AUSTRALIAN BUSINESS INDUSTRIAL

ANNUAL WAGE REVIEW 2020-21

SUBMISSION OF AUSTRALIAN BUSINESS INDUSTRIAL AND BUSINESS NSW (NSW BUSINESS CHAMBER LTD)

26 March 2021

About ABI and Business NSW (NSW Business Chamber Ltd)

Australian Business Industrial (ABI) is registered under the *Fair Work (Registered Organisations) Act 2009* and has some 4,200 members. NSW Business Chamber Ltd (trading as Business NSW) is registered under the (NSW) *Industrial Relations Act 1996* and is a State registered association recognised pursuant to Schedule 2 of the *Fair Work (Registered Organisations) Act 2009.* As NSW's peak business organisation, Business NSW has more than 30,000 member businesses across NSW.

ABI is comprised of Business NSW members who specifically seek membership of a federally registered organisation.

This submission has been approved by the Council of ABI on behalf of its members and endorsed by the workplace policy committee of Business NSW.

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Executive Summary

Recommendation 1:

- That the Expert Panel determine a 0 (zero) per cent increase in the 2020-21 Annual Wage Review.

Recommendation 2:

- That the Expert Panel note that ABI will provide a second submission in May 2021 once economic and labour market conditions become clearer and that Recommendation 1 may be amended at that time.

Recommendation 3:

- That the Expert Panel set out how, and by when, it intends to reunify the clusters, to remove complexity for businesses managing employees subject to different Awards, and for stakeholders engaging with future Annual Wage Reviews.

Prior to COVID-19, the Australian economy was not operating at its full potential. Since then, the pandemic and restrictions introduced to curb the spread of COVID-19 have had a devastating impact on business which saw Australia enter recession for the first time in a generation.

While the economy partly rebounded towards the end of 2020 as major restrictions eased, data shows that there is still significant weakness and spare capacity within the economy.

GDP remains below pre-pandemic levels and is not anticipated to recover to those levels until late 2021. Even when it does, pre-pandemic economic performance was already below long-term expectations following the combined effects of prolonged drought and widespread bushfires in the summer of 2019-20.

International border closures and the risk of future local lockdowns and state border closures will continue to weigh down future potential GDP. As a result, it may take several years to close the output gap[1].

Despite improvement since the height of the pandemic, the labour market is still not performing well, with unemployment at 5.8 per cent (February 2021), 0.6 per cent above March 2020. Total monthly hours worked are 0.7 per cent below March 2020 levels. Employment recovery has been particularly uneven across industries with the lower cluster (Electricity, gas, water and waste; Finance and insurance; Public administration and safety; Health care and social assistance) appearing to have been the foundation for jobs creation over the last 12 months.

Youth employment has been hard hit by the pandemic with a significant worsening in the youth employment market compared to other age cohorts.

[1] Australian Government, Budget Paper No. 1: Budget Strategy and Outlook 2020-21, Canberra.

Inflation remains persistently low and is expected to remain below the Reserve Bank of Australia's (RBA) inflation target for the next few years.

Many businesses remain vulnerable to further shocks, such as the recent floods that devastated parts of NSW. Adding to the uncertainty is the ending of JobKeeper in March 2021 which presents a significant risk to the economy. What policy measures may replace the JobKeeper program is currently unknown, as is the impact of the withdrawal of JobKeeper on businesses and employment. It is unlikely that the Expert Panel will have access to relevant data prior to making its decision.

It *is* likely, however, given the data contained in this submission, that the impact of JobKeeper ending will affect all industries, not just those in the upper cluster. The end of JobKeeper could lead to lower overall investment and fewer jobs created, a rise in unemployment, and a delay in economic recovery. It remains uncertain whether potential future investment by healthier businesses can offset and absorb the slowdown of business activities from those set to lose government support.

Given these conditions, it is difficult for the Panel to consider the trade-offs involved between the needs of business and the needs of award-reliant employees. It is particularly difficult given the Panel's limited access to economic data on the impact of the cessation of JobKeeper. Accordingly, there is a strong case for the Panel to avoid making a decision at this time. However, given the requirement for a decision under section 285 of the Fair Work Act (the Act), it is ABI's view that it should avoid making a decision that will lead to economic damage, including lost jobs and suppressed economic recovery.

Given the above, ABI's recommendation is that a 0 (zero) per cent increase would be appropriate in the current economic environment.

This recommendation is based on available data and projections on the potential impact of the withdrawal of JobKeeper and other government supports, including temporary restructuring relief, in March 2021.

In the meantime, it is ABI's view that a 0 (zero) per cent determination will not significantly lower relative living standards in the existing low inflation environment.

A secondary benefit of adopting our recommendation would be to allow the effective dates for all Groups of Modern Awards to become consistent, simplifying the ongoing AWR process for all participants.

It is ABI's intention to provide a second submission to the Panel in May 2021 based on contemporary data when further economic and labour market conditions become known. As such, our recommendation may be amended at that time.

Should the remainder of 2021 see strong economic recovery accompanied by a successful vaccine rollout and the opening of international borders, an option could be for the Panel to increase the NMW above inflation in the 2021-22 AWR. It could not however course-correct if it determines a wage increase this year and economic conditions deteriorate dramatically during 2021 and 2022.

Foreword: Statutory considerations

When considering whether to vary (set or revoke) minimum award wages, the Panel must take into account economic factors referenced under the Minimum Wages Objective, the Modern Awards Objective and the general matters prescribed under the object of the Act.

Section 284 of the Act sets out the Minimum Wages Objective which requires the Commission to establish and maintain a safety net of fair minimum wages, taking into account:

(a) the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and
(b) promoting social inclusion through increased workforce participation; and
(c) relative living standards and the needs of the low paid; and
(d) the principle of equal remuneration for work of equal or comparable value; and
(e) providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.

Further, section 134 sets out the modern awards objective which requires the Commission to ensure that modern awards, together with the National Employment Standards, provide a fair and relevant minimum safety net of terms and conditions, taking into account:

(a) relative living standards and the needs of the low paid; and
(b) the need to encourage collective bargaining; and
(c) the need to promote social inclusion through increased workforce participation; and
(d) the need to promote flexible modern work practices and the efficient and productive performance of work; and
(da) the need to provide additional remuneration for:
  (i) employees working overtime; or
  (ii) employees working unsocial, irregular or unpredictable hours; or
  (iii) employees working on weekends or public holidays; or
  (iv) employees working shifts; and
(e) the principle of equal remuneration for work of equal or comparable value; and
(f) the likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden; and
(g) the need to ensure a simple, easy to understand, stable and sustainable modern award system for Australia that avoids unnecessary overlap of modern awards; and
(h) the likely impact of any exercise of modern award powers on employment growth, inflation and the sustainability, performance and competitiveness of the national economy.

