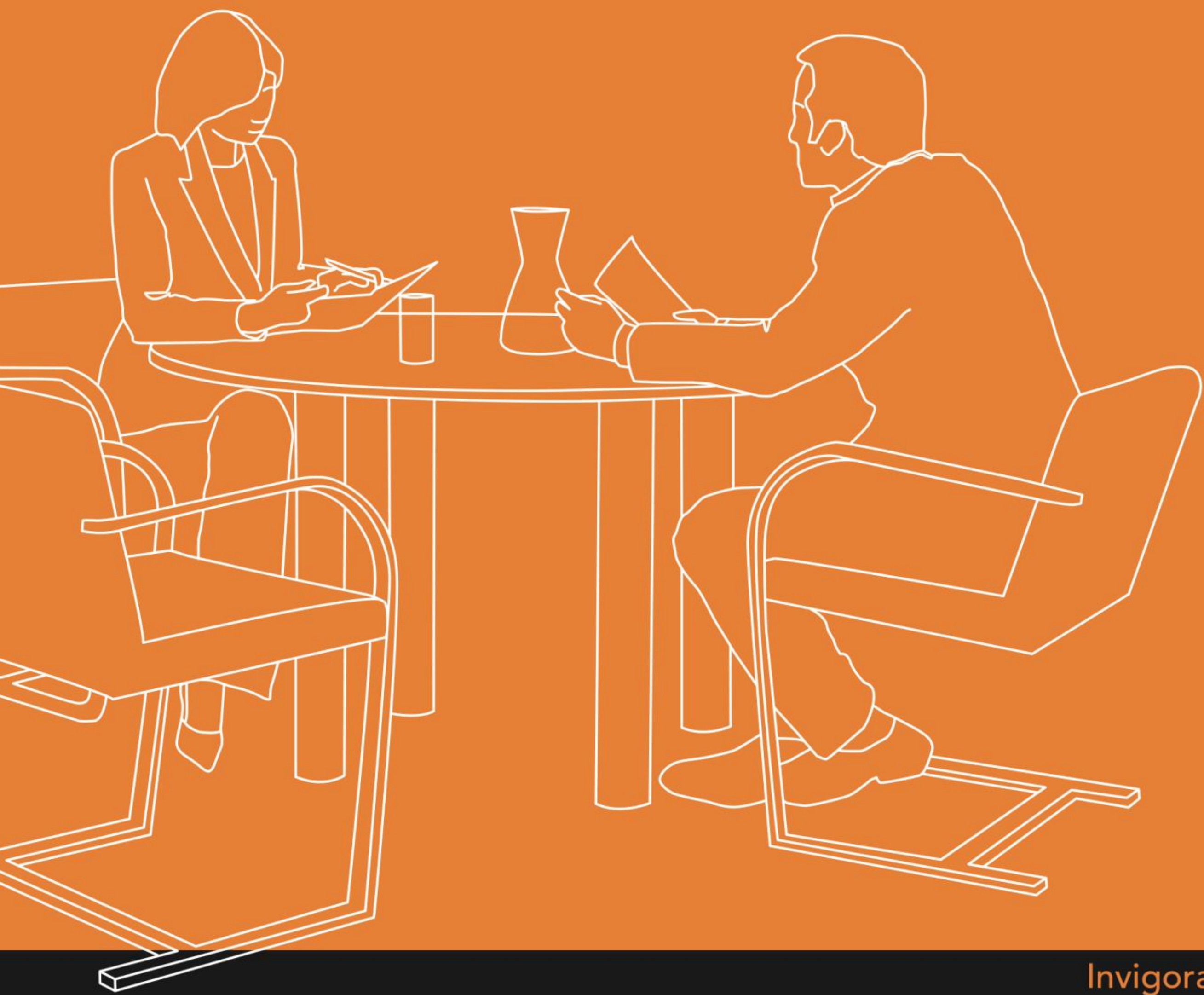
Australian Business Industrial

Annual Wage Review 2010-11

ABI post-budget submission to Fair Work Australia

13 May 2011



About ABI

Australian Business Industrial (ABI) is a registered organisation under the Fair *Work (Registered Organisations) Act 2009*. It is also responsible for NSW Business Chamber's workplace policy and industrial relations matters and its state registered counterpart is also a Peak Council for employers under the *Industrial Relations Act 1996 (NSW)*.

ABI is a successor to the Chamber of Manufactures of NSW which was established in 1886 to promote the interests of its members in trade and industrial matters. The Chamber was registered under the then operating NSW legislation in 1926. Since its inception, the Chamber and its successor industrial organisations have played a major representational role in industrial relations federally and in NSW.

ABI represents the interests of not only individual employer members, but also other Industry Associations, Federations and groups of employers who are members or affiliates.

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Introduction

Submissions in reply to the Annual Wage Review were lodged by 29 April 2011, and the Panel's timetable permitted additional submissions to be made following the release of the 2011-2012 Budget. The Panel's directions limit these post-Budget submissions to matters arising from the Budget.

These are ABI's submissions arising from the Budget.

Economic Outlook

In its initial submission and its submission in reply, ABI noted that while the economy has improved since the time of the last annual wage review, the near time outlook remains less than robust, and significant economic challenges remain. We would contend that, while Australia has performed well relative to other developed economies, this is due more to economic weakness in other countries than to economic strength in Australia.

