AUSTRALIAN BUSINESS INDUSTRIAL

# ANNUAL WAGE REVIEW 2024

## SUBMISSION OF AUSTRALIAN BUSINESS INDUSTRIAL AND BUSINESS NSW (NSW BUSINESS CHAMBER LTD)

25 March 2024

# About ABI and Business NSW (NSW Business Chamber Ltd)

Australian Business Industrial (ABI) is registered under the *Fair Work (Registered Organisations) Act 2009* and has over 2,000 members. NSW Business Chamber Ltd (trading as Business NSW) is registered under the *Industrial Relations Act 1996* (NSW) and is a State registered association recognised pursuant to Schedule 2 of the *Fair Work (Registered Organisations) Act 2009* (Cth). $V 16:¶V SHDN EXVLQHVV RUJDQLVDWLRQ %XVLQ almost 50,000 member businesses across NSW.

ABI is comprised of Business NSW members who specifically seek membership of a federally registered organisation.

This submission has been approved by the Council of ABI on behalf of its members and endorsed by the workplace policy committee of Business NSW.

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# 1. Executive Summary

Recommendation:

That the Expert Panel determine a 2.5 per cent increase would be appropriate in the current economic environment, in addition to the 0.5 per cent Superannuation Guarantee increase due on 1 July 2024.

Both the minimum wages objective and the modern awards objective require that, as part of the Annual Wage Review, the Expert Panel (the Panel) WDNH LQWR DFFRXQW WKH µUHOD VWDQGDUGV DQG WKH QHHGV RI WKH ORZ SDLG¶

In addition to those considerations, the Panel is also required to take into account the needs of businesses by way of the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth ¶

Providing a minimum wage increase that matches inflation at a time when inflation is not expected to continue at this historically high rate, will penalise businesses when increasing costs are already hurting businesses significantly. Further, the relationship between wages and prices can be the mechanism by which high inflation persists.

Our suggested approach continues to be to consider productivity growth and expected inflation.

Accordingly, in our submission, we focus on two key factors to determine a reasonable rate of growth in the minimum wage and modern awards:

- labour productivity growth ±whereby higher outputs justify higher wages but higher wages without higher outputs can result in sustained inflation;
- inflation rate ±indication of the rising cost of living experienced by workers and businesses.

Labour productivity has been lacklustre in the past two years. After peaking in March 2022, labour productivity once fell to levels last seen in 2016. Whilst it is encouraging to see a rebound in labour productivity in the September quarter of 2023 and to have the upward momentum sustained in the December quarter, overall labour productivity remained well below its peak.

If real wage growth exceeds labour productivity growth, businesses are likely to raise prices as compensation, leading to sustained inflation.

Other factors we have taken into consideration when developing our recommendation include:

- overall performance of the Australian economy, including business confidence and expected performance in NSW; and
- the increase in the Superannuation Guarantee.

Our Q3 NSW Business Conditions Survey, undertaken in March 2024, found that business confidence has begun increasing after near record lows in 2023. Of concern, the same survey showed that 58% of respondents has seen reduced customer demand for their products and services. Wage expectations are also the biggest barrier to attracting and retaining skilled workers.

Our final consideration is the increase in the Superannuation Guarantee by a further 0.5 per cent from 1 July 2024. While this is a deferred benefit for employees, it is a cost to employers now D Q G V K R X O G E H D N H \ F R Q V L G H U D W L R Q Z K H Q G H W H U P L Q L Q J W K L V increase.

Given the above, it is our recommendation that a 2.5 per cent increase would be appropriate in the current economic environment, in addition to the 0.5 per cent Superannuation Guarantee increase due on 1 July 2024.

Such an increase should be non-inflationary and can be borne by employers without adding additional stress to input costs, while providing employees with some compensation for inflation. It is our view that an increase in line with the current inflation rate would pose a real risk of significant adverse effects to the national economy.

# Foreword : Statutory considerations

When considering whether to vary (set or revoke) minimum award wages, the Panel must take into account economic factors referenced under the Minimum Wages Objective, the Modern Awards Objective and the general matters prescribed under the object of the Act.

