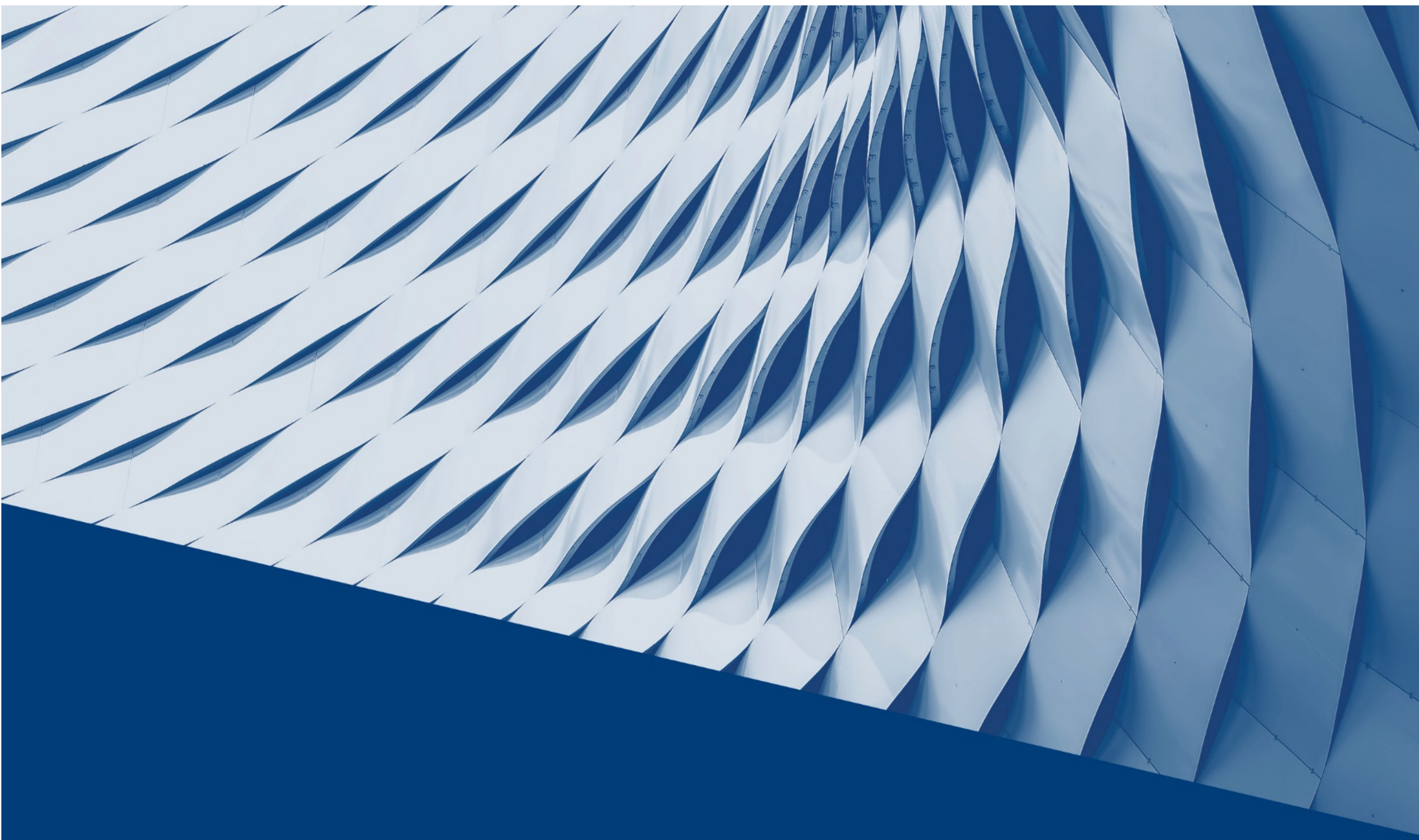

Supplementary Submission to the Annual Wage Review 2021-22

ACTU Submission, 3 June, 2022
ACTU D. No 20/2022

australian council of trade unions

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1. ECONOMIC OVERVIEW

1. The ABS published the Australian National Accounts: National Income, Expenditure and Product for the March quarter on 1 June 2022. The updated figures since the December National Accounts reinforce the ACTU's position in our initial submission: productivity growth and profit growth are sufficiently robust, and real unit labour cost growth is sufficiently weak (in fact, negative for the quarter), to sustain an increase in NMW and award wages above headline inflation (which is to say, a positive rate of real wages growth).

2. Economic growth continues to be encouraging, although has come down from the bounce back in response to the end of the 2021 lockdowns. GDP growth was 0.8 per cent for the quarter and 3.3 per cent for the year-to-March 2022, while GDP per capita grew by 0.3 per cent in the quarter and 2.5 per cent for the year-to-March and real net disposable national incomes grew by 1.4 per cent in the quarter and 2.4 per cent for the year-to-March.

3. Household final consumption grew 1.5 per cent over the March quarter, representing solid growth in the absence of any "post lockdown" buying rebound. This contributed to a 4 per cent growth in household consumption over the year to March. Household consumption contributed 1.5 per cent to GDP over the quarter and the largest rises in consumption relative to the December quarter were for Transport services (60 per cent growth), Purchase of vehicles (13 per cent growth) Hotels, cafes and restaurants (5.3 per cent growth), Clothing and footwear (3.1 per cent growth) and Recreation and culture (4.8 per cent growth).

4. Productivity growth improved significantly in the March quarter, with a growth rate of 1.7 per cent in the three months alone and annual productivity growth of 2.8 per cent for the year-to-March. This represents a significant improvement from the previous National Accounts, which had productivity fall by 0.8 per cent in the December quarter and growing annually by 1.9 per cent for the year-to-December-2021, as well as higher than the longer run average of 1.5 per cent for the 30 years to 2018-19. This suggests that the economy is expanding its productive capacity, despite constraints on labour supply.

5. Real unit labour costs fell by 2 per cent in the March quarter alone, falling 2.7 per cent in the year-to-March. Contrary to employers' claims that wage pressures are building, the evidence shows labour costs are falling in real terms. It is also worth emphasising that these declines in real labour costs are significantly greater than they were in the December National Accounts, where they fell by 0.7 per cent in the December quarter alone and fell by 0.3 per cent for the year-to-December. Positive real wages growth was already affordable when we made our initial submission on the basis of the December National Accounts, and it has become even more so based on the latest figures in the March National Accounts.

6. Profits surged in the March quarter, growing by 7.3 per cent in the first three months of the year alone, and annualised profit growth for the year-to-March was 21.6 per cent, more than double the annual rate of profit growth for the year-to-December in the previous National Accounts (9.6 per cent). This reinforces the conclusion from the stronger productivity growth figures: employers can afford a minimum and award wage increase of 5.5 per cent.

7. The labour share of GDP and labour share of total factor income have fallen by nearly 1 per cent to 45.1 per cent and 49.8 per cent respectively. The labour share of GDP is the lowest since records on this measure began in 1959, while the labour share of total factor income is the fourth-lowest on record. This starkly illustrates that while labour is becoming relatively cheaper in real terms, employers are becoming more profitable and workers are becoming more productive, workers are not receiving a fair share of national income, nor are they receiving an economic return anywhere near commensurate to their contribution to national economic prosperity and productivity. The gap between falling real wages and rising GDP per capita and rising real net disposable national income demonstrates the ACTU's argument that national prosperity is indeed growing—it just isn't being returned in real wages growth to the workers who are delivering it.

8. The household savings ratio fell from 13.6 per cent in the December quarter to 11.4 per cent in the March quarter, illustrating that workers are already dipping into their savings to meet the rising cost of living in the face of flat nominal wages and falling real wages.

1.1 Productivity and wages

9. Employer groups have argued nominal wages growth above inflation will be inflationary without productivity gains. The Australian Chamber of Commerce and Industry (ACCI) asserted in their initial submission that "given that any increase in minimum and award minimum wages would not be supported by productivity growth across recent years, it would be imprudent for the Panel to 'bake in' strong wages growth in the 2021-22 Annual Wage Review, knowing that productivity remains weak and a substantial increase does not appear to be sustainable over the longer term."[1]

10. The latest National Accounts have debunked the productivity argument advanced by ACCI and other employer groups. Productivity growth has not only remained positive—meaning nominal wages can grow above inflation without setting off undue cost-push inflationary pressures—but in fact has strengthened noticeably.

11. Strong productivity growth in the March quarter and the year-to-March also undermines ACCI's argument that the productivity growth seen in recent years has been artificially inflated by factors related to the pandemic, and that productivity growth will continue to be weak or even weaken further as we emerge from the pandemic. ACCI's initial submission stated:

> "The lockdowns resulted in a large share of business capital unused or under-used. This influenced labour productivity, overstating the capital deepening component. Labour productivity jumped to 1.14% in 2019- 20, before settling back to 0.43% in 2020-21 on a quality adjusted hours worked basis. Labour productivity was artificially boosted by a reallocation of labour toward higher productive industries as less productive industries experienced larger falls in hours worked during the lockdowns. This contrasts with the declining trend in labour productivity over the past business cycle, with labour productivity growth on a steadily declining trend from 2.94% in 2011-12 to a contraction of 0.63% in 2018-19."[2]

Citing the Productivity Commission's statement in the 2017 *Shifting the Dial* five-year productivity review that income growth in Australia between 2017 and 2022 is likely to

[1] Australian Chamber of Commerce and Industry (2022), 'Initial Submission to the 2021-22 Annual Wage Review', p. 11.
[2] Australian Chamber of Commerce and Industry (2022), 'Initial Submission to the 2021-22 Annual Wage Review', p. 21.

be about half of historical levels with the only offset to the factors behind this being higher productivity, ACCI then asserted "this prediction was prior to the global pandemic, significant labour shortages, and a world in continuous flux from exogenous shocks such as geopolitical tensions, that has made the prospect of achieving higher MFP and labour productivity significantly harder. It is essential that in this year's Annual Wage Review decision, the Panel does not further decouple wages growth from genuine productivity improvements. Given the weakness of MFP and labour productivity growth in recent years, with both MFP and labour productivity contracting in 2018-19 and remaining anaemic in 2019-20 and 2020-21, an undue or inflated increase in minimum and award minimum wages cannot be justified."[3]

12. While causation cannot automatically be inferred from correlation, it must be emphasised that productivity growth has strengthened significantly, in stark contrast to ACCI's claim that productivity will remain weak or weaken further as the economy emerges from the pandemic. It is also worth noting the Productivity Commission's productivity performance dashboard indicates labour productivity growth was 1.07 per cent in the fiscal year 2020-21 and the five-year average was a mere 0.91 per cent.[4] Current productivity growth is noticeably stronger than the past five-year average.

13. We note that, in the extract cited in paragraph 11 above, ACCI refers to labour productivity as measured on a quality adjusted labour inputs (QALI) basis. This method of measurement was also discussed in the Commission's information note dated 6 May. The QALI is founded on an attempt to distinguish between the productivity contributions of "pure labour" (presumably unskilled effort), and human capital (embodied in the skills that allow most workers to be more productive). We submit that the assumption that the returns to skills represents something other than a return to the workers who possess those skills is both impossible to measure and unhelpfully subjective.

14. The assumption behind the QALI is that the wages used in weighting different types of labour reflect their marginal products. This is a flawed assumption in our view. Take for

[3] Australian Chamber of Commerce and Industry (2022), 'Initial Submission to the 2021-22 Annual Wage Review', p. 21.
[4] Productivity Commission (2022), 'Productivity performance dashboard', accessed at https://www.pc.gov.au/research/ongoing/productivity-performance on 2 June 2022.

example the ongoing disparity between wages earned by men and those earned by women—including in many cases for performing the same job. We dispute the validity of an assumption that the lower wages for women in the same job reflects their lower marginal product.

15. Actual labour productivity—that is, GDP per hour worked or GVA per hour worked—is the only measure which can be directly measured. It is neither possible nor necessary to try to distinguish the return to workers derived from their 'pure labour' and the return to their skills or knowledge. At any rate, both components, if one believes they are even analytically distinct in the first place, should be paid to workers in our view. Labour productivity has been relatively strong throughout the pandemic, with a 2 per cent annual growth rate from the end of 2019 to the end of 2021.

1.2 Inflation and wage-price spirals

16. A number of employer groups' submissions and statements during the public consultations[5] have argued that minimum wage increases greater than (or even approaching) inflation will further stoke inflation. In considering this argument we must consider the solid data and forecasts regarding inflation in front of us, rather than unquantified speculation.

17. As discussed in paragraphs 63-67 of our reply submission, the ACTU's 5.5 per cent claim is consistent with the mainstream economic position that real wage growth equal to or less than the rate of productivity growth will not put pressure on inflation.[6] Wage increases that match inflation and productivity growth allow workers to both meet the rising cost of living and gain their fair share of rising national prosperity without placing pressure on prices, because improvements in productivity are (by definition) expanding the productive capacity of the economy to produce goods and services. The ACTU reached its 5.5 per cent figure with knowledge of the headline inflation of 5.1 per cent and the latest productivity growth figure available at the time of 1.9 per cent (the year-to-December-2021). Our implied real wage growth claim of 0.4 per cent (using CPI growth to deflate wage growth) was well and truly within the non-inflationary range implied by the 1.9 per

[5] At PN122, 128, 136, 173 (Ai Group), 186, 191, 199, 206 (ACCI) , 259 (RCA)
[6] See e.g. Mankiw, G (2018), Principles of Economics, Cengage Learning: Boston, USA, 8th Edition, p. 373 – 374.

cent productivity growth recorded in the previous (December) National Accounts. The substantial rise in annualised productivity growth to 2.8 per cent for the year-to-March-2022 in the latest National Accounts, and the likely continued rise in inflation, further strengthens the view that the ACTU's 5.5 per cent claim is not inflationary.

18. If headline inflation were to hold at current levels in the 2022-23 financial year, our implied mere 0.4 per cent real wage increase is well below the 2.8 per cent increase in annual labour productivity (GDP per hour worked). The RBA is also forecasting annual headline inflation of 5.5 per cent by June this year, implying 0 per cent real wage growth, even further below the 2.8 per cent labour productivity increase. The RBA also predicted inflation would reach 6 percent by the end of this year before easing off. With prices continuing to rise in and broaden into areas such as energy, even these predictions are beginning to feel underdone.

19. In considering what measure of inflation the Panel should take into account when assessing the needs of the low paid, we submit that headline inflation is the better measure than the trimmed mean because a fair minimum safety net involves considering the costs workers are actually facing. Similarly, government payments, transfers and liabilities indexed to inflation, such as the Age Pension, are generally indexed to headline inflation rather than underlying inflation presumably to protect the purchasing power of the payment.[7] Workers are presently facing significant cost-of-living pressures, including for essential goods and services included in headline inflation, such as petrol and key items of food and groceries but currently excluded from underlying or trimmed mean inflation. In reality workers are paying for costs associated with headline inflation (such as higher petrol prices), because firms are passing on headline inflation to consumers to protect their profit margins. We would ask why workers should suffer a cut to real wages based on underlying rather than headline inflation, when firms are unwilling to suffer a cut to their profit margins by doing the same?

20. However, in the event the Panel feels differently, we submit that even if one uses underlying inflation rather than headline inflation to deflate nominal wage increases, our 5.5 per cent

[7] Services Australia (2022), 'Age Pension – How much you can get', accessed at https://www.servicesaustralia.gov.au/how-much-age-pension-you-can-get?context=22526#a1 on 31 May 2022.

nominal wage claim remains non-inflationary. Underlying inflation rose 3.7 per cent in the year to March 2022, implying a 1.8 per cent real wage increase under our wage claim if underlying inflation holds at that level in 2022-23. This is still below the latest labour productivity growth figure of 1.9 per cent for the year to March 2022.

21. The same applies if we deflate our wage claim by the RBA's annual *underlying* inflation forecasts: 4.5 per cent in June 2022 (1 per cent real wage growth under our claim), 4.75 per cent in December 2022 (0.75 per cent real wage growth under our wage claim), and 3.5 per cent in June 2023 (2 per cent real wage growth under our claim), all below 2.8 per cent labour productivity growth.

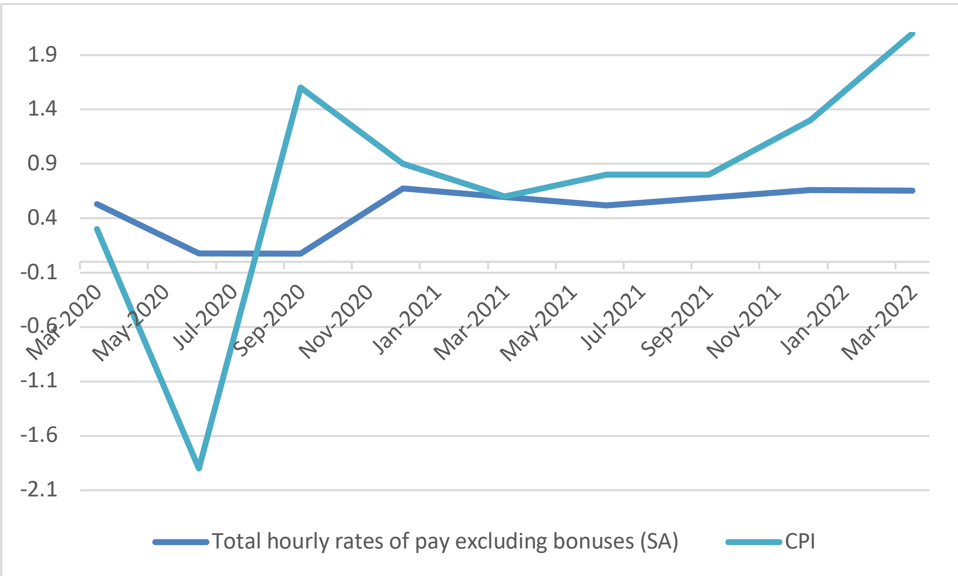
2. LABOUR MARKET

22. Broadly speaking, the labour market continues to be positive amid growing employment, low underutilisation and high participation as described in our previous submissions, with some further improvement evident in data released since the public consultations on 18 May. Wage growth remains well below what might be regarded as historically normal, having responded only weakly to the tighter labour market conditions and growing cost of living pressures. In short, there has been clear evidence throughout the year of increased workforce participation, but such participation now offers less in the way of social inclusion by reason of the declining value of real wages.

2.1 Wage growth, rigidity and "spill-overs"

23. The ABS released Wage Price Index data for the March Quarter on 18 May. The data shows the continued slow pace in wage growth, relative to CPI.

Figure 1:Quarterly growth in CPI and private sector WPI, Mar 2020-22



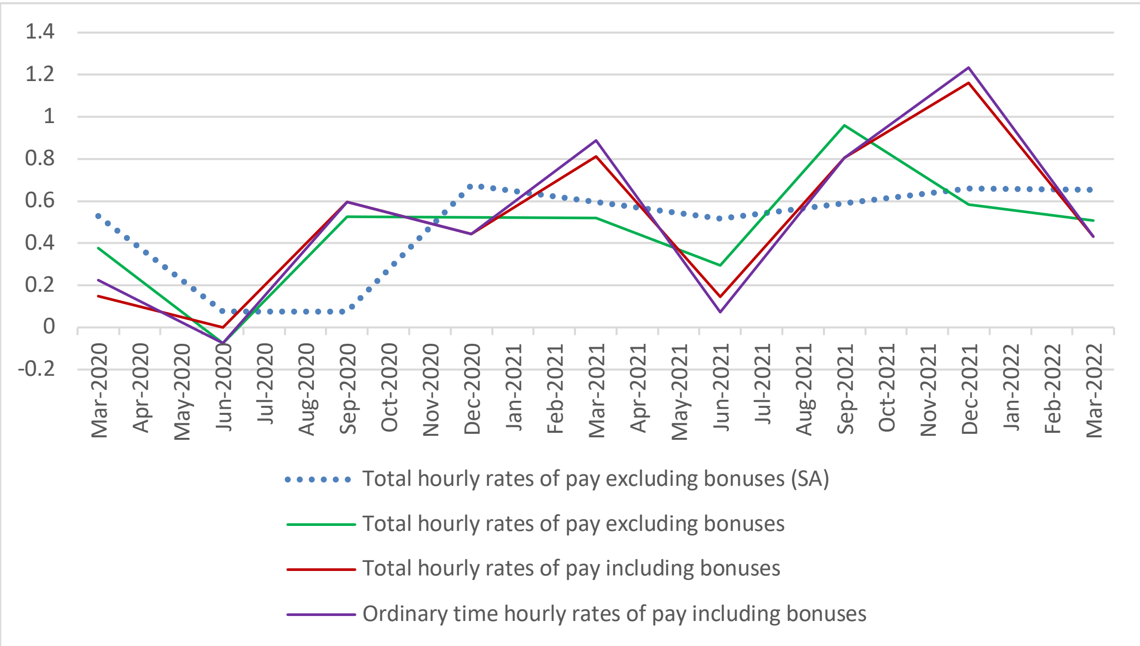
Source: ABS 6345, 6401

24. In seasonally adjusted terms, nominal wages grew 0.7 per cent in the March quarter and 2.4 per cent over the year to March, below market expectations. The growth in the private sector index matched this total level, whereas for the pubic sector growth was even more subdued at 0.6 per cent in the quarter and 2.2 per cent over the year to March. Annual

wage growth has been below 2.5 per cent since December 2014, with this trend continuing in the latest figures.

