Ai GROUP SUBMISSION

Fair Work Commission

Annual Wage Review 2019-2020

Reply Submission and Responses to Questions on Notice

4 May 2020

About Australian Industry Group

The Australian Industry Group (Ai Group) is a peak national employer association representing and connecting thousands of businesses in a variety of industries and sectors across Australia. Our membership and affiliates include private sector employers large and small from more than 60,000 businesses employing over 1 million staff. Ai Group promotes industry development, jobs growth and stronger Australian communities. Our members have a common interest in creating more competitive businesses and a stronger economic environment. We provide advice, services, networks and advocacy to help members and industries thrive, and the community to prosper

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1. Introduction

On 16 March 2020, the Australian Industry Group (**Ai Group**) filed its main submission in the *Annual Wage Review 2019-20* (**Ai Group's March 2020 submission**).

Ai Group's March 2020 submission focussed upon the major economic effects of the COVID-19 pandemic. Since the submission was filed, there has been a rapid, serious and widespread deterioration in the economy.

In this Reply Submission, we address some of the issues raised by other parties, as well as various Questions on Notice.

The 4 per cent minimum wage increase proposed by the ACTU and the Australian Catholic Bishops Conference is obviously unsustainable. Such a minimum wage increase would be a certain way to destroy jobs and businesses during the COVID-19 crisis. It would also be a sure way to impede economic recovery after the crisis.

Given the continuing major deterioration in the economy, Ai Group has not yet proposed a particular minimum wage increase in these proceedings. We intend to put forward a position on the quantum of any minimum wage increase in the 5 June round of submissions. At that time, we will be in a much better position to assess what, if any, minimum wage increase would be appropriate.

2. Outlook for the Australian economy

This issue is addressed in section 6 of this Reply Submission, in our answer to Question 1.2.

3. Relative living standards and the needs of the low paid

As discussed, in Ai Group's March 2020 submission, relative living standards and the needs of the low paid are shaped by a wide variety of factors, including access to the broader social safety net.

The social safety net includes the public health and education systems, the public-funding of childcare, public assistance in relation to housing, and Australia's income tax and transfer systems.

In our answer to Question 1.1 in section 6 of this Reply submission, we address various initiatives announced by the Federal, State and Territory Governments to provide support to individuals and households affected by COVID-19, and how the Expert Panel should take these into account.

4. Response to Submissions of the Australian Catholic Bishops Conference

In its 19 March 2019 submission to the Expert Panel (**ACBC Submission**), the Australian Catholic Bishops Conference interprets the threshold set under s. 284 of the *Fair Work Act 2009* (**FW Act**) as requiring modern award minimum wages and the National Minimum Wage (**NMW**) to lift all recipients out of poverty. At paragraph [36] of its submission, the ACBC said:

> *In order to answer the description of being "a safety net" any minimum wages order should ensure that every cohort of workers is in advance of at least the 60% poverty line.*

Ai Group disagrees with this assertion as to the meaning of s.284. This provision requires the Commission to 'establish and maintain a safety net of fair minimum wages' taking into account the matters listed in s.284(1)(a)-(e). The ACBC Submission relies on reading words into the section which are not there. The artificial 'floor' which the ACBC requests the Expert Panel to set on the NMW would read into the legislation a limitation on the meaning of 'safety net of fair minimum wages' that would remove the discretion available to the Panel to determine an appropriate minimum wage.

If the legislators intended the meaning of the words 'safety net' and 'fair minimum wages' to denote the 60% poverty line, this would effectively mark the real NMW. Ai Group considers that this could not have been the purpose of these words. That the Expert Panel is given broader discretion than the ACBC asserts is clear from the wording of s.284 which mandates certain considerations but otherwise allows a fair minimum wage to be set on the basis of the evidence presented in the course of the Review and the Panel's own research. If the notion of a NMW was so constrained, such a threshold could have been easily inserted into the FW Act.

The Expert Panel has already acknowledged that the risk of poverty is 'relevant' to addressing the needs of the low paid.[1] However, the interpretation advocated for by the ACBC would elevate the consideration mandated by s.284(1)(c) to the one and only consideration relevant to the Annual Wage Review proceedings. This is inconsistent with the requirement to take into account the other factors in s.284(1) and the Expert Panel's own assessment of its task as outlined in the below extract from the 2018/19 Annual Wage Review:[2]

> *The statutory tasks in ss 134 and 284 involve an 'evaluative exercise' which is informed by the considerations in s.134(1)(a)–(h) and s.284(1)(a)–(e). While these statutory considerations inform the evaluation of what might constitute 'a fair and relevant minimum safety net of terms and conditions' and 'a safety net of fair minimum wages', they do not necessarily exhaust the matters which the Panel might properly consider to be relevant. The range of such matters 'must be determined by implication from the subject-matter, scope and purpose' of the Act.*

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[1] [2019] FWCFB 3500, [17].

[2] [2019] FWCFB 3500, [8] – [9].

> *As the Panel has observed in previous Review decisions, there is a degree of overlap between the various considerations which the Panel must take into account and a degree of tension is evident between some of these considerations. For example, the extent to which minimum wage increases are able to meet the needs of the low paid may, depending on the magnitude of the increase and the prevailing circumstances, be constrained by the potential impact of such increases on employment. No particular primacy is attached to any of these considerations, and it is this complexity that has led the Panel to reject a mechanistic or decision-rule approach to wage fixation*

In the *Annual Wage Review 2018-19*, the ACTU and the ACBC both submitted that the NMW should be set at a level which lifts single earner couples with 1 or 2 children above the 60% median income poverty line.[3] This was rejected by the Expert Panel because of the significant risk of disemployment which would result and the adverse effect this would have on the employment opportunities of low-skilled and young workers.[4]

The Expert Panel has repeatedly clarified that the function of the Annual Wage Review proceedings is not to single-handedly address issues of poverty. The Expert Panel has stated that *"increases in minimum wages are a blunt instrument for addressing the needs of the low paid … [and] the tax-transfer system can provide more targeted assistance to low-income households and is a more efficient means of addressing poverty"*.[5]

The construction of s.284 which the ACBC proposes would be impossible to apply in respect of part-time employees who may work as little as one day per week. Nevertheless, it is trite to observe that the NMW must be viewed as part of a wider policy framework which takes into account a range of tools available to address disadvantage in the community. Setting a 'floor' on the NMW or modern award minimum wages would signify a formulaic approach and inappropriately fetter the Commission's discretion in Annual Wage Review proceedings.

5. Response to the submissions of the ACTU re. apprentice rates in the Rail Award

In its March 2020 submission, the ACTU expresses support for a claim by the Australian Rail, Tram and Bus Industry Union (**RTBU**) to increase the wage rates for apprentices under the Rail Industry Award 2010 (**Rail Award**).

In a submission to the Expert Panel in the course of the *Annual Wage Review 2018-19*, the RTBU highlighted certain rates in the Rail Award that are below Special National Minimum Wage 4 (**SNMW 4**).[6] The RTBU submitted that it was inappropriate for any apprentice rates, whether junior or adult, in a modern award to fall below those provided to award/agreement free

[3] [2019] FWCFB 3500, [358].

[4] [2019] FWCFB 3500, [359].

[5] [2013] FWCFB 4000, [56]-[57]; [2014] FWCFB 3500, [360]; [2016] FWCFB 3500, [409]; [2019] FWCFB 3500, [63].

[6] Annual Wage Review 2018-2019, A*RTBU submission*, 11 July 2019.

employees and that the Commission should amend the Rail Award.[7]

This matter was also raised by the RTBU in a submission made to the Expert Panel in the context of the current Annual Wage Review proceedings on 20 February 2020.[8] The main argument put by the RTBU in support of its position was a bare assertion that since SNMW4 is based on rates of pay in the *Miscellaneous Award*, any apprentice rates which fall below these are insufficient to meet community expectations of a reasonable standard of living.

Ai Group set out its opposition to the RTBU's claims in a submission of 24 February 2020.[9] Ai Group continues to rely on the arguments contained therein and subsequently raised in the Conference which took place before Commissioner Hampton on 3 March 2020.

As stated in our 24 February 2020 submission, there is nothing in the statutory framework relevant to setting the NMW and the modern award minimum wages which requires that minimum rates under a modern award must always either equal or exceed the NMW or Special National Minimum Wages. To suggest otherwise would read words in the legislation which are not there.

The FW Act does not require that the minimum wage rates for award-covered apprentices be equal to or higher than the wage rates for award/agreement free apprentices. To the contrary, s.294 mandates that Special National Minimum Wages are to be set for award/agreement free employees only. This is consistent with the separate functions under s.285 of the Act for the Commission to make one or more determinations varying modern awards to set, vary or revoke modern award minimum wages (s.285(2)(b)), and to make a national minimum wage order (s.285(2)(c)).

