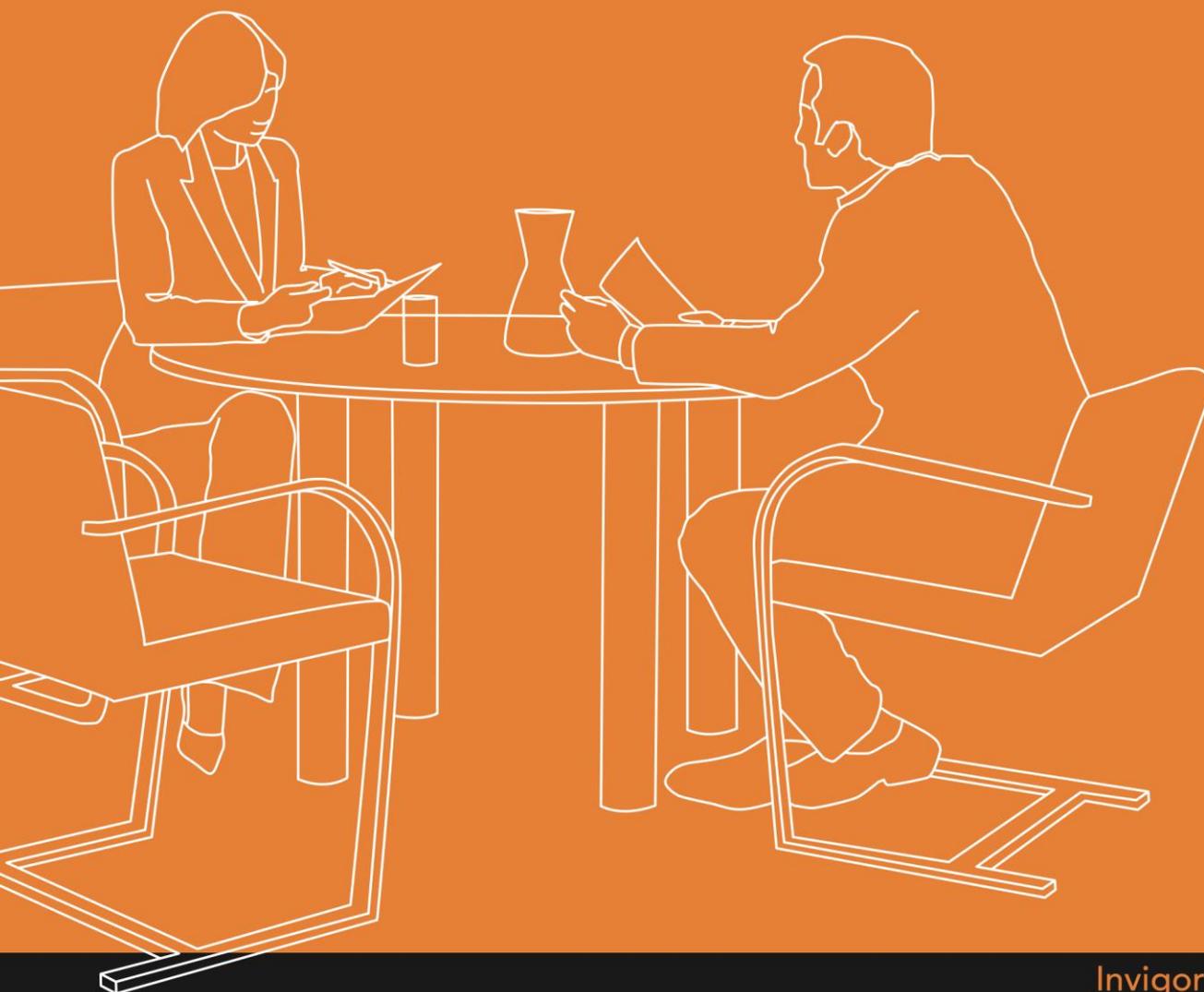


Annual Wage Review

ABI Submission in reply to Fair Work Australia
27 April 2012



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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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Economic Update – key data since 16 March

Since the closure of the first round of submissions on 16 March, the Australian Bureau of Statistics has put out key releases updating employment and inflation data. In addition, on April 22 the NSW Business Chamber released its Business Conditions Survey for the 2012 March quarter, which, in addition to asking standard questions on the economic outlook, also sought to collect data on the impact of Annual Wage Review decisions on employment in award reliant businesses.

Economic Outlook

ABI remains of the view that the economic outlook is patchy and uncertain, particularly in NSW. The Commonwealth Government's submission to the Annual Wage Review expressed similar concerns about the economic outlook, noting that "conditions are expected to remain uneven, with weak global demand and ongoing global uncertainty adding to other pressures, like the high Australian dollar and cautious household spending behaviour, which are weighing heavily on some sectors."¹

Employment

The latest unemployment data suggested positive signs in Australia's labour market. Total employment increased by 44,000 (of which 16,000 were full time jobs), the participation rate increased to 65.4 per cent, and the unemployment rate remained at 5.2 per cent.

