

# Ai GROUP SUBMISSION

Fair Work Commission

## **Annual Wage Review 2015-2016**

30 March 2016



## **About Australian Industry Group**

The Australian Industry Group (Ai Group) is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing, engineering, construction, automotive, food, transport, information technology, telecommunications, call centres, labour hire, printing, defence, mining equipment and supplies, airlines, health and other industries. The businesses which we represent employ more than one million people. Ai Group members operate small, medium and large businesses across a range of industries. Ai Group is closely affiliated with many other employer groups and directly manages a number of those organisations.

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# 1. Introduction

The Australian Industry Group (Ai Group) submits that when all the relevant factors are weighed up, a modest wage increase of 1.6% is warranted in this year's Annual Wage Review. This equates to an increase of about \$10.50<sup>1</sup> per week in the National Minimum Wage and about \$12.25<sup>2</sup> per week at the base trade level.

We have reached this position based on a number of factors, including:

- The fact that economic growth remains patchy across sectors and across locations, with aggregate business incomes, profits and investment still underwhelming. (See Section 2.1).
- Australia's lack of global competitiveness and very high minimum wage compared to other comparable countries. (See Section 2.3).
- The fact that Australian (and global) inflation rates have been exceedingly weak for some time. (See Section 2.6).
- The fact that Australia's wage price index (WPI) fell to its lowest annual growth rate on record in December 2015. (See Section 2.6)
- The fact that one in every seven members of the workforce (i.e. almost 1.8 million people) are currently either unemployed or underemployed. (See Sections 3, 4 and 5).
- The need to deliver a fair and relevant minimum wage increase to employees, including low paid employees. (See Sections 3 and 4).
- The need to promote social inclusion through increased workforce participation. (See Section 5).
- The need to encourage collective bargaining. (See Section 6).

It is important that the Expert Panel not put the interests of those in secure jobs ahead of the needs of those searching for jobs, or for more work, and the needs of those whose jobs will be threatened (including many low paid workers) if an excessive minimum wage increase is awarded.

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<sup>1</sup> \$10.51

<sup>2</sup> \$12.24

## 2. The business environment in 2016

Australian output growth (real GDP in the *National Accounts*), accelerated to 3.0% p.a. in the final quarter of 2015, after averaging just 2.7% p.a. over the past five years. Employment growth and the unemployment rate also improved through 2015. The non-mining recovery or 'rebalancing' is strengthening, as the non-mining sectors respond to the lower Australian dollar and the nascent housing cycle. Price and wage inflation remain exceptionally low.

Beneath the headlines however, growth remains patchy across sectors and across locations, with aggregate business incomes, profits and investment still underwhelming. National income remains problematic as the terms of trade fall, which is affecting business profitability and ability to invest. Much hangs on the dollar and the housing cycle in 2016. Both present risks as well as opportunities to the outlook. These risks mean that although Australian conditions are improving, many businesses remain justifiably wary of taking on new liabilities and new investment.

The RBA shares this caution regarding the outlook. In its latest quarterly *Statement on Monetary Policy* (Feb 2016), the RBA left its forecast for Australian GDP growth for 2015-16 unchanged at "2.0% to 3.0%", but adjusted its expectations for 2016-17 down to "2.5% to 3.5%" (down by 0.25 percentage points from the forecasts it published in November), due to lower commodity prices, resources export earnings and mining investment expected in 2016-17. More positively, the RBA revised up its forecasts for household income and demand, "in line with a slightly stronger forecast of employment".

For 2016-17, the RBA notes that Australia continues to face significant and immediate risks arising from commodity price changes, financial market volatility and global economic events. In response to these risks, the RBA has remained open to considering further cuts to the cash rate, should that prove necessary to support local demand (that is, the RBA showed an easing bias in its monthly monetary policy statements in February and March).

**Table 1: RBA headline forecasts for Australia, GDP and CPI. Feb 2016**

	June 2016	June 2017	June 2018
GDP growth, % p.a.	2.0-3.0	2.5-3.5	3.0-4.0
CPI change, % p.a.	1.5	2.0-3.0	2.0-3.0

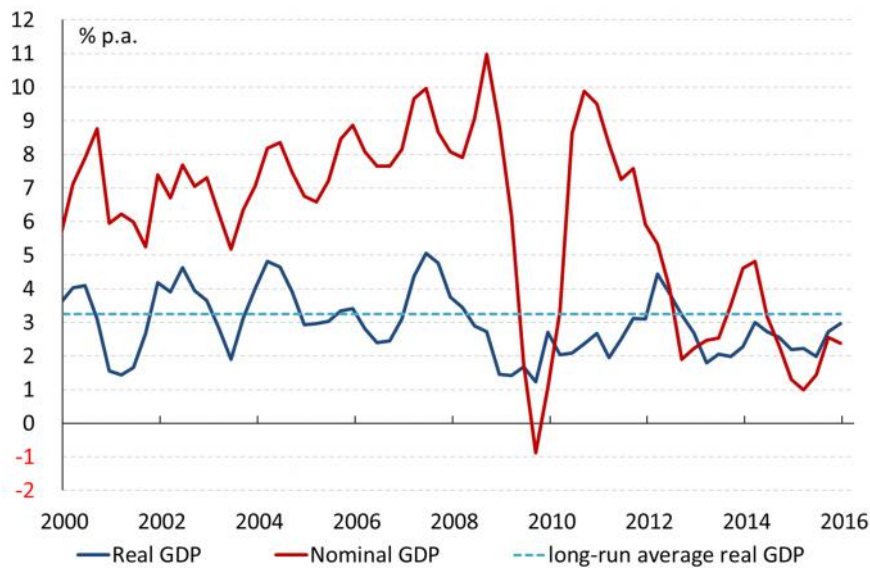
Source: RBA *Statement on Monetary Policy*, Feb 2016.

### 2.1 Trends in the Australian economy

The latest ABS *National Accounts* estimate that real GDP growth accelerated to 0.6% q/q and 3.0% p.a. in Q4 2015, taking it closer to Australia's long-term average (or 'trend') growth rate of around 3.25% p.a. Key drivers of growth in the December quarter were household consumption, government spending and business inventories. In addition to stronger growth in December, GDP growth for Q3 2015 was revised up to 1.1% q/q from 0.9% q/q previously, mainly due to stronger household consumption and dwelling investment (see Chart 1). Nominal GDP grew by 0.4% q/q in Q4 2014 to be up 2.4% p.a., (a deceleration from 1.1% q/q in Q3). This extended period of weak

nominal GDP growth reflects the downturn in commodity prices and Australia's terms of trade, as well as very weak inflation.

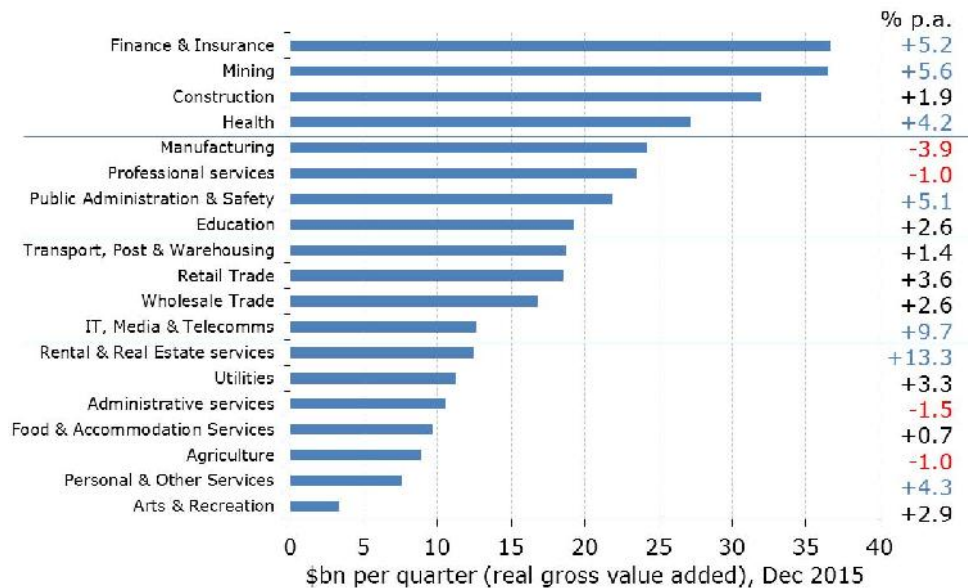
**Chart 1: Australian GDP growth, real and nominal**



Source: ABS *National Accounts*, Dec 2015.

The production side of the *National Accounts* provides a snapshot of growth across various industries (see Chart 2). Among the major industries that recorded growth in real output in Q4:

- Finance & insurance (banking, insurance, superannuation and other finance services) added 0.9% q/q (+5.2% p.a.) to output. This is currently Australia's largest industry, in output terms.
- Mining output volumes increased by 1.1% q/q in Q4 to be up 5.6% p.a., following a period of strong investment in capacity. Mining is Australia's second largest industry, in output terms.
- The Health industry, grew by 0.9% q/q and 4.2% p.a., increasing in size and as a share of GDP.
- Public administration & safety output increased by a relatively strong 1.6% q/q and 5.1% p.a.
- Education output increased by 0.6% q/q in Q4 and 2.6% p.a. for 2015. This industry is benefitting from a lower Australian dollar, which is encouraging growth in international student enrolments.
- Wholesale trade output increased 1.6% q/q and 2.6% p.a. for Q4. The industry grew strongly throughout 2015 after an extended period of shrinkage in 2013 and 2014.
- Retail trade grew by 1.0% q/q, taking annual growth to 3.6% p.a.
- The IT, media & telecommunications sector output grew by 2.7% q/q (a ninth consecutive quarter) to be 9.7% p.a. higher in Q4 2015.
- Utilities (gas, electricity, water and waste) output grew by 1.9% q/q and 3.3% over the year.
- Rental & real estate services which are closely aligned with the property market, recorded a third quarter of recovery, increasing by 2.9% q/q in Q4 2014 and 13.3% p.a. This strong increase reflects increased building activity and sales turnover of existing housing, especially in major capitals, during 2015.

**Chart 2: Gross value added output & annual growth by industry**

Source: ABS *National Accounts*, Dec 2015.

Two of Australia's largest industries recorded a decline in output volumes in Q4 2015:

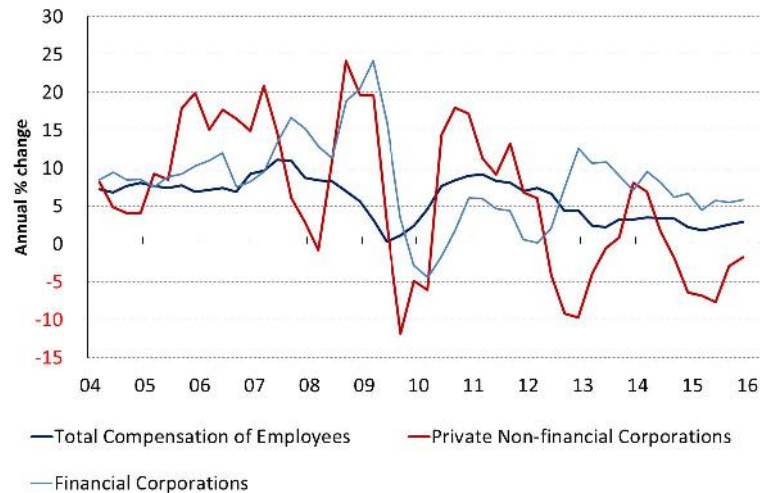
- Manufacturing output fell for by 2.1% q/q in Q4 2015, to be down 3.9% p.a. Despite stronger manufacturing sales and exports in 2015, the industry was affected by reducing automotive production, fewer mining projects and fewer major government infrastructure projects.
- Professional Services output fell by 1.4% q/q and by 1.0% p.a., with business-to-business sectors facing tough conditions. This was a third consecutive quarter of decline in output.

