QUEENSLAND GOVERNMENT SUBMISSION TO THE FAIR WORK COMMISSION
Annual Wage Review 2021–22

May 2022

Contents

Introduction

This submission of the Queensland Government to the Expert Panel (the Panel) for the Fair Work Commission (FWC) 2021–22 Annual Wage Review (AWR) proposes an increase to the National Minimum Wage (NMW) and the minimum wages prescribed under all national modern awards that is fair and reasonable.

Queensland notes that, under the *Fair Work Act 2009* (FW Act), the purpose of the AWR is to review minimum wages annually. As the Panel would be aware, Queensland referred its remaining private sector industrial relations jurisdiction to the Commonwealth for inclusion under the FW Act in the national workplace relations system on 1 January 2010. As a consequence of the referral, all of Queensland's private sector workforce is subject to the national Fair Work jurisdiction, with Queensland's public sector and local government workers (public sector) remaining subject to the State's industrial relations jurisdiction. The Queensland Government continues to do what it can to protect Queensland workers and to ensure fair and safe workplaces in Queensland and supports the deliberations of the independent FWC in its AWR and NMW cases.

The submission that follows provides Queensland's perspective on the current economic and social factors relevant to Queensland's private sector workforce for the Panel's consideration in its review of the NMW and national modern award minimum wages.

In determining the level of increase, a broad range of indicators relevant to private sector employment should be considered. These include inflation, employment, wage growth, business profits and conditions, productivity growth, relative living standards and the needs of the low paid.

Queensland notes there has been an increase in the proportion of private sector employees who rely on national modern awards for their actual rate of pay. In 2010, 17.2%[1] of Queensland employees were national modern award reliant. By 2021, this had increased to 21.2%[2]. This submission also notes the concerning decline in the number of private sector agreements and employee coverage under collective bargaining over the past five years.

Queensland submits that there are factors which distinguish the national and State industrial jurisdictions in relation to minimum wage determinations. Workers impacted by the AWR have experienced low wage rate outcomes over the past decades and have no or extremely limited opportunity to secure wage increase through enterprise bargaining. When compared to the State jurisdiction where 98.2% of employees within the Queensland jurisdiction actively participate in collective bargaining with only 1.8% of all employees being award-reliant, the current situation places even greater emphasis on the Panel's consideration of minimum wage and national modern

[1] Based on ABS Employee Earnings and Hours, reference period May 2010.
[2] Based on ABS Employee Earnings and Hours, reference period May 2021.

award increases that are fair in the context of improved living standards for all private sector workers. Additionally, as noted in previous AWR decisions of the Expert Panel, including last year's[3] decision, female workers continue to be more likely than male workers to be reliant upon the NMW and national modern award rates of pay and those on these minimum rates are more likely to be low paid. On this basis it is argued that fair and reasonable increases to the NMW and national modern award minimum wages will help ensure gender pay equity is not adversely affected, particularly in light of previous increase deferrals for certain cohorts.

Consistent with the principles and considerations outlined in this submission and based on data available at the time of this submission, Queensland supports an increase to the NMW and minimum national modern award rates for all private sector workers that is fair and reasonable.

Legislative parameters

Queensland submits that the objects of the FW Act[4] and the objectives of national modern awards[5] and minimum wages[6] require the FWC to balance economic and social issues as well as to take account of the needs of low paid workers within the national fair work jurisdiction, amongst other factors to maintain a safety net of fair minimum wages. Queensland submits that this requirement signifies a focus on social factors being as important as economic factors in the creation of a fair safety net.

The abovementioned objectives taken together imply that when determining the safety net of fair minimum wages the Panel is bound to ensure a wage outcome consistent with strong economic performance while at the same time providing a fair and relevant minimum wage safety net that ensures a decent standard of living for full-time adult employees and that those with limited access to wage bargaining are not left behind. This is a particularly important consideration for low-paid workers who rely on the AWR for an annual wage increase.

In this context, Queensland notes that the minimum wages objective requires the FWC to consider relative living standards and the needs of the low paid within the national fair work jurisdiction, the principle of equal remuneration for equal work, the promotion of social inclusion through increased workforce participation, the provision of a comprehensive range of fair minimum wages for certain junior employees and those with a disability as well as the performance and competitiveness of the national economy.[7]

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[3] FWC Decision Annual Wage Review 2020–21 (C2021/1) para 163.
[4] *Fair Work Act 2009* (Cth) s 3.
[5] *Fair Work Act 2009* (Cth) s 134.
[6] *Fair Work Act 2009* (Cth) s 284.
[7] *Fair Work Act 2009* (Cth) s 284(1).

Number of Queensland employees subject to the NMW and national modern award rates

The most recent figures of national modern award dependency are from May 2021[8]. At that time, of the 10,766,000 non-managerial employees in Australia, 2,657,900 or 24.7% were national modern award reliant. Queensland had a marginally lower proportion of private sector national modern award-reliant employees, i.e., of an estimated 2,081,700 non-managerial employees, 466,900 or 22.4% were national modern award reliant.

Significantly, Queensland's national modern award-reliant non-managerial employees were paid $753.00 per week on average compared to the national average at $848.30 per week. Furthermore, when average total hours worked over the month are considered, Queensland's modern award-reliant non-managerial employees received an average of $28.20 per hour, which is below the national average of $31.80.

Given Queensland's proportion of national modern award-reliant employees, and that Queensland's national modern award-reliant employees also have one of the lowest rates of pay on average in absolute and relative terms compared with other states, the relationship between national modern award reliance and low pay is particularly significant to Queensland employees and with regard to the setting of fair minimum rates of pay.

Characteristics of Queensland employees subject to the NMW and national modern award rates

Of Queensland's national modern award-reliant employees, 129,200 are full-time (non-managerial) employees paid at the adult rate. This represents 11.1% of all full-time (non-managerial) employees in Queensland paid at the adult rate.[9] Queensland accepts the Panel's position 'that adult national modern award-reliant employees who receive a rate of pay that (as a full-time equivalent) is below two-thirds of median (adult) ordinary time earnings prove a suitable and operational benchmark for identifying who is low paid.'[10]

Queensland also accepts the Panel's view that 'the information as a whole suggests that a sizeable proportion—probably a majority—of employees who are national modern award reliant are also low paid by reference to the two-thirds of median weekly earnings benchmark'.[11] Therefore the minimum wage and national modern award objectives pertaining to relative living standards and the needs of the low paid are particularly relevant to this group. It is important that such a significant group of full-time employees are provided with a living wage.

