

FAIR WORK COMMISSION
ANNUAL WAGE REVIEW 2015

NSW GOVERNMENT SUBMISSION

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Introduction

The NSW Government has contributed submissions to most past Annual Wage Reviews. Unfortunately, the timing of the 2015 NSW State election has made it impossible to file this Submission by the normal due date. The Submission refers to economic and other data available as at 31 March 2015.

Executive Summary

Economic activity has continued to grow at a moderate pace, with GDP growth expected to be below trend over 2014-15. The Reserve Bank recently concluded that 'labour market conditions [are] likely to remain subdued and the economy [will] continue to operate with a degree of spare capacity for some time'¹.

While strong NSW domestic demand is outpacing that of other states, the relative weakness in national demand has meant that NSW economic growth for 2014-15 is now expected to be 2¾ percent compared to 3 per cent growth forecast at Budget.

By 2015-16, as the national and global economies strengthen, net export performance is expected to improve and the 2015-16 forecast for domestic demand growth for NSW is 3¼ per cent, with GSP growth rising to an above-trend rate of 3 per cent.

Price pressures remain subdued as CPI inflation remains low at 1.7 per cent for the year to the December 2014 quarter². Spare capacity in labour and product markets is likely to continue to limit domestic inflationary pressures. The Wage Price Index for the year to the December 2014 quarter grew by 2.4 per cent³, the slowest growth on record.

Labour market performance remains soft, with unemployment at 6.3 per cent in February 2015.⁴ Slightly softer employment growth, combined with stronger forecast population growth, as labour is drawn into New South Wales given its relative economic strength, is now expected to result in the unemployment rate remaining at around recent levels through 2014-15.

In the Half Yearly Review, NSW employment growth was forecast to pick-up in 2015-16, consistent with above-trend GSP growth. This was expected to result in the NSW unemployment rate trending down through 2015-16, averaging 5½ per cent.

However, the NSW Government is particularly concerned about youth unemployment, which rose from 11.9 per cent in February 2014⁵ to 12.6 per cent in February 2015 – double the overall rate.

¹ RBA *Minutes of the Monetary Policy Meeting of the Reserve Bank Board 3 March 2015*

² ABS 6401.0 – Consumer Price Index, Australia December 2014; All Groups CPI figure

³ ABS 6345.0 – Wage Price Index, Australia December 2014

⁴ ABS 6202.0 – Labour Force, Australia February 2015

⁵ ABS 6291.0.55.001 – Labour Force, Detail Electronic, February 2015.

This environment continues to highlight the crucial importance of further job creation, and suggests that now is not the time to diminish incentives for the employment of entry-level employees.

As we have done in earlier submissions, the NSW Government submits that the Panel should take a cautious approach to setting the minimum wage.

Part 1 – Statutory framework and award-reliant employment

Statutory Framework

1. In this annual wage review, the Expert Panel is required to review the national minimum wage order and modern award minimum wages.⁶ The Panel must then make a national minimum wage order, and may make one or more determinations varying modern awards to set, vary or revoke modern award minimum wages.⁷
2. In addition, the Panel must set special national minimum wages for all award/agreement free employees who are junior employees, employees to whom training arrangements apply, and employees with a disability, as well as setting the casual loading for award/agreement free employees.⁸
3. The NSW Government submits that, in arriving at its decision, the Panel must balance economic, social and industrial considerations, as relevantly provided for in the *Fair Work Act 2009* (Cth).
4. The relevant provisions are the Minimum Wages Objective and the Modern Awards Objective, which are as follows:

Minimum Wages Objective

284 The minimum wages objective

What is the minimum wages objective?

(1) The FWC must 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.

⁶ Fair Work Act 2009 s285(1)

⁷ Fair Work Act 2009 s285(2)

⁸ Fair Work Act 2009 s294

The modern awards objective

What is the modern awards objective?

(1) The FWC must 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.

This is the ***modern awards objective***.

When does the modern awards objective apply?

(2) The modern awards objective applies to the performance or exercise of the FWC's ***modern award powers***, which are:

- (a) the FWC's functions or powers under this Part; and
- (b) the FWC's functions or powers under Part 2-6, so far as they relate to modern award minimum wages.

Note: FWC must also take into account the objects of this Act and any other applicable provisions. For example, if the FWC is setting, varying or revoking modern award minimum wages, the minimum wages objective also applies (see section 284).

5. In addition, consideration is to be given to the Objects of the Act, as relevant.⁹
6. In practical terms, this means that the following key objectives need to be balanced by the Panel:
 - Ensuring a wage outcome is not detrimental to strong and sustainable economic performance;
 - Ensuring that participation in paid employment is maximised, particularly in relation to young workers;
 - Ensuring and maintaining a fair and relevant safety net of minimum wages which meets the needs of award-reliant employees and employers; and
 - Maintaining incentives to bargain.

