AUSTRALIAN BUSINESS INDUSTRIAL

ANNUAL WAGE REVIEW 2020-21

SECOND SUBMISSION OF AUSTRALIAN BUSINESS INDUSTRIAL AND BUSINESS NSW (NSW BUSINESS CHAMBER LTD)

2 June 2021

About ABI and Business NSW (NSW Business Chamber Ltd)

Australian Business Industrial (ABI) is registered under the *Fair Work (Registered Organisations) Act 2009* and has some 4,200 members. NSW Business Chamber Ltd (trading as Business NSW) is registered under the (NSW) *Industrial Relations Act 1996* and is a State registered association recognised pursuant to Schedule 2 of the *Fair Work (Registered Organisations) Act 2009.* As NSW's peak business organisation, Business NSW has more than 30,000 member businesses across NSW.

ABI is comprised of Business NSW members who specifically seek membership of a federally registered organisation.

This submission has been approved by the Council of ABI on behalf of its members and endorsed by the workplace policy committee of Business NSW.

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Executive Summary

Recommendation 1:

That the Expert Panel determine a 1.1 per cent increase in the 2020-21 Annual Wage Review, to take effect from 1 January 2022. This is in addition to the 0.5 per cent increase in the Superannuation Guarantee from 1 July 2021.

Recommendation 2:
The Panel should reunify the clusters separated in the previous Annual Wage Review, with an operative date for this Review's increase to be 1 January 2022.

The ABI view continues to be that the Expert Panel should exercise caution in its determination this year. Per our previous submission, the COVID-19 pandemic is not over, sadly as currently being witnessed in Victoria. If this outbreak, or any other, should spiral out of control, the impact on the economy may once again be severe.

ABI's previous submission recommended a zero per cent increase in the Annual Wage Review. This was primarily due to an uneven economic recovery across industry sectors, and the great unknown impact of the ending of JobKeeper due to occur days after our submission.

Since that time, the uneven economic recovery continues. However, it has become clear that the ending of JobKeeper has not had the most severe negative effects that many, including ABI-Business NSW, feared.

This is a pleasing outcome. However, poor confidence in industry remains and the uneven recovery continues. Whilst many parts of the economy have grown beyond where they were prior to the pandemic, there continue to be industry sectors which lag.

These industries are particularly those which are affected by the closure of the international borders. Of concern, the Commonwealth Government announced in its Budget that it expected that international borders would not reopen until mid-2022.

The challenge with the structure of the AWR process is that it can't fully accommodate such significant variances in the economy. A one-size-fits-all wage increase aligns poorly with diverging economic circumstances. In this context, the Panel must strike the difficult balance between enabling employees of prospering businesses to see wages rise, without imposing fatal extra costs on struggling businesses. A 1.1 per cent rise, in addition to the already legislated rise of 0.5 per cent to the Superannuation Guarantee, would best strike this balance.

Businesses that ABI-Business NSW have consulted with have raised concerns around continuing with staggered dates of operation as derived in last year's solution. We support re-aligning the 'clusters' that were created in the previous Annual Wage Review at the earliest opportunity. At the same time, we think it important to avoid businesses in the upper cluster, who saw their last pay rise take effect in February, facing another pay rise a mere five months later on July 1. Therefore, we propose that minimum wage and awards increases for all clusters should take effect on 1 January 2022, and that the distinction between clusters at that point cease. The reopening of international borders would hopefully then occur around the same time as the 2021-22 AWR operative date for all clusters.

Guide to this submission

This submission updates and revises ABI's initial submission dated 26 March 2021.[1] Parts I and II of this submission update Parts I and II in the initial submission. Part III from the initial submission still stands.

Note on terminology

This submission refers to a change to the 'minimum wage', 'minimum wages' or the NMW in the context of what the Panel might consider with respect to both the NMW and modern award minimum wages. That is, any reference should be viewed as referring to the totality of implications associated with changes to modern award minimum wages and other wages impacted by the AWR decision.

[1] https://www.fwc.gov.au/documents/wage-reviews/2020-21/submissions/abi-sub-awr2021.pdf

Part I — Economic and labour market considerations

GDP grew at 1.1 per cent in the March 2021 quarter. GDP has exceeded its pre-pandemic level faster than was anticipated by official forecasts at the time of ABI's initial submission[2]. The recovery of activity is broad-based as private investment have contributed strongly to growth and household consumption is roughly back to its pre-COVID level (Table 1).

