

FAIR WORK AUSTRALIA

ANNUAL WAGE REVIEW 2011-2012

SUBMISSION OF THE NSW GOVERNMENT

FWA ANNUAL WAGE REVIEW 2011-2012

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1. Introduction

The New South Wales Government urges the Fair Work Australia Wage Panel to take a cautious approach to its 2011-2012 Annual Wage Review.

While current economic forecasts point to some improvement of economic conditions in 2012-2013, considerable uncertainty as to global economic conditions may mitigate this longer term outlook. Further, unemployment rates in some New South Wales regions remain higher than the national average, suggesting that now is not the time to diminish incentives to the employment of entry-level employees.

In accordance with the minimum wages objective set out at s284 of the *Fair Work Act 2009*, this submission particularly focuses on:

- The current application of the Annual Wage Review to employers and employees in New South Wales;
- The performance and competitiveness of the national economy, with particular reference to New South Wales; and
- The promotion of social inclusion through increased workforce participation.

2. Application of the Annual Wage Review

Following the referral of powers by New South Wales and other States with effect from 1 January 2010, all employers and employees in New South Wales are now subject to the terms of the *Fair Work Act 2009* and other relevant legislation, with the following exceptions:

- New South Wales public sector employers and employees, excluding State Owned Corporations
- Local Government employers and employees; and
- Outworkers deemed to be employees by virtue of s5 of the *Industrial Relations Act 1996* (NSW).

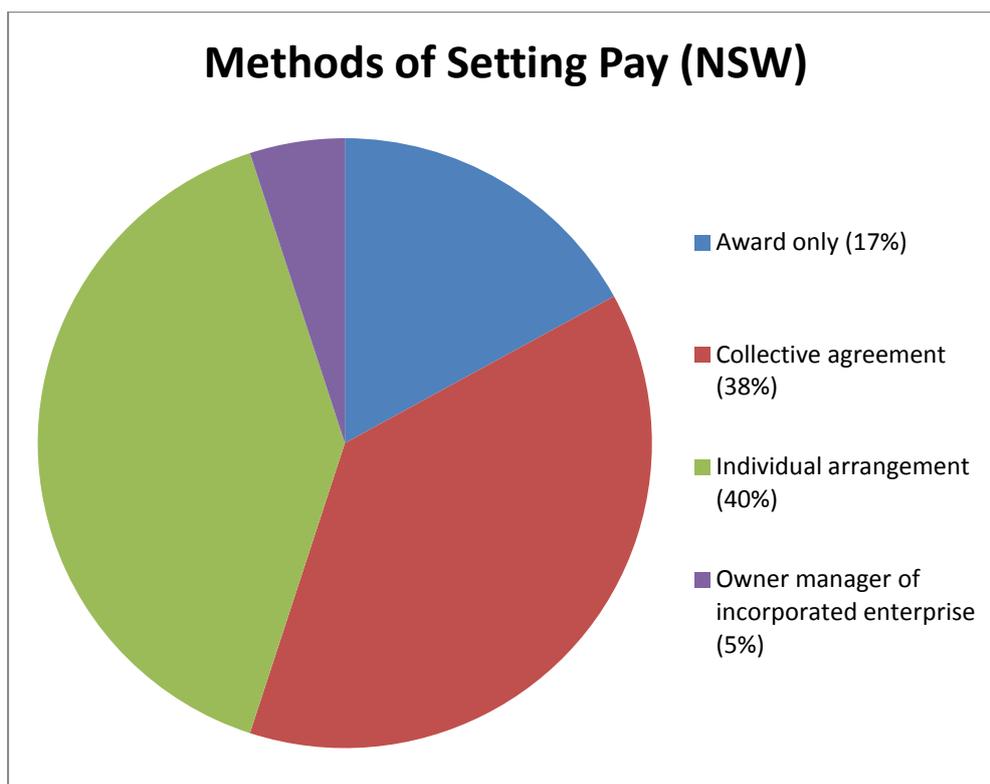
To assist in quantifying the impact of any minimum wage increases it is essential to understand which employees in New South Wales will derive a direct benefit from the decision handed down by FWA at its 2012 Wage Review. The ABS survey of

Employee Earnings and Hours, 2010¹ has been used to identify these employees. Accordingly the following data is presented to assist FWA in its deliberations.

According to ABS data it is estimated approximately 3.15 million employees in New South Wales are situated within the national industrial relations system. Of these employees, approximately 535,000 or 17 per cent of all NSW employees are award-reliant. Such employees will be directly affected by FWA's Wage Review if it chooses to increase minimum rates of pay in modern awards and the national minimum wage.

