Australian Chamber of Commerce and Industry

Annual Wage Review 2023-24

Fair Work Commission

ACCI Initial Submission

28 March 2023

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Working for Australia.

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Executive summary

ACCI considers an increase in minimum and modern award wages of no more than 2.0 per cent (plus the legislated 0.5 per cent Superannuation Guarantee increase) **in 2024 to be fair, reasonable and responsible, taking into account the full range of economic considerations before us**.

The proposed increase is focused on containing inflation and returning it to the middle of Reserve Bank's target range of 2 to 3 per cent, as quickly as possible.

It is important that the Panel recognises the cumulative impact of its previous decisions and not just look at the current period in isolation. Annual Wage Review (AWR) decisions over the past two years have overcompensated minimum and modern award wage employees, with exceptional wage increases at a time when inflation was extremely high, but total wages growth was more moderate.

Recent revisions of ABS data have shown that the AWR decisions over the past two years have greatly underestimated the minimum wage's contribution to total wages growth. The ABS doubled its estimates of the effect of the AWR decisions on award wages to wages growth in 2022 and 2023.

Further, recent Treasury analysis indicates that wages growth made up almost two thirds of headline inflation in the past year, compared to one third in 2021-22. This raises questions as to the 2022-23 AWR decision statement the wage increase would make 'only a modest contribution to total wages growth in 2023 and will consequently not cause or contribute to any wage-price spiral'.

In addition to adjustments in response to more recent analysis and data revisions, the Expert Panel must be wary of the effects of the AWR decisions in an increasingly fragile economy, which faces headwinds of slowing economic activity, and continuing labour and skills shortages.

Economic growth softened in many world economies from mid-last year, in response to the tightening of monetary and fiscal policy, and a softening labour market, which resulted in a slowdown in aggregate demand. The United States, Europe and China all face weak growth over the next two years. The IMF is forecasting global economic growth of 3.1 per cent in 2024 and 3.2 per cent in 2025, remaining below the historical average of 3.8 per cent.

In Australia, inflation has eased from a high of 7.8 per cent in the December quarter of 2022 to 4.1 per cent in the December quarter of 2023. However, the cost of the rapid tightening of monetary policy has been an abrupt slowing of the economy. Economic activity has slowed considerably, with GDP growth of only 1.5 per cent in the year to December 2023, and is expected to move steadily downward over the year ahead. Despite the projected decline in economic activity, inflation is expected to fall only slowly over the next two years, and not return to the RBA target range until mid-2025.

The labour market has been exceptionally tight over the past two years, however recent months have seen a gradual easing of conditions. Job vacancies have started to trend downwards as businesses brace for economic softening. The focus of the Panel must be on maintaining full employment and must avoid wage increases that risk putting upward pressure on unemployment or downward pressure on the participation rates.

Unit labour costs have been rising strongly with recent analysis by Treasury indicating that labour costs made up almost two thirds of headline inflation in the past year.

Company gross operating profits across all sectors have been highly volatile over in recent years. Total profits fell by 2.67 per cent for the 12 months to December 2023. While profits for some industries have risen in recent months, these profits cannot be viewed in isolation as the they typically follow substantial losses in previous years.

Weak business investment is contributing to labour productivity growth falling below trend. Business investment declined from 2.8 per cent in the June quarter to 1.6 per cent in the September quarter, further dropping to -0.2 per cent in the December quarter. Particularly concerning is the private sector's investment, which decreased from 1.5 per cent in the September quarter to -0.2 per cent in the December quarter.

With rising labour costs, falling profits and declining productivity, most of the businesses are finding themselves operating below full capacity. This gives little room for businesses to negotiate an increase above the award rates. It needs to be recognised that further increases in the minimum and modern award wages above the rate of average wage growth will disincentive enterprise bargaining, and continue to weigh on productivity.

ACCI agrees that workers should share in the benefits of productivity gains. However, labour productivity has slowed considerably over the past decade to its slowest pace in 60 years. Labour productivity fell to an average of just 1.1 per cent per year in the decade to 2019, and has since slowed even further, to an average of zero per cent over the past four years. In 2022-23, labour productivity went backwards, contracting 3.7 per cent. The government's new industrial relations legislation, which will come into effect in the coming months, is expected to exacerbate the productivity challenge. With diminished flexibility for employers once the changes are fully implemented, the costs for businesses are likely to increase, with many likely to downsize their business operations, potentially further impeding productivity growth.

It is important that Panel take into consideration the exceptionally weak productivity and moderate any wage increase to reflect this. The minimum wage drives unsustainable wage growth across the economy. The focus must be on raising productivity and strengthening the economy.

It is important the Panel determine 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 risk to the overall economy.

Introduction

1. In preparing our position for the current Annual Wage Review (**AWR**), ACCI has consulted widely with our extensive and diverse network. While reaching an agreed position across the broad range of industries in our network is not easy, we have sought to establish a position that takes into account differing economic considerations and the risks posed to those considerations. In reaching its view on the national minimum wage (**NMW**) and modern award wages, ACCI has also grappled with the various social considerations required through the objects of the Fair Work Act (**the Act**), the modern awards objectives and the minimum wages objectives. Some employers advance differing perspectives and positions based on the experiences of their members, and we urge the Panel to also take this into account.

2. **ACCI considers an increase in minimum and modern award wages of no more than 2.0 per cent** (plus the legislated 0.5 per cent Superannuation Guarantee increase) **in 2024 to be fair, reasonable and responsible, taking into account the full range of economic considerations before us.**

3. The proposed increase is focused on containing inflation and returning it to the middle of Reserve Bank's target range of 2 to 3 per cent as quickly as possible. Therefore, it is essential that the Annual Wage Review decision does not place further pressure on inflation. An increase in minimum and modern award wages above 2.0 per cent will make it very challenging to return inflation to the target range.

4. It also takes into account the legislated increase in the Superannuation Guarantee (SG) on 1 July 2024. The SG delivers all employees a 0.5 per cent increase in wages (albeit a deferred benefit) and has flow-through impact on the cost of doing business. In previous decisions the Panel has taken this into account and it should again be factored into the 2023-24 decision.

5. It is important that the Panel recognises the cumulative impact of its previous decisions and not look at the current period in isolation. Annual Wage Review decisions over the past two years have overcompensated minimum and modern award wage employees, with exceptional wage increases at a time when inflation was extremely high. The compounding impact of these increases was 10.6 per cent for modern award wage employees and 14.25 per cent for minimum wage employees. These wage increases were disproportionate to average market wages growth over this period, with the wage price index up only 6.5 per cent.

6. The decisions over the past two years have greatly underestimated the minimum wage's contribution to total wages growth and inflation. The ABS has recently doubled its estimates of the effect of the 2022 FWC wage decision on award wages to wages growth, from 0.29 per cent to 0.58 per cent. The 2022-23 decision with a modern award increase of 5.75 per cent was estimated to contribute to a 0.7 per

cent increase in total wages growth in September quarter 2023.[1] These AWR decisions contributed more than half of total wages growth in the September quarters of 2022 and 2023.

7. Further, recent Treasury analysis indicates that wages growth made up almost two thirds of headline inflation in the past year, compared to one third in 2021-22. [2]

8. This raises questions as to the 2022-23 AWR decision statement, which says the wage increase would make 'only a modest contribution to total wages growth in 2023-24 and will consequently not cause or contribute to any wage-price spiral'.

9. To be sustainable, any increase in wages must be linked to productivity. Yet labour productivity has been contracting, down 3.7 per cent in the 2022-23 financial year and this is expected to persist in the year ahead.[3] Failure to align wages growth with genuine productivity improvements will only add to inflationary pressure, exacerbating economic challenges.

10. In making its decision for the 2023-24 Annual Wage Review, there are a number of factors that the Expert Panel of the FWC need to consider, including:

    a. Economic growth is expected to remain weak over the next year, with the Reserve Bank forecasting GDP growth of 1.3 per cent in 2023-24 before a modest improvement to 2.1 per cent in 2024-25. This growth is being driven mainly by strong population growth, with high migration artificially inflating economic growth. GDP per capita has deteriorated for three, consecutive quarters, contributing to falling living standards.

    b. The Reserve Bank is not expecting inflation to return to the target range until early 2025, while the IMF forecast for Australia is much less optimistic; they do not expect inflation to return to the target range until 2026. The AWR decision must take into account the risk of high wages contributing to higher inflation over the period the wage increase applies (2024-25).

    c. The government has introduced a range of alternative measures to provide cost-of-living relief to low-income households, including energy bill relief and increased rental assistance. These boost household disposable income and should be factored into any wage increase.

    d. Similarly, the changes to the Stage 3 tax cuts, with the rate for income between $19,000 and $45,000 lowered to 16 per cent (from 19 per cent), will benefit low-income earners. This benefit to low-income households should also be factored into the AWR decision.

[1] Australian Financial Review 16 August 2023, *Minimum wage effect on wages growth doubles after ABS revisions.* *https://www.afr.com/work-and-careers/workplace/minimum-wage-effect-on-wage-growth-doubles-after-abs-revisions-20230815-p5dwr6*

[2] Australian Financial Review , "Wages growth drives inflation , average pay tops $100k", https://www.afr.com/wage-growth-drives-inflation-average-pay-tops-100k-20240225-p5f7ku

[3] Productivity Commission, Annual Productivity Bulletin 2024. https://www.pc.gov.au/ongoing/productivity-insights/bulletins/bulletin-2024

e. ABS Business Indicators show wages growth has been far greater than profit growth over the past two years, particularly in key award reliant sectors such as accommodation and food service, retail, administration and support services. The AWR decision must factor in businesses' capacity to cope with further extraordinary increases in regulated wages.

11. Overall, a substantial increase in minimum and modern award wages without a sustained increase in labour productivity would add to inflationary pressure. We caution that any increase above 2.0 per cent, plus the legislated 0.5 per cent SG increase, would be extremely irresponsible. A larger increase in minimum and modern award wages would add to inflationary pressure and extend the period of high inflation for much longer, leading to much greater pain on Australian households and businesses than is necessary.

12. Part 1 of this submission will deal with the economic considerations, Part 2 of this submission will examine the social considerations provided for under the Act and the minimum wages and modern awards objectives, and Part 3 will address the need to encourage collective bargaining.

Statutory Considerations

13. In the context of the AWR parties consider several statutory considerations from within the Act, which guide the Commission in its consideration during its review of the NMW and the modern awards minimum wages. Namely, the objects of the Act in section 3, the minimum wages objective in section 284(1), and the modern awards objective in section 134(1).

14. The objects of the Act are as follows (emphasis added):

    The object of this Act is to provide a balanced framework for cooperative and productive workplace relations that promotes national economic prosperity and social inclusion for all Australians by:

    (a) providing <u>workplace relations laws that are fair</u> to working Australians, promote job security and gender equality, <u>are flexible for businesses, promote productivity and economic growth for Australia's future economic prosperity</u> and take into account Australia's international labour obligations; and

    (b) ensuring a guaranteed safety net of fair, relevant and enforceable minimum terms and conditions through the National Employment Standards, modern awards, and national minimum wage orders; and

    (c) ensuring that the guaranteed safety net of fair, relevant and enforceable minimum wages and conditions can no longer be undermined by the making of statutory individual employment agreements of any kind given that such agreements can never be part of a fair workplace relations system; and

    (d) assisting employees to balance their work and family responsibilities by providing for flexible working arrangements; and

    (e) enabling fairness and representation at work and the prevention of discrimination by recognising the right to freedom of association and the right to be represented, protecting against unfair treatment and discrimination, providing accessible and effective procedures to resolve grievances and disputes, and providing effective compliance mechanisms; and

    (f) <u>achieving productivity and fairness through an emphasis on enterprise-level collective bargaining</u> underpinned by simple good faith bargaining obligations and clear rules governing industrial action; and

    (g) acknowledging the special circumstances of small and medium-sized businesses.

15. ACCI would here emphasise the need of the Commission, as all activities carried out under the Act should be consistent with its objects and purpose, to therefore

conduct the AWR with particular regard to the special circumstances of small and medium-sized businesses and the mandate of a fair workplace relations system that should achieve flexibility for business and promote productivity and economic growth.

16. This of course requires a deep consideration, not only of social factors, but of the prevailing economic circumstances. The objectives of modern awards and minimum wages also clearly outline this balance and will be explored below and throughout the submission.

17. Additionally, although collective bargaining is not contemplated by the minimum wages objective, it is an important consideration of the broader Act's purpose as outlined under the objects and should therefore be considered as part of the AWR with focus placed on enterprise-level collective bargaining as the Act calls for.

18. The minimum wages objective is as follows:

What is the minimum wages objective?

> (1) The FWC must establish and maintain a safety net of fair minimum wages, taking into account:
>
> (a) the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation, and employment growth; and
>
> (aa) the need to achieve gender equality, including by ensuring equal remuneration for work of equal or comparable value, eliminating gender-based undervaluation of work and addressing gender pay gaps; and
>
> (b) promoting social inclusion through increased workforce participation; and
>
> (c) relative living standards and the needs of the low paid; and
>
> (e) providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.

19. The modern awards objective is as follows:

What is the modern awards objective?

> (1) The FWC must ensure that modern awards, together with the National Employment Standards, provide a fair and relevant minimum safety net of terms and conditions, taking into account:
>
> (a) relative living standards and the needs of the low paid; and
>
> (aa) the need to improve access to secure work across the economy; and

(ab) the need to achieve gender equality in the workplace by ensuring equal remuneration for work of equal or comparable value, eliminating gender-based undervaluation of work and providing workplace conditions that facilitate women's full economic participation; and

(b) the need to encourage collective bargaining; and

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

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

(da) the need to provide additional remuneration for:

(i) employees working overtime; or

(ii) employees working unsocial, irregular, or unpredictable hours; or

(iii) employees working on weekends or public holidays; or

(iv) employees working shifts; and

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

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

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

20. The minimum wages objective is self-evidently relevant to the AWR. The modern awards objectives should be contemplated in the context of the review of modern award minimum wages.

21. The consideration of 'fairness', as outlined both in the modern awards and minimum wages objectives, must balance the perspectives of employers and employees fairly.[4]

22. At the outset, ACCI would also draw attention to the Panel of its previous observation that significant wage increases could inhibit the ability of employers to continue to employ workers on the NMW.[5]

23. It is only natural then that, in the context of the <u>minimum</u> wage, significant wage increase could be innately incompatible with the aforementioned objectives. This is due to the ability of substantial wage increases to undermine the capacity of

[4] [2022] FWCFB 3500 at [18].
[5] [2022] FWCFB 3500 at [161];

employers to employ thereby disproportionately negatively impacting upon needs the low paid, producing higher unemployment, reducing social inclusion through decreased workforce participation, detrimentally impacting women's employment who are more likely to be award reliant, and as a result undermine broader economic growth.

24. This will be further developed in later submissions; however, it highlights the necessity of the Panel to thoroughly explore the prevailing economic circumstances within which this review is to be conducted.

25. Indeed, the purpose of the economic considerations listed throughout the modern awards and the minimum wages objectives is to ensure that the Panel, in the exercise of its powers, concerns itself with the growth and prosperity of the Australian economy. The Commission has previously observed that this provides a particular emphasis to the economic indicators mentioned in the statuary considerations.[6]

26. There are common considerations, in one form or another, across the varying objectives, which ACCI intends to address. Naturally, all considerations within the minimum wages objective will be dealt with as they are central to the AWR process, however, the broader set of considerations which will be addressed are:
    - The national economy
    - Productivity;
    - Business competitiveness and viability;
    - Inflation;
    - Employment growth;
    - Secure work;
    - Gender equality;
    - Social inclusion;
    - Junior, trainee, and disabled employees;
    - Flexible work;
    - Additional remuneration;
    - A stable and sustainable modern award system; and
    - The need to encourage collective bargaining.

