Australian Government

Australian Government Submission

to the

Fair Work Commission Annual Wage Review 2022

1 April 2022

Contents

List of Charts

List of Tables

Acronyms and Abbreviations

ABS	Australian Bureau of Statistics
AENA	Average Earnings in the National Accounts
AWOTE	Average Weekly Ordinary Time Earnings
CCS	Child Care Subsidy
CPI	Consumer Price Index
EEH	Employee Earnings and Hours
FT	Full-time
GDP	Gross Domestic Product
GFC	Global Financial Crisis
HILDA	Household, Income and Labour Dynamics in Australia
JSP	JobSeeker Payment
LPC	Low Pay Commission (UK)
NAB	National Australia Bank
NILF	Not In the Labour Force
NMW	National Minimum Wage
NLW	National Living Wage
NSC	National Skills Commission
NSW	New South Wales
OECD	Organisation for Economic Co-operation and Development
PPP	Parenting Payment Partnered
PPS	Parenting Payment Single
PT	Part-time
RBA	Reserve Bank of Australia
SME	Small and Medium Enterprise
UK	United Kingdom
US	United States
WPI	Wage Price Index
YA	Youth Allowance

1. Introduction

1. In this submission, the Australian Government ('the Government') provides the latest evidence on the economy, labour market, low-paid workers and inequality to assist the independent Expert Panel ('the Panel') conducting the Annual Wage Review in making its decision.
2. The outcome of the Annual Wage Review should support the economy and labour market, balancing improving living standards for Australians with ensuring the viability of employing businesses.
3. The Australian economy is recovering strongly from the impact of the COVID-19 pandemic, with the recovery forecast to continue and drive further employment growth. However, the ongoing pandemic, Russian invasion of Ukraine, strained supply chains and rising inflationary pressures all present risks to the global and domestic outlooks.
4. According to the 2022-23 Budget, real Gross Domestic Product (GDP) is expected to grow by 4¼ per cent in 2021-22 and by 3½ per cent in 2022-23. The unemployment rate is forecast to fall to 3¾ per cent in the September quarter of 2022 and remain there until 2024-25, with wage growth expected to build across the forecast period as the labour market remains tight. Wage growth is forecast to rise to 2¾ per cent through the year to the June quarter of 2022 and 3¼ per cent through the year to the June quarters of 2023 and 2024 (see Chapter 3).
5. Employment is now well above pre-pandemic levels and the participation rate of 66.4 per cent is at a record high, while the unemployment rate has fallen to 4.0 per cent in February 2022, the equal lowest outcome since 1974. Recruitment activity, as measured by the *Internet Vacancy Index*, remains at a 13-year high, with the number of newly advertised jobs significantly elevated (up by 60.4 per cent) compared with pre-pandemic levels (see Chapter 4).
6. According to the latest available data, Australia's minimum wage is the second highest in the Organisation for Economic Cooperation and Development (OECD). Less than 2.0 per cent of Australian employees are paid at the rate of the national minimum wage (NMW) (currently $20.33 per hour), while up to 23.0 per cent of Australian employees (or 2.7 million employees) had their pay set by an award in 2021. Less than one-third of Australia's 2.7 million award-reliant workers are classified as low paid (see Chapter 2).
7. Small businesses are more likely to be impacted by the Panel's decision, as small businesses employ 32 per cent of all employees paid award classification wages, the highest across all business sizes. Small businesses make an important contribution to output and employment, with over 2.3 million actively trading small businesses in Australia. They represent over 97 per cent of total businesses and employ 41 per cent of the working population. The COVID-19 pandemic including the impact of the Omicron variant, floods in New South Wales (NSW) and Queensland, and global economic distress from events such as the Russian invasion of Ukraine, have continued to interrupt the recovery of small business. However, the Australian Government has jointly funded business support payments with states and territories to the value of an estimated $14.4 billion (see Chapter 5).

8. Low-paid workers have a diverse range of characteristics. Just over half of low-paid workers are female, with low-paid work concentrated among younger workers. Over half of low-paid workers are aged under 30, and just over a fifth of low-paid workers are full-time students (see Chapter 2).
9. Over the long run, productivity growth is essential for real income growth and improved living standards. Labour productivity in the market sector has grown at an average annual rate of 1.7 per cent over the latest cycle (2009-10 to 2017-18), slightly above the annual average growth of 1.3 per cent recorded for the 2003-04 to 2009-10 cycle, and below the average of 2.2 per cent growth from 1998-99 to 2003-04. Productivity growth has been subdued in recent years, both in Australia and more broadly across developed economies (see Chapter 6).
10. While the available evidence on the impact minimum wages increases have on employment is mixed, moderate increases are thought to have negligible employment impacts, while larger increases are thought to have more significant negative employment impacts (see Chapter 7).
11. Income inequality in Australia had been broadly stable for more than a decade leading into the COVID-19 pandemic. While little data showing the impact of the pandemic and resulting economic downturn on inequality is available, the latest data showed that the Gini coefficient for equivalised household disposable income was 0.328 in 2017-18, below the 0.336 recorded in 2007–08. Australia's targeted tax-transfer system has played a key role in reducing income inequality, redistributing income between households through a targeted system of cash payments, in-kind support and a progressive income tax system. Minimum wage increases may not necessarily reduce income inequality, given that marginally productive workers may be priced out of the labour market if minimum wages are raised beyond a certain point (see Chapter 8).
12. The latest data shows that the weekly gender pay gap has declined from 17.2 per cent in November 2013 to 13.8 per cent in November 2021, which is close to the historic low of 13.4 per cent in November 2020.
13. As it has done in previous years, the Panel should note the Superannuation Guarantee is legislated to increase by 0.5 percentage points on 1 July 2022.
14. The evidence provided in this submission is relevant to the minimum wages objective (section 284) and the modern awards objective (section 134) in the *Fair Work Act 2009*, to which the Panel must have regard in making its decision. A number of considerations are outlined in these objectives, including:

    - The performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth (section 284);
    - Promoting social inclusion through increased workforce participation (sections 284 and 134);
    - Relative living standards and the needs of the low paid (sections 284 and 134);
    - The principle of equal remuneration for work of equal or comparable value (sections 284 and 134);

- Providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability (section 284);
- The need to encourage collective bargaining (section 134);
- The need to provide additional remuneration for: employees working overtime; or employees working unsocial, irregular or unpredictable hours; or employees working on weekends or public holidays; or employees working shifts (section 134);
- The need to promote flexible modern work practices and the efficient productive performance of work (section 134);
- The need to ensure a simple, easy to understand, stable and sustainable modern award system for Australia that avoids unnecessary overlap of modern awards (section 134);
- The likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden (section 134); and
- The likely impact of any exercise of modern award powers on employment growth, inflation and the sustainability, performance and competitiveness of the national economy (section 134).

2. Minimum wages and low-paid workers

Key Points

- The Panel's decision directly affects employees paid the national minimum wage rate and those whose pay is set by a modern award. Less than 2 per cent of Australian employees are paid at the rate of the national minimum wage (currently $20.33 per hour). 23.0 per cent of Australian employees (or 2.7 million employees) had their pay set by an award in 2021.
- The 'minimum wage bite' (the national minimum wage rate as a proportion of the median wage of all full-time employees) decreased to 51.5 per cent in 2021 partly due to the impact of COVID-19. Before the pandemic, the minimum wage bite was broadly stable between 52 and 54 per cent since 2008. The majority of award-reliant workers are paid higher wages than the national minimum wage.
- Low-paid employees are defined by the OECD as those earning less than two-thirds of the median hourly wage. Less than one-third of Australia's 2.7 million award-reliant workers are classified as low-paid.

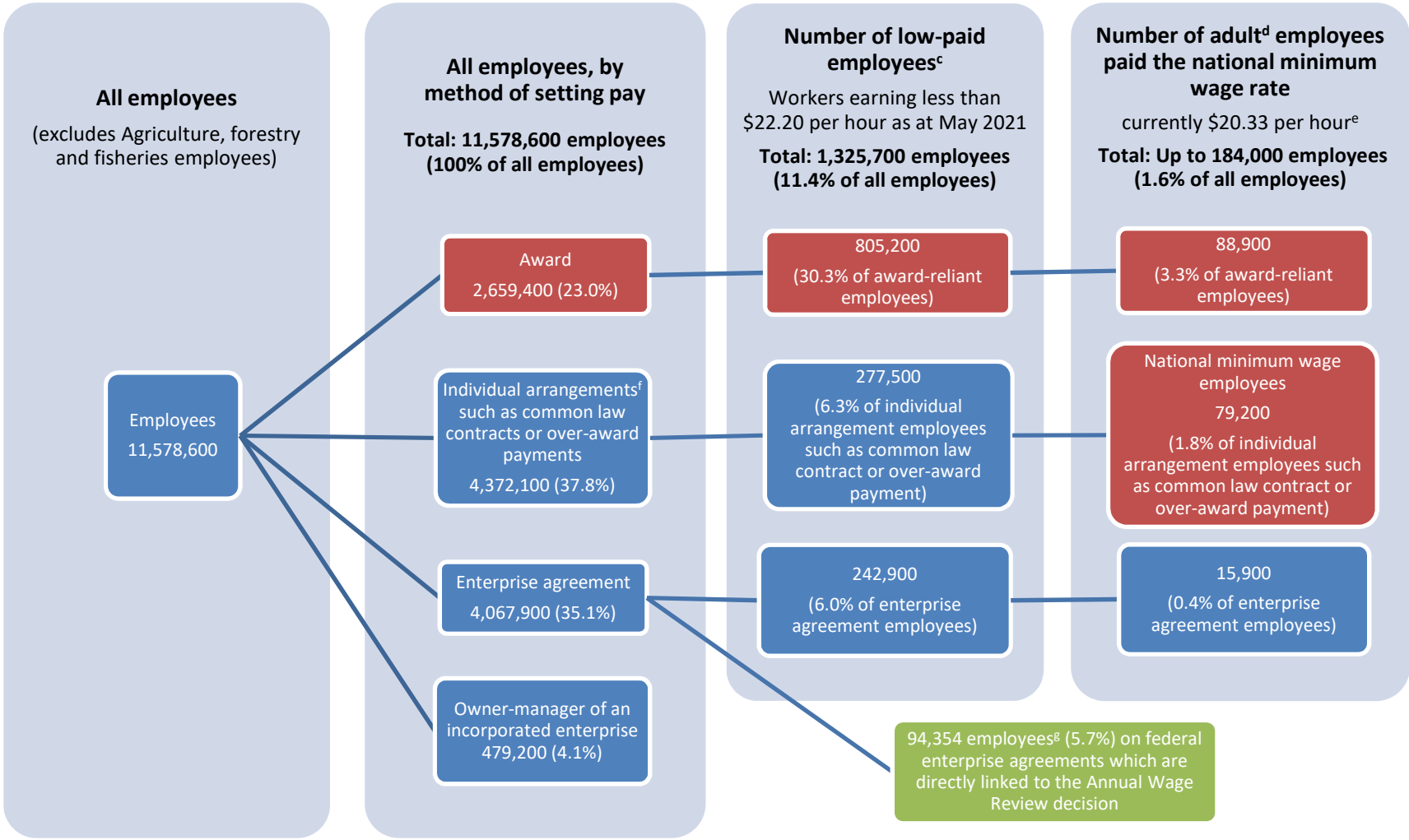
2.1 Coverage of the Panel's decision

15. Australia's minimum wage system is unique. It sets out not only a national minimum wage rate, but also a range of wages and conditions across 121 industry and occupation-based modern awards. These modern awards set around 2,000 adult award rates of pay across hundreds of classifications. These rates of pay vary widely, from the current national minimum wage rate up to $190,472 per year (*Air Pilots Award 2020*).

16. Chart 2.1 shows the employees directly affected by the Panel's decision. They are employees paid the national minimum wage rate, those whose pay is set by a modern award, and those workers whose pay is set by collective agreements that are linked to the Annual Wage Review and designed to maintain wage relativities.

17. Chart 2.1 also shows the number of low-paid employees and the estimated number of employees paid the national minimum wage rate.

Chart 2.1: Number of employees by method of setting pay and whether they are low paid, May 2021[a] [b]



Source: ABS *Employee Earnings and Hours, May 2021,* published and unpublished data (including the Attorney-General's Department calculations); Workplace Agreements Database, December 2021.

Notes: (a) All numbers are for May 2021, except for the number of employees on agreements linked to the Annual Wage Review decision (in green), which is for the December quarter 2021. (b) The Fair Work Commission sets award classification wages and the national minimum wage. These workers are coloured red in the chart. (c) Low-paid employees are defined as employees earning less than two-thirds of the median hourly wage. In May 2021, the median hourly wage was $33.30 and after applying the adjustment of 25 per cent for casual loading, the low-paid threshold was $22.20. Employees earning below $22.20 per hour were considered low paid. (d) This excludes workers paid junior, apprentice and disability rates of pay. (e) The national minimum wage rate in May 2021 was $19.84 per hour. Employees paid at or below $20.00 per hour in May 2021 (which is a rounded hourly rate of the national minimum wage in May 2021) are considered to be paid the national minimum wage rate. (f) The ABS classifies employees in the individual arrangement category if they have their pay set by an individual common law contract or arrangement, whether or not written, including where employees receive over-award payments. (g) This data is derived from the Workplace Agreements Database. It includes the number of employees covered by agreements current as at 31 December 2021 with a clause which states that the entirety of the Annual Wage Review decision will be applied in full and automatically to wages. These workers may also be low paid or earning the national minimum wage rate and thus also covered in the boxes above.

2.1.1 National minimum wage employees

18. The national minimum wage rate for adults is currently $772.60 per week ($20.33 per hour or $40,175.20 per year). This is 2.4 times the base rate of the JobSeeker Payment (JSP) for singles without children ($321.35 per week) and 51.5 per cent of the Australian Bureau of Statistics' (ABS) estimate of full-time median weekly earnings ($1,500.00 per week) (ABS *Characteristics of Employment, August 2021*). There are also separate special national minimum wage rates for juniors, apprentices, trainees and workers with disability.

19. The Attorney-General's Department estimates that around 184,000 Australian employees (or 1.6 per cent) are paid the national minimum wage rate (currently $20.33 per hour) (ABS *Employee Earnings and Hours, May 2021*).[1]

2.1.2 Award-reliant employees

20. In 2021, 23.0 per cent of Australian employees (or 2.7 million) had their pay set by an award. This is higher than 21.0 per cent in 2018 and 20.6 per cent in 2016.[2]

21. Table 2.1 shows the level of award reliance by industry, as at May 2021. The industries with the highest award reliance were Accommodation and food services (with 60.4 per cent of employees having their pay set by an award), Administrative and support services (42.4 per cent), Other services (38.1 per cent), Health care and social assistance (33.3 per cent) and Retail trade (29.6 per cent).[3]

22. These award-reliant industries were significantly affected during the COVID-19 pandemic. Between February 2020 (closest quarter to the onset of the pandemic) and May 2020 (the trough in the labour market), employment declined across all the 5 most award-reliant industries. As at the February quarter 2022, employment has recovered and exceeded the pre-COVID-19 (February 2020) level in 3 out of the 5 most award-reliant industries. More detailed analysis is provided in Chapter 4.

[1] These include those employees on awards, covered by enterprise agreements and national minimum wage employees. National minimum wage employees are classified as employees who are: paid the adult rate, non-managerial, have their pay set through an individual arrangement, and with average ordinary time earnings of up to $20.00 per hour (to reflect the rounded national minimum wage rate at May 2021 of $19.84). The earnings of casual employees are divided by 1.25 to adjust for the casual loading.

[2] Since the 2016 release of EEH, the ABS has further refined its Method of Setting Pay framework, meaning that a sub-set of the employees who were considered to be paid on an Award only basis in 2016 would be considered to have been paid according to a Collective Agreement under the new treatment in 2018.

[3] 'Other services' includes a broad range of personal services, religious, civic, professional and other interest group services, selected repair and maintenance, and private households employing staff. Services provided include hair, beauty, diet and weight management, death care, religious events promotion and administration and repair and maintenance of equipment and machinery.

Table 2.1: Award reliance across industries (proportion of award-reliant employees in each industry, all employees), May 2021

Industry	Award-reliance (%)	Award-reliance (no. of employees)
Accommodation and food services	60.4%	517,600
Administrative and support services	42.4%	313,300
Other services	38.1%	173,200
Health care and social assistance	33.3%	586,400
Retail trade	29.6%	333,000
Arts and recreation services	26.6%	51,000
Rental, hiring and real estate services	22.1%	48,400
Manufacturing	19.1%	137,300
Construction	13.4%	109,900
Public administration and safety	13.0%	97,600
Transport, postal and warehousing	12.6%	61,500
Wholesale trade	10.0%	44,700
Education and training	7.8%	86,300
Information media and telecommunications	7.3%	10,500
Electricity, gas, water and waste services	5.8%	6,900
Professional, scientific and technical services	5.7%	56,500
Finance and insurance services	5.1%	23,400
Mining	1.1%	1,900
All industries	**23.0%**	**2,659,400**

Source: ABS *Employee Earnings and Hours, May 2021*, all employees.
* This survey does not cover enterprises primarily engaged in Agriculture, forestry and fishing.

2.1.3 Award wages

23. Award minimum wages range from the national minimum wage rate of $772.60 per week ($40,175.20 per year) up to $3,662.92 per week ($190,472 per year, *Air Pilots Award 2020*). The national minimum wage rate of $772.60 per week is equivalent to the base rates of 43 of the 121 modern awards, while the wage rates of workers in the other pay point classifications of the 43 awards as well as the base wage rates of the remaining 78 modern awards are all above the national minimum wage rate.[4]

24. The majority of award-reliant workers are paid higher wages than the national minimum wage, with the latest data showing that the median weekly full-time award-reliant wage ($1,204.00) was 59.7 per cent higher than the national minimum wage rate as at May 2021 ($753.80). This means that the median weekly full-time wage for award-reliant

[4] The base rate is the lowest pay point in a modern award. It includes the wage rates for introductory, induction or training rates but excludes apprenticeship wage rates.

employees ($1,204.00) was 75.6 per cent of the median weekly full-time wage for all employees ($1,593.00) (ABS *Employee Earnings and Hours, May 2021*).[5]

25. The 'minimum wage bite' refers to the national minimum wage rate as a proportion of the median wage of all full-time employees including owner managers of incorporated enterprises. In Australia, the minimum wage bite is currently 51.5 per cent. More information on the minimum wage bite is provided in Chapter 8.

26. Table 2.2 shows analysis of the lowest adult rate (excluding the introductory rates) in awards for the most award-reliant industries (Accommodation and food services, Administrative and support services, Other services, Health care and social assistance, and Retail trade) as a proportion of the median wage of all full-time employees. The selection of awards is based on the mapping methodology developed by the former Fair Work Australia (Preston *et al.* 2012).

[5] The full-time median wage rates referred here (for both award-reliant employees and all employees) is for *non-managerial* employees paid at the adult rate.

Table 2.2: Wages across mapped awards, August 2021

Modern award	Industry (Primary)	Weekly minimum full-time rate ($)	Proportion of median full-time wage (%)
Hospitality Industry (General)	Accommodation and food services	$794.80	53.0%
Restaurant Industry	Accommodation and food services	$794.80	53.0%
Registered and Licensed Clubs	Accommodation and food services	$794.80	53.0%
Fast Food Industry	Accommodation and food services	$848.50	56.6%
General Retail Industry	Retail trade	$848.50	56.6%
Pharmacy Industry	Retail trade	$848.50	56.6%
Vehicle Repair, Services and Retail Award	Retail trade/Manufacturing[6]	$772.60	51.5%
Cleaning Services	Administrative and support services	$825.00	55.0%
Clerks – Private Sector	Administrative and support services	$821.40	54.8%
Contract Call Centres	Administrative and support services	$825.20	55.0%
Hair and Beauty Industry	Other services	$848.50	56.6%
Fitness Industry	Other services/Arts and recreation services	$772.60	51.5%
Children's Services	Education and training	$790.30	52.7%
Aged Care	Health care and social assistance	$821.40	54.8%
Health Professionals and Support Services	Health care and social assistance	$821.40	54.8%
Social, Community, Home Care and Disability Services Industry	Health care and social assistance	$831.30	55.4%
National minimum wage rate	**-**	**$772.60**	**51.5%**

Source: ABS *Characteristics of Employment, August 2021*; Fair Work Australia 2012; Preston *et al.* 2012.
Note: The Children's Services Award is primarily mapped to the Education and training industry. It has been included due to having secondary mappings to the Administrative and support services and Other services industries, which have relatively high award-reliance.

[6] The industry-award mapping in the table is based on the tool created by Preston *et al.* 2012, which mapped awards to industries as at 2011. Therefore subsequent changes to awards that affect their coverage are not captured in the mapping, such as the Fair Work Commission's amendment to the *Vehicle Manufacturing, Repair, Services and Retail Award 2010* in 2020, which removed Manufacturing employees originally covered by this award into the *Manufacturing and Associated Industries and Occupations Award 2020*.

27. Of the mapped awards in Table 2.2, the Vehicle Repair, Services and Retail Award, and the Fitness Industry Award specify the lowest adult weekly full-time wage which is equal to the national minimum wage rate. The lowest rate in the remaining 14 awards is higher than the national minimum wage rate, which means their share of the median full-time wage is higher than the national minimum wage bite (51.5 per cent) (ABS *Characteristics of Employment, August 2021*).

28. At the C10 equivalent classification level, all the examined awards with a comparable qualification level specify a minimum weekly full-time rate of $899.50, resulting in a bite of 60.0 per cent.[7]

2.2 Who are the low paid?

29. Subsections 134(1) and 284(1) of the *Fair Work Act 2009* state the Panel, in reviewing and determining minimum and award wages, must have regard to the relative living standards and the needs of low-paid workers. In this submission, consistent with the OECD definition, low-paid workers are defined as workers earning less than two-thirds of the median hourly wage.

30. Analysis relating to low-paid workers in this submission is based on the ABS Employee Earnings and Hours (EEH) publication, and the Household, Income and Labour Dynamics in Australia (HILDA) survey, depending on data availability. Using ABS data from May 2021, earnings below $22.20 per hour are considered low paid, while the threshold for low-paid workers is $22.56 per hour if using the 2020 HILDA survey. Appendix A contains a detailed discussion of the methodology used to calculate the number of low-paid workers.

31. Using ABS data, there were about 1.3 million low-paid employees in 2021, comprising 11.4 per cent of all employees. This is below the proportion recorded in 2018, of 11.8 per cent. Of the up to 2.7 million award-reliant employees, 30.3 per cent of award-reliant workers were low paid (ABS *Employee Earnings and Hours, May 2021*) (see Chart 2.1).[8]

2.2.1 Characteristics of low-paid workers

32. Low-paid workers have a diverse range of characteristics. Analysis by the Attorney-General's Department using the HILDA survey shows that in 2020:

    - Just over half (55.2 per cent) of low-paid workers were female, while 44.8 per cent were male.

[7] The C10 classification is the minimum award rate set under the *Manufacturing and Associated Industries and Occupations Award 2020* (and predecessor awards) that has traditionally been used as a benchmark for setting minimum wages across awards. Under the *Manufacturing and Associated Industries and Occupations Award 2020*, workers at the C10 classification are those with recognised trade certificate, Certificate III in Engineering—Mechanical Trade, or Certificate III in Engineering—Fabrication Trade, or Certificate III in Engineering—Electrical/Electronic Trade, or equivalent. It is not possible to identify a comparable qualification level for Cleaning Services Award to a C10 equivalent level. The Fast Food Industry Award and the Clerks – Private Sector Award do not specify certain qualifications but specify responsibilities for experienced employees performing duties equivalent to being qualified to a certain qualification level.

[8] We report 2 measures of low-paid employees: firstly from the ABS which has a bigger sample size and is more robust, and secondly, from the HILDA survey which allows for more detailed analysis, albeit on a smaller sample.

- Low-paid work tended to be concentrated among younger workers.[9]
    - Over half (52.4 per cent) of low-paid workers were aged under 30, with 13.4 per cent aged between 15 and 19 years, and around a quarter (24.2 per cent) in the 20-to-24-year-old age cohort.
    - A further 15.5 per cent of low-paid workers were aged over 55 years.
- Just over a fifth of low-paid workers were full-time students (21.3 per cent).
- Low-paid workers lived in a range of households.
    - About 54.3 per cent of low-paid workers were single without children, 26.2 per cent were a member of a couple without children, 17.3 per cent were a member of a couple *with* children, and 2.2 per cent were single parents.[10]
- Excluding the loading of 25 per cent that is paid to casuals, about 56.9 per cent of low-paid workers were casuals. If the casual loading is included in the analysis, hourly wage rates for casuals would be above the low-paid threshold.[11]

33. The characteristics of low-paid workers indicate that low-paid jobs are an important pathway into the workforce:

    - 37 per cent of people who entered the workforce did so by taking a low-paid job.
    - 43 per cent of workers aged under 25 years entered the workforce through low-paid work.
    - 42 per cent of those with Year 12 qualifications or below entered the workforce through low-paid work.

34. Around two-thirds of workers who enter low-paid employment leave within one year (66.3 per cent), with most of these (75.8 per cent) moving to higher paid work. Chapter 7 discusses the 'stepping stones' effect of low-paid jobs in more detail.

35. Appendix A provides further detailed characteristics of low-paid workers, including occupation, industry and education.

2.2.2 Low-paid workers and household income

36. The minimum wages objective under the *Fair Work Act 2009* requires the Panel to consider relative living standards and the needs of the low paid. In general, household income is a better proxy of economic wellbeing than individual income.[12] As noted by the Panel in its 2018-19 Decision:

> *"The relative living standards of employees on the NMW [National Minimum Wage] and award-reliant employees are affected by the level of wages that they earn, the hours they work, tax-transfer payments and the circumstances of the households in which they live. The net effect of these factors is summarised in the notion of*

[9] Low-paid thresholds for workers aged under 21 years have been deflated by the relevant junior minimum wage rates. See Appendix A for further detail.
[10] The 'children' households refer to households with a resident child aged under 15 years. Households with either non-resident children or resident children aged 15 years and over are classified in the 'no children' households.
[11] The casual loading is provided to compensate employees for a range of entitlements that casual employees do not receive, including paid annual or sick leave.
[12] The Government acknowledges that in some households, household income is not shared among household members, e.g. shared household arrangements.

equivalised household disposable income." (Annual Wage Review 2018-19 Decision [2019] FWCFB 3500, para 15).

37. There are 2 ways to examine the spread of low-paid workers across the household income distribution. The first is to examine the distribution of low-paid workers across households with at least one employee (referred to as employee households). The second is across all households (including jobless households and retiree households).

38. The analysis on the income distribution across employee households is provided to assist the Panel to consider the living standards of low-paid workers relative to other employees.

39. However, under sections 134 and 284 of the *Fair Work Act 2009*, the Panel is also required to consider the need to promote social inclusion through increased workforce participation, in addition to the living standards of those who have a job. Examining the income distribution across all households, rather than just employee households, gives a more complete picture of relative living standards for both employees and those who can work but do not have a job, hence it is included in this submission.[13]

40. Under both methods, it is important to ensure that income is adjusted for household needs, due to differences in size and composition, as this will impact on living standards for the household.[14] Chart 2.2 compares the distribution of low-paid employees across the household disposable income distribution using both of these methods.[15]

41. Across *all* households, low-paid employees are broadly spread across the income distribution, with 54.9 per cent of low-paid employees residing in the lower 5 income deciles, and 45.1 per cent in the higher 5 deciles.[16]

42. When considering *employee* households only, low-paid workers remain spread across the income distribution. However, there are a higher proportion of low-paid employees in the lower deciles than the top deciles. For example, 66.1 per cent of low-paid employees are in the lower 5 income deciles, with 31.8 per cent in the lowest 2 deciles and 9.1 per cent in the highest 2 deciles.

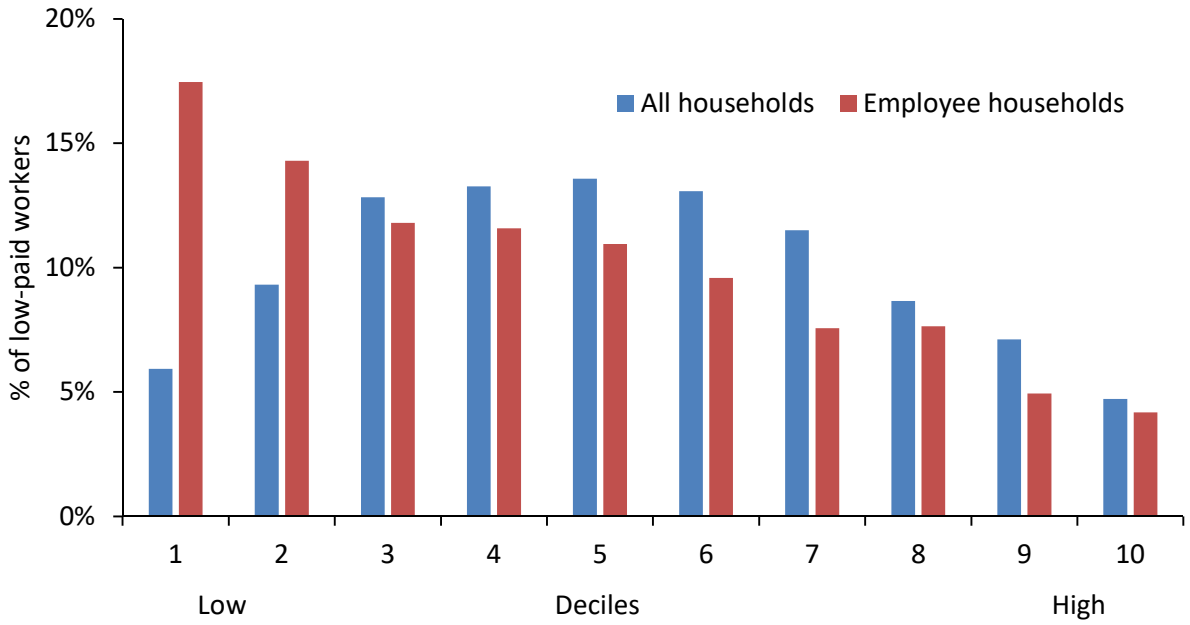
[13] The Government recognises there are some households where not all the members of the household are in the labour force, such as households only containing retirees.

[14] Household income is adjusted for household needs, including household size and composition, using the OECD equivalence scale. This gives a weight of 1 to the first household member, 0.5 to each subsequent adult and 0.3 to each child aged under 15 years.

[15] Disposable household income refers to household private income plus government transfers, less taxes.

[16] The first decile includes the bottom 10 per cent of individuals as ranked by household disposable income; similarly, the second decile includes the next 10 per cent of individuals, and so on.

Chart 2.2: Distribution of low-paid employees, by equivalised household disposable income, comparing all households and employee households, 2020



Source: Attorney-General's Department analysis using the *HILDA* Survey, release 20 (December 2021), wave 20.