Similar arguments were made last year in the context of a submission by the Australian Workers' Union (**AWU**) to address an alleged anomaly concerning junior rates in the *Vehicle Manufacturing, Repair, Services and Retail Award 2010* which were below SNMW 3. The AWU's argument that this was in need of rectification was rejected by the Expert Panel in the *Annual Wage Review 2018-19* Decision. The Panel said, at paragraph [417]:

> *We consider that there is some force in the propositions advanced by Ai Group regarding the basis upon which we have been requested to adjust the junior rates in the 19 modern awards. As has been noted in previous Reviews, the review and variation of modern award minimum wages is a separate, though related, function to reviewing and making a NMW order. In exercising its powers to set, vary or revoke modern award minimum wages, the Panel 'must take into account the rate of the national minimum wage that it proposes to set in the Review', 487 but there is no mandated relationship between wage rates set by a NMW order and modern award minimum wages and certainly no requirement that any particular modern award minimum wage rate be no less than a NMW rate. Without a proper*

[7] Annual Wage Review 2018-2019, A*RTBU submission*, 11 July 2019.

[8] Annual Wage Review 2019-2020, A*RTBU submission*, 20 February 2020.

[9] Annual Wage Review 2019-2020, *Ai Group Correspondence*, 24 February 2020.

consideration of the basis upon which the rates in the modern awards and NMW3 were set, we are unable to determine whether adjustments are justified, including whether any such adjustments would distort existing relativities.

Neither the RTBU nor the ACTU have raised any valid reason why a separate conclusion should be reached in the context of a comparison between apprentice rates in modern awards and SNMW 4. Accordingly, the Expert Panel should adopt a similar approach to that taken in past Annual Wage Review proceedings and apply any minimum wage increase resulting from this year's Annual Wage Review to apprentices through the operation of the relevant award provisions.

As mentioned in Ai Group's initial submission in these proceedings, Commissioner Hampton invited the RTBU to consider raising this matter through an application under s.157 of the FW Act rather than through the Annual Wage Review.[10] The matter raised by the RTBU and supported by the ACTU is in respect of the Rail Award only. Any consideration of whether the rates of pay for apprentices in that award are appropriate should take into account work value considerations as mandated under the FW Act. Also, any increase applied to only some of the rates for apprentices will disturb relativities intrinsic to the classification structure in the Rail Award. For these reasons, any consideration of this matter should be confined to an application brought by the RTBU under s.157.

In its submissions in these proceedings, the ACTU has stated that had the Australian Fair Pay Commission ultimately undertaken its planned review of wage arrangements for juniors and employees to whom training arrangements applied in the context of a wider review of Pay Scales in the Australian labour market, then the minimum rates for juniors and apprentices set by the Australian Industrial Relations Commission in the course of the part 10A Award Modernisation process may have been different.[11] The Expert Panel reject this submission on the basis that it is entirely speculative. In any event, the Fair Work Commission has undertaken major reviews of apprentice rates in modern awards in the Modern Awards Review 2012 and in the 4 Yearly Review of Modern Award.

[10] Annual Wage Review 2019/20, Transcript (27 February 2020), PN43-PN44.

[11] Annual Wage Review 2019/20, ACTU Submission (20 March 2020), [536].

6. Responses to Questions on Notice

1.1 Question to all parties

The Federal and State governments have announced a number of initiatives to provide support for businesses, individuals and households affected by COVID-19. These are outlined in the Fair Work Commission's note on Government responses to COVID-19 pandemic and in the Australian Government submission.

Parties are invited to comment on the initiatives and discuss how the Expert Panel should take these into account.

Ai Group's Response to Question 1.1

The range of measures announced by the federal, state and local governments are recognition of the extent of disruption in the economy and the dangers of this spiralling into an even more severe deterioration.

Meeting after the announcement of the JobKeeper initiative, the Board of the Reserve Bank of Australia (RBA) noted that even taking account of the various government initiatives it still expected a very sharp rise in unemployment and underemployment.

The RBA Board concluded at its monthly meeting on 7 April that Australian GDP is likely to fall and unemployment is likely to rise significantly in the June quarter of 2020, even after taking into account the 'cushioning effect' of significant support measures from the RBA, federal and state governments. The Minutes of this meeting record that:

> *"Members noted that the policies should cushion the labour market adjustment and reduce the financial stress of households and businesses. However, they observed that it was* ***unlikely that these policies would provide a strong boost to spending in the near term*** *given the broadening shutdown of non-essential activities and the restrictions placed on household activities.*
>
> *…**GDP could fall significantly in the June quarter** and remain subdued in the September quarter. Real estate, hospitality and tourism, along with many parts of retail, essentially would not operate while the current restrictions remain in place, while some industries, including health care, utilities and mining, would be less affected.*
>
> *Members noted that there would be **a very sharp decline in hours worked**, which was expected to be associated with **significant increases in both the unemployment rate and the number of people working reduced hours**. Although the JobKeeper subsidy was expected to increase the number of people remaining employed* [from what it would have been without the subsidy], *household incomes were expected to be much lower."*
>
> https://www.rba.gov.au/monetary-policy/rba-board-minutes/2020/2020-04-07.html

Ahead of the comments below about particular emergency measures, we note that both the context of these measures and the measures themselves are unprecedented. There is very little to guide how they should be considered by the Expert Panel in making its decision about changes to minimum wage levels heading into the coming financial year.

The various measures initiated by governments have a range of objectives and will have a range of impacts on areas relevant to the decision facing the Panel. Some of the major objectives of government policy are:

- To provide households with extra income to support aggregate household demand.
- To reduce the costs of employing people with a particular emphasis in the JobKeeper initiative on significantly stressed employers.
- To reduce the barriers to work presented by the costs and availability of child care.

A further initial point is that the measures are temporary in nature. In some cases they will extend into the second half of the calendar year but it is currently envisaged that they will have wound up well before Christmas.

Ai Group would like to make several points about the measures and how the Panel should take these into account.

Household income support

Firstly, the support to household incomes has been targeted predominantly at lower-income households and at middle-income households with children. Measures such as the two Economic Support Payments and the Coronavirus Supplement are clearly in this category.

A key feature of JobKeeper also has this effect although to a lesser extent than the direct income support measures. Many eligible employees of significantly stressed businesses will themselves benefit from the JobKeeper wage subsidy. Any eligible employee of an eligible employer who earns less than $1,500 per fortnight, will, in addition to the wage payable by their employer, receive a top-up payment to bring the total pre-tax payment from their employer to $1,500. For example, if an employee’s pre-tax wage was $1,000 per fortnight, they will receive an additional, subsidised payment of $500 (pre tax) from their employer.

This will also apply to eligible employees who are stood down or who are on unpaid leave from their eligible employer. In these cases the top-up payment to the employee will be $1,500 per fortnight (pre tax).

To the extent that these top up payments are more likely to be made to individuals in low income households, JobKeeper will reinforce the general allocation of household income support to lower income households.

The pattern of the distribution of the income support measures will boost the relative living standards of lower income households. In considering this conclusion, it is important to record that the distributional points in the preceding paragraphs relate to all households and not just households with employees that the Expert Panel has preferred to concentrate its attention on in previous years.

A further consideration is that, as has been argued in previous years, many low-income employees are members of middle and high-income households. Just as a distinct proportion of minimum wage increases is distributed to middle and high-income households, so will a proportion of JobKeeper top-up payments be distributed to higher-income households.

The temporary nature of the additional income support does not mean that it should be overlooked in the Annual Wage Review decision. This temporary boost is clearly relevant for considerations of the needs of the low paid and the relative living standards of the low paid for the current year even though it will not be a factor in the future.

Reducing the costs of employing people

A number of measures put in place by various governments are aimed at reducing the costs of employing people. This is a clear, and a clearly justified recognition of the risks faced by people in employment and the importance of wage and non-wage costs in employment decisions. The primary beneficiaries of these measures are people who retain employment.

It is worth noting that in many workplaces the costs of employing people has risen due to social distancing requirements in workplaces and further that the productivity of many in the workforce has fallen due to the shift to working from home.

The major measure addressing the costs of employment is the JobKeeper scheme but other important measures are the various payroll tax refunds, exemptions and deferrals put in place by different state and territory governments.

The JobKeeper payment is concentrated on significantly stressed employers. In the most part these are employers who have experienced a fall in turnover of at least 30 per cent relative to a year previously. If an employer is eligible on this count, it must pay its eligible employees at least $1,500 per fortnight (pre tax) and, if so, will be reimbursed by the ATO in the amount of $1,500 per employee.

For these employers, the cost of employment is considerably reduced. At the same time, however, for the balance of employers there is no subsidy and the costs of employment will be no lower than previously.

The concentration of the JobKeeper payments on highly stressed businesses creates another area of vulnerability – businesses that, though stressed, are not sufficiently stressed to qualify for JobKeeper.

Ai Group submits that it would be unwise in the current context for the Panel to offset the effect of measures aimed at reducing the costs of employment. It should also bear in mind that an increase in minimum wage rates would apply to the many employers who are not eligible for JobKeeper including the very many in this category that are under considerable stress.

Child care

The federal government has significantly, though temporarily, reduced the costs of child care as part of its economic response to the COVID-19 crisis. This enables many to participate in the workforce at a time when there are considerable pressures in the other direction.

In reducing the costs of this participation it is similar in its impacts on household income as a wage rise and could be considered by the Panel in this light.

