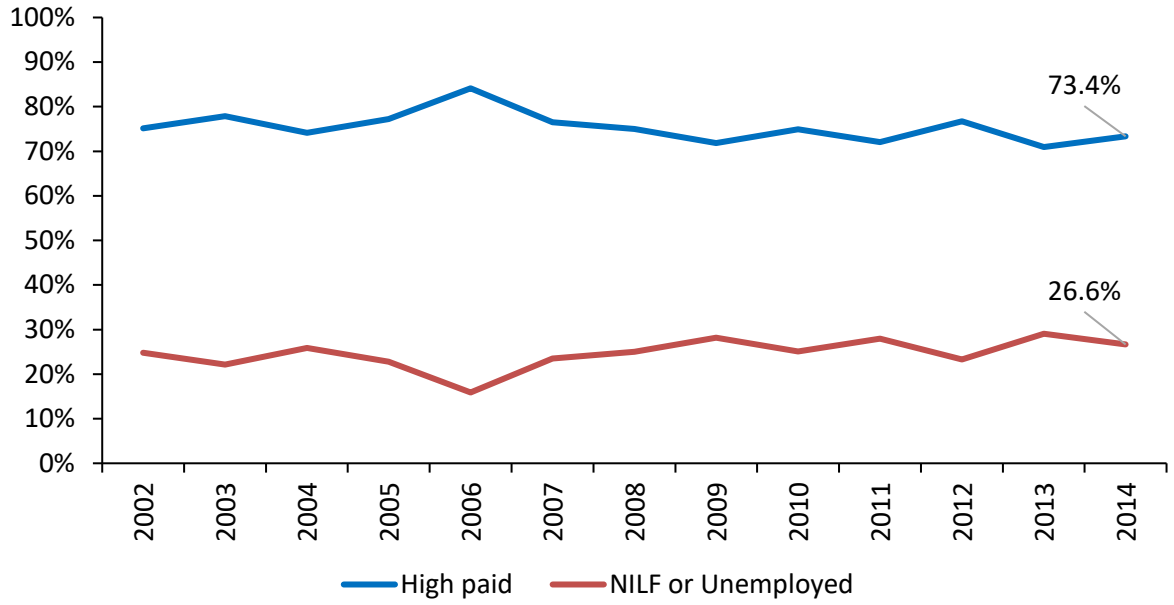
Chart 7.1: Duration of low-paid employment, less than one year, per cent



Source: Attorney-General's Department analysis using the HILDA Survey, release 19 (December 2020).
Note: This analysis follows individuals over a seven-year period, the previous year, the nominated year and five lead years. Therefore, the last year for which 5 lead years are available is 2014. Individuals nominated for 2014 are followed from 2013 to 2019.

261. It is also important to follow where these low-paid employees go after leaving low-paid employment – whether they move into high-paid work or leave the labour force or become unemployed. Chart 7.2 shows of the employees that were low paid in 2014 and left low-paid employment in less than one year, 26.6 per cent (red line) either exited to unemployment or were NILF and the remaining 73.4 per cent (blue line) went into high-paid employment. Despite the GFC, it appears the majority of low-paid workers (over 70 per cent at its lowest point in 2013) continued to exit low-paid work in less than a single year and move to high-paid employment. Similarly, the share of low-paid employees exiting low-paid employment and moving to unemployment or leaving the labour force remained relatively stable, averaging 24.6 per cent despite the GFC and never rising above 30 per cent over the entire period.

Chart 7.2: Destination after leaving low-paid employment in less than one year, per cent



Source: Attorney-General's Department analysis using the HILDA Survey, release 19 (December 2020).
Note: This analysis follows individuals over a seven-year period, the previous year, the nominated year and five lead years. Therefore, the last year for which 5 lead years are available is 2014. Individuals nominated for 2014 are followed from 2013 to 2019.

7.2 Impacts of minimum wage increases

7.2.1 Economic theory

262. There are a number of traditional economic theories on the employment impacts of minimum wages, although they depend on a range of assumptions that may not be borne out in practice. Wages, like all business costs, are likely to have an impact on employers' workforce decisions.

263. The orthodox view of the labour market is that workers are employed to the degree that they contribute to the profitability of their employing enterprise. All else being equal, an increase to wages may price marginally productive workers out of the labour market, as the cost of employing them increases relative to the value of their work.

264. In the extreme case where there is a single employer (monopsony), an increase in minimum wages can result in no change to, or even an increase in employment. This occurs when a firm uses its market power to pay wages less than the competitive market level. Therefore, an increase to minimum wages may not necessarily price workers out of the labour market, since they are already paid below the competitive market level, while higher minimum wages could attract more workers into the labour market.

265. Dynamic monopsony theory is where many smaller employers exhibit a degree of monopsony power. For example, this may take place if skill requirements are sufficiently

different across employers, who may then have some market power because it is more difficult for employees to move jobs, or if workers accept wages below the competitive market level due to imperfect information.

7.2.2 Minimum wage literature

266. An increase in minimum wage legislation globally in recent years has seen a growth in the literature on the impacts of minimum wages. The majority focuses on the employment impacts, however, there has also been an increased focus on the decisions that employers make as a result of minimum wage increases, as they can respond in several ways, such as increasing productivity, raising prices and reducing profits.

267. Empirically, there are several challenges in measuring the impacts of minimum wages increases. Broadly, it requires identifying workers who are affected by a minimum wage increase and comparing their employment outcomes with those who are not affected.

268. A gap in the current literature estimating the employment impacts of minimum wage increases is the impact on the unemployed (as noted in Bishop 2018). The current literature focuses on employed persons due in large part to data availability. However, this leaves the impact upon unemployed persons relatively unknown. We would expect that the unemployed would also be negatively affected by minimum wage increases as the difference between their perceived level of productivity and regulated wages would increase with increases to the minimum wage. This in turn would make those that are unemployed and looking for employment to be less likely to gain employment with increases to the minimum wage.

269. It is particularly challenging to study the employment impact of minimum wages in Australia, due to the regular annual adjustments of minimum wages, the lack of geographical variation, and limitations of the available data (see Borland 2018; Richardson 2018).

270. In addition, Australia's award system has wider coverage (over 20 per cent of employees across a wide range of wages and conditions in 121 industry and occupation-based modern awards) compared to most countries' minimum wages. Further, some employers link wages to award wage rate increases, meaning that changes in award wages can flow into above-award wages (Productivity Commission 2015).

271. An additional complication for the study of employment impacts is the role of publication bias. This describes the greater likelihood of academic journals to publish particular articles, such as those that show statistically significant results, confirm a prior belief, or report novel findings. Studies indicating that minimum wages have negative, statistically significant effects on employment, are more likely to be published (Wolfson and Belman 2016; Doucouliagos and Stanley 2009; Andrews and Kasy 2019).

7.2.3 Employment impacts of minimum wage increases during a downturn

272. While the circumstances faced as a result of the COVID-19 pandemic differ from previous economic shocks, the existing employment impacts literature highlights the need for caution in the Panel's decision. Studies show that greater impacts on employment are likely when the economy is in a recession or a prolonged slowdown (see Addison *et al.* 2013; Dickens *et al.* 2015; Clemens and Wither 2019).

273. In the United States (US), Clemens and Wither (2019) show that the employment and incomes of low-skilled workers were negatively impacted by the minimum wage increases that occurred during the Great Recession, a period of depressed labour demand and slow productivity growth. Dickens *et al.* (2015) points out that studies in the United Kingdom may have shown little evidence of employment impacts from the introduction of the National Minimum Wage in 1999 because they were conducted during a period of economic buoyancy, with any employment effects masked by a strongly growing economy.

274. Incremental and modest increases to the minimum wage have minimal employment impacts, as noted in the literature, however downturns may exacerbate the impact increasing the magnitude of the effect. During an economic downturn, employers that are already under financial stress have reduced capacity to respond to minimum wage increases with higher prices to consumers or a fall in profits to cover the increase costs of wages.

7.2.4 Australian literature

275. While the Australian empirical literature on the employment impacts of increasing the minimum wage is scarce, it shows a mix of small negative and statistically insignificant employment impacts, as outlined in Bray (2013) and Productivity Commission (2015). Several key studies are presented below.

276. Bishop (2018) analysed unpublished ABS WPI data from 1998 to 2008 and found no evidence that small, incremental increases in award wages have an adverse effect on hours worked or the job destruction rate, while finding that "*adjustments to awards are almost fully passed on to wages in award-reliant jobs."* However, Bishop cautions that *"the adverse consequences of higher wage floors may be borne by job seekers, rather than job holders"*. The findings only relate to adults aged over 21, excluding juniors, apprentices and trainees, which are groups that may be particularly vulnerable to job loss following an increase in award wages. The analysis examines the impact of award wage increases for six months after an increase, which would not capture longer term effects (Borland 2018).

277. Leigh (2003, 2004) examined several increases to Western Australia's (WA) minimum wage (which applied to non-award-reliant employees) that occurred out of step with the rest of Australia (from 1994 to 2001), comparing the changes in the employment-to-population ratio in WA with those for the rest of the country. Leigh found that the minimum wage rises occurring only in WA had a measurable, though small, negative employment impact, which was more pronounced for youth aged 15 to 24. The increases in minimum wages in WA examined by Leigh occurred at intervals of

between 12 and 15 months and ranged between 3.5 per cent to 9.3 per cent, whereas under the current national system increases to minimum and award wages take place regularly and predictably every twelve months and the increases awarded have not exceeded 3.5 per cent since 2010. Leigh's methodology and results have been critiqued by Watson (2004).