Table 1 below analyses the different methods of setting pay for employees in New South Wales.

Table 1 – Methods of Setting Pay NSW

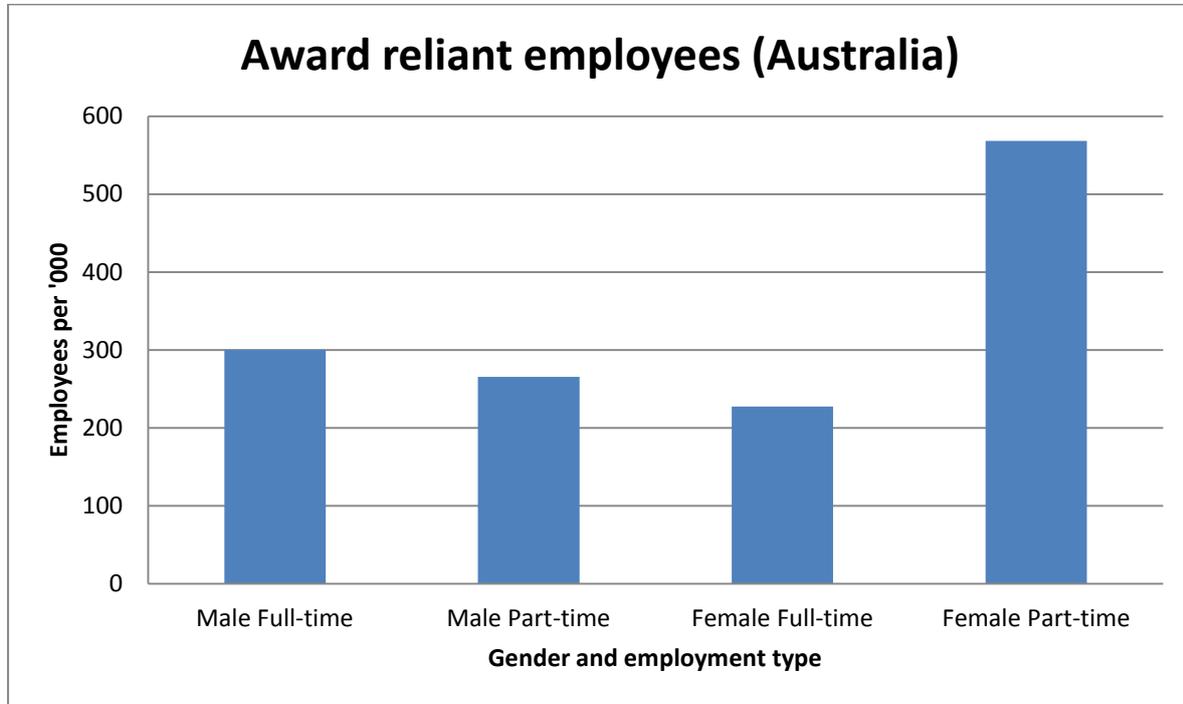


ABS, Employee Earnings and Hours, May 2010 Cat. No.6306.0

¹ ABS, Employee Earnings and Hours, May 2010 Cat. No.6306.0

Table 2 below demonstrates the breakdown of employees who are award reliant by gender and employment status across Australia.

Table 2 – Award Reliant Employees Australia



ABS, Employee Earnings and Hours, May 2010 Cat. No.6306.0

Female employees comprise a high proportion of the total number of award-reliant employees, representing close to 59 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.²

Male employees represent approximately 41 per cent of the total number, while part-time male employees make up just over 19 per cent of the total number of award-reliant employees.³

New South Wales is the state with the highest numbers of award reliant employees and the fourth highest on a proportionate basis.⁴

