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2021-22 Annual Wage Review

First Submission of the Australian Chamber of Commerce and Industry

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CONTENTS

1. INTRODUCTION

1. The 2021-22 Annual Wage Review takes place in a period of significant and multi-faceted crises, and multiple significant uncertainties.

2. The COVID-19 pandemic remains prominent and uncertain, continuing to weigh on the economy, restrict business activity, preclude certainty and hinder confidence.

3. Recent flooding in southeast Queensland and northern NSW caused immense physical and economic damage, from which it will take many years for households, businesses and communities to fully recover.

4. There is also the evolving geopolitical crisis following the Russian military invasion of Ukraine, creating economic, security and confidence impacts unparalleled in decades — the re-emergence of a land war in Europe for the first time in the living memory of most Australians, with all the fears which that entails. While the Russia-Ukraine war does not directly impact on Australia militarily, it has broader security and economic implications in a globalised world, threatening a geopolitical crisis with impacts on global economic trade and growth.

5. The Panel faces a number of complex challenges in determining an outcome or outcomes in this Review, some arising for the first time under the current framework. The Panel needs to be wary of the downside risks of any increase in minimum and award minimum wages on economic activity in a highly and multiply uncertain environment, particularly if any increase is anything other than merited, moderate and cautious in the face of uncertainty and risk.

6. The unevenness, inconsistency and fragility of recovery remains problematic. Although some sectors were little affected or have bounced back strongly from the COVID disruptions and are doing well, others were heavily impacted and have been slower to recover, remaining burdened with debt and needing more time to restore their balance sheets. Australia's most award reliant industries, particularly in the private sector continue to heal from repeated serious impacts through COVID restrictions and lockdowns. Many award-reliant cafés, bars, restaurants, retailers, gyms, events and tourism operators, didn't make it through COVID, but those who have, face ongoing struggle and uncertainty, even where the macro economy around them may be performing strongly on some measures.

7. Looking forward the situation remains highly fragile, due to risks of new COVID variants emerging, the possibilities of further outbreaks, and the uncertain impacts of the conflict in Ukraine.

1.1 Relevant factors

8. In the Annual Wage Review 2020-21, the Expert Panel ('the Panel') decided that the national minimum wage and modern award wages should be increased by 2.5%.[1] The Panel also noted it had factored into the increase (but not separately quantified) the 0.5% increase in the Superannuation Guarantee (SG) from 1 July 2021.

[1] *Annual Wage Review 2020-21* [2021] FWCFB 3500 at [174] and [306].

9. The Panel noted in previous decisions:

> … 'fairness' in the context of the modern awards objective and the minimum wages objective includes the perspective of employees *and employers*.[2]

10. As typically outlined in each annual wage review decision, the Panel is required to perform an 'evaluative exercise' which is informed by the factors prescribed to be taken into account under the modern awards objective in sub-ss 134(1)(a)-(h) and under the minimum wages objective in sub-ss 284(1)(a)-(e).[3] These factors can be largely distilled down to a consideration of whether the minimum safety net is fair and relevant, in consideration and application of five broad factors:
    a. the relative living standards and the needs of the low paid;[4]
    b. the need to promote social inclusion through increased workforce participation;[5]
    c. the impact on business;[6]
    d. the performance and competitiveness of the national economy;[7] and
    e. providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply, and employees with a disability.[8]

11. This submission seeks to address these considerations and how they should guide the Panel's decision making in the Annual Wage Review 2021-22, and the unique mix of circumstances and uncertainties that must determine decision making on this occasion.

12. Gross Domestic Product (GDP) has fluctuated throughout the COVID-19 pandemic, with marked downturns as large parts of the country entered either government enforced lockdowns or self-enforced lockdowns, followed by a strong bounce back with the reopening and when restrictions were eased. However, these downturns and bounce backs were uneven across industry sectors and there have been severe implications on the financial performance of businesses in different sectors most affected by the lockdowns and restrictions.

13. The most recent lockdown in NSW, Victoria and the ACT from June to October 2021, resulted in a sharp contraction, with GDP down 1.9% in the September quarter 2021, falling 0.2% below pre-pandemic levels. This was followed by a solid rebound, with GDP up 3.4% in the December quarter 2021, but the variability in growth is of concern. What is not clear is how businesses and jobs in sectors most impacted by pandemic restrictions are faring in the highly variable macro level recovery.

14. It is also clear that the Australian community is quite capable of simultaneous customer driven lockdowns when it feels uncertainty regarding its health and safety and confidence, as we saw with the COVID omicron variant in early 2022. Again, the impact was felt most strongly in the customer-facing sector by some of the most award-reliant small businesses.

15. This volatility in economic activity and variability across industry sectors is a product of significant exogenous shocks to the Australian economy, having a disproportionate effect on many award-reliant industries. In contrast to previous economic downturns, such as the Global Financial Crisis in 2008-09,

[2] *Annual Wage Review 2018–19* [2019] FWCFB 3500 at [10] (emphasis added).

[3] Ibid, at [12].
[4] *Fair Work Act* ss 134(1)(a), 284(1)(c).
[5] Ibid ss 134(1)(c), 284(1)(b).
[6] Ibid s 134(1)(f).
[7] Ibid s 134(1)(h), 284(1)(a).
[8] Ibid s 284(1)(e).

today's variability is more widespread and less predictable across key macroeconomic variables. Macroeconomic forecasts have become less reliable due to the greatly increased risks and uncertainties.

16. These uncertainties are increasing rather than dissipating, as the risks of possible new variants of COVID-19 (particularly leading into winter), are compounded by flooding across broad stretches of the Australian east coast, increasing geopolitical tensions in our region, and the conflict in Ukraine. Uncertainty is being added to uncertainty, which compels genuine caution and moderation in decision making this year, even in the face of some comparatively strong figures on some indicators, and headline changes in inflation.

17. Labour and skill shortages are intensifying, creating a labour paradox as labour is no longer responding to market forces. This is particularly acute in the accommodation and food services sector, where employment in February 2022 is 4% below pre-COVID levels,[9] yet the job vacancy rate of the sector was at an historic high of 32.4%.[10]

18. Job mobility, albeit high, is not adding to the availability of skilled labour in the award-reliant industries, which traditionally rely on a higher share of part-time employment.[11] Rather, ABS quarterly data indicates job mobility is almost entirely driven by full-time workers. Employees are increasingly looking to change jobs to secure higher wages in an extraordinarily tight labour market. Higher job turnover increases the number of job advertisements as businesses seek to fill vacant positions. The Panel must appreciate that higher minimum wages can only increase labour on-costs in this environment, doing little to increase labour supply in these sectors.

19. Despite the opening of the international borders in March 2021, reopening has done very little, thus far, to lift labour supply. Award-reliant industries have previously relied on strong overseas migration, particularly from non-resident arrivals (backpackers and seasonal workers). Pre-pandemic, there were around 125,000 short-term non-resident workers, but as of the December quarter 2021 that number has fallen below 4,000 due to the closure of international borders.[12] The Panel needs to be cognisant that many award-reliant industries simply can't obtain labour at any price. Therefore, increasing minimum wages above a reasonable threshold, does nothing to add to the pool of labour supply.

20. In the five years prior to the beginning of the COVID pandemic, the inflation rate had been significantly below the RBA inflation target of 2-3%. While headline Inflation rose strongly in the December quarter 2021 (3.5%), underlying inflation is still within the RBA 2-3% target band. Inflation is forecast to increase further, but this is due to external factors (international fuel prices and supply chain disruptions). The Panel should note the RBA expects this to be transitory, with underlying inflation to settle around 2¾% by the end of 2022.

    a. It would not be prudent to link minimum wages increases to one or two quarterly inflation spikes when the inflation expectations over the medium term are moderate.

    b. It would also seem odd to enshrine a permanent increase on the basis of a level of prices growth which will not persist throughout even the period of 12 months until the next review.

[9] ABS 2022 *Labour Force Australia Detailed. February 2022.* https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia-detailed/latest-release
[10] ABS 2022 *Job Vacancies. February 2022.* https://www.abs.gov.au/statistics/labour/jobs/job-vacancies-australia/latest-release
[11] ABS 2022 *Labour Force Australia Detailed. February 2022.* https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia-detailed/latest-release
[12] ABS 2022 *Labour Force Australia Detailed. February 2022.* https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia-detailed/latest-release.

21. Rising prices are also impacting business profitability and capacity to employ. Many industry sectors are experiencing significant pressures on input costs, particularly for energy, fuel, shipping and freight, and materials, but with severely limited ability to pass on these costs to customers. For small businesses, this is encapsulated by the fact that they are feeling the same pain at the petrol pump as their customers and employees; there is no magic respite or protection against volatility and uncertainty for those who overwhelmingly pay award minimum wages.

22. Income from sales of goods and services had a significant decline of 1.2% in the September quarter 2021. While this remains above the level at the start of the pandemic, it has been exceeded by the increase in labour costs during the same period.

23. Gross operating profits were spurred by the government stimulus provided at the beginning of the pandemic in 2020 (particularly JobKeeper) but have since settled back to align with growth in income from sales of goods and services in recent quarters. Company gross operating profits rose 2.0% in the December quarter 2021.Yet, this improved profitability has not been evenly distributed across industry sectors, with accommodation and food services particularly hard hit with a 22.9% reduction in gross operating profits since the start of the pandemic. We must stress this point – aggregate profitability data across the economy can tell you little about the capacity of small shops, cafes and restaurants to viably absorb higher labour costs.

24. The Government has unwound many of the emergency fiscal policy settings over the past year including JobKeeper (March 2021) and the JobSeeker supplement (April 2021). The Treasurer, in his pre-Budget address on 16 March 2022, confirmed fiscal policy settings would return to more 'normalised' parameters. Yet businesses continue to struggle, particularly in award-reliant industries, without access to these fiscal support measures. In addition to adversity and uncertainty, the award reliant industries that must pay increases in these matters are facing a difficult and ongoing transition and adjustment in 2022.

25. The legislated increase in the Superannuation Guarantee by 0.5% to 10.5% will take effect from 1 July 2022. As noted previously, the imposition of the SG, wage, and non-labour increases further add to costs of doing business and employing, particularly for those industries in award-reliant industries that have not fully recovered. The Panel must recognise that businesses, particularly small award reliant businesses, are baring too much additional or increased cost too quickly. Any increase in minimum wages or award minimum wages must take into account the increase in the SG, and should be genuinely moderate and cautious to the circumstances at hand for those who will pay the increase.

26. The Panel must be highly wary of calls from unions and other review participants for minimum wage outcomes that would be detrimental in the current economic and business environment, or that in light of uncertainty and risk, risk being detrimental to employees and employers in award reliant industries in particular. Any extraordinary or non-moderate increase in minimum and award minimum wages in this Annual Wage Review risks placing some award-reliant industries at an increasing disadvantage and risks adding to the harms impacting on small businesses relentlessly assaulted by circumstances beyond their control over recent years.

27. The Annual Wage Review is not, and cannot be, approached as a stimulatory exercise for the Australian macroeconomy. Calls, explicit or implicit, to attempt to use Annual Wage Review process as a signalling mechanism through large real-wage increases will ultimately compound the wage-inflation nexus, risking further harm to both employees and employers in the future. We note the Panel has seen through this rhetoric in the past, and we urge you to do so again.

28. The minimum wage is not a suitable tool for delivering higher living standards to low paid employees. The tax and transfer system are a far more effective mechanism to deliver sustainable changes when merited.

29. Forcing award-reliant employers, most of which are small and medium sized businesses, that are already finding it difficult to cope with the increasing cost pressures, to pay unduly or damagingly higher wages would be neither fair, nor equitable, nor consistent with the balance of statutory considerations in these reviews.

1.2 Exceptional circumstances

30. The exceptional circumstances that existed in 2020 and 2021 reviews, as a result of the COVID pandemic, remain in play in 2022. In fact, given the disruption and hardship caused by the COVID Delta and subsequent Omicron outbreaks, it could be argued that the situation many businesses face and the outlook in 2022 is worse than when the Panel made its 2021 decision.

31. The Panel was too ultimately optimistic in its 2021 decision identifying that:

> *The present circumstances are very different* (from the situation in 2020). *There is broad consensus in submissions before us that the current performance of the economy has exceeded expectations and the economic recovery was well underway.*

32. Respectfully, in 2021 the Panel overlooked the high level of uncertainty around further COVID outbreaks and its potential to further damage the economy, particularly the impact on award-reliant industries.

33. While it was true at the time of writing that "*The Australian economy had recovered to a greater extent and more quickly than anticipated.*" This reflected the situation in March quarter 2021.

34. Since the Panel handed down its last decision on 16 June 2021, two further notable outbreaks of COVID have impacted heavily on economic activity, and on confidence.

35. The first was the COVID delta outbreak, which emerged in NSW in June — within days of the Panel handing down its decision. NSW went into extended lockdown in late-June, followed by the ACT then Victoria in July, with the lockdown lasting until early-October in NSW and the ACT and late-October in Victoria. In the affected states, economic activity almost ground to standstill, with café, bars, restaurants, most retail, personal services such as hairdressers, as well as gyms and other recreational activities forced to close. Where employees could work from home, they were encouraged to do so, leaving CBDs and most industrial precincts empty, and seeing widespread business closures of cafes, small shops, restaurants etc. Construction sites were also forced to close, due to the social distancing requirements, as were schools, universities and other educational and training institutions. With these states representing over 50% of economic activity in Australia, the economic impact of the lockdowns was severe. Nationally, GDP fell 1.9% and household consumption was down 4.8% in September quarter 2021.

36. While the economy bounced back in the December quarter 2021, once the lockdowns were lifted, the recovery was short-lived.

37. The COVID omicron outbreak began to emerge in December 2021, with infection rates ballooning in January and February 2022. Governments in affected states opted not to introduce lockdowns, enabling most businesses to continue to operate, but a shadow lockdown emerged. Soring infection rates, and

the ripple effect of a large number of close contacts, forced many people to self-isolate at home or saw many simply become reticent to exit their houses, shop, eat out, etc.

38. With a large number of employee absences, many businesses found it difficult to staff their operations – some were forced to close, others to reduce services or operating hours. Mask mandates and other social distancing requirements were again introduced, limiting activity in customer facing industries, including cafes, bars, restaurants, sports and recreation, major events and retail stores. The impacts were particularly severe for these businesses in CBDs relying on passing foot traffic, as people chose or encouraged to work from home, so were not travelling to city centres. Again, economic activity was severely curtailed, particularly for businesses for these 'front line' industries. The true economic impact of the COVID omicron outbreak is yet to be determined, as the first quarter 2022 National Accounts won't be released until 1 June, but we do not expect particularly or consistently positive performance.

39. In March 2022, despite infection rates remaining high in some regions, overall, the country is in the process of returning towards some level of normality, with the broader, macro level economy showing signs of a solid recovery. Yet, this is patchy, with business in some of the hardest hit sectors remaining severely scarred by the lockdowns, with heavily indebted balance sheets. Customer facing service industries, particularly in the accommodation and food services, arts and recreation and retail sectors, as well as tourism related businesses in the transport sector, which experienced the most severe impacts during the initial lockdowns in 2020, were again the hardest hit by the COVID delta and omicron disruptions. Businesses in these sectors noticeably lag the overall economic recovery. It will still take some time for many of them to pay back debt, restore their balance sheet and return to profitability (or paying back the losses of recent years).

40. Meanwhile, the outlook remains highly uncertain, with the risk of further COVID outbreaks, the impacts of the flooding in NSW and Queensland yet to be fully quantified and the long period of recovery ahead for businesses and individuals in these regions, as well as the ongoing Ukraine – Russia conflict and its impacts on the international economy and investor confidence, both actual and foreseeable. We urge a very cautious stance in light of clearly foreseeable risks and uncertainty on multiple fronts.

41. There is a clear case for exceptional circumstances for customer facing service industries, in the accommodation and food services, arts and recreation and retail sectors, as well as tourism related businesses in the transport sector. It could be argued that the current situation for these industries and the outlook is far worse than it was at the time the Panel made its decision in 2021.

1.3 Clustering and Staggered Commencement Dates

42. In 2020 and 2021 staggered commencement in different awards was an important tool used by the Panel to mitigate the potential negative impact of increases, and to be frank, to award increases in circumstances in which there was a very strong basis not to do so at all.

43. ACCI will address any staggering of commencement dates as part of the position we will compel to the Panel in due course. Broadly at this stage we offer the following introductory input.

44. The research papers prepared by Professor Borland for both the 2020 and 2021 reviews identified the economic impact of the COVID disruption on a number of broad industry sectors. The sectors were then 'clustered' based on their then rate of recovery – most adversely impacted / lagging recovery; adversely impacted but not to the same degree / almost recovered; and less affected / fully recovered. These

'clusters' are then used to determine the staggering of commencement dates for the increase in minimum and award minimum wages.

45. Given the severe economic impact on the most adversely impacted / lagging recovery industry sectors of the two major COVID outbreaks since the 2021 Annual Wage Review, ACCI questions why this research was not carried out again in 2022. It would have been very useful to have this information updated in 2022, for the Panel and review participants.

46. Businesses with employees on modern awards in the 2021 upper cluster (those that were lagging the then recovery) continue to face significant hardship due to the disruption caused by the COVID delta and omicron outbreaks. These include specific modern awards in the transport, accommodation and food, and arts and recreation sectors. Ultimately, things have not got any better.

47. For the transport sector, despite the reopening of international borders in March 2022, it will take some time for businesses in the aviation and tourism sectors to return to full capacity and even longer for these businesses to recover debt, restore their balance sheets and return to profitability.

48. Both the accommodation and food services and the arts and recreation sectors were the hardest hit by both the COVID delta lockdown and the ripple effect of the COVID omicron. These sectors continue to face setbacks and are yet to recover fully from the COVID disruption over the past two years, with the gross value added (GVA) and employment in these sectors remaining below its pre-COVID level. The sectors are also at greatest risk of further disruption from any future COVID outbreaks. ACCI's understanding is that the COVID-19 virus continues to mutate and generate new variants. This may ultimately be the path to the end of the epidemiological crisis, but it also remains the case there is also the potential risk of a major deadly outbreaks with new variants.

49. Similarly, while some sub-sectors of the retail trade sector such as supermarkets and homeware businesses were identified as essential services and remained open during the lockdowns in 2021-22, most retail businesses were forced to close or remain partially open with strict restrictions and experienced considerable losses as a result. Retail, like hospitality, is also impacted on by the shadow lockdowns which are seeing Australians exercise considerable caution in fully re-entering community and consumer life. The impacts were most severe for retail businesses in CBDs that rely on passing foot traffic.

