ANNUAL WAGE REVIEW 2021-22

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

01 April 2022

About ABI and Business NSW (NSW Business Chamber Ltd)

Australian Business Industrial (ABI) is registered under the *Fair Work (Registered Organisations) Act 2009* and has some 4,200 members. NSW Business Chamber Ltd (trading as Business NSW) is registered under the (NSW) *Industrial Relations Act 1996* and is a State registered association recognised pursuant to Schedule 2 of the *Fair Work (Registered Organisations) Act 2009.* As NSW's peak business organisation, Business NSW has more than 40,000 member businesses across NSW.

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

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

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Executive Summary

Recommendation 1:

- That the Expert Panel determine between a 2.5 and 3 per cent increase in the 2021-22 Annual Wage Review, in addition to the Superannuation Guarantee increase.

Recommendation 2:

- That the Expert Panel continue with staggered dates for Award increases in line with last year's approach, while industries that have been significantly impacted by the pandemic continue to recover.

The effect of the pandemic on businesses and their employees has been unprecedented. Despite the easing of public health restrictions by many governments and recovery in many industry sectors, COVID-19 continues to cause significant upheaval in the economy.

Just three months ago, a significant outbreak of a new variant, Omicron, wreaked havoc on the economy, resulting in reductions in working hours and business confidence hitting all-time lows.

Our January 2022 Business Conditions Survey found that business confidence was lower than at any time since the survey began in 2009 and, concerningly, unlike throughout 2021 when business owners felt that economic conditions in the next quarter would improve, businesses in NSW had low expectations around the performance of the economy in the future.

Compounding this confidence crisis, businesses are experiencing significant cost pressures, particularly for insurance, energy, fuel, shipping and freight, and materials, causing many businesses to struggle, especially those that have exhausted cash reserves to survive the first two years of the pandemic or are unable or unwilling to pass those costs on.

National job vacancies are at their highest since records began (396,100 nationally) and unemployment has fallen to its lowest rate since August 2008 (4.0 per cent) resulting in wages increasing, although WPI (2.3 per cent) has been overtaken by headline inflation (3.5 per cent). It should however be noted that wage growth in the private sector (2.4 per cent) has exceeded wage growth in the public sector (2.1 per cent).

Even if, as most governments have stated, no new public health measures are introduced through the remainder of the pandemic, as we have seen in the last few weeks and months, there is still the risk of new variants creating further shadow lockdowns in the future.

Further, our research continues to indicate significant performance variations across industries. While there have been significant profits reported in the *Mining* and *Construction* industries, others report decreased profits since the start of the pandemic, with *Accommodation and Food Services* being particularly hard hit (-31.7 per cent since the start of the pandemic).

This unevenness is further evidenced in the labour force data. Employment in many award-reliant industries such as *Accommodation and Food Services, Arts and Recreation Services* and *Manufacturing*, remain below pre-pandemic levels.

Of note, the aged care sector continues to operate in a difficult clinical, operational and financial environment. While support for an increase in wages is generally accepted, the industry has clearly indicated that there is no financial capacity to pay an increase without additional Federal Government funding. This is further supported by research conducted by StewartBrown[1]. Despite the situation, no such commitment has been given by the current Federal Government or Federal Opposition.

Overall, this year may be one of the most difficult years for the Panel's decision due to the evidence indicating the continuation of a two-speed economy, significantly increasing costs to business, lingering uncertainty due to the ongoing pandemic and low business confidence, against a backdrop of rising inflation and consumer costs. This year, our recommendation draws on qualitative as well as quantitative indicators.

It is our view that an increase in wages significantly above underlying inflation, would compound the effects of increasing non-labour costs and undermine fragile business confidence. An increase *broadly in line* with inflation would help maintain relative living standards for workers and it is our view that most businesses would have capacity to accommodate these cost increases.

Accordingly, it is our recommendation that a 2.5 - 3 per cent increase would be appropriate in the current economic environment, in addition to the 0.5 per cent Superannuation Guarantee increase due on 1 July 2022.

Further, given the uneven performance across the economy, it is our recommendation that the staggered dates for Award increases in line with last year's approach continue this year, while industries that have been significantly impacted by the pandemic continue to recover.

[1] StewartBrown Aged Care Financial Performance Survey Sector Report, September 2021, available at https://www.stewartbrown.com.au/news-articles/26-aged-care/254-2022-01-stewartbrown-aged-care-financial-performance-survey-sector-report-september-2021

Foreword: Statutory considerations

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

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

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

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

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

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

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

Guide to this submission

This submission is divided into three parts. Part I examines the relevant empirical evidence on the economy and labour market including the needs of the low paid and the effects of low inflation, Part II summarises the evidence and provides our recommendations and Part III provides feedback on the continued staggering of operative dates as determined by the Panel in the 2020-21 Annual Wage Review (AWR).

Note on terminology

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

Part I — Economic and labour market considerations

The macroeconomic environment

The economy in 2021 and early 2022 has been highly volatile. While GDP in the first half of 2021 surpassed pre-pandemic levels, GDP then contracted by 1.9 per cent in the September 2021 quarter following the reintroduction of government public health restrictions as Delta took hold (Table 1).

As major restrictions lifted in many states, GDP bounced back at 3.4 per cent in the December 2021 quarter (Table 1). Since those figures, the Omicron variant appears to have severely reduced consumer confidence. This will likely result in reductions in GDP in the first quarter of 2022.

Table 1: Key macroeconomic indicators

	Mar 2021	Jun 2021	Sep 2021	Dec 2021
GDP growth (%chg, quarterly)	1.9	0.8	-1.9	3.4
GDP growth (%chg, through the year)	3.0	3.0	0.2	4.2

Notes: Data are seasonally adjusted.

Source: ABS, *Australian National Accounts: National Income, Expenditure and Product, December 2021*, Catalogue No. 5206.0

While the RBA's central case scenario for past forecasts[2] predicted a gradual return of GDP to its long-term trend, actual outcomes have not met those predictions.

Given the volatility in the economy during the pandemic and how differently it has reacted compared to previous economic downturns, it is difficult to forecast GDP growth with any accuracy.

Accordingly, the economic outlook remains highly uncertain and unpredictable. Although public health restrictions have been lifted in most states and territories, lower consumer and business confidence may linger for some time as the community adjusts to living with COVID safely, delaying the full rebound of the economy.

The key downside risk is the possibility of a new COVID variant causing another surge in cases and an associated collapse in confidence and economic activities.

Whatever occurs, there is likely to be a continuing pattern of volatility in GDP growth and contraction for the remainder of the pandemic.

Business outcomes

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

Income from sales of goods and services (current prices measure) improved during the pandemic and have outpaced increasing labour costs.

However, the Delta variant appears to have caused a significant decline of 1.2 per cent in income from sales of goods and services in the September 2021 quarter (Table 2). After the reopening of the economy, sales of goods and services rebounded by 5.3 per cent, resulting in 10.9 per cent growth since March 2020. In comparison, total labour costs were 9.6 percent higher than the March 2020 quarter.

Table 2: Per cent change in income from sales of goods and services and total labour costs of employees, March 2020 to December 2021 quarter

	March to June 2021	June to September 2021	September to December 2021	March 2020 to December 2021
Income from sales of goods and services	3.9	-1.2	5.3	10.9
Total labour costs of employees	4.2	-0.1	3.3	9.6

Note: Data are seasonally adjusted.

Source: ABS, *Business Indicators, December 2021*, Catalogue No. 5676 Table 6; ABS, *Labour Accounts Australia, December 2021*, Catalogue No. 6150.0.55.003 Table 1.

Company profits[3] have risen in line with growing income from sales of goods and services. However, improved profitability has not been evenly distributed across industry sectors (Table 3).

Table 3: Per cent change in company gross operating profits, by industry, March 2020 to December 2021 quarter

	March 2018 to 2020	March to December 2021	March 2020 to December 2021
Lagging recovery (Upper cluster)[4]			
Accommodation and food services	14.7	-35.6	-31.7
Transport, postal and warehousing	-1.2	20.8	1.6
Information, media and telecommunications	-2.9	13.5	3.2
Almost recovered (central cluster)			
Arts and recreation services	-8.5	-11.5	-3.5
Manufacturing	0.3	30.7	49.5
Construction	12.4	2.6	35.9

[3] ABS, *Business Indicators, Australia*, September 2021.

[4] Cluster definitions throughout per Borland J (2021), An assessment of the economic effects of COVID-19, Version 5, a report for the Fair Work Commission, 4 June, pp. 2–3.