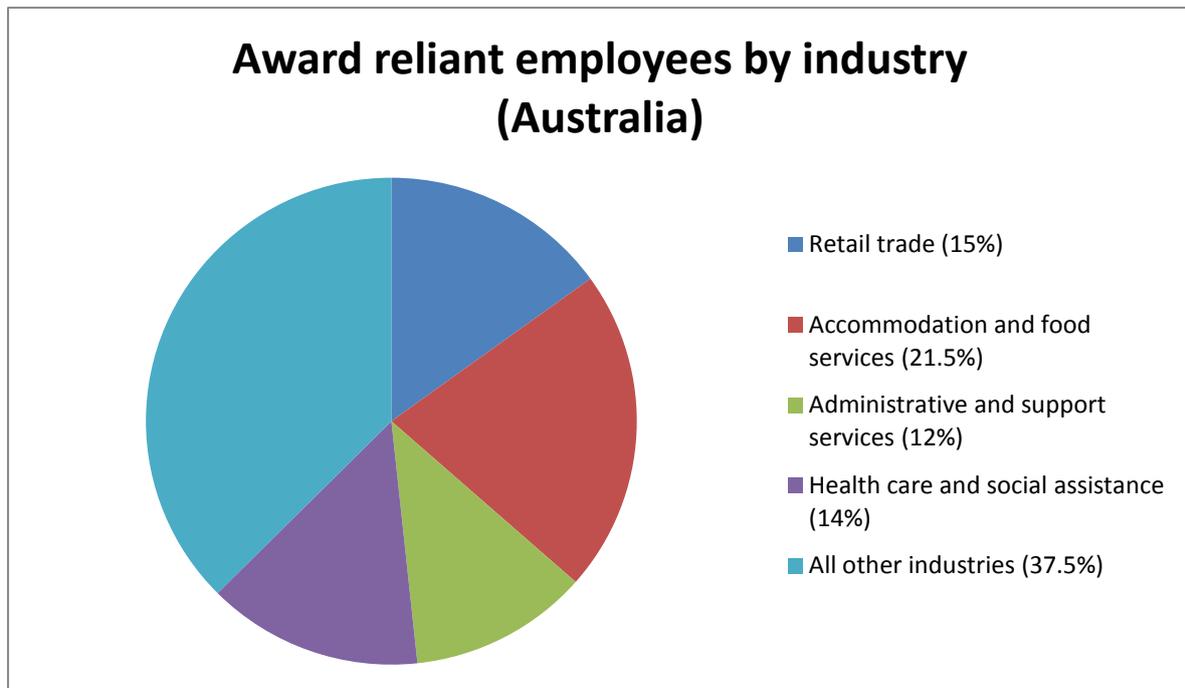
² ABS, Employee Earnings and Hours, May 2010, Cat.No.6306.0

³ Ibid

⁴ Ibid

Table 3 below shows the breakdown by industry of award reliant employees as a proportion of the total numbers of all award reliant employees. Employees located in the retail and accommodation and food and services sectors comprise over a third of all award reliant employees.

Table 3 – Award Reliant Employees By Industry Australia



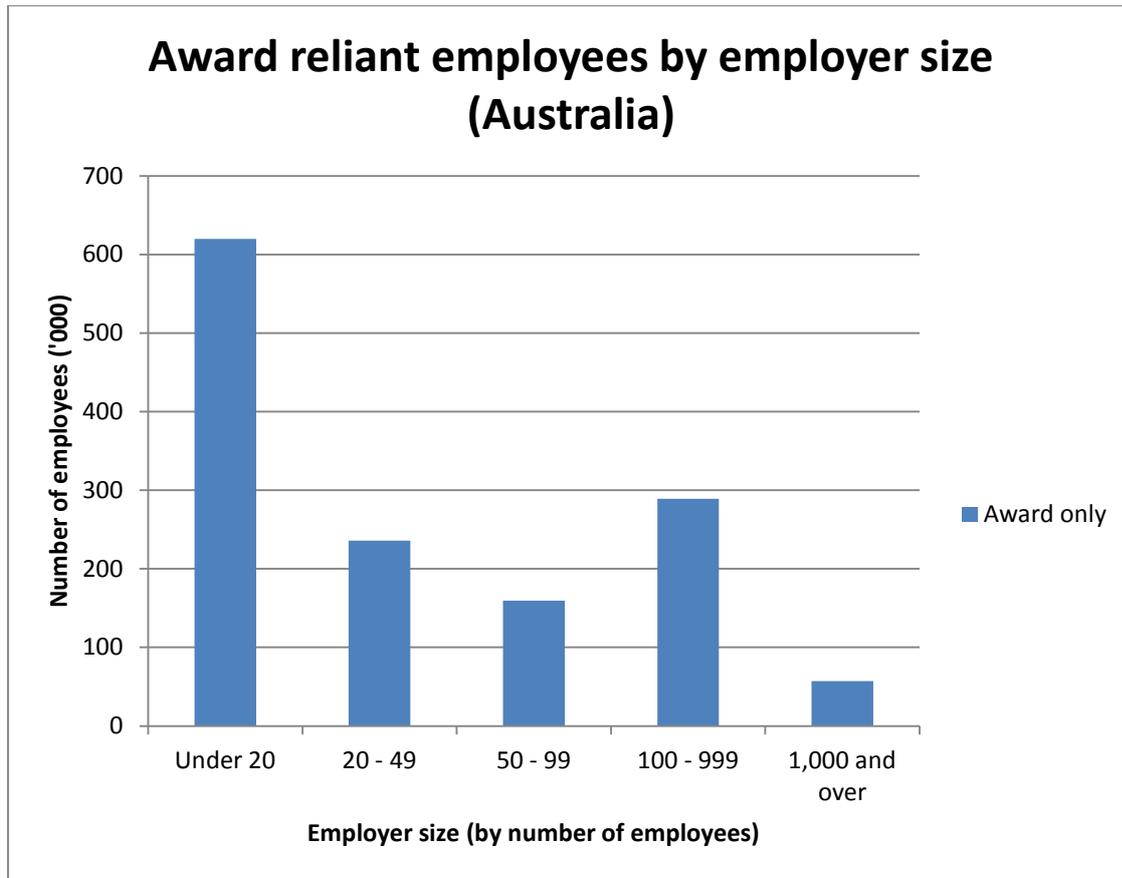
ABS, Employee Earnings and Hours, May 2010 Cat. No.6306.0

