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2021-22 Annual Wage Review

Second Reply Submission

June 2022

Australian Chamber of Commerce and Industry

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1. INTRODUCTION

1. ACCI maintains the position that **an increase in the minimum and award minimum wage of up to 3% is reasonable** in the current economic environment This achieves the right balance, taking into account the full range of risks and uncertainties facing the Australian economy, workers and businesses.

2. Further, given the multispeed economy with some sectors lagging the overall recovery, ACCI recommends that the Panel adopt a similar approach to that of the 2020-21 Review, delaying the commencement of the wage increase to a date no earlier than 1 November 2022 for modern awards that map into aviation and tourism, accommodation and food services and arts and recreation awards.

3. The Expert Panel has stressed for some time that there is no mechanistic or formulaic approach to minimum wage uprating under the Fair Work Act. This precludes any assumption of a minimum level of increase being determined by the consumer price index.

4. As ACCI has highlighted, a comparison of CPI and an increase in award wages, and/or the wage price index, it far too simplistic. Wages are just one component of the compensation of employees and household disposable income. Other payments to employees include superannuation, overtime, allowances, holiday and sick pay, bonuses and commissions, with the National Accounts showing when all of these payments are included the compensation of employees increased 5.5% over the year to March 2022.[1] In addition, recently announced Government measures to alleviate cost of living pressures for the low paid are estimated to increase household disposable income by 1.3%.[2]

5. It is also important that the Panel takes into account the constrained ability of businesses to pay higher wages, especially small businesses in service sectors that have been the most affected by the COVID disruptions and continue to lag the overall economic recovery. The focus of the Panel should be on these small businesses that continue to struggle, as they typically also have a high proportion of minimum wage and award reliant employees, so will be most impacted by any increase in minimum and award minimum wages.

6. As shown in the ABS Business Conditions and Sentiment survey and the Business NSW Business Conditions Survey, businesses have experienced a marked increase in operating costs in recent months, with many businesses unable or choosing not to pass the higher costs on to customers through higher prices.[3] Businesses are limited in their ability to continue to absorb these costs increases and at some stage soon will need to begin to increase prices. A sizable increase in the minimum and award minimum costs will add to the cost pressures on businesses, further squeezing profit margins and leading to higher increase in prices.

7. Therefore, it is important the Expert Panel take a cautious approach to any uprating minimum and award minimum wages to avoid a wage-price spiral. If the wage increase exceeds the moderate levels that balance what businesses can afford and community expectations, jobs and businesses will be lost.

[1] ABS 2022, Australian National Accounts: National Income, Expenditure and Product, March 2022.
[2] Australian Industry Group, 2022, Annual Wage Review 2021-22, National Accounts Submission, 3 June 2022. p.2
[3] ABS 2022, Business Conditions and Sentiment, April 2022; Australian Business Industrial/Business NSW, 2022, Annual Wage Review 2021-22, National Accounts Submission, 3 June 2022

2. NEW INFORMATION / OTHER SUBMISSIONS

8. ACCI has already provided detailed discussion of economic considerations in our Initial and Reply submissions, the formal consultation and March National Accounts submission.

9. The following notes new information, and addresses issues raised in submissions from other stakeholders to in response to the National Accounts data released earlier this month.

2.1 RBA cash rate decision

10. At its 7 June meeting, the Reserve Bank Board raise the cash rate to 0.85%. The half a percentage point increase was notably higher than market expectations of 0.25% to 0.4%.

11. The move comes in response to accelerating inflation from sharply rising energy prices and continuing supply chain constraints.

12. ACCI recognise the importance of normalising interest rates and the need to keep rising inflation in check. However, the abrupt increase in the cash rate, which comes on top of a 0.25% increase in May 2022, will come as a shock to many businesses that now face high repayments on loans for assets and cash flow. The COVID pandemic has left many businesses, particularly small businesses, ladened with debt and the increase in repayments is likely to extend the time needed to repair their balance sheets.