1.4 Position / Proposed Minimum Wage Adjustment

50. With apologies to the Panel and other review participants, ACCI is not able to advance a recommended position or proposed outcome at this stage of the 2022 review process. Our reasons follow.

    a. The massive and multiple uncertainties and risks that we argue are material and directly central to this review, confront our decision making just as much as we say they need to guide the approach of the Panel. There are in late March 2022 simply too many unknowns, and too many factors suggesting erring on the side of pessimism and caution in the current environment to crystallise a single ACCI network position at this time. We consider we can better assist the Panel by advancing a position based on further information at the next stage of the process.

    b. We do not consider it would assist the Panel if ACCI was forced to err on the side of undue caution by identifying a position in advance of the best possible information, a process we have some prospect of redressing prior to the next round of submissions.

c. Also causing difficulty for finalising a single network position at this point is the diversity of circumstances and adversity being confronted by ACCI members. Some are experiencing a fast-moving economy around them and recovery, others serious adversity and risk. Part of the unique difficulty in determining ACCI's position at this point in 2022 is member uncertainty and navigation of a diverse range of adversity, which ACCI needs an opportunity to draw together into a unified network position.

d. ACCI also wishes to more carefully consider any proposals for staggered increases again in 2022, and to assist the Panel with a clear network position on staggering in light of what the Panel is asked to consider in 2022.

e. Finally, we would like to inform the position we commend to the Panel with further labour force and expenditure data, as well as the March CPI data (released 27 April 2022).

51. ACCI intends to clarify our recommended position and commend it to the Panel as soon as possible, and certainly with the lodgement of the second or reply submission under the timetable, due 6 May 2022. We can also clarify our hope that the circumstances in which in future reviews will be undertaken will equip ACCI to advance a position earlier in the process, in our initial submission.

52. We do wish to put the following before the panel at this stage.

53. The purpose of the Annual Wage Review is the maintenance of a 'minimum safety net' and 'safety net of fair minimum wages',[13] rather than a desirable level of base or basic income (the bulk of which falls on the shoulders of the tax and transfer system). It is not disputed that these are composite expressions,[14] only that the specific words within the phrase should be duly acknowledged and understood. A minimum safety net is not:

a. 'a stimulus';[15]

b. a means to eradicate poverty;[16] or

c. a tool for promoting income equality.[17]

54. Submissions to the Review that advocate for increases in the national minimum wage and modern award wages with these objectives in mind, or implicit in the level of increase sought, should be downgraded in determinative weight and approached highly speculatively. The task of the Review is to apply the statutory criteria,[18] not to entertain arguments with extraneous goals that openly seek to make them merely 'compatible' with those criteria,[19] rather pursue their fulfilment.

[13] *Fair Work Act 2009* ss 134(1) and 284(1) (emphasis added).

[14] *Annual Wage Review 2020-21* [2021] FWCFB 3500 at [6].

[15] Australian Council of Trade Unions, 'ACTU Submission to the 2019-20 Annual Wage Review', Submission in *Annual Wage Review 2019-20*, C2020/1, 20 March 2020, 7.

[16] *Annual Wage Review 2017-18* [2018] FWCFB 3500 at [104].

[17] Australian Council of Trade Unions, 'ACTU Submission to the 2019-20 Annual Wage Review', Submission in *Annual Wage Review 2019-20*, C2020/1, 20 March 2020, Ch 4.1.

[18] *Fair Work Act 2009* s 285(2).

[19] Australian Council of Trade Unions, 'Submission to the Annual Wage Review 2020-21', Submission in *Annual Wage Review 2020–21*, C2021/1, 26 March 2021, 3.

2. ECONOMIC OUTLOOK

2.1 Domestic forecasts

55. The Australian economy rallied following the COVID Delta lockdowns in NSW and Victoria, gaining momentum in the latter part of 2021. Following a contraction in the September quarter, domestic economic conditions were strong in the December quarter, as the lifting of restrictions supported increased household consumption. Economic activity increased 3.4% in the December quarter to be up 4.2% over calendar year 2021.[20]

56. The emergence of the COVID Omicron variant in mid-December is expected to lead to some weakness in the March quarter 2022 National Accounts, but the Omicron outbreak has not to date completely derailed the recovery from the COVID Delta lockdowns. Failing future COVID outbreaks, the economy is expected to build momentum over the remainder of 2022, with GDP growth strengthening on the back of a recovery in services industries most affected during the Omicron outbreak. The Government's Budget projects real GDP growth of 4¼% in 2021-22, before slowing to 3½% in 2022-23 and then 2½% in 2023-24.[21]

57. The continued recovery in overall economic activity is supporting strong employment growth and driving the unemployment rate down. Employment has reached a historic high of 13.27 million, while the unemployment rate fell to 4.0% in February 2022 — the lowest rate of unemployment since the Global Financial Criss of 2008.[22] The Budget forecasts show unemployment falling further to 3¾% in the September quarter of 2022 and remaining below 4% out to 2025-26.[23]

58. Headline inflation rose significantly to an annualised rate of 3.5% in the December quarter 2021, influenced by global pressures from oil prices and supply chain disruptions. Budget projections show the CPI reaching 4¼% in 2021-22. It is then expected to moderate to 3% in 2022-23 and 2¾% in 2023-24. The Reserve Bank recently commented that strong labour market income, increases in household wealth, strong business investment as well as stronger federal and state government budgets are likely to continue to put upward pressure on inflation in the near term.[24]

59. The tightening labour market is expected to see aggregate wages growth pick up. Budget forecasts show the Wage Price Index (WPI) increasing from 2.3% in the year to December 2021, to 2¾% by June 2022, then 3¼% in 2022-23, and remaining at 3½% in 2024-25 and 2025-26.

[20] ABS 2022, *National Accounts, National Income, Expenditure and Product, December 2021*. https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/dec-2021

[21] The Commonwealth of Australia 2022 *Budget 2022-23: Budget Strategy and Outlook – Budget Paper No. 1.* https://budget.gov.au/2022-23/content/bp1/index.htm

[22] ABS 2022, *Labour Force Australia, February 2022.* https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/latest-release

[23] The Commonwealth of Australia 2022 *Budget 2022-23: Budget Strategy and Outlook – Budget Paper No. 1.* https://budget.gov.au/2022-23/content/bp1/index.htm

[24] Reserve Bank of Australia (2022) *Statement on Monetary Policy* February 2022

Table 1: Major Economic Parameters[(a)]

	Outcome	Forecasts				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Real GDP	1.5	4 1/4	3 1/2	2 1/2	2 1/2	2 1/2
Employment	6.5	2 3/4	1 1/2	1 1/2	1	1
Unemployment rate	5.1	4	3 3/4	3 3/4	3 3/4	4
Consumer price index	3.8	4 1/4	3	2 3/4	2 3/4	2 1/2
Wage price index	1.7	2 3/4	3 1/4	3 1/4	3 1/2	3 1/2
Nominal GDP	4.4	10 3/4	1/2	3	5 1/4	5

(a) Real GDP and Nominal GDP are percentage change on preceding year. The consumer price index, employment, and the wage price index are through the year growth to the June quarter. The unemployment rate is the rate for the June quarter.

Source: ABS Australian National Accounts: National Income, Expenditure and Product; Labour Force, Australia; Wage Price Index, Australia; Consumer Price Index, Australia and Treasury.

Source: The Commonwealth of Australia 2022 *Budget 2022-23: Budget Strategy and Outlook – Budget Paper No. 1.*

60. Commonwealth Bank of Australia (CBA) forecasts solid domestic economic growth underpinned by a large pool of excess savings, estimated at $A265 billion. A significant portion of these savings was due to government support payments (JobKeeper / JobSeeker) during 2020 and into 2021 – these payments exceeded the lost wages and salaries over this period. [25]

61. The Australian and New Zealand Bank (ANZ) summarises[26] the key themes of the RBA March Minutes and the business liaison program, it notes that:

    a. Input costs are increasing, with businesses needing to pass-on these costs to customers: particularly relating to non-labour input cost across many industries.

    b. The RBA is not yet certain inflation is sustainably within its target band: domestic inflation is still lower than other countries and the RBA is not convinced whether current inflationary pressures are enduring, or just transitory.

    c. Wages growth will be gradual: expectations on wages growth over 2022 is likely to be similar to the pre-pandemic period.

    d. Wages are skewed on the upside: although the RBA has noted that it will be sometime before aggregate wages growth is consistent with inflation.

62. With inflationary pressure building, there are increasing expectations that the RBA will respond, raising the cash rate sooner than it is currently projecting. The CBA, ANZ and National Australia Bank (NAB) expect the RBA will begin to lift the cash rate sometime between June and August 2022, but this is largely dependent on wages data.[27] This is considerably earlier than the timing of mid-2024 that it has been projecting up until very recently. If the RBA does increase the cash rate earlier than expected it will have a clear and rapid flow on effect to interest rates and consumer spending. While this may go some way to cooling inflationary pressures later in 2022, it will also have implications for household budgets and disposable income, particularly those highly indebted with large mortgages.

63. Despite the positive signs for many economic indicators in 2021-22 and flowing through to 2023, it is important to note that the underlying fundamentals of the economy remain weak. High Government spending over the past two years, which has bolstered household income and savings, has not

[25] Economic Insights, Global Economics & Markets Research (March 2022).
[26] Quick Reaction Australia, ANZ Research (March 2022)
[27] CBA, NAB and ANZ Economic (Various) Reports (2022)

contributed to any significant improvement in productivity. Once the Government stimulus washes through the economy, GDP growth is forecast to quickly return to its weak pre-COVID levels around 2½% (2023-24) — in line with its average over the decade leading up to the COVID pandemic. It is important to highlight that the low average GDP growth of 2.6% in the decade pre COVID (2010-19) — compared to an average of 3.3% over the proceeding 3 decades — was due to very low productivity growth over this period.

64. Given that any increase in minimum and award minimum wages would not be supported by productivity growth across recent years, it would be imprudent for the Panel to 'bake in' strong wages growth in the 2021-22 Annual Wage Review, knowing that productivity remains weak and a substantial increase does not appear to be sustainable over the longer term.

2.2 International forecasts [28]

65. The Russia-Ukraine conflict has significant economic implications globally and for Australia. Just when economic activity in most countries was returning to more normalised levels and the supply-chain challenges stemming from the pandemic appeared to be fading, the war in Ukraine has created a new negative supply shock for the world economy. It's also created a global climate of fear and uncertainty, which will impact the global economy, global growth and global trade.

66. Prior to the conflict, the global recovery from the pandemic was expected to continue in 2022 and 2023, albeit dropping back from the high in 2021, as countries wound back pandemic related stimulus and began to withdraw accommodative monetary policy. The IMF was forecasting global GDP growth to moderate from 5.9% in 2021, to 4.4% in 2022 and 3.8% in 2023 and the OECD projecting growth of 4.5% in 2022 and 3.2% in 2023.[29]

67. The OECD was forecasting most economies to return to pre-COVID employment levels by 2023. Similarly, the IMF noted that labour markets were tightening in most countries, with emerging labour shortages in some service professions, such as leisure and hospitality.

68. Nominal wages growth has been within usual trend parameters in most countries, despite employment moving towards pre-pandemic levels.[30] The United States was an exception, with a sharp decline in unemployment accompanied by buoyant nominal wages growth.[31]

69. Inflationary pressures were expected to persist through 2022 with ongoing supply chain disruptions and high energy prices, but these were expected to ease by the end of 2022 as monetary policy tightens in major economies, fuel price pressures moderate, and demand rebalances away from goods-intensive consumption towards services.[32]

[28] ANZ, Bloomberg, Macrobond, IMF.
[29] International Monetary Fund 2022, *World Economic Outlook, Update January 2022.* https://www.imf.org/en/Publications/WEO/Issues/2022/01/25/world-economic-outlook-update-january-2022
OECD 2022 *OECD Economic Outlook, Interim Report March 2022: Economic and Social Impacts and Policy Implications of the War in Ukraine*. https://www.oecd-ilibrary.org/sites/4181d61b-en/index.html?itemId=/content/publication/4181d61b-en
[30]
[31] International Monetary Fund 2022, *World Economic Outlook, Update January 2022.* https://www.imf.org/en/Publications/WEO/Issues/2022/01/25/world-economic-outlook-update-january-2022
[32] International Monetary Fund 2022, *World Economic Outlook, Update January 2022.* https://www.imf.org/en/Publications/WEO/Issues/2022/01/25/world-economic-outlook-update-january-2022

70. The OECD noted that strengthening economic conditions were contributing to an acceleration and broadening of inflation in most economies, especially in the United States, Latin America, and Central and Eastern Europe, but expected these pressures to ease through 2022, with exceptional monetary policy accommodation being progressively removed and emergency fiscal measures, taken in response to the pandemic, phased out.

71. The IMF is forecasting global trade to moderate in 2022 and 2023, in line with the overall rate of economic growth.[33] This was based on the assumption that supply chain problems would ease in 2022, with the effects of the COVID pandemic fading and global demand for goods moderating. Cross-border services trade, particularly tourism, were also expected to remain subdued.

Table 2: Overview of the IMF *World Economic Outlook* Projections

(Percent change, unless noted otherwise)

	Year over Year						Q4 over Q4 2/		
					Difference from October 2021 WEO Projections 1/				
		Estimate	Projections				Estimate	Projections	
	2020	2021	2022	2023	2022	2023	2021	2022	2023
World Output	**–3.1**	**5.9**	**4.4**	**3.8**	**–0.5**	**0.2**	**4.2**	**3.9**	**3.4**
Advanced Economies	**–4.5**	**5.0**	**3.9**	**2.6**	**–0.6**	**0.4**	**4.4**	**3.5**	**1.8**
United States	–3.4	5.6	4.0	2.6	–1.2	0.4	5.3	3.5	2.0
Euro Area	–6.4	5.2	3.9	2.5	–0.4	0.5	4.8	3.2	1.8
Germany	–4.6	2.7	3.8	2.5	–0.8	0.9	1.9	4.2	1.6
France	–8.0	6.7	3.5	1.8	–0.4	0.0	5.0	1.9	1.7
Italy	–8.9	6.2	3.8	2.2	–0.4	0.6	6.2	2.5	1.7
Spain	–10.8	4.9	5.8	3.8	–0.6	1.2	4.9	5.0	2.5
Japan	–4.5	1.6	3.3	1.8	0.1	0.4	0.4	3.6	1.1
United Kingdom	–9.4	7.2	4.7	2.3	–0.3	0.4	6.3	3.8	0.5
Canada	–5.2	4.7	4.1	2.8	–0.8	0.2	3.5	3.9	1.9
Other Advanced Economies 3/	–1.9	4.7	3.6	2.9	–0.1	0.0	3.8	3.4	2.5
Emerging Market and Developing Economies	**–2.0**	**6.5**	**4.8**	**4.7**	**–0.3**	**0.1**	**4.0**	**4.3**	**4.8**
Emerging and Developing Asia	–0.9	7.2	5.9	5.8	–0.4	0.1	3.7	5.4	5.7
China	2.3	8.1	4.8	5.2	–0.8	–0.1	3.5	5.1	5.0
India 4/	–7.3	9.0	9.0	7.1	0.5	0.5	4.3	5.8	7.5
ASEAN-5 5/	–3.4	3.1	5.6	6.0	–0.2	0.0	3.5	5.6	5.9
Emerging and Developing Europe	–1.8	6.5	3.5	2.9	–0.1	0.0	5.8	2.2	3.0
Russia	–2.7	4.5	2.8	2.1	–0.1	0.1	4.2	2.1	1.8
Latin America and the Caribbean	–6.9	6.8	2.4	2.6	–0.6	0.1	3.7	1.8	2.6
Brazil	–3.9	4.7	0.3	1.6	–1.2	–0.4	0.6	1.5	1.4
Mexico	–8.2	5.3	2.8	2.7	–1.2	0.5	2.9	3.4	1.9
Middle East and Central Asia	–2.8	4.2	4.3	3.6	0.2	–0.2	. . .	. . .	. . .
Saudi Arabia	–4.1	2.9	4.8	2.8	0.0	0.0	5.2	5.3	2.8
Sub-Saharan Africa	–1.7	4.0	3.7	4.0	–0.1	–0.1	. . .	. . .	. . .
Nigeria	–1.8	3.0	2.7	2.7	0.0	0.1	2.4	2.1	2.3
South Africa	–6.4	4.6	1.9	1.4	–0.3	0.0	1.3	2.6	0.9
Memorandum									
World Growth Based on Market Exchange Rates	–3.5	5.6	4.2	3.4	–0.5	0.3	4.2	3.9	2.8
European Union	–5.9	5.2	4.0	2.8	–0.4	0.5	4.9	3.5	1.9
Middle East and North Africa	–3.2	4.1	4.4	3.4	0.3	–0.1	. . .	. . .	. . .
Emerging Market and Middle-Income Economies	–2.2	6.8	4.8	4.6	–0.3	0.0	4.0	4.3	4.8
Low-Income Developing Countries	0.1	3.1	5.3	5.5	0.0	0.0	. . .	. . .	. . .
World Trade Volume (goods and services) 6/	**–8.2**	**9.3**	**6.0**	**4.9**	**–0.7**	**0.4**	. . .	. . .	. . .
Advanced Economies	–9.0	8.3	6.2	4.6	–0.7	0.6	. . .	. . .	. . .
Emerging Market and Developing Economies	–6.7	11.1	5.7	5.4	–0.7	0.0	. . .	. . .	. . .
Commodity Prices (US dollars)									
Oil 7/	–32.7	67.3	11.9	–7.8	13.7	–2.8	79.2	–4.7	–6.8
Nonfuel (average based on world commodity import weights)	6.7	26.7	3.1	–1.9	4.0	–0.4	17.2	1.5	–1.6
Consumer Prices									
Advanced Economies 8/	0.7	3.1	3.9	2.1	1.6	0.2	4.8	2.8	2.0
Emerging Market and Developing Economies 9/	5.1	5.7	5.9	4.7	1.0	0.4	5.9	5.1	4.3

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during December 10, 2021–January 7, 2022. Economies are listed on the basis of economic size. The aggregated quarterly data are seasonally adjusted. WEO = World Economic Outlook.
1/ Difference based on rounded figures for the current and October 2021 WEO forecasts. Countries whose forecasts have been updated relative to October 2021 WEO forecasts account for approximately 90 percent of world GDP measured at purchasing-power-parity weights.
2/ For World Output, the quarterly estimates and projections account for approximately 90 percent of annual world output at purchasing-power-parity weights. For Emerging Market and Developing Economies, the quarterly estimates and projections account for approximately 80 percent of annual emerging market and developing economies' output at purchasing-power-parity weights.
3/ Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.
4/ For India, data and forecasts are presented on a fiscal year basis, with FY 2021/2022 starting in April 2021. For the January 2022 WEO Update, India's growth projections are 8.7 percent in 2022 and 6.6 percent in 2023 based on calendar year. The impact of the Omicron variant is captured in the column for 2021 in the table.
5/ Indonesia, Malaysia, Philippines, Thailand, Vietnam.
6/ Simple average of growth rates for export and import volumes (goods and services).
7/ Simple average of prices of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil. The average price of oil in US dollars a barrel was $69.07 in 2021; the assumed price, based on futures markets (as of January 10, 2022), is $77.31 in 2022 and $71.29 in 2023.
8/ The inflation rate for the euro area is 3.0% in 2022 and 1.7% in 2023, for Japan is 0.7% in 2022 and 2023, and for the United States is 5.9% in 2022 and 2.7% in 2023, respectively.
9/ Excludes Venezuela.