In line with this legislation, the Panel must therefore take into account the performance and competitiveness of the national economy and the likely impact of any exercise of modern award powers on business.

It should be noted that the broader objects of the Act include the promotion of productivity and economic growth for Australia's future economic prosperity.

Guide to this submission

This submission is divided into three parts. Part I examines the relevant empirical evidence on the economy and labour market including the needs of the low paid and the effects of low inflation, Part II summarises the evidence and provides our recommendations and Part III provides further feedback on the groupings of the Modern Awards as determined by the Panel in the 2019-20 Annual Wage Review (AWR).

Note on terminology

This submission refers to a change to the 'minimum wage', 'minimum wages' or the NMW in the context of what the Panel might consider with respect to both the NMW and modern award minimum wages. That is, any reference should be viewed as referring to the totality of implications associated with changes to modern award minimum wages and other wages impacted by the AWR decision.

Part I — Economic and labour market considerations

The macroeconomic environment

The economy entered recession in mid-2020 following the introduction of government restrictions in response to the COVID-19 pandemic. GDP contracted by 0.3 per cent and 7.0 per cent in the March and June 2020 quarters respectively.

As major restrictions eased, GDP bounced back in the second half of 2020 but remained well below pre-COVID levels, with GDP contracting by 1.1 per cent over the 12 months to December 2020 (Table 1).

The RBA's Statement on Monetary Policy in February 2021 does not anticipate that GDP will reach its pre-pandemic level until later in 2021 and forecasts a highly uncertain economic outlook[2].

Even when the economy reaches its pre COVID-19 level, the economy will not have reached its full potential. Due to the impacts of drought and bushfires, GDP in 2019 was only 1.9 per cent higher than 2018 (Table 1).

GDP is well below the estimated range of potential growth (2.2 – 3.75 per cent per annum[3]) and is now the slowest pace of growth since 1991.

Table 1: Key macroeconomic indicators

	5-year average (2015-19)	2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020
GDP growth (%chg, through the year)	2.5	1.9	1.4	-6.3	-3.7	-1.1
GDP per capita (%chg, through the year)	0.9	0.4	0.0	-7.5	-4.6	-1.8

Notes: Data are seasonally adjusted.

Source: ABS, *Australian National Accounts: National Income, Expenditure and Product, December 2020*, Catalogue No. 5206.0

[2] RBA (2021), *Statement on Monetary Policy*, February.

[3] Lancaster, D. and Tulip, P. (2015), Okun's law and potential output. RBA Research Discussion Paper No. 2015-14, accessible at: https://www.rba.gov.au/publications/rdp/2015/pdf/rdp2015-14.pdf.

GDP is unlikely to recover for some time. According to the Commonwealth Budget 2020-21:

> 'potential GDP growth is estimated to fall below 2 per cent per annum in the near term (2020-21 to 2023-24) before gradually returning to 2.75 per cent towards the end of the medium-term projection period (2024-25 to 2030-31).'[4]

Potential GDP going forward will be lower than pre-COVID-19 projections[5]. Given the lower estimated potential GDP, it may take the economy up to five years to absorb spare capacity and close the output gap[6]. Even if the economy does close the gap in five years' time, it may take several years thereafter before we achieve pre COVID-19 projections for potential GDP.

The lagging of potential GDP is likely to create economic and social costs to Australian communities due to a protracted period of weakness in business investment and growth in labour productivity[7].

Of note, the recent projections by the Australian Government are a baseline scenario based on assumptions that:

- local outbreaks are largely contained
- a population-wide vaccination is in place by late 2021
- international students and skilled migrants return to Australia by late 2021[8].

The Commonwealth Budget 2020-21 acknowledges that the outlook remains highly uncertain[9]. Unanticipated factors such as a further major domestic outbreak of COVID-19 or a delay in vaccine rollout could deviate economic outcomes from the baseline scenario projection, potentially bringing about a further delay of economic recovery and higher economic and social costs.

These significant downside risks to the economic outlook support ABI's view that the Panel should exercise extreme caution in its determination for the 2020-21 AWR.

Box 1 – Implication of the end of JobKeeper on economic recovery

The economic forecasts in the Commonwealth Budget 2020-21 and the 2020-21 MYEFO do not note the risk of JobKeeper ending in their key assumptions, although it is noted in the RBA's Statement on Monetary Policy in February 2021 as potentially resulting in a higher-than-expected insolvencies rate, reduced investment, and a surge in unemployment.

Accordingly, it is likely that economic recovery will be slower than the estimates provided in the Commonwealth Budget and MYEFO 2020-21.

However, current data and leading indicators may not be able to accurately evaluate the impact of the end of JobKeeper.

[4] Australian Government, Budget Paper No. 1: Budget Strategy and Outlook 2020-21, Canberra, p. 2-31.
[5] Australian Government, Mid-Year Economic and Fiscal Outlook 2019-20, Canberra, p. 16.
[6] Australian Government, Budget Paper No. 1: Budget Strategy and Outlook 2020-21, Canberra, p. 2-33.
[7] Australian Government, Budget Paper No. 1: Budget Strategy and Outlook 2020-21, Canberra, p. 2-30.
[8] Australian Government, Budget Paper No. 1: Budget Strategy and Outlook 2020-21, Canberra, p. 2-6.
[9] Australian Government, Budget Paper No. 1: Budget Strategy and Outlook 2020-21, Canberra, p. 8-4.

Business outcomes

Income from sales of goods and services (current prices measure) fell sharply in the June 2020 quarter, at the time the economy entered recession. Despite some improvement, income from sales in the December 2020 quarter remained well below the March 2020 quarter (Table 2).

Total labour costs of employees declined significantly in the June 2020 quarter (Table 2), corresponding with many businesses receiving JobKeeper. Total labour costs started to increase in the September 2020 quarter as the number of businesses accessing JobKeeper declined. However, in the December quarter, labour costs remained 1.5 percent below the March quarter.

Table 2: Per cent change in income from sales of goods and services and total labour costs of employees, March to December 2020 quarter

	March to June 2020	June to September 2020	March to December 2020
Income from sales of goods and services	-10.4	4.1	-2.5
Total labour costs of employees	-12.4	3.5	-1.5

Note: Data are seasonally adjusted.