Despite this growth in output for many (but not all) major industries, Australia's real gross domestic income (GDI) was flat in Q4 and up just 0.3% p.a. for 2015. Real net national disposable income (another key measure of Australia's global spending capacity) shrank by 0.1% q/q in Q4, to be 1.1% lower over the year. In per capita terms, real net national disposable income shrank by 0.4% q/q and 2.3% over the year to Q4, marking seven straight quarters of decline.

This lack of aggregate income growth was mainly due to further declines in the terms of trade in 2015 (that is, the ratio of export prices to import prices and a key measure of the relative value of Australia's exports). The terms of trade fell by a further 3.1% q/q in Q4 2014, marking the eleventh straight quarter of decline and taking the terms of trade 34.1% below its peak in Q3 2011.

This fall in net national income (sometimes called the 'income recession') is most visible in falling profits rather than falling employee earnings (see Chart 3). Aggregate 'compensation of employees' as a share of total factor income recovered to 54% in 2015, a touch above its average over the past decade of 53%. This reflects declines in profit earnings for private non-financial corporations in 2013 and again in 2015. In Q4 2015, private financial corporations grew their gross operating surplus (GOS, a proxy for nominal profits) by 2.1% q/q and 5.8% over the year, but aggregate GOS for private sector non-financial corporations was 1.8% lower than a year earlier, despite growing by 0.9% q/q (see Chart 3).

**Chart 3: Growth in aggregate national income (nominal)**

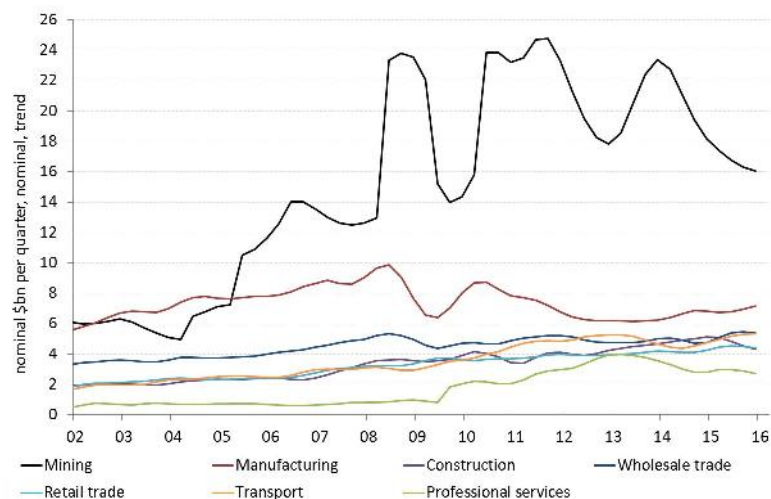


Source: ABS *National Accounts*, Dec 2015.

In the ABS *Business Indicators* data release for Q4, nominal company gross operating profits (GOP, a different but related measure to GOS) were mixed across industries in Q4 2015 (see chart 4):

- Mining GOP fell by 1.6% q/q in Q4 and 14.9% over the year due to the large fall in commodity prices (particularly iron ore). This was despite further increases in mining sales volumes
- Manufacturing GOP recovered slowly in 2015, after several years of decline. Manufacturing GOP increased by 2.7% q/q in Q4 and 3.4% over the year.
- In other industries, construction (-4.4% q/q; -11.2%), professional services (-5.8% q/q; -9.0%) and retail trade (-2.0% q/q; -0.1%) all recorded sizeable falls in company GOP in Q4 2015.

**Chart 4: Nominal corporate profits, major industries**



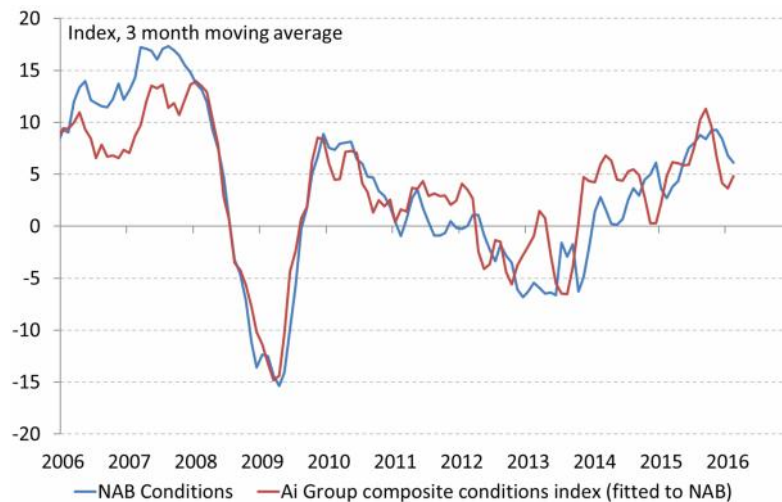
Source: ABS *Business Indicators*, Dec 2015.



## 2.2 Australian business expectations and concerns in 2016

In the first quarter of 2016, the monthly business activity surveys conducted by Ai Group and the NAB remained mixed. In aggregate, business conditions continue to indicate a net expansion (composite indexes above zero suggest positive conditions) but they are already trending lower than the peaks in activity that were evident in the second half of 2015 (see chart 5).

**Chart 5: NAB business conditions and Ai Group 'composite' conditions indexes\***



Source: NAB and Ai Group.

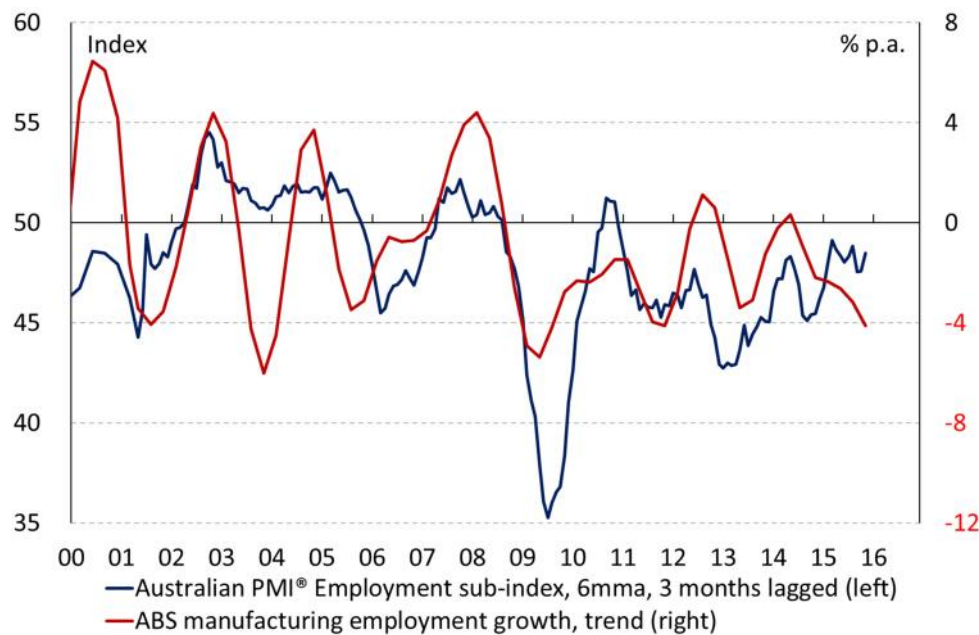
\* Weighted composite index of Ai Group Australian PMI, PSI, PCI, fitted to same scale as NAB. Values above zero indicate positive conditions in the NAB index and net expansion in the Ai Group index. Values below zero indicate negative conditions in the NAB index and net contraction in the Ai Group index.

The Ai Group Australian Performance of Manufacturing Index (**Australian PMI®**) increased 2.0 points to 53.5 points in February (seasonally adjusted). This was the eighth consecutive month in which the Australian PMI® has been above 50 points (net expansion) and is the longest continuous run of expansion since 2006. Sectors relating to food & beverages, groceries and building materials are performing better, with the lower Australian dollar boosting export volumes and import replacements. Other manufacturing sectors continue to struggle however, due to the closure of Australian automotive assembly and declining mining investment and engineering projects.

The Australian PMI® and the latest ABS employment data both confirm that this recent partial recovery in parts of manufacturing has not been sufficient to recover employment in manufacturing (see Chart 6). Manufacturing employment continues to decline in total, despite stabilization in some pockets such as food, beverages, groceries and building materials production. Manufacturing was the only large industry to continue to shed jobs in the year to February 2016, losing a further 45,500 jobs over the year. With an estimated 860,000 employees in February 2016, manufacturing has now lost around 200,000 jobs since its most recent peak size of 1.06 million workers in February 2008.

In the services industries, the Ai Group Australian Performance of Services Index (**Australian PSI®**) lifted 3.4 points to 51.8 points in February (net expansion). While the bounce into expansion was positive, the Australian PSI® results remain mixed and point to some fragility in the services sectors. Growth was evident in finance & insurance services, the large consumer-oriented health & community services sector (which includes health, welfare and education) and personal & recreational services. Business services and the goods distribution sectors (retail, wholesale and transport) continue to face difficult conditions. The worst performer was transport & storage services, which indicated a relatively strong rate of contraction in February.

**Chart 6: Ai Group Australian PMI® employment sub-index and ABS manufacturing employment growth**



Source: Ai Group and ABS *Labour Force Australia Detailed Quarterly*, Feb 2016.