Wholesale trade	8.4	-2.4	23.0
Fully recovered (Lower cluster)			
Electricity, gas, water and waste	10.8	-3.9	-15.5
Finance and insurance	-35.6	79.0	60.9
Mining	34.1	18.6	35.5
Other services	9.3	39.5	99.8
Administrative and support services	0.1	-24.3	9.0
Professional, scientific & technical services	30.3	23.4	40.4
Rental, hiring and real estate	-17.3	15.4	29.9
Retail trade	8.9	-6.7	1.4
Total industry	13.7	13.6	26.9

Source: ABS, *Company Gross Operating Profits*, *Current Prices, December 2021*, Catalogue No. 5676.0 Table 11

Retail trade fell 4.4 per cent in December 2021 likely due to the impact of Omicron (Table 4). Retail trade generally improved in January (except for cafes, restaurants and takeaway food services) from a low base in December despite increasing infection rates.

Table 4: Per cent change in monthly retail turnover, by industry group, March 2020 to January 2022

	November 2021 to December 2021	December 2021 to January 2022	March 2020 to January 2022
Food retailing	2.2	2.3	-7.1
Household goods retailing	-9.2	0.6	16.0
Clothing, footwear and personal accessory retailing	-17.3	-1.0	53.8
Department stores	-21.3	4.9	9.0
Other retailing	-4.0	4.5	13.9
Cafes, restaurants and takeaway food services	-0.7	-0.8	33.3
Total industry	-4.4	1.8	8.2

Source: ABS, *Retail Turnover, By Industry Group, January 2022*, Catalogue No. 8501.0 Table 1.

Box 1 – Aged Care Sector

The aged care industry continues to operate in a difficult clinical, operational and financial environment.

The Federal Government accepted 126 of the reports 145 recommendations in the Royal Commission Report tabled in 2020.

Subsequently, the 2021 Federal Budget proposed an $18 billion response spread over 5 years. $2.6billion was spent in the 2021/22 financial year for some 243,000 aged care residents.

In Senate estimates, it was indicated by the Department of Health that 11,870 aged care applicants had died in the last eighteen months out of 53,000 people waiting for a home care package.

Nine aged care facilities have closed during the Omicron crisis. Some 700 residents have died from Omicron this year in aged care facilities. Closures have been attributed to staff shortages.

The Legislative progress on reforms proposed by the Royal Commission has stalled in Parliament. No plans have been announced by the Federal Government or Federal Opposition on aged care strategy ahead of the federal election.

A Work Value claim has been lodged by unions in the Aged Care Industry. The case is likely to commence in April this year. While support for an increase in wages is generally accepted, the industry has clearly indicated that there is no financial capacity to pay an increase without additional Federal Government funding. This is further supported by research conducted by StewartBrown[5].

Despite this, no such commitment has been given by the current Federal Government or Federal Opposition.

[5] StewartBrown Aged Care Financial Performance Survey Sector Report, September 2021, available at https://www.stewartbrown.com.au/news-articles/26-aged-care/254-2022-01-stewartbrown-aged-care-financial-performance-survey-sector-report-september-2021

Business conditions

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

The *Business NSW* Business Conditions Survey (the survey) measures business perceptions of the New South Wales economy, and business performance across metrics such as profits, revenue, staffing and capital expenditure. The survey has accurately indicated broader economic trends in New South Wales and the most recent survey in January 2022 was completed by over 3,000 businesses. While the survey does not report on business conditions across the rest of Australia, it provides useful insights into business conditions in New South Wales, a state that accounts for around a third of the national economy.

Box 2 – NSW Business Conditions Survey

The results of the survey have been highly volatile throughout the pandemic.

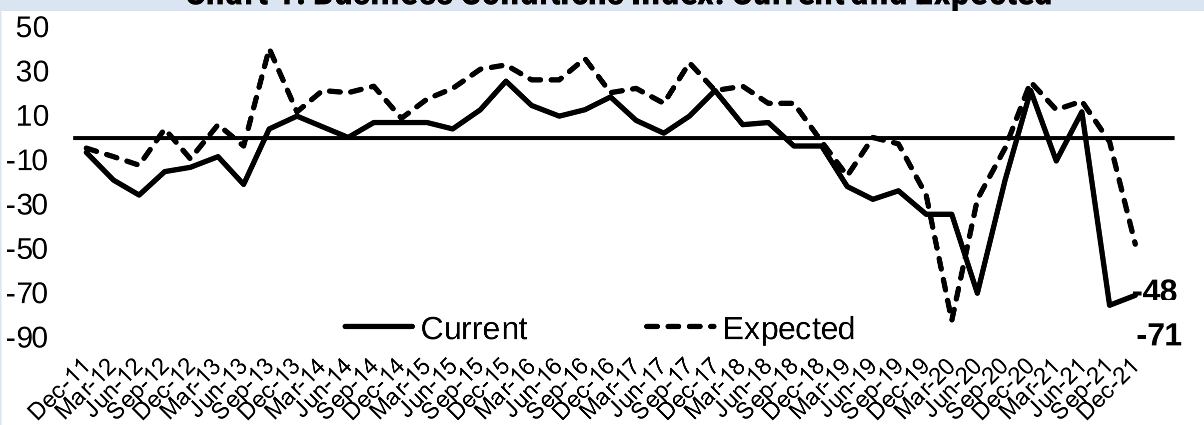
The initial economic impact of public health measures in March 2020 was colossal. After a strong rebound in the September and December 2020 quarters, business confidence fell again in the March 2021 quarter after COVID-19 outbreaks in Sydney and Melbourne (Chart 1).

This was followed by an uptick in the June 2021 quarter as major restrictions eased, followed by another record low in the September 2021 quarter due to the reintroduction of government-enforced lockdowns in response to the Delta variant.

Towards the end of 2021, the Omicron surge caused business confidence to fall significantly again (Chart 1), mainly due to a loss of consumer confidence and workers forced into isolation (Chart 2).

Of note, Expected Business Performance has largely predicted the actual level of Business Performance in upcoming quarters (Chart 1).

Chart 1: Business Conditions Index: Current and Expected



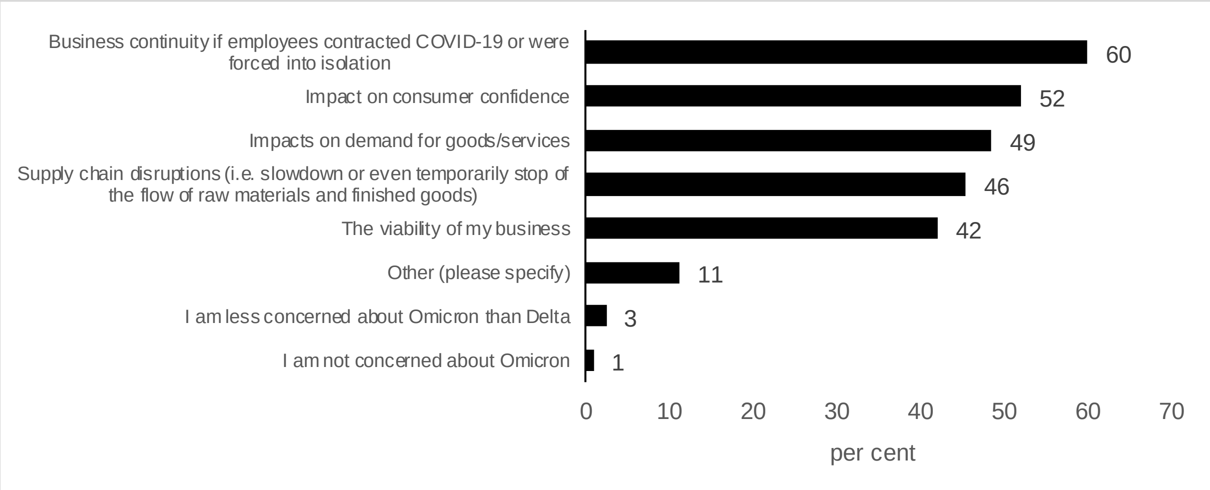
Source: Business NSW.[6]

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

Note: Index calculated based on net scores (percentage of respondents indicating an increase minus the percentage indicating a decrease).

Many businesses have told us how this protracted period of economic volatility makes it extremely difficult to plan ahead and make informed decisions about staffing or capital expenditure.

