

Ai GROUP SUBMISSION

Fair Work Commission

**Annual Wage Review 2022-23
Post-budget Submission**

12 May 2023

The logo for Ai GROUP, featuring the letters 'Ai' in a stylized, bold font above the word 'GROUP' in a smaller, bold, sans-serif font. The logo is white and is positioned in the bottom left corner of a large, dark purple triangular graphic that points downwards from the top left of the page.

Ai
GROUP

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Abbreviations

2022 AWR	Annual Wage Review 2021 – 2022
2023 AWR	Annual Wage Review 2022 – 2023
ACTU	Australian Council of Trade Unions
Ai Group	Australian Industry Group
Australian Bureau of Statistics	ABS
AWR	Annual Wage Review
Budget	Federal Budget 2023-24
CPI	Consumer Price Index
GDP	Gross Domestic Product
NMW	National Minimum Wage
Panel	Expert Panel
Reply Submission	Ai Group’s reply submission in the 2023 AWR, dated 28 April 2023
RBA	Reserve Bank of Australia
WPI	Wage Price Indicator

1. Introduction

In this submission, Ai Group addresses several post-Budget economic matters and we advance a proposed quantum for increasing minimum wages.

Since we filed our Reply Submission, updated Australian economic data regarding retail turnover, household spending, and total wages has been published; as well as new national economic forecasts by the RBA in its *'Statement of Monetary Policy'* and the Treasury in the Budget.

This newly available data supports arguments previously made by Ai Group; that the Panel should take a cautious, responsible and balanced approach in the 2023 AWR. The determination of an appropriate increase must be moderated by sustained cost pressures felt by employers, anaemic profitability and productivity growth across a raft of industries, as well as the increasingly sober forecasts of low levels of economic growth and impending headwinds.

The Australian economy is demonstrably slowing, with key economic indicators continuing to decline. New forecasts issued by the RBA and Treasury predict that growth in GDP, household spending, business investment and employment will be considerably lower over the next two years. While new CPI forecasts predict inflation will fall slightly faster than previously expected, high inflation will remain persistent until at least the end of 2024. By contrast, forecasts for wages continue to show high nominal wage growth and predict a return to positive real wage growth in early 2024.

In line with these deteriorating economic circumstances, it remains critical for the Panel to adopt a cautious approach to adjusting minimum wages. An excessive increase would exceed business capacity to pay in a deteriorating economic environment, threatening disemployment effects. They would also fuel inflation and require additional monetary policy tightening by the RBA than would otherwise be the case. Lower employment, higher inflation and higher interest rates would have a particularly harsh impact on the low paid and women.

The impact of the significant cost of living relief that will be channeled to Australia's lower and low to middle income households in accordance with the recently released Budget should have a further moderating effect on the need to grant a comparatively high increase.

Ai Group proposes an increase to the NMW and modern award minimum wages of 3.8% for the 2023 - 2024 financial year. Such an increase is less likely to exceed business' capacity to pay in the deteriorating economic environment or threaten major disemployment effects than a larger increase, including the one proposed by the ACTU. The quantum proposed by Ai Group would strike a responsible balance between the various relevant considerations.

In advancing a 3.8% increase, we observe that employers will also need to provide employees a further 0.5 percentage point increase in employee superannuation contributions. We also urge the Panel to be particularly mindful of the cumulative impact of granting a significant increase following the substantial increases awarded in the 2022 AWR.

2. Post-Budget Economic Developments

Since the filing of reply submissions on 28 April, two new sets of forecasts for the Australian economy have been published. These include those issued by the RBA in its Statement of Monetary Policy of 5 May 2023¹, and those issued by the Treasury as part of the Budget on 9 May 2023².

2.1 New growth forecasts for the Australian economy

Charts 1 - 4 below summarise current Treasury and RBA macroeconomic forecasts for the Australian economic growth over the next two years. There are some minor differences between the two sets of forecasts, based on the differing methodologies used by the two agencies. Despite these differences, both paint a very consistent picture of how the Australian economy is expected to perform:

- (a) **Real GDP growth** is expected to slow rapidly. From a rate of 2.7% in the December quarter of 2022, it is forecast to fall to 1.5% across 2023 - 2024. It will then recover to the low-2s by mid-2025.
- (b) **Household consumption growth** is expected to slow from a rate of 3.7% p.a. in 2021 - 2022. Forecasts differ for the current financial year, with the RBA predicting a fall sooner than Treasury. Both forecasts converge at between 1.5% - 1.8% for 2023 - 2024, less than half the current rate.
- (c) **Business investment growth** will fall dramatically, from 6.1% in 2021 - 2022. Treasury expects the rate to halve to 3.0% this financial year, then fall to 2.5% in 2023 - 2024 and 2.0% in 2024 - 2025. The RBA's forecasts follow the same track as the Treasury, albeit at around 0.5 percentage points lower.
- (d) **Employment growth** will also stall from its current high levels. Both agencies expect it to fall to 2.5% growth in the current financial year, then decline to 1% across 2023 - 2024.