Source: ABS, *Business Indicators, December 2020*, Catalogue No. 5676 Table 6; ABS, Labour Accounts Australia, September 2020, Catalogue No. 6150.0.55.003 Table 1.

Despite a significant decline from the peak of the crisis, over a quarter (28 per cent) of businesses in February 2021 still reported revenue decreases in the past month (Table 3).

Table 3: Percentage of businesses indicating change in revenue over the past month, July 2020 to February 2021

	Decreased	Stayed the same	Increased
February 2021	28	53	17
January 2021	31	43	20
December 2020	20	48	25
November 2020	22	49	24
October 2020	31	49	16
September 2020	38	45	13
August 2020	41	38	16
July 2020	47	32	16

Source: ABS, *Business Conditions and Sentiments*, assorted Tables

Reductions in labour costs and increased income from sales of goods and services has resulted in increased company profits. However, improved profitability has not been evenly distributed across the economy and overall, there was a 6.6 per cent reduction in the December 2020 quarterly profits[10]. Further, given the ending of JobKeeper and a number of businesses opting to repay JobKeeper payments, ABI expects profitability to continue to deteriorate.

Business conditions

ABI notes that business surveys can be a useful indicator of current economic conditions (noting time lags in official data) and a leading indicator for future economic trends.

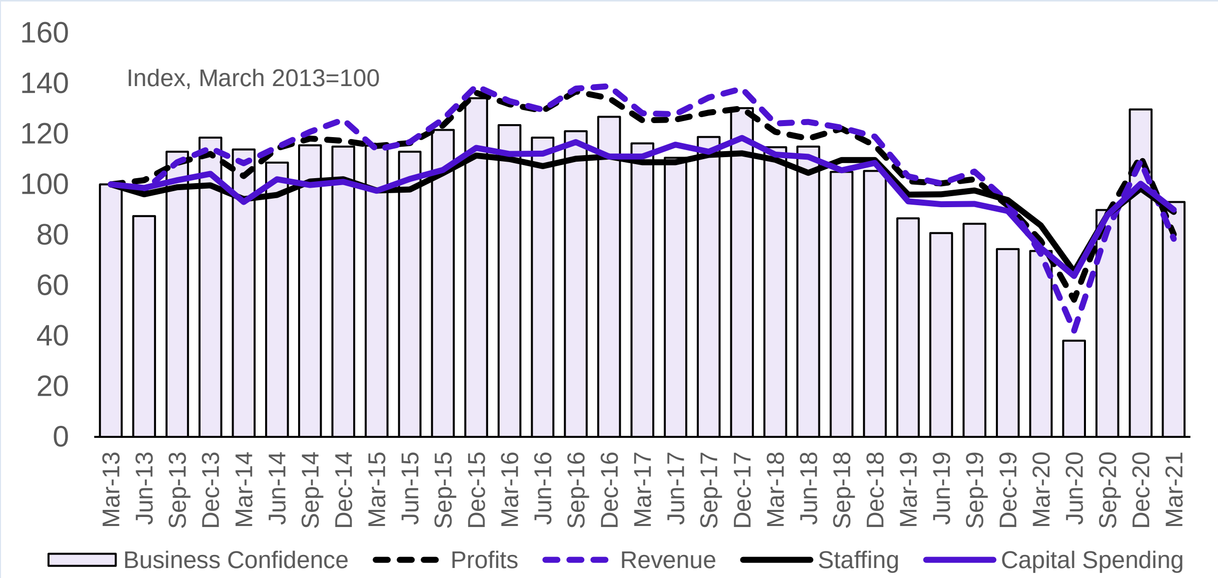
The *Business NSW* Business Conditions Survey (the survey) measures business perceptions of the New South Wales economy, and business performance across metrics such as profits, revenue, staffing and capital expenditure. The survey is completed by around 1,000 businesses (though respondent numbers vary) and has accurately indicated broader economic trends in New South Wales. While the survey does not report on business conditions across the rest of Australia, it provides useful insights into business conditions in New South Wales, a state that accounts for around a third of the national economy.

Box 2 – NSW Business Conditions Survey

Due to significant government restrictions, business confidence and performance hit a record low in the June 2020 quarter. This was followed by a strong rebound in the September and December 2020 quarters as major restrictions were lifted (Chart 1).

However, overall business confidence and performance fell again in the March 2021 quarter following COVID-19 outbreaks in Sydney and Melbourne during December 2020.

Chart 1: NSW Business Conditions



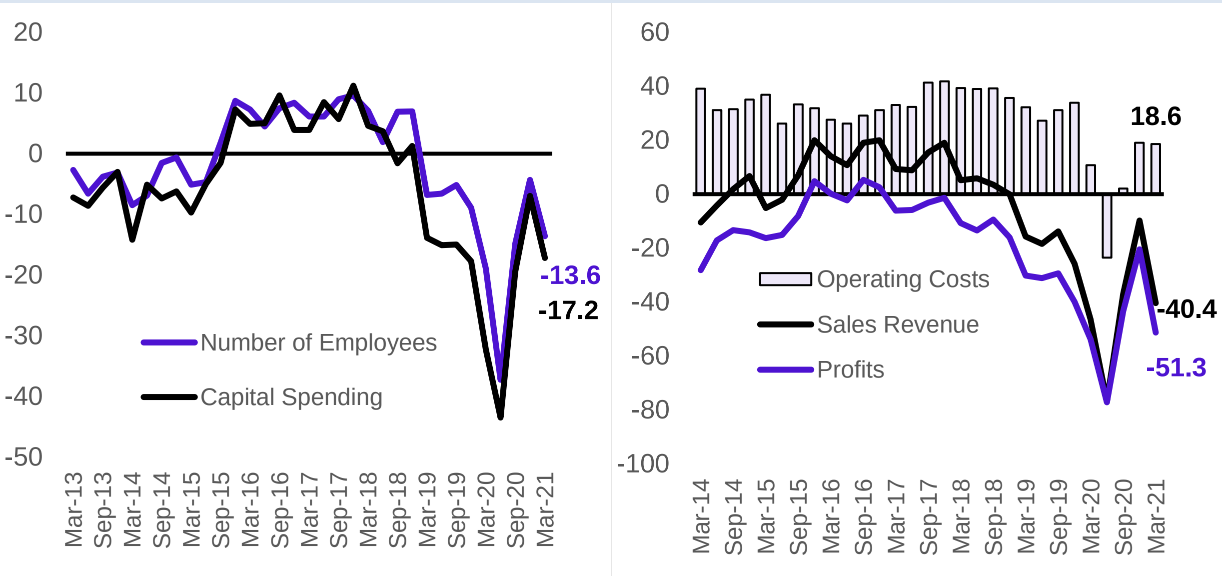
[10] ABS, Business Indicators, Australia, December 2020

Source: Business NSW. Note: Index calculated based on net scores (100 per cent plus the percentage of respondents reporting improved conditions minus the percentage reporting weaker conditions). 'Business Confidence' refers to respondent's perceptions around the strength/weakness of the economy. [11]

Business NSW's research indicates that business performance, including revenue, profits, staff hiring, and capital investment, declined in the March 2021 quarter in tandem with weaker business confidence (Chart 2). The impact of restrictions introduced over the Christmas-New Year period caused revenue and profits to reduce close to March 2020 levels.