1.2 Question to all parties

Since most submissions have not had an opportunity to address the effects of COVID-19, in the Statement published on 6 April 2020 on the timetable variation, the Expert Panel has provided a date for submissions and reply submission regarding data from the Australian Bureau of Statistics' (ABS), Australian National Accounts data for the March quarter 2020. The Expert Panel has also noted that the ABS were publishing additional data measuring the impact of COVID-19 on individuals and businesses and that these products would be presented in the Statistical report.

Parties are invited to comment on other sources of data or research that provide more timely information on the effects on COVID-19 to be considered in this Review.

Ai Group's Response to Question 1.2

A large amount of information about the impact of COVID-19 on Australian individuals and businesses was published by various sources during April 2020. Relevant information has also been updated regarding inflation, interest rates and RBA forecasts.

All of these data point to a sudden and significant deterioration in economic conditions, activity and employment commencing in late March 2020 and worsening in April. These data are summarised below.

1. Reports to Ai Group from Australian businesses about their experiences and responses to COVID-19, to the end of March 2020

Since mid-March, Ai Group has been contacted by record numbers of companies seeking information, advice and assistance through our Workplace Advice Line, switchboard phones, emails, website and workplace meetings. In March Ai Group received well over 3,500 phone calls to the Workplace Advice Line alone. From late March onwards, most businesses were requesting advice and assistance with responding to COVID-19, with the majority of these seeking assistance with employment-related aspects including OH&S, working from home, work hours, stand-downs and leave arrangements. April has seen a further large increase in the number of businesses requesting assistance.

In the two weeks to the end of March 2020, 142 Australian businesses reported about their experience of COVID-19 to date through a more formalised and detailed feedback process. The survey results were published by Ai Group. These businesses provided detailed responses to three key questions:

1. What is the impact of COVID-19 on your workplace or business so far?

2. What has been your response?

3. What would help you manage your business response to COVID-19 (e.g. from Ai Group, government, community groups)?

Of the businesses reporting on the impact of COVID-19 in March:

- 43% of reporting businesses had experienced reduced demand from customers.
- 10% reported increased customer demand.
- 24% reported increased workload as a result of new OH&S procedures for hygiene..
- 18% reported increased workload due to new OH&S and HR policies.
- 22% said there is increased anxiety levels within their workforce.
- 13% reported disruptions to supply, inputs, imports and freight.
- 5% had already experienced increased costs.

Of the businesses reporting on their own response to COVID-19 in March:

- 35% of businesses moved some or all of their staff to working at home or remotely.
- 11% of businesses increased their direct communications to staff.
- 9% of businesses reduced staff working hours.
- 6% had to reduce staff numbers.
- 5% had to vary their terms for customers, suppliers or banks in response to the crisis.
- 2% increased work hours or hired new staff.

Of the businesses reporting on what type of assistance from Government or business groups would help them to manage their response to COVID-19:

- 49% wanted clear and certain information.

- 49% wanted more information.
- 30% wanted financial assistance.
- 11% wanted assistance and advice with employee management.
- 8% of businesses needed better immediate access to PPE and hygiene products.

Ai Group is collating these reports from businesses on an ongoing basis throughout this crisis. Several hundred businesses have already reported their experiences and responses in detail through April, with more coming in.

2. Ai Group performance of manufacturing index (PMI), April 2020

In April the Australian Industry Group Australian Performance of Manufacturing Index (Australian PMI®) dropped by 17.9 points to 35.8 points. This was the lowest monthly result since April 2009 the largest single-month fall in the history of the series (seasonally adjusted). Results below 50 points indicate contraction with lower results indicating a faster rate of contraction.

The sharp spike into positive conditions in March was more than completely reversed in April, as the unusual surge in demand for manufactured food and groceries subsided. Manufacturers cited a range of COVID-19 issues in April, with the most prevalent including: no new sales due to shutdowns; major customers cancelling orders; supply chain problems with inter-state freight movements, and delays; and increased prices for raw materials. All activity indices plunged in April, with activity levels now reminiscent of the Global Financial Crisis (GFC) plunge in 2009.

The chemicals sector was the only manufacturing sector to improve in April), with continuing strong demand for personal care items (e.g. hand sanitizer), pharmaceuticals, cleaning products, toiletries and health supplements, much of which is made locally.

Within the Australian PMI®, the employment index plummeted 21.7 points in April, indicating a steep contraction in manufacturing employment, as many businesses stand down staff, reduce staff numbers or reduce their work hours because of COVID-19 restrictions (seasonally adjusted). This is the largest monthly fall in the history of this data series and its lowest level since April 2009. The employment index contracted for all manufacturing sectors in April

The Australian PMI® average wages index decreased by 8.4 points to 49.5 points. This was the lowest monthly result in the history of the series (since September 2007) and only the second time it has fallen below 50 points and indicating a contraction (July 2009). This low result indicates that few (if any) manufacturers were able to increase their employees' average wages in April.

Chart 1: Australian PMI® (seasonally adjusted and trend), to April 2020

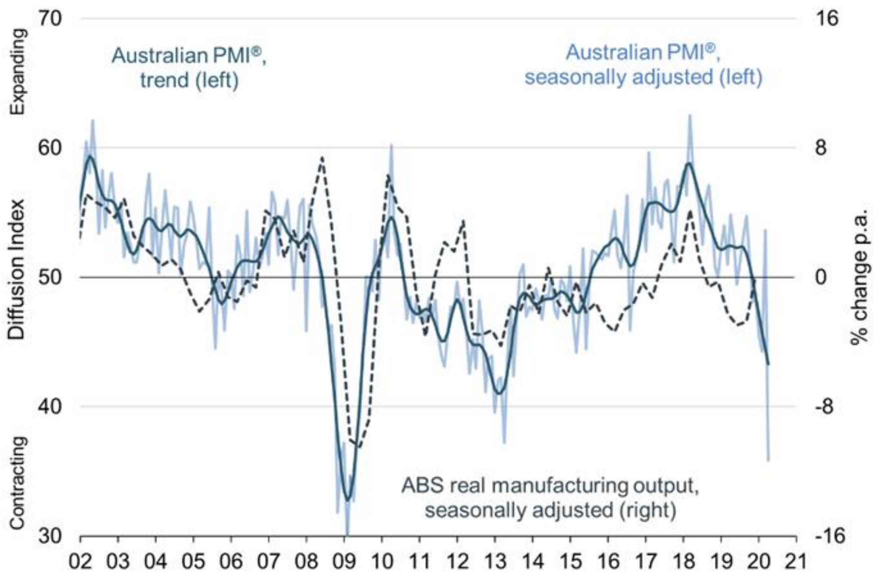


Chart 2: Australian PMI® employment index (seasonally adjusted and trend), to April 2020

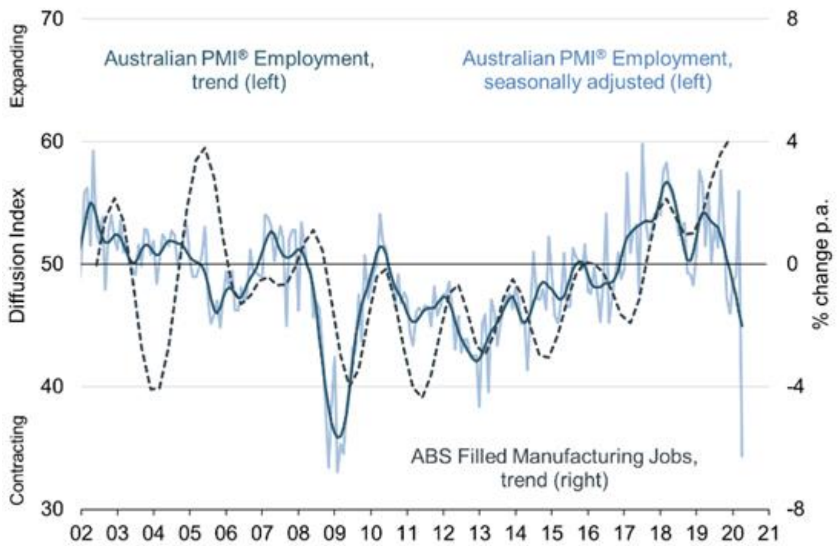
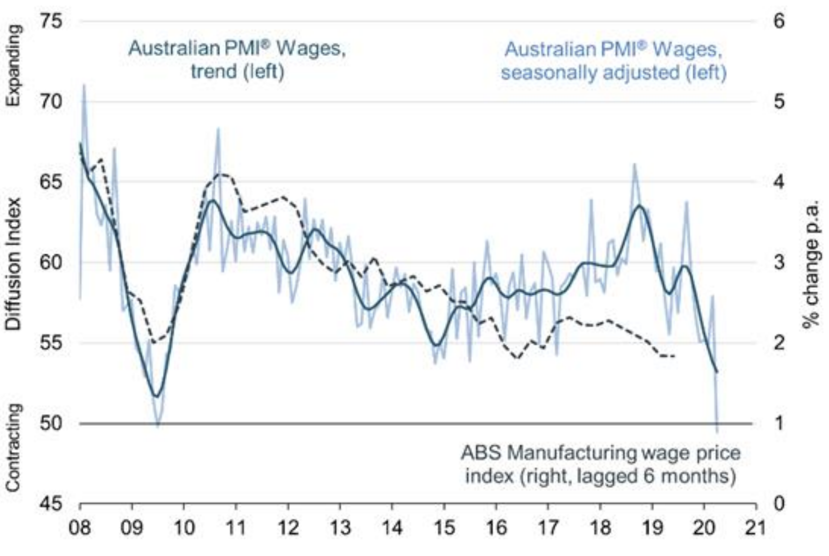