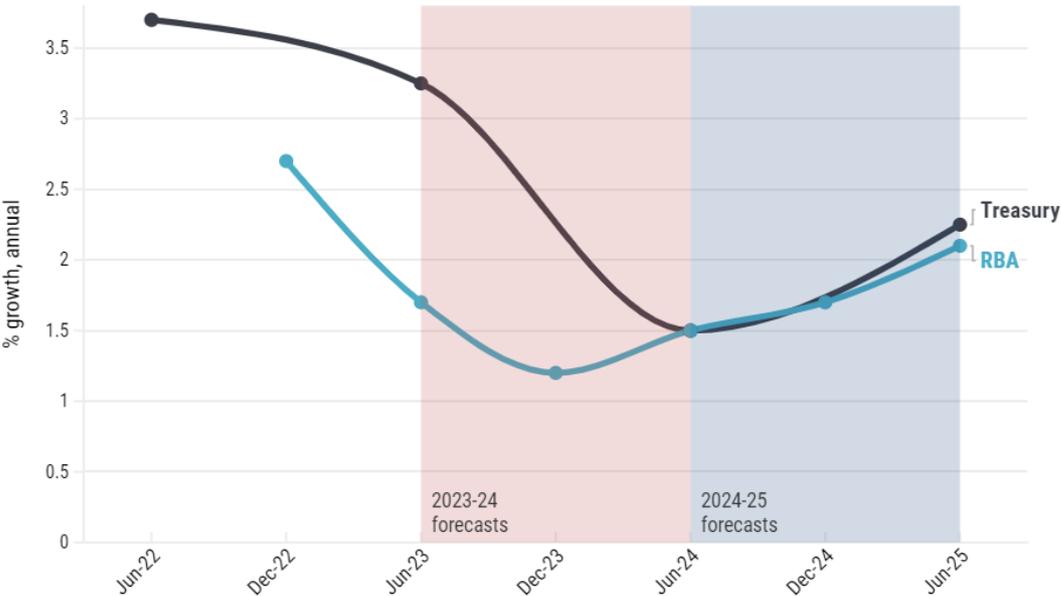
Despite minor differences in quantum and timing, both the RBA and Treasury forecast essentially the same overall outcome for the Australian economy over the coming cycle. The growth of GDP, household consumption, business investment and employment will all be at levels around half that experienced during the recent pandemic recovery phase.

These new forecasts are consistent with arguments made by Ai Group in previous submissions; that the Australian economy is slowing rapidly and the economic outlook is fragile.

¹ RBA, Statement on Monetary Policy May 2023, <https://www.rba.gov.au/publications/smp/2023/may/>.

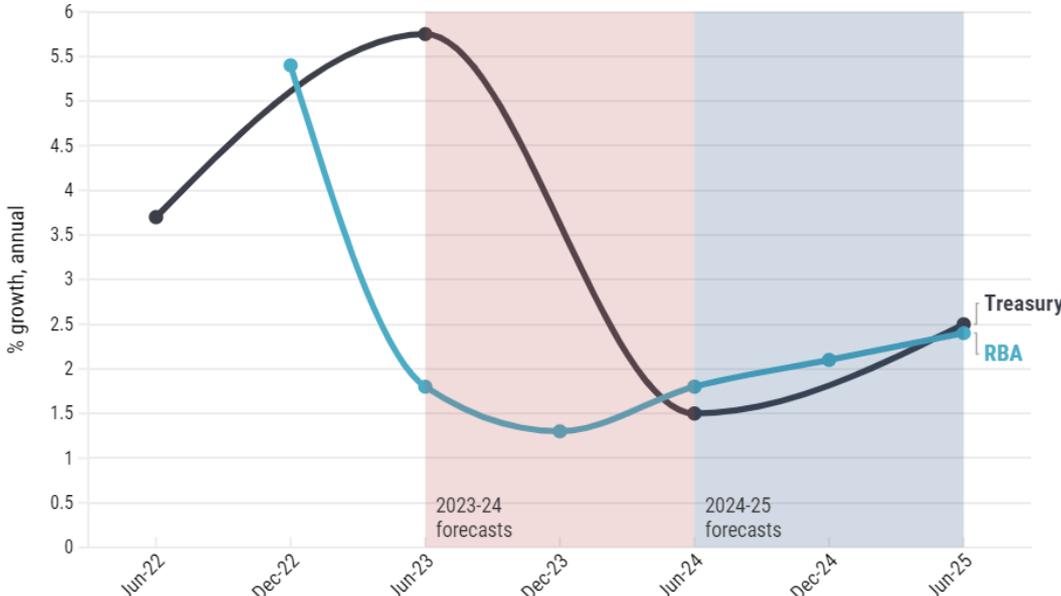
² Treasury, Budget 2023-24, Budget Paper No. 1, Table 2.2.