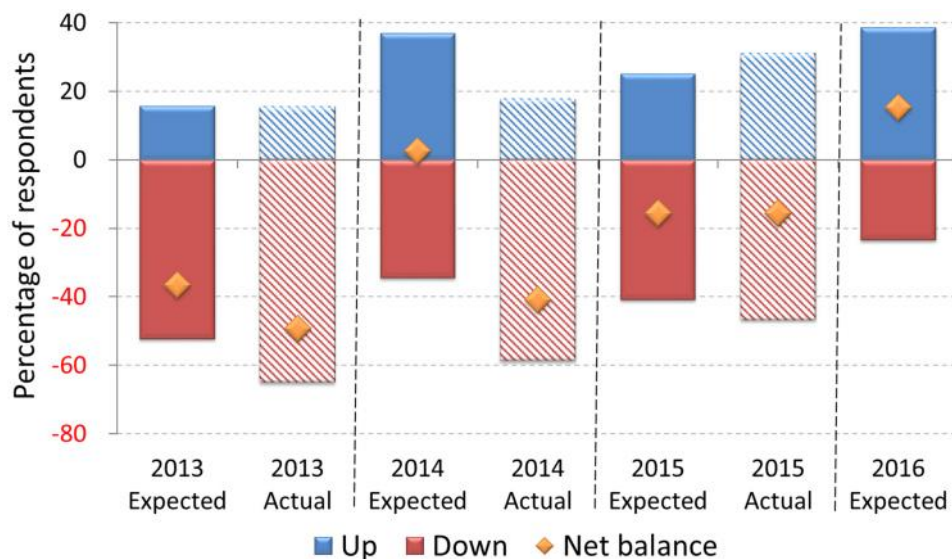
The Australian Industry Group-HIA Australian Performance of Construction Index (**Australian PCI®**) fell by 0.2 points to 46.1 points in February (readings below 50 points indicate contraction). This was the third consecutive month of readings below 50 points and indicating decline. Across the four sub-sectors in the Australian PCI®, house building activity contracted in February for the first time in three months to be at its lowest level since the start of 2015. The volatile apartment building sector experienced a recovery in activity, after a downturn in January. Commercial construction also showed improvement in February, expanding for the first time in six months. Engineering construction continued to contract, although its rate of decline was the slowest in nine months.

Ai Group's annual survey of CEO's about their business prospects indicates that Australia's CEOs are more optimistic about general business conditions in 2016 than at any time in the past three years (see Chart 7). This improved outlook reflects more favourable developments in the economic and business landscape through the latter half of 2015, including further drops in the Australian dollar; low interest rates and inflation; a resurgent residential construction sector;

improving consumer confidence and local spending; and the positive response to the change in Australia's political leadership.

While CEOs' expectations for 2016 are more optimistic than in recent years, they still point to a mixed year ahead. Among business sectors, mining and mining services businesses are the most pessimistic with 47% expecting conditions to deteriorate in 2016. 42% of construction businesses expect conditions to deteriorate. Services businesses are the most optimistic with 41% expecting better conditions in the year ahead.

**Chart 7: CEO business prospects survey: business conditions and expectations**



Source: Ai Group, *CEO Survey: Business Prospects 2016*.

Across all industries, weak customer demand is the single most common concern for CEOs. 27% of CEOs ranked weak customer demand as one of their three main concerns (up from 25% for 2015 and 21% for 2014). Wage costs are of concern to 17% of CEOs for 2016, up from 15% for 2015. With background inflation and wage rises at relatively subdued levels in 2015, concern seems to relate to the inability to pass on any wage rises, rather than the absolute level of wages within a business. This pressure on margins is evident in the pessimism many CEOs felt about their ability to improve their profit margins in 2016. Skills shortages are a concern for 10% of CEOs, slightly more than in previous years (around 9% in each of 2013, 2014 and 2015). An additional 8% of CEOs felt that the flexibility of industrial relations (that is, industrial relations flexibility limitations other than wages and skill shortages) is an impediment to their business growth in 2016, down slightly from 9% in 2015 and 11% in 2014. (see Chart 8).

Across all industries, employment numbers will increase in 36% of businesses in 2016. This is about the same proportion that reported an increase in employment in 2015 (36%) and who had planned to increase employment in 2015 one year earlier (34%). 27% of businesses expect to decrease their headcount (versus 35% that actually did so in 2015) and 37% will keep their staff

numbers the same in 2016. Across industries included in the CEO Business Prospects Survey for 2016:

- 53% of mining CEOs report that they plan to reduce employment in 2016. Employment will be stable in 27% of mining businesses and will grow in 20% of businesses. This is a larger proportion of mining businesses expecting to cut labour than in previous years.
- More manufacturing CEOs expect to be able to keep their employment numbers stable in 2016 (43%) than were able to actually do so in 2015 (33%) or 2014 (40%). More manufacturers plan to increase their employment numbers in 2016 (32%) than had planned to do so one year earlier, for 2015 (24%). Conversely, fewer are planning to make cuts to their workforce in 2016 (26%) than had planned did so one year earlier, for 2015 (36%).
- Employment numbers will be stable in 42% of construction businesses in 2016. 27% of construction CEOs plan to increase employment in 2016, while 31% plan to cut their headcount.
- Employment intentions remain patchy across the service industries for 2016. 40% of CEOs indicate they intend to increase their employee numbers, 38% will keep them stable and 22% plan to make cuts.

**Chart 8: CEO business prospects survey: impediments to business growth\***



Source: Ai Group, *CEO Survey: Business Prospects 2016*.

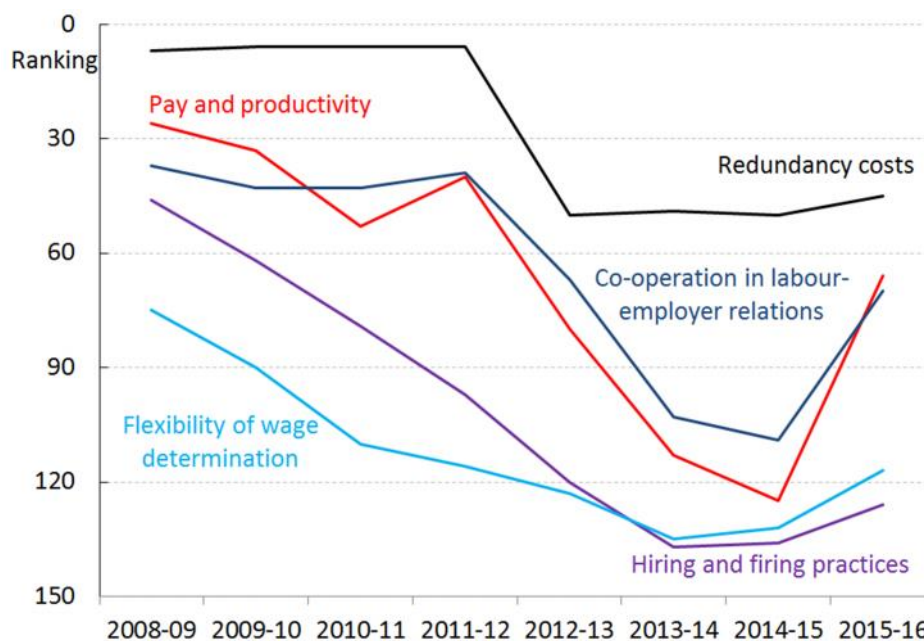
\* percent of respondents who included each factor in their 'top three impediments to growth'.

## 2.3 Trends in Australian global competitiveness

Australia's competitive landscape has improved slightly over the past year, with our ranking in the World Economic Forum's (WEF) Global Competitiveness Report improving one place to 21st among our global counterparts in 2015-16. This is a small but very welcome improvement after four years' of deterioration in Australia's global competitiveness ranking. Our relatively poor global position however, continues to reflect the commonly heard comment from business leaders that "Australia has become a very expensive country in which to make things or to do business".

Among the twelve 'pillars' in the WEF Global Competitiveness comparisons, Australia's worst rankings are in the WEF's labour market efficiency and goods market efficiency indicators. Within the labour market pillar, Australia ranked very poorly in 2015-16 on Hiring and Firing Practices (126th), Flexibility of Wage Determination (117th) and Effect of Taxation on Incentives to Work (110th). Other areas of concern were Co-operation in Labour-Employer Relations (70th), Pay and Productivity (66th), Women in the labour force (55th) and Redundancy costs (45th). More positively, it is worth noting that there has been some improvement in most of these categories in 2015-16, including in labour-employer relations, pay and productivity, and flexibility, despite the obvious need for further improvements (see chart 9).

**Chart 9: Global Competitiveness indicators: Australian labour market efficiency**

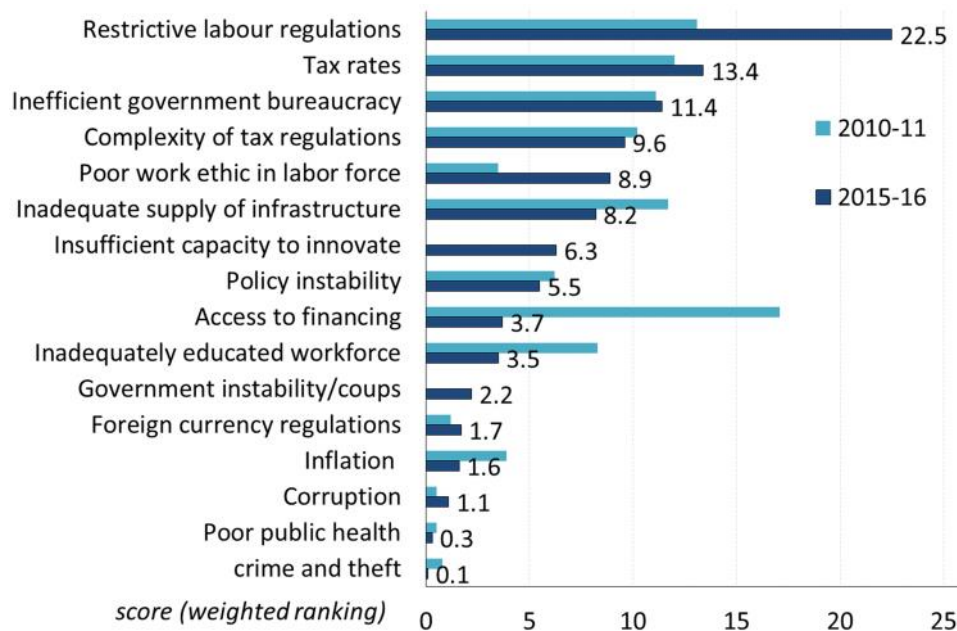


Source: Ai Group and WEF *Global Competitiveness Reports*

In a separate question, WEF survey respondents were asked to name the five most problematic factors for doing business in Australia, relative to other countries (see Chart 10). Restrictive labour regulations were viewed as the most problematic factor, followed by tax rates. Inefficient government bureaucracy, complexity of tax regulations and poor work ethic in the labour force also ranked in the top five most problematic factors for doing business. Restrictive labour regulations has been the most problematic factor for business since 2010-11, and tax has sat in second place for the past two years.



**Chart 10: Global Competitiveness indicators: Australia's "most problematic factors for doing business" in 2015-16 and 2010-11\***



Source: Ai Group and WEF *Global Competitiveness Reports*

\* From this list of factors, respondents were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5 (least problematic). The score corresponds to the responses weighted according to their rankings.