Section 284 of the Act sets out the Minimum Wages Objective which requires the Commission to establish and maintain a safety net of fair minimum wages, taking into account:

(a) the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and

(b) promoting social inclusion through increased workforce participation; and

(c) relative living standards and the needs of the low paid; and

(d) the principle of equal remuneration for work of equal or comparable value; and

(e) providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.

Further, section 134 sets out the modern awards objective which requires the Commission to 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) relative living standards and the needs of the low paid; and

(b) the need to encourage collective bargaining; and

(c) the need to promote social inclusion through increased workforce participation; and

(d) the need to promote flexible modern work practices and the efficient and productive performance of work; and

(da) the need to provide additional remuneration for:

- (i) employees working overtime; or
- (ii) employees working unsocial, irregular or unpredictable hours; or
- (iii) employees working on weekends or public holidays; or
- (iv) employees working shifts; and

(e) the principle of equal remuneration for work of equal or comparable value; and

(f) the likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden; and

(g) the need to ensure a simple, easy to understand, stable and sustainable modern award system for Australia that avoids unnecessary overlap of modern awards; and

(h) the likely impact of any exercise of modern award powers on employment growth, inflation and the sustainability, performance and competitiveness of the national economy.

In line with this legislation, the Panel must therefore take into account the performance and competitiveness of the national economy and the likely impact of any exercise of modern award powers on business.

It should be noted that the broader objects of the Act include the promotion of productivity DQG HFRQRPLF JURZWK IRU $XVWUDOLD¶V IXWXUH HFRQRPLF SURVSHU

# Guide to this submission

This submissio n is divided into three parts. Part I examines the relevant empirical evidence on the economy and labour market including the needs of the low paid and the effect s of low inflation , Part II summarises the evidence and provides our recommendation s and Part III considers the modern award g URXSLQJV IURP ODVW \HDU¶V $QQXDO :DJH 5HYLH

## Note on terminology

7KLV VXEPLVVLRQ UHIHUV WR D FKDQJH WR WKH µPLQLPXP ZDJH¶ µPL th e context of what the Panel might consider with respect to both the NMW and modern award minimum wag es. That is, any reference should be viewed as referring to the totality of implications associated with changes to modern award minimum wages and other wages impacted by the AWR decision.

# Part I 2 Economic and labour market considerations

## Slowing economic growth

$XVWUDOLD¶V HFRQRP\ has been on a slowing trend since the December quarter of 2022. Although the economy expanded for the ninth consecutive quarter in December 2023, the quarterly growth rate of 0.2 per cent and the annual growth rate of 1.5% were well below their respective long-term averages (Table 1).

Table 1: Key macroeconomic indicators

| | Dec - 22 | Mar - 23 | Jun - 23 | Sep - 23 | Dec - 23 |
|---|---|---|---|---|---|
| GDP growth (% change, quarterly) | 0.8 | 0.6 | 0.5 | 0.3 | 0.2 |
| GDP growth (% change, annual) | 2.4 | 2.5 | 2.1 | 2.1 | 1.5 |

Note: Data are seasonally adjusted.
Source: ABS, Australian National Accounts: National Income, Expenditure and Product, December 2023, Catalogue No. 5206.0

The December 2023 GDP data show that the economy has slowed across the board (Table 2). Consumption growth (0.2%) was largely sustained by government consumption, as household consumption rebounded only by a modest 0.1% after a decline of 0.2% the previous quarter. Both public and private investment fell by 0.2% in the final quarter of 2023. Overall domestic final demand increased by just 0.1% from the previous quarter.

Also reflecting weak domestic demand, imports fell sharply by 3.4% in the December quarter, making its first positive contribution to GDP growth in a year (Chart 1). While this has offset the impact of the 0.3% decline in exports during the quarter, it is worth noting that exports have fallen for two consecutive quarters on the back of moderating global economic activity.