25. As alluded to in RBA's May Statement on Monetary Policy[8] and in its May Board minutes, bonuses are a key driver of the small amount of wage growth recently observed. As the Panel would be aware, bonuses are not a feature of minimum wage and award reliant employment and rarely a feature of employment under an enterprise agreement.

Figure 2: Quarterly Growth in Private Sector Wage Price Indexes, Mar 2020-22



Source: ABS 6345. Seasonally Adjusted measure is shown using a dashed line for comparisson with Orginal mesure for total hourly rates of pay excluding bonuses. Other indexes shown are not available on a seasonally adjusted basis.

26. It is unsurprising that the wage price indexes excluding bonuses are yet to respond in a significant way to cost of living pressures, as there are rigidities in our wage fixation system that confine award reliant workers to annual increases and commit collective agreement reliant workers to pre-determined increases over the years ahead. This leaves workers on individual arrangements –who constitute approximately 39.4% of the employee workforce and who typically have higher weekly cash earnings than award or collective agreement

[8] at page 49, 56, 65

reliant workers[9] – as the likely drivers of most of the recent *higher* wage growth. They are also the drivers of recent WPI growth altogether, with the ABS observing:

> "Jobs covered by individual arrangements continued to be the largest contributor to wage growth in recent quarters. Labour market pressures have provided a gradual upward influence on the size of increases for a number of these market sensitive jobs over the last three quarters."[10]

27. It is important to contextualise movements in the wage price index, in terms of what it does measure and what it does not measure. Wage price indexes measure changes over time of the price of wages and salaries unaffected by changes in the quality or quantity of work performed[11]. As such, they are not a direct measure of the total costs of operating a business: The impact that wage price increases have on the overall costs of business is proportional to the extent that labour itself is an input. The impact of *minimum and award wages* on overall wage costs depends both on the share of award reliant employment within a given industry (or business) as well as the hours worked by the award reliant workers relative to workers who are not award reliant. Accordingly, whilst the survey of employee earnings and hours provides us with estimates of the share of the workforce that is dependent on award rates[12], the share of the wages bill attributable to award wages may be different and likely lower.[13]

28. Whilst we do not dispute that the decisions of the Panel spill over into rates of pay paid to persons who are not award reliant, estimates of this differ. In 2019, Bishop and Cassidy[14] used two techniques to estimate this spill-over. The first method used unpublished WPI job-level data which tracked reasons for wage increases identified in responses to the WPI survey questions, and found that around 12% of changes in the wages of jobs covered by enterprise agreements were attributed to "FWC decision", as were 8% if changes in jobs subject to individual arrangements. The second method *implied* a relationship to the decisions of the Panel by the mere fact of a percentage increase for a job covered by an enterprise agreement or individual arrangement being within 0.05% above or below the increase determined by FWC. This second method provided an estimate of between 6%

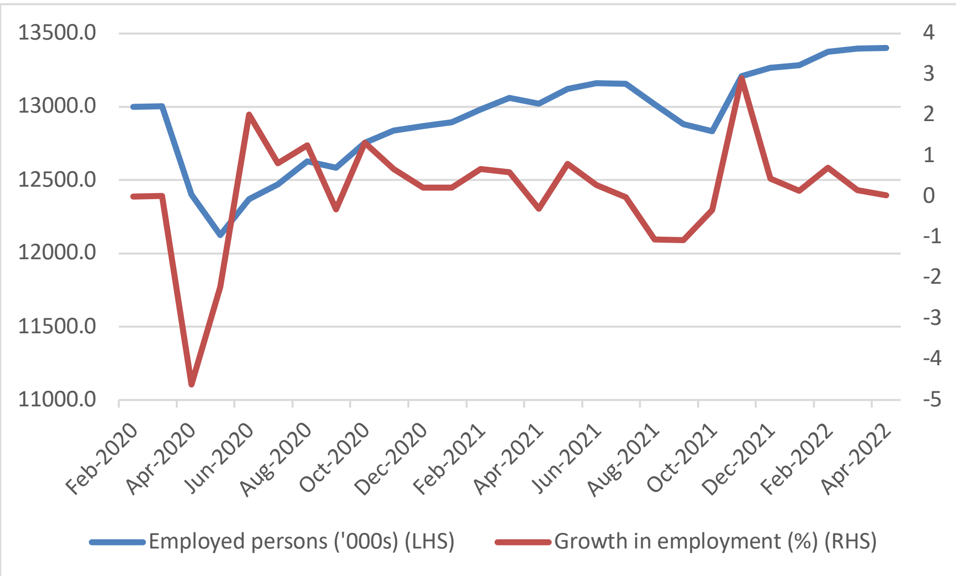
[9] ABS, Employee Earnings and Hours, January 2021.
[10] ABS Commentary on Wage Price Index Australia, March Quarter 2022.
[11] ABS (2022), Wage Price Index Australia, methodology.
[12] See section 4.1 of our initial submission.
[13] See Bishop, J and Cassidy, N, "Wages Growth by Pay-setting method", *RBA Bulletin*, June 2019
[14] Note 13

to 6.5%. These estimates provide some useful background for considering the comments by ACCI on this issue of wage spill-overs during the public consultations[15] and for viewing statements made on behalf of the Restaurant and Catering Association[16] about this issue with considerable caution. Even if the views of the Restaurant and Catering Association on the extent of spill-overs were to be believed, their admission that menu prices have already risen 10-20%[17] tends to indicate a more than sufficient allowance for increasing labour costs.

2.2 Employment and utilisation

29. Employment grew, slightly, by around 4,000 (0.03%) persons in April, representing growth of 2.9% in the year to April 2022. There are approximately 400,000 more employed persons than was the case in March 2020 prior to the implementation of policy responses to the COVID-19 pandemic.

Figure 3: Monthly employment growth, Feb 2020-Apr 2022



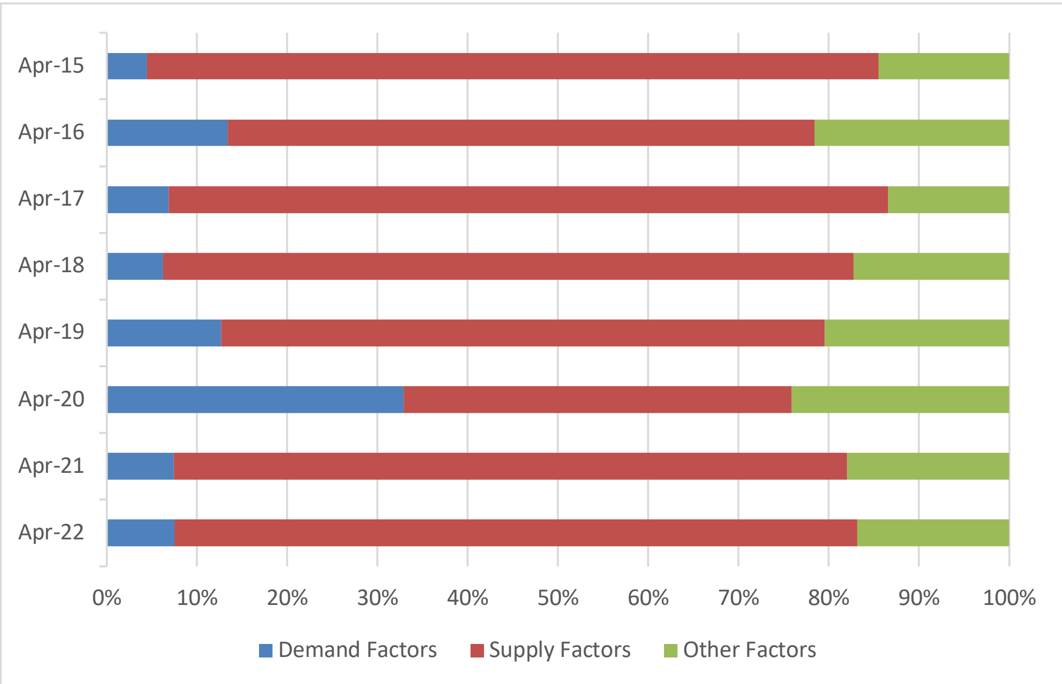
Source: ABS 6202

30. There was a small decrease in the participation rate in April, from 66.4% to 66.3%, nonetheless continuing the participation rate at above 66% for 6 months consecutively. The employment to population ratio remained high and steady at 63.8%.

[15] At PN198-199
[16] At PN254, 261-279
[17] At PN258

31. Whilst the pleasingly low published unemployment of rate of 3.9% for April was widely reported as a reduction for the already low published unemployment rate of 4% in March, ABS revisions have adjusted the March published figure also to 3.9%.[18] Unemployment has been below 5% for six months consecutively and is now at levels not seen for close to five decades. Underemployment and underutilisation fell yet again in April, to 6.1% (down 0.2 pts) and 10% (down 0.3 pts) respectively, levels not seen since 2008. This strong evidence of continued high demand for labour is corroborated by a rise in hours worked of 1.3% to a level 3.6% above March 2020. Once again, the constraints on hours worked are overwhelmingly supply rather than demand related, as seen in Figure 4 below.

Figure 4: Share (%) of factors contributing to less hours being worked, Apr 2015-2022



Source: ABS 6291.0.55.001: Employed persons who worked fewer hours than usual by hours actually worked in all jobs. Category definitions: Demand Factors= "No work, not enough work available or stood down" + "Bad weather or plant breakdown"; Supply factors= "Annual leave, holidays, flextime or long service leave" + "Own injury or illness or sick leave" + "Personal reasons, study, caring for sick or injured family" + "Maternity, paternity or parental leave"; Other factors = "Began, left or lost a job during the week" + "Worked fewer hours than usual for other reasons" + "Standard work arrangements or shift work".

[18] Taking the figures out to two decimal points, the March 2022 unemployment figure was 3.93% declining down to 3.86% for the April period.

32. New data on job mobility from the Participation, Job Search and Mobility survey was released by the ABS on 24 May[19], which showed that in the year to February 2022, 9.5% of employed people changed jobs - the highest job mobility rate for a decade. The annual retrenchment rate, at 1.5%, was the lowest since records began in 1972. Further evidence of high labour demand is provided in detailed data concerning the job offers made to unemployed persons, which shows the highest incidence of job offers to unemployed persons (including multiple job offers) since the series began in 2015.

Figure 5: Share (%) of unemployed persons receiving job offers, 2015-2022

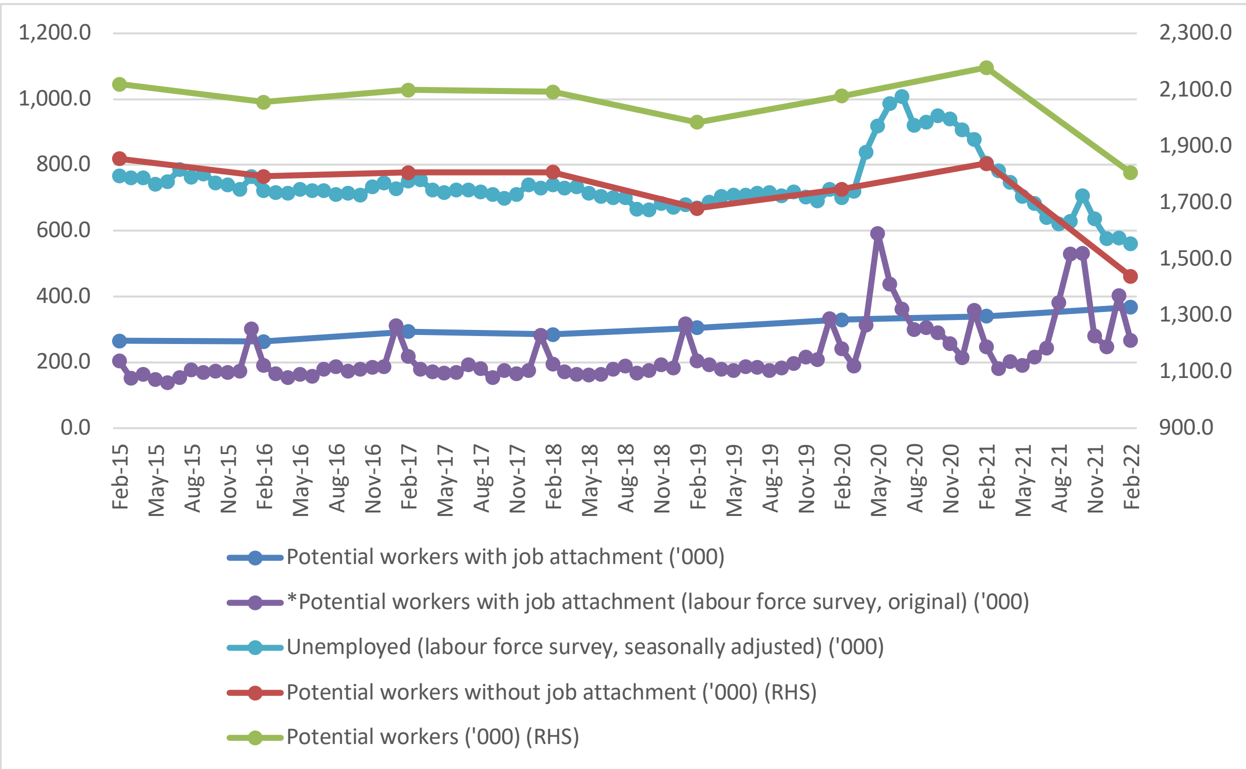
Source: ABS 6228, ACTU Calculations. Note that data for "two or more" job offers made to persons seeking part time work only have high relative standard errors in all years other than 2022, however these numbers are small and have least influence on the overall figures. The data for "one job offer" made to persons seeking part time work only also has a high relative standard error in 2021.

33. The ABS Participation, Job Search and Mobility survey also contains data relating to "Potential workers". This data provides deeper insights into labour market participation by examining the characteristics of persons[20] who are either unemployed or not in the labour force, with those in either category deemed to be potential workers if they were not working but wanted to work. Persons who did not want to work or were permanently unable to work are categorised as "not potential workers". Within the category of potential workers are those who have a job attachment, meaning those that had a job to

[19] ABS, Participation, Job Search and Mobility, February 2022
[20] Civilian population aged 15 or over. The full framework is available on the ABS website.

go to or return to, as well as those who have no job attachment. The number of potential workers in total, as well as the number of potential workers who had no job attachment, fell sharply between February 2021 and February 2022 and is currently well below pre-pandemic levels. The number of potential workers with a job attachment has risen from February 2019 and more sharply between February 2021 and February 2022. Between February 2021 and February 2022, the number of persons who are not potential workers stayed level. This is yet further evidence of strong labour demand.

Figure 6: Potential Workers



Source: Reproduced from ABS Chart 3 Data in Potential Workers, February 2022. *Note: the monthly series of Potential workers with job attachment from the labour force survey provided above (purple line) is not as comprehensively measured as the annual surveys of Participation, Job Search and Mobility, which asks additional questions to determine a greater extent of job attachment. Although it is not as complete, the monthly series does provide some additional context to the unusual movements that happened in the months between the annual surveys that would otherwise be hidden.

34. The ABS payroll jobs and wages indexes updated on 12 May show an overall decline 0.3% in payroll jobs between 2 April and 16 April and 0.8% between March and April, leaving the overall index 4.8% above the March 2020 level. An ABS media statement accompanying the release noted that the data coincided with school holidays leading into

Easter and that declines are usually observed around school and public holidays.[21] A similar decline in the index can be observed for the easter period last year. Outside of summer holiday periods, the payroll jobs index has consistently been above the March 2020 base index of 100 since mid October 2020.

35. As usual, there are industry variations in payroll jobs measures, however in the absence of updated industry level data from the labour force survey it is not possible to make a comparison of the two for any later period than that contained in paragraphs 26-29 of our initial submission. Such further commentary as we can provide on the possible reasons for differentials between jobs and employment between industries is provided in section 4.9 below.

[21] ABS Media Statement, 12 May 2022

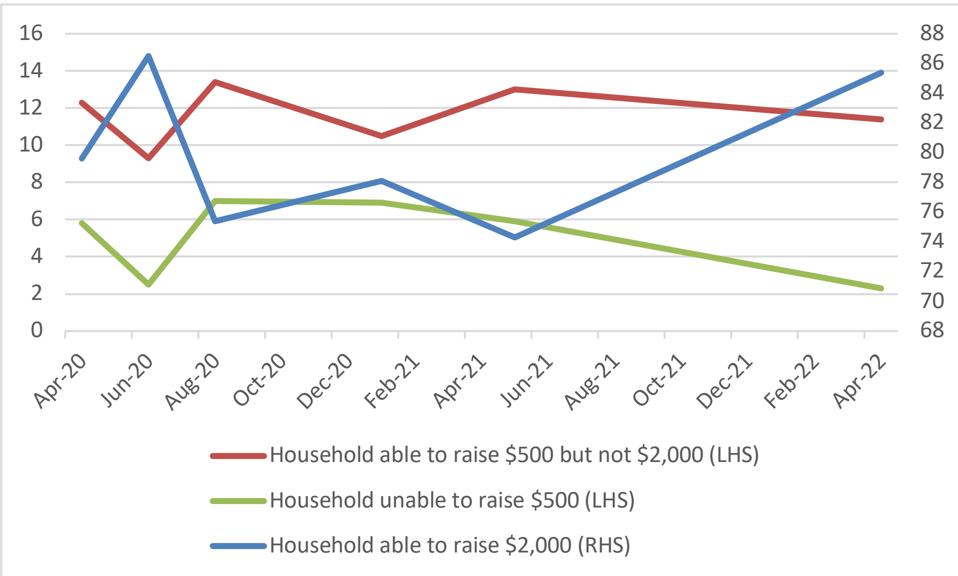
3. FINANCIAL STRESS

36. In this section we present and contextualise recent data concerning the financial wellbeing of households. Although some of the data has a substantial lag, it assists in informing the Panel of the "baseline" conditions from which more recent developments have been experienced.

3.1 Household finances

37. The most recent release from the ABS Household Impacts of COVID-19 survey (17 May 2022) paints a mixed picture of financial wellbeing for people in the 18-64 age group. Whilst there has been an increase in the share of households able to raise $2,000 within a week since mid 2021, there has also been a decreasing share of households able to raise between $500 and $2,000. The latter measure is now slightly lower than when measurement commenced early in the pandemic in April 2020.

Figure 7: Household financial stress, April 2020-2022

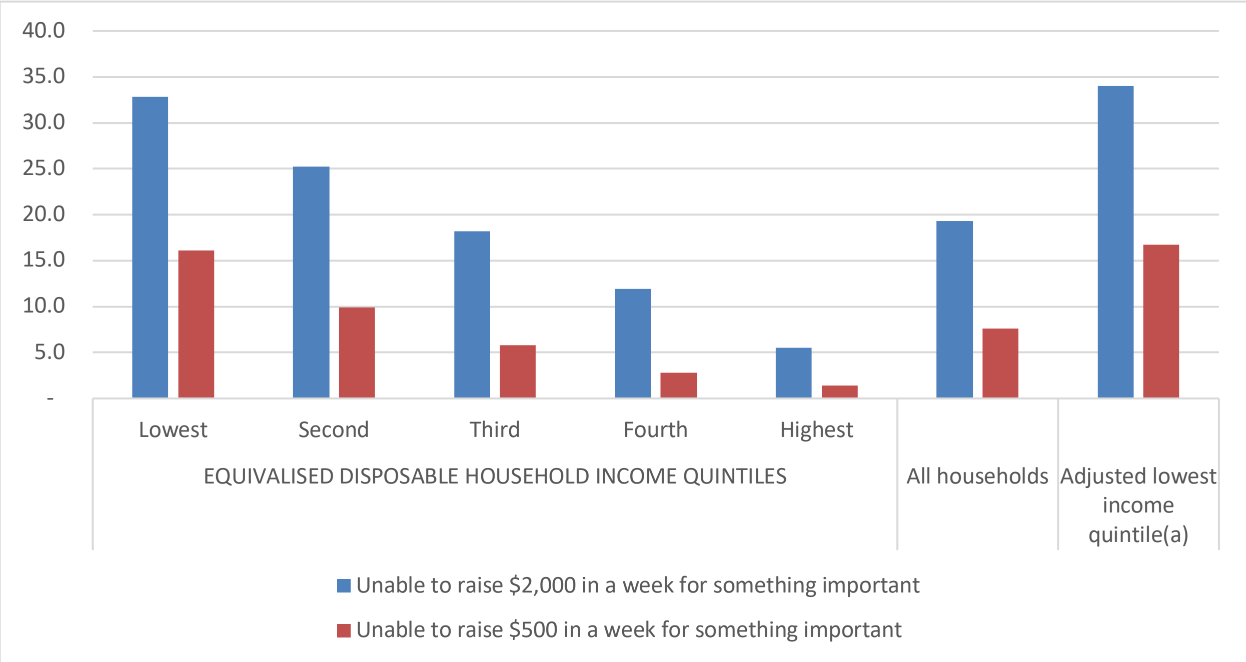


Source: ABS 49400

38. The Household Impacts of COVID-19 survey does not measure differences in financial stress between households in different income groups. ABS Household Income and Wealth data for the 2019-20 financial year provides support for the intuitive view that the

inability to raise either $500 or $2000 is more prevalent at lower income groups, a fact that should be borne in mind in considering data from the Household Impacts of COVID-19 survey. Indeed, the position of "all households" tends to mimic that of the third quintile, whereas low paid workers are disproportionately represented at lower levels of the income distribution, particularly in employee households.[22]

Figure 8: Share of households unable to raise funds, by household income, 2019-20



Source: ABS Household Income and Wealth 2019/20. (a) the adjusted lowest income quintile is the lowest income quintile excluding the first and second percentiles.

