



Chamber of Commerce
and Industry WA

Chamber of Commerce and Industry of Western Australia



Submission to the Western Australian Industrial Relations Commission

2018 State Wage Case

15 May 2018

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Industrial Relations Act 1979

In the Western Australian Industrial Relations Commission

Application No. 1 of 2018

2018 STATE WAGE ORDER

On the Commission's Own Motion

SUBMISSION BY THE CHAMBER OF COMMERCE AND INDUSTRY OF WESTERN AUSTRALIA

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Acronyms and Abbreviations

AAWI	Average Annualised Wage Increase
ABS	Australian Bureau of Statistics
ACT	Australian Capital Territory
ANZSCO	Australian and New Zealand Standards Classification of Occupations
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
AWE	Average Weekly Earnings
AWOTE	Average Weekly Ordinary Time Earnings
AWR	Annual Wage Review
CCIWA	Chamber of Commerce and Industry of Western Australian
CPI	Consumer Price Index
Cth	Commonwealth
EDHI	Equivalised Household Disposable Income
EEH	Employee Earnings and Hours
FW Act	Fair Work Act 2009 (Cth)
FWC	Fair Work Commission
GDP	Gross Domestic Product
GSP	Gross State Product
HILDA	Household, Income and Labour Dynamics in Australia
IMF	International Monetary Fund
IR Act	Industrial Relations Act 1979 (WA)
NMW	National Minimum Wage
NSW	New South Wales
NT	Northern Territory
OECD	Organisation for Economic Co-Operation and Development
QLD	Queensland
RBA	Reserve Bank of Australia
SA	South Australia
SFD	State Final Demand
SMW	State Minimum Wage
SWC	State Wage Case
SWO	State Wage Order
TAS	Tasmania
VIC	Victoria
WA	Western Australia
WAIRC	Western Australian Industrial Relations Commission
WPI	Wage Price Index

1. Introduction and Recommendation

Overview

1. The Chamber of Commerce and Industry of Western Australia (CCIWA) is the leading business association in Western Australia (WA) and has been the voice of business for more than 125 years. CCIWA represents employer members from across all regions and industries in Western Australia, including local chambers of commerce, industry associations and employers, particularly small and medium enterprises, both in the private and government sectors. Within its membership, CCIWA represents over 7,500 small business members employing up to 30 employees.
2. The WA economy has been experiencing an extremely challenging period since the end of the resources investment boom. WA is only at, or near, the bottom of the economic downturn and is entering a period of economic transition. The growth of the WA economy will be gradual through this transition.
3. While business and consumer confidence improved in the latter part of 2017 and this continues to be reflected in the first quarter of 2018, the emerging confidence needs to be delivered upon and recovery nurtured and not impeded or put at risk.
4. At this point of the economic cycle in WA and in a highly competitive trading environment, businesses continue to face challenging trading conditions with compressed margins and cost management pressures. Minimum wages are an important part of the parameters for doing business and employing in WA, particularly so for smaller businesses and award reliant industries.
5. CCIWA supports responsible and sustainable wage growth through the State Minimum Wage (SMW) and award minimum wages as a fundamental ingredient for growth and employment.
6. It is critical to ensure a job supporting and job creating business environment exists where WA businesses can be successful, productive, competitive and sustainable regardless of their size.
7. It is only with a strong and viable business community that employment opportunities will be generated, creating prosperity for the greater community and improving the living standards for all Western Australians.
8. CCIWA would urge the WAIRC to have regard to the shorter run market considerations which point to concerns and weaknesses in the economy and the labour market over the immediate and near term. Businesses are continuing to face challenging trading conditions and there remains considerable spare capacity in the labour market in WA.

The State Wage Order

9. Section 50A of the Industrial Relations Act 1979 (IR Act) requires the WAIRC to, on its own motion, make a General Order (the State Wage Order) to set the minimum weekly wage applicable under sections 12 and 14 of the Minimum Conditions of Employment Act 1993 (the MCE Act) to take effect on the first pay period commencing on or after 1 July 2018. In making the General Order, the WAIRC adjusts the rates of wages paid under awards consistent with the order.

10. Specifically, section 50A(3) details the matters the WAIRC should take into consideration in the making of the State Wage Order:
- (3) *In making an order under this section, the Commission shall take into consideration —*
- (a) *the need to —*
- (i) *ensure that Western Australians have a system of fair wages and conditions of employment; and*
 - (ii) *meet the needs of the low paid; and*
 - (iii) *provide fair wage standards in the context of living standards generally prevailing in the community; and*
 - (iv) *contribute to improved living standards for employees; and*
 - (v) *protect employees who may be unable to reach an industrial agreement; and*
 - (vi) *encourage ongoing skills development; and*
 - (vii) *provide equal remuneration for men and women for work of equal or comparable value;*
- and*
- (b) *the state of the economy of Western Australia and the likely effect of its decision on that economy and, in particular, on the level of employment, inflation and productivity in Western Australia; and*
 - (c) *to the extent that it is relevant, the state of the national economy; and*
 - (d) *to the extent that it is relevant, the capacity of employers as a whole to bear the costs of increased wages, salaries, allowances and other remuneration; and*
 - (e) *for the purposes of subsection (1)(b) and (c), the need to ensure that the Western Australian award framework represents a system of fair wages and conditions of employment; and*
 - (f) *relevant decisions of other industrial courts and tribunals; and*
 - (g) *any other matters the Commission considers relevant.*
11. While it is essential for the WAIRC to ensure that Western Australians “*have a system of fair wages and conditions of employment*” as required by section 50A(3)(a)(i), CCIWA would submit that this should be considered through a single lens to measure, on equal terms, employees and employers.
12. At this stage of economic transition of the WA economy, and the challenges continuing to face small businesses, section 50A(3)(d) must bear considerable weight to facilitate viable and sustainable businesses capable of meeting the challenges ahead.
13. Further, WA is continuing to experience high unemployment, including significant youth unemployment, low inflation, and a highly competitive environment for business, particularly small business.
14. CCIWA would therefore urge the WAIRC, in its deliberations on the SMW, to consider the circumstances of WA economy as it specifically relates to those businesses and employees covered by the State industrial relations system and the application of the State Wage Order (SWO).

15. This cohort of small businesses to which the SWO and adjustments to State awards will apply comprises sole traders, non-incorporated partnerships and non-incorporated trusts that are heavily award reliant and are at the coalface of the State's economic difficulties.

Recommendation

16. The WAIRC is required to balance a range of considerations when determining the SMW and that balance demands caution in the 2018 State Wage Case.
17. Small businesses must be able to effectively compete, successfully sustain business operations and grow. It will only be with a healthy and successful small business sector that employment opportunities, particularly entry level roles, will be created.
18. Small businesses are the providers of significant employment opportunities within the WA community. Therefore, local small business must be afforded the ability to compete.
19. A responsible and sustainable increase in the SMW and award rates is required at this juncture of WA's transition and given the state of the WA economy and labour market.

Recommendation

CCIWA urges the Western Australian Industrial Relations Commission to consider the state of the Western Australian economy and labour market, both at present and over the short-term period, and adopt a responsible and sustainable approach and award an increase in the State Minimum Wage and award minimum wages of no more than 1.2 per cent.

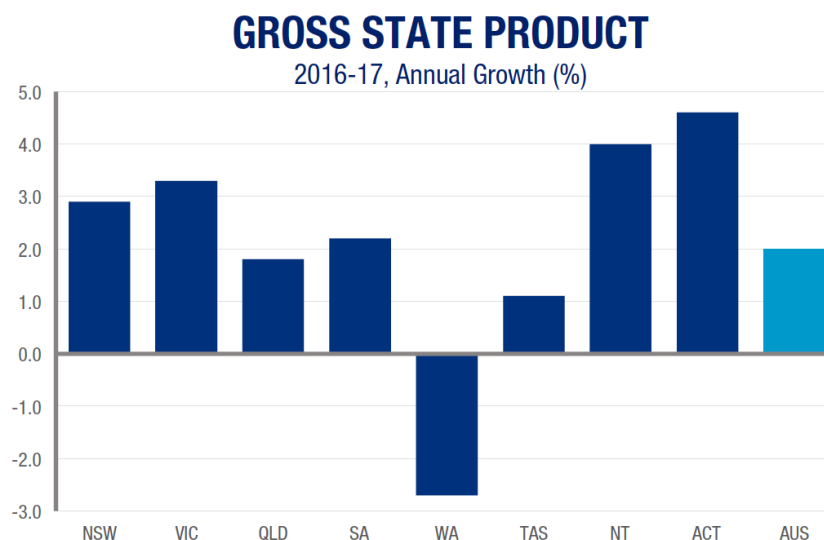
2. The Western Australian Economy

20. The Western Australia economy is at a turning point. After a protracted period of challenging economic conditions following the end of the resources investment boom over four years ago, positive signs are emerging and a return to positive economic growth is forecasted, albeit at a slow and gradual pace.
21. Some sectors of the WA economy are expected to take longer to return to positive growth than others, though overall economic growth is expected.
22. CCIWA assesses that WA is 95 per cent of the way down the business investment cliff, indicating the sharpest decline in investment is behind the state.
23. However, while positive signs emerged over the latter part of calendar 2017 and continue into 2018, the recovery of the WA economy still has some way to go. CCIWA submits that while growth is forecast, it will require nurturing over the near term to convert newfound confidence into practical results.
24. Economic conditions in WA support a cautious approach to wage fixation in 2018.