[8] Based on ABS Employee Earnings and Hours, reference period May 2021.
[9] Ibid.
[10] FWC Decision Annual Wage Review 2015–16 (C2016/1) para 449.
[11] Ibid.

Table 1 below shows employment by industry and the proportion of employees who are female in each industry (as at November 2021) along with the proportion of national modern award-reliant non-managerial employees by industry (as at May 2021). The largest proportions of national modern award-reliant (non-managerial) workers are found in ‘Accommodation and food services’ (63.0%, 537,374 workers), ‘Administrative and support services’ (44.9%, 199,235 workers), ‘Other services’ (42.1%, 227,411 workers) and ‘Health care and social assistance’ (34.3%, 650,868 workers) industries. These industries are characterised by high levels of female participation: 54.9%, 51.0%, 43.9% and 75.9% respectively.[12]

These industries account for 28.2% of total employment. Given that these industries are disproportionately national modern award reliant, and therefore lower paid and highly feminised, an increase in minimum wages will help to ensure gender pay equity is not adversely affected, particularly in light of previous increase deferrals for certain cohorts.

Table 1: Employees by Industry (Australia)

Industry	Number of Employees[a] (000s)	Proportion of female Employees[a] (%)	Proportion of National modern award reliant Employees[b] (%)
Mining	271.2	18.8	1.1
Manufacturing	858.7	29.3	21.1
Electricity, gas, water and waste services	136.4	26.7	6.1
Construction	1,145.4	13.8	15.8
Wholesale trade	355.9	34.8	11.1
Retail trade	1,297.1	55.1	30.8
Accommodation and food services	852.7	54.9	63.0
Transport, postal and warehousing	658.0	23.1	14.0
Information media and telecommunications	189.3	43.8	8.0
Finance and insurance services	527.1	47.6	5.5
Rental, hiring and real estate services	232.3	46.4	25.3
Professional, scientific and technical services	1,221.7	44.8	6.6
Administrative and support services	443.9	51.0	44.9
Public administration and safety	920.7	46.7	13.5
Education and training	1,133.6	71.0	8.0
Health care and social assistance	1,897.7	75.9	34.3
Arts and recreation services	230.9	46.1	28.3
Other services	540.6	43.9	42.1
Total	13,230.6	47.6	24.7

Source: a. ABS Labour Force, Detailed, reference period Nov 2021
b. ABS Employee Earnings and Hours, reference period May 2021

[12] ABS Labour Force, Detailed, reference period Nov 2021.

Economic factors[13]

The Australian and Queensland economic forecasts outlined in this document are the latest available, current as of the 2022-23 Commonwealth Budget (Commonwealth Budget, released 29 March 2022) and Queensland Mid-Year Budget Update Fiscal and Economic Review (State MYFER, also released 16 December 2021).

National economic conditions and outlook

The Australian economy has been remarkably resilient to the ongoing impacts of the pandemic, consistently outperforming expectations and all major advanced economies. The economy rebounded swiftly following the Delta outbreaks in September quarter 2021 and more recently, indicators suggest the Omicron outbreak in early 2022 has not derailed this momentum. Commonwealth Treasury believe the conditions are now in place for a sustained economic recovery. Reflecting this, Commonwealth Treasury's forecasts for economic activity were revised up significantly from the 2021-22 Mid-Year Economic and Fiscal Outlook (MYEFO).

The unemployment rate is now forecast to reach 3¾% in the September quarter of 2022, which, if realised, would be the lowest rate in close to 50 years. The strong labour market is expected to see wages growth accelerate to its fastest pace in almost a decade. Real GDP is forecast to grow by 4¼% in 2021-22, with stronger than expected consumer spending and employment outcomes leading to the Commonwealth upgrading its growth forecast since MYEFO. Real GDP is forecast to grow by 3½% in 2022-23 and 2½% in 2023-24, and to remain above the 2021-22 MYEFO profile over the forecast period, growing by 2½% in 2024-25 and 2025-26.

The ongoing pandemic, Russian invasion of Ukraine, strained supply chains and rising inflationary pressures all present risks to the global and domestic outlooks. Nonetheless, the resilience of the Australian economy throughout the pandemic demonstrates that the economy is well placed to adapt to these new developments. While the recent flooding events have had a devastating impact on affected communities, the direct impact on the national economy in the March quarter of 2022 is expected to be small.

Household consumption is forecast to grow by 3½% in 2021-22, 5¾% in 2022-23 and a further 3¾% in 2023-24. Consumption growth will be driven by increased services demand as household spending behaviour normalises and the savings rate declines. Household balance sheets are in a strong position relative to the pre-pandemic period because of economic support measures and restricted consumption options during lockdowns.

[13] Forecasts are taken from the 2022-23 Budget, Commonwealth of Australia (released 29 March 2022).

In the March quarter of 2022, the Omicron wave, the recent floods in Queensland and New South Wales and the recent large increase in fuel prices will dampen consumption, but these effects are expected to recede. In 2022-23 and 2023-24, the key driver of the consumption outlook is robust growth in disposable income due to strong labour market conditions and wages growth, which is expected to more than offset the negative impacts on consumption of rising interest rates and weaker housing price growth. While there is a risk that the normalisation of monetary policy could have a more material negative impact on consumption, the government support and the increase in savings during the pandemic is expected to ensure household balance sheets remain in a strong position.

Dwelling investment is forecast to grow by 5% in 2021-22 and a further 3½% in 2022-23. Low interest rates, rising housing prices and government incentives, such as the *HomeBuilder* program, have contributed to a record pipeline of work yet to be done in the sector.

Building material and labour shortages, along with COVID-19 outbreaks and related restrictions on activity, have increased construction costs and completion times for new dwellings, with these supply side pressures constraining dwelling investment in recent quarters. Additional risks have emerged which may further exacerbate capacity constraints in the near-term, including the recent floods in Queensland and New South Wales and Russia's invasion of Ukraine disrupting global building material supply chains. Nevertheless, capacity constraints are expected to slowly alleviate and support growth in dwelling investment in 2022-23.