39. It should also be noted that the equivalised household disposable income levels for 2019/20 for the third quintile was $966 per week (derived from a household disposable income of $1,707)[23]. Based on the award and tax rates that were current on 1 July 2019, the net weekly pay of all classifications in the *Manufacturing and Associated Industries and Occupations Award* were below that level – ranging from $662.70 for the unqualified C14 entry rate to $949.88 for the Advanced Diploma qualified C2(b) rate. This suggests that attempts to deliver hybrid increases of the type briefly discussed during the public consultations, such as where the lower paid award reliant workers receive a greater increase (either in dollar or percentage terms), may be insensitive to the very real prospect

[22] See Chart 2.2 of the Australian Government's initial submission.
[23] ABS Household income and wealth 2019/20 at Table 5.1.

of hardship among those award reliant workers at higher pay grades. Quite apart from legitimate concerns regarding the distortion of relativities, the selection of a departure point between the more beneficial versus the less beneficial increase is fraught and compromised by assumptions about the living standards and needs of those at higher pay grades. Additionally, lower increases at skilled work rates would have the presumably unintended effect of dampening apprentice rates of pay and some junior rates of pay, notwithstanding that these workers are some of the lowest paid in the country. Further, such an approach may necessitate detailed reconsideration of trainee rates of pay to re-set an effective balance between distorted relativities and meeting the needs of trainees.

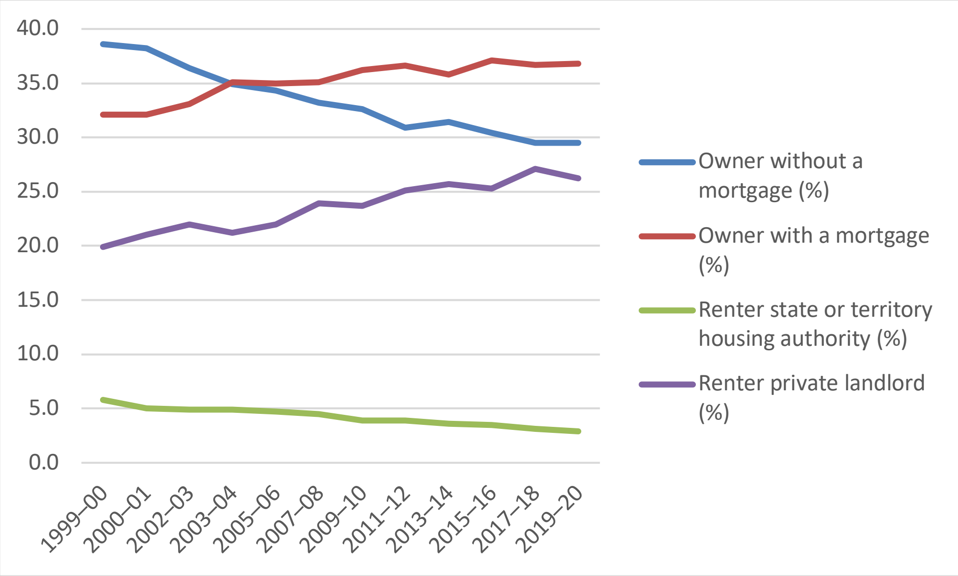
3.2 Housing affordability

40. The ABS released data concerning housing occupancy and costs on 25 May. Although the data relates to the 2019-20 financial year, it is relevant in providing a backdrop to contextualise the significance of the more recent increases (and likely further increases) in housing costs[24], particularly for those on low incomes.

41. The data illustrates the long-term change in housing tenure arrangements, with a growing share of homeowners subject to mortgages and the increased dependence by renters on the private rental market rather than social housing.

[24] See paragraphs 201-211 of our initial submission and paragraph 53 of our reply submission. The sqm research measure of rental costs has again risen, now reading (as at 27 May 2022) a 6.34% increase in rents in 2022, up from the 4.6% measure quoted in our initial submission which was current to 26 March.

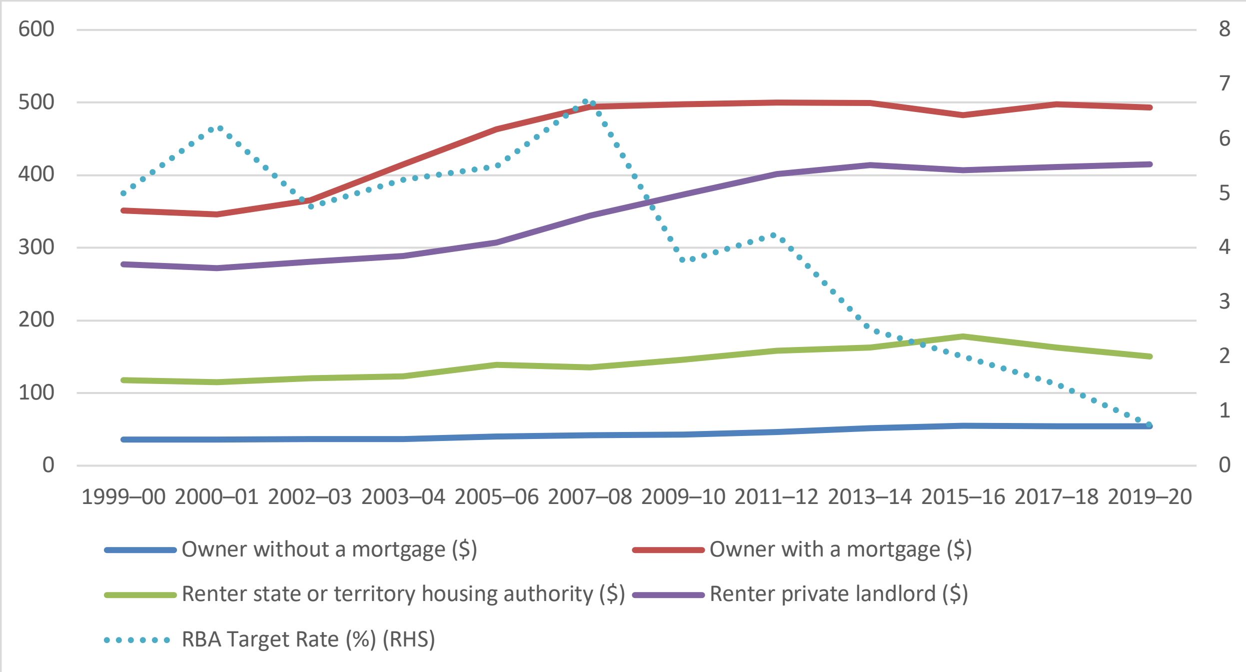
Figure 9: Housing tenure, 1999/2000 - 2019/20



Source: Reproduced from ABS Graph 1 Data in Housing Occupancy and Costs, 2019-20 financial year.

42. The increased reliance on the private rental market is relevant for present purposes because the costs of such housing have increased over the long term, largely following the movements in the costs of mortgaged homes and somewhat responsive, with some lag, to rises in interest rates. This suggests that, having regard to the RBA's announced intention of successive further rate rises amidst rising inflation, housing costs are likely to further increase.

Figure 10: Real mean weekly housing costs, 1999/00 to 2019/20



Source: Reproduced from ABS Graph 2 data in Housing Occupancy and Costs, 2019-20 financial year and supplemented with RBA target rate data (December figures were used to represent a mid-point during the relevant financial years).

43. In viewing Figure 10 above, it is important to appreciate that the period of relative stability of costs seen over the last decade or so is shown in real terms. That is, for private renters, the stability from 2011-12 onwards merely indicates that rents had a habit of moving in line with CPI (as was also noted in relation to commercial rents by the Restaurant and Catering Association during the consultations on 18 May[25]). The ongoing maintenance of real housing costs, let alone any increase driven by landlord's need to meet rising repayments, needs to be understood both against the period of decline in real wages and the baseline levels of financial stress from which households will experience the expected rises in living costs.

44. The ABS housing occupancy and costs release for 2019-20 defines low income households as those with equivalised household income of between the 3rd and 40th percentiles of equivalised household disposable income. For private renters in this group, average housing costs accounted for 31.8% of their gross household income (or 33.3% using the median). Additionally, the data shows that 58.3% of private renters in low-income

[25] At PN255-256

households spent more that 30% of household income on housing costs. A household is typically described as being in 'housing stress' if it is paying more than 30% of its income in housing costs.[26]

3.3 Confidence in the face of rising living costs

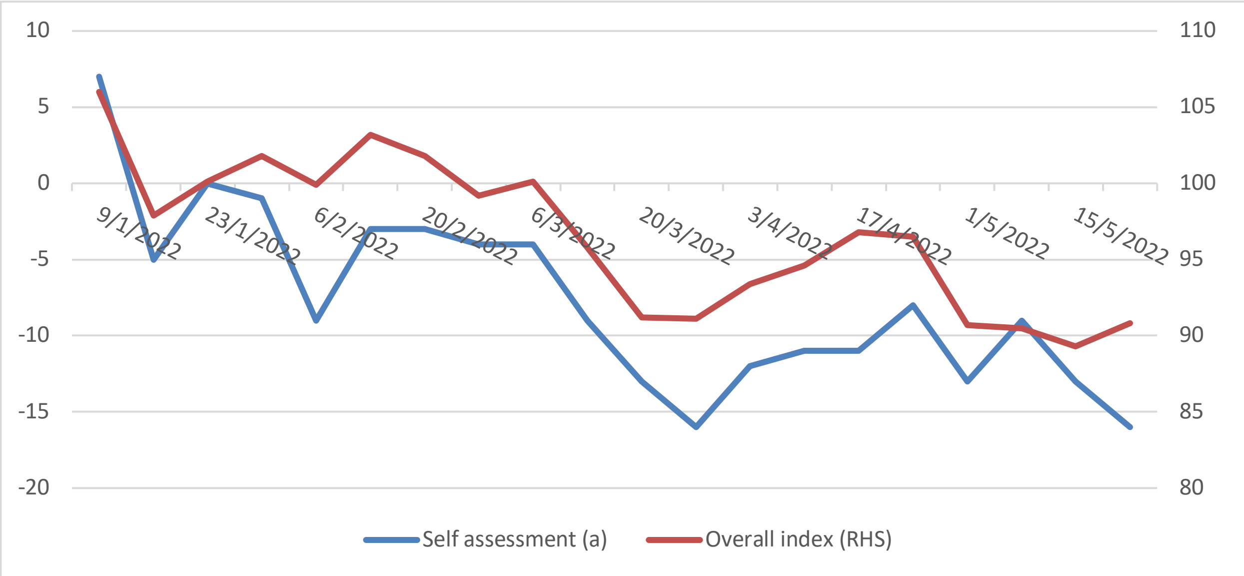
45. Consumer confidence measures are relied on in economic forecasting generally, however they can give some details about perceptions of financial well-being.

46. Consumer confidence surveys typically ask participants to make subjective decisions about their personal/household financial positions relative to "the same time last year" (or in comparison to some other period) and what position they expect to be in "next year" (or next month etc depending on the survey). The survey questions also ask participants to make subjective decisions about likely future course of general economic conditions, which they may not perhaps be in the best position to judge. The sum of positive and negative responses for each question creates a positive or negative "score", which is then summed with the other scores to create an overall positive or negative score for the index. When participants respond that they feel they are financially worse off relative to last year (or the relevant comparison period used in the survey), that exerts a negative influence on the consumer confidence score. However, it is not possible to identify the degree to which that self-assessment is weighing down or lifting the overall confidence score when the only the overall score is published.

47. We have obtained the underlying data for the ANZ-Roy Morgan Consumer Confidence Rating up to the week ending 22 May. It is clear that survey participants' perceptions of their financial position relative to the previous year have deteriorated through 2022 and these perceptions are exerting a negative influence on the overall index.

[26] See Thomas, M and Hall, A., Housing Affordability in Australia, Australian Parliamentary Library Briefing Book, 2016.

Figure 11: ANZ-Roy Morgan Weekly Consumer Confidence Index, 2022



Source: ANZ-Roy Morgan Australian Weekly Consumer Confidence Rating. (a) The question format is: "Would you say you and your family and better-off financially or worse off than you were at this time last year?"

48. This observed decline in self assessed financial well-being relative to last year should be of obvious concern to the Panel to the extent that it informs the social considerations of relative living standards and the needs of the low paid. Further, it is relevant to economic considerations insofar as declining levels of consumer confidence is likely to be caused by increased costs of living, which may spill over into declines in consumption itself. In our submission, a real wage cut would exacerbate both of these undesirable consequences of the gap between wages and the costs of living.

49. In the course of the public consultations, it was implied by ACCI that the ACTU were urging that the statutory criteria demand a real wage increase in each annual wage review, irrespective of the prevailing context at the time of the review or the impact of such an increase.[27] We have put no such position in this review. Instead, the position we have taken is guided solely by the prevailing circumstances. We recognise that the statutory criteria are permissive of a range of outcomes depending on the circumstances to which they are applied and don't absolutely prohibit either a real wage cut or indeed a nominal wage cut. However, speculating in the abstract on the circumstances in which the

[27] AT PN194

occasion might arise to do either is simply not called for. The most that can be said is that circumstances in which the Panel would find it fair to do either are presumably rare.

50. Whilst the Panel has recognised that setting the national minimum wage and modern award minimum wages involves balancing competing interests, it nonetheless has also accepted that the statutory provisions relating to annual wage reviews are intended to benefit national system employees by creating regulatory instruments which intervene in the market, setting the minimum wages to raise the floor of such wages.[28] It is self-evident that the low paid will be less "able to purchase the essentials for a decent standard of living and engage in community life, assessed in the context of contemporary norms"[29] if their incomes do not keep up with the rising costs associated with that level of social participation. The Panel has not, to date, identified any good reason to place the low paid in that position by cutting nominal minimum wages, nor has it intentionally provided for a real wage cut. This was the case even in the 2019/20 review, wherein the prevailing circumstances were described by it as "a significant downturn" in the Australian economy, with GDP growth "the lowest result since the global financial crisis" and an outlook of "challenges that lie ahead" following an "unprecedented health crisis" which "significantly reduced domestic activity", caused "business closures" and an "unprecedented" "shock to the labour market" including a "dramatic" fall in jobs[30]. In that particular review the Panel also observed that:

> "We acknowledge that any increase we award which is less than increases in prices and living costs would amount to a real wage cut. Such an outcome would mean that many award reliant employees, particularly low-paid employees, would be less able to meet their needs. For some households such an outcome would lead to further disadvantage and may place them at greater risk of moving into poverty"[31]

51. Having taken into account the likely movements in inflation over the year ahead, the Panel in the 2019/20 review ultimately awarded an increase it described as "substantially lower than that awarded last year" but nonetheless "likely to maintain the real value of the wages of NMW and award-reliant employees"[32]. The reluctance of the Panel to regard

[28] [2018] FWCFB 3500 at [18].
[29] [2019] FWCFB 3500 at [17].
[30] [2020] FWCFB 3500 at [12[-[24]
[31] [2020] FWCFB 3500 at [131].
[32] [2020] FWCFB 3500 at [139]

what it considered to be dire economic circumstances in 2020 as compatible with a real wage cut somewhat suggests that it may have an even greater reluctance to effect a real wage cut now that the prevailing conditions have improved to the point that the Panel is now faced with the tightest labour market that it has ever encountered, growing business turnover, strong economic growth and what the RBA describes as a shift from emergency to "normalising"[33] monetary policy. Indeed, in the consultations for the 2020/21 Review - when conditions had begun to improve on the previous year - the position of the Master Grocers Association, that there should be a real wage cut, was met with the following response from Expert Panel Member Professor Wooden:

> "Are you really saying that you never want to give award wage workers in your sector increases that even keep up with inflation? Zero forever? Real wages will decline and decline? I mean, that doesn't seem [sic] investing in people to me."[34]

3.4 Fuel and energy prices

52. In our initial submission we made reference to fuel costs as measured by the Australian Institute of Petroleum national average price tracker. This measurement is frequently updated, and we provide the most recent measurement in Figure 12 below.

Figure 12: National average fuel price, November 2021-May 2022

Source: [Australian Institute of Petroleum]

53. Consistent with concerns we expressed in our initial submission[35] and during the public consultations[36], we are beginning to see fuel prices again rising to very concerning levels

[33] RBA, Statement on Monetary Policy, May 2022" at page 3.
[34] At PN167
[35] At paragraph 166(a)
[36] At PN100-107, PN 104

notwithstanding the dampening effect of the temporary reduction in the fuel excise which took effect from 1 April. From a low point of 166.3 cents per litre on 17 April, the national average price has risen 19.2% to 199.1 cents per litre and is on an upwards trajectory. Whilst this is but one item in the weekly budget of award reliant workers, it is essential expenditure and likely a more significant expense for the low paid.[37]

54. It is not only automotive fuels that have risen in recent times. On 1 June 2022, the Treasurer announced that wholesale electricity prices had risen 237% since the end of March and that gas spot prices had risen 319% over the past month compared to what had been seen since 2019[38]. These movements will clearly impact prices faced by retail consumers. In Victoria, the essential services commission has announced its decision to raise the default offer price[39], resulting in estimated 5% increase to the annual bills of residential customers who utilise that offer.[40] The default market offer set by the Australian Energy Regulator will also increase from 1 July 2022, as a result of a decision on 26 May 2022. The regulator estimates cost increases for residential customers in the markets it regulates of between 8.5%-14.1% for NSW, 11.3% in South East Queensland and 7.2% in South Australia, compared to the existing default market offer.[41]

55. As noted in section 1.2 above, exposure to rapid price increases in fuel and other essential perishable and consumable items is unavoidable and would be poorly compensated or accounted for if measures of underlying inflation were used as basis to provide real wage maintenance, as has been suggested by the Australian Retailers Association in this Review. Whilst we agree that underlying inflation measures, by design, "remove volatility from the equation"[42], in doing so they obscure the reality of the costs of living pressures which the present process seeks to anticipate and respond to on a year by year basis.

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[37] See Appendix A in Yuen K & Rozenbes D (2022), Experimental estimates of a Consumer Price Index for low- paid employee households, Fair Work Commission Research Report 1/2022, February.

[38] Media Statement from Federal Treasurer, 1 June 2022

[39] The default offer is regulated price that retailers must offer to households, alongside any other offers. It is not a minimum or (outside of embedded networks such as some apartment complexes) a maximum price. See Victorian Department for Environment, Land, Water and Planning for further information.

[40] Essential Services Commission, Victorian Default Offer price review 2022-23, Final Decision, 24 May 2022

[41] See Media Statement by the Australian Energy Regulator, 26 May 2022. The share of residential customers currently receiving the default market offer is currently 9.8% in NSW, 10.7% in South east Queensland and 7.8% in South Australia.

[42] At PN222

4. ECONOMIC ACTIVITY AND CONSTRAINTS

56. This section investigates the state of the Australian economy, its performance and recovery since the first lockdown in March 2020. We rely on data released since our last written submission, including from the ABS in looking into household behaviour in terms of their activities and spending;, overseas arrivals and departures; firm behaviours in terms of their actual capital expenditure and expectation of future to infer on the level of business confidence; as well as monthly data on retail turnover and business turnover as indication of economic activity.

57. As will be shown in the discussion that follows, indications point to an economy that has bounced back to its pre-pandemic activities and is growing. The economy is forging ahead in the midst of a high inflation environment. Yet households, especially low-income households, face rising living costs and are at risk of falling real wage growth, even amidst a tight labour market. This review is an opportunity to deliver fairness to low-paid workers in all industries.

