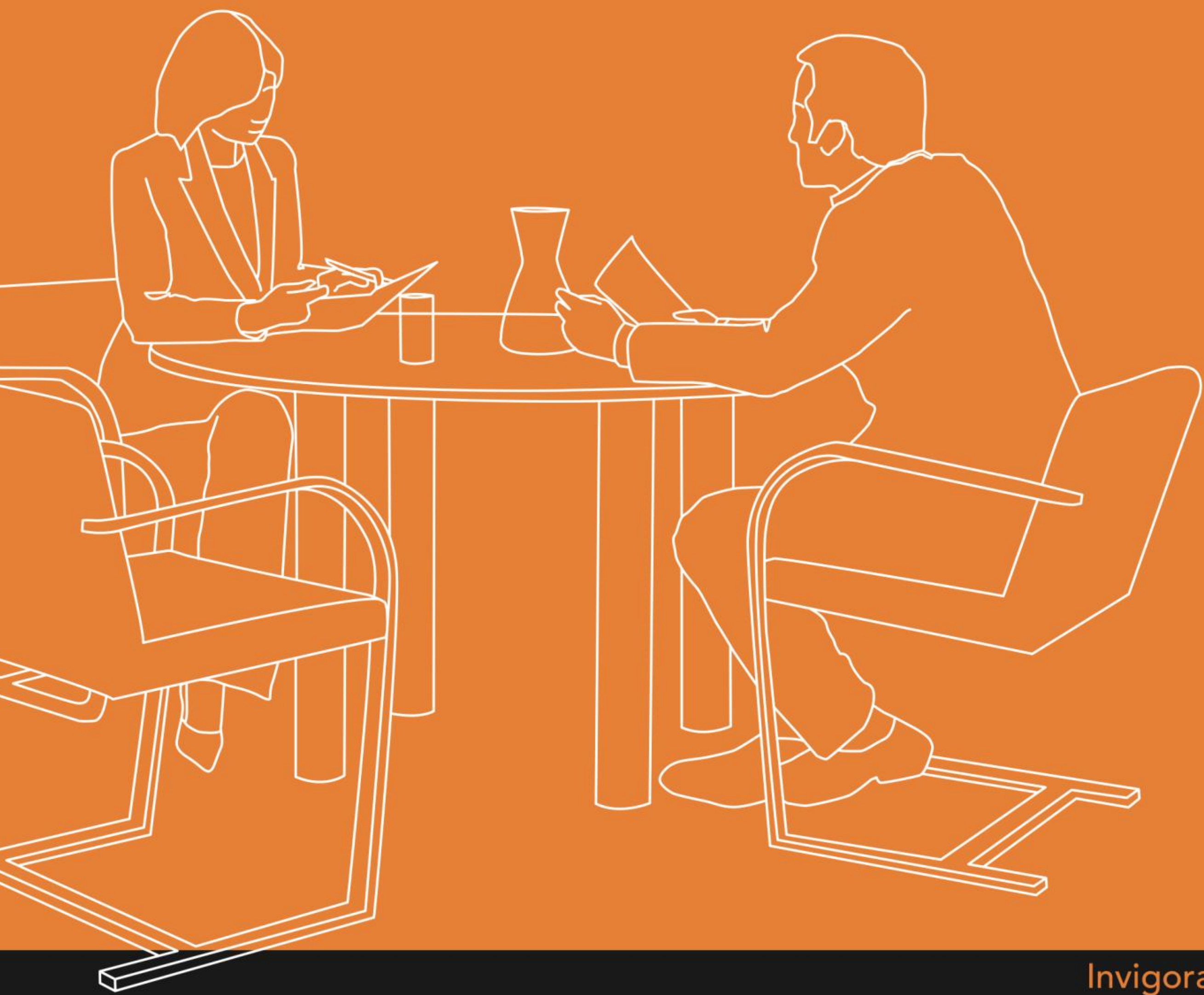
Annual Wage Review

ABI Submission to Fair Work Australia
16 March 2012



Invigorating business

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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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Recommendation

This is Fair Work Australia's (FWA) third annual wage review. It is required to review award minimum wages and the national minimum wage order (NMW Order) and make a NMW Order. It may set or vary minimum award wages taking into account the proposed NMW Order (s 285. When it sets or varies minimum wages FWA is required to take into account the modern awards objective (s. 134) and the minimum wages objective (s. 284) which impose a range of criteria on its considerations. As with performing all its functions and the exercise of all of its powers FWA must take into account the objects of the Act.

Taking into account the factors that FWA must consider as part of its annual wage review, ABI proposes that it would be appropriate for the National Minimum Wage (NMW) to be increased by no more than $10.60 per week (or $0.28 per hour) – equivalent to 1.8 per cent and award minimum wages to be increased by no more than 1.8 per cent.

ABI has recommended a fixed percentage increase for all award employees and NMW employees. It did so because for the same reasons as it advanced in the 2010-2011 annual wage review and because of the reasons which FWA had in its 2011 annual wage review decision for awarding a percentage increase. ABI also submits that if an increase is contemplated, a percentage increase to minimum award wages which is the equivalent of the percentage increase determined for the standard NMW is consistent with the range of matters which FWA relevantly must take account of when determining the nature of any increase.

The rationale behind ABI's recommendation is as follows:

- *Economic conditions are clearly weaker than they were 12 months ago*, with a serious deterioration in the Eurozone's economic outlooks, and domestic weakness seeing Australian growth continuing to track below trend.
- *Conditions in domestic labour markets are weak,* with no jobs growth during 2011, and the unemployment rate only remaining subdued through reductions in average hours and disillusioned job seekers leaving the labour force.
- *Productivity growth continues to struggle,* averaging 0.7 per cent over the past five years, its slowest growth rate in three decades.
- *Headline inflation remains moderate,* and is expected to average 2½ per cent per annum over the two years to June 2013.
- *Award reliant sectors are underperforming non-award reliant sectors*, and are experiencing lower rates of employment growth, wages growth and productivity growth. This trend has been particularly evident since the global financial crisis..
- *Incomes for the low paid have grown substantially over the past decade,* keeping pace with private sector wages and exceeding wages growth in award reliant sectors.
- *Personal tax cuts offsetting the impact of the carbon tax* will be introduced from July 1, providing a significant boost to the disposable incomes of award wage employees. The payments have been designed to more than full offset the inflationary impact of the carbon tax, and in many cases the cuts will increase disposable income by more than one per cent.

Inflation over the two years to June 2013 is forecast to total 5 per cent, once the impact of the carbon tax has been included. Given that last year's Annual Wages Review increased award wages by 3.4 per cent, that tax cuts from 1 July will increase disposable income by around one per cent, and that productivity growth is tracking well below its long-term average – it is ABI's submission that a modest increase in award wages of not more than 1.8 per cent would be most appropriate.

The Economy

Global Economic Conditions and Outlook

The previous year was a challenging one for the global economy, and the year ahead promises more of the same, with slow growth in most advanced economies and significant impediments to the smooth operation of the Eurozone economies remaining unresolved.

Expectations for global growth in 2011 were downgraded as the breadth of the challenges facing the Eurozone economies became more apparent, and it became clear that much of the progress towards an economic recovery seen in 2010 had stalled.

IMF Outlook

In January 2012 the IMF downgraded their September 2011 forecasts for global growth. 2012 growth was downgraded to 3.3 per cent (from 4.0 per cent), while 2013 growth was reduced to 3.9 per cent (from 4.5 per cent). The weakness in the global outlook remains focussed on the advanced economies, where the ongoing risks to the global economic recovery remain the most apparent. Advanced economies are now forecast to grow by 1.2 per cent in 2012 (down from 1.9 per cent) and 1.9 per cent in 2013 (down from 2.4 per cent).[1]

Of particular note is IMF's view that Europe will now fall into a recession in early 2012. The Euro area is now forecast to shrink by 0.5 per cent in 2012, a dramatic downgrade of the IMF's forecast last September of 1 per cent growth in the region over the year. The IMF notes that this downgrade is due to, "the rise in sovereign yields, the effects of bank deleveraging on the real economy, and the impact of additional fiscal consolidation announced by euro area governments."[2]

The IMF goes on to note that downside risks have "risen sharply" since September 2011. The IMF continues to see the most immediate and significant risk as Europe, and the risk of "intensification of the adverse feedback loops between sovereign and bank funding pressures in the euro area, resulting in much larger and more protracted bank deleveraging and sizeable contractions in credit and output." Such an outcome is estimated to reduce European growth by 4 per cent, and world growth by 2 per cent.[3]

RBA Outlook

The RBA's latest Statement of Monetary Policy paints a similar picture.

The RBA also sees continued weakness in growth in the advanced economies, noting that "a broadly synchronised fiscal consolidation is taking place at a time when both households and financial institutions are also deleveraging, which is likely to be contractionary for growth."[4]

The RBA notes that "the economic data in Europe have deteriorated significantly since mid-2011 and a feedback loop between sovereign debt problems and deteriorating economic conditions has developed in some countries."[5] While acknowledging that Eurozone governments have taken some steps to stabilise conditions in the region, the RBA continues to see further deterioration in the European outlook as the greatest risk to global growth,[6] and recently noted that "the acute financial pressures on banks in Europe have been alleviated considerably by the actions of policymakers, though there is more to do to put European banks and sovereigns onto a sound footing for the longer term and Europe will remain a potential source of shocks for some time yet."[7]

[1] IMF WEO Update, January 2012, p. 2.
[2] ibid., p. 4.
[3] IMF WEO Update, January 2012, p. 5.
[4] RBA SOMP, February 2012, p. 1.
[5] ibid., p. 5.
[6] ibid., p. 68.
[7] RBA, Statement by Glen Stevens, Governor: Monetary Policy Decision, 6 March 2012.

Federal Treasury Outlook

Federal Treasury's latest forecasts are for global growth of 3½ per cent in 2012 and 4 per cent in 2013.[8] Europe is expected to shrink by ¼ per cent in 2012 before returning to sluggish growth of 1 per cent in 2013.

The Federal Treasury's latest Budget Update noted that "risks continue to be tilted strongly to the downside with considerable potential for damaging contagion from a downward spiral of events in Europe,"[9] and that "a further sharp deterioration in the situation in Europe or the US would be expected to have spill-over effects on the growth performance of emerging market economies."[10]

While acknowledging some of the positive steps taken by politicians in the second half of 2011, a substantive resolution to many of the challenges facing the region has yet to be reached, with Treasury noting that, "many details remain unresolved and concerns linger that the measures may not be enough to combat the crisis. There are also clear implementation risks as political instability in Greece casts doubt on Greece's ability to stave off default. Indeed, questions about the extent of political commitment to tackle the crisis remain the single largest source of uncertainty."[11]

Domestic Economic Outlook

Government forecasts

The RBA expects the Australian economy to grow at around 3-3½ per cent during 2012 (which is broadly in line with trend growth).[12] The RBA notes that their forecasts for Australian growth have weakened since mid-2011, "reflecting the weaker outlook for global economic growth, with the uncertainty about the European situation expected to weigh on household and business spending decisions." The RBA also notes the continued impact of the mining boom on the economy and the continued two-speed nature of the economic recovery, with growth in the mining sector offset by continuing "subdued" conditions in other sectors, and particularly those hardest hit by the appreciation of the exchange rate.[13] The RBA expects that growth outside of the mining sector will remain below trend in 2012 and 2013.[14]

The RBA expects growth in household spending to remain moderate "as softer labour market outcomes, concerns about developments abroad, and declines in net wealth weigh on spending."[15]

Federal Treasury notes that "conditions are expected to remain uneven, with the deterioration in international conditions adding to existing pressures on some sectors of the economy."[16] Treasury describes the overall climate at the moment as a "patchwork" economy, noting that "while the resources-related parts of the economy are doing very well, some other parts are struggling under the weight of the high Australian dollar, latent effects from the global financial crisis and the recent global instability."[17] Treasury sees this weakness broadly distributed across a wide range of sectors, noting that "weakness is particularly pronounced in the 'goods' parts of the economy – manufacturing, retail and wholesale trade and road transport," and "there is also weakness in construction outside of the resources sector."[18] Treasury also notes weakness in a number of service sectors, where performance "continues to be uneven, with some parts performing poorly … Rental, hiring and real estate services output has fallen over the past year and other sectors, such as information media and telecommunications, have also been relatively weak."[19]

[8] 2011-12 MYEFO, p. 19.
[9] ibid., p. 18.
[10] ibid.
[11] ibid., p. 19.
[12] RBA SOMP, February 2012, p. 67.
[13] ibid., p. 66.
[14] ibid.
[15] ibid., p. 67.
[16] 2011-12 MYEFO, p. 13.
[17] ibid., p. 16.
[18] ibid.
[19] ibid.

Treasury notes that the risks to the domestic economic outlook remain skewed to the downside, as “in the context of an already fragile global economy, rapidly evolving events in Europe have shaken confidence and financial markets, and pose a significant risk that the global economic outlook could deteriorate quickly.”[20]

[20] ibid., p. 14.

Findings from business surveys

The 12 months has seen a deterioration in business conditions, with many businesses reporting that conditions are as weak now as they were in the immediate aftermath of the global financial crisis. Most indicators are currently tracking below their five year average, which is particularly surprising given that the five year average is currently going through a trough due to the global financial crisis. Much of this deterioration appears to have occurred in the second half of 2012, as fears around Europe escalated, and continued to track along without any real resolution in sight.

Recent results from NSW Business Chamber's *Business Conditions Survey* indicated that optimism about the future outlook has also waned in the business community. The overarching picture being painted by business respondents is clear, conditions are clearly weaker now than they were twelve months ago, and the outlook for the future is far from rosy.