Table 4 below shows that close to half of all award reliant employees across Australia are employed by small businesses (those that employ under 20 employees).

Around 90% of employing businesses are small businesses. Small businesses employ close to 2.4 million employees, and account for around one third of total employees. 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 rates⁵.

⁵ 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 4 - Award Reliant Employees By Employer Size Australia



ABS, Employee Earnings and Hours, May 2010 Cat. No.6306.0

3. Economic Performance

While there appears to be some improvement in economic conditions, some concerns remain in relation to global factors and local employment performance. Economic forecasts prepared by New South Wales Treasury are attached, and highlight the following:

- New South Wales demand and output growth forecasts have been revised down modestly for both 2011-12 and 2012-13. However, activity is expected to recover to trend growth in 2012-13;
- Current forecasts assume that global financial market instability does not intensify, however if this assumption turns out to be incorrect, there will be flow-on effects to the Australian and New South Wales economies via financial, confidence and trade linkages;
- New South Wales economic output is expected to grow by a below-trend 2 1/4 % in 2011-12, and strengthen to a trend rate of 2 3/4% in 2012-13;
- Household consumption spending continued to improve throughout 2011, growing by 0.8% in both the December 2010 and March 2011 quarters,

followed by 0.9% and 1.1% in the June and September 2011 quarters respectively. NSW retail sales rose by 0.5% in the second half of 2011;

- Household consumption growth is expected to be weaker than at Budget time, reflecting slower than expected employment and wage growth and lower household wealth;
- New South Wales private business investment grew by 3.1% in 2010-11, and is expected to improve over the next two years, although less robustly than expected at budget time;
- Export growth is expected to strengthen and import growth is expected to slow over the next two years. New South Wales is also expected to benefit from positive contributions from interstate trade with strong demand from resource-intensive States for New South Wales services and manufactures;
- Over recent months there have been modest increases in employment, labour supply and average hours worked. Combined with leading indicators that suggest ongoing modest labour demand, this points to the labour market improving;
- The unemployment rate is expected to rise slightly above the November 2011 rate of 5.3% before remaining broadly stable over the forecast period. The unemployment rate is expected to be 5 ½ % in both 2011-12 and 2012-13;
- The current seasonally adjusted unemployment rate for New South Wales of 5.2% is slightly above the national average rate of 5.1%;
- There is some variation in unemployment rates between regions in New South Wales – the Newcastle and Hunter areas have rates of 4.2 and 4.5% respectively, while the Illawarra, Wollongong, Murray-Murrumbidgee and Northern, Far West-North Western and Central West all have rates in excess of 6%. The Sydney unemployment rate is 5.1%.

4. NSW Government action

It should also be pointed out that the New South Wales Government has recently moved to improve New South Wales economic performance by placing strong and effective controls on Government expenditure and increasing incentives for employment growth.

Specifically, the passage of the *Industrial Relations Amendment (Public Sector Conditions of Employment) Act 2011(NSW)* and associated Regulation has the effect of limiting public sector wage increases to 2.5% per annum. Increases in excess of 2.5 per cent are available but must be funded through identifiable and realised employee-related cost savings.

In addition, the New South Wales Government has put in place a new policy for managing excess employees which will save New South Wales taxpayers an estimated \$16.3 million per annum from 2012-13.

The New South Wales Government is committed to reducing regulatory costs for business and the community by 20 per cent by 30 June 2015. In monetary terms, this equates to a reduction to regulatory imposts by \$750 million each year.

Measures such as these have been necessitated by a significant period of poor fiscal performance, the lingering effects of which inhibit New South Wales economic performance.