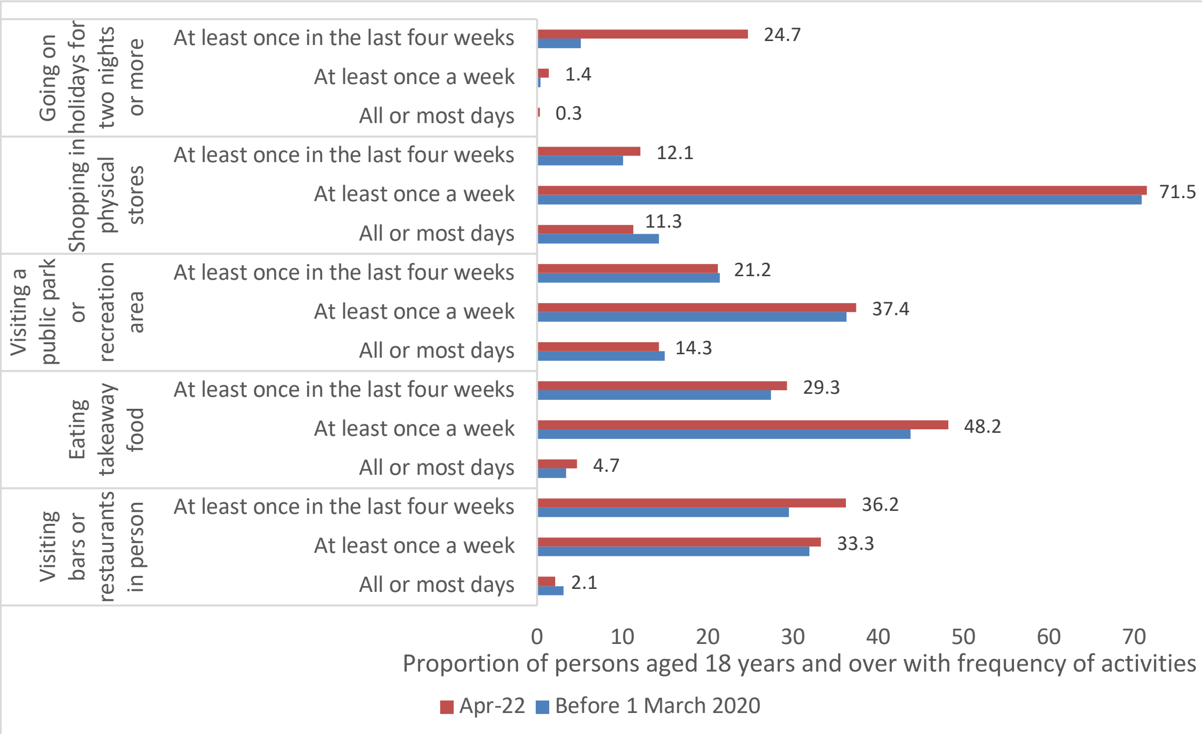
4.1 Household impact of Covid-19 and return to normalcy

58. The latest ABS Household Impacts of COVID-19 Survey release in May 2022 shows that households have largely restored normalcy to their activities as seen before the restrictions imposed in March 2020, whether it be visiting bars or restaurants in person; eating takeaway food; visiting public park or recreation area; shopping in physical stores; going on holidays. Apart from the more significant jumps in the numbers of people going for holidays 'at least once in the last four weeks' and to a lesser extent visiting bars or restaurants in person 'at least once in the last four weeks' compared to the period before March 2020, frequencies of other activities are at about the same levels for both periods, suggesting that households have returned to their normal level of activities, rather than any indication of pent-up demands.

59. As evidenced in Figure 13 below, prior to the pandemic, households preferred shopping in physical store at least once a week; visiting a public park or recreation at least once a week; eating takeaway food at least once a week; visiting bars or restaurants in person at least once a week. The same trends have now returned, with the exception of visiting bars or

restaurants in person, where a slightly higher proportion of persons aged 18 years or over preferred to do that at least once every four weeks than was the case prior to the pandemic.

Figure 13: Activities undertaken by households, before 1 March 2020 and April 2022

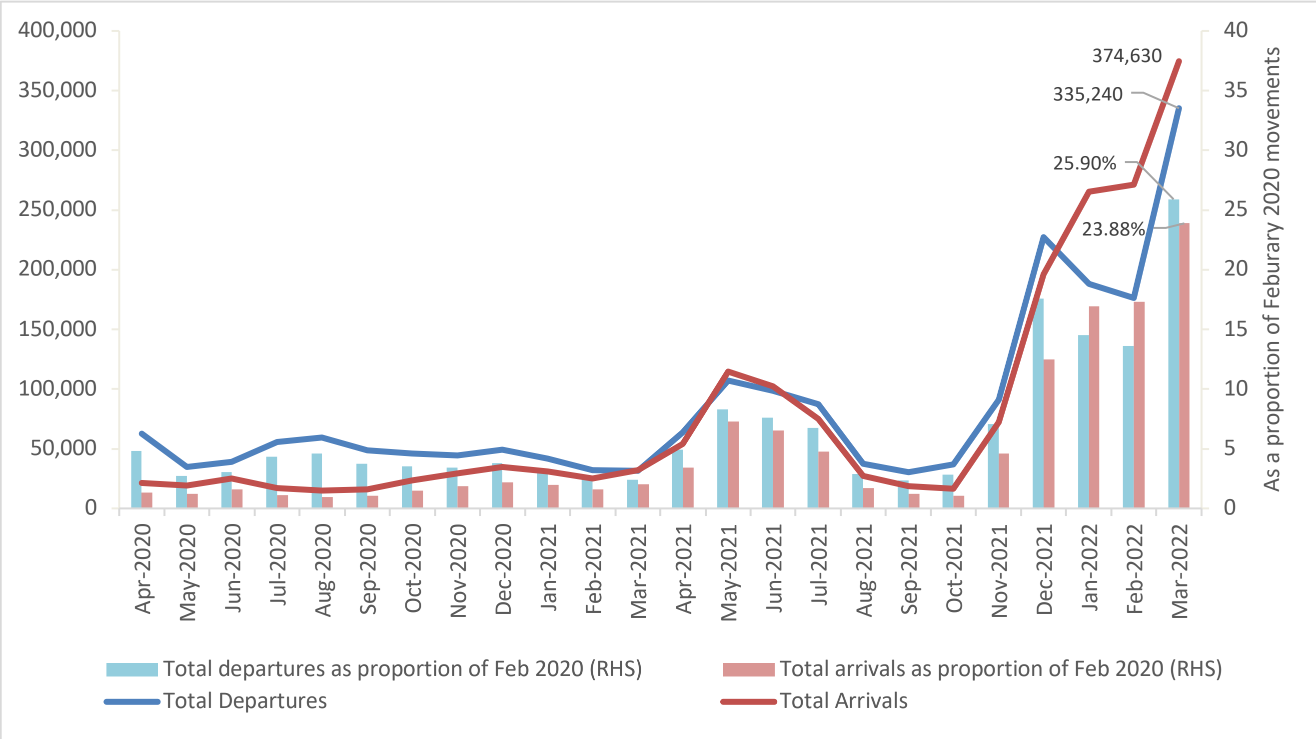


Source: ABS Household Impacts of COVID-19 Survey, April 2022, Australia, 17 May 2022

4.2 Overseas arrivals and departures

60. Pandemic impacts on overseas movement in and out of Australia started in March 2020. By April 2020, the impact became acutely apparent with arrivals plunged to 1.3% of February 2020 arrival levels and departures at 4.8% of February 2020 departure levels. Since November 2021, arrivals has been steadily picking up to a March 2022 level of nearly 24% of the February 2020 level. There have been some fluctuations in departures, but by March 2022, departures are now at nearly 26% of February 2020 level. Accounting for both movements, in March 2022 alone, net arrivals stand at a positive 39,390 arrivals, continuing the upward trajectory in the stocks of arrival since our last submission.

Figure 14: Overseas Arrivals and Departures, Original, March 2022

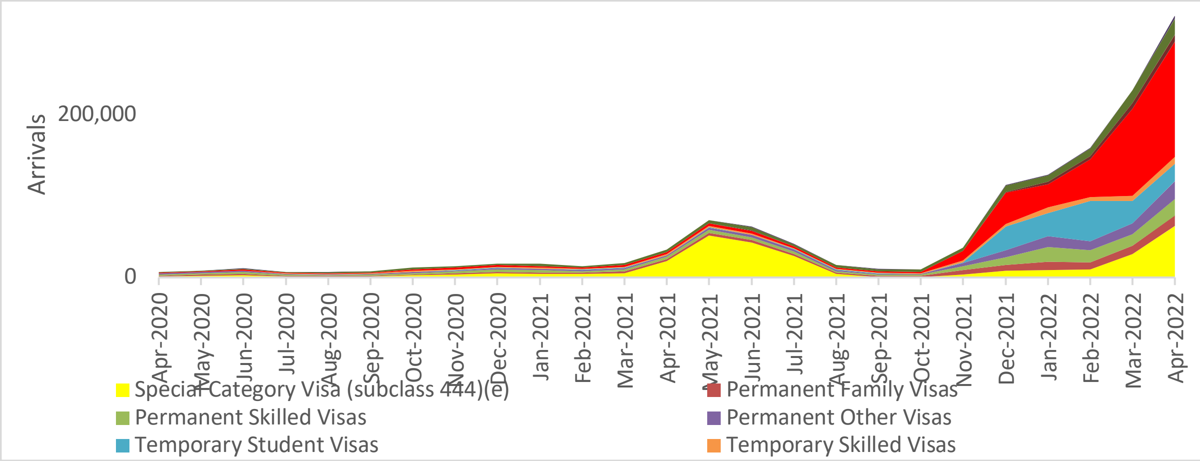


Source: ABS 3401.0 Overseas Arrivals and Departures, Australia, 12 May 2022 Release[43]

61. The most popular visa groups for arrivals since October 2021 remains to be temporary visitor visas, special category visa and temporary student visa. This is largely consistent with departures by visa groups with most popular types including temporary visitor visas, special category visas, permanent other visas, and permanent skill visas.

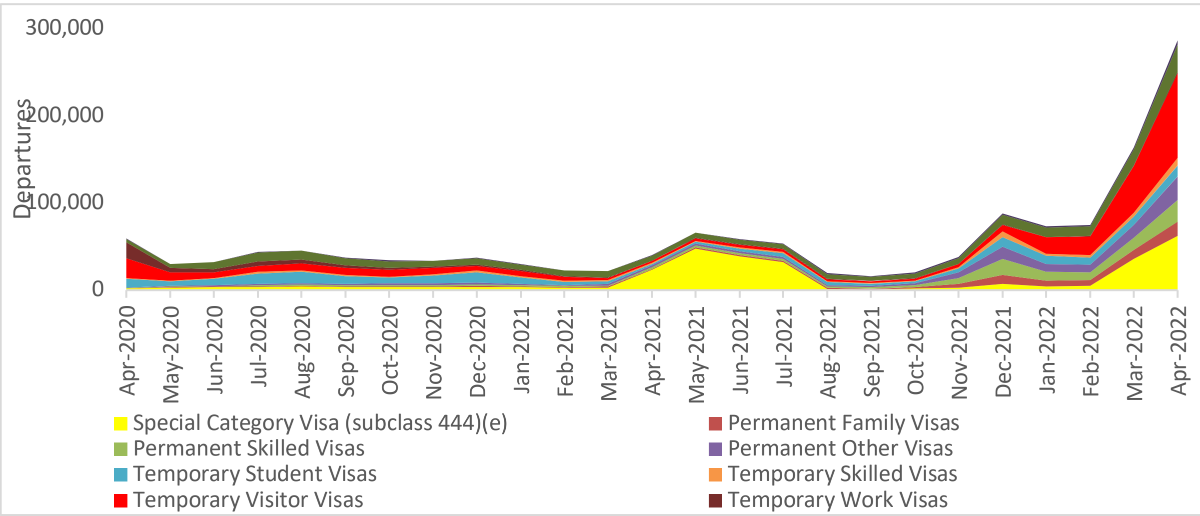
[43] The ABS detected data quality issue in the period from July 2021 to February and revised them in March 2022 issue (this release).

Figure 15: Arrivals by visa group, non-citizens



Source: ABS 3401.0 Overseas Arrivals and Departures, Australia, 12 May 2022 Release[44]

Figure 16: Departures by visa group



Source: ABS 3401.0 Overseas Arrivals and Departures, Australia, 12 May 2022 Release[45]

62. Net positive arrivals stock will add to the existing level of demand for local goods and services and thus the entailing demand for labour; and given the varying degrees of working rights attached to most of these visa groups, will also bring in additional labour supply. The net effect of the interactions between labour demand and labour supply will become visible with time through labour market monitoring, but for the time being it is

[44] The ABS detected data quality issue in the period from July 2021 to February and revised them in March 2022 issue (this release).

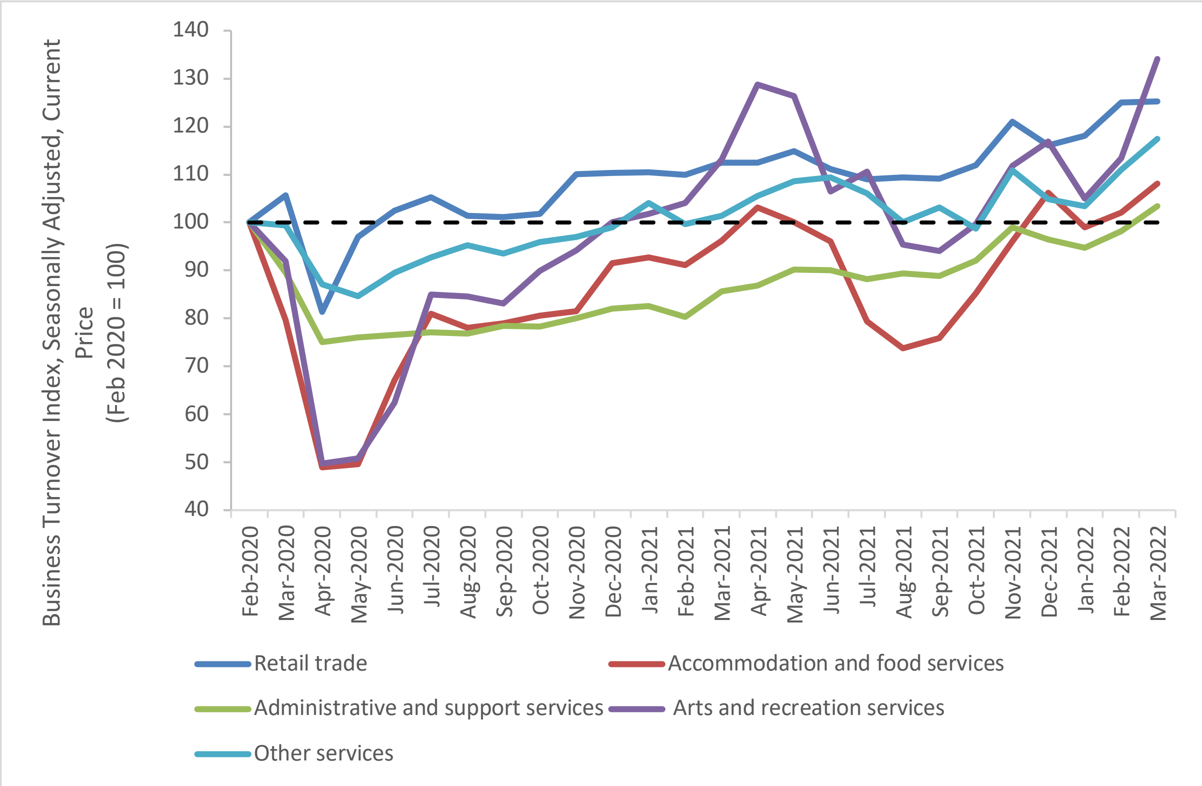
[45] The ABS detected data quality issue in the period from July 2021 to February and revised them in March 2022 issue (this release).

clear that net positive arrival stocks lift demand for local goods and services as brought about by the increasing overseas arrivals.

4.3 Monthly business turnover

63. The ABS experimental indicator of monthly business turnover continued to record strong performance in the overwhelming majority of the 13 industry divisions the series tracked, especially that of the five most-award-reliant industries as of the latest available data of March 2022. In month-over-month growth, Arts and recreation services recorded the strongest performance at 18.3%. Other services, Accommodation and food services, and Administrative and support services, followed the growth trend at around 5% month-over-month growth, respectively. Retail trade recorded the slowest growth amongst award-reliant industries, but this was on the back of a strong growth in the month prior, with month-over-month February 2022 growth of 6%.

Figure 17: Business Turnover Indicator, Seasonally Adjusted, Current Price (Feb 2020 = 100)

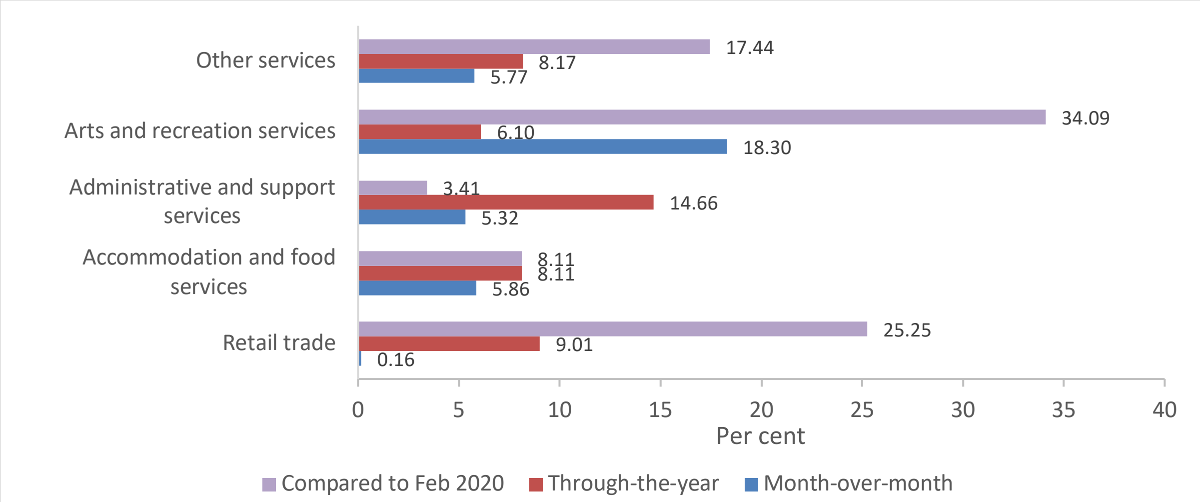


Source: ABS 5681.0, Seasonally Adjusted, Current Price, 10 May 2022 Release

64. Through-the-year performance as well as recovery compared to the period just prior to the pandemic all showed robust performance, as shown in Figure 18. Business turnover of Retail trade is now 25% larger than it was before the pandemic; that of Arts and recreation now 34% stronger, and of Other services 17% higher.

65. Overall, the outlook for all five most-award-reliant industries for March 22 has been robust, with through-the-year growth in each industry ranging between 6%-9%.

Figure 18: Business turnover indicator, Seasonally Adjusted, Current Price, March 2022

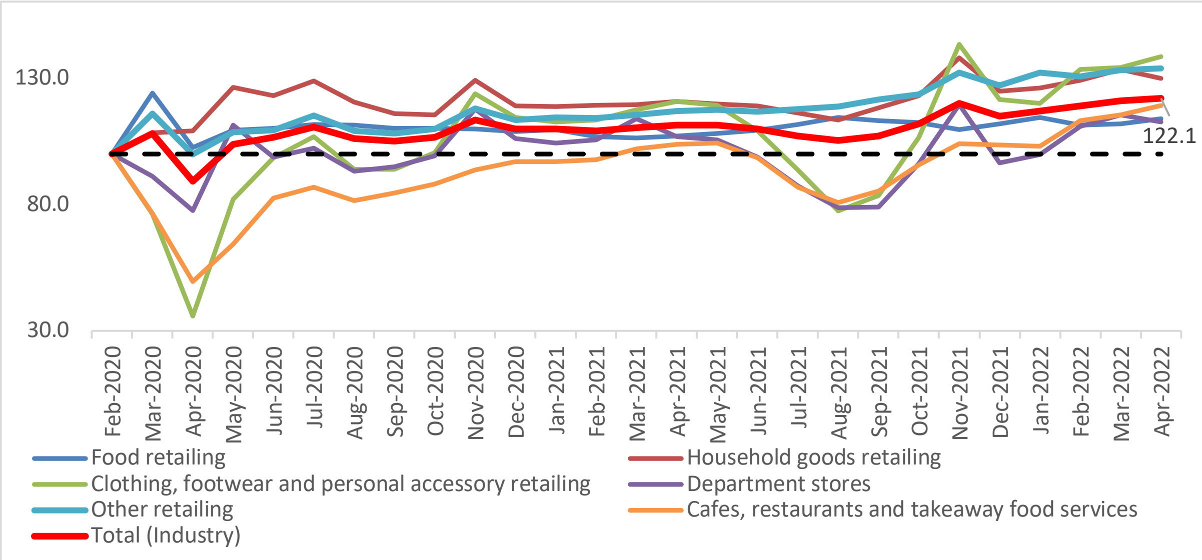


Source: ABS 5681.0, Seasonally Adjusted, Current Price, 10 May 2022 Release, ACTU Calculation

4.4 Retail Turnover

66. As of April 2022, Australia's Retail trade turnover is estimated at $33,923.1 million, 22% larger than it was at the before the start of the pandemic in February 2020. All retail sectors tracked by the series have turnover edged up at a solid 12%-39% above the February 2020 level and in the case of Other retailing, Household goods retailing, and Clothing, footwear and other accessory retailing, all grew at about the industry average of 22%.