While the population-serving industry (including retail trade and accommodation and food services) was hardest hit due to restrictions on activities involving in-person services, other industries also experienced significant declines in business confidence and performance, suggesting that the effects were felt throughout the rest of the economy through interconnected supply chains.

Chart 2: NSW Business Conditions



Source: Business NSW.[12]

Note: Index calculated based on net scores (percentage of respondents indicating an increase minus the percentage indicating a decrease). See source link below for further survey details.

Based on this data, it appears that the economy is still vulnerable and that even brief and temporary restrictions on business activities will cause significant effects on business performance.

[11] For full results see https://www.businessnsw.com/advocacy/surveys/business-surveys.
[12] For full results see https://www.businessnsw.com/advocacy/surveys/business-surveys.

Box 3 – Potential Impact of the end of JobKeeper on business viability

Around half of respondents to the *Business NSW* Business Conditions Survey in March 2021 reported that the cessation of JobKeeper will lead to reductions in headcount (44 per cent), staff hours (50 per cent) and reduced investment in equipment, machinery and capital (48 per cent). Around 33 per cent of businesses reported they may have to close their business either permanently or temporary. Two thirds of respondents currently receiving JobKeeper expect reduced profits when JobKeeper is withdrawn on March 28 (Table 4).

These adverse impacts were reported by all recipients of JobKeeper, irrespective of which cluster they were in (Table 4).

Table 4: Percentage of businesses potentially impacted by ending of JobKeeper

	Total industry (%)	Upper cluster (%)	Lower and central cluster (%)
Reduced profit	66	66	66
Reduced numbers of employees (head count)	44	54	39
Reduced hours for existing staff	50	69	41
Reduced investment in equipment/machinery/capital	48	53	45
Temporary closure of business	20	26	17
Permanent closure of business	13	17	11
No effect	6	3	6
Don't know	12	11	13

Source: Business NSW

This data is of extreme concern. ABI expects that the ending of JobKeeper will have significant ramifications throughout the economy that will not be completely understood by the time the Panel is required to make its decision. This has been a significant factor in ABI's recommendation of a zero per cent determination in this year's AWR. However, ABI will make a further submission to the Panel in May 2021 once it has a better understanding of these impacts.

Further, many businesses have no plans for capital expenditure within the next few months (Table 5). For those that do have plans for capital expenditure, it is unclear whether capital expenditure from healthier businesses is sufficient to offset the possible adverse impacts due to the end of JobKeeper. Even with significant capital expenditure, it may take some time for the labour market to absorb jobs lost due to the time required to retrain impacted workers.

Table 5: Percentage of businesses with capital expenditure plans, February 2021

	Have capital expenditure plans in the next 3 months	No capital expenditure plans in the next 3 months
Total	23	63
Employment size		
0-19 persons	22	64
20-199 persons	36	50
200 or more person	57	32

Source: ABS, *Business Conditions and Sentiments*, *February 2021*, Table 13

Overall, this data indicates a high level of uncertainty and is consistent with the RBA's Statement on Monetary Policy in February 2021 which acknowledges high uncertainty after the withdrawal of temporary support measures[13].

Box 4 – Potential impact of a minimum wage increase on business viability

Business NSW research indicates that businesses would be significantly affected by a combination of the withdrawal of JobKeeper and an increase in the minimum wage.

Of those businesses that would be affected by a minimum wage increase, 40 per cent reported that it would potentially result in reduced numbers of employees, 46 per cent reported that it would result in reduced hours for existing staff and 34 per cent reported that it would result in reduced investment in equipment or machinery (Table 6).

Table 6: Percentage of businesses potentially impacted by minimum wage increase by 1 July 2021

	Percentage of businesses affected
Reduced profit	77
Reduced numbers of employees (head count)	40
Reduced hours for existing staff	46
Reduced investment in equipment/machinery/capital	34
Temporary closure of business	4
Permanent closure of business	2
No effect	11
Don't know	7

Source: *Business NSW*, March 2021, Business Conditions Survey

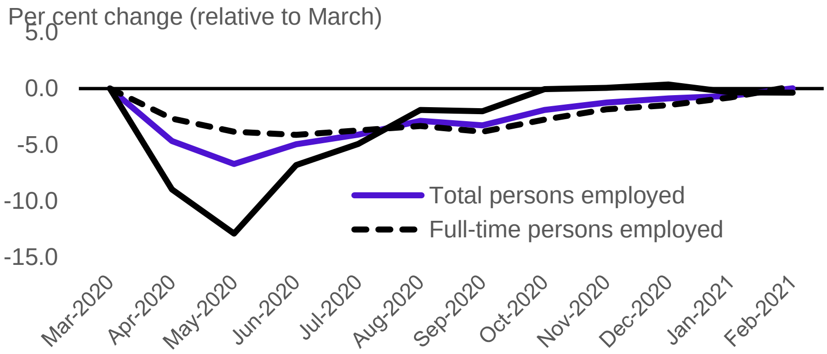
Employment and the labour market

[13] RBA (2021), *Statement on Monetary Policy*, February, p. 69.

COVID-19 has had a significant impact on the labour market. Unemployment rose to 7.5 per cent in July 2020, with over 870,000 jobs lost in May 2020 alone. As government restrictions eased, the labour market partially recovered in the second half of 2020 and early 2021. However, unemployment remains at 5.8 per cent in February 2021, 0.6 per cent above its March 2020 level.

The underlying data presents a complex picture. Full-time employment in February 2021 was 0.2 per cent higher than March 2020, compared to part-time which was 0.4 per cent lower (Chart 3).

Chart 3: Per cent change in employment, persons, Australia, Mar 2020 to Feb 2021



Note: Data are seasonally adjusted.