Source: International Monetary Fund 2022, *World Economic Outlook, Update January 2022.*

[33] International Monetary Fund 2022, *World Economic Outlook, Update January 2022.* https://www.imf.org/en/Publications/WEO/Issues/2022/01/25/world-economic-outlook-update-january-2022

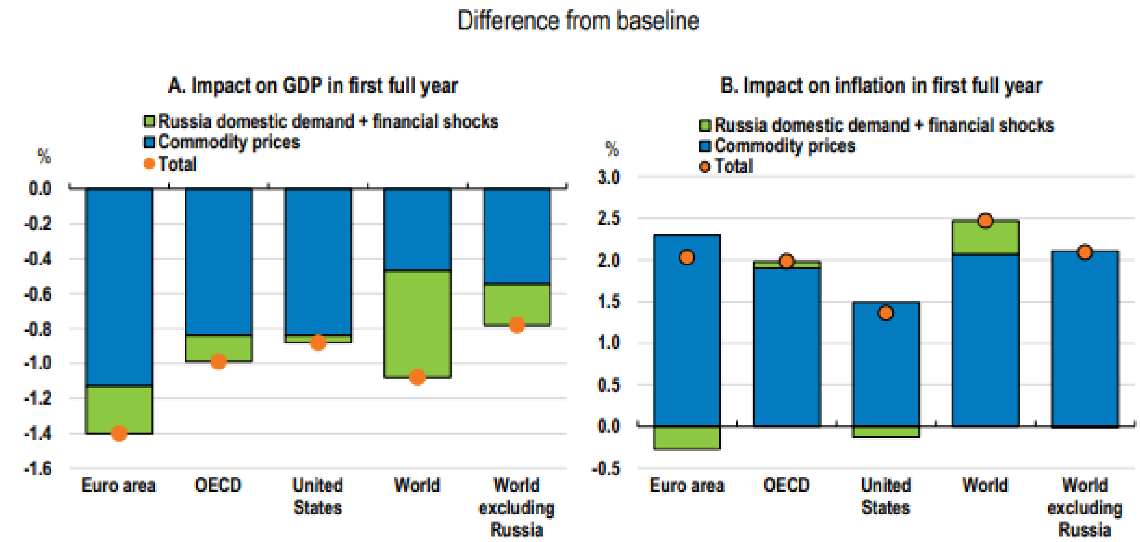
72. While Russia and Ukraine play only a small role in the global economy and a small proportion of global trade, they are large producers and exporters of some key commodities. Russia and Ukraine together account for about 30% of global exports of wheat, 20% for corn, mineral fertilisers and natural gas, and 11% for oil. Already, the war has contributed to a surge in oil, gas and wheat prices.

73. The world is also being rudely reminded at the time of the submission of the economic importance of European stability and the impact globally of uncertainties and negative confidence in the major economies of continental Europe, in particular on fuel, food and the movement of goods.

74. Since the outbreak of the war the OECD has moderated its forecasts, expecting global GDP growth to reduce by over 1 percentage point in the first year, with the largest impacts felt in European economies.[34] Russia is expected to go into a deep recession. Pressure on commodity prices and financial markets is expected to push up global consumer price inflation by approximately 2½ percentage points. These estimates are based on the assumption that the commodity and financial market shocks seen in the first two weeks of the conflict persist for the rest of the year.

75. Based on these OECD projections, GDP growth in OECD economies will moderate to 3.5% in 2022, while inflation will swell to around 6%.

Chart 1: Impact of the Russian-Ukraine conflict on global growth and inflation: OECD projections



Note: See the Technical Appendix for full details of the shocks applied.
Source: OECD calculations using the NiGEM global macroeconomic model.

Source: International Monetary Fund 2022, *World Economic Outlook, Update January 2022.*

76. The direct implications of the conflict in Ukraine on Australia are likely to be modest, although far from trivial. Russia and the Ukraine represent less than 0.2% of Australia's total trade, so Australia is likely to relatively insulated from direct shocks. There may even be some benefits to Australian exporters from higher commodity prices.

[34] OECD 2022 *OECD Economic Outlook, Interim Report March 2022: Economic and Social Impacts and Policy Implications of the War in Ukraine*. https://www.oecd-ilibrary.org/sites/4181d61b-en/index.html?itemId=/content/publication/4181d61b-en.

77. However, Australia is not isolated from the global economy. We are already seeing flow on from the conflict through higher energy costs and supply chain disruptions. These will likely deepen the longer the conflict continues, increasing inflationary pressures and slowing economic activity. The redistribution of goods and supply chains in international markets is also likely to affect the supply-demand balance in Australia, as Europe, the United States and other countries reliant on trade with Russia and the Ukraine, diversity into other markets.

78. Above all, we don't know what the impact will be, just as we don't know the course of the conflict or how it will be resolved, and this is a further basis for caution in the face of a known, but clearly potentially very pertinent unknown or risk to outlooks.

2.3 Risks

79. In Australia, despite expectations of strong economic growth, low unemployment, and rising wages growth in 2021-22 and 2022-23, a range of downside risks weigh heavily on our economic outlook.

80. The potential emergence of new, more virulent or vaccine-resistant variants of COVID-19 continue to pose a major risk to the outlook both domestically and internationally.

81. The Australian Technical Advisory Group on Immunisation (ATAGI) noted in their statement recommending a winter booster dose of the COVID-19 vaccines:

> The potential remains for new variants of concern to appear and spread rapidly. The timing of this is unpredictable. It is unlikely that a variant-specific vaccine could be developed, tested and produced in sufficient time to counter a new variant. The severity and transmissibility of future variants will not be known until they appear. Severity could range from relatively mild disease (as with Omicron) to severity similar to or greater than the Delta strain.[35]

82. With this expert advice in mind, it would be reckless to proceed on the presumption that the recovery following the reopening after the COVID Delta lockdowns and Omicron variant disruptions will necessarily continue uninhibited. There remains a manifest and real possibility that a new variant of COVID-19 will again disturb our economic recovery and there is no guarantee regarding the efficacy of existing vaccinations against it. Learning from events following its 2021 Decision, the Panel must take caution to avoid assumptions given the uncertainty around the trajectory of the nation's recovery.

83. The recent floods have had a devastating impact on affected communities in southeast Queensland and northern NSW. More heavy rains in the past week are leading to further damage in already impacted regions. The direct impact on the national economy is yet to be fully determined, but it will be substantial, and it will take many years for businesses and households in these regions to fully recover.

84. The Russian invasion of Ukraine poses considerable risks to global markets with potential flow on to the Australian economy. It is already having spill-over effects on commodity, energy and agricultural prices and global supply chains.

[35] https://www.health.gov.au/news/atagi-statement-on-recommendations-on-a-winter-booster-dose-of-covid-19-vaccine

85. The RBA Governor recently commented that despite the global economic recovery from the pandemic:

> … the war in Ukraine is a major new source of uncertainty. Inflation in parts of the world has increased sharply due to large increases in energy prices and disruptions to supply chains at a time of strong demand. The prices of many commodities have increased further due to the war in Ukraine.[36]

86. The Secretary to the Treasury, Dr Steven Kennedy PSM, told the Economics Legislation Committee on 16 February 2022:

> Geostrategic risks are also increasing. This is leading to shifts in global trading patterns and supply chains, as countries seek to build additional economic resilience. There is also a heightened risk of sudden economic disruption, as illustrated by current events in Eastern Europe, which may bear down on global markets and investor confidence.[37]

87. The Panel should bear in mind the heightened risk and uncertainty to the outlook outlined above. It is essential the Panel err on the side of caution in making its decision in 2022.

[36] https://www.rba.gov.au/media-releases/2022/mr-22-05.html
[37] https://treasury.gov.au/speech/opening-statement-economics-legislation-committee-2

3. ECONOMIC CONSIDERATIONS

3.1 Economic growth

88. Gross Domestic Product (GDP) recovered in the December quarter 2021, up 3.4%, as NSW, Victoria and the ACT came out of extended lockdowns in October 2021.

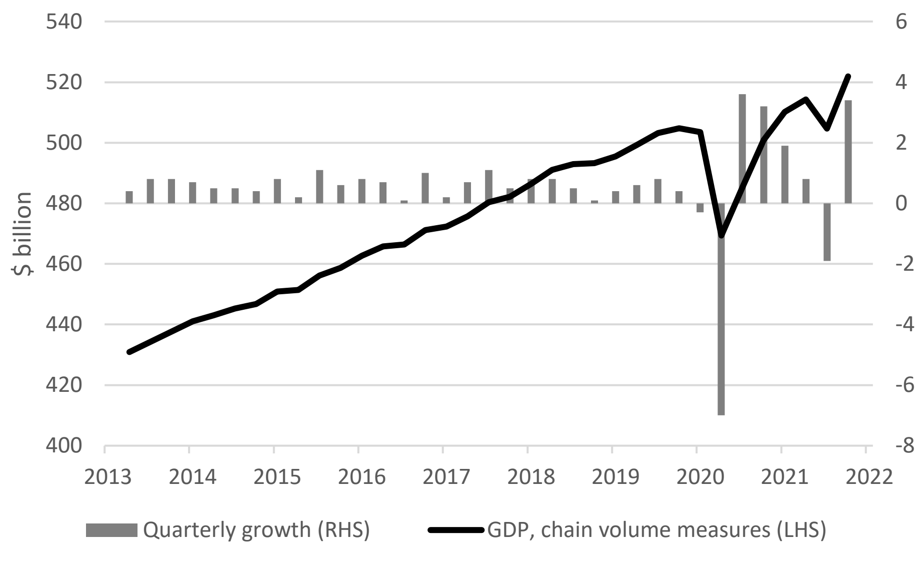
89. Overall GDP increased 4.2% in the 2021 calendar year, despite the COVID Delta lockdowns causing GDP to fall 1.9% (or $9.7 billion) in the September quarter.

90. It must be noted that the National Accounts are backward looking and lag the current phase of the economic cycle which is overshadowed by the COVID Omicron outbreak.

91. While the disruption from the COVID Omicron outbreak in the second half of December 2021 had limited effect on economic activity the December quarter[38], it is expected to have a considerable impact on growth in early 2022.

92. GDP has not been reliable or consistent across recent quarters, fluctuating widely throughout the COVID pandemic — turning down sharply as large parts of the country entered official lockdowns or self-enforced lockdowns, then turning back again strongly as the economy reopened.

Chart 2: Gross Domestic Product, Australia



Source: ABS 5206.001 National Accounts: National Income, Expenditure and Product, December 2021.

3.2 Household consumption

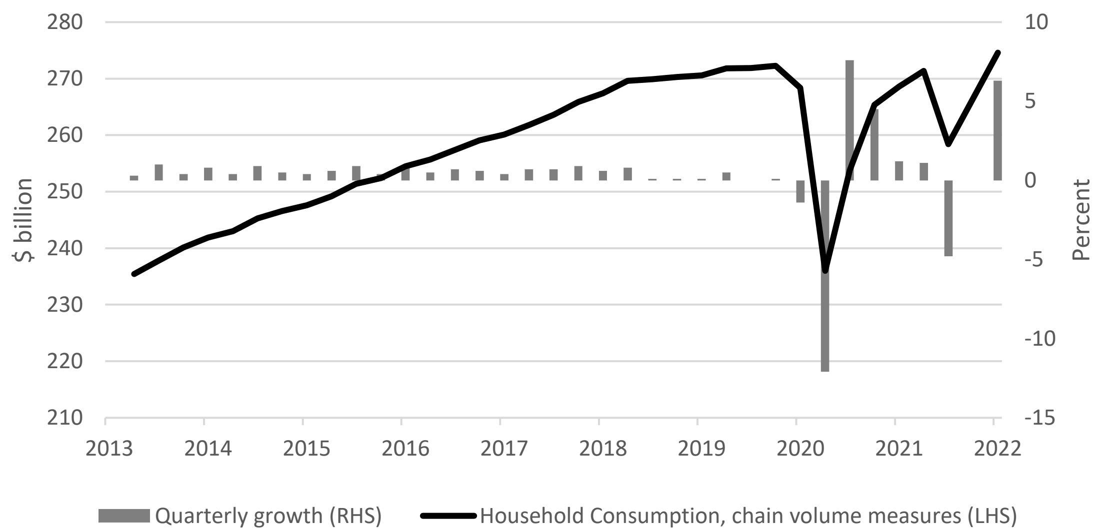
93. Household consumption spending rose 6.3% the December quarter 2021 and 6.2% through the year. The recovery in household consumption in the December quarter was most notable across the transport

[38] ABS 5206.001 National Accounts: National Income, Expenditure and Product, December 2021 (Released 3 March 2022)

services (+48.6%), hotels, cafes and restaurants (+24.3%), recreation and culture (+17.1%) and health (+7.9%) sectors.

94. Yet, this was in response to a sharp downturn the previous quarter, with household spending on transport services down 44.5%, hotels, cafes and restaurants down 20.7%, recreation and culture down 11.8% and health 7.1% lower.

Chart 3: Household Final Consumption Expenditure



Source: ABS 5206.001 National Accounts: National Income, Expenditure and Product, December 2021.

95. These sectors have not done well during the COVID pandemic overall — transport services (down 74%), hotels, cafes and restaurants (-20.7%), recreation and culture (+7.4%) and health (+6.4%) and other good and services (-3.9%). Final Consumption Expenditure has been very volatile and increased only 0.8% in the past two years. Uncertainty persists and pervades for these most award reliant of industries.

96. Despite the nascent positive trajectory with the reopening of the NSW and Victorian economies in the December quarter, consumption patterns have not been reliable or consistent over the past two years of the COVID pandemic. In the September quarter 2021 household consumption spending fell 4.8% (or $7 billion). In the December quarter 2021, household consumption was only marginally (0.8%) above its pre-COVID level, $274.6 billion in December quarter 2021 compared to $272.3 billion in December 2019.[39] Victoria and NSW saw again with Omicron, how fragile and at risk their economies are in the current environment.

97. Therefore, it should be viewed that the December quarter household consumption growth rates do not reflect normal or particularly strong conditions but rather a return from the lockdowns, with pent-up demand driving stronger spending.

98. The disruptions associated with the COVID Omicron outbreak are likely to temper this growth in the March quarter 2022, with a flattening of household consumption expenditure.

[39] ABS 5206.001 National Accounts: National Income, Expenditure and Product, December 2021 (Released 3 March 2022).

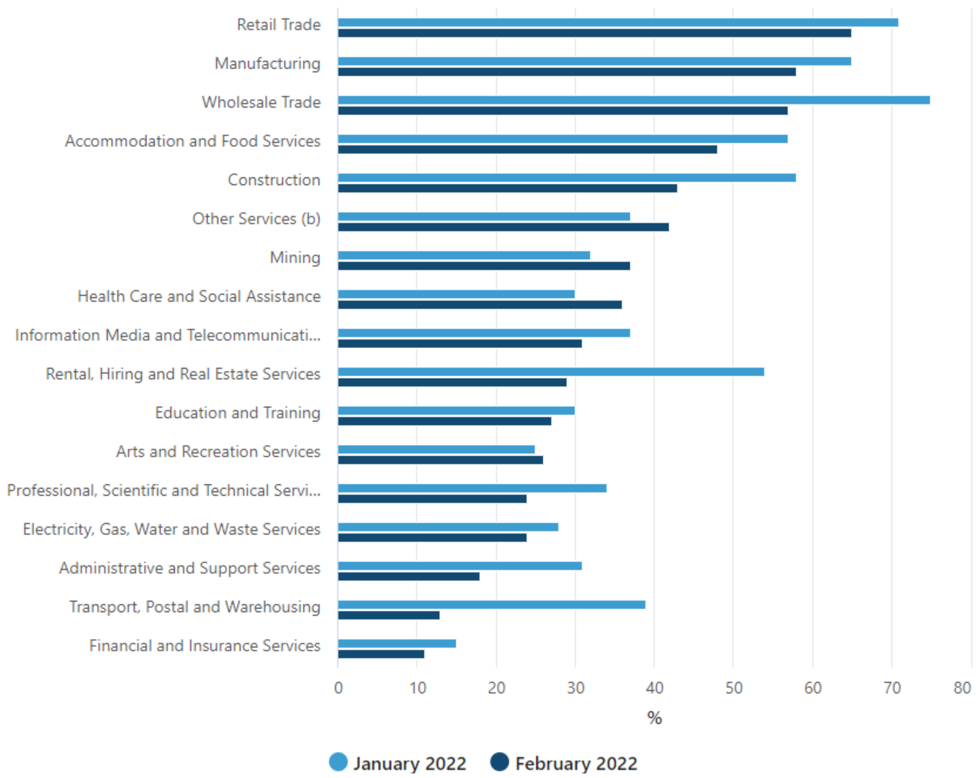
3.3 Business conditions

99. Data continues to indicate significant variability in business conditions across sectors, and we suggest underneath the data, within sectors. Many industries are experiencing rising costs, with supply-chain disruptions and staff shortages.

100. Higher input costs, particularly fuel, shipping and freight, and raw materials, and insurance, with limited ability to increase prices, are squeezing profits.

101. The *ABS Business Conditions and Sentiments* survey for February 2022 identified that two in five (37%) businesses continue to be significantly impacted by supply-chain disruptions brought about by cross-border restrictions and labour shortages.[40] Of the most award reliant industries, those with a high proportion of businesses experiencing supply chain disruptions were retail (65% of businesses) accommodation and food services (48%), arts and recreations services (26%) and transport, postal and warehousing (13%).[41]

Chart 4: Supply Chain Disruptions



Source: ABS 5206.001 National Accounts: National Income, Expenditure and Product, December 2021.

102. Further, 15% of businesses had staff unavailable due to COVID-19 related issues. Of those, large businesses were more likely than small and medium enterprise (SME) businesses to report employees being unavailable (58% compared with 41% and 14%). However, it was medium sized enterprise business that were more likely to have insufficient employee numbers compared to large and small enterprise businesses (34%, compared with 29% and 16%).