278. The Productivity Commission (2015) analysed data for the years 2008 to 2013 from the Research and Evaluation Database, which contains administrative data on the recipients of income support payments. Overall, the findings suggested that adverse employment effects from minimum wage increases are more likely to affect unemployed people and those outside the labour force. For job holders, the main impact was a reduction in hours worked. However, the Productivity Commission cautioned it *"can draw only limited conclusions about the employment effects of minimum wages from the study"* due to concerns about the robustness of the results. In addition, the study captured only adult minimum wage workers in households receiving income support payments and may not be representative of the wider population of minimum wage workers.

279. More recently, in its February 2019 Statement on Monetary Policy, the RBA concluded that:

> *"Economic theory does not make strong predictions about the effect on employment but the response is likely to depend on the size of the increase and the share of the workforce who is affected… To date, Australian minimum wage increases have tended to be small and incremental, and have not adversely affected employment via hours worked or job losses."* (RBA 2019)

7.2.5 International evidence

280. The international literature on the impacts of minimum wages is much richer than that available for Australia, however because the Australian context is unique (with hundreds of minimum wage rates and conditions set out across 121 modern awards), these results may not always be applicable.

281. The diversity of minimum wage setting in the US and the availability of data provides significant scope for research into the employment impact of minimum wages. In addition to the US federal minimum wage, most US states have their own minimum wages that are higher than the federal minimum wage. Local jurisdictions may also set minimum wages.

282. Overall, existing studies in the US find a mix of small negative and statistically insignificant employment effects (see for example, Dube *et al.* 2010; Allegretto *et al.* 2011; Neumark 2018; Allegretto *et al.* 2017; Meer and West 2016; Dube *et al.* 2016; Cengiz *et al.* 2019; Godøy and Reich 2019). Meta-analyses show similar findings (see Doucouliagos and Stanley 2009; Boockmann 2010; Belman and Wolfson 2014; Nataraj *et al*. 2014; RAND 2016).

283. The Seattle Minimum Wage Ordinance raised the minimum wage from US$9.47 to US$11.00 per hour in 2015 and to US$13.00 per hour in 2016. Jardim *et al.* (2018a) found that the first increase had a modest negative but statistically insignificant effect on hours worked, whereas the second increase to US$13.00, which reduced total hours worked in low wage jobs by 6-7 per cent, was statistically significant. Jardim *et al.*

(2018b) also found that less experienced workers experienced larger decreases in hours worked.

284. Recent US studies show that longer-term negative employment effects may occur, not only because of decisions taken within firms to reduce employment, but as a by-product of increases in the exits of relatively labour-intensive firms and in the entries of relatively capital-intensive firms, thereby reducing aggregate employment (Aaronson *et al.* 2018; Jardim and van Inwegan 2019).

285. The United Kingdom (UK) introduced a National Minimum Wage (NMW) in 1999 and a National Living Wage (NLW) for employees aged 25 years and over in 2016, which have provided opportunities for research into the employment impacts of minimum wages. The UK system is more comparable to Australia, with regular annual adjustments and a lack of geographical variation. The UK Government has announced its plan to extend the National Living Wage to workers aged 23 years old from April 2021 and workers aged 21 years old workers by 2024, which will bring it in line with Australia's adult minimum wage (which applies from 21 years). In November 2019, the UK Low Pay Commission (LPC) noted that:

> *"The NMW and NLW have raised pay for millions of employees without strong evidence of higher levels of overall unemployment."* (Low Pay Commission 2019a, p.44).

286. The LPC also commissioned an independent report that reviews the international evidence on the impact of minimum wages and recent research on the NLW (Dube 2019). The report found that:

> *"Overall the most up to date body of research from US, UK and other developed countries points to a very muted effect of minimum wages on employment, while significantly increasing the earnings of low-paid workers. Importantly, this was found to be the case even for the most recent ambitious policies." (Dube 2019, p. 2).*

287. Elsewhere in Europe, enough time has elapsed since the introduction of a minimum wage in Germany in 2015 for research into the employment impacts to occur. Broadly, the literature suggests that the introduction of the minimum wage resulted in small negative employment effects, and a decrease in working hours (often as a way of maintaining monthly wages when hourly wages have increased) (Caliendo *et al.* 2019; Bruttel *et al.* 2018; Bruttel 2019; Holtemöller and Pohle 2019; Mindestlohn Kommission 2018; Bossler and Garner 2020; Friedrich 2020).

288. These small, negative employment effects were concentrated in 'minijobs', with the share of people solely employed in them decreasing because of the introduction of the minimum wage (Bossler and Möller 2019; Mindestlohn Kommission 2018). Minijobs are jobs in which the employee earns no more than €450 per month, which exempts employers from paying any social security/insurance for these employees. Evidence shows that half of those that left a minijob moved into employment that required social security/insurance to be paid by employers, while the other half became unemployed or left the labour market (Mindestlohn Kommission 2018).

289. It should be noted that both Germany and the UK's minimum wage systems are simpler than that of Australia's which has thousands of minimum wage rates across 121 industry and occupation based modern awards.

7.2.6 Other employment impacts

290. While the broader minimum wage literature mostly finds mixed or small average effects on overall employment from minimum wage increases, this may be masking significant heterogeneity in terms of the effects on specific groups, demographics, or the extent to which different types of labour and capital are substitutes or complements. Some studies show that increases to minimum wages have greater impacts on employment opportunities for youth and may hinder their transition to higher paying jobs (see Boockmann 2010; Neumark and Wascher 2008; Neumark and Nizalova 2007). In its recent study of youth minimum wages, the UK LPC concluded that:

> *"the international evidence suggests that the younger the worker the more at risk they are from minimum wage increases and minimum wages being set too high, which is why the strongest adverse effects are generally found for those aged under 20, especially those aged under 18" (Low Pay Commission 2019b, p. 36)*

291. The impact of minimum wage increases may also be more pronounced for workers in routine jobs that are more at risk of automation (see Aaronson and Phelan, 2017; Lordan and Neumark, 2018). There is also evidence in the UK that minimum wage increases negatively impact employment for women working part-time (Dube 2019; Low Pay Commission 2019a).

292. A recent study from the US retail sector provides empirical support for dynamic monopsony (see paragraph 231). The study showed that positive employment effects tend to occur in more concentrated labour markets (where wages are more likely to be set below marginal productivity) while negative effects occur in less concentrated labour markets (Azar *et al.* 2019).

7.2.7 Employer responses to minimum wage increases

293. Employers can respond to minimum wage increases in ways other than workforce decisions. A review of the literature found some evidence of productivity improvements in the US and UK due to changes in the minimum wage, although the relationship between minimum wages and productivity in Australia was ambiguous (Farmakis-Gamboni and Yuen 2011). However, it is unclear whether the productivity improvements in the US and UK were driven by increased training or the substitution of low-skilled for high-skilled labour.

294. In the UK, evidence suggests employers did not respond to the introduction of the National Minimum Wage in 1999 (and subsequent increases) by reducing employment. Instead, research shows that employers responded in other ways, such as raising productivity through organisational change and increased training, increasing prices, reducing profits, non-compliance, and adjusting hours (Metcalf 2008; Wadsworth 2010; Riley and Bondibene 2015).

295. Similarly, in Hungary, following a significant minimum wage rise (from around 35 to 55 per cent of median wages between 2000 and 2002), most firms responded through a combination of raising prices and reducing profits (Harasztosi and Lindner 2019). However, there were small, negative employment effects for firms in the tradable sector, which were less able to raise prices because of the competition they faced from foreign firms (who were unaffected by the minimum wage rise).

296. In the US, the inelastic demand for the restaurant industry saw a 25 per cent rise in the minimum wage in 2013 in San Jose, California passed on by employers through a 1.45 per cent average increase in prices without detectable employment effects or a significant reduction in sales (Allegretto and Reich 2018). In Seattle, the minimum wage rise from US$9.47 to US$11.00 per hour in 2015 saw most firms in the food and accommodation sector respond by raising prices. However, franchises were more likely to reduce employee numbers or hours, perhaps because they have less price-setting ability than independent businesses (Romich *et al.* 2018).

297. It is important to note that, the scope of employers to respond in ways other than workforce decisions depends on a range of factors such as the competitiveness of their industry, the elasticity of demand for their goods and services, and the strength of the labour market and economy. As previously noted, during an economic downturn the ability of employers to respond to minimum wage increases is compromised and may lead to larger than usual negative employment impacts.

8. Household incomes and inequality

Key Points

- The effect of COVID-19 and the resulting economic downturn on inequality in Australia is unclear as relevant data is not yet available.
- The latest available data (pre-COVID-19) shows income inequality in Australia had been broadly stable over the last decade.
- The national minimum wage bite (the ratio between the national minimum wage rate and median full-time earnings) decreased in 2020, in part due to COVID-19, but has remained broadly stable between 52 and 54 per cent since 2008.
- Australia's targeted tax-transfer system, through direct transfer payments and a range of in-kind support, remains a key means of redistributing income to low-income households, particularly for families with children.
- Increases in the minimum wage, although not fully reflected in household disposable income, have been important for maintaining the real disposable incomes of many low-income households over recent years.

8.1 Income inequality

298. Sections 134 and 284 of the *Fair Work Act 2009* require the Panel to promote social inclusion through increased workforce participation and to consider the relative living standards and needs of low-paid employees.

299. The COVID-19 pandemic has likely affected income inequality in Australia. Job losses have been disproportionately concentrated among lower paid jobs, while JobKeeper has raised the income for many part-time workers. While this can be seen in the increase in median earnings (and therefore the minimum wage bite), the full impact on inequality in Australia is unclear as relevant data is not yet available.

300. As presented in previous submissions, prior to COVID-19, income inequality in Australia had been broadly stable over the past decade or so.