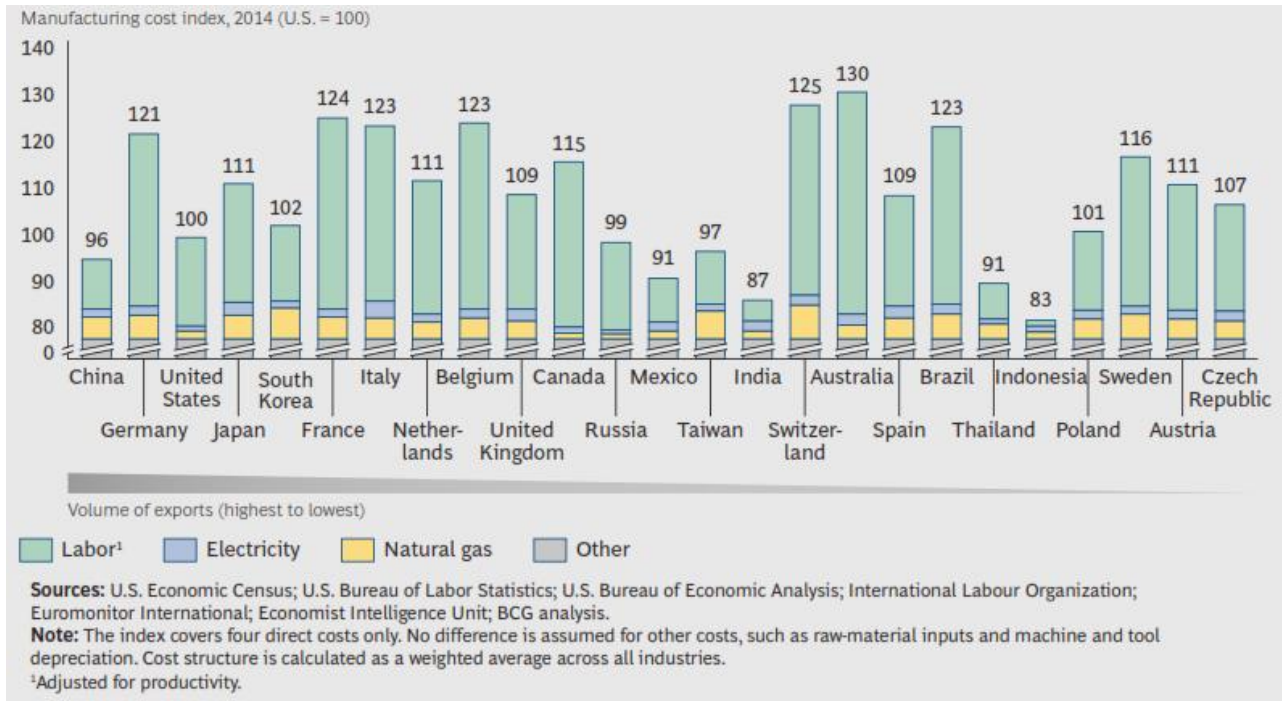
These latest findings on Australia from the WEF Global Competitiveness series strongly suggest that Australia has not yet turned the corner on the serious loss of competitiveness observed over the past decade. In Australian manufacturing, this trend has contributed to over 200,000 jobs being lost since 2008.

In 2014 the Boston Consulting Group (BCG) examined global manufacturing costs across a range of indicators and found Australia had the highest relative cost structure (see Chart 11). The BCG found that Australia had also experienced the sharpest deterioration in relative costs between 2004 and 2014:

*"Australia was the worst-performing of the 25 economies in the BCG Global Manufacturing Cost-Competitiveness Index, dropping 21 points relative to the US since 2004 and moving past Germany, the Netherlands, Belgium and Switzerland in average costs. Indeed, Australia lost ground in each cost area in our index – wages, productivity, energy and currency exchange rates" (BCG 2014, *The shifting economics of global manufacturing*, p. 12)*

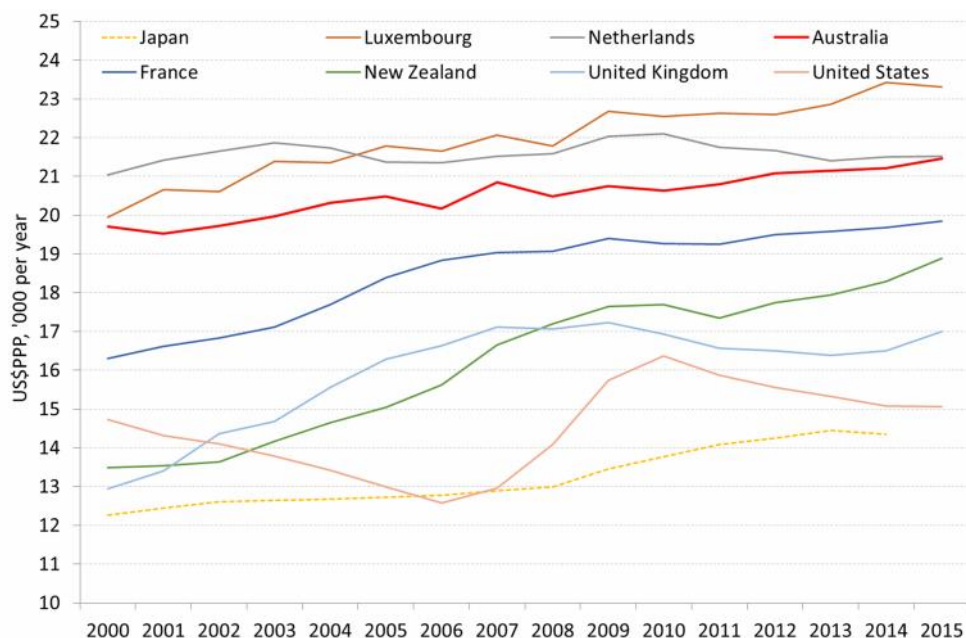
Since that finding in 2014, it is likely that only the last of these factors, the Australian dollar, has moved in favour of improving the global cost competitiveness of Australian manufacturing. The other three cost factors – wages, productivity and energy costs - have stood still or continued to deteriorate, relative to Australia's manufacturing competitors.

**Chart 11: Relative costs in the top 25 export economies for manufactured goods**



OECD data indicate that among OECD countries that had a national minimum wage in 2015, Australia's minimum wage moved closer to the top of the scale. In 2015, Australia's national minimum wage was equal to that in the Netherlands and lower only than Luxembourg (measured in 2014 US dollars on a purchasing power basis, see Chart 12).

**Chart 12: Real minimum wages to 2015 (2014 US dollars, PPP basis)**



Source: OECD, *Real minimum wages*, OECD.Stat Online.

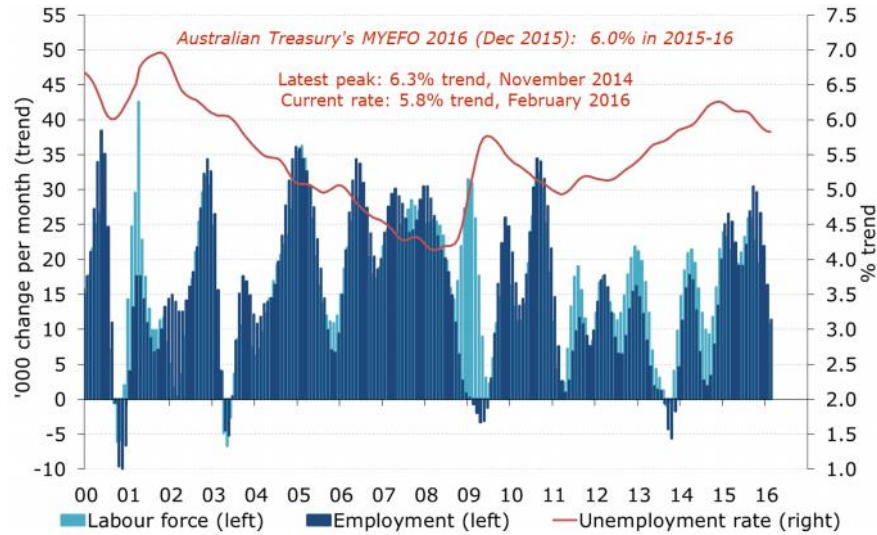
## 2.4 Trends in the Australian labour market

Australia's labour market improved through 2015, with employment growth strengthening to 2.6% p.a. by the end of the year and the unemployment rate dropping to 5.8%. The first two months of 2016 however, suggest this momentum may have stalled. The latest trend data show:

- **Total employment** grew by 16,400 in January and 11,400 in February 2016 (+0.1% m/m), up 2.3% from a year earlier. This indicates a deceleration in trend employment growth from the recent highs of 30,000 new jobs per month through Q3 of 2015 and a peak annual growth rate of 2.6% p.a. in Q4 2015 (see Chart 13). The employment to population ratio was steady in February at 61.3%, maintaining the highest level recorded since June 2013.
- Growth in **part-time employment** continues to outstrip growth in full-time employment, at 3.4% p.a. versus 1.9% p.a. for full time employment in February (see Chart 14). 31% of the workforce is now employed part-time (less than 35 hours per week). Part-time employment rose to a record high of 18% of all employed men but declined a touch for women, to 46.3% of all employed women (down from a peak of 46.6% in February 2015).
- The trend **unemployment rate** has steadily declined to 5.8% from a recent peak of 6.3% in November 2014 (see Chart 13). These estimates are in line with Treasury's forecast in the *Mid-Year Economic and Fiscal Outlook* (December) of a peak unemployment rate of 6.0% sometime in 2015-16. Risks remain that the unemployment rate could jump above 6.0% again, especially if employment growth continues to decelerate.
- The number of **unemployed people** fell to 736,600 in February, the lowest number since May 2014 (trend). Within this total, 212,100 (29%) unemployed people are looking for part-time work only (22% of unemployed men and 37% of unemployed women) (see Chart 15). The proportion of unemployed people seeking only part-time work drifted higher in the 1990s and 2000s but has been more stable during the 2010's to date (see Chart 15). The persistently high proportion of unemployed people seeking part-time work suggests that recent rises in part-time work are being driven, at least in part, by jobseekers' work preferences, and especially by the preferences of the growing pool of female jobseekers.
- **Labour force participation** was slightly lower in February, at 65.1% (trend). Labour force growth slowed to 1.9% p.a. in February (adding around 10,000 people per month), from a recent peak of 2.2% p.a. in Q4 of 2015 (adding around 25,000 people per month) (see Chart 13). The participation rate for men has been stable at around 71% since December 2014, while participation for women increased to 59.4% in February, which is a record high for Australian female labour force participation.
- The monthly Seek count of new **job advertisements** on the Internet shows the number of job ads fell by 0.8% m/m in February 2016, but remained 5.7% higher than one year earlier. Similarly, the ANZ count of all job ads on the Internet and in newspapers fell by 1.2% m/m in February, with internet job ads declining by 1.3%. This weaker job ads profile in both the SEEK and ANZ data may reflect renewed caution among businesses to commit to new jobs.

