Australian Chamber of Commerce and Industry

Transcript

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Event: Andrew McKellar interview with Andy Park, RN Drive.

Speakers: Andrew McKellar, chief executive Australian Chamber of Commerce and Industry; Andy Park, host RN Drive.

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Topics: RBA cash rate decision, inflationary pressures, workforce shortages, supply chain disruptions, energy prices, wages growth, annual wage case, productivity growth, business profits.

E&OE

Andy Park, host RN Drive: It's not just mortgages on our homes that will be impacted by today's breathtaking interest rate rise. Business owners will also cop out on their loans and perhaps more critically, many of us will have less money in our pockets to purchase their goods and services. It comes as many manufacturers and other businesses who rely heavily on gas to fuel their enterprise are confronted with these soaring costs. Andrew McKellar is the CEO of the Australian Chamber of Commerce and Industry. Welcome to you. The rise exceeded expectations really, didn't it? How will businesses respond to this half per cent increase in interest rates?

Andrew McKellar, chief executive Australian Chamber of Commerce and Industry: I think it's a very salutary reminder of the pressures or the risks that the Australian economy is facing at this point in time. In particular, we are really starting to see some quite substantial inflationary pressures pushing through the economy. That's feeding into input costs. So, I think it really is a bit of a warning, a reminder, that we've got to be careful now about how we go forward. Businesses are facing real pressures on the cost side as a result of a very difficult situation to get labour and also in terms of access to materials at this point in time.

Andy: So, inflation's expected to hit about 6 per cent by the end of this year. In the near term, inflation is predicted to be higher than it was thought about a month ago. Do you expect that this rate rise will put any downward pressure on inflation? I mean, that's the key question of whether or not this type of response is going to have some effect?

Andrew: Well, I think there is a real question about that. Certainly, interest rates are still at comparatively low levels, they're only coming up now. Official interest rates are only, well the cash rate I should say, is only just coming up to 0.85 per cent. It's still historically at a very low level. We expect that that will push up higher in the next nine to 12 months. But I think the real question going forward is how much further it can go and whether or not it will be effective in suppressing the inflation risk that we have at the moment. And I don't think it necessarily is the only way to go. At the moment, the real pressure in the economy is on the supply side. We've got to address the shortages in labour, we've got to do more to address the supply chain issue, we've got to do more to address the pressure on energy prices that are starting to feed through the system.

Andy: Just on energy prices, what are you hearing from your members about their capacity to absorb rising interest rates on top of inflation, on top of energy prices hitting the roof?

Andrew: Oh, very limited capacity. These are real risks now for the economy. We have to take pressure off those input costs. There's no point seeing increases in consumer prices being chased by much higher wage claims at the moment, feeding back into higher input costs and then seeing interest rates going up. No one will win in that sort of scenario. The only way we can start to address this and take some of the pressure off businesses is if we can increase supply of labour, take some of the pressure off there. If we can start to address the disruption that we've got in supply chains. And of course, we have to look at what we can do in terms of ensuring a reliable, affordable, secure supply of energy.

Andy: Andrew McKellar is the CEO of the Australian Chamber of Commerce and Industry. We're here talking about today's interest rate hike and its effect on small business. Obviously, Andrew, there are a few immediate options in terms of what's on the table. Some stakeholders have urged the government to pull the gas trigger to keep more gas for domestic use. I mean, do you support that? Do you see that being as a real time instant and impactful lever to pull here?

Andrew: It has to be on the table. But we hear the commentary, that's something that's not going to give an immediate result. If we were going to do that, then really, it's up to the government about whether they want to change the terms and conditions for the way in which that trigger works and to try and have some of that supply becoming available more rapidly. Though there are no comfortable or easy solutions to that particular situation at the moment. And we know, in the electricity sector as well, we've got real pressure with aging infrastructure and aging generation capacity. Again, it will take time to find solutions, to invest in new capacity, and to bring that to the market.

Andy: I just want to move on to your submission to the annual wage review for a 3 per cent increase. You've argued a more cautious approach is needed with many small businesses on a knife edge and especially after today's announcement. With an increase in line with inflation, won't employees have less disposable income to spend?

Andrew: I think the question here is, can business afford it? What impacts it going to have on the economy? We don't want to take risks at a time when many businesses and particularly in those sectors that have been hit by lockdowns through the course of the past year, they're getting back on their feet, they've been able to maintain employment in many cases, they've been supported by the stimulus, but that stimulus is now gone. And what they're facing now are real constraints on the supply side. Those are the issues, those are the challenges, that policy has got to address.

Andrew: If you don't mind, I mean, ACTU secretary Sally McManus was quoting economists when she spoke on last night's program. She says that, "As long as productivity remains where it is, the wage increase in line with inflation, won't drive up prices any further."

Andrew: I'm not sure that that's the case. If you look at what's actually occurred over the past six years, we've seen real minimum award wages increasing by 6.3 per cent over that period. Productivity has only been 5.6 per cent. So over that period, in fact in contrast to, I think the picture that's been presented by the ACTU at the moment, we've actually had minimum award wages increasing by more than an inflation, and in fact by more than productivity.

Andy: But how do you account for the fact that profits have uncoupled from wages in recent years? I mean, you have got labour costs as a share of GDP at their lowest level since World War II. Profits are also up very notably, especially after JobKeeper subsidies. Is anyone really buying this idea that businesses can't afford to pay their workers anymore?

Andrew: I think it's a very misleading picture. What you're looking at there is a real two speed economy. Yes, there are some sectors and there are some individual businesses that have done well during that period, but the overwhelming bulk of business, and particularly small business, let's not forget small business is 98 per cent of all businesses, they have struggled through this period and many of them are struggling now. They have had to go through circumstances in many cases of lockdown and significant restrictions. Yes, they've had some support in some cases of stimulus, but that is now gone. And now they're facing a situation where they're struggling to get employees, they're struggling to get materials, they're facing higher energy costs and the risk is if we just feed back into that again, we are going to jeopardize the economic circumstances of those businesses. For sure, over the next six to nine months, we will see more and more businesses struggling in the current economic environment. We will see insolvencies going up and particularly as interest rates start to push back up to those more normal levels.

Andy: The 3 per cent figure in your submission, is that for all workers, regardless of income? I mean, if a more targeted approach is taken, could the economy afford a more substantial increase specifically for low-income earners?

Andrew: What our submission relates to is to those minimum safety net wage levels. So this is the minimum levels in the economy, it's the safety net. It's the $20.33 an hour at the moment. That's the minimum wage. That's what our submission relates to. What's happening in the broader economy is quite different. And if you look at what came out in the national accounts last week, then total compensation for employees, so wages, bonuses, and other payments that employees are getting, that was increasing across the whole of the economy by 5.5 per cent over the past year. Now that is higher than inflation. So that's a reflection of the broader marketplace, and that is higher than the wage price index, which is an official measure that is commonly referred to, it's a much narrower measure, which is running at 2.4 per cent over the past year. It's quite a disparate set of evidence that's coming to bear, but I think if you look at that broader measure, in fact wages are increasing by more than is commonly suggested.

Andy: Andrew, I appreciate your time tonight. Thanks for your time.

Andrew: Thank you.

Andy: Andrew McKellar is the CEO of the Australian Chamber of Commerce and Industry.

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