301. Among the various measures of income inequality, the Gini coefficient based on household disposable income (after taxes and transfers) is one of the most commonly used measures.[30] The advantage of using disposable household income is that it is not only a more comprehensive measure of household living standards (as it includes other sources of income beyond wages and salaries) but also accounts for the tax and transfer system – one of the main mechanisms by which government can reduce inequality.

302. The HILDA Survey (wave 19) indicates that overall household income inequality has remained broadly stable over the past 19 years, with the Gini coefficient remaining at between 0.291 and 0.309 over the period (2001-2019).

303. The latest HILDA Statistical Report (2020; wave 18) shows that the Gini coefficient for five-year income has been broadly stable since 2009 and is lower than for one-year

[30] The Gini coefficient takes values between 0 and 1, with 0 meaning total equality (i.e. everything is shared equally among everybody) and 1 meaning total inequality (i.e. one person has everything).

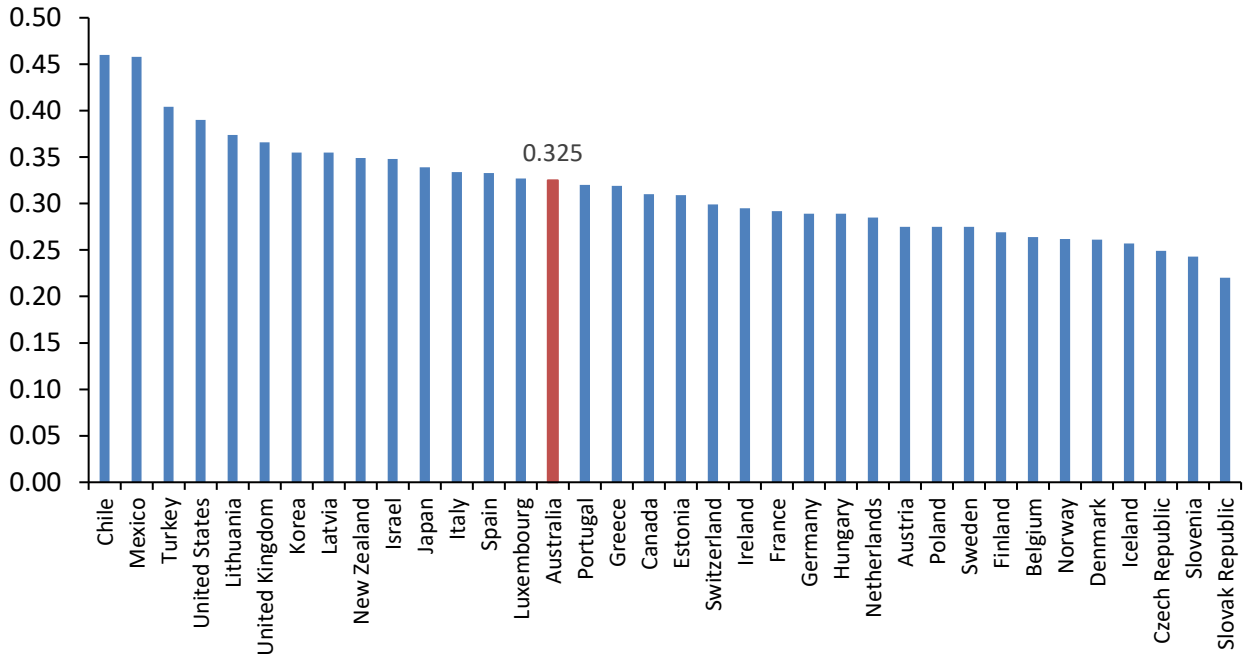
income. Five-year income is pooled and so removes the fluctuations inherent in year-on-year income.

304. As in previous submissions, the latest ABS data also shows that Australia's Gini coefficient for income inequality has been broadly stable over the past decade (*ABS Household Income and Wealth, 2017-18*). The Gini coefficient for income inequality stood at 0.336 in 2007-08 and 0.328 in 2017-18.[31]

305. The Productivity Commission's (2018) stocktake of inequality evidence found *"Australia's tax and transfer system has consistently acted to substantially reduce income inequality",* with analysis for the period 1988-89 to 2015-16 showing that income taxes and cash transfers have consistently reduced the measured Gini coefficient. For example, in 2015-16, taxes and transfers are estimated to have reduced the Gini coefficient by 31 per cent (from 0.46 to 0.32).

306. When comparing with other countries, Australia has the 15th highest Gini coefficient (0.325) of the 36 OECD countries for which data is available, below the US (0.390), UK (0.366) and New Zealand (0.349), as shown in Chart 8.1. However, it should be noted that OECD countries have varying circumstances such as levels of development, demographics and tax and social security systems.

Chart 8.1: Gini coefficients, international comparison, 2018 or the latest available



Source: *OECD Stat Extracts*, stats.oecd.org, extracted in November 2020.
Note: All data are for 2017, except for Australia, Finland, Israel, Norway, Sweden and the United Kingdom where latest data available were for 2018, Iceland, Japan, and Turkey for 2015, and New Zealand for 2014.

[31] It should be noted that it is difficult to compare Australian income inequality over a longer period as the ABS changed its methods in 2007–08. Improvements in the ABS Survey of Income and Housing, including a new definition of income, had a greater impact at the top of the income distribution. The definition of income has been expanded to include non-cash benefits, bonuses, termination payments and payments for irregular overtime worked.

307. People's incomes and wealth change over the course of their lives, with households often moving across the income distribution over time. This is captured by measures of income mobility, which complements standard inequality measures such as the Gini coefficient which only account for people's income distribution at a point in time.

308. A high level of income mobility is a proxy measure for equality of opportunity, although mobility at the lower end of the distribution could also reflect economic insecurity. As noted in previous submissions, the level of mobility is important in any consideration of inequality.

309. As noted in previous submissions, the Productivity Commission (2018) found that "*economic mobility is high in Australia, with almost everyone moving across the income distribution over the course of their lives*". The Productivity Commission found that less than 1 per cent of people remained in the same income decile over the period 2000-01 and 2015-16.

310. The HILDA Statistical Report (2020) also supports the finding that income mobility is greater when measured over longer timeframes, showing that almost half of all people in the bottom quintile have moved to a higher quintile over a ten year timeframe, much larger than the roughly 30 per cent who move up from one year to the next.

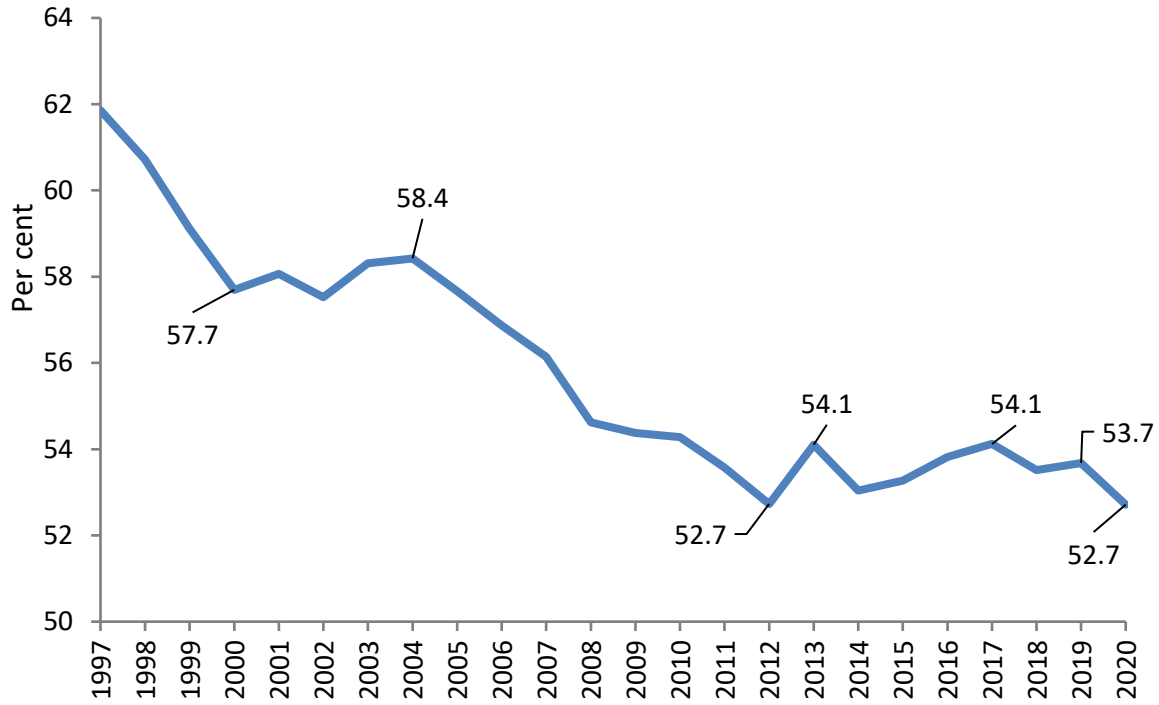
311. Income mobility in Australia compares favourably with many other developed economies, with the Productivity Commission (2018) further noting that Australian adults move between the income deciles more than in the US, the United Kingdom or Italy, but not as much as other countries such as Canada or Scandinavian countries.

8.2 The minimum wage and inequality

312. In 2020, the minimum wage bite (the ratio between the national minimum wage rate and median full-time earnings) was 52.7 per cent. It declined from approximately 62 per cent in 1997 to 54 per cent in 2008 but has remained between 52 and 54 per cent since (see Chart 8.2).

