2023-24 Annual Wage Review

Australian Government's Responses to Questions on Notice

17 May 2024

Prepared by:

Department of Employment and Workplace Relations

and

Treasury

Economic and labour market considerations

Question to all parties

1. **What should the Expert Panel conclude as to how the business sector is performing given the divergent conditions experienced and any recent improvement in business investment?**

Response

Recent growth in business investment has been underpinned by strong business balance sheets, elevated capacity utilisation, and resilient business sentiment. Forward-looking capital expenditure intentions for 2023-24 and 2024-25 point to continued positive, though moderating, growth. This reflects high levels of capacity utilisation and the desire to drive cost efficiencies which has, to date, offset the drag from the slowdown in household demand.

A large pipeline of non-dwelling construction projects is expected to underpin near-term growth with business investment forecast at the 2024-25 Budget to grow by 5½ per cent in 2023–24. Growth in business investment is expected to ease to be 1 per cent in 2024–25 and 2 per cent in 2025–26, as the pipeline of non-dwelling construction projects is worked through. Moderating domestic demand is expected to see investment in machinery and equipment ease, albeit from elevated levels.

Despite rising interest rates, the latest RBA Financial Stability Review noted that profitability of businesses has remained around pre-pandemic levels for most businesses and generally strong balance sheets have limited the risk of widespread corporate stress, although insolvencies have risen of late.

Question to all parties

2. **There is much debate among parties on the Australian economy's productivity performance and the extent to which increases in the NMW and modern award minimum wages are supportable having regard to that productivity performance. To avoid the use of different time periods or a particular data series being used by parties, can parties provide their positions on Australia's productivity performance by reference to the charts and tables presented in the Statistical Report at Section 2 on Productivity and the information note on productivity growth published on 6 May 2024.**

Response

Statistical report: Statistical Report – Annual Wage Review 2023-24 - Version 5 (fwc.gov.au)

Information note: Information note—Labour productivity (fwc.gov.au)

Low labour productivity growth in the years leading up to the pandemic (Chart 2.1, Table 2.1, Statistical report) is consistent with most developed countries (Table 2, Information note). The higher productivity growth and subsequent fall during the pandemic years (Chart 2.1, Table 2.1, Statistical report) is largely a consequence of COVID lockdowns and their unwinding, which proportionally had more effect on industries with lower levels of productivity (e.g. see Table 1, Information note).

Subdued growth in aggregated demand and an expected improvement in cyclical productivity can be expected to reduce hiring activity, although employment growth is expected to remain positive. Output per hour worked has only recently returned to around a pre-COVID level following a period of significant decline in the level of productivity. Whether the recent cyclical improvement in productivity continues and the timing of the return to trend productivity remains highly uncertain. On a heads basis, productivity has been declining since December 2021 and this trend is yet to be reversed. Productivity growth is expected to return to a trend that is broadly consistent with the 20-year average to 2021-22 of 1.2 per cent.

Question to the Australian Government

3. **The ACCI referred to analysis undertaken by Treasury (obtained by The Australian Financial Review under FOI) that pay rises would become the main driver of CPI but note that this was for June 2023. 8 The ACCI states that 'since then wages have continued to rise, with the wage price index increasing from 3.7 per cent to 4.2 per cent in December 2023, while the impact of supply chain disruptions (affecting imports) has lessened. Therefore, it can be expected that wages pressure on inflation would be greater in the first quarter 2024 than June 2023. Can the Australian Government comment upon or provide an update to this analysis?**

Response

A key driver of Australia's current inflationary episode was supply side shocks, driven by the COVID-19 pandemic and Russia's invasion of Ukraine in 2022. These global shocks have eased considerably. Inflation is moderating in the Australian economy. The peak in services inflation lagged that of goods inflation. Services inflation remains elevated, however it is expected to gradually normalise over the next two years. While productivity has grown for two consecutive quarters, the extent to which productivity growth will recover remains uncertain. A slower recovery in productivity growth could have implications for inflation.

Treasury has previously released some inflation analysis through a Freedom of Information request in July 2023 (FOI 3376). This chart formed one of many approaches explored to analyse inflationary pressures through a variety of frameworks. It was a stylised chart and was not used to inform forecasts.

Nominal Unit Labour Costs will not be available for the first quarter 2024 until the release of the National Accounts on 5 June 2024.

Relative living standards and the needs of the low paid

Questions to all parties

4. **Having regard to the industry and occupational characteristics in Table 4 and Appendix C of the Research Paper, is it likely that a large proportion of the employees said to be reliant on the NMW are in fact covered by modern awards? Does it follow that the Australian Government's estimates of the proportion of the workforce which is NMW-reliant are significant overestimates?**

Response

The Government's estimate of workers paid the national minimum wage rate includes employees covered by modern awards as well as workers on individual arrangements and enterprise agreements. The reason for including NMW-equivalent employees in our total estimate is because the base rates of pay for these workers can be determined or influenced by NMW decisions. As such, we do not agree that the Australian Government's estimates of the proportion of the workforce which is NMW-reliant is a significant overestimate. Chart 4.1 of the Government's submission provides an estimate for total workers paid the national minimum wage rate, breaking this down by method of setting pay.

The NMW rate of $882.80 per week is equivalent to the lowest pay rate for around 20 per cent of the industry and occupation modern awards, excluding introductory and training rates of pay which are temporary as of 5 March 2024. We also note that some enterprise agreements link to minimum wage increases for all employees covered under the agreement, not just the lowest paid. In the December quarter 2023 alone, the Fair Work Commission (FWC) approved 70 agreements (covering 13,600 employees) that linked wage increases to the national minimum wage (DEWR, Trends in Federal Enterprise Bargaining report, December quarter 2023).

As the FWC's research notes, identifying NMW workers is difficult for several reasons, not least due to limitations in the data available. Given the limitations in the available data, a range of assumptions are required to produce estimates.

The Government regularly reviews its estimation methodologies, including that for NMW workers. The Government thanks the FWC for its research paper on NMW-reliant workers and would be pleased to work further with the FWC to understand and refine respective methodologies.