Chart 1: Australian real GDP growth forecasts



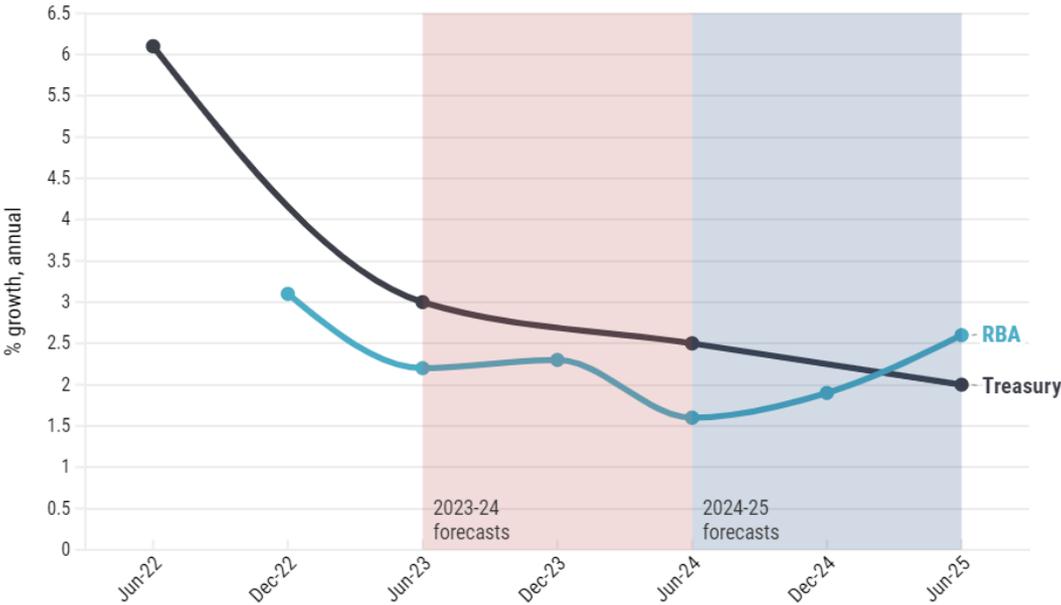
Source: RBA Statement on Monetary Policy, Treasury Budget Paper No. 1 2023-24

Chart 2: Australian household consumption growth forecasts



Source: RBA Statement on Monetary Policy, Treasury Budget Paper No. 1 2023-24

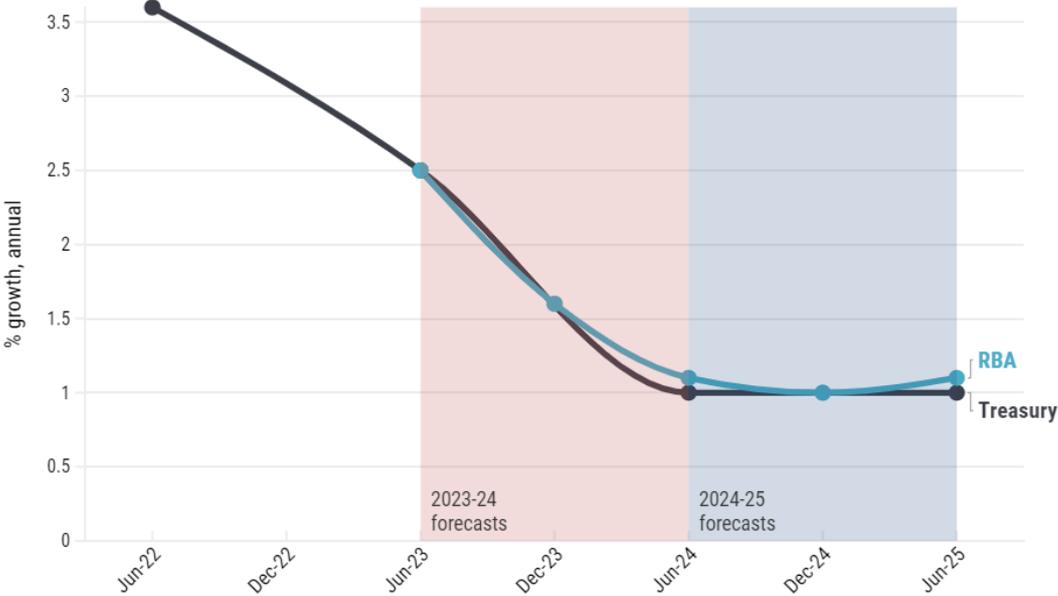
Chart 3: Australian business investment growth forecasts