313. The recent fall in the minimum wage bite is in part due to the effect of COVID-19 on median earnings. The ABS has stated that job losses were disproportionately felt among those with lower earnings, and the combination of this and the JobKeeper payment has contributed to a rise in median earnings. As JobKeeper winds up and the labour market bounces back, it is likely that median earnings will return to the pre-COVID-19 trend.

Chart 8.2: National minimum wage as a share of median wage (minimum wage bite)



Source: Australian Fair Pay Commission/Fair Work Australia/Fair Work Commission decisions on National Minimum Wage from 2006; prior to 2006, Australian Industrial Relations Commission decisions on Federal minimum wage based on Metal, Engineering and Associated Industries Award (1998); from 2004 onwards: ABS *Characteristics of Employment;* from 1998-2003: *Employee Earnings, Benefits and Trade Union Membership* (EEBTUM); for 1997: *Weekly Earnings of Employees (Distribution),* Australia.

314. The decline in the minimum wage bite between 1997 and 2008 was due to growth in the median wage outpacing that of the national minimum wage – partially attributable to the mining boom which pushed up median earnings.[32] Between 1997 and 2008, the national minimum wage rate grew by 51.3 per cent (9.2 per cent in real terms), compared with growth of 71.4 per cent (or 23.7 per cent in real terms) in median full-time weekly earnings.

315. Over the last 10 years, the national minimum wage rate has increased on average by 2.8 per cent a year in nominal terms and 1.0 per cent a year in real terms. This is lower than the growth in median full-time earnings, which averaged 3.2 per cent a year in nominal terms and 1.3 per cent a year in real terms over the same period (ABS *Characteristics of Employment, August 2020*).

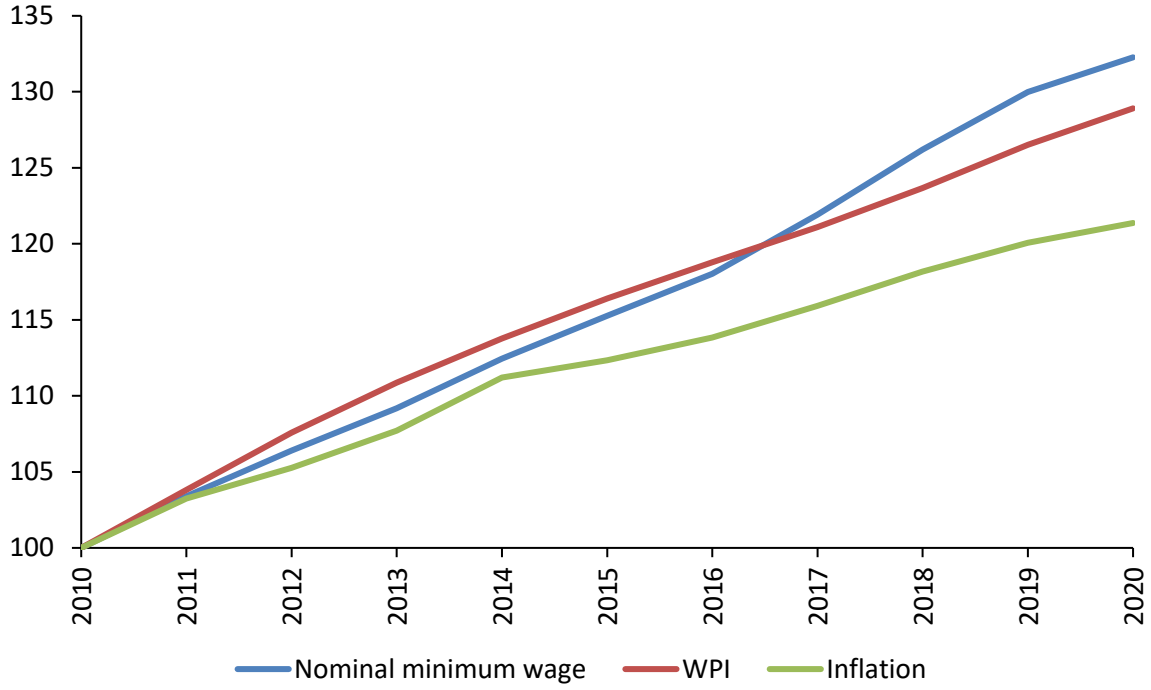
316. Over the last 10 years, growth in the national minimum wage rate is higher than the average annual growth in the WPI, which grew at 2.6 per cent a year in nominal terms (ABS *Wage Price Index, December 2020*).

[32] Various sources find that incomes generally increased during the period associated with the mining boom. For example, the Productivity Commission (2018) report noted that the mining investment boom (2005 to 2013) "*contributed significantly to economic growth, employment and incomes*." The report then goes on to note that in contrast, the post-mining boom period has included a period of low wage increases.

317. The increase in the national minimum wage rate has also been faster than inflation (as measured by CPI) (Chart 8.3).

318. Examining the growth of these measures since the onset of COVID-19 (March 2020) the national minimum wage rate has grown more than twice the rate of WPI and inflation (1.75 per cent compared to 0.9 per cent for WPI and 0.5 per cent for inflation).

Chart 8.3: Increases in national minimum wage and WPI compared to inflation, index



Source: Fair Work Commission decisions on National Minimum Wage; ABS *Wage Price Index, Australia, December 2020*, seasonally adjusted; ABS *Consumer Price Index, Australia, December 2020*.
Note: Figures for WPI and inflation reflect annual growth to the September quarter, consistent with increases in the national minimum wage.

319. Australia's minimum wage bite is the 11th highest of the 29 OECD countries for which data is available, (Chart 8.4). Australia's minimum wage is the highest in terms of purchasing power (1st of 28 countries, Chart 8.5).

Chart 8.4: Minimum wage bite (% of median earnings) in OECD economies, 2019

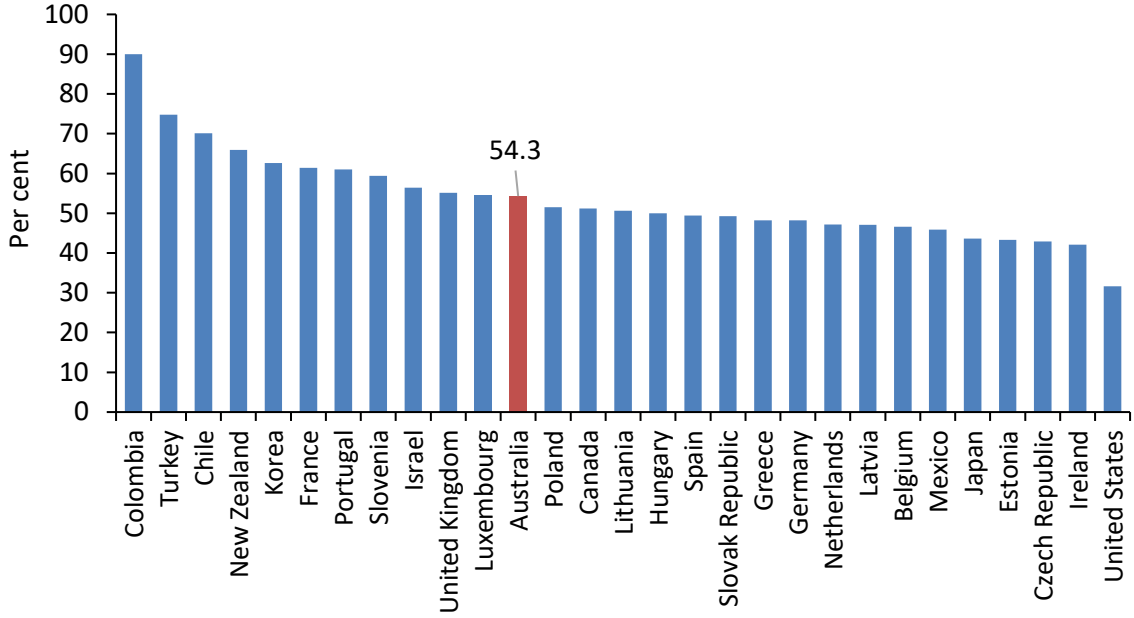
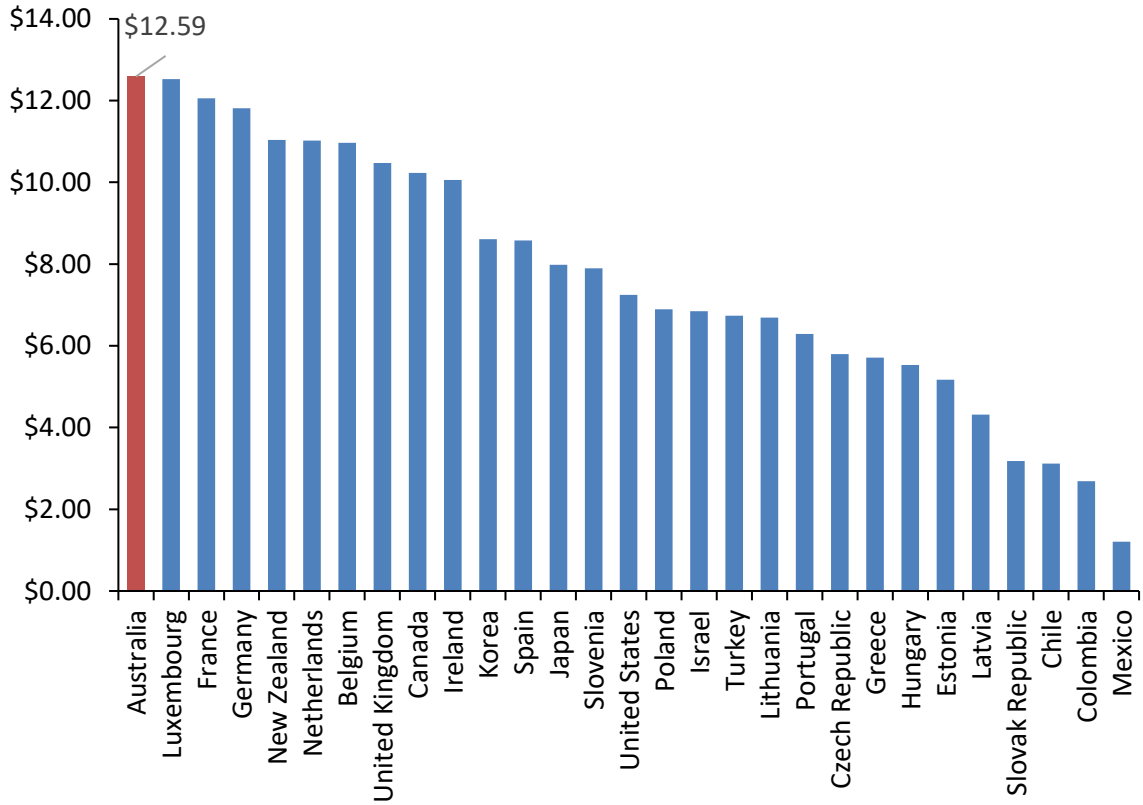


