HOUSING INDUSTRY ASSOCIATION

Submission to the
Fair Work Commission

National Annual Minimum Wage Review 2022

1 April 2022

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contents

Housing Industry Association

1. INTRODUCTION

The residential building industry is one of Australia's most dynamic, innovative and efficient service industries and is a key driver of the Australian economy.

The aggregate contribution from the industry to the Australian economy is over $108 billion per annum, with over one million workers in the construction industry, of which tens of thousands are small businesses reliant on the industry for their livelihood.

The residential building industry is one of the most important sectors of the Australian economy providing housing for millions of Australians. A home is often the greatest source of wealth and savings for many families. The industry contributes to the economy in a number of ways providing hundreds of thousands of Australians with jobs, generating billions of dollars of economic output each year and stimulating spending on housing services.

The residential building industry ranges from single dwelling construction to multi-unit apartment buildings, and also encompasses the home renovations market. The industry has important linkages with other sectors, such as manufacturing and retailing, so that its impacts on the economy go well beyond the direct contribution of construction activities. The flow-on or "multiplier" effects of construction activity on the outputs of other industries are well recognised.[1]

Despite the absence of fiscal stimulus and the end of HomeBuilder there remains a strong demand for housing across Australia. However, the industry is now being confronted with a different set of challenges, including increasing land prices, material and labour supply shortages and broad ranging price rises.

The supply chain of building products is severely stretched, with many building components regardless of their place of manufacture, being in short supply. The industry is waiting to understand the true impact of the Ukrainian conflict on global shipping networks, however early indications are that the movement of goods will be further impacted. The increased pressure on fuel prices is already playing out in the Australian marketplace and will also continue until that conflict reaches a conclusion. The price pressure now impacting existing and future home building contracts is significant.

While the strong building activity will ensure ongoing high demand for skilled trades and apprentice numbers are stable, these arrangements are heavily supported by Government stimulus which is now expected to continue. It is hoped that the recent Federal Budgets announcements to extend the current wage subsidy arrangements coupled with the commencement of a new Australian Apprentice Incentive System from 1 July 2022 will continue to keep Apprentice numbers steady.

A vast majority of employers in the industry are small businesses. These employers have been hit the hardest by the changing economic conditions and rely heavily on award rates of pay and terms and conditions. They operate in a very competitive market where costs are tightly controlled and profit margins are low. These employers are highly sensitive to economic conditions affecting them, including the effects of employment regulation and wage increases.

Whilst measured increases to household income may help alleviate some affordability stresses, increasing labour input costs and supply chain issues in the construction of housing, without any link to productivity improvements,

[1] See speech by Christopher Kent, Assistant Reserve Bank Governor for a summary of the importance of housing to the Australian economy: http://www.rba.gov.au/speeches/2013/sp-ag-140313.html

will impact project costs. This in turn affects housing affordability. Increases in wages inherently place added cost pressures on businesses making them less likely to grow, invest or take on additional employees. This can also create demand side implications including tightening the supply of existing skilled trades and reducing the entry of new apprentices to the industry placing further pressure on existing businesses to meet demand.

Recently, the Expert Panel has taken a more nuanced approach to the implementation of the minimum wage increase in light of the ongoing impacts of the pandemic. A staggered approach to the commencement of the minimum wage increase provided time for businesses to factor in the increase, consider their financial situation and make any necessary adjustments to their circumstances.

While COVID-19 certainly continues to directly impact businesses the economy is now experiencing a range of aftershocks of varying magnitude attributable to the pandemic which are now compounded by the current global developments.

While HIA strongly submits that a cautious approach be taken, if an increase is to be awarded HIA would encourage the Expert Panel to, once again, take a more nuanced approach.

2. MINIMUM WAGES

In making a national minimum wage order, the Expert Panel must be guided by the minimum wages objective in section 284 of the *Fair Work Act 2009* (FW Act):

> *The Fair Work Commission must establish and maintain a safety net of fair minimum wages, taking into account:*
>
> - *the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and*
> - *promoting social inclusion through increased workforce participation; and*
> - *relative living standards and the needs of the low paid; and*
> - *the principle of equal remuneration for work of equal or comparable value; and*
> - *providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.*

HIA address those factors affecting the residential building industry below.