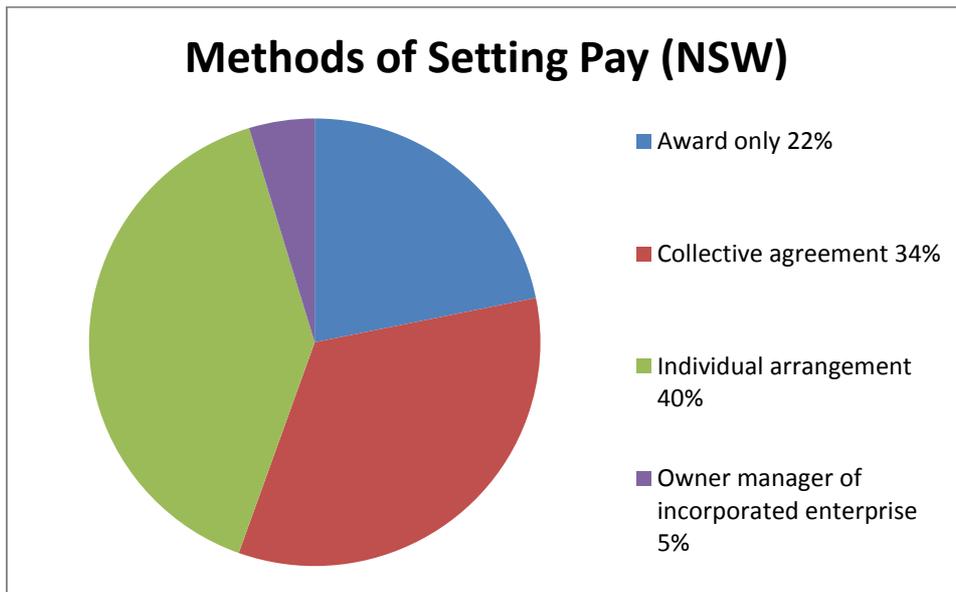
Dimensions of award-reliant employment

7. Given that the Review focuses on award reliant employees, the following paragraphs provide some indication of the numbers of such employees, and the industries and businesses in which they are employed.
8. Recent ABS data¹⁰ indicates that approximately 3.12 million employees in NSW are situated within the national industrial relations system. Of these employees, almost 22 per cent per cent of all NSW employees are award-reliant. Clearly, such employees will be directly affected by the Commission's Wage Review if it chooses to increase minimum rates of pay in modern awards and the national minimum wage.
9. Table 1 below analyses the different methods of setting pay for employees in NSW.

⁹ Fair Work Act 2009 ss3(a), (b), (f), (g)

¹⁰ ABS, Employee Earnings and Hours, May 2014, Cat.No.6306.0

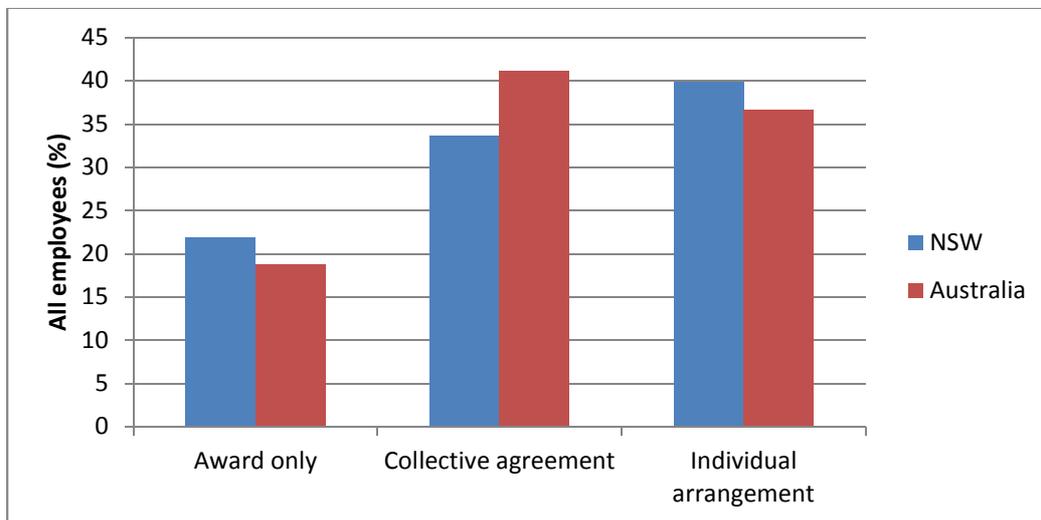
Table 1 – Methods of Setting Pay NSW



Source: ABS, Employee Earnings and Hours, May 2014, Cat.No.6306.0

10. To place these figures in a national context, the proportion of award reliant employees in NSW is significantly higher than the aggregate nation figure (22% v 18.8%). NSW has highest numbers of award reliant employees and the second highest on a proportionate basis.¹¹

Table 2 – Methods of Setting Pay – NSW and Australia

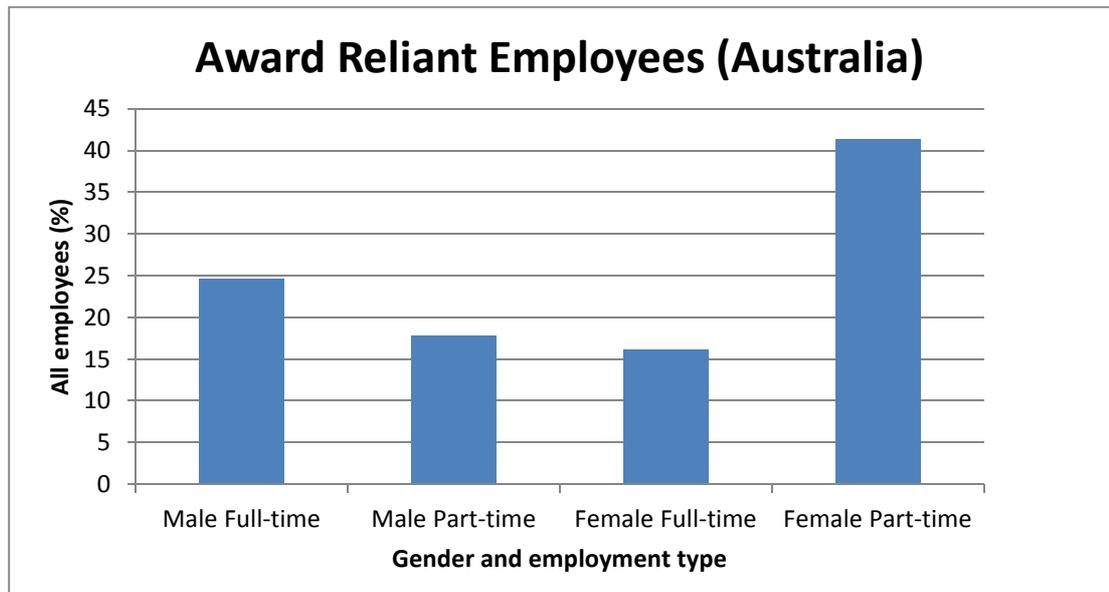


Source: ABS, Employee Earnings and Hours, May 2014, Cat.No.6306.0

11. Table 3 below demonstrates the breakdown of employees who are award reliant by gender and employment status across Australia.