Business Conditions

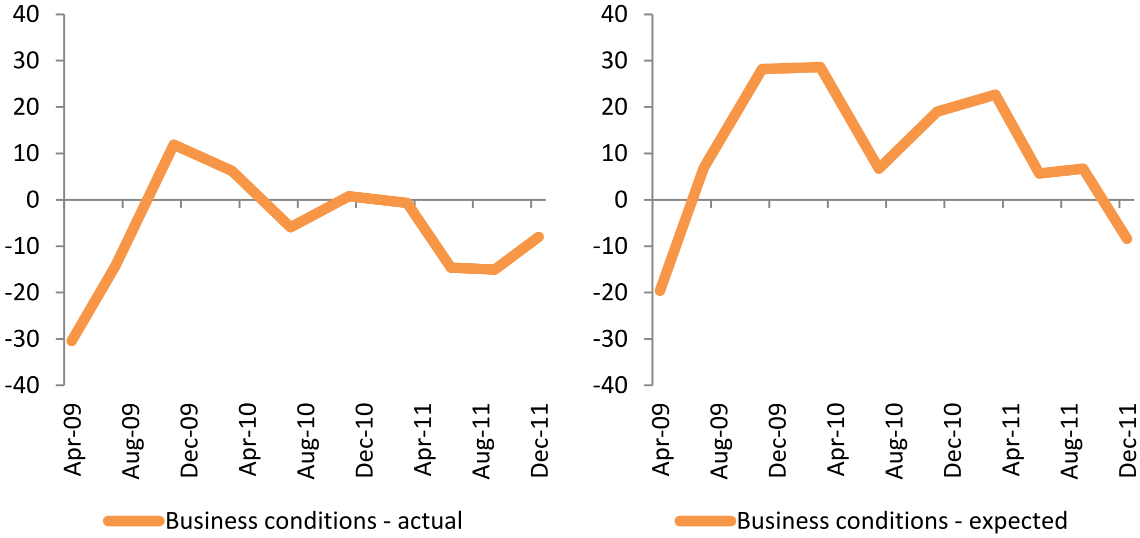
Business conditions remain weaker than they were a year ago and weak relative to their five year average: The trend is now at its lowest level since the global financial crisis.

- ACCI's latest business expectations survey reported an index rating of 43.8 for general business conditions in the December quarter, below the five year average of 49.1, and also well below the level from December 2010 (49.5).
- ACCI's small business survey showed conditions were even weaker in this sector, with survey respondents reporting an index rating of 41.9 for small business conditions in the December quarter, well below the five year average of 46.2, and lower than the December 2010 result (43.7).

The NSW Business Chamber conducts a quarterly survey of NSW businesses to assess changes in NSW business conditions. The survey collects information from respondents on a range of topics, including business conditions, sales, profits, and investment. The latest quarterly survey was conducted in December 2011.

- The NSW Business Chamber survey found that business conditions over the December 2011 quarter improved marginally, although conditions remain at levels lower than they were at any time during 2010. Expectations about the outlook for business conditions also fell noticeably over the quarter, to now be at their lowest level since April 2009.

Charts 1 and 2 – NSW Business Chamber surveys – Business conditions



Sales

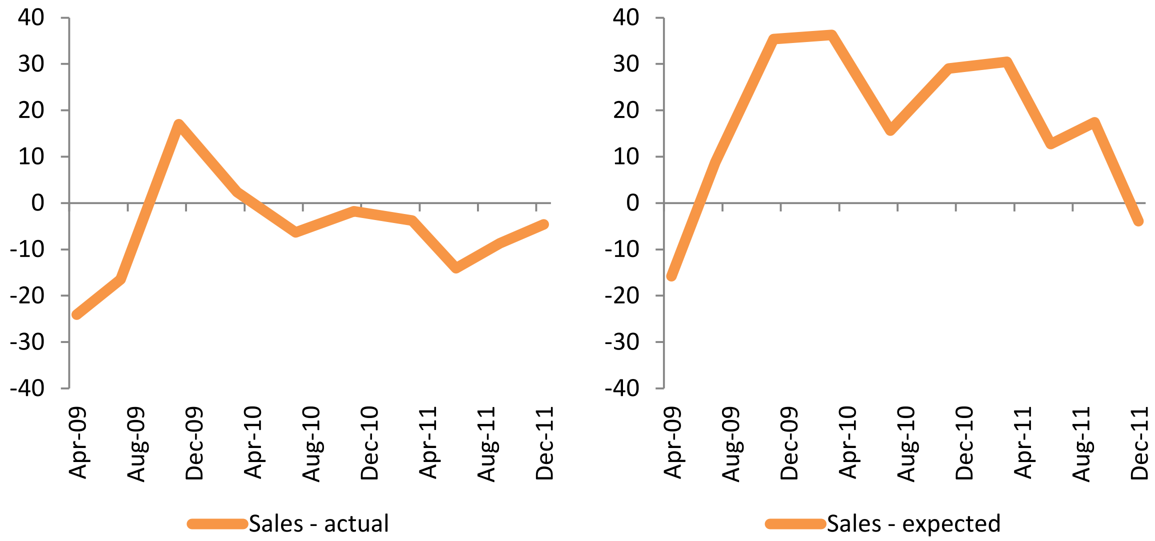
Sales results have also weakened over the past 12 months, although conditions in this area appear to be marginally better for small businesses. That said, in all cases current conditions remain below long term averages.

- ACCI's business expectations survey reported a sales revenue index rating of 47.3 in the December quarter, down from September 2011 (44.9), December 2010 (51.4) and below the five year average (51.9).
- Sales conditions appeared to be marginally better in ACCI's small business survey. The sales revenue index was 44.8 in December, largely unchanged from September (44.4) and December 2010 (44.6). Despite this, sales conditions for small businesses remain below their five year average (48.2).

Results in NSW were mixed.

- Sales revenue improved marginally in the December quarter, but expectations about future growth fell substantially, to now be at their lowest level since April 2009.

Charts 3 and 4 – NSW Business Chamber surveys – Sales



Profits

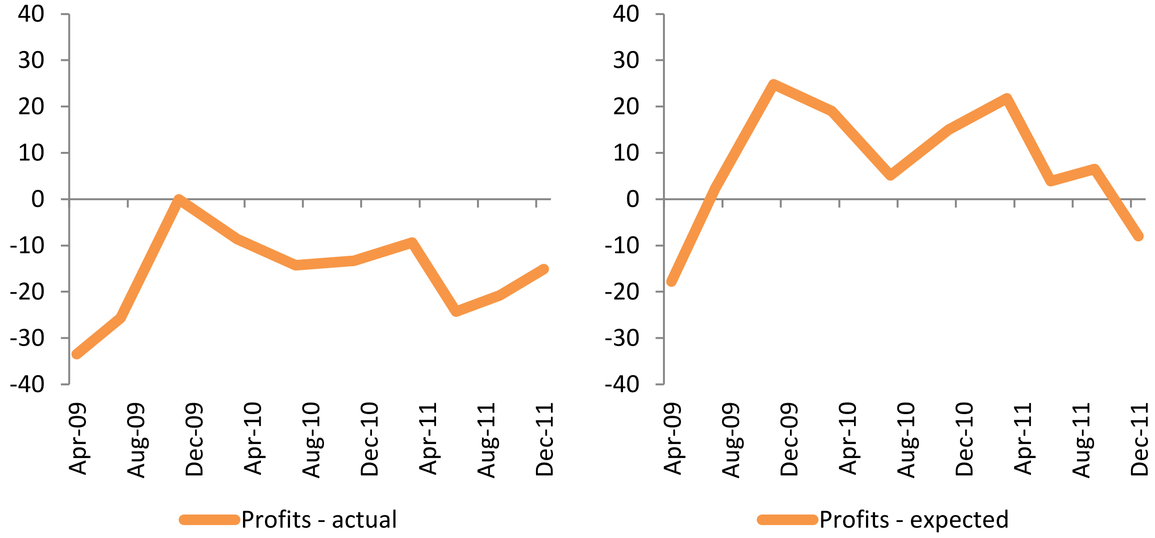
Profits weakened over the past 12 months, and the outlook for profits is also relatively weak.

- Profit growth in ACCI's business expectations survey was reported at 40.4 in the December quarter, below both December 2010 (42.8) and the five year average (43.4). Outside of the global financial crisis, the profits trend is currently the lowest it has been in more than fifteen years.
- Results from the small business sector were equally weak, with the ACCI small business survey recording a profit growth index of 38.7 in December, which was once again below the figures from December 2010 (39.2) and the five year average (41.0).

Results in NSW were similar.

- While profits improved marginally in the December quarter, they remain lower than they were at any time during 2010. Consistent with the dramatic downturn in expectations in other areas, expectations for future profits are also at their lowest level since April 2009.

Charts 5 and 6 – NSW Business Chamber surveys – Profits



Employment

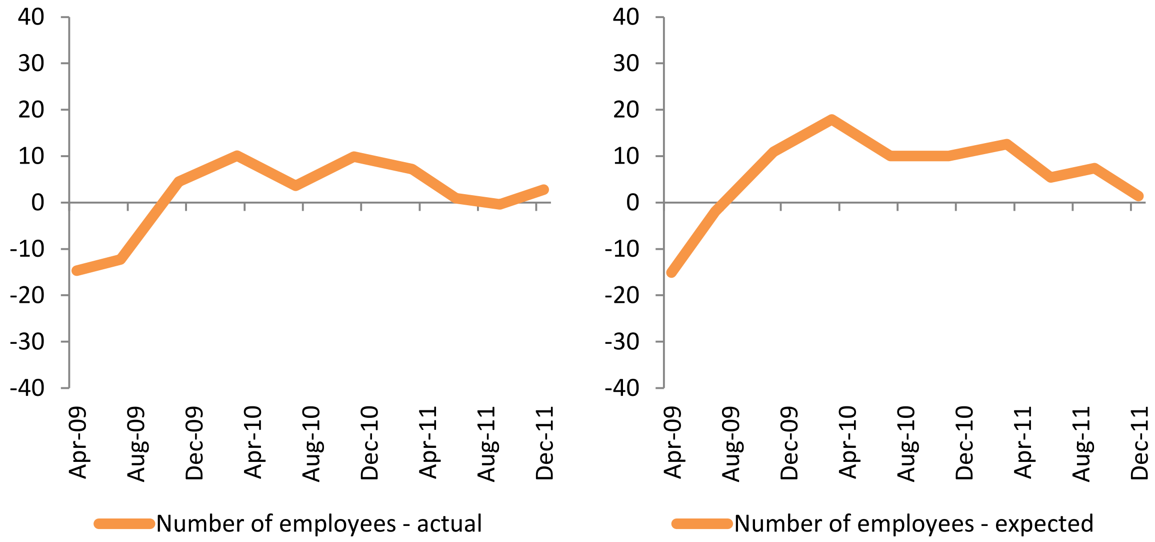
The most positive news from the business conditions surveys appears to be that deterioration in other indicators is not yet leading to a significant downturn in employment, especially in the small business sector. Most surveys suggest that while employment conditions are far from strong, the weakness in this indicator remains relatively mild.

- There is some weakness in the employment market, with ACCI's latest business expectations survey reporting an employment index of 49.6, well below conditions from a year earlier (53.5), and also noticeably lower than the 5 year average.
- However, employment in the small business sector appears to be a bit more stable, with ACCI latest survey reporting an index of 48.0, broadly in line with conditions in December 2010 (48.1) and only marginally below the five year average (48.7).

Results in NSW were similar.

- Businesses have indicated that growth in employment levels has been fairly stable over the past twelve months, with conditions for the December quarter similar to those reported for the rest of the calendar year. Expectations about future employment growth weakened during the quarter, but not as noticeably as it did for other major indicators.

Charts 7 and 8 – NSW Business Chamber surveys – Number of employees



From the NSW perspective, one of the clearest findings from the recent survey data has been the substantial downturn in business expectations and confidence around future trading conditions. While businesses are reporting that conditions are currently weak, they are generally reported to be better now than they were during the global financial crisis. In contrast, most indicators about expectations for the future are at their lowest levels since April 2009.

The Commonwealth Bank made a similar observation in its comments on the latest NSW Business Chamber survey, noting that the results, "illustrate the interconnectedness of the global economy. Thus far confidence in NSW business conditions had held up well against the storm fronts battering global financial markets since July last year. However, no fortress can hold indefinitely. The December quarter survey outcome shows signs that confidence in the ability of the New South Wales economy to withstand current global uncertainties has cracked."[21]

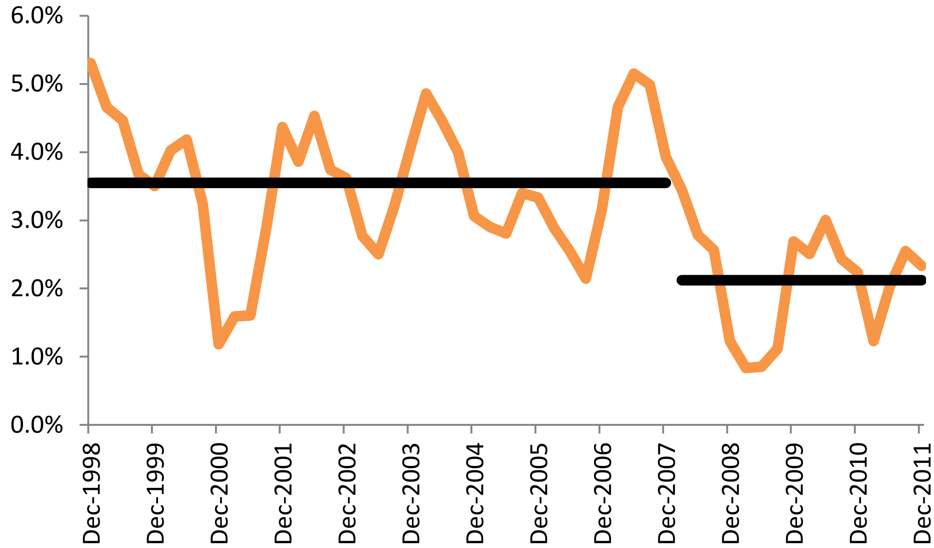
[21] NSW Business Chamber, *Business Conditions Survey*, December 2011.

