

AUSTRALIAN BUSINESS INDUSTRIAL

ANNUAL WAGE REVIEW 2019-20

SUPPLEMENTARY SUBMISSIONS OF AUSTRALIAN
BUSINESS INDUSTRIAL AND BUSINESS NSW
(NSW BUSINESS CHAMBER Ltd)

5 June 2020

About ABI and Business NSW (NSW Business Chamber Ltd)

Australian Business Industrial (ABI) is registered under the *Fair Work (Registered Organisations) Act 2009* and the 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*.

ABI comprises those Business NSW members who specifically seek membership of a federally registered organisation.

These submissions have 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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Introduction and overview

Under the *Fair Work Act 2009* (Act) the Fair Work Commission (FWC), constituted by an expert panel (Panel), must undertake an annual wage review (AWR) each financial year. ABI and Business NSW (collectively referred to as ABI) appreciate the opportunity to make a further supplementary submission to the 2019-20 AWR.

The Panel has, as its statutory function, the review of modern award minimum wages, which may or may not lead to their variation, and the national minimum wage order (NMWO). The review must give rise to a new NMWO, and the Panel must take account of the rate of the national minimum wage (NMW) it proposes to set in the NMWO in any determination to vary (or set or revoke) modern award minimum wages.

The purpose of this supplementary submission is to update ABI's recommendations regarding the 2019-20 AWR. It is intended to be considered together with ABI's initial submission dated 13 March 2020.

ABI's initial submission (page 28) noted:

"ABI intends to recommend a specific percentage increase to the NMW. However, given the significant uncertainty surrounding COVID-19, ABI does not have sufficient visibility on the full range of potential economic impacts to make a specific recommendation at this time. It is currently ABI's intention to submit a specific recommendation prior to post-Budget submissions being due (currently due 15 May 2020)."

ABI wishes to advise its recommendation in light of the March quarter GDP results confirming the depth of the economic crisis.

Even before the anticipated impacts of COVID-19, ABI maintained there was a need for a more cautious approach than was taken in the 2016-17, 2017-18, and 2018-19 AWR decisions. The need for a cautious approach is heightened due to the cumulative impact of successive minimum wage increases which were higher than broader wages growth and inflation. This has exacerbated vulnerabilities of certain cohorts in the labour force in these uncertain times, especially where unit labour costs for vulnerable groups have increased relative to others and where there is less capacity for firms to absorb higher labour costs.

Developments relating to COVID-19 since ABI's initial submission have significantly amplified vulnerabilities in the labour market and broader economy. The lockdown measures which commenced in mid-March have severely affected the economy. Labour market conditions have rapidly deteriorated with significant job losses and employers seeking ways to reduce labour costs to remain viable. Younger workers and award-reliant industries are among the most adversely affected. While policies such as JobKeeper have helped to protect some jobs,

these responses are temporary in nature and many employers will be making decisions based on what can be sustained over the longer term.

The March quarter national accounts revealed Australia was likely in recession with a further quarter of negative growth expected for June. With the potential for weak economic conditions to be prolonged, any increase in minimum wages could escalate risks in what was already a fragile labour market. Businesses may be unable to absorb costs, particularly marginal businesses affected by government lockdowns and social-distancing requirements.

In previous AWRs the Panel has considered the relationship between minimum wage increases and dis-employment effects in the context of research conducted in Australia and overseas.

ABI argues the rapid change in economic circumstances justifies a precautionary approach with respect to the Panel's view on dis employment effects. With many businesses struggling to protect jobs and maintain their current workforce, findings from earlier research may not offer a useful guide as to the potential consequences of a minimum wage increase within the contemporary economic environment.

Given the high economic and social costs associated with unemployment, there is a strong case for the Panel to apply the precautionary principle by making no change to minimum wages. To be specific, the Panel should refrain from increasing the national minimum wage until it can have greater confidence (than what can be known at this time) that an increase can be awarded without impeding economic recovery, putting jobs at risk or acting as a barrier to employment growth. This is consistent with the approach taken during previous times of economic uncertainty, such as during the Global Financial Crisis.

ABI therefore recommends there be no increase to national minimum wage.

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.

Economic context

The labour markets

Recent economic data reveals that lockdown measures implemented in mid-March in response to COVID-19 outbreaks have severely affect the economy. Although the April labour force survey showed a smaller than expected increase in the unemployment rate (6.2 per cent from 5.2 per cent in March), underlying conditions are far weaker than the unemployment rate suggests.