3. Economic Environment

Key Points

- The Australian economy has proved remarkably resilient to the ongoing impacts of the pandemic, consistently outperforming expectations and all major advanced economies. Forecasts for economic activity have been revised up significantly, reflecting stronger-than-expected momentum in the labour market and consumer spending.
- A strong economic recovery is well underway with a record proportion of Australians in work. The recovery is forecast to continue and to drive further employment growth. The unemployment rate is now forecast to reach 3¾ per cent in the September quarter of 2022, nearly 3 percentage points below the Budget forecast from 2 years ago and the lowest rate in close to 50 years.
- The strong labour market is expected to see wages growth accelerate to its fastest pace in almost a decade. The Wage Price Index (WPI) is forecast to increase from 2¾ per cent through the year to the June quarter of 2022 to 3¼ per cent through the year to the June quarter of 2023.

3.1 Introduction

43. The Australian economy has proved remarkably resilient to the ongoing impacts of the pandemic, consistently outperforming expectations and all major advanced economies. Forecasts for economic activity in the 2022-23 Budget have been revised up significantly, reflecting stronger-than-expected momentum in the labour market and consumer spending. This expansion is forecast to see the unemployment rate fall to 3¾ per cent by the September quarter of 2022 and remain there until 2024-25.

44. The ongoing pandemic, Russian invasion of Ukraine, strained supply chains and rising inflationary pressures all present risks to the global and domestic outlooks. Nonetheless, the resilience of the Australian economy throughout the pandemic demonstrates that the economy is well placed to adapt to these new developments.

3.2 International outlook

45. The global recovery gained traction through 2021 and into the early part of 2022, despite significant COVID-19 outbreaks, as most economies continued to adapt to the pandemic. This momentum is expected to drive continued growth through 2022 and 2023.

46. In the 2022-23 Budget, global growth is expected to be 3¾ per cent in 2022, 3¾ per cent in 2023 and 3½ per cent in 2024. Major trading partner growth is forecast to be slightly higher at 4¼ per cent in 2022, 4 per cent in 2023 and 3¾ per cent in 2024.

47. Many advanced economies have experienced more significant inflationary pressures than seen in Australia, including the United States (US) where inflation reached a 40-year high of 7.9 per cent in February 2022. The impact of the Ukraine conflict is not yet fully reflected in official data but will further add to global inflationary pressures this year.

48. At this stage, headwinds from the spill over effects of Russia's invasion of Ukraine are expected to weigh on global growth but not derail the recovery. However, this impact is highly uncertain and will depend on a range of factors including the duration of the conflict and the extent of energy, commodity and trade disruptions.

3.3 Domestic outlook

49. The economy grew by 3.4 per cent in the December quarter of 2021, the equal highest growth rate in 46 years, as consumer demand for discretionary goods and services rebounded following the easing of Delta restrictions.
50. The economic recovery has been stronger than expected. The 2022-23 Budget outlook for real GDP has strengthened in the near term with growth forecast to be 4¼ per cent in 2021-22 and 3½ per cent in 2022-23, before moderating to 2½ per cent in 2023-24.
51. Over the remainder of 2021-22, strength in real GDP is expected to be broad-based but particularly driven by household consumption. Both business and dwelling investment are expected to pick up, following lockdowns and temporary supply chain disruptions weighing on activity in late 2021.
52. The outlook for business investment is strong. In 2021-22 and 2022-23, investment will be supported by further recovery in the domestic economy, temporary business tax incentives and strong business balance sheets. New business investment is forecast to grow by 5½ per cent in 2021-22, 9 per cent in 2022-23 and one per cent in 2023-24.
53. Household consumption rebounded by 6.3 per cent in the December quarter of 2021 to exceed pre-pandemic levels for the first time. This result reflects pent-up demand for discretionary goods and services following the easing of Delta restrictions. Household consumption is forecast to grow by 3½ per cent in 2021-22, 5¾ per cent in 2022-23 and a further 3¾ per cent in 2023-24. Consumption growth will be driven by increased services demand as household spending behaviour normalises and the savings rate declines.
54. Household balance sheets are in a strong position relative to the pre-pandemic period because of economic support measures and restricted consumption options during lockdowns. This strong financial position is expected to allow households to comfortably normalise the household savings rate towards the lower end of the range experienced over the previous 10 years.

3.4 Employment

55. The labour market has displayed resilience through the pandemic and has again recovered strongly in recent months. Employment reached a then-record high in November 2021 and continued employment growth since then has seen the unemployment rate fall to just 4.0 per cent – the equal lowest outcome since 1974 (ABS unpublished data).
56. The employment-to-population ratio reached a new record high of 63.8 per cent in February 2022, with the participation rate also at a record high of 66.4 per cent.
57. Hours worked fell sharply in January reflecting unseasonably high levels of annual leave, as well as the Omicron outbreak leading to around 3 times as many people as usual

having worked less hours due to illness or sick leave. During the peak of the Omicron outbreak, absenteeism rates from COVID-19 are estimated to have reached around 6 per cent nationally.

58. The Omicron wave had a short-lived impact on the labour market compared with previous outbreaks, with hours worked returning to just 0.5 per cent below their December 2021 level in February 2022.

59. The continued recovery in the domestic economy is expected to see employment increase by 2¾ per cent through the year to the June quarter of 2022, before growing by 1½ per cent through the year to the June quarters of 2023 and 2024. This would see the employment-to-population ratio at an unprecedented high across this period, indicating that there has been no long-term scarring impacts from the pandemic.

60. The unemployment rate is expected to continue to fall over the next few quarters, reflecting strong growth in the domestic economy. Unemployment is forecast to fall to 3¾ per cent in the September quarter of 2022 and remain there until 2024-25. This would be the first time since the early 1970s the unemployment rate has averaged below 4 per cent.

61. The strength in the labour market is expected to continue to encourage participation as employment growth and higher wages draw people into the labour market, providing more labour supply in response to strong demand. The participation rate is forecast to be at a record high of 66½ per cent by the June quarter of 2022 and remain there through 2023-24.

3.5 Wages

62. Adult Weekly Ordinary Time Earnings (AWOTE) increased by 2.1 per cent through the year to November 2021 (ABS *Average Weekly Earnings, November 2021*). Over the same period AWOTE increased by 2.2 per cent in the private sector and 2.3 per cent in the public sector. Average compensation per employee (on a national accounts basis) rose by 1.8 per cent in the December quarter 2021 to be 3.4 per cent higher through the year (ABS *Australian National Accounts: National Income, Expenditure and Product, December 2021*).

63. Wage growth is expected to build across the forecast period as the labour market remains tight. Growth in the WPI picked up to 2.3 per cent through the year to the December quarter of 2021. This growth, in part, reflects a return to regular timing for annual wage and salary reviews, regularly scheduled rises from public sector agreements following a period of wage freezes, and the final phase of scheduled award increases from the 2020-21 Annual Wage Review decision. Higher than average wage rises were also observed in industry groups where wage pressure has continued to build for specific skills.

64. Wage growth, as measured by the WPI, is forecast to rise to 2¾ per cent through the year to the June quarter of 2022 and 3¼ per cent through the year to the June quarters of 2023 and 2024, which would be the fastest pace in almost a decade.

65. The outlook is even stronger based on the broader Average Earnings in the National Accounts (AENA), which captures total remuneration including bonuses, overtime and allowances, as well as the effect of workers gaining promotions or changing jobs as they

take advantage of tight labour market conditions. AENA on an hourly basis has grown much faster than the WPI, at 3.5 per cent through the year to the December quarter of 2021 and is forecast to grow by 5 per cent through the year to the June quarter of 2022, 3½ per cent through the year to June quarter of 2023, and 3¾ per cent through the year to the June quarter of 2024.

66. Among the 5 most award-reliant industries, through-the-year wage growth (WPI) in the December quarter 2021 was 3.5 per cent in Accommodation and food services, 2.0 per cent in Administrative and support services, 2.3 per cent in Other services, 2.4 per cent in Health care and social assistance, and 2.6 per cent in Retail trade.

3.6 Inflation

67. Consumer price inflation is expected to remain elevated in the near-term reflecting price pressures from automotive fuel as a result of higher global oil prices, new dwelling purchases and tradeable goods. Beyond the near term, inflation is expected to moderate, with inflation largely reflecting domestic labour market conditions.

68. The Consumer Price Index (CPI) rose by 1.3 per cent in the December quarter of 2021 to be 3.5 per cent higher throughout the year. The result was driven by rising fuel prices and a large rise in the cost of constructing new dwellings. Measures of underlying inflation have also increased, with the trimmed mean measure growing by 2.6 per cent through the year to the December quarter of 2021, its largest annual rise since 2014.

69. Consumer price inflation is forecast to be 4¼ per cent through the year to the June quarter of 2022 before moderating to 3 per cent through the year to the June quarter of 2023 and 2 ¾ per cent through the year to the June quarter of 2024.

70. Russia's invasion of Ukraine presents a risk to the near-term outlook for inflation, given its potential to further increase energy prices, especially for automotive fuel. Prolonged supply chain issues, associated with the current or future widespread COVID-19 outbreaks in China, present risks to inflation that may persist through 2022 and 2023. The recent floods in Queensland and New South Wales may also impact food prices and add to existing challenges on the supply of construction materials and labour.

4. Labour market developments

Key Points

- The Australian labour market has weathered the effects of the global pandemic reasonably well. While the outbreak of the Delta variant in mid-2021 and associated lockdowns had a significant, negative impact on the labour market for much of the second half of 2021, activity has rebounded strongly in recent months, despite the surge in Omicron cases that occurred at the end of 2021 and early 2022.
- Indeed, employment is now well above the level recorded in March 2020 (when Australia recorded its 100th COVID-19 case) while the participation rate reached a record high in February 2022 and the unemployment rate fell to 4.0 per cent.
- Moreover, recruitment activity, as measured by the *Internet Vacancy Index*, remains at a 13-year high, with the number of newly advertised jobs significantly elevated (up by 60.4 per cent) compared with pre-COVID-19 levels.
- Going forward, the opening of Australia's international borders, together with a long pipeline of construction activity and ongoing fiscal and monetary policy support, should result in a continued expansion in labour market activity in the period ahead.
- Budget forecasts are for employment to grow by 1½ per cent over the year to the June quarter 2023 and the year to the June quarter 2024, while the unemployment rate is forecast to fall to 3¾ per cent in the September quarter 2022 and remain there until the June quarter 2025.
- Clearly, however, some downside risks to the labour market outlook remain evident, including the Russian invasion of Ukraine, global inflationary pressures, the Queensland/New South Wales floods and emerging COVID-19 variants.

4.1 Broad labour market conditions

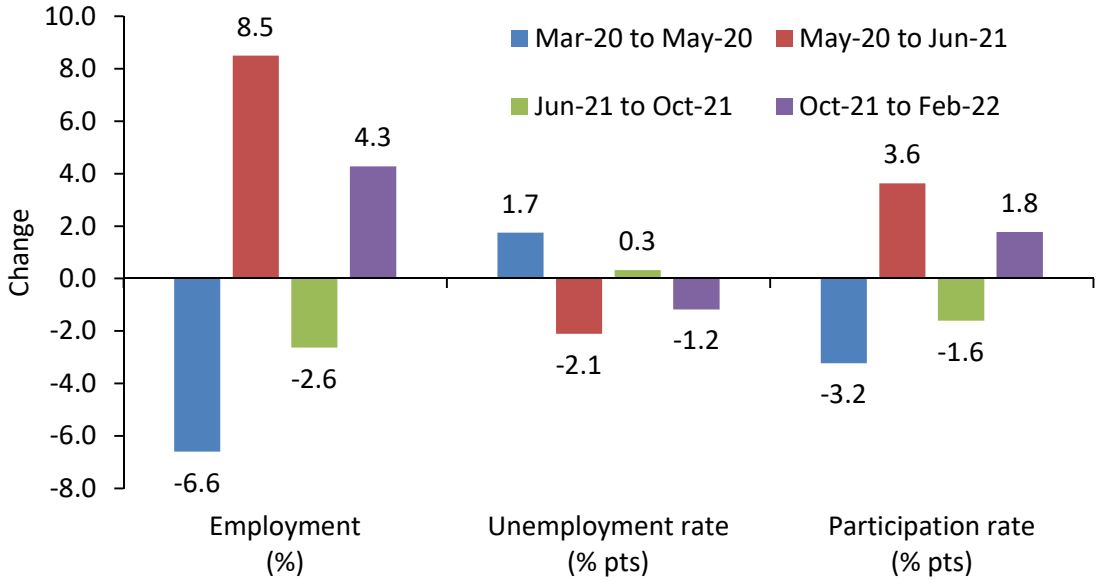
71. Underlying labour market conditions are one of the factors to which the Panel must pay regard when making its decision about the national minimum wage rate and award classification wages, as the decision may impact on employers' plans to hire new staff or offer more hours. This chapter outlines the most recent developments.

72. The Australian labour market has weathered the effects of the global pandemic reasonably well. While the outbreak of the Delta variant in mid-2021 and associated lockdowns had a significant, negative impact on the labour market for much of the second half of 2021, activity has rebounded strongly in recent months, despite the Omicron outbreak.

73. Indeed, employment has increased by 549,100 since the post-Delta recovery in October 2021. The unemployment rate fell to 4.0 per cent in February 2022, the equal lowest rate since 1974 (it was also 4.0 per cent in February 2008 and August 2008) and well below the 5.3 per cent recorded in March 2020.

74. The participation rate rose to a record high of 66.4 per cent in February 2022 and remains above the 65.9 per cent recorded in March 2020 (ABS *Labour Force, February 2022*).

Chart 4.1: Change in key labour market indicators



Source: ABS, *Labour Force, Australia, February 2022, seasonally adjusted* data.

4.2 Employment and hours worked

4.2.1 Employment

75. The ABS defines a person as employed if they are aged 15 years and over and worked for pay, profit, commission or payment in kind during the Labour Force Survey reference week. The definition of employment aligns closely with the International Labour Organisation (ILO) guidelines.

76. The pandemic initially had a significant, negative impact on the Australian labour market, with employment falling much more quickly and dramatically than in any previous recession. For instance, employment fell by 855,800 (or 6.6 per cent) between March 2020 and May 2020 (ABS *Labour Force*, *February 2022*).

77. That said, the Australian labour market rebounded strongly between May 2020 and June 2021 (with employment increasing by 1,030,300 or 8.5 per cent) as a result of the effective elimination of COVID-19 cases and an easing of restrictions in most jurisdictions at the time.

78. Reflecting the outbreak of the Delta variant across a number of states and territories and the associated lockdowns, however, employment decreased by 347,100 (or 2.6 per cent) between June 2021 and October 2021.

79. Nevertheless, the labour market was able to recover quickly from the Delta-related lockdowns, despite the emergence of the Omicron variant in late 2021, with employment rebounding strongly, by 549,100 (or 4.3 per cent) between October 2021 and February 2022. Encouragingly, employment is now 376,500 (or 2.9 per cent) above the level recorded in March 2020 and currently stands at a record high of 13,372,000 in February 2022.

80. The increase in employment that has occurred since October has been fairly evenly split between full-time employment (up by 295,400 or 3.3 per cent) and part-time employment (up by 253,700 or 6.5 per cent). Importantly, full-time employment currently stands at a record high of 9,228,000 in February 2022.

81. Further, full-time employment is now 361,400 (or 4.1 per cent) above the level recorded in March 2020, while part-time employment has increased by 15,200 (or 0.4 per cent) over the period.

4.2.2 Employment by industry

82. With respect to an industry breakdown, employment has increased in 11 of the 19 broad industry groups between February 2020 (pre-COVID-19) and February 2022 (ABS *Labour Force, Detailed, Quarterly*, *February 2022*).

83. Over the period, the largest gains in employment were in Health care and social assistance (up by 216,500, or 12.1 per cent), Professional, scientific and technical services (up by 104,200, or 9.0 per cent), Financial and insurance services (up by 87,400, or 18.6 per cent), and Public administration and safety (up by 63,500, or 7.7 per cent).

84. The largest falls were in Wholesale trade (down by 65,100, or 16.6 per cent), Manufacturing (down by 63,800, or 6.9 per cent), Accommodation and food services (down by 35,800, or 3.8 per cent), and Agriculture, forestry and fishing (down by 35,400, or 10.8 per cent).

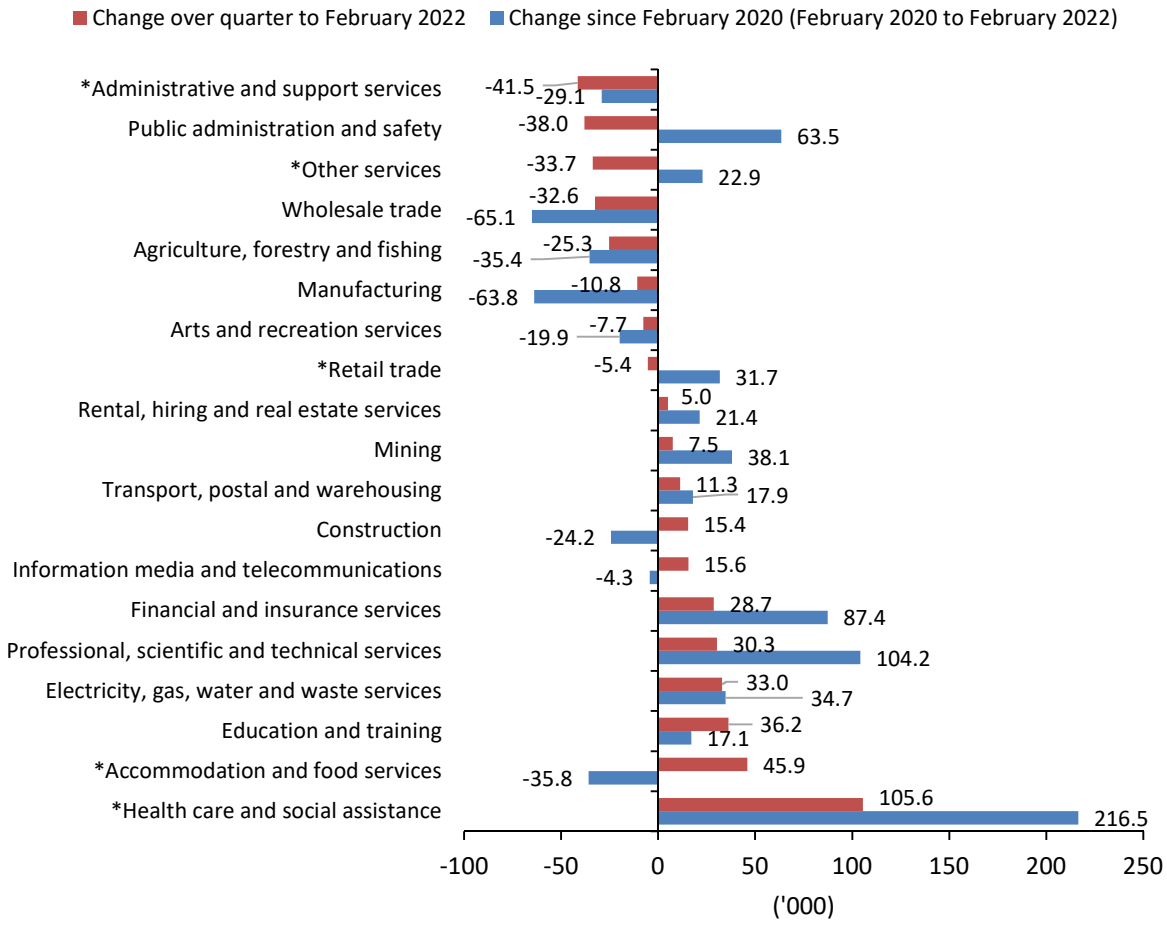
85. Employment exceeded the level recorded in February 2020 in 3 of the 5 most award-reliant industries. Health care and social assistance recorded the largest increase in employment of the 5 most award-reliant industries (up by 216,500 or 12.1 per cent), followed by Retail trade (up by 31,700 or 2.5 per cent), and Other services (up by 22,900 or 4.7 per cent) (see Table 4.1).

Table 4.1: Employment by industry and change between February 2020 and February 2022

Industry	Employment, Feb-22	Employment change, Feb-20 to Feb-22	
	(no.)	(no.)	(%)
Agriculture, forestry and fishing	291,000	-35,400	-10.8
Mining	279,200	38,100	15.8
Manufacturing	854,700	-63,800	-6.9
Electricity, gas, water and waste services	167,200	34,700	26.2
Construction	1,161,000	-24,200	-2.0
Wholesale trade	326,900	-65,100	-16.6
Retail trade	***1,277,900***	***31,700***	***2.5***
Accommodation and food services	***896,800***	***-35,800***	***-3.8***
Transport, postal and warehousing	667,400	17,900	2.8
Information media and telecommunications	208,400	-4,300	-2.0
Financial and insurance services	557,800	87,400	18.6
Rental, hiring and real estate services	240,900	21,400	9.8
Professional, scientific and technical services	1,258,700	104,200	9.0
Administrative and support services	***407,500***	***-29,100***	***-6.7***
Public administration and safety	884,500	63,500	7.7
Education and training	1,153,200	17,100	1.5
Health care and social assistance	***2,008,400***	***216,500***	***12.1***
Arts and recreation services	226,900	-19,900	-8.1
Other services	***510,800***	***22,900***	***4.7***
All industries total	**13,389,100**	**377,700**	**2.9**

Source: ABS *Labour Force, Detailed, Quarterly, February 2022*, *seasonally adjusted* data.
Note: Bold italics signify the 5 most award-reliant industries.

Chart 4.2: Change in employment by industry



Source: ABS *Labour Force, Australia, Detailed, Quarterly, February 2022*, *seasonally adjusted* data.
* The 5 most award-reliant industries.

4.2.3 Hours worked

86. Given that businesses often reduce the hours of their workers as an early response to a labour market shock, it is not surprising that the number of monthly hours worked in all jobs declined significantly at the onset of COVID-19.

87. While monthly hours worked subsequently recovered in late 2020 into early 2021, as COVID-19 cases abated and restrictions eased, the lockdowns related to the Delta variant also impacted negatively on monthly hours worked.

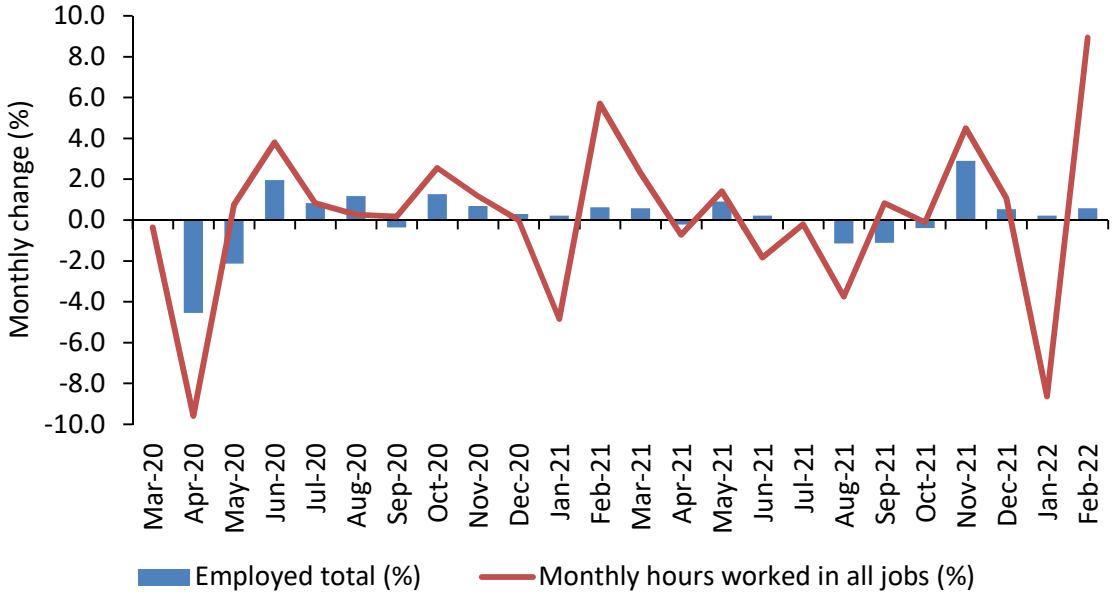
88. Nevertheless, as the nation emerged from the Delta lockdowns, hours worked rebounded strongly.

89. Hours worked fell sharply in January 2022, by 157.6 million hours (or 8.6 per cent), reflecting unseasonably high levels of annual leave, as well as the Omicron outbreak leading to around 3 times as many people as usual having worked less hours due to illness or sick leave (see Chart 4.3). During the peak of the Omicron outbreak, absenteeism rates from COVID-19 are estimated to have reached around 6 per cent nationally.

90. The Omicron wave had a short-lived impact on the labour market compared with previous outbreaks, with hours worked returning to just 0.5 per cent below their

December level in February, as aggregate hours increased by 148.7 million hours (or 8.9 per cent) in the month (see Chart 4.3). However, there remained around 50 per cent more people than usual working reduced hours because of illness or sick leave. The number of monthly hours worked is now 48.4 million hours (or 2.7 per cent) above the level recorded in March 2020 (ABS *Labour Force, February 2022*).

Chart 4.3: Monthly change in employment and hours worked, March 2020 to February 2022



Source: ABS *Labour Force, Australia, February 2022*, *seasonally adjusted* data.

4.3 Unemployment and participation

91. The ABS defines a person as unemployed if they are aged 15 years and over and were not employed during the survey reference week, had actively looked for work at any time in the last 4 weeks and are currently available for work. The unemployment rate is the number of unemployed people expressed as a percentage of the labour force.

92. The labour force includes those people who are either working or looking for work. The participation rate is the labour force expressed as a percentage of the civilian population aged 15 years and over.

93. The number of unemployed persons increased substantially following the onset of COVID-19, and reached a record high of 1,004,200 in July 2020, with the unemployment rate rising to 7.4 per cent (ABS *Labour Force, February 2022*).

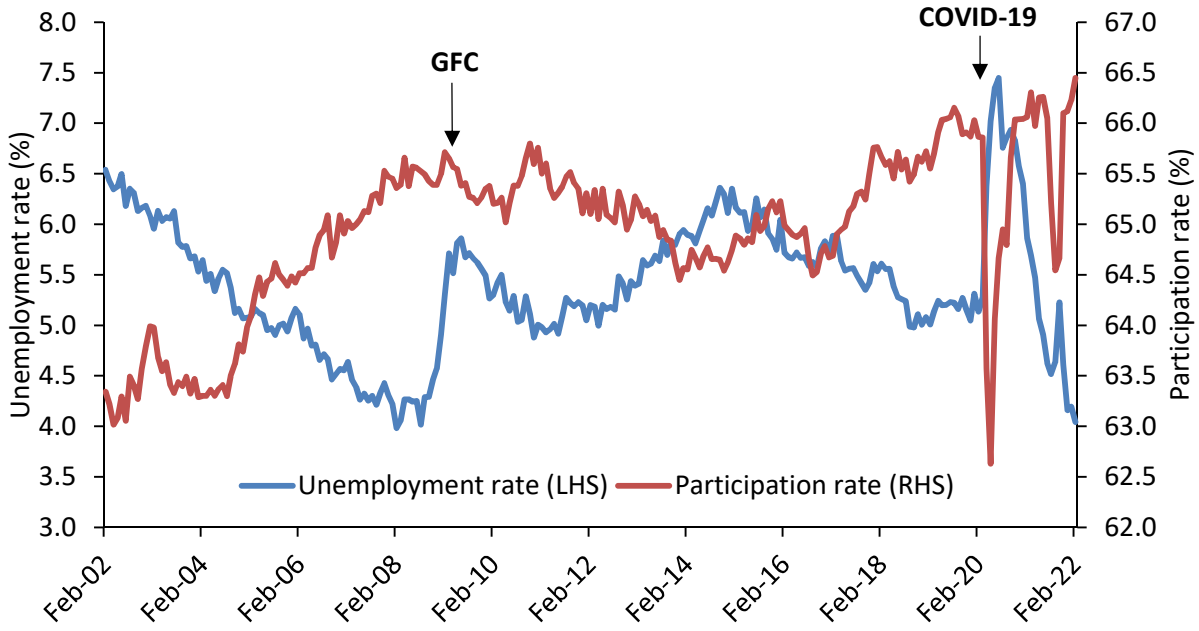
94. While the level of unemployment subsequently fell, as labour market conditions improved in late 2020 and into early 2021 (when COVID-19 was effectively eliminated at that time), the Delta outbreak subsequently resulted in rising unemployment, which reached 707,100 in October 2021.

95. Encouragingly, however, the level of unemployment has since fallen by 143,700 (or 20.3 per cent) to stand at 563,300 in February 2022, and is now 159,900 (or 22.1 per cent) below the level recorded in March 2020.

96. Similarly, the unemployment rate has also declined from 5.2 per cent in October 2021 to 4.0 per cent in February 2022, the equal lowest outcome since 1974 (it was also 4.0 per cent in February 2008 and August 2008) and is now well below the 5.3 per cent recorded in March 2020.

97. Stronger labour market conditions also encouraged more people to enter the labour force between October 2021 and February 2022, pushing the participation rate up by 1.8 percentage points to a record high of 66.4 per cent. The participation rate currently stands well above the 65.9 per cent recorded at the onset of the pandemic in March 2020.

Chart 4.4: Unemployment rate and participation rate, February 2002 to February 2022



Source: ABS *Labour Force, Australia, February 2022*, *seasonally adjusted* data.

4.4 Underemployment

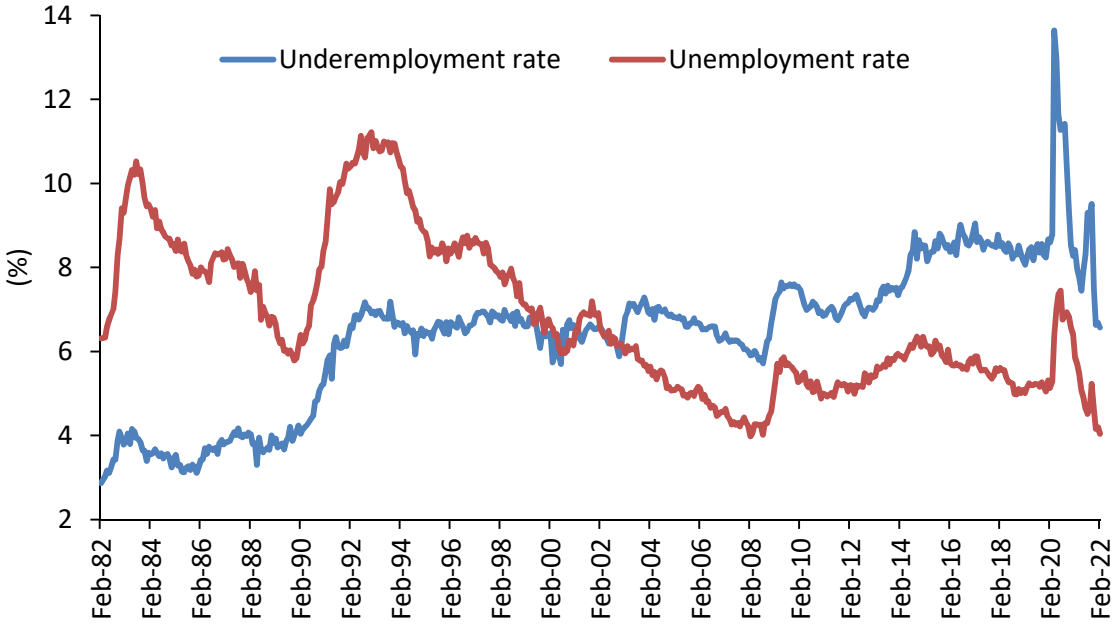
98. The ABS defines underemployed workers as employed people aged 15 and over who want and are available for more hours of work than they currently have. The underemployment rate refers to the number of underemployed workers, expressed as a percentage of the labour force.