Economic Growth

The Australian economy has continued to show considerable resilience in the face of what continues to be very challenging global conditions. The Australian economy grew 2.3 per cent in 2011, [22] which was a reasonably solid performance when compared to the growth rates currently being experienced by many of our international peers.

Despite this, Australia's GDP growth remains below trend, as the economy continues to struggle to pick up pace in the aftermath of the global financial crisis. GDP growth averaged 3.6 per cent over the decade to 2007, but growth has averaged only 2.1 per cent over the following four years.

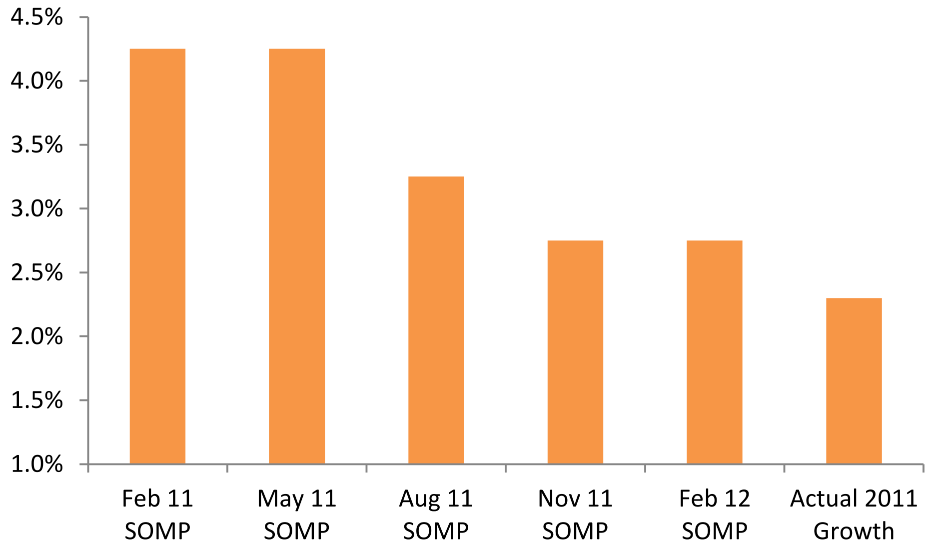
Chart 9 – GDP (rolling 12 month growth)[23]



Growth in 2011 fell below government expectations as concerns surrounding the European outlook escalated and flowed through into lower domestic confidence. In February 2011 and again in May, the RBA was forecasting GDP growth in 2011 of 4¼ per cent,[24] and was still forecasting above trend growth for 2011 in their August Statement on Monetary Policy.[25] This was subsequently downgraded in November to a forecast of 2¾ per cent growth,[26] but it turned out that this forecast was still around 0.5 per cent too optimistic. Growth for 2011 ended up at 2.3 per cent, following growth of 0.4 per cent in the December quarter, well below economist's expectations for 0.8 per cent growth.

[22] ABS, 5206.0
[23] ABS, 5206.0
[24] RBA SOMP, February 2011, p. 60. & RBA SOMP, May 2011, p. 63.
[25] RBA SOMP, August 2011, p. 73.
[26] RBA SOMP, November 2011, p. 73.

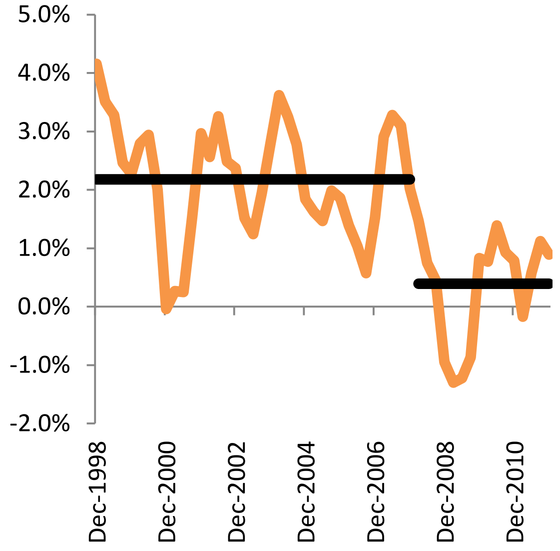
Chart 10 – RBA Growth Forecasts for 2011

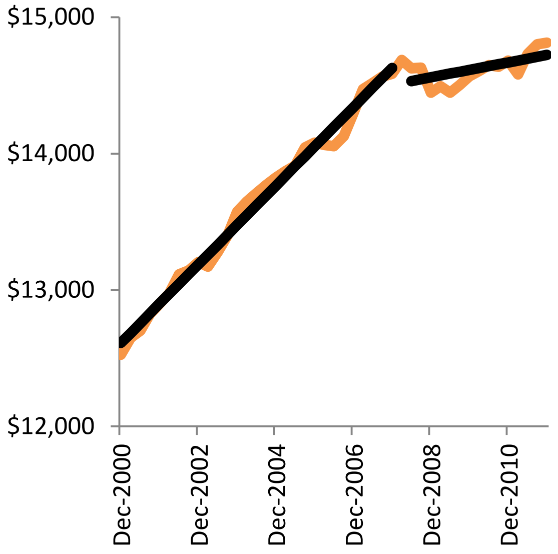


Growth also remains weak in per capita terms, with the majority of Australia's growth currently being driven by population growth rather than improving living standards. GDP per capita growth was 0.9 per cent in 2011, and has averaged only 0.4 per cent per annum over the four years since the global financial crisis, in contrast to an annual average growth rate of 2.2 per cent over the decade to 2007.

Since its peak in the March quarter of 2008, GDP per capita has increased by only 0.9 per cent over the next three and a half years. Charts 11 and 12 clearly show the significant change in the rate of GDP per capita growth since the global financial crisis.

Charts 11 & 12 – GDP per capita (rolling 12 month growth) & Quarterly GDP per capita[27]





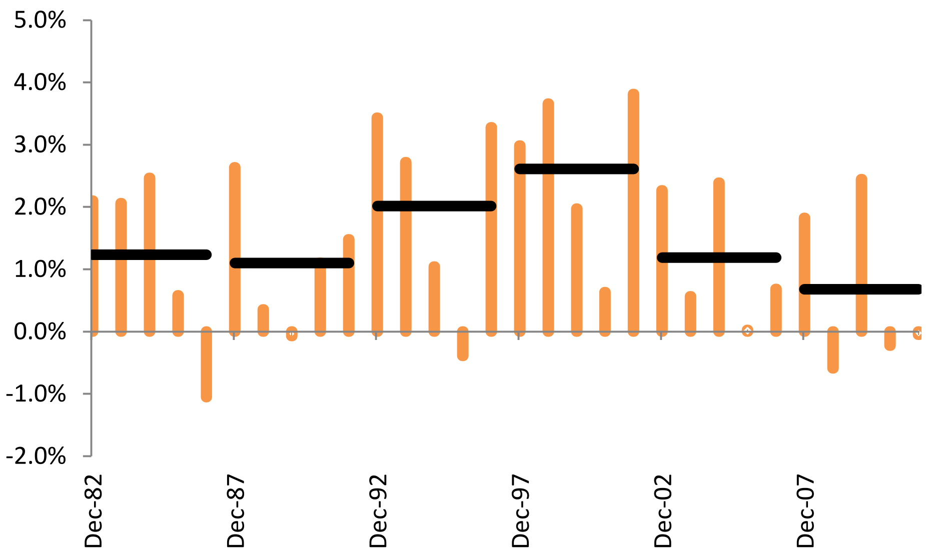
[27] ABS, 5206.0

Productivity

Labour productivity growth (measured as real GDP per hour worked), is particularly volatile from year to year. However, underlying trends can be seen when medium-term periods are grouped together and their results are averaged.

Productivity growth has slowed over the last decade, and the slowdown in the rate of productivity growth has been particularly noticeable over the past five years. Productivity growth has averaged 0.7 per cent over the five years to 2011, which is its slowest growth in the past 30 years. In contrast, the long run average rate of productivity growth in Australia has been 1.5 per cent.

Chart 13 –GDP per hour worked (annual growth)[28]



Productivity growth is a critical element underpinning wages growth. Increases in real wages which are not based on productivity gains are unsustainable in the longer term. Given the lacklustre productivity growth of recent years, the capacity to provide real wage increases to employees is highly constrained.

In its latest Intergenerational Report, the Government has recognised the important role that productivity needs to play in helping Australia address both medium and long-term challenges. While this sentiment is supported, and policies which support increased productivity are welcomed, such changes take time to flow through the economy. It can be expected that overall productivity gains will remain relatively weak for at least the next few years.

Business competitiveness and viability

Exchange rates

One of the most cited issues affecting current business performance is the high level of the Australian dollar. In the NSW Business Chamber's latest Business Conditions Survey, this was one of the most common concerns raised by businesses about the operating environment in NSW. While the majority of Australian businesses do not export their products, they are nonetheless negatively impacted by the costs pressures created through cheaper imports.

Businesses which are highly trade exposed face the greatest pressures under higher exchange rates, regardless of whether or not they export their goods to international markets. For those who export, the prices of their goods become more expensive in international markets when the Australian currency appreciates, but sales in the domestic market also become more difficult as the effective price of competing imports falls.

[28] ABS, 5206.0

The Australian exchange rate is currently close to record highs, and has now been at or around these levels for a considerable period of time. The Australian dollar is currently above parity with the $US, buying roughly 66 pence sterling and 80 Euro cents. These levels are all well above long term averages.

While these levels represent another cost pressure that businesses must deal with, at the same time they are an opportunity for many employees. Higher exchanges rates improve the purchasing power of Australian salaries by reducing the price of imports, which in turn reduces pressures on inflation.

Cost pressures under carbon pricing

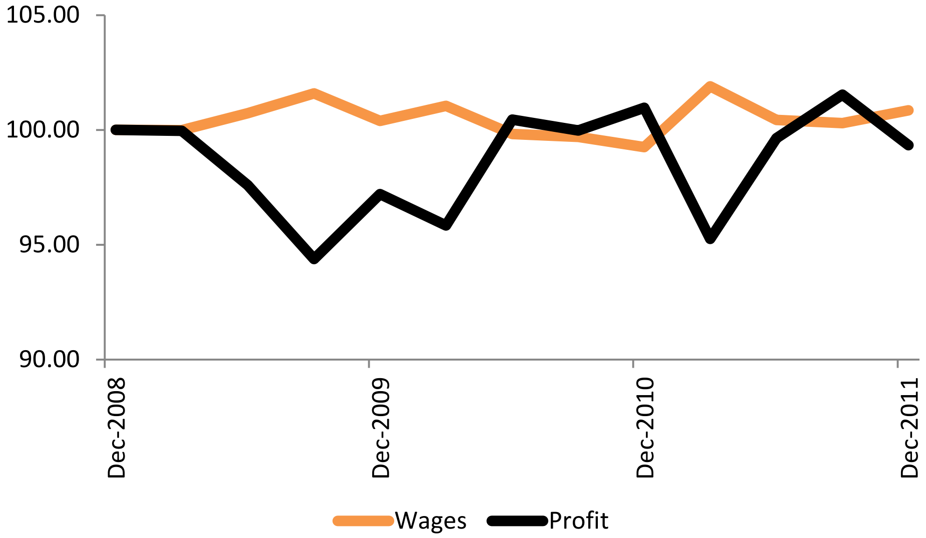
The NSW Business Chamber continues to hold significant concerns about the Federal Government's carbon tax. Many businesses will find it difficult or impossible to pass on this additional cost impost, particularly where they are trade exposed. The carbon tax is another cost pressure that many businesses will be forced to absorb from 1 July 2012. Most businesses will receive little or no government assistance to help with managing this additional cost burden. At the same time, overseas competitors will continue to be able to import their products into Australia and compete with domestic products without paying the carbon tax.

While the NSW Business Chamber supports action on climate change, we believe that global action should be pursued rather than Australia taking unilateral action. Australian businesses are already facing significant pressures from a range of sources. Placing an additional tax on these businesses in the current economic climate will no doubt see Australian businesses closing down, or moving some of their activities off-shore. Both outcomes are bad news for economic growth and jobs in Australia.

Profits and wages share

Over the long-term, there has been a trend towards wages representing a decreasing proportion of total factor income and profits representing an increasing share. However, more recently, this trend appears to have stabilised somewhat, and the relative shares have remained broadly stable over the past three years. Since the end of 2008, the wages share has actually increased from 52.7 per cent to 53.1 per cent, while the profit share has fallen from 28.7 per cent to 28.5 per cent over the same period.