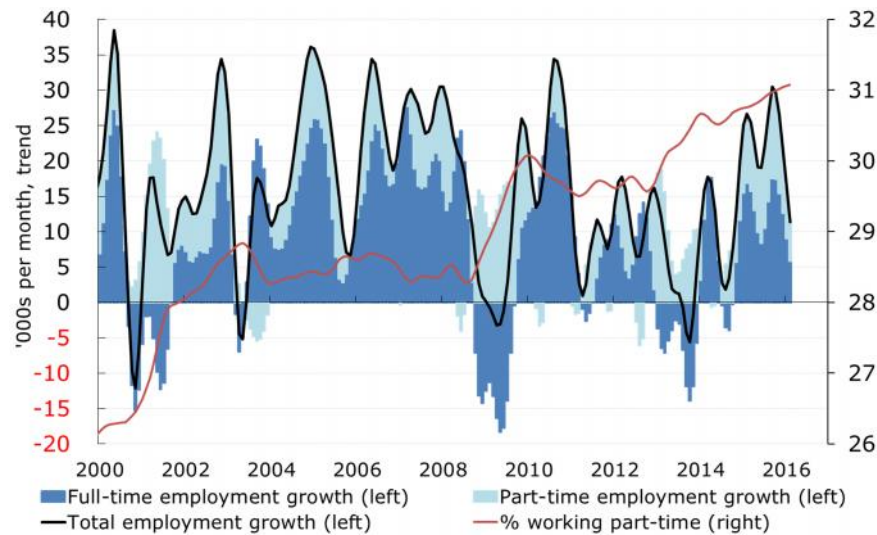


**Chart 13: Employment, labour force and unemployment growth (trend)**



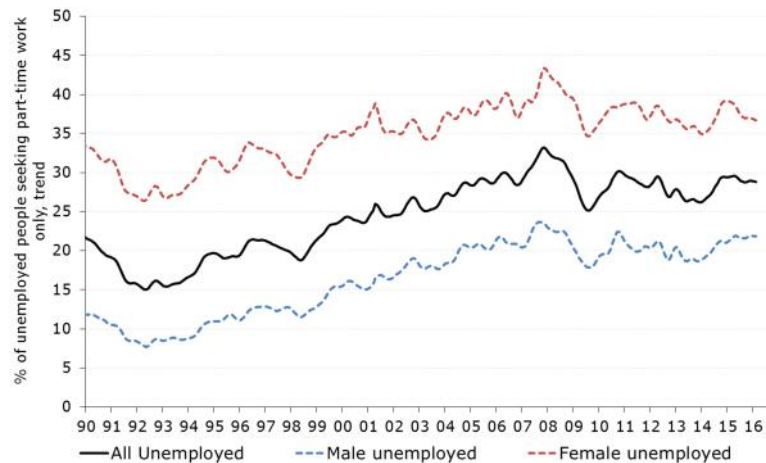
Source: ABS, *Labour Force Australia*, to Feb 2016.

**Chart 14: Full time and part time work (trend)**



Source: ABS, *Labour Force Australia*, to Feb 2016

**Chart 15: Unemployed people seeking part-time work only (% , trend)**



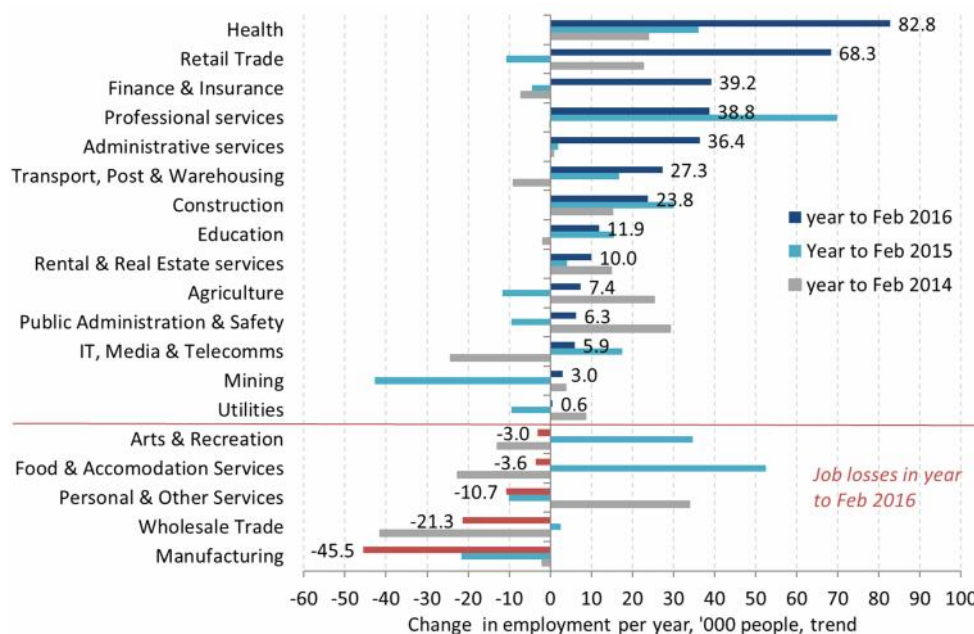
Source: ABS, *Labour Force Australia*, to Feb 2016.

As has been the pattern for some time, almost all of the employment growth in the year to February 2016 was concentrated in the largest services industries (see chart 16):

- Healthcare employment grew by a further 82,800 people or 5.8% p.a., to 1.510 million or 12.7% of the total workforce. Healthcare accounted for 30% of all new jobs created this year.
- Retail trade recovered sufficiently in 2015 to employ 68,300 more people or 5.6% p.a. It now employs 11% of the total workforce and accounted for 25% of all new jobs created this year.
- Construction employment grew by 23,800 people or 2.3%. It employs 9% of all workers.
- Professional services (including legal, accounting, engineering and consulting services) grew by 38,800 people or 4.0% p.a. It now employs 8.6% of all workers.
- Education employment grew by 11,900 people or 1.3% p.a. It employs 8% of all workers.

Manufacturing was the only large industry to continue to shed jobs in the year to February 2016, losing a further 45,500 jobs over the year. With an estimated 860,000 employees in February 2016, manufacturing has now lost around 200,000 jobs since its most recent peak size of 1.06 million workers in February 2008. The latest detailed employment data indicate that employment shrank most in the year to February 2016 in the manufacturing sectors of printing (-13,600), 'other manufacturing' (-13,300), primary metals (-6,600) and transport equipment (including automotive production, -3,500). In contrast, beverages manufacturing employed an additional 6,600 people while employment in polymer products (including paint and coatings) grew by 5,100 and employment in 'non-metallic minerals' (mainly building materials such as glass, bricks, tiles and cement) grew by 3,500 jobs. These employment trends within manufacturing tally closely with recent manufacturing sub-sector performances in Ai Group's **Australian PMI**.

**Chart 16: Employment growth by major industry, year to February 2016**



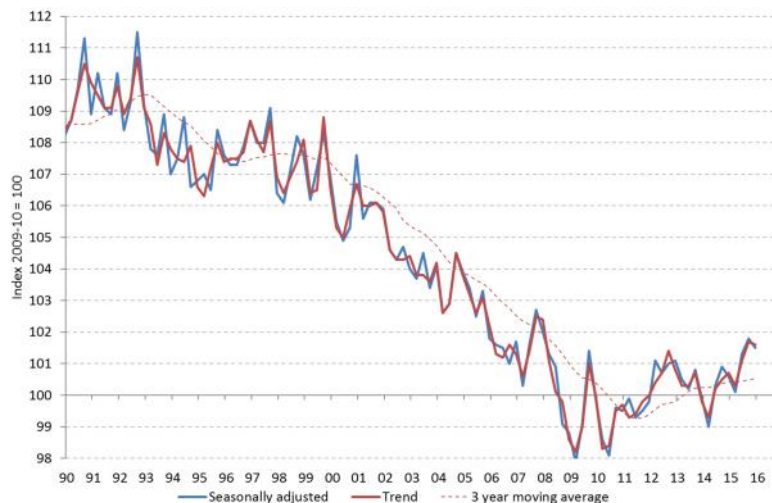
Source: ABS, *Labour Force Australia*, detailed quarterly, February 2016.

## 2.5 Trends in Australian labour costs and productivity

The *National Accounts* presents some mixed messages about workforce productivity changes in 2015. Estimated market sector gross value added (GVA) per hour worked (in trend terms) rose by 0.2% over the quarter and 1.6% through the year in Q4 2015. This suggests a small improvement in market-sector labour productivity in 2015. Real unit labour costs for all non-farm industries decreased by 0.1% q/q (an improvement) which also suggests an improvement in labour costs relative to output, but this index remained 1.2% higher than a year earlier. This suggests higher labour costs per unit of output, relative to one year earlier (see Chart 17).

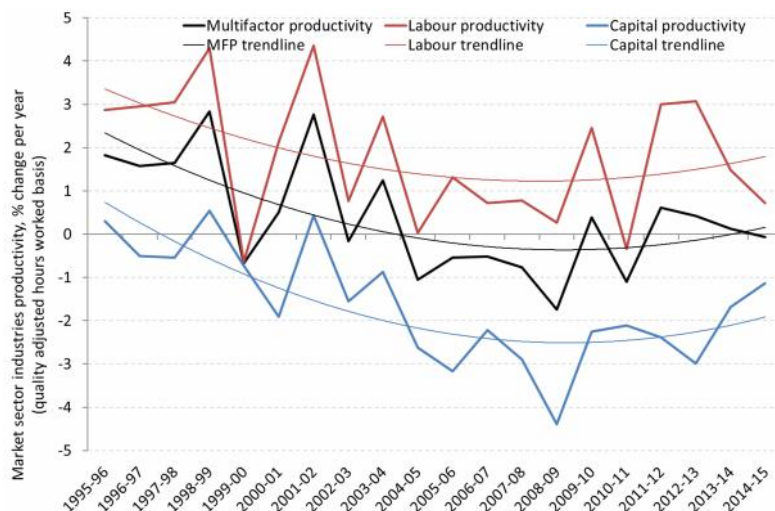
The annual ABS estimates of national productivity change across market sector industries suggest that multifactor productivity (MFP) declined by 0.1% in 2014-15 and that labour productivity growth was weaker in 2013-14 and 2014-15 than it had been in the previous two years, on a quality-adjusted, hours worked basis. The long-term trends in market-sector productivity change however, suggest a mild improvement in annual growth rates in recent years, compared with the very low productivity growth estimates of five years earlier (see Chart 18).

**Chart 17: Real unit labour costs index, non-farm workers**



Source: ABS *National Accounts*, Dec 2015.

