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2021-22 Annual Wage Review

March National Accounts Submission

June 2022

Australian Chamber of Commerce and Industry

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1. INTRODUCTION

1. The 2021-22 Annual Wage Review, as with the previous two, is being undertaken in the shadow of the COVID pandemic and under a heavy veil of uncertainty.

2. For this reason, ACCI continues to stress the need for genuine caution and moderation in awarding any increase in the minimum and award minimum wages.

3. There are many clouds on the horizon and the economy remains vulnerable and exposed due to:
   a. The risk of new variants of COVID emerging that may be more infectious and virulent, leading to further economic disruption
   b. The Russia-Ukraine conflict intensifying and spreading to other parts of Europe, particularly with Finland and Sweden now seeking to join NATO
   c. The consequent surge in fuel prices and supply chain disruptions, which along with high spending COVID stimulus programs, is contributing to spiralling inflation in many advanced economies
   d. Geo-political tensions spilling onto our shores from the increasing assertiveness of China, particularly the signing of the security pact between the Solomon Islands and China
   e. The recent COVID lockdowns in China, as it strives for an eradication policy in relation to COVID, slowing manufacturing activity and contributing to new bottlenecks in global supply chains
   f. The risks of stagflation emerging in our major trading partners, notably the US, UK and EU.

4. At home, while the rise in inflation is lagging that of many other developed countries (US, UK and EU in particular), pressure is mounting. Recent surges in automotive fuel, gas and electricity prices are expected to push inflation high in Australia in the coming months. The Australian economy is also entering uncharted territory, as we face an extended period of tightening monetary policy - the first time in over a decade - and unemployment falling to its lowest level in almost 50 years, challenging what we know about the relationship between wages and inflation.

5. In this year's annual wage review, in addition to in the domestic and global economies, due consideration must also be given to the high level of uncertainty faced and continuing and new adversities confronting businesses. Operating costs for businesses are rising sharply on the back of inflation, fuel costs, and supply chain disruptions making business conditions challenging. Many businesses are also carrying a high amount of debt from the extended period of lockdown and restricted trading conditions. Businesses are finding it difficult, or simply are unable, to pass on these increasing costs to their customers. Margins for many businesses are tight and becoming even tighter. These stresses are being felt more severely in sectors with a high proportion of award-reliant employees that will be the most affected by minimum and award wage increases arising from this Review.

6. Further, we continue to experience a multi-speed economic recovery following the COVID delta and omicron disruptions. Some sectors are doing well and leading the economic recovery, particularly mining, professional and financial services, real estate services, and healthcare. However, these are sectors that have traditionally carried a relatively low award reliant workforce.

7. In contrast, customer-facing service industries, particularly in accommodation and food services, arts and recreation, some retail and personal (other) services, as well as tourism related transport, continue to struggle. Businesses in these sectors were the most impacted by the COVID delta lockdowns in the second half of 2021 and the COVID omicron disruptions in the first quarter of 2022, and remain saddled with post-pandemic debt, flaky consumer confidence, and changes in consumer behaviours and demand. These sectors traditionally have a higher award-reliant workforce and are most affected by the Panel's decision on award minimum wages.

8. The diversity in conditions facing business in the multi-speed economy is particularly salient for sectors with a highly award-reliant workforce, those with businesses directly subject to the decisions in these reviews. This not only makes the determination of a single level of increase in minimum and award minimum wages very difficult, but it should be a factor compelling a high degree of caution and moderation in 2022. Distilling this diversity of experience across industry secvtors into a single outcome or increase will be particularly difficult for the Panel.

9. Further, while the impact of inflationary pressure on household budgets is a key consideration, it is also important the Expert Panel take into account the range of measures announced by the previous Government in the March Budget to alleviate cost of living pressures for the low paid. These include a one-off cost of living tax offset of $420 to raise the low to middle income tax offset (LMITO) in 2021-22 to $1,500 for individuals and $3,000 for couples; a temporary halving of the fuel excise to 22.1 cents per litre; and an increase in the childcare subsidy for low-income families. The new Government supported these measures, and they will continue to be rolled out to benefit low-income households, reducing cost of living pressures and increasing household disposable income of minimum and award minimum wage employees.[1]

1.1 ACCI Position

10. As outlined in our Reply Submission of May 2022, ACCI regard **an increase in minimum and award minimum wage of up to 3% as reasonable**. This gets the balance right, taking into account the full range of risks and uncertainties facing the Australian economy, workers and businesses.

