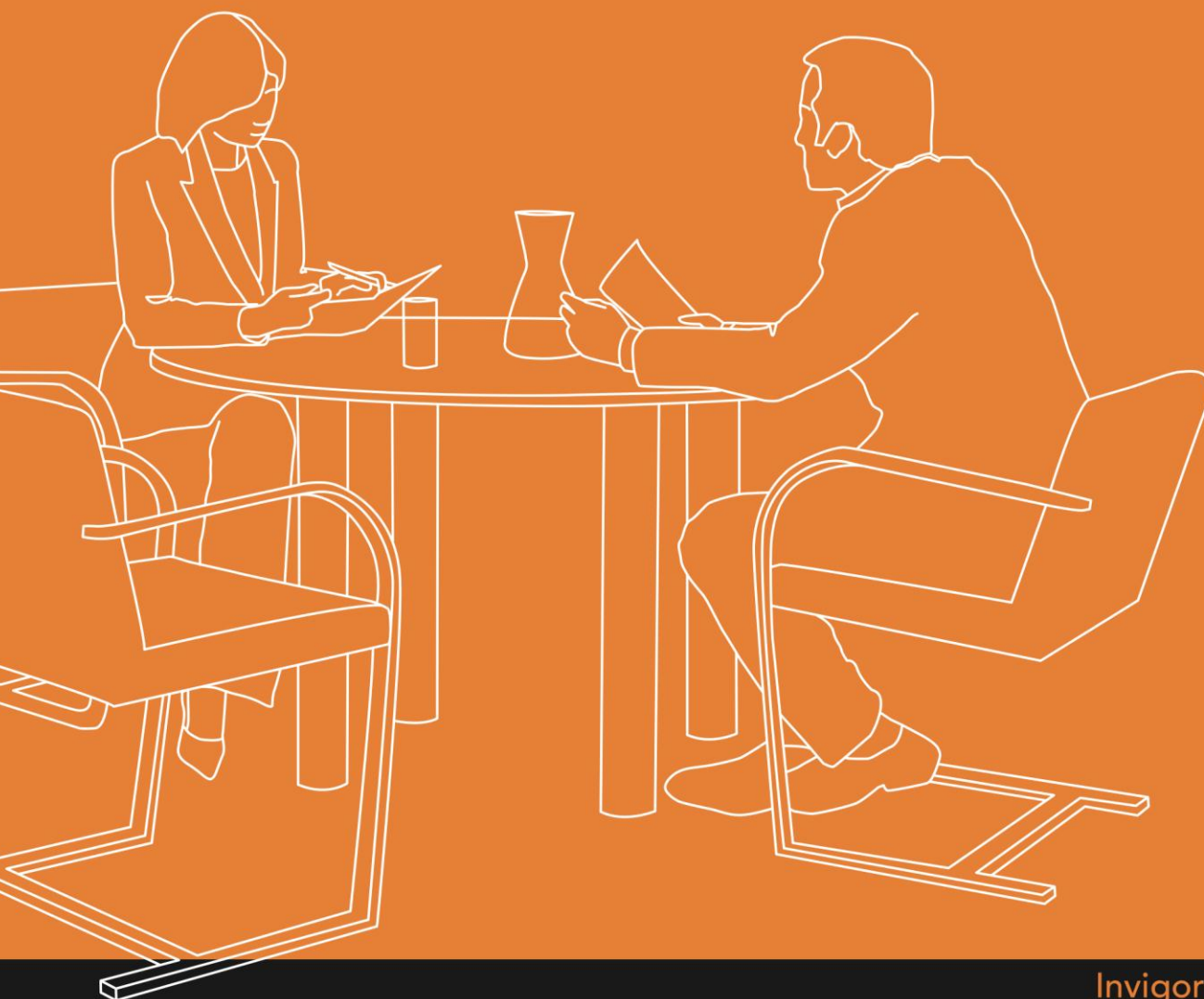


Annual Wage Review

ABI Post-Budget submission to Fair Work
Australia – 11 May 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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Decisions in the 2012-13 Federal Budget

The 2012 Federal Budget was a disappointing budget for Australian businesses. The expected reductions in the company tax rate were scrapped, and replaced with a far less generous loss carry back provision which will benefit a far smaller number of Australian businesses.

However, the Budget was a good one for low income Australians, with the Government announcing an additional support package to assist these groups with cost of living pressures.

These changes have reduced the capacity of Australian businesses to absorb additional wage costs, while at the same time increasing the disposable incomes of low income Australians, reducing the need for significant increases in award wages.

Company taxes

As part of the Budget, the Government announced that it would no longer proceed with a cut to the company tax rate from 30 per cent to 29 per cent.¹ The cut in the company tax rate would have saved businesses more than \$4.7 billion over the forward estimates, which would have helped to ease the additional cost pressures that the business community is facing from higher wages, lower productivity, a strong Australian dollar, and the carbon tax.

Instead, the government will introduce a loss carry back scheme, which is expected to benefit less than 5 per cent of Australia's 2.7 million small businesses.² With a total cost to government of \$700 million over the forward estimates, the benefit to the business community is less than 20 per cent of that which would have been derived from the company tax cut.

Additional household support

As part of the 2012 Budget, the Government announced its "Spreading the Benefits of the Boom" package, which will provide an additional \$3.9 billion in financial support to low and middle income Australian households.³

Key components of the package include:

- Additional increases in family payments of up to \$600 per year;
- The introduction of a new Supplementary Allowance, worth up to \$350 per year for couples; and
- Introducing a new Schoolkids Bonus, worth up to \$820 per year for each child at school.