In line with this stronger-than-expected recovery, official and private forecasters have made significant upward revisions to the economic outlook since March.

The Commonwealth Budget 2021-22 and the RBA's Statement on Monetary Policy in May 2021 forecast a stronger rebound in GDP growth in 2021 than earlier official estimates available at the deadline for initial submissions to the Annual Wage Review. Spare capacity has declined faster than expected as economic activity continues to improve over the forecasted periods out to June quarter 2023[3].

Despite the improvements relative to 2020 and early 2021, potential GDP over the medium term is nevertheless projected to remain below pre-pandemic expectations[4].

Table 1: Key macroeconomic indicators

(%chg, through the year)	5-year average (2015-19)	2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021
GDP growth	2.5	1.9	1.4	-6.3	-3.7	-1.1	1.1
Household consumption	2.3	1.2	-0.7	-13.2	-6.4	-2.7	0.0
Private investment	-2.1	-4.0	-2.3	-6.3	-6.4	-1.7	3.6

Notes: Data are seasonally adjusted.

Source: ABS, *Australian National Accounts: National Income, Expenditure and Product, March 2021*, Catalogue No. 5206.0

However, these improved GDP projections utilise a baseline scenario which assumes:

- any further local outbreaks are effectively contained,
- population-wide vaccination is in place by the end 2021
- the gradual return of international students and skilled migrants in mid-2022[5].

The Commonwealth Budget 2020-21 acknowledges that the outlook remains uncertain:

[2] The RBA's Statement on Monetary Policy in February 2021 did not anticipate that GDP will reach its pre-pandemic level until later in 2021.

[3] RBA (2021), *Statement on Monetary Policy*, May.

[4] Australian Government, Budget Paper No. 1: Budget Strategy and Outlook 2021-22, Canberra, p. 65.

[5] Australian Government, Budget Paper No. 1: Budget Strategy and Outlook 2021-2, Canberra, p. 36.

> "Control of the virus in Australia and globally remains a significant risk to the economic outlook. Outcomes could be substantially different to the forecasts, depending upon the extent to which these assumptions hold."[6]

Whilst the macroeconomic environment and outlook has improved since the time of our initial submission, ongoing downside risks to the economic outlook remain a significant concern. Any deviation from the assumptions outlined in the Budget, particularly a slower vaccine roll-out than anticipated and further delays in reopening international borders, would suppress economic recovery.

Employment and the labour market

One of the key concerns and primary reasons for recommending a zero per cent increase in ABI's initial submission was the potential impact of the ending of JobKeeper on the labour market, which occurred two days after that submission.

The April employment data, whilst showing a fall of employment by around 31,000 nationally[7], were not as bad as feared. The labour market overall improved over the past two months, with the unemployment rate continuing to fall from its peak of 7.5 per cent in mid-2020 to 5.5 per cent in April 2021. It is now only 0.2 percentage points above its March 2020 level. The Commonwealth Budget made clear that the Government felt that it was achievable to reduce unemployment to a rate "with a four in front of it". Some commentators are suggesting that unemployment could be reduced even further.

The ABS recently reported:

> "… analysis by the ABS of changes in employment and hours between March and April did not identify a clear aggregate impact from the end of JobKeeper. There were not large changes in the indicators that the ABS has been highlighting throughout the COVID period (eg. people working reduced or zero hours for economic reasons and flows out of employment across a broad range of population groups)."[8]

Despite these positive early signs, it is the ABI view that full impact of the cessation of JobKeeper remains unknown. Given the breadth of support that this program provided, we expect that the effect of its ending will only become fully evident over several months, with firmer findings not likely until the June quarter[9].

The uneven recovery across the economy is again evident in the labour force data. Employment in the upper cluster and most of the central cluster (of which most businesses are award-reliant) has continued to decline over the past two months, lagging further behind the rest of the economy (Table 2). This is particularly the case in industries that continue to be adversely impacted by ongoing restrictions and border closures.

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[6] Australian Government, Budget Paper No. 1: Budget Strategy and Outlook 2021-2, Canberra, p. 36.