Chart 3: Australian PMI® average wages index (seasonally adjusted and trend, to April 2020

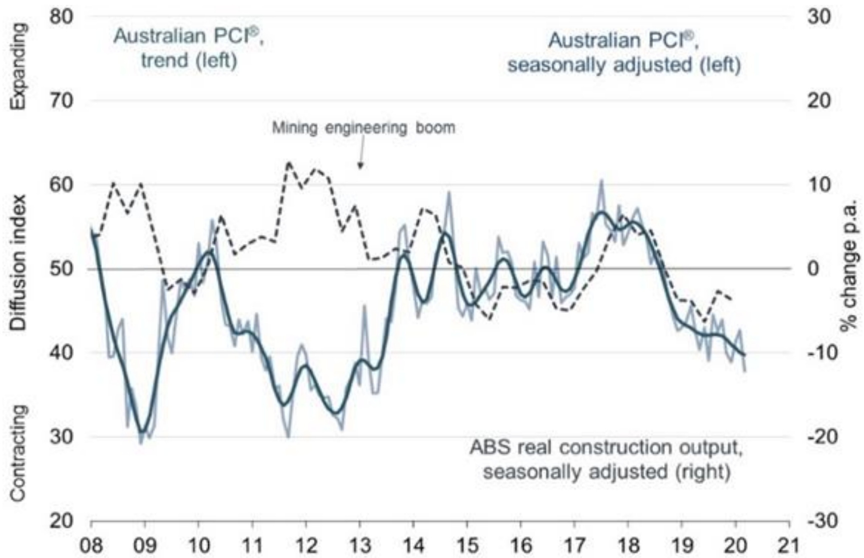


3. Ai Group performance of construction index (PCI), March 2020

In March the Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (Australian PCI®) fell by 4.8 points to 37.9 points (seasonally adjusted). Results below 50 points indicate contraction with lower results indicating a faster rate of contraction. This was the lowest monthly Australian PCI® result since May 2013. In a worrying sign for conditions ahead, March also showed a steep decline in the Australian PCI® index for new orders. The Australian PCI® employment index fell to its lowest level in eight months (36.4 points) due to slower activity on building sites and heightened uncertainty about the outlook.

Preliminary data for the Australian PCI in April indicate a further steep decline in the indexes for construction activity, forward orders and employment. The Ai Group PCI for April 2020 will be released on Tuesday 5 May.

Chart 4: Australian PCI® (seasonally adjusted and trend), to March 2020



4. Ai Group performance of services index (PSI), March 2020

In March the Australian Industry Group Australian Performance of Services Index (Australian PSI®) plunged by 8.3 points to 38.7 points in March 2020 (seasonally adjusted). This was the lowest result since March 2009 and the fourth month of contracting results. The services sector is now entering a difficult period of pandemic-related closures and adjustments from a base already weakened by summer's bushfire crisis and by longer-term factors. Results below 50 points indicate contraction in the Australian PSI® with lower numbers indicating a stronger pace of decline.

Within the Australian PSI, the employment index dropped to its lowest level since 2009 in February. It improved only marginally but remained firmly negative in March. Capacity utilisation fell by 10.5 percentage points to 70.2% of available capacity being used in March. This was the largest monthly fall and the lowest monthly result for capacity utilisation since this data series commenced in 2007. This large fall is indicative of the sudden and rapid cessation of activity across retail, transport, education, personal and hospitality services. Although closures and falling sales were notably focused in the consumer-oriented segments, the falls in activity were evident across all sectors.

Local responses to the global COVID-19 pandemic are already decimating large segments of the services sector. The Australian PSI® indicated stable conditions in finance & insurance but contractions in the five other sectors in March (trend). Restrictions on human movement and gatherings means closures for many businesses in hospitality, retail, transport, recreation, personal services, education and even community services. Businesses that remain open face falling sales and increasing operational restrictions.

A small number of businesses that provide equipment and services for health protection, IT and some personal services noted an increase in demand in March. Real or perceived shortages are bringing orders forward. Businesses that responded early in the survey collection period for March were generally still optimistic. But as activity restrictions were progressively announced across Australia, respondents became far more pessimistic.

Preliminary data for the Australian PSI in April indicate a further steep decline in the indexes for activity, sales, forward orders and employment. The Ai Group PSI for April 2020 will be released on Thursday 7 May.

Chart 5: Australian PSI® (seasonally adjusted and trend), to March 2020

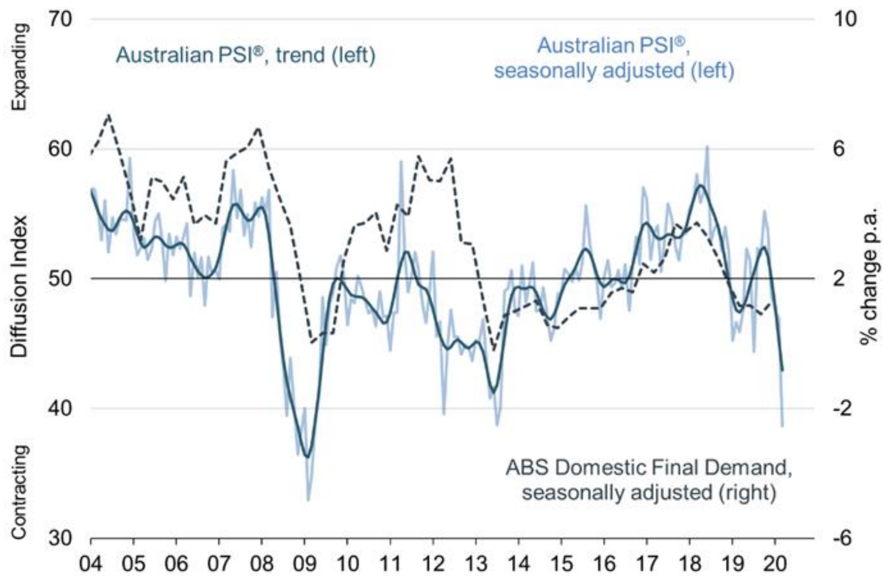
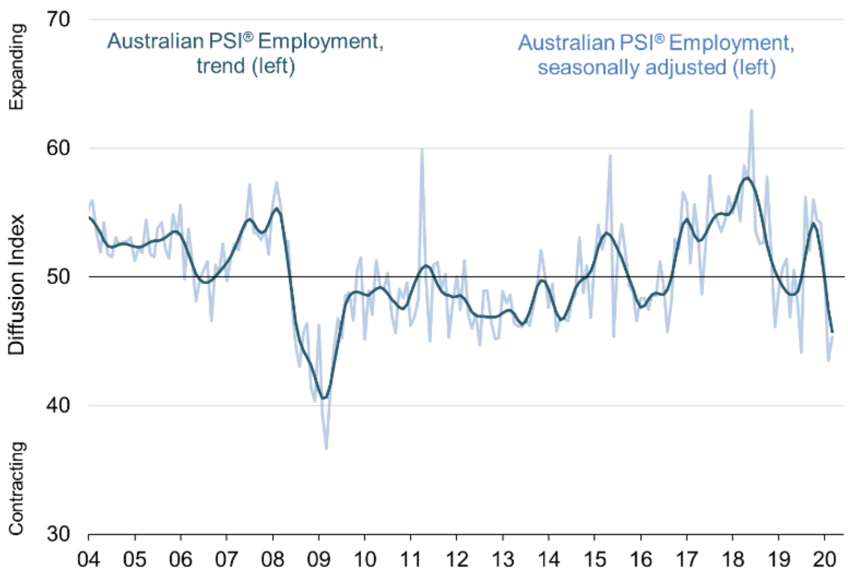


Chart 6: Australian PSI® employment index (seasonally adjusted and trend), to March 2020



5. Ai Group performance of business index (PBI), March 2020

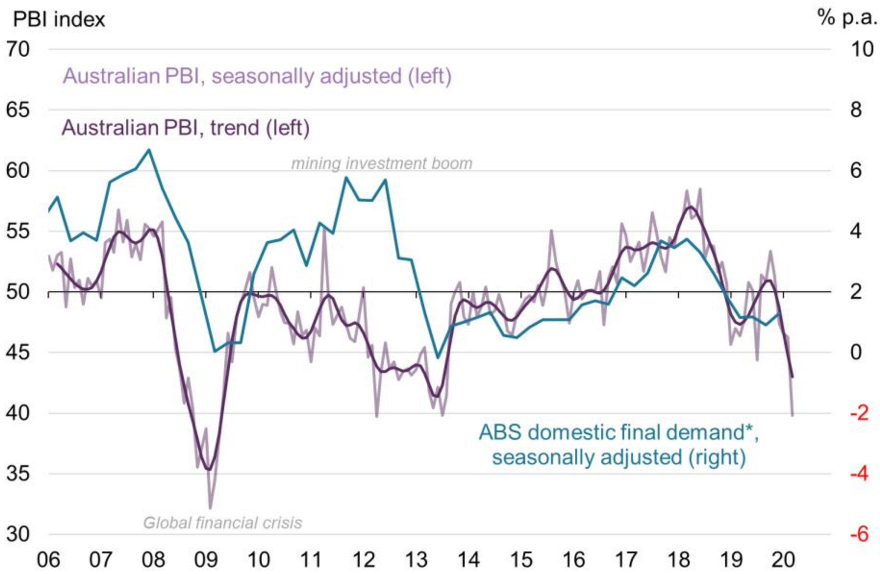
In [March the Australian Industry Group Australian Performance of Business Index] (Australian PBI) plunged by a further 6.4 points to 39.8 points in March (seasonally adjusted). This was a fourth consecutive month below 50 points. Results below 50 points in the Australian PBI indicate deteriorating business conditions, with lower numbers indicating a faster pace of deterioration.