Source: RBA Statement on Monetary Policy, Treasury Budget Paper No. 1 2023-24

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Chart 4: Australian employment growth forecasts



Source: RBA Statement on Monetary Policy, Treasury Budget Paper No. 1 2023-24

2.2 New inflation and wages forecasts

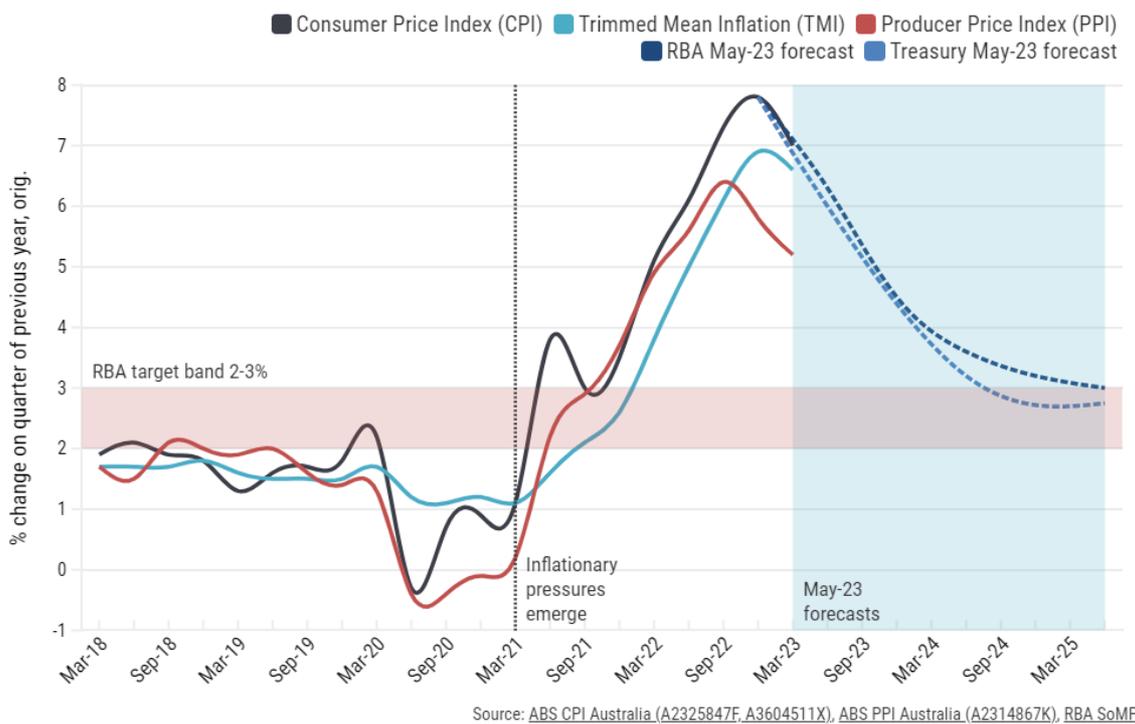
New CPI forecasts (Chart 5) also shed light on expected changes in inflation. Both the RBA and Treasury have lowered their forecasts for inflation, expecting it to progressively decline from its late-2022 peak back towards the target band of 2-3% somewhat faster than previously thought.

Their CPI forecasts follow a very similar track for the remainder of 2023 before then diverging; with Treasury expecting a faster fall in inflation during 2024 than the RBA. However, both agencies expect

CPI will be around the 4.5% level at the end of 2023, and even according to the more optimistic Treasury forecast, will not cross below 3.0% until late 2024.

These new inflation forecasts are consistent with arguments made by Ai Group in previous submissions that, despite the CPI measure peaking, inflationary pressures will remain persistent in Australia for some time to come.