[40] Australian Bureau of Statistics 2021, Business Conditions and Sentiment, February 2022 (Released 26 February 2022).
[41] Statistical Report, (Version 2), Table 7.1

103. SME business confidence has also improved but this improvement is far from distributed equally. The NAB Quarterly SME Survey for the December quarter 2021 shows that business conditions for health, transport, retail, and accommodation and food services are still relatively weak. In particular, the report states:

> *Small businesses in the hospitality sector* [accommodation and food services] *have been some of the hardest hit throughout the pandemic. …SMEs in the hospitality sector reported an improvement in quarter four but were still in negative territory and we know that since then these same businesses will have faced further disruption from the Omicron outbreak.*[42]

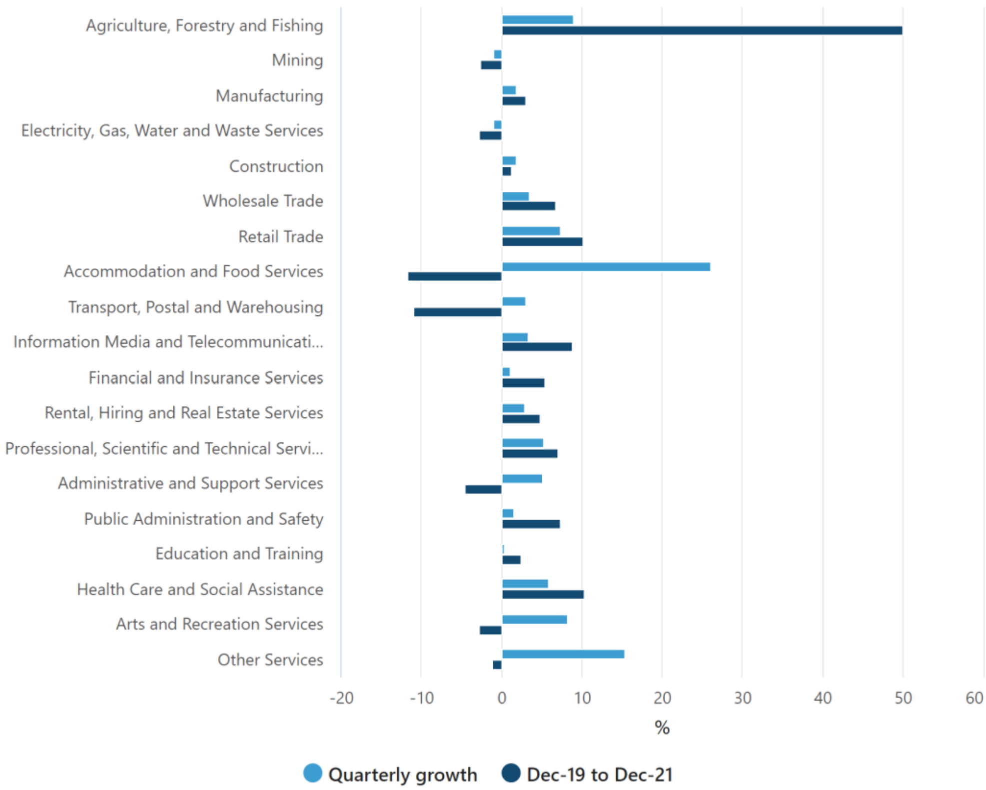
104. This is an important encapsulation of someof the key points in this submission. Key award-reliant industries were hardest hit by the pandemic, they are still part way through a very long-term recovery from serious harm, they have experienced some recent improvement, but are still in negative territory, and they faced continuing and constant risks of disruption and uncertainty.

105. Industries that had their operative dates extended beyond 1 July 2021 in the last Review Decision, are still experiencing less than favourable business conditions, ongoing uncertainty and adversity.

3.4 Company Gross Value Added

106. Gross Value Added (GVA) rose 3.4% through the year to December 2021.

Chart 5: Gross Value Added by Industry Sector



Source: ABS 5206.001 National Accounts: National Income, Expenditure and Product, December 2021.

[42] NAB Quarterly SME Survey, December quarter 2021 (Released 17 February 2022)

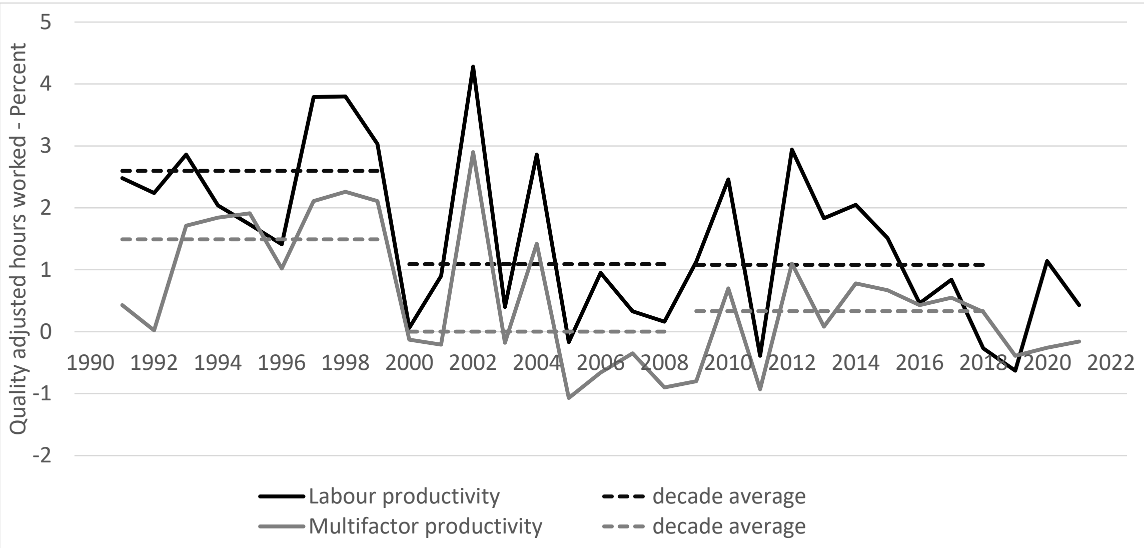
107. Yet, seven of the nineteen market sector industries experienced a decline over this period, with the largest falls in accommodation and food services (-11.7%), transport, postal and warehousing industries (-10.9%), administrative and support services (-4.5%), and arts and recreation (-2.8%).[43] Again, these are heavily award reliant industries that must directly increase labour costs following decisions in these reviews.

3.5 Productivity

108. The lockdowns resulted in a large share of business capital unused or under-used. This influenced labour productivity, overstating the capital deepening component. Labour productivity jumped to 1.14% in 2019-20, before settling back to 0.43% in 2020-21 on a quality adjusted hours worked basis. Labour productivity was artificially boosted by a reallocation of labour toward higher productive industries as less productive industries experienced larger falls in hours worked during the lockdowns. This contrasts with the declining trend in labour productivity over the past business cycle, with labour productivity growth on a steadily declining trend from 2.94% in 2011-12 to a contraction of 0.63% in 2018-19.

109. While multifactor productivity (MFP) growth had been relatively stable (albeit anaemic — below 1%) over the business cycle prior to the pandemic, it contracted 0.4% in 2018-19 and remained in negative territory in 2019-20 and 2020-21. This was a reflection of the COVID lockdowns affecting the efficient use of capital by businesses.

Chart 6: Labour and Multifactor Productivity

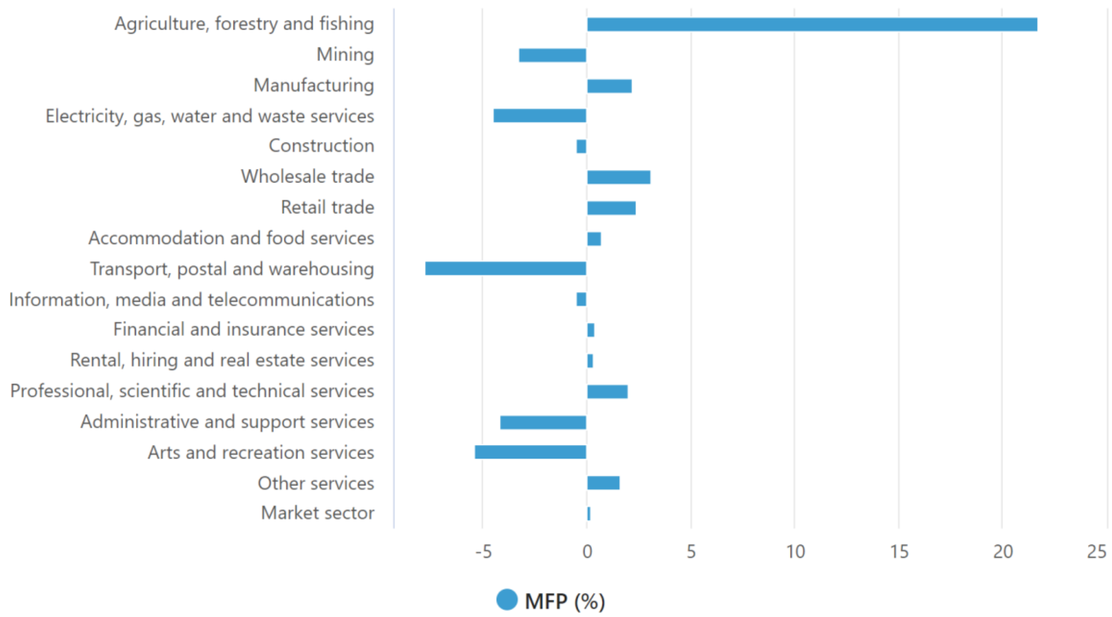


Source: ABS 2021 *Estimates of Industry Multifactor Productivity*, 2020-21 financial year.

110. Five of the seventeen industries experienced a contraction in multifactor productivity over the 2020-21 financial year, with the largest falls in transport, postal and warehousing industries (-7.8%), arts and recreation (-5.8%) administrative and support services (-4.8%).[44] While other industries have improved, there is, again consistent theme, as noted again by MFP, that some, if not all, key award-reliant industries are struggling on most metrics.

[43] ABS 5206.001 National Accounts: National Income, Expenditure and Product, December 2021.
[44] ABS 5206.001 National Accounts: National Income, Expenditure and Product, December 2021.

Chart 7. MFP Growth – hours worked basis



Source: ABS 5260.055 Estimates of Industry Multifactor Productivity, 2020-21.

111. The Productivity Commission has been asked to review Australia's productivity performance and recommend an actionable roadmap to assist governments to make productivity-enhancing reforms. The report is the second in a series, undertaken at 5 yearly intervals. In its first productivity review in 2017, *Shifting the Dial*, the Productivity Commission noted that:

> Between now and the next of these Reports in 2022, income growth in Australia is likely to be about half of historical levels. The offset to the factors behind this…can only be higher productivity. Nothing else is capable of making a difference.[45]

112. This prediction was prior to the global pandemic, significant labour shortages, and a world in continuous flux from exogenous shocks such as geopolitical tensions, that has made the prospect of achieving higher MFP and labour productivity significantly harder.

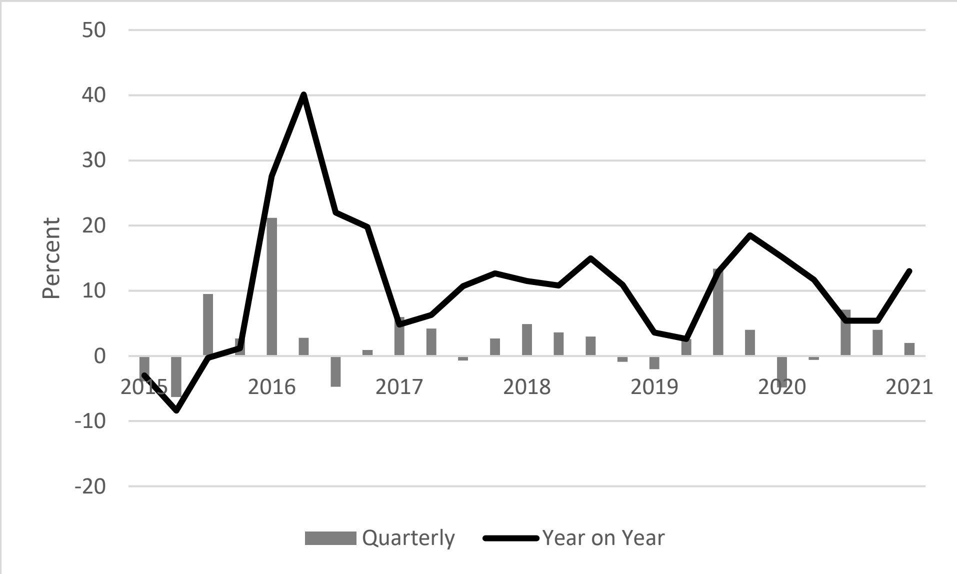
113. It is essential that in this year's Annual Wage Review decision, the Panel does not further decouple wages growth from genuine productivity improvements. Given the weakness of MFP and labour productivity growth in recent years, with both MFP and labour productivity contracting in 2018-19 and remaining anaemic in 2019-20 and 2020-21, an undue or inflated increase in minimum and award minimum wages cannot be justified.

3.6 Business Competitiveness and Viability

114. Company gross operating profits (CGOP) rose 13% year on year but on a quarterly basis there are significant signs of weakness. CGOP continued its declining trend, rising by only 2% in the December quarter 2021. This was in line with wages growth, which increased 1.9% in the December quarter.

[45] Productivity Commission 2017, Shifting the Dial: 5 Year Productivity Review, Report No,84, Canberra

Chart 8: Company Gross Operating Profits



Source: ABS 5676.001 Business Indicators, Australia, December 2021.

115. Across the main award related industries CGOP fell in the administration and support services (-15.8%), accommodation and food services (-11.2%), arts and recreation services (-2.3%) and construction (-0.9%) sectors, while modest growth was observed in retail trade (+2.5%) and other services (+2.6%).

116. It's clear across a range of economic indicators that a number of industries are still genuinely struggling. The emergence of new variants of COVID-19 (such as Omicron), labour shortages, and pandemic induced spending lockdowns are still playing out while other industries have been far less effected. In would not be reasonable for the Panel to conclude or proceed on the basis of a broad-based recovery when these industries have not recovered and are significantly lagging those that have recovered.

117. Assumptions of a broad-based recovery, or of sustained recovery, need to be tempered by epidemiological and geopolitical uncertainties, coupled with the as yet unknown impacts of the flood crisis in Queensland and NSW.

3.7 Inflation

118. Until very recently, inflation was very low, tracking well below the Reserve Bank's target range of 2%-3%. On an annualised basis, inflation was outside the target range for the five years from December 2014 to March 2021.

119. However, inflation has grown rapidly in 2021. Headline inflation rose 0.8% in the September quarter and 1.3% in the December quarter to an annualised rate of 3.0% and 3.5% respectively.

120. While inflation in Australia remains well below that of other advanced economies, such as the United States, United Kingdom, European Union, inflation is now well above pre-COVID levels. Several factors are contributing to this increasing inflation, including the ending of government support measures, such as free childcare; surging fuel prices; rising materials costs in the construction of new dwellings; supply chain disruptions and higher international shipping costs putting upward pressure on the costs of imported durable goods (particularly furniture, motor vehicles and small electrical appliances). The conflict in the Ukraine is contributing to further increases in fuel prices and supply chain disruptions,

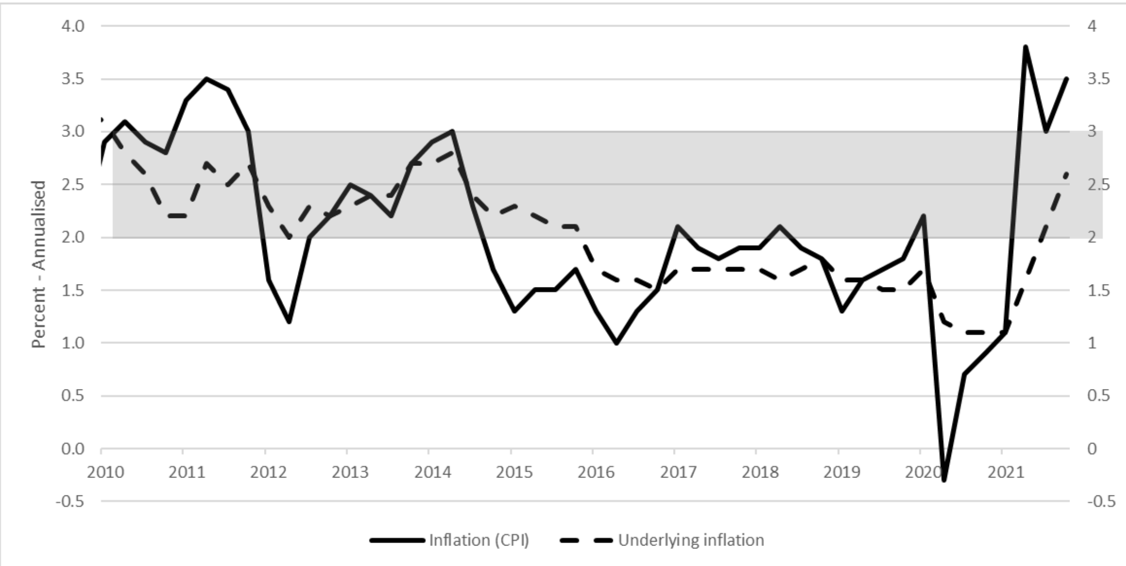
which is expected to lead to further growth in inflation in the first half of 2022. As we stress elsewhere in this submission, unexpected and rapid increases in fuel pricing are impacting all Australians, both employers and employees.

121. A better indicator of the prices consumers face is underlying inflation (or trimmed mean inflation), which strips out unusual 'one-off' price changes such as fuel costs. Underlying inflation also rose in the year to September (+2.1%) and December (+ 2.6%). Underlying inflation is now within the Reserve Bank's target range of 2-3%, but the Reserve Bank is maintaining the position that it will not move on raising the cash rate until it is clear inflation is sustainably within the target range. It points to ongoing uncertainty around the war in Ukraine and the risk of further COVID outbreaks as reason for caution, a caution we urge the Panel to also apply. However, it appears this may be tested sometime this year with its own forecasts projecting underlying inflation to increase to 3.25% by June 2022 before settling down within range at 2.75% thereafter.[46]

122. In a recent speech to the Australian Financial Review Business Summit, Reserve Bank Governor Philip Lowe defended the RBA position, stating that he is willing to wait before lifting interest rates. While the RBA is watching the impacts of Russia's war in Ukraine on petrol prices and in commodity markets more generally, he argued it was still unknown whether we are entering a period of ongoing inflation or a temporary/transitory increase.

123. Given the high level of uncertainty as to whether these impacts are likely to be ongoing or transitory, ACCI strongly recommend the Panel apply the same level of caution as the RBA in its decision on any increase in minimum and award minimum wages. There is a real risk that a premature or inflated increase in minimum wages will suppress growth and hold back the economic recovery.

Chart 9. Consumer Price Index



Source: ABS 6401.01 Consumer Price Index, Australia, December 2021.

[46] Reserve Bank of Australia, *Statement on Monetary Policy* February 2022

4. WAGES GROWTH

4.1 Introduction

124. While the impacts of the COVID Omicron outbreak are beginning to ease, problems that existed prior to the outbreak are becoming more intense, particularly for award reliant industries. Rising costs associated with supply-chain logistical backlogs and staff shortages, are contributing to delays in meeting demand, consequently pushing up costs.

125. With the prospect of new variants of COVID-19 emerging remaining a real possibility, now is not the time to increase burden on business, in particular not any manifestly risky or potentially damaging increase, or any failure to exercise due caution in the face of the unknown.