27. It should be noted that the Panel is not limited to the statutory considerations in sections 134 and 284, the Panel may in fact consider other matters which it considers to be relevant.[7]

28. It is in this regard that ACCI also intends to bring additional economic and fiscal considerations to the attention of the Panel in its submission.

[6] [2018] FWCFB 3500 at [10].
[7] [2022] FWCFB 3500 at [5]

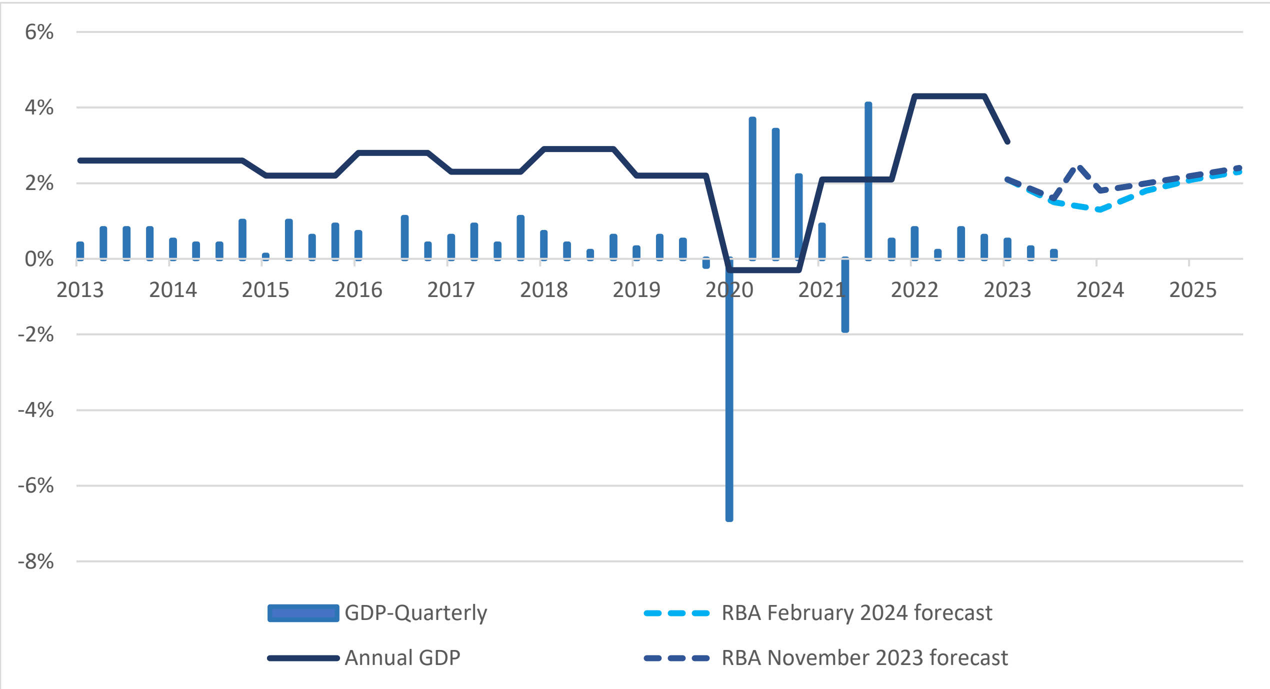
Part 1 – Economic Considerations

Domestic Economic Outlook

29. The Australian economy has been very weak over the past year with GDP growth of only 0.2 per cent in the December quarter, following 0.3 per cent in the September quarter. In calendar year 2023, GDP growth was very soft, at 1.5 per cent. [8]

30. Economic activity is forecast to remain subdued in 2024 and persist through 2025, as cost-of-living pressures and high interest rates continue to weigh on domestic demand. The Reserve Bank has recently revised down the near-term outlook for GDP growth in its February *Statement of Monetary Policy*, to 1.3 per cent for June 2024 from 1.8 per cent in its November 2023 Statement. This is significantly below trend growth of 2.5 per cent.[9]

Figure 1: Gross Domestic Product, Australia including RBA forecasts



Source: ABS 2023, Australian National Accounts: National Income, Expenditure and Product | RBA , Statement of Monetary Policy | February 2024 | November 2023

31. Similarly, the IMF, downgraded its forecasts, with GDP growth projected to fall to 1.8

[8] ABS 2023, Australian National Accounts: National Income, Expenditure and Product https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/dec-2023

[9] RBA, Statement on Monetary Policy, February 2024

per cent in calendar 2023, then to 1.2 per cent in 2024[10]. These figures coincide with the OECD Economic Outlook, where real GDP is forecasted to fall from 1.8 per cent in 2023 to 1.4 per cent in 2024.[11]

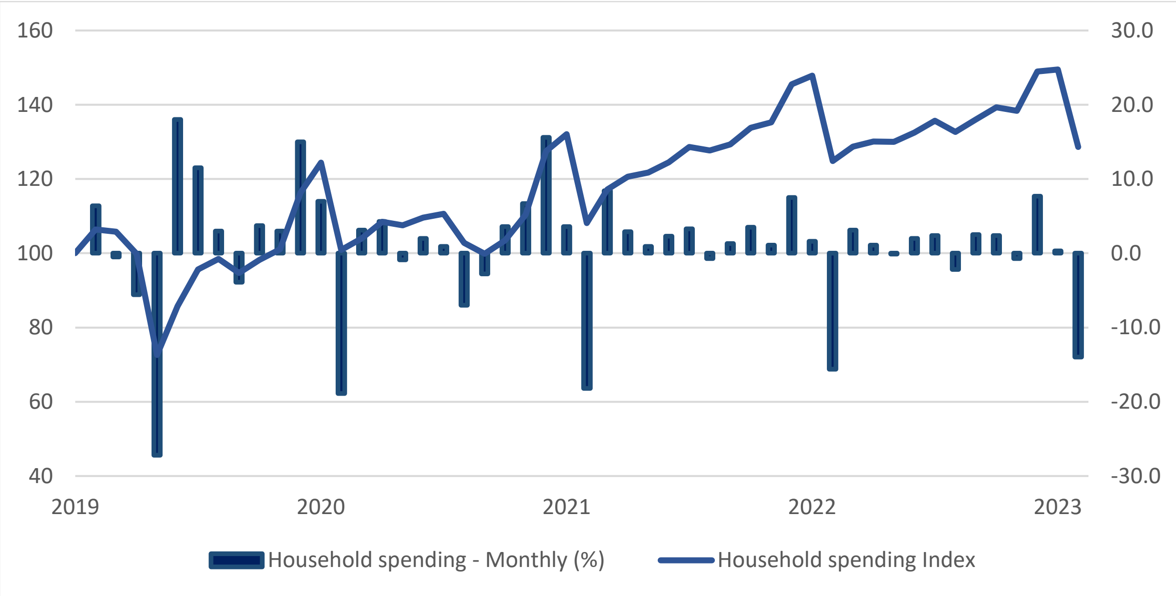
32. Australia's major banks have an even more pessimistic outlook. ANZ forecasts growth to weaken over the course of 2024 to 1.2 per cent.[12] NAB expects the GDP to remain below trend i.e. at 1.4 per cent throughout 2024.[13]

33. The ACCI-Westpac survey forecasts that the general business outlook for the next six months moved further into pessimistic territory - a shift down from a net 41 per cent to a net 56 per cent.[14]

1.1.1 Weak household spending is weighing heavily on GDP growth

34. Household spending fell sharply in January 2024, down 14 per cent, after a 0.3 per cent increase in December 2023[15].

Figure 2: Monthly Household spending



Source: ABS 2023, Monthly Household Spending Indicator

35. The CommBank Household Spending Insights (HIS) Index fell 0.3 per cent in February 2024. Seven of the 12 spending categories fell in February, led by household goods and transport. The annual rate of increase in the HIS index slowed to 3.5 per cent in February from a revised 3.8 per cent in January. With inflation

[10] IMF, World Economic Outlook (October 2023), Australia

[11] OECD Economic Outlook, Volume 2023 Issue 1

[12] ANZ 2024 Global Market Outlook

[13] NAB, The Forward View: Australia January 2024

[14] ACCI-Westpac 2024 *Survey of Industrial Trends – March Quarter 2024.* https://www.australianchamber.com.au/wp-content/uploads/2024/03/AusChamberWestpacSurvey2024Q1.pdf

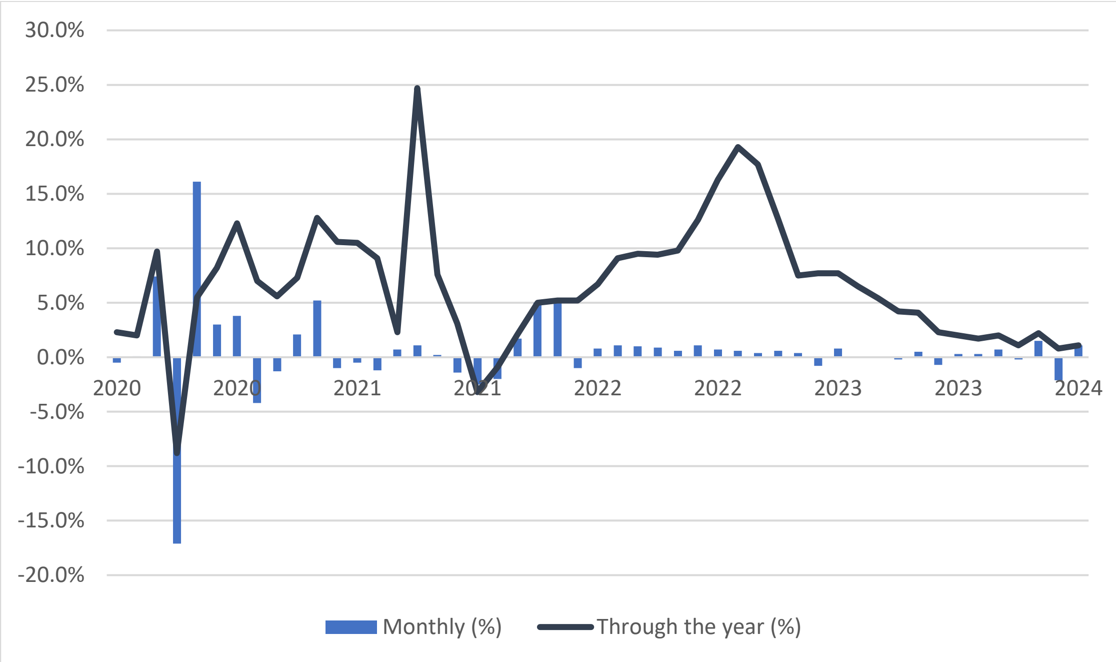
[15] ABS 2023, Monthly Household spending Indicator

starting to moderate, CommBank forecasts real spending to be close to flat[16].

36. Similarly, Deloitte Access Economics (DAE) is forecasting household consumption to fall to 0.5 per cent in 2023-24 before rising to 2 per cent in 2024-25[17].

37. Further, retail sales data highlights that households are spending less and focusing on savings. This slowdown in spending is starting to impact on business profitability. The retail sector grew by a moderate 1.1 per cent over the year to January 2024, underscoring a year of feeble growth for retail sales. This sluggish performance remains significantly below the robust annual growth of 6.7 per cent observed in January 2022.

Figure 3: Total retail turnover



Source: ABS 2023, Retail Trade, Australia

38. Real household disposable income is forecast to pick up in the second half of 2024, rising 2.5 per cent in the year to December 2024, following the commencement of the revised Stage 3 tax cuts and a further moderation in inflation.[18] The greatest gains from the revised Stage 3 tax cuts are expected to accrue to lower, middle and upper-middle income households, with minimum-wage employees to gain$826 per year, and middle-income earners (receiving $60,000 per annum) to benefit by $1,180 per year.[19] In relative terms, middle-income households are poised to experience the most significant boost, with a two per cent increase in disposable income relative to their overall income levels.

[16] CommBank Household Spending Insights | Economic Insights |February 2024
[17] Deloitte Access Economics Business Outlook | Economy to grow but stuck in second gear|January 2024
[18] RBA, Statement on Monetary policy, ,February 2024
[19]The Tax Institute 2024, *Taxable income before and after the Stage 3 tax cuts:* https://www.taxinstitute.com.au/stage-3-tax-cuts*s*

39. Households are also receiving a significant income boost following the introduction of the Energy Bill Relief Fund from July 2023. This has substantially moderated the increase in electricity bills for households. Electricity prices rose 1.4 per cent in the December quarter, following a rise of 4.2 per cent in the September quarter. The Australian Bureau of Statistics (ABS) estimated electricity prices have risen only 5.7 per cent since the June 2023 quarter compared to an expected 17.6 per cent increase without the rebates[20].

40. Rent inflation, for the stock of rents captured in the CPI (which excludes regional areas), was 0.9 per cent in the quarter and 7.3 per cent over the year. The ABS estimates this would have been 2.2 percentage points higher over the year if not for the increase to Commonwealth Rent Assistance that came into effect in September 2023[21].

41. As minimum wage and modern award wage earners benefit from revised Stage 3 tax cuts, Energy Bill Relief Fund and increased Rent Assistance, these should be included in any consideration of household income of low-income employees. It is noted that the disposable income of low-income households as a ratio of the nominal 60 per cent of median income included in Table 8.6 of the Statistical Report has increased considerably across all household types. This was calculated in September 2023, so includes Energy Bill Relief and Rent Relief. It can be expected to be boosted further from 1 July 2024 following the commencement of the revised Stage 3 tax cuts.

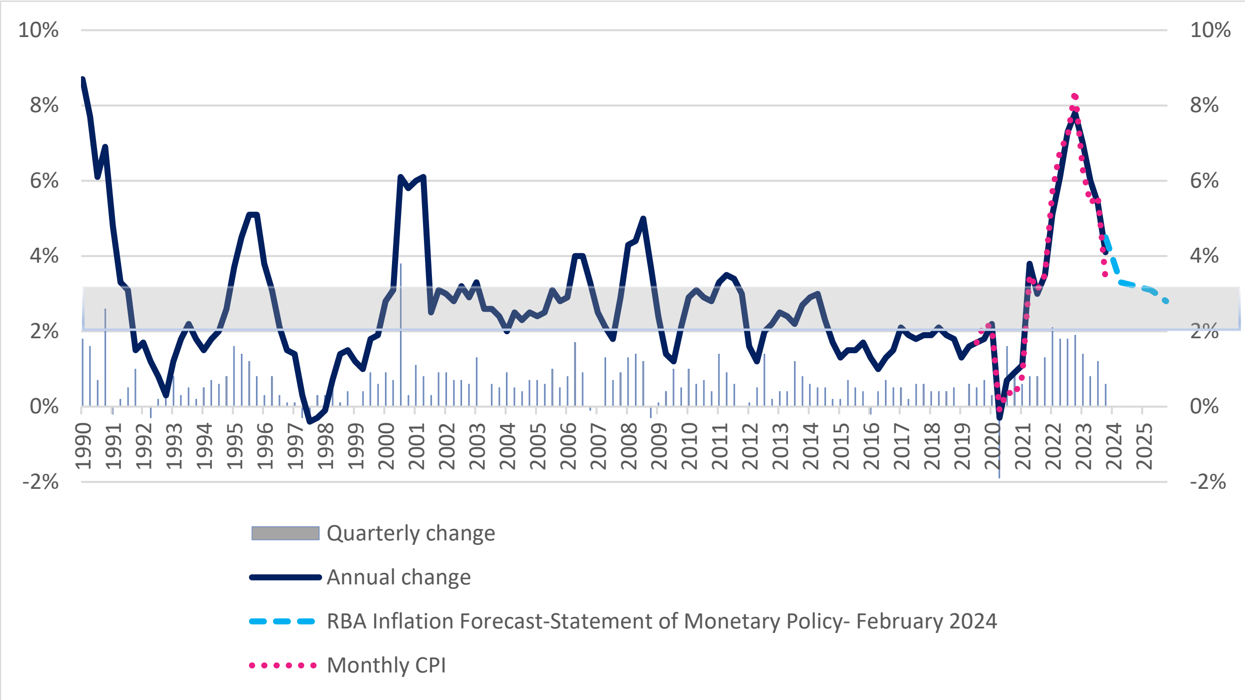
2.1.1 Inflation

42. Headline inflation rose 4.1 per cent annually in the December quarter of 2023, down from 5.4 per cent in the September quarter.[22] While the new monthly consumer price index eased 3.4 per cent in the 12 months to December, from 4.3 per cent in November, it remained flat at this level in January. Underlying inflation (excluding volatile items such as fresh food, fuel and holiday travel) remains higher at 4.1 per cent in January 2024, albeit a modest decrease from 4.2 per cent in December 2023.