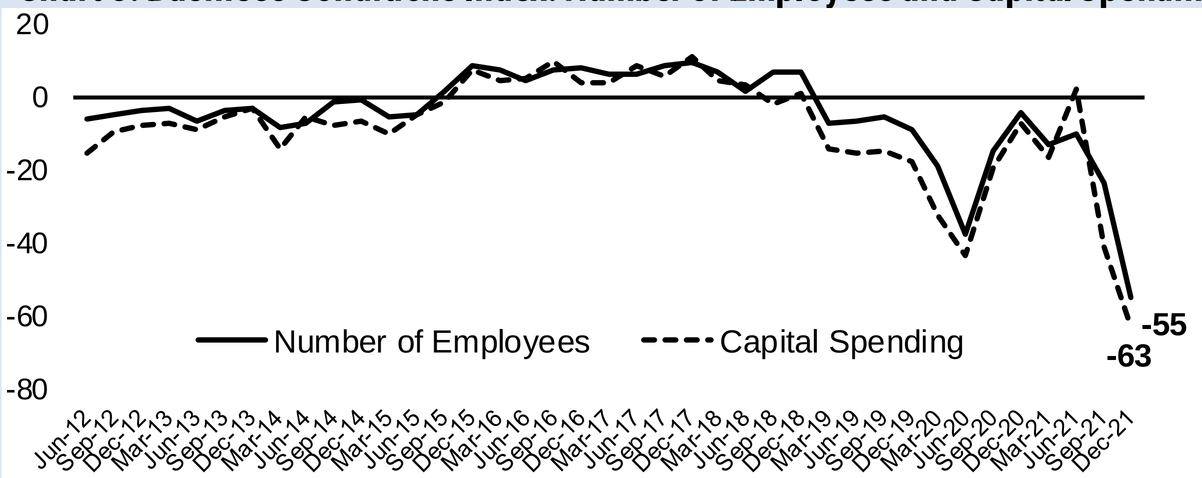
Chart 2: Biggest Concerns about the Impact of the Omicron Surge on Businesses



Source: Business NSW.

As a result, the lack of confidence has negatively impacted key performance metrics of staffing and capital spending throughout the pandemic. In the January 2022 quarter, these metrics were the lowest on record since the survey began in 2009 (Chart 3).

Chart 3: Business Conditions Index: Number of Employees and Capital Spending



Source: Business NSW – January 2022.

Note: Index calculated based on net scores (percentage of respondents indicating an increase minus the percentage indicating a decrease).

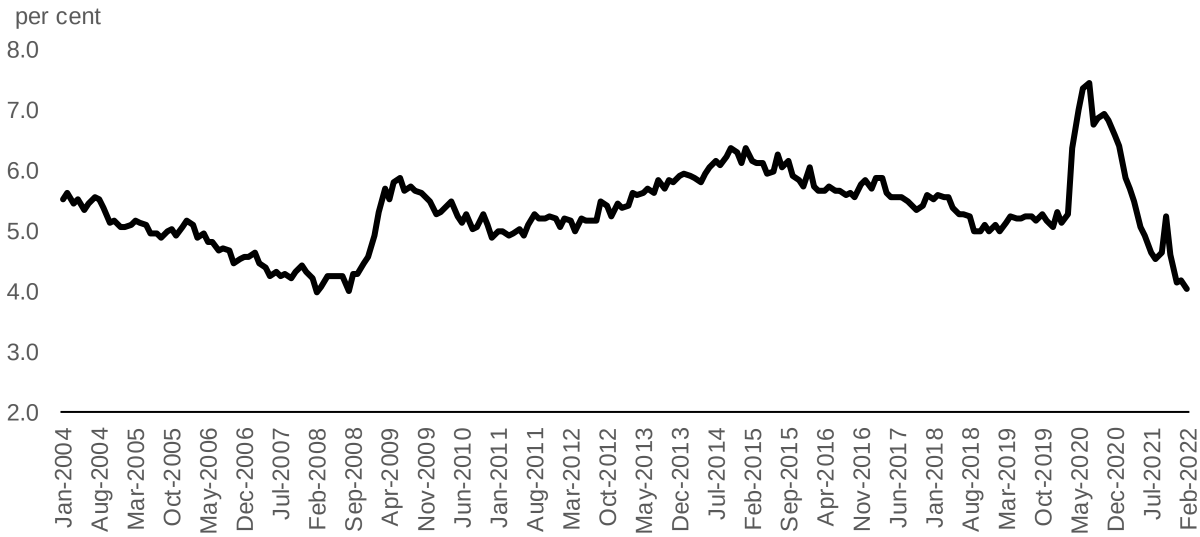
The plunge in business expenditure and staffing levels in the December 2021 quarter, combined with a sharp drop in the Expected Business Confidence Index, indicates ongoing uncertainty in economic outlook.

This unpredictability is likely to result in businesses delaying investment and hiring decisions going forward. The slowdown in these key business activities may worsen if this volatile environment persists as new variants may potentially emerge, leading to future self-imposed lockdowns.

Employment and the labour market

The labour market has shown a significant improvement and resilience over the past months. Despite the Delta lockdown, which caused a spike in unemployment in the third quarter of 2021, unemployment fell to 4.0 per cent in February, the lowest rate since August 2008 (Chart 4).

Chart 4: Unemployment rate



Note: Data are seasonally adjusted.
Source: ABS, *Labour Force, Australia*, *February 2021*, Catalogue No. 6202.0 Table 1

This is consistent with a strong rebound in employment and hours worked (Tables 5 and 6 respectively).

Table 5: Per cent change in employment, persons, Australia

	February 2018 to February 2020	March 2020 to June 2021	June 2021 to October 2021	October 2021 to Decembe r 2021	Decembe r 2021 to January 2022	January to February 2022	March 2020 to February 2022
Total	4.2	1.3	-2.7	3.4	0.2	0.6	2.9
Full-time	4.0	1.9	-1.2	1.9	-0.1	1.3	4.1
Part-time	4.6	0.2	-6.1	6.7	0.8	-1.1	0.4

Note: Data are seasonally adjusted.
Source: ABS, *Labour Force, Australia*, *February 2021*, Catalogue No. 6202.0 Table 1

The Omicron surge markedly reduced hours worked in January 2022 by 8.6 per cent (Table 6), as more people than usual took annual leave or sick leave, or had hours reduced, without affecting the unemployment rate (Table 4). Since then, hours worked rebounded by 8.9 per cent in February after the situation improved, meaning hours worked are now 2.7 per cent higher than the March 2020 level (Table 6).

Table 6: Per cent change in monthly hours worked, persons, Australia

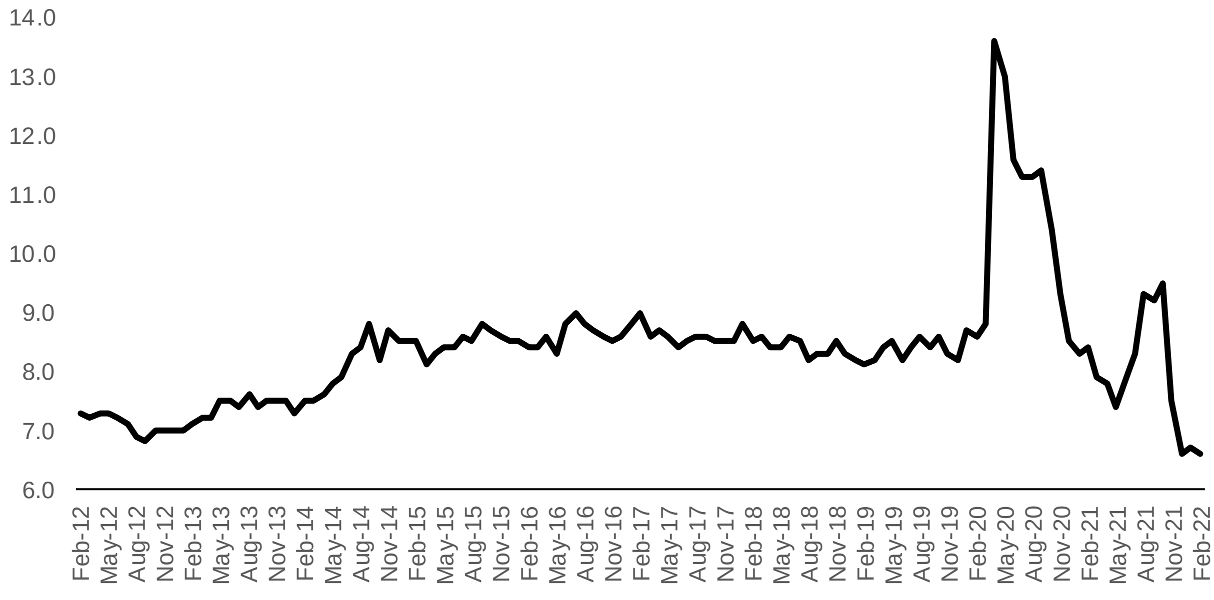
	February 2018 to Feb 2020	March 2020 to June 2021	June 2021 to October 2021	October 2021 to December 2021	December 2021 to January 2022	January to February 2022	March 2020 to February 2022
Total	2.8	1.1	-3.3	5.5	-8.6	8.9	2.7
Full-time	2.2	1.3	-2.8	4.7	-8.6	9.2	3.1
Part-time	5.7	-0.3	-5.9	9.5	-8.9	7.7	0.8

Note: Data are seasonally adjusted.