Chart 8.5: Real hourly minimum wages ($US purchasing power parity), 2019



Source: *OECD Stat Extracts*, stats.oecd.org, extracted November 2020.
Note: Data on the minimum wage bite are available for 29 out of 37 OECD countries and for 29 countries for hourly minimum wages. Data for hourly minimum wages are for 2019 except for Japan, where the latest data available is for 2018.

320. Increases in the minimum wage likely reduce earnings inequality, to some extent. However, the effect on household disposable income inequality is more ambiguous, given that the effect of minimum wage increases above a certain level is unclear (see Chapter 7). For example, Leigh (2008) states that "*Under plausible parameters for the effect of minimum wages on hourly wages and employment, it appears unlikely that raising the minimum wage will significantly lower family income inequality.*"

321. Further, in Australia, the national minimum wage is a part of a comprehensive system of modern awards and the 2,000 plus minimum award classification wages within it. The Panel's decision impacts not only employees paid the national minimum wage rate, but also those whose pay is set by a modern award (see Chapter 2). Since most award-reliant employees receive more than the national minimum wage rate, the Panel's decision also impacts workers across the income distribution.

8.3 Minimum wages and incentives to work

322. The level of the minimum wage can influence a person's decision to look for work. It is therefore important that the minimum wage is set at a level which encourages people who are out of work to enter the workforce and enjoy the benefits work can provide to individuals and communities.

323. The introduction of COVID-related measures from April 2020 such as the Coronavirus Supplement for job seekers and others receiving an income support payment, as well as the suspension of mutual obligations for parts of 2020 in the Government's mainstream job seeker programme jobactive, altered the trade-offs and motivations for job seekers to find and keep employment, or vary their hours of work. This effect would likely be more pronounced in job seekers who are looking for work in award-reliant industries.

324. The Government has modelled the interaction between the tax-transfer system and the national minimum wage for a broad range of hypothetical single and second-earner households.[33] The modelling does not include the Coronavirus Supplement, JobKeeper payments, the Economic Support Payments and the changes to the income free area, taper rates, partner income test, and eligibility criteria that applied at different points during 2020 and early 2021, in accordance with practice not to model policies of a temporary nature.[34] In February 2021, the government announced a permanent increase in the JobSeeker Payment and other income support payments to apply from 1 April 2021. As these changes are not temporary, the newly legislated payment arrangements are modelled in applicable 1 April 2021 results. In previous years, corresponding tables in this chapter have represented a 'January 1' date of the financial year being modelled. We have changed this, where applicable, to reflect a date of 1 April instead, to reflect the new arrangements for JobSeeker and related payments. The modelling shows that all the household types modelled were better off when an

[33] The analysis considered the potential impact of earnings from a job at the national minimum wage rate on combined household income, taking into account income support (JobSeeker Payment or Parenting Payment), other transfer payments (such as Family Tax Benefits and Rent Assistance), other earnings (if other members of the household were already receiving earned income from employment), childcare costs and taxation. The assumptions used in the analysis are detailed in Appendix B.

[34] Temporary measures are not modelled, as they do not represent structural elements of the tax-transfer system, and moreover, these policies will not apply on 1 July 2021, the date that the Panel's decision will take effect.

unemployed member of the household gained a job at the national minimum wage. Some examples are provided below, with detailed tables in Appendix C.

325. A single adult without children, would increase their disposable income by $367 per week (117 per cent) by moving from unemployment into a full-time job paying the national minimum wage rate.[35] Even by taking a part-time job at the national minimum wage rate, disposable income would increase by $165 per week (52 per cent).[36]

326. An unemployed couple without children would be $280 per week (49 per cent) better off if one unemployed member of the household found a full-time job at the national minimum wage rate. A couple without children with one adult already in full-time employment at the national minimum wage rate would be $510 per week (60 per cent) better off if the second member of the household moved into full-time minimum wage work.

327. Households with children are also better off when an unemployed adult gains a job at the national minimum wage rate, even after paying for necessary childcare costs. For example, a couple with a 3 year old child with one member of the couple in a full-time job at the national minimum wage rate, would be $267 per week (25 per cent) better off if the second member of the couple also found a full-time, national minimum wage rate job (after the cost of childcare). If the second member of the household took a part-time job at the national minimum wage rate, the household would increase their disposable income by $97 per week (9 per cent) after the cost of childcare.

8.4 Taxes and transfers

328. The Australian tax-transfer system plays a key role in redistributing income among Australian households, through a targeted system of cash payments (including income support and family payments), in kind support (such as subsidised health care and education), and a progressive income tax system.[37]

329. While a single person without children working full time at the minimum wage would not generally attract transfer payments, couples with one partner earning the full-time minimum wage, and families with children may receive significant additional assistance in the form of income support, Family Tax Benefit (FTB) and related payments in recognition of their additional need for support. For full-time minimum wage workers in single-income households with children, transfer payments are typically around a third of disposable income (see Table 8.1).

[35] Percentage is calculated as 100*(disposable income after finding job - disposable income before finding a job)/disposable income before finding a job.

[36] Working 15 hours per week at the national minimum wage.

[37] The transfer system is the main element of Australia's social support system. Australia's social support system includes cash transfer payments to individuals and families, and a range of support services funded or provided by all levels of government and civil society (commercial and community organisations). The system is intended to help meet the costs of daily living, increase participation in work and social activities, and build individual and family functioning. Transfer payments include income support payments to help meet daily living costs, supplements to help meet specific costs (such as family payments to assist with the costs of children) and rent assistance for those paying private rent.

Table 8.1: Transfer payments to full-time NMW households, 1 April 2021

Household type	Transfer payments ($pw)	Transfer payments as a proportion of disposable income (%)
Single person/parent		
No children	0	0.0
Child aged 3	372	35.6
Child aged 9	246	26.4
Children aged 3 and 9	487	42.1
Single-income couple (partner two on Parenting Payment/JobSeeker Payment)		
No children	172	20.1
Child aged 3	358	34.2
Child aged 9	334	32.7
Children aged 3 and 9	468	40.2
Dual-income couple		
No children	0	0.0
Child aged 3	46	3.2
Child aged 9	46	3.2
Children aged 3 and 9	133	8.9

Source: Government modelling.

Note: Figures for transfer payments per week are rounded to the nearest dollar. Calculations of percentages may differ slightly due to rounding. Modelling does not include childcare.

330. The transfer system provides financial support to parents and carers to assist them with the costs of raising children. Table 8.2 shows that while equivalised earnings (adjusted for household size) are lower in households with children, equivalised disposable income can be higher due to the additional support provided to families. For example, for single-income couples with one child, equivalised earned income was around 56 per cent of the earnings of a single person without children. However, this climbs to around 85 per cent once the tax and transfer system has been accounted for in income.

Table 8.2: Equivalised income for full-time NMW households, 1 April 2021

Household type	Earned income			Disposable income, adjusted for childcare costs		
	Earnings ($pw)	Equivalised earnings ($pw)	% of single, no children	Income ($pw)	Equivalised income ($pw)	% of single, no children
Single person/parent						
No children	754	754	100.0	682	682	100.0
Child aged 3	754	580	76.9	964	741	108.7
Child aged 9	754	580	76.9	915	704	103.2
Children aged 3 and 9	754	471	62.5	1,060	662	97.2
Single-income couple (partner two on Parenting Payment/JobSeeker Payment)						
No children	754	503	66.7	854	569	83.5
Child aged 3	754	419	55.6	1,047	582	85.3
Child aged 9	754	419	55.6	1,023	568	83.3
Children aged 3 and 9	754	359	47.6	1,164	554	81.3
Dual-income couple						
No children	1,508	1,005	133.3	1,364	909	133.3
Child aged 3	1,508	838	111.1	1,314	730	107.1
Child aged 9	1,508	838	111.1	1,389	772	113.2
Children aged 3 and 9	1,508	718	95.2	1,381	658	96.4

Source: Government modelling.

Note: It is assumed that the single-income couples incur no childcare costs, since the non-working partner will look after the children. Equivalised earnings have been derived by calculating an equivalence factor according to the 'modified OECD' equivalence scale, and then dividing by the factor. In determining the factor, the first adult in the household is allocated 1 point, an additional adult is allocated 0.5 points and each child under 15 years is allocated 0.3 points. Figures for earned and disposable incomes are rounded to the nearest dollar. Calculations may differ slightly due to rounding.

