



# **Fair Work Commission**

## **2022-23 Annual Wage Review**

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### **Submission of the Government of Western Australia**

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**31 March 2023**

# Introduction

1. The Western Australian Government welcomes the opportunity to make a submission to the Expert Panel of the Fair Work Commission (**the Panel**) for the 2022-23 Annual Wage Review (**AWR**).
2. The AWR process is an integral component of the minimum and award wage framework protecting Australian workers. It enables low and middle wage earners to achieve and maintain a reasonable standard of living, and helps to foster a level of fairness and dignity in Australian workplaces.
3. The Panel is tasked under the minimum wages objective in section 284 of the *Fair Work Act 2009* with balancing a diverse range of statutory criteria to establish and maintain a safety net of fair minimum wages. These criteria are:
  - the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and
  - the need to achieve gender equality, including by ensuring equal remuneration for work of equal or comparable value, eliminating gender-based undervaluation of work and addressing gender pay gaps; and
  - promoting social inclusion through increased workforce participation; and
  - relative living standards and the needs of the low paid; and
  - providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.
4. In adjusting rates of pay in awards, the Panel is also required to have regard to the modern awards objective, which requires that it ensure that modern awards, together with the National Employment Standards, provide a fair and relevant minimum safety net of terms and conditions.<sup>1</sup> Further, the Panel must take into account the objects of the *Fair Work Act* in performing its functions or exercising its powers, including in the AWR.<sup>2</sup>
5. The Western Australian Government notes this is the first year that the AWR is being conducted since the commencement of provisions in the *Fair Work Legislation Amendment (Secure Jobs Better Pay) Act 2022* that amended the objects of the Act and the modern awards objective to include reference to promoting job security and gender equality, and to embed gender equity considerations in the objectives underpinning minimum and award wages.
6. This submission canvasses a variety of economic, social and fairness considerations of relevance to the Panel's deliberations, with a particular focus on those issues affecting Western Australian employers and employees.

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<sup>1</sup> Section 134 of the *Fair Work Act 2009*.

<sup>2</sup> Section 578(a) of the *Fair Work Act 2009*.

## Overview

7. The Western Australian Government encourages the Panel to award a fair and meaningful increase to wages in this year's AWR, taking into account the diversity of the underlying criteria for minimum wage setting, including new objectives of the *Fair Work Act* concerning job security and gender equality.
8. In 2022 the Panel awarded an increase in the National Minimum Wage (**NMW**) of \$40, or 5.2 per cent, to protect the real value of wages of the lowest paid workers. Modern award wages were increased by 4.6 per cent, subject to a minimum increase for adult award classifications of \$40 per week. In practical terms, wage rates above \$869.60 per week received a 4.6 per cent adjustment and wage rates below \$869.60 were adjusted by \$40.
9. The increases determined in 2022 took effect for the majority of awards from the first pay period on or after 1 July 2022, with a deferred implementation for 10 awards in aviation, tourism and hospitality - sectors that had been particularly affected by the ongoing impact of the COVID-19 pandemic.
10. In the lead up to this year's AWR, the Australian community continues to be impacted by a variety of global and domestic challenges, including significant cost of living increases, rising interest rates, high fuel prices, flooding in northern Western Australia and on the East Coast, and the ongoing war in the Ukraine.
11. The Western Australian Government notes that headline inflation in Australia is at its highest level in over 30 years, although there are signs that inflation may have now peaked. Underlying inflation (as measured by the trimmed mean and weighted median) is also at the highest level in many years, highlighting that there have been strong underlying price pressures.
12. High inflation is an impost on businesses and households alike. Individuals face cost of living pressures as the price of goods and services (particularly non-discretionary items) eats into household budgets. On the other hand, local businesses can face higher input costs, which can lead to cash flow challenges (particularly for small and medium sized businesses).
13. The rapid and broad-based rise in inflation has been caused by several factors, including:
  - the accommodative monetary and fiscal policies during the pandemic;
  - supply chain disruptions that occurred due to lockdowns; and
  - Russia's invasion of Ukraine, which has driven up the cost of energy and food globally.
14. It is important to note that elevated levels of inflation in Australia have not been driven by high wages growth, as wage rises have remained largely subdued in the current environment. Most workers have experienced a real wage decline over the last 12 months, eroding their savings and purchasing power.

15. As the OECD recently observed:

The risk of a wage-price inflationary spiral is lower than in the past. Key structural changes in the labour markets in recent decades – namely, the removal of wage indexation and an increase in employer market power – now mean less upward pressure on wages, despite tight labour markets. However, this has left lower-income groups more exposed to declines in real incomes.<sup>3</sup>

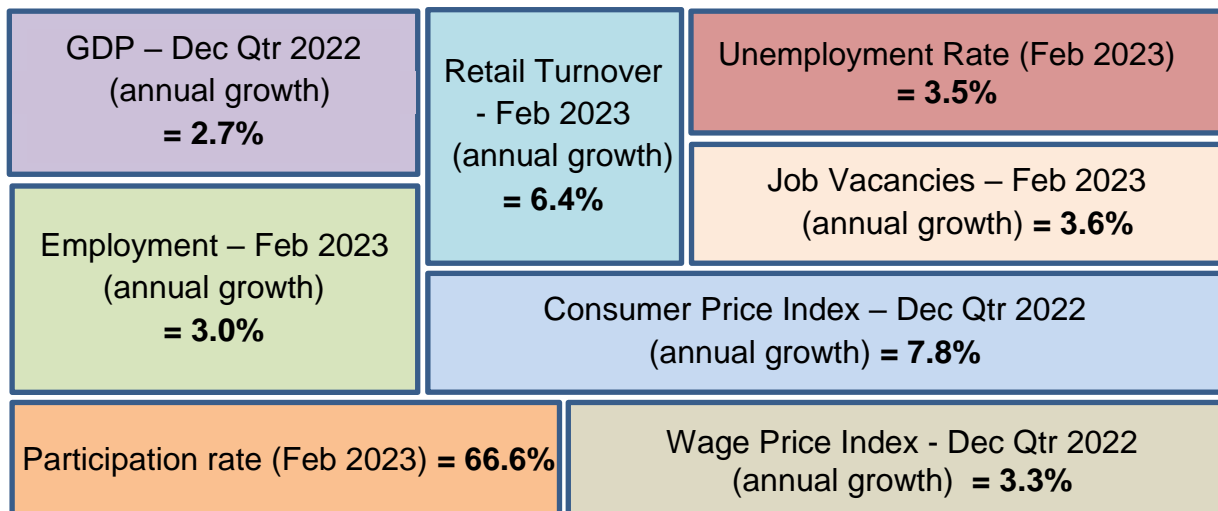
16. To control inflation, the Reserve Bank of Australia (**RBA**) has been increasing interest rates. Although necessary to control inflation, higher rates put further pressure on households and businesses in the short term. As the RBA noted in its media release following the March 2023 board meeting:

The Board recognises that monetary policy operates with a lag and that the full effect of the cumulative increase in interest rates is yet to be felt in mortgage payments. There is uncertainty around the timing and extent of the slowdown in household spending. Some households have substantial savings buffers, but others are experiencing a painful squeeze on their budgets due to higher interest rates and the increase in the cost of living.<sup>4</sup>

17. While the current spike in inflation has garnered much attention, Australia continues to experience tight labour market conditions, with labour and skills shortages affecting many industries. Unemployment remains at around the lowest levels in 50 years, with limited spare capacity in the labour market affecting many businesses.

18. The Western Australian Government encourages the Panel to award a fair and meaningful increase to minimum and award wages as part of this year’s AWR, balancing economic, social and fairness objectives in a manner that protects Australia’s lowest paid workers, whilst taking account of the impact on industry and business.

**Figure 1: Australia’s economic performance at a glance<sup>5</sup>**



<sup>3</sup> OECD (2022) Employment Outlook 2022. Available at: [www.oecd.org/employment-outlook/2022/#labour-markets](http://www.oecd.org/employment-outlook/2022/#labour-markets)

<sup>4</sup> RBA (2023), Media Statement, 7 March 2023. Available at: [www.rba.gov.au/media-releases/2023/mr-23-07.html](http://www.rba.gov.au/media-releases/2023/mr-23-07.html)

<sup>5</sup> Figures are current as at 30 March 2023. All data is seasonally adjusted, except for the CPI. Wage Price index data refers to total hourly rates of pay excluding bonuses (public and private sector).

## Western Australian economy

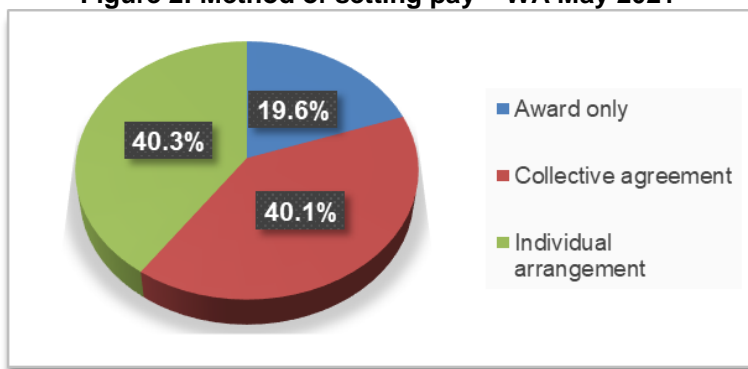
19. While the *Fair Work Act* requires the Panel to consider the state of the national economy in its AWR deliberations, it is relevant to consider prevailing conditions in individual States and Territories as part of these proceedings. This section provides an overview of key trends and indices for the Western Australian economy.
20. Western Australia has a highly trade exposed economy and is acutely impacted by global economic conditions, particularly those affecting key trading partners. The global economy has slowed in recent months, although it has been more resilient than previously expected, which has reduced the risk of a global recession.
21. Notwithstanding the rapid pace of monetary policy tightening in Australia, Western Australia's domestic economy continues to perform well. State Final Demand is forecast to grow by 4.5 per cent in 2022-23 (following growth of 5.6 per cent in 2021-22), underpinned by strong household consumption and rebounding business investment.
22. Growth in the Western Australian economy is expected to moderate to just 1.0 per cent in 2023-24. This primarily reflects the lagged impact of higher interest rates on household spending, which is expected to grow at its slowest pace since the pandemic, and a moderation in the pace of growth in Government consumption and investment by both the Commonwealth and the State as COVID-related spending is withdrawn.
23. The moderation in growth also reflects weak merchandise export growth in the context of softer global conditions and large producers operating at close to capacity, and a return to a more normal level of spending by Western Australians overseas.
24. Job vacancies remain elevated, but have eased slightly from a historic peak in June 2022. Reflecting a slower hiring pace in recent months, employment is forecast to grow by 1.75 per cent in 2022-23, with growth primarily supported by continued strong activity in the resources sector. This builds on the 5.7 per cent employment growth in 2021-22, the strongest annual growth since 1985-86.
25. The unemployment rate for Western Australia is forecast to average 3.5 per cent in 2022-23, before gradually rising thereafter as labour supply improves on the back of rising overseas migration.
26. Strong job prospects are buoying the participation rate, which averaged 69.4 per cent in 2021-22, the strongest annual rate on record, with female participation reaching a record high. Workforce participation has eased slightly since, but is still expected to average a very high 69.1 per cent in 2022-23.
27. A more in-depth analysis of Western Australia's economic performance is detailed in **Attachment A**. It should be noted the forecasts contained in Attachment A are from the 2022-23 Mid-year Financial Projects Statement which was finalised in December 2022. Updated forecasts will be published in the 2023-24 State Budget in May 2023.