Source: ABS, *Labour Force, Australia*, *February 2021*, Catalogue No. 6202.0 Table 1

Total monthly hours worked also remain 0.7 per cent below pre-pandemic levels. Full-time hours worked are down by 0.7 per cent and part-time hours down by 0.4 per cent (Table 7).

Table 7: Per cent change in monthly hours worked, persons, Australia, March 2020 to February 2021

	March to May 2020	May 2020 to February 2021	March 2020 to February 2021
Total	-10.4	10.9	-0.7
Full-time	-8.5	8.5	-0.7
Part-time	-19.8	24.3	-0.4

Note: Data are seasonally adjusted.

Source: ABS, *Labour Force, Australia*, *February 2021*, Catalogue No. 6202.0 Table 19

This weak job data implies that labour market conditions are not as robust as headline employment statistics suggest. Regaining opportunities for full-time work is essential for the labour market to fully recover.

As discussed in ABI's AWR 2019-20 submission[14], the labour market was suppressed even before the pandemic. The RBA's Statement on Monetary Policy in February 2020 acknowledged that spare capacity existed in the labour market, with the unemployment rate above full employment estimates[15]. Even when the labour market returns to the pre-COVID level, it does not mean that the market is operating at its full potential.

Industry labour markets

Employment recovery remains uneven with different industries in different clusters performing better/worse than others. While the upper cluster is overall the worst performer at 9.8 per cent below February 2020 employment rates, some industries in the central cluster have performed at least as badly as those in the upper cluster (Table 8). On this basis, it is difficult to continue to group industries using the Panel's clusters in the 2019-20 AWR.

Of note, employment in award-reliant industries[16] remains 3.5 per cent below February 2020 while other industries had increased by 1.2 per cent over the same period (Table 8).

Table 8: Per cent change in employment, persons, by industry, February to November 2020

	February to May 2020	May to November 2020	February to November 2020
Upper cluster	**-31.4**	**31.4**	**-9.8**
Accommodation and food services	-29.8	27.6	-10.5
Arts and recreation services	-37.0	46.8	-7.6
Central cluster	**-5.6**	**5.2**	**-0.6**
Agriculture, forestry and fishing	6.4	-4.1	2.0
Mining	-4.5	15.7	10.5
Manufacturing	-5.1	-2.7	-7.6
Construction	-0.5	-0.1	-0.6
Wholesale trade	1.0	-5.8	-4.9
Retail trade	-6.7	11.1	3.7
Transport, postal and warehousing	-14.7	15.2	-1.7
Information, media and telecommunications	-11.3	3.0	-8.7
Rental, hiring and real estate	2.5	-6.1	-3.7
Professional, scientific & technical services	-5.6	6.7	0.8
Administrative and support services	-13.2	14.8	-0.4
Education and training	-5.8	8.0	1.8
Other services	-10.5	5.6	-5.5

[14] ABI's submission to the 2019-20, p. 9, accessible at: https://www.fwc.gov.au/documents/wage-reviews/2019-20/submissions/abi-sub-awr1920.pdf

[15] RBA (2020), *Statement on Monetary Policy*, February.

[16] Award-reliant industries are defined here as the industries with at least 20 per cent of employees paid exactly at the award rate in 2018.

Lower cluster	**-0.4**	**1.4**	**1.0**
Electricity, gas, water and waste	24.1	-7.7	14.5
Finance and insurance	2.8	-0.7	2.1
Public administration and safety	1.7	3.7	5.5
Health care and social assistance	-4.1	1.7	-2.4
Award-reliant industries	**-10.8**	**8.2**	**-3.5**
Other industries	**-2.7**	**4.0**	**1.2**

Source: ABS, *Labour Force, Australia*, *November 2020*, Catalogue No. 6291.0.55.001 Table 11

Changes in the number of jobs in each industry present further complexity and cast further doubt on the ability to continue to use the clusters set out by the Panel in last year's decision (Table 9).

The lower cluster appears to have been the foundation for jobs creation over the last 12 months. Since April 2020 however, industries in the upper cluster have had the most marked growth – albeit from a low baseline due to the initial impact of COVID-19 related government restrictions. The central cluster continues to perform poorly with most industries not having recouped job losses from earlier in the pandemic. With no growth in jobs since 18 April 2020, Construction remains particularly concerning, especially when combined with the significant proportion of employees in this industry still being supported through JobKeeper (Box 5).

Table 9: Per cent change in total payroll jobs, by industry, 14 March 2020 to 27 February 2021, ABS Weekly Payroll data

	14 March to 18 April 2020	**18 April 2020 to 27 February 2021**	**14 March 2020 to 27 February 2021**
Upper cluster			
Accommodation and food services	-34.6	23.0	-11.7
Arts and recreation services	-27.7	25.5	-2.1
Central cluster			
Agriculture, forestry and fishing	-4.0	-0.1	-4.1
Mining	-8.4	7.0	-1.3
Manufacturing	-4.9	2.2	-2.7
Construction	-4.3	0.0	-4.3
Wholesale trade	-5.0	1.6	-3.4
Retail trade	-8.3	6.8	-1.5
Transport, postal and warehousing	-5.1	-0.8	-5.8
Information, media and telecommunications	-8.4	1.0	-7.4
Rental, hiring and real estate	-10.4	7.3	-3.1
Professional, scientific & technical services	-3.7	2.1	-1.5
Administrative and support services	-10.6	11.7	1.1
Education and training	-9.6	4.6	-5.0
Other services	-10.7	8.6	-2.1
Lower cluster			

Electricity, gas, water and waste	-0.8	2.9	2.1
Finance and insurance	-0.3	6.8	6.5
Public administration and safety	-4.9	12.2	7.3
Health care and social assistance	-4.7	7.7	3.0
All industries	**-8.5**	**8.3**	**-0.2**