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

The underemployment rate, which has historically hovered at around 8 – 9 per cent prior to the pandemic, was 6.6 per cent in February 2022, the lowest level since November 2008 (Chart 5). Overall, most key labour market indicators are stronger than pre-pandemic levels.

Chart 5: Underemployment rate



Source: ABS, *Labour Force, Australia, December 2021*, Catalogue No. 6291.0.55.003 Table 19

In February 2022, the total labour force was 1.6 per cent larger than March 2020. In contrast, labour force grew by 3.7 per cent during the two-year period prior to the pandemic (February 2018 – February 2020) (Table 7).

While the supply of labour has been restricted, labour demand has bounced back after restrictions have eased, indicated by strong employment growth (Table 5). Moreover, the international border closure also put pressure on demand, causing jobs that may have been filled by migrants to be filled by local workers or remain vacant.

Table 7: Per cent change in labour force, persons, Australia

	February 2018 to 2020	March 2020 to June 2021	June 2021 to October 2021	October 2021 to December 2021	December 2021 to January 2022	January to February 2022	March 2020 to February 2022
Total	3.7	1.0	-2.4	2.2	0.3	0.4	1.6

Note: Data are seasonally adjusted.

Source: ABS, *Labour Force, Australia*, *February 2022*, Catalogue No. 6202.0 Table 1.

Although employment is on the path to recovery and has recovered strongly as government restrictions eased, employment during the pandemic (March 2020 to February 2022) only grew by 2.9 per cent compared to 4.2 per cent over the two-year period prior to COVID (February 2018 to 2020) (Table 5). This implies that employment growth is not genuinely back to its pre-pandemic pace, and therefore could push the unemployment rate even lower.

Industry labour markets

Disparity in the labour market is reflected across industry sectors. Employment in many industries continues to be well below pre-pandemic levels. The industries in the 'fully recovered' lower cluster are the key sectors of job creation (Table 8).

However, employment in *Accommodation and Food Services* and some of the central cluster such as *Construction and Wholesale Trades* were below pre-COVID level prior to the Delta lockdown (February 2020 to May 2021) and have deteriorated even further by November 2021 (Table 8).

There have been large fluctuations in employment in some industries. Even though employment figures were previously above pre-pandemic levels, *Arts and recreation services and manufacturing* have seen indicators fall significantly in the period between May to November 2021, resulting in employment levels in November 2021 to be well below February 2020 (Table 8).

This implies that employment in a number of industries, particularly award-reliant industries[7], exhibit volatile patterns of employment and have not yet fully recovered from the adverse impacts of the pandemic.

Table 8: Per cent change in employment, persons, by industry, February 2020 to November 2021

	February 2020 to May 2021	May to November 2021	February 2020 to November 2021
Lagging recovery (Upper cluster)			
Accommodation and food services	-4.2	-4.2	-8.2
Transport, postal and warehousing	-4.4	3.1	-1.5

[7] Award-reliant industries are industries with at least 20 per cent of employees paid exactly at the award rate in 2018, which the figures are taken from table 7.1 in statistical report – Annual Wage Review 2019-20. These include manufacturing; retail trade; accommodation and food services; rental, hiring and real estate services; administrative and support services; health care and social assistance; arts and recreation services; and other services.

Information, media and telecommunications	-14.2	4.3	-10.5
Almost recovered (central cluster)			
Arts and recreation services	1.0	-9.2	-8.3
Manufacturing	0.6	-6.4	-5.7
Construction	-1.7	-1.6	-3.2
Wholesale trade	-4.7	-3.3	-7.9
Education and training	5.3	-2.0	3.2
Fully recovered (Lower cluster)			
Electricity, gas, water and waste	9.7	-8.8	0.1
Finance and insurance	3.2	7.5	11.0
Public administration and safety	4.4	6.2	10.9
Health care and social assistance	2.4	2.8	5.3
Other services	8.4	1.0	9.5
Administrative and support services	-6.4	5.2	-1.4
Professional, scientific & technical services	5.2	-1.0	4.2
Rental, hiring and real estate	-1.4	10.0	8.5
Retail trade	3.2	-0.4	2.8
Mining	15.3	-0.1	13.4
Agriculture, forestry and fishing	-9.4	3.7	-6.1

Source: ABS, *Labour Force, Australia, November 2021*, Catalogue No. 6291.0.55.001 Table 11

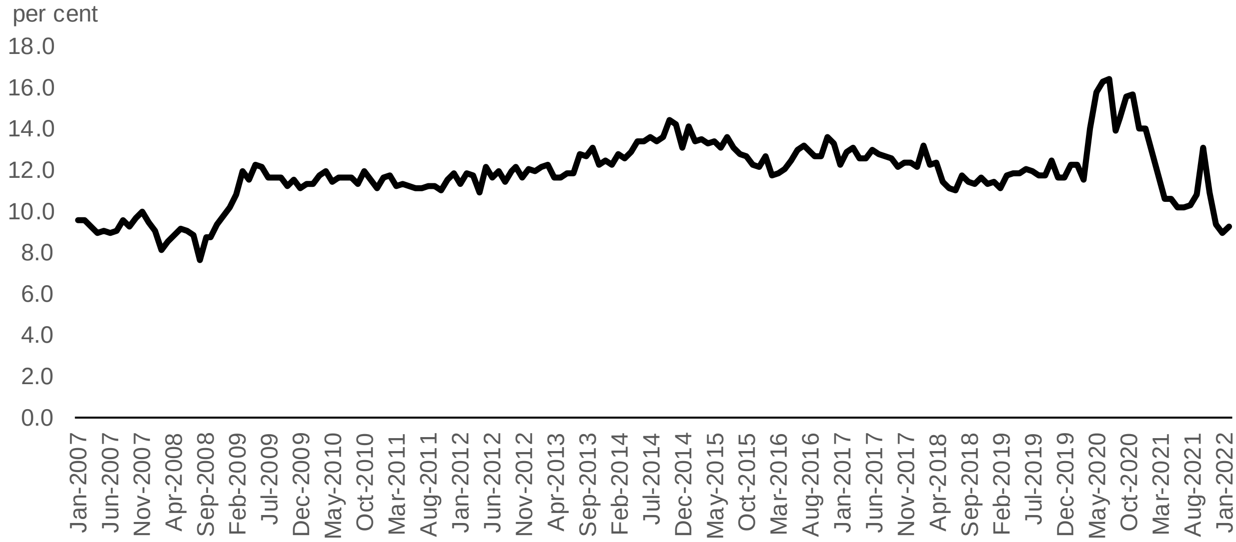
Youth labour market

The youth labour market is also complex and uneven across industry sectors.

The unemployment rate for young people (aged 15-24) (Chart 6) and underemployment rate (Chart 7) are 9.3 per cent and 14.5 per cent in February 2022 respectively, the lowest levels since 2008 and 2013 respectively. In addition, the youth participation rate was up to 70.2 per cent, higher than at almost any other time in the last 10 years (Chart 8).

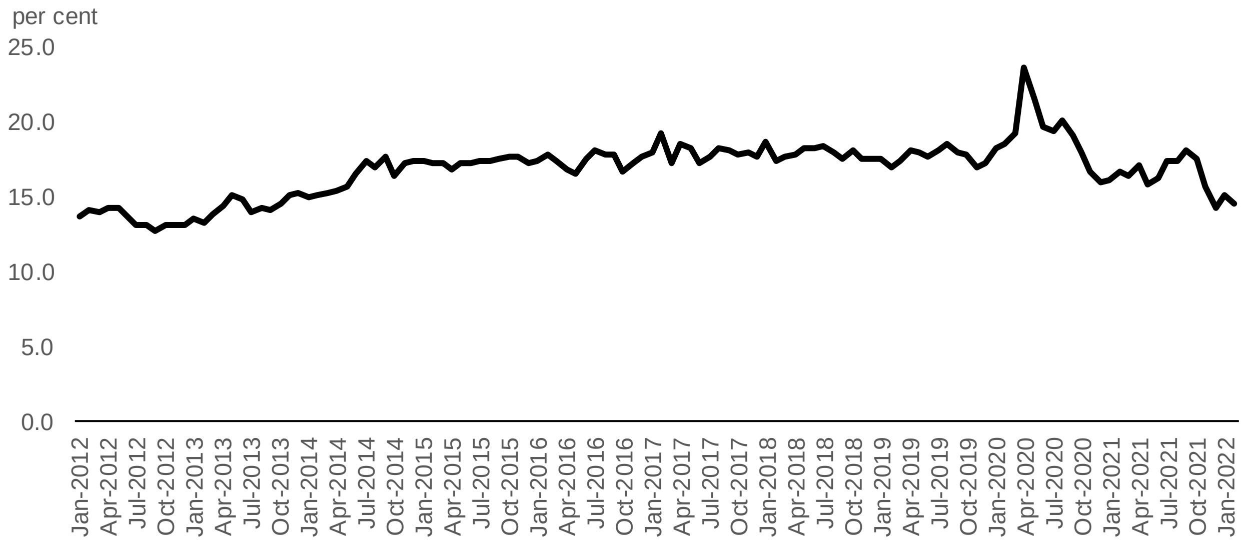
Conversely, in February 2022, youth labour force was 2.3 per cent *lower* than March 2020 while employment was only 0.2 per cent higher (Table 9).