# Employees impacted by the Annual Wage Review

## Employees paid in accordance with awards

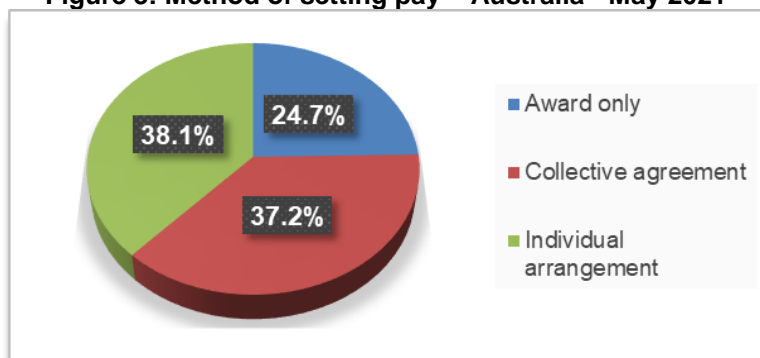
28. Award-reliant workers are particularly dependent on pay increases determined by the FWC to meet their everyday living costs. The AWR plays a critical role in sustaining the financial wellbeing of many Australian workers, particularly those in lower paid classifications where rates of pay may be only marginally higher than the NMW.
29. The Western Australian Government notes there has been an increase in award-reliance in recent years. As indicated in Figure 2 below, in Western Australia, 19.6 per cent of all non-managerial employees (234,200 employees) were paid solely in accordance with an award in 2021.<sup>6</sup> While this represents a significant increase in award reliance between 2018 and 2021, in Western Australia award reliance remains below the national average.

Figure 2: Method of setting pay – WA May 2021<sup>7</sup>



30. Some 2.66 million Australian employees were paid solely in accordance with an award in May 2021, representing 24.7 per cent of all non-managerial employees as indicated by Figure 3 below.<sup>8</sup> The vast majority of award only employees are in the national industrial relations system, with a smaller cohort subject to state awards, including some private sector employees in Western Australia.

Figure 3: Method of setting pay – Australia - May 2021<sup>9</sup>



<sup>6</sup> ABS (2022), *Employee Earnings and Hours, Australia, May 2021*, Catalogue 6306.0.

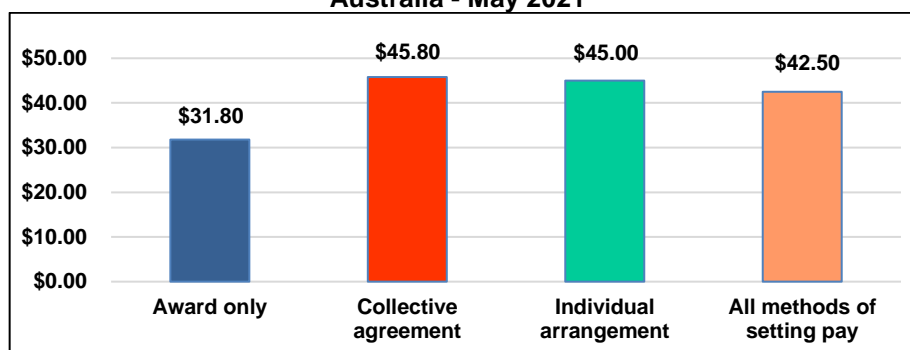
<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

31. The latest available data from 2021 indicates that award only employees earn significantly less on average than employees working under other pay setting arrangements, reinforcing the important role the AWR plays in protecting Australia's most vulnerable workers.

**Figure 4 - Average hourly cash earnings by method of setting pay - Australia - May 2021<sup>10</sup>**



32. As Table 1 below illustrates, over 36 per cent of all Western Australian employees work in the five most award-reliant industries, and there is a particularly high level of award reliance in three of Australia's largest employing industries, Health Care and Social Assistance, Retail Trade and Accommodation and Food Services.

**Table 1: Employment and award reliance by industry - WA and Australia, February 2023**

Industry	WA: Proportion of Workforce <sup>11</sup>	Australia: Proportion of Workforce <sup>11</sup>	Australia: Proportion of employees paid by award <sup>12</sup>
Accommodation and Food Services	6.9%	6.8%	63.0%
Administrative and Support Services	3.2%	3.1%	44.9%
Other Services	4.6%	3.8%	42.1%
Health Care and Social Assistance	13.8%	15.3%	34.3%
Retail Trade	7.9%	9.9%	30.8%
Arts and Recreation Services	1.6%	1.8%	28.3%
Rental, Hiring and Real Estate Services	1.7%	1.6%	25.3%
Manufacturing	6.3%	6.3%	21.1%
Construction	9.4%	9.5%	15.8%
Transport, Postal and Warehousing	5.0%	5.0%	14.0%
Public Administration and Safety	5.4%	6.4%	13.5%
Wholesale Trade	3.2%	2.5%	11.1%
Information Media and Telecommunications	0.8%	1.4%	8.0%
Education and Training	7.7%	8.2%	8.0%
Professional, Scientific and Technical Services	7.9%	9.1%	6.6%
Electricity, Gas, Water and Waste Services	0.9%	1.2%	6.1%
Financial and Insurance Services	2.2%	3.8%	5.5%
Mining	9.6%	2.0%	1.1%
Agriculture, Forestry and Fishing	1.9%	2.2%	N/A <sup>†</sup>
<b>All industries</b>	<b>100.0%</b>	<b>100.0%</b>	<b>24.7%</b>

<sup>†</sup> N/A: Enterprises primarily engaged in agriculture, forestry and fishing are outside the scope of the ABS *Employee, Earnings and Hours* survey from which this data is drawn.

<sup>10</sup> Ibid.

<sup>11</sup> ABS (2023), *Labour Force, Australia, Detailed, February 2023*, Catalogue 6291.0.55.001 (original data).

<sup>12</sup> ABS (2022), *Employee Earnings and Hours, Australia, May 2021*, Catalogue 6306.0. References are to non-managerial employees.