The overall economic slowdown will weigh on business prospects in the coming year, limiting EXVLQHVVHV¶ FDSDFLW\ WR UDLVH ZDJHV IRU ZRUNHUV

Table 2: Quarterly growth of GDP components

| | Dec 2022 | Mar 2023 | Jun 2023 | Sep 2023 | Dec 2023 |
|---|---|---|---|---|---|
| Consumption | 0.3% | 0.1% | 0.2% | 0.3% | 0.2% |
| Government consumption | 0.6% | 0.1% | 0.6% | 1.5% | 0.6% |
| Household consumption | 0.2% | 0.1% | 0.1% | -0.2% | 0.1% |
| Investment | -0.4% | 2.4% | 2.8% | 1.6% | -0.2% |
| Private investment | -0.5% | 2.1% | 1.3% | 1.5% | -0.2% |
| Public investment | 0.3% | 3.8% | 7.9% | 1.7% | -0.2% |
| Domestic final demand | 0.1% | 0.6% | 0.9% | 0.6% | 0.1% |
| Exports | 2.9% | 0.3% | 4.4% | -0.2% | -0.3% |
| Imports | -4.4% | 3.0% | 1.7% | 2.3% | -3.4% |

Note: Data are seasonally adjusted.
Source: ABS, Australian National Accounts: National Income, Expenditure and Product, December 2023, Catalogue No. 5206.0

Chart 1: Contribution to GDP growth

Note: Data are seasonally adjusted. Consumption includes government and household consumption. Investment includes private and public investment.
Source: ABS, Australian National Accounts: National Income, Expenditure and Product, December 2023, Catalogue No. 5206.0

## Interest rate concerns

Since the Reserve Bank of Australia commenced its latest monetary tightening cycle in May 2022, the cash rate target has increased by a total of 4.25 percentage points (Chart 2). The combined magnitude of the rate hikes aside, the pace of the rate hikes has been the fastest in three decades, making it difficult for some households and businesses to cope.

Chart 2: RBA cash rate target

Source: RBA, Cash Rate Target.

Business NSW research found that interest rate concerns amongst businesses had been gradually rising since the start of the monetary tightening cycle, peaking in mid-2023 (Chart 3). Although interest rate concerns appear to have stabilised in the last three quarters, the average level of concern remains high in the latest period. Businesses have been most concerned about the impact of interest rates on customer spending, followed by the impact on profit margin. The narrowing profit margin will limit the scope for businesses to afford higher wages for workers.

Chart 3: Interest rate concerns

Source: Business NSW, Business Conditions Survey (March 2024)

## Gradually easing labour market conditions

The unemployment rate was at multi-decade lows during the pandemic. However, as the economy began to slow, demand for workers has also moderated (Chart 4). The unemployment rate has clearly bottomed out, although it is rising only gradually. The unemployment rate of 4.1% recorded in January 2024 was still low by historical standards but was nevertheless the highest in about two years.

The underemployment rate has followed a similar path as unemployment. It was on a downward trend during the pandemic, reaching its trough in early 2023. Whilst the latest reading of 6.6% was still well below levels seen before the pandemic, the slight upward trend is likely to continue in the coming months.

The overall gradually loosening labour market conditions will restore some balance in wage negotiations between employers and workers.

Chart 4: Unemployment rate

Note: Data are seasonally adjusted.
Source: ABS, Labour Force, Australia, January 2024, Catalogue No. 6202.0

Chart 5: Underemployment rate

Note: Data are seasonally adjusted.
Source: ABS, Labour Force, Australia, January 2024, Catalogue No. 6202.0

## Subpar productivity

Labour productivity has been lacklustre in the past two years. After peaking in March 2022, labour productivity once fell to levels last seen in 2016 (Chart 6). Whilst it is encouraging to see a rebound in labour productivity in the September quarter of 2023 and to have the upward momentum sustained in the December quarter (Table 3), overall labour productivity remained well below its peak. Subpar labour productivity growth will limit the scope for non-inflationary wage growth.

Table 3: Quarterly change in labour productivity (%)

| | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 |
|---|---|---|---|---|---|
| GDP per hour worked | -1.2 | -0.3 | -1.7 | 1.0 | 0.5 |

Note: Data are seasonally adjusted.
Source: ABS, Australian National Accounts: National Income, Expenditure and Product, December 2023, Catalogue No. 5206.0

Chart 6: GDP per hour worked (index)

Note: Data are seasonally adjusted.
Source: Business NSW calculation based on data from ABS, Australian National Accounts: National Income, Expenditure and Product, December 2023, Catalogue No. 5206.0

## Wage growth surpassing inflation

The quarterly CPI series shows that annual inflation peaked at 7.8% in December 2022 (Chart 7). It has sharply decelerated since, with the latest figure (December 2023) coming in at 4.1%. 'HVSLWH WKH QRWDEOH VORZGRZQ KHDGOLQH LQIODWLRQ UHPDLQV 3%. Non-discretionary items are proving to be the main driver of inflation in recent times (Chart 8).