Economic Growth

25. Overall, the WA Government estimates that the WA economy will grow by 2.5 per cent in 2017-18 and to grow by around 3.25 per cent in 2018-19 and by 3.75 per cent in 2019-20¹. While the Government expects that growth will be predominantly supported by a further expansion in exports “consistent with an economy that is firmly within the production-phase of the resource investment cycle”², it is expecting that household consumption to take over from exports as the major driver of growth from 2019-20.
26. WA’s Gross State Product (GSP), a measure of total economic output, fell by 2.7 per cent in 2016-2017 ending a 26-year run of economic growth in WA. The major driver of the fall in GSP, on an expenditure basis, was business investment, which fell by 28.5 per cent in 2016-17. This was partly offset by an increase in the exports of goods that grew by 14.6 per cent³.
27. WA’s 2.7 per cent decline in GSP in 2016-17 was the only decline of all states and territories as shown in Chart 1. This represents a decline in GSP per capita of 3.3 per cent. However, at \$90,799 per capita this still represents the third highest level of GSP per capita behind the two territories.
28. State Final Demand (SFD), a measure of total domestic demand in the state, fell by 7.2 per cent⁴ in 2016-17. This decline in SFD was the only decline in SFD of all states and territories over 2016-17. In the 2018-19 Budget, the WA Government states that the State’s domestic economy is “yet to trough with expected declines in SFD out to 2018-19 mainly due to falls in business investment”⁵.
29. In 2017-18, SFD in WA is expected to contract for a fifth consecutive year by 0.25 per cent and contract a further 0.25 per cent in 2018-19⁶.

Chart 1: Gross State Product (GSP) States and Territories 2016-2017



Source: ABS, Cat. No 5220, Australian National Accounts; CCIWA

¹ Western Australian Government Budget 2018-19, Budget Paper 3, page 13

² Western Australian Government Budget 2018-19, Budget Paper 3, page 11

³ Western Australian Government Budget 2018-19, Budget Paper 3, page 13

⁴ Western Australian Government Budget 2018-19, Budget Paper 3, page 13

⁵ Western Australian Government Budget 2018-19, Budget Paper 3, page 12

⁶ Western Australian Government Budget 2018-19, Budget Paper 3, page 13

30. By industry, the biggest contributions made to economic growth in 2016-17 came from mining, financial and insurance services, and health care and social assistance. The industries which contracted the most were public administration and safety, professional, scientific and technical services, and construction.
31. WA's gross household disposable income per capita fell 2.8 per cent in 2016-17, again the only decline nationally, though still the highest of all states surpassed only by the two territories.

Consumer Price Index (CPI)

32. Perth CPI remains significantly lower than the national average at 0.9 per cent in the March 2018 quarter, following 0.8 per cent for the September and December quarters of 2017. Cost of living pressures are much lower in WA than the national average, a position that has existed over the last ten quarters as shown in table 1.

Table 1: Consumer Price Index (CPI) December 2015 – March 2018 (%)

Quarter	National	Perth
Dec 2015	1.7	1.5
Mar 2016	1.3	0.7
Jun 2016	1.0	0.5
Sep 2016	1.3	0.5
Dec 2016	1.5	0.4
Mar 2017	2.1	1.0
Jun 2017	1.9	0.7
Sep 2017	1.8	0.8
Dec 2017	1.9	0.8
Mar 2018	1.9	0.9

Source: ABS, Cat. No. 6401.0, Consumer Price Index, March 2017, Percentage Change from Corresponding Quarter of Previous Year, All Groups CPI (%)

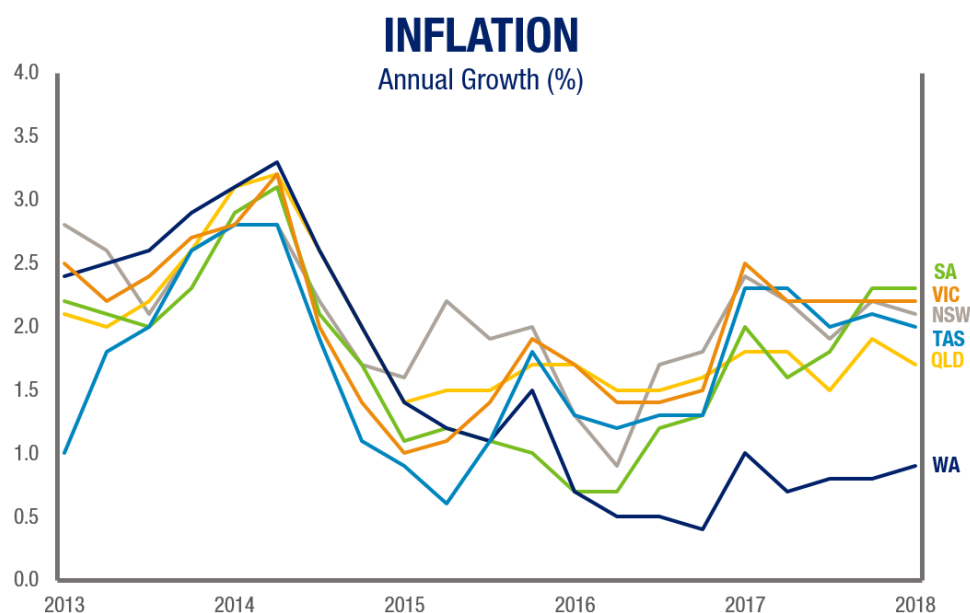
33. Perth maintains the lowest CPI of all capital cities.

Table 2: Consumer Price Index (CPI) Capital Cities (%)

Capital City	Mar 2017 to Mar 2018
Sydney	2.1
Melbourne	2.2
Brisbane	1.7
Adelaide	2.3
Perth	0.9
Hobart	2.0
Darwin	1.1
Canberra	2.4
Weighted Ave of eight capital cities	1.9

Source: ABS, Cat. No. 6401.0, Consumer Price Index, March 2018, Percentage Change March Quarter 2017 to March Quarter 2018, All Groups CPI