126. Legislated wage increases were strong in the years preceding COVID, far more than the WPI. The Panel should recognise these past increases in any decision and not simply look at the very recent increases in headline CPI as the proxy or basis for adjusting minimum wages or award minimum wages. We recall the Panel's repeated insistence that there is no automatic formula or determinism in how it approaches uprating minimum wages in these matters, and that applies equally to not jumping to meet what are likely to be temporary spikes in fuel pricing.

127. The Panel should be aware that any increase in minimum wages will have implications for inflation, which will add to significant cost pressures in many of the award-reliant industries, most notably, retail, accommodation and food services, arts and recreation services, and transport, postal and warehousing, which are still recovering from the COVID delta and Omicron outbreaks.

128. If an increase in minimum and award minimum wages is to be awarded it is also essential it take into account the 0.5% increase on 1 July 2022 of the Superannuation Guarantee (SG).

129. We will respond in further rounds of submissions to any such contentions that may be made by any participant in this review. Any interest advancing an argument in support of an inflated level of increase would need to, in addition to other burdens of proof and evidence, satisfy the Panel that such a course would be reconcilable with the statutory parameters for minimum wage setting under the Fair Work Act. ACCI maintains that this is not possible in 2022.

4.2 Wages Price Index

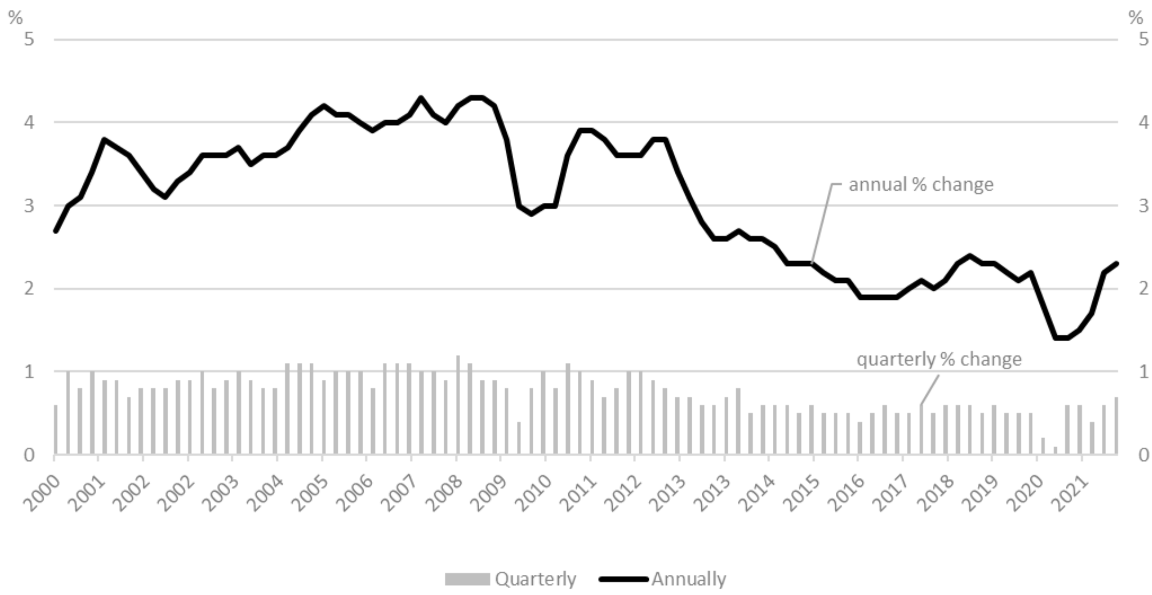
130. Wages growth has been on a steadily decline over the past decade, reflecting deteriorating labour productivity and benign inflationary expectations that have been anchored to relatively low headline inflation rates. Prior to the pandemic crisis, the wage price index had fallen from an annualised rate of 3.0% in March 2010 to 2.2% in March 2020.

131. Quarterly wages growth had remained relatively steady at around 0.5% per quarter since 2017. This changed as a result of the pandemic crisis lockdowns and trading restrictions, with the WPI rising by 0.2% in the June quarter then by only 0.1% in the September quarter 2020 due to falling aggregate demand, significant job losses, and delayed discussion on to enterprise bargaining based increases in wages.

132. On an annualised basis, the WPI fell to 1.4% in September 2020 – its lowest reading since the series began 20 years ago. This continued in the December quarter 2020, with the WPI remaining at 1.4% year-on-year, despite a quarterly increase of 0.6%.[47]

133. On a quarterly basis, the WPI rose to 0.7% (seasonally adjusted) in December quarter 2021. On an annualised basis, WPI has steadily trended up since June 2021 reaching 2.3% through the year to December 2021. This has returned the WPI to its pre-COVID trend level.

Chart 10: Wage Price Index



Source: ABS 6345.01 Wage Price Index, Australia, December 2021.

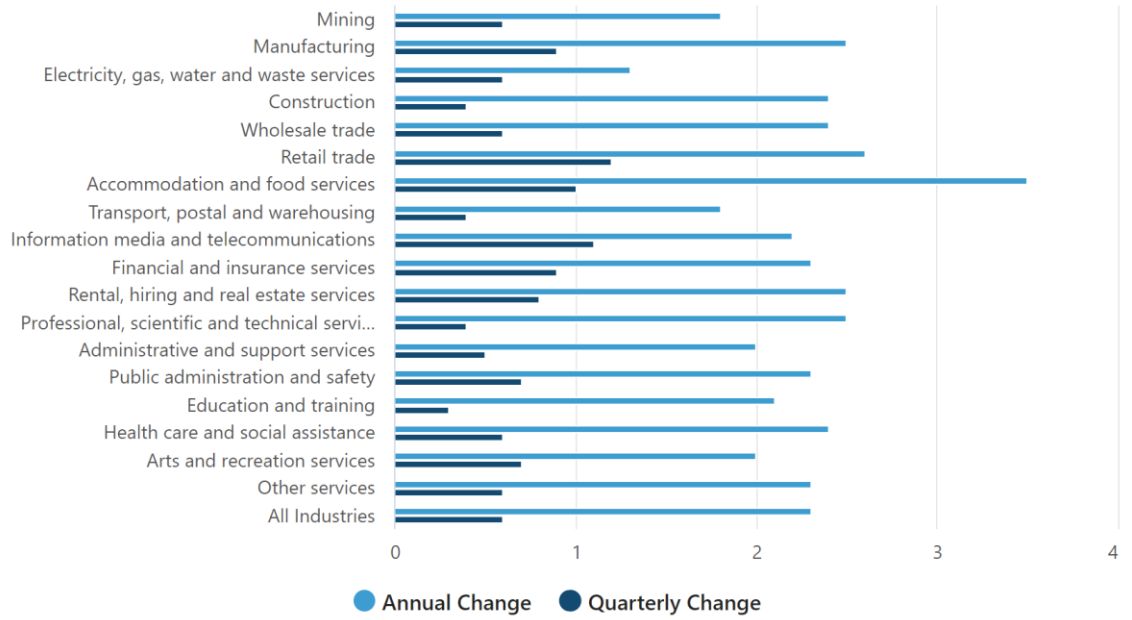
134. At an industry level[48], wages growth was strong in many award-reliant industries over the year to December 2021, including accommodation and food services (annualised rate of +3.5%), retail trade (+2.6%), arts and recreation services (+2.0) and transport, postal, and warehousing (+1.8%). This has in part related to catchup from very slow wages growth the previous year, but also the staggering of recent wage increases, as industries in the upper cluster, including accommodation and food services and arts and recreation, experienced two legislated minimum and award minimum wage increases in the 2021 calendar year – 1.75% on 1 February and 2.5% on 1 November 2021.

135. Businesses in these highly award-reliant industries are experiencing acute wages pressures, as well as labour and skills shortages, while at the same time being held back by the disruptions associated with the COVID outbreaks, such that they are not keeping up with their peers across a number of economic indicators (refer to the preceding Economic Considerations chapter).

136. The Panel should be mindful of the impact any increase in minimum and award minimum wages will have on these industries.

[47] ABS 6345.0 Wage Price Index. 24 February 2022. See also 2020 Statistical report. p. 21
[48] Annual and quarterly changes in rates of pay excluding bonuses

Chart 11: Wage Price Index by Industry – December 2021 (annualised/Dec quarter).



Source: ABS 6345.01 Wage Price Index, Australia, December 2021.

137. The recent increase in the WPI and forecast for further growth represents market forces acting as they should, with wages responding to labour and skill shortages and improving economic conditions. Yet, we are experiencing a multi-speed economy with some sectors doing better than others. The improving outlook for the WPI does not justify for an excessive increase in the minimum and award minimum wage. Many award-reliant industries are still feeling the impacts of the COVID disruptions and are not able to cope with a substantial increase in labour costs. It must be remembered that the minimum and award minimum wages represent the baseline or 'minimum' threshold for wages and where businesses are in a position to pay more, particularly in a tight labour market, they will.

4.3 Average Weekly Earnings

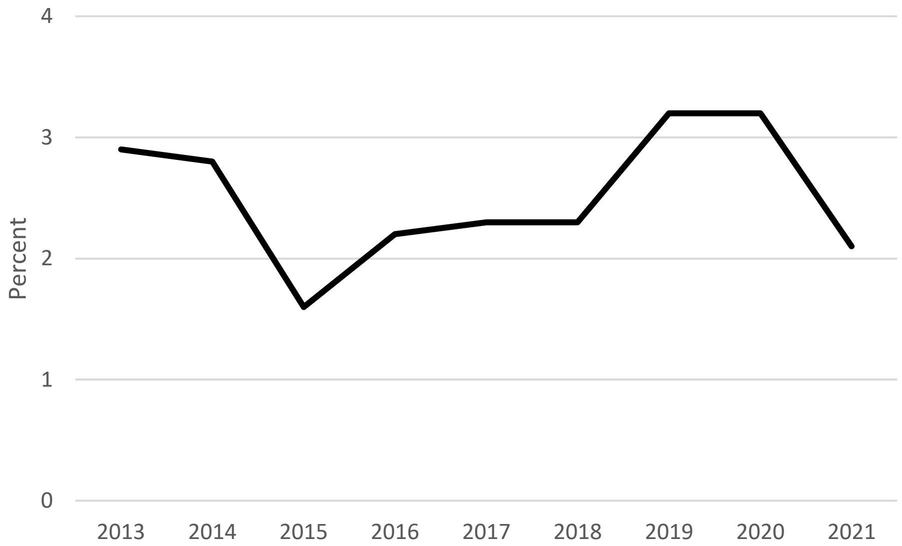
138. Full-time adult Average Weekly Ordinary Time Earnings (AWOTE) represent the average gross (before tax) earnings of employees. A drawback of AWOTE is that it is influenced by changes in labour composition, such that a larger proportion of workers with higher levels of education attainment or working in occupations such as management or professions will result in a higher AWOTE value. For this reason, AWOTE tends to be more volatile than the WPI.

139. In contrast to the 2.6% increase in the WPI, AWOTE rose 2.1% through the year to November 2021.[49] Similarly to the WPI, many award-reliant industries exceeded the national AWOTE (2.1%) through the year. AWOTE rose strongly for accommodation and food services (annualised rate of +5.0%) and the arts and recreation services also rose strongly (+5.4%). Again, yet this is related to the two legislated

[49] ABS 6302.002 Average Weekly Earnings Australia, November 2020. 25 February 2022

minimum and award minimum wage increases for these sectors in the past year, labour and skills shortages and catch-up from slower wages growth the previous year.[50]

Chart 12 – Average Weekly Ordinary Time Earnings, full-time adults



Source: ABS *Average Weekly Earnings, Australia* November 2021.

140. Further, these increases should be viewed with caution due to the way this data is compiled. The increase in average weekly earnings doesn't necessarily reflect an increase in wages at the individual employee level, or increased labour demand, it can be more reflective of compositional change in the wage and salary earner segment of the labour force.[51] This compositional change includes variations in the proportion of full-time, part-time, casual and junior workers, variations in occupations and variations in the distribution of employment between industries.

141. At the time of the November 2021 reading of AWOTE, 55% of businesses were operating under modified working conditions and 31% of businesses reported reducing working hours of staff, leading to a large compositional change in the labour market which had important implications for average weekly earnings.

142. The ABS notes, in November 2021 reference period, the pandemic impacts on some lower paid industries:

> The (the last pay period ending on or before 19 November 2021) fall after many of the Delta-related restrictions had been lifted and prior to the emergence of the Omicron variant. By November, employment had recovered to 1.4 per cent above March 2020, with further recovery in lower paid jobs (i.e. accommodation and food services, and arts and recreation sectors).[52]

143. Wages have been increasing not from the normal ebbs and flows of well-functioning labour markets but rather through the cycles of pandemic variants causing an unnatural friction in the labour market.

144. At the time of this first submission to the review Australia seems to continue to face rarefied and highly unusual circumstances, many of which do not provide an appropriate foundation for a significant wage

[50] Ibid
[51] ABS 2021 Spotlight - increases in average weekly earnings - compositional changes during the COVID-19 period.
[52] ABS 6302.002 Average Weekly Earnings Australia, November 2020. 25 February 2022

increase. This is yet another factor which leads ACCI to call on the Panel to exercise considerable caution in moderation in the face of unknowns.

145. The Panel should not entertain legitimising excessive minimum wage growth that does not follow the normal (non-pandemic) labour market justifications for such increases. Along with higher underlying inflation, caused in large part by the effects of the ongoing pandemic, the Panel would risk a wage increase further exacerbating cost pressures in award reliant industries. In so doing, the Panel would risk unwinding the shift into full-time hours within many lower paid industries.

4.4 Award minimum wages relative to average wages and inflation

146. It is important to note that over the past five years, minimum and award minimum wages have grown above both the wages of all other employees and inflation. When observed over the past five years minimum and award minimum wages have increased by 14.05%, compared to 10% increase in the WPI and an 9.9% increase in the CPI.

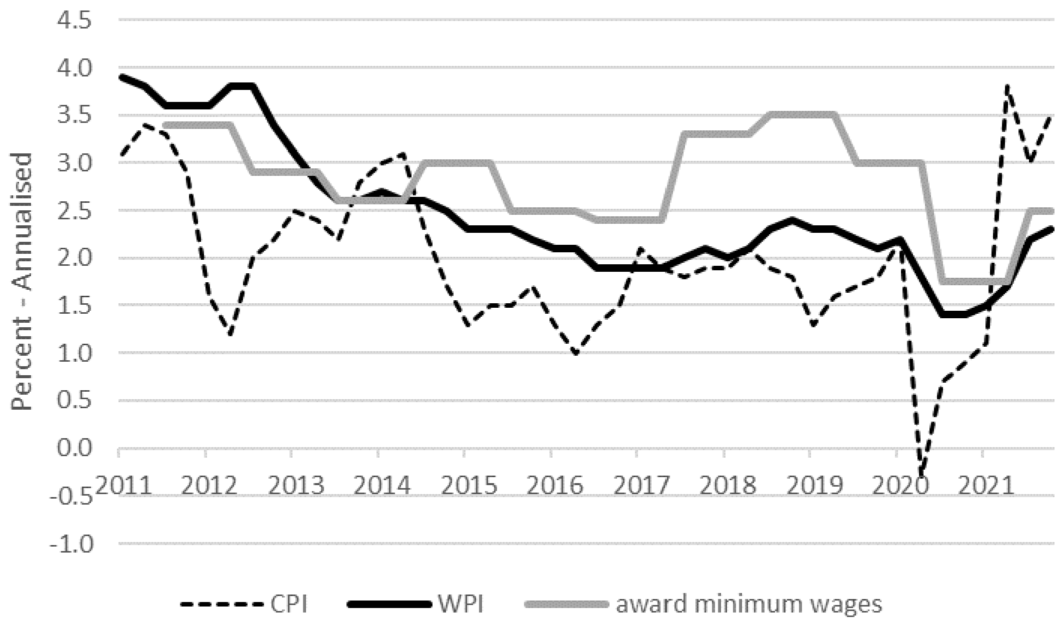
147. The Panel's decision to consistently provide increases in minimum and award minimum wages, over extended periods of time, above average wages growth and above the cost of living, exceeds its stated objective of maintaining real (inflation adjusted) wages of NMW and award-reliant employees.[53] It is well established that ACCI does not share the Panel's reading of the Fair Work Act as compelling this approach to increasing minimum and award wages in real terms.

148. Most relevantly in 2022 however, the approach taken in preceding years gives the Panel options. We urge the Panel to be mindful that award-reliant employees do not approach higher prices in 2022 following an extended period of flat wages. They are instead approaching higher price volatility with wages that have been artificially inflated in excess of inflation across two decades.

149. Whilst the Panel may have adopted a general stance or inclination towards awarding real wage increases in ordinary years, this is far from an ordinary year. The Panel has consistently emphasised that it does not have a mechanistic or formulaic approach, and that it adjusts to circumstances. Those adjustments in 2022 should include a recognition that minimum and award waged employees approach higher prices based on wages that have inflated in real value over time. The balance of considerations may require a decision that falls short of attempting to chase the transitory volatility in prices in the genuinely unique circumstances of early 2022.

[53] [2021] FWCFB 3500 at [137]

Chart 13: Comparison of Consumer and Wage Price Indexes, and Award Minimum Wage Increases



Source: ABS 6401.01 Consumer Price Index, Australia, December 2021 / ABS 6345.01 Wage Price Index, Australia, December 2021.

4.5 Wages Growth

150. Wages growth is one indicator in the broader macroeconomic environment, relevant to the considerations in s 284 of the Fair Work Act.

151. The RBA maintains its forecast of the unemployment rate being 3.75% by December 2022, and remaining at that level through to June 2024. Even then, it is not clear that the labour market will have tightened sufficiently to produce a strong pick-up in aggregate or macro wages growth.

152. The RBA notes:

> Growth in wages has increased a little, but so far only to the slow rates seen prior to the pandemic. Most employers in the Bank's liaison program are not anticipating wages growth to move beyond the 2 to 3 per cent range this year.[54]

153. This fits with the wider theme of uncertainty which ACCI argues favours genuine moderation and caution in 2022.

154. The RBA is forecasting year-end growth in the WPI of 2.5% by end of 2022 and is expecting it to increase to 3.25% over next few years.

155. Similarly, in the Mid-Year Economic and Fiscal Outlook, Treasury forecast is for wage growth to be 2¼% through the year to the June quarter of 2022 and 2¾% through the year to the June quarter of 2023.