99. The level of underemployment increased significantly in the initial months of the COVID-19 outbreak. Despite a subsequent improvement in the labour market (and underemployment) that continued into the first half of 2021, the outbreak of the Delta variant in mid-2021 precipitated a sharp rise in the level of underemployment, from 1,030,500 in May 2021 to 1,286,700 in October 2021 (ABS *Labour Force, February 2022*).

100. Encouragingly, the recovery in labour market conditions that has occurred since the end of the Delta lockdowns has resulted in a marked reduction in underemployment, which fell by 371,500 (or 28.9 per cent) between October 2021 and February 2022, and is now 290,400 (or 24.1 per cent) below the level recorded in March 2020.

101. The underemployment *rate* has also decreased over recent months, from a recent peak of 9.5 per cent in October 2021 to 6.6 per cent in February 2022, and is now 2.2 percentage points below the rate recorded in March 2020 of 8.8 per cent.

Chart 4.5: Underemployment rate and unemployment rate, February 1982 to February 2022



Source: ABS *Labour Force, Australia, February 2022, seasonally adjusted* data.

102. It is worth noting that full-time workers who are underemployed (i.e. working less than 35 hours per week for economic reasons, such as being stood down or not enough work available) accounted for around 11 per cent of total underemployment in February 2022, above the 9.4 per cent recorded in March 2020, prior to the onset of the pandemic. The decrease in underemployment between March 2020 and February 2022 was due, largely, to a fall in the level of part-time underemployment (down by 226,700, to stand at 803,600), while full-time underemployment also declined marginally over the period (by 12,600 to stand at 98,300).[17]

    - Prior to April 2020, underemployed part-time workers had routinely comprised at least 90 per cent of total underemployment each month.

103. Of the 19 broad industries, Retail trade held the largest share of underemployed workers in February 2022 (accounting for 18.9 per cent of all underemployed workers), followed by Accommodation and food services (16.1 per cent) and Health care and social assistance (15.7 per cent) (ABS *Labour Force, Detailed, Quarterly, February 2022*, NSC seasonally adjusted data). All 3 of these industries were among the 5 most award-reliant industries and combined, accounted for 50.7 per cent of all underemployed

[17] Part-time underemployment refers to part-time workers who wanted to work more hours and were available to start these in the Labour Force Survey reference week or within 4 weeks subsequent to the survey. Full-time underemployment refers to full-time workers who worked less than 35 hours in the reference week for economic reasons (i.e. stood down or insufficient work available).

persons in February 2022. It is important to note that Accommodation and food services and Retail trade employ a large number of young, female and lower-skilled workers.

104. Between February 2020 and February 2022, underemployment decreased in the 5 most award-reliant industries, with Accommodation and food services recording the largest decline (down by 68,800 or 31.0 per cent), followed by Health care and social assistance (down by 41,100 or 21.1 per cent), and Retail trade (down by 34,000 or 15.9 per cent).

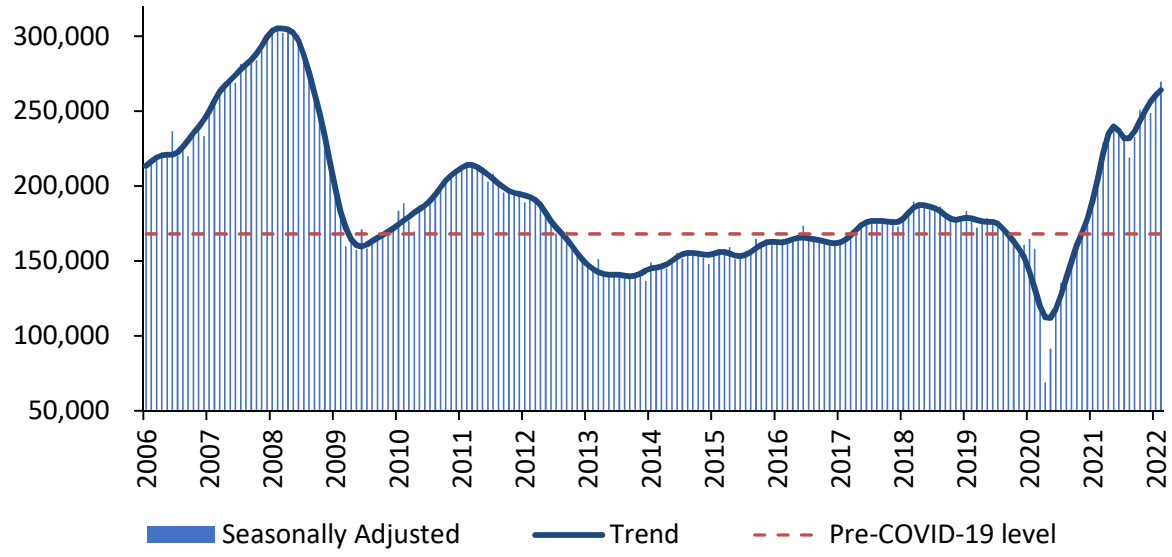
4.5 Job opportunities in the labour market

105. Reflecting the deterioration of a number of labour market indicators at the onset of the pandemic, online job advertisements (as measured by the *Internet Vacancy Index*) initially fell sharply, by 56.3 per cent (or 89,100 job advertisements) between February 2020 and April 2020, reaching a series low point of newly advertised jobs in April 2020 of 69,100 (NSC *Internet Vacancy Index, February 2022*).

106. From the April 2020 series low point, job advertisements quickly recovered and, aside from a short decline during the Delta outbreak of COVID-19, have continued to increase to stand at a 13-year high of 269,700 in February 2022. This is 60.4 per cent (or 101,600 job advertisements) above the pre-COVID-19 level.

107. Notably, the strongest growth in job advertisements since the onset of COVID-19 has been for lower skill levels. Skill level 5 (commensurate with Certificate I or secondary level education) recorded the sharpest increase in job advertisements from pre-COVID-19 levels, up by 119.8 per cent (or 19,800 job advertisements), followed by Skill level 4 (commensurate with a Certificate II or III), up by 73.2 per cent (or 30,400 job advertisements). Skill level 1 job advertisements increased by 40.3 per cent (or 27,100 job advertisements) over the period.

Chart 4.6: Internet Vacancy Index, January 2006 to February 2022



Source: NSC, *Internet Vacancy Index*, February 2022.

4.6 Key groups in the labour market

108. A number of groups (including the long-term unemployed and youth, to cite 2 examples) possess characteristics that may predispose them to labour market disadvantage - for example, they may be inexperienced, spend considerable time out of the workforce or have low skill levels. The aforementioned cohorts are also more likely to seek employment in low-paid jobs and are therefore likely to be more adversely affected by large labour market shocks and economic uncertainty.

4.6.1 Youth

109. Young people are particularly vulnerable during any economic and labour market downturn, as they tend to have fewer skills and less experience than their prime-age counterparts. They are often the first to be retrenched and may face particular challenges regaining employment, as they are often competing with more highly skilled job seekers.

110. The youth cohort was particularly hard-hit in the initial months of the pandemic, as they were overrepresented in industries that were most severely affected by the lockdowns and associated restrictions (such as Accommodation and food services), and they tended to be employed in casual positions.

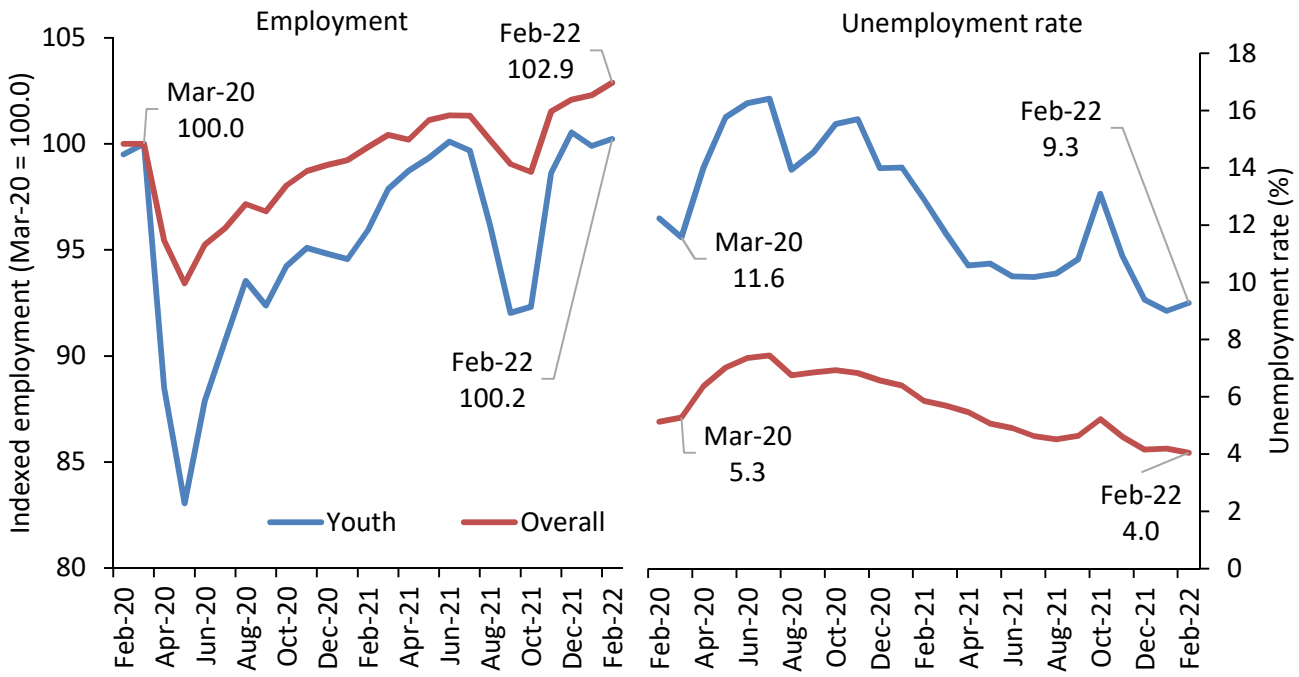
111. While the youth labour market subsequently improved between June 2020 (around the end of the first lockdown) and June 2021, in line with the pick-up in overall labour market conditions at that time, the Delta outbreak in June 2021 heavily impacted the youth labour market. Encouragingly, however, youth labour market conditions have rebounded reasonably well in recent months.

112. Indeed, youth employment increased by 153,100 (or 8.6 per cent) between October 2021 (at the end of the Delta lockdown) and February 2022, and is now 4,500 (or 0.2 per cent) above the level recorded in March 2020 (see Chart 4.7) (ABS *Labour Force, February 2022*).

113. It is worth bearing in mind, however, that the overall decline in youth employment since the onset of the pandemic has occurred in conjunction with a substantial fall in the youth civilian population (of 162,000 since March 2020) due, in large part, to international border closures.

114. The youth unemployment rate has also fallen from 13.1 per cent in October 2021 to 9.3 per cent in February 2022, well below the 11.6 per cent recorded in March 2020. That said, the youth unemployment rate remains more than double the rate recorded for all persons (4.0 per cent) (see Chart 4.7).

Chart 4.7: Youth and all persons, employment (Indexed, March 2020 = 100.0) and unemployment rate, February 2020 to February 2022



Source: ABS *Labour Force, Australia, February 2022, seasonally adjusted* data.

115. Against the stronger backdrop, the youth participation rate has increased significantly, from 66.4 per cent in October 2021 to 70.2 per cent in February 2022, above the 68.3 per cent recorded in March 2020.

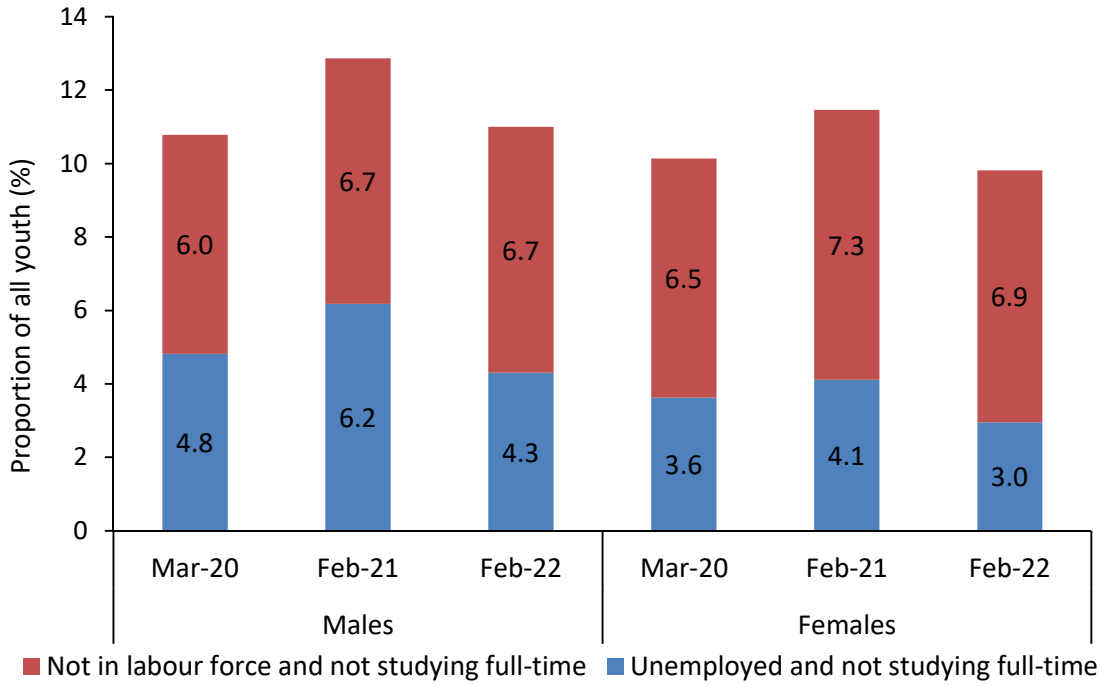
116. The youth *underemployment* rate also declined from 17.5 per cent in October 2021 to 14.5 per cent in February 2022, and is 4.7 percentage points below the rate recorded in March 2020. It is also worth noting that around half (47 per cent) of all underemployed youth were in full-time education in February 2021 (latest available data) (ABS *Participation, Job Search and Mobility, February 2021*). This is encouraging, given that higher educational attainment levels tend to result in more favourable labour market outcomes.

117. While most youth are either engaged in some form of work or full-time education, 10.4 per cent (or 318,200) were not in work and not attending full-time education (commonly referred to as disengaged youth) in February 2022 (ABS *Labour Force, February 2022*). While a proportion of this group may, for various reasons, be voluntarily outside the labour market, many are at risk of ultimately failing to make a successful transition to employment.

118. The proportion of young males who were disengaged stood at 11.0 per cent in February 2022, up from 10.8 per cent in March 2020. The increase is due, entirely, to the proportion who were not in the labour force and not attending full-time education (up by 0.7 percentage points to 6.7 per cent in February 2022), while the proportion who were unemployed and not attending full-time education has fallen (by 0.5 percentage points to 4.3 per cent) (see Chart 4.8).

119. This pattern also holds true for women, with the proportion of this cohort who were not in the labour force and not attending full-time education increasing by 0.3 percentage points since March 2020 to stand at 6.9 per cent in February 2022, while the proportion who were unemployed and not attending full-time education has fallen by 0.7 percentage points over the period to 3.0 per cent.

Chart 4.8: Disengaged youth by gender



Source: ABS *Labour Force, Australia, February 2022*, *original* data.

4.6.2 Gender

120. Previous experience suggests that women tend to be among the hardest hit cohorts during lockdowns as they are over-represented in industries that are most affected by restrictions, and are also more likely to reduce their working hours to take on caring responsibilities. This was certainly apparent during the first national lockdown in 2020 and was again repeated following the outbreak of the Delta variant in June 2021, across a number of jurisdictions. Encouragingly, the strong recovery in female labour market conditions that occurred following the initial trough in activity in mid-2020 was once again evident when the Delta restrictions were eased in the latter half of 2021.

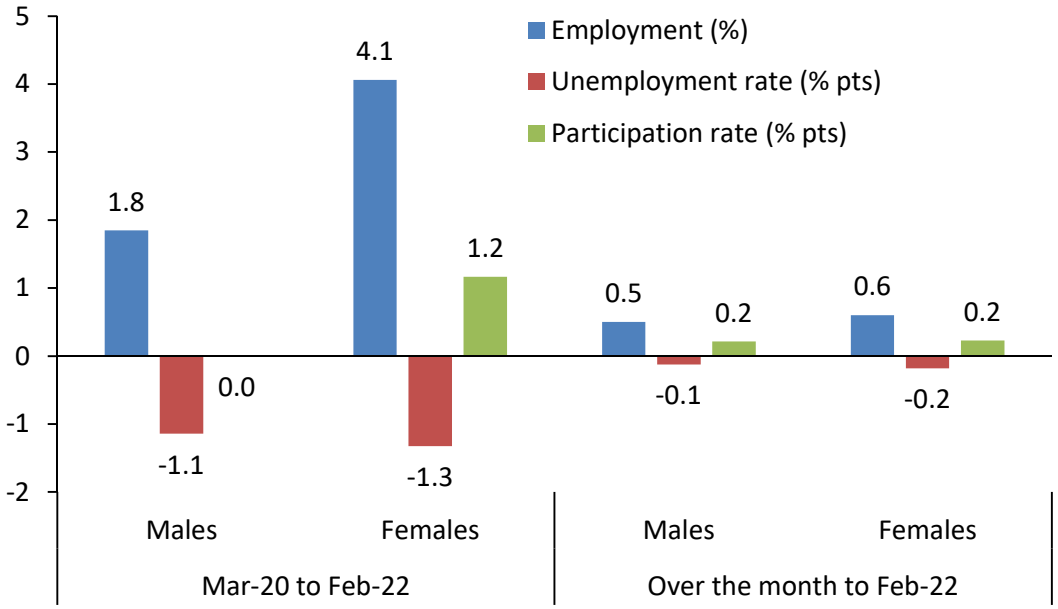
121. Indeed, between October 2021 and February 2022, the level of employment for females rose by 359,400 (or 5.9 per cent), compared with a somewhat less robust increase of 189,700 (or 2.8 per cent) for males. As a consequence, female employment is now 250,200 (or 4.1 per cent) above the level recorded in March 2020, while male employment is 126,400 (or 1.8 per cent) above its March 2020 level (ABS *Labour Force, February 2022*).

122. Over the month to February 2022, labour market conditions for women were particularly strong, with employment rising by 41,100 (or 0.6 per cent) to a record high of 6,407,700. Against the stronger backdrop, the unemployment rate for women fell significantly to 3.8 per cent in February 2022, the lowest rate since May 1974, while the participation rate increased by 0.2 percentage points over the month to stand at a

record high of 62.4 per cent in February. An additional 30,200 women entered the labour force over the month of February 2022 alone.

123. Labour market conditions for men also improved over the month to February 2022, with employment increasing by 36,300 (or 0.5 per cent). The male unemployment rate fell marginally over the month, by 0.1 percentage points to 4.2 per cent in February 2022, while the participation rate increased over the month (by 0.2 percentage points) to 70.7 per cent in February 2022.

Chart 4.9: Change in key labour market indicators by gender since March 2020 and over the month to February 2022



Source: ABS *Labour Force, Australia, February 2022, seasonally adjusted* data.

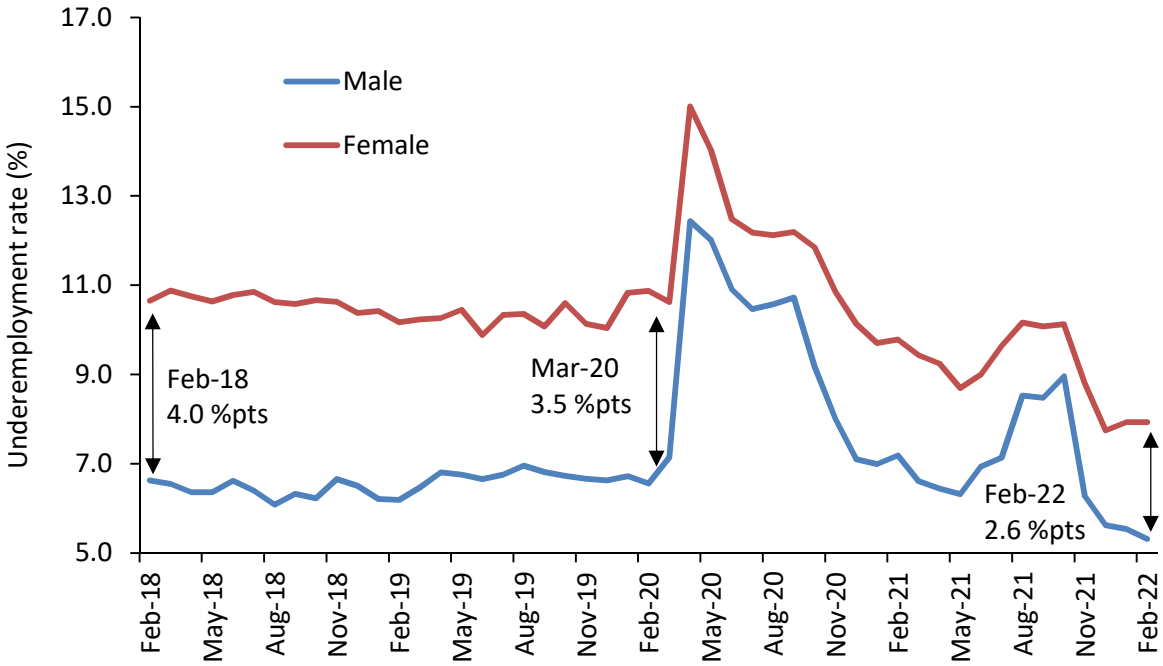
124. Monthly hours worked increased for both females and males in February 2022. Males recorded an increase of 76.1 million hours (or 7.9 per cent), compared with a rise of 72.6 million hours (or 10.4 per cent) for females. Monthly hours worked is now above the level recorded in March 2020 for both females (up by 33.4 million hours) and males (15.0 million hours).

125. The level of female underemployment increased by 2,400 (or 0.5 per cent) over the month to February 2022 but remains 160,700 (or 23.3 per cent) *below* its pre-COVID-19 level. By contrast, male underemployment declined over the month, by 14,800 (or 3.7 per cent), and is now 129,600 (or 25.1 per cent) below the level recorded in March 2020.

126. After falling to a post-COVID low of 7.7 per cent in December 2021, the female underemployment rate increased to 7.9 per cent in February 2022, while the male underemployment rate declined to 5.3 per cent in February 2022, the lowest rate recorded since October 2012.

127. Historically speaking, the female underemployment rate has consistently tracked higher than the male underemployment rate. Since the onset of COVID-19, however, the gap between the male and female rates has narrowed somewhat (see Chart 4.10).

Chart 4.10: Underemployment rate by gender, February 2018 to February 2022



Source: ABS *Labour Force, Australia*, *February 2022*, *seasonally adjusted* data.

4.6.3 Long-term unemployed

128. A person is classified as long-term unemployed if they have been unemployed for 52 weeks or longer and as *very* long-term unemployed if they have been unemployed for 104 weeks or longer.

129. There are a number of factors that can influence a person's likelihood of becoming unemployed and, subsequently, long-term unemployed, such as their educational attainment level, age, English proficiency, if they have a disability, their Indigenous status, and their geographical location.

130. Of the 563,300 people unemployed in February 2022, 144,900 (or 25.7 per cent) were long-term unemployed. Of these, 78,700 (or 54.3 per cent) were *very* long-term unemployed (ABS *Labour Force, Detailed, February 2022*).

131. It is worth bearing in mind that the long-term unemployment series has been significantly affected by COVID-19, with lockdowns resulting in very large fluctuations in the series since March 2020. Indeed, in the initial stages of the pandemic, the significant fall in long-term unemployment (down by 41,500 in the month of April 2020 alone) was driven by the large number of people (470,500) who left the labour force.

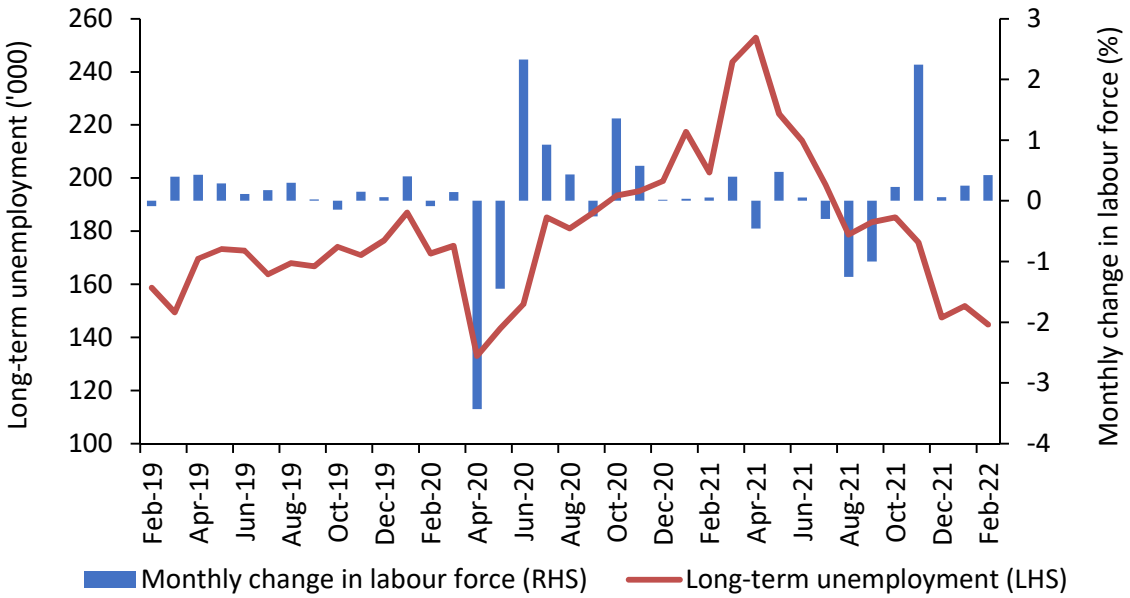
132. Long-term unemployment then increased sharply (by 119,900 over the year to April 2021), as many people re-entered the labour force, against the backdrop of declining COVID-19 cases and easing of restrictions.[18]

[18] The method used by the ABS to calculate long-term unemployment means that if a long-term unemployed person moves from unemployment to not in the labour force and then back to unemployment once again (without any period of employment), they will still be classified as being long-term unemployed.

133. Not surprisingly and, as was the case in the initial stages of the COVID-19 pandemic, the outbreak of the Delta variant and the associated restrictions resulted in long-term unemployment falling sharply, as many people simply left the labour force.

134. Against the background of stronger labour market activity and an easing of restrictions associated with the Delta variant, long-term unemployment has continued to decrease (by 40,400 since October 2021) to stand at 144,900 in February 2022, and is now 29,600 (or 17.0 per cent) below the level recorded in March 2020.

Chart 4.11: Monthly change in labour force (%) and long-term unemployment ('000)



Sources: Monthly change in labour force data are from ABS *Labour Force, Australia*, *February 2022*, *seasonally adjusted* data. Long-term unemployment data are from ABS *Labour Force, Australia*, *Detailed, February 2022*, *seasonally adjusted* data.

135. In terms of a cohort breakdown, youth (persons aged 15-24 years) comprised a substantial proportion (24.5 per cent) of the total long-term unemployment pool in February 2022, compared with their 15 per cent share of the civilian population aged 15 years and over. This proportion has increased from 22.6 per cent in September 2008 (at the onset of the Global Financial Crisis (GFC)), but remains below the 30.6 per cent recorded in October 1992 (at the height of the 1990s recession) (ABS *Labour Force, Detailed, February 2022,* 12-month averages).

136. Mature-age people now comprise 20.1 per cent of the total long-term unemployed pool, well above the 18.2 per cent recorded in March 2020 and the 16.5 per cent recorded in September 2008.

4.6.4 Single parents and jobless families

137. In June 2021, there were 7,286,300 families in Australia (ABS, *Labour Force Status of Families*, *June 2021*). Couple families accounted for 83.4 per cent of all families, while 15.0 per cent were one-parent families (the remainder were classified as 'other' families e.g. a brother and sister sharing accommodation). Around 80 per cent of one parent families were headed by a female.

138. Given the COVID-19 pandemic initially had a significant, negative impact on the Australian labour market generally, it is not surprising that the number of jobless families with children initially increased substantially, by 42,700 (or 16.6 per cent) between March 2020, and the trough in the labour market in June 2020 to stand at 299,700. Since June 2020, however, the number of jobless families with children has fallen sharply, by 48,800 (or 16.3 per cent) to stand at 250,900 in June 2021. It is worth noting, however, that the June 2021 families data do not reflect the impact that the Delta outbreak and strong employment outcomes in recent months will have had on labour market conditions for families.

139. Reflecting the swings in employment noted above, the unemployment rate for one-parent families with children increased from 10.1 per cent in March 2020 to 10.4 per cent in June 2020. This has since fallen to 9.2 per cent in June 2021, and is below the 11.8 per cent recorded a decade ago. The participation rate for this cohort decreased sharply at the onset of the pandemic, falling by 1.8 percentage points between March 2020 and June 2020. Since then, however, the participation rate has increased by 2.8 percentage points to stand at 68.5 per cent in June 2021, and is well above the 63.7 per cent recorded in June 2011.

4.7 Labour market conditions by skill level

140. Low-skilled workers are more likely to be on the minimum wage or award-reliant than higher-skilled workers, making an examination of labour market developments by skill level important, particularly in the context of the COVID-19 pandemic.

141. As shown in Table 4.2, over the 10 years to February 2022, employment growth has been dominated by Skill level 1 (commensurate with a Bachelor degree or higher) occupations, as the workforce has become more highly educated and employment has transitioned towards services-based industries.