The New South Wales Government has also targeted the creation of 100,000 new jobs from July 2011, giving businesses the incentive to employ new workers and expand their enterprises. Businesses that increase their employment levels will receive a payroll tax rebate following the employment of each additional employee in a position that is a new job.

5. Promoting Increased Workforce Participation

While economic conditions have improved over the past 12 months, continuing caution on the part of consumers and businesses has limited the extent of these improvements.

In New South Wales, the pressing need to repair the Government finances has added to these limits.

As is noted in the attachment – and by many commentators – Australian productivity performance has grown at less than long-term average levels for the past decade. Whilst expansion of the mining sector and associated exports has mitigated the effects of poor productivity performance, it remains an issue of concern, particularly for state economies where mining plays a lesser role, such as New South Wales.

In New South Wales, there has been some improvement in the unemployment, which is now close to the national average, however there are substantial variations in unemployment rates across New South Wales region, with some regions displaying unemployment rates in excess of 6%.

The New South Wales 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.

Available evidence⁶ suggests that the ability of the low paid and unemployed to gain and retain employment may be inhibited by a minimum wage set at too high a level.

⁶ Lewis P (2006) *Minimum Wages and Employment* Centre for Labour Market Research, Report Commissioned by the Australian Fair Pay Commission

6. Conclusion

The New South Wales Government submits that, having regard to the matters which the FWA Wage Panel is required to consider pursuant to s284 of the *Fair Work Act 2009*, the Panel should adopt a cautious approach to adjusting the minimum wage in this Annual Review.

In particular, the Panel should be mindful of:

- Ongoing economic uncertainty, particularly at the global level;
- Enduring unemployment and underemployment, particularly in regional areas;
- Ongoing lack of productivity growth; and
- Severe constraints on State Government spending.

In the New South Wales Government's submission, any increase to the National Minimum Wage and award rates determined by the Panel must be based on solid economic grounds, and ensure that incentives to employ entry-level employees is not diminished, and employment opportunities for New South Wales employees and the unemployed are not reduced.

NSW Economic Performance and Outlook

The 2011-12 Budget (released in September 2011) revised down forecasts for NSW economic activity and employment growth. This reflected a slowdown in NSW domestic demand and declining employment in the first half of 2011, a weakening global outlook and deteriorating global financial market conditions.

Since Budget-time there was a further deterioration in global economic and financial conditions and a downgrade to the Australian outlook. Furthermore, downside risks to the outlook had grown, with contagion from the Euro zone sovereign and banking debt crisis a particular concern.

Accordingly, NSW demand and output growth forecasts were revised down modestly in both 2011-12 and 2012-13 in the Half-Yearly Review. Activity is expected to recover from a period of below-trend growth in 2011-12 to trend growth in 2012-13 as private sector demand strengthens and net export performance improves. The labour market is expected to be slightly weaker than forecast at Budget-time, with wage and inflation pressures more moderate.

The current forecasts assume that global financial market instability does not intensify, but that the policy response is not enough to avoid periodic volatility which will continue to weigh on the global economy. If global downside risks were to materialise it would have flow-on effects to the Australian and NSW economies via financial, confidence and trade linkages.

At the time of the 2011-12 Half Yearly Review (released 9 December 2011), NSW Treasury forecasts for major aggregates were:

Economic Performance and Outlook (a)

	2010-11	2011-12	2012-13	2013-14 & 2014-15 (b)
	Actual	HYR Forecast	HYR Forecast	HYR Projection
New South Wales				
State Final Demand	3.3	2.5	3.25	
Gross State Product	2.2	2.25	2.75	3
Employment	3.1	1	1.4	1.25
Unemployment Rate (c)	5.1	5.5	5.5	
Sydney CPI (d)(e)	3.8	2	3.25	2.5
Wage Price Index	3.7	3.5	3.5	3.5
Australia				
Non-Farm GDP Deflator	6.3	2.4	1.5	2.2
Ten year bond rate	5.3	4.6	5.3	5.8

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

(b) Projections are in year average terms

(c) Year average, per cent

(d) Per cent change through the year to the June Quarter

(e) 2012-13 forecasts include the 3/4 percentage point impact of the carbon tax

World Economy

The outlook for global growth has deteriorated since Budget-time, reflecting a weaker outlook for the Euro zone and the United States, and an intensification of the Euro zone sovereign and banking debt crisis. Global growth is now expected to be below trend in 2012 with the Euro zone facing a modest recession and growth in most other major advanced economies well below trend. Growth in emerging economies is expected to moderate (though remain firm), reflecting earlier tightening policies to control rising inflation and linkages to advanced economies via trade and financial flows.