In relation to the employment estimates the ABS notes: "The estimates in this publication are based on a sample survey. Published estimates and the movements derived from them are subject to sampling variability. Standard errors give a measure of sampling variability."² This margin of error can be quite large, and in the case of this particular publication the ABS estimates that, while the published figure was jobs growth of 44,000 positions, the actual situation could have been as high as 99,000 jobs gained, or as low as 11,000 jobs lost. For this reason it is important not to give too much weight to any individual monthly employment survey, and to pay more attention to the longer term trend, which at this stage appears to remain weak.

In addition, broader employment indicators also continue to suggest that employment conditions remain relatively weak. On 11 April, DEEWR's most recent Monthly Leading Indicator of Employment was released (March 2012). The leading indicator fell for the fourth consecutive month, and the surrounding release noted that weakness was evident in all four of the Indicator's components.³

The NSW Business Chamber's latest Business Conditions Survey also found that employment conditions remain weak. The current employment index stands at -0.5, which is the lowest reading since July 2009. Expectations for employment over the next quarter came in at -0.2, which is also the lowest result since mid-2009.⁴

Inflation

Headline inflation and underlying inflation both fell well below economist's expectations in the March 2012 quarter. The headline inflation figure for the quarter was 0.1 per cent, against market expectations of a figure around 0.5 per cent.

Headline inflation over the last twelve months was 1.6 per cent, indicating that cost of living pressures have been relatively subdued over this period. Other than a brief dip during the global financial crisis, this is the lowest rate of growth in headline inflation since the 1990s. As headline inflation is the indicator which broadly captures the actual change in costs faced by households over time, the weakness in this series supports arguments for a more modest increase in award wages.

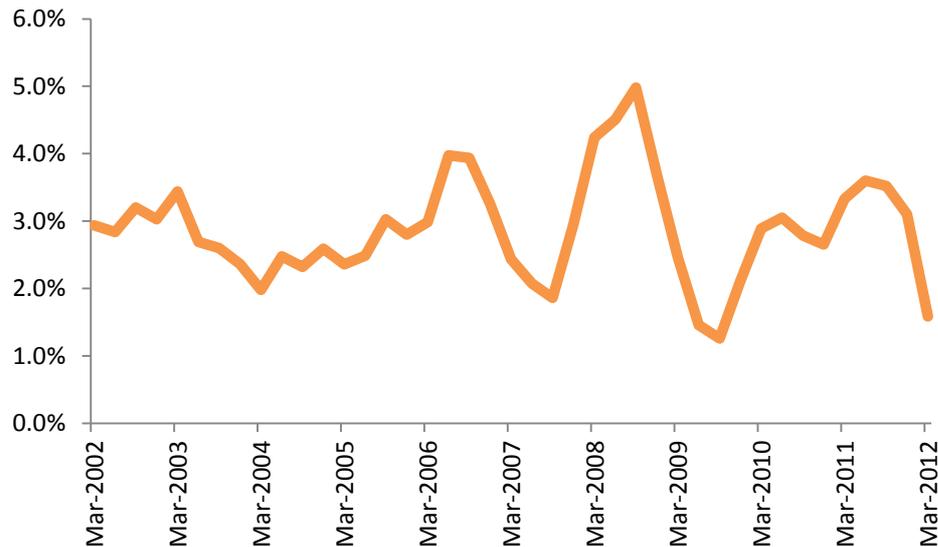
¹ Commonwealth Government, 2012 AWR Submission to FWA, p, 14.

² ABS 6202.0

³ DEEWR, Monthly Leading Indicator of Employment, April 2012.

⁴ NSW Business Chamber, Business Conditions Survey – March 2012

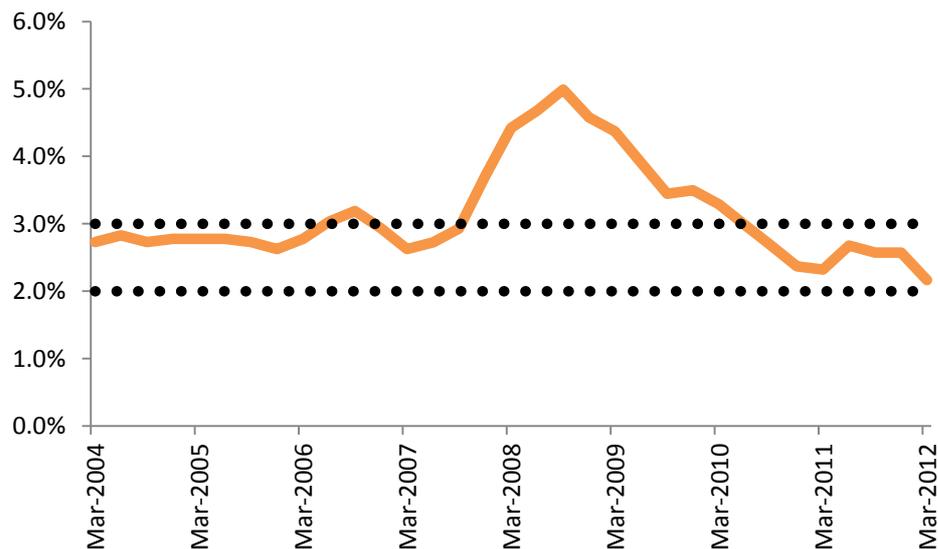
Chart 1 –Headline inflation (rolling 12 month growth)⁵