While not all award reliant employees will be eligible for all of these payments, many of them are likely to see a significant increase in their disposable income as a result of these policy changes. It is therefore important that Fair Work Australia take these initiatives into consideration when considering the capacity of the current award wages system to meet the needs of the low paid.

¹ Commonwealth of Australia, 2012 Budget, Budget Overview, p. 41.

² *ibid*, pp. 12-13.

³ Commonwealth of Australia, 2012 Budget, Delivering a Stronger, Fairer Future, pp. 2-6.

Further changes in the economic outlook

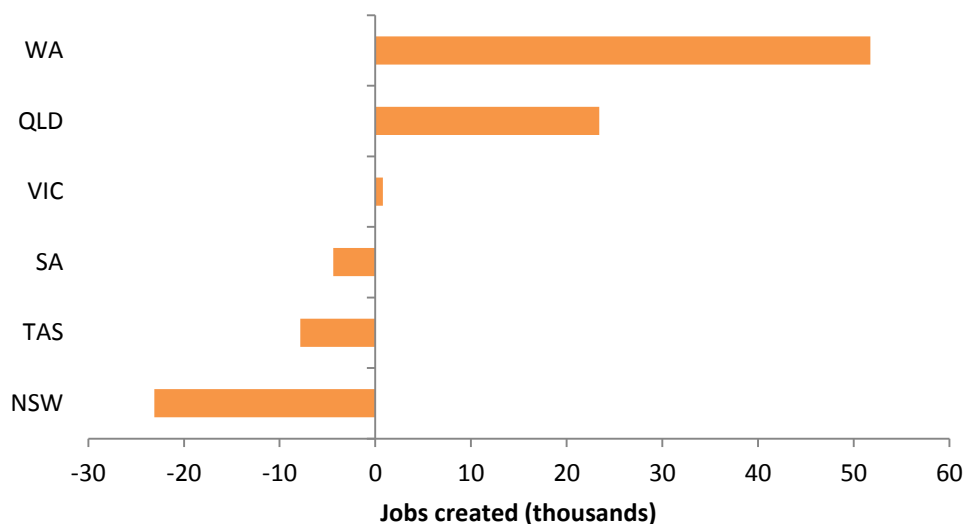
Since the lodging of submissions in reply on 27 April, revised economic forecasts from the Reserve Bank and Treasury have scaled back growth expectations for the Australian economy. While the ABS's most recent headline employment data provided an encouraging counterpoint, the strong headline figure continues to conceal underlying weakness in the Australian labour market.

Employment data

On 10 May, the ABS released labour force data for the month of April. On the surface, this looked like a very strong result, with the headline unemployment rate falling from 5.2 per cent to 4.9 per cent. The numbers underlying this result, however, were not as positive.

Aggregate job numbers clearly show that employment growth has been largely confined to Western Australia, with the rest of the country struggling to generate new jobs. Since the start of 2011, total employment in Western Australia has increased by 54,000 positions, while the rest of the States have created less than 3,000 additional jobs between them over the same period. The disparity between the performances of the individual states is clearly illustrated in the Chart below:

Chart 1 –Changes in total employment since January 2011⁴



Over recent months, much of the positive news around the headline unemployment rate has been driven by falls in the participation rate, as discouraged workers stop looking for work. The participation rate has fallen from 65.9 per cent at the start of 2011 to 65.2 per cent last month, a total fall of 0.7 per cent. If the participation rate had remained unchanged over this period, the headline unemployment rate would be 5.9 per cent, a full percentage point higher than the reported rate.

With respect to the employment outlook, the RBA noted that “outside of the mining industry, growth in labour demand remains subdued,”⁵ and that “overall, the decline in the participation rate over the past year, and weakness in average hours worked more recently, suggest that there has been some increase in spare capacity in the labour market...”⁶

⁴ ABS 6202.0

⁵ RBA, Statement on Monetary Policy, May 2012, p. 33.

⁶ *ibid*, p. 39.

Economic forecasts

The Reserve Bank's most recent Statement on Monetary Policy was released on 4 May. The Statement has seen the Australian GDP growth forecasts for 2011-12 and 2012-13 revised downwards, by 0.75 per cent and 0.25 per cent respectively.⁷ Growth is not expected to return to above trend levels until the 2013-14 financial year.

The RBA's inflation expectations for these two financial years have also fallen. Headline inflation for the 2011-12 year is now forecast at 1¼ per cent (down from a forecast of 1¾ per cent in February), while headline inflation in 2012-13 is forecast to be 3 per cent, down from 3¼ per cent last quarter.

Treasury revised its forecasts for the 2011-12 financial year downward in the 2012 Budget, but their forecasts for the 2012-13 financial year have remained unchanged. Treasury now expects GDP growth of 3 per cent in 2011-12 (down from a 3¾ forecast in MYEFO) and headline inflation is now expected to be 1¼ in 2011-12 (down from 2¼ per cent in MYEFO).⁸

The lower expectations for growth would suggest that there is less capacity for businesses to absorb significant increases in award wages, while at the same time lower inflation expectations would suggest that only a modest increase in wages is needed to meet the needs of the low paid.

⁷ RBA, Statement on Monetary Policy, May 2012, p. 67.

⁸ Commonwealth of Australia, 2012 Budget, Budget Paper 1, Budget Statement 2, p. 12.