While there was a sharp drop in employment of around 3 per cent in the 12 months to April, this was not reflected as strongly in the unemployment rate because there was a high number of people without a job that did not actively seek work (the participation rate fell from 66 to 63.5 per cent). The April labour force survey confirmed significant job losses since the onset of COVID-19 with 594,280 fewer employed persons in Australia compared to early March. The severity was further reflected in changes to hours worked which fell by 8 per cent. There was also a large increase in those seeking more hours with a significant rise in underemployment of around 13.7 per cent in April from 8.8 per cent in March.

COVID-19 has heightened vulnerabilities experienced by certain cohorts in the labour force. Younger workers (who account for over 42.3 per cent of low-paid workers) have been among the most affected with a collapse in employment of 9.5 per cent in the 12 months to April and a significant drop in labour force participation with their participation rate falling from 69 per cent in March to 63 per cent in April.

Wages

Deteriorating labour force conditions are also strongly reflected in new and more contemporary data collected through the Single Touch Payroll system. According to recent weekly payroll jobs and wages data from ABS, the overall economy experienced a fall in wages of 5.4 per cent (week ending 2 May) since lockdown measures commenced in mid-March. *Manufacturing; accommodation and food services; and retail trade* are among award-reliant industries affecting the most from these restrictions with employee wages paid by employers falling by 12, 11.8, and 7.8 per cent respectively.

Economic outlook

Official and private forecasters have made significant downward revisions to the economic outlook.

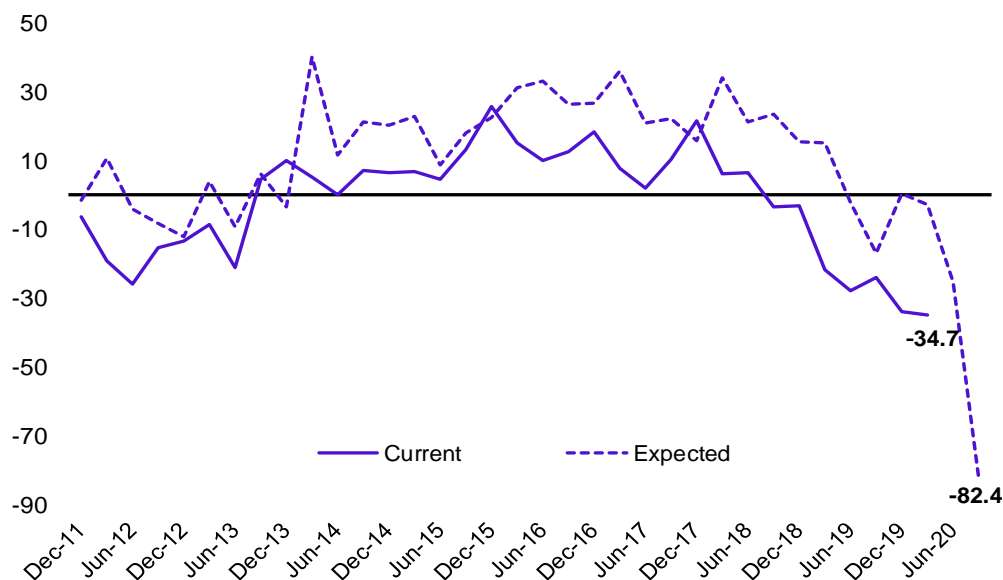
The Reserve Bank of Australia's (RBA) recent Statement on Monetary Policy in May 2020 presents a bleak picture. The Statement reaffirms the RBA's previously stated view that output will contract significantly over the first half of 2020, mostly in the June quarter. The RBA notes that while the exact size of the contraction is still uncertain, a decline in GDP of around 10 per cent from peak to trough is expected. The RBA notes the decline in hours worked is likely to be larger than the decline in output (expected to decline by around 20 per cent) because labour intensive industries have been more acutely affected.

The RBA believes a plausible baseline scenario is for the various restrictions to be progressively relaxed in coming months, mostly removed by the end of September (except for some restrictions such as international travel). If this occurs, and the spread of the virus in Australia remains limited, GDP growth is likely to turn around in the September quarter and the recovery would strengthen from there.

Survey data on the impact of COVID-19

The NSW’s March 2020 Business Condition Survey reflects the early impacts of COVID-19 capturing early shocks to supply chains and reduced overseas visitor arrivals. The recent survey shows a large drop in business confidence, most acutely emphasised in businesses expectations for the June quarter (Charts 1 refers).