Rising interest rates will increase the cost of borrowing, placing downward pressure on housing prices and softening demand for investment in new housing. While this is expected to weigh on dwelling investment and contribute to a ½% fall in 2023-24, the existing pipeline of work will support investment to remain at elevated levels. Moreover, the expected pick up in net overseas migration following the reopening of international borders will provide ongoing support for dwelling investment.

As outlined by Commonwealth Treasury in the 2022-23 Budget, households remain well placed to service existing debt, assisted by increased savings and mortgage prepayments made during the pandemic. Serviceability buffers should ensure that most existing borrowers are in a position to handle mortgage repayments as interest rates rise.

The outlook for business investment is strong. In 2021-22 and 2022-23, investment is expected to be supported by further recovery in the domestic economy, temporary business tax incentives and strong business balance sheets. New business investment is forecast to grow by 5½% in 2021-22, 9% in 2022-23 and 1% in 2023-24.

New public final demand is forecast to rise by 7¼% in 2021-22, 1¼% in 2022-23 and by a further 1½% in 2023-24. Commonwealth Treasury note the strong increase in 2021-22 is primarily driven by elevated COVID-19 related expenditures on public health including treatment of COVID-19 positive patients, the provision of vaccines, as well as the purchase of personal protective equipment and rapid antigen tests. Growth is expected to slow in 2022-23 and 2023-24 as COVID-19 related expenditures fall as immunity increases and the virus becomes endemic in the community.

Net exports are expected to detract ½ of a percentage point from GDP growth in 2021-22 as growth in goods and tourism exports is more than offset by strong goods imports, while education exports remain depressed. The drag on growth is expected to increase to 1½ percentage points in 2022-23 as outbound tourism more than offsets inbound tourism, consistent with pre-pandemic travel patterns, and as goods imports grow faster than goods exports. The drag on growth moderates in 2023-24 to ¼ of a percentage point, as continued strength in goods and services imports is partially offset by strengthening services exports, as the recovery in tourism and education gathers pace.

Exports are forecast to grow by 2% in 2021-22, 5% in 2022-23 and 6% in 2023-24. Strong rural production, owing to good seasonal conditions, is expected to drive growth in exports in 2021-22. A strong increase in tourism exports, as well as a rebound in mining production is expected to drive growth in 2022-23 and 2023-24.

Imports are forecast to grow strongly in coming years, by 4½% in 2021-22, 12½% in 2022-23 and 7% in 2023-24. The strong growth is driven by the easing of travel restrictions supporting a recovery in tourism imports and the continued recovery of the domestic economy generating robust goods imports growth.

The labour market has displayed resilience through the pandemic. Employment reached a then record high in November 2021 and continued employment growth since then has seen the unemployment rate fall to just 4.0% in February 2022 – the equal lowest outcome since 1974. The employment to population ratio reached a new record high of 63.8% in February 2022, with the participation rate also at a record high of 66.4%.

The recovery in the labour market in recent months reflects growth in private consumption supporting strong labour demand. The number of unemployed people per vacancy, a key measure of labour market tightness, fell to just 1.6 in November, the lowest value on record and around half the pre-pandemic level. The underemployment rate has also fallen sharply to 6.6% in recent months, 2.2 percentage points lower than it was in March 2020. The continued recovery in the domestic economy is expected to see employment increase by 2¾% through the year to the June quarter of 2022, before growing by 1½% through the year to the June quarters of 2023 and 2024. According to Commonwealth Treasury, this would see the employment to population ratio at an unprecedented high across this period, indicating that there has been no long-term scarring impacts from the pandemic.

Reflecting strong growth in the domestic economy, the unemployment is forecast to fall to 3¾% in the September quarter of 2022 and remain there until 2024-25. Commonwealth Treasury noted this would be the first time since the early 1970s the unemployment rate has averaged below 4%.

Wage growth is expected to build across the forecast period as the labour market remains tight. The Wage Price Index increased to 2.3% through the year to the December quarter of 2021 and is forecast to rise to 2¾% through the year to the June quarter of 2022 and 3¼% through the year to the June quarters of 2023 and 2024, which would be the fastest pace in almost a decade.

Consumer price inflation is expected to remain elevated in the near-term reflecting price pressures from automotive fuel as a result of higher global oil prices, new dwelling purchases and tradeable goods. Underlying inflation has also increased in recent quarters signalling broadening price pressures in the economy, particularly for goods.

Headline CPI growth is expected to be 4¼% through the year to the June quarter of 2022, then to moderate to 3% through the year to the June quarter of 2023, reflecting some continued inflationary pressure from global supply chain issues. Towards the end of the detailed forecast period, the tight labour market and resulting wage growth will generate inflation of 2¾% through the year to the June quarter of 2024.

Russia's invasion of Ukraine presents a risk to the near-term outlook for inflation, given its potential to further increase energy prices, especially for automotive fuel. Prolonged supply chain issues, associated with the current or future widespread COVID-19 outbreaks in China, present risks to inflation that may persist through 2022 and 2023. The recent floods in Queensland and New South Wales may also impact food prices and add to existing challenges on the supply of construction materials and labour.

The Queensland economy[14]

Queensland's domestic economic recovery from COVID-19 has been stronger than the rest of Australia. As of December quarter 2021, Queensland's domestic economy, as measured by State Final Demand, was 6.3% larger than its pre-COVID level in March quarter 2020, compared with growth of 4.7% in the domestic economy across the rest of Australia.

Underpinned by the strength of the domestic economy, Queensland's overall Gross State Product (GSP) rebounded by 2.0% in 2020–21. Economic activity in Queensland is expected to grow by 3.25% in 2021–22, faster than the 2.75% growth forecast at the time of the 2021–22 Budget. This upward revision has been primarily driven by an improved outlook for private investment, particularly dwelling investment. GSP is expected to grow by 2.75% in 2022–23, as the dwelling

[14] Forecasts and data are obtained from the Queensland Government's 2020-21 Budget, December 2020.

investment cycle approaches its peak and international services trade increases due to the opening of borders.

Since the first national lockdowns in 2020, an unprecedented level of government support has helped underpin household balance sheets and sentiment. Combined with record low interest rates, a sharp rebound in the labour market and substitution of expenditure away from services, household consumption in Queensland rebounded by 5.1% in 2020–21, the strongest growth in 13 years.