43. While inflation has started to moderate, it remains well above target. The Reserve Bank is forecasting CPI to ease further to 3.3 per cent by June 2024 and 3.1 per cent by June 2025.[23] While MYEFO projects inflation to return to the target range of 2 to 3 per cent by the middle of 2025, slowing to 2 ¾ per cent by the June quarter of 2025.[24]

[20] ABS 2023 , Consumer Price Index , Australia ,December Quarter 2023
[21] RBA, Statement on Monetary Policy, February 2024
[22] ABS, Consumer Price Index ,December Quarter 2023
[23] RBA, Statement of Monetary Policy, February 2024
[24] Mid-year Economic and Fiscal Outlook , 2023-24

Figure 4: Consumer Price Index, Australia, including RBA Inflation Forecast from Statement of Monetary Policy – February 2024



Source: ABS 2023, Consumer Price Index, Australia | ABS 2023 , Monthly Consumer Price Index Indicator Inflation Forecast -Statement of Monetary Policy-February 2024

International Economic Outlook

44. The global economic recovery from the COVID-19 pandemic, Russia's invasion of Ukraine and the cost-of-living pressures are proving surprisingly resilient, as inflation declined more quickly than anticipated.

45. A divergence in economic growth is being observed. The United States experienced strong growth in the second half of 2023. In contrast, GDP growth has been sluggish for most of the European countries, due to adverse effects of the energy price shock and disruption in production schedules in Europe due to attacks on ships in the Red Sea.

46. The IMF is forecasting global economic growth of 3.1 per cent in 2024 and 3.2 per cent in 2025, remaining below the historical average of 3.8 per cent.[25] This reflects restrictive monetary policies and a withdrawal of fiscal support, as well as low underlying productivity growth.

47. The OECD's recent interim economic outlook expects world economic growth to ease from 3.1 per cent in 2023, to 2.9 per cent in 2024 and then 3 per cent in 2025. Persistently low confidence among businesses and consumers continues to exert its toll, casting a shadow over economic prospects.

[25] IMF world economic outlook- Moderating inflation and steady growth open path to soft landing , January 2024

48. Inflation is projected to be back to target in most G20 countries by the end of 2025. Headline inflation in G20 economies is projected to drop from 6.6 per cent in 2024 to 3.8 per cent in 2025, with core inflation easing to 2.5 per cent in 2024 and 2.1 per cent in 2025.

49. However, it is too soon to be confident that underlying price pressures are fully contained. Labour market conditions have become better balanced, but unit labour cost growth generally remains above rates compatible with medium-term inflation objectives.

50. IMF notes that:

> *High interest rates aimed at fighting inflation and a withdrawal of fiscal support amid high debt are expected to weigh on growth in 2024. Policymakers' near-term challenge is to successfully manage the final descent of inflation to target, calibrating monetary policy in response to underlying inflation dynamics and—where wage and price pressures are clearly dissipating—adjusting to a less restrictive stance.*[26]

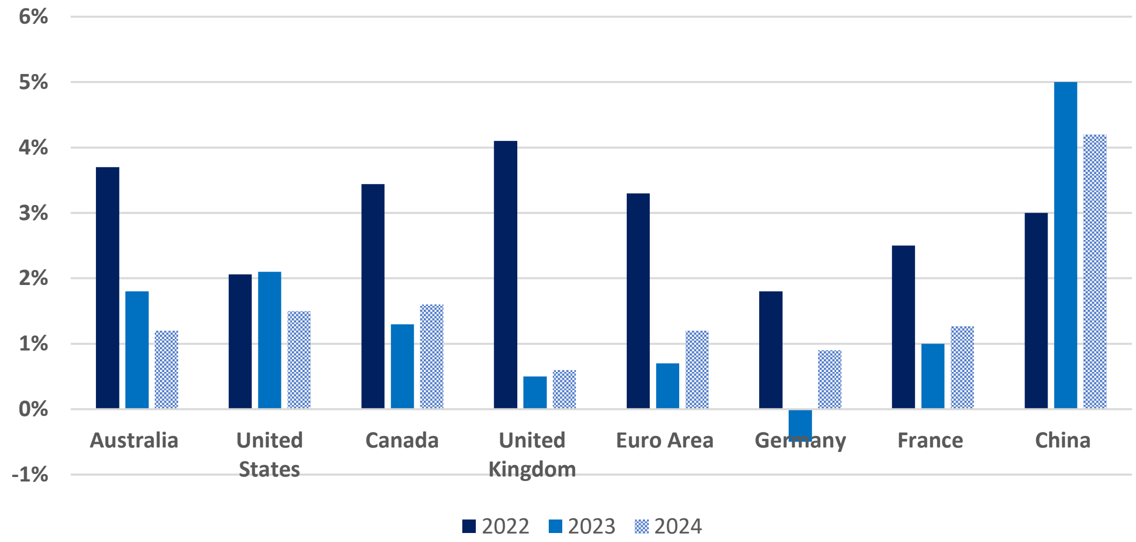
51. The United States, Europe and China all face weak growth over the next two years. Annual GDP growth in the United States is projected to moderate to 1.5 per cent in 2024 and 1.8 per cent in 2025, with the lagged effects of monetary policy tightening, gradual fiscal tightening and a softening in labour markets slowing aggregate demand. [27]

52. Euro area GDP growth is projected to improve slightly, but remain low, edging up from 0.7 per cent in 2023 to 1.2 per cent in 2024 than 1.8 per cent in 2025, with household consumption starting to rise as inflation falls and shocks to energy prices subside.[28]

53. China continues to struggle with successive waves of policy stimulus aimed at addressing the contraction of the property sector, while low consumer confidence and inadequate social safety nets hinder the growth of private consumption. GDP growth in China is expected to ease to 4.2 per cent in 2024 and 4.1 per cent in 2025[29], despite additional policy stimulus, reflecting subdued consumer demand, high debt, and the weak property market.

[26] IMF world economic outlook- Moderating inflation and steady growth open path to soft landing , January 2024
[27] IMF, World economic outlook (October 2023) Real GDP growth
[28] ibid
[29] ibid

Figure 5: Gross Domestic Product, Annual per cent change

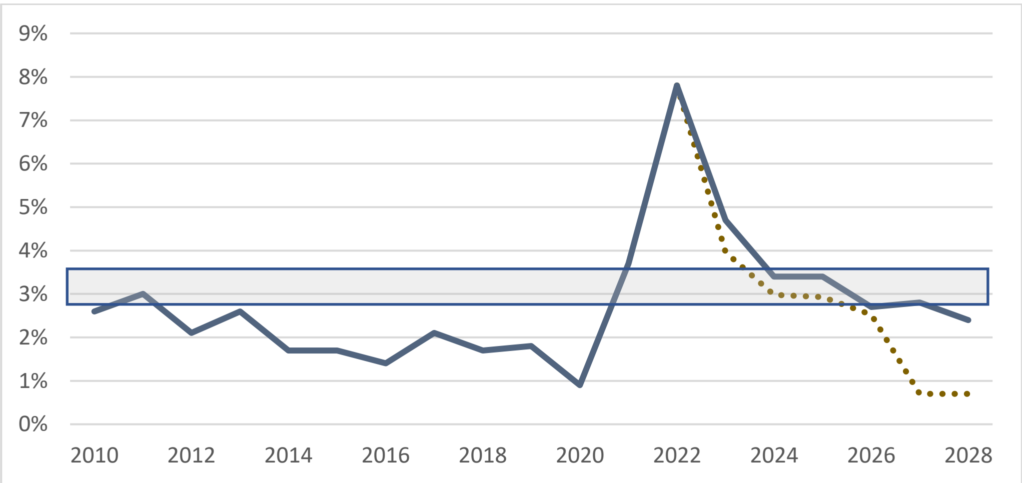


Source: IMF, World Economic Outlook 2022|2023|2024

54. The IMF recognises there is scope for further upside surprises to global growth. The likelihood of hard landing is receding as adverse supply shocks unwind, and risks to the global outlook become more broadly balanced.

55. For Australia, the outlook is less positive, with the IMF projecting inflation to remain high and not return to the 2 to 3 per cent target range until 2026, whereas it had previously forecast inflation to be under 3 per cent by 2024.[30]

Figure 6: IMF Inflation Projections



Source: IMF, World Economic Outlook, October 2023 | IMF, World Economic Outlook, April 2023

56. The IMF also notes that Australia, like most other advanced economies, is witnessing high inflation that has become broad-based. While wage pressure in Australia has

[30] IMF, World Economic Outlook, October 2023 | IMF, World Economic Outlook, April 2023

so far been contained, the tight labour market conditions are likely to feed into higher wages in the future, with business surveys pointing to emerging pressures. The IMF recommends the RBA remain vigilant, continuing to tighten policy to rebalance demand and supply, and ensuring that inflation expectations and wage pressures remain contained.[31]

57. With the IMF's advice in mind, it would be reckless to presume that our economy will remain resilient in the face of unmonitored, excessive and inflationary increases in the national minimum and modern award wages. It is important that the RBA's actions to return inflation to 2 to 3 per cent is not impeded by excessive increases to national and modern award wages.

Productivity

58. Australia's productivity growth has slowed since the turn of the century. The Productivity Commission's 5-year Productivity Inquiry shows Australia's productivity growth over the past decade at its slowest pace in 60 years, at an average of just 1.1 per cent per year in the decade to 2019.[32] It has since slowed even further, to an average of zero per cent over the past four years, having contracted sharply over the past year.[33]

59. Australia's productivity performance is expected to continue to deteriorate over the next decade, with further growth in services sectors, particularly government-funded and regulated non-market services such as schools, aged care, childcare and disability support services, where a lack of competition and contestability masks underperformance. While these are important sectors of the economy, it is not sustainable if they continue to grow at a faster rate than the broader economy.

60. Yet these are the areas where the FWC is driving substantial increase in award wages. Following a review in 2023, the draft decision granted aged care workers a 15 per cent increase in the award wages. The final decision released in early 2024 raised the award wage increase for the aged-care sector to between 23 per cent and 28 per cent, dependent on the award. These increases are unsustainable and can only be supported by a government subsidy to the sector.

61. ACCI Westpac survey found that the number of businesses are operating at below capacity is increasing, up from 29 per cent to 41 per cent, with a net 33 per cent underutilisation.[34] When capacity utilisation is low, businesses are not efficient utilising labour and capital to produce the output, weighing heavily on the productivity growth.

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[31] IMF, Australia: Selected issues , February 2023

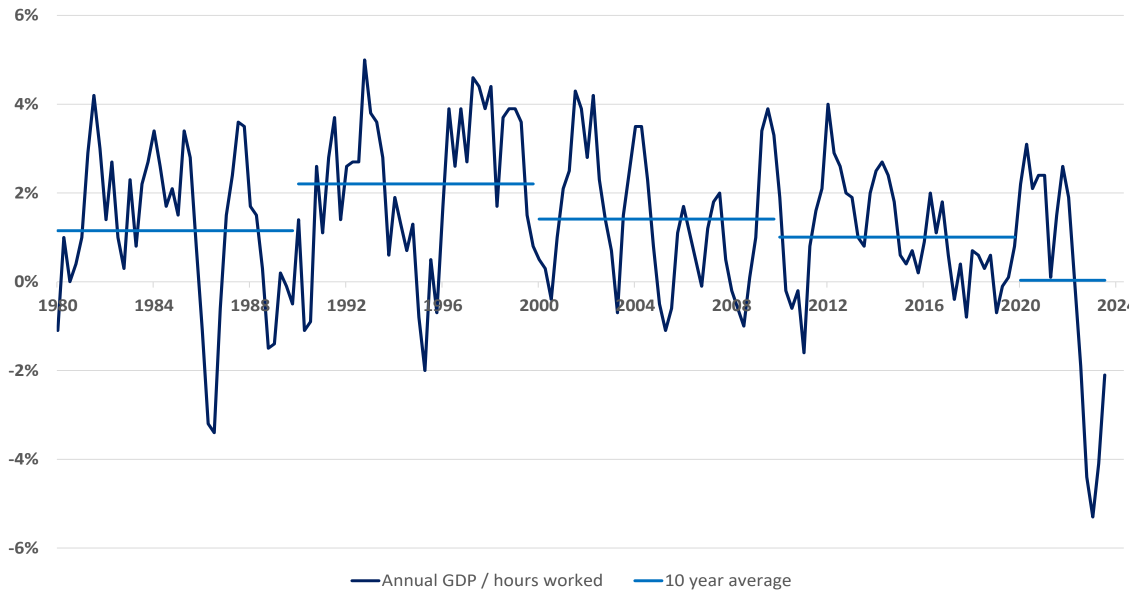
[32] Productivity Commission 2023 *5-Year Productivity Inquiry Report. Volume 1: Advancing Prosperity*. https://www.pc.gov.au/inquiries/completed/productivity/report/productivity-volume1-advancing-prosperity.pdf

[33] Australian Bureau of Statistics 2023, *National Accounts: National Income, Expenditure.* September 2023. https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release

[34] ACCI-Westpac 2024 *Survey of Industrial Trends – March Quarter 2024.* https://www.australianchamber.com.au/wp-content/uploads/2024/03/AusChamberWestpacSurvey2024Q1.pdf

62. Recognising the challenges, instead of focusing on policies that can raise productivity and strengthen the economy going forward, the long-term productivity growth forecast included in the October 2022 and April 2023 Budgets was cut from 1.5 per cent to 1.2 per cent per year, in line with the average over the past 20 years.[35]

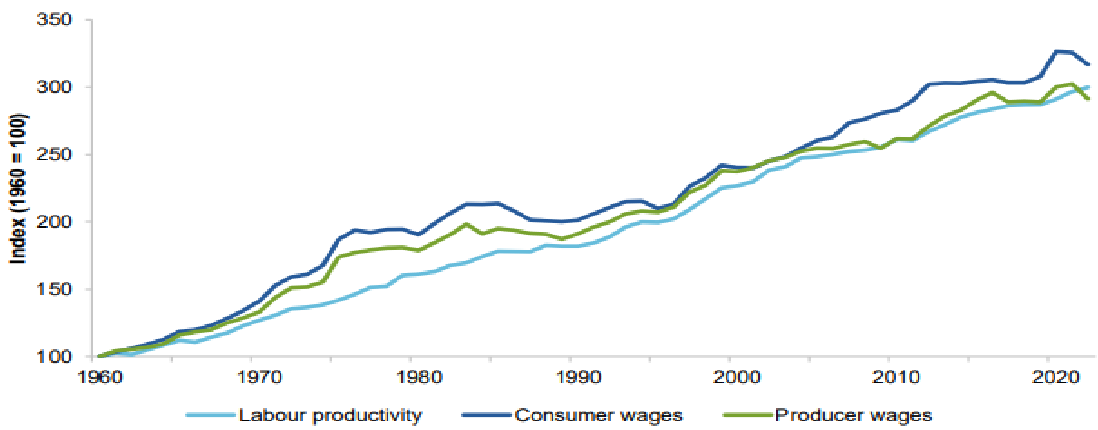
Figure 7: Productivity Growth and 10-year averages



Source: Australian Bureau of Statistics 2023 National Accounts: National Income, Expenditure and Product. June 2023

63. The Productivity Commission 5-year inquiry report finds that the growth in labour productivity is very strongly correlated with long-term growth in real wages received by the average worker. In the short to medium term, factors such as relative bargaining power and economic shocks, such as large movements in the terms of trade, can lead to deviations in the relationship between real wages and productivity. As seen by the chart below, consumer wages have consistently tracked above productivity growth over the past thirty years.

