Australian Chamber of Commerce and Industry

Annual Wage Review 2022-23

ACCI post-budget submission

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Working for business.
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Introduction

1. The Australian Chamber of Commerce and Industry appreciates the opportunity to provide a further submission to the Annual Wage Review following the release of the 2023-24 budget and the Reserve Bank's May 2023 *Statement on Monetary Policy* after the closing of the reply submission on 28 April.

2. The budget and the Reserve Bank's Statement raise a number of additional issues and introduce a number of new policy measures pertinent to the Review as discussed below.

Economic and fiscal outcomes

3. The budget delivers a surplus of $4.2 billion, the first in 15 years, with extraordinarily high commodity prices and record high employment contributing to higher than expected government revenues.[1] This is a dramatic improvement on the $36.9 billion deficit forecast in the October budget. However, it is recognised that this good fortune is only temporary, with the budget returning to deficits over the remainder of the forward estimates.

4. Economic conditions will deteriorate over the next year, with GDP falling from 3¼ per cent in 2022-23 to 1½ per cent in 2023-24, before recovering to 2¼ per cent in 2024-25. This will be driven by a sharp fall in household spending, which will fall from 5¾ per cent in 2022-23 to 1½ per cent in 2023-24, then 2½ per cent in 2024-25.

5. While growth in both the price and volume of our commodity exports made a sizable contribution to Australia's economic growth in recent years, export growth is expected to slow over the forward estimates, falling from 8 per cent in 2022-23 to 6 per cent in 2023-24 then 3½ per cent in 2024-25. With imports growing at a similar pace, net exports are expected to remain flat over the forward estimates. From exceptionally high levels over the past two years, Australia's terms of trade will turn down sharply in 2023-24 (-13¼ per cent) and 2024-25 (-8¾ per cent).

6. The tight labour market is expected to persist and only gradually moderate in response to softening demand. Employment growth is expected to increase 1 per cent in 2023-24 and 2024-25 — ¼ per cent higher than previously forecast — due to stronger growth in migration. Unemployment will rise only moderately from 3½ per cent in June 2023 to 4¼ per cent in 2024, then 4½ per cent by June 2025. This will flow through to wages, with wages growth expected to peak at 4 per cent in 2023-24 and remain high at 3¼ per cent in 2024-25.

7. Although the Reserve Bank has indicated that more rate rises are likely, the budget is forecasting the cash rate to peak at its current rate of 3.85 per cent and remain at this level until early 2024.

8. Overall, the deteriorating economic condition in the year ahead, combined with ongoing inflationary pressures, necessitate that the Expert Panel take a cautionary approach in determining the increase in minimum and award wages in 2023-24. The declining economic activity will be felt most heavily by businesses in service industries with a high proportion of award reliant employees, making it harder for them to absorb a substantial increase in wages in the year ahead.

Cost of Living Relief

9. Aware of the fragile state of the economy, and acknowledging the risk that any significant spending measures may exacerbate inflation, the government has focused the budget on targeted cost of living relief to low-income households. The $20 billion cost of living package includes energy bill relief, an increase in rent assistance, higher JobSeeker payments and lower out-of-pocket healthcare costs.[2]

10. The electricity bill relief enables eligible households to claim a one-off deduction of up to $500 from their electricity bill. The money is directly deducted from their electricity bill rather than provided as

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[1] Commonwealth of Australia 2023 *Budget 2023-24: Budget Strategy and Outlook – Budget Paper No. 1*. https://budget.gov.au/content/bp1/index.htm
[2] Commonwealth of Australia 2023 *Budget 2023-24: Budget Strategy and Outlook – Budget Paper No. 1*. https://budget.gov.au/content/bp1/index.htm

a cash refund. Up to five million households are expected to benefit from the scheme. As the cost of the deduction is shared with the states, the amount of the deduction varies by state, with ACT households receiving the lowest rebate of $175, while NSW, Queensland and SA receive the highest rebate of $500.

11. The changes in eligibility for the single parenting payment (PPS) involve an increase to the age threshold, enabling single parents and carers to remain on PPS until their youngest child turns 14, up from eight previously. After the youngest child turns 14, the single parent payment reverts to the JobSeeker payment. For eligible parents and carers, this enables them to access the PPS for an additional six years, providing an increase in the basic rate of payment from $745.20 per fortnight to $922.10 per fortnight. This equates to an increase of $176.90 per fortnight or $4,599.40 per year.