In November 2011 the Organisation of Economic Co-ordination and Development forecast global output growth of 3.8 per cent in 2011, 3.4 per cent in 2012 and 4.3 per cent in 2013. This represented a significant downgrade for global growth compared with forecasts at Budget-time. In its January 2012 update of the World Economic Outlook projections, the IMF expects global growth in 2012 to be 3¼ per cent (down from its earlier forecast of 4 per cent). This is largely due to the IMF now expecting the Euro area economy to experience a mild recession in 2012 (-0.5 per cent), reflecting rising sovereign yields, bank deleveraging and fiscal consolidation. This represents a significant downgrade to the IMF's forecasts made in September 2011 and indicates the speed at which the global outlook deteriorated in late 2011/early 2012.

Like most forecasters, the OECD and IMF are assuming a “muddle through” scenario – with disorderly sovereign defaults and systematic bank failures avoided, containing the Euro Zone debt crisis but not avoiding periodic volatility which will continue to weigh on the global economy. Thus far in 2012 that assumption has remained valid, though so too has the periodic volatility in financial markets.

Australian Economy

The recent deterioration in global economic and financial conditions is causing further headwinds to parts of the Australian non-mining economy which are already subdued. The slower than expected recovery in coal production following the floods in Queensland has also been a drag on activity. However, the outlook for growth remains positive, underpinned by solid growth in Australia's major trading partners, strong mining investment and commodity exports, and the boost to incomes from the still high level of the terms of trade.

As more global productive capacity in non-rural commodities comes on stream the terms of trade are expected to decline but remain at high levels. The Australian economy is now expected to grow at around the long term trend over the next two years, which is lower than expected at the time of the NSW Budget. Despite the slightly weaker outlook, the mining investment boom is expected to support activity in the broader economy. However, some industries may face labour and capital constraints due to the rapid expansion of mining investment.

New South Wales Economy

The NSW economy grew at 2.2 per cent in 2010-11, the same rate it grew by in 2009-10, with private demand growth strengthening to offset a moderation in public demand growth as Commonwealth stimulus measures waned. Net exports were a large drag on growth reflecting the high exchange rate having a substantial negative impact on service trade and strength in capital good imports.

Some non-mining sectors continue to be constrained by the high Australian dollar, fiscal consolidation by the Commonwealth Government, household caution and uncertainty around the economic outlook. Lower interest rates will help to partly offset some of these constraints over time.

In the 2011-12 Half-Yearly Review, NSW Treasury demand and output growth forecasts have been revised down modestly in both 2011-12 and 2012-13. Activity is expected to recover from a period of below-trend growth in 2011-12 to trend growth in 2012-13 as private sector demand strengthens and net export performance improves. The labour market is expected to be slightly weaker than forecast at Budget-time, with wage and inflation pressures more moderate.

While the outlook over the next two years is weaker than expected at Budget-time, activity is expected to be supported by:

- Continuing solid growth in Australia and NSW's major trading partners in Asia and a high level of the terms of trade. This will boost incomes, mining investment, commodity exports and interstate trade.

- A positive broader business investment outlook with aggregate business conditions around average, capacity utilisation above-average and commercial loan commitments improving.

- A strong outlook for farm production and rural exports with above average production levels in 2011-12 despite some expected crop losses and quality downgrades due to recent heavy rains.

-Solid fundamentals for the housing sector including low vacancy rates and rising rental prices.

NSW economic output is expected to grow by a below-trend 2¼ per cent in 2011-12 and strengthen to a trend rate of 2¾ per cent in 2012-13 – a modest downgrade of ¼ of a percentage point in both years relative to Budget-time.

The performance of the NSW economy has picked up somewhat in 2011, after a weak start to the year when the State Final Demand fell by 0.1 per cent in the March quarter due to falling investment, both private and public. State Final Demand grew by 0.5 per cent in both the June and September quarters 2011, ahead of both Victoria and SA, which recorded negative growth in the September quarter, but well below the high growth experienced by the mining states.

Household consumption spending continued to improve throughout 2011, growing by 0.8 per cent in both the December 2010 and March 2011 quarters, followed by 0.9 per cent growth in the June quarter and 1.1 per cent in the September quarter. Despite weak retail spending which experienced negative or flat growth from the last quarter of 2010 until mid 2011, total household consumption spending growth was supported by firm income growth. NSW real retail sales rose by 0.5 per cent in the second half of 2011, while official interest rates were reduced by 25 basis points in both November and December

Going forward, household consumption growth is expected to be weaker than at Budget-time, reflecting slower than expected employment and wage growth and lower household wealth. The near-term downside risks to consumption, however, appear to be less than expected at Budget-time with a recent improvement in retail sales and consumer confidence. Consumer spending growth is expected to grow broadly in line with income growth – with the household savings ratio remaining around its current level.