Figure 8: Comparison of labour productivity, Consumer Wages and Producer Wages



Source: - Productivity Commission, 5-year Productivity Inquiry: Keys to growth

[35] Commonwealth of Australia 2022, *Budget 2022-23.* October 2022

64. Labour productivity in award-reliant sectors have contracted considerably over the past year: retail trade down 1.4 per cent; accommodation and food services down 2.3 per cent; wholesale trade down 11.4 per cent; and arts and recreation services down 10.2 per cent. Non-market sectors also experienced a substantial decline in labour productivity, with health care and social assistance declining 4 per cent and education down 4.8 per cent.[36]

65. Suthaharan and Bleakley (2022) highlight the importance that wages growth and productivity growth are linked closely, noting:

> *If wages growth exceeds productivity growth and then firms raise prices to preserve margins and profitability, this can drive inflation higher*.[37]

66. It is imperative that wages growth remains closely linked to productivity growth to avoid inflationary pressures. Recognising that productivity is contracting, the Expert Panel must refrain from implementing an oversized increase in minimum and modern award wages. Failure to align wages growth with genuine productivity improvements risks further decoupling wages from productivity, exacerbating economic challenges.

67. Industries experiencing the largest declines in productivity also experienced the highest rates of business exits in 2022-23. It is important to note that these business closures predominantly affect small businesses in sectors with a high proportion of award reliant employees, with administrative and support services seeing a notable decrease of 1.6 per cent, while retail trade experienced a decline of 1.4 per cent, and accommodation and food services saw a fall of 0.6 per cent.[38]

68. Ultimately, increases in minimum wages and award wages are not sustainable without long-term gains in the productivity growth.

Business Profitability

69. Company gross operating profits across all sectors have been highly volatile overrecent years. Total profits fell by 2.67 per cent for the 12 months to December 2023.[39] While profits for some industries have risen in recent months, these profits cannot be viewed in isolation as the they typically follow substantial losses in previous years. Businesses continue to experience significant cost pressures, with profit margins of most businesses still very weak.

70. This has been particularly so for sectors with a highly award reliant workforce.

71. For the retail sector, gross operating profits were down 10.9 per cent in the December quarter 2023, following a 9.7 per cent increase in the September quarter. While 1.4 per cent above the December 2022 level, profits in the retail sector have only just recovered to the March 2022 level and are over 13 per cent below the

[36] Productivity Commission, Annual Productivity Bulletin 2024
[37] Suthaharan N. and Bleakley J. 2022 *Wage-price Dynamics in a High-inflation Environment: The International Evidence*. RBA Bulletin, September 2022
[38] ABS 2023, Counts of Australian Businesses, including Entries and Exits, July 2019 - June 2023
[39] ABS 2023, Business Indicators, Australia, December 2023

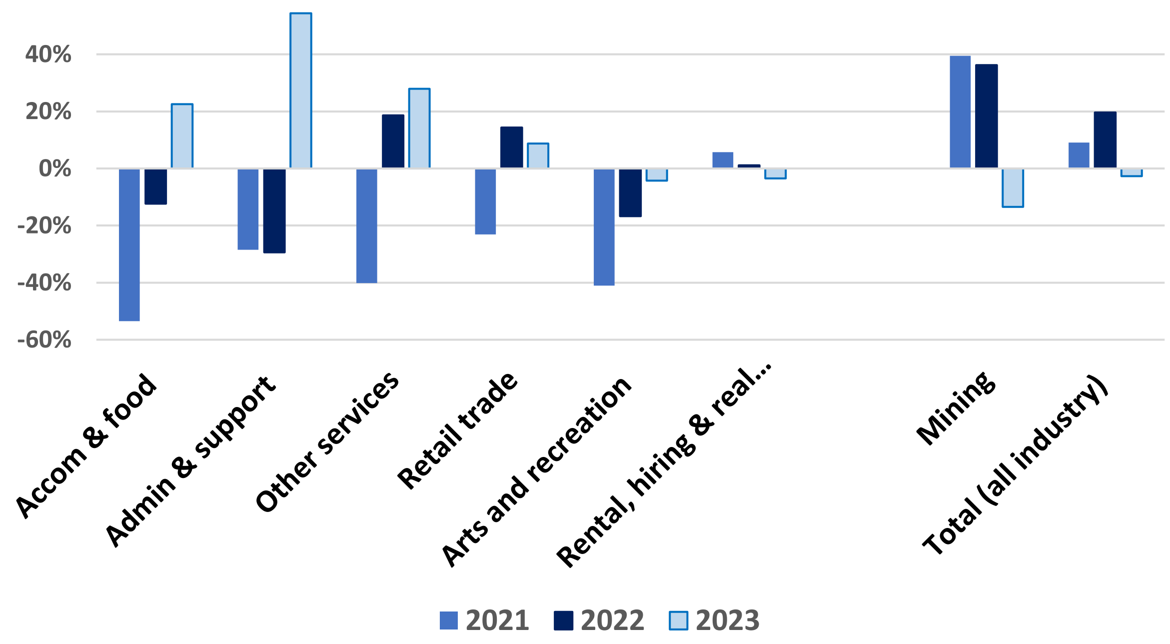
December 2020 level.[40] This downward trajectory is also mirrored in the arts and recreation sector, where gross operating profit fell to negative 2.6 per cent in the December quarter 2023. Profits in the arts and recreation sector have been flat over the past year and are 17 per cent below their December 2021 level, and less than half the December 2020 level.[41]

72. Similarly, the accommodation and food services sector has also endured consecutive years of negative profits, with gross operating profit down 13.5 per cent in the year to December 2023 and 48 per cent below their level in December 2020.[42]

73. Administrative and support services have witnessed a similar pattern of profit decline, experiencing successive years of profit contraction with drops of approximately 28 per cent and 29 per cent in 2021 and 2022 respectively. Although profits rebounded to by 54 per cent in the past year, the sector's profitability remains below its December 2020 level. [43]

74. The forecast economic headwinds will limit profits in most industries, particularly retail trade, and accommodation and food services. Similarly, profit margins in the construction sector continue to face pressures from rising costs and labour shortages.

Figure 9: Gross operating Profit of sectors with the highest share of award-reliant employees



Source: ABS , Business Indicators , December 2023

[40] ABS 2023, Business Indicators, Australia, December 2023
[41] ibid
[42] ABS 2023, Business Indicators, Australia, December 2023
[43] ibid

75. There has been much debate in recent months over excessive business profits and claims that businesses are using the high inflation in recent years to elevate prices and gouge consumers. The Australian Council of Trade Unions directly funded an inquiry led by Professor Alan Fels that predetermined this finding. Also, under pressure from the unions and social groups, the government and Parliament have initiated a number of inquiries into supermarket pricing and the supermarket code of conduct. These inquiries are highly political and are based solely on presupposition rather than fact.

76. In fact, as shown above, outside the mining sector, profit growth has been very weak over the past two years and remains below pre-COVID levels, particularly in service industries that have a high share of award-reliant employees.

77. This is supported by 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?"[44]

78. While there has been much conjecture both in Australia and overseas on the role of business profits in driving inflation, the Reserve Bank analysis revealed little evidence of a broad-based increase in domestic non-mining profit margins in Australia. It finds profit margins have not been a significant cause of CPI inflation and suggests that any recent increase in business profits is simply a by-product of strong demand in a competitive market. The Reserve Bank analysis also shows that, outside the mining sector, profits have grown at a similar pace to, or at a rate below, labour income. The Reserve Bank concludes that the growth in prices is consistent with businesses passing on higher costs to preserve profit margins and maintain their viability, rather than changes in businesses pricing power.

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

80. The RBA demonstrates non-mining profit share has changed little for most of the past decade, with the exception of some volatility in the early stages of the COVID-19 pandemic. The profit share at the end of 2023 remains 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.

81. Similarly, Treasury's advice to the Treasurer (revealed through a Freedom of Information request), commenting on speculation that profits had been the major

[44] 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

driver of above-target inflation since the pandemic, was that this premise significantly overstated the role of business profits in driving inflation.[45]

82. The Treasury advice was that mining sector revenue accounts for much of the observed business profits and the CPI impact of business profits is much more limited once the mining sector is excluded.

83. Treasury identified the four key drivers of inflation were: overstimulation of demand from fiscal and monetary policy; supply chain bottlenecks; the shift in demand from services to goods; and, unprecedented labour market tightness.

84. The advice also noted that cyclical changes in business turnover as markets adjust to supply and demand disruptions do not in themselves indicate excessive profits. It also suggested that future profits in most industries will be limited by the weakening economic conditions.

3.1.1 Business Confidence

85. Business confidence remained low, with the NAB Monthly Business Survey index showing business conditions decreased 2 pts to +6 index points, a touch below the long run average of +7 for January 2024.[46] Trading conditions fell 3 points, profitability down 1 point and employment dropped 2 points. SME business confidence also remained deep in negative territory in Q4 2023, as economic growth slowed. SME business confidence fell 3 points to -8 index points.[47] Cost pressures remained elevated for January 2024, with purchase cost growth up slightly to 1.8 per cent from 1.7 per cent. Product price growth, increased to 1.2 per cent, up from 0.9 per cent.[48]

86. The ACCI-Westpac Survey forecasts that profits fell further in negative territory, with a net 11 per cent of manufacturers anticipating profits to decline in the coming year.[49] Cost pressures, though still elevated, have begun to trend downwards. Previously, a net 66% of businesses reported increasing costs, but that number has decreased to 29%. Looking ahead to the next three months, only 13% of businesses anticipate a rise in unit cost pressures. Despite the easing of cost pressures, profits are still expected to remain negative. This suggests that wage growth is likely the key factor driving down business profits at this time.

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[45] Treasury 2023, *Ministerial Submission* – Profits, input costs and inflation. Revealed through FOI 3376. https://treasury.gov.au/sites/default/files/2023-07/foi-3376.pdf

[46] NAB Monthly Business Survey , Jan 2024 , https://NAB-Monthly-Business-Survey-January-2024.pdf

[47] NAB Quarterly SME Survey Q4 2023 https://NAB-Quarterly-SME-Business-Survey-Q4-2023.pdf

[48] NAB Monthly Business Survey , Jan 2024 , https://NAB-Monthly-Business-Survey-January-2024.pdf

[49] ACCI-Westpac 2024 *Survey of Industrial Trends – March Quarter 2024.* https://www.australianchamber.com.au/wp-content/uploads/2024/03/AusChamberWestpacSurvey2024Q1.pdf

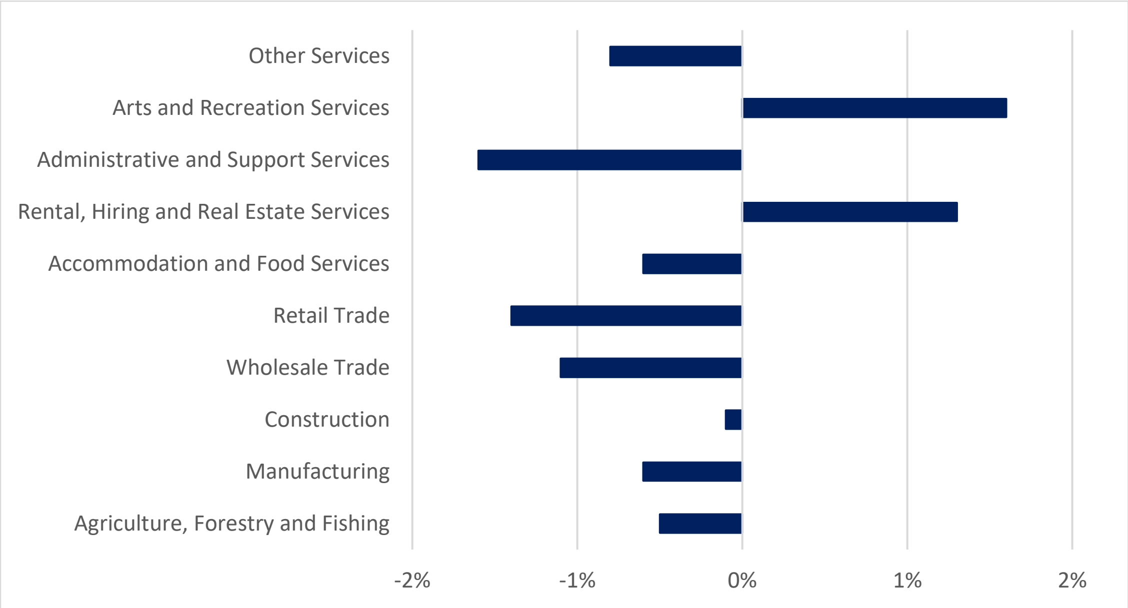
4.1.1 Business Entries and Exits

87. In the wake of slowing demand, rising costs and falling profits, businesses in Australia face difficult times in the year ahead. Global and Australian economic conditions are expected to slow sharply in the year ahead.

88. Award-reliant industry sectors have recorded the strongest increase in net business exits in the past year. Administrative and support services, recorded strongest increase in net exits of 1.6 per cent, followed by retail at 1.4 per cent, public administration and safety, and wholesale trade at 1.1 per cent, other services at 0.8 per cent, and accommodation and food services with a 0.6 per cent increase in net business exits. [50]

89. Further, total personal insolvencies across Australia increased in the December quarter 2023 up 12.4 per cent year-on-year, with business related personal insolvencies up by 27.3 per cent[51].

Figure 10: Annual per cent changes in businesses entry and exit by industry



Source: ABS 2023, Counts of Australian Businesses, including Entries and Exits

90. It is clear that across a range of economic indicators that a number of industries are struggling. It would be unreasonable for the Panel to generalise and assume all Australian industry sectors are experiencing a broad-based recovery if looking at the gross profits as a standalone economic measure. A more granular level analysis of industries is needed, particularly of service sectors with a high share of award reliant employees, as these sectors continue to experience steeply declining profit margins, high business exits and insolvencies.