March 2020 was the lowest monthly result in the Australian PBI since July 2013 and the largest single-month drop since February 2009. This reflects a very sudden and rapid deterioration in Australian business conditions and activity as a result of escalating restrictions in response to the COVID-19 pandemic, which has now spread to Australia. This latest crisis comes on top of a summer marred by widespread drought and bushfire in Australia.

All four activity indexes in the Australian PBI indicated large contractions in March. There was an especially large plunge in the new orders index, which fell by 13.5 points to 37.2 points (its lowest level since 2013). Cancelled and reduced orders became widespread through mid to late March, as large numbers of businesses close or scale down their operations due to the sudden and unprecedented travel and movement restrictions implemented by Australian national and state governments in response to COVID-19. At the same time, input prices jumped sharply higher due to local and global freight disruptions and unexpected volatility in demand.

Preliminary data for the Australian PBI in April indicate a further steep decline in activity and employment. The Ai Group PBI for April 2020 will be released on Thursday 7 May.

Chart 7: Ai Group Australian Performance of Business Index (PBI), to March 2020 and ABS domestic final demand to Q4 2019*



* real domestic final demand (seasonally adjusted and inflation adjusted), to Q4 2019.

6. ABS, *Estimates of employment changes*, 14 March to 4 April 2020 (www.abs.gov.au/6160.0.55.001)

As a supplement to the ABS' regular monthly *Labour Force Survey*, the ABS has released additional estimates of employment changes for the two weeks from 14 March to 4 April, based on ATO 'Single Touch' weekly payroll data. These were published as index numbers and percentage changes but not level numbers, across a range of metrics. They appear in the FWC's statistical report (April 2020) in the same format that was published by the ABS. That is, without an estimate of numbers.

These estimates show that in the two weeks to 4 April:

- the number of employee jobs had declined by 6%; and
- total wages paid to employees had declined by 6.7%. The larger drop in wages than in employee numbers reflects cuts to hours worked, rather than cuts to wage rates.

Ai Group has applied the ABS' percentage change estimates of job changes in each industry to the ABS estimates of employment numbers in each industry, as of February 2020 (trend data). This simple calculation indicates that if extrapolated to the entire Australian workforce of 13 million people (as of March 2020), a 6% fall in employment implies that 781,000 people lost their jobs during the two weeks to 4 April. This drop in employment is more than double the estimated number of existing unemployed jobseekers (718,000) in March. Depending on how many newly unemployed people seek work rather than dropping out of the labour force temporarily (or permanently), this decline in employee numbers could potentially double the unemployment rate in a single month, from 5.2% in March to 10% in April.

Based on the number of people estimated to be working in each industry in February 2020 (ABS *Labour Force Survey Detail Quarterly*, trend data), the ABS and ATO estimates of job losses imply that the largest **numbers** of job losses in this two-week period were in:

- accommodation and food services (240,000 and 30% of total job losses to 4 April);
- professional, scientific and technical services (92,000);
- construction (63,100);
- arts and recreation services (46,700); and
- healthcare and social assistance (44,800) (see Table 1).

The ABS and ATO estimates of employment change to 4 April confirm that this ‘first wave’ of job losses as a direct result of COVID-19 activity restrictions has fallen disproportionately on lower-wage industries and on the younger people who work in them. The ABS estimates that 9.9% of employees under 20 years were no longer working and 8.8% of employees aged 20-29 years were no longer working on 4 April (Table 1).

Table 1: change in employment and total wages paid, 14 March to 4 April

	Change in employee jobs, %	Implied change in employment*, '000	Change in total wages paid, %
Industry			
Agriculture, forestry and fishing	-4.8	- 5.4	-3.5
Mining	-8.4	- 20.4	-9.5
Manufacturing	-4.3	- 39.7	-5.9
Electricity, gas, water & waste	-1.1	- 1.5	-1.9
Construction	-5.3	- 63.1	-3.6
Wholesale trade	-4.6	- 17.9	-0.2
Retail trade	-2.7	- 33.9	-7.6
Accommodation and food services	-25.6	- 239.3	-30.1
Transport, postal and warehousing	-3.0	- 19.7	-5.2
Information media & telecoms	-6.8	- 14.5	-7.3
Financial and insurance services	-3.2	- 15.0	-7.8
Rental, hiring & real estate services	-8.0	- 17.7	-8.5
Professional, scientific & tech.	-7.9	- 92.0	-8.4
Administrative and support services	-7.5	- 32.7	-5.8
Public administration and safety	-3.0	- 25.0	-4.9
Education and training	-0.1	- 1.1	-0.7
Health care and social assistance	-2.5	- 44.8	-8.0
Arts and recreation services	-18.7	- 46.7	-15.7
Other services	-7.6	- 37.5	-4.5
Age			
Under 20 years	9.9		-12.7
20-29 years	8.8		-9.1
30-39 years	5.5		-6.5
40-49 years	4.3		-6.2
50-59 years	3.8		-5.5
60-69 years	4.0		-5.7
70 years+	9.7		-6.3
All industries	**-6.0**	**-780.9**	**-6.7**

* Ai Group calculations based on ABS *labour force quarterly detail*, February 2020, trend. Sources: ABS, *Weekly Payroll Jobs and Wages in Australia, Week ending 4 April 2020*; Ai Group Economics.

7. Department of Education, Skills and Employment, *COVID-19 Impacts on Businesses and Recruitment*, 17 April (impact of COVID19 on businesses)

The Department of Education, Skills and Employment (DESE) is conducting a weekly survey of businesses to measure the impact of COVID-19. Data is collected on staffing changes, business impacts, actions taken by businesses in response to the pandemic, and future expectations. At the time of writing, data were available to the week ending 17 April.

Of the 680 businesses surveyed by the DESE between 27 March and 17 April:

- 95% of businesses are impacted, including 55% who are impacted ‘a great deal’.
- 68% of impacted businesses reported lower customer demand.
- 21% of impacted businesses reported ‘reduced ability of staff to work’.

In response to the COVID-19 pandemic and associated activity restrictions:

- 28% of businesses had decreased staff numbers since the onset of the COVID-19 pandemic, including 34% in the week ending 17 April. 60% of this group of businesses had cut staff numbers by 10 or more.
- 4% of businesses increased staff numbers.
- 45% of businesses ‘reduced staff hours’.
- 44% of businesses ‘had staff working from home’.
- 27% of businesses had ‘let staff go’.
- 27% ‘had staff take paid or unpaid leave’.