As has been previously adopted the Expert Panel has the discretion to delay the commencement of a minimum wage order. Section 286 (2) of the FW Act sets out that:

> *If the FWC is satisfied that there are exceptional circumstances justifying why a variation determination should not come into operation until a later day, the FWC may specify that later day as the day on which it comes into operation. However, the determination must be limited just to the particular situation to which the exceptional circumstances relate.*

HIA would see the ongoing impact of COVID-19 and supply chain pressures both domestically and globally as an exceptional circumstance, within the meaning of section 286(2) and would justify a deferred commencement of any minimum wage decision.

2.1 PERFORMANCE AND COMPETITIVENESS OF THE NATIONAL ECONOMY

Underlying demand for housing remains exceptionally strong as the pandemic continues to push households toward lower housing density. Strong employment conditions, rising house prices and consumer confidence have aided this increase in demand.

These factors have driven a ‘super cycle’ of housing demand across Australia, even in the absence of the fiscal stimulus. The strong demand for detached houses continued following the end of HomeBuilder in March 2021 and demand for multi-units recovered to pre-pandemic levels in 2021. This will ensure that the industry continues to operate at capacity throughout 2022.

With this booming market comes a different set of challenges. The sudden increase in demand for residential land saw prices increase by 12.6 per cent over the year to September 2021. The majority of land sales that occurred over this period would have been for work commencing construction in 2021 and 2022. What is more concerning is that the supply of land has not yet responded to the increase in demand with the number of sales occurring continuing to fall. If this continues, the number of commencements from 2023 will be severely constrained by the lack of land available.

Materials and labour are also experiencing rapid price increases, and these will add to the cost of home construction and make the dream of home ownership increasingly difficult. According to the ABS, the price of building materials increased by 12 per cent in 2021. This is the strongest annual increase since 1981.

Skilled trades have been in high demand since the beginning of 2021. In the December 2021 quarter, the HIA Trades Availability Index deteriorated from -0.69 to -0.84, indicating a severe shortage. This is the most significant shortage recorded by the index since the inception of the Report in 2003 and is occurring in every region. As a result of this shortage, the price of skilled trades increased by 4.7 per cent in 2021.

While the industry was expecting global shipping to return to pre-pandemic levels as the new year started, and the supply of skilled labour to improve, the upward pressure on the cost of construction will persist well into 2023 given the recent flooding in south east Queensland and northern New South Wales, combined with the impact of the Ukraine war on fuel prices and shipping.

These shortages have caused significant delays in construction, stretching out the typical timeframe to build a detached home. The number of detached home completions started to tick up in the September 2021 quarter, representing the HomeBuilder projects that hit the ground running. A survey of HIA members nationally shows that the average time to build has increased from 8.3 months to 12.2 months.

This increased build timeframe has resulted in a record volume of detached homes under construction seen in the ABS monthly reporting of commencements and completions. Even when the number of starts begins to slow, it will take some time before the pipeline of work under construction is completed.

The key feature that will mark the turning point in this cycle will be a rise in interest rates. When interest rates inevitably increase, it will reduce households’ borrowing power. This typically slows down house price growth and can have a negative effect on consumer confidence. Even talk of rising interest rates can have the same impact as an increase in interest rates. Reduced borrowing power and lower consumer confidence makes households more hesitant to pursue large investments such as building a house.

The slowing in established house prices, while the cost of new homes continues to rise, will also make banks increasingly reluctant to lend for the construction of a new home.