Chart 5: Australian inflation and forecasts



New wages forecasts (Chart 6) also reveal expected dynamics for Australian nominal and real wages performance in coming years. The RBA and Treasury forecast very similar paths for the WPI, expecting it to rise from the current level of 3.4% to around 4.0% by the end of 2023, where it will remain throughout 2024. This will be the fastest nominal wage growth since 2009. Both the RBA³ and Treasury⁴ argue that this historically strong wages growth is due to the strength of recent labour market outcomes in Australia.

When WPI forecasts are read in conjunction with the inflation forecasts, both agencies now predict that real wages will return to positive growth in either the first or second quarter of 2024. Across the 2023 - 2024 financial year, the RBA forecasts imply 0.6% real wage growth, while Treasury forecasts imply 0.75% for the same period.

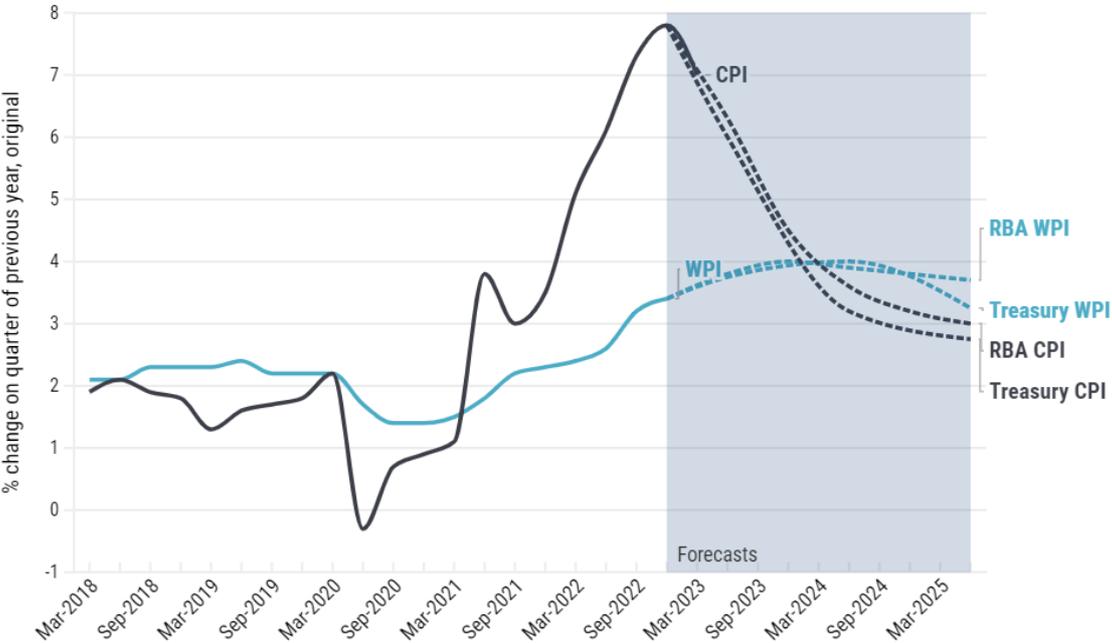
These new wages forecasts are consistent with arguments made by Ai Group in previous submissions that strong labour market performance is delivering strong nominal wage outcomes in Australia. It is also consistent with arguments made in our Reply Submission that falls in real wages

³ RBA, Statement on Monetary Policy May 2023, p. 75.

⁴ Treasury, Budget 2023-24, Budget Paper No. 1, pp. 71-72.

are primarily caused by high inflation, with consistent real wage growth a normal pattern during periods where inflation is moderate or low.

Chart 6: Australian WPI and CPI, actual and forecasts



ABS Wage Price Index (A2603611V), RBA SoMP May 2023, Treasury Budget Paper No. 1 2023-24