13. As previously noted, ABS Business Conditions and Sentiment survey data shows almost two third of businesses experienced increased costs in the three months to April, with over half of these businesses unable to pass these costs increases on to customers and a further 42% only able to partially pass on these costs to customers. The higher cost of money stemming from the RBA decision, will add to existing cost pressures on businesses, further narrowing already extremely tight margins and reducing profitability.

2.2 The Australian Government submission

14. As noted in the Australian Government submission of 3 June 2022 “Economic conditions are particularly challenging given inflation is at a 21-year high of 5.1 per cent and is expected to increase further in the near term ......” [AG 4]

15. While this inflationary pressure creates a challenge for low-income households, it also makes things very difficult for businesses — particularly for small businesses severely impacted by the lockdowns and other COVID disruptions that remain saddled with post-pandemic debt, flaky consumer confidence, and changes in consumer behaviours and demand.

16. ACCI agrees with the Australian Government that it is important that over the long-term real wages do not go backwards [AG 5]. However, this should not discount any short-term variation, such as what we are currently seeing with the recent spike in inflation.

17. As the Australian Government notes in its submission “… over the past decade, in 9 out of 10 years, the Panel has increased the minimum wage rate in line with, or above inflation.” [AG 8] In some years, the wage increase the Panel has awarded was substantially above inflation, such as the 3.5% increase in

2018-19 when inflation was 1.9%. Overall, over the past decade, real wages (based on WPI) have increased 5.2% and real minimum and award minimum wages have increased 9.2%.

18. It is also important to note that the variance between wages growth and inflation is expected to be temporary. The Australian Government point to the RBA's May 2022 *Statement on Monetary Policy* forecasts that project the wage price index (WPI) to grow by 3.3% through the year to June quarter 2023 and 3.7% through the year to June quarter 2024. [AG 21] The same forecasts project inflation to peak in the second half of 2022, then settle back to 4¼% by June 2023, 3¼ by December 2023 and 3% by June 2024. Therefore, a return to positive real wages growth is expected by the second half of 2023.

19. While real wages are currently being influenced by the spike in inflation, it is also important to take into account other social contributions paid by employers, such as superannuation, overtime, allowances, holiday and sick pay, bonuses and commissions. The National Accounts show compensation of employees increased 1.8% in the March quarter 2022 and 5.5% for the year to March.[4] Therefore, when the full suite of payments is included, it would appear employees' income is keeping pace with high inflation.

20. It is also important to take into account other transfers introduced by the Government to alleviate cost of living pressures for the low paid. These include the one-off cost of living tax offset of $420 to raise the low to middle income tax offset (LMITO) in 2021-22 to $1,500 for individuals and $3,000 for couples; a temporary halving of the fuel excise to 22.1 cents per litre; and an increase in the childcare subsidy for low-income families. These transfer payments are estimated to deliver a 1.3% increase in household disposable income to low-income families.[5]

21. As the Australian Government point out, their "… submission does not suggest that inflation should be the only consideration in determining wages" [AG 8] and ".. does not suggest that across-the-board, wages should automatically increase in line with inflation." [AG 9] In its deliberations we ask the Panel take heed of this advice from the Australian Government, by not just focusing on inflation, but taking into account the full suite payments made to employees, by both employers and transfer payments from the Government. It is also important the Panel takes into account businesses' ability to pay an increase and adopts a longer-term view of wages growth over the past decade.

2.3 The ACTU submission

Productivity

22. The 3 June 2022 ACTU submission [ACTU 4], notes that "Productivity growth improved significantly in the March quarter, with a growth rate of 1.7% in the three months alone ..."

23. ACCI welcome this improvement in labour productivity, but it is important to be clear that productivity should not be viewed as a point measure, particularly a single quarter, as the ACTU has done. The March quarter 2022 number is in sharp contrast with December quarter 2021, when labour productivity growth was negative 0.8% for the quarter.