Chart 2: Inflation – Annual Growth, States 2013-2018



Source: ABS, Cat. No. 6401.0, Consumer price Index, March 2018

Business Confidence

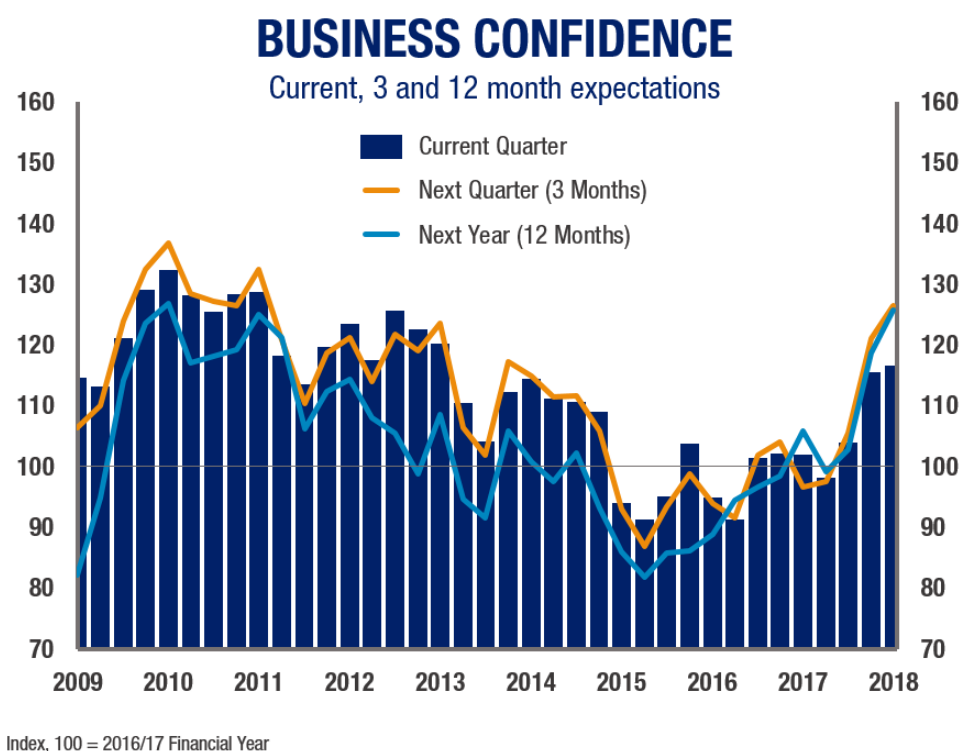
34. WA business confidence has maintained a favourable outlook for the economy as it did throughout the latter part of 2017 as the economy continues its adjustment to the end of the resources investment boom.
35. As the only Western Australian-specific index in the country, CCIWA's *Business Confidence Index* provides a snapshot of state-wide economic conditions and business expectations.
36. The March 2018 edition of the *Survey of Business Confidence* indicates that WA businesses are increasingly confident about the economy's prospects, with short-term (3-month) and medium-term (12-month) confidence at pre-boom levels. The March quarter also marks four consecutive quarters of positive growth in the short-term Business Confidence Index.
37. The proportion of businesses expecting macroeconomic conditions to worsen in the short-term has declined by 9 percentage points since the previous quarter to 25 per cent in the March quarter suggesting that confidence in the WA economy is growing.
38. Looking to the year ahead, businesses are expecting economic conditions to continue improving, with 63 per cent anticipating the WA economy to strengthen over the next twelve months, up from 52 per cent from the previous quarter.
39. CCIWA's *Survey of Business Confidence* shows that while confidence in the WA economy has improved, short-term expectations for the economy remain cautious with approximately one-third (32%) of businesses expecting conditions to be stronger.

Table 3: Business Confidence

Expectation of Economic Conditions	Short-term Expectations (3 Months)	Medium-Term Expectations (12 Months)
Weaker	25%	7%
About the Same	43%	30%
Stronger	32%	63%

Source: CCIWA Survey of Business Confidence, March Quarter 2018

Chart 3: Business Confidence Index - 2009 - 2018



Consumer Confidence

40. CCIWA's *Survey of Business Confidence* in the March 2018 quarter shows there is a growing belief in WA's economy and continued signs of recovery as consumer confidence grows to its highest level in four years.
41. As the only survey of its kind in WA, the *Survey of Consumer Confidence* canvassed the views of Western Australians across metropolitan Perth and regional WA to gather evidence on consumer sentiment around discretionary spending, confidence in their personal situation and employment prospects for the near future.
42. Less than half (45 %) of consumers considered global economic news to negatively influence their perceptions of the WA economy. Comparatively, 30 per cent of consumers viewed domestic economic news to positively influence confidence.

43. Consistent with the results of the *CCIWA Survey of Business Confidence*, consumers' short-term expectations remained subdued with only 16 per cent viewing the economy getting stronger. However, over the next 12 months over one-third of consumers (34%) think the economy will improve with only one-quarter (24%) considering the economy will worsen.

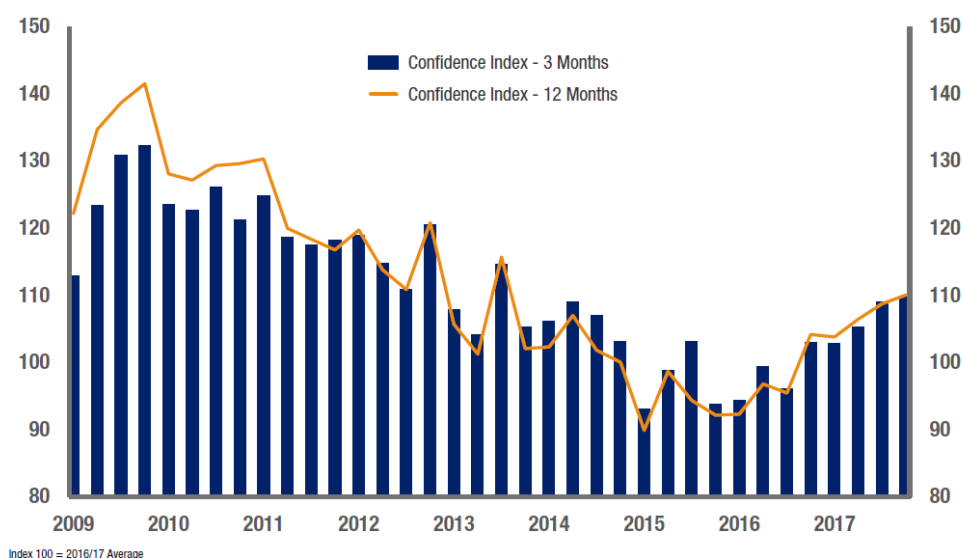
Table 4: Business Confidence, Percentage of Survey

Expectation of Economic Conditions	Short-term Expectations (3 Months)	Medium-Term Expectations (12 Months)
Weaker	21%	24%
About the Same	63%	41%
Stronger	16%	34%

Source: CCIWA Survey of Consumer Confidence, March Quarter 2017

Chart 4: Consumer Confidence Index – 2009 - 2018

CONSUMER CONFIDENCE WA Economic Conditions



Source: CCIWA Survey of Consumer Confidence, March Quarter 2017

Household Consumption

44. According to the WA Government, the State's "household sector remains subdued by historical standards" and that growth "continues to be underpinned by spending on essential items while spending on non-essential goods and services remains weak"⁷. Household consumption is projected by the Western Australian Government to become the largest contributor to GSP growth by 2019-20⁸.
45. Households only consumed 0.5 per cent more in 2016-17 than they did in the preceding year. This is particularly low given the average increase in the years since the peak of the resources investment boom had been 1.5 per cent. While the growth was still positive, it was not the strong pillar of growth as it has been in previous years.

⁷ Western Australian Government Budget 2018-19, Budget Paper 3, page 13

⁸ Western Australian Government Budget 2018-19, Budget Paper 3, page 2

46. Consumer spending is expected to remain subdued in the current financial year consistent with projections for household income, population growth and spare capacity in the labour market.
47. The latest CCIWA *Survey of Consumer Confidence* for the March quarter 2018 reported only 24 per cent of consumers anticipating the WA economy will worsen over the next 12 months. However, 64 per cent identified living costs to have a negative influence on their confidence.
48. The headline index for consumer confidence is currently at a four-year high, providing some optimism for household consumption in 2017-18. A stable political environment, subdued interest rates, and minimal inflationary pressures have contributed to the boost in consumer confidence, though consumers remain cautious about slow wages growth, high household debt and a weak property market.
49. CCIWA forecasts that household consumption will remain subdued in the current financial year, marginally improving to 1.0 per cent before undertaking a slow and steady growth to 2.0 per cent in the 2019-20 financial year. In the first six months of 2017-18 household consumption increased 0.59 per cent⁹.

Table 5: Growth in Household Consumption (%)

Financial Year	Household Consumption
2016-17 Actual	0.5
2017-18 Forecast	1.0
2018-19 Forecast	1.5
2019-20 Forecast	2.0

Source: CCIWA

50. The RBA Statement on Monetary Policy in May 2018 noted that “recent data revisions indicate that household consumption has so far been more resilient to low income growth than suggested by the initially published data”¹⁰. Further, it stated that consumption growth over the second half of 2017 was “consistent with the possibility that the propensity to consume rather than save additional income is higher for those who were previously not working than it is for already employed workers increasing their hours”¹¹.