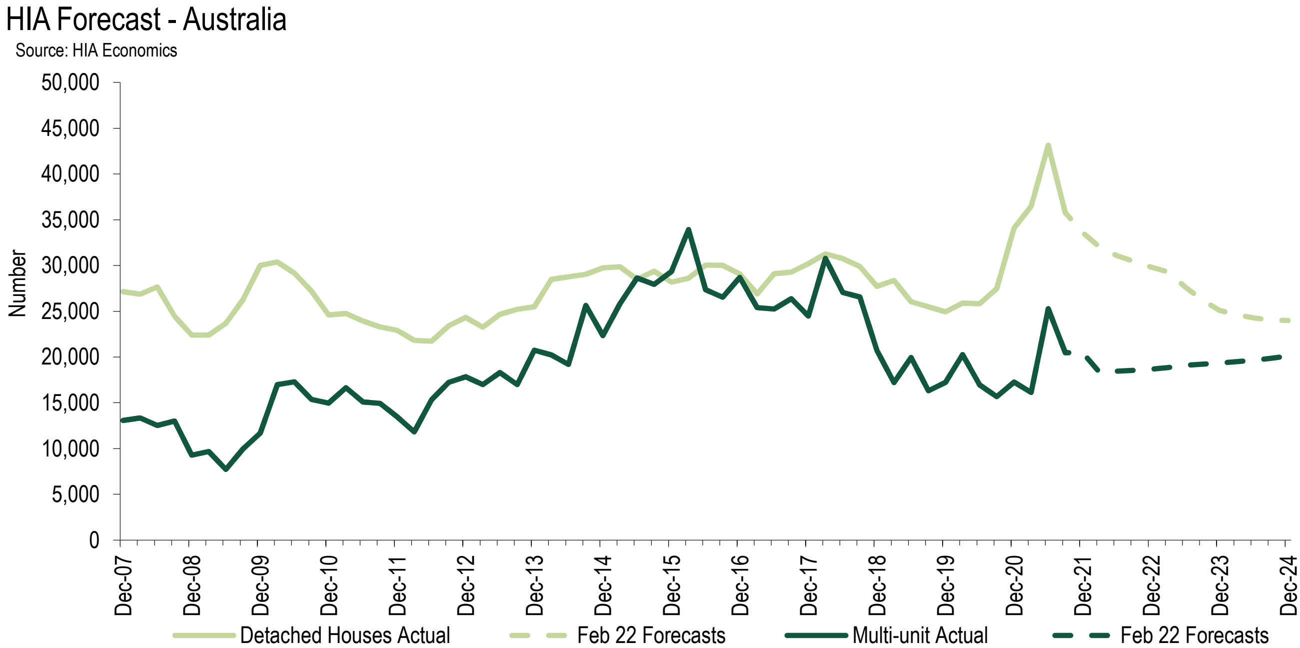
Regardless of the timing of an increase in the official cash rate, effective interest rates have started to rise and will lead to the same outcomes.

Detached Starts

There was a record 141,150 detached starts in the 2020/21 financial year, 16.2 per cent higher than the previous financial year peak in 2017/18. Another strong year is expected in 2021/22 with 132,420 starts. A rise in interest rates and a lack of available land will see starts continue to decline, falling to 117,190 in 2022/23 and 100,210 in 2023/24. Detached starts are expected to reach a trough of 96,300 in 2024/25 before returning to growth the following year.

Multi-unit starts

There were 74,350 multi-unit starts in 2020/21 which is a 5.1 per cent increase on the previous year but still well below the boom years between 2015 and 2018. Multi-unit starts are expected to fluctuate between 75,150 and 77,720 starts for the following three years. Affordability constraints will drive households back to multi-units, particularly in the major metropolitan areas. Starts are expected to increase to 80,860 starts in 2024/25 and 84,100 in 2025/26.



2.2 Workforce Participation and Apprenticeships

As noted above, strength in detached house construction and home renovations has seen demand for land, labour and materials skyrocket. The volume of work in the pipeline will see skilled trades remain in high demand throughout 2022.

The high level of demand for labour has seen strong growth in demand for apprentices, which has been facilitated by federal government support measures since March 2020.