Looking forward, household incomes in Queensland are expected to be supported by solid growth in labour income, with recent rises in house and equity prices underpinning household wealth. Reopening of the international border will likely lead to a readjustment of household spending patterns observed during the COVID-era. After rising 5.1% in 2020-21, Queensland's household consumption growth is forecast to return to pre-pandemic rates in 2021–22 and 2022–23.

Dwelling investment in Queensland has risen strongly since the pandemic-induced low in mid-2020, rising by 26.2% over the period from June quarter 2020 to December quarter 2021. A combination of record low interest rates (and indications that rates would remain low for an extended period), and generous government stimulus and incentives, have driven strong increases in building approvals and lending indicators throughout 2020–21, boosting the outlook for dwelling investment, particularly for detached houses. While earlier than expected cash rate rises from the RBA pose a near-term risk, market expectations that dwelling prices will continue to rise in 2022 and the substantial amount of work in the pipeline will continue to drive growth in dwelling investment throughout 2021–22 and 2022–23.

The outbreak of COVID-19 and the resulting uncertainty in the global economic outlook temporarily discouraged investment across a range of sectors in 2020 and early-2021. However, driven by significant fiscal and monetary stimulus, as well as the strong recovery in the domestic economy, machinery and equipment investment rebounded during the second half of 2020–21, limiting its annual decline to just 3.6%.

Amidst global and national economic uncertainty, businesses remained conservative in extending their investment in buildings and structures, which fell 8.6% in 2020–21. However, the outlook for business investment has improved over 2021, with elevated vaccination rates providing increased certainty and confidence to businesses as borders open. Looking forward, investments in renewables and hydrogen are likely to gather pace in coming years, while the 2032 Olympic and Paralympic Games are likely to be catalytic for business investment across Queensland.

Queensland's overseas goods and services exports fell by 15.9% in 2020–21, reflecting the impact of the COVID-19 pandemic on a range of industries, particularly tourism, education and coal, as well as China's import bans on a range of Australian goods, particularly coal. Exports are expected to recover from 2021–22 onwards, with volumes for a number of key exports recovering from their COVID-19 impacted lows driven by solid demand amidst the ongoing global economic recovery.

Queensland's labour market performance has been stronger than anticipated at Budget. As of February 2022, employment in Queensland is 152,700 persons above its pre-COVID level in March 2020, the largest increase of any state or territory over this period.

The monthly seasonally adjusted unemployment rate has fallen to 4.3% in February 2020, below the pre-pandemic rate of 5.8% recorded in March 2020, and the state's lowest unemployment rate since 2008. International border closures have resulted in labour shortages in various sectors across the state, creating increased employment opportunities for people more marginally attached to the labour force. However, the impacts of the recent labour shortages in some key sectors are likely to be partially unwound as international borders re-open and temporary non-residents re-enter the labour market.

Queensland's labour market is expected to remain strong over the coming years, with employment forecast to grow by 4.50% in 2021–22. If realised, this will be the strongest employment growth in Queensland in 15 years. Further robust growth of 2.50% is forecast in 2022–23. Meanwhile, the unemployment rate is forecast to remain low over the next two years.

The COVID-19 pandemic resulted in Brisbane's CPI falling a record 2.2% in June quarter 2020, seeing an annual CPI decline of 1.0%. This result marked the first annual fall in Brisbane's CPI since the inception of the series in the 1940s. However, since this period CPI growth has surged, rising 4.3% over the year to December quarter 2021.

The surge in annual CPI growth is consistent with global inflationary trends, which have been driven by a range of factors including base effects due to the height of the COVID-19 pandemic causing some price falls, increased demand (particularly for goods) as economies gradually re-opened and COVID-19 related interruptions to global supply chains. Annual CPI growth in Brisbane is expected to remain elevated in 2021–22, largely driven by strong demand for housing and global supply disruptions pushing up the cost of various housing components. Higher automotive fuel prices, driven by the rebound in the global oil price (in part due to Russia's invasion of Ukraine) and higher food prices resulting from the South East Queensland and Northern New South Wales floods are also expected to support strong annual CPI growth in 2021–22. Beyond this point, annual CPI growth is expected to moderate somewhat, consistent with global supply disruptions easing and housing and fuel price growth cooling.

The unprecedented impact on Queensland's labour market in June quarter 2020 saw wages growth slow to 1.9% in 2019–20. Wage growth slowed further in 2020–21, growing just 1.6%. However, December quarter 2021 data showed a modest acceleration in annual wages growth to 2.4%.

Looking ahead, with Queensland's labour market expected to continue to tighten, this is likely to generate further upward pressure on wage growth in the near-term.

Risks to the outlook

In the 2021–22 Queensland Budget, the timing of the reopening of borders and the pace of the vaccination rollout were highlighted as key risks to the economic outlook. Since Budget, Queensland's vaccination rate has accelerated significantly, with the 80% target reached on 8 December and the 90% fully vaccinated rate reached in January 2022.

The Omicron-variant spreading throughout Queensland in December 2021 and January 2022 has caused significant disruption to labour supply in some sectors of the Queensland economy and placed additional pressure on the health system. While it appears the peak of this recent outbreak may have passed, there are some ongoing labour supply and supply-chain impacts that continue to pose near-term risks.

Nevertheless, Queensland's high vaccination rate means the risk of any future COVID-19 outbreak disrupting the economy and overburdening the Queensland health system is much lower than expected at Budget. However, the emergence of any new variants in the future could negatively impact consumer and business confidence and could pose a downside risk to the global and local economic outlook.

The 2021–22 Budget also highlighted as a key risk the possibility of an earlier-than-expected monetary policy tightening. Given recent inflationary pressures triggered by the surge in property and fuel prices, as well as the recent increase in bond yields across all durations, it is now generally expected that normalisation of monetary policy settings will start to be implemented by the RBA in 2022, with most market commentators expecting the first rate hike in June. Market expectations have moved significantly since late-2021, with the RBA now expected to begin a period of aggressive tightening, taking the cash rate to over 3% by mid-2023. The potential impact on various financial asset prices and the associated wealth effects are likely to be exacerbated by aggressive tightening in monetary policy by other major central banks, with potential flow-on impacts on consumer spending and investment.

Trade tensions between Australia and China remain a potential risk to the outlook for Queensland's exports. However, to date, Queensland's coal exports have proved to be resilient against China's ban on Australian coal imports, with more than 85% of tonnages lost to China diverted to other markets.