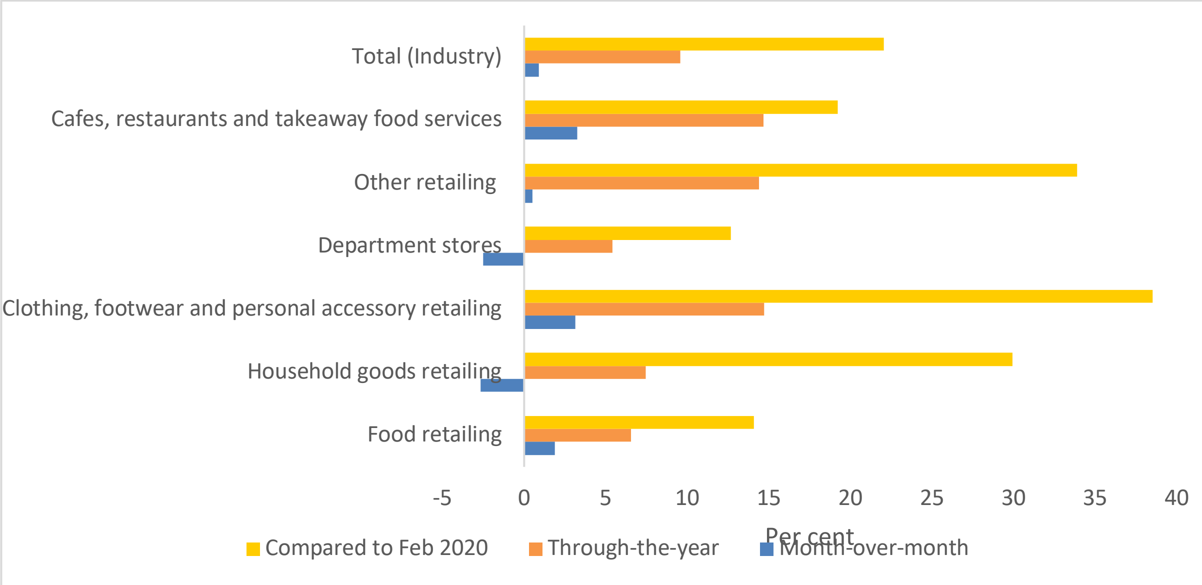
Figure 19: Retail Turnover, Seasonally Adjusted, Current Price, February 2020 = 100



Source: ABS 8501 Retail Turnover by Industry Group, 27 May 2022 Release, ACTU Calculation

67. Through-the-year growth within the Retail trade sector is also going strong, ranging between 5% and 15% with total industry growth of 10% as shown in Figure 20. Though there is mixed performance in the month-over-month growth with contraction seen in Department stores and Household goods retailing, the slowdown was very likely the result of a strong growth in the month prior: 3.4% month-over-month growth in March 2022 for Household goods retailing and 4.1% in the Department stores.

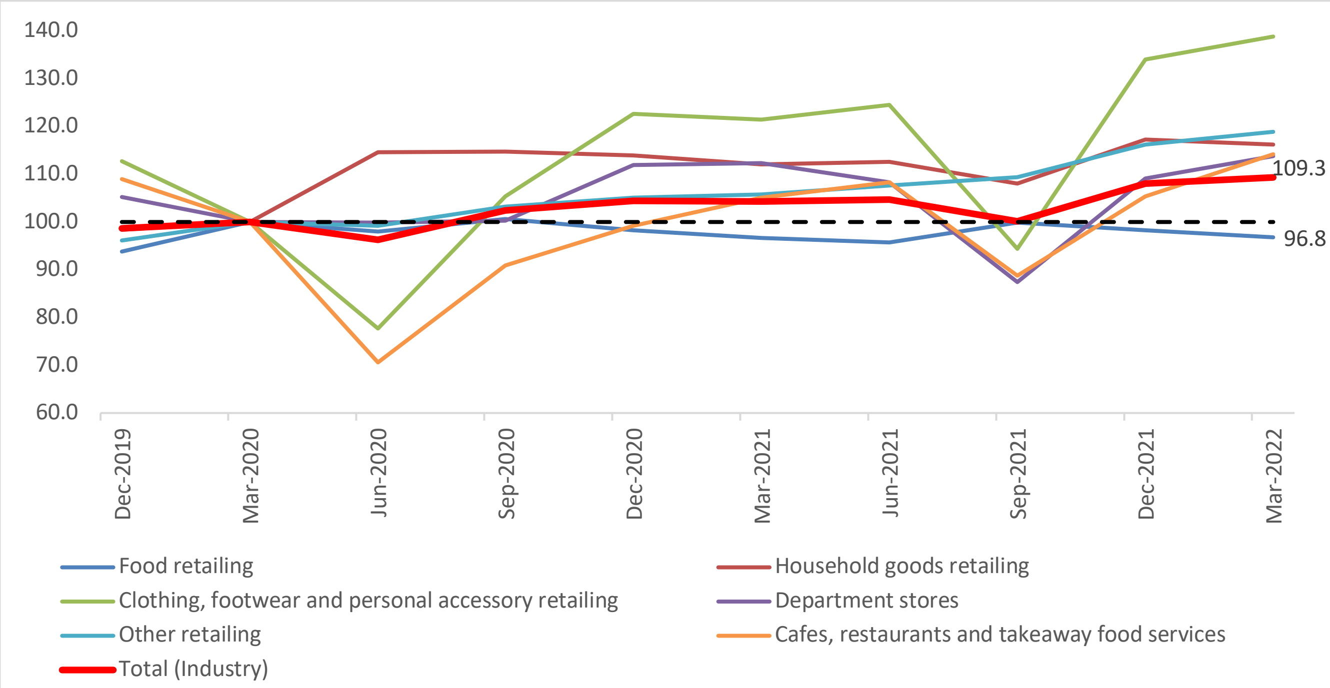
Figure 20: Retail turnover, Seasonally adjusted, Current Price, April 2022



Source: ABS 8501 Retail Turnover by Industry Group, Table 1, 27 May 2022 Release, ACTU Calculation

68. Retail trade from the quarterly data in the chain volume series in Figure 21 below reinforces the upward trajectory already seen the monthly current price series discussed earlier. By March quarter 2022, retail trade sector has surpassed its pre-pandemic level by an uptick of 9%. Food retailing is the only sector with March 2022 ending below its March 2020 level, but this was caused by March 2020 being an exceptionally good month thanks to panic purchase at the start of the first lockdown. Compared with a more normal quarter of December 2019, Food retailing is now growing at 3% above that level. The downward trend seen in the last quarter in Food retailing and Household goods retailing signals a move away from essentials and non-discretionary towards more discretionary consumption in Department stores and other retailing.

Figure 21: Quarterly Retail Turnover, Seasonally Adjusted, Chain Volume , March quarter 2020 = 100

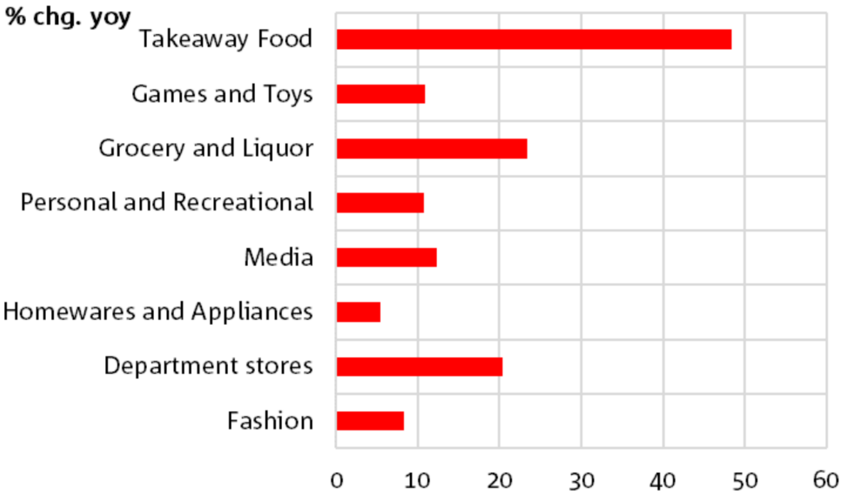


Source: ABS 8501 Retail Turnover by Industry Group, Table 7, Seasonally Adjusted, Chain Volume Measures, 02 June 2022 Release, ACTU Calculation

69. The NAB online retail sale index in Figure 22 confirms similar result in the performance of the retail trade sector. The NAB Online Retail index measures online retail spending by consumers using electronic methods such as credit cards, BPAY, PayPal, Cards, Bank Transfers, Direct Debits and includes transaction with Australian and international merchants. NAB's estimate of the online retail market is larger than the official ABS measure of online retail sale as NAB covers businesses that may fall outside of the remit of the ABS business register such as overseas online retailers. The NAB series make adjustments to account for transactions for final household consumption from those that appear as wholesaling. The data is scaled up to be representative of the whole economy.

70. For April 2022, NAB online retail sale index shows strong growth trend in Takeaway food, Grocery and liquor and Department stores, ranging between 20%-48% year-on-year growth rate. As noted above, NAB online retail sale index measures transactions with online payment, thus explaining the discrepancy between the series and ABS series which tracks transactions of all forms of payment.

Figure 22: NAB Online Retail Sale by Category for the month of April 2022, Seasonally adjusted



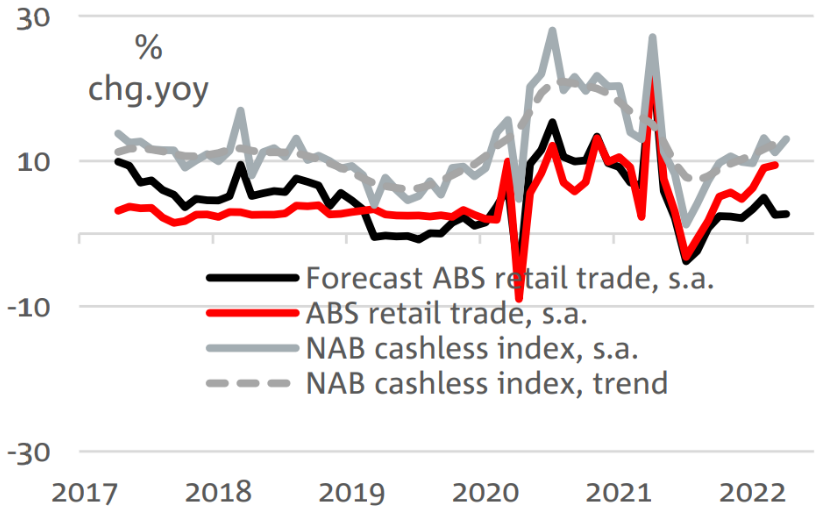
Source: An extract from NAB Online Sales Index, April 2022

71. The NAB Cashless Retail Index is broader than the NAB Online Retail Index and measures all cashless retail spending by consumers using debit and credit cards (both in person and online), BPAY and Paypal, from personal transaction data from NAB platforms of around 2 million transactions per day. The NAB series offers a 2-3 week lead on ABS retail trade data.[46]

72. The NAB Cashless Retail Index was notably weaker than the ABS in March (0.2% vs 1.6% m/m) and this gap was not closed by the revisions process. NAB noted that it is not yet clear why their series has been weaker, so they noted this as a risk for April. When the series was released on 11 May 2022 for April, the NAB ABS Retail Trade forecast recorded a 0.7% month-on-month growth forecast for April. This tracked closely with actual data released by the ABS two weeks later, on 26 May 2022 with month-on-moth growth for April recorded at 0.9%. There has been persistent gap in growth between the NAB series and ABS series with NAB printing a somewhat more conservative estimate than actual ABS series, but in terms of growth trend, the two series track consistently well, with the NAB series in Figure 23 recorded upward growth trend in the retail sale sectors.

[46] Likely reflecting the increasing popularity of online and contactless payments, the NAB Cashless Retail Index has continued to outpace the ABS measure of retail. RBA research suggests 18% of the value of retail trade occurred via cash in 2016. NAB uses mapping equations to forecast the official ABS measure of retail trade. Over time, the growth rates of the two series are likely to come together, hastened this year by the decline in the use of cash.

Figure 23: NAB Cashless and total retail sales, April 2022, Seasonally adjusted and trend



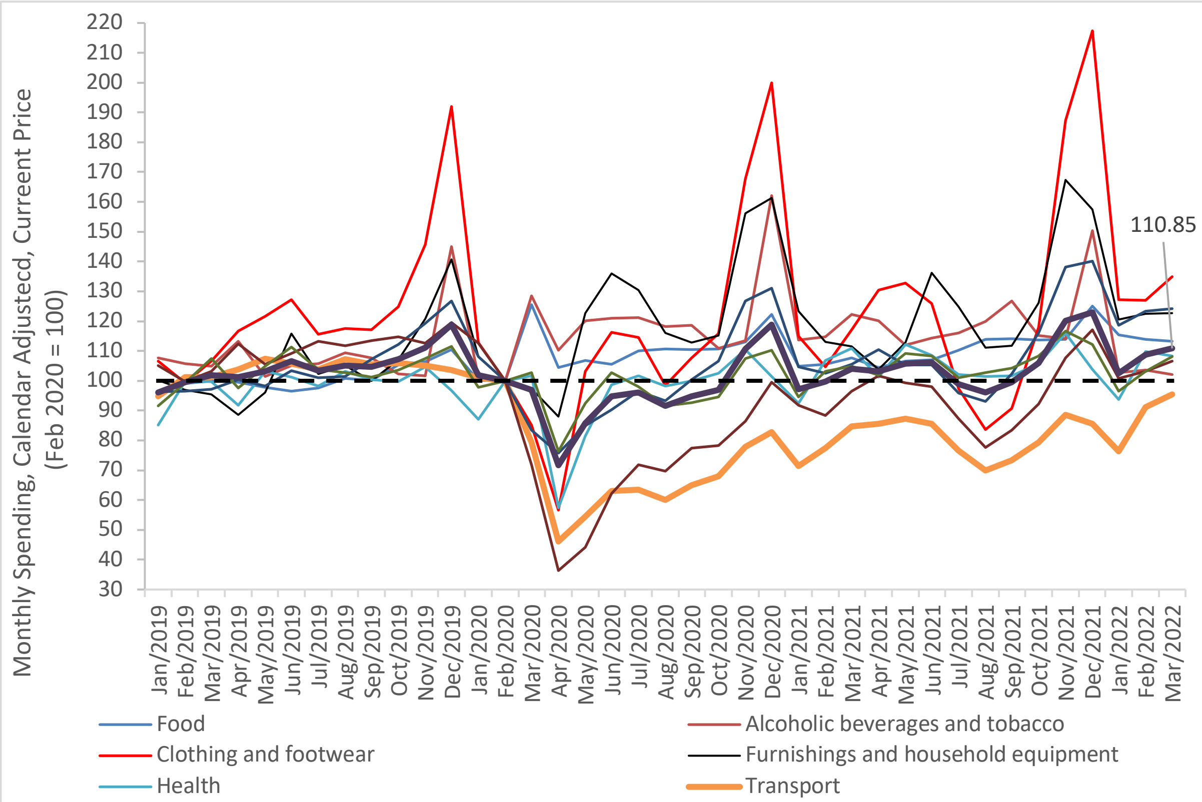
Source: Extract from NAB Cashless Retail Sales Index, April 2022

Month-on-month growth (% s.a.)			
	Feb-22	Mar-22	Apr-22
NAB Cashless Index*	2.1	-0.3	4.8
ABS retail Trade	1.8	1.6	--
NAB ABS Retail Trade forecast	1.2	0.2	0.7

4.5 Monthly household spending

73. Monthly household spending during the month of March 2022 continued to reflect strong confidence in the Australian economy with total household spending now at 10% higher than the period before the start of the pandemic. This tracked strongly with 6% growth in total spending as seen through the year to March 2022 and close to 2% month-over-month growth.

Figure 24: Monthly Household Spending, Calendar Adjusted, Current Price (Feb 2020 = 100)

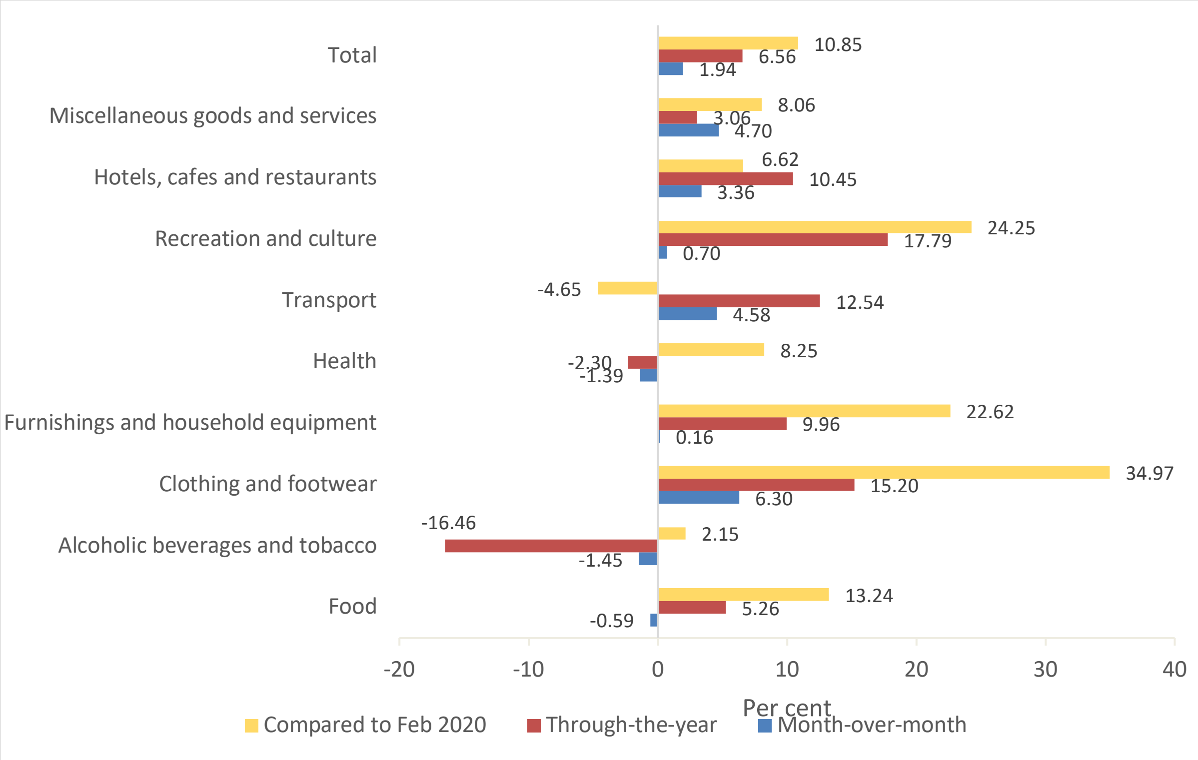


Source: ABS, Experimental estimates of Household Spending, Australia, 23 May 2022 Release

74. Of all the spending categories tracked by the series, Transport spending is the only category whose level has yet to recover to pre-pandemic period. Following the period of up and down in line with the various lockdown mandates, Transport spending is now edging at the highest level it has ever been during the last two years, now recording 95% of February level, but higher than either the preceding month or year prior. If the current monthly trend of the first quarter of 2022 continues, by May 2022, Transport spending should move above the pre-pandemic level in a very near future.

75. Household spending on Recreation and culture, Furnishings and household equipment, and Clothing and footwear is now printing at a robust 22%-34% above the pre-pandemic spending level and 10%-17% level higher than the same period in 2021.

Figure 25: Monthly Household Spending, Calendar Adjusted, Current Price, March 2022



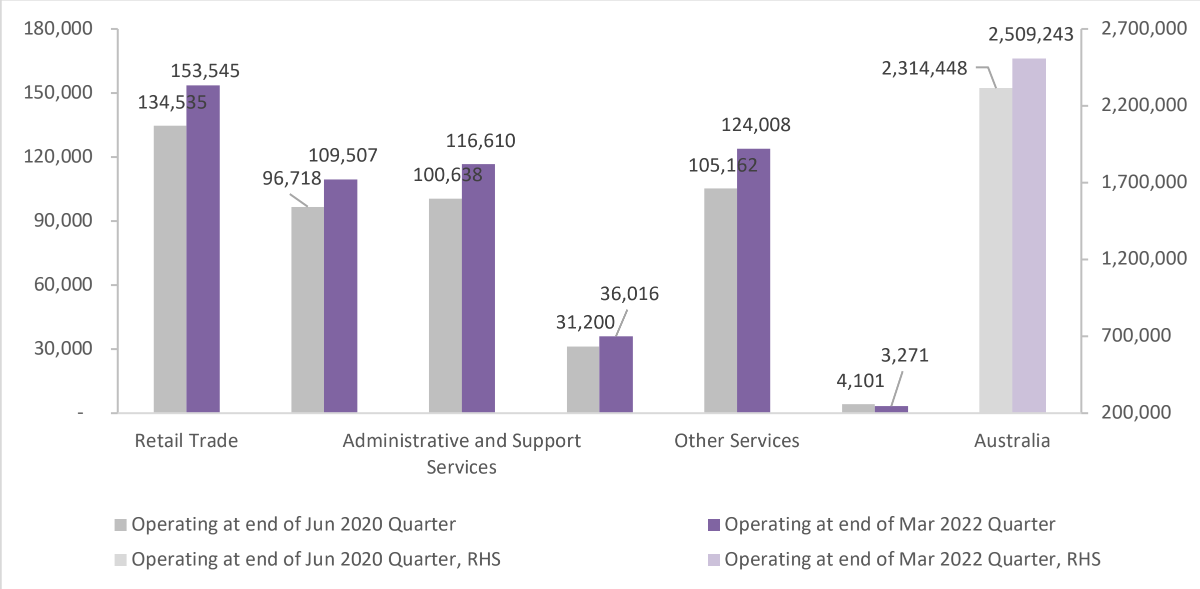
Source: ABS, Experimental estimates of Household Spending, Australia, 23 May 2022 Release, ACTU Calculation

4.6 Counts of Australian Businesses

76. In addition to the annual count of Australian businesses, the ABS also publishes the experimental quarterly counts series with data available starting from the June quarter 2020. Whereas the annual counts follow the financial year cycle, thus allowing comparison only up until June 2021, the quarterly counts provide insights into the counts of Australian businesses which are still operating at the end of the quarter, further into March quarter 2022. Overall, all five most-award-reliant industries, and Australia more generally, have seen an increase in the counts of businesses still operating at the end of the reporting quarter.