Business Investment

51. The major driver of the fall in GSP in WA, on an expenditure basis, was business investment, which fell by 28.5 per cent or \$15 billion in 2016-17. Business investment increased by \$63 billion in the decade to 2012-13. However, with the unwinding in engineering construction, business investment has fallen every year since the peak of 2012-13. This has resulted in \$42.5 billion being removed from the value of economic output.
52. The 2018-19 Budget forecasts that business investment will decline a further 14.0 per cent in the 2018-19 financial year, before achieving small incremental growth from the 2019-20 financial year.
53. The profile of business investment from 2019-20 is looking more stable. While there are less large-scale projects on the planning horizon than were typical during the resources investment boom period, there is sufficient small-scale investment potential to sustain the forecast levels of business investment going forward.

⁹ ABS, Cat. No. 5206.0 Australian National Accounts, Trend, Chain Volume Measures

¹⁰ Reserve Bank of Australia, Statement on Monetary Policy, May 2018, page 62

¹¹ *ibid*, page 63

54. Results from the latest CCIWA *Survey of Business Confidence* in March 2018 report that a majority of WA businesses (64 %) are anticipating no changes to their investment levels over the next quarter. Businesses in the mining industries remain optimistic however, with half (50 %) reporting that they expect to increase capital expenditure.

Table 6: Growth in Business Investment (%)

Financial Year	Business Investment
2016-17 Actual	-28.5
2017-18 Estimated Actual	-7.0
2018-19 Budget Estimate	-14.0
2019-20 Forward Estimate	6.0

Source: Western Australian Government Budget 2018-19, Budget Paper 3, page 13

Retail Trading

55. In trend terms, monthly growth in retail sales in WA was flat (0.0%) from November 2017 to March 2018. Annual growth in retail sales from March 2017 to March 2018, in trend and seasonally adjusted terms, -0.5 per cent¹².
56. Nationally, for the first quarter of 2018, WA is the only State or Territory that has experienced negative growth, with the national growth in retail turnover at 0.3 per cent in both seasonally adjusted and trend terms¹³.
57. Retail sales declined over the first quarter of 2018, falling from \$2.836 billion in January to \$2.819 in February 2018 to \$2.817 billion in March 2018 representing a fall in retail turnover of -0.68 per cent over the quarter. This compares with a national increase of 0.59 per cent for the quarter. The March 2018 retail turnover result equals the level achieved in August 2016¹⁴.
58. This confirms that while confidence may be growing over the latter part of 2017 and into the first quarter of 2018, recovery is yet to stabilise and must be viewed cautiously¹⁵.
59. Since March 2015, monthly growth in retail turnover has averaged zero per cent in both trend and seasonally adjusted terms.
60. In WA, total retail turnover by industry sector in March 2018 showed food retailing comprised 42.1 per cent of total retail turnover (up 1.2% from March 2015), household goods 16.8 per cent (down by 1.1%), clothing footwear and personal accessory retailing remained flat at 6.0 per cent, department stores 5.9 per cent (down by 0.8%), cafes restaurants and takeaway food services 16.3 per cent (up by 0.7%).¹⁶¹⁷

¹² ABS, Cat. No 8501, Retail Trade, March 2018

¹³ *ibid*

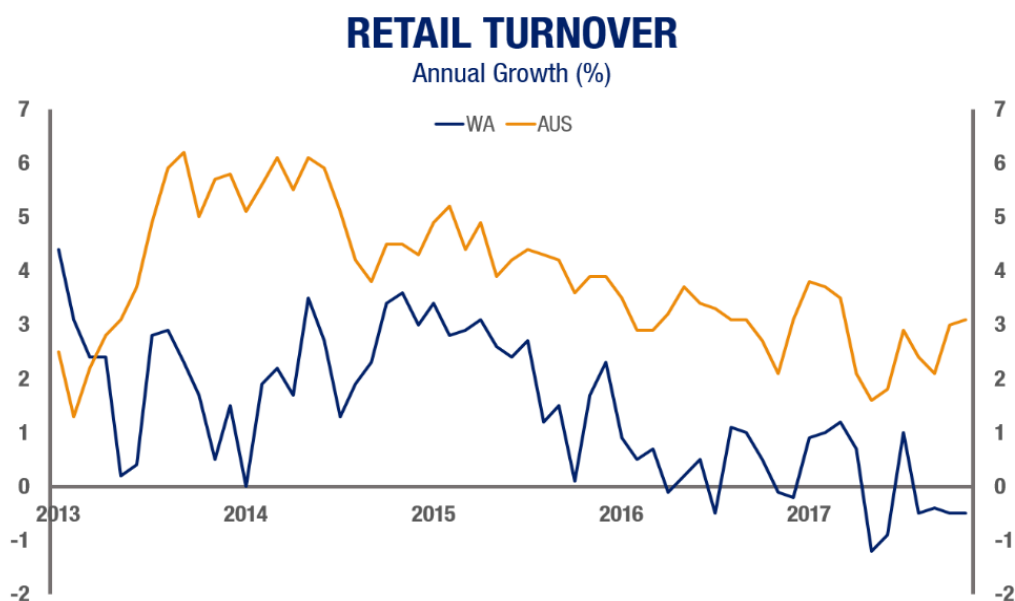
¹⁴ *ibid*

¹⁵ *ibid*

¹⁶ *ibid*

¹⁷ Food Retailing includes supermarket and grocery stores; liquor retailing; other specialised food retailing; Household Goods Retailing includes furniture, floor coverings, housewares and textile goods; electrical and electronic goods; hardware, building and garden supplies retailing; Clothing, Footwear and Personal Accessory Retail includes clothing; footwear and other personal accessory retailing; and Other Retailing includes newspapers and books; other recreational goods; pharmaceutical, cosmetic and toiletry goods retailing.

Chart 5: Annual Growth in Retail Turnover - WA v National, 2013-2018



Source: ABS, Cat. No. 8501.0 Retail Trade, March 2018

Dwelling Investment

61. Dwelling investment declined by around 20 per cent in 2016-17 (18% over calendar 2017), the first decline in annual figures since the peak of the resources investment boom. The outlook for dwelling investment over the next few years is reflective of three different factors playing out.
62. First, population growth is gradually coming out of its trough after growing at 0.5 per cent per year. While net interstate migration is still negative, the natural increase in population and overseas migration, despite remaining below historical levels, are currently supporting an increasing population. This will slowly help absorb some of the excess housing supply that is taking some time to clear.
63. Second, residential property prices are still declining in Perth, albeit at a marginally slower pace than in recent history. As higher population growth helps clear some of the excess housing supply in the market, prices should begin to stabilise and find a new equilibrium. CCIWA expects stable prices to precede a return to positive growth in dwelling investment.
64. Finally, low interest rates are continuing to support a favourable environment for dwelling investment. The ASX RBA Rate Indicator, which shows market expectations of a change in the official cash rate, suggests that a rise is more likely than further cuts. However, the rise is forecast to be slow and gradual, with only a 25 basis point rise expected in the next 12 months.
65. In consideration of these factors, the forecast for dwelling investment to decline a further 6.25 per cent decline the current financial year before returning to modest growth 2018-19 financial year and subsequent forecast years.

Table 7: Growth in Dwelling Investment (%)

Financial Year	Dwelling Investment
2016-17 Actual	-22.5
2017-18 Estimated Actual	-6.25
2018-19 Budget Estimate	4.75
2019-20 Forward Estimate	5.75
2020-21 Forward Estimate	3.25

Source: Western Australian Government Budget 2018-19, Budget Paper 3, page 13

66. Conditions in the Western Australian housing market remain subdued.
67. The latest data available from the Real Estate Institute of WA shows in March 2013 the median house price in Perth was \$515,00 compared to \$525,000 in December 2017, representing an increase of 2.4 per cent over four years, or an average of 0.6 per cent per year. Over the same period, the median price for a unit fell by 3.5 per cent or 0.8 per cent per year from \$425,000 in March 2013 to \$410,000 in December 2017¹⁸. Median house prices have remained flat from December 2016 to December 2017.
68. In the rental market, the median unit rent in June 2016 was \$350.00 per week which has fallen 7.1 per cent to \$325.00 in March 2018. Over the same period, the median house rent has fallen 7.7 per cent from \$390.00 per week to \$360.00 per week. The overall vacancy rate has fallen from 6.0 per cent to 5.1 per cent, representing a reduction in the oversupply that had existed in the market¹⁹. While the vacancy rate is down from a high point of 7.3 per cent in the June quarter 2017 it remains well above the market equilibrium rate of 3.0 per cent²⁰.
69. The ABS recorded in the March quarter CPI data for Perth that rental costs fell 1.6 per cent due to the continued excess in housing stock leading to high vacancy rates that continues to put downward pressure on rental prices.
70. The RBA noted in the Statement on Monetary Policy in May 2018 that “rents have been falling in Perth alongside low population growth and weaker economic conditions than in other capital cities”²¹.