Ongoing conflict between Ukraine and Russia is also a considerable near-term risk to global economic growth. Russia's invasion of Ukraine has resulted in a sharp appreciation of a range of commodity prices (most notably oil), with flow-on implications for global inflationary outcomes and future central bank monetary policy decisions.

Recent severe flooding in south-east Queensland (SEQ) also represents a downside risk to Queensland economic growth in 2021-22. However, the impact is expected to be much less than that recorded from 2010-11 floods, due to key resources and agriculture regions being largely unaffected. Preliminary Queensland Treasury estimates suggest the impacts of the floods to equate to a loss in economic output in 2021-22 of around ¼ percentage point of gross state product.

Economic implications of low wage growth

Australia has experienced a sustained period of subdued wage growth, particularly in the private sector. Although wage growth picked up throughout 2021 due to pandemic related labour supply shortages, it has not kept pace with inflation. Seasonally adjusted wage growth was 2.3% through the year to December quarter 2021, while inflation rose by 3.5% over the same period.[15], [16]

A sustained period of low wage growth will have implications for the broader economy. Subdued wage growth constrains growth in household income, one of the key drivers of household consumption (which accounts for around 60% of total economic activity), with potential flow-on effects for businesses and government revenues. The Queensland submission notes that the AWR decision in recent years supported this view, observing the negative economic and social consequences of current low wages growth. As further explored below, the RBA has also been increasingly vocal in its concerns about persistently low wages growth[17].

Additionally, the demand for government services (such as social housing) may rise if households' purchasing power is reduced by low wage growth conditions. Lower income households may seek to access a broader range of government services if wage growth falls behind the rate of increase in the cost of non-discretionary goods and services. This, combined with the flow-on effects for government revenues identified above, could adversely affect the government's fiscal position.

The RBA has suggested that the current low level of wages growth reflects a number of factors including spare capacity in the labour market and low inflation expectations. Other contributing factors to recent low wage growth include[18]:

- the process of adjustment following the end of the mining boom;
- a decline in labour's relative bargaining power;
- the effects of technological change and globalisation;
- a low level of voluntary job turnover (where workers choose to leave their job for a better job);

[15] ABS Wage Price Index, Australia, reference period December quarter 2021
[16] ABS Consumer Price Index, reference period December quarter 2021
[17] Cassidy, N. (2019). Low Wages Growth in Australia – An Overview, Address to Low Wage Growth conference, Sydney, 4–5 April 2019
[18] Ibid.

- the use of bonuses, rather than wage rises, by businesses to incentivise employees (which doesn't permanently raise labour costs); and
- some firms attempting to retain staff by using non-wage incentives, such as flexible work arrangements, shares, additional annual leave, etc.

The employment impact of increases to minimum wages

A perennial point of contention is with the impact of minimum wage movements on the employment of low-skilled workers. Arguments around the empirical evidence regarding the impact of wage adjustments on employment have been a constant feature of national wage cases but, while it has been argued that moderate increases in real wages in the absence of offsetting productivity improvements may lead to a negative impact on employment, this has not been borne out by the evidence. Factors such as employer efforts to increase workers' productivity to justify the wages paid and incentive effects on employees and through the broader effects of a fairer system on social and economic cohesion in society as a whole are effective in mitigating any potential dis-employment effects.

The employment impact of safety net adjustments to national modern award wages has been similarly well canvassed by the FWC and its predecessors. In previous wage case decisions, the Panel has noted that a general assessment of employment data, including in more heavily national modern award reliant sectors, has not disclosed any basis to suggest that past safety net adjustments have had any significant adverse employment effects.

In its 2016 Decision, the Panel reaffirmed its view that 'modest and regular increases in minimum wages have a small or even zero impact on employment'.[19] This sentiment was reiterated in the Panel's 2017 decision along with the statement that 'the Panel's past assessment of what constitutes a 'modest' increase may have been overly cautious, in terms of its assessed dis-employment effects'.[20] This view was confirmed by a landmark study published by the RBA in 2018 which found that there is no evidence that modest, incremental increases in national modern award wages have an adverse effect on hours worked or the job destruction rate.[21] Queensland submits there is no reason to depart from this consistent set of conclusions.

Queensland further submits that these findings regarding the employment effects of wage increases should be considered in tandem with the social and individual benefits of an increase in the minimum wage and national modern award wages.

[19] FWC Decision Annual Wage Review 2015–16 (C2015/1) para 492.
[20] FWC Statement Annual Wage Review 2016-17 (C2017/1) para 9.
[21] Bishop J (2018), The Effect of Minimum Wage Increases on Wages, Hours Worked and Job Loss, Reserve Bank of Australia, Bulletin, September 2018

Social factors – The importance of fair wages

As mentioned previously, as at May 2021, approximately 466,900 (22.4%) of Queensland non-managerial employees relied on the national modern award system to determine their rate of pay.

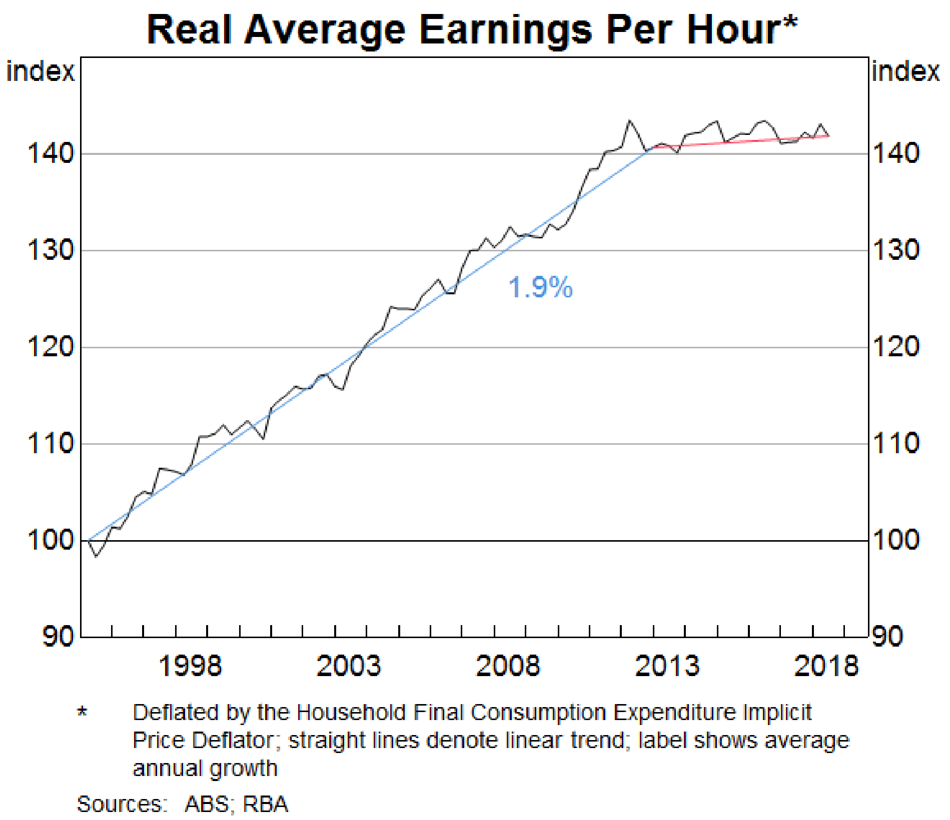
Minimum and national modern award wage increases serve an important social function by directly targeting and benefiting those employees who are not able to negotiate wage increases with their employer through enterprise bargaining. This helps to ensure that those workers with little or no bargaining power are not left behind and that these workers can share in the benefits of economic prosperity, productivity growth and rising living standards through improvement to their real wages.