331. While the top fifth of households receive 13.3 times as much private income (including imputed rent) as the bottom fifth, this ratio drops to 5.2 after direct taxes and transfer payments. In addition, as in-kind support in Australia is mostly targeted at the lowest income households, this ratio drops again to 3.3 when in-kind transfers (mainly education and health services) are added (ABS *Household Income and Wealth, 2017-18*).

8.5 Impact of the Panel's decision on household income

332. Due to Australia's progressive and targeted tax-transfer system, even assuming no change in hours worked, minimum wage increases will not fully flow onto disposable income.

333. Table 8.3 shows the immediate impact on disposable income for various household types following the 2020 national minimum wage rate increase. Household disposable income increased for all types of households, however the percentage of the wage increase retained varies depending on the type of transfer payments received by the household.[38]

334. The breakdown by household type in Table 8.3 shows households outside the income support system generally retained the greatest fraction of the minimum wage increase after taxes and transfers. The greatest proportion was retained by the household with one full-time worker and one part-time worker without children (86.8 per cent), as they receive no transfer payments (and therefore face no income tests), and with the second earner retaining all of their earnings due to their income being below the tax free threshold.[39] Dual-income households with children retained slightly less, since they would be affected by the income tests for FTB Part B, and families with dependent children may be eligible for concessional Medicare levy reductions. Households containing couples with one partner on JobSeeker Payment or Parenting Payment retained between 18 and 24 per cent, the least of all shown here.[40]

[38] This is a design feature of the Australian transfer system. Income units receiving income tested transfers at the same time as paying income taxes will have higher effective marginal tax rates and therefore keep less of an increase in private income than those paying only income taxes because they are not receiving transfers.
[39] The absence of tax payable for the secondary earner's income may still mean that due to the operation of the Medicare Levy reduction for low income earners, some tax is effectively paid on that income.
[40] From 20 March 2020, JobSeeker payment (JSP) replaced the Newstart Allowance (NSA).

Table 8.3: Effect of 2020 NMW rate increase on household disposable incomes, 1 July 2020

Household type	Wage increase ($pw)	Increase in household disposable income ($pw)	Percentage of wage increase retained (%)
Single person, no children			
Full-time NMW	13.0	11	81.5
Part-time NMW	5.3	2	36.0
Student on part-time NMW	5.3	2	40.0
Single parent			
Full-time NMW, child aged 3	13.0	5	36.6
Full-time NMW, child aged 9	13.0	7	50.1
Part-time NMW, child aged 3	5.3	3	60.0
Part-time NMW, child aged 9	5.3	3	60.0
Single-income couple (partner two on Parenting Payment/JobSeeker Payment)			
Full-time NMW, no children	13.0	2	18.3
Full-time NMW, child aged 3	13.0	2	18.3
Full-time NMW, children aged 3 and 9	13.0	3	23.5
Dual-income couple			
Both full-time NMW, no children	26.0	21	81.5
One full-time and one part-time NMW, no children	18.3	16	86.8
One full-time and one part-time NMW, child aged 3	18.3	15	81.1
One full-time and one part-time NMW, children aged 3 and 9	18.3	13	73.0

Source: Government modelling.

Note: Figures are based on tax and benefit rates applicable on 1 July 2020. Part-time hours are assumed to be 15 hours per week. This modelling does not include indexation of Family Tax Benefit as it has been designed specifically to show the Panel the direct impact of the 2020 minimum wage increase on household disposable incomes. Indexation of benefits is a separate process in the tax-transfer system and is not affected by the Panel's decision. Figures for the increase in income have been rounded to the nearest dollar. Percentages may differ slightly due to rounding.

335. Table 8.4 models the percentage change in real disposable income for several hypothetical households over a five-year period. Assuming no change in hours worked, it shows a longer-term impact of changes in the national minimum wage rate. Unlike Table 8.2, this modelling does not consider the Government's assistance for childcare.

336. As noted in Section 8.3, Government direct transfer payments can account for a significant proportion of a minimum wage household's income. Table 8.4 shows that over the five years from 2016 to 2021 the change in real incomes from the minimum wage has varied across households.

337. Due to the increases in the minimum wage rate over the past five years, tax payable for minimum wage workers has increased. The Government's *Personal Income Tax Plan* announced in the 2018-19 and 2019-20 Budgets and updated in the 2020-21 Budget is providing tax relief to low- and middle-income earners. As announced in the 2020-21 Budget, the Government has brought forward the tax cuts in stage 2 of the *Personal Income Tax Plan* from 1 July 2022 to 1 July 2020. This stage will provide benefit to low- and middle-income earners by increasing the top threshold of the 19 per cent tax bracket from $37,000 to $45,000, increasing the top threshold of the 32.5 per cent tax

bracket from $90,000 to $120,000, and increasing the low-income tax offset from $445 to $700.

338. As stated in submissions in previous years, real increases to the national minimum wage were important to maintain the real disposable income of low-income households, particularly with children. Policy reforms to the tax-transfer system over the last five years, including the 1 April 2021 increase to working-age income support payments, have maintained or improved real disposable incomes for minimum wage families. Together with real increases to minimum wages over the same period, all households considered have had real increases in disposable income between 2.6 per cent and 9.0 per cent since 1 April 2016.

Table 8.4: Changes in real disposable household income, 2016 to 2021

Household type	Total change (%)	Impact of tax-transfer system (%)	Impact of real NMW increases (%)
Single person, no children			
Full-time NMW	6.2	0.6	5.6
Part-time NMW	7.2	5.8	1.4
Student on part-time NMW	3.7	2.1	1.6
Single parent			
Full-time NMW, child aged 3	3.0	1.4	1.6
Part-time NMW, child aged 3	2.6	1.4	1.2
Full-time NMW, child aged 9	3.6	1.3	2.3
Part-time NMW, child aged 9	3.2	1.7	1.5
Single-income couple (partner two on Parenting Payment/JobSeeker Payment)			
Full-time NMW, no children	7.8	6.7	1.1
Full-time NMW, child aged 3	4.6	3.3	1.4
Full-time, children aged 3 and 9	3.5	2.2	1.3
Dual-income couple			
Both full-time NMW, no children	6.2	0.6	5.6
One full-time and one part-time NMW, no children	9.0	7.2	1.8
One full-time and one part-time NMW, child aged 3	5.8	4.0	1.8
One full-time and one part-time NMW, children aged 3 and 9	3.6	2.1	1.5

Source: Government modelling.

Note: Based on NMW and tax-transfer system of 1 April each year. The second column shows the percentage change in real disposable income given the actual changes in the national minimum wage and tax-transfer system. The third column shows the impact of the tax-transfer system, by assuming a constant real national minimum wage (i.e. have compared current disposable income with a disposable income that assumes the 2016 national minimum wage had grown in line with CPI). The fourth column shows the impact of real NMW increases (the difference between the previous two). They may not sum exactly due to rounding. This modelling includes indexation of benefits as it examines disposable household income over the long term. The effect is shown as part of the 'tax-transfer contribution', as it occurs independently of the Panel's decision on the NMW.

8.6 Gender pay inequality

339. As required under sections 134 and 284 of the *Fair Work Act 2009*, the Panel must consider the principle of equal remuneration for work of equal or comparable value.

340. The headline gender pay gap, defined as the difference between women's and men's average weekly full-time ordinary time earnings and expressed as a proportion of men's earnings, was 13.4 per cent in November 2020 (ABS *Average Weekly Earnings, November 2020*).[41] This figure is a historic low, replacing the previous low of 13.9 per cent of November 2019.

341. Research for the Fair Work Commission (Rozenbes and Farmakis-Gamboni 2015; Broadway and Wilkins 2015) shows little evidence of an hourly gender pay gap for workers on awards. The gender pay gap, therefore, appears to be mostly driven by higher-paid workers. This finding is supported by the latest available ABS data (Table 8.5), which shows that the wage disparity among non-managerial employees on awards favours women, although the gap is minimal.

Table 8.5: Hourly gender pay gap by method of setting pay, non-managerial employees

Method of setting pay	Gender pay gap
Award only	-3.5%
Collective agreement	11.9%
Individual arrangement	14.5%
Total employees	12.7%

Source: ABS *Employee Earnings and Hours, May 2018,* non-managerial employees, full and part time.

342. KPMG reports that the gender pay gap is influenced by several inter-related factors including occupational and industrial gender segregation, the impact of women's greater unpaid caring responsibilities, differences in work experience and seniority, and discrimination and other unexplained factors (KPMG 2019). Compared with its 2016 report, KPMG (2019) finds the same factors contributing to the gender pay gap, with small changes to the relative importance of some factors.

343. Of the five most award-reliant industries, three are disproportionately female: Accommodation and food services (54.2 per cent female), Health care and social assistance (78.0 per cent female) and Retail trade (54.0 per cent female) (ABS *Labour Force, Australia, Detailed, February 2021*). Around 61 per cent of award-reliant employees, (ABS *Employee Earnings and Hours, May 2018,* non-managerial employees) as well as more than half (around 53 per cent) of low-paid workers, are female (Attorney-General's Department's analysis using the HILDA Survey, release 19).

344. Research by the Attorney-General's Department has found that female low-paid workers between the ages of 25 and 44 years are more likely than males to have entered low-paid work from outside the labour force. This may reflect that women are

[41] The gender pay gap in hourly terms was 12.7 per cent in May 2018 using Employee Earnings and Hours. This figure covers non-managerial employees, both full-time and part-time.

more likely to leave the labour force to give birth and care for children for a period and then return to the workforce.