11. ACCI recognise household expenses are increasing, just as the operating costs to businesses are increasing. In making its decision, the Expert Panel needs to consider what is affordable and what it not. If the wage increase exceeds the moderate levels that balance what businesses can afford and community expectations, jobs and businesses will be lost.

12. The Expert Panel has for some time stressed to all those who take part in these reviews that there is no mechanistic or formulaic approach to minimum wage uprating under the Fair Work Act. This approach should be maintained, with all indicators taken into account, as well as the full range of statutory considerations. This precludes any assumption of a minimum level of increase being determined by the CPI.

13. Any contention that the statute compels real minimum wage increases every year would be to have the Panel adopt precisely the mechanistic or determinative approach which it has consistently refused to do in previous reviews.

[1] See https://alp.org.au/policies

14. Further, the multispeed economy, with a slower rate of recovery by businesses in the accommodation and food services sectors, tourism related transport, and arts and events sub-sectors, warrants a delay in the commencement date of any increase in award minimum wages for these sectors.

15. ACCI recommend the Panel adopt a similar approach to that of the 2020-21 Review, delaying the commencement of the wage increase for specific award classifications to a date no earlier than 1 November 2022. A delayed determination under s 286(2) is justified for modern awards that map into aviation and tourism, accommodation and food services and arts and recreation awards.

16. The recently released ABS National Accounts and ABS Businesses Indicators data, as well as the FWC's update of Professor Borland's Industry Analysis clearly shows the lagging recovery of these industry sectors/sub-sectors. The situation faced by businesses subject to these awards satisfies the relevant exceptional circumstances for the Panel to order delayed commencement date of any increase in these awards.

2. NEW ECONOMIC DATA

17. ACCI has already provided detailed discussion of economic considerations in our Initial and Reply submissions. The following section addresses new data released since 6 May 2022.

2.1 National Accounts

18. The recently released ABS National Accounts data showed Gross Domestic Product (GDP) increased 0.8% in the March quarter to be 3.3% for the year.[2] This is a step down from the annualised rate of 4.2% in the December quarter 2021, reflecting the strong headwinds from the COVID omicron outbreak and flooding in southeast Queensland and northern NSW.

19. The growth was powered by household and government spending, which increased 1.5% in the quarter, stimulated by discretionary spending on travel, hotels, restaurants and cafes, recreation and cultural activities as COVID restrictions were steadily eased over the quarter. Yet, this improvement does not fully reflect the challenges faced by businesses in these sectors from staff shortages, due to high employee absences from COVID infections or being a close contact, and lower foot traffic as more people worked from home, particularly in CBDs.

20. The household savings rate was down 2 percentage points to 11.4%, as people appeared confident that economic conditions were improving and were prepared to spend. While down, household savings remain elevated relative to its pre-COVID average of 5%, with these high savings likely to support increased household spending over the year.

21. The increase spending also reflects higher household gross disposable income, which was up 0.6% on the back of an increase in compensation of employees, a reflection of growing employment and increased pressure on wages.

22. Compensation of employees was up 1.8% in the quarter, 5.5% for the year, and contributed 0.8 percentage points to GDP in the quarter. In comparison to the wage price index, compensation of employees includes all payments to employees, from wages and salaries (cash and in-kind), as well as employer's social contribution such as superannuation, overtime, allowances, holiday and sick pay, bonuses and commissions. Despite criticism of slow growth in the wage price index over the past year, when the full suite of payments to employees is included, it would appear compensation of employees is keeping pace with high inflation.

23. The increased household consumption expenditure also contributed to strong import growth, with imports of goods and services up 8.1%, detracting 1.5 percentage points from GDP growth. Imports of passenger cars (up 32%) and household electrical items (up 30%) were the major contributors. In contrast exports fell 0.9%, as mining production slowed and exports of commodities fell.

24. Import growth was also influenced by businesses rebuilding inventories back to stock levels closer to pre-pandemic levels, as supply constraints on imports eased in the quarter. A record $7.5 billion ramp-up in inventories contributed 1 percentage point to GDP and partly offset the detraction from imports. The bounce in inventories is a key factor in getting businesses back to full operation capacity and returning to pre-COVID activity levels.

[2] ABS 2022 Australian National Accounts: National Income, Expenditure and Product, March 2022

2.2 Industry Gross Value Added

25. These headline National Account numbers are at an aggregate level, yet we face a multispeed economy. While some sectors are doing well, other sectors are slower to recover.

26. Industry gross value-added (GVA) paints a clear picture of the variability across industry sectors, with some sectors continuing to lag the overall economic recovery.[3]

27. The table below shows GVA by industry for the March quarter 2022; since the COVID-delta lockdowns (June 2021); over the past year (March 2021); and since the beginning of the pandemic (March 2020).