Chart 8: DESE survey of businesses: impact on business to 17 April

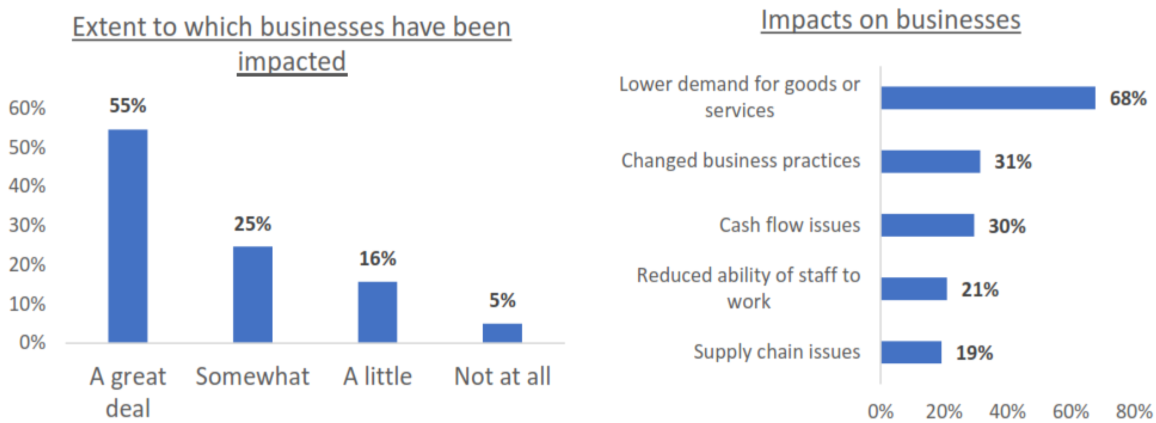
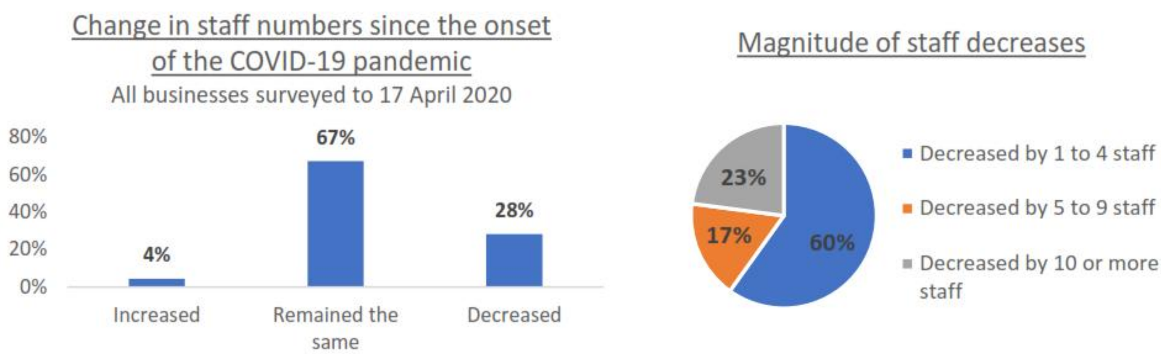
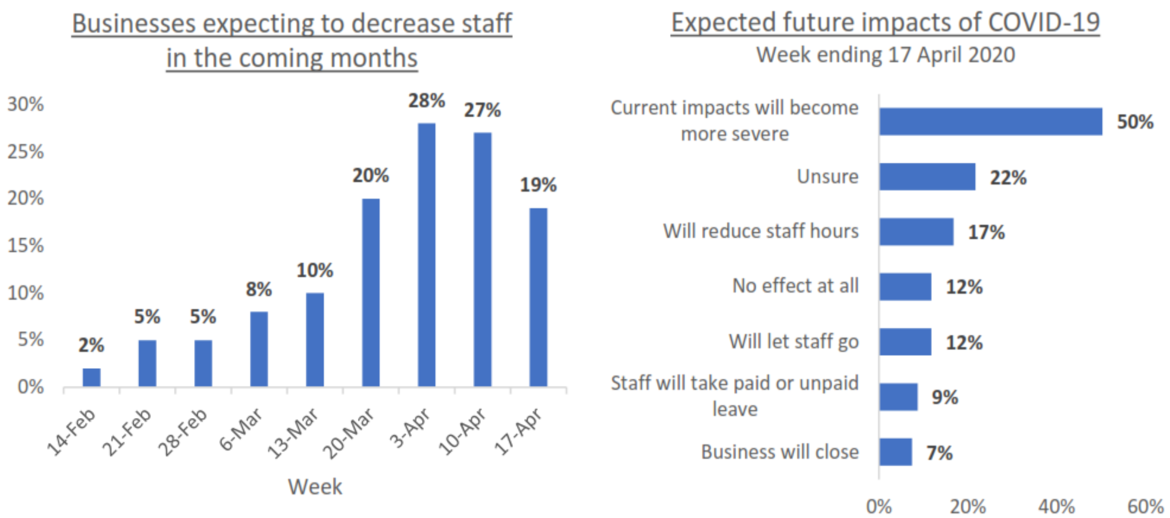


Chart 9: DESE survey of businesses: employment changes to 17 April



Regarding the immediate future, 50% of businesses surveyed by DESE "expect that the current impacts of COVID-19 will become more severe in coming months" and 7% expect to close. 19% of businesses surveyed in the week to 17 April expect further staff cuts.

Chart 10: DESE survey of businesses: expectations of future impacts of COVID-19, to 17 April



8. REMPLAN Australian Business Economic Impact Survey, 24 April (REMPLAN ABEIS)

REMPLAN commenced a national survey of Australian businesses in late March and is progressively adding responses to its database. On 24 April it reported:

> *"The survey results are showing that businesses in the arts & recreation sector are the hardest hit by the COVID-19 crisis, reporting the highest revenue losses of any industry. Average impact on revenue being reported by arts & recreation businesses is -55.7 percent, greater than accommodation & food services (-49.3 percent) and other services (-46.5 percent). …businesses are seeing much larger impacts on revenue than they are on staffing. From an industry perspective, this is most pronounced in rental, hiring & real estate services sector, and the health care & social assistance sector, both of which are reporting 27 percent difference between impacts on revenue compared to staffing."*

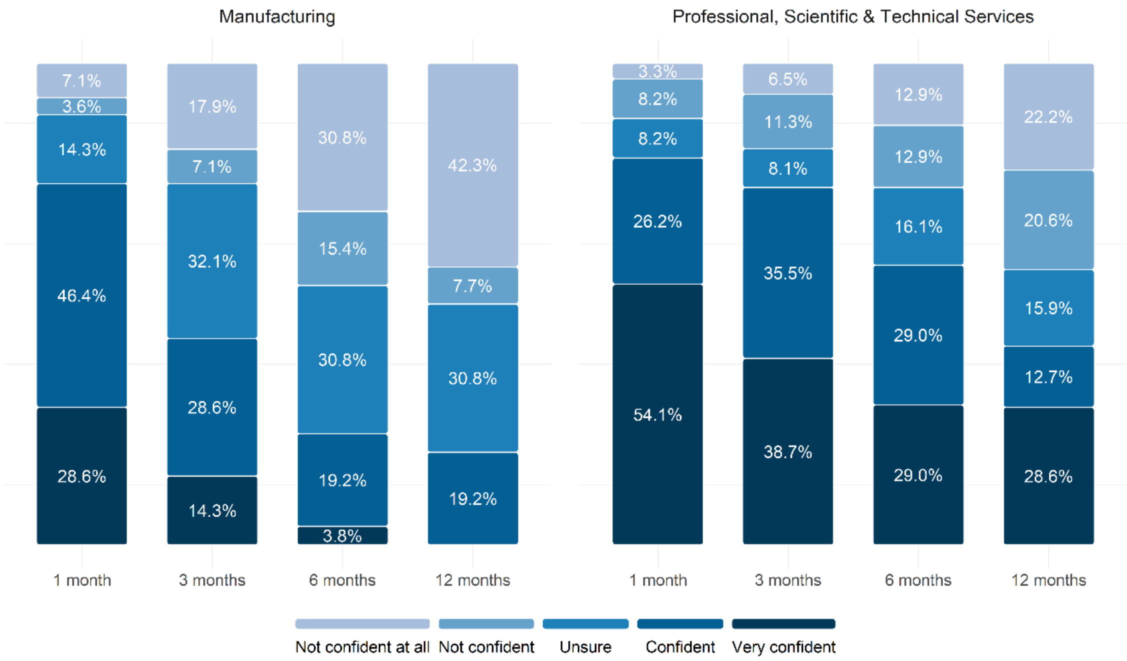
Chart 11: REMPLAN survey of businesses: changes in revenue and staff levels, April 2020

Industry	Revenue ↑	Staffing
Arts & Recreation Services	-55.7%	-42.9%
Accommodation & Food Services	-49.3%	-37.2%
Other Services	-46.5%	-27.6%
Rental, Hiring & Real Estate Services	-43.2%	-16.0%
Health Care & Social Assistance	-37.0%	-9.8%
Agriculture, Forestry & Fishing	-32.3%	-12.0%
Professional, Scientific & Technical Services	-30.6%	-5.2%
Manufacturing	-30.0%	-17.1%
Retail Trade	-26.4%	-25.2%
Education & Training	-17.2%	-15.0%

Looking ahead, REMPLAN reports that 10.7% of manufacturing businesses surveyed are not confident of surviving the next month and 50% are not confident of surviving the next 12 months. A further 30.8% are unsure if they will be viable in 12 months.

Among professional, scientific and technical services businesses, 11.5% of businesses surveyed are not confident of surviving the next month and 42.8% are not confident of surviving the next 12 months. A further 15.9% are unsure if they will be viable in 12 months.

Chart 12: REMPLAN survey of businesses: confidence in own business viability, April 2020



9. NAB monthly business survey, March 2020 ([NAB business survey])

In line with the Ai Group monthly business surveys (see above), the NAB monthly business survey indicated a collapse in confidence in March 2020. NAB's business conditions index suffered the largest single-month decline on record. Among the components of business conditions in the NAB survey, profitability was weakest (-27 points), followed by employment (-20 points) and sales (-19 points).

The NAB index of business capacity utilisation dropped to 75.0% in March from 81.2% in February. This dramatic drop in one month is especially concerning, since this index has a strong historical correlation to the unemployment rate (see chart 14).