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[50] ABS 2023, Counts of Australian Businesses, including Entries and Exits

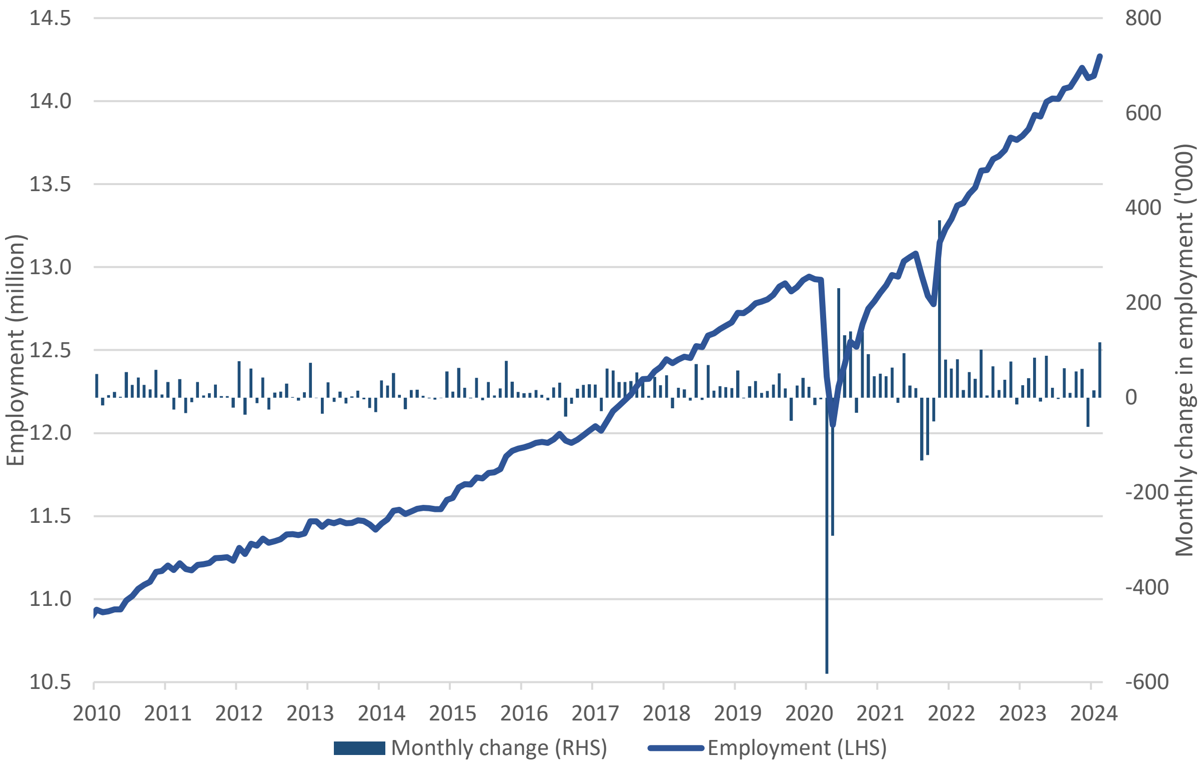
[51] Australian Financial Security Authority| New Personal Insolvencies |December Quarter 2023

Labour Market Considerations

Employment

91. While the labour market remains very tight, recent months have seen a gradual easing of conditions. Employment continues its upward trajectory, reaching a historic high of 14.27 million in February 2024. However, the rate of employment growth has slowed in recent months, with the unemployment rate beginning to edge upwards, rising to 4.1 per cent in January 2024, before settling back to 3.7 per cent in February. Concurrently, the participation rate has also eased slightly to 66.7 per cent, from its historical high of 67.3 per cent.

Figure 11: Employment



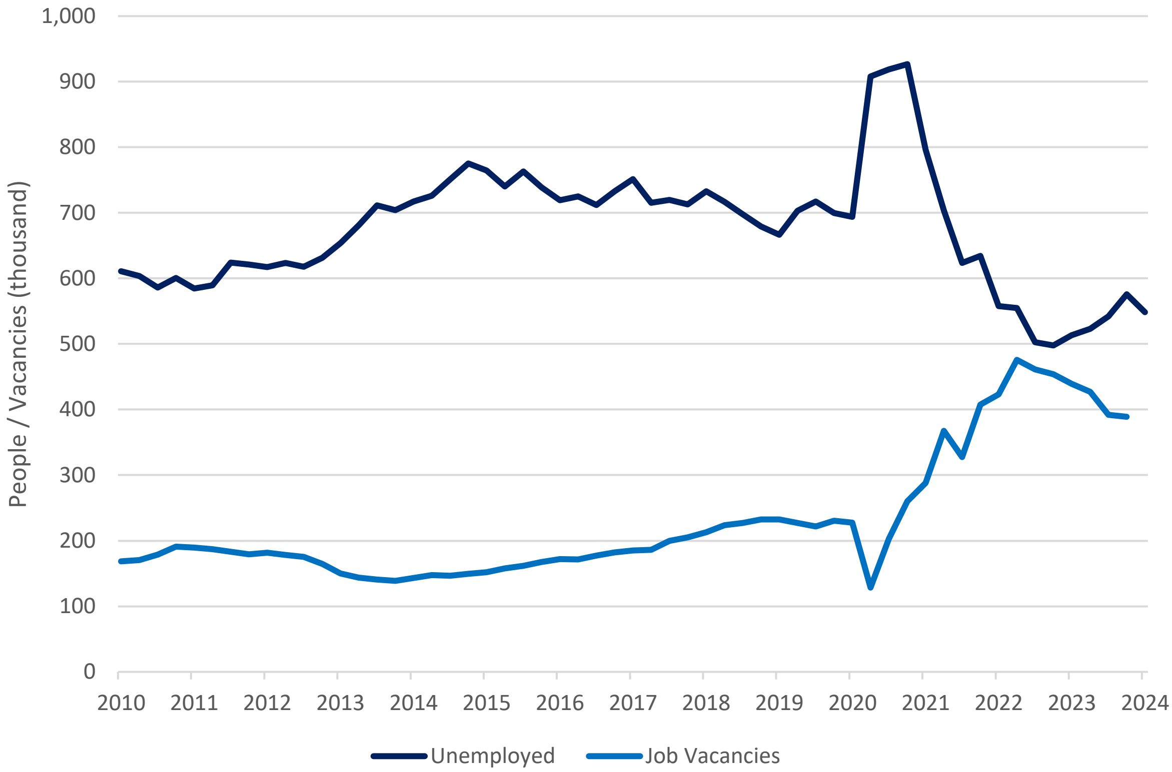
Source: ABS 2023, Labour Force, February 2024

92. The COVID-19 pandemic severely disrupted global and intra-Australian migration patterns, with international, and state and territory, borders closed for prolonged periods. International borders remained closed even as Australia's economic recovery began in earnest. This led to relatively strong growth in both employment and job vacancies, as well as historically low levels of unemployment in mid-2022. Labour scarcity increased in sectors (such as hospitality) that typically rely heavily on

migrant workers. This also affected other sectors reliant on migrant workers, such as health, aged care, and childcare.[52]

93. While there has been a marginal decline in the number of job vacancies as businesses brace for economic softening, the labour market remains tight. Many businesses find themselves operating below full capacity, resorting to measures such as reduced opening hours and compromised service quality.

Figure 12: Labour market tightness – Job vacancies vs unemployed people



Source: - ABS 2024, Labour Force Australia, February 2024, Job vacancies November 2023

94. The prevalence of job vacancies is pronounced in award-reliant industries, notably in accommodation and food services (with 25.6 per cent of businesses reporting vacancies), administrative and support services (28.6 per cent), retail trade (17.1per cent) and health care and social assistance (20.3 per cent).[53] These figures underscore the significant challenges businesses face in finding suitable staff.

95. With international markets and Australia's economy forecast to slow throughout 2024, the unemployment rate is expected to rise. As businesses lose vital consumer spending and economic activity, they will be forced to contract their operations and reduce their workforce. The Reserve Bank is expecting the unemployment rate to rise to 4.3 per cent at the end of 2024 and 4.4 per cent at the end of 2025[54]. The Mid-

[52] CEDA , 2021a, *A good match: Optimising Australia's permanent skilled migration*, 2021b, *Duty of care: meeting the aged care workforce challenge*, Melbourne,

[53] ABS ,Job Vacancies , Australia, November 2023

[54] Reserve Bank of Australia , *Statement on Monetary Policy* February 2024

Year Economic and Fiscal Outlook are predicting the unemployment rate to reach 4.25 per cent in 2023-24 and 4.5 per cent at the end of the 2024-25 financial year.[55]

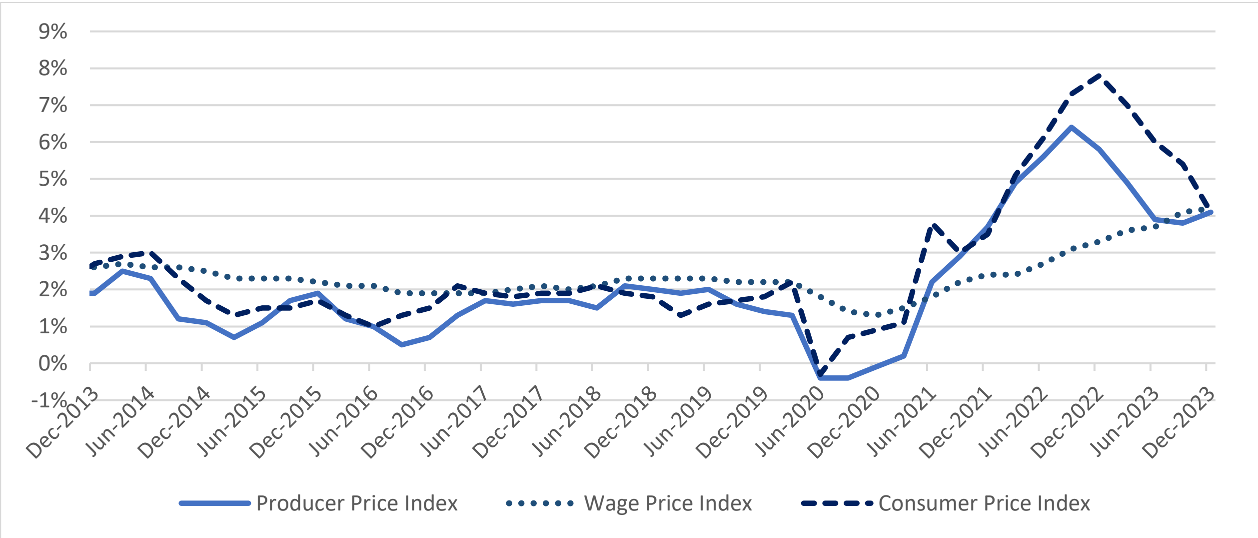
96. This will impact on minimum and modern award wage earners the most, as they are typically younger, less skilled and less experienced workers. Higher minimum and modern award wages are likely to lead to weaker employment growth and higher unemployment for these. As businesses shrink their workforce to adjust to the higher labour costs, it will be younger, less skilled and less experienced workers that are most affected.

Wages

97. The tightening of the labour market has already led to an increase in wages. Natural growth in wages is expected as the labour market continues to operate in a tight environment. The Reserve Bank Statement on Monetary Policy forecasted the wage price index to rise to 4.1per cent by June 2024 before easing to 3.7 per cent in December 2024 and 3.6 per cent by June 2025[56]. Similarly, the Mid-Year Economic and Fiscal Outlook anticipates a slightly faster decline, projecting the wage price index to decrease from 4 per cent in 2023-24 to 3.25 per cent in 2024-25[57].

98. **Wages are now rising faster than both consumer and producer price inflation.** Consumer inflation eased to 4.1 per cent over the year to December 2023, while producer inflation ticked up from 3.8 per cent in September to 4.1 per cent by December[58].

Figure13: Comparison of Consumer Price Index, Producer Price Index and Wage Price Index , annual growth



Source: ABS 2023, Producer Price Indexes, December 2023 |Consumer Price Indexes , December 2023| Wage Price Index, December 2023

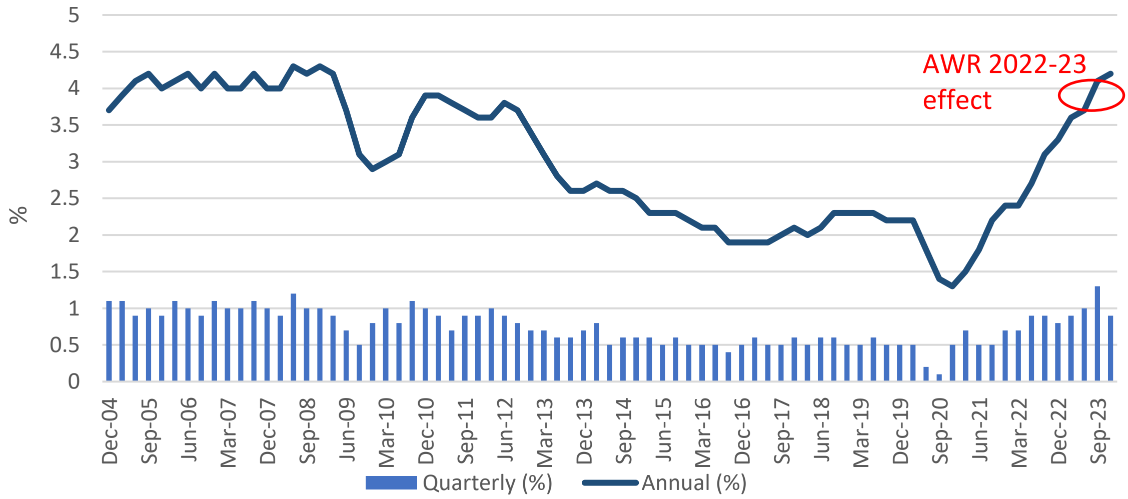
[55] Mid-year Economic and Fiscal Outlook , 2023-24
[56] RBA, Statement on Monetary Policy , February 2024
[57] Mid-Year Economic and Fisal Outlook, 2023-24
[58] ABS 2023, Consumer Price Index, December 2023 | producer Price Index, December 2023

99. Real wages growth is expected to strengthen over the next year with inflation forecast to fall at a faster rate, down to 3.3 per cent in June 2024 and 3.2 per cent in December 2024[59]. The increasing real wages are poised to positively impact the living standards of low-paid workers.

100. Annual wages growth remains robust in the private sector, reaching 4.2 per cent over the 12 months to the December quarter of 2023[60]. Notably, jobs covered by enterprise agreements contributed significantly to this growth, accounting for nearly half (45 per cent) of quarterly growth in the same period. The 2022-23 Annual Wage Review decision, the Aged Care Work Value case, labour market pressures and adjustments for consumer price index (CPI) rises have contributed to increased wages pressure in the private sector.

101. The impact of the 2022-23 AWR decision is evident in the quarterly wage price index rising to 4.1 per cent in September from 3.7 per cent in June.[61] This significant rise shows the influence of the AWR decision. The influence of the AWR decision has begun to emerge in enterprise bargaining agreements in the second half of 2023. The Average Annual Wage Increase for federal enterprise agreements in the September quarter 2023 was 4.1 per cent, up from 3.8 per cent in June 2023[62]. With most EBAs on a 3-year cycle and still to be negotiated, upward pressure on wage growth associated with the 2022-23 AWR decision is expected to remain for some time. With the labour market remaining tight, workers are using their bargaining power to demand even higher wages and more workers are granted large inflation-compensating wage gains, which will add to inflationary pressures.