77. On a financial year basis, as of the end of June 2021, there were 2,402,254 actively trading in the economy, marking an increase of 3.8% compared with June 2020, and a higher entry rate of 15.8% against 12% exit rate.

Figure 26: Quarterly counts of Australian businesses, Jun 2020 - Mar 2022



Source: 8165.0 Quarterly Counts of Australian Businesses, Entries and Exits, Experimental estimates, June 2020 – March 2022

78. Absent data for March quarter 2020, the earliest available data was June quarter 2020. As of the end of March 2022 quarter, Australia has seen an increase of approximately 8% in the number of operating businesses from a count of 2,314,448 businesses as of 30 June 2020 to 2,509,243 businesses on 31 March 2022. All five most-award-reliant industries have seen an increase in respective business counts above the national average. Compared with June quarter 2020, number of businesses still operating at the end of March 2022 is now 14% higher in the Retail trade industry; 13% higher in Accommodation and food services; 16% higher in the Administrative and support services; and 15% higher in the Art and recreation services. Business counts in all five most-award reliant industries account for 21.5% of all businesses actively trading in the Australian economy as at end of March 2022, compared with 20.2% as at end of Jun 2020, at the start of the series.

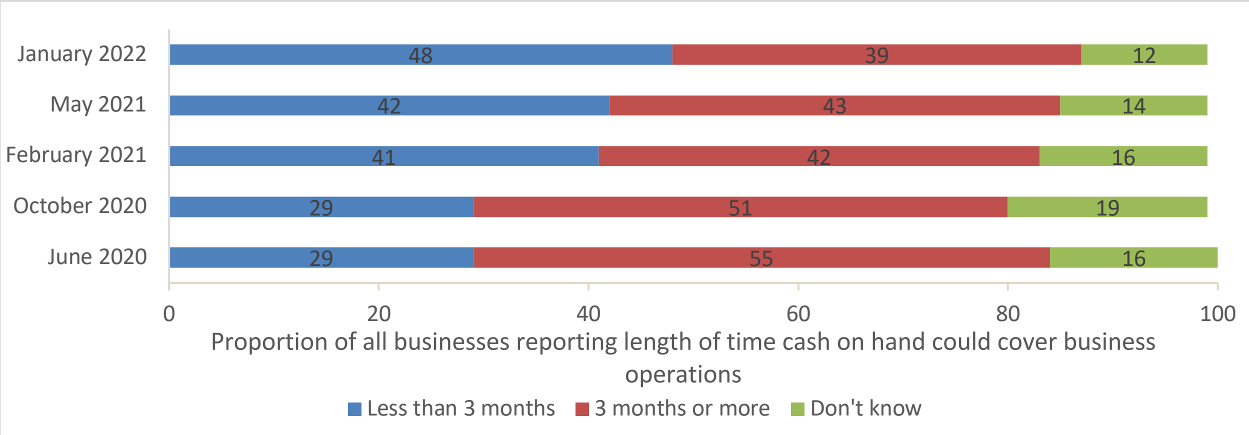
4.7 Business conditions and sentiments

79. Following concerns raised by the Ai Group with regards to the business cash position[47], this section aims to examine the issue in further detail, relying on ABS Business Conditions and Sentiments.

[47] At PN128-129

80. The ABS Business Conditions and Sentiments survey originated in March 2020 in response to the need to closely monitor the impact of the pandemic on businesses. The survey was originally named as 'Business Indicators, Business Impacts of COVID-19' and beginning February 2021, renamed to 'Business Conditions and Sentiments'. There have now been 21 issues inclusive of the May 2022 release. To date, the 'Cash on hand' question was covered in a total of five releases of the series, with its last coverage in January 2022 issue and previous coverages in the releases of June 2020, October 2020, February 2021 and May 2021.

Figure 27: Length of time cash on hand could cover business operations June 2020 - January 2022



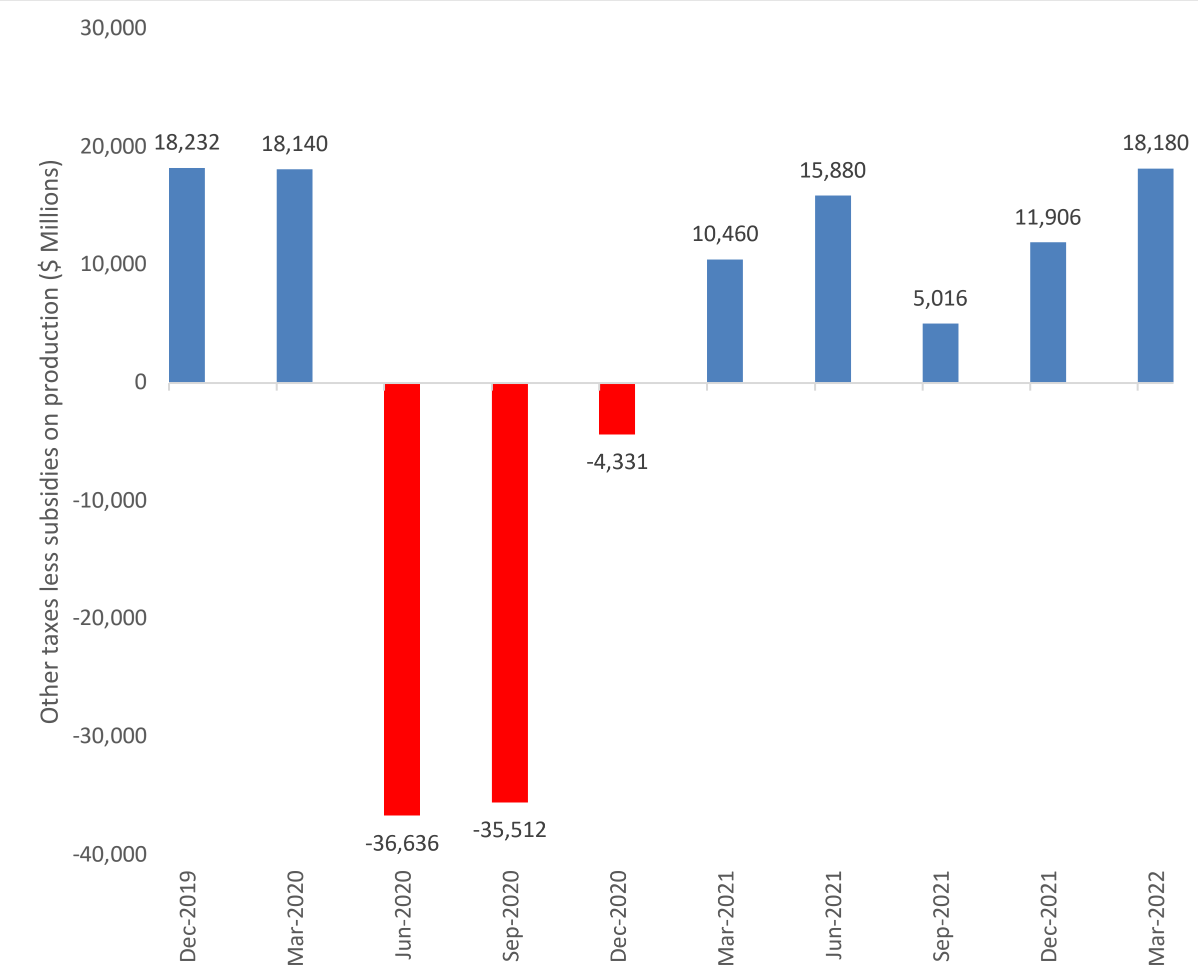
Source: ABS Business Conditions and Sentiments, May 2021 Release and January 2022 Release

81. The earliest available data on 'cash on hand' dated back to June 2020, when 29% of businesses reported that their level of cash on hand at that time could cover less than three months of business operations. In the latest data in January 2022, the proportion of businesses reported the same perception increased to 48%. Given the lack of such data for the period prior to the pandemic, it is difficult to draw conclusions from the data per se apart from the fact that an increased proportion of businesses perceived their cash on hand to put them in a position that they can cover less than three months of operation. Whether this is a desirable level in line with the goal set by the businesses or whether this is an early warning sign of business distress depends on a number of factors.

82. Using data from National Accounts, we have found that the period where the smallest proportion of businesses reported cash on hand being able to cover less than three

months of operations is also the same period where businesses received the highest amount of subsidies from the government. Figure 28 below shows that quarters ending June, September and December 2020 were the periods where subsidies overtook taxes. This also happened to the be the period where we saw the largest proportion of businesses reporting cash on hand being able to cover three months or more of operations. Government support assistance during the pandemic period includes cash flow support payments in respect of June and September 2020, the later JobSaver program in NSW and its counterpart in Victoria and other state based industry support payments, amongst others. Government support thus played a key role in strengthening business cash position. It is possible that support from the government went into maintaining company cash position, holding them steady at their pre-pandemic cash position length. It is also equally possible that government support during this period actually *elevated* business cash position to an atypically high one and thus masked up a 'more vulnerable' but usual cash position prevalent prior the pandemic. In the absence of data on cash position length before the pandemic, we cannot establish which is the most likely explanation for the deterioration in cash position as seen from February 2021 onwards.

Figure 28: Other taxes less subsidies on production, All industries, Current prices, Seasonally Adjusted



Source: ABS 5206, Table 45. Gross Value Added by Industry, Current prices, Seasonally adjusted

83. As the title of the ABS series suggests, the survey is aimed at capturing business *sentiment* and their *perceived* financial resilience. Businesses were asked to describe the availability of cash on hand based on the business's current level of revenue and expenditure and the answer is a best estimate, without the need to access records or reports. In interpreting the results, the ABS notes that '[r]esponses provide a point-in-time indication of business sentiments based on conditions experienced at the time of enumeration' and that '[a]s business conditions are constantly evolving, this would impact responses.'[48]

[48] ABS Business Indicators, Business Impacts of COVID-19, June 2020 Release

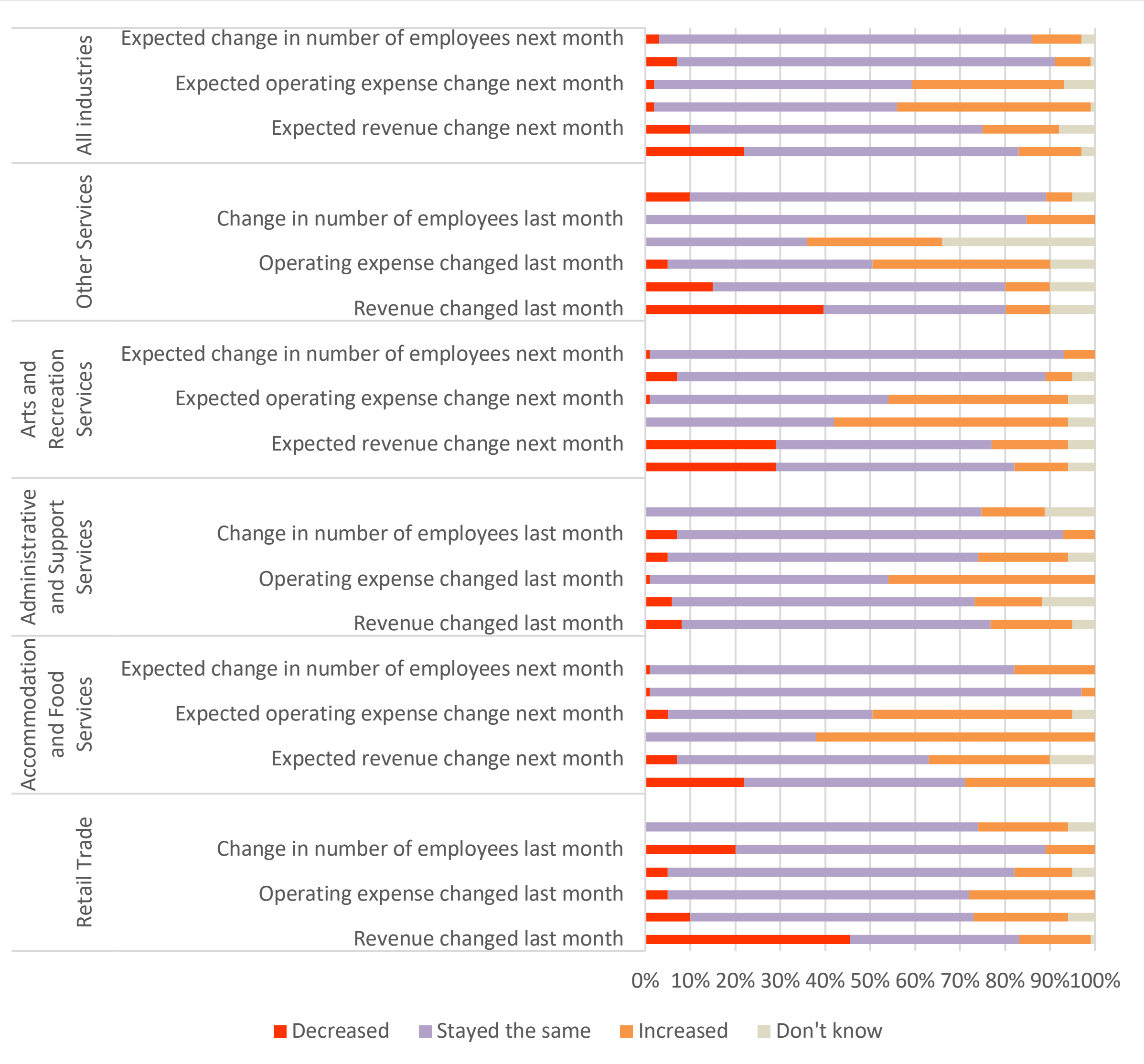
84. A desirable level of cash on hand varies between industries and in accordance with unique business goals, as there is a trade-off between financial resilience as afforded by cash being on hand and investment opportunity that can be pursued with cash not being on hand. Too high a level of cash on hand suggests waste and the opportunity cost of investment alternatives. Too low a level of cash on hand can increase business's vulnerability to emergency, for example in time of economic downturn. As ideal cash position varies by the types of business activities and revenue streams, it should be viewed in relation to business's revenue for the information to be meaningful. A catering business that requires daily replenishment of stocks and daily revenue may have a different ideal length of cash position than a designer bag retailer that relies on high value but infrequent sales. Absent historical data on what the cash position looked like in pre-pandemic period, or information on business current liabilities, or how ideal length of cash position differs between industries, all that can be inferred from the survey is that business perception of their cash position has changed. What cannot be inferred with a high degree of confidence is whether this change suggests an improved efficiency in how businesses invest their cash or whether this suggests a deteriorating position of businesses.

85. At the time of this submission, more than three months have passed since the last available data in January where 48% of business perceived their cash position to be able to cover less than three months of business operation. If this may once have indicated distress facing businesses, latest available data on business entries and exits should to a certain extent assuage this concern with all five most award reliant industries tallying higher business counts of business still operating at the end of March 2022 compared to June 2020, as seen in Figure 26.

86. As noted by the ABS, business conditions are constantly evolving and revenue and expenditure level affects cash on hand position. In January 2022, two in five (41%) of businesses reported decreased revenue. This compares with three in ten (31%) businesses in January 2021.[49] Figure 29 further investigates 'reported change last month' and 'expected change next month' in number of employees, revenue and operating expense.

[49] https://www.abs.gov.au/statistics/economy/business-indicators/business-conditions-and-sentiments/jan-2022

Figure 29: Reported and expected change in revenue, operating expense and number of employees



Source: ABS Business Conditions and Sentiments, May 2022, 26 May 2022 Release

87. In May 2022, 22% of businesses reported decreased revenue last month, comparing favourably with 41% reported in January 2022, while 85% reported either unchanged or increased revenue. Decreased revenue was perceived at varying proportions of businesses by industries, with higher than industry average proportion seen in four out of five most award reliant industries: Retail trade, 46%; Other services, 40%; and Arts and recreation services, 29%. A smaller proportion of businesses also reported decreased business operating expense in the same period. Given the lack of data on the magnitude of decrease in the direction of both revenue and expense, much cannot be inferred on cash position during the time. Looking ahead into the next month, a much smaller proportion

of businesses, except for Arts and recreation services, expected decreased revenue, while a large majority expected similar or increased revenue level or are not certain about revenue level. All five most-award-reliant industries have higher proportion in businesses expecting increased number of employees than the proportion expecting decreased numbers of employees, with the exception of Other services industry, which also had a large proportion of businesses reporting decreased revenue in the last month. Taken together the proportion of businesses reporting decreased revenue last month and the proportions expecting increased number of employees next month suggests that lack of staff might be a factor at play in contributing to businesses experiencing decreased revenue.

88. In April 2022, 57% of businesses reported cost of doing business has increased in the last three months (as of April) to either a small extent (36% of all businesses) or great extent (21% of all businesses). Of those reported increased cost, 48% of them reported to have either partially or completely passed on the cost to customers.[50]

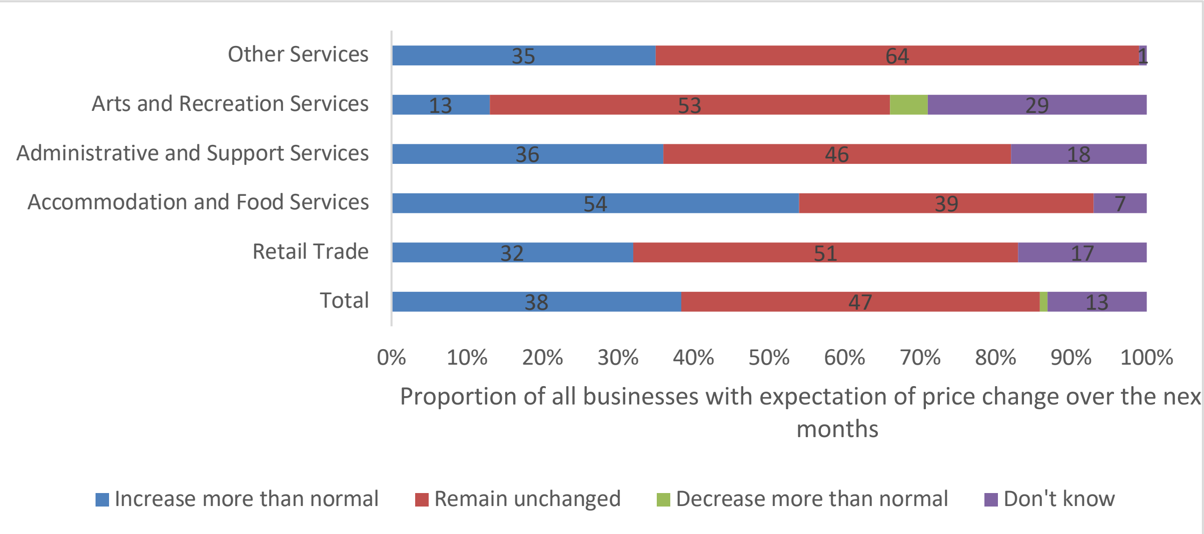
89. In the May 2022 issue of Business Conditions and Sentiments, on average 38% of businesses reported an expectation that the price of goods and services they sell will increase more than normal. As noted earlier, this is following the April 2022 issue where 48% of businesses with cost increases have either partially or completely passed on the cost to customers.

90. A number of employer groups have variably raised concerns surrounding difficulty and/or inability in raising prices in the retail chain store or the restaurant sectors including that that they can't raise price because competing chain stores don't[51]; that they are going to end up 'in a perpetuating cycle of we have to raise prices significantly in order to cover the follow on effects of a very large minimum wage or award wage increase' following the lift in menu prices of around 10-20% over the past two years[52]; and that they are finding it difficult to pass on cost to customers.[53]

[50] ABS Business Conditions and Sentiments, April 2022 Release
[51] PN240, Transcript FWC Consultation 18 May 2022
[52] PN258-PN259, Transcript FWC Consultation 18 May 2022
[53] PN206, Transcript FWC Consultation 18 May 2022

91. Figure 30 below shows expectations of price increase in the next three months by industry. In the Accommodation and food services sector, 54% of businesses, well above the total industry average of 38%, reported expectation of price increase in the coming months. 32% of businesses in retail trade; 34% of businesses in Administration and support services; 35% of businesses in Other services; and 13% of businesses in Arts and recreation services all expected to increase the price of their goods and services sold.