Table 1: Industry Gross Value Added

	December 2021 - March 2022	June 2021 - March 2022	March 2021 - March 2022	March 2020 - March 2022
Accommodation and food services	3.7%	-3.4%	-0.5%	-1.1%
Transport, postal and warehousing	4.3%	5.3%	8.3%	-0.8%
Air and space	101%	12%	86%	-57%
Rail and pipelines	0.3%	-2.8%	-1.1%	-9.3%
Arts and recreation services	4.4%	7.2%	7.3%	5.4%
Administrative and support services	0.5%	4.7%	11.1%	-0.3%
Manufacturing	1.1%	1.5%	3.2%	2.6%
Construction	0.2%	2.0%	4.2%	3.3%
Retail trade	0.8%	4.3%	4.8%	8.8%
Wholesale trade	3.2%	1.1%	2.3%	9.1%
Health care and social assistance	-0.9%	2.7%	5.1%	9.6%
Agriculture, fishing and forestry	-5.8%	5.5%	10.2%	48.5%
Mining	-1.5%	-1.1%	-2.0%	-3.6%
Electricity, gas, water and utilites	0.9%	0.3%	2.4%	0.9%
Information, media and telecommunications	1.2%	8.1%	10.2%	11.8%
Financial and insurance services	0.7%	2.0%	3.1%	5.1%
Rental, hiring and real estate	-1.8%	-0.2%	1.1%	3.3%
Professional, scientific and technical services	3.1%	8.5%	8.7%	10.4%
Public administration and safety	0.2%	2.7%	2.9%	5.3%
Education and training	0.4%	1.3%	1.5%	2.6%
Other services	-0.2%	1.5%	3.3%	4.7%
GVA at basic prices	0.5%	2.5%	3.8%	5.0%

Source: ABS Australian National Accounts: National Income, Expenditure and Product

28. It is important to note that while some sub-sectors of transport postal and warehousing and accommodation and food services experienced strong growth in GVA in the December 2021 and March 2022 quarters, the sectors remain below their pre-delta (June 2021) and pre-pandemic (March 2020) level and are lagging the overall recovery.

29. Similarly, the arts and recreation sector also experienced strong growth in GVA over the December 2021 and March 2022 quarters and GVA is now above pre-delta and pre-pandemic levels. However, like the tourism and transport sector, there is a large disparity within the sector, with arts and event businesses still to get back on their feet fully after being mothballed for many months in 2020 and 2021. For businesses that remain in the sector, it will take some time to rebuild their operations and client base, restore their finances and repay debt. Therefore, the recent strong growth in GVA is not reflective of the financial position of many businesses in the arts and recreation sector.

[3] ABS 2022 Australian National Accounts: National Income, Expenditure and Product, March 2022

2.3 Energy prices

30. Businesses are facing increasing pressure from rising input costs, particularly energy prices, with gas prices increasing more than four-fold for some businesses in NSW, Queensland and Victoria and the regulated maximum electricity price set to rise up to 20% for businesses in NSW.

31. Spot market gas prices have surged in the east coast market over the past few weeks following the failure of NSW gas retailer Weston Energy and increasing demand as we move into the cooler months. In late May, the Australian Energy Market Operator (AEMO) was forced to use its authority to cap spot market gas prices in NSW, Queensland and Victorian markets at $40 per gigajoule. Manufacturers on contract rates typically pay less than $10/GJ.

32. The four-fold increase in the spot market has raised gas prices well beyond the reach of most commercial and industrial gas users (manufacturers). Few businesses reliant on the gas spot market will be able to remain viable if prices are sustained at this level for even a short period of time. There are also a large number of commercial and industrial gas users nearing the end of long-term gas supply contracts that will become highly exposed if they are unable to negotiate new supply contract at reasonable prices in the coming months. It is likely that most gas-reliant manufacturers will be forced to close their doors unless a solution to these high gas prices can be found in the next few weeks.

33. In addition, the Australian Energy Regulator (AER) recently approved a sizable increase in the Default Market Offer (DMO) electricity prices for small business in 2022-23. The DMO is the regulated maximum price an electricity retailer can charge a standing offer customer in Queensland, NSW and SA. Overall, NSW small business customers will see an increase in electricity prices of 10% to 19.7%, Queensland 12.8% and South Australia 5.7%.

34. The drivers of the increase relate mainly to a reduction in thermal generation from planned outages, higher coal and gas prices, slowing investment in new capacity and more ‘peaky’ demand driving up the hedging costs for retailers.