Barriers to Business

71. CCIWA’s *Survey of Business Confidence* in the March 2018 quarter identified that 40 per cent of businesses considered rising operating costs as the biggest barrier in growing their business over the coming year, followed closely by weak demand (36%) and foreign and online competitors (36%).
72. Only six per cent of respondents identified no barriers impeding their business growth.
73. Rising operating costs was a hindrance to various industries, with two-thirds of businesses from wholesale trade (67%) and retail trade (63%) considering it a major barrier to business development. Over half (58%) of mining businesses identified availability of skilled labour as the biggest barrier to growth.

¹⁸ Real Estate Institute of WA, website data, reiwa.com.au

¹⁹ *ibid*

²⁰ Western Australian Government Mid-Year Financial Projections Statement, 2017-18, December 2017

²¹ Reserve Bank of Australia, Statement on Monetary Policy, May 2018, page 51

Western Australian Government Budget – 2018-19

74. The Western Australian Government released its 2018-19 Budget on 10 May 2018. The Government's key projections are provided in Table 8 below and support the need to caution in Western Australia to nurture the state's recovery from the strains of the last four years.

Table 8: WA Government 2018-19 Budget Economic Forecasts, Annual Growth (%)

	2016-17 Actual	2017-18 Estimated Actual	2018-19 Budget Estimate	2019-20 Forward Estimate	2020-21 Forward Estimate
Economic Indicators					
Gross State Product growth (%)	-2.7	2.5	3.25	3.75	3.0
Real State Final Demand growth (%)	-7.2	-0.25	-0.25	3.75	3.75
Household Consumption growth (%)	1.1	1.75	2.75	3.25	3.5
Dwelling Investment (%)	-22.5	-6.25	4.75	5.75	3.25
Business Investment (%)	-28.5	-7.0	-14.0	6.0	7.0
Perth Consumer Price Index growth (%)	0.6	1.0	1.5	2.0	2.5
Net Exports (%)	14.6	10.0	12.5	4.0	1.75
Population					
Population growth (%)	0.7	1.0	1.2	1.5	1.8
Working Age Population (15-64) (%)	0.0	0.1	0.4	0.9	1.3
Labour Market					
Employment growth (%)	-0.9	2.25	1.5	2.0	2.25
Unemployment rate ¹ (%)	6.2	5.75	5.75	5.5	5.25
Participation Rate ¹ (%)	67.3	68.1	68.4	68.6	68.8
Wage Price Index growth (%)	1.4	1.5	1.75	2.75	3.0
Housing					
Perth Median House Price	-3.1	-0.1	1.4	1.8	3.2

Source: Western Australian Government 2018-19 Budget, Budget Paper No. 3, page 13

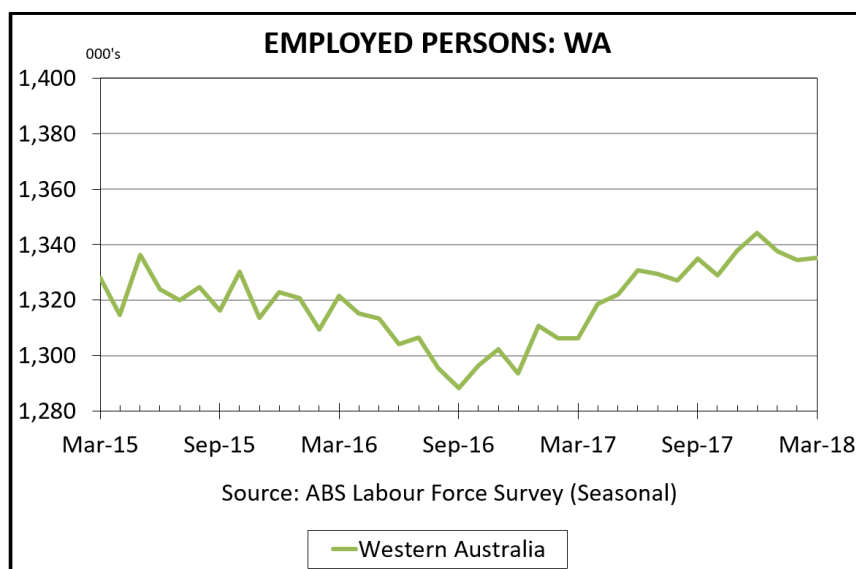
Notes: ¹ Data expressed as annual average during the financial year

75. Of particular note in the Budget forecasts:
- (a) Population growth is forecast to remain modest to 2019-20;
 - (b) Business investment will continue to decline until a move to modest growth in 2019-20;
 - (c) SFD will continue to decline, though only marginally, until 2019-20;
 - (d) CPI is forecast to remain at or below 2.0 per cent until 2020-21;
 - (e) Growth in working age population growth will remain low until 2020-21;
 - (f) WPI will remain below the CPI rate until 2019-20;
 - (g) The unemployment rate will remain steady until 2019-20;
76. The Budget key indicators reflect the continuation of the challenging economic conditions through 2018-19 before more positive projections expected in 2019-20 and beyond as the economy begins to improve. This supports that position that the WA economy is in transition and while it has reached the bottom of the cycle, future delivery of these positive projections requires nurturing.

3. The Western Australian Labour Market

77. The estimated resident Western Australia population increased by 0.3 per cent (or 6,781 people) over the September 2017 quarter to 2,587,135 and rose over the year from September 2016 to September 2017 by 0.9 per cent.²² Population growth is expected to remain modest in 2017-18 and 2018-19 at 1.0 per cent and 1.2 per cent respectively before gradually increasing to 1.5 per cent in 2020-21. This will particularly be the case as net interstate migration is projected to ease and net overseas migration increases.
78. At March 2018, WA had 1,335,100 employed persons comprising 720,000 employed males and 615,100 employed females²³. Employment dropped by 0.1 per cent over the three months to March 2018²⁴. This represents an employment to population ratio of 64.0 per cent (seasonally adjusted at March 2018), the lowest level in five months.
79. Seasonally adjusted, full-time employment accounted for 891,200 persons with 586,900 males and 304,300 females employed full-time. Part-time employment totalled 443,900 persons comprising 133,100 males and 310,800 females.²⁵ Employment increased by 2.2 per cent through the year to March 2018.

Chart 6: Employed Persons - WA March 2015 - March 2018



Source: Department of Jobs and Small Business, Western Australian Labour Economics Office, January 2018

80. The March quarter 2018 industry sector employment shows the five largest employing sectors in WA were Healthcare and Social Assistance (170,939), Business and Property Services (151,651), Retail and Wholesale Trade (151,531), Construction (138,561) and Accommodation, Food, Art and Recreation (128,322). With the exception of Construction, all are heavily award reliant sectors.
81. Overall, the WA labour market remains soft though the number of job vacancies is steadily improving and has returned to the levels of three years ago after a period of low job vacancies through 2016-17.

²² ABS, Cat. No. 3101.0, September 2017

²³ ABS, Cat. No. 6202.0 Labour Force, March 2018

²⁴ *ibid*

²⁵ *ibid*

82. Job vacancies in the February 2018 quarter had increased to 22,200 vacancies from a low level of 15,500 in the February and May 2016 quarters.²⁶ At the height of the resources investment boom, job vacancies in Western Australian averaged nearly 32,000 per quarter.
83. There has been a 15 per cent increase in job advertisements in Western Australia over the year to March 2018, the largest increase of all states and territories²⁷, reflecting the general improvement in conditions.
84. The March 2018 quarter results of CCIWA's *Survey of Business Confidence* indicate that a third of businesses (34%) increased their employment levels in the quarter, while almost half (49 %) kept staff levels steady. These results are encouraging and are expected to maintain an upward trend in the next quarter with 42 per cent of businesses expecting to increase their workforce in the next three months, while 46 per cent are anticipating no changes.
85. Importantly however, the proportion of businesses employing fewer staff decreased in the March quarter from 27 per cent to 18 per cent. This is a turnaround from the December quarter results.
86. Labour costs, which include wages and salaries, employment taxes, superannuation costs, and training, are a critical factor for the capacity of business to expand employment.
87. The Labour Costs Index increased in the March quarter to the highest level in five years. Two-thirds of businesses (64%) are expecting labour costs to remain stable while a third (33%) are bracing for higher costs. Almost 31 per cent of businesses identified higher labour costs in the March quarter, down from 35 per cent last quarter.
88. While CCIWA's *Survey of Consumer Confidence* showed improvements in consumer perceptions of job security, there is still cause for concern with over a quarter of respondents (26%) considering their employment prospects to have worsened over the past year, down from 30 per cent last year.