Chart 1: Performance of the NSW Economy: Index



Source: Business NSW (see full results for index calculation methodology).¹

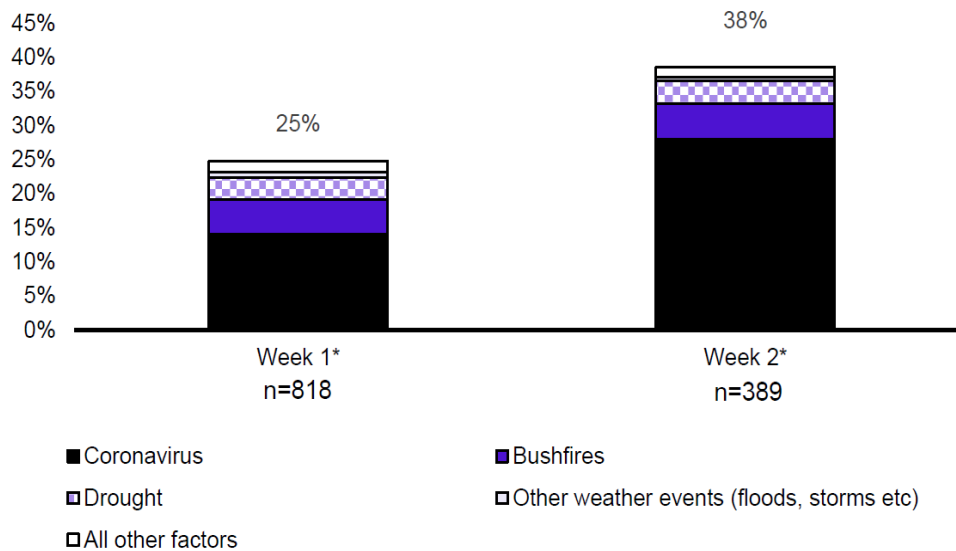
In this special edition of the Business Condition Survey, additional questions were asked to understand the relative effect of COVID-19, bushfires, drought and other weather events that have impacted NSW in the March quarter of this year. This survey provides unique insight into how business attitudes changed during the critical transition period between the first wave of shutdown measures commenced from 16 March through to the implementation of more aggressive policies from the week beginning 23 March.

The impact of the outbreak has resulted in a doubling of revenue losses reported by respondents between weeks one and two of the survey period (Chart 2 refers). While COVID-19 represents the most substantial risk to the economy, some regions and industries

¹ For full results see <https://www.businessnsw.com/advocacy/surveys/business-surveys>.

have also been severely impacted by other factors such as bushfires and drought which have had a concentrated impact in some parts of NSW.

Chart 2: Average COVID-19 revenue impact: Week 1 and week 2 respondents compared



Source: Business NSW.²

*Week 1 refers to period from 16-22 March 2020 and week 2 refers to responses 23-27 March inclusive.

Industries experiencing the cumulative impact of two or more detrimental factors have been the hardest hit. On an industry basis, tourism businesses were the most severely impacted with *Arts and Recreation services* and *Accommodation and Food services* impacted by the combination of COVID-19 and the 2020 bushfires. Similarly, businesses in the Capital Far South and New England North West have been affected by the 2020 bushfires and drought.

² For full results see <https://www.businessnsw.com/advocacy/surveys/business-surveys>.

Potential impact of minimum wages increases during recession

With the potential for weak economic conditions to be prolonged, any increase in minimum wages could escalate risks in what was already a fragile labour market. Businesses may be unable to absorb costs, particularly marginal businesses affected by government lockdowns and social-distancing requirements.

In previous AWRs the Panel has considered the relationship between minimum wage increases and dis-employment effects. In recent years the Panel has considered the likely magnitude of these effects. This has coincided with consecutive increases of 3 per cent or more over recent years. The Panel has been informed by research conducted in Australia and overseas.

Changing economic circumstances ought to precipitate a high degree of caution with respect to the Panel's view on the magnitude of dis-employment effects in the current context. Findings from previous research will be less useful in understanding dis-employment effects under what are extraordinary circumstances.

ABI notes the breadth of issues that require consideration under the statutory framework. Given the high social and economic costs associated with unemployment, there is a strong case that the Panel should apply the precautionary principle by making no change to minimum wages. To be specific, the Panel should refrain from increasing the national minimum wage until it can have greater confidence (than what can be known at this time) that an increase can be awarded without impeding economic recovery, putting jobs at risk or acting as a barrier to employment growth.

This view is based on the epistemic uncertainty that exists around the interaction of a minimum wage increase and potential outcomes which have implications for the statutory factors the Panel must consider. This view is premised on maximising expected values against the statutory factors as well as variance reduction. The economic and social costs associated with an unchanged minimum wage are much less severe than the most deleterious of potential outcomes that may result from a minimum wage increase that proves to be excessive.

The precautionary principle ought to apply until there can be greater confidence that a minimum wage increase can be awarded without exacerbating deteriorating conditions in the labour market.

Recommendation

In addition to recommendations made in its initiation submission, ABI recommends there be no increase to the NMW. This recommendation is made in light of March quarter national accounts and other economic data.