142. The share of employment at all other skill levels has decreased over the decade, with the largest decline recorded for Skill level 3 occupations (down by 2.2 percentage points, to 14.2 per cent of employment in February 2022), and Skill level 5 occupations (down by 2.0 percentage points to 14.5 per cent of total employment in February 2022).

143. The COVID-19 pandemic has had an uneven impact on employment by occupation skill level. Between February 2020 and February 2022, employment decreased in the lower skill occupations (Skill levels 3 to 5) but increased in Skill level 1 (up by 497,900 or 11.8 per cent) and Skill level 2 (up by 43,000 or 2.7 per cent) (ABS *Labour Force, Detailed, Quarterly*, *February 2022*, NSC seasonally adjusted data).

144. Skill level 5 occupations (the lower skill occupations) have recorded the largest decline in employment between February 2020 and February 2022 (down by 112,000 or 5.5 per cent), reflecting the ongoing transition towards a higher skilled, services-based economy and the considerable impact of COVID-19 restrictions, which disproportionally affected many lower skilled occupations.

145. Employment increased in every skill level group in the February 2022 quarter, with the exception of Skill level 3 (down by 4,300 or 0.2 per cent). Skill level 1 recorded the largest increase in employment (of 162,000 or 3.6 per cent).

Table 4.2: Employment growth by occupation skill level

Occupation Skill Level	Employment level, February 2022	Employment change, February 2020 to February 2022		10-year change in employment	
	('000)	('000)	(%)	('000)	(%)
Skill level 1 (highest)	4,713.1	497.9	11.8	1,310.4	38.5
Skill level 2	1,664.2	43.0	2.7	227.6	15.8
Skill level 3	1,904.1	-34.4	-1.8	47.6	2.6
Skill level 4	3,142.6	-21.1	-0.7	428.9	15.8
Skill level 5 (lowest)	1,941.9	-112.0	-5.5	85.3	4.6
All occupations total	**13,389.1**	**377.7**	**2.9**	**2,143.8**	**19.1**

Source: ABS *Labour Force, Australia, Detailed, Quarterly, February 2022*, NSC *seasonally adjusted* data (data for all occupations are ABS seasonally adjusted data).
Note: Skill level 1 is commensurate with a Bachelor degree or higher qualification; Skill level 2 is commensurate with an Advanced Diploma or Diploma; Skill level 3 is commensurate with a Certificate IV or III (including at least 2 years on-the-job training); Skill level 4 is commensurate with a Certificate II or III; Skill level 5 is commensurate with a Certificate I or secondary education.

4.8 Labour market conditions by state and territory

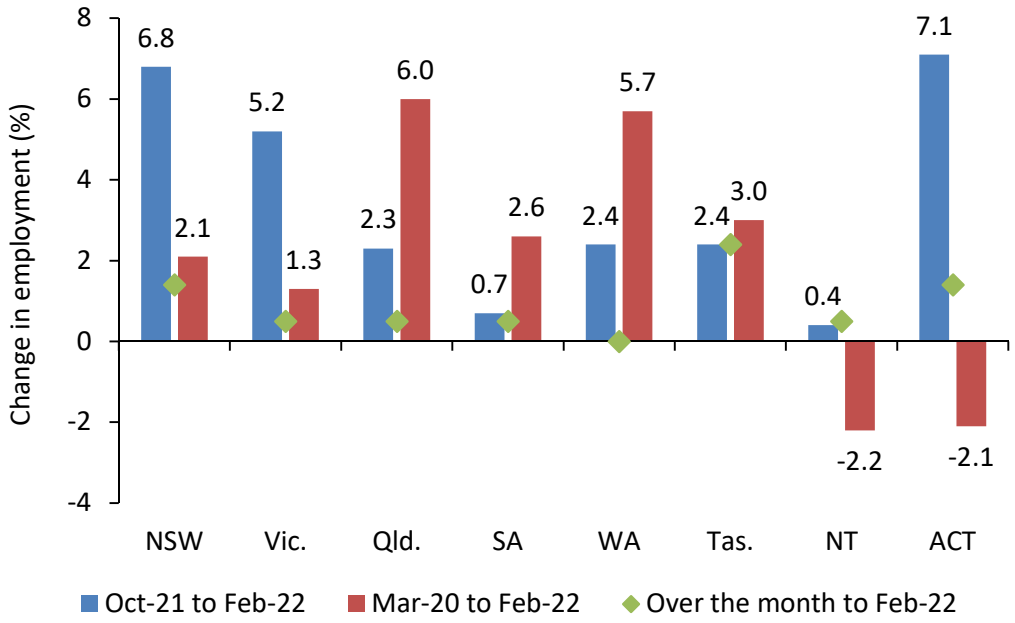
146. The impact of the COVID-19 pandemic on the labour market has varied considerably across the states and territories. For instance, the Delta outbreak in mid-2021 resulted in disruptions to much of the Eastern Seaboard, with New South Wales, Victoria and the Australian Capital Territory being hardest-hit, while elsewhere, the labour market was more resilient.

147. That said, labour market conditions rebounded strongly across the states and territories most affected by the Delta lockdowns, although some states experienced a temporary setback due to the surge in Omicron cases in early 2022. Encouragingly, however, this proved to be of short duration, with all states and territories (with the exception of Western Australia, where jobs growth was essentially flat) recording an increase in employment over the month to February 2022.

148. The rise in employment at the national level in February 2022 was due, predominantly, to strong increases in New South Wales (up by 57,900 or 1.4 per cent), Victoria (up by 16,500 or 0.5 per cent) and Queensland (up by 14,500 or 0.5 per cent) (ABS *Labour Force*, *February 2022*).

149. Employment in the territories remains below March 2020 levels. In all states, however, employment is above the levels recorded in March 2020.

Chart 4.12: Change in employment by state and territory

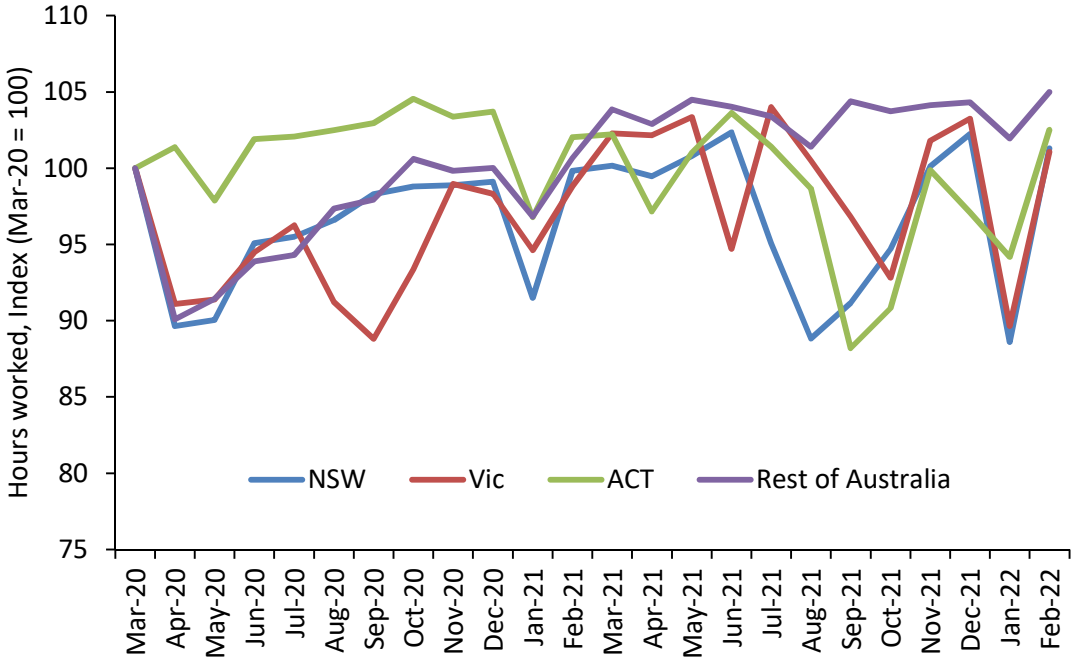


Source: ABS *Labour Force, Australia, February 2022, seasonally adjusted* data.

150. Monthly hours worked rebounded strongly in February 2022 in New South Wales (up by 72.0 million hours or 14.3 per cent), and Victoria (up by 52.4 million hours or 12.7 per cent) (see Chart 4.13). On the other hand, Western Australia was the only state or territory to record a decrease in hours worked in February 2022, down by 3.6 million hours (or 1.8 per cent).

151. Since March 2020, the Northern Territory is the only jurisdiction to have recorded a decrease in hours worked (of 0.9 million hours, or 4.8 per cent).

Chart 4.13: Index of hours worked (March-20 = 100)



Source: ABS *Labour Force, Australia, February 2022, seasonally adjusted* data.

152. According to the *Internet Vacancy Index*, Tasmania recorded the sharpest increase in job advertisements in February 2022, up by 6.6 per cent (or 200 job advertisements), followed by South Australia (up by 4.7 per cent or 620 job advertisements), Victoria (up by 4.4 per cent or 3,000 job advertisements), and the Australian Capital Territory (up by 4.1 per cent or 300 job advertisements) (NSC *Internet Vacancy Index, February 2022*).

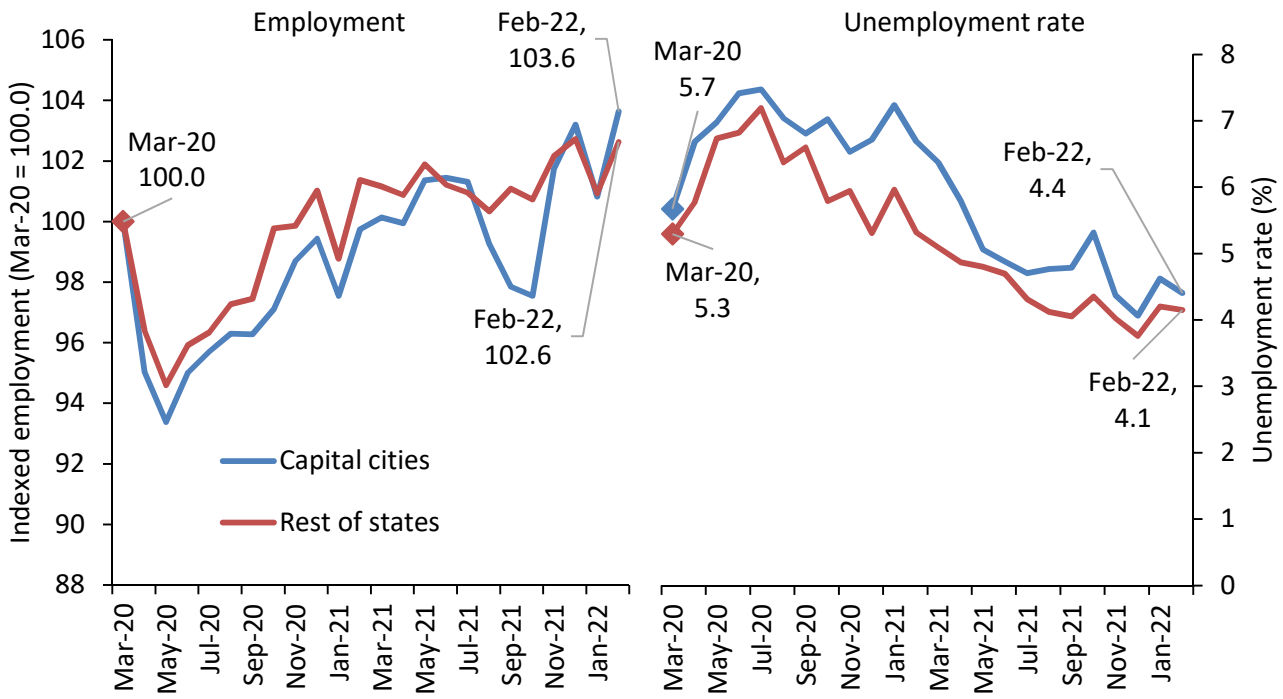
153. Encouragingly, job advertisements now exceed pre-COVID-19 levels across all jurisdictions, highlighting the widespread improvement in recruitment activity over recent months (see Chart 4.14).

4.9 Labour market conditions by region

154. Since March 2020, employment in capital cities has increased by 327,600 (or 3.6 per cent) to stand at 9,347,700 in February 2022. The unemployment rate in capital cities has decreased by 1.3 percentage points between March 2020 and February 2022 to 4.4 per cent. Against this backdrop, the participation rate has increased by 1.0 percentage point to 68.7 per cent in February 2022 (ABS *Labour Force, Detailed, February 2022*).

155. Similarly, in rest of state areas, the level of employment has also risen, by 104,800 (or 2.6 per cent) since March 2020 to 4,090,000 in February 2022, while the unemployment rate has declined by 1.1 percentage points to 4.1 per cent (see Chart 4.14). The participation rate in rest of state areas has increased from 62.7 per cent in March 2020 to 63.2 per cent in February 2022.

Chart 4.14: Capital Cities and Rest of States, employment (Indexed, March 2020 = 100.0) and unemployment rate, March 2020 to February 2022



Source: ABS *Labour Force, Australia, Detailed, February 2022*, *original* data.

156. It is worth noting, however, that the *Internet Vacancy Index* shows that, in February 2022, job advertisements in regional areas were 71.1 per cent (or 25,900 job advertisements) above their pre-COVID level, compared with an increase in capital cities of 35.9 per cent (or 47,400 job advertisements). That said, the majority of job advertisements remain in the capital cities (74.2 per cent in February 2022) (NSC *Internet Vacancy Index, February 2022*).

4.10 Outlook

157. The February 2022 ABS *Labour Force Survey* data reflect the underlying strength and resilience of the Australian labour market, despite the outbreak of the Omicron variant. Employment has now risen for 4 consecutive months (up by 549,100 since the recovery from the Delta outbreak) and is now 376,500 (or 2.9 per cent) *above* the level recorded in March 2020 (when Australia recorded its 100th case of COVID-19). The unemployment rate has fallen to 4.0 per cent in February 2022, the equal lowest outcome since 1974, while the participation rate is at a record high (of 66.4 per cent).

158. Moreover, recruitment activity, as measured by the NSC's *Internet Vacancy Index*, remains at a 13-year high in February 2022, with the number of newly advertised jobs significantly elevated (up by 60.4 per cent) compared with pre-COVID-19 levels.

159. Going forward, the opening of Australia's international borders, together with a long pipeline of construction activity and ongoing fiscal and monetary policy support should result in a continued expansion in labour market activity in the period ahead.

160. Clearly, however, a number of downside risks to the Australian labour market remain evident (due to the Russian invasion of Ukraine, global inflationary pressures, the Queensland and New South Wales floods, and emerging COVID-19 variants).

5. Small Business

Key Points

- Small businesses are a significant part of the Australian economy. They represent over 97 per cent of total businesses and employ 41 per cent of the working population. They also account for 32 per cent of total employees on award classification wages.
- The COVID-19 pandemic, including the impact of the Omicron variant, floods in NSW and Queensland and global economic distress from events such as Russian invasion of Ukraine have continued to interrupt the recovery of small business. The recovery continues to be uneven although there are signs of conditions improving as society re-opens.
- The Australian Government has jointly funded business support payments with states and territories to the value of an estimated $14.4 billion. This is in addition to the $89 billion JobKeeper payment, and significant industrial relations and insolvency reforms that bring much needed certainty for small businesses.
- Small businesses more commonly rely on awards rather than negotiating enterprise agreements to set pay and conditions, and therefore are more likely to be impacted by changes in minimum and award classification wages.

5.1 Introduction

161. Subsection 3(g) of the *Fair Work Act 2009* states that the objects of the Act are to be met through an acknowledgement of the special circumstances of small- and medium-sized businesses. This small business chapter contains information to help inform the Panel on the impact of COVID-19 on small businesses and highlights the importance of the small business sector to Australia's economic recovery.

5.2 Small Business in Australia

5.2.1 Importance of small businesses in Australia

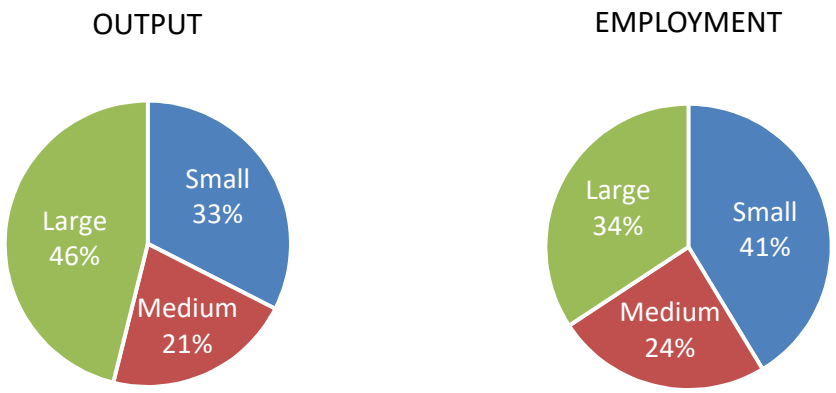
162. Small businesses are a significant part of the Australian economy and make an important contribution to output and employment. They are diverse, operate in all sectors of the economy, have varying levels of employment, and conduct business under different legal structures.

163. There were 2,341,840 actively trading small businesses in Australia as of June 2021, accounting for more than 97 per cent of all businesses (ABS *Counts of Australian Businesses, including Entries and Exits, July 2017 to June 2021*).[19] Of these small businesses, 931,791 (or over 39 per cent) were small businesses with employees.

[19] For the purpose of this submission, small businesses are defined as a business employing 0 to 19 employees. This is consistent with the definition used by the ABS. We note that small businesses are defined as a business employing 0 to 14 employees for the purposes of the *Fair Work Act 2009.*

164. As of June 2020, small businesses contributed to around 33 per cent of private sector value added and employed over 4.6 million Australians, or 41 per cent of private sector employment in Australia. (Chart 5.1).

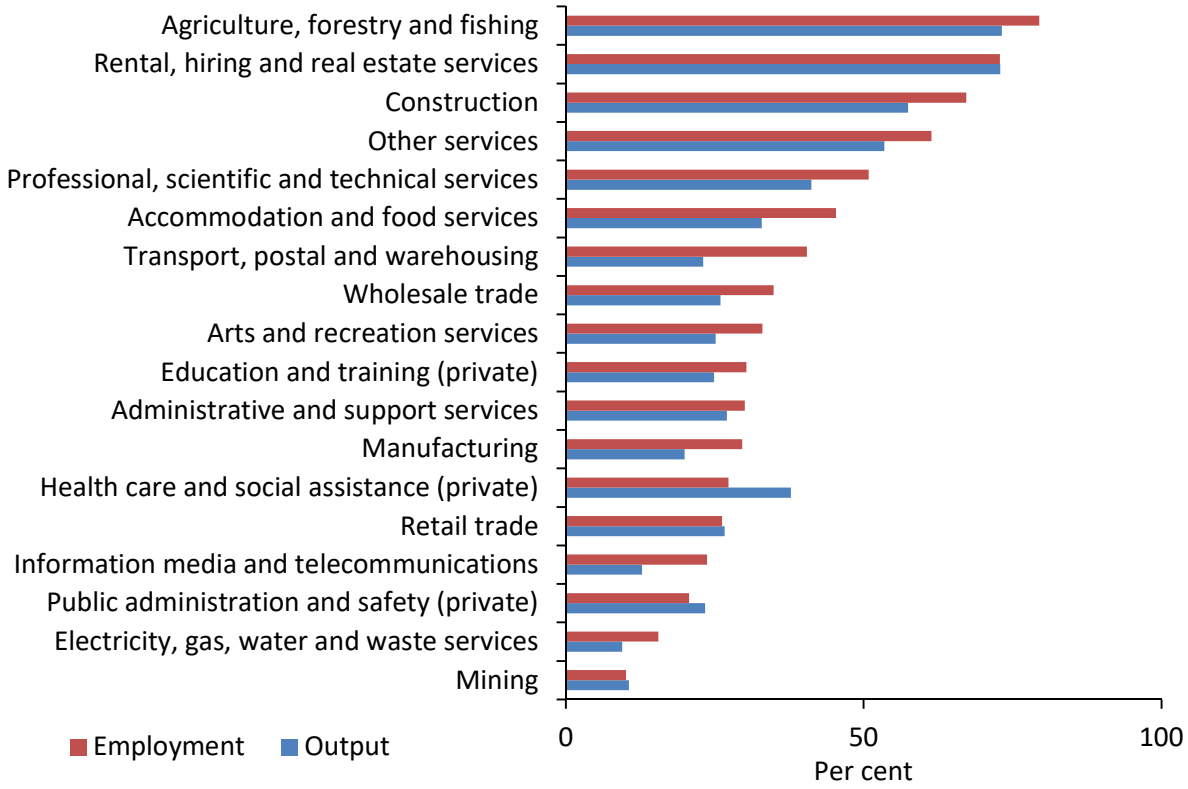
Chart 5.1: Small business share of private sector output and employment, 2019-20



Source: ABS *Australian Industry, 2019-20.*
Note: Measures private sector output (Industry Value Added) and employment (number of individuals employed). Components may not sum to 100 per cent due to rounding.

165. Small businesses operate in every industry of the Australian economy, although their contribution to output and employment varies between industries (Chart 5.2). Small businesses represent a large share of output and employment in the Agriculture, forestry and fishing, Rental, hiring and real estate services, and Construction industries. Small businesses represent a smaller share of output and employment in the Mining, and Electricity, gas, water and waste services industries.

Chart 5.2: Small business share of total private sector output and employment by industry, 2019-20



Source: ABS *Australian Industry*, *2019-20.*
Note: Charts 5.1 and 5.2 include non-employing small businesses, as the ABS *Australian Industry* publication does not distinguish between employing and non-employing small businesses. Nonetheless, the data referred to in these charts are the appropriate basis for highlighting effects on the small business sector, as labour costs have a direct and immediate bearing on the propensity of non-employing small businesses to take on workers. Other services include a range of services including Repair and maintenance and Personal care services.

166. Small businesses contribute to a greater proportion of employment compared to output in almost every industry, which suggests that small businesses may be more labour intensive (that is, on average have lower labour productivity) than larger businesses within the same industry.

167. As a share of annual turnover, labour costs also comprise a significant component of total expenses.[20] In 2019-20, small business labour costs across all industries in the private sector accounted for 17 per cent of total expenses (ABS *Australian Industry*, *2019-20*).[21] Labour costs for small businesses vary across industries and can range from as high as 47 per cent in Education and training (private) to as low as 5 per cent in the Mining industry.

[20] Labour costs refer to 'wages and salaries' and does not include gross mixed income, which represents earnings that are difficult to classify between salaries and profits for an owner-manager of an unincorporated business.
[21] This is potentially a conservative indication of earnings due to small business owners choosing to take out returns in the form of equity and dividends rather than wages and salary. Once this is accounted for, the ratio is likely to be slightly higher than for medium and large businesses.

168. Small businesses also contribute through their role in providing goods and services to regional areas, where it may be less feasible for large businesses to do so because of the low potential for economies of scale. Across each state in Australia, small businesses tend to be more likely to be located in regional areas compared with larger businesses (Nicholls and Osmond 2015).

5.2.2 Award Coverage

169. According to ABS *Employee Earnings and Hours* data (May 2021), small businesses employ around 32 per cent of all employees on award classification wages. This compares with 16 per cent for businesses with 20-49 employees, 12 per cent for businesses with 50-99 employees, 25 per cent for businesses with 100-999 employees and 16 per cent for businesses with 1,000 employees or more.

170. In addition, around 34 per cent of non-managerial employees in small businesses are paid award classification wages rather than through other methods of setting pay (e.g. collective agreements and individual agreements). This compares with 31 per cent for businesses with 20-49 employees, 34 per cent for businesses with 50-99 employees and 23 per cent for businesses with 100-999 employees.

171. For all businesses, the proportion of non-managerial employees with their pay set by an award is higher in certain industries, including the Accommodation and food services industry (63 per cent), Administrative and support services (45 per cent), Other services (42 per cent), Health care and social assistance (34 per cent), and Retail trade industries (31 per cent).

172. Together, these industries account for 72 per cent of all award rate non-managerial employees (ABS *Employee Earnings and Hours, May 2021*). Small businesses also account for a large share of employment in the above industries: 45 per cent, 30 per cent, 61 per cent, 27 per cent, and 26 per cent respectively (ABS *Australian Industry, 2019-20*).

5.3 Impact of COVID-19 on small businesses

5.3.1 Overview

173. From March 2020, small businesses have been significantly impacted and their recovery interrupted by successive waves of the COVID-19 pandemic and the associated lockdowns and travel restrictions. The impact of the Omicron variant (which is not yet fully understood in available data) should also be considered, given its obvious impact on the small business sector.

174. Data from recent releases should be considered in the context that the overall economic outlook is improving, despite being uneven. Similarly, the economic outlook should also be situated against the impact of events such as floods in NSW and Queensland and the Russian invasion of Ukraine, with its associated challenges to small businesses through their supply chains and cash flows.

5.3.2 Small business data

175. The data included in this submission was sourced from a selection of respected Government and private sector small business data providers. These providers include

the ABS, the National Australia Bank (NAB) and Xero. The most recent data has been used unless otherwise indicated.

176. The Government (ABS) data sources used include Australian Industry, EEH, Counts of Australian Businesses, including Entries and Exits, and Weekly Payroll Jobs and Wages in Australia.

177. The private sector data sources used include NAB's Quarterly Small and Medium Enterprise Survey and Xero's Small Business Insights Index. The findings from these data sources are based on representative samples of approximately 700 non-farm firms and several, hundred thousand small business subscribers respectively.

178. As noted in previous Government submissions, the Government examines a range of survey measures rather than one single measure. This includes using business surveys to supplement Government data and to gain a better understanding of developments in the small business sector. The RBA has concluded that while it is important to interpret the survey information with care, business surveys provide useful information about current and future economic activity, and also provide information on parts of the economy that is not readily available (Park 2011; Aylmer and Gill 2003). Studies also note that in many instances, the survey data provide more timely information than official data and are highly correlated with official data produced by the ABS (Park 2011).

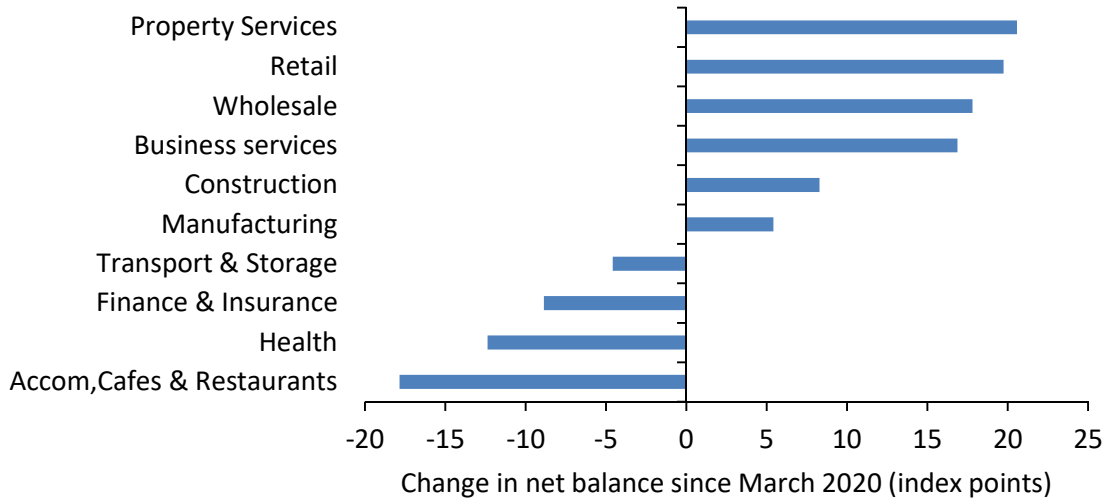
5.3.3 Business conditions for small businesses

179. Once lockdowns in 2020 were lifted, overall small business conditions rebounded to a record high in June 2021. However, as in 2020, local small business conditions declined steeply when lockdowns were reintroduced. With recent ongoing economic distress, there remains uncertainty in the trading environment, which has resulted in business conditions remaining subdued or below long-term average levels for some industries. This varying impact across industries is shown below in Chart 5.3.

180. Government health measures have continued to affect the cash flow of small businesses alongside increasing cost of living pressures. For instance, in May 2020, small business sales were 11.9 per cent lower than May 2019 (Xero *Small Business Insights*, January 2022). However, in March 2021, small business sales were 12.0 per cent higher than their March 2020 pre-COVID level. Average sales remained higher through the 2021 lockdowns; however, outcomes diverged between jurisdictions, with locked down states experiencing substantially lower sales than relatively unrestricted regions.

181. The latest NAB Quarterly Small and Medium Enterprise (SME) Survey (2021 Q4) suggests business conditions are improving again after being weakened greatly during the COVID-19 pandemic. However, some industries are faring better than others (Chart 5.3). For instance, 6 out of 10 industries are above their pre-COVID-19 levels in the March quarter 2020. The industries still below their March 2020 level consisted of Accommodation, cafes and restaurants (which remains particularly low), Health, Finance and Insurance, and Transport and Storage. As this survey was taken during the December quarter 2021, it does not take into account the full effect of the Omicron wave or recent spike in global oil prices.

Chart 5.3: Change since COVID-19 in NAB Small Business Conditions by industry, December quarter 2021



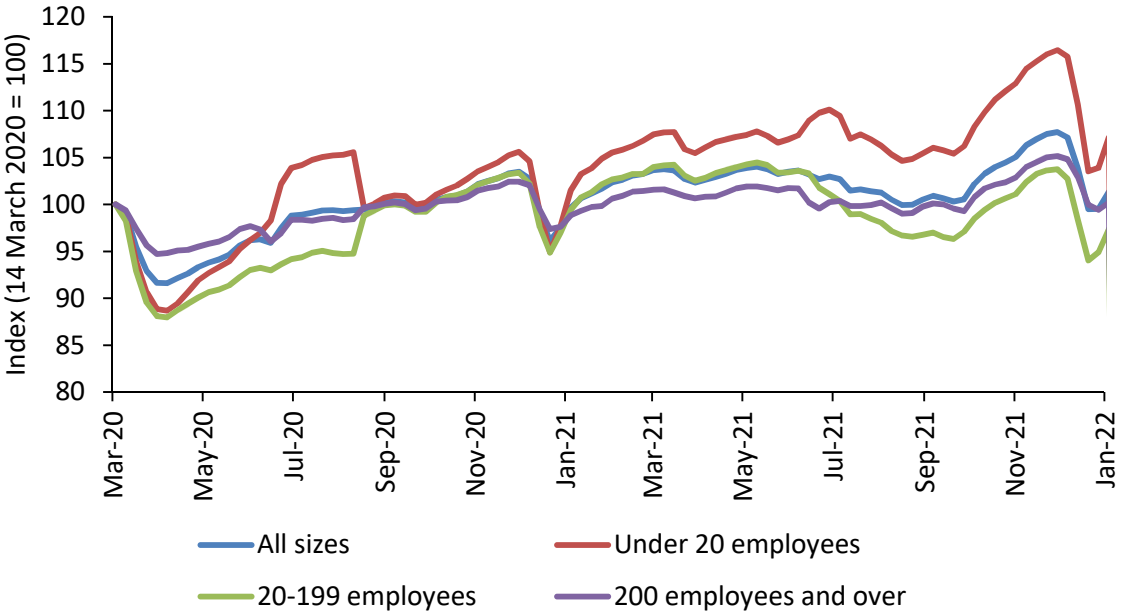
Source: NAB *Quarterly SME Survey 2021 Q4 (February 2022), seasonally adjusted* data.
Note: Small business at the industry level is defined here as firms with a turnover of between $2 million to $10 million.