Chart 6: Youth unemployment rate



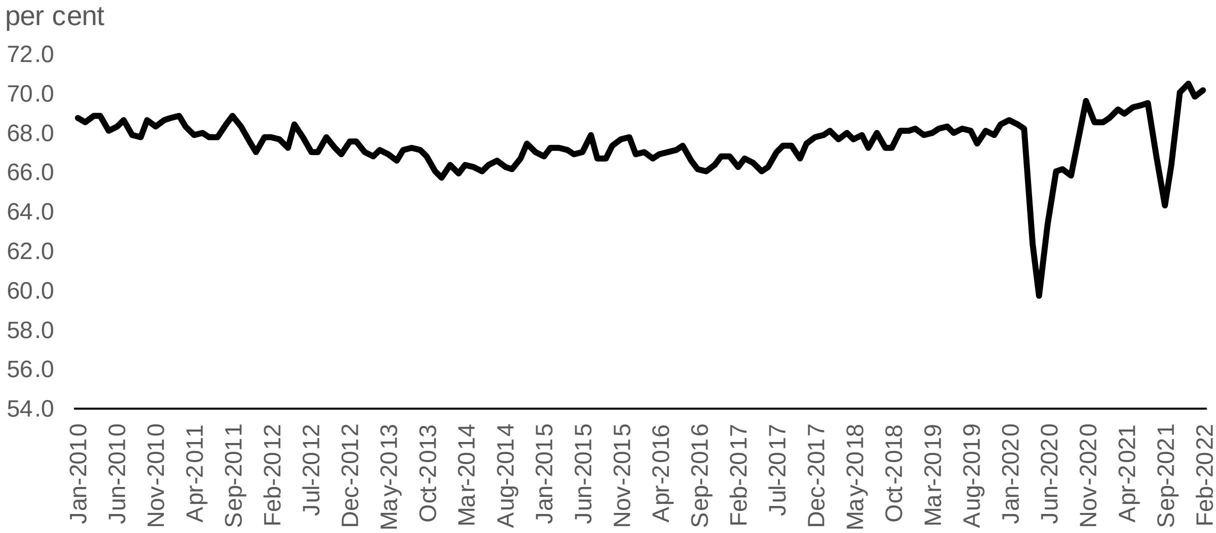
Source: ABS, *Labour Force, Australia, February 2022*, Catalogue No. 6202.0 Table 13

Chart 7: Youth underemployment rate



Source: ABS, *Labour Force, Australia, February 2022*, Catalogue No. 6202.0 Table 22

Chart 8: Youth Participation rate



Source: ABS, *Labour Force, Australia, February 2022*, Catalogue No. 6202.0 Table 13

Table 9: Percent change in employment and labour force, persons, Australia, younger workers (aged 15 – 24 years)

	February 2018 to 2020	March 2020 to February 2022
Employment	0.9	0.2
Labour force	0.6	-2.3

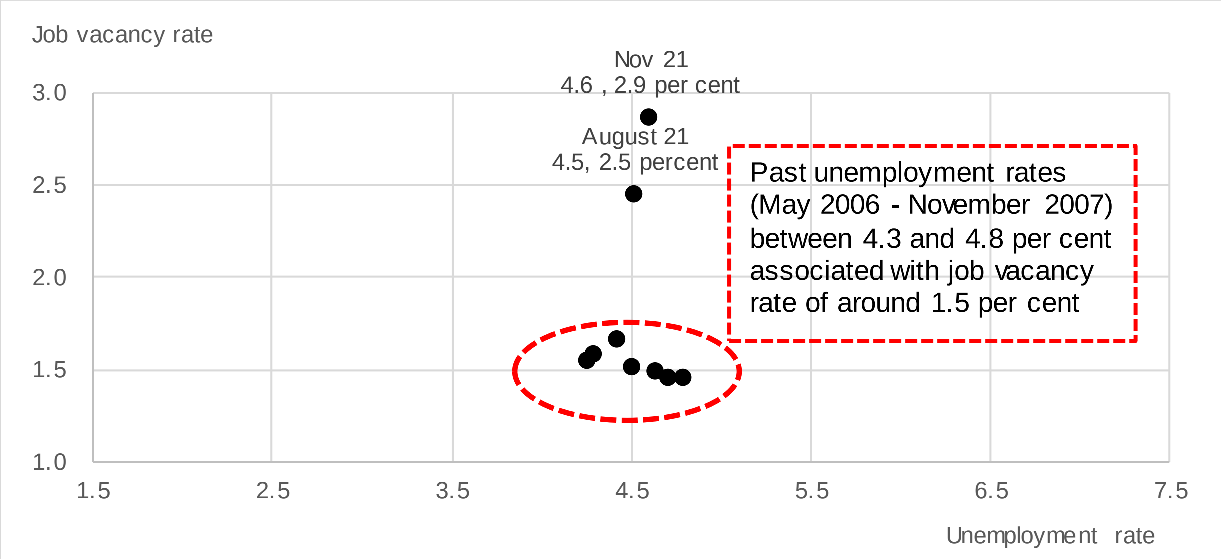
Source: ABS, *Labour Force, Australia, February 2022*, Catalogue No. 6202.0 Table 13

Box 3 – High vacancy rate compared to unemployment rate and its implications

There have been multiple dramatic shifts in the labour market during the pandemic. In the past, unemployment rates of between 4.3 and 4.8 per cent would have been associated with job vacancy rates of approximately 1.5 per cent.

However, with an unemployment rate of around 4.5 per cent, the job vacancy rate in August and November 2021 was 2.5 and 2.9 per cent respectively (Chart 9). The higher-than-expected job vacancy rate is apparent during this pandemic, particularly in 2021.

Chart 9: Job vacancy rate and unemployment rate



Source: ABS, *Labour Force, Australia, December 2021*, Catalogue No. 6202.0 Table 1 and ABS, *Job Vacancies, Australia*, November 2021, Catalogue No. 6354.0 Table 1

According to Professor Jeff Borland (Labour Market Snapshot, April 2021)[8], there are two potential explanations.

Firstly, the increased job vacancy rate has occurred due to the rapid pace of labour market recovery from the impact of COVID and is likely to occur during the initial phase of the economic recovery, and that the employment rebound is much stronger than in the past. The situation is expected to alleviate as capacity catches up demand.

Another possible explanation is that there is a decline in the efficiency with which the labour market matches workers with jobs. There are several reasons that could cause a decrease in matching efficiency including increasing or changing skill requirements (i.e. a skills mismatch) or a shortage of skilled workers due to a decrease in immigration.

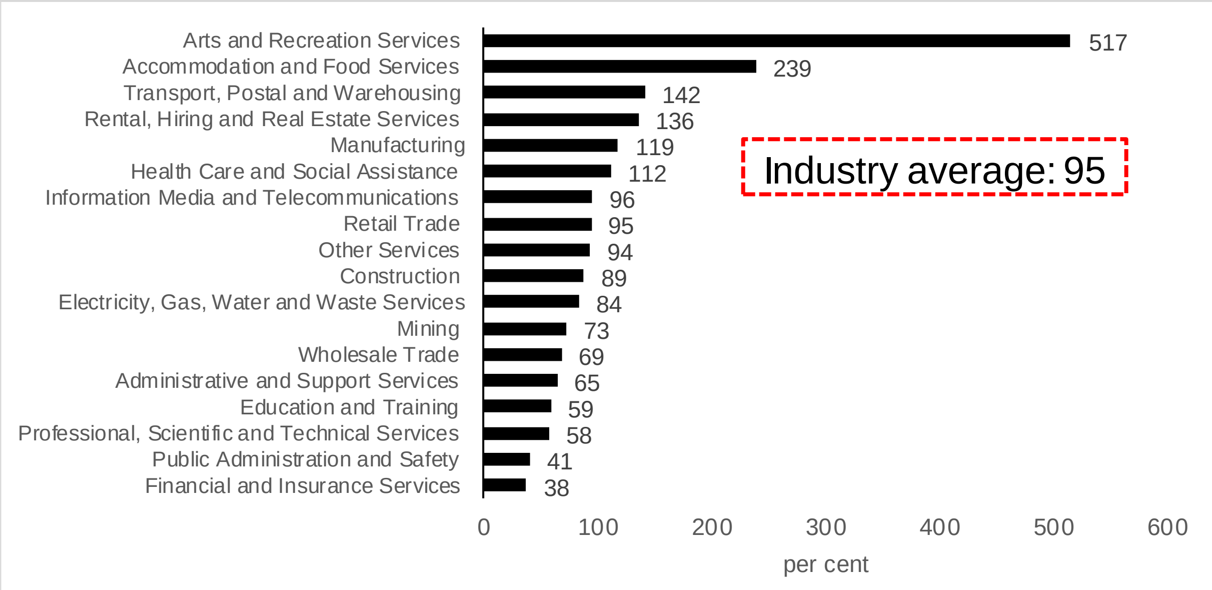
The most plausible explanation is due to the speed of the economic recovery.