Chart 14 –Wages and profit share (index Dec 2008 = 100)[29]

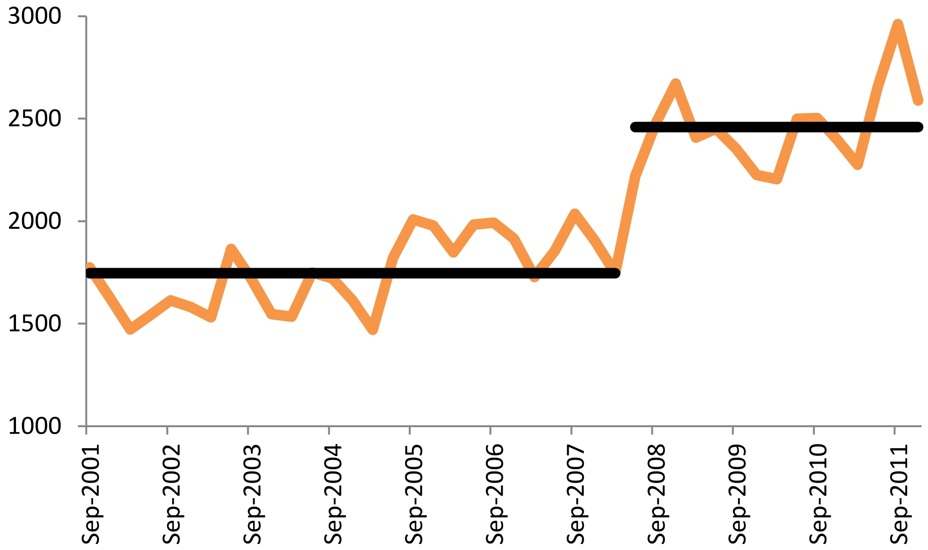


[29]ABS, 5206.0.

Bankruptcy rates

There was a clear jump in business insolvencies around the time of the global financial crisis. For most of the last decade, insolvencies have averaged around 1,750 businesses per quarter, but from 2008 onwards, insolvencies spiked sharply to around 2,500 per quarter. Business insolvencies have remained around this level ever since, and hit a high of almost 3,000 insolvencies in the September quarter of 2011.

Chart 15 –Number of businesses entering external administration (per quarter)[30]



2011 has been a particularly challenging year for businesses, with around 10,500 businesses entering external administration, up from 9,600 the year before, an increase of more than 9 per cent.

[30] ASIC Insolvency Statistics, Series 1.

Inflation

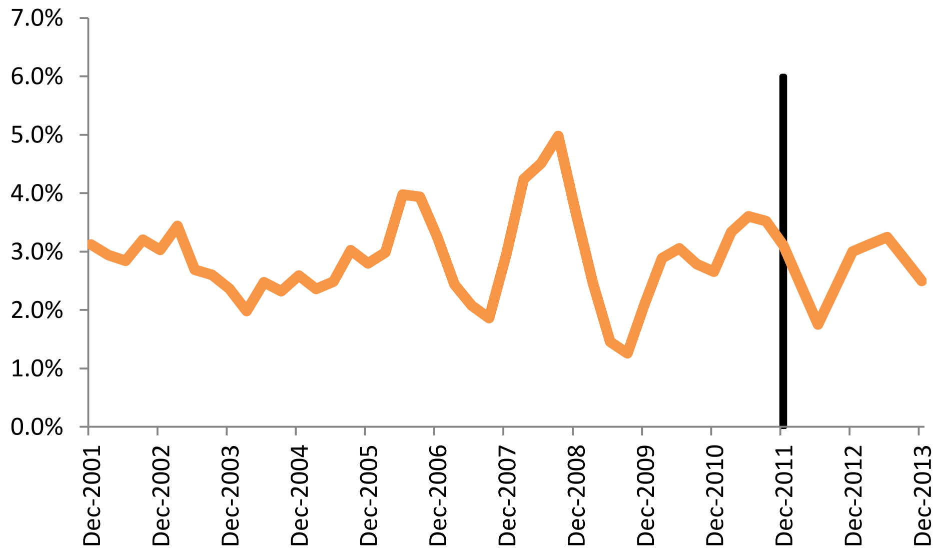
Measurements of inflation are typically broken into two main groups, headline inflation and underlying inflation. Headline inflation measures changes in the price of a specific bundle of goods over time, and is typically used as a proxy for measuring changes in the cost of living. However, it does have limitations in this regard, as it assumes that all individuals consume a homogenous bundle of goods, and also excludes the costs of some elements of a household budget, such as mortgage interest payments.

In contrast, underlying inflation seeks to provide a broad measure of the overall level of inflationary pressures across the economy. Underlying inflation tries to look through the more volatile movements in inflation, such as sudden spikes in the prices of fuel, fruit and vegetables. In setting monetary policy and making decisions on changes in interest rates, the RBA tries to keep underlying inflation between 2 and 3 per cent, and is far less concerned about movements in headline inflation.

Headline inflation

Headline inflation for the 2011 calendar year was 3.1 per cent. The Reserve Bank expects headline inflation for the 2011-12 financial year to be 1.75 per cent. The Reserve Bank notes that, "a number of one-off factors are expected to affect the profile for headline CPI inflation over the first half of the forecast period," and that, "the continued unwind of the spike in fruit prices will see headline inflation fall below underlying inflation in the near term."[31]

Chart 16 –Headline inflation (rolling 12 month growth)[32]



The Reserve Bank inflation forecasts include the impact of the carbon tax, which is expected to add 0.7 per cent to inflation over the 2012-13 financial year. Headline inflation is expected to track at 2.5 per cent during 2012-13 once the impact of the carbon price is excluded.

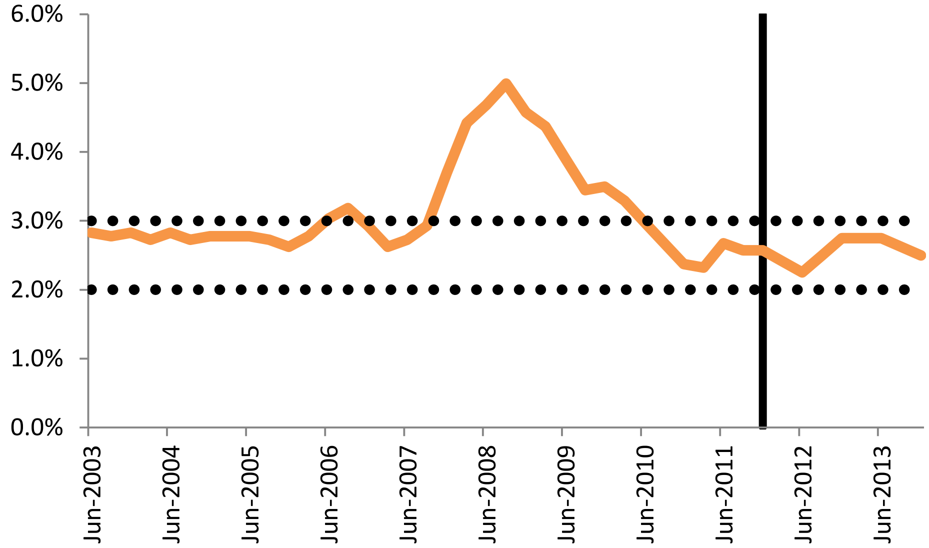
At the time of the 2011 wages decision, headline inflation for 2011-12 was forecast to be 2½ per cent, whereas headline inflation is now forecast to be only 1¾ per cent over this period. Given how moderate inflation is now forecast to be over the current financial year, it could be argued that the decision in 2011 to grant a 3.4 per cent increase in award wages was excessive.

[31] RBA SOMP, February 2012, p. 68.
[32] ABS 6401.0

Underlying inflation

Underlying inflation has moderated since the spike in 2008-09, and now sits comfortably within the RBA's 2-3 per cent target band. The RBA expects underlying inflation to remain within the target band over the course of 2011-12, at around 2¾ per cent, or 2½ per cent if the impact of the carbon tax is excluded.[33]

Chart 17 –Underlying inflation (rolling 12 month growth)[34]



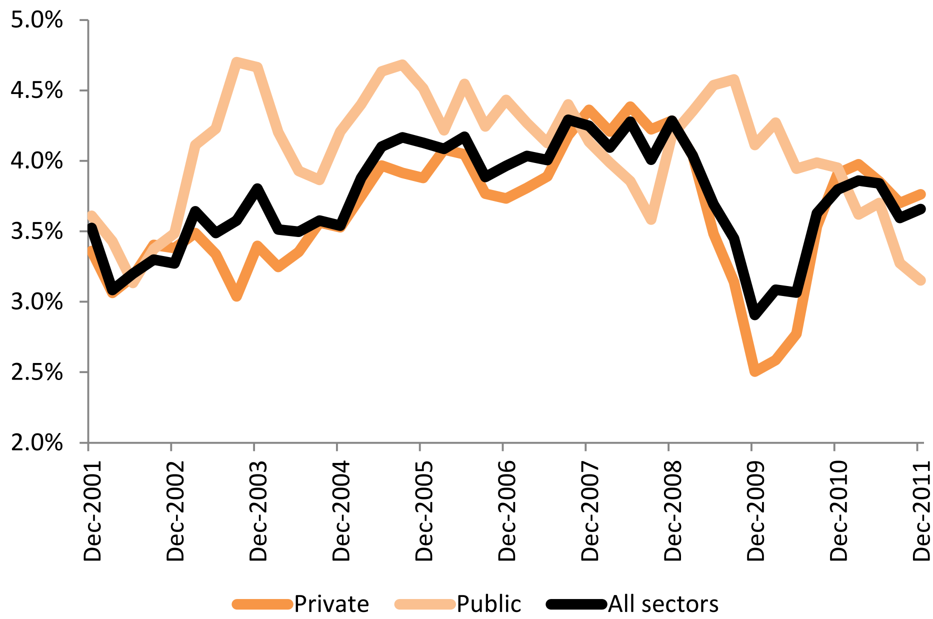
[33] RBA SOMP, February 2012, p. 67.
[34] ABS 6401.0

Wages

Wage price index (WPI)

The Wage Price Index (WPI) is commonly accepted as a better measure of wages than average weekly ordinary time earnings (AWOTE) or average weekly earnings (AWE). This is because WPI data is not subject to the compositional distortions which affect the other two indicators. AWOTE and AWE are both affected by changes in the overall composition of wage earners, such as variations in the distribution of employees across different industries. The WPI instead measures wages for a particular set of jobs, and is compiled in a similar fashion to the “basket of goods” approach used to produce the CPI, minimising the impact of compositional changes.

Chart 18 –Wage price index (rolling 12 month growth)[35]



Growth in the Wage Price Index has recovered since the downturn of the global financial crisis, however, wage growth appears to have stabilised at a lower level than its pre-global financial crisis trend. Since the second half of 2010, private sector wage growth has averaged 3.8 per cent, while the growth for all sectors has averaged 3.7 per cent. In contrast, wages for the private sector and all sectors both increased by 4.1 per cent over the four year period to 2008.

In the second half of 2011, Federal Treasury downgraded its forecasts for wages growth, and now expects the wage price index to grow by 3¾ per cent in 2011-12 and 3¾ per cent in 2012-13.[36]

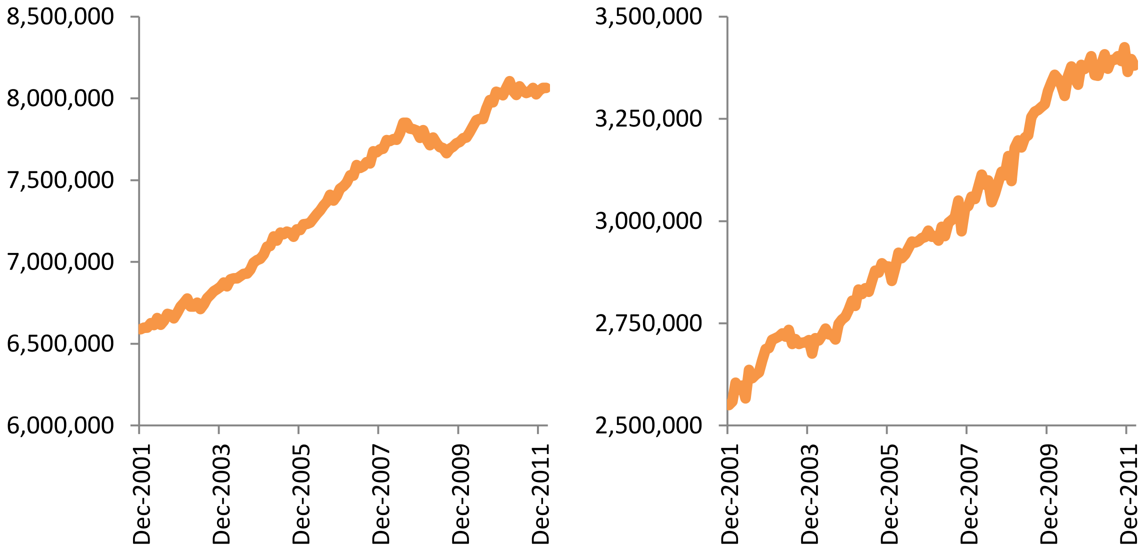
[35] ABS 6401.0
[36] 2011-12 MYEFO, p. 15.

General labour market conditions

Employment

Conditions in labour markets were significantly weaker in 2011 than they were in 2010, with softness experienced in both full time and part time employment. Average hours worked also flat lined over the course of the year, and participation rates fell, allowing the unemployment rate to remain relatively stable in spite of the underlying weakness. Despite the unemployment rate remaining in the low fives for the duration of the year, underemployment remains very close to the record highs reached during the global financial crisis.