35. The increased electricity prices add to the increased operating costs for businesses. Businesses will be forced either to absorb these operating cost increases, further tightening their margins, or pass them onto customers through higher prices, adding to inflationary pressure.

2.4 Business Conditions

36. Business conditions remain challenging for many businesses, with the May 2022 ABS Business Conditions and Sentiment survey indicating 38% of businesses expect to increase their prices more than usual over the coming quarter.[4] Businesses cite increasing costs of products and services (92%), rising fuel and/or energy costs (78%), other business overheads (50%) and staff costs (38%) as the reason for the price increase.

37. Yet, almost half the businesses surveyed are unable to increase prices, despite facing similar challenges of rising costs, due to the need to retain customers (46%), fixed-price contracts (46%) and advertising arrangements (39%).

[4] ABS 2022 Business Conditions and Sentiments, May 2022.

38. Manufacturing (58%), construction (58%), wholesale trade (57%) and accommodation and food services (54%) faced the highest cost pressures and had the highest proportion of businesses intending to increase their prices over the next three months.

2.5 Labour mobility

39. Labour mobility ticked up sharply in the past year, according to data recently released by the ABS, with 9.5% of the workforce, or 1.3 million people changing jobs in the year to February 2022 – the highest job mobility rate in over a decade.[5] Women were more likely than men to change jobs, with 10% of women moving to a different employer over the past year, compared to 9.1% of men.

40. It appears that workers are moving out of sectors that were the most impacted by COVID restrictions and/or using the tight labour market as an opportunity for a career change, with 57% of those that changed jobs moving to a different industry sector. Industries with a high proportion of workers leaving their job to work in a different sector include wholesale trade (81% over the year ending February 2022), administrative and support services (74%), arts and recreation (72%), retail trade (70%), manufacturing (68%), accommodation and food services (63%), and transport, postal and warehousing (60%).

[5] ABS 2022 Job Mobility, February 2022

3. FWC INFORMATION NOTE – INDUSTRY ANALYSIS

41. ACCI appreciate the FWC's efforts to update the analysis grouping industries according to the impact of COVID and their rate of recovery, that had previously been prepared by Professor Borland in the 2019-20 and 2020-21 Reviews. ACCI's Initial and Reply submissions had noted the importance of this analysis for the 2021-22 Review given that there have been two major COVID outbreaks over the past year – the delta lockdowns between June and October 2021, followed by the omicron disruptions at the beginning of 2022, with economic activity severely curtailed over these periods.

42. The analysis reinforces ACCI's assessment that we face a multispeed economy. While some industry sectors are performing well, others continue to lag the recovery, and it will be some time before activity in these sectors return to pre-COVID levels.

43. The Information Note was prepared before the release of the ABS National Accounts and ABS Business Indicators. In the discussion below we have updated the business performance indicators to include these updated numbers.

44. The analysis by the FWC observes changes since June quarter 2021, the period before the COVID-delta outbreak. The extended lockdowns in NSW, Victoria and the ACT due to the COVID-delta outbreak had a severe impact on economic activity, which merits this comparison. But, as shown in Professor Borland's industry analysis for the 2020-21 Review, there were a number of sectors that continued to lag the recovery prior to the COVID-delta outbreak. Therefore, for some industries it is also important to observe the recovery in employment and business indicators prior to the pandemic (i.e. since March 2020).

45. ACCI question the approach taken by Professor Borland, in the conclusion of the Information Note, to use job vacancies to discount the slower recovery in jobs in sectors where employment remains below their pre-COVID level and are clearly lagging the recovery. As the ABS jobs mobility data shows workers are taking advantage of the tight labour market to move away from sectors that are first to face COVID restrictions to sectors less vulnerable to disruptions. A high proportion of workers in wholesale trade (81%), administrative and support services (74%), arts and recreation (72%), retail trade (70%), manufacturing (68%), accommodation and food services (63%), and transport, postal and warehousing (60%) have left these sectors for other sectors over the past 12 months.[6]

46. It is not likely that workers will quickly return to these sectors. The high vacancy rates will take some time to dissipate, with businesses continuing to face staff shortages as they struggle to recruit new employees over the next 12 months. This will have implications for their ability to rebuild, recover debt and remain viable, despite the strengthening economy.

47. These problems are no more apparent than in the tourism sector, with the sector simply not having enough staff to support a strong rebound in visitor numbers. Hotels, restaurants and tour providers, are stretched for staff and business owners are being forced to trim their operations – making fewer rooms available, reducing opening hours and taking less people on tour due to labour shortages.