Figure 1 shows real wage growth and productivity growth in the years since the 2001 downturn. As can be seen from the chart, real wage growth mirrored labour productivity growth until 2011–12 but has subsequently diverged, resulting in low wage growth and rising inequality.

Source: ABS Wage Price Index, Australia and ABS Consumer Price Index, Australia - Australian National Accounts: National Income, Expenditure and Product

Queensland recognises that stagnant wage growth has been widely identified as a significant problem in recent years and that rising income inequality has become an issue of significant social concern. The Governor of the RBA, Phillip Lowe, has argued this is a major problem, suggesting that flat real wages are diminishing our sense of shared prosperity and the lack of real wage growth is one of the reasons why some in our community question whether they are benefiting from our economic success.[22] Governor Lowe used Figure 2 below to show that from 1995 to 2012, on average, real wages increased by almost 2% per year. This occurred while inflation averaged around the mid-point of the 2% to 3% target range. However, since 2012, there has been little change in average real hourly earnings. Wage increases have been broadly matched by inflation; however, inflation has outstripped wage growth over 2021. On 16 November 2021, Governor Lowe, in a speech regarding recent trends in inflation observed that many businesses retain a strong cost control mindset; as such, wages growth is expected to pick up only gradually. Wages are forecast to increase by 2.50% over 2022, while underlying inflation is expected to rise by 2.25% over the same period.[23]

Figure 2.



Source: Lowe, P. (2018). Trust and Prosperity, Address to CEDA Annual Dinner, Melbourne, 20 November.

While Figure 1 above shows the divergence between productivity growth and real wages overall, national modern award-reliant workers are even worse off. There is a marked disparity between the wage outcomes for those on national modern awards compared to employees covered by collective agreements. In Queensland, in May 2021, average weekly earnings for full-time non-managerial employees paid at the adult rate covered by industrial national modern awards were $1,176.00 per week, compared to $1,908.50 for those covered by collective agreements and

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[22] Lowe, P. (2018). Trust and Prosperity, Address to CEDA Annual Dinner, Melbourne, 20 November 2018.
[23] Lowe, P. (2020). Recent Trends in Inflation, Reserve Bank, Sydney, 16 November 2021.

$1728.40 for those covered by individual agreements[24]. The ratio of national modern award-reliant wages to the average of all wages was marginally lower (67.3%) in Queensland than the national average of 76.6%.

As national modern award reliance increases and bargaining coverage has started to fall off, the AWR continues to perform a vital role in responding to this marked disparity between the wage outcomes for those workers on the NMW and national modern award-reliant employees compared to those workers who receive higher rates of pay under collectively bargained agreements.

Table 2: Real and nominal increases for national modern award rates and AWOTE, 2011–2021

Wage group	Weekly rate of pay		$ increase	Nominal % increase	Real % increase
	2011	2021			
C14	$589.30	$772.60	$183.30	31.10%	9.31%
C13	$606.40	$794.80	$188.40	31.07%	9.28%
C12	$629.70	$825.20	$195.50	31.05%	9.26%
C11	$651.30	$853.60	$202.30	31.06%	9.27%
C10	$686.20	$899.50	$213.30	31.08%	9.29%
C9	$707.80	$927.70	$219.90	31.07%	9.28%
C8	$729.30	$955.90	$226.60	31.07%	9.28%
C7	$748.80	$981.50	$232.70	31.08%	9.29%
C6	$786.80	$1,031.30	$244.50	31.08%	9.28%
C5	$802.80	$1,052.40	$249.60	31.09%	9.30%
C4	$824.30	$1,080.60	$256.30	31.09%	9.30%
C3	$867.40	$1,137.20	$269.80	31.10%	9.31%
C2(a)	$880.00	$1,165.60	$285.60	32.45%	10.43%
C2(b)q1EA	$928.00	$1,216.50	$288.50	31.09%	9.30%
AWOTE*	**$1,306.60**	**$1,737.10**	**$430.50**	**32.95%**	**10.85%**
WPI:** **Australia** **Queensland**	 **109.5** **110.1**	 **137.6** **137.4**		 **25.66%** **24.80%**	 **4.77%** **3.29%**

*AWOTE based on June 2011 and June 2021
** Wage-Price Index refers to Ordinary time hourly rates of pay excluding bonuses; September 2011 and September 2021.
Sources: ABS, *Average Weekly Earnings*; ABS, *Wage Price Index*; National modern award rates: Manufacturing and Associated Industries and Occupations National modern award 2010 and National modern award rates: Manufacturing and Associated Industries and Occupations National modern award 2020 (Effective 1/1/2022)

Moreover, the growth in the NMW and national modern award rates of pay has not kept pace with the growth in earnings across the workforce generally. As Table 2 above shows, over the 10-year period June 2011 to June 2021, the Average Weekly Ordinary Time Earnings (AWOTE) increased by 32.95.%, or 10.85.% in real terms compared with an increase of 31.08%, or 9.29% in real terms, to the benchmark C10 tradesperson rate in the manufacturing national modern award[25].