Nevertheless, in light of the downward trend in inflation and upward trend in wage growth (Chart 9), December 2023 data show that wage growth (4.2%) exceeded inflation (4.1%) for the first time since March 2021. The period of real wage decline for workers seems to be over.

Chart 7: CPI growth

Source: ABS, Consumer Price Index, Australia December Quarter 2023, Catalogue No. 6401.0

Chart 8: Discretionary and non-discretionary inflation

Source: ABS, Consumer Price Index, Australia December Quarter 2023, Catalogue No. 6401.0

Chart 9: Wage Price Index growth

Source: ABS, Wage Price Index, Australia December Quarter 2023, Catalogue No. 6345.0

## Subdued business sentiment in NSW

Business NSW research found that business confidence remained fragile at the start of 2024 (Chart 10). Despite having risen three consecutive quarters to its highest level in almost two years, the latest Business Confidence Index was still in negative territory. Business sentiment F D Q E H V H H Q D V µ F D X W L R X V O \ R S W L P L V W L F ¶ D Q G W K L V L V F R Q V L V W H June quarter of 2024. A majority of businesses (64%) are planning to maintain the same headcount (Chart 11) and only 17% intend to hire additional staff. On the other hand, 18% of businesses are planning to cut staff.

Chart 10: Business Confidence Index

Source: Business NSW, Business Conditions Survey (March 2024)

Chart 11: Plans for staff headcount for 2024 Q2

Numbers may not sum to 100% due to rounding.

Source: Business NSW, Business Conditions Survey (March 2024)

# Part II 2 Minimum wage increase recommendation

## Key considerations

An appropriate rate of wage increase is one that compensates workers for inflation experienced without creating a wage-price spiral that causes further inflation.

The determination of wage increase should be based on two key factors:

1. labour productivity growth ± whereby higher outputs justify higher wages
2. inflation rate ± indication of the rising cost of living experienced by workers

If real wage growth (i.e. the increase in wages net of inflation) exceeds labour productivity growth, the cost of production becomes higher and businesses are likely to raise prices to maintain their profit margin. This would then lead to higher inflation or even the unwelcome wage-price spiral.

Table 4 shows that labour productivity has declined in the past two financial years. In December 2023, productivity was down 0.4% from a year ago. On the other hand, inflation has also decelerated in recent months. The average forecast for CPI growth at the end of FY23-24 is 3.5%.

An award minimum wage increase of 2.5% + superannuation guarantee increase is deemed appropriate.

Table 4: Inflation, productivity growth and minimum wage increases*

| Financial Year | CPI growth (%) | Labour productivity growth (%) | Award minimum wage increase (%) |
|---|---|---|---|
| 2020-21 | 3.8 | 0.2 | 2.5 |
| 2021-22 | 6.1 | -0.1 | 5.2 |
| 2022-23 | 6.0 | -4.2 | 5.75 |
| 2023-24 | 3.5** | -0.4*** | 3.00[#] |

Sources: ABS, Fair Work Commission, RBA, Budget Papers (October 2023)

Note: *The CPI and labour productivity growth rates are based on the year-on-year change recorded every June quarter. **Average of Treasury forecast (December 2023) and RBA forecast (February 2024). ***Latest figure from the quarter of December 2023.

# this is inclusive of the increase in the superannuation guarantee

Table 5: Inflation forecast (%)*

| | Jun 2024 | Jun 2025 | Jun 2025 |
|---|---|---|---|
| RBA | 3.3 | 3.1 | 2.6 |
| Treasury | 3.75 | 2.75 | 2.5 |

Source: RBA, Budget Mid-Year Economic and Fiscal Outlook 2023-24
Note: *The inflation forecasts are based on the year-on-year change every June quarter.