Regardless of the drivers, the key implication of a higher vacancy rate is that employers need to post relatively more vacancies to fill a given number of positions or carry vacancies for longer, both of which have time and resource impacts.

Businesses may also have less flexibility to scale-up capacity to capture higher demand during this recovery phase as it is difficult to fill vacant jobs. This is even more problematic and costly for some industry sectors, which face much more volatile demands and job vacancies during the pandemic (Chart 10).

[8] For more information, please refers to https://sites.google.com/site/borlandjum/labour-market-snapshots

Chart 10: Per cent change in job vacancies, by industry, August 2020 to November 2021

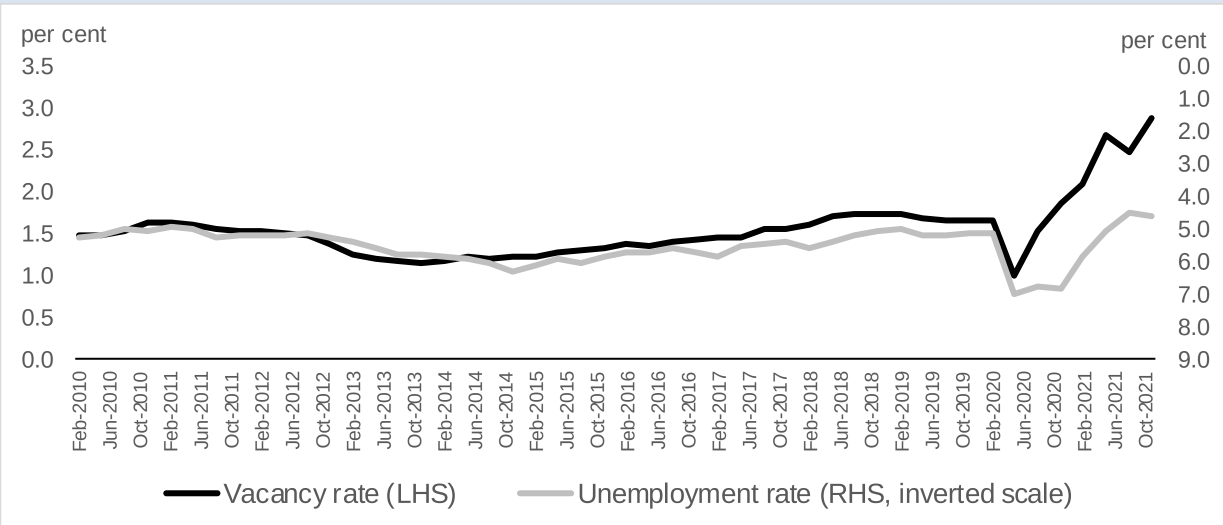


Source: ABS, *Job Vacancies, Australia*, November 2021, Catalogue No. 6354.0 Table 4

Job vacancy rates have been increasing rapidly since the easing of restrictions and have exceeded the reduction in the unemployment rate (Chart 11). This implies that employers must compete aggressively for workers in order to fill vacant positions and appears to have made it more difficult for employers to fill vacancies.

Employers are not only experiencing rising business costs but also contending with increasing shadow costs due to the inability to fill vacant positions and grow their businesses as the economy recovers.

Chart 11: Job vacancy rate and unemployment rate



Source: ABS, *Labour Force, Australia, December 2021*, Catalogue No. 6202.0 Table 1 and ABS, *Job Vacancies, Australia*, November 2021, Catalogue No. 6354.0 Table 1.

Inflation and wages growth

Wages, prices and volatile demand

In 2021, there has been a surge in prices, after years of relatively low growth. The acceleration of headline inflation in the June and September quarters (3.8 and 3.0 per cent respectively) was mainly attributable to rising house prices and increasing fuel prices.

In the December 2021 quarter, underlying inflation accelerated to 2.6 per cent, well above the five-year average and the highest rate since 2014. This exceeded wage growth (measured by Wage Price Index (WPI) of 2.3 per cent) for the first time in more than five years (Table 10).

Table 10: Annual changes in measures of prices and living costs

	5-year average to December quarter 2020	Mar-21	Jun-21	Sep-21	Dec-21
Wage Price Index	2.0	1.5	1.7	2.2	2.3
Inflation					
CPI (headline)	1.5	1.1	3.8	3.0	3.5
Trimmed mean	1.6	1.1	1.6	2.1	2.6
LCI (employees)	1.1	0.0	3.3	2.6	2.6

Source: ABS, *Consumer Price Index, Australia*, *December 2021*, Catalogue No. 6401.0 Table 1; ABS, *Selected Living Cost Indexes, Australia, December 2021*, Catalogue No. 6467.0 Table 1

There is scope for some businesses to pass on wage growth costs to consumers instead of absorbing the rising costs in full.

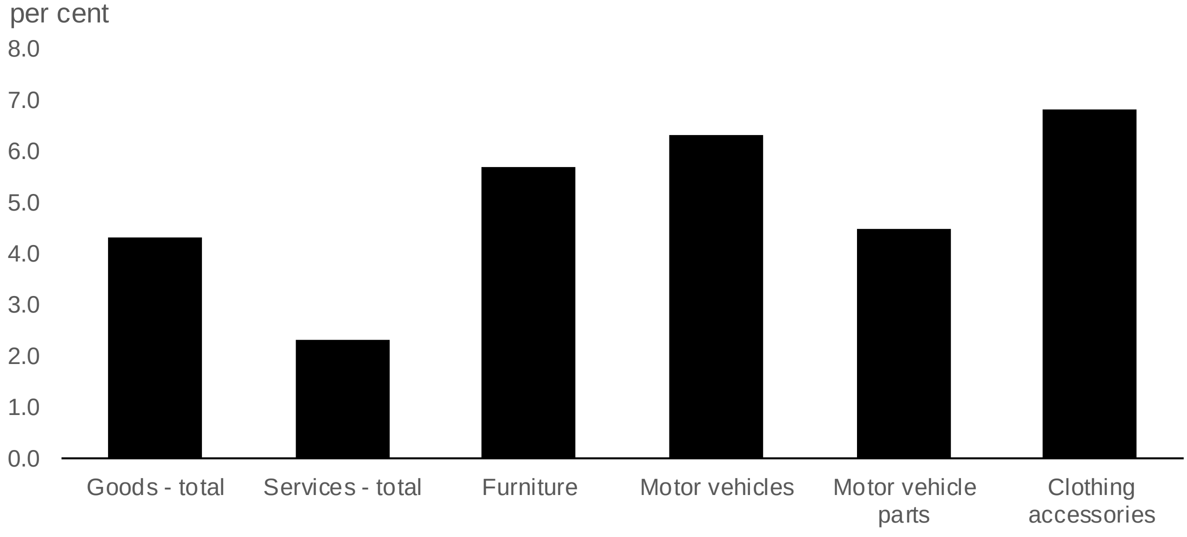
Price increases are being driven mainly by inflation in the cost of goods, increasing by 4.3 per cent, while price rises for services was 2.3 per cent (Chart 12). The service sectors, which have been heavily impacted by the pandemic, may have limited capacity to pass on higher wage costs compared to the goods sectors.

In addition, most businesses in service sectors are award-reliant. Combined with low capacity to pass on higher costs due to weaker and more volatile service demand, service sectors may be adversely affected to a greater extent than goods sectors by large increases in the NMW.

Nevertheless, price increases for goods are not solely due to strong demand (i.e. demand-pull inflation). According to ABS's December 2021 CPI, fuel price, supply disruptions and labour shortages (i.e. cost-push inflation) are also playing a role in price rises for goods.

This suggests that goods sectors also may not have significant capacity to leverage price increases to fund wages growth as underlying figures suggest.

Chart 12: Annual price changes in goods and services: December quarter



Source: ABS, *Consumer Price Index, Australia*, *December 2021*, Catalogue No. 6401.0 Table 7.