[24] Based on ABS Employee Earnings and Hours, reference period May 2021.
[25] Manufacturing and Associated Industries and Occupations Award 2010/2020.

Maintaining the real value of wages in line with inflation should be a threshold benchmark.

Given the recent trend towards increased reliance on national modern award minimum wage rates, it is incumbent upon the Panel to set rates of pay through the AWR that are 'fair and relevant' in the context of living standards and the needs of the low paid.

Enterprise Bargaining in the Private Sector

Queensland submits that there are factors which distinguish the national and State industrial jurisdictions in relation to minimum wage determinations. Workers impacted by the AWR have experienced low wage rate outcomes over the past decades and have no or extremely limited opportunity to secure wage increase through enterprise bargaining. When compared to the State jurisdiction where 98.2% of employees within the Queensland jurisdiction actively participate in collective bargaining with only 1.8% of all employees being award-reliant, the current situation places even greater emphasis on the Panel's consideration of minimum wage and national modern award increases that are fair in the context of improved living standards for all private sector workers.

Data presented in the Trends in Federal Enterprise Bargaining report (Trends)[26] are drawn from the Workplace Agreements Database (WAD), which is maintained by the Employment Conditions Division of the Attorney-General's Department. The WAD contains information on all known federal enterprise agreements that have operated since the introduction of the Enterprise Bargaining Principle in October 1991. There are currently 160,000 agreements on the site and an average of 6000 agreements are added each year.

The most recent Trends in Federal Enterprise Bargaining September quarter 2021 report[27] containing data about the number of enterprise agreements made in the federal workplace relations system was published on 21 December 2021. There were 1,272 (180,536 employees) agreements approved in the September quarter 2021, up from 1,065 (100,099 employees) agreements in the June quarter 2021 and up from 716 (60,658 employees) agreements in the September quarter 2020.

The Trends reports show a decline in the number of private sector agreements. There were 10,110 current (not expired or terminated) agreements covering 1.65 million employees current as at 30 September 2021. This is slightly less than the 10,188 agreements current as at 30 June 2021 and more than the 9,822 agreements current at 30 September 2020. This is a significant reduction compared to five years ago when there were 13,948 private sector current agreements that had

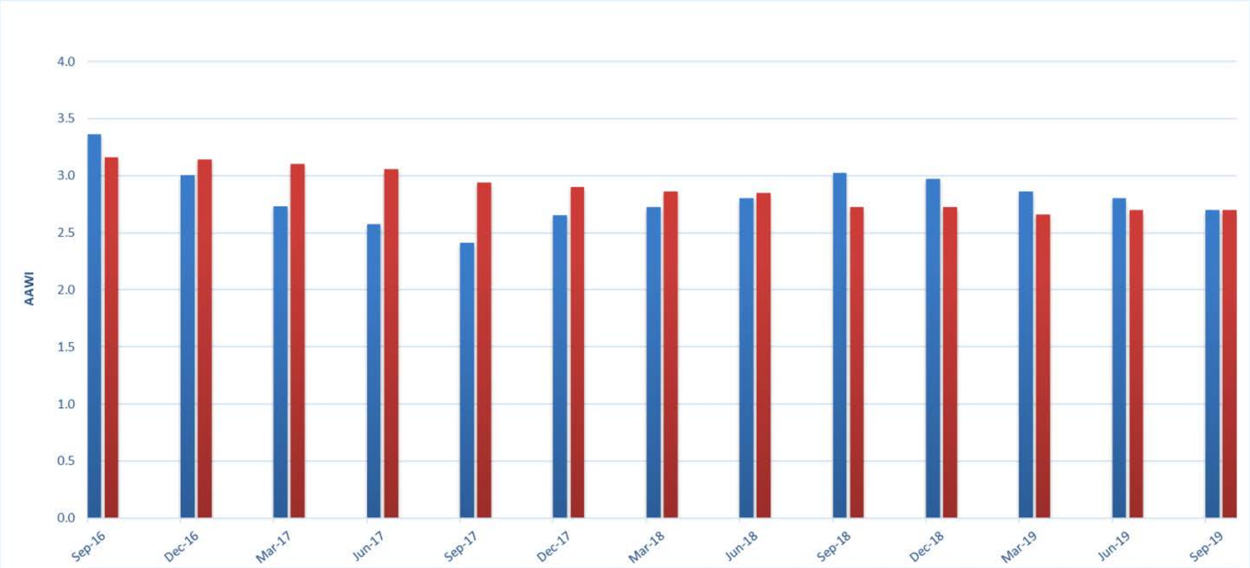
[26] Australian Government, Attorney-General's Department, Trends in Federal Enterprise Bargaining, Workplace Agreement Database

[27] Trends in Federal Enterprise Bargaining, September Quarter 2021 Report

not expired or been terminated as at 30 June 2016.

Of the 10,188 current agreements there were 7,687 which contained quantifiable wage increases. The Average Annualised Wage Increases (AAWI) for current agreements current was 2.7% for the private sector in September 2021 which was equal to the June quarter 2021 and September quarter 2020. The overall result for the private sector is down on AAWI from five years ago which was at 3.2% in September 2016 and 3% in December 2016.

Chart 1 – Private sector AAWI – Approved and current agreements – September 2016 to September 2019



	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Approved	3.4	3.0	2.7	2.6	2.4	2.7	2.7	2.8	3.0	3.0	2.9	2.8	2.7
Current	3.2	3.1	3.1	3.1	2.9	2.9	2.9	2.9	2.7	2.7	2.7	2.7	2.7