After the conclusion of the 50 per cent wage subsidy for Supporting Apprenticeship and Traineeship in June 2021, the Federal government announced an extension of incentives through the Boosting Apprenticeship Commencements (BAC) incentive. Under the BAC, an employer that engages an Australian Apprentice between

5 October 2020 and 31 March 2022 was eligible for a subsidy of 50 per cent of wages paid to a new or recommencing apprentice or trainee for a 12-month period from the date of commencement, to a maximum of $7,000 per quarter.

A subsequent amendment to this scheme extended a 10 per cent wage subsidy in the second year of an eligible apprenticeship, and five per cent in the third year to ensure that apprentices who commenced under the BAC are given the opportunity to complete their training. A further amendment extended eligibility for the BAC by a further three months to June 30, 2022.

The success of BAC has contributed to apprenticeship and trainee commencement numbers increasing by 88 per cent over the 12 months to September 2021 and is 53 per cent higher than in 2019 prior to COVID-19. The total number of apprentices and trainees in training increased by 33 per cent over this period to over 352,000. Around a third of those in training are employed in the construction industry and the majority are in trade occupations.

While the BAC has been successful in improving the number of apprentices and trainees in training, it has also provided evidence that employers are sensitive to the wage costs of apprentices.

Businesses in the residential building industry are currently experiencing an environment where there is very high demand and an incentive to engage apprentices. The residential building cycle has been driven by expansionary monetary and fiscal policy settings in response to COVID-19 and is likely to be passed the peak in demand. There is an expectation that these settings will gradually return towards more neutral settings and that demand for residential building will also ease.

There is a robust relationship between the level of new home building and the number of apprentices in training in construction trades. There is a risk that the anticipated decline in home building activity and reduction in support for businesses employing apprentices will see a reduction in opportunities for apprentices and trainees.

Also to be considered are the costs associated with ‘on the job’ training carried out by the employer. The cost of the failure to adequately support businesses in the residential building industry to increase their capacity or attract new entrants is extraordinarily high, as it is likely to lead to further substantial skills shortages and potentially a decline in quality of building.

The majority of apprentices in the residential building industry are employed by small businesses with a turnover of less than $500,000. For some of these firms the increases in apprentice wages, especially in the first two years of progression, have made employing an apprentice financially unviable.

While the Expert Panel cannot directly influence Government policy on these matters the Panel can certainly give weight to these challenges faced by industry when carrying out its annual wage review.

Given that a range of Government support, including a wage subsidy, have been targeted at apprentices to address the real decline in commencements that existed prior to the pandemic, it appears untimely, if not inappropriate, that the minimum wages for apprentices be increased. This would simply erode those government stimulus measure.

HIA submit that the Expert Panel should have regard to these factors during this minimum wage review.

3. CONCLUSION

It is important that minimum wage policy settings as determined by the Expert Panel encourage both investment and employment.

While the outlook for the residential building industry appears positive, this has been heavily affected by a range of government stimulus measures aimed at staving off the impacts of COVID-19. While activity remains buoyant the impacts of prices increases, delays and material and labour shortages are adversely affecting the day to day financial circumstances of many in the residential building industry, including the many small businesses that operate in the sector.

Finally, the current conditions affecting apprentice employment deserves special consideration. Wage increases undoubtedly affect the capacity of businesses, particularly small business, to sustain the continued employment of apprentices to obtain completion status, leading to the eventual heightening of skills shortages in industry.

With many government stimulus measures targeted at supporting employment, particularly wages, HIA asks the Panel to be mindful of any erosive effect a minimum wage increase at this time could have on the direct benefits that have resulted in the employment of more apprentices in training today than seen for many years.

The cumulative impact of minimum wage increases, the ongoing tightening of builder margins, and current market conditions arising from COVID-19 and its flow on impacts, combined with the precarious global circumstances suggest the economy has limited capacity to manage a significant wage increase.

HIA submit that in light of the current circumstances the Expert Panel use its power under section 286(2) of the FW Act to take a more nuanced approach, as it has done in the past, to any minimum wage increase.

If the Expert Panel is not minded to adopt that approach, then in light of the current landscape, HIA strongly submits that the Expert Panel takes a conservative approach in this year’s minimum wage review.