

Ai GROUP SUBMISSION

Fair Work Commission

**Annual Wage Review 2019-
2020**

**Reply Submission
to submissions lodged on 5
June**

9 June 2020

Ai
GROUP

1. Introduction

The Australian Industry Group (**Ai Group**) has filed the following submissions in the *Annual Wage Review 2019-20*:

- 16 March 2020 – Main submission;
- 4 May 2020 – Reply Submission and answers to Questions on Notice;
- 29 May 2020 – Supplementary Submission and answers to Supplementary Questions on Notice; and
- 5 June 2020 – Submission on National Accounts data for the March 2020 Quarter.

Our 29 May submission sets out Ai Group's position on the quantum of any minimum wage increase in this year's Annual Wage Review, i.e.:

- The Expert Panel should not award a minimum wage increase in this year's Review;
- If, despite Ai Group's submissions, the Expert Panel decides to award a minimum wage increase, the increase should not be operative before 1 January 2021; and
- Given the widespread negative impacts of the COVID-19 Pandemic on businesses in all industry sectors, it is not appropriate for the Expert Panel to award a different level of increase to businesses that are, or are not, eligible for the JobKeeper Scheme, or businesses in different sectors.

This submission addresses a few points raised by the ACTU in its submission of 5 June 2020. Some updated economic data is also provided.

2. Response to the submission of the ACTU

The state of the economy

In its submissions, the ACTU endeavours to paint a picture of an economy that is recovering. The reality is that the RBA and Treasury expect the largest impacts from COVID-19 to be evident in Q2, when GDP is expected to fall by 8% p.a., with further smaller falls expected in Q3 and Q4 of 2020. If this shrinkage in Q2 eventuates, it will be more than twice the size of the peak quarters of shrinkage in either the 1980s or 1990s recessions in Australia. The unemployment rate is expected to peak at 10%.

The ACTU argues that improvements are already evident in the economy in May. It is correct that some (but not all) economic indicators improved in May compared to April, but in all cases they remain close to record low levels. This includes:

- All four of the Ai Group monthly performance of industry indicators (see below),
- the NAB monthly survey of business conditions and confidence;

- the Westpac-MI monthly survey of consumer spending and confidence; and
- the ANZ-Roy-Morgan weekly survey of consumer confidence.

In all of these ‘high frequency’ data sources (and in the latest ABS and Department of Education, Skills and Employment business surveys), business conditions in May improved from record low or recent low levels in April, but remain at extremely weak levels. This slight improvement is primarily and directly due to unprecedented levels of government financial support, in the form of JobKeeper, JobSeeker and other programs for businesses and individuals. The ABS estimates that three quarters of all Australian businesses were receiving some kind of direct Government support by 22 May. ([ABS 5676.0.55.003 - Business Indicators, Business Impacts of COVID-19, May 2020](#)).

The improvement in the monthly business indicators in May is a result of this support. It is not an indication that the economy is ‘recovering’ in any meaningful or sustainable sense. Looking ahead, it is important to be mindful that much of this crucial assistance is due to expire in September. The next few months until September – and then the months after the direct support is withdrawn – will be a difficult period of high risk, uncertainty and anxiety for businesses and households alike. It is essential that actions or decisions that will add to this risk are avoided.

The priority at this time needs to be on preserving jobs and encouraging, not deterring, employers from taking on more employees. A minimum wage increase at the current time would be harmful to the economy, to businesses, to employees (many of whom would experience less secure jobs) and to the unemployed.

‘Exceptional circumstances’

In its 5 June 2020 submission, the ACTU again tries to argue that ‘exceptional circumstances’ do not exist, when it is obvious that such circumstances do exist.

We have urged the Expert Panel not to increase minimum wages this year. However, if, despite our submissions, the Expert Panel decides to increase minimum wages, we have submitted that any minimum wage increase should not be operative before 1 January 2021.

The Expert Panel is empowered to delay the operative date of any wage increase in ‘exceptional circumstances’ (ss.285(2), 286(2) and 287(4) of the *Fair Work Act 2009*).

The ‘exceptional circumstances’ are that Australia is currently dealing with a Pandemic which has resulted in a sharp and deep decline in economic growth, and a very large increase in unemployment and underemployment. Businesses and households are currently being supported by a very large amount of Government assistance.

Under the ‘exceptional circumstances’ provisions in the Act, the relevant adjustments must be ‘limited just to the particular circumstances to which the exceptional circumstances relate’. This requirement imposes no barrier to a delayed operative date applying to all employees because the Pandemic and resultant economic downturn have had a very widespread impact across the economy.