Conditions in the housing market have improved somewhat with a rise in dwelling investment in the June and September quarters 2011 and while housing prices fell across all capital cities in the calendar 2011, Sydney prices declined the least of any capital, by an estimated 0.9 per cent over the year.

The recovery in dwelling investment is expected to continue over the next two years, albeit at a more moderate pace than that seen in 2010-11. While construction activity in the September quarter was solid, there has been some recent slowing in private dwelling approvals, which will impact near-term activity. However, dwelling investment over the next two years is expected to be supported by low vacancy rates and rising rental prices, along with growth in population and household incomes.

Business conditions, though generally declining through most of last year, have improved recently, with surveys reporting improved trading conditions, improved capacity utilisation and around average levels of confidence.

NSW private business investment grew by 3.1 per cent in 2010-11, contributing 0.4 per cent to the state's GSP growth. During that time, non-dwelling investment grew by 4.1 per cent, while machinery and equipment grew at 1.2 per cent. In the September quarter 2011, private business investment grew by 6.7 per cent in the quarter, to be 0.8 per cent higher through the year.

Business investment is expected to improve over the next two years, although less robustly than expected at Budget-time. This reflects a weaker near-term outlook for business investment outside the mining sector with greater uncertainty around the economic outlook, a decrease in capacity utilisation and a loss of momentum in private non-residential building approvals.

Mining sector investment is expected to rise strongly over the next two years, benefiting from continuing strong demand for non-rural commodities, particularly thermal coal. There is a solid pipeline of heavy industry engineering construction work due to be undertaken and the ABS capital expenditure survey is pointing to strong growth in mining investment in 2011-12.

In line with the wind up of economic stimulus spending, public investment contributed less to growth in 2010-11 than in 2009-10. Total state and local public investment rose by 1.5 per cent in real terms in 2010-11, contributing an estimated 0.1 percentage points to NSW GSP growth. Public demand is expected to contribute modestly to growth over the next two years, with NSW state funded capital spending increasing in 2011-12 and 2012-13.

The outlook for net exports remains broadly as expected at Budget-time, with the detraction from GSP growth expected to be less over the next two years than it was in 2010-11. This reflects export growth strengthening and import growth slowing, albeit remaining robust. New South Wales is also expected to benefit from positive contributions from interstate trade with strong demand from resource-intensive States for NSW services and manufactures.

Non-rural commodity exports are expected to grow strongly over the next two years, underpinned by ongoing high global demand combined with an expansion of coal mining and export capacity. The outlook for farm production and rural exports is also strong after a number of years of intermittent drought, with above average crop production expected in 2011-12 and a large inventory due to harvest delays of the 2010-11 record crop. Forecasts for 2012-13 assume a return to normal seasonal conditions.

Manufactured goods exports are estimated to have held up well despite the high Australian dollar and slowing major trading partner growth. Service exports are expected to remain subdued over the next two years reflecting the high Australian dollar and changes to migration rules for international students. Import growth is expected to remain robust over the next two years, reflecting the high Australian dollar and solid domestic demand.

Reflecting the slowdown in domestic demand, trend employment declined in the first half of 2011. While trend hours worked slowed in the first half of 2011, they did not slow as much as employment – with average hours worked increasing.

Over recent months there have been modest increases in employment, labour supply and average hours worked. Combined with leading indicators that suggest ongoing modest labour demand, this points to the labour market improving. Employment is expected to grow at a slightly below-trend rate of 1 per cent in 2011-12, lifting to 1½ per cent in 2012-13 reflecting the expected increase in economic activity.

The current NSW trend unemployment rate is 5.3 per cent (as at January 2012) and has been slowly trending higher since the low of 4.9 per cent in March 2011. In the first seven months of 2011-12 NSW aggregate employment was 0.5 per cent higher than the

corresponding period in 2010-11. This reflects a 1.3 per cent rise in part-time workers and a 0.2 per cent rise in full-time workers.

The unemployment rate is expected to rise slightly above the November 2011 rate of 5.3 per cent before remaining broadly stable over the forecast period. In year average terms, the unemployment rate is expected to be 5½ per cent in both 2011-12 and 2012-13, slightly higher than expected at Budget-time.