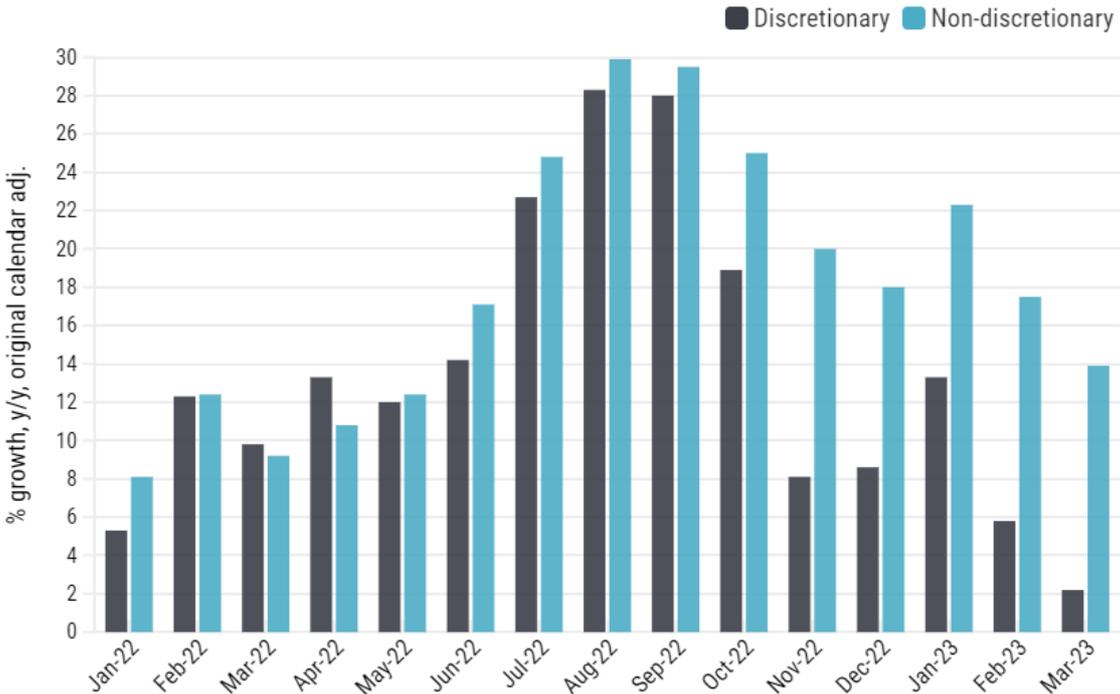
2.2 New economic indicator data

Several economic indicators released since reply submissions to the Panel shed light on some of the current weaknesses in the Australia economy.

Household Spending

Updated ABS household spending indicator data shows slowing growth in March, continuing a pattern observed in February (Chart 7). Household spending began falling in the third quarter of 2023 from the very high levels seen during the pandemic recovery phase in mid-2022. While growth in non-discretionary spending has softened, discretionary spending growth is falling much faster. This is an indicator of weakening spending behaviour, and will initially affect retail and services industries providing discretionary products.

Chart 7: Household spending indicator, Jan 2022 - Mar 2023

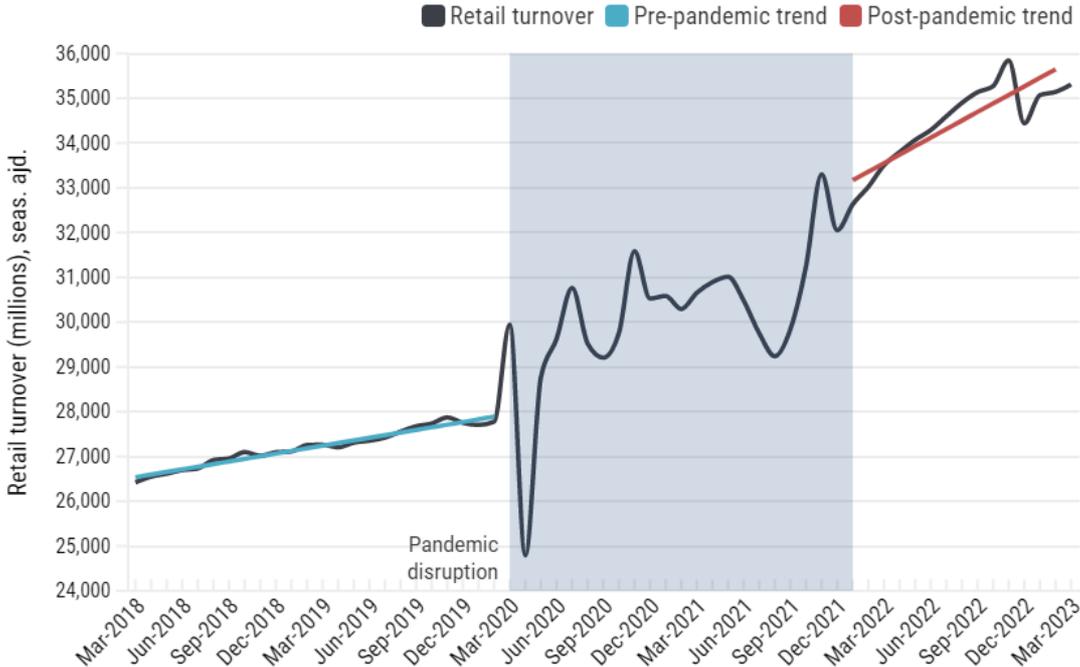


Source: [ABS Monthly Household Spending Indicator \(A129534880C, A129534864C\)](#)

Monthly retail turnover

The latest retail data shows retail turnover grew by a modest 0.4% in the month of March (Chart 8). This shows continued evidence of slowing from the post-pandemic trend of comparatively strong growth in retail turnover, and is a further indicator of moderating consumer spending.