Unemployment

89. WA's unemployment rate, on a seasonally adjusted basis, was 6.2 per cent through the 2016-17 financial year. Since June 2017 the unemployment rate has continued at high levels reaching a peak of 6.6 per cent in November 2017, before declining to 5.7 per cent in December 2017 and January 2018, and then rising to 6.0 per cent in February 2018 and to 6.9 per cent in March 2018.
90. WA's seasonally-adjusted unemployment rate reached a 16-year high in March 2018 at 6.9 per cent. The level of unemployment in WA has risen to 98,300 people, representing an increase of 10,300 people over the year to March 2018.
91. CCIWA is forecasting unemployment to remain at levels exceeding the Reserve Bank of Australia's estimated national full employment level of 5.0 per cent to be at 5.8 per cent in 2017-18, declining to 5.6 per cent in 2018-19 and 5.5 per cent in 2019-20.

²⁶ ABS, Cat. No. 6354.0, Job Vacancies, March 2018

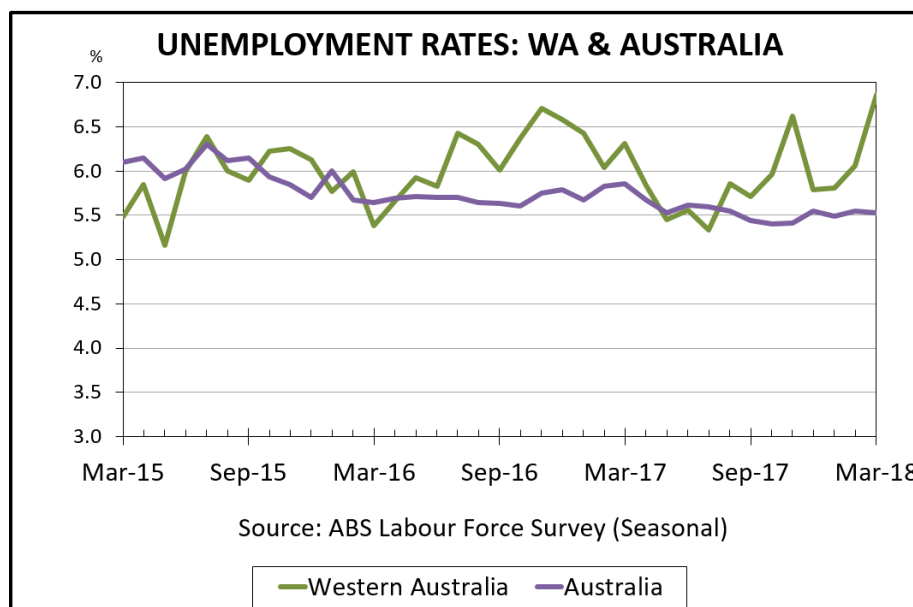
²⁷ Department of Jobs and Small Business, March 2018

Table 9: Western Australia Unemployment Rate

Month	WA (%)	National (%)
Jan 2017	6.4	5.7
Feb 2017	6.0	5.9
Mar 2017	6.4	5.8
Apr 2017	5.9	5.7
May 2017	5.5	5.5
Jun 2017	5.6	5.6
Jul 2017	5.3	5.6
Aug 2017	5.9	5.5
Sep 2017	5.7	5.5
Oct 2017	6.0	5.4
Nov 2017	6.6	5.4
Dec 2017	5.7	5.6
Jan 2018	5.7	5.5
Feb 2018	6.0	5.5
Mar 2018	6.9	5.5

Source: ABS, Cat. No. 6202.0 Labour Force, Unemployment Rate,
Monthly, Seasonally Adjusted

Chart 7: Unemployment Rates - WA v National, March 2015 – March 2018



Source: Department of Jobs and Small Business, Western Australian Labour
Economics Office, March 2018

92. Of the 98,300 unemployed persons in January 2018, 56,300 were males and 42,000 females.²⁸ Approximately 77.5 per cent of those unemployed were looking for full-time employment.

²⁸ ABS, Cat. No. 6202, Labour Force, March 2018

93. However, since June 2014, WA has been experiencing an increasing exodus from the state with net interstate migration (arrivals less departures) averaging 2,895 people per quarter for the last four quarters. Net interstate migration has declined by 23,700 since June 2014. These high exit rates are keeping the unemployment rate artificially lower simply as a result of less people in WA looking for work.

Table 10: Quarterly Net Interstate Migration

Quarter	Persons
Jun 2016	-2,805
Sep 2016	-2,430
Dec 2016	-3,665
Mar 2017	-2,860
Jun 2017	-2,767
Sept 2017	-2,289
Quarterly Average	-2,803

Source: ABS, Cat. No. 3101.0, September 2017

94. Seasonally adjusted, Western Australia's employment to population ratio in March 2018 was 64.0 per cent exceeding that of the states where New South Wales employment to population ratio was 61.0 per cent, Victoria 62.2 per cent, Queensland 62.3 per cent, South Australia 58.8 per cent and Tasmania 57.4 per cent and the national average of 62.0 per cent²⁹.

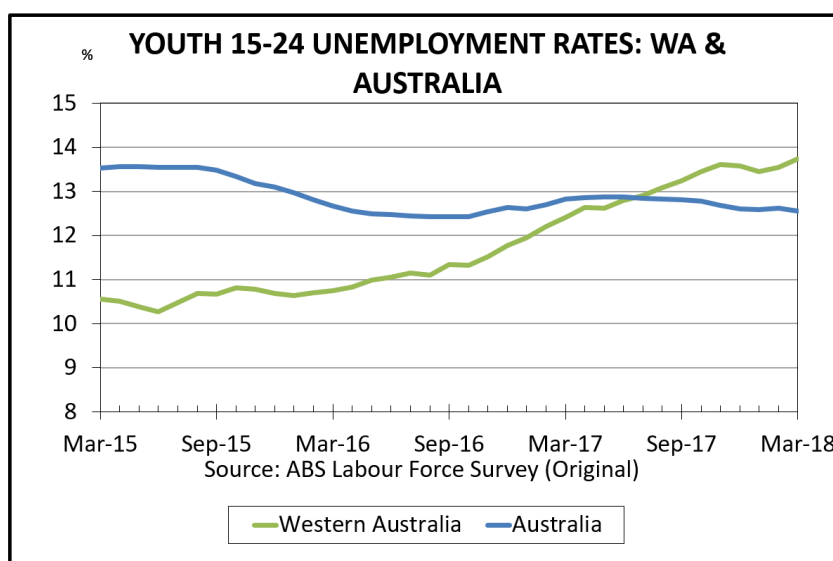
Youth Unemployment

95. WA's youth unemployment rate (15 to 24-year-olds) has steadily increased since January 2015 to a 22-year high in March 2018 at 17.1 per cent³⁰. For the period January 2015 to January 2016, the youth unemployment rate averaged 10.9 per cent, from January 2016 to January 2017 the average was 12.1 per cent and from January 2017 to January 2018 average rate is 13.6 per cent. The WA youth unemployment rate exceeds the national average and has done so for the last nine consecutive months.
96. Youth unemployment continues to trend in an unacceptable direction and it is crucial to encourage employment opportunities for 15 to 24-year-olds in WA.
97. With approximately 80 per cent of jobs in WA created by the private sector, it is the success of businesses that will be able to provide these opportunities, ultimately provided by small and medium businesses within the community, particularly in regional WA.
98. Youth employment is a particularly acute and concerning challenge. The 2018 State Wage Case is occurring at a time when WA is experiencing rising youth unemployment. Youth unemployment outside the Perth metropolitan area is higher in pockets than the Western Australian average in areas such as Mandurah with a youth unemployment rate of 16.6 per cent and the Wheatbelt region with 14.8 per cent.