¹¹ Ibid

Table 3 - Award Reliant Employees (Australia)

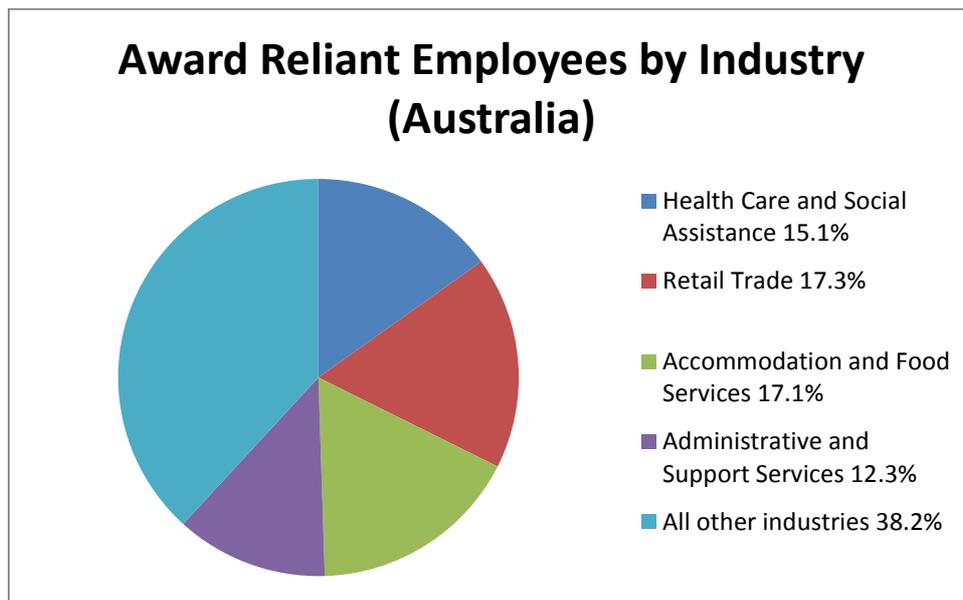


Source: ABS, Employee Earnings and Hours, May 2014, Cat.No.6306.0

12. Female employees comprise a high proportion of the total number of award-reliant employees, representing over 57 per cent. Of note is the number of part-time female employees, representing over 41 per cent of the total number of award-reliant employees who will benefit from an increase to minimum wage rates contained within modern awards.¹²
13. Male employees represent over 42 per cent of the total number, while part-time male employees make up almost 18 per cent of the total number of award-reliant employees.¹³
14. Table 4 below shows the number of award reliant employees in the four most award reliant industries as a proportion of the total numbers of all award reliant employees. Employees in the retail and accommodation and food services sectors comprise over a third of all award reliant employees.

¹² Ibid
¹³ Ibid

Table 4 - Award Reliant Employees by Industry (Australia)



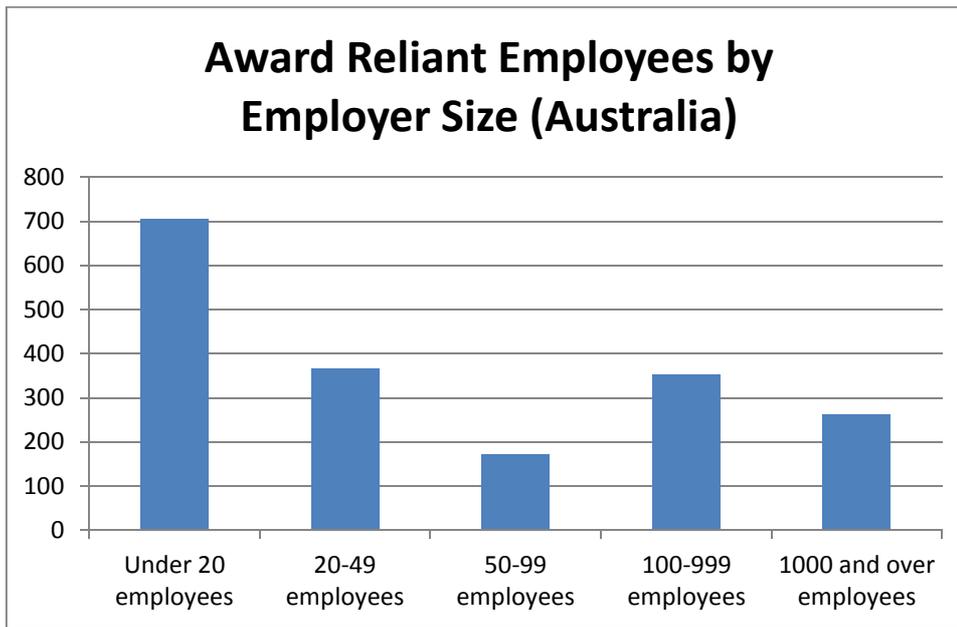
Source: ABS, Employee Earnings and Hours, May 2014, Cat.No.6306.0

15. Table 5 below shows that almost forty per cent of all award reliant employees across Australia are employed by small businesses (those that employ under 20 employees).
16. Small businesses employ close to 2.2 million employees (32 per cent of whom are award reliant), and account for around one third of total employees¹⁴. Small businesses also account for one third of total operating profits before tax for employing businesses. In addition, trends between 2002-03 and 2005-06 revealed that, while small businesses experienced the largest growth in industry value added, wages and, in particular, profit growth per business were low relative to other employing businesses. Small business also exhibited higher startup and closedown rates¹⁵.

¹⁴ Ibid

¹⁵ Farmakis-Gamboni, Samantha, Rozenbes, David and Yuen, Kelvin *Research Report 1/2012 Award reliant small businesses* Minimum Wages and Research Branch Fair Work Australia January 2012, pp30 & 109

Table 5 - Award Reliant Employees by Employer Size (Australia)



Source: ABS, Employee Earnings and Hours, May 2014, Cat.No.6306.0

17. A Research Report made available for the 2014 Review¹⁶ provided some insight into the nature and extent of award-reliant employees and employers on a national level.