12. The increase in Commonwealth rent assistance involves a 15 per cent increase in the maximum rates of rental assistance. With payments currently between $97.20 and $193.62 per fortnight, this involves an increase of between $14.60 and $29 per fortnight or between $379 and $755 per year. Up to 1.1 million households are expected to benefit from the scheme.

13. Jobseeker, Austudy and Youth Allowance recipients will receive an increase of $40 per fortnight, while people aged 55 to 59 on JobSeeker receiving a $90 per fortnight increase in their payment to bring them into line with people aged over 60. This equates to an increase of $1,040 per year for younger Jobseekers and $2,340 for older jobseekers.

14. The budget includes a suite of measures to reduce out-of-pocket medical expenses. This includes providing general practitioners with greater incentives to bulk-bill, which is expected to triple the number of medical consultations that are bulk-billed, benefiting up to 11.6 million people. Patients will be able to buy two month's supply of a prescription for the same price as one month supply for 300 common medicines listed on the Pharmaceutical Benefits Scheme. The threshold on the Medicare levy surcharge for those without private health insurance will be raised to $93,000 for singles and $186,000 for families, and a 25 per cent subsidy on private health insurance will be provided to those below the new income thresholds.

15. Cumulatively, these measures are expected to provide a substantial increase in income for low-income households. Overall, a single parent able to access the energy bill relief, the extended access to the single parent payment and rent assistance is likely to be better off by more than $5,850 per year. Similarly, a young single earner couple with one member of the household receiving the JobSeeker payment is likely to be more than $2,300 better off, while older single earner couples will be more than $3,600 better off.

16. This cumulative increase in household income provides the greatest benefit workers currently receiving an income below what is considered to be the notional poverty line of 60 per cent median income. Table 8.6 of the Statistical Report shows single parents working part-time and single earner couples, with and without children, to be the only household types receiving an income that is below the 60 per cent median income notional poverty line. These household types, particularly single parents working part-time and receiving part of the single parent payment, as well as single-income couples receiving the JobSeeker payment, stand to benefit the most from the measures announced in the budget.

17. As ACCI has previously stated, it is not appropriate to use the Annual Wage Review to address poverty. Increasing the minimum and modern award wages is a very blunt instrument to raise the income of a very small proportion of low paid workers deemed to be the working poor. This small number of employees are better assisted through the welfare system than through an excessive

increase in the minimum wage. These cost of living measures included in the budget recognise that these low-income households are best supported by targeted government assistance.

Inflation and Wages Growth

18. Headline inflation eased to 7 per cent year-on-year in the March quarter after peaking at 7.8 per cent in December. Moving forward, the budget is forecasting inflation to decline to 3¼ per cent year-on-year wages by June 2024.[3] With inflation falling and unemployment rising moderately to 4¼ per cent, real wages are expected to move upward. Nominal wages are projected to grow to 4 per cent by June 2024. Therefore, we can expect real wages growth of around ¾ per cent in the year to June 2024 (the period of this wage review).

19. The Reserve Bank May 2023 *Statement on Monetary Policy* continues to warn of the risk that a large increase in minimum and modern award wages may contribute to higher inflation, or cause inflation to remain higher for longer than is necessary. The Statement notes that wage growth "remains consistent with inflation returning to target, provided productivity growth recovers".[4] However, it cautions, that "if higher prices and wages reinforce one another, domestic inflation would be more persistent than the central forecast". It goes on to observe that: "(t)he longer inflation remains above target, the greater the risk that inflation expectations rise and price- and wage-setting behaviour might adjust accordingly".

20. If this were to occur, the Reserve Bank indicates it would be forced to intervene, with "even higher interest rates and a larger rise in unemployment" required to bring inflation back to the target range.

21. Further, the Panel must take into consideration domestic labour costs, which the Reserve Bank notes have been rising at a fast pace in over a decade. With very weak productivity growth in 2022, growth in labour costs were at multi-decade highs. The Reserve Bank indicates this is being driven by the tight labour market, high inflation and the Fair Work Commission's (FWC) decision on minimum and award wages. With labour costs forecast to remain high in the year ahead, unless productivity growth improves, these high unit labour costs will feed into the pricing charged by businesses in order to maintain their margins.

22. We urge the Panel to heed the Reserve Bank's warnings. In deciding on the appropriate level of increase in the minimum and modern award wages, we recommend an increase of up to 4 per cent (3.5 per cent plus the legislated 0.5 per cent increase in the Superannuation Guarantee) is reasonable. This is in line with the level the Reserve Bank considers will not contribute to inflation. Also, if the Reserve Bank and budget forecasts for inflation are met, it will provide minimum and modern award wage-earners with a real wage increase in 2023-24.