**Chart 18: market sector productivity growth estimates**



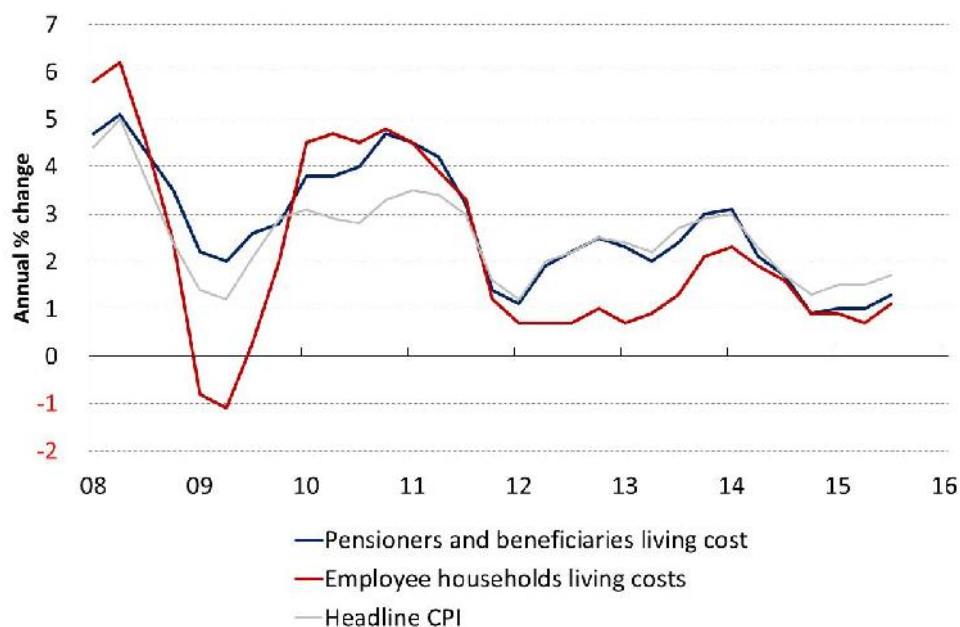
Source: ABS *Estimates of Industry multifactor productivity 2014-15*, Dec 2015.

## 2.6 Trends in Australian wages and inflation

Australian (and global) inflation rates have been exceedingly weak for some time. The headline CPI rate in Australia has been below 2.0% p.a. (that is, below the RBA's target inflation band of 2-3%) since Q3 2014. Headline CPI hit a recent low of 1.3% p.a. in Q1 2015 and recovered to just 1.7% p.a. in Q4 2015 (see Chart 19). Core inflation (the average of the ABS' trimmed and weighted means) fell to 2.0% p.a. in Q4 2015.

The related ABS cost of living indexes indicate that average living costs for households headed by employees have grown more slowly than the (unusually low) CPI and more slowly than costs for pensioner households since 2011 (see Chart 19). Annual growth in employee living costs slowed to 0.9% p.a. in Q1 and Q2 2015 and just 0.7% in Q3, before accelerating to 1.1% p.a. in Q4 of 2015.

**Chart 19: Inflation (CPI) and living cost indexes, annual growth rates**



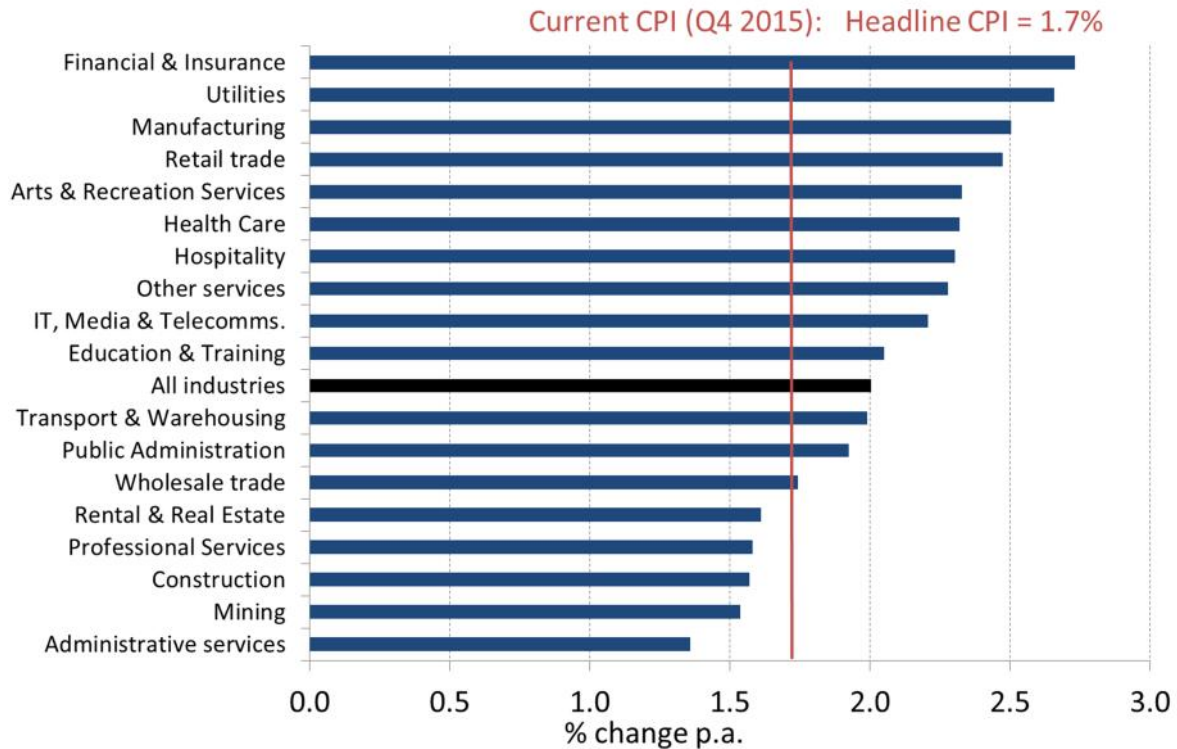
Sources: ABS, *Living Cost Indexes* and *Consumer Price Index*, to Dec 2015

Australia's wage price index (WPI) fell to its lowest annual growth rate on record, at 2.2% in December 2015. Private sector wage growth slowed to 2.0% over the year, while public sector wage growth remained stronger, at 2.6% in December 2015. This deceleration reflects patchy labour demand through 2015, plus exceptionally weak headline inflation, at just 1.7% p.a. in December (see Chart 19). This low inflation environment means that even at 2.0%, private sector businesses are delivering real wages growth to their employees across most major industries.

Across industries, private sector wages growth was strongest in the year to December 2015 in finance, utilities, manufacturing and retail trade (see Chart 20). It was weakest (and tracking below the headline inflation rate) in administrative services, mining, construction and professional services. In the case of mining and construction, this weakness in wage growth reflects the reduction in demand for high-wage engineering and construction staff, as the mining investment cycle continues to move down.



**Chart 20: Wage indexes (WPI) by major industry, annual growth rates**



Source: ABS, *Wage Price Index*, to Dec 2015

### 3. A fair and relevant safety net

The Expert Panel is tasked with determining and maintaining a fair and relevant safety net for employees working in Australia.

Clearly fairness in this context should take into account not just the rates of minimum wages paid to employees but also the amount of work available at different wage rates. It is the combination of these that determines individuals' income from wages. The Panel should be mindful of the unfairness that would arise when an increase in minimum wages resulted in lower quantities of work available (relative to the levels that would have been the case in the absence of the wage rise) - particularly for the most vulnerable members of the workforce.

Notwithstanding the Productivity Commission's (Productivity Commission Inquiry Report, *Workplace Relations Framework*, November 2015) characterisation of the evidence about the aggregate (i.e. economy-wide) impacts of changes in minimum wage rates on labour force utilisation (i.e. "disemployment") as ambiguous, the reductions in the quantity of work available are most clearly a risk for employees of businesses that are not able to pass on cost rises to their customers. This includes businesses in trade-exposed sectors and businesses supplying goods and services for which demand is highly sensitive to changes in prices. For such businesses, a lift in minimum wage rates is more likely relative to non-trade exposed businesses, to result in reduced levels of output and lower quantities of work offered to employees.

Fairness in the context of determining and maintaining a fair and relevant safety net for employees should also take into account not just existing employees, but also potential employees whose opportunities of finding work would be reduced as minimum wages rise. This applies to potential new entrants into the labour force; people actively looking for work; and people who, because of the current weakness of the labour market, have been temporarily discouraged from actively looking for work.

A key explanation for the Productivity Commission's finding that the econometric evidence is ambiguous about the general relationship between modest changes in minimum wages and the quantity of work available in the market is that *"the employment impacts of any changes in minimum wages can be expected to vary at different times, depending on other policy settings and broader economic conditions"* (page 202).

It is therefore instructive to note the current weakness in the labour market as evidenced by the following data<sup>3</sup>.

- As of February 2016, the unemployment rate was 5.8% (in trend terms) and the number of active jobseekers stood at 736,600.
- A further 8.4% of the workforce were 'underemployed' in February 2016 (that is, in work but willing and able to work more hours).
- The labour force underutilisation rate, which is the sum of the unemployment rate and the underemployment rate, stood at 14.2 per cent of the workforce in February 2016.
- Thus 1,798,157 people, or one in every seven members of the workforce is currently either unemployed or underemployed.
- While the ABS has not published extended labour force underutilisation data beyond August 2013, estimates can be based on the historical (1994-2013) relationship between the extended labour force underutilisation rate and the labour force underutilisation rate. On this basis the current extended labour force underutilisation rate is estimated to sit approximately 1.7 percentage points above the labour force underutilisation rate. This indicates that, in addition to those who are unemployed or underemployed, a further 214,866 people have been discouraged from entering the workforce because of the weak state of the labour market.<sup>4</sup>

Thus, with well in excess of two million employees or potential employees currently underutilised in Australia's labour market, these broader economic conditions point to a heightened risk of adverse disemployment impacts from a rise in minimum wage rates. Accordingly, the Panel should give considerable weight to the risk of detrimental impacts on the absolute and relative level of the safety net associated with minimum wage rates.

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<sup>3</sup> ABS 6202.0, *Labour Force Australia*, March 2016.

<sup>4</sup> ABS 6105.0, *Labour Market Statistics*, July 2014.

## 4. Relative living standards and the needs of the low paid

The *Fair Work Act 2009* (FW Act) charges the FWC with establishing and maintaining a safety net of minimum wages, taking into account, among other things, questions relating to ‘relative living standards and the needs of the low paid.’

Relative living standards and the needs of the low paid are shaped by a very wide variety of factors. These include wage rates, availability of work, hours worked, continuity of employment and the family/household situation of low paid employees.

This range of factors includes access to the broader social safety net. In addition to the public health and education systems and public-funding of childcare, the broader social safety net includes Australia’s well-developed and highly-progressive income tax and transfer systems.

In this section we focus attention on the importance of a close consideration of underemployment in relation to relative living standards and the needs of the low paid. Australia has a high incidence of underemployment – of people in part-time employment who are not working as many hours as they would prefer at prevailing wage rates.

To the extent that an increase in minimum wage rates results in fewer additional hours of work offered to low-paid employees, both the needs of the low paid, and their relative living standards would be more at risk with a higher as opposed to a more modest increase in minimum wage rates.