Furthermore, goods sectors are also subject to volatile demand for goods. The unpredictability outlined above continues to demand a relatively cautious approach to this year's NMW decision.

According to the RBA's Statement on Monetary Policy in February 2022[9], WPI is anticipated to gradually increase over the second half of 2022 and reach around 3 per cent in mid-2023 as the labour market continues to tighten. This is expected to be higher than the headline and underlying inflation rates which are forecasted to be 2.75 per cent in June 2023.

The forecasts imply that the capacity for businesses to fully pass on wage growth to consumers is transient.

Increasing business costs

In our January 2022 Business Conditions Survey, insurance costs was the biggest concern for NSW businesses.

The cost of insurance claims has increased by 9.1 per cent since 2013/14, due in part to the 2019/2020 bushfire season, where losses totalled $2.3billion.

As a result, insurance costs are escalating much faster than CPI (Table 11). Further, some government procurement policies are forcing small businesses to secure very expensive protection and indemnity and Directors insurance.

[9] RBA (2022), *Statement on Monetary Policy*, February.

Table 11: Insurance costs

01| Australian insurance market rate changes, H1 2021

Source: Marsh Pty Ltd data

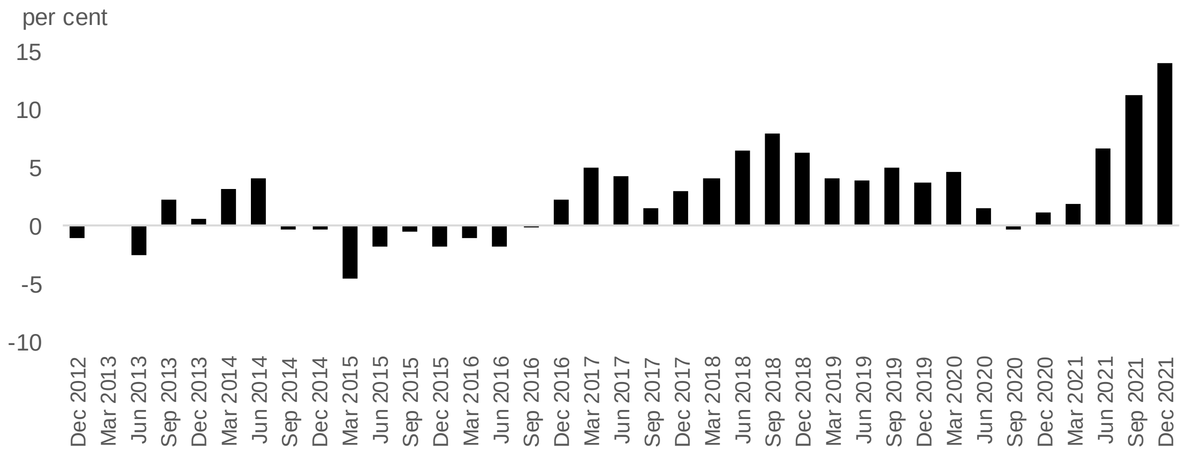
Insurance Class	Premium Change
Property	+10% to +20%
Liability	+10% to +40%
Directors and Officers Liability (D&O)	+20% to +50%
Professional Indemnity	+10% to +20%
Crime	+15% to +25%
Medical Malpractice	+10% to +15%
Cyber	+20% to +80%
Construction	+6% to +15%
Environmental Liability	+5% to +20%
Workers' Compensation	+3% to +5%
Group Life (Death)	0% to +5%
Group Life (Lump Sum Disability)	0% to +5%
Group Life (Long Term Salary Continuance)	+15% to +25%
Group Life (Short Term Salary Continuance)	0% to +5%
Private Health	+0.5% to +5.47%
Accident and Health	+5% to +10%

Source: Marsh Pty Ltd data

Higher business costs go beyond insurance costs. Businesses operating in various industries face substantial increase in input prices over 2021.

According to ABS's December 2021 Producer Price Index (PPI)[10], input prices to manufacturing recorded a rise of 14 per cent, the highest annual growth rate since the December quarter 2008 (Chart 13).

Chart 13: Producer price index, input prices to manufacturing industry, annual growth rate, December 2012 to December 2021



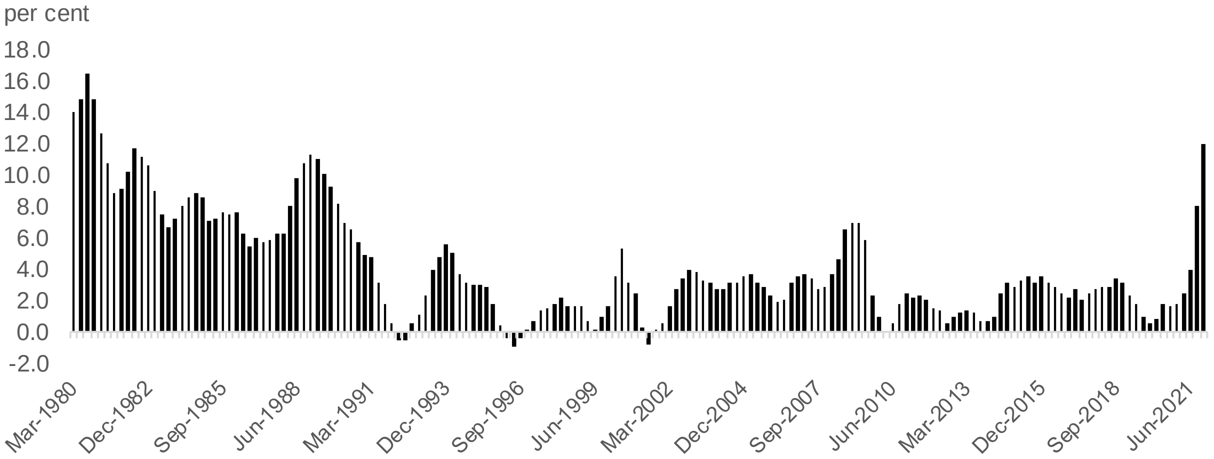
Source: ABS, *Producer Price Index, Australia, December 2021*, Catalogue No. 6427.0 Table 13.

[10] Source: ABS, *Producer Price Index, Australia, December 2021*.

This is mainly due to ongoing freight disruptions which are pushing up the price of chemical products, and longer-term reductions in metal production in accordance with global carbon emissions reduction, leading to higher prices for metal production.

Another industry that is encountering significantly higher input costs is the construction sector. Input prices to house construction rose 12 per cent in annual terms to December 2021, which was the highest increase since 1981 (Chart 14).

Chart 14: Producer price index, input prices to house construction, annual growth rate, March 1980 to December 2021

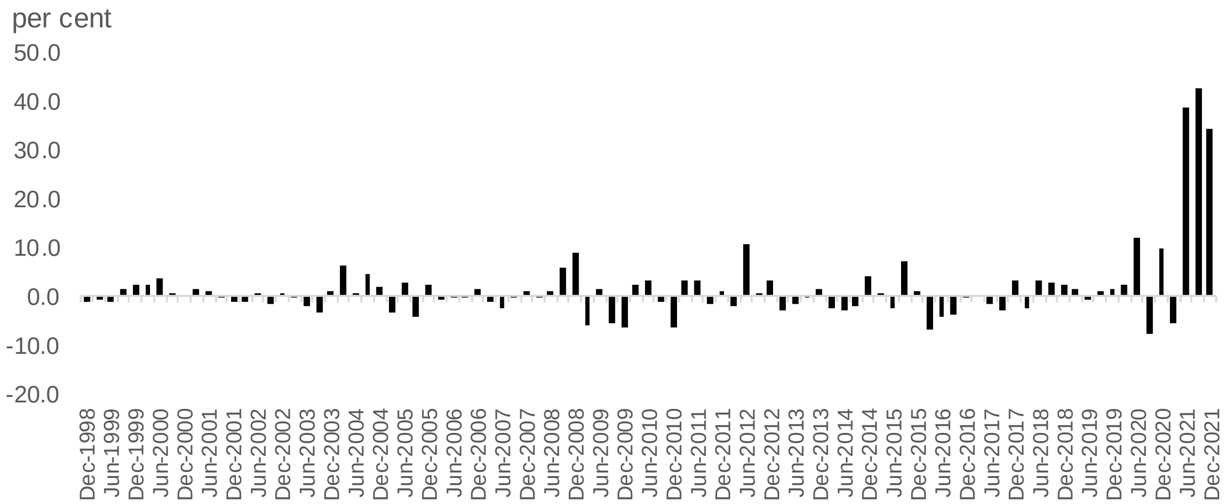


Source: ABS, *Producer Price Index, Australia, December 2021*, Catalogue No. 6427.0 Table 18.

These higher material costs are mainly attributable to increasing international freight costs.