Figure 14: Wage Price Index



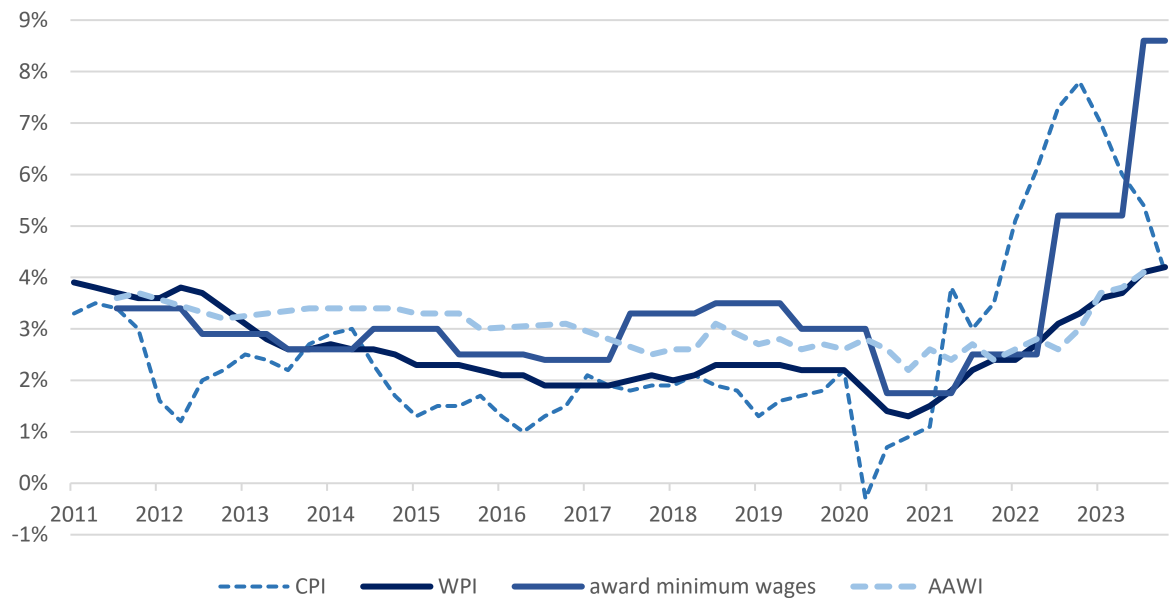
Source: ABS 2023, Wage Price Index , December 2023

[59] RBA, Statement on Monetary Policy , February 2024
[60] ABS 2023, Wage Price Index , December 2023
[61] Ibid
[62] Department of Employment and Workplace Relations, *Trends in Federal Enterprise Bargaining*, September quarter 2023;

102. This growth in wages is sustainable only if the labour productivity improves. Yet, productivity continues to contract, at negative 3.7 per cent in 2022-23.[63] Without a substantial productivity improvement and with more enterprise bargaining agreements yet to be negotiated, the risk of wage-driven inflation looms large.

103. Over the past decade, the Panel has consistently awarded increases in the minimum and modern award wages that exceeded the growth in inflation and the wage price index (WPI). Overall, the minimum and modern award wages have moved out of step with average wages, increasing by an average of around 3.2 per cent per year (32 per cent in total) over the past decade compared to 2.4 per cent per year (24 per cent in total) for the WPI. Similarly, although inflation has been high in the past year, over the past decade inflation has averaged 2.7 per cent per year (27 per cent in total), somewhat below the rate of increase in the minimum and modern award wage.

Figure 15: Comparison of Consumer Price Index, Wage Price Index, Award Minimum Wage and Average Annualised Wage Increase (AAWI)



Source: ABS 2023, Consumer Price Index ,December 2023 |ABS 2023, Wage Price Index ,December 2023| Statistical Report, Annual Wage Review 2023-24 | Department of Employment and Workplace Relations, *Trends in Federal Enterprise Bargaining*, September quarter 2023;

104. Overall, those industries dominated by award workers are seeing a record rise in their labour costs. Administrative and support services recorded the highest wages growth at 4.5 per cent year-on-year in December. This is up from 4.3 per cent for 12 months to September. Similarly, retail trade experienced wages growth of 4.3 per cent in December 2023, following 4.4 per cent in September, while accommodation and food services saw a 4 per cent increase in December (5.5 per cent in September),

[63] Productivity Commission, Annual Productivity Bulletin 2024 https://www.pc.gov.au/productivity-bulletin-2024.pdf

rental hiring 3.8 per cent (3.7 per cent in September), and arts and recreation service 3.8 per cent (4.6 per cent in September)[64].

Inflationary impacts of minimum and award wages increases

105. Former Reserve Bank Governor Philip Lowe previously stated concerns that entrenched wage growth above 3.5 per cent will make it very difficult to get inflation back to the 2-3 per cent target band, stating:

> "[I]t's important to remember that the steady state wage increases in Australia should be around 3.5 per cent… If wage increases become common in the 4 and 5 per cent range, it's going to be harder to return inflation to 2.5 per cent and then we'd be in a world where the economy would have to slow more and perhaps the unemployment rate would need to rise."[65]

106. The AWR decisions over the past two years, with minimum wage increases of 5.2 per cent then 8.6 per cent, and modern award wage increases of 4.6 per cent then 5.75 per cent, have made the Reserve Bank's task in containing inflation more challenging.

107. The compounding impact of the increases over the past two years was 10.6 per cent for modern award wage employees and 14.25 per cent for minimum wage employees. These wage increases were disproportionate to the average market wages growth over this period, with the wage price index up only 6.5 per cent.

108. In a slowing economy and an environment of contracting productivity, high wage growth has become the main driver of inflation.[66]

109. The AWR decisions over the past two years have been shown to greatly underestimate the minimum wage's contribution to inflation.[67]

110. The ABS recently doubled its estimates of the effect of the 2021-22 AWR decision on award wages to wages growth, raising its contribution to the WPI from 0.29 per cent to 0.58 per cent. The suggests the more than half of wages growth in the September quarter 2022 (0.58 per cent of 1 per cent) was the result of the AWR decision.

111. Similarly, the 2022-23 AWR decision, increasing modern award wages by 5.75 per cent increase, was shown to contribute to a 0.7 per cent increase in total wages growth in September quarter 2023. Again, this is more than half of wages growth in the September quarter 2023 (0.7 per cent of 1.3 per cent).

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[64] ABS 2023, Wage Price Index , December 2023
[65] RBA, Transcript of Question & Answer Session, *Inflation and Monetary Policy*, Philip Lowe, Speech to American Chamber of Commerce in Australia, 21 June 2022
[66] Australian Institute profits and inflation report [https://treasury.gov.au/Ministerial Submission.pdf](https://treasury.gov.au/Ministerial%20Submission.pdf)
[67] Australian Financial Review 16 August 2023, *Minimum wage effect on wage growth doubles after ABS revisions.* *https://www.afr.com/work-and-careers/workplace/minimum-wage-effect-on-wage-growth-doubles-after-abs-revisions-20230815-p5dwr6*

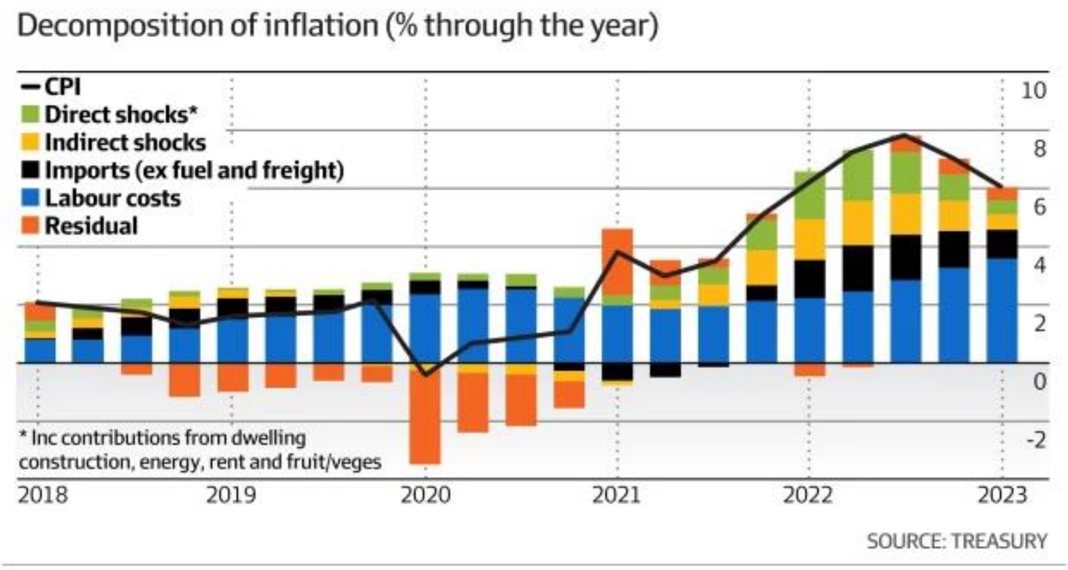
112. This raises questions as to the 2022-23 AWR decision statement the wage increase would make "only a modest contribution to total wages growth in 2023-24 and will consequently not cause or contribute to any wage-price spiral".

113. Analysis by the Reserve Bank has also shown that both direct and standard indirect effects of the AWR decisions have a material impact on inflation.

114. Further, recent Treasury analysis (obtained by *The Australian Financial Review* under FOI) highlights the emerging wage pressures, noting:

> *"The inflation analysis showed labour costs made up almost two-thirds of headline CPI in the year to June 30, 2023. The remainder was made up of import prices, global price shocks and other elements. When annual CPI peaked at 7.8 per cent in December 2022, wages made up about 30 per cent"[68].*

Figure 16: Decomposition of inflation for the year



115. The Treasury report predicted:

> *Pay rises would become the main driver of CPI, and increased competition sparked by the slowing economy would force businesses to absorb higher wages into lower profit margins.*

116. Therefore, in deliberations on any increase in the minimum and modern award wages in the 2023-24 AWR, it is important the Panel recognise its miscalculations over the past two years, which have resulted in wages overcompensating employees, and the contribution these overestimates have made to inflationary pressures.

[68] Australian Financial Review 26 February 2024 , *Wages growth drives inflation , average pay tops $100k*, https://www.afr.com/wage-growth-drives-inflation-average-pay-tops-100k-20240225-p5f7ku

117. It is also important to recognise that businesses in industries with a high share of award-reliant employees have been forced to absorb the sharp rise in wages, resulting in deteriorating profit margins.

118. The Panel needs to be cognisant that any increase in minimum and modern award wages in its 2023-24 decision will have implications for inflation. Were the Panel to follow its AWR decision in 2022-23, with a third substantial increase in minimum and modern award wages in 2024, it is likely to add to price pressures and a slow rate of decline in inflation.

119. In making its decision for the 2023-24 AWR decision, it is important that the Panel acknowledge that it has previously underestimated of the impact of its wage increases on total wages growth and inflation, following the ABS revisions. It should also adjust for the overshoot of compensation in past decisions through a moderate increase in minimum and modern award wages in the 2023-24 decision of no more than 2 per cent.

Effects of Minimum Wage Increases on Employment

120. An increase in National Minimum Wage and Modern Award Wages that exceeds 3 per cent would be immoderate in the already slow-paced economy. The Annual Wage Review decisions of the past two years overcompensated minimum and modern award-wage employees, with wage increases above inflation in a high-inflation environment. This was despite substantially lower average wages growth across the broader economy. Therefore, the any wage increase in 2023-24 must take account of these extraordinary increases in previous years and realign wages growth with inflation expectations.

121. Australia has one of the highest minimum wages globally, standing at US$2,442 in 2022, trailing only Switzerland and Iceland.[69]

122. A study by Neumark and Wascher on the impacts of minimum wage reveals potential employer responses to higher minimum wages. Employers are either forced to absorb these costs or pass them onto consumers through increased product prices. They found that higher minimum wage also come with other costs:

> "*firstly, minimum wages reduce employment opportunities for less-skilled workers, especially those who are most directly affected by the minimum wage. Secondly, minimum wages do not, on net, reduce poverty or otherwise help low-income families, but primarily redistribute income among low-income families and may increase poverty. Thirdly, minimum wages appear to have adverse longer-run effects on wages and earnings, in part because they hinder the acquisition of human capital*."[70]

123. In the decision for the 2023-24 Annual Wage Review, the Expert Panel must be cognisant of these impacts from excessive increases in minimum and modern award wages. If the Expert Panel were to increase minimum wages and modern

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[69] ILOSTAT, Wages and Working Time Statistics Database https://ilostat.ilo.org/wages
[70] Neumark and Wascher 2010, 'Minimum Wages'

award wages beyond 3 per cent, this decision will weigh heavily on businesses most particularly on the businesses in the award reliant sectors. As the economic environment is expected to remain subdued over the next year, an excessive increase in minimum and modern award wages is likely to exacerbate the disemployment and income redistribution effects on minimum wage and award-reliant employees.

Transitional role of the Minimum Wage

124. As previously noted by ACCI, in determining any increase in minimum wages, the Panel must take into consideration the important role of the minimum wage as a stepping-stone to higher paid employment. Maintaining the minimum wage at an affordable level enables young and inexperienced workers to access the workforce and gain the experience necessary to build a career.

125. Wilkins and Zilio 2020 showed the important role of the minimum wage in enabling young and inexperienced workers to access the workforce, and gain the experience necessary to build a career. This research identified that 39.1 per cent of workers joining the workforce on the minimum wage move to higher paid employment within one year, 56.8 per cent move after 2 years and 80 per cent moved by 5 years.[71]

126. Further, analysis by McGuinness and Freebairn (2007) using HILDA data, indicates "*[f]or about a half of low paid employees, a low paid job, especially if it is full-time, is a stepping stone to a higher paying job in the future*."[72]

Employer's response to wage increases

127. While an employer's immediate response to a higher minimum wage is to increase the cost of products, the employer is often unable to pass on the full cost and must absorb some of the increase through lower margins. Over the longer term, with minimum and modern award wages growing faster than the broader economy, businesses with a high proportion of award-reliant employees will experience a sustained reduction in profitability, which is likely to lead to the capital moving to alternative investment opportunities[73].

128. This is consistent with the findings of recent analysis by the Productivity Commission, which shows the capital labour ratio declined by 4.9 per cent in 2022-23, as capital did not keep pace with the number of hours worked. Workers had access to less capital, which weighed on productivity. [74]

129. The minimum wage should not be used to drive wages growth across the economy. The minimum wage is a safety net that applies only to a very small proportion of the workforce (less than 1.5 per cent) that are in transition to higher paid work.

[71] 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
[72] McGuinness S and Freebairn J (2007) "Who are the low paid?", *Australian Journal of Labour Economics*
[73] Bray (2013) ,Reflections on the evolution of the minimum Wage in Australia :Options for the future
[74] Productivity Commission, Annual Productivity Bulletin 2024

Following the rebasing from the C14 to C13 rate, it will be more difficult for workers to enter the workforce and transition to higher paid work.

130. Through this notion, ACCI urges the Expert Panel to set minimum and modern award wages at a level that appropriately rewards workers, but ultimately encourages businesses to employ more workers. This approach would maximise the opportunity for new and untrained workers to enter the workforce and begin to progress into higher paid work.

Superannuation Guarantee

131. ACCI notes that the legislated increase in the Superannuation Guarantee (SG) from 11 per cent to 11.5 per cent will take effect from 1 July 2024. Under the legislation the SG will progressively increase by 0.5 per cent until it reaches 12 per cent on 1 July 2025.

132. The SG is calculated as a percentage of an employee's earning, with each increase in the SG granting a 0.5 per cent wage increase (albeit as a deferred benefit) to employees.