[7] Australian Bureau of Statistics (April 2021), *Labour Force, Australia*, Methodology, ABS Website, accessed 20 May 2021.

[8] Australian Bureau of Statistics (April 2021), *Labour Force, Australia,* ABS Website, accessed 27 May 2021. https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/latest-release#survey-impacts-and-changes

[9] RBA (2021), *Statement on Monetary Policy*, May.

Table 2: Per cent change in total payroll jobs, by industry, 14 March 2020 to 8 May 2021, ABS Weekly Payroll data

	14 Mar to 18 Apr 2020	18 Apr 2020 to 27 Feb 2021	27 Feb to 8 May 2021	14 Mar 2020 to 8 May 2021
Upper cluster				
Accommodation and food services	-34.2	25.7	-2.7	-10.7
Arts and recreation services	-27.4	27.7	-2.7	-2.3
Central cluster				
Agriculture, forestry and fishing	-3.7	6.6	-7.5	-3.6
Mining	-8.3	7.2	1.4	0.4
Manufacturing	-4.9	3.4	-1.9	-3.2
Construction	-4.3	4.5	-1.9	-1.2
Wholesale trade	-5.0	3.1	-1.4	-3.1
Retail trade	-8.2	7.1	-0.2	-1.1
Transport, postal and warehousing	-5.0	0.4	-3.0	-7.5
Information, media and telecommunications	-8.3	1.8	-2.1	-8.6
Rental, hiring and real estate	-10.3	9.4	-0.9	-1.6
Professional, scientific & technical services	-3.6	4.9	-2.6	-1.1
Administrative and support services	-10.3	13.8	-1.4	2.3
Education and training	-9.5	4.9	4.4	-0.1
Other services	-10.5	12.1	-3.0	-0.8
Lower cluster				
Electricity, gas, water and waste	-0.8	3.7	-0.2	2.7
Finance and insurance	-0.3	7.1	0.2	7.2
Public administration and safety	-4.8	13.9	2.0	11.0
Health care and social assistance	-4.7	10.2	-1.7	3.9
All industries	**-8.4**	**10.4**	**-0.8**	**1.5**

Source: ABS, *Weekly Payroll Jobs and Wages, Australia (week ending 8 May 2021),* Table 4.

Further, employment trends differ according to business size. While larger firms have been able to expand their numbers of employees, smaller and medium sized firms have shed workers in the period since JobKeeper ended (Table 3).

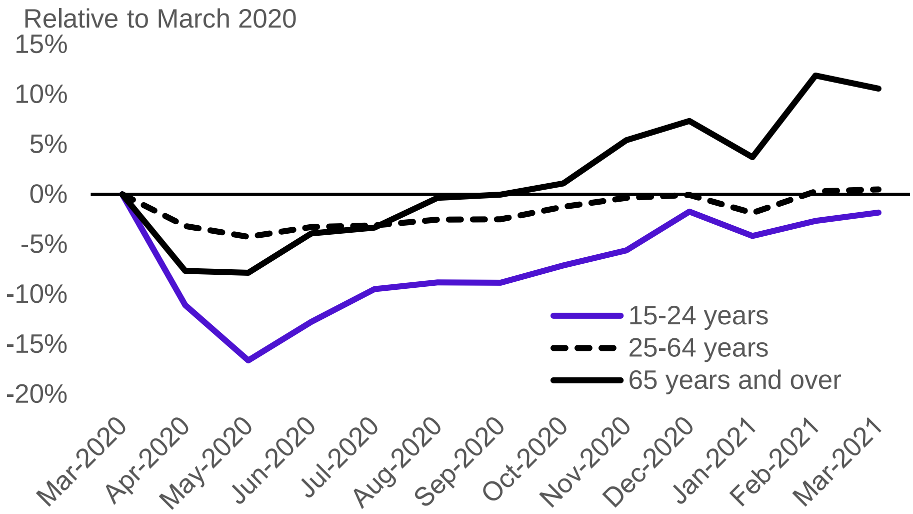
Table 3: Per cent change in total payroll jobs, by employment size, 14 March 2020 to 8 May 2021, ABS Weekly Payroll data

	14 Mar to 18 Apr 2020	18 Apr 2020 to 27 Feb 2021	27 Feb to 8 May 2021	14 Mar 2020 to 8 May 2021
Under 20 employees	-11.2	15.5	-6.3	-1.3
20 – 199 employees	-12.1	11.1	-0.3	-1.1
200 employees and over	-5.2	4.7	1.3	0.8
All businesses	**-8.4**	**10.4**	**-0.8**	**1.5**

Source: ABS, *Weekly Payroll Jobs and Wages, Australia (week ending 8 May 2021),* Table 7.