Charts 19 & 20 – Total full time employment (persons) & total part time employment (persons)[37]



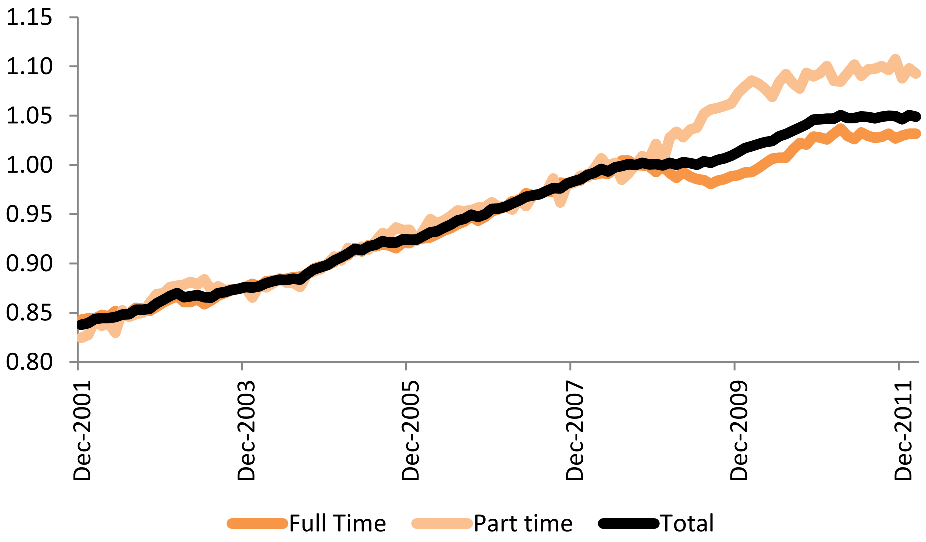
While employment conditions were weak in 2009 and again in 2011, the impact on jobs was quite different. In 2009, full time jobs fell noticeably, with almost 200,000 full time jobs being shed over the 12 months to August 2009, while part time employment growth remained strong, with more than 200,000 jobs created over the same period. Much of this shift appears to have been employers looking to retain staff but reduce hours.

In contrast, the 2011 weakness has been felt in both part time and full time employment, with both numbers remaining relatively unchanged over the course of the calendar year. Total employment has increased by less than 25,000 over the past 12 months, and full time employment has actually fallen slightly over the same period. The change in dynamic between 2009 and 2011 may be due to employers already having reduced hours as much as was possible, and now looking to batten down the hatches until conditions improve, trying not to fire existing staff but not looking to take on new staff either. Such an approach would be expected to lead to a similar plateauing in both part time and full time employment.

The change in dynamic is also illustrated in the chart below, which looks at the proportionate change in full time, part time, and total employment over the past decade. While growth rates were very similar for much of the decade, the divergence in employment patterns following the global financial crisis is clearly apparent.

[37] ABS, 6202.0

Chart 21 – Indexes of employment growth (Sep 08 =1)[38]



The trend in total employment is almost as weak now as it was during the global financial crisis, where it took 17 months (April 2008 to September 2009) for total employment to break out of a sideways trend. In the 2011 cycle, weakness has been apparent for 15 months (November 2010 to February 2012).

Employment to population ratios

Submissions made to Fair Work Australia as part of last year's Annual Wage Review noted that one of the strengths in employment markets at that stage was that the employment to population ratio was near record highs.[39]

The employment to population ratio has subsequently fallen over the course of 2011, from a high of 62.6 per cent in November 2010 to 61.8 per cent in February 2012. The current employment to population ratio is only marginally higher than the lows reached during the global financial crisis, when the ratio troughed at 61.5 per cent.

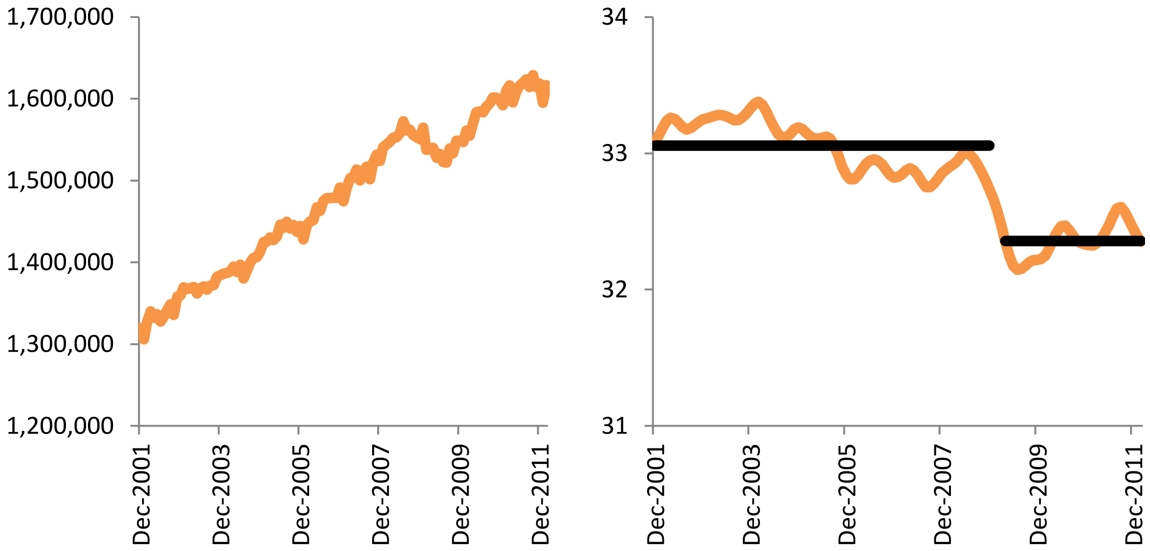
Hours worked and participations rates

Aggregate hours worked has followed a similar trend to the growth in full time employment, with falls during the 2008-09 period, and slowing to be relatively flat over the course of 2011. While aggregate hours have grown by 2 per cent per annum on average over the last decade, they grew by less than 0.4 per cent over the past 12 months.

While average weekly hours fell during the global financial crisis, they have remained relatively stable since then, averaging 33.1 hours during the earlier parts of the decade, and 32.4 hours since the beginning of 2009. These two indicators would suggest that there continues to be a degree of residual slack in the labour market.

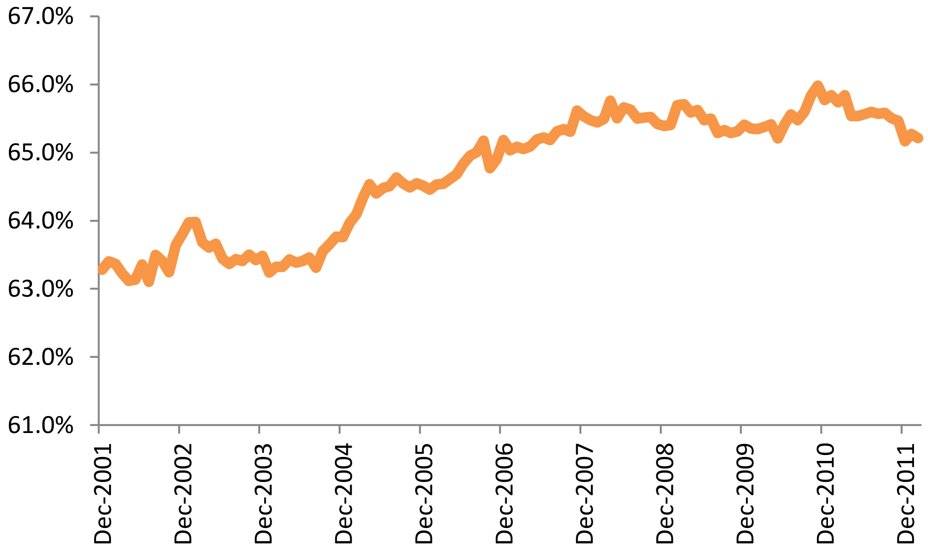
[38] ABS, 6202.0
[39] [2011] FWAFB 3400 at para. 86

Chart 22 –Aggregate hours worked and average weekly hours[40]



Participation rates have weakened over the past 12 months. While the participation rate plateaued during the global financial crisis, it did not fall significantly, and hovered within a fairly stable range, before recovering along with most other labour market indicators during 2010. However, the employment market weakness in 2011 appears to have also impacted on the participation rate, with the rate falling from a high of 66 per cent in November 2010 to 65.2 per cent in February 2012.

Chart 23 – Participation rate[41]



The combination of lower average weekly hours and a reduction in the participation rate has meant that the headline unemployment rate has continued to appear relatively stable despite the underlying weakness.

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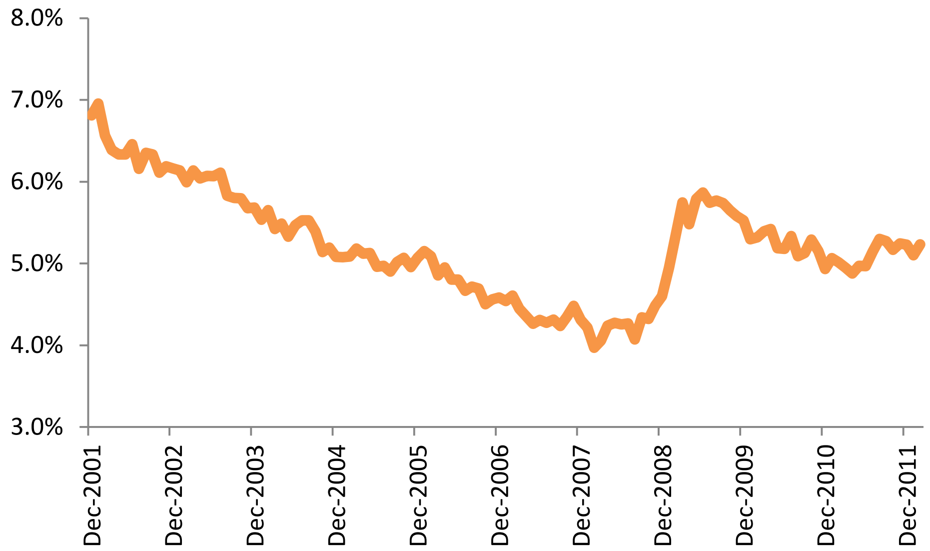
40 ABS 6202.0
41 ABS, 6202.0

Unemployment

The unemployment rate has been relatively stable over the course of 2011, and is currently on par with the decade average (5.2 per cent). However, as discussed previously, this apparent strength is largely due to a reduction in average weekly hours and the participation rate.

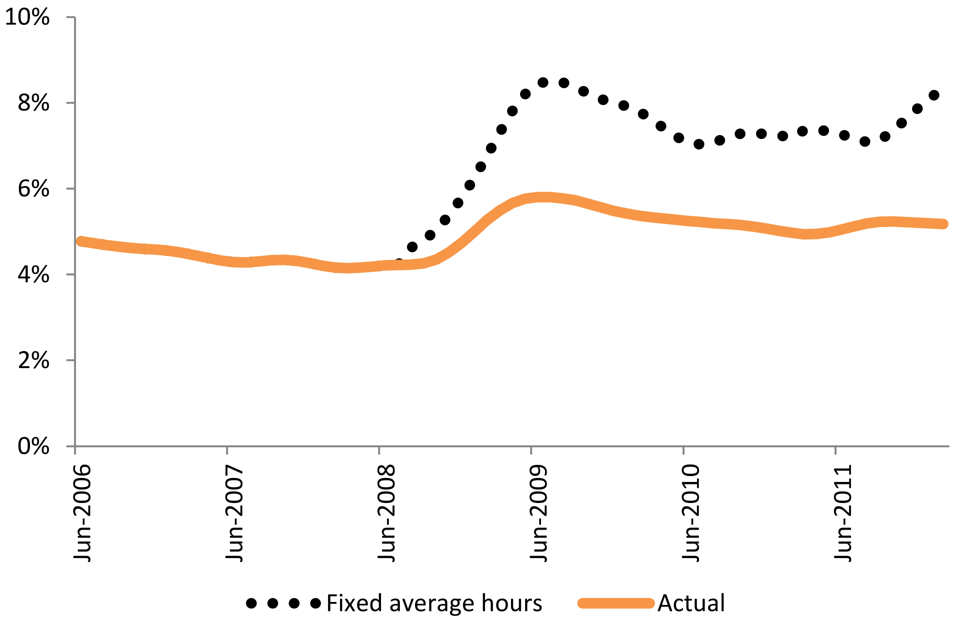
Chart 24 – Unemployment rate[42]



The chart below looks at what the employment rate would currently be if average weekly hours had remained at their average from the first half of the decade, (33.1 hours), and if the participation rate had been held at the level it reached at the end of 2010.