The 'particular circumstances' requirement would be more relevant in the case of, say, a flood in Queensland. In such circumstances, a wage increase could not be delayed for Western Australian businesses not impacted by the 'particular circumstances'. Another example would be a bushfire in Victoria. A wage increase could be delayed for Victorian businesses affected by 'particular circumstances' of the bushfire, but not businesses in other areas that are not affected.

The Pandemic has had an impact in every geographical area in every State and Territory. It has also had an impact on all industries and all households.

3. Updated economic data

In Ai Group's 29 May 2020 submission, the April results for the PMI, PCI, PSI and PBI were included. Since that time, the May results have been released.

Ai Group's Performance of Manufacturing Index ([Australian PMI®](#))

The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) recovered by 5.8 points to 41.6 in May, after experiencing the largest single-month drop in the index's history in April (readings below 50 points indicate contraction in activity, with lower results indicating a faster rate of contraction).

The manufacturing industry remained in deep contraction in May, as COVID-19 restrictions affected demand across the board. The decline slowed across all activity indices in May, except for the exports index which recorded its lowest ever monthly result as many overseas markets essentially shut down.

Many manufacturers reported that orders from their regular customers have been delayed or cancelled altogether because of the pandemic.

Australian Industry Group/Housing Industry Association: Australian Performance of Construction Index ([Australian PCI®](#))

Following its plunge to record lows in April, the Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) rose by 3.3 points to 24.9 in May, with continued COVID-19 activity restrictions and related declines in sentiment, spending and investment leaving all activity and sector indices firmly negative (readings below 50 indicate contraction in activity, with lower results indicating a faster contraction).

New orders, new contract tendering opportunities and customer inquiries had largely dried up across all sectors, with survey participants mostly gloomy about the current situation. Several pointed to the JobKeeper scheme as the only thing keeping their business and workforce together in May.

Australian Industry Group: Australian Performance of Services Index ([Australian PSI®](#))

The Australian Industry Group Australian Performance of Services Index (**Australian PSI®**) rose by 4.5 points to 31.6 points in May, indicating another serious contraction in activity, albeit at a slower pace than in April. This was the second lowest result in the history of this series (commencing in 2003), following a record low in April (results below 50 points indicate contraction, with lower numbers indicating a stronger pace of decline).

Heavy restrictions on activity in response to the COVID-19 pandemic have taken a large toll on most of Australia's services industries. The **Australian PSI®** indicated contraction in all sectors in May. Restrictions on commercial activity have now been in place since March, to varying degrees, around Australia. The recent easing of restrictions in some locations led to muted optimism for businesses that responded later in May.

Reduced customer demand was evident for most businesses across all services sectors in May. An easing of restrictions was reported by some businesses as having had a positive impact on demand in some states. Retailers and wholesalers that supply products for home improvements, medical product suppliers and ICT services reported more positive customer demand in May. Some businesses said the previous element of panic buying for their products in March and April has now fallen away.

Australian Industry Group: Australian Performance of Business Index ([Australian PBI](#))

The Australian Industry Group Australian Performance of Business Index (**Australian PBI**) lifted by 4.5 points to 31.8 in May, pointing to a further serious contraction in activity in May but at a slower pace than April's record low (results below 50 points in the **Australian PBI** indicate deteriorating business conditions, with lower numbers indicating a faster pace of deterioration in the month).

Business conditions remained deeply impacted by the pandemic and distinctly negative across almost all sectors of the economy in May. Rare spots of stability are evident in food, grocery and medical manufacturing, wholesaling and retailing.



ABOUT THE AUSTRALIAN INDUSTRY GROUP

The Australian Industry Group (Ai Group®) is a peak employer organisation representing traditional, innovative and emerging industry sectors. We are a truly national organisation which has been supporting businesses across Australia for nearly 150 years.

Ai Group is genuinely representative of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, the defence industry, civil airlines and ICT.

Our vision is for thriving industries and a prosperous community. We offer our membership strong advocacy and an effective voice at all levels of government underpinned by our respected position of policy leadership and political non-partisanship.

With more than 250 staff and networks of relationships that extend beyond borders (domestic and international) we have the resources and the expertise to meet the changing needs of our membership. We provide the practical information, advice and assistance you need to run your business. Our deep experience of industrial relations and workplace law positions Ai Group as Australia's leading industrial advocate.

We listen and we support our members in facing their challenges by remaining at the cutting edge of policy debate and legislative change. We provide solution-driven advice to address business opportunities and risks.

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