[4] ABS 2022, Australian National Accounts: National Income, Expenditure and Product, March 2022.
[5] Australian Industry Group, 2022, Annual Wage Review 2021-22, National Accounts Submission, 3 June 2022. p.2

24. As the Panel has advised previously, "*labour productivity is best measured over the course of the productivity cycle*" due to the inherent variability.[6]

25. Over the past business cycle, 2012-2019, labour productivity growth was very different from previous cycles, with the very clear downward trend in labour productivity growth over the 7-year period, ending in negative labour productivity growth in 2018-19. Overall, labour productivity averaged only 1% over the business cycle.

26. Labour productivity performance has changed notably since 2018-19, with the COVID pandemic amplifying the volatility. The lockdowns and trading restrictions left large share of business capital unused or under-used for productive activities for extended periods, while government support measures maintained the connection between workers and their employers over periods when production was very low.

27. The uncertainty caused by the lockdowns and trading restrictions has also contributed to a drift from lower productive service industries that were most affected, to other industries which are less vulnerable to these disruptions. The recovery of these service industries with a higher labour component are now hampered by labour and skill shortages.

28. The COVID disruptions have artificially distorted productivity growth measures, such that they can best be viewed as being in a transition phase. It is likely to take some time for productivity measures to settle and return to more stable growth pattern. Therefore, for the time being at least, it is not possible to make any assessment of economic activity or wages growth based on recent productivity data.

Financial Stress

29. The ACTU highlight financial stress as an issue for low-income households. However, from the evidence the ACTU present from the ABS Household Impacts of COVID-19 survey, it would appear that financial stress has decreased notably over the past 12 months and is at a level below that experienced at the beginning of the COVID pandemic.

30. As shown in Figure 7 of the 3 June 2022 ACTU submission [ACTU p16], household financial stress has decreased steadily over the past year. The proportion of households unable to raise $500 has fallen from 5.4% in May 2021 to 2.2% in April 2022, while the share able to raise $500 but not $2,000 fell from 12% to around 10%. Over the same period, the proportion of households able to raise $2,000 or more jumped from 76% to 87%.[7]

31. This would suggest that low-income households are benefiting from increasing employment opportunities and the steady decline in unemployment over the past year to a 50-year low. Also, it would appear the government stimulus provided during the pandemic, continues to support household budgets and reduce financial stress. The measures announced in the March 2022 Budget to alleviate cost of living pressures of the low paid, were supported by the incoming government and will continue to be rolled out over the next few months, further relieving financial stress on low-income households.

[6] See [2019] FWCFB 3500 at [88].
[7] ABS 2022, Household Impacts of COVID-19 Survey, April 2022.

2.4 Australian Business Industrial / Business NSW

32. As stressed earlier, in making its decision it is important the Panel also consider the situation facing businesses.

33. The Business NSW April 2022 Businesses Conditions Survey is a helpful complement to the ABS Business Conditions and Sentiment Survey, highlighting the challenges faced by NSW businesses and their ability to afford a wage increase.

34. NSW businesses are experiencing high operating costs and don't expect them to abate soon. Profits are expected to fall in the current (June) quarter and their profit outlook remains uncertain going forward. (ABI Table 5 p.9).

35. The Survey finds 97% of businesses in NSW have made operational changes to deal with these rising business costs. Three in ten businesses must fully absorb these increased operating costs, while only one fifth of businesses able to fully pass on these costs to customers through higher prices. (ABI Table 6 p.10).

36. In response to the higher operating costs, more than two thirds of NSW business have been required to reduced profit margins, while 30% of businesses have reduced their business activities and a further 30% have borrowed money to maintain their business. (ABI Chart 3 p.10).

37. Overall, the Business NSW survey shows profit margins being squeezed by increased operating costs, with only limited or no ability to pass these costs on to customers through higher prices. In response, some businesses are also resorting to increased borrowings and/or reducing business activity to remain viable. A sizable increase in wages will only add to business stress, particularly small business in service industries, that have a high share of award reliant employees and are most affected by an increase in minimum and award minimum wages.