[42] ABS, 6202.0

Chart 25 – Unemployment rate holding hours and participation fixed[43]



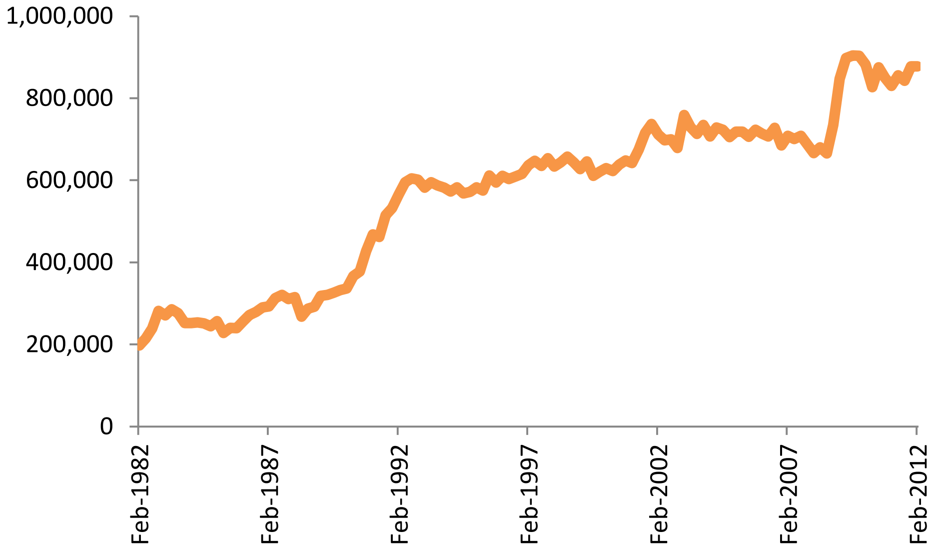
The chart shows that the unemployment rate would be almost 3 per cent higher had average hours remained unchanged and had their not been a reduction in the proportion of the working age population looking for employment. While the headline unemployment rate remained steady through 2011, it would have increased by around one per cent over the year had these changes not masked this effect.

[43] ABS data and NSW Business Chamber calculations

Underemployment

Underemployment remains near record highs. Underemployment peaked at more than 903 thousand in August 2009. Underemployment has remained high since that time, and was more than 877 thousand in February 2012. While this is around 25 thousand people below the 2009 peak, it still represents a higher level of underemployment than Australia had experienced at any time prior to the global financial crisis.

Chart 26 – Underemployed persons[44]



Leading indicators of employment

The leading indicators of employment are generally weaker now than they were a year ago.

DEEWR's Internet Vacancy Index (IVI) fell by 0.6 per cent in January (in trend terms), and has fallen by 8.5 per cent over the year. The IVI series has now fallen for nine consecutive months, and is more than 42 per cent below its March 2008 peak.[45]

After a strong bounce during 2010, growth in the ANZ's job advertisements series was relatively subdued during 2011, with total advertisements in newspapers and on the internet increasing by 3.6 per cent over the twelve months to February 2012.[46] While continued growth in the index is an encouraging sign, the jobs market is still clearly in the process of recovering from the global financial crisis – the current level of job advertisements remains around 27 per cent below the peak achieved in April 2008.

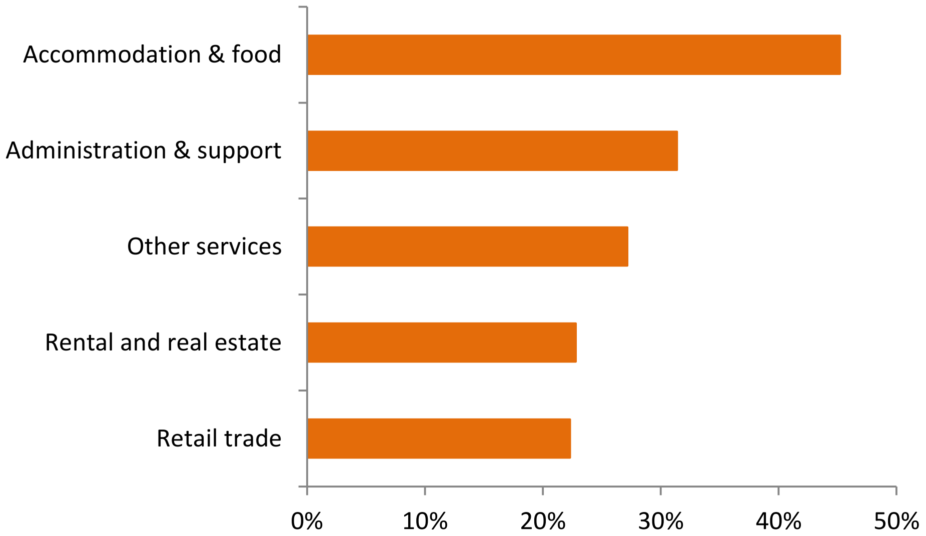
Federal Treasury expects employment growth to remain modest, forecasting employment growth of 1 per cent in 2011-12 and 1½ per cent in 2012-13, both of which are significantly weaker than the actually realised 2.2 per cent employment growth experienced during 2010-11.[47]

Labour market conditions in award reliant sectors

Conditions in award reliant sectors have generally been weaker than those of the broader labour market. This relative weakness has been more apparent since the global financial crisis. Over the past decade, award reliant sectors have experienced lower rates of employment growth, real wages growth and productivity growth than other sectors.

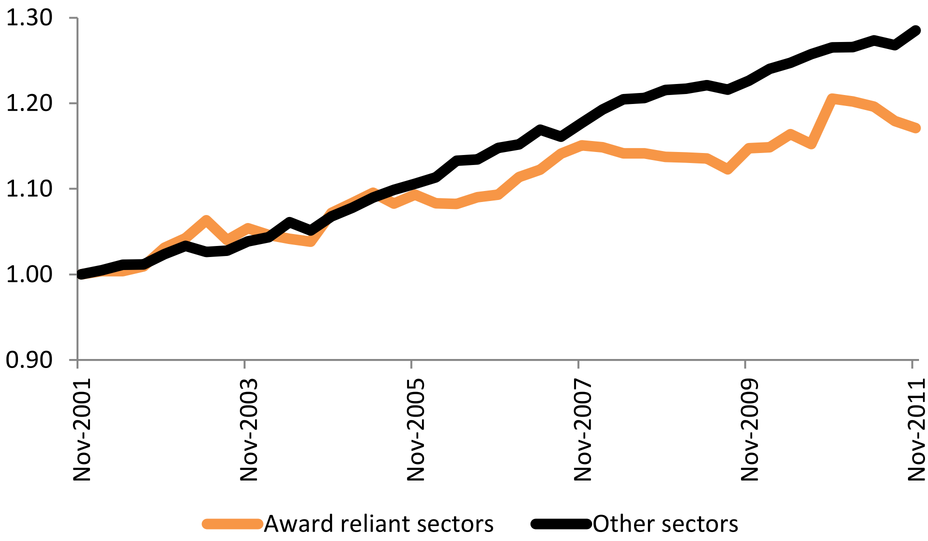
[44] ABS, 6202.0
[45] Department of Education, Employment and Workplace Relations, *Vacancy Report*, February 2012.
[46] ANZ, *Media Release – Job advertising indicates a strengthening labour market in 2012*, 5 March 2012.
[47] 2011-12 MYEFO, p. 15.

Chart 27 – Proportion of award reliant employees within industry[48]



The five sectors with the highest proportions of award reliant employees are accommodation and food services (45 per cent), administration and support services (31 per cent), other services (27 per cent), rental and real estate (23 per cent), and retail trade (22 per cent). Collectively, more than 58 per cent of all award reliant employees work in one of these five sectors.[49]

Chart 28 – Indexes of employment growth (Nov 2001 = 1)[50]

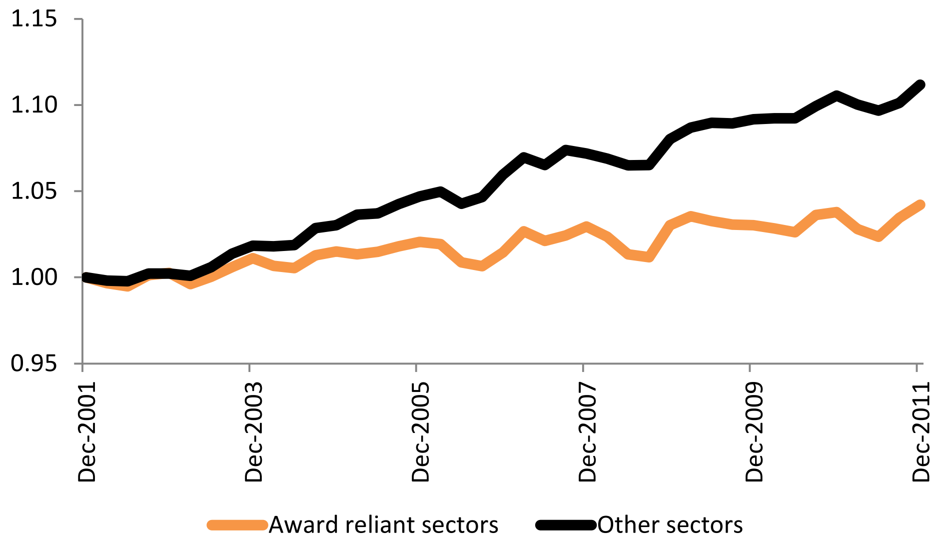


Both award reliant and non-award reliant sectors experienced similar rates of employment growth during much of the last decade. From the end of 2001 through the end of 2007, award reliant sectors grew at 2.4 per cent per annum while non-award reliant sectors grew at 2.8 per cent per annum. However, these growth rates diverged significantly around the end of 2007, and employment growth in award reliant sectors has remained weak since that time. Since the beginning of 2008, employment growth in award reliant sectors has averaged 0.4 per cent,

[48] ABS, 6306.0
[49] ABS, 6306.0
[50] ABS, 6291.0.55.003

while growth in non-award reliant sectors has averaged 2.2 per cent over the same period. Growth in the award reliant sectors has been particularly weak over the past 12 months, with net job losses of almost 90 thousand workers over this period.

Chart 29 –Indexes of real wages growth (Dec 2001 = 1)[51]



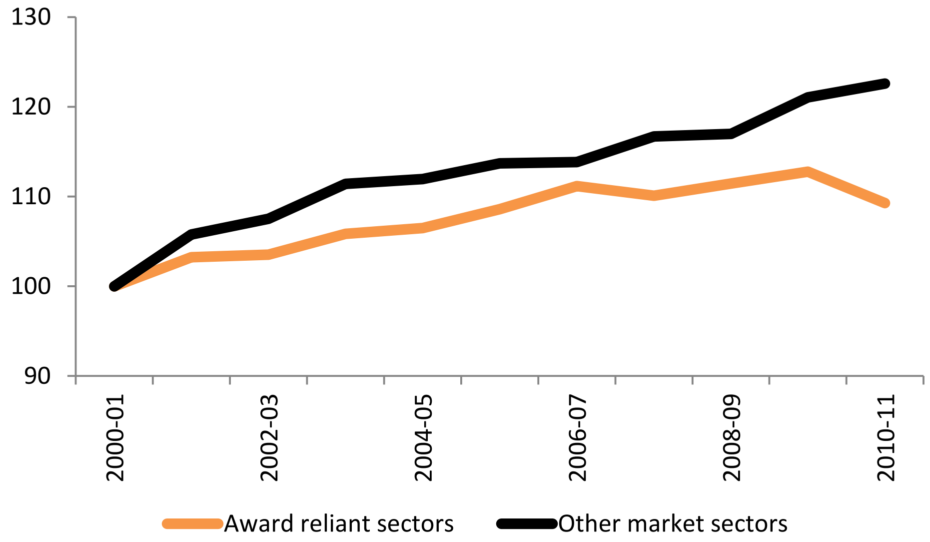
Real wages growth has been fairly steady for both award and non-award reliant sectors over the past decade. However, there is a clear difference in the rate of real wages growth between the two groups. Real wages growth in award reliant sectors has averaged 0.4 per cent per annum, while real wages growth in non-award reliant sectors has averaged 1.1 per cent per annum over the same period.

The difference in growth rates has been apparent for the bulk of the past decade, suggesting that it cannot be explained away through wage increases tied to the resources boom in mining and mining related sectors. Wages in the mining sector spiked more recently, and in any case the sector only represents a few percentage points of employees, making its overall impact on aggregate wages growth fairly minor.

While some of the lower wages growth will be due to the higher incidence of award reliant employees in these sectors, the majority of employees in these award reliant sectors still have their pay set through non-award mechanisms.

[51] ABS, 6291.0.55.003, 6345.0, and 6401.0

Chart 30 –Labour productivity indexes (2000-01 = 100)[52]



The ABS currently publishes experimental estimates of labour productivity by industry sector. While estimates are only available for the market sector, they clearly show that over the past decade, labour productivity has been stronger in non-award reliant sectors than it has been in award reliant sectors. Over the past decade, productivity has averaged 0.9 per cent in award reliant sectors while averaging 2.1 per cent in non-award reliant market sectors.

Productivity growth has followed a similar pattern to employment growth, with award reliant and non-award reliant sectors both tracking similarly before the global financial crisis, and the award reliant growth subsequently flat lining from this period onwards. In the four years since 2007, productivity growth in award reliant sectors has actually fallen by 1.7 per cent while productivity growth in other market sectors has increased by 7.7 per cent over the same period.