¹⁶ Fair Work Commission Research Report 6/2013 Award Reliance

18. The Report sets out the distribution of pay-setting arrangements in the States and Territories as follows:

Table 6 - Percentage of Workforce by Pay Setting Arrangement

	Percentage of workforce by pay setting arrangement			
	Award Reliant	Enterprise Agreement	Other	Total
New South Wales	21	18	61	100
Victoria	18	23	59	100
Queensland	19	24	57	100
Western Australia	11	26	63	100
South Australia	22	25	53	100
Tasmania	28	26	46	100
Northern Territory	7	27	67	100
Australian Capital Territory	18	19	64	100
All states and territories	19	22	59	100

Table adapted from Table 4.9 at p60 of Research Report 6/2013, Award reliance, Sally Wright and John Buchanan, Workplace Research Centre, University of Sydney Business School, December 2013

19. The NSW figure for the proportion of award-reliant employees appear to be broadly consistent with that in the established source for such data, the ABS Employee Earnings and Hours survey, in both its 2012 and 2014 releases (ABS EEH Cat No 6306.0, May 2012 & May 2014). Differences in the other data categories appear to relate to differences in the scope of each survey and the definitions of the other data categories.¹⁷

¹⁷ See FWC Research Report 6/2013 Appendix G pp210- 212

Part 2 – Submissions addressing the statutory objectives

Performance and competitiveness of the NSW economy (s284(1)(a))

20. NSW Economic growth for 2014-15 was revised down in the 2014-15 Half-Yearly Review (HYR, December 2014) to 2¾ per cent from 3 per cent in the 2014-15 Budget (June 2014), reflecting national weakness, weaker contributions from commodities export and drier than average farm conditions.
21. Employment growth was weak in 2013-14 coming in at only 0.5 per cent, also reflecting weaker economic conditions. The HYR has revised down the forecast for employment growth for 2014-15 by ½ percentage point to 1¼ per cent but it is expected to strengthen to 2 per cent in 2015-16.
22. Given New South Wales' more diversified industry structure, the State is expected to face a less difficult transition away from mining investment (and related activity), which had dominated the national economy over the past few years. Low interest rates are also expected to underpin growth in dwelling investment and a gradual improvement in non-mining-related business investment. The expected modest depreciation of the Australian dollar along with the outlook for an improving global economy and ongoing demand from resource-intensive states, are all expected to assist in this transition.
23. However, sharp falls in global commodity prices have led to a faster decline in the national terms of trade than previously anticipated. This is flowing through to weaker income growth, with consequent dampening effects on business investment, the labour market and demand.
24. By 2015-16, as the national and global economies strengthen, NSW GSP is forecast to grow by an above-trend 3 per cent, with NSW domestic demand expected to grow by 3¼ per cent (both unchanged from Budget).
25. The 2014-15 HYR forecasts by NSW Treasury for major aggregates are set out in Table 7 below:

Table 7 - 2014-15 Half Yearly Review forecasts (NSW)^(a)

	2013-14	2014-15		2015-16		2016-17 and 2017-18 ^(b)	
	Outcome	Budget Forecast	Revised Forecast	Budget Forecast	Revised Forecast	Budget Projection	Revised Projection
Real State Final Demand	2.6	3¼	3¼	3¼	3¼		
Real Gross State Product	2.1	3	2¾	3	3	2¾	2¾
Employment	0.5	1¾	1¼	2	2	1¼	1½
Unemployment Rate ^(c)	5.7	5½	5¾	5¼	5½		
Sydney CPI ^(d)	2.5	2¼	2	2¼	2¾	2½	2½
- through the year to June quarter ^(d)	2.8	2¼	2	2¼	2¾		
Wage Price Index	2.5	3	2½	3½	3¼	3½	3½
Nominal Gross State Product	3.1	4¾	5	5¼	5¼		

(a) Per cent change, year average, unless otherwise indicated.

(b) Average across 2016-17 and 2017-18.

(c) Year average, per cent.

(d) 2014-15 includes a $\frac{3}{4}$ of a percentage point deduction from the abolition of the carbon tax. 2014-15 to 2016-17 include a $\frac{1}{4}$ of a percentage point increase due to tobacco excise increases.

World Economy

26. At the HYR the International Monetary Fund's (IMF) October global growth forecast was for 3.3 per cent in 2014, 0.4 percentage points lower than at Budget. The downgrade was largely due to lower-than-expected growth in the first half of 2014, particularly in the United States, Euro Zone, Japan and China. Also, in October 2014, the global growth projection for 2015 was lowered only slightly to 3.8 per cent, 0.1 percentage points down on Budget. In line with Budget, Australia's major trading partner growth was forecast to be at, or a little above, the long-run average over the next two years.
27. Since the 2014-15 HYR was released, the IMF has further revised its global growth forecasts to 3.5 per cent for 2015 and 3.7 per cent for 2016, down 0.3 percentage points for both years from their October 2014 forecasts. While the IMF has more recently commented that global growth will receive a boost from the decline in oil prices, it sees that the boost will be more than offset by negative factors, including the drag in investment associated with diminishing medium term growth prospects.
28. The ongoing downward revisions also generally reflect a deterioration in the outlook for China, the ongoing impact of the Russia-Ukraine conflict and falling oil prices on the Russian economy, stagnant growth in the Euro area and recession in Japan.
29. Risks around Australia's main trading partners also appear to have increased since the October forecasts, with the IMF downgrading China's growth by 0.3 and 0.5 percentage points in 2015 and 2016 to 6.8 and 6.3 per cent, respectively. Additionally, growth for India was downgraded by 0.1 of a percentage point to 6.3 per cent in 2015 though left unchanged at 6.5 per cent for 2016. For Japan growth is expected to be subdued at 0.6 in 2015 (revised down 0.2 percentage points) and 0.8 per cent in 2016.
30. On the positive side, the US recovery has continued to gain traction, despite a brief setback in the first quarter of 2014, with GDP rebounding in the second quarter 2014 and continuing to improve in the third quarter to be 2.7 per cent higher through the year. In their latest forecasts the IMF sharply upgraded US growth for 2015, amid continued improvement in the labour market, housing sector and still accommodative monetary policy. US growth is expected to be 3.6 per cent in 2015 and 3.3 per cent in 2016.
31. The World Bank has also updated its global growth forecasts. Global growth is now expected to be 3.6 per cent in 2015 and 4.0 per cent in 2016, down 0.4 and 0.2 percentage points respectively compared to their previous June 2014 forecasts. According to the World Bank, the 'global economy is still struggling to gain momentum as many high-income countries continue to grapple with the legacies of the global financial crisis and emerging economies are less dynamic than in the past'.