As noted in our previous submission, the RBA and Treasury expect headline inflation to remain moderate over the course of the 2012-13 financial year (once the impact of the carbon tax is excluded).

At the same time, underlying inflation also fell, and is now at the lowest level since the ABS started reporting this data in 2002. The continuing weakness in the underlying inflation data would suggest weakness in the growth outlook for the Australian economy, and that further cuts to interest rates from the Reserve Bank are likely to be necessary to support growth.

Chart 2 –Underlying inflation (rolling 12 month growth)⁶



⁵ ABS 6401.0

⁶ ABS 6401.0

Business Conditions

On 22 April, the NSW Business Chamber released its Business Conditions Survey for the March 2012 quarter. The survey showed that business conditions weakened further in the March quarter. On some indicators, economic conditions reached new lows, eclipsing the previous low of April 2009. Overall business conditions, sales revenue, exports, profits, employee numbers and hours, capacity utilisation, investment and access to finance all fell relative to the December quarter. Businesses continue to face significant challenges, with the strong Australian dollar, weak consumer confidence and the carbon tax all cited as key concerns.

Respondents also reported weaker wage pressures, with wages growing more slowly than in previous quarters, and the expectation was that this trend would continue.

While broader expectations about future business conditions improved marginally over the last quarter, they remain relatively weak and a broad based recovery in economic conditions in NSW appears to remain elusive.

In commenting on the survey, James McIntyre, Senior Economist with the Commonwealth Bank, noted that: “Confidence is key to whether robust job vacancies translate into further actual hires. If they don’t, and confidence in the non-mining economy remains in the doldrums, then the unemployment rate is likely to rise.”⁷

The survey also included two questions on award wages, one looking at the impact of last year’s AWR decision on employment, and a second seeking estimates of the impact of this year’s AWR decision. Overall, 14 per cent of award reliant employers said that they reduced staff levels following last year’s decision, and 20 per cent said that they reduced the number of hours worked by employees. Expectations from businesses were that a further 3.5 per cent increase in award wages would have an even more significant impact on employment – 24 per cent of award reliant employers said that they would reduce staff levels and 28 per cent said they would reduce the number of hours worked by employees.⁸

⁷ NSW Business Chamber, Business Conditions Survey – March 2012, p. 5.

⁸ *ibid*, unpublished data.

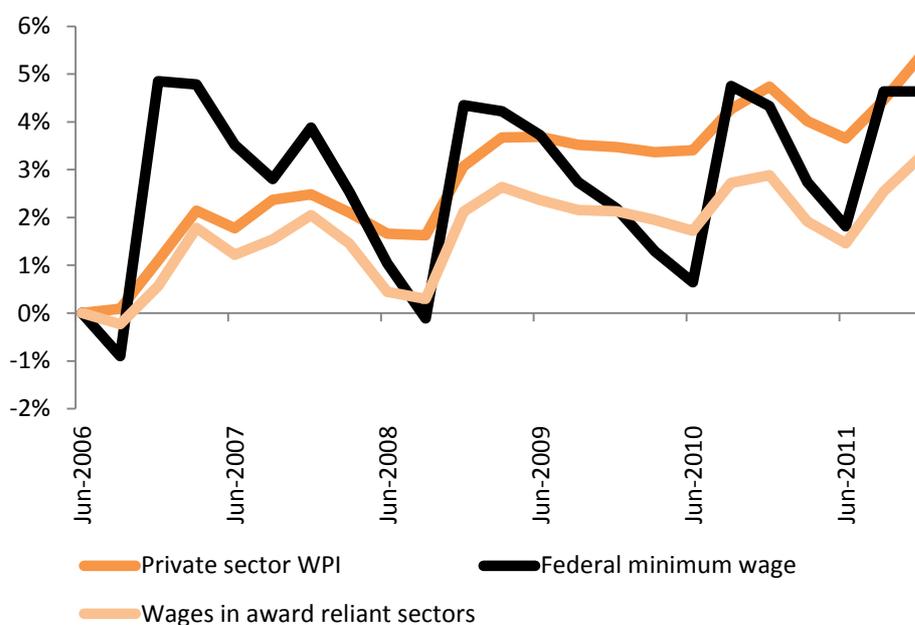
The real value of the NMW over time

While our previous submission noted that real minimum wages have increased significantly over the past decade, and have broadly kept pace with overall wage growth, other groups have reached very different conclusions about changes in the value of the NMW over time.