## Employees paid under enterprise agreements

33. The national award system has a critical role in underpinning the enterprise bargaining framework. Modern awards establish the benchmark for agreement registration through the Better Off Overall Test (**BOOT**), as well as setting a floor through which wages cannot fall below during the life of an agreement.<sup>13</sup>
34. Base pay rates in modern awards also underpin ‘zombie’ agreements, most of which are now subject to sunset provisions pursuant to legislative reforms recently implemented by the *Fair Work Legislation Amendment (Secure Jobs, Better Pay) Act 2022*.
35. The Western Australian Government notes there are currently more than 100,000 zombie agreements still operating in Australia, and many employees covered by these agreements will therefore be impacted by the Panel’s decision in this year’s AWR, when the base rates of pay in modern awards are adjusted. Most zombie agreements will not cease to operate until December 2023.
36. The impact of this year’s AWR Decision will therefore extend to many employees subject to enterprise agreements, including zombie agreements, either indirectly through the BOOT and the establishment of the floor for base wages, or more directly where federal enterprise agreements peg future pay rises to award wage increases in the AWR.
37. The number and proportion of employees working under enterprise agreements in the national industrial relations system has been declining in recent years – an issue that has been widely canvassed.
38. In Western Australia there has also been a decline in federal enterprise agreement usage, with the number of current agreements falling from 1,054 to 886 in the three years to September 2022, and the number of employees covered by these agreements declining from 113,700 to 88,000 over the same period.<sup>14</sup>
39. Wages growth in federal enterprise agreements applying within Western Australia remains fairly subdued, with the Average Annualised Wage Increase (**AAWI**) in all current agreements sitting at 2.1 per cent in the September quarter 2022.<sup>15</sup> This is a slight increase on previous quarters, with the AAWI for current agreements in Western Australia hovering between 1.9 per cent and 2.1 per cent in the three years to September 2022.<sup>16</sup>

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<sup>13</sup> Pursuant to section 206 of the *Fair Work Act* base wages in enterprise agreements cannot fall below the base rates of pay in any national modern award that is applicable to the employee.

<sup>14</sup> Department of Employment and Workplace Relations (2022), *Trends in Federal Enterprise Bargaining Report*, September Quarter 2022.

<sup>15</sup> Ibid. This figure excludes Western Australian employees working under multi-state agreements.

<sup>16</sup> Ibid.



40. However, there are signs that wages growth in federal enterprise agreements is starting to pick up in Western Australia, with agreements registered in the September quarter 2022 paying an AAWI of 2.8 per cent.<sup>17</sup> This is consistent with a broader increase in the Western Australian Wage Price Index (WPI), which increased by 3.6 per cent in the year to December 2022 – the highest rate in almost 10 years.<sup>18</sup>
41. While there has been declining usage of federal enterprise agreements in recent years, the Western Australian Government notes that recent legislative amendments to the *Fair Work Act* are specifically designed to foster an increased uptake of collective bargaining in Australian workplaces, as well as to stimulate higher wages growth over time. Further data concerning the impact this legislation has on collective bargaining trends will be relevant for future AWR proceedings.

### Employees covered by individual arrangements

42. While employees working under individual arrangements providing for above award rates of pay are not directly impacted by the National Minimum Wage Order, it is not uncommon for such employees, particularly those paid wage rates only slightly above the relevant award minimum, to have contracts of employment linking wage increases to changes in the NMW or modern award wages.
43. As noted in Figures 2 and 3 above, in May 2021, 40.3 per cent of employees in Western Australia and 38.1 percent of employees nationally were employed under individual arrangements.
44. As such, the impact of the AWR decision on increases in the NMW or modern award wages may extend indirectly to the broader group of employees who are employed under individual arrangement which provide over-award rates of pay.

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<sup>17</sup> Ibid.

<sup>18</sup> ABS (2023), *Wage Price Index, Australia, December 2022*, Catalogue 6345.0. Data represents total hourly rates of pay excluding bonuses, public and private sectors combined.

## Further considerations

### Promoting social inclusion through increased workforce participation

45. The minimum wages objective in the *Fair Work Act* requires the Panel to take into account the concept of promoting social inclusion through increased workforce participation as part of the safety net of fair minimum wages.<sup>19</sup>
46. The national participation rate presently remains strong, sitting at 66.6 per cent in February 2023, after falling to a low of 62.6 per cent in May 2020.<sup>20</sup> Increased workforce participation can have significant benefits for the economy and the broader community, as well as for households. Paid employment can lift household disposable income, strengthen financial security and wellbeing and enable greater social and community inclusion for workers and their families.
47. Increased workforce participation is also important in combatting acute labour and skills shortages - an issue currently affecting many sectors in Australia. It enables businesses to continue trading during periods of peak demand, bolstering domestic spending and economic activity.
48. While there are a variety of factors that influence workforce participation, increases to minimum and award wages can assist in encouraging people into the labour force, particularly amongst cohorts that have traditionally been disadvantaged such as older workers, youth and people with a disability.
49. Many individuals with a marginal attachment to the labour market will informally assess the costs and benefits of entering the workforce, including the potential withdrawal of government benefits. In this regard, the Western Australian Government notes recent temporary changes implemented by the Commonwealth that will allow eligible pensioners to earn up to an additional \$4,000 per annum from paid employment without it impacting their payments.
50. The Panel can support social inclusion through increased workforce participation by delivering a fair and meaningful increase to minimum and award wages that enables paid employment to remain an attractive option for prospective workers.

### Collective bargaining

51. Collective bargaining remains an essential component of the wage setting framework for Australian workers. The need to encourage collective bargaining is recognised as a relevant consideration for the AWR process. In the 2021-22 AWR decision the Panel noted that:

In making the NMW order, the Panel must give effect to the minimum wages objective. While the minimum wages objective does not refer to 'the need to encourage collective bargaining', one of the objects of the Act is to encourage collective bargaining and, on that basis, it is appropriate to consider that legislative purpose in making the NMW order.<sup>21</sup>

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<sup>19</sup> Section 284(1)(b) of the *Fair Work Act*.

<sup>20</sup> ABS (2023), *Labour Force, Australia, February 2023*, Catalogue 6202.0 (seasonally adjusted data).