32. At 2014-15 HYR growth was uneven between regions and risks are more to the downside than at Budget. Growth in advanced economies is expected to improve in 2015 relative to 2014, albeit remaining relatively low compared to historical levels and driven largely by the United States. Growth in the United States has been improving consistently through 2014, but with the Federal Reserve ending its quantitative easing program, risks surrounding the normalisation of monetary policy settings remain.
33. The Euro Zone's outlook remains weak, with deflation concerns gaining traction and significant structural reforms still required. Similarly for Japan, ongoing effective structural reform is needed to sustain longer term growth, while potential near-term growth risks include deflation and tax increases. Both the Euro Zone and Japan continue to use extraordinary monetary policy measures to support their economies.
34. Emerging economy growth forecasts have been revised down. As the Chinese economy transitions towards more consumption-led growth, overall growth is forecast to slow from 7.7 per cent in 2013 to 7.4 per cent in 2014 and 7.1 per cent in 2015. Weakening property markets present a challenge in the near term, but the Government is responding, and could respond further, with measures to support the economy and sustain growth in line with expectations.
35. Risks to the outlook are slightly more to the downside than at Budget. Globally, risks include deeper-than-expected downturns in the Euro Zone and Japan spreading more widely and deflationary expectations becoming more entrenched. Nationally, weaker-than-expected non-rural commodity prices could adversely affect the terms of trade, further constraining national income, the viability of some mining operations and economic activity more generally.

Australian Economy

36. The outlook for the national economy was revised down in the HYR relative to Budget as recent falls in global commodity prices weigh on the outlook for net exports and the terms of trade. The consequent decline in national income growth will impact domestic demand and the labour market.
37. Softer demand growth for non-rural commodities coupled with increased supply, particularly for iron ore, is driving down global non-rural commodity prices. While declining oil prices have had some offsetting effect, the overall impact is for steeper declines in the terms of trade than forecast at Budget. Softer global non-rural commodity demand will also see a weaker net export performance, particularly in 2014-15.

38. Australia's terms of trade fell by a sharp 10.8 per cent during 2014. As a result, real net national disposable income¹⁸ grew by just 0.5 per cent in 2014. This compares unfavourably with an annualised growth rates of more than 7 per cent at the peak of the mining boom. This weakness in national income growth, coupled with slower employment and wages growth, has resulted in a more subdued outlook for household consumption than at Budget.
39. However, recent declines in the exchange rate are expected to cushion some of the impact of the declining terms of trade by making Australian exports and import-competing businesses more competitive. Monetary policy continues to be supportive, with the Reserve Bank of Australia (RBA) reducing interest rates by 25 basis points from 4 February noting concerns regarding expectations of more persistent below trend growth in the national economy. This reduction follows a long period of stable low rates. Looking forward markets are pricing in further interest rate reductions over coming months.
40. Businesses are responding to the current oversupply of non-rural commodities by further curtailing mining investment plans, leading to a more rapid decline in mining investment than expected at Budget.
41. Non-mining business investment, however, is showing signs of an earlier-than-expected recovery, with a pick-up in spending on machinery and equipment expected in 2014-15. This component is, however, import intensive and is likely to weigh on the net export contribution to economic growth. The outlook for dwelling construction remains broadly in line with Budget expectations. Lower-than-average rainfall in parts of the country has weakened farm production prospects for 2014-15.
42. Public demand is expected to grow relatively slowly over the next two years, reflecting fiscal consolidation by all levels of government.
43. However, there is considerable uncertainty around the timing and strength of the increase in non-mining business investment. This presents both upside and downside risks to the forecasts of economic growth for New South Wales.
44. In its February Statement of Monetary Policy the RBA has revised down its GDP growth forecast for 2014-15 by $\frac{1}{4}$ of a percentage point, to $2\frac{1}{4}$ per cent growth. The GDP growth forecast 2015-16 remains unchanged at 3 per cent.
45. The RBA's headline CPI inflation forecast was revised down by $\frac{3}{4}$ of a percentage point for 2014-15 and down by $\frac{1}{4}$ of a percentage point for year end 2015-16.

¹⁸ Real net national disposable income measures the total income available for Australians and takes into account the impact of movements in the terms of trade and income payable to the rest of the world (such as interest and dividends payable to foreigners) and depreciation.

46. The downward revision in inflation forecast reflects the fall in oil prices and the slightly weaker near-term outlook for product and labour markets, offsetting the upward price pressures from further exchange rate depreciation. Headline inflation is expected to remain below the 2 to 3 per cent target band in 2015, before picking up to be consistent with the inflation target.
47. The indirect effect of lower oil prices on other goods and services is expected to subtract a little less than $\frac{1}{4}$ percentage point per year from underlying inflation over most of the forecast period. Underlying inflation is expected to remain well contained and consistent with the inflation target through to 2016-17.
48. The direct effects of the exchange rate depreciation since early 2013 are expected to add a little under $\frac{1}{2}$ percentage point to underlying inflation over each year of the forecast period. The further staged increase in tobacco excise in 2015 and 2016 is expected to contribute around $\frac{1}{4}$ percentage point each year to the rate of headline inflation, but to have little effect on underlying inflation. The effect of the recent increase in the fuel excise is expected to be small compared with the effect of lower crude oil prices.

New South Wales Economy

49. Low interest rates, a surging property market, high population growth and a relatively low exposure to mining saw State Final Demand (SFD) growth pick up strongly through 2014. Through the year SFD growth has remained well above other states for the last four quarters.
50. However, NSW GSP growth in 2013-14, at 2.1 per cent, was lower than expected at Budget. The divergence from the strong growth in SFD largely reflected relatively weak net export performance.
51. For 2014-15, NSW demand will be driven by continued solid household consumption, an emerging recovery in non-mining business investment, sustained strength in dwelling investment, and high levels of Government investment.
52. Therefore, the HYR forecast for NSW domestic demand remains in line with Budget at an above trend growth rate of $3\frac{1}{4}$ per cent. Continued weakness in export performance (both overseas and interstate) is forecast to weigh more heavily than at Budget, resulting in a $\frac{1}{4}$ per cent downward revision to GSP growth for 2014-15, now expected at the long-term trend rate of $2\frac{3}{4}$ per cent.
53. The HYR forecast for economic growth of 3 per cent for 2015-16 is in line with Budget, with momentum expected to be maintained by strengthening non-mining business investment growth and improving net exports. Dwelling investment growth is expected to moderate, though remain solid. Household consumption growth is forecast to be underpinned by stronger labour income growth, even as house price growth is anticipated to slow.
54. This forecast for economic growth is on par with the Commonwealth's December 2014 Mid-Year Economic and Fiscal Outlook forecast for the national average.