[52] ABS, 5260.0.55.002 and 6291.0.55.003

Labour markets and skills

The proportion of the workforce aged population with a post-school qualification has increased over the past decade, from 47.2 per cent of the workforce in 2001 to 56.5 per cent in 2011. This has been reflected in both the part-time and full-time sectors of the workforce.[53]

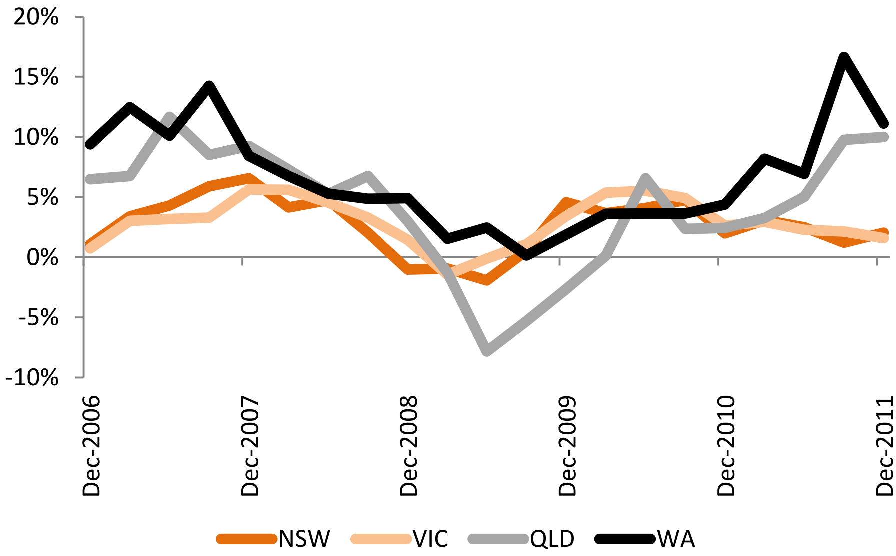
This is indicative of an ongoing trend toward higher average skill levels in a greater proportion of the workforce. This change to the composition of the workforce has resulted in a steady reduction in the proportion of the workforce that is minimum wage or award reliant, from 23.2 per cent in 2000 to 16.5 per cent in 2010.[54]

Low skilled occupations tend to have higher levels of award reliance. The most award reliant occupations are community and personal service workers (31.1 per cent), labourers (27.9 per cent), and sales workers (23.5 per cent). Collectively, these three occupations are estimated to represent 63.2 per cent of all award reliant employees.[55]

Regional and sectoral divergences in economic conditions

The Federal Government and a number of economic commentators have noted that growth in the Australian economy is currently far from uniform. The resources boom is leading to significant structural adjustments in the economy, with some sectors prospering due to high commodity prices in international markets, while other sectors struggle under the pressures created by a high exchange rate. Phrases such as “two-speed” and “patchwork” have often been used to describe the current economic outlook. Disparities are clearly apparent at both the sectoral and regional level.

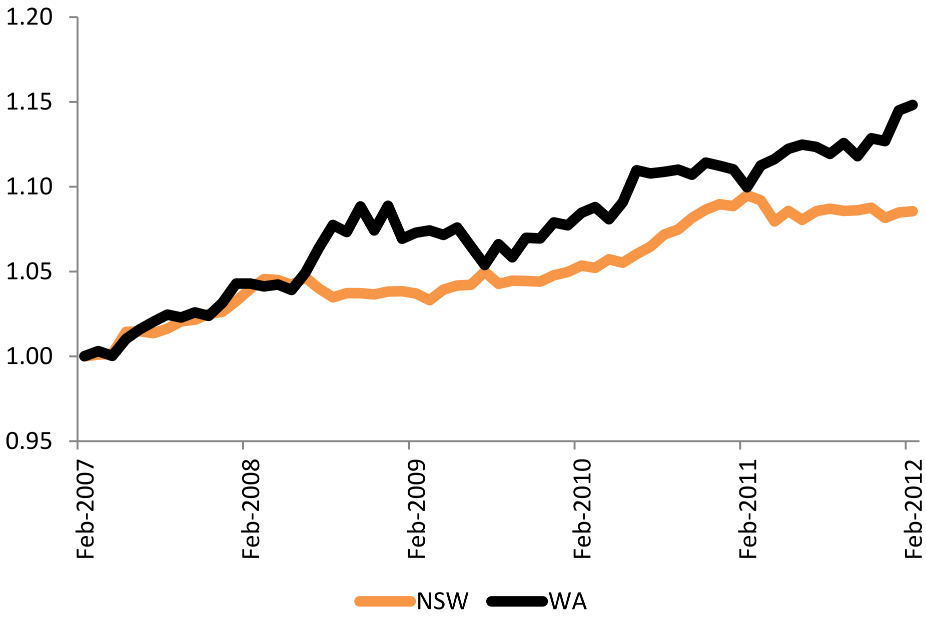
Chart 31 –State final demand (rolling 12 month growth)[56]



At a regional level, performance in the major resource states (Queensland and Western Australia) has outstripped growth in the other major states (NSW and Victoria), with this disparity becoming increasingly evident over the past 12 months. State final demand for 2011 grew by 10 per cent in Queensland and 11.1 per cent in Western Australia, while growth was 2.0 per cent in NSW and 1.6 per cent in Victoria over the same period.

[53] ABS, 6227.0
[54] ABS, 6306.0
[55] ABS, 6306.0
[56] ABS, 5206.0

Chart 32 –Total employment (Index February 2007 = 1)[57]



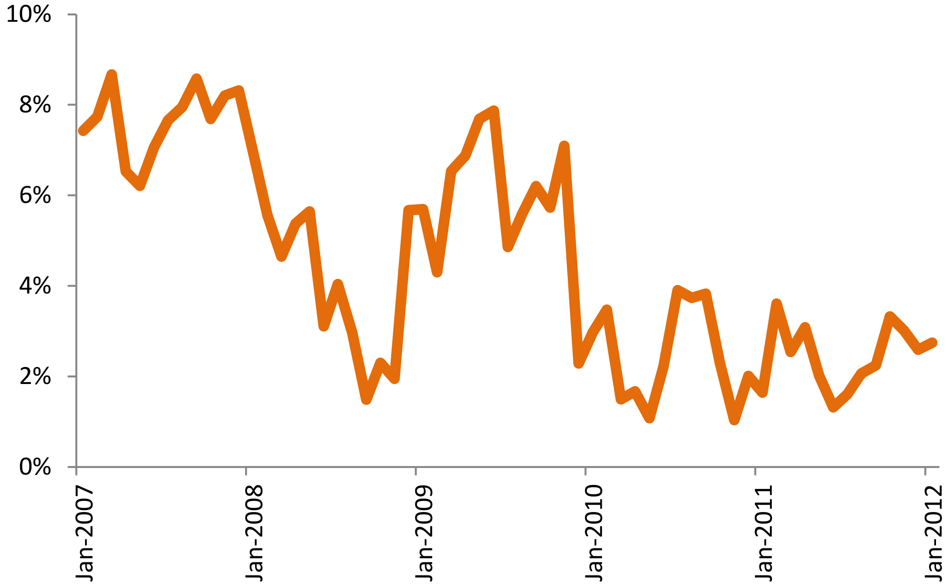
The differences in employment performance have been similar. NSW experienced periods of flat jobs growth during 2008 and again during 2011. In contrast, Western Australia has maintained relatively steady employment growth over the same period. Over the past five years, employment has grown almost twice as fast in Western Australia (2.8 per cent per annum) as it has in NSW (1.7 per cent per annum).

Differences in economic performance are also evident at a sectoral level. While some sectors are performing relatively well at the moment, there are others that are currently experiencing significant weakness.

[57] ABS, 6202.0

For example, the retail sector is currently very weak, as the sector struggles to compete with online shopping, which has grown exponentially in recent years, with the higher exchange rate being a major contributing factor to this growth.

Chart 33 –Retail sales (year end growth)[58]



Retail sales have averaged annual growth of 2.4 per cent over the past two years, which is less than half of the previous decade's average growth rate of 6.1 per cent per annum. While the currency remains around current levels, and consumer confidence remains muted, the prospects for growth in this sector remain weak.

Clearly, in the current patch-work economy there are differences between sectors, and some are under significant stress. Although ABI recommends that FWA should be most cautious in its new NMW Order and varying award minimum wages both the available figures, and what ABI is being told by members and affiliates, suggests that the recommendation that minimum wages are increased by not more than 1.8% may be excessive in some circumstances.

ABI proposes that FWA should consider providing the opportunity for parties with standing to apply the FWA to modify or postpone the operation of an order varying an award or exempting the award from the general variation of awards. Having regard to FWA's powers with respect to determinations varying modern awards it may be that FWA would wish to provide a limited time for applications of this kind to be made.

[58] ABS, 8501.0

Relative living standards and the needs of the low paid

FWA must take into account both "relative living standards" and "the needs of the low paid." This aspect of the assessment reflects commonly held views of social equity – that, where possible, employees on minimum wages should not have their standards of living eroded, and that over time, all Australians should share the benefits of increased economic prosperity. Increased national economic prosperity is dependent on improving productivity over time.

The needs of the low paid

Discussions around the needs of the low paid will invariably require a subjective assessment of what constitutes a need, and definitions of what constitutes poverty. There are a number of inherent difficulties associated with making such an assessment, not least of which is the fact that different people will be facing different household circumstances and therefore different needs.

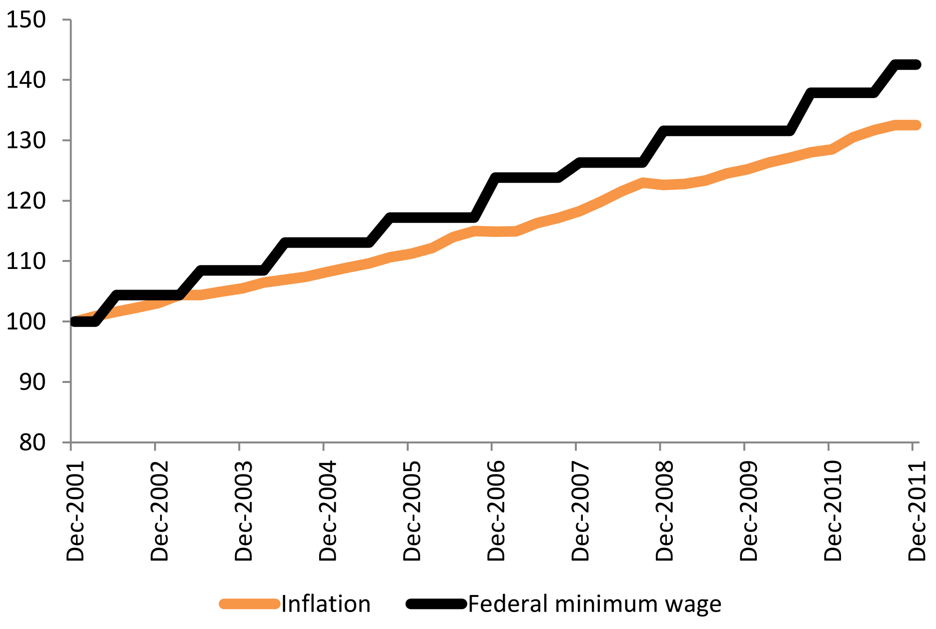
In this regard, we agree with FWA statement that "because there is a continuous distribution of wages, there is no wage threshold just below which people are clearly low paid and just above which people are clearly not low paid."[59] We also note that one of the low paid groups that FWA has focussed on in previous years is employees on the C14 rate, which is equivalent to the current National Minimum Wage (NMW).

While recognising the difficulties in selecting a metric to benchmark as "low paid," we have used the C14 wage in this regard, in part in recognition of the role it plays as a safety net for wages.

Previous submissions to Annual Wage Reviews have argued that the needs of the low paid cannot be met by simply maintaining the purchasing power of their salaries in absolute terms, and that more needs to be done to ensure that the relative prosperity of low paid employees in not eroded.

However, it should be noted that the NMW has increased considerably in real terms over the past decade. The real NMW is 7.6 per cent higher than it was a decade ago.

Chart 34 –Real increases in the National Minimum Wage (index December 2001 = 100)[60]



[59] [2010] FWAFB 4000 at para. 237
[60] ABS, 6401.0

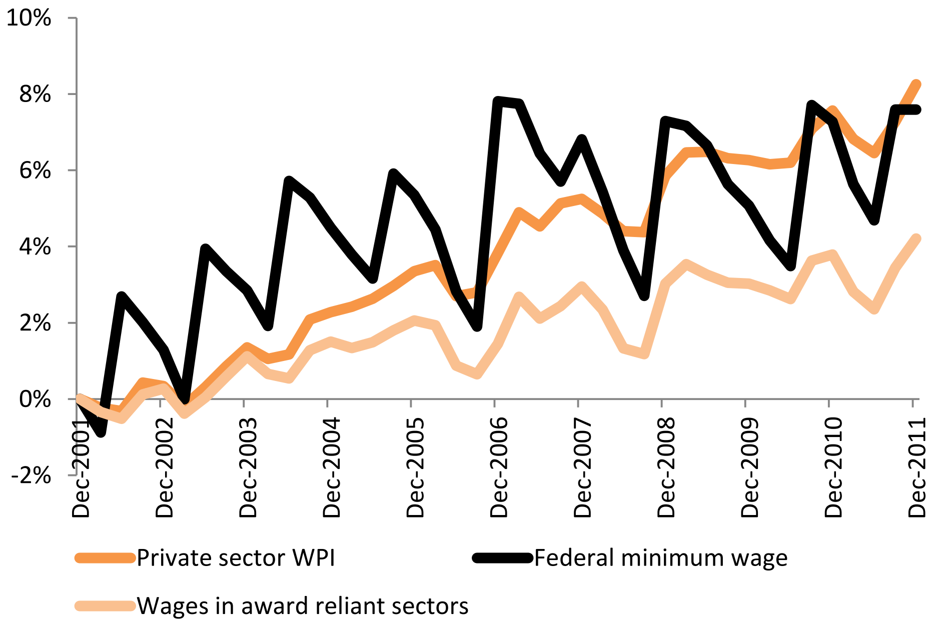
Box 1 – Measuring changes in real wages

ABI considers headline inflation to be the best measure to use to convert nominal wages to real wages, as it is best able to take into account changes in the cost of living. Headline inflation measures actual changes in the cost of a hypothetical bundle of goods over time. In contrast, the RBA's preferred measure of underlying inflation is better used to assess broad macroeconomic conditions, but because it discounts outliers and volatile items and does not accurately capture the change in cost burdens faced by employees.