345. Notwithstanding the differences in the gender composition of award-reliant industries, changes in the minimum wage may have complex interaction effects on the gender pay gap and labour force participation. As noted by the Fair Work Commission in its 2019-20 Decision:

> *"… the causes of the gender pay gap are complex and influenced by factors such as: differences in the types of jobs performed by men and women; discretionary payments; workplace structures and practices; and the historical undervaluation of female work and female-dominated occupations… It is also the case … that past Review decisions have concluded that moderate increases in the NMW and modern award minimum wages would be likely to have a relatively small, but nonetheless beneficial, effect on the gender pay gap. However, as ACCI submitted, this needs to be considered in 2020 against more general and labour market considerations raised by the COVID-19 pandemic: 'There must be a tipping or critical point at which any uprating in minimum wages that seeks to take into account gender pay disparity, may risk adding to underemployment or reducing hours and jobs to the lower paid, which would disproportionately negatively impact women, and perversely serve to reduce incomes and opportunities.'"* (Annual Wage Review 2019-20 Decision [2020] FWCFB 3500, para 402-404).

346. In 2014, Australia led the G20 to set a goal to reduce the labour force participation gap between men and women by 25 per cent by 2025 (for people aged 15 to 64 years). For Australia, this means decreasing the gap by three percentage points to 9.1 percentage points.

347. Australia is well ahead of what is required to meet the G20 goal.[42] The 12-month average participation rate gap met the target of 9.1 percentage points for the first time in March 2020. Most recent data for February 2021 shows that the target has been exceeded, with the participation gap reduced to 9.0 percentage points (ABS *Labour Force, Australia, February 2021)*.

348. Increased participation and economic security for women, including change at the workplace level, remains a priority for Government. On 6 October 2020 the Government released the Second Women's Economic Security Statement which aims to increase women's workforce participation, create jobs for women, boost women's economic security, and promote economic growth.

[42] Based on a 12-month average, for comparison with other countries.

Appendix A: Low-paid and national minimum wage workers – definitions and data

1. In defining low-paid employees, data was used from the ABS survey of Employee Earnings and Hours (EEH) as well as the Household Income and Labour Dynamics in Australia (HILDA) Survey. See details of the definition of low-paid employees using EEH in the 2018-2019 submission.
2. Different variables are available in these data sets. Also, slightly different low-paid thresholds are used due to differences in the median wage and timing of the surveys. However, the low-paid definition is consistently two-thirds of median earnings.

A.1 Defining low-paid employees using HILDA

3. Low-paid adult employees have been defined as employees aged 21 years or older earning less than two-thirds of the median employee hourly earnings. Accordingly, adult employees with hourly earnings below $21.10 have been classified as low paid. To identify low-paid junior employees, the low-pay threshold derived from adult employees has been adjusted as detailed below.[43,44]
4. In order to calculate the number of low-paid employees using the HILDA Survey the following approach has been taken:
    - Limited the population to employees aged 15 years and over with positive hours of work and earnings;
    - Calculated hourly earnings for employees in their main job;
    - Deflated the earnings of casuals by 1.25 to reflect the casual loading;
    - Calculated the median earnings of adult employees (i.e. aged 21 years and over) at ($31.65) and set the threshold for low-pay at two-thirds of this amount ($21.10);
    - Adult employees with an hourly wage below $21.10 have been classified as low paid;
    - Low-pay thresholds for employees aged under 21 years have been adjusted by the relevant junior minimum wage rate (from the National Minimum Wage Order) which is a percentage of the adult national minimum wage.[45] Table A.1 contains all low-pay thresholds used for juniors.

[43] The Government's analysis is not limited to adult low-paid employees, but also includes low-paid workers aged under 21 years. This is because younger employees are one of the main groups affected by Annual Wage Review decisions.
[44] The Government has adjusted the low-paid threshold for juniors because junior minimum wages are lower than adult minimum wages. This type of approach is not unique and has been taken in various academic reviews.
[45] Junior minimum wage rates (as a proportion of adult minimum wage rates) vary considerably across awards. The junior-adult minimum wage relativities in the National Minimum Wage Order are based on the Miscellaneous Award 2020.

Table A.1: Low pay thresholds, by age, 2019

	Percentage of NMW (%)	Low-paid threshold ($)
Adult (21 years and over)	100.0	21.10
20 years old	97.7	20.61
19 years old	82.5	17.41
18 years old	68.3	14.41
17 years old	57.8	12.20
16 years old	47.3	9.98
15 years old	36.8	7.76

Note: Junior minimum wage rates refer to the National Minimum Wage Order.
Example: The low-paid threshold for workers aged 15 years old was set at $7.76 which is the adult threshold of $21.10 multiplied by 36.8 per cent (the special national minimum wage for workers aged 15 years old is 36.8 per cent of the national minimum wage). Workers aged 15 years old paid less than $7.76 per hour have been classified as low paid.

A.2 Characteristics of low-paid workers

Table A.2: Detailed characteristics of low-paid workers, 2019

	% of low-paid employees	% of high-paid employees	% of all employees	% of employees who are low paid
Gender				
Male	47.4	50.1	49.7	15.8
Female	52.6	49.9	50.3	17.3
Age				
Age 15-24	42.9	12.9	17.9	39.6
Age 25-34	23.0	25.5	25.1	15.1
Age 35-44	10.4	24.0	21.8	7.9
Age 45-54	10.7	21.2	19.5	9.0
Age 55-64	10.2	13.8	13.2	12.8
Age 65+	2.9	2.6	2.6	17.9
Marital status				
Single	63.8	35.5	40.1	26.2
Partnered	36.2	64.5	59.9	10.0
Age of youngest resident own child (a)				
No resident own child	73.9	52.3	55.8	21.9
0-5 years	7.5	16.7	15.2	8.2
6-11 years	7.4	10.0	9.6	12.7
12-17 years	4.3	9.7	8.8	7.9
18 years or more	6.9	11.3	10.6	10.9
Location				
Major city	69.8	77.8	76.5	15.1
Inner regional Australia	21.3	15.0	16.1	21.9
Outer regional Australia	8.2	6.3	6.6	20.5
Remote/very remote Australia	0.6	0.8	0.8	13.3
Long-term health condition				

Present	21.2	14.6	15.6	22.4
Not present	78.8	85.4	84.4	15.4
Highest education attainment				
Degree or postgraduate	16.3	40.3	36.4	7.4
Certificate 3-4/Diploma	27.7	32.2	31.5	14.6
Year 12	33.8	15.7	18.7	29.8
Year 11 or below(b)	22.2	11.7	13.5	27.2
Years of work experience				
Less than 2 years	25.0	7.8	10.6	38.6
2-5 years	20.0	6.8	9.0	36.5
More than 5 years	55.0	85.4	80.4	11.2
Hours				
Full time	47.5	71.1	67.2	11.7
Part time	52.5	28.9	32.8	26.4
Contract type				
Casual	60.9	16.9	24.2	41.6
Permanent	39.1	83.1	75.8	8.5
Business size				
Small (1-19 employees)	52.3	28.1	32.0	26.8
Medium (20-199 employees)	36.1	44.1	42.8	13.8
Large (200 plus employees)	11.6	27.8	25.2	7.6
Occupation				
Managers	4.8	13.3	11.9	6.7
Professionals	7.4	29.2	25.6	4.8
Technicians and trades workers	15.2	11.0	11.7	21.5
Community and personal service workers	19.1	13.2	14.2	22.2
Clerical and administrative workers	10.5	14.1	13.5	12.9
Sales workers	17.7	7.0	8.8	33.2
Machinery operators and Drivers	8.1	5.7	6.1	21.9
Labourers	17.2	6.5	8.2	34.5
Industry				
Agriculture, forestry and fishing	4.1	0.6	1.2	56.3
Mining	0.9	2.3	2.1	7.3
Manufacturing	6.4	7.3	7.2	14.7
Electricity, gas, water and waste services	0.3	1.2	1.1	3.9
Construction	8.5	6.5	6.9	20.4
Wholesale trade	1.7	3.4	3.1	8.9
Retail trade	18.3	8.3	10.0	30.2
Accommodation and food services	16.7	4.8	6.8	40.6
Transport, postal and warehousing	5.3	4.2	4.4	20.1
Information media and telecommunications	0.7	1.8	1.6	7.0
Financial and insurance services	1.3	4.6	4.1	5.2

Rental, hiring and real estate services	1.1	1.3	1.3	14.5
Professional, scientific and technical services	3.9	8.1	7.4	8.6
Administrative and support services	2.4	2.0	2.1	18.9
Public administration and safety	1.7	7.9	6.9	4.1
Education and training	5.3	12.1	11.0	8.0
Health care and social assistance	12.5	18.7	17.7	11.6
Arts and recreation services	3.8	2.1	2.4	26.1
Other services	5.2	2.5	3.0	28.7

Source: Department of the Attorney General analysis using the *HILDA* Survey, release 19 (December 2020), wave 19.

How to read: The first column of data shows the percentage of low-paid people with each characteristic. For example, using the gender data, the table shows that 47.4 per cent of low-paid workers are male. The last column shows the percentage of workers of a characteristic that are low paid. For example, 15.8 per cent of male workers are low paid.

Note: (a) Excludes resident foster/step/grandchildren. (b) Includes certificate 1-2. Figures in the table may not add up due to rounding and non-response.