55. A risk to the forecasts specific to New South Wales, is the possibility of a sharper-than-expected slowing in house price growth that may have implications for broader dwelling investment activity as well as for household consumption.
56. Were downside risks to global and domestic economic activity to eventuate, current policy settings provide flexibility to respond to sustained low income growth and weakening demand. Low levels of net debt provide the Commonwealth with the capacity to adjust its pace of fiscal consolidation. Moreover, the RBA retains scope to lower interest rates further given inflationary and wage pressures appear well contained.

Household consumption

57. Consistent with Budget, household consumption is forecast to remain the main driver of economic growth through 2014-15, bolstered by high population growth and wealth gains from strong house price growth. Historically low interest rates, the removal of the carbon tax and declining petrol prices will support real household disposable income in the near term, offsetting slightly weaker wage and employment growth.

Dwelling investment

58. Increases in house prices, strong population growth, low interest rates, State Government policy measures and an ongoing housing undersupply will support continued strength in dwelling investment through 2014-15 and 2015-16.
59. Combined with the early signs of the long-awaited resurgence in alterations and additions activity, this has seen the 2014-15 forecast for dwelling investment growth revised up slightly relative to Budget, before returning closer to trend in 2015-16. While building approvals have eased in recent months, they remain at high levels and there is a solid pipeline of residential work yet to be done which will provide ongoing support to the housing construction sector.

Business investment

60. Mining investment is forecast to be a continuing drag on growth. However, its impact will be smaller than anticipated at Budget, given the larger-than-expected declines seen in 2013-14 prompted by sharp falls in global commodity prices, particularly for coal.
61. Tentative signs of a pick-up in non-mining business investment and improving leading indicators have seen the outlook for business investment revised up compared to Budget. Commercial lending continues to grow strongly as does the pipeline of non-residential building work.
62. A lower exchange rate, increases in capacity utilisation and improved non-mining investment intentions suggest a stronger resurgence in business investment than at Budget. This growth is expected to be led by spending on machinery and equipment and non-residential building, while the decline in mining investment will continue to weigh on engineering construction.

Public final demand

63. Public demand is expected to continue to contribute modestly to growth over the next two years, however, fiscal restraint at all levels of government is expected to moderate public demand growth. State public investment is expected to remain at high levels and provide support for NSW economic activity.

Net Exports

64. Net exports are expected to weigh on GSP growth in 2014-15, caused by weakness from interstate demand and strong import growth. By 2015-16 an expected pick-up in interstate and overseas demand will have gained momentum, easing the drag from net export growth. The recent sharp depreciation in the exchange rate, if sustained, will help boost Australia's global competitiveness and provide some support for international exports. However, rural exports are expected to remain subdued in the near term due to drier-than-average conditions, and weaker global demand for commodities is anticipated to weigh on the contribution from coal exports. Imports are expected to grow strongly over the next two years in line with robust NSW domestic demand growth.

Labour Market

65. Employment grew by 0.5 per cent in 2013-14, in line with Budget expectations. At HYR strong growth in domestic demand and leading indicators (such as job ads) point to a strengthening of labour demand through the rest of the year, resulting in forecast employment growth of 1¼ per cent in 2014-15, down by ½ of a percentage point since Budget. This revision reflects the lagged effects of weaker GSP growth in 2013-14 and downward revisions to GSP growth in 2014-15. Slightly softer employment growth, combined with stronger forecast population growth, as labour is drawn into New South Wales given its relative economic strength, has seen the unemployment rate drift up to 6.3 per cent in February 2015.
66. In the HYR, employment growth was forecast to pick-up to 2 per cent in 2015-16, consistent with above-trend GSP growth. This was expected to result in the unemployment rate trending down through 2015-16, averaging 5½ per cent.
67. Over the last six months, the unemployment rate for people aged 15 to 24 years in NSW has also been on an upward trend but has remained around 12 per cent. It is currently 1.1 percentage points above the decade average. In February 2015, there were 90,700 unemployed people in NSW aged 15 to 24 years.
68. Within NSW, there is a significant variation in the youth unemployment rate between regions:
- In Sydney, the youth unemployment rate has averaged 13.4 per cent in Blacktown, 16.6 per cent in Inner South West Sydney, and 17.5 per cent on the Central Coast. This compares to rates of 5.4 per cent in the Northern Beaches and 8.8 per cent in the Eastern Suburbs.

- Outside the Greater Sydney region, the youth unemployment rate is around 17 per cent in the Hunter Valley, and Illawarra regions. In other regions rates tended to be between 10 to 14 per cent, with the notable exception of the Southern Highlands and Shoalhaven region where it is 8.0 per cent.
69. The total number of people aged 15 to 24 years that were employed in NSW has fallen from the peak of around 575,000 people in 2008, to around 548,000 in February 2015. At the same time the participation rate has also declined by 4 percentage points, to around an average of 64 per cent.
70. As new entrants into the workforce, the young are disproportionately impacted by weak labour market conditions since, when the economy slows, firms are reluctant to recruit. The slow employment growth has seen the participation of 15-24 year olds fall below their projected underlying level.

Inflation

71. In year-average terms, the Sydney Consumer Price Index (CPI) grew by 2.5 per cent in 2013-14, in line with Budget expectations. Since Budget, the fall in global oil prices, weaker wage and price expectations and a more subdued labour market are expected to put downward pressure on prices, partly offset by a lower exchange rate. These factors are expected to weigh on prices in 2014-15, leading to a ¼ of a percentage point downward revision to Sydney CPI. For 2015-16 the outlook for CPI remains unchanged relative to Budget. These forecasts include the impacts of the abolition of the carbon pricing scheme and the increase in the tobacco excise, as was the case at Budget.

Wages

72. Expectations of a softer labour market, combined with more subdued recent Wage Price Index (WPI) outcomes, have resulted in a downward revision to expected growth in the WPI across the forecast period. Broader measures of employee compensation from the National Accounts have been stronger recently, reflecting a shift towards full-time employment, increases in employer superannuation contributions and a gradual return of employee bonus payments. Even with above-trend employment growth in 2015-16, wage pressures are expected to remain well-contained given continuing spare labour capacity.