Business Profits

23. The ACTU and other stakeholders have gone to some length in their submissions to claim that businesses are achieving extraordinarily high profits and that increasing profit margins of

[3] Commonwealth of Australia 2023 *Budget 2023-24: Budget Strategy and Outlook – Budget Paper No. 1.* https://budget.gov.au/content/bp1/index.htm
[4] Reserve Bank of Australia 2023, *Statement on Monetary Policy, May 2023* https://www.rba.gov.au/publications/smp/2023/may/pdf/statement-on-monetary-policy-2023-05.pdf

businesses are contributing to inflation. They have gone on to argue that businesses can afford high wage increases, due to these extraordinary high profits.[5]

24. In previous submissions, ACCI has shown that outside the mining sector, profit growth, particularly in service industries which have a high share of award-reliant employees, has been weak over the past two years and remains below pre-COVID levels.[6]

25. This is supported by recent analysis by the Reserve Bank included in its May 2023 *Statement on Monetary Policy*, which explicitly addresses the question "Have Business Profits Contributed to Inflation".[7]

26. There has been much debate both in Australia and overseas on the role of business profits in driving inflation. The Reserve Bank notes that while a rise in profit margins may be a causal factor in the increase in inflation where competition is weak, it could simply be a by-product of strong demand in a competitive market.

27. The RBA analysis reveals little evidence of a broad-based increase in domestic non-mining profit margins in Australia, suggesting profit margins have not been a significant cause of CPI inflation. It also shows that, outside the mining sector, profits have grown at a similar pace to labour income. The RBA concludes that this is consistent with businesses passing on higher costs to preserve profit margins and maintain their viability, rather than changes in businesses pricing power.

28. Overall, the RBA analysis confirms aggregate corporate profit growth is largely driven by the mining sector, which it opines has little direct effect on the prices domestic producers face as these commodities are manly exported rather than used in domestic production.

29. The RBA demonstrates non-mining profit share has changed little for most of the past decade, with the exception of the volatility in the early stages of the COVID-19 pandemic. The profit share at the end of 2022 was below the average of the decade pre-COVID. The RBA goes on to state that "if rising domestic profit margins were a significant independent driver of inflation, profits would instead have increased significantly relative to labour income over the past year." However, the profit share has been stable or decreasing across most industries over the past decade.

[5] ACTU Initial Submission p. 10; ACCER Initial Submission p. 5.
[6] ACCI Initial Submission p. 11, ACCI Reply Submission p.5.
[7] Reserve Bank of Australia 2023, *Statement on Monetary Policy, May 2023,* Box B: Have Business Profits Contributed to Inflation. pp 37 – 40. https://www.rba.gov.au/publications/smp/2023/may/pdf/statement-on-monetary-policy-2023-05.pdf

ACCI's position

30. ACCI reaffirms its position that an increase in minimum and modern award wages of up to 4 per cent (3.5 per cent plus the legislated 0.5 per cent increase in the Superannuation Guarantee) in 2023-24 is both fair and reasonable in the current economic circumstances. Our position is focused on containing inflation and returning it to middle of Reserve Bank's target range of 2-3 per cent as quickly as possible, as well as providing a reasonable allowance for workers to share the benefits of productivity growth.

31. It is important the Panel determines an increase to minimum and modern award wages that is fair and reasonable for both employees and employers and is responsible in terms of the potential to contribute to inflation and risks to the overall economy.

About ACCI

The Australian Chamber of Commerce and Industry represents hundreds of thousands of businesses in every state and territory and across all industries. Ranging from small and medium enterprises to the largest companies, our network employs millions of people.

ACCI strives to make Australia the best place in the world to do business – so that Australians have the jobs, living standards and opportunities to which they aspire.

We seek to create an environment in which businesspeople, employees and independent contractors can achieve their potential as part of a dynamic private sector. We encourage entrepreneurship and innovation to achieve prosperity, economic growth and jobs.

We focus on issues that impact on business, including economics, trade, workplace relations, work health and safety, and employment, education and training.

We advocate for Australian business in public debate and to policy decision-makers, including ministers, shadow ministers, other members of parliament, ministerial policy advisors, public servants, regulators and other national agencies. We represent Australian business in international forums.

We represent the broad interests of the private sector rather than individual clients or a narrow sectional interest.

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