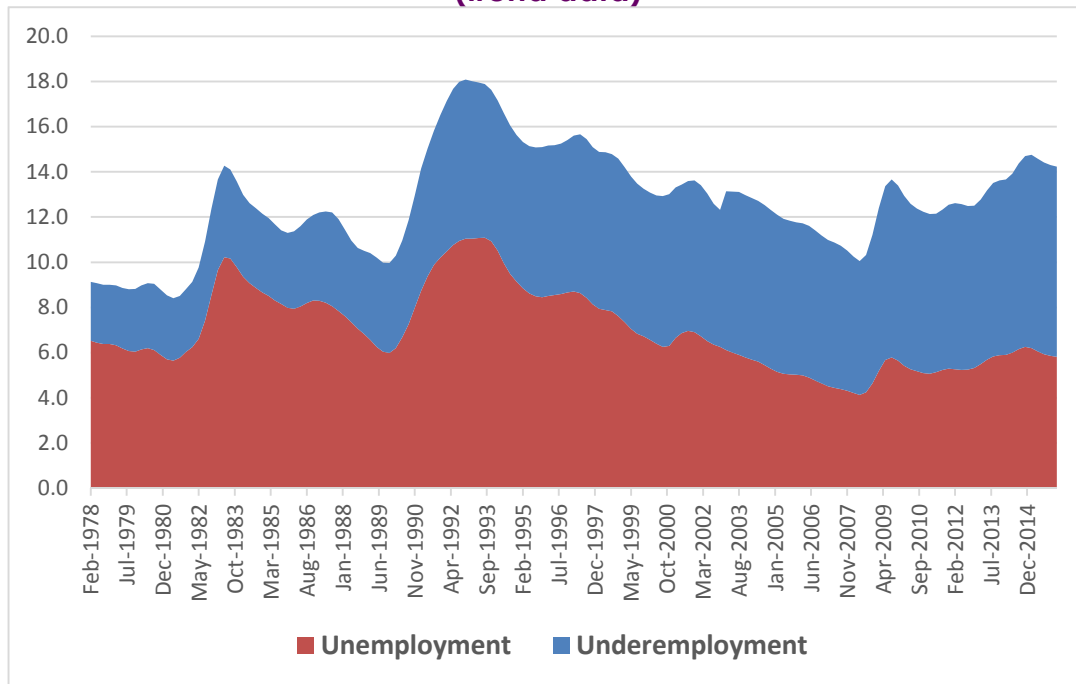
### The persistence of high underemployment

One of the more important changes in Australia’s labour market in the past few decades is the higher prevalence of part-time employment. While in many respects a favourable adaptation to broader social developments including increased female workforce participation, increased participation in education and population ageing, the increased importance of part-time work has also been associated with a distinct rise in the relative importance of underemployment in the overall underutilisation of labour in the Australian economy.

The following Chart summarises ABS data on the two elements of labour force underutilisation (i.e. unemployment and underemployment) over the past 38 years. It shows:

- The significant increase in both the absolute and relative importance of underemployment over this period;
- Notwithstanding the marked reduction in the rate of unemployment between the recession of the early 1990s and the Global Financial Crisis (GFC), the maintenance of high underemployment; and,
- The further relative rise in underemployment in the period since the GFC.

**Chart: 21: Australian Unemployment and Underemployment 1978-2016**  
 (% of the workforce)  
 (trend data)



Source: ABS 6202.0, *Labour Force Australia*, March 2016.

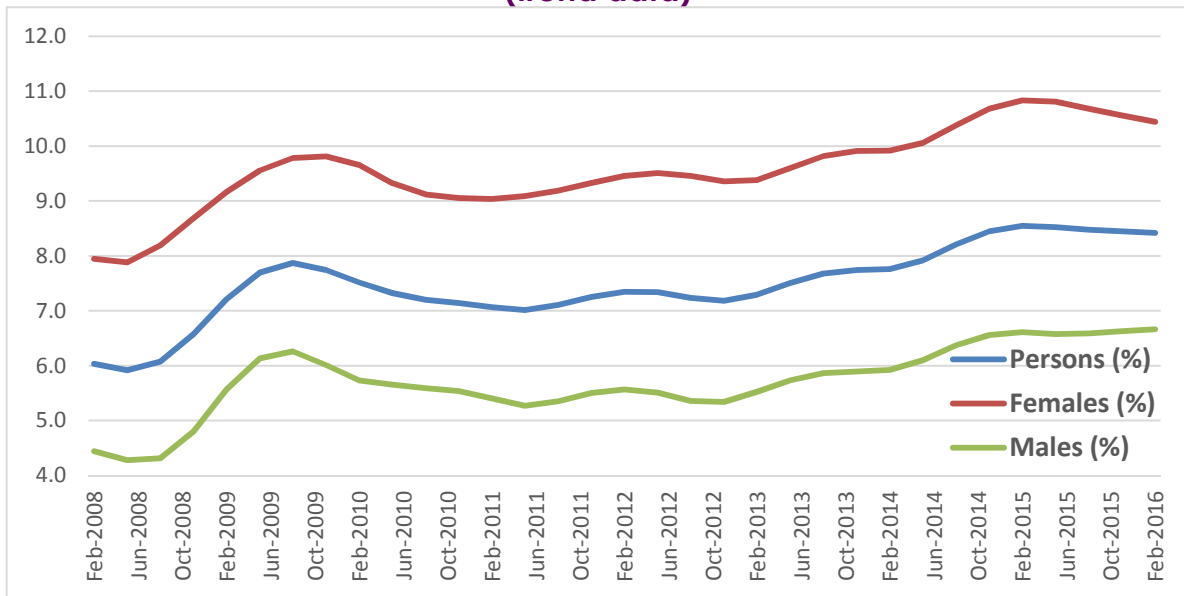
The underemployment experience of the post GFC Period is magnified in the following Chart which also differentiates between underemployment for males, females and total underemployment (persons).

For the most recent period (February 2016) the rate of underemployment stood at 10.4 per cent for females, 6.7 per cent for males and 8.4 per cent overall.

- While female underemployment has edged lower in recent months (although it remains above 10 per cent of the female workforce), for males the rate of underemployment (in trend terms) in February 2016 was at the highest level recorded in the ABS series.
- Overall, underemployment, having breached the 8 per cent mark in August 2015 for the first time in the data series that stretches back to 1978, has persisted at over 8 percent of the workforce for the past 7 months.



**Chart 22: Australian Underemployment February 2008 – February 2016**  
(% of the workforce)  
(trend data)



Source: ABS 6202.0, *Labour Force Australia*, March 2016.

The rise and persistence of high underemployment is a clear sign of entrenched slack in the labour market and a warning of the heightened risk of disemployment impacts from a rise in minimum wage rates.

Further, these high levels of underemployment are clearly relevant to both the relative living standards and the needs of the low paid employees whose opportunities to find additional hours of work risk being diminished if minimum wage rates rise to deter employers from offering additional hours of work.

Accordingly, in order to reduce these risks of detrimental impacts on the relative living standards and the needs of the low paid, Ai Group recommends the Panel adopts our proposal for a modest increase in minimum wage rates.

## 5. Promoting social inclusion through increased workforce participation

The FW Act charges the Fair Work Commission with establishing and maintaining a safety net of minimum wages, taking into account, among other things, the objective of 'promoting social inclusion through increased workforce participation'.

As we have made clear in previous submissions, Ai Group recognises the importance of participation in the paid workforce for social inclusion. Participation in the paid workforce can be closely linked to individuals' sense of self-worth and it can signal the contributions people make to the well-being of the broader community. In addition, of course, participation in paid work can provide the financial means by which people can participate in many aspects of social life.

It is sometimes suggested that raising minimum wage rates is a means by which social inclusion can be promoted by encouraging people to participate in the workforce (or to lift their participation in the workforce from existing levels). However, such encouragement would only have a positive impact on social inclusion if it leads to actual increases in participation in paid work.

Indeed, lifting minimum wage rates may reduce participation in paid work (below the level that would otherwise apply) if, by making labour more costly, it reduces employers' demand for labour.

According to data from the ABS, in February 2016<sup>5</sup>:

- The unemployment rate was 5.8% (in trend terms) and the number of active jobseekers stood at 736,600.
- A further 8.4% of the workforce were underemployed.
- In total some 1,798,157 people, or 1 in every 7 members of the workforce is currently either unemployed or underemployed.
- As submitted in Chapter 5 above, a further number of people are not officially in the workforce because they have been discouraged from entering the workforce by of the weak state of the labour market. This number is estimated by Ai Group to be more than 214,000 based on the historical relationship between extended labour force underutilisation and labour force underutilisation.

With more than 2 million Australians either unemployed, underemployed or discouraged from entering the paid workforce, the labour market weakness of recent times is clearly persisting.

Certainly the recent data do not suggest there is a pool of potential labour just waiting to be enticed by an increase in wages to participate in the workforce. Nor does it suggest that, to the extent that underutilised labour would be enticed to seek employment by a rise in minimum wage rates, there is ready capacity to absorb this additional supply. Rather they point to an oversupply of labour relative to demand at current wage rates.

As we have said in previous submissions, in the environment of a weak labour market there is a heightened risk that raising minimum wage rates is more likely to reduce than increase participation in paid work. This would be to the detriment of social inclusion.

Accordingly, we again urge the Panel to avoid the risk of further stifling improvements in social inclusion by limiting its increase in minimum wage rates to the levels proposed in this submission.

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<sup>5</sup> ABS 6202.0, *Labour Force Australia*, March 2016.

## 6. Encouraging collective bargaining

It is important that the level of increase in minimum wages awarded by the Panel does not limit the scope or motivation for bargaining over wages at the enterprise level. Enterprise bargaining is the most common method of wage setting in Australia.

According to the ABS, *Employee Earnings and Hours, Australia* (6306.0, released 21 December 2015):

1. 21% of all employees in the private sector were paid by award only.
2. The methods of wage setting for all employees were:
  - 41.1 per cent – collective agreement;
  - 36.6 per cent – individual arrangement;
  - 18.8 per cent – award only;
  - 3.4 per cent – owner managers of incorporated enterprises.

On 8 December the Department of Employment released its report on *Trends in Federal Enterprise Bargaining* for the September 2015 quarter. The results are summarised in the following table.

**Table 2: Average annualised wage increases (AAWI) in enterprise agreements – Agreements lodged in the September 2015 quarter**

Industry Sector or Type of Agreement	AAWI (%) in September 2015	Change from June 2015 (%)
All sectors	3.4	Up 0.2
Private sector	3.5	Up 0.4
Public sector	3.0	Down 0.8
Manufacturing	2.6	Down 0.3
Metals manufacturing	2.6	Down 0.4
Non-metals manufacturing	2.7	Down 0.1
Construction	3.7	Down 0.1
Transport, postal & warehousing	3.2	Down 0.3
Mining	2.3	Up 0.4
Information media and telecommunications	2.1	Down 0.5
Health and community services	3.0	Down 0.5
Single enterprise non-greenfields	3.4	Up 0.1
Single enterprise greenfields	2.6	Down 0.4
Union/s covered	3.4	Up 0.1
No Union/s covered	2.7	Down 0.1

In its *Annual Wage Review 2014-2015 Decision*, the Panel said:

*“[470] Ai Group contested the proposition that there is no particular relationship between minimum wage increases and incentives to bargain, on the basis that it does not reflect Ai Group’s experience in bargaining:*

*“While we understand the reason why the Panel has come to the above view it is not consistent with Ai Group’s experiences in assisting a very large number of employers to negotiate enterprise agreements. In our experience, the level of minimum wage increase awarded in the most recent Annual Wage Review does have a significant impact upon employee and union claims and expectations in enterprise bargaining negotiations.”*

*[471] Ai Group’s submission goes to the claims advanced in bargaining rather than the incentive to enter into collective bargaining.*

*[472] The research does not reveal any particular relationship between minimum award increases and the incentive to bargain. Instead it points to a complex mix of factors that may contribute to employee and employer decision-making about whether or not to bargain.”*

Ai Group does not disagree that there are a complex mix of factors that may contribute to employee and employer decision-making about whether or not to bargain. Ai Group also accepts that the incentive to bargain is a different issue to the claims advanced in bargaining. However, in Ai Group’s experience, one of factors that impacts on the decision-making of employees and employers in respect of whether or not to pursue enterprise bargaining, is the level of minimum wage increase awarded in the Annual Wage Review. In Ai Group’s experience, the higher the minimum wage increase, the less likely it is that an employer and its employees will engage in enterprise bargaining.