<sup>21</sup> Fair Work Commission (2022), *Annual Wage Review 2021-22*, at [80].

52. The willingness of employers and employees to engage in collective bargaining is driven by a range of factors, many of which are unrelated to wages. In this regard, the Western Australian Government notes that recent legislative amendments to the *Fair Work Act* are specifically designed to foster an increased uptake of enterprise bargaining in Australian workplaces, particularly in lower-paid and traditionally feminised industries.
53. There is little evidence to suggest that increases in the NMW and award wages in recent years has impacted on collective agreement making, and the Panel should have confidence that a fair and meaningful increase in minimum rates of pay will not have any material impact on this.

## Equal remuneration

54. The Western Australian Government notes recent legislative changes to the *Fair Work Act* have created a stronger imperative for the Panel to consider gender equality issues in minimum wage setting forums. Specifically, the changes have amended the objectives of the *Fair Work Act* to embed gender equality into the legislative framework and have established new provisions for equal remuneration applications.
55. In relation to the minimum wages objective, the gender equity considerations have been amended and the FWC is now required to take into account “the need to achieve gender equity, including by ensuring equal remuneration for work of equal or comparable value, eliminating gender-based undervaluation of work and addressing gender pay gaps”.<sup>22</sup>
56. Initiatives to achieve equal remuneration for work of equal or comparable value and to eliminate gender based undervaluation of work are generally progressed outside of the AWR process, including through equal pay claims and award applications. However, the Panel’s decision in the AWR can have a positive, albeit limited, impact on the gender pay gap, particularly as women are more likely to be paid under awards. As noted by the Panel in last year’s decision:

... we accept that moderate increases in the NMW and modern award minimum wages would be likely to have a relatively small, but nonetheless beneficial, effect on the gender pay gap.<sup>23</sup>
57. While the causes of gender inequality are complex, the ongoing gender pay gap and the impact it has on working women and their families remains a critical issue for minimum wage setting.
58. As indicated below in Table 2, as at November 2022, the gender pay gap (as measured by Average Weekly Ordinary Time Earnings (**AWOTE**)) was 22.1 per cent in Western Australia and 13.3 per cent nationally.<sup>24</sup>
59. Western Australia’s gender pay gap has increased over the last 12 months and remains higher than that in other jurisdictions, in part due a concentration of men in certain highly paid industries.

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<sup>22</sup> Section 284(1)(aa) of the *Fair Work Act*.

<sup>23</sup> Fair Work Commission (2022), *Annual Wage Review 2021-22*, at [86].

<sup>24</sup> ABS (2023), *Average Weekly Earnings, Australia, November 2022*, Catalogue 6302.0 (seasonally adjusted data).

**Table 2: Gender Pay Gap – by State / Territory – November 2022<sup>25</sup>**

State / Territory	Male AWOTE	Female AWOTE	Gender Pay Gap
NSW	\$1,894.30	\$1,686.10	11.0%
VIC	\$1,894.00	\$1,640.10	13.4%
QLD	\$1,862.50	\$1,590.00	14.6%
SA	\$1,702.00	\$1,569.70	7.8%
WA	\$2,162.80	\$1,684.70	22.1%
TAS	\$1,621.90	\$1,525.10	6.0%
NT	\$1,868.20	\$1,602.70	14.2%
ACT	\$2,114.50	\$1,903.00	10.0%
AUS	\$1,907.10	\$1,653.60	13.3%

60. There are many complex and inter-related factors that create and sustain the gender pay gap and wage related gender inequality for women across their working lives and into retirement. While it is only one element, a fair and meaningful increase to minimum rates of pay can help to further gender equality in Australian workplaces, particularly for lower paid women who are at greater risk of financial disadvantage and poverty.

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<sup>25</sup> ABS (2023), *Average Weekly Earnings, Australia, November 2022*, Catalogue 6302.0 (seasonally adjusted data).

## Conclusion

61. As part of the AWR deliberations each year, the Panel is required to consider a broad range of disparate criteria relevant to the underlying framework governing minimum wage setting in Australia.
62. This year's AWR proceedings are taking place in a dynamic and somewhat volatile economic climate, with elevated cost pressures affecting businesses and households, and labour and skills shortages underpinning tight labour market conditions. A large volume of key data is still to be released in coming months, much of which will be relevant to the Panel's deliberations.
63. The Western Australian Government encourages the Panel to award a fair and meaningful increase to the NMW and modern award wages in the 2022-23 AWR, as part of a holistic assessment of the economic, social and fairness objectives prescribed in the *Fair Work Act*.
64. Growth and productivity aspirations need to be balanced against the requirements to protect the living standards of the low paid and to ensure fair minimum standards of work. The Panel is best placed to make such an assessment.
65. The Western Australian Government thanks the Panel for the opportunity to make a submission to this year's AWR.

## **ATTACHMENT A**

# **State Economic Conditions**

The economic outlook presented in this attachment is based on the 2022-23 Government Mid-year Financial Projections Statement (Mid-year Review) published on 15 December 2022.

## **SUMMARY**

The 2022-23 Mid-year Review forecasts Western Australian (WA) economic growth to slow to 1% in 2023-24 after growing by 3% in 2022-23.

Recent data indicate that rising interest rates are starting to weigh on domestic activity in the State, with household discretionary spending losing steam (outside of the recovery in travel). Household spending is likely to be under further pressure over 2023 with the RBA indicating it will increase rates further in the coming months, and as mortgage repayments rise, particularly for a significant share of fixed rate loans that are due to expire. The Mid-year Review forecast is for household consumption to grow by 2.5% in 2022-23, down from 5.6% in 2021-22.

After operating at capacity through the COVID-19 recovery period (with very strong employment growth, a record low unemployment rate and an all-time high participation rate), conditions in Western Australia's labour market have begun to stabilise.

Demand for labour remains strong, as indicated by high levels of job vacancies and worker shortages across many sectors. However, there are signs that recent very tight labour market conditions may be starting to ease, with slower employment growth and unemployment beginning to creep up, though it remains historically low, with the unemployment rate likely to average 3.5% in 2022-23, which would be the lowest financial year outcome in 15 years. High rates of workforce participation seen during 2021-22 have also begun to moderate.