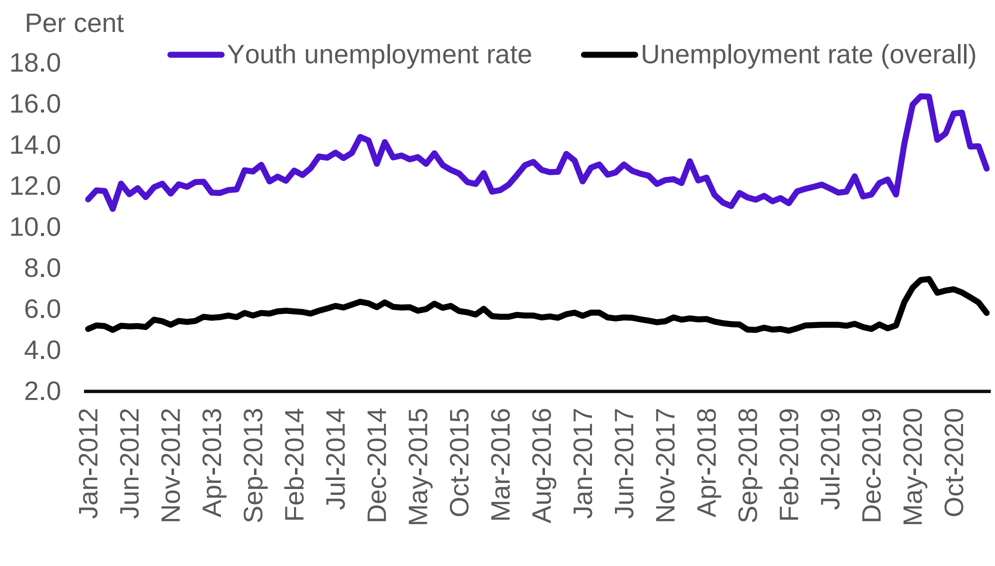
Source: ABS, *Weekly Payroll Jobs and Wages, Australia (week ending 27 February 2021),* Table 4.

Youth labour market

Youth unemployment was a significant concern prior to the pandemic and younger workers have been badly impacted by the pandemic with a marked worsening of unemployment and employment rates.

The unemployment rate for young people (aged 15–24 years) is 1.3 percentage points higher than March 2020, compared to 0.6 per cent higher for the rest of the labour force (Chart 4) and is more than double that of the rest workforce (12.9 per cent compared to 5.8 per cent)

Chart 4: Unemployment rate, Australia, younger workers (aged 15-24 years)

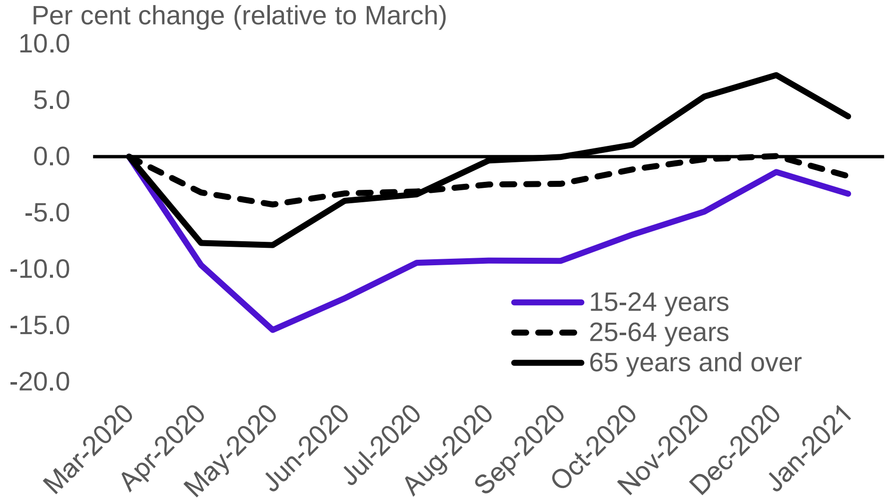


Note: Data are seasonally adjusted.

Source: ABS, *Labour Force, Australia, February 2021*, Catalogue No. 6202.0 Table 1 and 13

Youth employment in January 2021 was 3.3 per cent below March 2020, whereas it was 3.6 per cent higher for those aged 65 years and over (Chart 5).

Chart 5: Per cent change in employment, persons, by age, March 2020 to Jan 2021



Source: ABS, *Labour Force, Australia*, *January 2021*, Catalogue No. 6291.0.55.001 Table 1

While youth employment has been hard hit across all industries, the upper cluster has seen a 17 per cent reduction in youth employment from February 20 to November 2020 (Table 10).

Table 10: Percent change in employment, persons, by industry cluster, February to November 2020

	15-24 years	Other age groups
Upper cluster	-17.2	-4.5
Central cluster	-1.9	-0.5
Lower cluster	-1.0	1.2

Source: ABS, *Labour Force, Australia*, *November 2020*, Catalogue No. 6291.0.55.003 Table EQ12

Any minimum wage increase will cause additional cost pressures to particularly vulnerable industries in the upper cluster, potentially causing a substitution effect of older workers for younger workers as businesses seek lower unit labour costs.

Given that young people make up a significant proportion of award-reliant[17] and upper cluster workers[18], it is possible that the substitution effect will come into play if there is an increase in the NMW. Whilst the relationship between a change to the minimum wage and the impact that it will have on youth labour demand is essentially unknowable, it is ABI's view that any increase in the NMW this year, given the uncertainty and weakness in the economy, will significantly impact labour demand for younger workers.

[17] Para 208, [2019] FWCFB 3500 and Para 210, [2019] FWCFB 3500.
[18] Borland J (2020), An assessment of the economic effects of COVID-19, University of Melbourne, Fair Work Commission research report 1/2021, Version 2, 17 February, p. 20, table 9.

Box 5 –The end of JobKeeper and the labour market

As reported in the *Business NSW* Business Conditions Survey, the cessation of JobKeeper may result in increased insolvencies, business closures and reductions in head counts and staffing hours. The RBA's recent Statement on Monetary Policy in February 2021 also notes risks of increased insolvency rates, reduced overall net investment and upward pressure on unemployment[19].

In the December 2020 quarter, the largest portion of JobKeeper payments remained distributed to large employing industries such as Construction, Professional, Scientific and Technical Services, and Accommodation and Food Services[20].

Given its significant usage of JobKeeper and ongoing weakness due to government restrictions, the upper cluster will likely be most impacted by the withdrawal of this policy. However, other industries' exposure also remains high with Professional Services, Construction and Transport each still with almost 20 per cent of employees being supported by JobKeeper at December 2020 (Table 11).

Table 11: Per cent share of industry employment on JobKeeper in the December quarter 2020

Arts and Recreation Services	31
Rental, Hiring and Real Estate Services	23
Professional, Scientific and Technical Services	19
Construction	18
Accommodation and Food Services	17
Transport, Postal and Warehousing	17
Wholesale Trade	12
Retail Trade	8
Education and Training	6
Health Care and Social Assistance	5

Source: ATO

Young workers constitute a large proportion of upper cluster employees and are being negatively impacted during the downturn[21]. It is highly likely that young people will be disproportionately impacted by the removal of JobKeeper.