The ABS also produces Analytical Living Cost indexes (ACLIs) for selected household groups. While these add some granularity between cost pressures for different household types, the data is not broken into enough categories to provide a useful insight into the specific cost pressures faced by award reliant employees. All employees are grouped together into a single index, which does not consider the differences in expenditure habits of different employee groups. The ACLI is also a more volatile index than CPI, making it a less useful longer-term benchmark of changes in the cost of living.

Growth in the NMW is also relatively strong when benchmarked against growth in the Wage Price Index and real wages growth in award reliant sectors.

Chart 35 – Real growth in the National Minimum Wage and wage benchmarks



Over the past decade, the NMW has grown by 7.6 per cent, noticeably faster than real wages have grown in general in award reliant sectors over this period (4.2 per cent). The NMW has in fact broadly kept pace with growth in the private sector wage price index, which has grown by 8.3 per cent over the past ten years.

This would suggest that previous wage decisions have ensured that the needs of the low paid have been addressed in both an absolute and a relative sense.

Relative living standards

Over time, increases in real GDP per capita flow through the economy and increase standards of living for the population. These improvements in living standards are generally reflected through increases in real wages. Maintaining relative living standards can be achieved by increasing real wages over time to maintain relativity with living standards in the broader economy.

However, the capacity to increase award wages in real terms, (ie to do more than maintain current living standards), is often limited. There are a number of reasons why we believe real increases in award wages are not currently appropriate:

- *Skill levels in the Australian economy are increasing.* The shift towards higher skill levels will generally lead to improved levels of productivity for those workers. This may subsequently result in a greater wage divergence between award reliant employees and other employees. To the extent that this divergence is driven by compositional shifts towards more highly skilled and productive sectors, it would be inappropriate for award wages to adjust upwards to maintain this relativity. Rather than seek to maintain relativity with the aggregate average earning, award wages should seek to maintain their relativity with particular employment categories.
- *Award reliant sectors are experiencing lower levels of real wage growth.* Our submission previously looked at rates of real wages growth in award reliant sectors. The five sectors with the highest rates of award reliance have experienced significantly lower rates of real wages growth than those sectors that are less award reliant. While some may argue that wages growth in these sectors is being dragged down by low award wage increases, it is equally true that the majority of employees in each of these sectors have wage setting arrangements which lie outside the award system. Providing award wage employees with wage increases which exceed those of non-award employees within the same sector would undermine incentives to seek collective bargaining.
- *Productivity in award reliant sectors is growing more slowly.* Sustainable productivity growth is the key to real wages growth. As has been noted earlier in this submission, productivity growth in award reliant sectors has lagged behind growth in non-award reliant sectors, with this trend becoming particularly apparent since the global financial crisis.
- *Minimum wages have already seen significant real growth in recent years.* As was noted previously, minimum wages have increased by 7.6 per cent in real terms over the past decade. This is significantly faster than the increase in real wages in award reliant sectors, which have only increased by 4.2 per cent over the same period.
- *Legislated tax cuts will significantly increase disposable incomes.* Single employees with no dependents on the NMW will receive an annual tax cut of more than $300 per year under the carbon tax, which will increase their disposable income by a little over 1 per cent. This will more than fully offset the inflationary impact of the carbon tax on these individuals (estimated to be around 0.7 per cent). NMW employees with dependants could receive nearly $1,000 dollars in Government assistance under the carbon price, which would offset the full inflationary impact of carbon pricing more than twice over.

BOX – 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.

In considering relative living standards, it is also relevant to compare living standards of Australians on minimum wages to the living standards of employees on minimum wages in comparable western economies. When looking at the minimum wage bite (the ratio of the minimum wage to median full time earnings), Australia performs well relative to other countries. In recent years, the minimum wage bite in Australia has been around 52 to 54 per cent, higher than in countries like the UK, Canada, the United States. Our wages bite is also higher than a number of countries with a reputation for employee friendly labour market conditions, such as Greece and Spain.

Equal remuneration

Both the modern awards objective (s. 134) and the minimum wages objective (s. 284) require FWA to take account of the principle of equal remuneration of work of equal or comparable value. This means equal remuneration for men and women workers for work of equal or comparable value (s. 302).

FWA has rightly been cautious in its consideration of equal remuneration in wage reviews. In its 2010 decision it said:

> **[319]** On the basis of the material we conclude that an increase in minimum wages is likely to assist in promoting pay equity given the relatively high proportion of women among the award-reliant, although it may not be the most effective means for achieving this end. Research directed to a more precise identification of the extent and composition of the award-reliant sector might be of assistance. We deal later with some issues concerning research generally.[61]

In this decision FWA awarded a $26 increase to the NMW and adult award wages. In its 2011 decision FWA made no more definitive a finding about the relationship between adjusting minimum award wages and the promotion of pay equity. It said:

> **[296]** …Other things being equal, the principle of equal remuneration is a factor in favour of an increase and we agree with those who submitted that an increase in minimum wages is likely to assist in some measure in promoting pay equity, although in our view other means are available under the Fair Work Act to address such issues more directly. [62]

Of course, other things are not equal. Adjustments to minimum wages directly affect award reliant employees. Award-reliant employees are in a minority, most employees are not award reliant. While it is generally accepted that adjustments to award wages impact agreement negotiations because they tend to provide a floor, an outcome which is probably enhanced by s. 206, the full nature and effect of the impact of award wage adjustments on agreement and contractual wages is not precisely understood. It may well be dependent on a range of economic and labour market factors, and thus, may vary over time. In its 2011 decision FWA noted:

> **[288]** The Australian Government submitted that the flow-on effects to bargaining may have a negative effect on overall gender pay equity:
>
>> "Minimum wage increases can lead to temporary increases in female earnings vis-à-vis males, as a greater proportion of women are low paid award reliant employees. However, when these wage increases flow through to other wages indirectly, including by acting as a floor for workplace bargaining, men tend to benefit more."
>
> **[289]** The Australian Government submitted that issues of gender pay gaps can be best addressed through other mechanisms in the Fair Work Act.[63]

The reach of FWA's minimum wages setting powers means they cannot be used to achieve equal remuneration and the Act contains other mechanisms designed to that end. Taking account of the principle of equal remuneration does not require FWA to award an increase to the NMW or award wages.

In its 2011 decision FWA awarded an increase of 3.4% to award classification rates and $19.40 to the NMW (3.4%). Subsequent research which was foreshadowed by FWA suggests that in the event of an increase, a percentage increase to award wages better assists the promotion of equal remuneration than does a monetary increase. This is because

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[61] Para 319, *Annual Wage Review 2009-2010*, [2010] FWAFB 4000

[62] Para 296, *Annual Wage Review 2010-2011*, [2011] FWAFB 3400

[63] Paras 288 -289, *Annual Wage Review 2010-2011*, [2011] FWAFB 3400

- In the case of award-reliant men and women, the fact that award reliant women tend to be more highly concentrated at the upper levels of skill means that a monetary increase is likely to bring women back to the men:

> The general point to gain from this discussion is that a flat dollar increase in award rates of pay is likely to lower the ratio of female AHOTCE to male AHOTCE for award-reliant employees because award-reliant females are higher up in the earnings distribution, whereas this is less likely to occur for a percentage increase in award rates of pay.[64]

- In the case of men and women's wages overall (that is, whether or not award reliant), the fact that a greater proportion of women than men are award reliant, and award reliant women are more likely to be in higher skill levels, means that a percentage increase is likely to lead to a slightly greater reduction in the gap:

> The general point to gain from this discussion is that moderate award wage increases are likely to make a small difference in reducing the overall gender pay gap between men and women, which is because the differences in award-reliance between males and females are not large enough for the overall differences in AHOTCE between males and females to be significantly affected.
>
> It may seem at first that the small proportion of award-reliant employees is the explanation for this result, but that is not the case. It depends (as mentioned above) on the difference between the percentage of women that are award reliant and the percentage of men that are award reliant. […] this analysis is about the change in the gender pay gap flowing from flat dollar versus percentage increases, not the actual quantum of the gender pay gap itself. The former depends primarily on the difference in the percentages of women and men that are award-reliant and the size of the award wage increase.[65]

- In the case of award reliant men and women and those which are not award reliant , the fact that the difference in wages between award reliant women and non award reliant women is less than the difference between the two groups of men:

> In general, the effect of a percentage increase in award rates of pay on reducing the difference in earnings between award-reliant and other employees is greater for females than males because of the smaller gap in earnings between award-reliant and other females. This difference in effect is likely to be a little smaller for a flat dollar increase, because award-reliant females are more concentrated at the higher end of the wages distribution.[66]

However, there are important general caveats to note about the research:

- Very broad skill levels were used to model work of equal or comparable value resulting in very different kinds of work being grouped as comparable (this will tend to overstate the contribution of gender to differences)
- Compositional change will affect the results (the most recent EEH survey was undertaken in May 2010; wage increases themselves, as well as other economic and labour market changes, may affect composition)
- Modelling was based on the assumption that an increase to award rates did not affect the NMW (of negligible impact) nor wages fixed by agreement or contract (of significant impact given the compositional and proportional disparities between award reliant men and women and those whose wages are not award-reliant and the fact that annual wage review decisions impact on non award reliant employees' wages.)

In the 2010-2011 review the ACTU sought a monetary increase ($28) up to the C10 rate and a percentage increase equal to the percentage increase on the C10 rate (4.2%) above it. This "hybrid" increase was also modelled, however the results are difficult to compare comfortably back against the earlier modelling results because the modelled "hybrid" increases gave rise to higher average increases than did the earlier scenarios.

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[64] P48, *Award Reliance and differences in earnings by gender*, Research Report 3/2012
[65] Pp 50 – 51, *Award Reliance and differences in earnings by gender*, Research Report 3/2012
[66] P 52, *Award Reliance and differences in earnings by gender*, Research Report 3/2012

> For all employees, the ratio of female to male AHOTCE increased (that is, the gender pay gap decreased) under the hybrid scenarios. For the 1 per cent hybrid scenario, the increase in this ratio (decrease in the gender pay gap) is 0.04 percentage points, while for the 4 per cent hybrid scenario it is 0.17 percentage points (Table 9.6). The ratio of female to male AHOTCE also increases (the gender pay gap decreases) at each skill level.
>
> The 1 per cent and 4 per cent hybrid scenarios reduce the overall gender pay gap by more than the corresponding percentage only increase scenarios, as under the hybrid scenarios award-reliant employees on average receive a higher increase in earnings, and award-reliance is greater among females. The gender pay gap is also reduced by more than it would be for a flat dollar scenario where the flat dollar amount was equivalent to the amount received by award-reliant workers earning at or below the C10 rate. Again, this would be because award-reliant employees on average would receive a higher increase in earnings under the hybrid scenario.[67]

Having regard to the research results and the caveats concerning the assumptions and methodology it seems permissible to conclude that a percentage increase to award minimum wages may slightly better promote pay equity than an equivalent ("wage bill neutral") monetary increase, at least with respect to award reliant employees. Increases to award minimum rates in general may do little, and may exacerbate, the differences between award reliant and non award reliant earnings.

[67] P 55, *Award Reliance and differences in earnings by gender*, Research Report 3/2012

Implementation of FWA's decision

Other instruments

Award-based instruments

ABI has proposed the FWA not increase the NMW by more than $10.60 (or 1.8% of the current NMW) and, taking account of that, award minimum wages not be increased by more than 1.8%.

There are continuing pay and classification scales, such as those derived from state awards and pre-modern federal awards associated with the coverage of the *Social, Community, Home Care and Disability Services Industry Award 2010* [MA000100], enterprise specific award-based instruments and those which have not been rescinded and which may retain some residual coverage. ABI recommends that all remaining transitional APCSs, NAPSAs, state reference transitional awards and common rules are increased in the same manner as minimum award wages.

Presuming that FWA is minded to increase award minimum wages by a percentage, ABI proposes that, as was done last year, rates in training wage schedules to modern awards should be increased by the same percentage.

Many modern awards contain supported wage system rates, including a minimum weekly amount payable. This has in the past been set having regard to the Disability Support pension threshold. ABI proposes that FWA continue this practice. This may require FWA to defer its decision for this matter until the new rate (currently $75) becomes available.

The NMW Order

The NMW Order is also required to set specified new special NMWs and a default casual loading. ABI proposes that the special NMW

- Providing for employees with a disability which does not impact the employee's capacity be set in the same way as the standard NMW
- Providing for employees with a disability which does impact the employee's capacity be set in the same way as the supported wage would be varied
- Providing for employees undertaking training be set in the same ways as was provided in the 2011 NMW Order, including that the NTWS should be varied by the same percentage as is applied to modern awards, if FWA determines a percentage increase to award minimum wages.

ABI proposes the casual loading for award/agreement free employees is increased to 23%. This is consistent with the approach adopted in the Panel's 2011 NMW Order and the general transitional arrangements applying to the vast majority of modern awards.

Expense related allowances

Modern awards provide for the automatic variation of expense related allowances. Their variation is triggered by the variation of the standard rate in the modern award arising from an annual wage review increase an is linked to the movement in the relevant component of the CPI since the allowance was last varied.

Following the 2011 annual wage review decision FWA published draft determinations for expense related allowances in each modern award. This was most useful and helpful to the parties and ABI would support FWA doing so again. Publication assists a consistent understanding of the new rates, clarifies which components of the CPI are relevant for the particular award and reduces the likelihood of disagreement, particularly when an allowance has not moved with the preceeding annual wage review decision.