Despite some improvement since our initial submission, youth employment in March 2021 remains 2.0 per cent below March 2020. The contrast continues with older workers where, for example, employment was 10.6 per cent higher for people aged 65 and over for that same period (Chart 1).

Chart 1: Per cent change in employment, persons, by age, Mar 2020 to Mar 2021



Source: ABS, *Labour Force, Australia*, *March 2021*, Catalogue No. 6291.0.55.001 Table 1

This uneven recovery of the labour market, and the unknown long-term impact of the end of JobKeeper, are grounds for the Panel to take a cautious approach towards any wage increase decision. Above-inflation wage rises risk further exacerbating challenging conditions for smaller and medium-sized businesses, while potentially further hindering employment chances for younger people entering the jobs market.

Inflation and wages growth

Wages, prices and weak demand

The annualised rate of headline inflation rose from 0.9 to 1.1 per cent from December 2020 to March 2021. The Living Costs Indexes (LCI) rose from -0.5 per cent to 0 over the same period (Table 4). Average wages (WPI) increased slightly from 1.4 to 1.5 per cent. Underlying inflation (trimmed mean) has decreased slightly from 1.2 to 1.1 per cent.

According to the RBA's Statement on Monetary Policy in May 2021, despite a positive economic outlook, inflation and wage growth are expected to remain subdued.

> "Some pick-up in wages growth is expected as the unemployment rate falls further. However, it is likely to be some years before wages growth is at a rate consistent with achieving the inflation target (of 2 – 3 per cent)."[10]

Accordingly, there are only marginal upward revisions of headline inflation to 2.0 per cent in mid-2023 (from 1.75 per cent) and WPI to 2.25 per cent (from 2.0 per cent).

Whilst the overall cost of living has increased very slightly since our initial submission, in line with overall economic recovery, inflation is forecasted to remain below long-run averages going forward.

Table 4: Annual changes in measures of prices and living costs

	5-year average to December quarter 2019	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Wage Price Index	2.2	2.2	1.7	1.4	1.4	1.5
Inflation						
CPI (headline)	1.6	2.2	-0.3	0.7	0.9	1.1
Trimmed mean	1.8	1.7	1.3	1.2	1.2	1.1
LCI (employees)	1.4	1.1	-2.1	-0.9	-0.5	0.0

Source: ABS, *Consumer Price Index, Australia*, *March 2021*, Catalogue No. 6401.0 Table 1; ABS, *Selected Living Cost Indexes, Australia, December 2020*, Catalogue No. 6467.0 Table 1

[10] RBA (2021), *Statement on Monetary Policy*, May.

Part II – Recommended Wage Increase

Recommendation 1:

That the Expert Panel determine a 1.1 per cent increase in the 2020-21 Annual Wage Review, to take effect from 1 January 2022. This is in addition to the 0.5 per cent increase in the Superannuation Guarantee from 1 July 2021.

Our recommendation of a 1.1 per cent increase (in addition to the 0.5 per cent increase in the Superannuation Guarantee) from 0 per cent at the time of the initial submission is based on three main overall improvements in economic activities.

- GDP has exceeded its pre-pandemic level faster than anticipated at the time of the last submission.
- GDP forecasts for future periods have improved, and expectations of spare economic capacity have been reduced.
- The ending of JobKeeper did not result in significant negative impacts on the labour market.

However, despite these improvements relative to early 2021, economic conditions still remain below long-run performance, due to the lingering effects of the pandemic and associated economic uncertainty[11]. Furthermore, positive headline figures mask an uneven pattern of recovery. Above-inflation pay awards could further exacerbate difficulties faced by smaller businesses and those who continue to be restricted by limits on international travel or the possibility of future lockdowns and/or state border closures.