Since our submission in reply on 29 April, there have been a number of relevant data releases from the ABS. In particular, labour force data and data for the retail sector have been updated since we referred to these in our last submission. Both of these publications demonstrate the "patchwork" nature of the economic recovery in Australia, and highlight the difficulties which are currently present in many sectors.

Employment

The latest labour force figures were released by the ABS on 12 May. [1] The economy shed 22,100 jobs in April, with a significantly larger fall in full time positions (49,100) partially offset by a smaller gain in part time positions (26,900).

While it is too early to say with any certainty, the data so far from 2011 does suggest that employment conditions may have softened since 2010. In NSW, the unemployment rate has increased from 4.6 per cent in December 2010 to 5.1 per cent in April 2011. Full time employment and part time employment in NSW have both also fallen over this period.

National employment indicators have also been relatively weak over this period. While the headline unemployment rate has been steady, this has been due to a decline in the participation rate rather than an increase in the number of people in work. Through the calendar year to April, employment growth in 2011 is currently tracking at an annualised rate of 0.7 per cent, which is well below its long-term trend.

Retail Trade

Conditions in retail trade remain difficult. ABI's submissions in reply drew attention to this issue, and the subsequent data for the retail sector released earlier this month only reinforces how weak conditions remain in this sector.

Retail trade fell by 0.5 per cent in March to leave total growth for the twelve months at 2.3 per cent. Growth in NSW was even weaker, down by 0.1 per cent in March and total growth of only 1.3 per cent over the past 12 months. Growth in the sector has now been well below its decade average of more than 5.5 per cent for more than a year.[2]

With no further stimulatory measures for the sector announced in the Budget, the outlook for growth in retail remains very weak in the near-term, and any excessive increase in award wages would only place further pressure on the viability of many businesses in this industry.

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[1] ABS, *6202.0 – Labour Force, Australia,* April 2011.

[2] ABS, *8501.0 – Retail Trade, Australia,* March 2011.

The Budget

Economic Commentary

While the Budget forecasts above trend growth for the economy in 2011-12, it also noted that significant risks to the domestic and international economic outlook remain.

Regarding the international economic outlook, the Budget papers note that "...the international recovery remains uneven following the GFC and risks remain elevated."[3]

In specifying the risks to the global outlook, the Budget papers state that:

"Output in the major advanced economies is still well below potential and, while economic growth has strengthened, it is not yet sufficient to make substantial inroads into high unemployment. This is at a time when governments in some major advanced economies are under pressure to make credible commitments towards medium-term fiscal consolidation, leading to difficult policy trade-offs."[4]

And:

"Uncertainty about the speed and strength of the Japanese recovery, compounded by the ongoing nuclear situation, and rising world oil prices are adding to existing fragilities. While financial conditions have improved in recent months, the potential for sovereign debt concerns in the euro area to affect the broader European financial sector and cause contagion effects beyond Europe remains a key risk. Failure to develop a credible medium-term response to the unsustainable US fiscal position also poses a threat to the sustainability of the global recovery. Inflationary pressures continue to build in emerging market economies, driven by reduced spare capacity and compounded by rising food and oil prices. While oil prices have not returned to their July 2008 peaks, a further significant and sustained increase could pose broader risks to global growth in the context of a fragile global recovery."[5]

On the domestic front, the Budget clearly emphasised the patchwork nature of the economic recovery:

"...while the resources sector is driving strong aggregate real GDP growth, conditions in other sectors are made more difficult by the related strength of the Australian dollar, tightened macroeconomic policy settings and increasing competition for labour and other inputs. For some industries, these challenges are compounded by more cautious household spending behaviour and the increased difficulty that some businesses still confront in accessing credit following the global financial crisis."[6]

While there has been improvement in the domestic economy over the past twelve months, conditions remain challenging in many sectors.

Tax Changes

While there were no personal income tax cuts announced in this year's Budget, the Government did make changes to arrangements for payment of the Low Income Tax Offset. These changes were designed to "provide more timely relief to low- and middle-income earners."[7] The Budget papers note that an individual on an annual income of $30,000 "will receive an extra $300 during the year as a result of this measure."[8]

While not strictly a tax cut, this policy change nonetheless increases the amount of money available from week to week for those on lower incomes. For someone on the minimum wage, this change is equivalent to an increase in their weekly disposable income of around $5.75.

Inflation

The Budget papers forecast inflation of 3¼ per cent in 2010-11.[9] However, much of this inflation in prices is associated with the temporary spike in the price of fruit and vegetables following the floods and cyclones in early

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[3] Commonwealth Treasury, *2011-12 Budget Paper No. 1*, May 2011, Statement No. 2, p. 3.

[4] Ibid., p. 4.

[5] Ibid.

[6] Ibid., Statement No. 1, p.7.

[7] Ibid., p. 29.

[8] Ibid.

[9] Ibid., Statement No. 2, p. 10.

2011. Specifically, the Budget papers indicate that the floods and cyclones have increased the 2010-11 forecast for inflation by ½ a percentage point, but that two thirds of this inflationary spike will have been unwound by the end of the September quarter.

Given this, ABI contends that its recommendations for wage increases of no more than 2.8 per cent remain appropriate in the current economic environment, and that a wage increase of this magnitude would be sufficient to ensure maintenance in the real value of wages for award-reliant employees.

With the uncertainties that remain around the economic outlook, and the stagnation in productivity growth in recent years, we believe that an increase of more than this amount would be inappropriate at this time.