Chart 8: Australian retail turnover, 2018 - 2023

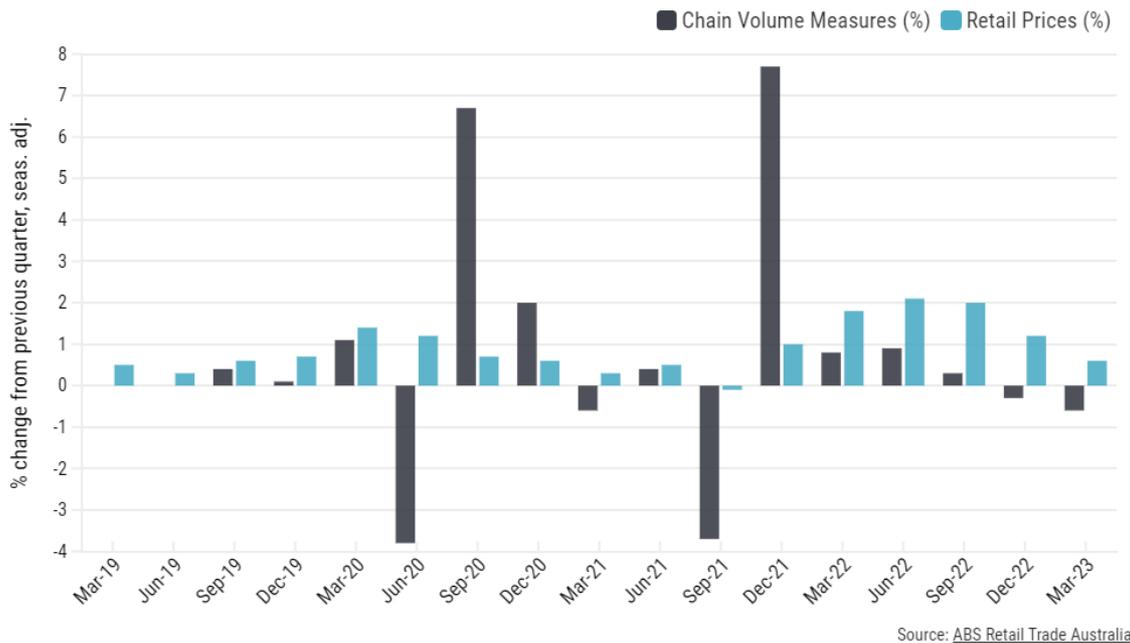


Source: [ABS Retail Trade Australia](#)

Quarterly retail turnover

Quarterly retail turnover data released on 9 May 2023 shows that retail sales volumes declined 0.6% in the March quarter of 2023. This is the second straight quarter of retail sales volume falls, and outside the COVID pandemic is the largest fall in retail sales volumes recorded since the September quarter of 2009. This is similarly an indicator of falling consumer spending.

Chart 9: Australian quarterly retail turnover, 2019-2023



Total wages

In the month to the week ending 15 April 2023, total wages paid in Australia fell by 0.9% (Table 1). Falls were recorded in all nineteen industries for the first time; with particularly large falls in award-reliant sectors such as accommodation and food (-2.2%), retail (-1.2%), administrative and support (-2.1%). This fall in total wages continues the trajectory of the previous month and is an indicator of falling employer demand for labour.