[54] Reserve Bank of Australia 2022 Statement on Monetary Policy February 2022

Beyond the detailed forecast, wage growth is forecast to remain moderate, reaching 3¼% through the year to the June quarter of 2025.[55]

156. The RBA also notes that:

> As the unemployment rate declines, average earnings are forecast to increase at a faster pace than the WPI – the result of an increase in bonus payments, a larger share of hours being worked at overtime rates, and a pick-up in job turnover as workers are more willing to move jobs for higher pay. Increases in the superannuation guarantee rate over coming years are also estimated to increase average earnings growth relative to the WPI.[56]

157. Some argue the Panel should use these decisions to raise minimum wages for the lower paid, to drive wages growth more broadly. This is a false contention. Less than 1.7% of the workforce (or less than 225,000 employees) receive the minimum wage and only 23% of the workforce (or 3 million employees) receive award minimum wages. Therefore, any increase in minimum and award minimum wages will have only a minor influence (at best) in contributing to overall wages growth. At worst, it will distort the labour market, making it more difficult for lower skilled workers that rely on minimum and award minimum wages as an entry point, to enter the labour market.

158. The Panel should refrain from any extraordinary or inflated increase in minimum and award minimum wages, in 2022 in particular. Any wage increase should be more aligned to the growth in the WPI than average earnings growth as WPI wage growths that are more applicable to minimum wages and award minimum wages.

159. Further, any increases in minimum and award minimum wages should be discounted by the 0.5% increase in the 2022 SG, with clear productivity improvements outlined, to ensure that real (inflation adjusted) wages, on average, are maintained.

4.6 How Australia can sustainably increase wages growth, even in crises

160. As ACCI has repeatedly stressed in these matters, not only is it not the job of this Panel to seek to reverse or shift aggregate wage growth trends, but it's no longer possible given the level of award and minimum wage employment. The only consequence of attempting to do so would be to further harm award-reliant employers, employees and industries.

161. That said, ACCI would like to point to what is the only possible or sustainable "solution" on wages growth. We have to reverse our sclerotic productivity performance as a nation and drive higher wage increases in the tried and tested manner, through increasing productivity, as reward for doing things better and growing our businesses and economy as a whole.

162. As the world recovers from pandemic and war, and as a potential new global order and a new globalisation shakes out, it has rarely been more important in our history that productivity drive our economy and drive wages growth. This is the pathway to healthy inflationary and wage pressures, that extend jobs, particularly to our young people, and for increases our living standards in a sustainable manner. Productivity must be the tool we use to stake out our place in a changed and changing world and seize the opportunities that geopolitical disruption will create for Australia.

[55] Australian Government 2020, Mid-Year Fiscal and Economic Outlook 2021-22 (Reviewed, 15 March 2022)
[56] Reserve Bank of Australia 2022 Statement on Monetary Policy February 2022 (Reviewed, 15 March 2022)

163. The Panel and its precursors have consistently made clear that they administer minimum wage uprating functions under the Fair Work Act, and its precursors, within a statutory lane or mandated responsibility. It is not the job of the minimum wage setter to counteract or correct for the operation of other parts of the legislation, or to correct the errors or omissions of the Parliament in taxes, transfers etc.

164. That said, in the spirit of coming forward with our 'solution' to wages growth, Australia is not going to get anywhere near the productivity performance we need without enterprise bargaining being able to deliver on the role it is designed to play under the Fair Work Act.

165. While bargaining is not the sole determinant of productivity under our complex economy, it was designed to be the beating heart of productivity growth for most Australian working people. Unless we start to take practical measures to get enterprise bargaining off the triage gurney and back onto its feet, such as those not passed in the *Fair Work Amendment (Saving Australia's Jobs and Economic Recovery) Bill 2020/21*, we will not see a return to longer term trend levels of wage growth.

5. SUPERANNUATION GUARANTEE

5.1 Progressive Superannuation increases

166. ACCI notes that the legislated increase in the Superannuation Guarantee (SG) from 10% to 10.5% will take effect from 1 July 2022.

167. Under the legislation the SG will increase progressively by 0.5% each year from 9.5% on 1 July 2021 to 12% by 1 July 2025, as shown in the table below:

Period	Super Guarantee rate (p.a.)
1 July 2021 to 30 June 2022	10.00%
1 July 2022 to 30 June 2023	10.50%
1 July 2023 to 30 June 2024	11.00%
1 July 2024 to 30 June 2025	11.50%
1 July 2025 to 30 June 2026 and onwards	12.00%

168. Prior to 1 July 2021, the last SG increase was 1 July 2014 (from 9.25% to 9.50%) and before this 1 July 2013 (from 9.00% to 9.25%).

169. The SG is calculated as a percentage of an employee's earnings, indicating that each increase in the SG effectively provides employees with a 0.5% wage increase (albeit as a deferred benefit) each year over the next four years.

170. The Superannuation Guarantee increase will flow through to labour on-costs, raising the cost of doing business and further fuelling inflationary pressure.

171. The RBA (2022) notes that:

> Information from the Bank's business liaison program had suggested that firms were increasingly prepared to pass these higher costs onto their customers…[57]

172. Overall, this results in a zero-sum gain for award reliant employees, with the cost of higher wages passed on to the consumer through higher prices, such that rising inflation offsets any increase in wages.

173. The 1 July 2022 SG increase, comes at a time of the multiple risks and uncertainties outlined in this submission. Many award-reliant industries are already under pressures from acute skilled labour shortages, COVID-Omicron, and, on the east coast of Australia, the flood crisis.

[57] Reserve Bank of Australia (2022) Minutes of the Monetary Policy Meeting of the Reserve Bank Board (March 2022)

5.2 Superannuation for low-income earners

174. There is a double change in superannuation, and a double impact on some award reliant employers. The *Treasury Laws Amendment (Enhancing Superannuation Outcomes For Australians and Helping Australian Businesses Invest) Bill 2021* was passed on 10 February 2022[58].

175. Until now, employers were not required to make SG contributions if an employee earns less than $450 in a calendar month.[59] From 1 July 2022, the $450 threshold will be removed. The burden on employers will further increase as they make SG contributions regardless of how much the employee earns.

176. The Australian Government estimates that these changes will impact around 300,000 low-income employees mostly within award reliant industries.[60]

177. Of all the upcoming super changes, this will have the most significant impact on employers' costs, as the labour on cost of part-time an casual employees with an income below the $450 per month threshold will increase by 10.5% in line with the Superannuation Guarantee.

5.3 Establishing a quantifiable reduction

178. ACCI notes that in previous decisions, the FWC has taken increases in the SG into account with reductions in the overall increase in the minimum wage decision, but has stopped short on providing any quantifiable figure to the extent minimum wages were factored into the increase:

179. In the 2021-22 decision, the FWC notes:

> Consistent with the position taken in past Review decisions, the Panel has taken the 0.5 percentage increase in the Superannuation Guarantee rate into account in determining the level of increase in the minimum wages…, but has not applied a direct, quantifiable, discount to the minimum wage increase.[61]

180. The Panel applied similar reasoning on changes in SGA superannuation in the 2013[62] and 2014[63] Review decisions. The Panel, for example, declined to apply "a direct, quantifiable, discount to the minimum wage increase,"[64] based on the 2013 increases in the SG.

181. The Panel, at the time, under the still operative legislative parameters concluded:

> The SG rate increase to apply from 1 July 2013 is a moderating factor in considering the adjustment that should be made to minimum wages. As a result, though it would not be appropriate to quantify its effect, the increase in modern award minimum wages and the NMW we have awarded in this Review is lower than it otherwise would have been in the absence of the SG rate increase.[65]

[58] Australian Government (2022), Parliament of Australia.
[59] Australian Taxation Office
[60] Australian Government (2021), 2021-22 Budget Measures, Budget Paper No.2, 11 May, p26
[61] [2021] FWCFB 3500, from [56]
[62] [2013] FWCFB 4000, from [333]
[63] [2014] FWCFB 3500, from [273]
[64] [2013] FWCFB 4000, [359]
[65] [2013] FWCFB 4000, [360]

182. Any increase in modern minimum wages in this year's 2022 Review decision should again be moderated or factored downwards by the SG rate increase. It would be very useful, were the Panel willing, to quantify the increase and its adjustment of the increase for the rise in the SG in this year's Decision.

183. ACCI emphasises that the progressive increases in the SG rate each year to 1 July 2025 are additional imposts to employers in a very difficult economic environment. Employers will be forced to apply a wage increase from 1 July 2022 even were the Panel to decline to award any increase in the actual minimum wage rates. This needs to be materially and genuinely taken into account, and ideally there should be more specificity and communication on how this is taken into account and how superannuation moderates what is awarded.

6. LABOUR MARKET CONSIDERATIONS

184. The labour market, impacts on employment, unemployment, participation, which are major considerations for setting national minimum and award minimum wages in these reviews.

185. The Panel is directed to consider impacts on employment and the labour market by the various considerations in the Fair Work Act 2009, including:

 a. The need to promote "economic prosperity and social inclusion", s.3.

 b. The Modern Awards Objective, s.134(1)(c) and (h).

 c. The Minimum Wage Objective, s.284(1)(a) and (b).

186. The importance of considering impacts on jobs when varying minimum wages directly informed the drafting of the relevant provisions of the Fair Work Act 2009.

187. This consideration also arises from Australia's treaty obligations, which have in part been codified into the Fair Work Act 2009 and the provisions that are balanced in these matters. Article 3 of the ILO's Minimum Wage Fixing Convention, 1970 (No. 131)[66], sets out the considerations (elements) that should be taken into account in setting and varying minimum wages, which clearly includes the importance of jobs:

> *Article 3*
>
> *The elements to be taken into consideration in determining the level of minimum wages shall, so far as possible and appropriate in relation to national practice and conditions, include--*
>
> *(a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups;*
>
> *(b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.*

188. The Panel looks closely at labour market considerations in these reviews, including employment and hours worked, unemployment and underemployment, participation, and labour market transitions.

6.1 Employment

189. The Australian labour market continues to strengthen, despite significant setbacks and uncertainties since the 2020-21 Annual Wage Review decision. However, there are numerous realistically foreseeable factors that could setback or unravel a strengthening domestic labour market. These setbacks include:

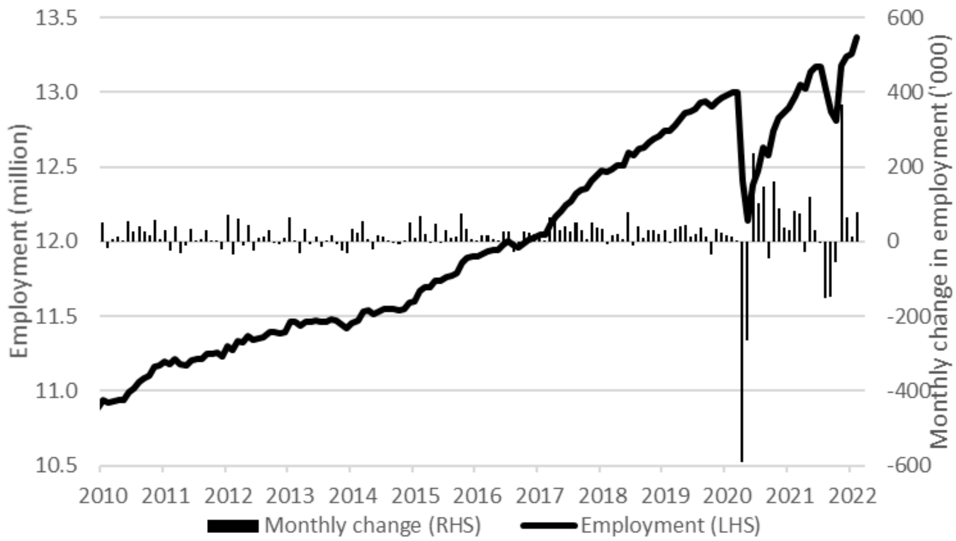
- New variants of Covid-19, border closures, state-enforced lockdowns or high infection rates leading to shadow lockdowns,
- rising input costs,
- supply-chain logistical backlogs,

[66] Ratified by Australia, 15 June 1973

- skilled labour shortages,
- floods,
- increasing geopolitical tensions particularly the conflict in Europe, and tensions with China.

190. ABS Labour Force data shows employment numbers rose above pre-COVID levels, with close to 13.4 million people employed in February 2022. However, we need to approach these numbers with substantial caution. Overall 202,000 jobs have been created since June 2021. However, there were large falls in employment in August 2021 (-149,900) and September 2021 (-145,900) and October (-50, 400). These were offset by a strong rebound (372,500) following the reopening from the COVID delta lockdowns in November 2021, and more modest growth in subsequent months (70,900 in December, 28,300 in January 2022 and 77,400 in February).

Chart 14: Employed People



Source: ABS 6202.001 Labour Force, Australia, February 2022.

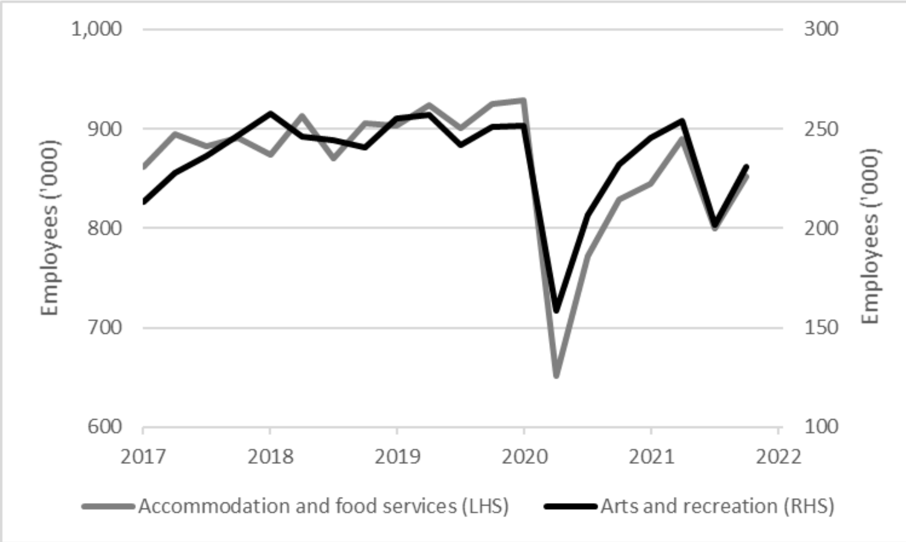
191. At best the employment data is highly volatile and uncertain, with large movements in the employment associated with COVID outbreaks and the subsequent recovery.[67] It remains to be seen what the volatility arising from a land war in Europe may be, but there is reason to consider it may be significant.

192. In many industries employment numbers and associated growth rates have been variable and uncertain, and there is every reason to conclude this remains the case.

193. Both accommodation and food services and arts and recreation employment levels have not returned to their pre-COVID levels. Accommodation and food services remain down 7.8%, while arts and recreation services declined 8.0% over the period from November 2019 to November 2021.

[67] ABS 6202.001 Labour Force, Australia, February 2022 (Reviewed 17 March 2022).

Chart 15: Employment in Industry Sectors Most Impacted COVID-19 Restrictions



Source: ABS 6291.004 Labour Force, Australia, Detailed, November 2021.

194. As noted in Yuen and Cumming (2021), employment losses during the COVID pandemic were largest in accommodation and food services (31.4%), arts and recreation services (35.9%), as these sectors were significantly impacted by restrictions on business operations. These sectors comprised almost half of the total jobs lost between March and May 2020.[68] Further, of those who lost jobs in the arts and recreation sector almost four in ten left the workforce in this period, while in accommodation and food services one in three left the workforce. This was three times larger than the average for all sectors.[69]

195. Yuen and Cumming's analysis also shows that less than four in ten workers returned to the same industry and same occupation, with 52% of workers, that lost their job, returning to work in a different occupation and 55% returning to work in a different industry.[70]

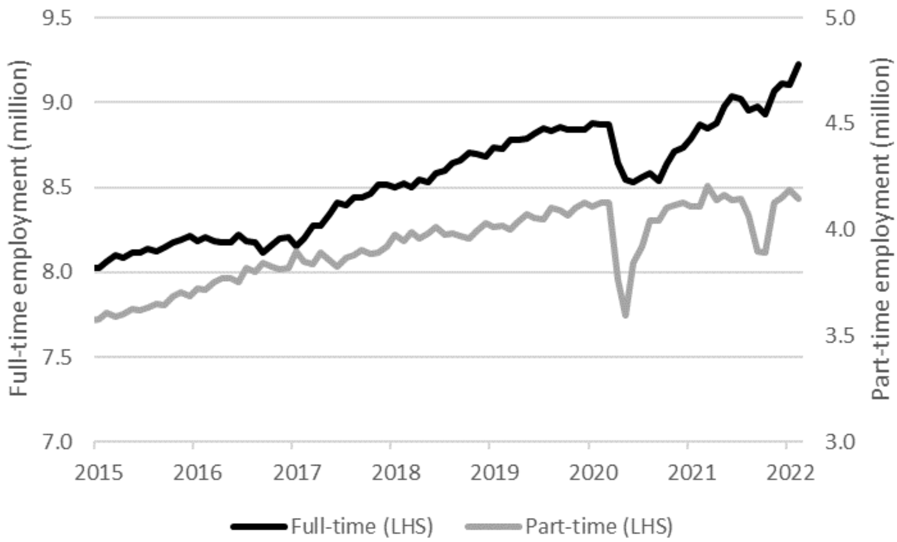
196. The Panel should take into account that the most award-reliant industries are also those with the slowest recovery in employment. Any decision by the Panel to raise minimum and award minimum wages will weigh further on the recovery in employment or potentially add to uncertainty. As noted previously, the accommodation and food services, and the arts and recreation services, relative to other industries, have not returned to normal with declines of -4% and -8%, respectively, over the period from February 2020 to February 2022.

6.2 Full-time and Part-time Employment

197. Full-time employment in February 2022 was 9.23 million, up 361,400 since the beginning of the COVID crisis in March 2020. In comparison, part-time employment is essentially remained unchanged at 4.14 million. Overall, the part-time share of total employment has dropped 0.8 points to 31% since the beginning of the COVID pandemic in March 2020.

[68] Yuen K. and Cumming P. 2021 Labour market transitions of workers during COVID-19. Fair Work Commission Research Report 2/2021
[69] Ibid
[70] Ibid

Chart 16: Full-time and part-time employment



Source: ABS 6202.001 Labour Force, Australia, February 2022.

198. In the current tight labour market, there appears to be a stronger propensity to employ full-time rather than part-time or casual employment.

199. In the initial stages of the recovery, full-time lagged part-time employment growth. Due to uncertainty, many businesses were only prepared to rehire workers on a part-time basis. Some of this was casual engagement, which was essential for giving employers flexibility in uncertain times. However, in latter periods of the recovery full-time employment has been stronger. With the exception of the sharp downturns associated with the initial and delta strain COVID lockdowns, part-time employment has been at best static and has not returned to trend.

200. With full-time employment increasing in by 122,000 and part-time employment decreasing 44,500 in February 2022, it is expected the momentum towards full-time employment will continue in 2022. The tight labour market motivating employers to offer full-time over part-time employment to compete with other industries.