The end of JobKeeper combined with ongoing local restrictions and international border closures could potentially deteriorate weak labour market conditions and delay the path to full employment. Nevertheless, this is an *ex-ante* analysis using current data and leading indicators to analyse the future potential effects.

[19] RBA (2021), *Statement on Monetary Policy*, February, p. 69.

[20] ABS, Government support for business, December quarter 2020

[21] Yuen K & Cumming P (2021), Labour market transitions of workers during COVID-19, Fair Work Commission Research Report 2/2021, February, p. 13, table 3.

However, given a high level of uncertainty around the development of the economy and the risk of unanticipated COVID-19 outbreaks[22], analysis depending on current data and leading indicators alone may not be able to accurately evaluate the full ramifications and the genuine depth of the adverse impacts due to the end of JobKeeper. Impact analysis using future economic data may provide a relatively clearer picture of the future potential impact.

However, given the timing of this year's Annual Wage Review, only preliminary and basic actual data on the cessation of JobKeeper will be available at the time of the decision.

Accordingly, a not-fully recovered labour market, the high degree of economic outlook and a lack of actual data points to assess the effect of the end of JobKeeper warrants a cautious approach to the Panel's decision.

Inflation and wages growth

Wages, prices and weak demand

In the past few years, there has been relatively low inflation. Average headline inflation over five years to December 2019 was 1.6 per cent, below the RBA's inflation target of 2 – 3 per cent per annum. Since the COVID-19 pandemic, inflation is even lower, at 0.9 per cent in December 2020 (Table 12).

The implication of low inflation is that there is less scope for businesses to leverage price increases to fund wages growth. Instead, businesses must absorb labour costs at a faster pace than inflation leading to negative consequences for labour demand.

Low inflation also has implications for relative standards of living and the needs of the low paid. Where NMW increases have exceeded increases in the WPI, the minimum wage does not need to increase by the same extent to maintain (or improve) relative living standards. Stable prices help retain the purchasing power of wages.

Whilst JobKeeper and other support measures may have kept inflation artificially low, underlying inflation (trimmed mean) only grew at 1.2 per cent, declining from 1.7 per cent in March 2020 (Table 12).

According to the RBA's recent Statement on Monetary Policy in February 2021, headline inflation will not return to the target range until 2024 at the earliest[23]. This will require significant gains in employment and a return to a tight labour market for wage growth to be materially higher than it is currently, leading to upward pressure on inflation.

Measures of living costs also show relatively low increases over the last year. The Consumer Price Index (CPI) only rose by 0.9 per cent for the year ended December 2020. There was a 0.5 per cent decline in Living Costs Indexes (LCI) for the same period (Table 12).

[22] RBA (2021), *Statement on Monetary Policy*, February, p. 68.
[23] RBA (2021), *Statement on Monetary Policy*, February, p. 4.

In ABI's view, LCI may be the most accurate measure of living costs as it measures the impact of changes in prices on the out of pocket expenses incurred by households whose principal is from wages and salaries.

Average wages (measured by Wage Price Index [WPI]) have also been at record low rates. The annual rate in December 2020 was 1.4 per cent for the second quarter in a row (Table 12).

Table 12: Annual changes in measures of prices and living costs

	5-year average to December quarter 2019	Mar-20	Jun-20	Sep-20	Dec-20
Wage Price Index	2.2	2.2	1.7	1.4	1.4
Inflation					
CPI (headline)	1.6	2.2	-0.3	0.7	0.9
Trimmed mean	1.8	1.7	1.3	1.2	1.2
LCI (employees)	1.4	1.1	-2.1	-0.9	-0.5

Source: ABS, *Consumer Price Index, Australia*, *December 2020*, Catalogue No. 6401.0 Table 1; ABS, *Selected Living Cost Indexes, Australia, December 2020*, Catalogue No. 6467.0 Table 1

Minimum wage increases and living costs

Minimum wage increases over the past decade have been considerably higher than the growth rates of headline inflation, underlying inflation and the WPI (Table 13). Over the previous 10 years to 2020-21, the NMW has increased by 32.3 per cent, far above cost of living increases. Even a zero per cent increase in the NMW in 2020-21 would still result in a 27.9 per cent increase in the NMW since June 2012, significantly higher than CPI, underlying inflation and WPI over the same period.

Given that the RBA expects low wage growth for the remainder of 2021, the NMW relative to average wages is likely to be higher than it was ten years earlier even if a zero NMW increase is awarded this year.

Table 13: comparison of growth: NMW, prices and wages

	NMW, 1 July ($)	Annual change in NMW (%)	CPI growth (%) (June quarter, year ended)	Trimmed mean (%) (June quarter, year ended)	WPI growth (%) excluding bonuses (June quarter, year ended)
Hypothetical 2021-22	19.84	0.0	1.5[a]	1.5[a]	1.8[a]
2020-21	19.84	1.8	3.0[a]	1.3[a]	1.0[a]
2019-20	19.49	3.0	-0.3	1.3	1.7
2018-19	18.93	3.5	1.6	1.5	2.4
2017-18	18.29	3.3	2.1	1.7	2.1
2016-17	17.7	2.4	1.9	1.7	1.9
2015-16	17.29	2.5	1.0	1.6	2.1
2014-15	16.87	3.1	1.5	2.2	2.3
2013-14	16.37	2.6	3.0	2.8	2.6
2012-13	15.96	2.9	2.4	2.4	2.9
2011-12	15.51	3.4	1.2	2.0	3.7
10 years to 2020-21		32.3	18.8[b]	20.0[b]	25.2[b]
10 years to 2021-22 (projected)		27.9	22.1[c]	19.5[c]	22.8[c]

a Forecast table from the Reserve Bank of Australia, Statement of Monetary Policy, February 2021

b and c Included RBA's forecast for June quarter 2021 and 2022 respectively

Sources: ABS, *Consumer Price Index, Australia, December 2020*, Catalogue No. 6401.0 Table 1; ABS, *Consumer Price Index, Australia, December 2020*, Catalogue No. 6401.0 Table 8; ABS, *Wage Price Index, Australia, December 2020*, Catalogue No. 6345.0 Table 1