5.3.4 Labour market

182. The COVID-19 pandemic weakened payroll employment (ABS *Weekly Payroll Jobs and Wages in Australia, week ending 12 February 2022*) for small businesses from mid-2020. The fall in small business jobs was larger than for large businesses, however, the recovery was also stronger.

183. In January 2021, payroll jobs for all business sizes fell, which is consistent with regular seasonal patterns observed in employment. While small business jobs fell significantly during 2021 lockdowns, their level remained above pre-COVID-19 levels to mid-December 2021 (Chart 5.4). In December 2021, small business jobs fell given the impacts of the Omicron outbreak. However the latest data from January 2022, indicated that small business jobs were beginning to rise, albeit prior to the floods in February 2022 and the Russian invasion of Ukraine.

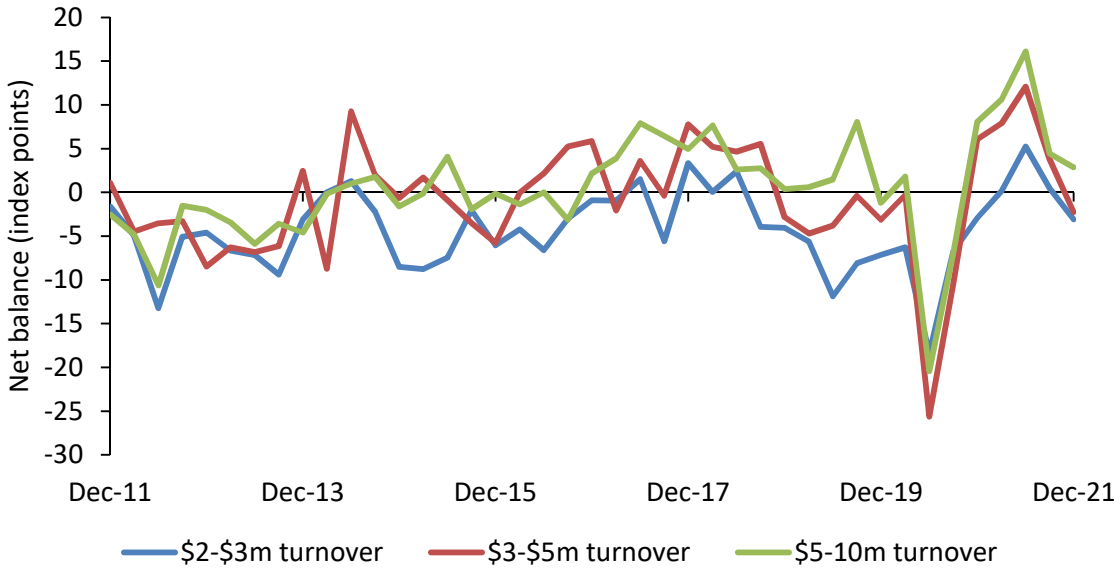
Chart 5.4: Payroll jobs by employment size



Source: ABS *Weekly Payroll Jobs and Wages in Australia, week ending 12 February 2022*.
Note: The ABS notes that care should be exercised when focusing on recent movements in payroll jobs. Indexes by employment size are more heavily influenced by reporting behaviour than other indexes, affecting the interpretation of underlying change in labour market conditions. To provide more stability at the end point of these series, the ABS has introduced a one-month lag in the reference week. In this release the latest week of data for these indexes is for the week ending 15 January 2022. Further, estimates currently presented in the Weekly Payroll Jobs and Wages in Australia release are original data and are not yet able to be produced with seasonal impacts removed (i.e. seasonally adjusted). More information about data limitations and revisions can be accessed on the release website.

184. The NAB Quarterly SME Survey 2021 Q4 indicates that small businesses in the smallest turnover category have a lower outlook for employment decisions than other small businesses in higher turnover categories and have done throughout 2021 (Chart 5.5). They have also had a lower employment outlook in general since around 2014.

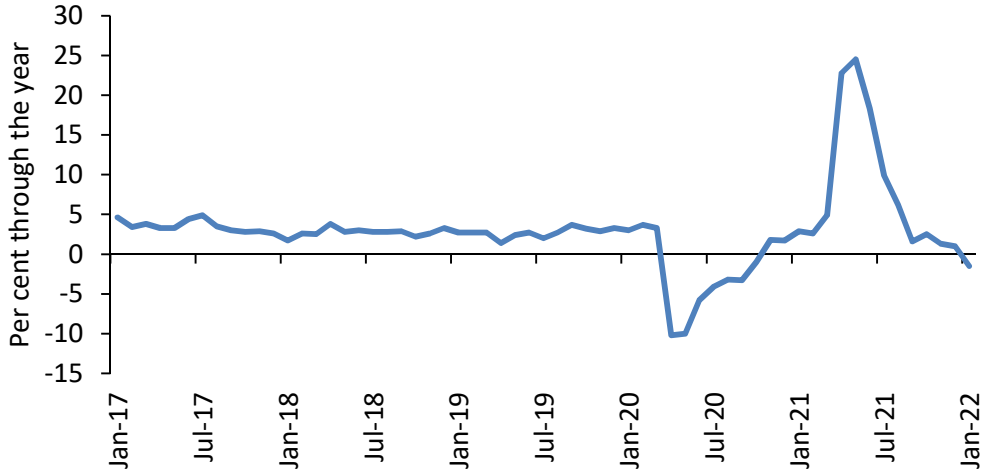
Chart 5.5: NAB Employment Index by turnover



Source: NAB *Quarterly SME Survey 2021 Q4 (February 2022), seasonally adjusted* data.

185. The Xero Small Business Index data contains several components related to small business jobs. Chart 5.6 below shows that during the 2020 lockdowns, small business jobs fell substantially year-on-year, before recovering and showing large growth in the first half of 2021. There was solid growth even when accounting or adjusting for the low base in 2020. However more recently, lockdowns and then the impact of the Omicron variant have led to small business jobs growth being subdued.

Chart 5.6: Xero Small Business jobs growth



Source: Xero *Small Business Insights, January 2022.*

186. Xero data also shows that during mid-2020, the proportion of small businesses which were creating jobs fell from 35 per cent to 28 per cent, while the proportion of downsizing firms increased from around 24 per cent to over 30 per cent over this period. These trends reversed during early 2021 with the number of job creators increasing and downsizers reducing, before subsequently reversing again during the 2021 lockdowns.

5.4 Government's commitment to small businesses

187. Since the onset of the COVID-19 pandemic, the Government has worked with states and territories to jointly fund business support payments to the value of an estimated $14.4 billion. This funding provided much-needed financial assistance to those affected by restrictions in response to last year's Delta outbreak.

188. In addition, the Government has provided significant support for small and family businesses through key initiatives such as the JobKeeper Payment, the COVID-19 Disaster Payments, the Boosting Cash Flow measure, the Structured Finance Support Fund, the Small and Medium Enterprise Guarantee Scheme, SME Recovery Loan Scheme, Instant Asset Write-Offs, Temporary Full Expensing, Temporary Loss Carry-back, help for hiring apprentices and trainees, and the early release provisions of superannuation and Personal Tax relief.

189. The 2022-23 Budget included over $25 million over the forward estimates in additional, tailored initiatives for the small and family business portfolio - alongside further economic recovery measures that acknowledge and seek to address the varied overlapping events that small business cash flows over a prolonged period. These initiatives include the enhancement and redesign of the Payment Times Reporting Portal and Register, boosts to the mental health program NewAccess for Small Business Owners, extension of the Small Business Debt Helpline and funding for the Australian Small Business and Family Enterprise Ombudsman to work with proven service providers to deliver counselling, planning and education services. Tax relief measures were also introduced that eased regulatory burdens and cost of living pressures on small businesses.

190. On the Government's industrial reform agenda, the *Fair Work Amendment (Supporting Australia's Jobs and Economic Recovery) Act 2021* provides much needed certainty for small businesses and removes the risk of potentially significant financial liability as employers should not be required to pay the same entitlements twice. Non-legislative reforms to complement the changes made by the Bill include the development of regulatory technological solutions and initiatives for the Fair Work Ombudsman and the establishment of an Employer Advisory Service to help small business employers with their workplace obligations.

191. These programs and initiatives have helped to ensure the viability of small and business throughout the COVID-19 pandemic. While the economic outlook currently appears to be positive, there remains uncertainty surrounding the recovery and the emergence of new COVID-19 variants.

6. Productivity, labour costs and wage setting

Key Points

- Overall, there is a long-term trend of slowing productivity growth in Australia. Labour productivity growth has been subdued over the latest productivity growth cycle (2011-12 to 2017-18), with more recent data showing that productivity growth also slowed in the financial years since.
- The effect of COVID-19 on productivity growth is unclear given the evolving situation, including lockdowns in 2021, which continue to affect economic activity and the economy more broadly.
- While the economy-wide wage share is below the long-term average, the wage shares for the 5 most award-reliant industries are higher than the average economy wide wage share and are in line with their long-term trends.
- Enterprise bargaining covers 35.1 per cent of employees (May 2021) and provides a direct avenue for firms and workers to negotiate wage increases which are consistent with their particular circumstances, and which encourage productivity growth at the enterprise level.

6.1 Productivity growth, wages growth and terms of trade

192. Over the long run, real income growth and improved living standards essentially depend on productivity growth, through some combination of higher sustainable wage increases for workers, lower prices for consumers, and higher profits for business. Real wages growth and productivity growth tend to move together, however, there are often short-run deviations which reflect labour market and economic conditions.

193. As the Productivity Commission has noted, growth in labour productivity explains nearly all the increase in wages since federation:

> *"Indeed, almost all wage growth since Federation appears to be due to labour productivity growth, with changes in the labour share of income explaining a small remainder (as labour increases or decreases its share of the pie, wages can deviate from productivity growth). And these increases in real wages have occurred while the hours worked by the typical employee has fallen, arguably reflecting an additional dividend from rising productivity"* (PC Productivity insights 2020).

194. Productivity growth has been subdued since the early 2000s and remains below the peak of the 1990s. In the latest productivity growth cycle (2009-10 to 2017-18), the average annual growth was 1.7 per cent (ABS *Australian System of National Accounts, 2020-21*).

6.2 Trends in labour productivity growth

195. Productivity growth measures can be volatile, cyclical and subject to revisions. The ABS therefore advises that productivity growth cycles be used to assess changes in labour productivity over time.

196. Over the latest cycle (from 2009-10 to 2017-18), labour productivity in the market sector has grown at an average annual rate of 1.7 per cent, slightly above the annual average

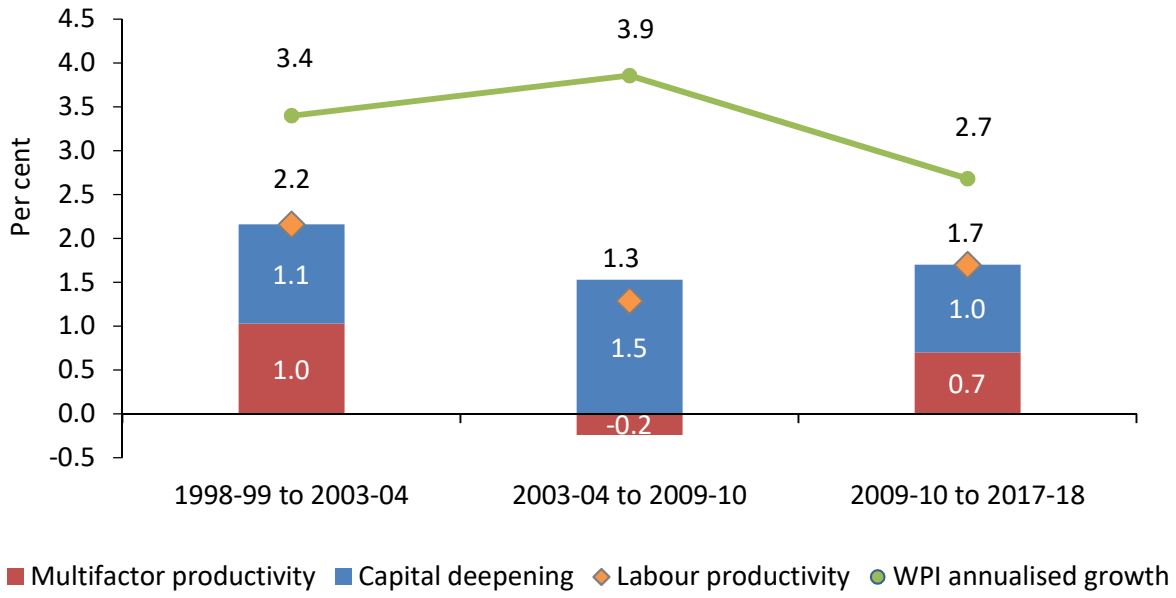
growth of 1.3 per cent from 2003-04 to 2009-10, and lower than the 2.2 per cent growth rate from 1998-99 to 2003-04.

197. Chart 6.1 decomposes labour productivity over growth cycles into its 2 components:

- Capital deepening, which is a measure of the change in the amount of capital per unit of labour.
- Multifactor productivity, which measures the efficiency of use of labour and capital inputs in producing output.

198. Chart 6.1 also shows the divergence between wages growth and labour productivity growth during the previous cycle (2003-04 to 2009-10) linked to the mining boom. Wages growth and labour productivity growth have been more closely aligned during the latest cycle (2009-10 to 2017-18).

Chart 6.1: Contributions to labour productivity in the market sector and wages growth



Sources: ABS *Australian System of National Accounts, 2020-21, original* data; ABS *Wage Price Index, December 2021, seasonally adjusted* data.
Note: 2009-10 to 2017-18 is the latest complete productivity cycle according to the standard ABS definition. Totals may not equal the sum of the components due to rounding. They are calculated from underlying, more detailed data. While productivity is reported here in real terms controlling for inflation over time, WPI is in nominal terms and has not been discounted for inflation.

199. Australia experienced strong productivity growth in the 1990s as a result of microeconomic reforms, which liberalised markets and improved the efficiency of labour and capital in producing output (multifactor productivity). As shown in Chart 6.1, labour productivity growth averaged 2.2 per cent per year during the 1998-99 to 2003-04 productivity cycle, higher than later productivity growth cycles. Since the peak in the 1990s, most growth in labour productivity has been driven by investments in machinery, capital, and equipment (capital deepening), rather than improvements in multifactor productivity.

200. The slowdown in labour productivity growth, relative to stronger performance in the 1990s, is not unique to Australia. The OECD noted in its 2017 Economic Survey of Australia that *"along with many OECD countries, productivity growth [in Australia] has*

slowed since its peak in the 1990s… but remains in line with its longer-term average" (OECD 2017b).

201. One possible reason for the slowdown is structural. Australia, like many developed economies, has seen a move away from tradeable, capital-intensive goods and towards non-tradeable, labour-intensive services, which is reflected in lower economy-wide productivity (Productivity Commission 2017).

202. Unique to Australia is that productivity growth has slowed over the past 2 cycles as a result of the mining investment boom. As mining firms invested in building their capital stock, Australia's capital inputs increased without a similar increase in outputs. As the capital becomes operational and outputs grow, the mining investment boom's drag on productivity growth is expected to unwind.

203. Recent research looking into the causes of the productivity slowdown using microdata in Australia shows slower diffusion of technology from frontier to 'laggard' firms domestically. While the most productive firms have remained strong, the gap between frontier and laggard firms within industries has grown and the rate at which laggards catch-up has slowed (Treasury 2021).

204. Within the global context, since the early 2000s, Australian firms have fallen further behind the global frontier, consistent with the overseas evidence. This is more notable in the services sector, where laggard firms have made very little progress. More importantly though, the rate at which firms catch up to the global frontier through productivity improvements has slowed, with a more pronounced slowdown observed since 2011. This slowdown was larger in sectors with declining dynamism, in the form of decreasing entry and exit rates, and increasing mark-ups (a proxy for fewer competitive pressures) (Treasury 2021).

205. Examining ABS System of National Accounts and National Accounts data shows productivity growth over recent financial years, including the impact of COVID-19. In 2020-21, labour productivity in the market sector increased by 1.2 per cent. This follows growth of 1.8 per cent in 2019-20 and 0.0 per cent in 2018-19 (ABS *Australian System of National Accounts, 2020-21*). The latest National Accounts data show whole-of-economy labour productivity increasing by 2.0 per cent over the year to December 2021 (ABS *Australian National Accounts: National Income, Expenditure and Product, December 2021*).

206. This increase is likely related to the impact of COVID-19 lockdowns which continues to disrupt economic growth and the economy more broadly. Furthermore, productivity statistics are highly variable in the short run, and therefore should be interpreted with caution. It may be some time before we get a clear understanding of the effect COVID-19 has had upon productivity growth.

6.3 Real producer wage and real consumer wage

207. Real wage growth can be measured by the real producer wage and the real consumer wage (Treasury 2017).

208. Real producer wages are from the perspective of producers and show the cost of labour for producers compared to the price of their outputs. The real producer wage is measured using AENA deflated by the GDP deflator.

209. Real consumer wages are from the consumers' perspective of how wages compare with the cost of goods and services for consumers. The real consumer wage is calculated by AENA deflated by the prices consumers pay for goods and services (in this case, the household final consumption deflator).

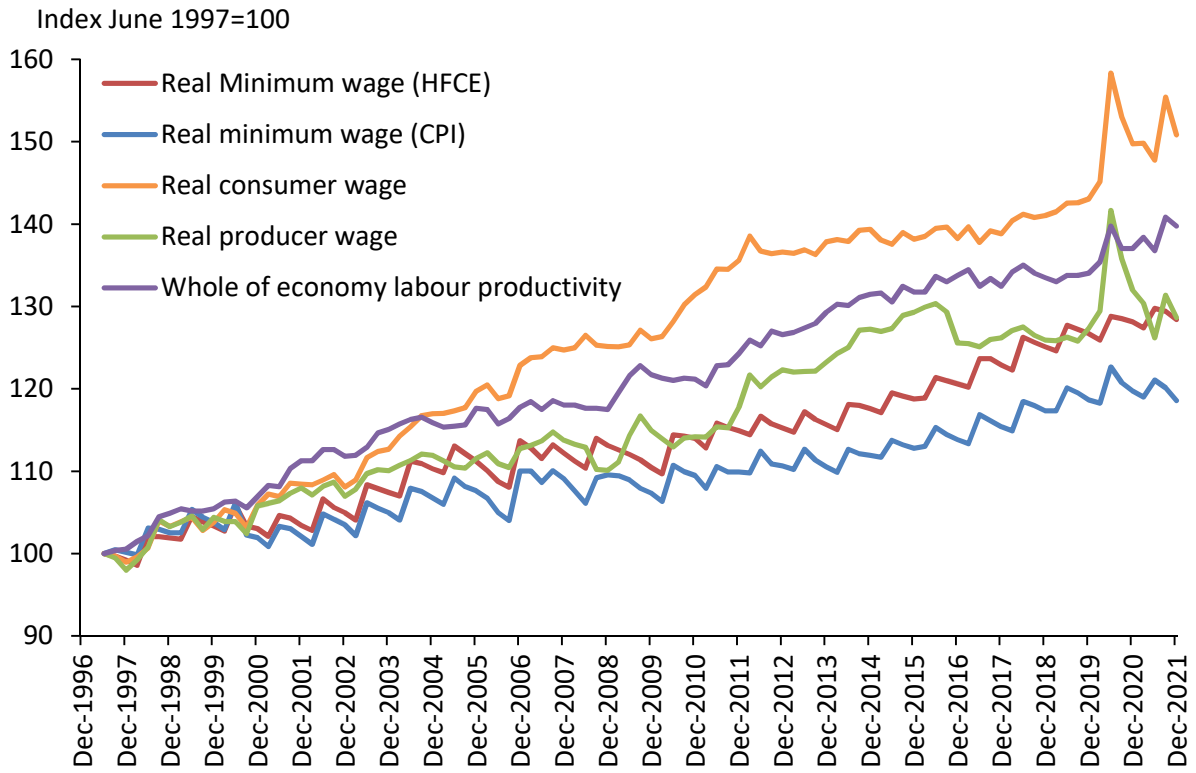
210. In the long run, we expect consumer and producer prices (which determine real producer and consumer wages) to move together, with the real producer wage and real consumer wage growing together as productivity grows. However, when relative prices change, their growth patterns can deviate (Chart 6.2). For example, in the early 2000s during the terms of trade boom, producer prices were disproportionately affected by rising commodity prices, which did not flow through to consumer prices to the same extent. As such, producer prices grew faster than consumer prices, which saw a wedge open between the real consumer wage and the real producer wage (with real consumer wages higher when compared to real producer wages) (see Productivity Commission 2019 for a more detailed analysis).

211. Over the medium term, the gap between producer and consumer wages has been driven by changes in the terms of trade. Between 2012 and 2016, the real producer wage increased against the real consumer wage as Australia's terms of trade declined. Since 2016, the real producer wage declined following the sudden improvement in Australia's terms of trade in late 2016 and was steady until the onset of COVID-19.

212. Since COVID-19, both the real consumer and producer wage spiked before returning to pre-COVID-19 levels. From March 2020 (the onset of COVID-19) to September 2020, the consumer wage increased by 5.4 per cent and the producer wage by 4.9 per cent. In contrast to the subsequent period, from September 2020 to December 2021, the consumer wage decreased by 1.4 per cent and the producer wage by 5.3 per cent (ABS *Australian National Accounts: National Income, Expenditure and Product, December 2021*).

213. A large part of the spike in the real consumer and producer wage is due to the Government's JobKeeper wage subsidy. In the 2 quarters to September 2020, JobKeeper contributed to increases in employees' income, which flowed into both real consumer wages and real producer wages (Chart 6.2) (ABS *Australian National Accounts: National Income, Expenditure and Product, December 2021*). As JobKeeper was wound back, the sharp increase in real consumer wages and real producer wages also unwound. It should be remembered that these measures are highly variable and should be interpreted in a long-term context.

Chart 6.2: Real wages and whole-of-economy labour productivity, June 1997 to December 2021



Source: ABS *Australian National Accounts: National Income, Expenditure and Product, December 2021, seasonally adjusted* data; ABS *Consumer Price Index*, *December 2021, original data*.

Note: The real consumer wage is AENA per hour deflated by the household consumption deflator; the real producer wage is AENA per hour deflated by the GDP deflator; labour productivity is GDP per hour worked; the real minimum wage is the minimum wage deflated by either CPI or the household consumption deflator. Real minimum wage (HFCE) being higher than the Real minimum wage (CPI) means that since 1997, the minimum wage has increased by more relative to household spending than it has when compared to inflation. All series are indexed to June 1997.

6.4 Wage share

214. The wage share is total wages earned as a proportion of total factor income in the economy. Total factor income also includes capital share and gross mixed income share. Between 2005 and the onset of the pandemic, the wage share has fluctuated between 51 to 55 per cent (Chart 6.3). The transitional impact of the mining boom and the resulting misalignment of wages and labour productivity growth largely explain these fluctuations in the wage share.

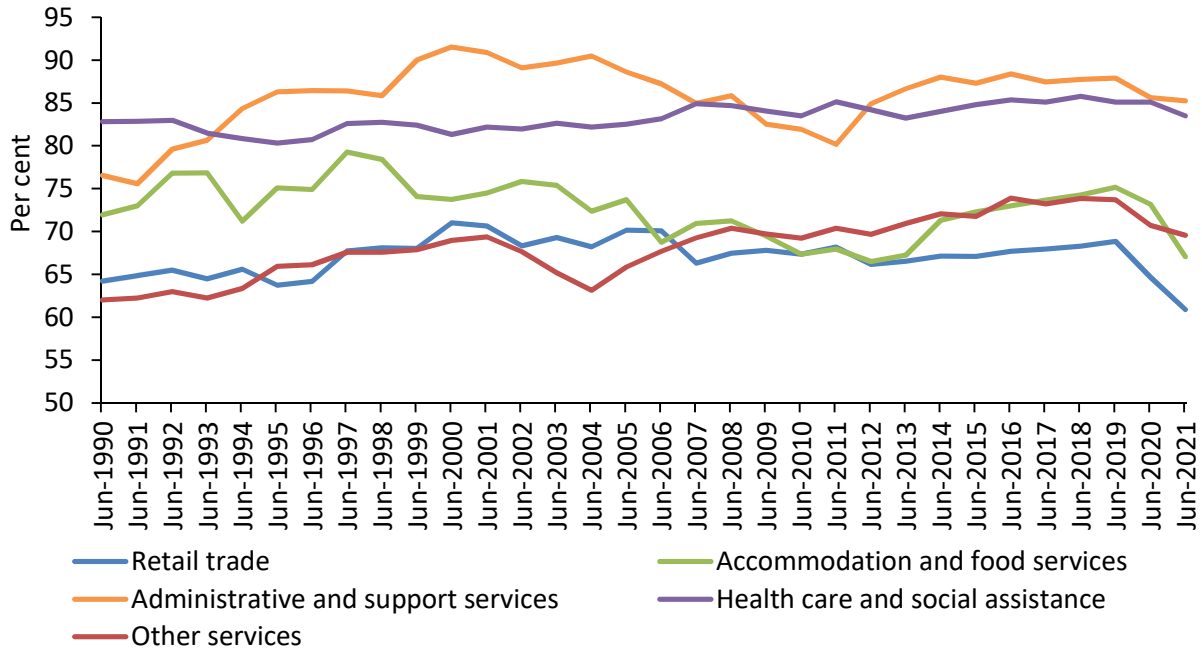
215. The latest data (December 2021) show the wage share is at 50.3 per cent, below the long-run average (since September 1959) of 54.7 per cent (ABS *Australian National Accounts: National Income, Expenditure and Product, December 2021*). Since records began in September 1959, the profit share has always been lower than the wage share. Latest data (December 2021) show that the profit share is at 29.9 per cent.

216. Wage shares vary across industries, with capital-intensive industries, such as Mining, tending to have lower wage shares. The expansion of the Mining industry, relative to

other industries, the decline in the wage share within the Finance and insurance industry, and an increase in income earned in the housing sector, accounted for much of the decline in the overall wage share in the 1990s and 2000s (ABS *Estimates of Industry Multifactor Productivity, 2016-17*; La Cava 2019).

217. Among the 5 most award-reliant industries, which are relatively more labour-intensive, the industry wage share tends to be higher than the overall wage share. While the Administrative and support services, and Health care and social assistance industries have not exhibited an apparent trend of decline, the Retail trade, Accommodation and food services, and Other services industries have. Over the last 2 years to June 2021, the wage share fell in these 3 industries: Retail trade by 7.9 percentage points, Accommodation and food services by 8.1 percentage points, and Other services by 4.1 percentage points. However, despite the Retail trade industry having the lowest wage share of the 5 most award-reliant industries at 60.9 per cent June 2021, it is still considerably higher than the national wage share of 51.0 per cent for the same period (Chart 6.3).

Chart 6.3: Wage shares of total factor income in the 5 most award-reliant industries, June 1990 to June 2021



Source: ABS *Australian System of National Accounts, 2020-21, original* data.
Note: Industry level wage share data are calculated differently in ABS *Australian System of National Accounts* and ABS *Estimates of Industry Multifactor Productivity*, with the former tending to be lower.

6.5 Promoting productivity growth through bargaining

218. The objective of the *Fair Work Act 2009* is to provide a balanced framework for cooperative and productive workplace relations that promotes national economic prosperity and social inclusion for all Australians. It achieves this through several mechanisms, including ensuring a guaranteed safety net of fair, relevant, and enforceable minimum terms and conditions, and achieving productivity and fairness through an emphasis on enterprise-level collective bargaining.

219. The modern awards objective must ensure that modern awards, together with the National Employment Standards, provide a fair and relevant minimum safety net of terms and conditions, taking into account a number of things including the need to encourage collective bargaining.

220. The *Fair Work Act 2009* aims to provide an incentive for employers, employees and unions to seek more productive and efficient ways of working in exchange for higher wages and better conditions for employees than under the relevant award(s). Enterprise agreements can simplify business operations for employers by reducing reliance on complex or rigid awards, improving certainty around labour costs and assisting with employee retention and skill development. Former Prime Minister Paul Keating has said that *"the key to enterprise productivity is enterprise bargaining"*, as enterprise bargaining allows firms to share the gains in labour productivity between wages and profits (2007).

221. Studies are broadly supportive of a link between productivity growth and enterprise bargaining. For example, Connolly, Trott and Li (2012) find that workplace agreement coverage has a significantly positive effect on labour productivity, noting that the effect may take time to fully materialise. The 2012 Fair Work Act Review Panel report also supported this conclusion:

> "*It is widely, though certainly not universally, agreed among analysts that these economic reforms…including the transition to enterprise bargaining… removed impediments to more efficient production. These reforms may account for a significant part of the upswing in productivity through the 1990s.*"

222. Recent years have seen a decline in the approval of new federal enterprise agreements, particularly in the private sector. There were 10,646 agreements current (not expired or terminated) at 30 December 2021, down by 57.7 per cent from a high of 25,150 agreements in December 2010 (Attorney-General's Department *Trends in Federal Enterprise Bargaining Report, December quarter 2021*).

223. This decline is driven primarily by a reduction in agreements that only cover a small number of employees. While the decline has occurred across almost all industries, several industries such as Construction, Manufacturing, Retail trade, and Accommodation and food services, have declined at a much sharper rate.

224. OECD data demonstrate an overall decline in bargaining coverage since the mid-1980s across many OECD countries (OECD 2017b). There may be several reasons for this, including structural changes to Western economies, the effects of globalisation, and changing employer and employee attitudes.

225. Despite the reduction in the number of federal enterprise agreements approved, over one-third of all employees are still covered by enterprise agreements (35.1 per cent of all employees in 2021, compared to 37.9 per cent in 2018) (ABS *Employees, Earnings and Hours, May 2021*).

7. Employment impacts

Key Points

- Low-paid jobs can act as a gateway to the workforce, and they often lead to higher paid work, particularly for at-risk groups such as new labour market entrants, long-term unemployed people, and less skilled workers.
- Minimum wage levels largely determine the incentives to encourage people to look for, and accept work.
- While the available evidence on the impact minimum wages increases have on employment is mixed, moderate increases are thought to have negligible employment impacts, while larger increases are thought to have more significant negative employment impacts.