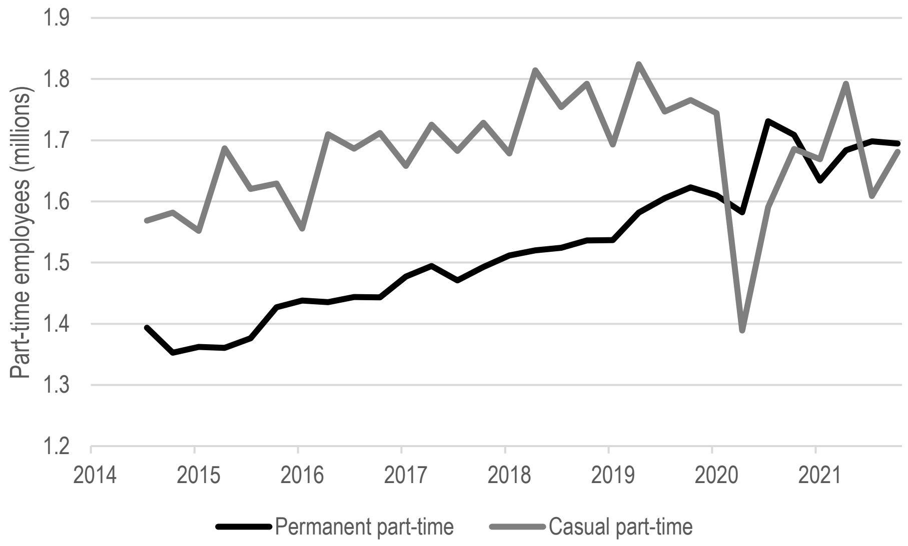
6.3 Casual Employment

201. While there has been much discussion of an increase in casual employment (so-called casualisation [sic]), the data does not support this view.[71] Over the past five years part-time permanent employment vs part-time casual employment has had similar magnitude in employment numbers, but compositionally part-time casual employment has declined in real terms, while part-time permanent employment has maintained its steady upward trend over the COVID crisis period.[72]

[71] Permanent part-time employees are defined from the ABS data as *employees with paid leave entitlements*, whereas casual employees are *employees without paid leave entitlements*.
[72] There is a small share of casual full-time employees (11% of full-time employees), compared to around half of part-time employees. Overall, the majority (two thirds) of casual employees are employed part-time.

202. We would add our understanding that this was never a germane consideration for these reviews, and that essentially the Panel must remain agnostic as to the particular forms of employment that may or may not be created in Australian workplaces.

Chart 17. Part-time employment – Permanent and Casual



Source: ABS 6291.001 - EQ07b - Employed persons by Industry division Labour Force (Detailed) November 2021.

203. The portion of those in part-time permanent / ongoing employment increased from 48% in February 2020 to 50% in November 2021, while part-time casual employment fell from 52% to less than 50%, respectively. This is largely due to the COVID crisis, as businesses were prompted to increase the permanent labour force to retain their employees. It is expected this trend will continue over the long term.

204. This relative decline in casual employment over the COVID crisis, also reflects:

a. The industries most impacted by COVID downturn, closures and uncertainty being those with strong traditional reliance on casual employment, such as accommodation and food services and arts and recreation services.

b. The nature of casual employment and its inherent adjustment to the cycle nature of demand.

205. Despite employment returning to its pre-COVID level, casual employment remains well below trend levels leading into the crisis and appears set to remain below trend over the 2022.

6.4 Unemployment and Underemployment

206. With the rebound in employment, there has been a notable improvement in the unemployment rate. After peaking at 7.5% in June 2020, unemployment has fallen to 4.0% in February 2022.

207. While the steep decline in the unemployment rate is exceeding all expectations, it is driven by a confluence of economic factors that are causing large swings around normal equilibrium conditions.

208. The economic stimulus provided to support the economy through the COVID crisis has been centred around job creation and maintaining the connection between employers and their employees. This has ensured that following major COVID outbreaks, when cities go into lockdown and businesses are forced to close, business are well positioned to reengage their employees and reopen quickly.

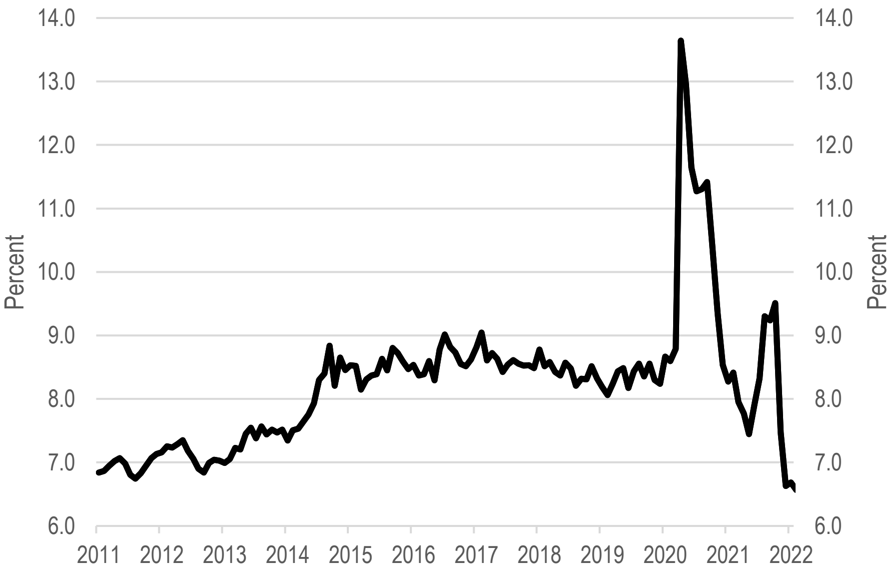
209. In addition, international border closures have contributed to skill and labour shortages, reducing the flow of skilled migrants, backpackers and seasonal workers.

Chart 18: Unemployment

Source: ABS 6202.001 Labour Force, Australia, February 2022.

210. Similarly, after peaking at 13.8% in April 2020 at the depth of the COVID crisis, underemployment has steadily declined to below pre-COVID levels, falling to 6.6% in December 2021 and again in February 2022.

Chart 19: Underemployment



Source: ABS 6202.023 Labour Force, Australia, February 2022.

211. Overall, the underutilisation rate of 10.6% (4.0% unemployed plus 6.6% underemployed) remains absolutely (and unacceptably) high and represents considerable potential slack in the labour market, noting that for some cohorts such as young people the underutilisation rate would be considerably higher.

6.5 Labour market transitions

212. As ACCI has emphasised in previous submissions, in determining any increase in minimum wages, the Panel should consider the important role of the minimum wage as a stepping-stone to higher paid employment, enabling young and inexperienced workers to access the workforce and gain the experience necessary to build a career.

213. Analysis by Wilkins and Zilio 2020 observing *low-paid award-reliant employees* identified that 39.1% move to higher paid employment within one year, 56.8% move after 2 years and almost 80% have moved after 5 years.[73]

214. ACCI reiterates the point made in previous submissions that the minimum wage should be set at a level that encourages business to employ more workers and maximises the opportunity for new workers to enter the workforce, and then progress, often to more highly paid work.

215. It is not the role of the minimum wage to provide a welfare safety net, nor a safety net inflating in value, to a very small proportion of the workforce that are unable to transition from the minimum wage to higher paid work. These people are best supported by other means, through the welfare system and/or through the education and training system (transfer support which is considerable in Australia).

216. We again encourage the Panel to review its long-standing position on the role of the minimum wage in maintaining or enhancing the living standards of the low paid, taking into consideration that:

   a. Successful labour market transitions, into work and from lower paying employment to higher paying employment, are critically important for living standards and individual life course trajectories.

   b. The uprating of minimum wages in these reviews should not have effect of making these transitions more difficult or discouraging employers from offering higher paying work.

217. We make this submission in the context of significant additional concerns on the labour market scarring effects of the COVID induced pandemic, particularly for our young people and the young unemployed. This is an ongoing or lagging challenge, which remains acute for cohorts of concern even as overall recovery and reversal of declines are realised, and it will be with us even if COVID were 'cured' tomorrow. There is substantial concern for young people unemployed and those in early careers, to ensure they can enter work and proceed in work, and do not become the long-term victims of pandemic induced recession.

[73] Wilkins R. and Zillio F. (2020), *Prevalence and Persistence of Low-Paid Award-Reliant Employment* Fair Work Commission Research Report 1/2020, February. p.35

6.6 Employment Effects

218. The Panel, and the preceding minimum wage setting bodies, have for many years considered the relationship between minimum wage increases and employment. This is an area of some research interest, albeit that there is some debate on the relevance of international experiences and conclusions to Australia's idiosyncratic minimum wage system (which has for example more than 2000 minimum wage rates and minimum wages across much of the wages distribution in any industry, not the single rate applicable in many other developed countries).

219. Over a series of submissions ACCI has indicated to the Panel that:

a. The circumstances of the small businesses that overwhelmingly pay minimum wage rates must be taken into account in considering proposals to increase wages by significant amounts.

b. Small, award-reliant businesses that run on lean margins and are unable to pass on sizeable increases to consumers, may need to cut costs by either reducing headcount and hours, substituting capital for labour or substituting proprietor labour for employment in the smallest businesses. It is very possible that short-term gains in the earnings of those who remain in employment come at the expense of those who are negatively impacted, with broader economic and human consequences.

c. Many award-reliant businesses operate in a highly competitive environment and are unable to pass on increased costs.

d. Increasing wages excessively risks discouraging investment and entrepreneurship.

e. Wage increases that are not supported by higher productivity or higher prices for consumers, are far more likely to cost jobs.

f. To the extent that international research demonstrates negative employment impacts caused by minimum wages overseas and their uprating, these impacts may be compounded in Australia due to our higher statutory minimum wages.

7. LIVING STANDARDS / NEEDS OF THE LOW PAID

7.1 Introduction

220. ACCI maintains that minimum wage fixation alone is not an effective way of addressing the needs of lower income households. The tax and transfer system is better targeted to address the actual circumstances of lower income households and is a superior means to provide necessary support, as is recognised by our transfers system.

221. As we have argued for some years, it cannot be assumed that lower paid employees necessarily reside in lower income households. Previous research for the Annual Wage Review has shown that:

a. Minimum wage earners are found throughout the distribution of household income and over half were not the primary earner in the household, with a large share of minimum wages workers dependent students (17%), non-dependent children living with their parents (17%) or were secondary earners in couple households (21%).[74]

b. A large proportion of minimum wage earners work part-time (77.2%) or casually (79.6%).[75]

c. While there is a higher proportion of minimum wage earners among low-income households (44% in the bottom 3 deciles), when compared with the wider population, lower income groups are dominated by the unemployed and those outside the labour force.[76] This limits the effectiveness of wage setting in the context of the needs of the low paid, and renders the Decision of the Expert Panel a very poor mechanism to attempt to address the needs of the lower paid.

222. Nevertheless, the minimum wages objective requires this consideration be taken into account in conducting Annual Wage Reviews.

223. The Panel has also clarified that the needs of the low paid and relative living standards cannot be the sole or determining considerations under the current legislation.

224. The Panel is required by both the minimum wages objective and the modern award objective to take into account relative living standards and the needs of the low paid when setting fair and relevant minimum wage rates. Those matters are different, but related, concepts and must be considered, together with the other matters in ss.3, 134(1) and 284(1) of the Fair Work Act 2009, in the context of available data and research.

225. ACCI has consistently argued that comparisons of 'relative living standards' should extend to those out of work, and to those in our community not participating in the labour market / not in employment.

226. We maintain the unemployed, small business proprietors, and welfare recipients should be included in any analysis for determining the NMW and award minimum wage rates under the Fair Work Act 2009, and the relative living standards of the lower paid.

[74] Yuen K., Ellis G. and Nelms L. 2018, *Characteristics of workers earning the national minimum wage rate and of the low paid*, Fair Work Commission, Research Report 3/20, 18 Feb 2018.
[75] Ibid
[76] Ibid

227. ACCI notes that again much of the information provided in Section 8 of the Statistical Report is dated and is no longer relevant in considering relative living standards.[77] Of course data can be brought forward only if it is available, but paucity of up to date data in highly changeable circumstances should additionally compel caution.

7.2 Award reliant employees and the low paid

228. In the 2021 Decision, the Panel noted that it consistently adopts, the:

> threshold of two thirds of medium adult full-time ordinary earnings as the benchmark we use to identify who is 'low paid'.[78]

229. However, this appears to be completely arbitrary, and there is no clear explanation given in this research, the research referenced, or earlier Decisions why two thirds of median earnings is any more representative of the low-paid than any other number. The fact that it was chosen for advocacy in the United Kingdom is of no relevance in Australia given our completely different history and practice in regard to minimum wages.

230. The pure fact that two thirds of median earnings reflects the campaign goal of some seeking minimum wage increases does not make it a valid assumption or comparator in Australia. This should not be accepted uncritically.

231. We note that the threshold chosen in defining the low paid will greatly influence the findings of any research, but for want of a more appropriate measure of low paid, we can engage with the results of research undertaken or presented on the basis of this proxy or illustrative point. To us, it is no more than that, an illustrative proxy tool.

232. Wilkins and Zilio (2020) note that the definition of low paid employment does not have unanimous consensus.[79]

233. The research by Wilkins and Zilio makes a clear distinction between award reliance and low-paid employment and the overlap between the two. It shows in 2018, while 14.2% of employees were low paid and 16.2% were award reliant, only 5.9% were *low-paid award-reliant employees.* It also shows a marked decline in *low-paid award-reliant employees* over the past decade, down from 7.5% in 2009, a decrease of 21%.[80] While this suggests living standards are improving ¸ it does not warrant further increases in minimum and award minimum wages to further reduce the pool of *low-paid award-reliant employees*.

234. The research also shows the characteristics of *low paid award reliant employees*, who are more likely to be in part-time jobs (58%) and/or in casual employment (66.5%).[81] They are more likely to be younger employees (29% between 20 and 25 years, and 60% between 20 and 35 years), suggesting they are more likely to be less experienced workers. They are living in couples (58.5%) or dependent students/non-dependent children (19.9%) still living with their parents.[82] Almost 60% of *low-paid award-*

[77] Particularly that related to the ABS Employee Earning and Hours survey and the ABS Household Income and Wealth survey, which were last updated in 2018. In addition, data from the *Household, Income and Labour Dynamics (HILDA) Survey* in Section 12 of the Statistical Report also refers to 2018 data and is of limited relevance in determining Financial Stress on households in 2021-22.
[78] [2021] FWCFB 3500, p.85, [137]
[79] Wilkins R. and Zillio F. (2020), *Prevalence and Persistence of Low-Paid Award-Reliant Employment* Fair Work Commission Research Report 1/2020, February.
[80] Ibid
[81] Ibid
[82] Ibid

reliant employees in couple households are secondary earners and a high proportion of all *low-paid award-reliant employees* receive Government welfare benefits (25%) that supplement their lower income.[83]

235. *Low-paid award-reliant employees* are most concentrated in accommodation and food service (20.8%), retail trade (18.4%), healthcare and social assistance (13.6%), manufacturing (10.3%) agriculture, fisheries and forestry (5.9%) and administration and support services (5.8%) relative to other wage/award classifications. Also, they have a lower educational attainment and are more likely to be labourers, sales workers and technician and trade workers (which seems axiomatic given award classification structures). They are more likely to be employed by small or micro businesses, and to have been with their current employers and in their current occupation for a shorter period of time (supporting the role of minimum wages being transitional or springboards to higher rates).

236. In determining this Review, it is important the Expert Panel realise changes to award and minimum wages will have only a very limited impact on household disposable income and poverty levels in Australia. It is far more effective to improve the situation of households with low disposable income through:

    a. the tax and transfer system; and
    b. balanced decisions which support job creation, with jobs clearly the best measures to counteract poverty.

7.3 Household Disposable Income

237. Equivalised household disposable income is used in analysis of the living standards of minimum wage employees. This observes both labour market earnings and income from other sources, as well as the net impact of the taxes and transfers, by household type.

238. ACCI supports minimum wages being set at levels that enable a worker to maintain a reasonable standard of living and not be in a position of being the 'working poor', noting that Australia does not have a single minimum wage, but a range of minimum wages across much of the market wage distribution in award reliant industries. However, we do not agree that an arbitrary 'poverty line' at 60% of the median income of all employees is an appropriate measure of what is needed to maintain a reasonable standard of living in Australia. This claim or assumption cannot be sustained without further evidence and would need to be tested against other data sources or approaches without appearing to be unbalanced. The 60% figure is at best an arbitrary measure employed for illustrative convenience, to facilitate analysis. We understand the Panel to have found as such across recent reviews.

239. That said, the following examines household income in Australia relative to the data presented in the 2021-22 Statistical Report using this arbitrary, illustrative 'poverty line'.

240. Over the year to July 2021, all minimum wage reliant household types, received an increase in nominal disposable income of 1.7% or more.[84] A dual-earner couple received 2.3% while a single adult received 2.2%. The exception were households with one or more children that received in a range from 1.7%-1.9%.

241. All household types retained a greater share of their increase in the minimum wage than in previous years. A single parent working part-time (1 child) and a single parent working part-time (2 children) both

[83] Ibid
[84] Statistical Report – Annual Wage Review 2021-22, Table 8.4

retaining 100% of the increase in the minimum wage. The medium national minimum wage retained was 83.5%.[85]

242. Dual-earner couples with children retained a lower share at 61.1%, up slightly from last year, but significantly more than the minimum wage retained (55%) in 2020.[86] Similarly, households reliant on the JobSeeker supplement retained a lower share of their minimum wage increase (highest 32.2% single-earning couple 2 children) relative to last year, but this was considerably better than the less than 16.8% retained in 2019.[87]

243. The lower retention of the national minimum wage increase for dual earner couples with children and households reliant on the JobSeeker supplement, is related to the structure of the tax and transfer system. It is not appropriate to use the minimum and award minimum wages to offset changes in the tax and transfer system, nor can a basis for this be found in the Fair Work Act. ACCI understands that the panel and each of its antecedents setting minimum wages have declined to counteract tax and transfer settings.

244. The disposable income as a proportion of minimum wage income (as a ratio of 60% of the medium income — the arbitrary poverty line on a hypothetical household) is above last year's ratio, for all household types, but has shown a moderate increase over previous years.[88]

245. The March 202 Budget included a number of temporary measures in the 2022-23 financial year to ease cost of living pressures, particularly for low-income households. These include:

    a. A one-off cost of living tax offset of $420 for the 2021-22 income year, raising the low to middle income tax offset (LMITO) in 2021-22 to $1,500 for individuals and $3,000 for couples
    b. A temporary halving of the fuel excise, reducing it by 22.1 cents per litre
    c. An increase in the childcare subsidy for low-income families, bringing forward the 30% uplift in the childcare subsidy for parents with multiple children to 95% of childcare costs.

246. The contribution of these measures in reducing cost pressures and increasing the household disposable income of low-income households should be taken into consideration by the Panel in its deliberations for the 2021-22 Decision.