Promoting social inclusion (s284(1)(b))

73. In its 2013 Review, the Panel observed that:

For the purpose of conducting an annual wage review, s.284(1)(b) provides that the Panel must take into account promoting social inclusion through increased workforce participation. We accept that our consideration of social inclusion in the context of s.284(1)(b) is limited to increased workforce participation. On that basis it is obtaining employment which is the focus of s.284(1)(b). This involves a consideration of the increased incentives that higher minimum wages can provide to those not in employment to seek paid work, balanced against potential impacts

on the demand for low-paid workers and hence the supply of low-paid jobs, from large increases in minimum wages.¹⁹

74. The Panel confirmed this approach in its 2014 decision²⁰.
75. In the NSW Government's submission, the best way to promote social inclusion through increased workforce participation and to respond to the relative living standards and needs of the low paid is to ensure that disadvantaged and low skilled job seekers are able to participate fully in the labour market.
76. The NSW Government is committed to pursuing a range of strategies to restore the strength of the State economy, particularly in relation to job creation. Most recently, this includes changes to payroll tax arrangements to provide an additional rebate to businesses that employ workers who have recently lost their jobs through large-scale restructures.²¹
77. In the 2014-15 Budget, the NSW Government committed to numerous major infrastructure projects such as the WestConnex motorway, CBD and South East Light Rail, and the North West Rail Link. The Government also intends to invest \$20bn in infrastructure through its Rebuilding NSW plan. These projects, as well as other strategies, such as payroll tax rebates for hiring retrenched workers, are aimed at restoring the strength of the State economy, particularly in relation to job creation.
78. Clearly, the rate at which the National Minimum Wage and minimum award rates of pay are set will have a significant bearing on the success of these strategies. A stable wage environment is essential.
79. It is therefore the view of the NSW Government that the maintenance of a safety net of fair minimum wages must reflect general economic conditions and be balanced against access to employment opportunities and the needs of business.
80. In the 2013 Review, the Panel also observed that:

Data on the dynamics of labour market mobility show that low-paid employment is an important entry point into the workforce and a stepping stone to higher paid work, however, for some individuals for whom low pay can be highly persistent, increases in minimum wages are particularly important in maintaining living standards.²²
81. Consequently, when determining any changes to minimum wage rates, the Panel should take into account Australia's soft labour market conditions and the weakness of national demand.

¹⁹ Annual Wage Review 2012-13 [2013]FWCFB400, para [39]

²⁰ Annual Wage Review 2013-14 [2014]FWCFB3500, para 404-405

²¹ The *Payroll Tax Rebate Scheme (Jobs Action Plan) Amendment (Fresh Start Support) Act 2014* amended the *Payroll Tax Act 2007*, with effect from 19 November 2014

²² Annual Wage Review 2012-13 [2013]FWCFB400, at para [462]

82. By investing in the key drivers of the economy, the NSW Government has ensured that job performance has been good, with 145,200 new jobs created since the Government came into office in March 2011.²³
83. Minimum wage jobs provide employment for low skilled workers, function as an important stepping-stone for new entrants into the labour market, particularly young people, and provide opportunities to develop employability skills that facilitate progression to higher paying jobs.
84. Ease of access to paid employment is a particularly acute issue for young people, given the unacceptably high levels of youth unemployment highlighted at paras 63-66 above.
85. The NSW Government submits that the best way of promoting increased workforce participation is to ensure that the level at which minimum wages are set is appropriately balanced with the continuing provision of employment opportunities.
86. In addition, the NSW Government submits that the Panel should have regard to the role which the tax-transfer system could play in relation to the maintenance of an effective safety net for the low paid. The NSW Government particularly notes and endorses the observations of the Panel in the 2013 Decision where it said:

...increases in minimum wages are a blunt instrument for addressing the needs of the low paid.....The tax-transfer system can provide more targeted assistance to low-income households and is a more efficient means of addressing poverty.²⁴
87. Any decision to set minimum wages must appropriately take into account the role played by the tax-transfer system in supporting the living standards of low paid workers.
88. Minimum wages must not act as an impediment to affected workers securing and maintaining employment, or regaining employment once out of the workforce. Nor should a minimum floor be set such that it raises costs to a level that hinders an enterprise's competitiveness.

Encouraging collective bargaining (modern awards objective s134(1)(b))

89. In the 2013 Review decision, the Panel observed that:

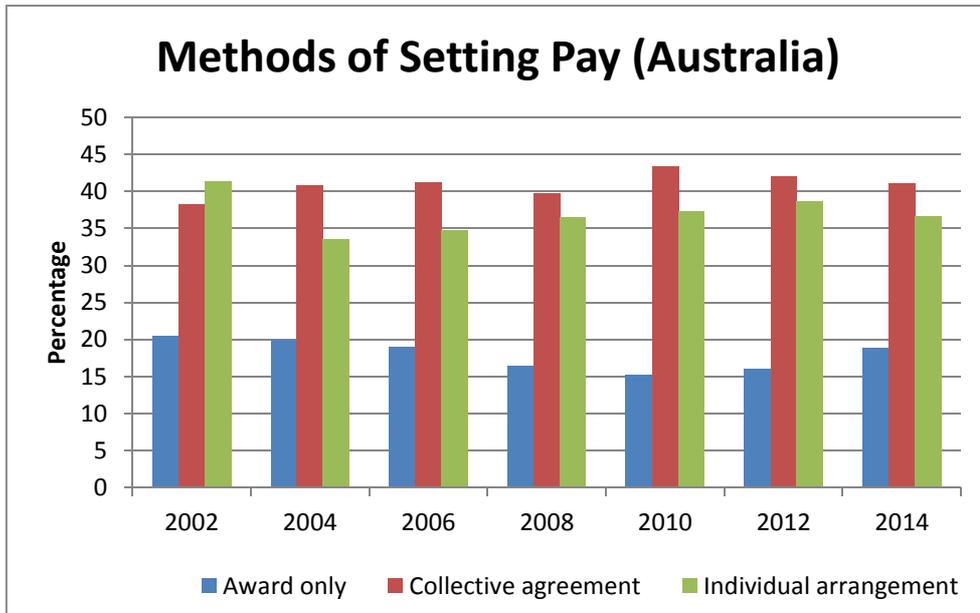
²³ ABS 6202.0 Labour Force Australia December 2014