7.1 The importance of low-paid work

226. Jobs provide benefits to individuals, their families, and communities. A job boosts incomes, skills and self-confidence, and provides an opportunity for social engagement. People who are unemployed tend to have poorer health and lower levels of community engagement and wellbeing compared to those in work (Productivity Commission 2013).

227. The Productivity Commission (2013) found that the most important drivers of income growth for low-income households are workforce participation, and the number of hours worked. Compared to unemployed people, people in jobs have higher levels of wellbeing, and lower levels of financial stress.

228. The *Fair Work Act 2009* requires that the national minimum wage rate and modern award wages be set at a rate that will promote the performance and competitiveness of the national economy. To support employment growth, it is important that job opportunities are available for at-risk groups, including low-skilled people, the long-term unemployed, people with disability, Indigenous Australians, and youth.

7.1.1 Stepping stone effect

229. Over a third of people who enter the workforce do so by taking a low-paid job.[22] Low-paid jobs are a particularly important pathway for younger and less educated workers, with 41 per cent of workers aged under-25 and/or with Year 12 qualifications or below entering the workforce through low-paid work, compared with 37 per cent across all ages and education levels.

230. Low-paid employment is often temporary and can act as a stepping stone. As shown in Table 7.1, almost two-thirds of workers who enter low-paid employment leave within one year, while 84.0 per cent who enter low-paid employment leave within 2 years. Most of these workers move into higher-paid work, and this is more likely the longer the worker has been in low-paid work (Table 7.2). The median increase in hourly wages for

[22] Low paid is defined as earning less than two-thirds of the median hourly wage, as outlined in Chapter 2 and Appendix A.

those moving from low-paid to higher paid jobs was 57 per cent (Attorney-General's Department analysis using the 2020 HILDA Survey).

231. Around 3 quarters (77 per cent) of people that leave low-paid employment transition into higher-paid employment. This is consistent across genders and across most age groups, with only older low-paid workers having a comparatively lower likelihood of transitioning from low-paid employment to higher-paid employment instead of unemployment or leaving the labour force (Table 7.3).

Table 7.1: Duration in low-paid employment, per cent

Duration in low-paid employment	Less than 1 year (%)	1 to 2 years (%)	2 to 5 years (%)	More than 5 years (%)
Proportion	66.3	17.8	13.4	2.6

Source: Attorney-General's Department analysis using the *HILDA* Survey, release 20 (December 2021), balanced panels waves 1 to 20 with longitudinal weights.
Note: Data is based on flows into low-paid work, not the number of people in low-paid work at a point in time. Numbers are mutually exclusive. This analysis follows individuals over a 7-year period; the previous year, the nominated year and 5 lead years. As a result, it is not possible to determine the exact length of time people are in low-paid employment beyond 5 years.

Table 7.2: Destination on leaving low-paid employment, per cent

Duration in low-paid employment	Higher paid work (%)	Left the labour force (%)	Unemployment (%)
Less than 1 year	75.8	16.6	7.6
1 to 2 years	77.8	15.1	7.1
2 to 5 years	79.4	14.5	6.1

Source: Attorney-General's Department analysis using the *HILDA* Survey, release 20 (December 2021), balanced panels waves 1 to 20 with longitudinal weights.
Note: Those remaining in low pay for 5 years or more are not shown due to a small sample size. Higher-paid work includes those that remain employed after leaving low-paid employment and are paid at a rate above the low-paid threshold of two-thirds the median hourly wage.

Table 7.3: Destination on leaving low-paid employment by selected demographics, per cent

	Higher-paid work (%)	Unemployment or NILF (not in the labour force) (%)
Gender		
Male	79.6%	20.4%
Female	74.4%	25.6%
Age		
15-24 years	76.1%	23.9%
25-34 years	79.7%	20.3%
35-44 years	81.4%	18.6%
45-54 years	79.3%	20.7%
55 years and over	64.4%	35.6%
All employees		
All employees	**76.7%**	**23.3%**

Source: Attorney-General's Department analysis using the *HILDA* Survey, release 20 (December 2021), balanced panels waves 1 to 20 with longitudinal weights.
Note: This analysis examines those that leave low-paid employment in less than 5 years. Those remaining in low pay for 5 years or more are not shown due to a small sample size.

7.1.2 The COVID-19 pandemic's impact on the stepping stone effect

232. The full extent of the COVID-19 pandemic's impact on low-paid employees stepping up into high-paid employment is not yet completely clear as HILDA data covering the 2021 lockdowns are not yet available. This is because several years of data are required to assess the duration of low-paid employment.

233. However, the latest wave of HILDA, which includes data collected from August 2020 to February 2021, allows for partial analysis of the pandemic's initial impact on the stepping stone effect for those who were low-paid employees for less than one year.

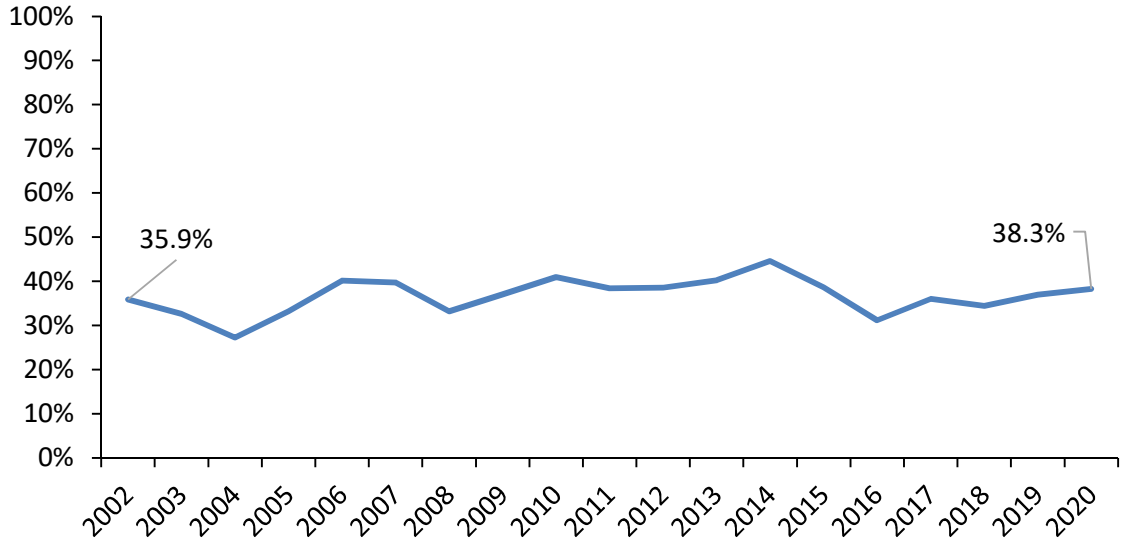
234. We can also see whether the stepping stone effect holds during and after other economic downturns such as the GFC. Although comparing the downturn caused by COVID-19, primarily a supply side shock, to the GFC (a demand side shock) is not an exact like-for-like comparison, they do share key similarities. Specifically, both economic shocks increased spare capacity in the labour market largely driven by a reduction in hours worked and increased underemployment.

235. While the impact of the GFC was felt on different parts of the economy at different times, the underemployment rate, as a measure of spare capacity, indicates its impact on the labour market. Immediately after the onset of the GFC, the underemployment rate increased from a low of 5.7 per cent in August 2008 to 7.6 per cent in May 2009. Similarly, immediately after the onset of COVID-19, the underemployment rate increased from 8.8 per cent in March 2020 (pre-COVID-19) to 13.6 per cent in April 2020 (the peak of underemployment caused by COVID-19). Although both events saw increases to the underemployment rate, the pandemic had a much greater and more immediate impact on the labour market compared to the GFC (ABS *Labour Force, Australia, February 2022*).

236. Chart 7.1 shows that the COVID-19 pandemic has not increased the reliance on low-paid work as a means to enter the workforce from either unemployment or outside the labour force. Chart 7.1 looks at the share of people that are using low-paid work to enter the workforce each year. While there has been some variation in this share throughout the past 2decades, ranging from 27.2 per cent to 44.6 per cent, the COVID-19 pandemic hasn't resulted in a significant increase, with 38.3 per cent in 2020 entering the workforce via low-paid work, and the remaining 61.7 per cent entering the workforce via higher-paid work.

237. Furthermore, the initial impact and recovery from the GFC also saw no major impact on the use of low-paid work to enter the workforce, with the share remaining relatively stable between 2007 and 2010, averaging around the long-term average of 37.3 per cent over the period.

Chart 7.1: Share of entrants into the workforce that are in low-paid work, per cent



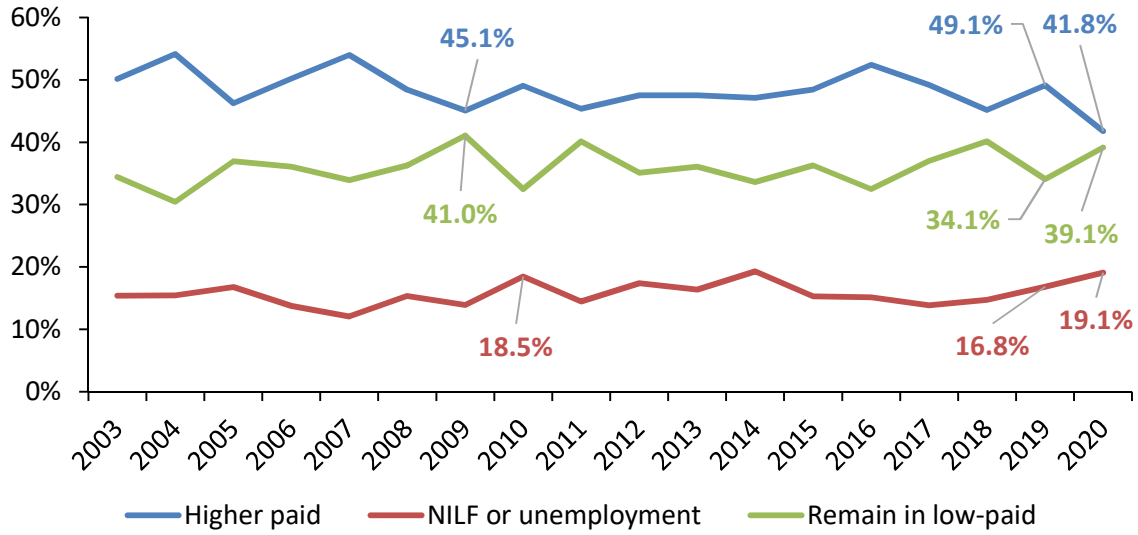
Source: Attorney-General's Department analysis using the HILDA Survey, release 20 (December 2021).

238. The stepping stone analysis used in section 7.1.1 requires 7 years of data to follow individuals, from the year before they become low-paid to 5 years after. To capture the effects through the initial stages of the pandemic, as well as the GFC, the following analysis shortens the required years to just 3; the year before becoming low-paid, the nominated year, and the year after. This allows us to show the destination of employees post COVID-19 that were low-paid pre COVID-19. As shown in Table 7.1, the majority of low-paid employees leave low-paid work within their first year, allowing for this analysis to cover changes in the stepping stone effect for the majority of low-paid workers.

239. Chart 7.2 looks at 3 important aspects of the stepping stone effect: the share of low-paid employees that move to higher pay; the share that move to unemployment or leave the labour force all together; and the share that remain in low-paid employment. The chart shows that the share of low-paid employees moving to high-paid employment did not substantially decrease, during COVID-19, falling by 7.3 percentage points to 41.8 per cent in 2020, or during the trough during the GFC at 45.1 per cent in 2009, compared to an average of 48.4 per cent over the entire period.

240. Similarly, Chart 7.2 shows the share of low-paid employees remaining in low-paid employment after one year did not substantially increase during COVID-19, increasing by 5.1 percentages points to 39.1 per cent in 2020, or during the peak during the GFC at 41.0 per cent in 2009, compared to an average of 35.9 per cent over the entire period. Lastly, the share of low-paid employees that moved to unemployment or left the labour force all together did not substantially increase during COVID-19, increasing 2.2 percentage points to 19.1 per cent in 2020, or the peak during the GFC at 18.5 per cent in 2010, compared to an average of 15.7 per cent over the entire period. Overall, it appears neither the COVID-19 pandemic nor the GFC had a major impact upon the stepping stone effect.

Chart 7.2: Destination of those leaving low-paid employment after one year, per cent



Source: Attorney-General's Department analysis using the HILDA Survey, release 20 (December 2021).
Note: This analysis follows individuals over a 3-year period; the previous year, the nominated year and the next year, allowing for the initial stages of the pandemic to be considered by examining the status in 2020 of those that entered low-paid employment in 2019. Analysis in section 7.1.1 follows employees over a 7-year period; the previous year, the nominated year, and 5 lead years.

7.2 Impacts of minimum wage increases

7.2.1 Economic theory

241. There are a number of traditional economic theories on the employment impacts of minimum wages, although they depend on a range of assumptions that may not hold in practice.

242. Wages, like all business costs, are likely to have an impact on employers' workforce decisions. The orthodox view of the labour market is that workers are employed to the degree that they contribute to the profitability of their employing enterprise. All else being equal, an increase to wages may price marginally productive workers out of the labour market, as the cost of employing them increases relative to the value of their work.

243. There are extreme cases where economic theory suggests that an increase in the minimum wage may result in no change to, or even an increase in employment. Under

monopsony (where there is a single hiring employer for a given occupation in a region), a firm can use its market power to pay wages less than the competitive market level. Therefore, an increase to minimum wages may not necessarily price workers out of the labour market, since they are already paid below the competitive market level, while higher minimum wages could attract more workers into the labour market.

244. Dynamic monopsony theory is where many smaller employers exhibit a degree of monopsony power. For example, this may take place if skill requirements are sufficiently different across employers, who may then have some market power because it is more difficult for employees to move jobs, or if workers accept wages below the competitive market level due to imperfect information.

7.2.2 Minimum wage literature

245. An increase in minimum wage legislation globally in recent years has seen a growth in the literature on the impacts of minimum wages. The majority focuses on the employment impacts, however, there has also been an increased focus on the decisions that employers make as a result of minimum wage increases, as they may respond in several different ways, such as increasing productivity, raising prices, and reducing profits.

246. Empirically, there are several challenges in measuring the impacts of minimum wages increases. Broadly, it requires identifying workers who are affected by a minimum wage increase and comparing their employment outcomes with those who are not affected.

247. An additional complication for the study of employment impacts is the role of publication bias. This describes the greater likelihood of academic journals to publish particular articles, such as those that show statistically significant results, confirm a prior belief, or report novel findings. Studies indicating that minimum wages have negative, statistically significant effects on employment are more likely to be published (Wolfson and Belman 2016; Doucouliagos and Stanley 2009; Andrews and Kasy 2019).

7.2.3 Australian literature

248. It is particularly challenging to study the employment impacts of minimum wages in Australia, due to the regular annual adjustments of minimum wages, the lack of geographical variation, and limitations of the available data (see Borland 2018; Richardson 2018).

249. In addition, Australia's award system has wider coverage (23 per cent of employees across a wide range of wages and conditions in 121 industry- and occupation-based modern awards) compared to most countries' minimum wages. Further, some employers link wages to award wage rate increases, meaning that changes in award wages can flow into above-award wages (Productivity Commission 2015).

250. While the Australian empirical literature on the employment impacts of increasing the minimum wage is scarce, it shows a mix of small negative and statistically insignificant employment impacts, as outlined in Bray (2013) and Productivity Commission (2015). Recent studies referencing the Australian experience are presented below.

251. Bishop (2018) analysed unpublished ABS WPI data from 1998 to 2008 and found no evidence that small, incremental increases in award wages have an adverse effect on

hours worked or the job destruction rate, while finding that *"adjustments to awards are almost fully passed on to wages in award-reliant jobs."* However, Bishop cautions that *"the adverse consequences of higher wage floors may be borne by job seekers, rather than job holders"*. The findings only relate to adults aged over 21, excluding juniors, apprentices and trainees, which are groups that may be particularly vulnerable to job loss following an increase in award wages. The analysis examines the impact of award wage increases for 6 months after an increase, which would not capture longer term effects (Borland 2018). Manning (2021) cites Bishop's 2018 analysis to point out that *"the Australian experience is a useful counterpoint to the argument that all the countries with the highest minimum wages have a clear unemployment problem."*

7.2.4 International evidence

252. The international literature on the impacts of minimum wages is much richer than that available for Australia, however, because the Australian context is unique (with hundreds of minimum wage rates and conditions set out across 121 modern awards), these results may not always be applicable. The OECD states that "*when minimum wages are moderate and well designed, adverse employment effects can be avoided."* (OECD 2018 p. 72).

253. The diversity of minimum wage settings in the US and the availability of data provide significant scope for research into the employment impact of minimum wages. In addition to the US federal minimum wage, most US states have their own minimum wages that are higher than the federal minimum wage. Local jurisdictions may also set minimum wages.

254. Overall, existing studies in the US find a mix of small negative and statistically insignificant employment effects (see for example, Dube *et al.* 2010; Allegretto *et al.* 2011; Neumark 2018; Allegretto *et al.* 2017; Meer and West 2016; Dube *et al.* 2016; Cengiz *et al.* 2019; Godøy and Reich 2021). Meta-analyses show similar findings (see Doucouliagos and Stanley 2009; Boockmann 2010; Belman and Wolfson 2014; Nataraj *et al*. 2014; RAND 2016).

255. A recent analysis of minimum wage literature by Neumark and Shirley (2021) shows that the majority of recent literature shows a negative employment effect when minimum wages increase, particularly when the analysis is confined to those workers that are directly affected by minimum wage decisions.

256. A recent study of US firms shows that negative employment impacts may be manifested through a reduction in the hiring of new workers rather than directly impacting existing low-wage workers (Gopalan *et al*. 2021).

257. The United Kingdom (UK) introduced a National Minimum Wage in 1999 and a National Living Wage (NLW) for employees aged 25 years and over in 2016, which have provided opportunities for research into the employment impacts of minimum wages. The UK system is more comparable to Australia, with regular annual adjustments and a lack of geographical variation. The UK Government has since extended the NLW to workers aged 23 years old in April 2021 and plans to further extend it to workers aged 21 years old by 2024, which will bring it in line with Australia's adult minimum wage (which applies from 21 years). In April 2021, the UK Low Pay Commission (LPC) noted that:

"Over the 2015-2019 period, employment reached record levels, and there was no evidence of job losses resulting from the NLW." (LPC 2021a, p.2).

258. The UK LPC also commissioned an independent report that reviews the international evidence on the impact of minimum wages and recent research on the NLW (Dube 2019). The report found that:

> *"Overall the most up to date body of research from US, UK and other developed countries points to a very muted effect of minimum wages on employment, while significantly increasing the earnings of low-paid workers. Importantly, this was found to be the case even for the most recent ambitious policies." (Dube 2019, p. 2).*

259. When approaching their decision for the 2021 NLW increase, the LPC noted that employers were in a weaker position to respond to increases in the NLW without reducing employment. The pandemic curtailed employers' ability to respond to increases in the NLW through typical approaches of cost absorption, price raising, and productivity improvements with the pandemic reducing sales, increasing costs, and limiting employers' ability for investment. This led the LPC to recommend a lower increase to the NLW than what they estimated to be their 'on-course' rate (LPC 2020).

260. However, following significant improvements in the UK economy and labour market since the pandemic-induced downturn, the LPC has recommended an increase in 2022 that puts the NLW back to the 'on-course' rate set out prior to COVID-19 (LPC 2021b).

261. Recent LPC commissioned studies have found no statistically significant employment effects for workers in areas with higher exposure to the minimum wage following the NLW increases between 2016 and 2019. Over the same period, these workers also experienced positive wage effects from the increases to the NLW (Cribb *et al*. 2021).

262. Datta *et al.* (2021) investigated whether the NLW has had different employment impacts on workers. At the aggregate level, they found that the NLW has not reduced employment retention (the chance of remaining in their current job), and it had a positive effect on employment retention for women and workers with disabilities.

263. Elsewhere in Europe, enough time has elapsed since the introduction of a minimum wage in Germany in 2015 for research into the employment impacts to occur. Broadly, the literature suggests that the introduction of the minimum wage resulted in small negative employment effects, and a decrease in working hours (often as a way of maintaining monthly wages when hourly wages have increased) (Caliendo *et al.* 2019; Bruttel *et al.* 2018; Bruttel 2019; Holtemöller and Pohle 2019; Mindestlohn Kommission 2018; Bossler and Garner 2020; Friedrich 2020).

264. It should be noted that both Germany and the UK's minimum wage systems are simpler than that of Australia's, which has thousands of minimum wage rates across 121 industry and occupation based modern awards.

7.2.5 Other employment impacts

265. While the broader minimum wage literature mostly finds mixed or small average effects on overall employment from minimum wage increases, this may be masking significant heterogeneity in terms of the effects on specific groups, demographics, or the extent to which different types of labour and capital are substitutes or complements.

266. Some studies show that increases to minimum wages have greater impacts on employment opportunities for youth and may hinder their transition to higher paying jobs (see Boockmann 2010; Neumark and Wascher 2008; Neumark and Nizalova 2007). In its study of youth minimum wages, the UK LPC concluded that:

> *"the international evidence suggests that the younger the worker the more at risk they are from minimum wage increases and minimum wages being set too high, which is why the strongest adverse effects are generally found for those aged under 20, especially those aged under 18"* (LPC 2019b, p. 36)

267. Analysis of the employment impacts of the Netherlands' age-dependent wage system has shown that Dutch youth were less likely to acquire a job while they were close to the age-induced increase. Young Dutch workers were more likely to separate from their employer as they approach an age-induced pay increase, though it is not known whether the separation is voluntary or not. This research suggests that a negative employment effect results from minimum wage increases, however, it should be noted that unlike a universal minimum wage increase that affects all prospective employees, age-based minimum wage differentials allow employers to substitute the older, higher-cost staff for younger, lower-paid staff (Kabatek 2021).

268. The impact of minimum wage increases may also be more pronounced for workers in routine jobs that are more at risk of automation (see Aaronson and Phelan, 2017; Lordan and Neumark, 2018). There is also evidence in the UK that minimum wage increases negatively impact employment for women working part-time (Dube 2019; LPC 2019a).

269. Some research in the US shows that employers may demand higher-skilled labour in response to minimum wage increases. Researchers found that following minimum wage increases in 2011-2016, there was an increase in the average age and education level of low-wage employees as well as an increase in the prevalence of high school diploma requirements in job vacancy postings (Clemens *et al.* 2020).

270. A study from the US retail sector provides empirical support for dynamic monopsony (see paragraph 244). The study showed that positive employment effects tend to occur in more concentrated labour markets (where wages are more likely to be set below marginal productivity) while negative effects occur in less concentrated labour markets (Azar *et al.* 2019).

271. A recent study of US county level data suggests that there is no statistically significant effect on employment for high school educated workers in counties with a high minimum wage bite following an increase in the minimum wage. The study also found that there was a reduction in the poverty rate for those counties that had a high minimum wage bite as a result of increased incomes following the minimum wage increase (Godøy and Reich, 2021).

7.2.6 Employer responses to minimum wage increases

272. Employers can respond to minimum wage increases in ways other than workforce decisions. A review of the literature found some evidence of productivity improvements in the US and UK due to changes in the minimum wage, although the relationship between minimum wages and productivity in Australia was ambiguous (Farmakis-Gamboni and Yuen 2011). However, it is unclear whether the productivity

improvements in the US and UK were driven by increased training or the substitution of low-skilled for high-skilled labour.

273. In the UK, evidence suggests employers did not respond to the introduction of the National Minimum Wage in 1999 (and subsequent increases) by reducing employment. Instead, research shows that employers responded in other ways, such as raising productivity through organisational change and increased training, increasing prices, reducing profits, non-compliance, and adjusting hours (Metcalf 2008; Wadsworth 2010; Riley and Bondibene 2015).

274. Similarly, in Hungary, following a significant minimum wage rise (from around 35 to 55 per cent of median wages between 2000 and 2002), most firms responded through a combination of raising prices and reducing profits (Harasztosi and Lindner 2019). However, there were small, negative employment effects for firms in the tradable sector, which were less able to raise prices because of the competition they faced from foreign firms (who were unaffected by the minimum wage rise).

275. In the US, the inelastic demand for the restaurant industry saw a 25 per cent rise in the minimum wage in 2013 in San Jose, California passed on by employers through a 1.45 per cent average increase in prices without detectable employment effects or a significant reduction in sales (Allegretto and Reich 2018). In Seattle, the minimum wage rise from US$9.47 to US$11.00 per hour in 2015 saw most firms in the food and accommodation sector respond by raising prices. However, franchises were more likely to reduce employee numbers or hours, perhaps because they have less price-setting ability than independent businesses (Romich *et al.* 2018).

276. Employers in the US have also been able to respond to minimum wage increases by reducing non-employment aspects of worker compensation such as employer-provided health insurance. Researchers found that roughly 15 per cent of recent minimum wage increases were able to be offset by declines in the provision of employer-provided health insurance (Clemens *et al.* 2018).

277. It is important to note that the scope of employers to respond in ways other than workforce decisions depends on a range of factors, such as the competitiveness of their industry, the elasticity of demand for their goods and services, and the strength of the labour market and economy.

8. Household incomes and inequality

Key Points

- The COVID-19 pandemic has had an unprecedented impact on the Australian economy. The resulting impact on inequality remains unclear as data on many measures of inequality are not yet available.
- Over the last decade leading into the COVID-19 pandemic, the level of inequality in Australia had been broadly stable.
- The national minimum wage bite (the ratio between the national minimum wage rate and median full-time earnings) decreased to 51.5 per cent in 2021 partly due to the impact of COVID-19. Before the pandemic the minimum wage bite was broadly stable between 52 and 54 per cent since 2008.
- Australia's targeted tax-transfer system, through direct transfer payments and a range of in-kind support, has been a key means of redistributing income to low-income households, particularly for families with children.
- Increases in the minimum wage, although not fully reflected in household disposable income, have been important for maintaining the real disposable incomes of many low-income households over recent years.

8.1 Inequality and mobility

278. Under sections 134 and 284 of the *Fair Work Act 2009*, in making its decision the Panel is required to promote social inclusion through increased workforce participation and consider the relative living standards and needs of low-paid employees.

279. Among the various measures of income inequality, the Gini coefficient based on household disposable income (after taxes and transfers) is one of the most commonly used.[23] The advantage of using disposable household income is that it is not only a more comprehensive measure of household living standards (as it includes other sources of income beyond wages and salaries) but also accounts for the tax and transfer system – one of the main mechanisms by which government can reduce inequality.

280. As presented in previous submissions, over the past decade leading up to COVID-19, income inequality in Australia has been broadly stable.

281. This is supported by stable Gini coefficients, in the range of 0.304 and 0.289 over the period 2001-2020 (HILDA 2021). It indicates that overall household income inequality in Australia has remained broadly stable over the past 20 years.

282. The latest ABS data on *Household Income and Wealth, 2017-18* shows that Australia's Gini coefficient for income inequality stood at 0.336 in 2007-08 and 0.328 in 2017-18.[24]

[23] The Gini coefficient takes values between 0 and 1, with 0 meaning total equality (i.e. everything is shared equally among everybody) and 1 meaning total inequality (i.e. one person has everything).

[24] It is difficult to compare Australian income inequality over a longer period using these data as the ABS changed its methods in 2007–08. Improvements in the ABS Survey of Income and Housing, including a new definition of income, had a greater impact at the top of the income distribution. The definition of income has been expanded to include non-cash benefits, bonuses, termination payments and payments for irregular overtime worked.

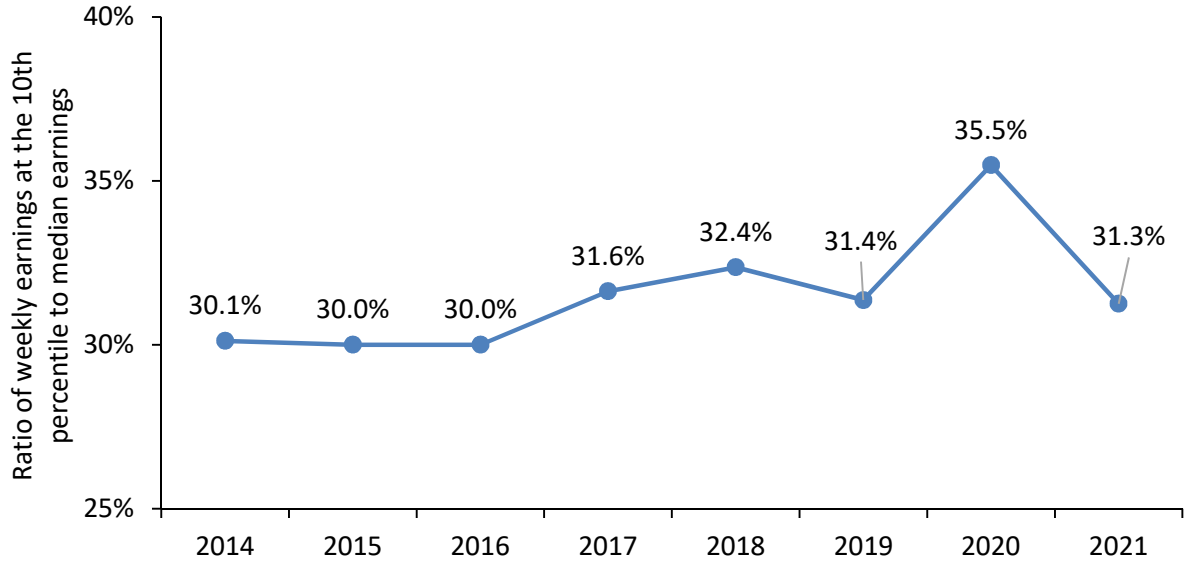
It supports the HILDA findings in indicating that inequality in Australia has been broadly stable over the past decade.

283. When compared with other countries, Australia had the 14th highest Gini coefficient (0.325 in 2018) of the 37 OECD countries for which data are available. This is below the US (0.395), the UK (0.366) and New Zealand (0.349). However, it should be noted that OECD countries have varying circumstances such as levels of development, demographics and tax and social security systems.

284. Another commonly used measure of inequality is individual earnings. It accounts for wage and salary earnings but excludes investment income, cash payments received from government and income taxes. It does not take into account the potential for the sharing of economic resources between family members or adjusting for household size ('equivalising'). Nor does it control for the differing consumption needs of households of different sizes. Although earnings inequality is a less comprehensive measure of living standards than household disposable income, it is one of the few measures with data available for showing the COVID-19 impact on inequality.

285. As shown in Chart 8.1, earnings inequality, measured by the ratio of weekly earnings for the lowest paid employees (with earnings at the 10th percentile) to median earnings, was 31.3 per cent in August 2021, a level unwinding from 35.5 per cent in August 2020 (during the depth of COVID-19) and back to the pre-pandemic level of 30-31 per cent between 2014 and 2019 (ABS *Characteristics of Employment*, *August 2021*). The temporary rise in the ratio from 2019 to 2020 is a result of faster growth in weekly earnings of the lowest paid employees (18.3 per cent) compared with those of median wage earners (4.5 per cent).