Increasing the minimum wage by 1.1 per cent (in addition to the 0.5 per cent increase in Superannuation Guarantee) strikes the appropriate balance between protecting employees' absolute and relative living standards while avoiding putting undue pressure on businesses whose recovery is not yet assured.

As explained in Part 3, the wage rise should come into effect from January 1 to avoid imposing multiple pay rises within a span of five months on some businesses.

ABI does not believe that changes to the NMW should be mechanically linked to measures of price growth such as CPI in all years. That said, ABI notes that an increase of 1.1 per cent (in addition to the 0.5 per cent increase in the Superannuation Guarantee) is capable of at least maintaining living standards in line with current and forecasted inflation and is appropriate for this year's Annual Wage Review[12].

[11] ABI recommended an increase of not more than 1.9 and 2.3 per cent to the 2017-18 and 2018-19 AWR respectively. These periods showed a relatively more broad-based economic growth and experienced relatively less amount of downside risks than the current economic situation.
[12] Refer to Table 4 for current prices and wages. For inflation forecasts, please refers to RBA (2021), *Statement on Monetary Policy*, May, p. 73, table 5.1.

The Superannuation Guarantee

The Superannuation Guarantee is the percentage of wages that businesses must contribute to their workers' retirement savings.

It is scheduled to rise from its current value of 9.5 per cent to 10 per cent on 1 July 2021 and increase by 0.5 per cent per year until it reaches 12 per cent by 2025.

In effect, this is a 0.5 per cent increase in wage costs for employers. This increase in wages must be taken into consideration in the decision of NMW increase in 2021-22.

Uneven recovery is most clearly apparent in the labour market. Employment in industries in the upper and central clusters (most of which are award-reliant) have declined further over the past two months, lagging even further behind the rest of the economy. Despite some improvement, youth employment is well below the pre-COVID level while employment of other cohorts has increased since our initial submission.

A lack of actual data points to assess the full effect of the end of JobKeeper at the time of the decision remains a concern. Although there are no clear early impacts at this stage, full effects of the JobKeeper expiry, as well as insolvency protections may take a few months to materialise and this is likely to take place after the time of the Panel's decision.

While there are only minor changes to the assumptions of the economic outlook outlined in the Commonwealth Budget 2021-22 from the previous Budget, ongoing downside risks to the outlook remains of a concern. Any deviation from the assumptions specified in the Federal Budget, particularly a slower vaccine roll-out than anticipated, could derail economic recovery and exacerbate uneven recovery in the labour market.

The cumulative effect of these uncertainties, and the particular exposure of small and medium-sized businesses to downside risks, mean we are reluctant to recommend a wage rise significantly above inflation, particularly once the Superannuation Guarantee increase is also factored in.

Part III – Timing of Awards

Recommendation 2:
The Panel should reunify the clusters separated in the previous Annual Wage Review, with an operative date for this Review's increase to be 1 January 2022.

The division of Modern Awards in 2019-20 created a problem for future AWRs. It introduced additional complexity by introducing another major variable into consideration. AWRs are now not only focused on the quantum of pay increase, but also on the date(s) when it applies.

In *the Business NSW* Business Conditions Survey March 2021 quarter, almost 44 per cent of businesses with staff employed under multiple Awards reported that staggered dates had negatively impacted their business due to additional administrative complexity. The general view was that businesses had increased time spent on compliance as a result.

The division into multiple clusters has also created complexity in the Annual Wage Review process itself, creating an extra informational hurdle for stakeholders.

Should the Expert Panel make a determination in line with our recommendation, using the normal timetable of a 1 July increase would see recipients in Groups 2 and 3 receive two pay increases in a less than 12-month period. These are the businesses that can least afford increases within such short periods of time, especially given that they will already need to satisfy the Superannuation Guarantee increase from 1 July, irrespective of the Panel's decision.

To avoid additional pressures on those businesses in the most badly affected sectors, ABI proposes an effective date for implementation of this year's Awards of 1 January 2022. This would also allow the Panel to reunite the separated clusters.

Should the Panel disregard this recommendation and again utilise the three-cluster system for this year's Review, we would request that the Panel also set out its timetable to reunify the clusters in future years, as per our original submission.