133. The SG increase has a flow-through effect onto labour costs, raising the cost of doing business and further fuelling inflationary pressure.

134. With extremely tight profit margins, business have little option but to pass on this increase to their customers.[75] This will only add to inflationary pressures and/or lead to inflation remaining higher than it needs to be for longer.

135. In last year's decision, the panel noted:

> *The Superannuation Guarantee contribution rate will increase by 0.5 per cent, from 10.5 per cent to 11 per cent, effective from 1 July 2023. This will, in the broad sense, constitute an increase to employees' remuneration, albeit that it will not increase their disposable income. Perhaps more significantly, this increase will constitute a cost to employers which they will have to bear simultaneously with any minimum wage increases flowing from this Review.*

136. The Mid-Year Economic and Fiscal Outlook forecasts payments related to the Superannuation Guarantee Scheme to increase by $332.1 million in 2023–24 and $1.5 billion over four years to 2026–27. [76]

137. As costs of doing business surge upwards, any increase in national and modern award wages in the 2024 review should again be moderated downwards by the SG rate increase. ACCI emphasises the importance of quantifying the impact of the SG rate increase on wage decisions, echoing their previous submissions to the review process. By factoring in the rise in the SG rate, ACCI believes the wage

[75] RBA, *Minutes of the Monetary Policy Meeting of the Reserve Bank Board*, March 2022
[76] Mid-year Economic and Fiscal outlook, pg 69

adjustments can be more accurately reflects the cost to employers and overall benefit to workers.

Low Income Households

138. ACCI maintains that minimum wage fixation 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.

139. 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 per cent), non-dependent children living with their parents (17 per cent) or were secondary earners in couple households (21 per cent).[77]

    b. A large proportion of minimum wage earners work part-time (77.2 per cent) or casually (79.6 per cent).[78]

    c. While there is a higher proportion of minimum wage earners among low-income households (44 per cent 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.[79] 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.

140. Research by Wilkins and Zilio showed similar characteristics for *low-paid award-reliant employees*, with these employees more likely to be in part-time jobs (58 per cent) and/or in casual employment (66.5 per cent).[80] They are more likely to be younger employees (29 per cent between 20 and 25 years, and 60 per cent between 20 and 35 years), suggesting they are more likely to be less experienced workers. They are living in couples (58.5 per cent) or dependent students/non-dependent children (19.9 per cent) still living with their parents.[81] Almost 60 per cent of *low-paid award-reliant employees* in couple households are secondary earners and a high

[77] 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, pp. 4-5

[78] 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, p. 8.

[79] 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, p.6

[80] Wilkins R. and Zillio F. (2020), *Prevalence and Persistence of Low-Paid Award-Reliant Employment* Fair Work Commission Research Report 1/2020, February. p.17.

[81] Wilkins R. and Zillio F. (2020), *Prevalence and Persistence of Low-Paid Award-Reliant Employment* Fair Work Commission Research Report 1/2020, February. p.25

proportion of all *low-paid award-reliant employees* receive government welfare benefits (25 per cent) that supplements their lower income.[82]

141. ACCI is concerned with the Panel's continued use of the arbitrarily determined threshold for 'low paid.' In previous Annual Wage Review decision, the Expert Panel noted:

> *For the purpose of this consideration, we will continue the approach taken in previous review decisions whereby the 'low paid' are defined as persons whose ordinary-time earnings are below two-thirds of median (adult) ordinary-time earnings of all full-time employees.*

142. There is no clear explanation given or research referenced, as to why two-thirds of median earnings is any more representative of the low-paid than any other number. Just because some contributors to the Annual Wage Review use the two-thirds median earning in the campaign to seek increases to the national and modern award wages does not make it a valid assumption to benchmark decisions for the Annual Wage Review.

143. Irrespective of ACCI's reservations in the definition of low paid, Wilkins and Zilio show a marked decline in low-paid award-reliant employees, down 21 per cent over the decade 2009 to 2018.[83] This suggests living standards are improving, lessening the need for further increases in minimum and award minimum wages to further reduce the pool of low-paid award-reliant employees.

144. In determining an increase in minimum and modern award wages for 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.

Household Disposable income

145. Over the year to July 2023, almost all minimum wage reliant household types, received an increase in nominal disposable income of 7 per cent or more.[84] The exception was single earner couples, who received an increase of at least 6.3 per cent.[85]

146. All household types retained a greater share of their increase in the minimum wage despite the increasing cost of living pressures, with single parents working part time and dual earner couple retaining the greatest share of the increase in the minimum wage, at 88.9 per cent and 77.3 per cent respectively.[86] Also, the wage increase has

[82] Wilkins R. and Zillio F. (2020), *Prevalence and Persistence of Low-Paid Award-Reliant Employment* Fair Work Commission Research Report 1/2020, February. pp.23, 26.
[83] Wilkins R. and Zillio F. (2020), *Prevalence and Persistence of Low-Paid Award-Reliant Employment* Fair Work Commission Research Report 1/2020, February. p.9
[84] Statistical Report – Annual Wage Review 2023-24, Table 8.4
[85] Statistical Report – Annual Wage Review 2023-24, Table 8.4
[86] ibid

been high across all household types , with dual earner couple recording the highest wage increase of up to $105.30.

147. The disposable income of minimum wage earners as a ratio of 60 per cent of the medium income (the arbitrary poverty line) has improved considerably over the past year for all household types.[87] The data shows significant improvement in the disposable income of households with children (single parents with children, single earners with children and dual earners with children) in the September 2023 income year, as compared to previous years, despite elevated costs of living. This is because the disposable income of these households was bolstered through increases in job seeker and single parenting payments.

Budget Standards

148. ACCI notes that there has been a minor revision in December 2023 edition since the March 2023 Budget standards.

149. In the 2022-23 Annual Wage Review decision the Expert Panel noted that:

> *[T]he updated budget standards research report published in March 2023 by the Commission demonstrates, by reference to 14 household types, that households dependent upon low-paid, modern award-reliant employees will have difficulty in meeting their basic financial needs.*[88]

150. ACCI maintains the position, as highlighted in through previous submissions, that overall, the Budget Standards remain heavily weighted to the high side, representing the budget requirements of the highest percentile of households, not the average minimum wage earner.

151. Further, the report assumes that low-paid workers are between the age of 35-40. This is not representative of the average age of minimum wage employees. As noted above, with 41 per cent of NMW earners are between the age of 15-24 and a further 14.9 per cent between 25-29. Younger workers have different expenditure and budget requirements, so the use of an older age group to determine the Budget Standards is likely to distort the outcomes of the focus group discussions and analysis. [89]

[87] Statistical Report – Annual Wage Review 2023-24, Table 8.6
[88] The Annual Wage Review , 2022-23,[100]
[89] For example, a high proportion of minimum wage employees below 30 are likely to living either in share houses or still with their parents.

Table 8.8: Updated budget standards estimates, single person working full time (per week)

	Budget standards (September quarter 2022)		Budget update (December quarter 2023)		
	($)	Index	($)	Index	% change
Food	82	124.5	86	131.2	5.4
Clothing and footwear	13	96.5	13	97.9	1.5
Household goods and services	104	119.6	106	121.4	1.5
Transport	111	123.8	117	130.5	5.4
Health	11	150.6	12	159.6	6.0
Personal care*	19	128.4	20	136.1	6.0
Recreation	37	114.4	39	121.2	5.9
Education	0	146.0	0	152.9	4.7
Budget standards	**377**		**393**		4.3
Discretionary*	89	128.4	94	136.1	6.0
Housing	426	136.4	461	147.5	8.1
Total	**891**	-	**948**	-	6.4

Note: *Group comprises several categories, therefore the 'All groups' CPI is used.

Source: Bedford M, Bradbury B & Naidoo Y (2023), *Budget Standards for Low-Paid Families*, Social Policy Research Centre, University of New South Wales, report prepared for the Fair Work Commission, March, p. 50; ABS, *Consumer Price Index, Australia*, December 2023.

152. The recent update of the Budget Standards continues to inflate household needs for the following reasons:

a. The focus of the Budget Standards is on determining the minimum income requirements for low-paid employees. Some of the expenditure included in discretionary spending is questionable, notably the $18 per week allowance for a full-time minimum wage worker for eating out lunch at work. This contradicts the focus group discussions, both in the regularity and amount, with "very few of the participants [speaking] about buying lunch at work." The allowance of $24.54 lost on gambling per week is also a questionable inclusion. Using the average gambling loss per adult in Australia is a broad generalisation of gambling prevalence in Australia and by lower-paid households. A recent study has found 43 per cent of Australian's are non-gamblers[90].

b. The decision to set the housing allowance at the 40th percentile of Sydney rents, which the research team admits is arbitrary and unrepresentative of the housing budgets of the low-paid. It assumes the low-paid live in and pay rent at a rate that approximates the average of rental housing available in Australia's most expensive city. It is unlikely that low paid employee would be renting in the 40th percentile and the report provides no explanation of why this is chosen as the appropriate level of housing for low-paid. It would

[90] Hing, N. et al. 2022, *Gambling prevalence and gambling problems amongst land-based-only, online-only and mixed-mode gamblers in Australia: A national study*, Computers in Human Behaviour, July 2022

be more likely that a low-paid employee would rent in the lower percentiles, rather than the middle percentiles as presented in the report.

c. Regardless, the use of Sydney rents unnecessarily biases the results of the analysis, to the point that if capital city rents in any other state were used as the base for the comparison, the minimum wage would provide sufficient income to support the budget plus housing of all household categories. Using the data provided by the research report and calculated by ACCI, a single adult, single parents working full-time with one or two children, and dual-earner couples (with no, one or two children) all recorded above 100 per cent in their minimum wage disposable income as a percentage of their budget using the rent in Melbourne, Brisbane, Perth, Adelaide and Hobart, as well as the regional areas in each state.

153. ACCI maintains that Budget Standards cannot in themselves be determinative of the minimum wage or an uprating of minimum award rates.

Part 2 – Social Considerations

Fair and Relevant Safety Net

154. The modern awards objective clearly states that the purpose of modern awards is to provide a 'fair and relevant safety net' for Australian workers.[91]

155. Fairness in this context is to be determined and assessed from the perspective of employees and employers.[92]

156. 'Relevant' denotes that the safety net is to be suited to the prevailing circumstances.[93]

157. To this end, and in the context of the AWR, the Panel is tasked with providing a fair and relevant safety net to employees that is fair to employers as well as employees, and guided by the prevailing circumstances within which this review takes place.

158. In ACCI's view, fairness and relevance warrant the Panel, on this occasion, taking a far more reserved approach than it has in recent reviews.

159. First, it is necessary that the Panel not simply observe the immediate circumstances within which the review finds itself, but rather have a view to acknowledging the cumulative impact which substantial, successive increases to the NMW and modern award minimum wages have incurred through its decisions in [2023] FWCFB 3500 and [2022] FWCFB 3500.

160. Not only do those decisions provide relevant context to the review at hand, but they convey the importance of the Panel having a view to fairness and provide significant weight to the needs of employers on this particular occasion.

161. Award-reliant industry sectors have recorded the strongest increase in net business exits in the past year.[94] This of course means that business viability in these areas, which are most likely to feel the impacts of the Panel's decision, is very low at the present moment. Successive decisions of the Panel to order substantial wage increases may have played a part in the rate of these exits. The Panel should therefore be very cautious with respect to any increases it may order in the current context.

162. Furthermore, ACCI would draw the Panel's attention to the government's new industrial relations legislation, which is expected to exacerbate the productivity challenge for employers. With diminished flexibility once the changes are fully implemented, the costs for businesses are likely to increase, with many likely to downsize their business operations potentially further impeding productivity

[91] Fair Work Act 2009, section 284.
[92] [2017] FWCFB 1001 at [37].
[93] [2017] FWCFB 1001 at [37].
[94] See paragraph [77].

growth. This is relevant to the extent that these changes are an exceedingly pertinent factor of the current circumstances of employers.

163. This consideration therefore should be weighted towards the position of employers, in the context of the inclination to business costs and the heightened productivity challenges which the full effects of those legislative changes will incur, it is imperative that the Panel seek a fair safety net. Employers will face onerous new administrative burdens and obligations, naturally leading to a rise in input costs. The Panel should therefore consider the fact that any substantial increase to the NMW or award minimum wages is likely to have a disproportionately large impact on employers operations and productivity positions.

Secure Work

164. Under section 134 of the Fair Work Act 2009, the Panel is required to take into account considerations under the modern awards objective. Relevantly, paragraph (aa) of the modern awards objective provides that the Commission must ensure that "modern awards, together with the National Employment Standards (**NES**), provide a fair and relevant minimum safety net of terms and conditions, taking into account":[95]

> the need to improve access to secure work across the economy ...

165. The term "secure work" is not defined in the FW Act and recent processes such as the Job Security stream of the Modern Awards Review (**MAR**) have noted that there is no agreed or clear definition of the term.[96]

166. It is therefore important to explore and contemplate what is meant by secure work. The AWR cannot have any relevance to the improvement of secure work without a coherent construction as to what exactly it is seeking to improve access to. With the notion of 'fairness' in mind, namely the requisite need to balance the perspectives of employees and employers, there is a necessity for the employer perspective to be outlined here so that the Panel may balance it fairly.

Definition of Secure Work

167. ACCI seeks to put forth its views which are a reflection of its arguments in the abovementioned stream of the MAR.

168. First, however, ACCI would draw attention to the relevant discussion of the Panel in its most recent review. The concept of job security and the updated objects were discussed by the Panel in the AWR 2022-23 as follows[97]:

> "[28] .. In the award context, job security is a concept which is usually regarded as relevant to award terms which promote regularity and predictability in hours of work and income and restrict the capacity of employers to terminate employment

[95] Fair Work Act 2009, section 134(1)(aa).
[96] Modern Awards Review 2023-24 – Job Security: Discussion Paper, page 22.
[97] Annual Wage Review Decision 2022-23 [2023] FWCFB 3500.

at will. The award provisions which are likely to be most pertinent in this respect are those which concern the type of employment (full-time, part-time, casual or other), rostering arrangements, minimum hours of work per day and per week, the payment of weekly or monthly rather than hourly wages, notice of termination of employment and redundancy pay (noting that a number of these matters are dealt with in the NES).

[29] Beyond the immediate award context, job security has a broader dimension and may be understood as referable to the effect of general economic circumstances upon the capacity of employers to employ, or continue to employ, workers, especially on a permanent rather than casual basis …"

169. The Expert Panel also observed:

"[30] … paragraph 334 of the REM explains that the reference to promoting job security in s 3(a) recognises the importance of employees and job seekers 'having the choice' to be able to enjoy as much as possible 'ongoing, stable and secure employment that provides regular and predictable access to beneficial wages and conditions of employment'. We see no reason to consider that the expression 'secure work' in s 134(1) (aa) bears any substantially different connotation to 'job security' in s 3(a). However, we consider that it is significant that s 134(1)(aa) refers to 'the need to improve access' to secure work rather than the general promotion of job security. The language of s 134(1)(aa) suggests that it is more tightly focused on the capacity of employees to enter into work which may be characterised as secure. This appears to reflect the REM's reference to the importance of employees being able to have a 'choice' to enter into secure employment. As such, the consideration in s 134(1)(aa) would appear to direct attention primarily to those award terms which affect the capacity of employees to make a choice…"

170. The Expert Panel's view may therefore be summarised as follows:

(1) The term "secure work" in s 134(1)(aa) does not bear any substantially different connotation to 'job security' in s 3(a), but "job security" has a broader dimension which may be understood as referrable to the "effect of general economic circumstances upon the capacity of employers to employ, or continue to employ, workers, especially on a permanent rather than casual basis".[98]

(2) The terms "job security" and "secure work" are concepts which are usually regarded as relevant to award terms which promote regularity and predictability.[99]

(3) It is significant that s 134(1)(aa) refers to the "need to improve access" to secure work. The Expert Panel suggests that this means that the modern awards objective is more tightly focused on the capacity of employees to enter into

[98] Annual Wage Review Decision 2022-23 [2023] FWCFB 3500 at [29].
[99] Annual Wage Review Decision 2022-23 [2023] FWCFB 3500 at [28].

work which may be characterised as secure, especially the capacity of employees to have a "choice" to enter into secure work.[100]

171. Consistent with the previous view of the Panel, ACCI submits that the need to improve access to secure work in the context of the AWR should be considered by reference to:

(1) whether the employee has a choice to enter into work which promotes regularity and predictability; and

(2) the effect of general economic circumstances upon the capacity of employers to employ, or continue to employ, workers, especially on a full time or part time basis.