Transportation costs, which affect a wide range of industries, also surged in 2021. Particularly, the price of water freight transport has increased more than 30 per cent every quarter since June mainly due to ongoing port congestion caused by COVID-19 related delays, rising wages, and fuel costs (Chart 15).

Chart 15: Producer price index, output prices to water freight transport, quarterly growth rate, March 1980 to December 2021



Source: ABS, *Producer Price Index, Australia*, *December 2021*, Catalogue No. 6427.0 Table 21.

These higher input costs reflect the impact that supply chain disruptions have played in increasing cost pressures to business and are much higher than CPI. It is highly likely that businesses will eventually have to pass on cost increases to consumers wherever they can, instead of absorbing them, noting that some industries may not yet be able to pass on those costs given they are still lagging recovery.

Part II – Summary and recommendation

Recommendation 1:

- That the Expert Panel determine between a 2.5 and 3.0 per cent increase in the 2021-22 Annual Wage Review.

This year's Annual Wage Review is conducted against a backdrop of recovery and greater certainty than last year's Review.

However, this year may be the most difficult year to make a recommendation to the AWR due to a range of opposing data which indicate tacit support for both a larger and a smaller increase in the NMW this year.

The following data support a larger increase in the National Minimum Wage

- High inflation (CPI at 3.5%) is causing significant increases in the cost of living, which tends to affect low-income households more than high-income households and will likely result in interest rate rises later in 2022, further increasing the cost of living.
- Robust employment data, with unemployment at its lowest rate since 2008.
- Record job vacancy data, widespread reports of labour and skills shortages and participation rates higher than at almost any time in the last 10 years.
- Gross operating profits across all industries having increased by 26.9 per cent since the start of the pandemic.
- Wage increases (2.3 per cent) having been overtaken by underlying inflation (2.6 per cent).

At the same time, many of those data support a smaller increase in the National Minimum Wage:

- The significant fluctuations in economic performance over the last two years and the as-yet-unknown impact of the Omicron variant on GDP.
- Strong input cost increases for businesses, particularly in fuel, insurance, energy, shipping and freight, and materials.
- The Producer Price Index for many goods industries are at their highest levels for years.
- Profits have not been distributed evenly across industries, particularly in the award-reliant industry Accommodation and Food Services which has seen a 31.7 per cent decrease in company profits since the start of the pandemic.
- Similarly, employment data also suggests some industries continue to lag recovery.
- Business confidence remains low, at least in NSW.
- A 0.5 per cent increase in the Superannuation Guarantee is due on 1 July 2022 (as there will be each year until 2025).
- Finally, the pandemic is still not over. Omicron has demonstrated that, even without government-enforced public health measures, new variants and waves of COVID can have significant impacts on the economy due to self-enforced lockdowns.

All of this creates a difficult balancing act for the Panel.

An increase in wages significantly above underlying inflation, would compound the effects of increasing non-labour costs and undermine fragile business confidence.

However, in a high inflation environment, the purchasing power of minimum wage earners will be affected significantly by a below-inflation determination.

It is our view that an increase broadly in line with inflation would help maintain relative living standards for workers and most businesses would generally have capacity to meet this increase.

Taking into account these factors, we are therefore recommending that the Panel determine a 2.5 – 3.0 per cent increase in the NMW, in addition to the 0.5 per cent increase in the Superannuation Guarantee.

Part III – Modern Awards Groupings

Recommendation 2:

- Maintain the operative dates from 2021 in 2022 (i.e. General Retail Trade on 1 September 2022, Transport, Accommodation and Arts awards on 1 November 2022, all others on 1 July 2022), before moving to realign all awards on 1 July 2023 when it is anticipated that economic performance will be more evenly distributed across industries.

The division of Modern Awards in 2019-20 introduced additional complexity by introducing another major variable into consideration. AWRs are now not only focused on the quantum of pay increase, but also on the dates when it applies.

There continues to be significant variation in the performance of industries. Those industries identified as lagging recovery by the Panel last year continue to lag in terms of Gross Value Added (GVA) (Table 12), income from sales of goods and services (Table 13) and Gross operating profits (Table 14).

Table 12: Per cent change in GVA, By industry, March 2020 to December 2021 quarter

	March 2020 to June 2021	June to September 2021	September to December 2021	March 2020 to December 2021
Lagging recovery (Upper cluster)				
Accommodation and food services	2.1	-25.5	26.1	-4.1
Transport, postal and warehousing	-5.8	-3.2	3.0	-6.0
Information, media and telecommunications	3.2	1.1	3.4	7.9
Almost recovered (central cluster)				
Arts and recreation services	-1.3	-6.6	8.2	-0.3
Manufacturing	0.5	-1.2	1.8	1.1
Construction	0.8	-1.0	1.9	1.7
Wholesale trade	7.5	-5.5	3.5	5.3
Education and training	1.3	0.4	0.4	2.1
Fully recovered (Lower cluster)				
Electricity, gas, water and waste	0.3	-0.1	-1.0	-0.8
Finance and insurance	2.7	1.2	1.1	5.0
Public administration and safety	2.5	0.8	1.6	5.1
Health care and social assistance	6.2	-2.1	5.8	10.5

Other services	2.9	-13.6	15.4	2.6
Administrative and support services	-5.2	-1.7	5.1	-2.1
Professional, scientific & technical services	1.1	-0.6	5.3	5.8
Rental, hiring and real estate	4.0	-0.6	2.9	6.4
Retail trade	4.5	-3.4	7.4	8.5
Mining	-2.7	1.6	-1.0	-1.8
Agriculture, forestry and fishing	31.6	3.4	9.0	49.5

Source: ABS, *Australian National Accounts: National Income, Expenditure and Product, December 2021*, Catalogue No. 5206.0

Table 13: Per cent change in income from sales of goods and services, By industry, March 2020 to December 2021 quarter

	March 2020 to June 2021	June to September 2021	September to December 2021	March 2020 to December 2021
Lagging recovery (Upper cluster)				
Accommodation and food services	5.0	-24.5	28.7	2.0
Transport, postal and warehousing	0.3	-5.8	5.9	0.1
Information, media and telecommunications	-2.8	0.5	4.1	1.6
Almost recovered (central cluster)				
Arts and recreation services	-0.4	-10.6	14.6	2.1
Manufacturing	1.7	3.0	4.6	9.6
Construction	0.9	0.8	1.4	3.1
Wholesale trade	7.9	-2.2	9.3	15.4
Fully recovered (Lower cluster)				
Electricity, gas, water and waste	2.8	0.7	-4.2	-0.9
Finance and insurance	5.6	9.3	10.4	27.4
Other services	6.4	-11.7	15.0	8.1
Administrative and support services	-3.3	-0.4	5.8	1.9
Professional, scientific & technical services	2.1	1.4	5.2	8.9
Rental, hiring and real estate	7.8	-0.6	4.2	11.7
Retail trade	9.6	-4.4	8.4	13.5
Mining	25.4	4.0	-3.9	25.5

Source: ABS, *Business Indicators, December 2021*, Catalogue No. 5676 Table 6

Table 14: Per cent change in company gross operating profits, by industry, March 2020 to December 2021 quarter

	March 2018 to 2020	March to December 2021	March 2020 to December 2021
Lagging recovery (Upper cluster)			
Accommodation and food services	14.7	-35.6	-31.7
Transport, postal and warehousing	-1.2	20.8	1.6
Information, media and telecommunications	-2.9	13.5	3.2
Almost recovered (central cluster)			
Arts and recreation services	-8.5	-11.5	-3.5
Manufacturing	0.3	30.7	49.5
Construction	12.4	2.6	35.9
Wholesale trade	8.4	-2.4	23.0
Fully recovered (Lower cluster)			
Electricity, gas, water and waste	10.8	-3.9	-15.5
Finance and insurance	-35.6	79.0	60.9
Mining	34.1	18.6	35.5
Other services	9.3	39.5	99.8
Administrative and support services	0.1	-24.3	9.0
Professional, scientific & technical services	30.3	23.4	40.4
Rental, hiring and real estate	-17.3	15.4	29.9
Retail trade	8.9	-6.7	1.4
Total industry	13.7	13.6	26.9

Source: ABS, *Company Gross Operating Profits, Current Prices, December 2021,* Catalogue No. 5676.0 Table 11

Further given that international borders and government restrictions are only just starting to ease, the data indicates that the economy continues to recover unevenly across industry sectors.

Accordingly, it is our recommendation that the increases occur on the same dates as in 2021 (i.e. General Retail Trade on 1 September 2022, Transport, Accommodation and Arts awards on 1 November 2022, all others on 1 July 2022), before future increases are realigned on 1 July 2023 when we anticipate economic performance will be more evenly distributed across industries.