Table 1: Total wages paid, percent change in specified month

	Month to 13- Aug-22	Month to 17- Sep-22	Month to 15- Oct-22	Month to 12- Nov-22	Month to 11- Feb-23	Month to 11- Mar-23	Month to 15 Apr-22
Agriculture, forestry and fishing	-3.5	0.9	1.0	-0.6	-3.5	-1.0	-1.3
Mining	-0.3	-0.3	0.0	0.4	10.2	1.3	-0.4
Manufacturing	-1.2	-0.2	-0.7	-0.5	6.3	1.1	-0.7
Electricity, gas, water and waste services	-1.1	-0.4	-0.8	-0.6	3.9	-0.6	0.4
Construction	-2.9	-0.5	0.9	-0.8	5.6	-4.5	-1.8
Wholesale trade	-1.2	-0.1	-0.8	0.6	5.5	-0.9	-0.5
Retail trade	-0.7	1.4	0.9	2.3	-1.6	-4.0	-1.2
Accommodation and food services	-1.5	-0.1	-1.9	0.4	-2.5	-2.0	-2.2
Transport, postal and warehousing	-0.3	-1.0	-0.9	0.7	6.5	-4.8	-1.4
Information media and telecommunications	-2.0	-0.3	-0.7	-0.1	7.4	-6.8	-0.8
Financial and insurance services	-0.5	-0.5	0.3	-0.9	5.5	-7.1	-0.4
Rental, hiring and real estate services	-1.5	-0.2	-0.5	0.2	2.2	-6.7	-1.3
Professional, scientific and technical services	-1.4	1.1	-0.3	-0.1	3.2	-3.2	-0.2
Administrative and support services	-0.5	-0.2	-0.6	2.3	8.3	-2.9	-2.1
Public administration and safety	-0.3	0.7	0.0	0.6	-1.4	0.7	-0.8
Education and training	2.3	2.0	-1.6	3.5	8.4	3.2	-0.5
Health care and social assistance	-0.4	0.1	0.2	-0.1	-1.8	0.1	-0.2
Arts and recreation services	-0.2	-1.3	-0.2	0.5	1.9	-0.9	-1.9
Other services	-3.1	0.3	-0.9	-0.3	0.9	-2.7	-0.8
All industries	-0.8	0.3	-0.3	0.7	3.3	-1.8	-0.9

Source: ABS Weekly Payroll Jobs and Wages in Australia, week ending 15 April 2023

3. The Relative Living Standards & Needs of the Low Paid

The centrepiece of the Budget is the cost-of-living relief channelled to Australia's lower and low to middle income households. The Budget measures include:

- (a) Help with power bills through the provision of energy bill relief to of up to \$500 for around 5 million eligible households;
- (b) Targeted reduction in out-of-pocket health costs through reducing the costs of medicines and additional bulk billing, including additional Urgent Care Clinics;
- (c) Expanding eligibility for the Parenting Payment for 57,000 single parents, including those who work part-time and remain eligible for the Parenting Payment;
- (d) Increasing the base rate of JobSeeker for 1.1 million people (many of whom work part-time and remain eligible for JobSeeker); and
- (e) Substantially increasing rent assistance for 1.1 million households.

The benefits of these measures will fall most heavily on low-income households. These include the many households in which one or more members are among Australia's lowest paid employees.

These measures will materially improve the ability of these households to meet their needs. Because the measures are targeted at low-income households, they will have a disproportionate impact on improving the relative living standards of Australia's lowest income households.

The announcement of the above measures is relevant to these proceedings and should be taken into account by the Panel. Further, the Panel has the opportunity to leverage the cost of living relief measures by awarding a lower increase in minimum wages than it otherwise would. This would improve the outlook for people seeking work or seeking more hours of work, by reducing the risk of adverse disemployment impacts that would flow from a large increase in minimum wages.

4. Improving Social Inclusion

With the slowing of the economy set to continue through 2023 - 2024, employment growth is also set to slow; the rate of unemployment is expected to rise; and the participation rate is expected to fall. Alongside these expectations, it is reasonable to expect that the rate of underemployment will also rise. The number of people left without the opportunity to participate in paid work is set to rise in 2023 - 2024.

This outlook is anything but favourable for the objective of advancing social inclusion through participation in the paid workforce. Against this background of a weakening labour market, there is clearly a heightened risk of disemployment impacts stemming from a large increase in minimum wages. The Panel should instead decide on a lower wage increase (such as that which has been proposed by Ai Group) to avoid the risk of worsening the softening in the labour market.



ABOUT THE AUSTRALIAN INDUSTRY GROUP

The Australian Industry Group (Ai Group®) is a peak employer organisation representing traditional, innovative and emerging industry sectors. We are a truly national organisation which has been supporting businesses across Australia for nearly 150 years.

Ai Group is genuinely representative of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, the defence industry, civil airlines and ICT.

Our vision is for thriving industries and a prosperous community. We offer our membership strong advocacy and an effective voice at all levels of government underpinned by our respected position of policy leadership and political non-partisanship.

With more than 250 staff and networks of relationships that extend beyond borders (domestic and international) we have the resources and the expertise to meet the changing needs of our membership. We provide the practical information, advice and assistance businesses need. Our deep experience of industrial relations and workplace law positions Ai Group as Australia's leading industrial advocate.

We listen and we support our members in facing their challenges by remaining at the cutting edge of policy debate and legislative change. We provide solution-driven advice to address business opportunities and risks.

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