172. The effect of general economic circumstances upon the capacity of employers to employ, or continue to employ, workers is clearly relevant to whether an employee has a choice to enter into secure work. If economic circumstances are such that the employer cannot offer employees work, then the employee will be deprived of this choice.

173. It is through this lens that the Panel should investigate the significance of the increase it deems required to the minimum wage. It has been thoroughly canvassed that substantial increases to labour costs have disemployment outcomes.

174. To that end, the Panel should avoid an increase to the NMW and modern award minimum wages which may deprive employees of a choice to enter into non-permanent forms of work (casual, fixed term etc employment) or to continue their employment or to enter the workforce at all. Job security is a product of healthy businesses across the economy having the ability to employ workers. Hence the Panel must take into account the economic impact on the employer, and relatedly, the capacity for that employer to offer work as effectuated by increases to the NMW or modern awards minimum wages.

There is no increase in 'insecure work'

175. ACCI rejects the notion put forward previously or by any submission to this review by employee organisations that certain forms of work are by nature 'insecure'. This view invalidates the agency of workers to enter into the flexible forms of work which best account for their lifestyle or personal circumstances. The vast majority of casual workers, for example, often prefer to remain causal even in instances where they are offered conversion.

176. Additionally, ACCI would address the fallacy that so-called job insecurity is rising. The argument that insecurity in the workforce is pervasive and insidiously growing cannot be accepted on the basis of fact. Unions have frequently referred to casual employment, fixed term contracting and labour hire as 'insecure' forms of work.

[100] Annual Wage Review Decision 2022-23 [2023] FWCFB 3500 at [30].

177. While ACCI categorically rejects this demonisation of these legitimate forms of work, any calls for an increase in the minimum wage above what ACCI has proposed due to increases in these so-called forms of 'insecure' work must be rejected on the basis of fact:

    a. The incidence of casual employment as a percentage of persons employed has reduced since 2014. In 2014, 24.1 per cent of employed persons were casual. Over the decade, that figure has declined to 22 per cent.[101]

    b. The number of fixed term contracts, which is frequently cited by the union movement as a form of 'insecure work', has reduced both as a percentage of the employed population and the total number of employees over the decade. In 2014, 3.7 per cent of the workforce or 355,600 employees were on a fixed term contract. In 2023, 3 per cent of the workforce or 345,000 employees were on a fixed term contract.[102]

    c. Similarly, and again, nominated by the union movement as a form of an 'insecure job', labour hire workers (as a main job) have slightly risen since 2014 from 217,200 people to 270,500 in 2023. However, that figure has decreased from a peak of 309,300 people in 2019.[103] As a proportion of all employed people, however, labour hire workers (as a main job) make up 1.9 per cent of the working population. That is an uptick of merely 0.1 per cent since 2014 when the rate was 1.8 per cent.[104]

178. The only relevant factor which may show an increase in job insecurity is the self-perception of job insecurity or risk of job loss. This too must be rejected on the basis of the below:

    a. While perceptions of job security have risen, especially following labour market disruptions during the COVID-19 pandemic, [105] RBA research published in late 2021 established that workers consistently overestimate their risk of job loss.[106] The actual job loss rate was lower than the self-estimated probability of job loss. In this sense employees tend to feel more insecure in their employment than they actually are. These findings are particularly relevant in the face of the latest ABS data available which indicates that the annual retrenchment rate in Australia is the lowest it has ever been on record, sitting at 1.4 per cent.[107]

    b. If retrenchment rates are taken to be actual job insecurity, on the latest measurement job insecurity is at its lowest rate since such data was

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[101] Australian Bureau of Statistics, Working Arrangements, Release: December 2023.
[102] Australian Bureau of Statistics, Working Arrangements, Release: December 2023.
[103] Australian Bureau of Statistics, Labour Hire Workers, Release: September 2023.
[104] Australian Bureau of Statistics, Labour Hire Workers, Release: September 2023.
[105] Roger Wilkins et al, the Household, Income and Labour Dynamics in Australia Survey: Selected findings from Waves 1 to 20 – *The 17th Annual Statistical Report of the HILDA Survey* (Melbourne Institute, University of Melbourne, 2022), p 86.
[106] 'Job Loss, Subjective Expectations and Household Spending', Gabrielle Penrose, Gianni La Cava, Reserve Bank of Australia, August 2021.
[107] Job mobility survey, ABS, Released 30 June 2023.

recorded. This must play a strong role in any consideration over the perception of employees of job insecurity, which research from the RBA indicates is consistently overestimated.

179. Any proposal that seeks to increase the minimum wage beyond the 2.5 per cent (2.0 per cent plus the legislated 0.5 per cent Superannuation Guarantee increase) that ACCI has proposed as a result of increasing job insecurity should be rejected on the basis of simple fact as outlined above.

Secure work as a consideration on AWR decisions

180. As ACCI has stated, secure work should be viewed through a lens of whether an employer has the ability to continue to offer work of a kind which an employee presently performs or offer ongoing employment. It is incontrovertible that the final arbiter of whether work is secure is the employer. In turn, that security is inextricable from the ability of the employer to provide that work based upon economic considerations. Labour costs are an economic consideration.

181. Indeed, the decision of the previous AWR stated that "[t]he Review outcome will only affect the capacity of employees to have access to secure work across the economy to the extent that it promotes or diminishes the capacity of employers to offer permanent employment."[108]

182. ACCI agrees with this sentiment to the degree that an increase above what ACCI has proposed to the minimum wage may in fact inhibit the ability of employers to continue to offer work of the same kind or to provide ongoing work. This accords to the notion that significant increases in labour costs detrimentally impact the viability of businesses and have disemployment effects as referenced at paragraph [96.] of this submission.

183. It is only a natural conclusion that the need to improve access to secure work therefore should guide the Panel towards taking a sensible, balanced approach to increasing the NMW and the modern awards minimum wage. Substantial increases would in fact undermine the economic circumstances of businesses and lead to disemployment outcomes, which of course would be antithetical to the notion of improving access to secure work.

184. ACCI hence reiterates that the NMW and modern award minimum wages should not be increased above 2.5 per cent (2.0 per cent plus the legislated 0.5 per cent Superannuation Guarantee increase) in 2024.

Gender Equality

185. ACCI firmly supports measures which seek to close the gender pay gap and advance women's economic equality.

[108] [2023] FWCFB 3500 [142].

186. However, increases to the minimum wage and modern award wages are incapable of having any material impact on the gender pay gap or women's economic equality more broadly.

187. In the establishment and maintenance of a safety net of fair minimum wages, the Panel must take into account:

> "the need to achieve gender equality, including by ensuring equal remuneration for work of equal or comparable value, eliminating gender-based undervaluation of work and addressing gender pay gaps;"

188. In ensuring that modern awards provide a fair and relevant minimum safety net of terms and conditions, the Panel must take into account:

> "the need to achieve gender equality in the workplace by ensuring equal remuneration for work of equal or comparable value, eliminating gender-based undervaluation of work and providing workplace conditions that facilitate women's full economic participation;"

189. It should be noted at the outset, that in the previous AWR decision the Commission observed that the capacity of increases to the national minimum wage and modern award minimum wage rates to narrow the gender pay gap is very limited.[109] ACCI agrees with this sentiment. This accords with the Panel's previous observation that a moderate increase in the national wage rate has a "relatively small, but nonetheless beneficial, effect on the gender pay gap".[110]

190. Furthermore, it is only logical that uniform increases to the national minimum wage rate and modern award wage rates do not effectively narrow the gender pay gap with respect to the relevant employees. This is because uniform increases naturally maintain the previous gap. The only difference is that those relevant male and female employees are now paid at a proportionately higher rate, albeit with the same wage gap.

191. Therefore, as an extension of that understanding, changes to the NMW and modern awards wages cannot assist the Commission in "ensuring equal remuneration for work of equal or comparable value". Neither can they improve gender equality by "eliminating gender-based undervaluation of work". Uniform increases innately cannot address any imbalance.

192. Finally, as discussed above, large increases to labour costs, such as wages, have disemployment effects and therefore could potentially undermine the consideration of facilitating "women's full economic participation" as outlined in section 134(1)(ab) of the Fair Work Act. Naturally then, considering the fact that women are disproportionately award-reliant, as the research clearly demonstrates, significant increases to the minimum wage and modern award wage rates, will have disproportionate disemployment impacts on women and should be avoided.

[109] [2023] FWCFB 3500 [118].
[110] [2022] FWCFB 3500 [87].

193. Hence, any increase to the NMW above the 2.5 per cent (2.0 per cent plus the legislated 0.5 per cent Superannuation Guarantee increase) that ACCI has proposed due to a pursuit of gender equality should not be accepted by the Panel.

Social Inclusion

194. Social inclusion through workforce participation is deeply important to a thriving economy. A thriving economy is inextricably tied to the welfare of businesses more broadly.

195. The Panel is required to take into account "the need to promote social inclusion through increased workforce participation" in the setting of minimum and modern award wages.[111]

196. As the Commission has held previously, the use of the conjunctive "through" clarifies that social inclusion is a concept to be promoted exclusively "through increased workforce participation".[112]

197. ACCI therefore reiterates its submissions with respect to the disemployment effects of significant increases to labour costs such as wages. Naturally if a significant increase to the minimum wage and the associated modern award wage rates is implemented and then has a disemployment effect, it cannot promote social inclusion through increased workforce participation.

Junior, Trainee and Disabled Employees

198. Work is one of the fundamental dignities in life, and should be available to all persons in order to earn a living and experience the social inclusion that workforce participation allows for.

199. To that end the minimum wages objective clearly outlines that the Panel is required to take into account the need to provide "a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability."[113]

200. ACCI submits, consistent with previous submissions, that any changes made to modern award wages in this Review should flow through to junior rates of pay in modern awards, employees to whom training arrangements apply, employees with a disability and piece rates.[114]

[111] Fair Work Act 2009, section 134(1)(c).
[112] [2018] FWCFB 5753 at [72].
[113] Fair Work Act 2009, section 284(1)(e).
[114] See ACCI submission to [2022] FWCFB 3500 at [288].

Flexible Work, Additional Remuneration, and Stable and Sustainable Modern Award System

201. In setting minimum wages and modern award wages, the Panel is required to take into account “the need to promote flexible modern work practices and the efficient and productive performance of work”;[115] “the need to provide additional remuneration” for certain work;[116] and “the need to ensure a simple, easy to understand, stable and sustainable modern award system for Australia that avoids unnecessary overlap of modern awards”.[117]

202. The Panel traditionally does not discuss these considerations in annual wage review decisions. ACCI agrees that these factors are neutral because the setting of minimum wages and modern award wages is unlikely to directly impact any of these objectives.

[115] Fair Work Act 2009, section 134(1)(d).
[116] Fair Work Act 2009, section 134(1)(da).
[117] Fair Work Act 2009, section 134(1)(g).

Part 3 – Collective Bargaining

The need to encourage collective bargaining

203. ACCI brings to the Panel's attention to the objects of the Act. Section 3 clearly emphasises the importance of enterprise-level collective bargaining. Submissions which do not couch the need to encourage collective bargaining in the Act's incontrovertible preference to this occurring at the enterprise-level should be provided significantly less weight.

204. It is incontrovertible that there is a preference to enterprise-level bargaining in the objects and as outlined in the *Acts Interpretation Act 1901* (Cth), the interpretation which would best achieve the purpose or object of the Act is to be preferred to each other interpretation.[118]

205. In setting minimum and modern award wages, the Panel is required to take into account "the need to encourage collective bargaining".[119] In prior decisions, the Panel has determined that it "cannot be satisfied that the increase … determined will encourage collective bargaining".[120]

206. In the most recent AWR decision the Panel stated the following:[121]

> "We have no sound basis to consider that, within a reasonable range, any increase we order to the NMW, and modern award minimum wage rates will either encourage or discourage enterprise bargaining. Accordingly, this is not a matter to which we give any significant weight in reaching our decision in this Review."

207. ACCI concurs that this is not a consideration which any significant weight should be given.

208. However, it should be noted that ACCI does believe that significant increases to the minimum wage may serve to neutralise the desire to enter into enterprise-level collective bargaining on the part of employees and employers.

209. In the scope of the AWR, the Panel's need to encourage enterprise-level collective bargaining must be based on the presumption that such bargaining is to allow productivity gains for the employer in exchange for higher wage outcomes for employees. The Panel should be cautious in instituting another substantial wage increase for employees to the extent that employers will struggle to find productivity improvements which would pay for over-award wage increases which collective bargaining would undoubtedly require. This therefore does discourage employers from willingly entering into bargaining.

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118 Acts Interpretation Act 1901 (Cth), section 15AA.
119 Fair Work Act 2009, section 134 (1)(b).
120 [2023] FWCFB 3500 [155].
121 [2022] FWCFB 3500 [85].

210. The new multi-employer streams of collective bargaining which have been allowed for through the *Fair Work Legislation Amendment (Secure Jobs, Better Pay) Bill 2022* (Cth), which only commenced a month prior to the current financial year, further complicate the need to encourage enterprise-level collective bargaining. It is ACCI's view that this one-size-fits all approach has the ability to completely undermine the ability of employers to achieve productivity outcomes unique to a particular enterprise.

211. Additionally, in ACCI's view the recent changes to intractable bargaining workplace determinations will mean employers are going to be substantially less likely to engage in collective bargaining. This naturally leads to the conclusion that any significant NMW or modern award minimum wages increase will create a disproportionate disincentive to engage in collective bargaining when compared to reviews conducted in previous years. This is due to the fact that such increases already made it harder for employers to achieve the productivity outcomes which would incentivise them to engage in bargaining at the outset.

212. ACCI also submits, from merely a logical standpoint, that consecutive AWR decisions which have ordered significant wage increases may create a perception among employees that there is no need to exert efforts in order to collectively bargain for an agreement which may result in higher wages.

213. In this sense ACCI submits that consecutive significant increases may lead some employees to believe that the AWR can be, figuratively, relied upon to negotiate wage increases on their behalf in turn creating a general sense of apathy with respect to enterprise-level collective bargaining.

214. Additionally, as ACCI has previously submitted, significant increases to modern award wage rates make it more difficult to satisfy the better off overall test (**BOOT**) with respect to a prospective enterprise agreement. It is only natural then, that an enterprise agreement is less likely to be approved if there are significant wage increases under modern awards. Following along this line of thought it is argued that enterprise bargaining would therefore become less attractive to employers if there is to be a significant increase to the minimum wage and modern award wage rates as a result of this review.

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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