²⁴ Annual Wage Review 2012-13 [2013]FWCFB 400, at para [57]

The current evidence indicates that the level of increases in minimum award wages which have occurred over the last decade are compatible with the continuing encouragement of enterprise bargaining.²⁵

90. In addressing this consideration, past Reviews have proceeded from the observation of a steady decline in the number of employees receiving award rates of pay only²⁶.
91. However, more recent data suggests that this approach may not be as compelling as it has been in the past.
92. For example, the most recent ABS EEH data release appears to indicate that the proportion of employees whose pay is set by awards has risen, while that whose wages are set by collective agreements has correspondingly fallen, as the following graph (Table 8) demonstrates. This follows on from similar behaviour in the 2012 data and may be indicative of a trend towards increasing award reliance.

Table 8 - Methods of Setting Pay (Australia)



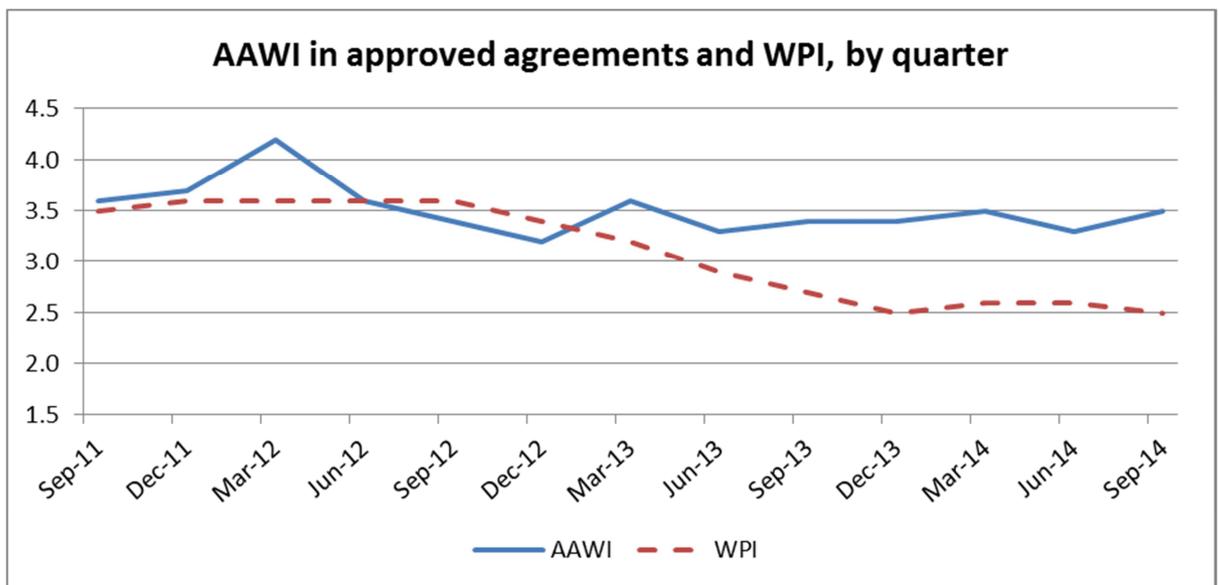
93. Further, aggregate bargained wage outcomes appear to have become more or less static around the 3.5 per cent mark since June 2012²⁷.
94. Also, a significant gap between the Average Annual Wage Increase (AAWI) measure of bargained outcomes and the WPI has opened up since early 2013, and appears to have now stabilised, as per the Chart at Table 9 below.

²⁵ Annual Wage Review 2012-13 [2013]FWCFB 400, at para [477]

²⁶ See for example AWR 2013-14, [446] and Chart 8.1

²⁷ *Trends In Federal Enterprise Bargaining September 2014*

Table 9 - AAWI in approved agreements and WPI, by quarter



Source: Department of Employment *Trends In Federal Enterprise Bargaining September 2014*

95. Research provided prior to the previous Review²⁸ suggested that minimum wage decisions made by the Panel may have an indirect effect upon wage outcomes in the bargaining stream. It is noted that the data collection for this research was undertaken during the period 2010 though early 2013²⁹, largely prior to the flattening of bargained increases and the recent decline of the WPI.
96. It may be then, that the relationship - whatever that may be – between minimum wage outcomes and bargained outcomes, has altered, or is in the process of evolving further, possibly beyond that illuminated by Research Report 7/2013.
97. It is of course noted that agreement reliant employees still outnumber their award reliant counterparts two to one, and significant differences between bargained minimum wage outcomes remain.
98. In any event, it is critical that a sustainable safety net of minimum wages is one that supports enterprise bargaining at NSW workplaces. In particular, the Panel should set minimum wages at a level that maintains incentives for enterprise bargaining that rewards flexible and productive work practices.
99. The NSW Government submits that any unnecessary increase to minimum wages that does not reflect productivity improvements may limit the capacity of businesses to absorb such increases and consequently have a deleterious impact on employment growth.

²⁸ FWC Research Report 7/2013 pxii

²⁹ FWC Research Report 7/2013 pp6-8, 39-45

Part 3 – Conclusion

100. The NSW Government submits that, in arriving at its decision, the Panel should give particular weight to the following concerns.
101. Firstly, the NSW Government believes that as many people as possible should be afforded the opportunity to obtain employment in the workforce. Many award reliant jobs, particularly for the young and low skilled, can be used as a stepping-stone to provide opportunities for individuals to develop their skills and progress to higher paid jobs in the future. It is therefore essential that minimum wages are not set at a level that has a detrimental impact upon the capacity of business to absorb such increases which in turn may cost employment opportunities.
102. Secondly, it must be noted that economic conditions and the medium-term outlook remain uncertain. Labour market performance has been unsuccessful in preventing unemployment edging almost 6 per cent, and forecasts indicate only modest improvement in the short term. Unemployment has increased as a result of a period of below trend growth which is not yet over.
103. In the NSW Government's submission, these concerns should compel the Panel to take a cautious approach to any adjustment to minimum wages in the current Review.