The State's international and interstate borders re-opened in March 2022. The Mid-year Review forecasts the State's population to grow by 1.5% in 2022-23, up from 1.2% in 2021-22, though data released after the Mid-year Review publication indicates that it is likely that a greater than expected number of people have moved to the State, from both interstate and overseas, including international students resuming their studies in 2023.

The tightest labour market conditions in many years have led to a lift in wages growth, as measured by the Wage Price Index (WPI), which grew by 2.9% in annual average terms and by 3.6% in year-ended terms in the December quarter 2022, the strongest growth since March 2013. Notwithstanding this, wages growth has not kept up with inflation on average, as the Perth Consumer Price Index grew by 8.3% in year-ended terms in 2022.

The State's economic outlook is subject to several potential risks. Domestically, consumers may pull-back on spending during 2023 as household budgets are under pressure from higher interest rates and elevated inflation.

A shortage of housing and skilled labour remain a constraint on the State's economy in the short to medium term, but are expected to ease over time. There is a record number of new houses currently under construction, but substantial delays persist in completing them. This is creating cashflow problems for a number of builders, as well as tightness in the rental market.

Economic conditions in Western Australia rely heavily on the outlook of our major trading partner, China, which has appeared to successfully transition its zero-COVID policy, and has paved the way for a rapid rebound in activity. This has boosted Chinese demand for the State's exports, with the iron ore price rising significantly in the period thereafter.

There are other international risks to the downside, though the risk of a global recession appears to have reduced. The International Monetary Fund stated in its World Economic Outlook report in January 2023 that global economic activity has been more resilient than previously expected, with strong labour markets, robust household consumption and business investment, and a better-than-expected response to the energy crisis in Europe.

More recently, some overseas financial institutions have been in trouble, including the collapse of Silicon Valley Bank and Signature Bank in the United States and the emergency takeover of Swiss lender Credit Suisse. It remains to be seen whether the fallout overseas will affect Australian financial markets.

Further details on key parts of the State's economy follow.

## **NATIONAL ACCOUNTS DATA**

The latest estimate of Gross State Product (GSP), released by the Australian Bureau of Statistics (ABS) in November 2022 shows that Western Australia's economy grew by 3.1% in 2021-22. Following an extended period of export-driven growth, the domestic economy has become the primary driver of activity. Growth in 2021-22 was underpinned by the strength of household consumption and government spending. Western Australia managed to navigate the period of the COVID-19 pandemic without an economic contraction, including 3.3% growth in 2020-21.

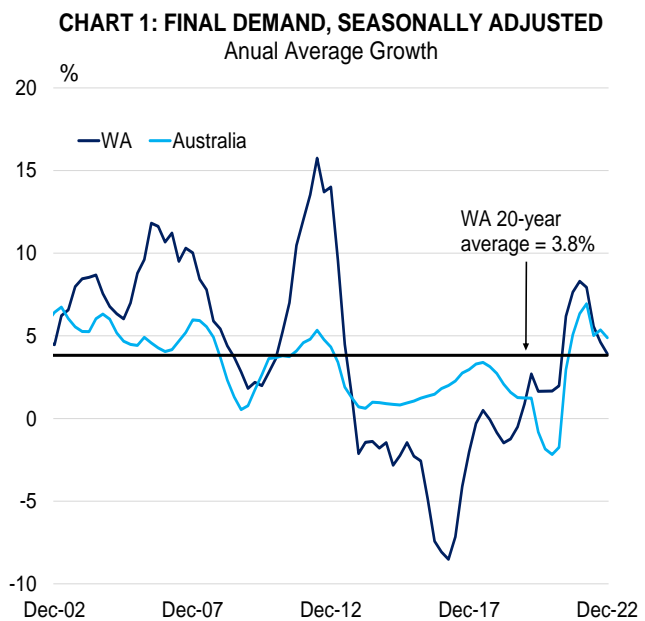
On an industry basis, the main contributors to the State's economic growth in 2021-22 were agriculture, forestry and fishing, in line with a record crop in 2021 (which has subsequently been surpassed in 2022), and construction, due to residential building construction and public investment in road and rail infrastructure. The mining industry remained the main contributor to the State's GSP, making up 46.5% of Gross Value Added in the economy, despite seeing a decline in output during the year due to adverse weather conditions, planned maintenance to operational infrastructure and staffing shortages.

GSP is projected to grow by a further 3% in 2022-23, before easing to more moderate growth of 1% in 2023-24, in line with weaker household spending in response to higher interest rates and elevated inflation, and a moderation in the pace of growth in Government consumption and investment by both the Commonwealth and the State as COVID-related spending is withdrawn. The moderation in GSP growth also reflects weak merchandise export growth in the context of softer global conditions and large producers operating at close to capacity, and a return to a more normal level of spending by Western Australians overseas.



More recent data to December 2022 shows that the State's domestic economy (as measured by State Final Demand, SFD) grew by just 0.1% in the December quarter 2022, the weakest result since March 2019 (excluding June 2020, which was impacted by COVID-19 restrictions).

Though household consumption grew by a solid 1.6% in the December quarter (the strongest since last December), this was mostly attributed to the State's Household Electricity Credit, which was issued and dampened consumption of electricity in the September quarter. Outside of this, growth in the December quarter was attributed to tourism-related categories, food and purchases of vehicles.



Business investment fell for the second consecutive quarter in December, partially due to supply-chain issues. This was partially offset by a rise in dwelling investment, as supply constraints on materials eased over the quarter.

The domestic economy grew by 3.9% in 2022, down from 5.6% in 2021-22 and a recent high of 8.3% in 2021. Growth was overwhelmingly underpinned by household consumption (largely due to travel resuming) and government consumption.