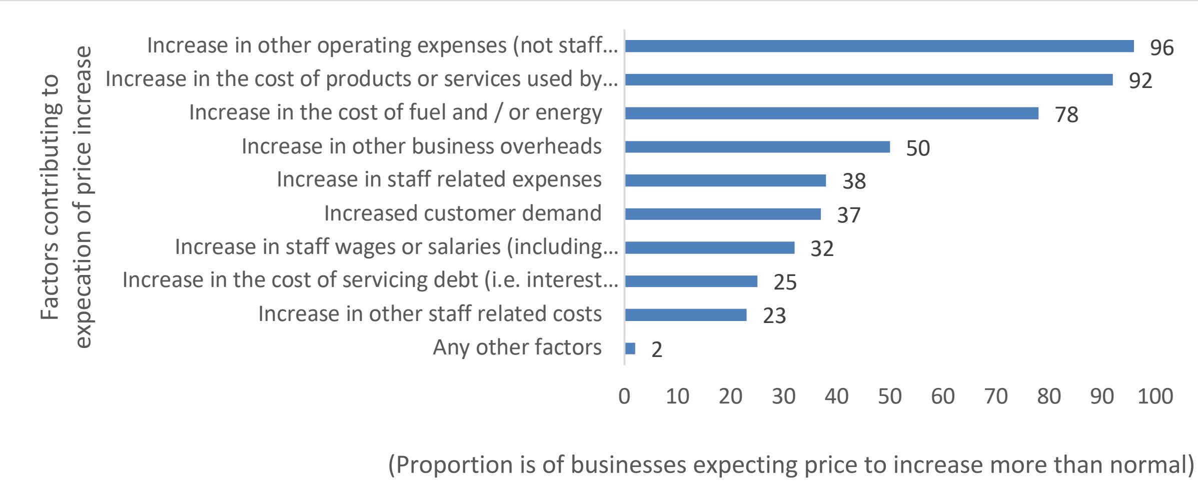
Figure 30: Expectation of the price of goods or services sold over the next three months, May 2022



Source: ABS Business Conditions and Sentiments, May 2022 Release

92. If business concerns in raising price is around taking the first mover position, the data from the survey as discussed above shows that a good number of them would, in the coming months, be the 'first' movers in raising their price. If business concern is around customer's inability to pay, the dilemma facing businesses in not maintaining real wages for workers who are also consumers in the economy would be that they will either be able to trade at less than their usual trading level, given the reduction in purchasing power arisen from real wage cut, or that they maintain real wage for their workers and thus consumers and thereby consumers' ability to transact in the economy. Given that wages are only one amongst many other components of cost facing business with varying cost structures, a 5.5% increase in wage should not be directly translated into a 5.5% increase in price of goods and services sold.

Figure 31: Factors contributing to businesses expecting the price of goods or services sold to increase more than normal



Source: ABS Business Conditions and Sentiments, Table 8, May 2022 Release

93. Figure 31 above shows that expectation of price increase has less to do wages and salaries than other factors. Businesses were asked to describe all factors contributing to expectation of price increase. Amongst businesses expecting price increase[54], a large proportion (96%) attributed price increase to increase in non-staff related operating expense. Of the 32% of businesses contributing price increase to increase in staff wages or salaries, the increase also includes overtime, suggesting a growth in business activities, and thereby revenue. Overall, the top four concerns amongst businesses as contributing factors to price increase are non-staff related operating expense, cost of products or services used by business, cost of fuel and/or energy, and other business overhead.

94. In our view, so long as businesses continues to maintain their price discipline and refrain from opportunistic price gouging behaviour, a 5.5% increase in wage is highly unlikely to translate into a 5.5% increase in goods and service price.

4.8 Private new capital expenditure

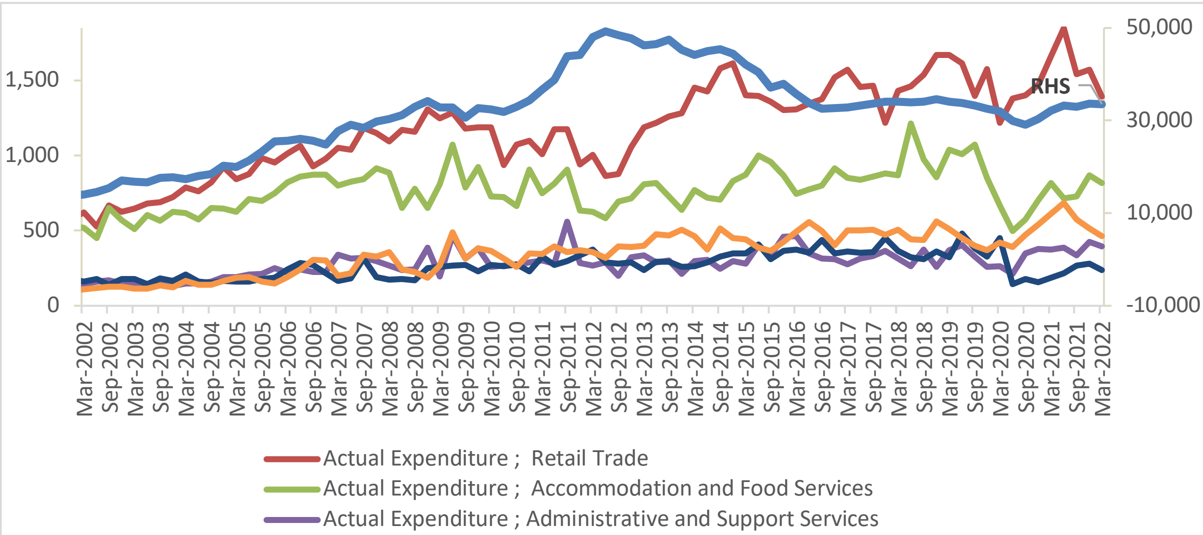
95. In line with government support schemes during Covid-19 period, such as "Increasing the Instant Asset Write-off" effective between 12 March 2020 until 31 December 2020 and

[54] As aforementioned, 38% of all businesses expected price increase more than normal.

"Backing Business Investment" effective between 12 March 2020 until 30 June 2021[55], there was an increase in overall private capital expenditure in the total industry level as well as in most-award-reliant industries.

96. On quarter-over-quarter basis, in seasonally adjusted, volume terms, new capital expenditure fell by 0.3% in the March Quarter. Nevertheless, on an annual basis, new capital expenditure experienced a 4.5% growth between the two March quarters. The movement in capital expenditure, given the investment growth during the pandemic period, likely suggested an expedited move to take advantage of government incentives as noted above, rather than a lack of investment in the latest period. Overall, as of March quarter 2022, all five most award-reliant industries still maintained capital expenditure at the about the same level as seen pre-pandemic, except for the Arts and recreation services industry.

Figure 32: Actual Private New Capital Expenditure, CVM, $ Millions, Seasonally Adjusted



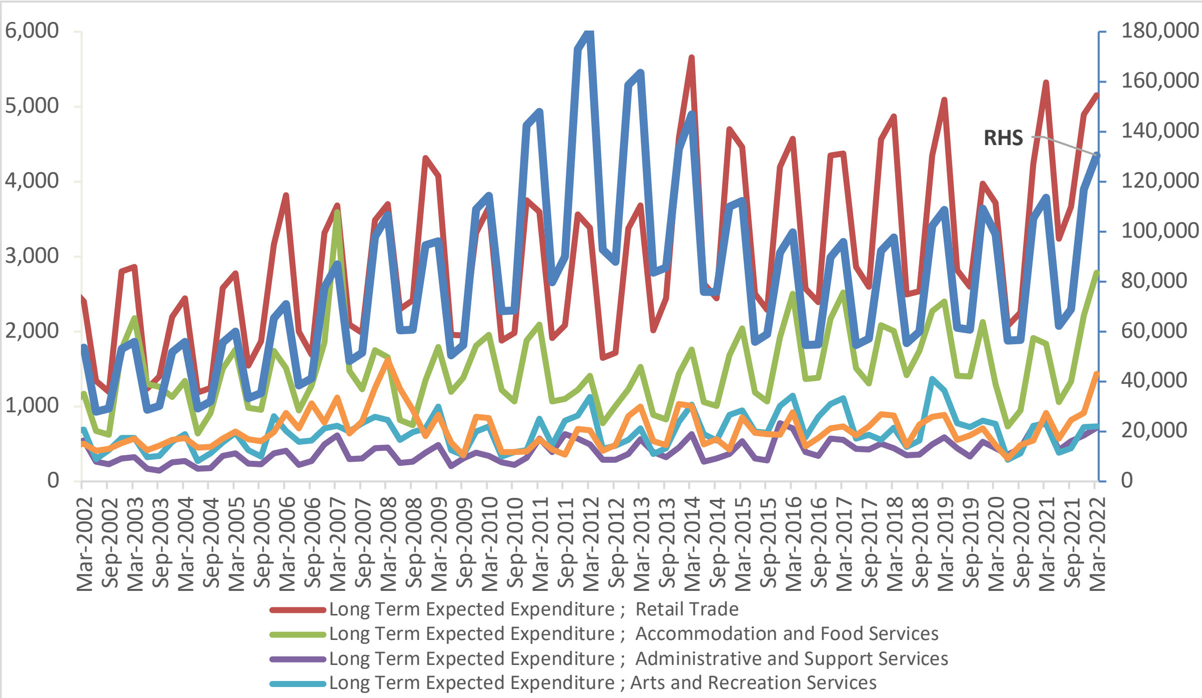
Source: ABS 5625.0 Private New Capital Expenditure and Expected Expenditure, Australia

97. Looking ahead, total industry as well as all five most-award-reliant industries recorded higher long-term expected capital expenditure at a level significantly higher than the level seen two years earlier, in March quarter 2020, with the latest March quarter 2022 recording quarter-on-quarter growth as well as year-over-year growth. This is in contrast

[55] https://www.ato.gov.au/general/covid-19/support-for-businesses-and-employers

to sentiment conveyed in earlier discussion in Business Conditions and Sentiments, where firm behaviours as reflected in the direction of their future investment and planning suggests confidence in business environment.

Figure 33: Expected Private New Capital Expenditure, Long Term, Current Price, $ Millions, Original



Source: 5625.0 Private New Capital Expenditure and Expected Expenditure, Expected Expenditure, Long Term, Australia

4.9 Business performance, national accounts and the FWC information note on industry analysis

98. In his reports for last year's review, Professor Borland approached the assessment of industry performance using three main indicators: percent changes in number of jobs by industry, percent changes in GVA by industry and percent change in incomes from sales of goods and services by industry. Industries were then clustered under three classifications: lagging recovery, almost recovered, fully recovered.

99. In his conclusion in the latest 'Information Note – Industry Analysis' published by FWC in May 2022, three industries have yet to shift to 'fully recovered' cluster. These are Wholesale trade then classified under 'almost recovered' cluster; Accommodation and food services, 'almost recovered'; and Transport, postal and warehousing, 'lagging recovery cluster'. Key statistics from the information note are reproduced below.

Table 1: Percent changes in number of jobs, employment and GVA, by industry

	Number of filled jobs	Vacancy rate	Gross Value Added
	14 March 2020 to 16 April 2022	March quarter 2020 to December quarter 2021	March quarter 2020 to December quarter 2021
Agriculture, forestry and fishing	+4.5	+0.4	+49.5
Mining	+8.3	+1.3	–1.8
Manufacturing	–3.9	+1.9	+1.1
Electricity, gas, water and waste services	+6.4	+1.2	–0.8
Construction	+3.7	+1.3	+1.7
Wholesale trade	–2.2	+0.9	+5.3
Retail trade	+2.7	+0.7	+8.5
Accommodation and food services	–12.5	+2.3	–4.1
Transport, postal and warehousing	–7.3	+0.9	–6.0
Information media and telecommunications	0.0	+0.9	+7.9
Finance and insurance services	+6.6	+1.4	+5.0
Rental, hiring and real estate	–2.9	+1.8	+6.4
Professional, technical and scientific services	+9.0	+1.0	+5.7
Administrative and support services	+5.5	+0.5	–2.1
Public administration and safety	+3.3	+0.5	+5.1
Education and training	+3.6	+0.4	+2.1
Health care and social assistance	+11.9	+1.3	+10.5
Arts and recreation services	+7.2	+1.5	–0.3
Other services	+0.2	+1.0	+2.6
Total	**+4.8**	**+1.1**	**+4.0**

Source: An excerpt from Table 5 in 'Information note – Industry Analysis', FWC, May 2022

100. Since Professor Borland's conclusion, new data have become available from the National Accounts and we have attempted to replicate and update the data in Table 2. New data shows that progress has been made notably in the most-award-reliant sectors, as well as total industry. Accommodation and food services, last closing at a negative 4.1% has now moved up to negative 1.1%. This means that in terms of Gross Value Added, the industry is now only a mere 1.1% below its pre-pandemic level at March quarter 2020. Administrative and support services industry has now moved up to negative 0.3%, or 99.7% of its pre-pandemic level. Arts and recreation is now at 5% above its pre-pandemic level.

Table 2: Percent change in GVA, by industry, an update on the last Borland report

Industry Division	GVA, March quarter 2020 to March quarter 2022	GVA, March quarter 2020 to December quarter 2021, from Borland Report
Agriculture, forestry and fishing	48.5	49.5
Mining	-3.6	-1.8
Manufacturing	2.6	1.1
Electricity, gas, water and waste services	0.9	-0.8
Construction	3.3	1.7
Wholesale trade	9.1	5.3
Retail trade	8.8	8.5
Accommodation and food services	-1.1	-4.1
Transport, postal and warehousing	-0.8	-6
Information media and telecommunications	11.8	7.9
Financial and insurance services	5.1	5
Rental, hiring and real estate services	3.3	6.4
Professional, scientific and technical services	10.4	5.7
Administrative and support services	-0.3	-2.1
Public administration and safety	5.3	5.1
Education and training	2.6	2.1
Health care and social assistance	9.6	10.5
Arts and recreation services	5.4	-0.3
Other services	4.7	2.6
Total (including Ownership of dwellings)	5.0	4.0

Source: ABS, Australian National Income, Expenditure and Product, Table 6, Chain Volume Measures, Seasonally Adjusted, ACTU Calculation and Excerpt from 'Information Note – Industry Analysis'

101. Latest data available for Weekly Jobs and Payrolls is as reflected in the information note and shown in Table 1, which put number of filled jobs under Accommodation and food services at negative 12.5% compared to 14 March 2020. Our discussion in the Labour Market section in this submission has shown the job market situation as one of a tight labour market. Looking at the increase in vacancy rate and that the total employed people in the Labour Force data or total number of filled jobs in the Weekly Payrolls Jobs and

Wages have increased in both these measures, the challenge in the labour market is one of a supply constraint rather than lack of demand for labour. In this regard, a decision to increase wage would play a key role in bringing labour supply and demand to market equilibrium.

102. While there is a somewhat downward movement in the Weekly Payroll Jobs Index data series, there are some special features of the series that should be considered in interpreting the data. First, the exact level of jobs, let alone employed people, in the Weekly Payroll Jobs Index was never made known. To get a sense of the exact jobs level, one must rely on the Labour Account. Based on the Labour Account as of March 2022, the labour market is tighter than it has ever been. Second, Weekly Payroll Jobs Index tracked the level of jobs that are paid through STP-reported payroll and count each payroll jobs separately regardless of whether it is worked by multiple job holder. If a multiple job holder works one hour a week each for five employers, Weekly Payroll Jobs Index would have 5 payroll jobs recorded. If, on the other hand, this same jobholder, now has the opportunity as afforded by the tight labour market, to move full-time with just one employer, Weekly Payroll Jobs Index would now record a reduction of 4 paid jobs. Weekly Payroll Jobs Index relies on payroll transaction to infer on the level of jobs. It does not tell us much about the quality or security of each payroll job. Thirdly, as noted both in section 2.2 above and in the Information Note, the most recent payroll jobs measures are impacted by seasonal factors associated with Easter and school holidays.

Table 3: Comparison between Weekly Payroll Jobs and Wages and Labour Force Statistics

	Weekly Payroll Jobs and Wages in Australia	**Labour Force statistics**
Focus of the Statistics	Jobs	People
Multiple job holding	Each job is counted separately, irrespective of whether it is worked by a multiple jobholder. People who work multiple jobs may be counted multiple times. Industry is identified for each job, not just the main job and the level of multiple jobholding can vary between industries.	Each person is only counted once, and job characteristics (other than hours) relate to a person's main job. Around 6% of employed people are multiple jobholders, particularly young people.

Types of employment	Employee jobs who are paid through a STP-reported payroll. Also includes a small number of jobs for non-employees who are paid through STP-reported payrolls.	All employed people, including: Employees (including Owner managers of incorporated enterprises); Owner managers of unincorporated enterprises; Contributing family workers.
Whether paid	Only includes payroll jobs where a payment was reported to the ATO through STP or there is an established payment pattern.	Includes all employed people who were paid or who had a job but weren't paid (on unpaid leave, temporarily stood down without pay, etc.).

Source: https://www.abs.gov.au/methodologies/weekly-payroll-jobs-and-wages-australia-methodology/week-ending-16-april-2022#differences-to-labour-force-employment-statistics

103. Analysis of business profitability has returned a somewhat mixed result. Our analysis has detected some anomaly in the profitability pattern. Company Gross Operating Profits in the Accommodation and food services sector for the March quarter 2022 in Table 4 appeared to be alarmingly worrying, now standing at 60.3% below its March 2020 level, which is about the level last seen 20 years ago in March/June quarter 2001. Looking further in the same industry sector, March quarter 2022 is the first time in the series that Gross Operating Profits in 'unincorporated' sector has overtaken that of 'company'.

104. In another most-award-reliant sector, the Other services sector, Gross Operating Profits are, by the same measure, alarmingly skyrocketing with an increase of 123% in Company Gross Operating Profits or 173% in Business Gross Operating Profits, between March quarter 2020 and March quarter 2022. During the same period, incomes from sales went up by 11.32% and wages and salaries went up by 7.8%. All are measured on current price, seasonally adjusted series.

105. Our correspondence with the ABS has returned a few possible explanations:

   a. Withdrawal from government support in this quarter has impacted Gross Operating Profits.

   b. Accommodation and food services sector in the 'company' sector might have been more exposed to overseas tourist arrivals than those in the 'unincorporated' sector.

c. 'Unincorporated' sector is subject to high relative standard errors. However, it is also possible that larger, incorporated businesses in the Accommodation and food services industry in particular are more exposed to the absence of overseas tourists.

d. For the March quarter in particular [ABS is] seeing a range of input cost pressures (including but not restricted to wages) that will be impacting profitability.

e. The Other services sector is subject to relatively high levels of sampling error. The series would have been expected to return to more 'normal' levels in March 2022 given the unwinding of government subsidies, unless there is still some pent-up demand coming through.

f. It would be useful to look at corresponding National Accounts measure of Gross Operating Surplus and Gross Mixed Income.

106. We approach each possible explanation by triangulating various data sources and while they are very plausible explanations, none seemed to hold consistently across all five most-award-reliant sector or across different data series:

a. Wages and salaries in Accommodation sectors decreased in the period March quarter 2020 to March quarter 2022. As shown in Table 4 and Table 5, the decrease is 5.6% based on Business Indicator's Wages and Salaries series and 4.7% decrease based on National Accounts measure of Compensation of Employees. Both measures agree that Wages and Salaries in the Accommodation and Food Sector decreased.

b. With regards to withdrawal of government subsidies, we note that in March 2020 quarter, Table 45 in the National Accounts series shows that 'other taxes less subsidies on production' under this industry sector is $590 million in March 2020 quarter compared with $531 million in March 2022 quarter. The quarters in between these two periods have shown some large negative numbers under 'other taxes less subsidies' except for June quarter 2021 which has a positive number. Company Gross Operating Profits for these two periods are $1,709 million (March 2020) and $678 million (March 2022), which put March 2022 profits level at 39% of March 2020 level. Given that taxes level from these two periods are at about the same level or to be precise, higher taxes in March 2020 ($590 millions) than in March 2022 ($531 millions), unwinding of subsidies appears to insufficiently explain the low profit level in the Accommodation and food services sector. This information is summarized in Table 4 below.

Table 4: Accommodation and food services sector, Business Indicators, March quarter 2020 to March quarter 2022

Business Indicators	March quarter 2020 ($ Millions)	March quarter 2022 ($ Millions)	Percent change March 2020-March 2022 (%)
Sales, current price measure	24,184	25,960	7.34
Sales, volume measure	23,793	23,862	0.29
Wages and salaries, current price measure	5,961	5,629	-5.57
Other taxes less subsidies	590	531	-10.00
CGOP	1,709	678	-60.33
BGOP	2,071	1,647	-20.47

Source: ABS Business Indicators, May 2022 Release

c. Using Gross Operating Surplus and Gross Mixed Income from the National Account, an opposite situation emerges. GOS and Gross Mixed Income under Accommodation and food services went up by 5.7% and that under Other services went down by 48.6%, as seen in Table 5 below. This is in stark contrast to Business Indicators series where Business Gross Operating Profits in Accommodation and food services went down by 20.47% and that under Other services went up by 173.49%.

d. We have been advised by the ABS to rely on 'total' series in the Business Indicators for reason of 'unincorporated' series being subject to high relative standard error, which we just did above. However, given that the 'total' series is the summation of 'company' and 'unincorporated', if 'unincorporated' suffers from high relative standard error, then the same error should get transferred to the 'total' series through the summation.