Appendix B: Modelling Assumptions

B.1 Tax-transfer assumptions

(i) All tax rates and transfers are as at 1 April 2021 unless stated otherwise.
(ii) Families are assumed to have no private health insurance.
(iii) Modelling includes Telephone Allowance where relevant.
(iv) Modelling assumes the maximum rate of Rent Assistance where it is stated that the household is renting.[46]
(v) Families are assumed to not live in public housing or face shared care arrangements.
(vi) Modelling assumes all recipients of Youth Allowance are 22 years of age.
(vii) Modelling assumes all other persons are 35 years of age.[47]
(viii) Any lump sum payments are spread evenly over the period.[48]
(ix) Family Tax Benefit recipients do not receive the associated Energy Supplement.[49]
(x) Disposable income is inclusive of gross childcare fees for **Appendix C** tables.
(xi) Transfer income in **Appendix C** tables does not include the Child Care Subsidy (CCS).
(xii) Disposable income in **Appendix C** is inclusive of CCS.
(xiii) Annual payments are converted to weekly amounts using 52 as the divisor.
(xiv) Fortnightly payments are converted to weekly amounts by using 2 as the divisor.
(xv) Disposable income is exclusive of net gross rental costs for households that rent (i.e. gross rental costs are not deducted from the reported disposable income amount).
(xvi) Unless stated otherwise, cameos presented do not include the Coronavirus Supplement, the Economic Support Payments and the changes to the income free areas, taper rates, partner income test, and eligibility criteria, due to their temporary nature.[50,51] However, the permanent increase to JobSeeker Payment and related payments and the permanent changes to income free areas from 1 April 2021 has been taken into account where applicable.

B.2 Childcare assumptions

(i) Childcare usage is assumed in data derived from **Appendix C** only. Childcare is not modelled for households when looking at changes in disposable household income.
(ii) Hours of usage assumptions are listed in Table B.1. These are based on the hours of work of the second earner in a couple household.[52] Where only one member of a couple household works, it is assumed that the household does not require childcare.

[46] This is modelled by assuming a gross rental cost of $500 per week. Since disposable income is exclusive of gross rental costs, this does not affect the reported disposable income amount to the extent that the chosen rental costs still yields the maximum rate of Rent Assistance. This means that rent assistance is also not modelled for the cameo Student – YA – away from home.
[47] Therefore no persons are eligible for the Dependent Spouse Tax Offset.
[48] For simulations involving earlier tax years (e.g. tables that reference 2016) the Income Support Bonus (ISB) is modelled. The ISB amount for the year is calculated using the correct instalment amount of March 2016 ($111.50 single rate, $92.80 partnered rate).
[49] https://www.humanservices.gov.au/individuals/services/centrelink/energy-supplement
[50] https://www.servicesaustralia.gov.au/individuals/services/centrelink/coronavirus-supplement
[51] https://www.servicesaustralia.gov.au/individuals/services/centrelink/economic-support-payment
[52] Basing childcare usage on hours of work is a method also used elsewhere in the literature (e.g. Immervoll and Barber 2006).

(iii) Only the CCS is modelled.[53]

(iv) Long day care and after school care costs are detailed in Table B.1. This is based on average childcare fees for the March quarter 2020, indexed to the Consumer Price Index for childcare up to the December quarter 2020.[54]

(v) Net childcare costs (i.e., out of pocket costs) reported in Appendix C are calculated as gross childcare costs less CCS.

(vi) Childcare assumed to be used throughout the whole year (52 weeks of care).

(vii) Wage and working hour assumptions are at Table B.2.

Table B.1: Childcare usage assumptions

Child age	Care type	Hours required per week (by labour force status of secondary earner)		Hourly childcare cost
		Full time	Part time	
0 to 4 years	Long Day Care	50	20	$10.55
5 to 12 years	Outside School Hours Care (a)	15	6	$7.56

Note: (a) Usage for school aged children is based on care requirements during the school term. It is expected that care requirements will differ over the school holiday period. Children aged 5-12 years are presumed to only attend the after-school session of Outside School Hours Care.

Table B.2: Hours of work and wage assumptions

1	A	B	C	D	E
2	**Labour Force Status**	**Hourly minimum wage (at 1 July 2020)**	**Hours of work per week**	**Weekly wage**	**Annual earnings**
3	Full time	$19.84	38	$753.80	$39,197.60
4	Part time	$19.84	15	$297.60	$15,475.20

Note: (a) For Row 4: Column D = Column B x Column C

(b) For Rows 3 & 4: Column E = Column D x 52

(b) The figure in Row3, Column D may not equal Column B x Column C due to rounding.

[53] Some families may also be eligible to receive Additional Childcare Subsidy when they transition from unemployment to work. However, this is only available for a constrained time period and has been excluded from our analysis as it does not provide an indication of the 'typical' assistance available to minimum wage earners.

[54] This was the latest available data at the time of modelling. The CPI indices used to calculate the childcare costs used in the modelling does not include the period where the Early Childhood Education and Care Relief Package was in operation (6 April 2020 to 28 June 2020). Child care fees vary between providers and this will affect individual experiences.

Appendix C: Modelling results

Table C.1: One unemployed member of the household accepts a job paying the NMW ($19.84 per hour), 1 April 2021

Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax & Medicare (deduction)	Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income
	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	(% increase) ($ pw)	(%)
Single without children –FT job at $753.80 per week						
Adult - JSP	$315	–	$72	$682	116.6% $367	–
Adult renter - JSP	$385	–	$72	$682	77.0% $297	–
Single without children –PT job at $297.60 per week						
Adult - JSP	$315	$187	$4	$480	52.5% $165	38.9%
Adult renter – JSP	$385	$257	$4	$550	42.9% $165	46.7%
Student – YA – away from home	$260	$217	$7	$507	95.2% $247	42.7%
Student – YA – lives with parents	$180	$136	–	$434	141.7% $254	31.4%

Note: All amounts are rounded to the nearest dollar. Differences in calculations may occur due to rounding.
– Zero or rounded to zero.
JSP – JobSeeker Payment
PPP – Parenting Payment Partnered
FT – Full time
NMW – National Minimum Wage
YA – Youth Allowance
PPS – Parenting Payment Single
PT – Part time

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Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax & Medicare (deduction)	Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income
	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	(% increase) ($ pw)	(%)
Couple – both unemployed, one finds a FT job at $753.80 per week						
No children - JSP	$573	$172	$72	$854	48.9% $280	20.1%
With 1 child aged 3 years - PPP	$737	$358	$65	$1,047	42.1% $310	34.2%
With 1 child aged 9 years – JSP	$713	$334	$65	$1,023	43.5% $310	32.7%
With 2 children aged 3 and 9 years – PPP	$847	$468	$58	$1,164	37.4% $317	40.2%
Couple – both unemployed, one finds a PT job at $297.60 per week						
No children - JSP	$573	$445	–	$743	29.5% $169	59.9%
With 1 child aged 3 years - PPP	$737	$609	–	$906	23.0% $169	67.2%
With 1 child aged 9 years – JSP	$713	$584	–	$882	23.8% $169	66.3%
With 2 children aged 3 and 9 years – PPP	$847	$719	–	$1,017	20.0% $169	70.7%

Note: All amounts are rounded to the nearest dollar. Differences in calculations may occur due to rounding.
– Zero or rounded to zero.

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Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax & Medicare (deduction)	No Child Care			With Child Care		
				Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income	Net childcare costs	Disposable income after finding job	Improvement in financial position
	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	(% increase) ($ pw)	(%)	Amount ($ pw)	Amount ($ pw)	(% increase) ($ pw)
Lone parent –FT job at $753.80 per week									
With 1 child aged 3 years –PPS	$635	$372	$83	$1,043	64.3% $408	35.6%	$79	$964	51.9% $329
With 1 child aged 9 years – JSP	$518	$246	$68	$932	80.0% $414	26.4%	$17	$915	76.8% $397
With 2 children aged 3 and 9 years – PPS	$745	$487	$85	$1,156	55.2% $411	42.1%	$96	$1,060	42.3% $315
Lone parent –PT job at $297.60 per week									
With 1 child aged 3 years – PPS	$635	$554	–	$852	34.2% $217	65.1%	$32	$820	29.2% $185
With 1 child aged 9 years – JSP	$518	$429	–	$726	40.3% $209	59.0%	$7	$720	39.0% $202
With 2 children aged 3 and 9 years – PPS	$745	$669	–	$967	29.8% $222	69.2%	$38	$928	24.7% $184

Note: All amounts are rounded to the nearest dollar. Differences in calculations may occur due to rounding.
– Zero or rounded to zero.

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Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax & Medicare (deduction)	No Child Care			With Child Care		
				Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income	Net childcare costs	Disposable income after finding job	Improvement in financial position
	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	(% increase) ($ pw)	(%)	Amount ($ pw)	Amount ($ pw)	(% increase) ($ pw)
Couple – one employed FT on the NMW, the other finds a FT job at $753.80 per week									
No children - JSP	$854	–	$144	$1,364	59.7% $510	–	Not applicable		
With 1 child aged 3 years - PPP	$1,047	$46	$144	$1,409	34.6% $362	3.2%	$95	$1,314	25.5% $267
With 1 child aged 9 years – JSP	$1,023	$46	$144	$1,409	37.8% $386	3.2%	$20	$1,389	35.8% $366
With 2 children aged 3 and 9 years – PPP	$1,164	$133	$144	$1,496	28.5% $332	8.9%	$115	$1,381	18.6% $217
Couple – one employed FT on the NMW, the other finds a PT job at $297.60 per week									
No children - JSP	$854	$43	$72	$1,023	19.8% $169	4.2%	Not applicable		
With 1 child aged 3 years - PPP	$1,047	$196	$72	$1,176	12.3% $128	16.7%	$32	$1,144	9.2% $97
With 1 child aged 9 years – JSP	$1,023	$172	$72	$1,151	12.6% $128	14.9%	$7	$1,145	11.9% $122
With 2 children aged 3 and 9 years – PPP	$1,164	$306	$72	$1,286	10.5% $122	31.3%	$38	$1,248	7.2% $84

Note: All amounts are rounded to the nearest dollar. Differences in calculations may occur due to rounding.
– Zero or rounded to zero

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