²⁹ ABS, Cat. No. 6202, Labour Force, March 2018

³⁰ *ibid*

Chart 8: Youth Unemployment Rates - WA v National, March 2015 – March 2018



Source: Department of Jobs and Small Business, WA Labour Economics Office, January 2018, 12 month moving average of original ABS Labour Force Survey data

99. Vocational education and training is essential in not only transitioning people to higher paid employment later in life but in ensuring that the labour market has the pipeline of skills needed to support future productivity, sustainability and growth.
100. Minimum wage settings need to actively facilitate and support employment and training opportunities for young people and those seeking to gain or add skills and qualifications.
101. The minimum wage setting must, in balance with other considerations / imperatives, actively support businesses to provide training and employment opportunities for young people.
102. Apprentices and trainees are critical to the economy. Apprenticeships and traineeships provide the essential pathway by which the economy can continue to develop its required skills for the future. They are the source of key skills in so many sectors and without the flow through of skilled workers entering the labour market, skill shortages develop and wages pressures result. This is especially the case with the changing nature of work.
103. However, apprenticeships and traineeships are in decline in WA and this is examined in further detail in section 5.3 of this submission.

Underemployment

104. Underemployment provides a measure of those employed persons who are not fully utilised, providing an indication of the number of people in the employed population who are willing and available to work more hours than they currently have. These people compete with the unemployed for available jobs.
105. The WA underemployment rate reflects the changing fortunes of the WA economy over 2017, in particular as the economy began to demonstrate more positive signs in the second half of 2017. The underemployment rate fell by 1.1 per cent from January 2017 to March 2018. However, the rate has risen again from January 2018 to March 2018 by 0.2 per cent.

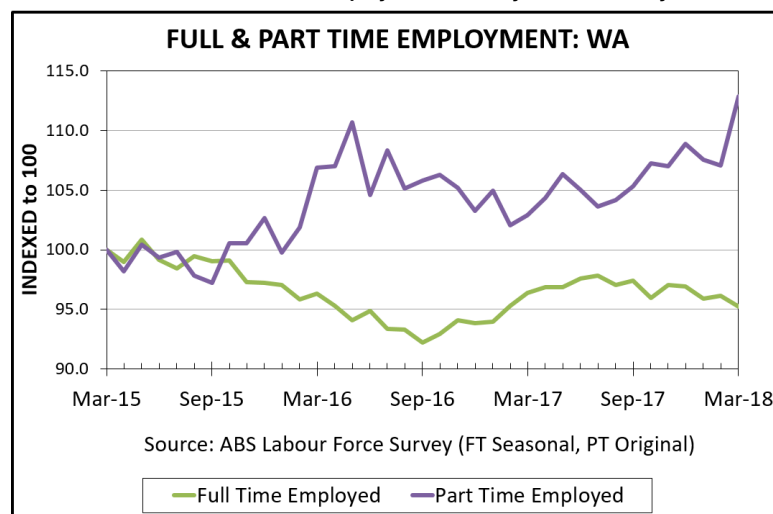
Table 11: Underemployment Rate – National and WA

Month	WA (%)	National (%)
Jan 2017	10.3	9.1
Feb 2017	10.6	8.8
Mar 2017	10.2	8.4
Apr 2017	10.1	8.6
May 2017	10.3	8.5
Jun 2017	10.3	8.4
Jul 2017	9.7	8.5
Aug 2017	9.1	8.4
Sep 2017	8.8	8.2
Oct 2017	9.4	8.1
Nov 2017	9.2	8.5
Dec 2017	9.4	8.9
Jan 2018	9.0	9.1
Feb 2018	8.8	8.3
Mar 2018	9.2	8.4

Source: ABS, Cat. No. 6202.0 Labour Force, Underemployment Rate, proportion of labour force, March 2018

106. Of the 133,700 underemployed persons in WA in March 2018, 56,500 are males and 77,200 are females³¹. There was a total of 122,500 persons who worked part-time and preferred more hours (48,600 males and 73,900 males)³². The underemployment rate for males was 7.2 per cent and 11.7 per cent for females³³.
107. More employment opportunities have been created in WA over the last year, most pronounced for part-time employment.

Chart 9: Full and Part Time Employment, January 2015 – January 2018



Source: Department of Jobs and Small Business, Western Australian Labour Economics Office, March 2018

³¹ ABS, Cat. No. 6202, Labour Force, March 2018

³² *ibid*

³³ *ibid*

Underutilisation

108. Underutilisation is a measure of spare capacity in the labour market. By combining data on unemployed and underemployed, a more complete picture is available of the unused labour supply, or spare capacity, in the market. The underutilised population is made up of those who are unemployed as well as those who are underemployed. It is important to acknowledge also that whether people are unemployed or underemployed, individuals have different preferences for the number of hours of work.
109. Continuing spare capacity in the labour market is a critical contributor to slow wages growth. According to RBA Governor Philip Lowe, the reasons for the subdued wage increases include the continuing spare capacity in the economy and “*over time, though, we do expect wage growth to pick-up as the labour market strengthens*”³⁴. Further, “*the pick-up, though, is likely to be gradual*”³⁵.
110. WA’s underutilisation rates for males and females have improved over 2017, with the female underutilisation rate achieving a greater rate of improvement than nationally. While WA’s total improved 2.0 per cent over 2017, the national rate improved 1.0 per cent. The male underutilisation rate declined 1.6 per cent and the female underutilisation rate has improved by 2.5 per cent compared with improvements in the national rates of 0.7 per cent for males and 1.1 per cent for females.
111. However, underutilisation rates in WA have increased in the first quarter of 2018, while remaining stable nationally. In March 2018, WA’s male underutilisation rate lost 2.3 per cent to the level at December 2017 to returned to the same level as February 2017 while the female participation rate lost 0.8 per cent to return to the levels of April 2017.

Table 12: Underutilisation Rate – National and WA, January 2017 – March 2018

Month	WA (%)			National (%)		
	Males	Females	Total	Males	Females	Total
Jan 2017	14.2	20.6	17.1	13.1	17.7	15.3
Feb 2017	14.9	20.2	17.3	13.0	17.6	15.1
Mar 2017	14.7	20.1	17.1	12.6	17.0	14.7
Apr 2017	13.4	19.3	16.0	11.9	17.0	14.3
May 2017	13.5	17.9	15.5	12.0	16.2	14.0
Jun 2017	13.4	18.2	15.6	11.9	16.1	13.9
Jul 2017	13.6	16.6	14.9	12.4	15.8	14.0
Aug 2017	13.4	16.6	14.9	12.2	15.9	13.9
Sep 2017	12.9	16.4	14.5	11.8	15.5	13.5
Oct 2017	13.0	17.9	15.2	11.4	15.4	13.2
Nov 2017	13.8	16.9	15.2	11.8	15.6	13.6
Dec 2017	12.6	18.1	15.1	12.4	16.6	14.3
Jan 2018	13.0	17.7	15.1	13.1	17.2	15.0
Feb 2018	14.2	17.1	15.5	12.5	16.4	14.3
Mar 2018	14.9	18.9	16.7	12.2	16.6	14.3

Source: ABS, Cat. No. 6202.0 Labour Force, Underemployment Rate, proportion of labour force, March 2018

112. Higher underutilisation rates continue to demonstrate the extent of labour market spare capacity.

³⁴ RBA Governor Philip Lowe, House of Representatives Standing Committee on Economic, 16 February 2018

³⁵ *ibid*

113. It is important to absorb the spare labour market capacity by creating more job opportunities for those who are unemployed in the community as well as increasing the availability of additional working hours and employment options for those who are currently employed.
114. An International Monetary Fund (IMF) working paper in March 2018 stated that nominal wage growth remains markedly slower in most advanced economies than it was before the GFC. IMF research of a range of possible contributing factors identified the bulk of global wage deceleration was to be accounted for by ongoing spare capacity, lower inflation expectations and weak trends in productivity growth³⁶.
115. Appearing before the Commonwealth Standing Committee on Economics, RBA Governor Philip Lowe stated that Australia is currently *"in a position where there is still spare capacity in the labour market. It's important to have strong employment growth in order for the employed labour to grow stronger than the rate of population, or the rate of labour force growth, in order that you can start absorbing some of that spare capacity to get to the point at which wage growth starts to pick up"*³⁷. He went on to add that the most important component is the growth in jobs.
116. Further Mr Lowe added that *"the main thing ... to improve income equality is jobs generationwhat we can do is promote a strong economy, which promotes strong jobs growth and ultimately wages growth"*³⁸.
117. The RBA February Statement on Monetary Policy noted also that *"despite strong employment growth over the past year, spare capacity in the labour market continued to weigh on wage growth"*³⁹.
118. In a speech in November 2017, RBA Assistant Governor (Economics) Luci Ellis said that workforce *"participation can and is increasing average income and living standards"*⁴⁰. Ms Ellis added: *"It is usually presumed that ageing of the population will reduce participation. Older workers have increased their participation in the workforce as the trend to early retirement has abated. Mixed in with this is the cohort effect related to the increasing participation of women more generally. Each generation of women participates in the workforce at a greater rate than the previous generation at the same age"*. Importantly, *"greater participation raises the level of living standards"*.