Chart 1 shows that domestic economic growth in WA and nationally have broadly converged. This is indicative of the timing of the recovery after the initial impact of COVID-19 that occurred across the country, notwithstanding that the impact on economic growth in the State was not as severe as in other States, in line with fewer COVID-19 restrictions.

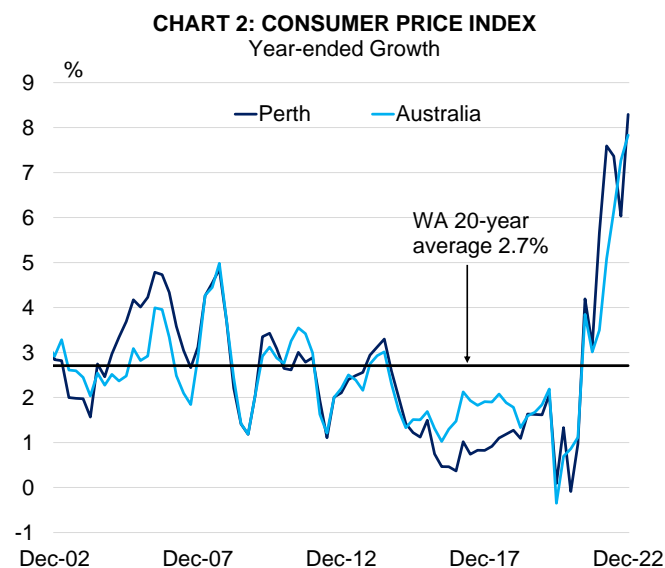
**EXPENDITURE COMPONENTS OF DOMESTIC DEMAND**  
December 2022 Seasonally Adjusted

	<u>Western Australia (%)</u>		<u>Australia (%)</u>	
	<u>Quarter</u>	<u>Year</u>	<u>Quarter</u>	<u>Year</u>
Private Consumption	1.6	4.7	0.3	6.5
Business Investment	-0.8	0.3	-1.4	3.7
Dwelling Investment	3.9	-8.1	-0.9	-3.4
Government Consumption	-2.8	7.3	0.6	5.2
Government Investment	2.0	7.4	-0.7	3.1
<b>Final Demand</b>	<b>0.1</b>	<b>3.9</b>	<b>0.0</b>	<b>4.9</b>
Exports <sup>1</sup>	3.6	0.3	1.1	3.3
Imports <sup>1</sup>	-2.5	12.3	-4.3	12.6
<b>Gross Domestic Product</b>	<b>n.a</b>	<b>n.a</b>	<b>0.5</b>	<b>3.7</b>

<sup>1</sup> Trade components include both merchandise and services trade

# CONSUMER PRICE INDEX

## Current Inflation Trends



Perth's Consumer Price Index (CPI) grew by 3.6% in the December quarter 2022, the strongest quarterly rise since the introduction of the GST in 2000.

This largely reflected several one-off and seasonal factors, including the unwinding of the impact of the State Government's \$400 Household Electricity Credit (HEC), which temporarily reduced the cost of electricity to consumers in the September quarter 2022.

The quarterly rise in December also reflected strong demand for domestic and international holiday travel and accommodation and the end of the Commonwealth Government's reduced fuel excise on 28 September 2022.

Perth's CPI grew by 8.3% in year-ended terms in December 2022, strengthening from 6% growth in the September quarter (Chart 2). This is the strongest rate of year-ended growth since June 1990 and well above the 20-year average growth rate of 2.7%.

The year-ended increase in December 2022 was primarily due to an increase in the price of housing, including for new dwellings (up 26.4%) and rental prices (up 8%), as well as 'food and non-alcoholic beverages' (up 9.2%) and 'holiday travel and accommodation' (up 21.2%).

In the housing sector, there are substantial delays to residential construction due to labour shortages. Strong demand in recent years has led to a record number of homes under construction, and rising input costs have driven a lift in the price of new houses, while a very tight rental market (the Perth vacancy rate in February was 0.7%, near its 40-year low) has led to a rise in rents.

## Inflation Outlook

The 2022-23 Mid-year Review forecast the Perth CPI to increase by 5.25% in year-ended terms in the June quarter 2023.

Pressure on consumer prices is expected to moderate in 2023, as global supply chain pressures are easing (with freight rates back at pre-pandemic levels) and in line with the tightening monetary policy in Australia and globally. The Reserve Bank of Australia (RBA) has increased interest rates at its steepest ever pace to rein in inflation, lifting rates by 3.5 percentage points over the 11 months to March 2023.

Forecasts for the Perth CPI will be updated in the 2023-24 Budget to be released in May 2023.

# LABOUR MARKET

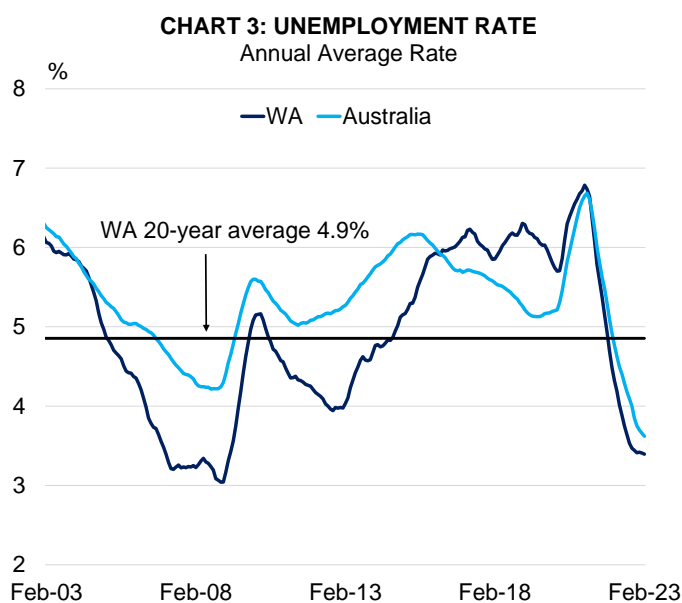
Labour market conditions in the State have strengthened in the period since the onset of COVID-19, in line with the domestic economy, with almost 106,000 jobs added over a three-year period since February 2020. The labour market has tightened significantly, with low unemployment and job advertisements near record levels.