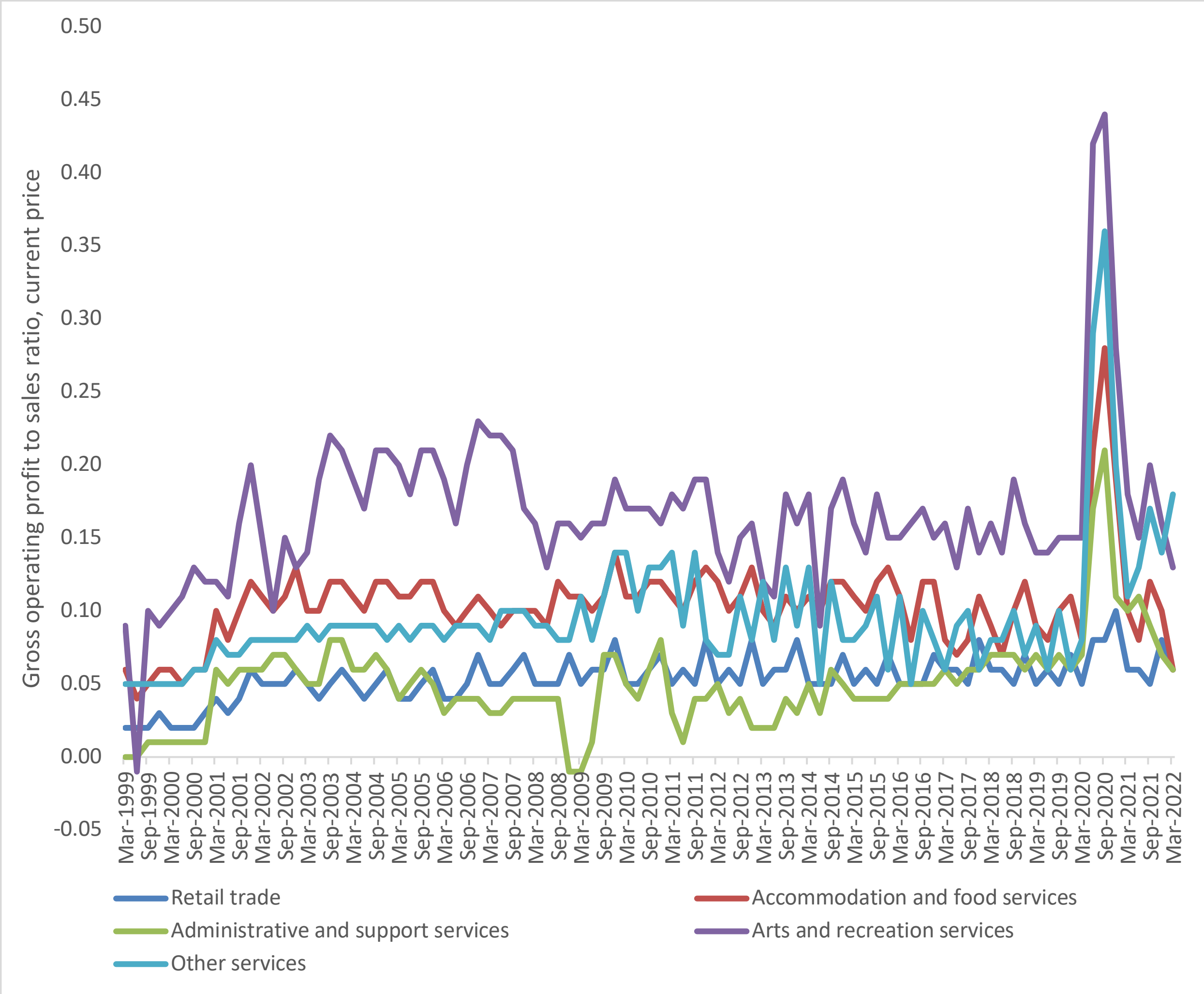
e. In both current price and chain volume measure, incomes from sales in all five most-award-reliant industry increased in the period March quarter 2020 to March quarter 2022.

f. In Accommodation and food services sector, we have so far established that during March quarter 2020 to March quarter 2022, Wages and Salaries went down, also supported by the same trend seen in the Compensation of Employees measure; incomes from sale went up either in the current price or chain volume measure series; and that the level of taxes less subsidies were similar between the two period. Profits level was much higher in March 2020 than it is in March 2022. This leaves one other possible explanation for the low profit level seen in March 2022 quarter: increased (non wage) input costs.

g. Given the fact that Gross Operating Profits in the 'unincorporated' sector of Accommodation and food services has gone up, while that of 'company' has gone down, if increased input cost puts pressure on profit, then the same increased input cost pressure should apply to both 'unincorporated' and 'company' given that they are both in the same industry, albeit different legal entity types. Even if one of these entity types are more reliant on overseas tourists than the other, incomes from sale in the whole industry actually went up, in both chain volume measure and current price series to surpass March 2020 level. It should be noted that demand has returned to that level, at the time where overseas arrivals is only 23.88% of February 2020 arrival level (Figure 14). It should further be noted that the data is able to capture only the demand level that was met with supply from the sector. Inferring from the fact that vacancy rate during the period has been strong, it is possible that there is unmet demand, not captured by the data.

h. If input cost pressure affects profitability, Figure 30 in earlier discussion in the 'Business Conditions and Sentiments' shows that 54% of businesses in the Accommodation and food services sector have expectation of price increase 'more than normal' on their goods and services sold in the next three months, in May 2022 survey, following April 2022 issued where 48% of businesses with cost increased have either partially or completely passed on the cost to customers. This should ease pressure on profitability as resulted from input cost pressure in the coming quarters.

Figure 34: Gross operating profits to sales ratio, Current price



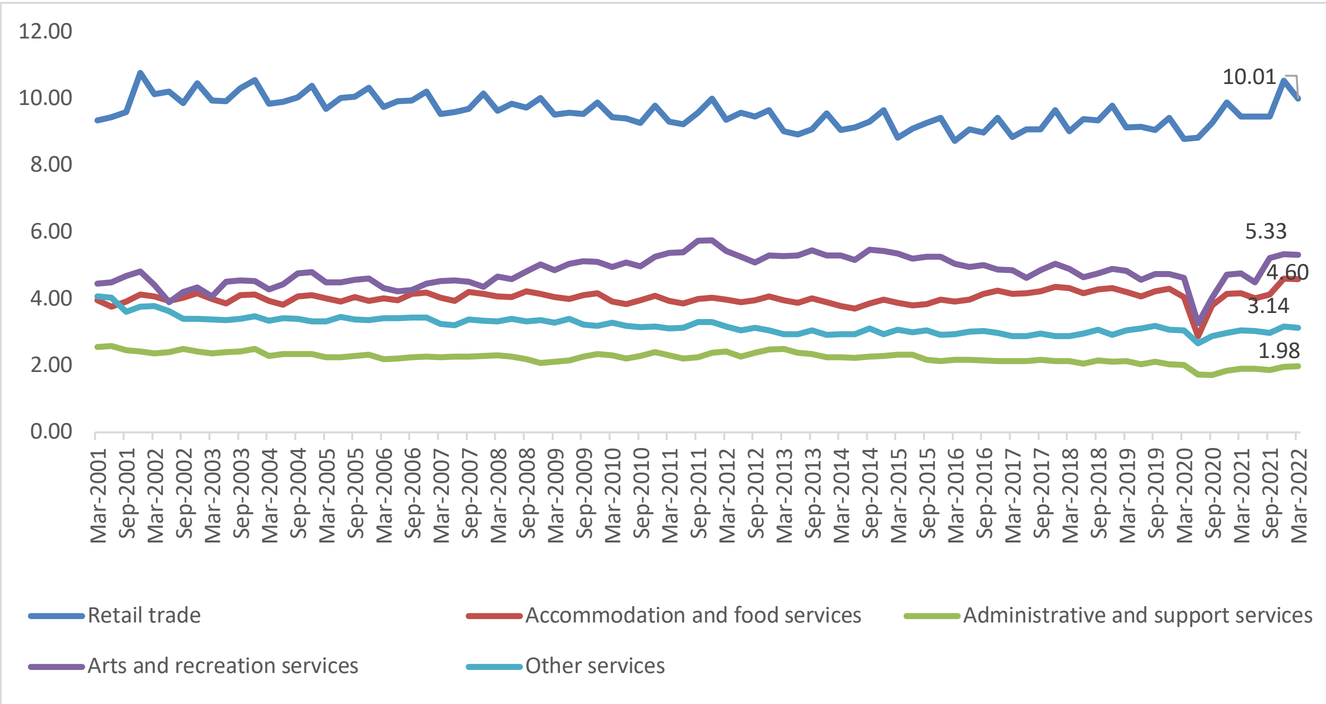
Source: ABS Business Indicators, 56760, Business gross operating profits to Sales ratio, current prices, original

107. Figure 34 shows that after a period of government assistance during the pandemic period which distorted the Gross operating profits to sales ratio, the ratio of all five most-award reliant industries has returned to its pre-pandemic level, except for Other services which now appears to be able to squeeze more profits out of its sales than it was ever able to, since the start of the data series. For the rest of the industries, their ability to make profits out of their sales hasn't diminished.

108. The sales to wages and salaries ratio is key business benchmark that allows business to understand the value of its labour force as a function of its sales revenue. The gold standard varies by industry and generally businesses would prefer that it can create more sale values out of its labour cost expense. We look further into sales to wages and salaries ratio of the five most award reliant sector in Figure 35 below and found that they have all

either returned at or elevated above the pre-pandemic period. All five industries are now able to create more sale revenues from every dollar spent on its workforce better than they were just before the pandemic. This proves that the despite the pandemic, the workforce has not only retained but improve its skill in delivering value for money for businesses. The sales to wages ratio in the Other services sector was growing more slowly than the other four industries. This is despite the fact that Other services sector was the best performer in improving its profitability level, based on Business Indicator data series.

Figure 35: Sales/Wages and Salaries ratio, Current price, Original

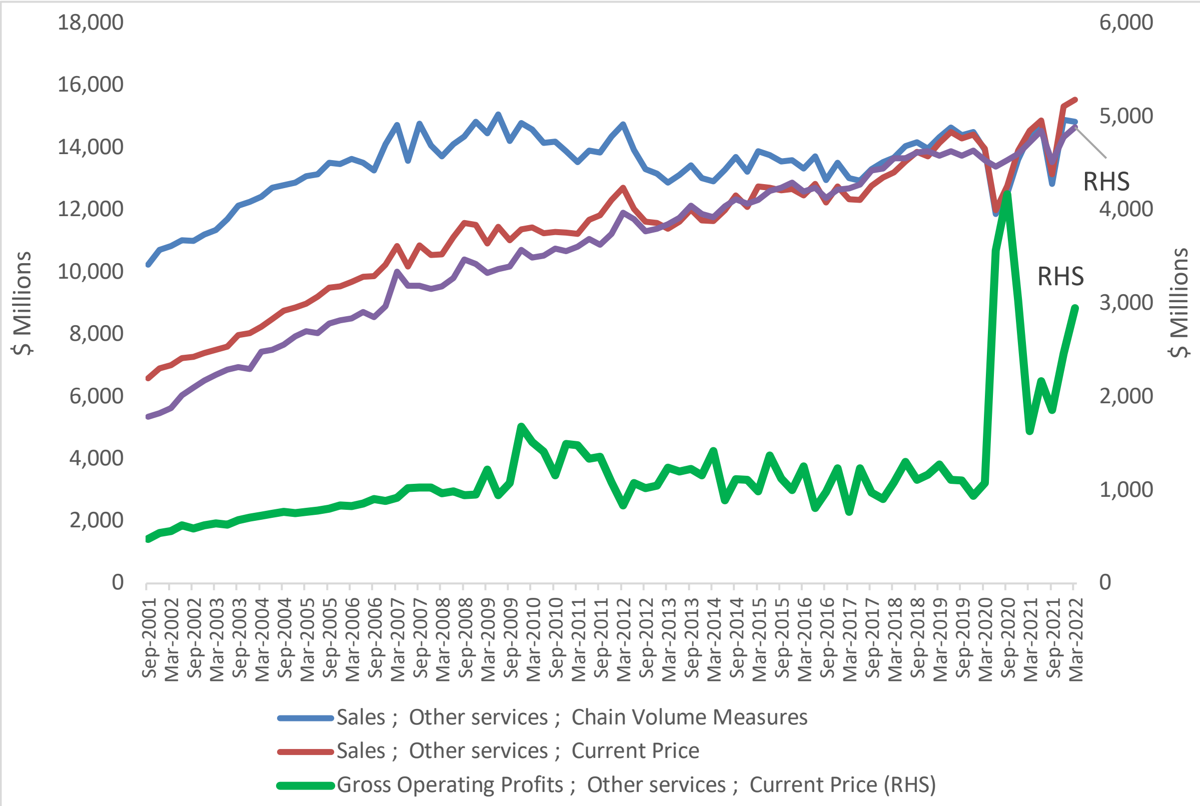


Source: Business Indicators, May 2022 Release

109. We juxtaposed various data series from Business Indicators to look for evidence for pent-up demand in the Other services sector. What we have found from the data appears to look more like pent-up profits. Figure 36 below shows that sales in both chain volume and current value measures have returned to their pre-pandemic level. The last five quarters, except for the September quarter 2021 in between, have seen sales levels that were holding at about the same level such that it would require further and much stronger evidence for this to be able to be interpreted as pent-up demand. Wages and salaries have edged up, in line with the increased sales, but at a rate that allows for the improvement seen earlier in Sales to salaries and wages ratio. Gross operating profits, however, even after dropping down from the high profits growth masked by the period of high level of

government support remained elevated and holding. In current price terms, the last five quarters starting from March quarter 2021, after falling from its peak profit period, have seen profits in the sector holding steady far above the level ever seen since June quarter 2010.

Figure 36: Other services sector: Income from Sales, Business Gross Operating Profits and Wages and salaries, all series seasonally adjusted



Source: ABS Business Indicators, 5676.0, Table 4,6, 15, and 17, May 2022 Release

110. In summary, there remains opacity with regards to business profitability. Based on Company Gross Operating Profits, three out of five most-award-reliant industries experienced decreased profitability in March quarter 2022 compared to March quarter 2020. These are Accommodation and food services, Administrative and support services, and Arts and recreation services. Based on National Accounts measure of Gross Operating Surplus and Gross Mixed Income, Other services, the most profitable sector under alternative CGOP measure, is the only one out of five most-award-reliant industries with decreased Gross Operating Surplus and Gross Mixed Income between these two periods. Given the increase in incomes from sales in both volume measure and current price in all

five most-award-reliant industries, we can establish with high degree of confidence that demand level has returned to the pre-pandemic period. Given the increase in vacancy rate, businesses did not appear to be deterred by the mixed profitability result we see in the data; in fact, they appear to view labour as a solution to the constraint in the business environment they are operating in.

Table 5: Percent change in GOS and Gross Mixed Income, Income from Sales, Wages and Salaries and Compensation of Employees

Industry Division	Company Gross Operating Profits	GOS and Gross Mixed Income	Income from Sales	Income from Sales	Wages and Salaries	Compensation of Employees
	March quarter 2020 to March quarter 2022	March quarter 2020 to March quarter 2022	March quarter 2020 to March quarter 2022	March quarter 2020 to March quarter 2022	March quarter 2020 to March quarter 2022	March quarter 2020 to March quarter 2022
	SA, Current Price	SA, Current Price	SA, Current Price	SA, CVM	SA, Current Price	SA, Current Price
Agriculture, forestry and fishing	-	60.3	-	-	-	5.7
Mining	69.6	65.0	48.3	-7.5	11.8	11.7
Manufacturing	37.8	14.8	12.5	-1.4	2.8	3.1
Electricity, gas, water and waste services	-11.9	-15.6	0.6	5.7	10.2	10.6
Construction	42.0	26.4	7.0	-2.5	8.8	9.4
Wholesale trade	39.5	21.5	25.7	8.9	10.7	10.7
Retail trade	24.3	8.7	16.3	7.4	2.1	2.0
Accommodation and food services	-60.3	5.7	7.3	0.3	-5.6	-4.7
Transport, postal and warehousing	7.2	5.0	8.5	3.6	1.6	4.2
Information media and telecommunications	4.7	39.5	4.6	8.5	1.0	2.6
Financial and insurance services	52.1	5.9	16.0	10.8	14.3	14.0
Rental, hiring and real estate services	28.6	15.1	11.1	4.0	11.3	9.7
Professional, scientific and technical services	-4.3	3.7	14.8	10.6	14.2	3.7
Administrative and support services	-9.8	26.0	3.7	0.4	5.7	26.0
Public administration and safety	-	4.4	-	-	-	7.5
Education and training	-	13.2	-	-	2.4	7.8
Health care and social assistance	-	19.9	-	-	15.1	14.4
Arts and recreation services	-10.1	15.5	12.8	6.3	-2.2	0.3
Other services	123.4	-48.6	11.3	6.6	7.9	8.5
Total	40.3				8.0	

Source: ABS, Australian National Accounts: National Income, Expenditure and Product, Table 45, Table 6; Business Indicators, Table 4, 6, 11, 17, ACTU Calculation

4.9.1 Significance for operative dates

111. Ultimately, whilst there are differences between industry performance shown in the information note (and some inconsistencies in the data relating to some industries), that in itself is insufficient to satisfy the Panel that there are exceptional circumstances justifying a delay to the operative dates of any determinations to vary modern award minimum wages. Aside from the limitations and contra-indications in the data discussed at length above, in our submission:

a. There is a diminishing basis for attributing all facets of differential industry performance to the COVID-19 Pandemic, as Professor Borland's conclusion to the information note acknowledges (consistent with the view put at paragraph 92(e) of our reply submission).

b. The analysis upon which the initial finding of exceptional circumstances was based in the 2019/20 decision was an analysis designed to measure industry differences in the demand side impacts of the pandemic, or more precisely, of measures designed to control the pandemic.[56] The reports provided by Professor Borland in the following year were similarly designed to measure "recovery" in those demand side effects. The information note seeks to continue largely the same frame of analysis, albeit with the welcome addition of job vacancy data. As is increasingly evident from each of our submissions in the current review and most pointedly from the detailed analysis in the preceding sections of this chapter, demand side impacts of pandemic control measures are simply not feature of the economy at present and demand has returned to approximately normal or better levels in all award reliant sectors. If anything, the true constraint on the economy is supply based, principally in the labour market amid soaring demand for workers, rather than any continuation or persistence of the same exceptional circumstances found to exist earlier. This ought to be viewed by the Panel as favouring increases to wages rather than as a condition that justifies the imposition of a wage freeze (or real wage cut) of any duration or extent for any group of workers.

c. The information note does not provide evidence of the incapacity of any employer (or class thereof) to pay wages. Nor does it provide any evidence about the impact on employees of a wage freeze, either generally or specific to the inflationary environment which persists at present and is predicted to accelerate to the

[56] [2020] FWCFB 3500 at [166]

detriment of the living standards of the low paid in particular (who are already facing higher levels of financial stress for the reasons given in section 3 above).

d. The information note provides no basis upon which assess the benefits (to employers or employees) of previous deferrals of minimum wage increases.

e. The information note provides no basis upon which to conclude that a particular deferred operative date for any determination is justified and limited to the particular situation to which any alleged exceptional circumstances relate.

112. On 1 June 2022, some two months after the closing date for initial submissions, the Commission circulated a submission lodged on behalf Independent Cinemas Australia, also seeking a deferral of an operative date for any determination which would vary the minimum wages for cinema workers under the *Broadcasting, Recorded Entertainment and Cinemas Award*. In our view, the submission should not be received owing to it is lateness. In the event it is accepted, the only comments we can offer in response in the limited time available are as follows:

a. The Commission's ANZSIC mapping exercise has identified a linkage between cinema workers and the 5513 ANZIC category, which lies in the Information Media and Telecommunications Industry. It was also accepted as part of this industry at footnote 145 in the 2019/20 decision. Professor Borland's view in the information note is that the sector has fully recovered.

b. The submission seems ignorant of the decision of the Panel to award deferred increases in 2020 (to November 2020). The Panel was not convinced of exceptional circumstances applying to sector in the following year.

c. The submission acknowledges the receipt of industry specific government support (additional to the measures generally available).

d. The submission acknowledges that the "majority" of its workforce are casual workers, which brings with it the flexibility to scale labour costs to demand.

113. We otherwise refer to and repeat our detailed submission on the proper approach to determining exceptional circumstances as set out paragraphs 87-92 of our reply submission.

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