Business confidence saw its largest decline on record and is at the lowest level in the history of the NAB business survey. At -63 points, the NAB confidence index is significantly below the previous record low of -30 points in November 2008 (100 points divides optimism from pessimism in this survey).

In explaining these results, NAB economists note that:

> *"Business conditions declined sharply in aggregate and across the bulk of industries. Recreation & personal services saw the largest hit, unsurprising given the effective shut down of these sectors. Forward orders collapsed to their lowest level on record, while capacity utilisation also saw a sharp decline. Overall, the decline in forward orders and business conditions imply a large fall in GDP in the next 6 months.*
>
> *While it is unlikely that the unprecedented policy support targeted at the business sector will be unable to offset the near-term pain, it will be very important in supporting activity in the recovery phase. The timing of a recovery is extremely uncertain at this point, but supporting business sector cashflow and the ability to hold onto employees will need to remain a focus. There is significant risk that a blow to confidence of this magnitude for an extended period could lead to ongoing fallout in terms of employment growth and capital expenditure by business."*

Chart 13: NAB business conditions and confidence (monthly), to March 2020

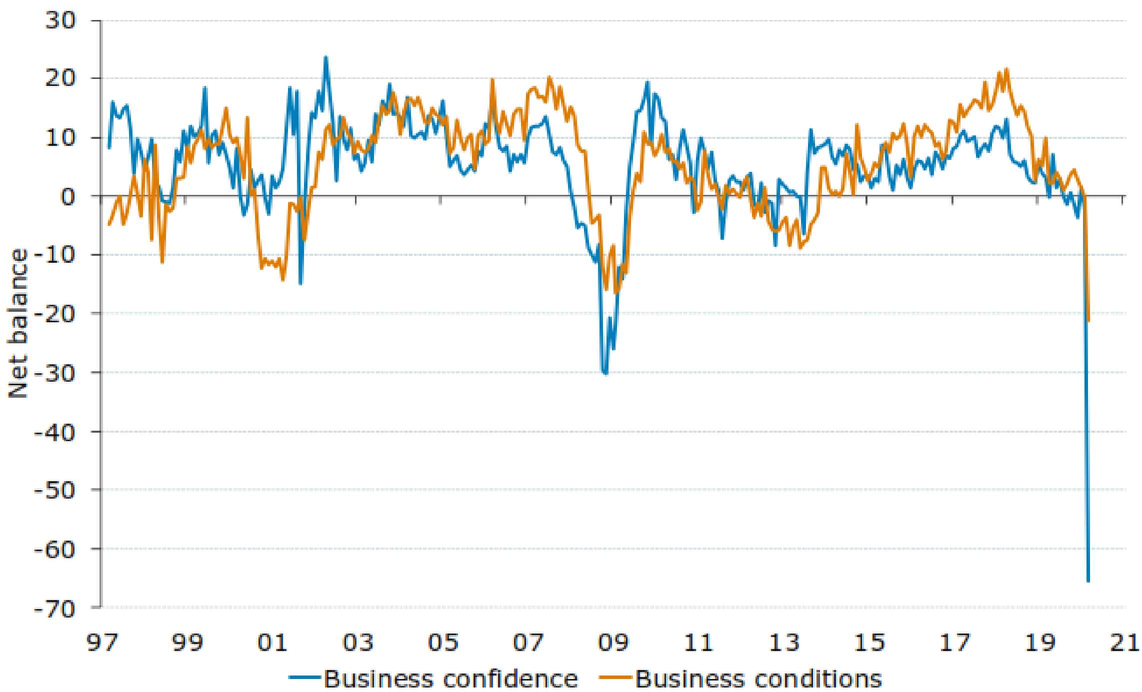
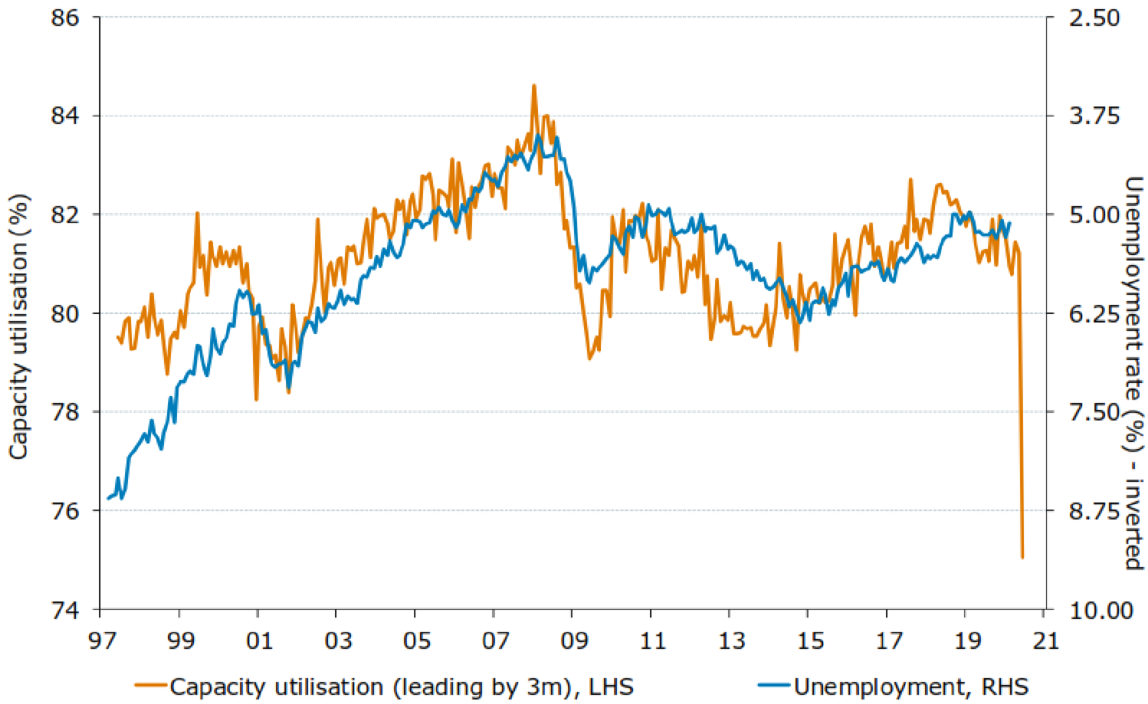


Chart 14: NAB business capacity utilisation to March and ABS unemployment rate to Feb 2020



10. Westpac-MI consumer confidence survey, April 2020 (WestpacMI Consumer Sentiment)

The Westpac-Melbourne Institute Index of Consumer Sentiment plunged 17.7% to 75.6 in April from 91.9 in March, taking it to levels previously observed only in recessions. Westpac economists said: "*This is the single biggest monthly decline in the forty seven year history of the survey, taking the Index beyond GFC lows to levels only seen during the deep recessions of the early 1990s (64.6) and early 1980s (75.5).*

However, it is pertinent to note that the lows in previous recessions were reached after one to two years of continuous deterioration compared to the one month collapse we have seen here. Certainly we cannot rule out the Index dropping below the historic low of 64.6 we saw in November 1990. The details of the survey … are all very disturbing and reflect the large shocks to jobs and spending."

Of particular note for the FWC, the Westpac-MI consumer survey included additional questions in April about individuals' experiences to date with COVID-19:

> *"This month's survey included several additional questions covering: work arrangements; the ability to cope with school and childcare closures; and how consumers plan to spend the Federal government's stimulus payments.*
>
> *The responses on work arrangements make for particularly sobering reading. Of those that were employed in March, **7% reported losing their job over the last month. A further 14% reported being temporarily stood down without pay**.*

*This survey result **implies that over one in five workers have lost their entire wage income**. Unsurprisingly, the highest incidence of lay-offs and unpaid stand downs – running at 47.5% – is amongst those in the accommodation, café and restaurant sector. The recreational services and retail sectors also reported a high incidence of labour shedding.*

More surprisingly, the 'health and community services' sector also had a high incidence of shedding suggesting conditions are contracting sharply outside of the core health services sector (i.e. hospitals, GPs etc). Note that the wider 'health sector' also includes gyms, fitness centres and 'allied health services' such as physiotherapists and chiropractors. Other sectors that reported a surprisingly high incidence of lay-offs and both paid and unpaid stand downs were manufacturing (34%) and construction (26%).

Just over 34% of those employed reported they were working from home most of the time, with a particularly high incidence amongst those working in sectors such as communications (79%), finance and insurance (69%), education (60%) and government administration (57%).

Just under a third of respondents who worked said that closures of school and day care centres would impact their ability to work, with 7.4% saying they would be unable to work at all.

On the Federal Government's fiscal payments – the $750 Economic Support Payment, and the $550/fortnight top-up to the Jobseeker Payment – responses were a little mixed. Amongst the 53% of consumers receiving or expecting to receive a payment, 27% intended to spend it all and a further 20% expected to spend over half. That is decidedly more restrained than the spending associated with similar fiscal stimulus measures during the GFC (when 62% of consumers reported spending all of the payment).