However, there are signs that conditions have begun to steady in early 2023, as employment has broadly stabilised around its record level since March 2022. As a result, annual average employment growth has slowed to 3.3% in February 2023 from a peak of 6.5% in March 2022. Demand for labour remains strong, with job advertisements almost double their pre-COVID level, though they have recently fallen to be around 5% below a historic peak in June 2022.

Full-time hiring has driven recent jobs growth, as demand for labour has led people to work more hours. More people have moved from part-time to full-time work, which has risen to near record levels and around 13% above its pre-pandemic level. At the same time, part-time employment has fallen to almost 4% below its pre-COVID level.

Workforce participation has moderated from a peak in early 2022, when the participation rate averaged 69.9% in the March quarter. The strength in participation in the past year was driven by a sharp increase in women joining the labour force. The participation rate has averaged 69% in the six months to February 2023, falling from the highs seen during 2022, but remains historically elevated, and the highest of all States.

Strong labour demand has driven down the unemployment rate, which fell as low as 2.9% in April 2022. The unemployment rate averaged 3.4% in the twelve months to February 2023, the lowest annual average rate seen in almost 14 years, since the initial phase of the State's mining investment. While the monthly unemployment rate has crept up to 3.9% in February 2023, still low by historical standards, the annual average rate in Western Australia is the equal lowest of all States (with New South Wales), and below the national rate of 3.6% (Chart 3).



Other indicators of spare capacity in the labour market have also tightened significantly after spiking at the onset of the pandemic, including the underemployment rate, which averaged 5.8% in the year to February 2023, the lowest in over nine years.

This implies that there are fewer employed people who would like to work more hours and aligns with the recent trend away from part-time towards full-time work. Total hours worked in the WA economy also reached a record high in February 2023, rising to 13% above pre-COVID levels.

## Labour Force Outlook

Labour market conditions are tracking broadly as anticipated in 2022-23 to date, with annual average employment growth easing to 3.3% in the year to February 2023 towards forecast growth of 1.75% in 2022-23, and the unemployment rate averaging 3.4% over the same period, in line with Mid-year Review forecast of 3.5%.

Employment growth is expected to ease further to 1.25% in 2023-24, building on strong jobs growth in recent years. Hiring in the near term is expected to continue to be supported by activity in the resources sector. Growth over the forward estimates period is projected to remain below the 10-year average rate of 1.6%. The unemployment rate is forecast to rise to 4% in 2023-24 in line with softer conditions in the domestic economy.

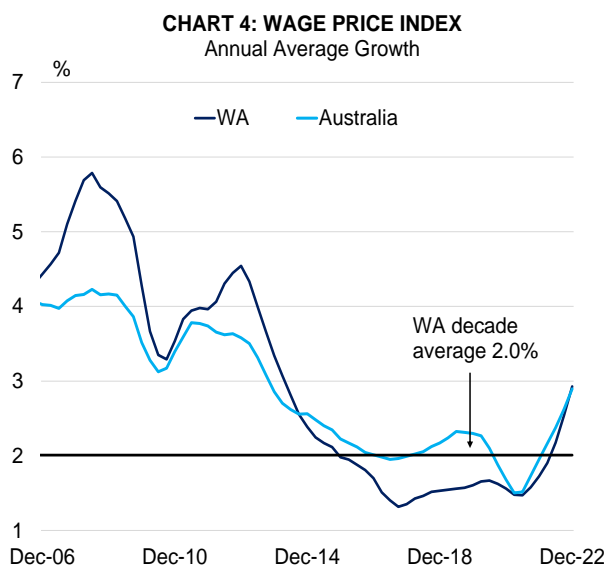
## WAGES

Ongoing constrained spare capacity in the labour market and the strongest inflation expectations in many years have begun to flow through to wage growth in Western Australia.

Growth in the State's Wage Price Index (WPI) continued to strengthen to 0.8% in the December quarter 2022, the strongest December quarter growth since 2011 – at the height of the mining investment boom.

Annual average WPI growth lifted to 2.9% in 2022, from 1.7% in 2021 and 1.6% in 2020 but remains well below peaks seen during the previous mining investment boom (Chart 4).

### Earnings



Seasonally adjusted, total average weekly earnings (AWE) in Western Australia grew by 5.2% in 2022<sup>1</sup>, to reach \$1,509.85. In dollar terms, AWE in Western Australia was the highest of all the States, but behind the ACT (\$1,559.30). Annual average growth in Western Australia was the equal highest of all States, with Queensland.

Average weekly full-time ordinary earnings (AWOTE) increased by 4% in 2022 to reach \$1962.90 (behind only the ACT at \$2001.00). This measure of average wages is not impacted by the compositional changes between full-time and part-time employment.

<sup>1</sup> The frequency of the AWE series changed from quarterly to biannual in 2012, with the November 2012 issue the first produced on a biannual basis. AWE data is now produced twice a year relating to the May and November reference periods.

Growth in the various average weekly earnings measures tends to be more volatile than growth in the WPI in States like Western Australia. The greater volatility in part reflects changes in the composition of the State's workforce<sup>2</sup>, which affects average earnings data but not the WPI (as the latter only measures wage movements in a basket of jobs of a fixed quantity and quality). Given the volatility and compositional issues associated with earnings measures, the WPI is a preferred measure of underlying wage growth.

### ***Wages outlook***

Following growth of 2.2% in 2021-22, the Mid-year Review projects the rate of growth in the WPI to lift to 3.5% in 2022-23 and strengthen further to 3.75% in 2023-24. Wages growth is then forecast to moderate over the outyears but remain above 3%, as labour market conditions remain favourable.

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<sup>2</sup> For example, the mining industry has a large impact on the State's earnings measures (as earnings tend to be high in this sector). One reason that earnings for the mining industry are higher than the average for all industries is that workers in the mining industry tend to work longer hours and receive allowances for shift work and working in isolated locations.