Chart 8.1: Earnings inequality in Australia, 2014-2021



Source: ABS *Characteristics of Employment, August 2021*.
Note: Earnings inequality in the chart is measured by the ratio of weekly earnings between the lowest-paid employees (with earnings at the 10th percentile) and median earnings.

286. The temporary decline in earnings inequality in 2020 is largely attributable to government subsidies, such as JobKeeper, that were provided to eligible businesses and employees during the first year of the COVID-19 pandemic. As these transfers were paid

to employers via businesses they had the effect of temporarily supporting employment income, particularly for recipients whose usual income was below the initial $1,500 payment amount. As JobKeeper was tapered and the program ended, the ratio of weekly earnings for the lowest-paid employees to median earnings unwound to the pre-pandemic level.

287. Throughout the pandemic, support payments such as JobKeeper, JobSeeker, and COVID-19 Disaster Payments have been targeted effectively at lower income earners. Total employment and transfer income for the bottom quintile rose by 20 to 25 per cent in the final 3 quarters of 2020 compared to March 2020, and by 6 per cent between the June and September quarters of 2021, during the Delta wave (Treasury analysis of tax and social security microdata).

288. People's income and wealth change over the course of their lives, with households often moving across the income distribution over time. This is captured by measures of income mobility, which complement standard inequality measures such as the Gini coefficient which only account for people's income distribution at a point in time.

289. A high level of income mobility is a proxy measure for equality of opportunity, although mobility at the lower end of the distribution could also reflect economic insecurity. As noted in previous submissions, the level of mobility is important in any consideration of inequality.

290. There is high income mobility in Australia. As noted by the Productivity Commission (2018), "*economic mobility is high in Australia, with almost everyone moving across the income distribution over the course of their lives*".

291. This finding is supported by research conducted by the Attorney-General's Department using HILDA data.[25] The department's research shows that in the 2001 to 2005 period, on average around 28.1 per cent of low wage earners in the bottom quintile of the earnings distribution moved to a higher earnings quintile after having worked for one more year. The average rate of mobility increased to nearly two-thirds, around 67.5 per cent in 2001-2005, for low wage earners at the bottom quintile of the earnings distribution who worked for 5 more years. The one-year and 5-year earnings mobility is relatively consistent throughout the other time periods under investigation (including 2006-2010 and 2011-2015).

Table 8.1: Movements of individuals in the income distribution, by initial income quintile

Initial Years	**2001 to 2005**			**2006 to 2010**			**2011-2015**		
One-year changes	Moved down	No change	Moved up	Moved down	No change	Moved up	Moved down	No change	Moved up
Bottom quintile	0.0%	71.9%	28.1%	0.0%	71.6%	28.4%	0.0%	74.9%	25.1%
Second quintile	14.1%	51.8%	34.1%	13.9%	52.4%	33.8%	14.4%	55.6%	30.0%
Middle quintile	20.4%	51.5%	28.2%	20.8%	56.0%	23.2%	21.3%	56.4%	22.3%
4th quintile	20.2%	60.7%	19.1%	20.2%	61.5%	18.2%	24.0%	60.7%	15.3%

[25] This research follows individuals from their initial year to see their outcomes after one year and after five years. It takes the average of those that moved up, moved down, and stayed in the same quintile for a given period of initial years. For example, in looking at changes after five years, the period 2011 to 2015 includes individuals starting in 2011 and finishing in 2016, starting in 2012 and finishing in 2017, starting in 2013 and finishing in 2018, starting in 2014 and finishing in 2019, and those starting in 2015 and finishing in 2020.

Top quintile	20.4%	79.6%	0.0%	17.2%	82.8%	0.0%	18.2%	81.8%	0.0%
5-year changes									
Bottom quintile	0.0%	32.5%	67.5%	0.0%	38.7%	61.3%	0.0%	38.1%	61.9%
Second quintile	13.1%	36.3%	50.6%	15.9%	39.5%	44.5%	17.7%	36.2%	46.2%
Middle quintile	24.7%	34.4%	40.9%	27.9%	39.0%	33.1%	25.4%	37.0%	37.5%
4th quintile	26.2%	42.2%	31.6%	28.9%	44.7%	26.4%	27.5%	42.3%	30.1%
Top quintile	26.4%	73.6%	0.0%	24.7%	75.3%	0.0%	21.9%	78.1%	0.0%

Source: Attorney-General's Department analysis using the *HILDA* Survey, release 20 (December 2021).

292. Greater income mobility over longer timeframes is further confirmed by the HILDA Statistical Report (2021). It shows that almost half of people in the bottom quintile have moved to a higher quintile over a ten-year timeframe, much larger than the roughly 30 per cent who move up from one year to the next.

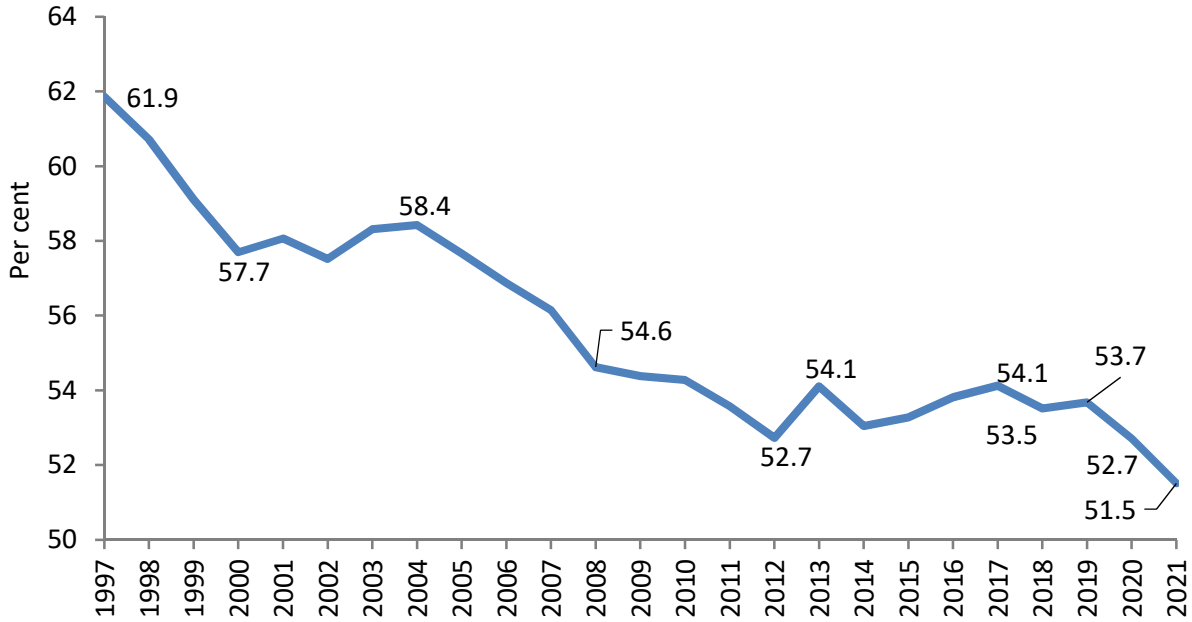
293. Income mobility in Australia compares favourably with many other developed economies. The Productivity Commission (2018) has noted that Australian adults move between income deciles more than in the US, the United Kingdom or Italy, but not as much as in Canada or Scandinavian countries.

8.2 The minimum wage and inequality

294. In 2021, the minimum wage bite (the ratio between the national minimum wage rate and median full-time earnings) decreased to 51.5 per cent, compared with 52.7 per cent in 2020 and 53.7 per cent in 2019, reflecting the disproportionate effect of COVID-19 on low-paid jobs, which is expected to reverse as these jobs return. The bite declined from approximately 62 per cent in 1997 to 54 per cent in 2008, but had remained between 52 and 54 per cent since 2009 until the COVID-19 pandemic (see Chart 8.2).

295. The recent declines in the minimum wage bite between 2019 and 2021 are in part due to the effect of COVID-19 on the income distribution. The ABS stated that job losses were disproportionately felt among those with lower earnings due to lockdowns and other restrictions during COVID-19. The combination of this and JobKeeper, at the beginning and depth of COVID-19, contributed to a rise in median earnings. This remained even after JobKeeper ended. It is likely that median earnings will return to the pre-COVID-19 level as low-paid jobs return.

Chart 8.2: National minimum wage as a share of median wage (minimum wage bite)



Source: Australian Fair Pay Commission/Fair Work Australia/Fair Work Commission decisions on National Minimum Wage from 2006; prior to 2006, Australian Industrial Relations Commission decisions on Federal minimum wage based on Metal, Engineering and Associated Industries Award (1998); from 2004 onwards: ABS *Characteristics of Employment;* from 1998-2003: ABS *Employee Earnings, Benefits and Trade Union Membership* (EEBTUM); for 1997: ABS *Weekly Earnings of Employees (Distribution),* Australia.

296. The decline in the minimum wage bite between 1997 and 2008 was due to growth in the median wage outpacing that of the national minimum wage – partially attributable to the mining boom which pushed up median earnings.[26] Between 1997 and 2008, the national minimum wage rate grew by 51.3 per cent (or 9.2 per cent in real terms), compared with growth of 71.4 per cent (or 23.7 per cent in real terms) in median full-time weekly earnings.

297. Between 2009 and 2019, the national minimum wage rate has increased on average by 2.9 per cent a year in nominal terms and 0.9 per cent a year in real terms. This is on a par with the growth in median full-time earnings, which averaged 3.0 per cent a year in nominal terms and 1.0 per cent a year in real terms over the same period (ABS *Characteristics of Employment, August 2021)*.

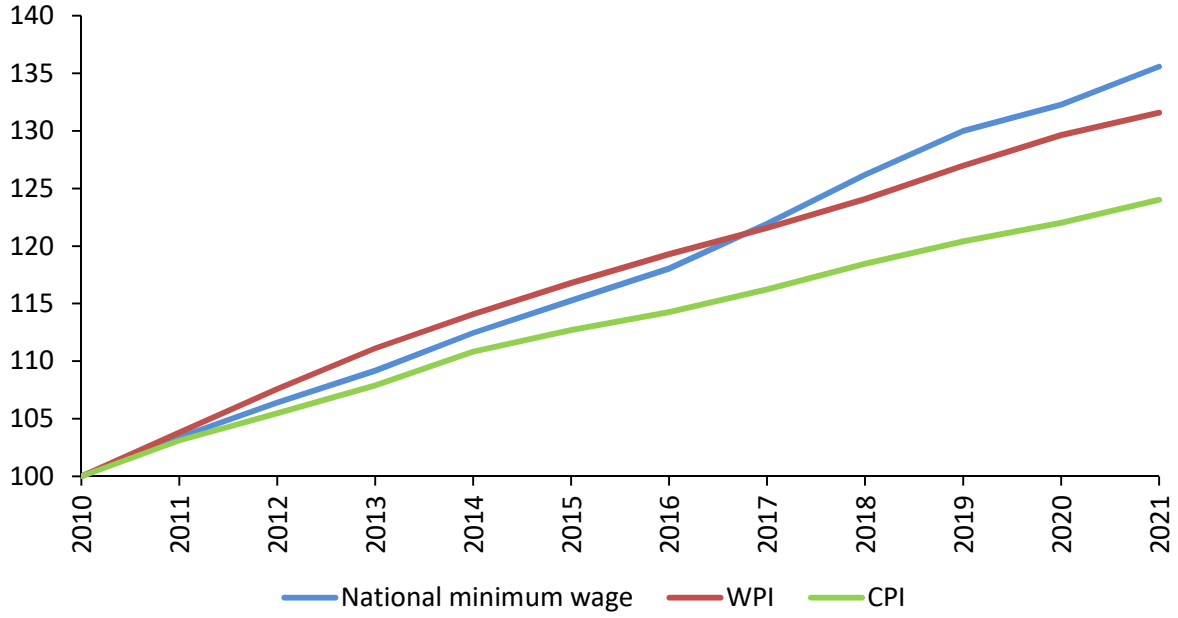
298. Chart 8.4 shows that over the last 11 years (2010-2021), growth in the national minimum wage rate, at 2.8 per cent per annum, has been higher than the growth in the WPI, which grew at an average annual rate of 2.5 per cent a year in nominal terms (ABS *Wage Price Index, December 2021*).

299. Over the same period, the increase in the national minimum wage rate has also grown faster than inflation (as measured by the CPI).

[26] Various sources find that incomes generally increased during the period associated with the mining boom. For example, the Productivity Commission (2018) noted that the mining investment boom (2005 to 2013) "*contributed significantly to economic growth, employment and incomes*." The report then goes on to note that in contrast, the post-mining boom has included a period of low wage increases.

300. Since the onset of COVID-19 (in March 2020), the national minimum wage rate has grown faster than increases in both the WPI and CPI (4.3 per cent compared to 3.2 per cent for WPI and 4.0 per cent for CPI).[27]

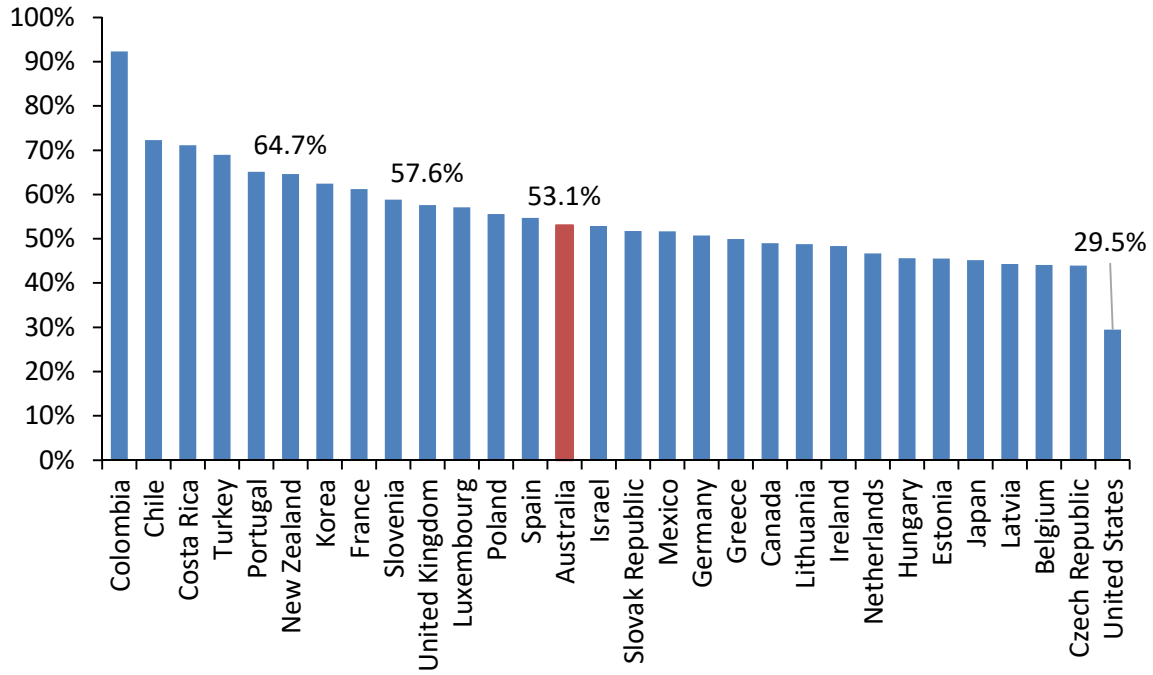
Chart 8.3: Increases in national minimum wage, WPI and CPI



Source: Fair Work Commission decisions on National Minimum Wage; ABS *Wage Price Index, Australia, December 2021, seasonally adjusted* data; ABS *Consumer Price Index, Australia, December 2021*.
Note: Figures for WPI, CPI and national minimum wage are all indexed at 2010 (2010=100). Growth in WPI and CPI reflect annual growth to the September quarter, consistent with increases in the national minimum wage.

[27] Note the 2019 national minimum wage rate still applied in March 2020 (the onset of COVID-19). Therefore, the growth of national minimum wage rates since March 2020 is calculated as the difference between the latest 2021 minimum wage rate and the 2019 minimum wage rate.

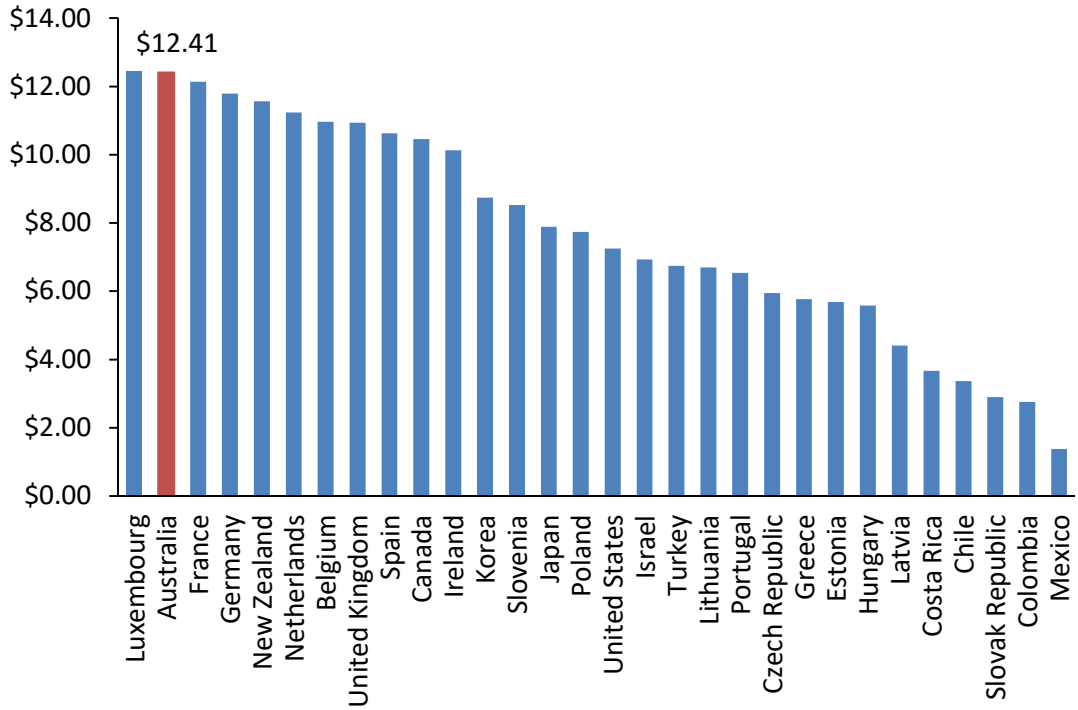
Chart 8.4: Minimum wage bite (% of median earnings) in OECD economies, 2020



Source: *OECD Stat Extracts*, stats.oecd.org, extracted September 2021.
Note: Data on the minimum wage bite are available for 30 out of 38 OECD countries.

301. Australia's minimum wage bite is the 14th highest of the 30 OECD countries for which data are available (see Chart 8.4). Across OECD countries, Australia's minimum wage is the second highest (in terms of purchasing power) of 30 countries for which data are available (see Chart 8.5).

Chart 8.5: Real hourly minimum wages ($US purchasing power parity), 2020



Source: *OECD Stat Extracts*, stats.oecd.org, extracted December 2021.
Note: Data for hourly minimum wages are available for 30 out of 38 OECD countries.

302. To some extent, increases in the minimum wage likely reduce earnings inequality. However, the effect on household disposable income inequality is more ambiguous, given that the effect of minimum wage increases above a certain level is unclear (see Chapter 7). For example, Leigh (2008) states that "*Under plausible parameters for the effect of minimum wages on hourly wages and employment, it appears unlikely that raising the minimum wage will significantly lower family income inequality.*"

303. Further, in Australia, the national minimum wage is a part of a comprehensive system of modern awards and the 2,000 plus minimum award classification wages within it. The Panel's decision impacts not only employees paid the national minimum wage rate, but also those whose pay is set by a modern award (see Chapter 2). Since most award-reliant employees receive more than the national minimum wage rate, the Panel's decision also impacts workers across the income distribution.

8.3 Minimum wages and incentives to work

304. The level of the minimum wage, among other things, can influence a person's decision to look for work. It is therefore important that the minimum wage is set at a level so that the combined effect encourages people who are out of work to enter the workforce and enjoy the benefits work can provide to individuals and communities.

305. The Government has modelled the interaction between the tax-transfer system and the national minimum wage for a broad range of hypothetical single-earner and dual-earner households.[28] The modelling does not include the one-off $420 Cost of living tax offset and one-off $250 Cost of Living Payment from the 2022-23 Budget, or the COVID-19 Disaster Payment which were available to workers impacted by states and territories' public health orders.[29] The modelling shows that all of the household types modelled were better off when an unemployed member of the household gained a job at the national minimum wage. Some examples are provided below, with detailed tables in Appendix B.

306. A single adult without children, would increase their disposable income by $378 per week (118 per cent) by moving from unemployment into a full-time job paying the national minimum wage rate. Even by taking a part-time job at the national minimum wage rate, disposable income would increase by $168 per week (53 per cent).[30] [31] [32]

[28] The analysis considered the potential impact of earnings from a job at the national minimum wage rate on combined household income, taking into account income support (Jobseeker Payment, Parenting Payment or Youth Allowance), other transfer payments (such as Family Tax Benefits and Rent Assistance), other earnings (if other members of the household were already receiving earned income from employment), childcare costs and taxation. The assumptions used in the analysis are detailed in Appendix A.

[29] Temporary measures are not modelled, as they do not represent structural elements of the tax-transfer system, and moreover, these policies will not apply on 1 July 2022, the date that the Panel's decision will take effect.

[30] Disposable income is a family's final income for their use. It is calculated as their gross income net of taxes paid and cash transfers received.

[31] Percentage is calculated as 100*(disposable income after finding job - disposable income before finding a job)/disposable income before finding a job.

[32] Working 15 hours per week at the national minimum hourly wage rate.

307. An unemployed couple without children would be $285 per week (49 per cent) better off if one unemployed member of the household found a full-time job at the national minimum wage rate. A couple without children with one adult already in full-time employment at the national minimum wage rate would be $529 per week (61 per cent) better off if the unemployed member of the household moved into full-time minimum wage work.

308. Households with children are also better off when an unemployed adult gains a job at the national minimum wage rate, even after paying for childcare costs. For example, a couple with a 3-year-old child with one member of the couple in a full-time job at the national minimum wage rate, would be $261 per week (25 per cent) better off (after accounting for the cost of childcare) if the second member of the couple also found a full-time, national minimum wage rate job. If the second member of the household took a part-time job at the national minimum wage rate, the household would increase their disposable income by $97 per week (9 per cent) after accounting for the cost of childcare.[33] [34]

8.4 Taxes and transfers

309. The Australian tax-transfer system plays a key role in redistributing income among Australian households, through a targeted system of cash payments (including income support and family payments), in kind support (such as subsidised health care and education) and a progressive income tax system.[35]

310. While a single person without children working full-time at the minimum wage would not generally attract transfer payments, couples with one partner earning the full-time minimum wage, and families with children may receive significant additional assistance in the form of income support, Family Tax Benefit and related payments in recognition of their additional need for support. For full-time minimum wage workers in single-income households with children, transfer payments are typically around a third of disposable income (see Table 8.2).

[33] It is assumed the family uses 50 hours of long day care per week when the unemployed adult finds a full-time job and 20 hours of long day care per week when the unemployed adult finds a part-time job. See Appendix B for details.

[34] Data for childcare costs used in the analysis are as at the March quarter 2021. Although the analysis doesn't incorporate the latest data for June quarter 2021 (published on 29 March 2022), the child care assumptions applied in the modelling are still appropriate as the updated data has broadly similar hourly fees when accounting for CPI over the period.

[35] The transfer system is the main element of Australia's social support system. Australia's social support system includes cash transfer payments to individuals and families, and a range of support services funded or provided by all levels of government and civil society (commercial and community organisations). The system is intended to help meet the costs of daily living, increase participation in work and social activities, and build individual and family functioning. Transfer payments include income support payments to help meet daily living costs, supplements to help meet specific costs (such as family payments to assist with the costs of children) and rent assistance for those paying private rent.

Table 8.2: Transfer payments to full-time NMW households, 1 January 2022

Household type	Transfer payments ($pw)	Transfer payments as a proportion of disposable income (%)
Single person/parent		
No children	0	0.0
Child aged 3	372	35.3
Child aged 9	245	25.9
Children aged 3 and 9	488	41.8
Single-income couple (partner 2on Parenting Payment/JobSeeker Payment)		
8.3No children	168	19.4
Child aged 3	358	33.7
Child aged 9	333	32.1
Children aged 3 and 9	469	39.7
Dual-income couple		
No children	0	0.0
Child aged 3	31	2.2
Child aged 9	31	2.2
Children aged 3 and 9	99	6.6

Source: Government modelling.
Note: Figures for transfer payments per week are rounded to the nearest dollar. Calculations of percentages may differ slightly due to rounding. Modelling does not include childcare.

311. The transfer system provides financial support to parents and carers to assist them with the costs of raising children. Table 8.3 shows that while equivalised gross earnings (adjusted for household size) are lower in households with children compared to households without children, equivalised disposable incomes can be higher for some family types due to the additional support provided to families. For example, for single-income couples with one child, equivalised earned income was around 56 per cent of the earnings of a single person without children. However, this climbs up to around 85 per cent once the tax and transfer system has been accounted for.

Table 8.3: Equivalised income for full-time NMW households, 1 January 2022

Source: Government modelling.
Notes: (1) It is assumed that the single-income couples incur no childcare costs, since the non-working partner is assumed to look after the children. For dual-income couples with children and singles with children, disposable income takes into account childcare costs.
(2) Equivalised earnings have been derived by calculating an equivalence factor according to the 'modified OECD' equivalence scale, and then dividing by the factor. In determining the factor, the first adult in the household is allocated 1 point, an additional adult is allocated 0.5 points and each child under 15 years is allocated 0.3 points.[36]

Household type	Earned income			Disposable income		
	Earnings ($pw)	Equivalised earnings ($pw)	% of single, no children	Income ($pw)	Equivalised income ($pw)	% of single, no children
Single person/parent						
No children	772.60	773	100.0	697	697	100.0
Child aged 3	772.60	594	76.9	972	747	107.2
Child aged 9	772.60	594	76.9	929	715	102.5
Children aged 3 and 9	772.60	483	62.5	1,068	667	95.7
Single-income couple (partner 2on Parenting Payment/JobSeeker Payment)						
No children	772.60	515	66.7	866	577	82.8
Child aged 3	772.60	429	55.6	1,062	590	84.6
Child aged 9	772.60	429	55.6	1,038	576	82.7
Children aged 3 and 9	772.60	368	47.6	1,180	562	80.6
Dual-income couple						
No children	1,545.20	1,030	133.3	1,394	930	133.3
Child aged 3	1,545.20	858	111.1	1,323	735	105.4
Child aged 9	1,545.20	858	111.1	1,404	780	111.8
Children aged 3 and 9	1,545.20	736	95.2	1,369	652	93.5

(3) Figures for disposable incomes are rounded to the nearest dollar. Calculations may differ slightly due to rounding.

312. While the fifth of households with highest equivalised household disposable income receive 13.3 times as much private income (including imputed rent) as the lowest fifth, this ratio drops to 5.2 after direct taxes and transfer payments. In addition, as in-kind support in Australia is mostly targeted at the lowest income households, this ratio drops again to 3.3 when in-kind transfers (mainly education and health services) are added (ABS Household Income and Wealth, 2017-18).

8.5 Impact of the Panel's decision on household income

313. Due to Australia's progressive and targeted tax-transfer system, even assuming no change in hours worked, minimum wage increases will not fully flow onto disposable income.

[36] Households with multiple people will have a lower living standard than a lone person household with the same household income, due to the need to provide for multiple people. Equivalising incomes is intended to provide a more comparable measure of economic resources for households of different sizes.

314. Table 8.4 shows the immediate impact on disposable income for various household types following the 2021 national minimum wage rate increase. Household disposable income increased for all types of households, however the percentage of the wage increase retained varies depending on the type of transfer payments received by the household.[37]

315. The breakdown by household type in Table 8.4 shows households outside the income support system generally retained the greatest fraction of the minimum wage increase after taxes and transfers. The greatest proportion was retained by singles without children working full-time and dual income households with both full-time workers without children (both cases retained just above 80 per cent), as they receive no transfer payments (and therefore do not face income tests). Dual-income households with one full-time and one part-time worker, irrespective of whether they have children, retained around 30 per cent of the wage increase, much lower than the amount they retained of the previous increase (around 80 per cent, as detailed in our previous submission in 2021). This is because changes to income support payment rates and income tests from 1 April 2021 mean that these families are now eligible for additional transfers and are financially better off, but retain less of their wage increase due to means testing of these payments.[38] These dual income households, together with single-earner couples with children where one partner is on JobSeeker Payment or Parenting Payment, retained between 27 and 32 per cent of their wage increase.[39] The least income retained shown in the table was by single-earner households with the second partner on income support (18 per cent).

[37] This is a design feature of the Australian transfer system. Income units receiving income-tested transfers at the same time as paying income taxes will have higher effective marginal tax rates and therefore keep less of an increase in private income when transfer payments start to withdraw than those not receiving transfers and only paying income taxes.

[38] For example, a couple with one full-time and one part-time worker, both on minimum wage, with no children did not receive any income support payments on 1 July 2020. They therefore were able to retain more of their wage increase. The family, on 1 July 2021, receives $28 of JobSeeker Payment per week, due to changes to means testing of that payment enacted on 1 April 2021.Since they now received that amount of JobSeeker Payment, the means testing means they were only able to retain a smaller amount ($7) of the minimum wage increase. Changes over time to disposable incomes for minimum wage workers are detailed in Table 8.6.

[39] Percentage is calculated as 100*(disposable income after finding job - disposable income before finding a job)/disposable income before finding a job.

Table 8.4: Effect of 2021 NMW rate increase on household disposable incomes, 1 July 2021

Household type	Wage increase ($pw)	Increase in household disposable income ($pw)	Percentage of wage increase retained (%)
Single person, no children			
Full-time NMW	18.80	15	81.5
Part-time NMW	7.35	3	36.1
Student on part-time NMW	7.35	3	40.0
Single parent			
Full-time NMW, child aged 3	18.80	7	34.8
Full-time NMW, child aged 9	18.80	9	47.5
Part-time NMW, child aged 3	7.35	4	60.0
Part-time NMW, child aged 9	7.35	4	59.3
Single-income couple (partner 2on Parenting Payment/JobSeeker Payment)			
Full-time NMW, no children	18.80	3	18.3
Full-time NMW, child aged 3	18.80	6	30.3
Full-time NMW, children aged 3 and 9	18.80	6	32.2
Dual-income couple			
Both full-time NMW, no children	37.60	31	81.5
One full-time and one part-time NMW, no children	26.15	7	26.7
One full-time and one part-time NMW, child aged 3	26.15	9	33.1
One full-time and one part-time NMW, children aged 3 and 9	26.15	8	29.9

Source: Government modelling – See Appendix A for assumptions used in the modelling.
Notes: (1) Figures are based on tax and benefit rates applicable on 1 July 2021. Part-time hours are assumed to be 15 hours per week. This modelling does not include indexation of Family Tax Benefit, as it has been designed specifically to show the Panel the direct impact of the 2021 minimum wage increase on household disposable incomes. Indexation of benefits is a separate process in the tax-transfer system and is not affected by the Panel's decision.
(2) Figures for the increase in disposable income have been rounded to the nearest dollar. Percentages may differ slightly due to rounding.