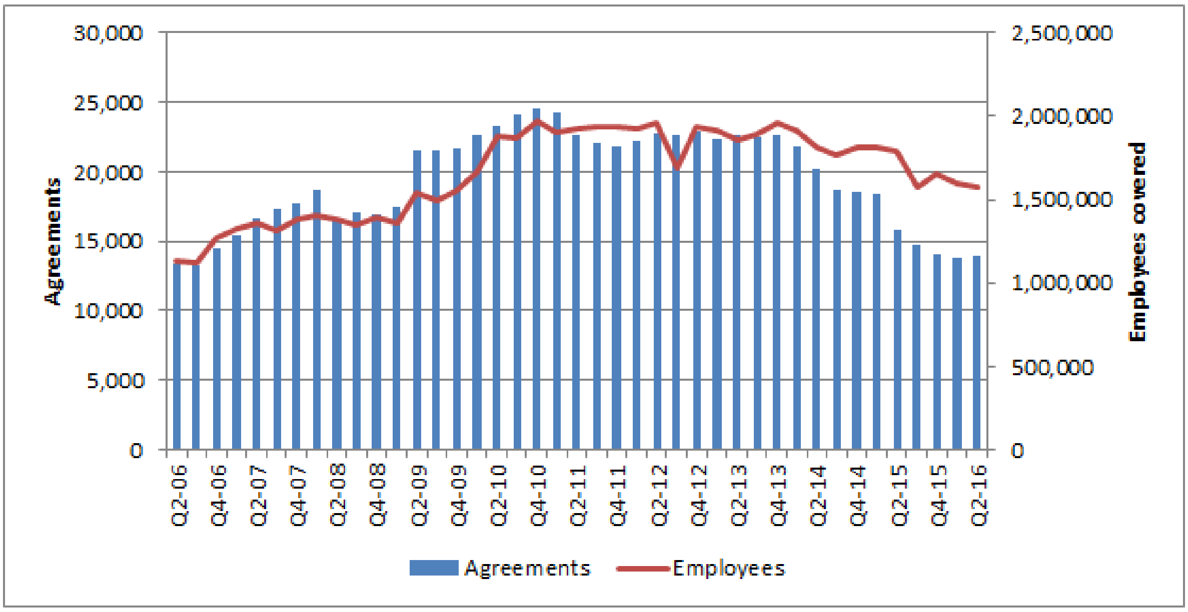
Source: Attorney-General's Department, Workplace Agreements Database.

The September quarter 2021 total employee coverage of 1.65 million is lower than the 1.78 million employees covered at 30 June 2021 and is lower than the 1.89 million employees at 30 September 2020. The AGD has advised that a check of the WAD expired agreements list since 1 January 2021 shows that the top 10 expired agreements covering virtually all of the 0.24 million fall in employee coverage over September 2020 to September 2021 are ones that have expired and not been replaced.

As shown in Chart 1, the number of current (not expired or terminated) agreements peaked in Q4 2010 after the introduction of the FW Act and commencement of the Fair Work system on 1 January 2010. Between Q2-2014 and Q2-2016, the number of agreements declined by 30.8% to 13,955 agreements and the number of employees covered by these agreements declined by 13.1% over the same period. The WAD data shows that the decline is skewed toward small and medium agreements (agreements covering from 0 to 99 employees).

As per the following chart employees covered by private sector agreements peaked in Q4 2010 with almost 2 million covered. The total number of private sector employees covered is 1.22 million, which is significant decline when compared to almost 1.5 million covered five years ago in 2016.

Chart 2: Current private sector agreements and employees covered by these agreements, 2006–2016



Equal remuneration

In previous AWR decisions, the Panel noted that a 'relatively high' proportion of women earn the NMW[28], that there continues to be more national modern award reliant women than men and it is more likely that national modern award reliant employees will be lower paid.[29]

Queensland notes the assessment in the 2018 AWR decision that, in the context of an AWR, the application of the principle of equal remuneration for work of equal or comparable value has 'limited relevance' and that to address 'systematic gender undervaluation of work' it would be more appropriate to make an application to vary a national modern award for 'work value reasons'.[30] However, Queensland agrees that 'the broader issue of gender pay equity, and in particular the gender pay gap, is relevant' to the AWR[31] and that as '[w]omen are disproportionately represented among the low paid…an increase in minimum wages is likely to promote gender pay equity'.[32]

On this basis Queensland reiterates the position it put forward in previous submissions to the AWR that '[g]iven the relationship between national modern award reliance and low pay, an increase in minimum wages is likely to positively impact on pay equity. While such an increase may only have a minimal impact on the gender pay gap, the Queensland position is that this remains a worthwhile pursuit.'[33]

[28] FWC Decision Annual Wage Review 2017–18 (C2018/1) para 267.
[29] FWC Decision Annual Wage Review 2017–18 (C2018/1) para 435.
[30] FWC Decision Annual Wage Review 2017–18 (C2018/1) para 417.
[31] Ibid.
[32] FWC Decision Annual Wage Review 2017–18 (C2018/1) para 436.
[33] Queensland Government submission to AWR 2017–18.

Conclusion

This submission has examined the background and context for the FWC AWR and the key economic and social factors that are relevant to the determination of the Panel.

Queensland is committed to economically responsible pay increases and the protection of low-paid workers within the national fair work jurisdiction. Queensland submits that a fair and reasonable pay increase to the value of the NMW and minimum national modern award rates of pay would meet these criteria and that the Expert Panel is best placed to take into account the many factors relevant to determining fair and reasonable increases, including the needs of the low paid, equal remuneration, and the deferred increases for certain cohorts over the last few years.

Queensland submits:

a) The Commonwealth Government's outlook for the national economy has strengthened since the MYEFO. The economic growth forecast for 2021–22 was upgraded from 3¾% at MYEFO to 4¼% at Budget, while growth in 2022–23 remained unchanged at 3½%. National employment is forecast to grow by 2¾% through the year to June quarter 2022 (up from 1% at MYEFO) and 1½% through the year to June quarter 2023 (revised down from 2%). The national unemployment rate is forecast to reach 4% in June quarter 2022 (revised down from 4½%), before falling further to 3¾% by June quarter 2023 (down from 4¼%);

b) in determining the level of increase, a broad range of indicators relevant to private sector employment should be considered. These include inflation, employment, wage growth, business profits and conditions, productivity growth, relative living standards, the needs of the low paid and the principle of equal remuneration for work of equal or comparable value within the national fair work jurisdiction;

c) there is little or no evidence to suggest that moderate increases in the NMW and national modern award wages have any significant dis-employment effects;

d) due to increased reliance upon the NMW and national modern award rates of pay it is incumbent on the Panel to set minimum wages that are fair and reasonable in the context of living standards generally;

e) raising the NMW and national modern award wages will help ensure gender pay equity is not adversely affected, particularly in light of previous increase deferrals for certain cohorts and due to the greater reliance of female workers on minimum and national modern award wage rates; and

f) consistent with the principles and considerations outlined in this submission and based on data available at the time of this submission, Queensland supports an increase to the NMW and minimum national modern award rates for all private sector workers that is fair and reasonable.