48. High job vacancies are a constraint on businesses ability to operate at full capacity and should be viewed as a factor likely to slow the recovery of an industry sector. The Panel should not interpret high job vacancy rates as the sign of a strong recovery or an indication that businesses in the sector are

[6] ABS 2022 Job Mobility, February 2022

performing well. ACCI disagree with the use of job vacancies in this analysis as an indicator of economic recovery.

49. In addition, there appears to be some inconsistencies in the way industry sectors have been allocated to the different categories of lagging, almost recovered and fully recovered. In particular, based on the data used in the analysis by Professor Borland (Table 5), accommodation and food services has been classified as almost recovered, yet it meets the criteria he set to be classified as lagging the recovery – payroll jobs are more than 5% below their pre-COVID level and GVA is 4.1% below its pre-COVID level.

50. The recent COVID delta and omicron outbreaks had the greatest impacts on businesses in customer-facing service industries such as accommodation and food services, arts and recreation, personal services and some retail, as well as tourism-related transport sectors. These were sectors identified in the earlier analysis by Professor Borland as having experienced the greatest impact of the initial COVID outbreak. While these sectors lagged the recovery at the beginning of 2021, the COVID delta and omicron outbreaks further set back the recovery of these sectors in 2022.

51. As shown by the Fair Work Commission analysis, payroll jobs and/or employment is still well below pre-delta levels in accommodation and food services (payroll jobs down 10%), transport, postal and warehousing (payroll jobs down 1.4%), arts and recreation services (employment down 11%), construction (payroll jobs down 3%), wholesale trade (employment down 11%) and manufacturing (employment down 6%).

52. Business performance is also lagging in these sectors. For accommodation and food services, company gross operating profits (CGOP) are down 56%, sales are down 3.2% and gross value added (GVA) is down 3.4% relative to June 2021.[7] While there are some subsectors of the transport, postal and warehousing sector that are doing well, there are others, particularly those linked to the international tourism sector, that continue to lag the recovery. For subsectors such as aviation, GVA remains 57% below its pre-COVID level (March quarter 2020) despite being up 86% for the year (March 2021 to March 2022) and up over 100% in the March quarter 2022 (see Table 2). For arts and recreation, despite GVA improving 7.4% and sales being up 10%, CGOP is down 10%. This suggests margins of businesses in the sector are being severely squeezed by increasing operating costs. Also, as noted above, there are significant discrepancies across the sector, with the GVA of the arts and events subsectors lagging but overshadowed by improvement in other subsectors.

Table 2: Business Performance Indicators by Industry (selected industries).

	Gross Value Added	**Sales from Goods and Services**	**Company Gross Operating Profits**
	June quarter 2021 to March quarter 2022	**June quarter 2021 to March quarter 2022**	**June quarter 2021 to March quarter 2022**
Accommodation and Food Services	-3.4%	-3.2%	-55.6%
Transport, postal and warehousing	5.3%	2.6%	15.4%
Arts and recreation services	7.2%	9.9%	-9.8%
Wholesale trade	1.1%	2.5%	15.9
Construction	2.0%	5.6%	22%
Retail trade	4.3%	1.1%	24.6%
Manufacturing	1.5%	-1.1%	24.8%

Source: ABS Australian National Accounts: National Income, Expenditure and Product; and ABS Business Indicators

[7] Note: Following the release of ABS Business Indicators on 31 May and ABS National Accounts on 1 June, this data has been updated to compare June quarter 2021 with March quarter 2022.

53. Based on the slower recovery of payroll jobs and employment and the updates to the business performance indicators, the case for exceptional circumstances continues to exist for accommodation and food services, tourism related transport and arts and events subsectors.

54. Applying the approach taken by the Panel in the 2020 -21 Review, a delayed determination under s 286(2) to no earlier than 1 November 2022 is justified for modern awards, that map into the following:

   a. **Aviation and Tourism Awards** — *Air Pilots Award 2020, Aircraft Cabin Crew Award 2020, Airline Operations – Ground Staff Award 2020, Airport Employees Award 2020, Alpine Resorts Award 2020, Marine Tourism and Charter Vessels Award 2020, Wine Industry Award 2020*.

   b. **Accommodation and Food Services Awards** — *Hospitality Industry (General) Award 2020, Restaurant Industry Award 2020, Registered and Licensed Clubs Award 2020*.

   c. **Arts and Recreation Awards** — *Amusement, Events and Recreation Award 2020, Live Performance Award 2020, Fitness Industry Award 2020, Sporting Organisations Award 2020, Racing Clubs Events Award 2020, Racing Industry Ground Maintenance Award 2020, Travelling Shows Award 2020*.