316. Table 8.5 reports the percentage change in real disposable income for a number of hypothetical households over a 5 year period. Assuming no change in hours worked, it shows a longer term impact of changes in the national minimum wage rate. Unlike Table 8.3, the results in Table 8.5 do not take into account the Government's assistance for childcare.

317. As noted in Section 8.3, Government direct transfer payments can account for a significant proportion of a minimum wage household's income. Table 8.5 shows that over the 5 years from 2017 to 2022 the change in real incomes from the minimum wage has varied across households.

318. As stated in submissions in previous years, real increases to the national minimum wage were important to maintain the real disposable income of low income households, particularly with children. Policy reforms to the tax-transfer system over the last 5 years, including the 1 April 2021 increase to working-age income support payments, have

maintained or improved real disposable incomes for minimum wage families.[40] Together with real increases to minimum wages over the same period, all households considered have had real increases in disposable income between 1.6 per cent and 7.9 per cent since 1 January 2017.[41]

[40] The 2018-19, 2019-20, 2020-21 and 2021-22 Budgets have implemented measures as part of the Government's Personal Income Tax Plan. Measures in the 2020-21 and 2021-22 Budgets provide tax relief to low- and middle-income earners by expanding the low income tax offset, retaining the low- and middle-income tax offset for the 2020-21 and 2021-22 income years, and increasing the 19 per cent tax threshold from $37,000 to $45,000. Families with a higher value for 'Impact of Tax-transfer system' in Table 8.5 have benefited from a combination of these measures and the 1 April 2021 increase in working-age income support payments. The tax-transfer impacts in Table 8.5 do not include the impact of the one-off Cost of living tax offset from the 2022-23 Budget or the one-off Cost of Living Payment to income support recipients due to their temporary nature. These temporary measures would further increase disposable incomes for the 2021-22 financial year, but will not apply beyond 1 July 2022.

[41] The increases in real disposable incomes have been slightly lower than that reported in the previous submission of 2021 (which was in a range of 2.6 per cent to 9.0 per cent), notwithstanding the latest 2.5 per cent increase in the National Minimum Wage. This reflects the recent increase in the quarterly CPI (December 2021) used to make these calculations.

Table 8.5: Changes in real disposable household income, 2017 to 2022

Household type	Total change (%)	Impact of Tax-transfer system (%)	Impact of real NMW increases (%)
Single person, no children			
Full-time NMW	4.3	0.5	3.8
Part-time NMW	6.9	5.9	1.0
Student on part-time NMW	4.7	3.5	1.1
Single parent			
Full-time NMW, child aged 3	1.7	0.7	1.0
Part-time NMW, child aged 3	1.6	0.8	0.8
Full-time NMW, child aged 9	3.4	1.9	1.6
Part-time NMW, child aged 9	3.6	2.6	1.0
Single-income couple (partner 2on Parenting Payment/JobSeeker Payment)			
Full-time NMW, no children	7.0	6.3	0.7
Full-time NMW, child aged 3	3.4	2.5	0.9
Full-time, children aged 3 and 9	3.0	2.1	0.8
Dual-income couple			
Both full-time NMW, no children	4.3	0.5	3.8
One full-time and one part-time NMW, no children	7.9	6.7	1.2
One full-time and one part-time NMW, child aged 3	4.5	3.2	1.2
One full-time and one part-time NMW, children aged 3 and 9	2.9	1.9	1.0

Source: Government modelling – See Appendix B for assumptions used in the modelling.
Note: Based on NMW and tax-transfer system of 1 January 2017 and 1 January 2022. The second column shows the percentage change in real disposable income given the actual changes in the national minimum wage and changes in the tax-transfer system between the 2dates. The 2components of the increase in real disposable incomes can be disaggregated. The third column shows the component arising from the impact of the tax-transfer system, by assuming a constant real national minimum wage (i.e. have compared current disposable income with a disposable income that assumes the national minimum wage as at January 2017 had grown in line with CPI). The 4th column shows the component arising from the impact of real NMW increases (the difference between the previous 2columns). These may not sum exactly due to rounding. This modelling includes indexation of benefits as it examines disposable household income over the long term. The effect is shown as part of the 'tax-transfer contribution', as it occurs independently of the Panel's decision on the NMW.

8.6 Gender pay inequality

319. Under sections 134 and 284 of the *Fair Work Act 2009*, the Panel is required to consider the principle of equal remuneration for work of equal or comparable value.

320. The headline gender pay gap is defined as the difference between women's and men's average weekly full-time ordinary time earnings expressed as a proportion of men's earnings. The latest data shows that the gender pay gap has declined, from 17.2 per cent in November 2014 to 13.8 per cent in November 2021, which is close to the historic low of 13.4 per cent in November 2020 (ABS *Average Weekly Earnings, November 2021*).[42]

[42] The gender pay gap in hourly terms was 9.7 per cent in May 2021 using EEH. This figure covers non-managerial employees, both full-time and part-time. Hourly gender pay gap is different from the headline

321. The COVID-19 pandemic is likely to have impacted the gender pay gap as women's and men's jobs and earnings have been affected differently and women are more likely to work in low-paid jobs (as shown in Chapter 2). In May 2020 (during COVID-19), the gender pay gap increased to 14.0 per cent, from 13.9 per cent in November 2019 (pre COVID-19). This increase in the pay gap is likely to be related to the mixed impact of job losses. Larger-than-usual increases in average weekly earnings (as a result of government support and the disproportionate impact on low-paid jobs) was reflected more in men's earnings than women's: an increase of 3.5 per cent for men versus an increase of 3.3 per cent for women between November 2019 and May 2020.

322. When low-paid jobs returned, as shown in November 2020 data, women's average weekly earnings growth grew by 0.2 per cent while men's was negative. This differential impact led to a decline in the gender pay gap to a historic low of 13.4 per cent (ABS *Average Weekly Earnings, November 2021*).

323. In May 2021, with no lockdowns in place, the gender pay gap increased slightly as a result of a faster growth in men's average weekly earnings compared with women's (1.8 per cent versus 0.9 per cent). This was partly explained by the high average earnings growth in the Construction industry, which has a high proportion of men (ABS *Average Weekly Earnings, November 2021*).

324. As shown in the latest data, in November 2021, when the labour market had recovered from most of the Delta period impacts and before the emergence of the Omicron variant, the gender pay gap declined to 13.8 per cent, the second lowest ever recorded. This was related to the progressively returning or reverting back to full-time hours in some lower paying industries, like Accommodation and food services (ABS *Average Weekly Earnings, November 2021*).

325. However, to date the overall impact of COVID-19 on the gender pay gap appears to be modest: the gender pay gap remains in the range of 13-14 per cent, which is lower than the ten-year average of 16.7 per cent (November 2009 to November 2019) in the pre-COVID-19 era (ABS *Average Weekly Earnings, November 2021*).

326. As reported by KPMG (KPMG 2016; KPMG 2019), the gender pay gap is influenced by several inter-related factors, including occupational and industry gender segregation, the impact of women's greater unpaid caring responsibilities, differences in work experience and seniority, and discrimination and other unexplained factors.

327. The gender pay gap appears to be predominantly driven by the difference between award-reliant industries and other industries rather than *within* award-reliant industries. Research for the Fair Work Commission (Rozenbes and Farmakis-Gamboni 2015; Broadway and Wilkins 2015) shows little evidence of an hourly gender pay gap for workers on awards. The latest ABS data (Table 8.6) shows that the wage disparity among non-managerial employees on awards favours women, although the gap is minimal.

weekly gender pay gap as it excludes the impact on the pay gap of different hours worked by men versus women in a week. Data on hourly gender pay gap is usually sourced from the ABS EEH which is usually updated every 2years.

Table 8.6: Hourly gender pay gap by method of setting pay, non-managerial employees

Method of setting pay	Gender pay gap
Award only	-3.8%
Collective agreement	8.8%
Individual arrangement	12.3%
Total employees	9.7%

Source: ABS *Employee Earnings and Hours, May 2021,* non-managerial employees, full and part time.

328. Of the 5 most award-reliant industries, 3 are disproportionately female: Health care and social assistance (76.2 per cent female), Retail trade (54.1 per cent female) and Accommodation and food services (57.0 per cent female) (ABS *Labour Force, Australia, Detailed, February 2022*). Around 59 per cent of award-reliant employees, (ABS *Employee Earnings and Hours, May 2021*) as well as more than half (around 55 per cent) of low-paid workers, are female (Attorney-General's Department analysis using the HILDA Survey, release 20).

329. Notwithstanding the differences in the gender composition of award-reliant industries, changes in the minimum wage may have complex interaction effects on the gender pay gap and labour force participation. As noted by the Fair Work Commission in its 2019-20 Decision:

> *"… the causes of the gender pay gap are complex and influenced by factors such as: differences in the types of jobs performed by men and women; discretionary payments; workplace structures and practices; and the historical undervaluation of female work and female-dominated occupations… It is also the case … that past Review decisions have concluded that moderate increases in the NMW and modern award minimum wages would be likely to have a relatively small, but nonetheless beneficial, effect on the gender pay gap. However, as ACCI submitted, this needs to be considered in 2020 against more general and labour market considerations raised by the COVID-19 pandemic: 'There must be a tipping or critical point at which any uprating in minimum wages that seeks to take into account gender pay disparity, may risk adding to underemployment or reducing hours and jobs to the lower paid, which would disproportionately negatively impact women, and perversely serve to reduce incomes and opportunities.'"* (Annual Wage Review 2019-20 Decision [2020] FWCFB 3500, para 402-404).

330. However, the gender pay gap may also create disincentives for women to enter the workforce when making household decisions about the share of paid and unpaid work (OECD 2017a). As women are more likely to be paid by an award than men, increasing the minimum wage may decrease any intra-household gender pay gap, potentially incentivising women to re-enter the workforce or work more paid hours with households sharing unpaid work more evenly.

331. In 2014, Australia led the G20 to set a goal to reduce the labour force participation gap between men and women by 25 per cent by 2025 (for people aged 15 to 64 years). For Australia, this meant decreasing the gap by 3 percentage points to 9.1 percentage points by 2025.

332. Australia is well ahead of what is required to meet the G20 goal.[43] In February 2020, the 12-month average participation rate gap met the target of 9.1 percentage points for the first time. The latest data for February 2022 show that the target has been exceeded, with the participation gap reduced to 7.9 percentage points (ABS *Labour Force, Australia, February 2022)*.

333. Increased participation and economic security for women, including change at the workplace level, remains a priority for Government. The Government has taken action across a range of measures in the 2018 and 2020 Women's Economic Security Statements and 2021-22 Women's Budget Statement to increase women's workforce participation, create jobs for women, boost women's economic security, and promote economic growth. The 2022-2023 Women's Budget Statement builds on this action, providing a $2.1 billion investment towards women's safety, economic security, health and wellbeing, including $482 million in women's economic security measures.

[43] Based on a 12-month average, for comparison with other countries.

Appendix A: Low-paid and national minimum wage workers – definitions and data

334. In defining low-paid employees, data was used from the ABS survey of Employee Earnings and Hours (EEH) as well as the Household, Income and Labour Dynamics in Australia (HILDA) Survey.

335. Different variables are available in these data sets. Also, slightly different low-paid thresholds are used due to differences in the median wage and timing of the surveys. However, the low-paid definition is consistently two-thirds of median earnings.

A.1 Defining low-paid employees using HILDA

336. Low-paid adult employees have been defined as employees aged 21 years or older earning less than two-thirds of the median employee hourly earnings. Accordingly, adult employees with hourly earnings below $22.56 have been classified as low paid. To identify low-paid junior employees, the low-pay threshold derived from adult employees has been adjusted as detailed below.[44]

337. In order to calculate the number of low-paid employees using the HILDA Survey the following approach has been taken:

- Limited the population to employees aged 15 years and over with positive hours of work and earnings;
- Calculated hourly earnings for employees in their main job;
- Deflated the earnings of casuals by 1.25 to reflect the casual loading;
- Calculated the median earnings of adult employees (i.e. aged 21 years and over) at ($33.85) and set the threshold for low-pay at two-thirds of this amount ($22.56);
- Adult employees with an hourly wage below $22.56 have been classified as low paid;
- Low-pay thresholds for employees aged under 21 years have been adjusted by the relevant junior minimum wage rate (from the National Minimum Wage Order) which is a percentage of the adult national minimum wage.[45] Table A.1 contains all low-pay thresholds used for juniors.

[44] The Government's analysis is not limited to adult low-paid employees, but also includes low-paid workers aged under 21 years. This is because younger employees are one of the main groups affected by Annual Wage Review decisions.
The Government has adjusted the low-paid threshold for juniors because junior minimum wages are lower than adult minimum wages. This type of approach is not unique and has been taken in various academic reviews.

[45] Junior minimum wage rates (as a proportion of adult minimum wage rates) vary considerably across awards. The junior-adult minimum wage relativities in the National Minimum Wage Order are based on the *Miscellaneous Award 2020*.

Table A.1: Low pay thresholds, by age, 2020

	Percentage of NMW (%)	Low-paid threshold ($)
Adult (21 years and over)	100.0	22.56
20 years old	97.7	22.04
19 years old	82.5	18.61
18 years old	68.3	15.41
17 years old	57.8	13.04
16 years old	47.3	10.67
15 years old	36.8	8.30

Note: Junior minimum wage rates refer to the National Minimum Wage Order.
Example: The low-paid threshold for workers aged 15 years old is set at 36.8 per cent (the special national minimum wage for workers aged 15 years old is set by the National minimum wage order) which equates to $8.30 per hour or 36.8 per cent of the adult threshold of $22.56. Workers aged 15 years old paid less than $8.30 per hour have been classified as low paid.

A.2 Defining low-paid employees using EEH

338. Low-paid employees have been defined as employees earning less than two-thirds of the median employee hourly earnings. Accordingly, employees with hourly earnings below $22.20 have been classified as low paid.

339. In order to calculate the number of low-paid employees using the EEH Survey the following approach has been taken:

- Limited the population to employees aged 15 years and over with positive hours of work and earnings;
- Limited the population to non-managerial employees as managers have not normally reported on hours worked;
- Calculated hourly ordinary time cash earnings for all non-managerial employees;
- Deflated the earnings of casuals by 1.25 to reflect the casual loading;
- Calculated the median hourly wage ($33.30 per hour) and two-thirds of this amount ($22.20 per hour);
- Employees with an hourly wage below $22.20 are classified as low paid.

340. No adjustment has been made to the low-pay thresholds for juniors because the EEH Survey has not traditionally reported on the age of respondents.

A.3 Defining national minimum wage employees using EEH

341. National minimum wage employees have been defined as adult employees who are paid less than $20.00 per hour. This excludes workers who are paid junior, apprentice and disability rates of pay.

342. The threshold of $20.00 per hour is a rounded hourly rate of the National Minimum Wage rate of $19.84 in May 2021.

343. In order to calculate the number of national minimum wage adult employees using the EEH Survey the following approach has been taken:

- Limiting the population to non-managerial employees as managers have not normally reported on hours worked;
- Calculating hourly ordinary time cash earnings for all non-managerial employees;
- Deflating the earnings of casuals by 1.25 to reflect the casual loading.

A.4 Characteristics of low-paid workers

Table A.2: Detailed characteristics of low-paid workers, 2020

	% of low-paid employees	% of high-paid employees	% of all employees	% of employees who are low paid
Gender				
Male	44.8	50.1	49.1	16.2
Female	55.2	49.9	50.9	19.2
Age				
Age 15-24	37.6	11.0	15.7	42.5
Age 25-34	24.5	25.2	25.1	17.3
Age 35-44	12.1	25.1	22.8	9.4
Age 45-54	10.3	21.9	19.8	9.2
Age 55-64	12.1	14.2	13.8	15.4
Age 65+	3.4	2.6	2.8	21.8
Marital status				
Single	56.5	33.9	37.9	26.5
Partnered	43.5	66.1	62.1	12.4
Age of youngest resident own child (a)				
No resident own child	70.2	51.5	54.8	22.7
0-5 years	9.2	16.6	15.3	10.7
6-11 years	6.5	11.5	10.6	10.9
12-17 years	5.5	8.8	8.2	11.9
18 years or more	8.6	11.6	11.1	13.7
Location				
Major city	69.1	77.4	75.9	16.1
Inner regional Australia	20.9	15.4	16.4	22.6
Outer regional Australia	9.2	6.4	6.9	23.7
Remote/very remote Australia	0.8	0.8	0.8	16.9
Long-term health condition				
Present	20.8	15.3	16.2	22.7
Not present	79.2	84.7	83.8	16.8
Highest education attainment				
Degree or postgraduate	17.4	42.1	37.7	8.2
Certificate 3-4/Diploma	26.8	31.6	30.7	15.5
Year 12	33.3	15.5	18.7	31.6
Year 11 or below(b)	22.4	10.8	12.9	30.9
Years of work experience				
Less than 2 years	24.5	6.1	9.3	45.8
2-5 years	18.5	6.5	8.6	37.5

More than 5 years	57.0	87.4	82.1	12.1
Hours				
Full time	46.0	70.4	66.1	12.3
Part time	53.9	29.6	33.9	28.2
Contract type				
Casual	56.9	15.2	22.6	44.6
Permanent	43.1	84.8	77.4	9.9
Business size				
Small (1-19 employees)	47.4	27.7	31.1	26.2
Medium (20-199 employees)	40.5	44.6	43.9	15.8
Large (200 plus employees)	12.1	27.7	25.0	8.3
Occupation				
Managers	3.9	14.4	12.6	5.5
Professionals	6.0	30.5	26.1	4.1
Technicians and trades workers	11.6	10.8	10.9	18.8
Community and personal service workers	20.7	11.6	13.2	27.8
Clerical and administrative workers	11.4	14.2	13.7	14.8
Sales workers	18.2	6.8	8.9	36.5
Machinery operators and Drivers	10.4	5.9	6.7	27.7
Labourers	17.8	5.8	7.9	39.7
Industry				
Agriculture, forestry and fishing	3.6	0.7	1.2	51.7
Mining	0.7	2.6	2.3	5.4
Manufacturing	7.4	6.9	6.9	18.8
Electricity, gas, water and waste services	0.3	1.7	1.5	4.0
Construction	5.9	5.8	5.8	18.0
Wholesale trade	2.8	3.4	3.3	15.0
Retail trade	19.2	8.1	10.0	33.8
Accommodation and food services	15.3	4.3	6.3	43.2
Transport, postal and warehousing	4.6	4.7	4.7	17.2
Information media and telecommunications	1.1	1.5	1.4	14.1
Financial and insurance services	1.2	5.1	4.4	4.7
Rental, hiring and real estate services	0.8	1.4	1.3	11.2
Professional, scientific and technical services	3.4	8.0	7.2	8.2
Administrative and support services	4.7	2.1	2.5	32.8
Public administration and safety	2.1	8.2	7.2	5.2
Education and training	6.7	12.2	11.3	10.6
Health care and social assistance	14.7	19.0	18.2	14.3
Arts and recreation services	1.4	1.7	1.6	14.7
Other services	4.2	2.5	2.8	26.2

Source: Attorney-General's Department analysis using the *HILDA* Survey, release 20 (December 2021), wave 20.
How to read: The first column of data shows the percentage of low-paid people with each characteristic. For example, using the gender data, the table shows that 44.8 per cent of low-paid workers are male. The last column shows the percentage of workers of a characteristic that are low paid. For example, 16.2 per cent of male workers are low paid.
Notes: (a) Excludes resident foster/step/grandchildren. (b) Includes Certificate I-II. Figures in the table may not add up due to rounding and non-response.

Appendix B: Modelling Assumptions

B.1 Tax-transfer assumptions

(i) All tax rates and transfers are as at 1 January 2022 unless stated otherwise.[46]

(ii) Temporary measures are not modelled.[47]

(iii) Families are assumed to have no private health insurance.

(iv) Modelling includes Telephone Allowance where relevant.

(v) Modelling assumes the maximum rate of Rent Assistance where the household is renting.[48] [49]

(vi) Families are assumed to not live in public housing or face shared care arrangements.

(vii) Modelling assumes all recipients of Youth Allowance are 22 years of age.

(viii) Modelling assumes all other persons are 35 years of age.[50]

(ix) Any lump sum payment is spread evenly over the period.[51]

(x) Family Tax Benefit recipients do not receive the associated Energy Supplement.[52]

(xi) Disposable income in **Appendix C** is income after taxes, transfers and out of pocket childcare costs.[53]

(xii) Annual payments are converted to weekly amounts using 52 as the divisor.

(xiii) Fortnightly payments are converted to weekly amounts by using 2 as the divisor.

[46] Tables use 1 January 2022 tax rates and transfers. The Cost of Living Tax Offset announced in the 2022-23 Budget (i.e. a $420 additional tax offset granted to taxpayers who receive the Low and Middle Income Tax Offset once they lodge their 2021-22 tax return from July 2022) is not included in the modelling.
[47] Temporary COVID-19-related Federal or State-based assistance to households and individuals, such as the COVID-19 Disaster Payment, is not modelled.
[48] This is modelled by assuming a gross rental cost of $500 per week. Since disposable income is exclusive of gross rental costs, this does not affect the reported disposable income amount to the extent that the chosen rental costs still yield the maximum rate of Rent Assistance.
[49] This means that rent assistance is also not modelled for the cameo Student – YA – away from home.
[50] No persons are therefore eligible for the Dependant Spouse Tax Offset.
[51] Table 8.6 uses the tax/transfer system as at 1 January 2017 as a comparison in the analysis of changes to disposable incomes over the previous 5 years. The Income Support Bonus ended on 31 December 2016, and therefore this payment is no longer modelled as part of the Government submission as had been the case in previous years' submissions. Other payments for example Family Tax Benefit can be paid as a lump-sum at the end of the financial year or fortnightly, however the modelling assumes the payment is spread evenly throughout the year.
[52] https://www.servicesaustralia.gov.au/individuals/services/centrelink/energy-supplement
[53] Out of pocket childcare costs are gross childcare fees less any Child Care Subsidy (CCS).

B.2 Childcare assumptions

(i) Childcare usage is assumed in data derived from **Appendix C** only. Childcare is not modelled for households when looking at changes in disposable household income.

(ii) Assumed hours of usage are listed in Table B.1. These are based on the hours of work for the second earner in a couple household.[54] Where only one member of a couple household works, it is assumed that the household does not require child care.

(iii) Only the Child Care Subsidy (CCS) is modelled.[55]

(iv) Long day care and after school care costs are detailed in Table B.1. This is based on average child care fees for the March quarter 2021, indexed to the CPI for childcare up to the December quarter 2021.[56]

(v) Net childcare costs (i.e. out of pocket costs) reported in **Appendix C** are calculated as gross child care costs less CCS.

(vi) Childcare assumed to be used and paid for throughout the whole year (52 weeks).

(vii) Wage and working hour assumptions are at Table B.2.

Table B.1: Childcare usage assumptions

Child age	Care type	Hours required per week (by labour force status of secondary earner)		Hourly childcare cost
		Full-time	**Part-time**	
0-4 years	Long Day Care	50	20	$11.10
5-12 years	Outside School Hours Care (a)	15	6	$7.82

Source: *Child Care in Australia* report *March quarter 2021* (https://www.dese.gov.au/child-care-australia-report-march-quarter-2021).

Note: Usage for school aged children is based on care requirements during the school term. It is expected that care requirements will differ over the school holiday period. Children aged 5-12 years are presumed to only attend the after school session of Outside School Hours Care.

[54] Basing child care usage on hours of work is a method also used elsewhere in the literature (e.g. Immervoll and Barber 2006).

[55] Some families may also be eligible to receive Additional Childcare Subsidy when they transition from unemployment to work. However, this is only available for a constrained time period and has been excluded from our analysis as it does not provide an indication of the 'typical' assistance available to minimum wage earners. Some families may also benefit from changes to Child Care Subsidy announced in the 2021-22 Budget implemented on 10 December 2021 and additional changes to be implemented on 7 March 2022 (https://www.dese.gov.au/early-childhood/announcements/higher-ccs-multiple-children-and-removal-annual-cap).

[56] This was the latest available data when the modelling was done. The data is from the Child Care in Australia report March quarter 2021 (https://www.dese.gov.au/child-care-australia-report-march-quarter-2021). Child care fees vary between providers and this will affect individual experiences.

Table B.2: Hours of work and wage assumptions

1	A	B	C	D	E
2	Labour Force Status	Hourly minimum wage (at 1 July 2021)	Hours of work per week	**Weekly wage**	**Annual earnings**
3	Full-time	$20.33	38	$772.60	$40,175.20
4	Part-time	$20.33	15	$304.95	$15,857.40

Notes: (a) For Row 4: Column D = Column B x Column C
(b) For Rows 3 and 4: Column E = Column D x 52
(c) The figure in Row 3, Column D may not equal Column B x Column C due to rounding.
Source: National Minimum Wage Order 2021 (www.fwc.gov.au/awards-and-agreements/minimum-wages-conditions/national-minimum-wage-orders#field-content-1-heading)

Appendix C: Modelling results

Table C.1: One unemployed member of the household accepts a job paying the NMW ($20.33 per hour), 1 January 2022

Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax and Medicare (deduction)	Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income
	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	(% increase) ($ pw)	(%)
Single without children –FT job at $772.60 per week						
Adult - JSP	$319	–	$75	$697	118.5% $378	–
Adult renter - JSP	$391	–	$75	$697	78.5% $307	–
Single without children –PT job at $304.95 per week						
Adult - JSP	$319	$186	$4	$487	52.7% $168	38.3%
Adult renter – JSP	$391	$258	$4	$559	43.1% $168	46.1%
Student – YA – away from home	$269	$226	$8	$523	94.5% $254	43.2%
Student – YA – lives with parents	$186	$143	–	$448	141.1% $262	31.9%

Note: All amounts are rounded to the nearest dollar. Differences in calculations may occur due to rounding. Percentages are rounded to one decimal place.
– Zero or rounded to zero.
JSP – Jobseeker payment
PPP – Parenting Payment Partnered
FT – Full-time
NMW – National Minimum Wage
YA – Youth Allowance
PPS – Parenting Payment Single
PT – Part-time

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Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax and Medicare (deduction)	Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income
	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	(% increase) ($ pw)	(%)
Couple – both unemployed, one finds a FT job at $772.60 per week						
No children - JSP	$581	$168	$75	$866	49.0% $285	19.4%
With 1 child aged 3 years - PPP	$746	$358	$68	$1,062	42.3% $316	33.7%
With 1 child aged 9 years – JSP	$722	$333	$68	$1,038	43.8% $316	32.1%
With 2 children aged 3 and 9 years – PPP	$857	$469	$61	$1,180	37.7% $323	39.7%
Couple – both unemployed, one finds a PT job at $304.95 per week						
No children - JSP	$581	$449	–	$753	29.6% $172	59.5%
With 1 child aged 3 years - PPP	$746	$614	–	$919	23.1% $172	66.8%
With 1 child aged 9 years – JSP	$722	$589	–	$894	23.9% $172	65.9%
With 2 children aged 3 and 9 years – PPP	$857	$725	–	$1,030	20.1% $172	70.4%

Note: All amounts are rounded to the nearest dollar. Differences in calculations may occur due to rounding. Percentages are rounded to one decimal place.
– Zero or rounded to zero.

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Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax and Medicare (deduction)	No Child Care			With Child Care		
				Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income	Net child care costs	Disposable income after finding job	Improvement in financial position
	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	(% increase) ($ pw)	(%)	Amount ($ pw)	Amount ($ pw)	(% increase) ($ pw)
Lone parent –FT job at $772.60 per week									
With 1 child aged 3 years – PPS	$642	$372	$90	$1,055	64.2% $412	35.3%	$83	$972	51.2% $329
With 1 child aged 9 years – JSP	$524	$245	$71	$947	80.7% $423	25.9%	$18	$929	77.4% $405
With 2 children aged 3 and 9 years – PPS	$754	$488	$93	$1,168	55.1% $415	41.8%	$101	$1,068	41.7% $314
Lone parent –PT job at $304.95 per week									
With 1 child aged 3 years – PPS	$642	$559	–	$864	34.5% $222	64.7%	$33	$831	29.3% $188
With 1 child aged 9 years – JSP	$524	$432	–	$737	40.6% $213	58.6%	$7	$730	39.3% $206
With 2 children aged 3 and 9 years – PPS	$754	$675	$2	$978	29.9% $225	69.0%	$40	$938	24.5% $185

Note: All amounts are rounded to the nearest dollar. Differences in calculations may occur due to rounding. Percentages are rounded to one decimal place. Net child care costs are the cost charged by the care provider, less Child Care Subsidy entitlements.

– Zero or rounded to zero.

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Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax and Medicare (deduction)	No Child Care			With Child Care		
				Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income	Net child care costs	Disposable income after finding job	Improvement in financial position
	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	Amount ($ pw)	(% increase) ($ pw)	(%)	Amount ($ pw)	Amount ($ pw)	(% increase) ($ pw)
Couple – one employed FT on the NMW, the other finds a FT job at $772.60 per week									
No children - JSP	$866	–	$151	$1,394	61.1% $529	–	Not applicable		
With 1 child aged 3 years - PPP	$1,062	$31	$151	$1,425	34.2% $363	2.2%	$103	$1,323	24.5% $261
With 1 child aged 9 years – JSP	$1,038	$31	$151	$1,425	37.4% $388	2.2%	$22	$1,404	35.3% $366
With 2 children aged 3 and 9 years – PPP	$1,180	$99	$151	$1,493	26.5% $313	6.6%	$124	$1,369	16.0% $189
Couple – one employed FT on the NMW, the other finds a PT job at $304.95 per week									
No children - JSP	$866	$35	$75	$1,038	19.9% $172	3.4%	Not applicable		
With 1 child aged 3 years - PPP	$1,062	$191	$75	$1,193	12.3% $131	16.0%	$33	$1,160	9.2% $97
With 1 child aged 9 years – JSP	$1,038	$166	$75	$1,168	12.6% $131	14.2%	$7	$1,161	11.9% $124
With 2 children aged 3 and 9 years – PPP	$1,180	$302	$75	$1,304	10.5% $124	23.1%	$40	$1,264	7.1% $84

Note: All amounts are rounded to the nearest dollar. Differences in calculations may occur due to rounding. Percentages are rounded to one decimal place. Net child care costs are the cost charged by the care provider, less Child Care Subsidy entitlements.

– Zero or rounded to zero

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