## **7. The principle of equal remuneration for work of equal or comparable value**

Subsection 284(1) of the FW Act set out the minimum wages objective, which the Expert Panel is required to take into account when setting minimum wages. Paragraph (d) of the objective requires the Panel to turn its mind to *“the principle of equal remuneration for work of equal or comparable value”*, a principle which is echoed in the modern awards objective at paragraph 134(1)(e) of the Act.

Ai Group supports the principle of equal remuneration for work of equal value and the importance of improving gender equality in the workplace. We have been a vocal advocate for realistic, practical and targeted measures to eliminate the causes of gender inequality in the workplace.

Ai Group agrees with the Panel's finding in its *Annual Wage Review 2014-2015 Decision*,<sup>6</sup> that minimum wage increases only have a modest impact on addressing the gender pay gap.

Consistent with this view, the Fair Work Commission's research into *Low-paid Women's Workforce Participation Decisions and Pay Equity*<sup>7</sup> also found that:

- There is no substantive earnings gap between low-paid women and low-paid men;
- Analysis by method of setting pay shows that the higher prevalence of low-paid employment for women holds only for non-award wage employees, and that among employees paid award wages, the incidence of low pay is nearly identical for women and men, and there is essentially no gap to decompose.

## 8. Minimum wages for adults

In setting minimum wages this year, Ai Group proposes a **1.6 per cent** wage increase for all classifications. This equates to an increase of about \$10.50<sup>8</sup> per week in the National Minimum Wage and about \$12.25<sup>9</sup> per week at the base trade level.

The proposed 1.6 per cent minimum wage increase takes into account:

- The intended non-adversarial nature of the Commission's Annual Wage Review deliberations and the importance of avoiding 'ambit' positions.
- The fact that economic growth remains patchy across sectors and across locations, with aggregate business incomes, profits and investment still underwhelming. (See Section 2.1).
- Australia's lack of global competitiveness and very high minimum wage compared to other comparable countries. (See Section 2.3).
- The fact that Australian (and global) inflation rates have been exceedingly weak for some time. (See Section 2.6).
- The fact that Australia's wage price index (WPI) fell to its lowest annual growth rate on record in December 2015. (See Section 2.6)
- The fact that one in every seven members of the workforce (i.e. almost 1.8 million people) are currently either unemployed or underemployed. (See Sections 3, 4 and 5).

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<sup>6</sup> [2015] FWCFB 3500 at [492]

<sup>7</sup> Broadway B, Wilkins R, *Low-Paid Women's Workforce Participation Decisions and Pay Equity*, Fair Work Commission, December 2015, p.v, vi

<sup>8</sup> \$10.51

<sup>9</sup> \$12.24

- The delivery of a fair and relevant minimum wage increase to employees, including low paid employees. (See Sections 3 and 4).
- The need to promote social inclusion through increased workforce participation. (See Section 5).
- The need to encourage collective bargaining. (See Section 6).

## **9. Modern award wages for junior employees, employees to whom training arrangements apply, employees with disability and piece workers**

Consistent with previous Annual Wage Review decisions:

- The minimum wage rate resulting from this year's Annual Wage Review should flow through to the minimum award wages of junior employees, employees to whom training arrangements apply, employees with disability and piece workers, through the operation of award provisions relating to these employees.
- The minimum weekly payment in the Supported Wage System Schedule of awards should be adjusted to reflect any increase to the disability pension's income free threshold. This is consistent with the Panel's decisions in previous years.

## **10. Special national minimum wages for award / agreement free employees with disability (Special National Minimum Wage 1 and 2)**

In its *Annual Wage Review 2014-15 Decision*, the Minimum Wage Panel decided to maintain the approach it had adopted in previous years in respect of setting special minimum wages for award / agreement free employees with disability.

This approach is twofold. For employees whose productivity is not affected, a special national minimum wage is set at the level of the National Minimum Wage (Special National Minimum Wage 1) and for employees whose productivity is affected a special national minimum wage is paid in accordance with an assessment under the supported wage system (Special National Minimum Wage 2).

Ai Group supports the continuation of the existing structures for award / agreement free employees with disability in the *National Minimum Wage Order 2016*.

In respect of Special National Minimum Wage 2, the minimum weekly payment should be adjusted to reflect any increase to the disability pension's income free threshold. This is consistent with the Panel's decisions in previous years.

## 11. Special national minimum wages for award / agreement free junior employees (Special National Minimum Wage 3)

In its *Annual Wage Review 2010-2011* decision, the Minimum Wage Panel decided to use the scale in the *Miscellaneous Award 2010* to set the special national minimum wage for award/agreement free junior employees. The Panel has followed this approach in subsequent Annual Wage Review decisions.

Ai Group still considers this approach to be appropriate for setting rates for award/agreement free junior employees.

## 12. Special national minimum wages for award / agreement free apprentices (Special National Minimum Wage 4)

In its *Annual Wage Review 2013-2014 Decision*, the Expert Panel reached the following conclusions and decision on special national minimum wages for award / agreement free apprentices, consistent with Ai Group's submissions:

***[612]** Ai Group, however, submitted that the Panel should not take previous years' approach of setting the award/agreement free adult apprentice minimum wage at the rate of the adult national minimum wage, but instead set it at the rate for adult apprentices set in the Miscellaneous Award 2010 (from 1 January 2014). R&CA supported this proposed change. The ACTU submitted that the decision to include an adult apprentice rate in the Miscellaneous Award 2010 was not intended to interfere with existing, more favourable provisions and opposed the proposed change.*

***[613]** We have decided to adopt the provisions of the Miscellaneous Award 2010 as the basis for the special national minimum wages for employees to whom training arrangements apply. The national minimum wage order will incorporate, by reference, the apprentice and NTWS provisions of that award.*

***[614]** We also accept Ai Group's submission that the adult apprentice national minimum wage in the order should now be set in accordance with the Miscellaneous Award 2010 which, since 1 January 2014, has specified a rate for adult apprentices. Though we acknowledge that this rate is lower than the rate previously set in the national minimum wage order we accept the Full Bench's conclusion in the Apprentices decision that the minimum rate for a new adult apprentice be set (where not specified previously) at 80 per cent of the C10 or base trade rate in the first year or stage of the apprenticeship. The order will therefore provide that adult apprentices will have their rate set according to the*

*adult apprentice rate in the Miscellaneous Award 2010. Award/agreement free adult apprentices engaged before 1 July 2014 and who are in Year 1 of their apprenticeship will continue on the rate set in the National Minimum Wage Order 2013 until they reach Year 2 of their apprenticeship, at which time they will transition to the adult apprentice rate in the Miscellaneous Award 2010.”*

The Panel also adopted this approach in its 2014-2015 Annual Wage Review decision. Ai Group submits that, consistent with the above conclusions of the Panel, and its decision last year, the wage rates for apprentices in the *Miscellaneous Award 2010* should be adopted for the purposes of the *National Minimum Wage Order 2015*.

### **13. Special national minimum wages for award / agreement free employees to whom a training arrangement applies who are not apprentices (Special National Minimum Wage 5)**

In the *National Minimum Wage Order 2012*, the Minimum Wage Panel decided to adopt the minimum wage rates in the National Training Wage Schedule of the *Miscellaneous Award 2010* for the special national minimum wage for award / agreement free employees to whom training arrangements apply, other than apprentices. The Panel adopted the same approach in its subsequent Annual Wage Review decisions.

Ai Group supports the continuation of the above approach in the *National Minimum Wage Order 2016*.

### **14. Casual loadings in modern awards**

Paragraphs 285(2)(a)(i) and 284(3)(b) of the FW Act requires that the Expert Panel review casual loadings in modern awards.

The current standard casual loading in modern awards of 25 per cent is already relatively high and should not be increased.

### **15. Casual loading in the Business Equipment Award**

On 25 February 2016, the Expert Panel conducted a Preliminary Hearing regarding the casual loading under the *Business Equipment Award 2010*.

At the Preliminary Hearing, Ai Group expressed opposition to any increase in the casual loading. Ai Group also submitted that if the Panel determines that the casual loading should be increased, the increase should be phased-in in a manner consistent with the approach that the Commission implemented for award/agreement free employees from 2009/2010. Under this approach, the loading was increased by one per cent per annum until 25 per cent was reached.



The Panel directed Ai Group and the ACTU to have discussions in an attempt to reach an agreed position on how phasing-in should operate, in the event the Panel determines that the loading should be increased. In those discussions, the parties have been directed to consider how the Panel could give effect to phasing-in in a manner that conforms with the FW Act.

The ACTU has applied for, and been granted, an extension until 6 April to hold the discussions with Ai Group and for the parties to communicate their views to the Panel.

## 16. Casual loading for award / agreement free employees

Paragraph 294(1)(c) of the FW Act requires that the Expert Panel set the casual loading for award / agreement free employees.

The casual loading in the *National Minimum Wage Order 2015* is 25 per cent, and a similar loading should be reflected in the *National Minimum Wage Order 2016*.

## 17. Process for varying modern awards to reflect the Annual Wage Review Decision

In previous years, the Commission has issued draft Determinations and a draft National Minimum Wage Order following the Annual Wage Review Decision to allow interested parties, such as Ai Group, to check the Commission's calculations and provide feedback before the final Determinations and National Minimum Wage Order were published. Ai Group urges the Expert Panel to implement the same consultative approach in this Review.

A very large number of employers rely on industry organisations, such as Ai Group, to advise them of the wage rates and allowances payable under modern awards. Ai Group provides a specific information service on most modern awards and it is a huge task for our staff to check the draft Determinations, prepare written advice on each award and distribute the advice to thousands of employers.

Keeping this in mind, we urge the Commission to publish the final Determinations with as much lead-time as possible before 1 July 2016 to enable industry associations to advise employers and then for employers to make the necessary payroll adjustments. There are substantial direct and administrative costs associated with back-paying wage and allowance increases.

## 18. The form of the National Minimum Wage Order 2016

In Ai Group's experience, the form of the *National Minimum Wage Order 2015* did not lead to any significant difficulties.

We suggest that the same model be used for the *National Minimum Wage Order 2016*.

## 19. Request to participate in final consultations

The Directions for the Annual Wage Review 2015-2016 state that parties wishing to participate in the final consultations are requested to express interest by 6 May 2016.

Ai Group hereby advises that it wishes to participate in the final consultations.



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