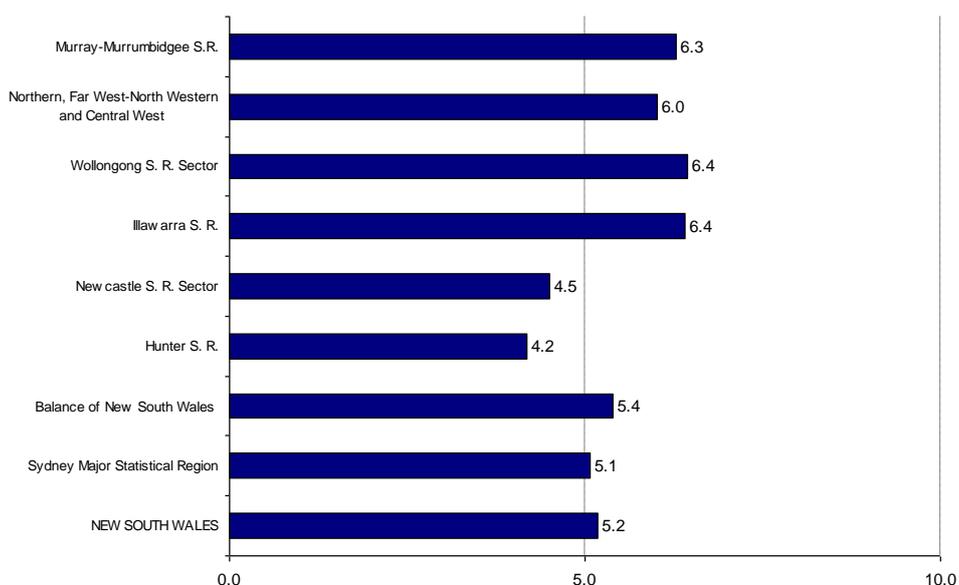
The current seasonally adjusted unemployment rate for New South Wales of 5.2 per cent is slightly above the national average rate of 5.1 per cent.

The employment situation also varies within different regions of NSW.

In the 12 months to December 2011, the NSW unemployment rate averaged 5.2 per cent, and the Sydney major statistical region, which accounts for 65 per cent of total employment, averaged 5.1 per cent. The next largest region by number of employed persons was the Hunter statistical region, which also had the lowest average unemployment rate in 2011, at 4.2 per cent.

The Hunter region benefited from high resource prices as it holds large reserves of coal and is the main beneficiary of the resources boom in NSW. The remainder of the state, comprising of the Illawarra statistical region and the Northern, Far West and North West of the state, as well as the Murray Darling, all experienced average unemployment rates more than a percentage point higher than the State average, and 2 percentage points higher than the Hunter.

Unemployment Rate (%), NSW by Region, annual average to December 2011



Through-the-year growth in Sydney's Consumer Price Index (CPI) picked up significantly in the June quarter 2011 to 3.8 per cent. This reflected the temporary effects of natural

disasters on fruit and vegetable prices; and higher petrol prices partly due to geopolitical tensions in oil regions. The through the year growth in CPI fell to 3.7 per cent in the September quarter, before falling further to 3.2 per cent in December.

Through the year growth in underlying inflation has been 2.6 per cent in the last 2 quarters of 2011, remaining in the middle of the RBA target rate band.

Sydney's CPI is expected to moderate to 2 per cent through-the-year to June 2012 as these temporary price effects unwind. This is lower than expected at Budget-time reflecting more moderate capacity pressures lowering underlying inflation. Sydney's CPI is expected to increase by 3¼ per cent through-the-year to the June quarter 2013, with the introduction of the carbon tax expected to contribute around ¾ of a percentage point to the increase.

The NSW wage price index (WPI) increased by 3.8 per cent in calendar 2011, the same as in calendar 2010. National growth was 3.7 per cent for the same period with weaker growth in both the public and private sectors.

The December quarter NSW public sector WPI rose 3.4 per cent through the year compared with a 3.9 per cent rise for the NSW private sector WPI.

With the labour market and economic activity expected to be weaker in New South Wales and Australia than expected at Budget-time, capacity pressures on wages and inflation are expected to be more moderate.

Wages growth, as measured by the Wage Price Index, is expected to be around 3½ per cent in 2011-12 and 2012-13. The Government's strengthened wages policy will assist in moderating public sector wages growth.

Productivity

Productivity measures reflect a ratio of realised output to specified inputs. Improvements in productivity ratios - or productivity growth - are a significant driver of increases in productive capacity. Productivity growth is also a key to improvements in living standards, welfare and wellbeing and the affordability of increases in wages.

Productivity growth in Australia tailed away in the 2000s after a historically strong period of sustained improvements. For example, in NSW labour productivity growth averaged just over 2 per cent a year for the period from 1989-90 to 2001-02, whereas growth since that time has been just under 1 per cent. The pattern of marked decline is consistent across all Australian States.