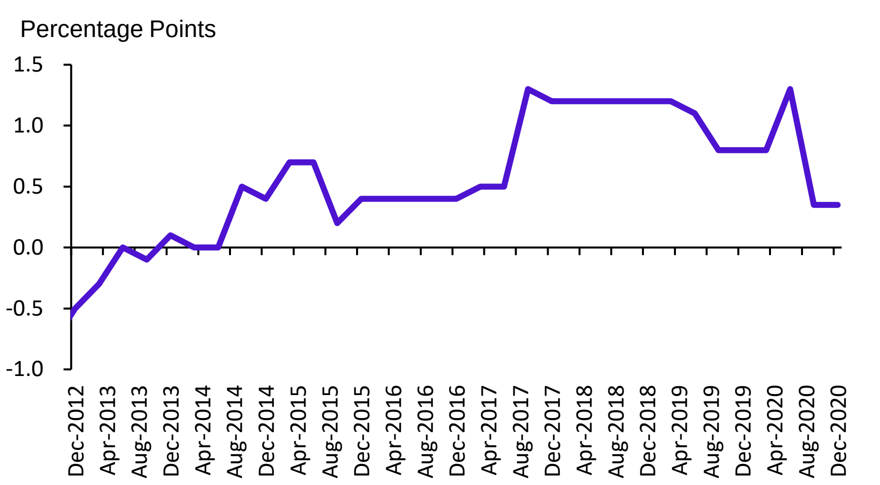
The potential impact of the gap between minimum wage and average wage growth

ABI maintains the view that higher minimum wages growth relative to average wage growth may contribute to businesses potentially substituting youth employees with more experienced older workers in pursuit of lower unit labour costs. In the past few years, newly created jobs have often been filled by older workers aged 65 and over while younger employees are more often unemployed[24].

Given that the NMW has increased at a faster pace than WPI (Chart 6), finding ways to save costs and improve productivity could become a priority for businesses facing an uncertain outlook, therefore heightening the risk for younger workers.

[24] ABI's submission to the 2019-20, p. 26, chart 17, accessible at: https://www.fwc.gov.au/documents/wage-reviews/2019-20/submissions/abi-sub-awr1920.pdf

Chart 6: Difference between NMW growth and WPI growth



Source: ABS, *Wage Price Index, Australia, December 2020*, Catalogue No. 6345 Table 5b.

Part II – Responding to uncertainty

Recommendation 1:

- That the Expert Panel determine a 0 (zero) per cent increase in the 2020-21 Annual Wage Review.

Recommendation 2:

- That the Expert Panel note that ABI will provide a second submission in May 2021 once economic and labour market conditions become clearer and that Recommendation 1 may be amended at that time.

Part I indicates areas of continued weakness in the economy and consider the potential impact of the end of JobKeeper, particularly on business viability and the labour market. Due to the current economic conditions and timing of this year's Annual Wage Review, the Panel will face a greater than usual degree of uncertainty when trying to make its judgement.

The deadline for initial submissions falls two days before the end of JobKeeper. At time of writing this submission, it remains unclear what measures, if any, will be adopted to replace JobKeeper, and how any replacement measures will support particular industries. Neither *Business NSW-ABI*, nor any other respondent to the AWR, will have firm evidence of how the end of JobKeeper will have affected businesses, nor how any potential replacement for JobKeeper has addressed businesses' concerns.

Even by the final evidence deadline, only preliminary and basic actual data on those effects will be available and may only capture the early impact of the end of JobKeeper.

April labour market figures will not capture the effect of the ending of JobKeeper as the Australian Bureau of Statistics (ABS) considers anyone who has received income from employment in the last four weeks as being employed[25]. Accordingly, not until May labour force data is published on 17 June will the Panel have relevant data available. Even this will only provide one month of data points which is unlikely to fully capture the impact of the end of JobKeeper.

Further uncertainties remain around the closure of international borders. This is a key consideration for award-reliant sectors of the economy where businesses are most vulnerable such as accommodation and food services. The RBA's recent statement on monetary policy assumes international borders will remain closed past the end of 2021[26]. There is a significant difference in employment outlooks for those industries should borders open after that time.

Finally, without widespread vaccination against COVID-19, vulnerability remains. The economy's resilience to this (or any other) possible major shock is lower than at any time in recent years due to depleted government surpluses and the extensive supports already

[25] Australian Bureau of Statistics (January 2021), *Labour Force, Australia*, Methodology, ABS Website, accessed 15 March 2021.

[26] RBA (2021), *Statement on Monetary Policy*, February, p. 3.

provided through the pandemic. ABI considers it unlikely that, in the event of a further extensive outbreak, the government would be able to provide support to the same extent as the existing JobKeeper program.

Faced with this uncertainty, ABI is of the view that the Panel should be cautious. A 0 per cent determination gives businesses the greatest chance of survival across the multiple plausible economic scenarios Australia could face through 2021 and 2022.

This recommendation is ABI's current position based on available data and projections on the potential impact of the withdrawal of JobKeeper and other government supports, including temporary restructuring relief, in March 2021. Of note, it is ABI's intention to provide a second submission to the Panel in May 2021 based on contemporary data when further economic and labour market conditions become known and our recommendation may be amended at that time.

Should business conditions improve in line with more optimistic scenarios, the Panel could make a determination that exceeds inflation in the 2021-22 AWR. It will not be able to course-correct from a 2020-21 increase in the same way if conditions deteriorate.

Part III – Modern Awards Groupings

Recommendation 3:

- The Panel should set out how, and by when, it intends to reunify the clusters, to remove complexity for businesses managing employees subject to different Awards, and for stakeholders engaging with future Annual Wage Reviews.

The division of Modern Awards in 2019-20 created a problem for future AWRs. It introduced additional complexity by introducing another major variable into consideration. AWRs are now not only focused on the quantum of pay increase, but also on the date(s) when it applies.

In *the Business NSW* Business Conditions Survey March 2021 quarter, almost 44 per cent of businesses with staff employed under multiple Awards reported that staggered dates had negatively impacted their business. Businesses reported that the staggered dates had created administrative complexity and the general view was that businesses had increased time spent on compliance as a result.

The division into multiple clusters has also created complexity in the Annual Wage Review process itself, creating an extra informational hurdle for stakeholders.

A greater than 0 (zero) per cent pay award for 2020-21 AWR, using the normal timetable, would see recipients in Groups 2 and 3 receive two pay increases in a less than 12-month period. Preserving a 12-month gap between pay rises for all recipients would mean perpetuating the division into three groupings.

While the desire to reunify the clusters is not the primary reason behind *Business NSW-ABI*'s recommendation of a zero per cent increase, it is a beneficial outcome.

Regardless of the Panel's decision about the pay award value for 2020-21, it should set out how it intends to reunify the clusters going forward.