The ACTU notes in its submission that “despite the 2010 and 2011 increases, real (inflation-adjusted) minimum wages still remain around the level of December 2006,” and that “between the December quarter of 2006 and the September quarter of 2011, the NMW rose by 15.1 per cent, while the Consumer Price Index (CPI) increased by 15.4 per cent.”⁹ While this is correct, it conveniently overlooks the fact that the NMW was increased by 5.6 per cent earlier in the December quarter. Running the same analysis but starting and finishing a quarter earlier would show that the NMW rose by 21.7 per cent while the CPI rose by 15.2 per cent over the same period.

As we have previously demonstrated, the NMW has increased significantly in real terms over the past decade, keeping pace with the private sector Wage Price Index, and significantly outstripping broader wage growth in award reliant sectors.¹⁰ These findings equally hold true when comparing the period from 2006 onwards, as the chart below illustrates.

Chart 3 – Real growth in the National Minimum Wage and wage benchmarks



Between the June quarter of 2006 and the December quarter of 2011, the NMW and comparable wage price indices all increased in real terms. The NMW also broadly kept pace with the private sector Wage Price Index, while growing significantly more quickly than wages in award reliant sectors more generally. As can be seen from the chart above, the real NMW increased by 4.6 per cent, while real wages in award reliant sectors increased by 3.3 per cent and the real private sector WPI increased by 5.4 per cent.

The ACTU asserts that “while minimum wages have risen at around the same pace as prices in recent years, average and median wages have risen more rapidly,” and that as such, “the earnings of workers reliant on minimum wages have therefore fallen relative to the earnings of other workers.”¹¹ However, the ACTU makes

⁹ ACTU, 2012 AWR Submission to FWA, p. 1.

¹⁰ NSW Business Chamber, 2012 AWR Submission to FWA, p.32.

¹¹ ACTU, 2012 AWR Submission to FWA, pp. 1-2.

this comparison by looking at the change in AWOTE over time, an index which we have previously argued is not appropriate to use for comparisons of this kind (see Box 1 below).

BOX 1 – Measuring rates of wage growth

Some other organisations have suggested that award wages should maintain relativity with average weekly ordinary time earnings (AWOTE). It is true that AWOTE has increased more rapidly than other wage metrics over the past decade (20.2 per cent real growth in AWOTE versus 8.3 per cent growth in the private sector wage price index). However, ABI argues that this is not the appropriate indicator to look at for changes in wage relativities between award employees and other employees.

As was discussed earlier in this submission, changes in AWOTE in part reflect changes in the composition of the Australian workforce over time. Much of the increase in AWOTE simply reflects the gradual transition at the aggregate employment level towards positions which are more skilled, more productive, and therefore more highly paid.

If minimum wages increased in line with changes in AWOTE, wage rates for this group would increase more quickly than other employees in higher paid low-medium skilled positions which do not receive increases under FWA's annual wage review. This outcome would be unsustainable over time as it would mean wages were increasing more quickly than productivity.

The private sector wage price index (WPI) is a better indicator of relative wage movements as it measures underlying increases in labour costs and excludes compositional changes. It is important to exclude public sector wage changes from the comparison as wage increases in this sector are not directly linked to productivity improvements, and are largely unaffected by changes in economic conditions.

The ACTU argues that “it is time for an increase that delivers some benefit from productivity growth to those reliant on awards and the NMW.”¹² However, as we noted in our previous submission, productivity growth in award reliant sectors has been even slower than productivity growth in the economy overall. Over the past decade, productivity in award reliant sectors has grown at less than half the rate of productivity growth in the rest of the economy.¹³ The capacity to increase real wages in these award reliant sectors is consequentially far more limited.

The ACTU states that, “a fair safety net of minimum wages can help to reduce inequality, protect against working poverty and promote social inclusion. It is vital that the safety net is maintained.”¹⁴ ABI agrees with these views, and we believe that the recent decisions of Fair Work Australia have if anything, overachieved against these objectives. It remains ABI’s view that a modest increase in award wages of no more than 1.8 per cent would be sufficient to ensure that these objectives continue to be met.

¹² ACTU, 2012 AWR Submission to FWA, p. 2.

¹³ NSW Business Chamber, 2012 AWR Submission to FWA, p. 27.

¹⁴ ACTU, 2012 AWR Submission to FWA, p. 2.