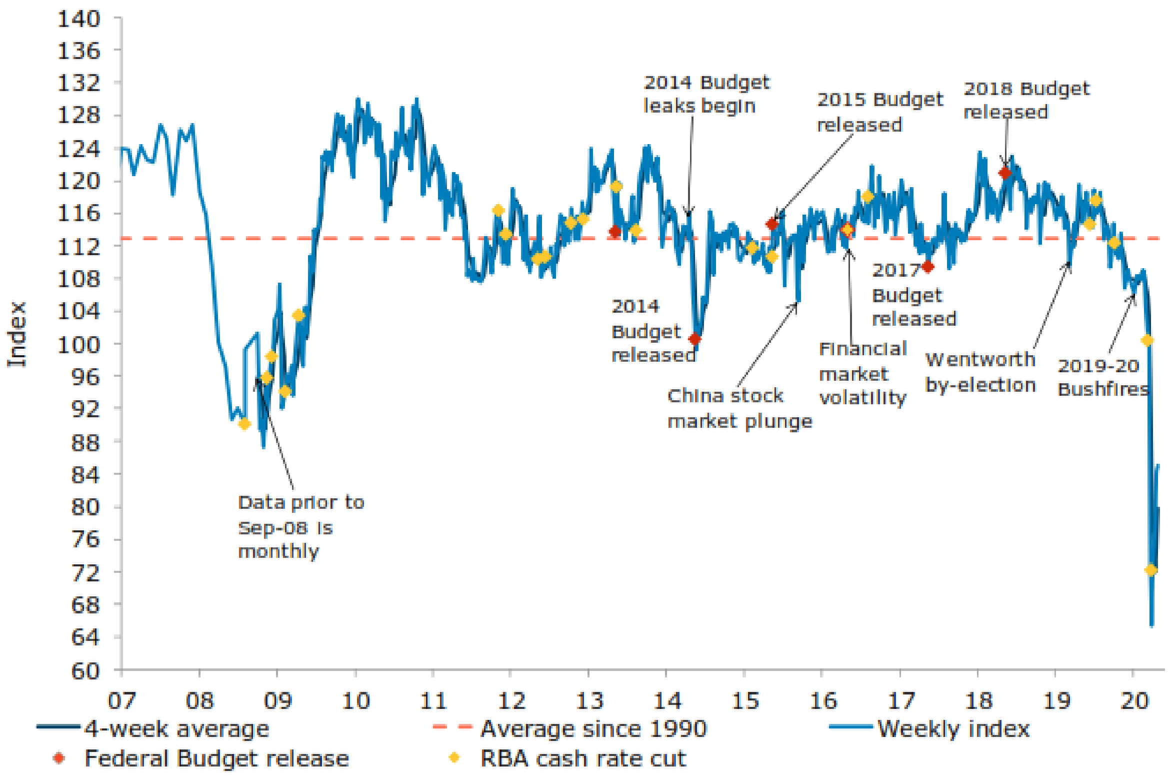
The Westpac-Melbourne Institute Unemployment Expectations Index jumped 8.2% in April following on the sharp 8.5% jump in March. At 158.1, the index is at a five year high."

11. ANZ-Roy Morgan consumer confidence survey, to 26 April 2020 (ANZroymorgan)

The ANZ-Roy Morgan weekly consumer confidence survey improved slightly in the week to 26 April, but the index remains close to the record low of the final week of March 2020. It remains well below the levels recorded during the GFC, across all measures. Even 'inflation expectations' are close to record low levels.

Looking ahead, ANZ Economists note that consumer confidence *"remains well below average, as do all of the sub-components. We are at an important stage in Australia's response to the pandemic, with a number of states relaxing some restrictions. If successful, that could set the stage for a further gain in consumer sentiment. Unfortunately, confidence is likely to be challenged by the publication of some very negative economic data over the coming month, after a period in which the data has not caught up with the severity of the economic impact from the lockdowns*."

Chart 15: ANZ-Roy Morgan consumer confidence (weekly), to 26 April 2020



12. RBA, *Minutes of the monetary policy meeting*, 7 April 2020 (RBA minutes Apr 2020)

The RBA responded to the COVID-19 pandemic on 19 March with a package of measures that included **a reduction in the cash rate target to 0.25%** (a new record low) and a target for the yield on 3-year Australian government bonds of around 0.25%. These measures were unchanged at its regular monthly Board meeting on 7 April. The RBA's reduction in the cash rate to 0.25% resulted in an immediate drop in interest rates charged by all Australian banks to individuals and businesses, effectively reducing the price of credit.

The RBA Board concluded on 7 April that even after taking into account the 'cushioning effect' of significant support measures from the RBA, federal and state governments:

> *"**GDP could fall significantly in the June quarter** and remain subdued in the September quarter. Real estate, hospitality and tourism, along with many parts of retail, essentially would not operate while the current restrictions remain in place, while some industries, including health care, utilities and mining, would be less affected.*
>
> *Members noted that there would be **a very sharp decline in hours worked**, which was expected to be associated with **significant increases in both the unemployment rate and the number of people working reduced hours**. Although the JobKeeper subsidy was expected to increase the number of people remaining employed, household incomes were expected to be much lower."*

13. RBA Governor Lowe, *An Economic and Financial Update*, 21 April 2020 (RBA speech)

In a major speech on 21 April, RBA Governor Lowe provided an update on the RBA's outlook for Australia and the various measures being taken by the RBA to support the economy. In the short-term (next six to twelve months), Governor Lowe expects:

- **GDP will drop by around 10% in the June quarter of 2020**. It may begin to slowly recover in the September quarter, depending on activity restriction timetables.
- **Total work hours worked across the economy will drop by around 20%** in the June quarter of 2020, as millions of workers become unemployed or underemployed.
- **The national unemployment rate will rise to around 10%.** It is possible that this has already happened. As noted above, the ABS estimates that as of 4 April, total employment had already decreased by 6% since mid-March, implying that 781,000 people had already lost their jobs. This number alone is larger than the number of pre-existing unemployed people (718,000). It has the potential to double the number of unemployed Australians in a single month. This does not include workers who are stood down or are on leave during the shutdown and are not seeking other work.
- **Headline inflation (CPI) is likely to turn negative in the June quarter of 2020** due to oil price falls and the introduction of free childcare, but these are one-off price falls and so prices will stabilise or turn mildly positive again after that. Core inflation will remain mildly positive.
- Among other measures implemented by the RBA, **the cash rate will remain at 0.25%** for at least two to three years. It will "*not be increased until we are making sustainable progress towards our goals for full employment and inflation*".

The RBA will publish a detailed update of its forecasts for the Australian economy in the next *Statement on Monetary Policy* on Friday 8 May 2020.

14. OECD statistical insights: *SMEs are the most vulnerable*, 15 April 2020 (www.oecd.org/sdd/business-stats/statistical-insights-small-medium-and-vulnerable)

The OECD confirms that in Australia and globally, small and medium businesses are highly vulnerable to loss of employment and income and permanent closure due to COVID-19.

15. Brendan Coates, Matt Cowgill, Tony Chen, and Will Mackey, *Shutdown: estimating the COVID-19 employment shock*, Grattan Institute, 19 April 2020 (shutdown-estimating-the-covid-19-employment-shock)

Based on labour market events in March and early April, the Grattan Institute concludes:

> *"We calculate that* ***between 14 and 26 per cent of Australian workers – 1.9-to-3.4 million people – could be out of work in the coming weeks*** *as a result of spatial distancing measures to contain the spread of COVID-19, if they aren't already. More than half of all*

workers in the hospitality industry could be off work due to COVID-19. Many workers in retail trade, education and training and the arts are also at risk. ***Lower-income workers are twice as likely to be out of work as high-income earners****. Younger Australians and women are likely to be hit hardest, because they are more likely to be employed in occupations and industries most affected by the response to COVID-19*

… ***The second-round impacts of the COVID-19 crisis on employment, and economic activity, will also be severe****. Firms and households not initially affected by public health measures will scale back their spending to preserve cash flow in the face of an extended downturn. Meanwhile Australia faces a synchronised slowdown among our major trading partners, adding to the economic hit from COVID-19.*

History tells us that ***recovery from periods of high unemployment is rarely fast****. This time may be different: recession has been deliberately engineered as a matter of public health, and substantial economic support is in place. But the longer the downturn goes, and the worse it gets, the less likely the labour market can spring back afterwards."*

16. ANZ Research, *Australian Economic Insight: Young people more vulnerable to the economic shock*, 23 April 2020

ANZ Research expects the national unemployment rate to peak at 9.5% in Q2 of 2020, with significantly higher rates of unemployment and underemployment for people under 25 years. This is because the industries that have been hit hardest and earliest by COVID-19 - "*hospitality, retail, and arts and recreation - have the highest proportions of young people in their workforces. 45% of young workers are employed in these three industries, compared with 27% of all other age groups*."

17. ANZ Research, *Australian Job Advertisement Series*, 4 May 2020

ANZ Job Ads fell by 53% during April to be down 62.2% year on year. This was almost five times the previous record monthly fall of 11.3% in January 2009, during the GFC.

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