7.4 Income and wealth inequality

247. In the 2018-19 Decision, the Panel concluded noted that:

> it is unlikely that any moderate adjustment of the NMW or modern award minimum wages arising from this Review would have any discernible effect upon wealth inequality.[89]

248. In the 2020-21 Decision, the Panel noted that:

> … while the relative living standards of NMW and award-reliant employees have improved over recent years, some low paid award-reliant employee households have disposable incomes less than the 60 per cent of median income poverty line.[90]

[85] Statistical Report – Annual Wage Review 2021-22, Table 8.5
[86] Statistical Report – Annual Wage Review 2021-22, Table 8.5
[87] Statistical Report – Annual Wage Review 2019-20, Table 8.5
[88] Statistical Report – Annual Wage Review 2021-22, Table 8.6
[89] [2019] FWCFB 3501 at [263].
[90] [2021] FWCFB 3500 at [139].

The Panel continued :

> The size and composition of households mean that these relative poverty lines differ between household types. As the Panel has previously observed, these differences mean that it is not feasible for minimum wages alone to ensure that all of the family types with a minimum wage employee working full time have incomes that exceed relative poverty levels. Differences arise due to some families receiving support from the welfare system. Further, the margin between the 60 per cent median income relative poverty line and the equivalised household disposable income represents, at best, a broad indicator of the extent to which the needs of the low paid are met.[91]

249. Clearly benchmarking or even referring to income standards and inequality to 'disposal income as a ratio of 60% of median income poverty line is far too broad, non-specific, and ineffective for meeting some of the low-paid award reliant employee households. However, the Panel references this 'broad indicator' in their Statistical Report—Annual Wage Review 2020–21 and final Decision. Again, this cannot be an explicit or implicit target, the 60% can be no more than an analytical tool.

250. The research provided by Wilkins and Zilio discussed in section 6.1 supports the conclusion, that the trend in income growth of households at the bottom of the distribution is increasing, with the share of *low-paid award reliant employees* in the workforce continuing to decline and the overall living standards of workers progressively improving.

251. This should not however be taken as a suggestion that the Panel should inflate its increase in this review to maintain this increase in income growth. There is no established basis to conclude that the increase was driven by minimum wage increases, nor the extent to which this may be the case, or would this ever be a sole determinant of awarding an increase.

252. Previous Decisions have recognised and given weight to the conclusions of research by the Productivity Commission (2018) on inequality in Australia, which found:[92]

  a. Economic growth over almost three decades prior to the COVID pandemic has delivered significantly improved living standards for the average Australian across every income decile.

  b. Australia's progressive tax and highly targeted transfer systems has substantially reduced income inequality.

  c. Economic mobility is high in Australia, with almost everyone moving across the income distribution over the course of their lives. Abelson (2021) referencing the Productivity Commission (ibid) notes that that "mobility smooths out inequality" while Corak (2020) found that between over a 15-year period to 2015-16, almost 90% of people will spend time in at least three income deciles.[93]

  d. A small group of Australians do experience entrenched economic disadvantage, those without jobs. While many Australians experience economic disadvantage at some stage of their life, for most it is temporary.

253. Abelson (ibid), also referencing the Productivity Report (ibid), notes the contested nature of the income inequality debate:

> The detailed analysis "is based on equivalised household measures of income, consumption, and wealth". This measure accounts for differences in household composition and economies of scale when sharing living costs. Note also that the principal measures of household income in the

[91] [2021] FWCFB 3500 at [142].

[92] Productivity Commission (2018), Rising Inequality: A stocktake of the evidence.

[93] Corak, M (2020), Intergenerational Mobility: What Do We Care About? What Should We Care About? Australian Economic Review

Productivity Report are based on household disposable income after taxes and transfer. Overall, the report found (p.37) that "income inequality has increased modestly since the late 1980s, but the extent of the increase in contested, and since the global financial crisis the trend indicates a slight decline".[94]

254. We urge the Panel to maintain its approach from previous reviews that wealth inequality is a matter that should be assigned little weight in determining whether to increase award minimum wages, and by how much, if an increase is to be awarded.

7.5 Budget Standards and the Needs of the Low Paid

255. ACCI maintains that budget standards cannot in themselves be determinative of the minimum wage or an uprating of minimum award rates.

256. We note that much of the base-data used to determine budget standards in the Statistical report is very dated and of particularly limited relevance in 2022 given recent volatility and clear uncertainty. The original data in the Statistical Report: Table 13.1 Budget Standards, dates back to 2013. This was subsequently updated to 2016 by Saunders and Bedford using the CPI.[95] This data was again updated by the FWC using the CPI to provide Budget Standards for 2021. It must be recognised that household consumption and behaviour patterns have changed considerably since 2013 including the compositional quality of those items.

257. We also note reference in the 2020 Decision that:

> there were some errors in the calculation of the 'safety net' income … of the (Saunders and Bedford) 2017 Budget Standards Report which resulted in an over-estimation of the disposable income …. It was therefore difficult to draw any firm conclusion from the 2017 Budget Standards Report.[96]

258. Therefore, until the Budget Standards research has been updated and errors in earlier research have been corrected, ACCI recommends the Panel place little weight on Budget Standards as a basis for determining minimum and award minimum wages in this or future Annual Wage Reviews.

7.6 Poverty lines and relative living standards

259. We note that there is no consensus on how to measure poverty, and that **absolute poverty is not relevant in Australia**, particularly pertaining to those in employment. In the context of this Review, the issue can only be that of **relative poverty,** to the extent that is relevant to paid employment, and only then in a proper understanding of the roles of minimum wages, taxes and transfers.

260. As noted in the 2020 Decision:

> The poverty line is essentially a measure of inequality at the lower end of the income distribution and does not measure observed needs or capacity to meet these needs …[97]

[94] Abelson P (2021), Intergenerational well-being: Baby boomers, generation X, and millennials in Australia, Australian National University, Tax and Transfer Policy Institute Working Paper 16/2021, September.
[95] Saunders P and Bedford M (2017) New Minimum Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians. SPRC Report 11/17, Social Policy Research Centre, UNSW Sydney.
[96] [2020] FWCFB 3500 at [371]
[97] [2020] FWCFB 3500 at [364]

261. ACCI agrees that the low paid should not live in poverty, and the minimum wage should be, and is, set at a level that plays its role in providing a 'decent standard of living' for minimum and award reliant employees, as those concepts are operationalised in legislation.

262. It needs to be acknowledged that Australia has one of the very highest minimum wages in the world, likely the highest when the lowest effective classification rates in key minimum wage industries are taken into account (e.g. retail or hospitality).

263. As noted in the 2020-21 majority Decision:

> … there are limitations with measures of equivalised disposable household income when assessing poverty, as they are used to assess the circumstances of a selected household type, rather than individual circumstances. The poverty line essentially measures inequality at the lower end of the income distribution and does not measure observed needs or capacity to meet these needs, which is better indicated by the measures of deprivation and financial stress.[98]

264. Finally, the Panel recognised that:

> … difference in household types …. mean that it is not feasible for minimum wages alone to ensure that all family types with a minimum wage employee working full-time have incomes that exceed relative poverty levels.[99]

265. ACCI notes that, in determining relative living standards, the difference between the Consumer Price Index (CPI), and those in low paid award industries (as determined by the CPI (decile) and the low paid CPI (quintile)) are not too dissimilar over the COVID pandemic. Yuen and Rozenbes (2022) highlight that there is actually little difference between those in the bottom 10% compared to the bottom 20% in low-paid employees. They note that:

> Excluding childcare, annual growth in the low-paid CPI for employee households in the bottom decile tracks closely with the low-paid CPI for employee households in the bottom quintile and the published CPI over the year to the June quarter 2021.[100]

[98] [2021] FWCFB 3500 at [140]
[99] [2020] FWCFB 3500 at [363]
[100] Yuen and Rozenbes (2022), Experimental estimates of a Consumer Price Index for low-paid employee households, Research Report 1/2022

Chart 20: CPI and CPI for low-paid employee households

Source: Yuen and Rozenbes (2022), Experimental estimates of a Consumer Price Index for low-paid employee households, Research Report 1/2022

266. The report explains very minor differences in cost of relative living standards but does not add any alternative benchmark or understanding of the measurement of the issue for determining minimum award wages.

267. We reiterate the point made in section 1.4 and in previous submissions that there does not appear to be a clear rationale for setting the relative poverty line at 60% of the median income. We consider this to be arbitrary and would like the Panel to explain further why it believes this to be the benchmark illustrative threshold, or to exercise caution in using such an arbitrary measure.

8. OTHER RELEVANT CONSIDERATIONS

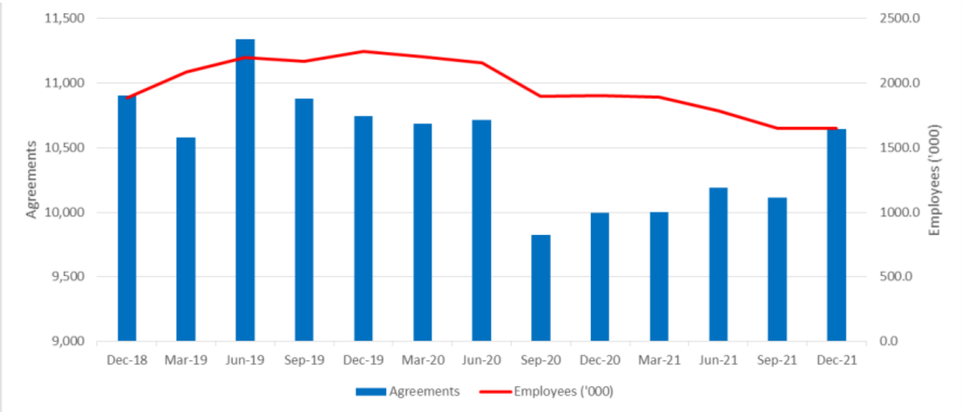
8.1 Agreement Making

268. Pursuant to s 134(1)(b) of the Fair Work Act, the Panel is obliged to ensure that modern award minimum wages provide a fair and relevant minimum safety net of terms and conditions, taking into account 'the need to encourage collective bargaining'.

269. At the time of preparing this submission, the most recent data about the number of enterprise agreements made in the federal workplace relations system, Trends in Federal Enterprise Bargaining – December quarter 2021,[101] revealed that average annualised wage increases for private sector agreements approved in the December quarter 2021 which contained quantifiable wage increases remained steady at 2.7%, representing no change from the previous quarter.[102] This increase was up from the 2.6% increase in the December quarter 2020.[103]

270. Since the December quarter 2020, the number of current agreements increased by 651 or 6.51%, from 9,995 to 10,646.[104] However, as shown in Chart 7 below from the report, the employee coverage of current agreements has continued in steady decline, falling from 1.9 million in December 2020 to 1.65 million in December 2021.

Chart 21: Current agreements and employee coverage (Dec 2018 – Dec 2021)



Source: Attorney-General's Department, Workplace Agreements Database.

271. If this data extended back to the commencement of the Fair Work Act in 2010, the falls in bargaining have been dramatic, and should be alarming.

272. The Panel has previously held that they are 'unable to predict the precise impact of [their] decision' on collective bargaining due to 'the complexity of factors which may contribute to decision making about whether or not to bargain'.[105]

[101] Attorney-General's Department, *Trends in Federal Enterprise Bargaining – December quarter 2021* (Report, 18 March 2022).
[102] Ibid, 2.
[103] Ibid, 7.
[104] Ibid, 11.
[105] [2021] FWCFB 3500 at [160]; [2019] FWCFB 3500 at [69].

273. The propensity to engage in collective bargaining is unlikely to be intensified by an increase in minimum wages. ACCI agrees with the finding in the Annual Wage Review 2020-21 Decision that the Panel could not 'be satisfied that the increase [they] determined will encourage collective bargaining'.

274. In fact, any significant increase in modern award minimum wages may (with failing statutory settings) further discourage businesses from engaging in collective bargaining. The higher modern award minimum wages are lifted, the higher the floor is against which the better off overall test must be applied by the Fair Work Commission. Naturally therefore, the better off overall test is more difficult to satisfy when modern award minimum wages are significantly lifted. The more difficult the test is to satisfy, the less likely businesses will be to decide to engage in bargaining with their employees.

275. The Panel is not entitled to disregard the statutory requirement to take into account the need to encourage collective bargaining, simply because:
   a. of the inability to predict the 'precise impact' of the decision on bargaining;[106]
   b. 'the minimum wages objective makes no express reference to any such consideration';[107] and
   c. an increase in modern award minimum wages is unlikely to 'encourage collective bargaining'.[108]

276. The Panel is required to consider the relevant statutory factors in terms of both the positive and negative impact that an increase or change in minimum wages will have on them. As noted in the Annual Wage Review 2017-18 decision, '*one of the purposes of the Act is to encourage collective bargaining*' and '[*i*]*t is appropriate that the Panel takes that legislative purpose into account*'.[109]

277. The Panel should therefore bear in mind the impact on businesses' ability to engage in bargaining caused by an increase in modern award minimum wages. Although the predicted impact may be imprecise or indeterminate, we can reasonably forecast the direction in which modern award minimum wage increases will impact on collective bargaining. The ability of businesses to engage in bargaining is particularly constrained in the current period as they recover from COVID-19. While, as previously noted, agreement coverage is falling in terms of the number of employees, any new agreements are likely to be curbed by modern award minimum wage increases, particularly if inflated. This directly hinders the encouragement of collective bargaining and the modern awards objective.

278. The need to encourage collective bargaining does have relevance in the context of the Review and the negative impact of increases to modern award minimum wages must be taken into account, in accordance with the statutory requirements.

8.2 Equal Remuneration

279. The Panel is bound to take into account '*the principle of equal remuneration for work of equal or comparable value' in its annual wage review decision*'.[110]

280. The past three decisions have essentially adopted the same observations initially made in the Annual Wage Review 2017–18 decision.[111] Those findings were that:
   a. there are more women than men who are award reliant;

[106] [2021] FWCFB 3500 at [160]; [2020] FWCFB 3500 at [116]; [2019] FWCFB 3500 at [69].
[107] [2018] FWCFB 3500 at [11].
[108] [2021] FWCFB 3500 at [161].
[109] [2018] FWCFB 3500 at [11].
[110] *Fair Work Act 2009* (Cth) s 134(1)(e).
[111] [2021] FWCFB 3500 at [162].

b. award-reliant workers are more likely to be low paid than other workers;

c. women are significantly more likely to be paid at the award rate than are men at all levels of education and experience (except in their first year of work); and

d. men are more likely to receive over-award payments or be subject to collective agreements (with higher wages) due to the industry or occupation in which they work.[112]

281. The research commissioned for the Annual Wage Review 2019-20 further '*found that women were more likely to be award reliant, low paid, and both low paid and award reliant*.'[113]

282. We acknowledge that the Panel has held the these '*factors inform the nature and extent of the role that the Review might play in addressing the gender pay gap*.'[114] To that end, we reiterate our submission in the Annual Wage Review 2019-20, which was accepted and restated by the Panel in its decision, that '*this needs to be considered … against more general and labour market considerations*' and:[115]

> 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.[116]

283. However, it is crucial to also be cognisant of the meaning of s 134(1)(e). The principle of '*equal remuneration for work of equal or comparable value*' which the Panel is required to take into account in its decision is defined in s 302(2) of the Fair Work Act as '*equal remuneration for men and women workers for work of equal or comparable value*.' The descriptive words for the work which should have gender equity in pay is that of '*equal or comparable value*'.

284. In the Equal Remuneration Case (2012) FWAFB 1000, the Full Bench stated in reference to the principle:

> It must constitute equal or comparable work in every respect. Generalised comparisons of work between industries are insufficient. Comparable roles must be fully assessed against work value criteria. Remuneration for comparable roles must not contain additional elements such as the inevitable differences in pay between employers and between different industries or superior bargaining outcomes that generally arise in different sectors of employment.[117]

285. On this basis, concerns about macroscale or sector-specific gender pay equity should be regarded as irrelevant considerations to annual wage review decisions. This is not to suggest that these issues are unimportant in a social or policy sense, only that they are not matters that should be taken into account by the Panel in the formation of their decision under the relevant statutory criteria.

286. The principle of equal remuneration for work of equal or comparable value should not impact the decision of the Panel. Any causation, both directionally and proportionately, between changes to modern award minimum wages and equal remuneration for men and women workers for work equal or comparable 'in every respect' is completely indeterminate.[118]

[112] [2018] FWCFB 3500 at [435]
[113] [2020] FWCFB 3500 at [400].
[114] [2020] FWCFB 3500 at [404].
[115] See ibid.
[116] See ibid.
[117] *Equal Remuneration Case* (2012) FWAFB 1000 at [99].
[118] See ibid.

8.3 Transitional Instruments

287. Consistent with the approach adopted in the last decision, the rates in relevant transitional instruments should be increased uniformly with any increase determined for modern award minimum wages. The same approach should be taken in respect of copied State awards.

8.4 Junior Employees, Apprentices, Trainees, Employees with Disability and Piece Rates

288. Any changes made to modern award minimum wages in this Review should flow through to junior rates of pay in modern awards, through the operation of established provisions for calculating junior rates in modern awards, consistent with the approach adopted in previous decisions. The same flow-through effect should apply to employees to whom training arrangements apply, employees with a disability and piece rates.

8.5 Casual Loadings

289. In the Panel's making of a national minimum wage order,[119] the casual loading for award/agreement free employees must be set.[120] The current level of the casual loading is appropriate and should be maintained at 25%.

8.6 Special National Minimum Wages

290. The Panel should maintain the prevailing approach of setting the special national minimum wages for award/agreement free junior employees and employees to whom training arrangements by reference to the Miscellaneous Award.

291. The Panel should again set the special national minimum wage for award/agreement free employees with disability whose productivity is not affected at the rate of the change in the national minimum wage. As in the Annual Wage Review 2020-21 decision, the special national minimum wage for award/agreement free employees with disability whose productivity is affected, should be adjusted in accordance with the methodology under the SWS Schedule. The minimum payment should continue to be fixed in accordance with the disability support pension income-free thresholds.

[119] *Fair Work Act 2009* (Cth) s 285(2)(c).
[120] Ibid s 294(1)(c).

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ARTA

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ATEC

ATIC

BIA

BIC

BECA Business Events Council of Australia

Business Council of Co-operatives and Mutuals

Caravan Industry

CCAA Cement Concrete & Aggregates Australia

Chemistry Australia

Clubs Australia

ClubsNSW

Consult Australia

Consulting Surveyors National

Consumer Healthcare Products Australia

CATO Council of Australian Tour Operators

CPA Australia

CLIK Australasia

Customer Owned Banking Association

Direct Selling Australia

Exhibition & Event Association of Australasia

Fitness Australia

gta

Governance Institute of Australia

HIA

IHEA Independent Higher Education Australia

iteca Independent Tertiary Education Council Australia

ICI

IPWEA Institute of Public Works Engineering Australasia

ieaa

IFCBAA

LFRA

Live Performance Australia

Master Builders Australia

master plumbers Expert. Committed. Professional.

MTAA Medical Technology Association of Australia

Medicines Australia

NALSPA

neca national electrical and communications association

nesa

National Fire Industry Association

NRA National Retail Association

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