Participation Rate

119. The participation rate measures the share of the working age population either working or for looking for work at a point in time. The WA trend participation rate in March 2018 was 68.4 per cent, up from 67.4 per cent (or 1.0 %) from March 2017 compared with the national average participation rate of 65.7 per cent, up from 64.8 per cent (or 0.8 %) over the same period.
120. The female participation rate rose from 60.9 per cent in March 2017 to 62.7 per cent in March 2018, up by 1.8 per cent while the male participation rate remained steady at 74.0 per cent. The national participation rates for males and females rose 0.4 per cent and 0.9 per cent respectively from March 2017 to March 2018.
121. The trend female participation rate in WA (62.7%) is at a historic high – the highest since the ABS Labour Force Survey began in February 1978. Female participation rates have been steadily improving in WA at a much faster rate than for males though the female participation rate still lags the male participation rate by 11.3 per cent, marginally worse than the national differential of 10.3 per cent.

³⁶ More Slack Than Meets the Eye? Recent Dynamics in Advanced Economies, International Monetary Fund, March 2018

³⁷ Philip Lowe, Governor, Reserve Bank of Australia, Commonwealth Standing Committee on Economics, 16 February 2018

³⁸ *ibid*

³⁹ Reserve Bank of Australia, Statement on Monetary Policy, February 2018, page 35

⁴⁰ Reserve Bank of Australia Assistant Governor (Economics) Luci Ellis, speech, Where is Growth Going to Come From? 15 November 2017

Table 13: Participation Rate – National and WA

Month	WA (%)			National (%)		
	Males	Females	Total	Males	Females	Total
Jan 2017	73.6	61.1	67.3	70.3	59.3	64.7
Feb 2017	73.8	61.0	67.4	70.4	59.3	64.8
Mar 2017	74.0	60.9	67.4	70.5	59.4	64.8
Apr 2017	74.1	61.0	67.5	70.5	59.5	64.9
May 2017	74.1	61.1	67.6	70.6	59.6	65.0
Jun 2017	74.1	61.3	67.7	70.7	59.7	65.1
Jul 2017	74.2	61.4	67.8	70.7	59.8	65.2
Aug 2017	74.3	61.6	67.9	70.7	59.9	65.2
Sep 2017	74.5	61.7	68.1	70.8	60.0	65.3
Oct 2017	74.5	62.0	68.2	70.8	60.2	65.4
Nov 2017	74.5	62.2	68.3	70.8	60.3	65.5
Dec 2017	74.4	62.4	68.4	70.9	60.4	65.5
Jan 2018	74.3	62.6	68.4	70.9	60.5	65.6
Feb 2018	74.0	62.7	68.3	70.9	60.6	65.6
Mar 2018	74.0	62.7	68.4	70.9	60.6	65.7

Source: ABS, Cat. No. 6202.0 Labour Force, Participation Rate, March 2018

122. As at March 2018, WA had the highest male and female participation rates of all states:

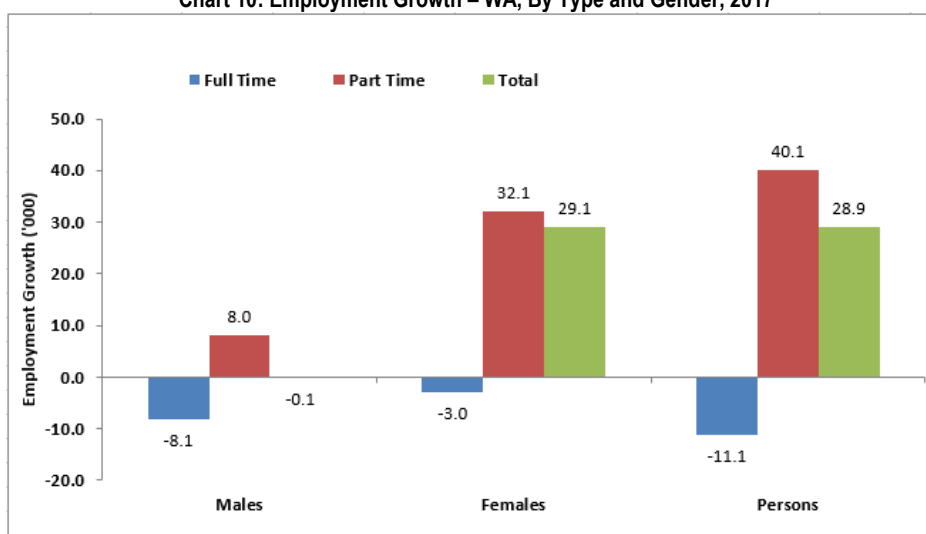
Table 14: Participation Rate – National and States (%)

Month	NSW	VIC	QLD	SA	TAS	WA
Male	70.0	71.5	70.7	67.8	64.4	74.0
Female	59.4	60.3	61.8	57.9	57.9	62.7
TOTAL	64.6	65.8	66.2	62.8	61.1	68.4

Source: ABS, Cat. No. 6202.0 Labour Force, Participation Rate, March 2018

123. Female employment has driven the overwhelming majority of full-time and part-time employment growth in WA over the year to January 2018.

Chart 10: Employment Growth – WA, By Type and Gender, 2017



Source: Department of Jobs and Small Business, Western Australian Labour Economics Office, March 2018

Wage Price Index (WPI)

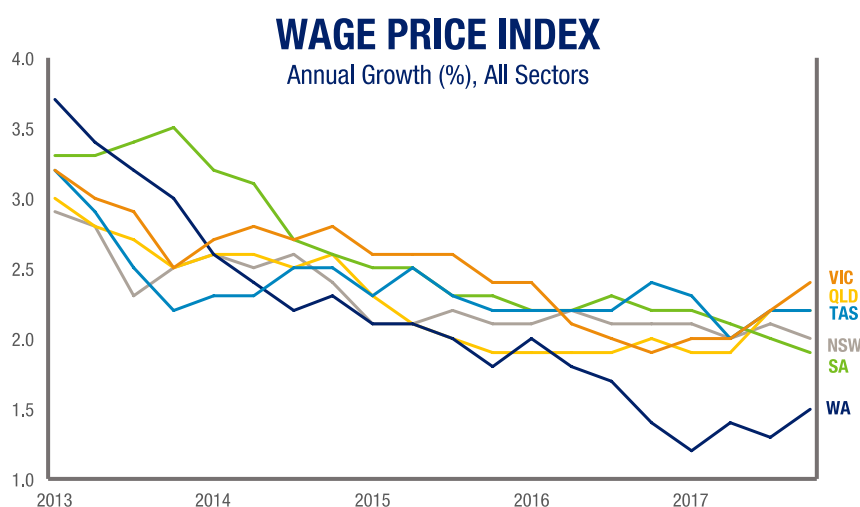
124. Wages growth in WA, as measured by the Wage Price Index (WPI), has been weakening over the last three years reaching its lowest level of 1.0 per cent through the March and June quarters of 2017. The WPI improved through the second half of 2017 finishing the year at 1.5 per cent in the December 2017 quarter. The WPI has been at or below 2 per cent in WA since December 2014.
125. Private sector wage growth remains at low levels. With the unemployment rate at 6.9 per cent and relatively high underemployment at 9.2 per cent, ongoing spare capacity exists in the WA labour market and is therefore likely to keep wage growth slow for some time yet, assisted by low inflation. However, this ongoing weakness in background inflation means that average wages are still growing in real terms.

Table 15: Wage Price Index, December 2014 – December 2017

Quarter	National	WA
Dec 2014	2.5%	2.0%
Mar 2015	2.2%	1.9%
Jun 2015	2.2%	1.8%
Sep 2015	2.1%	1.6%
Dec 2015	2.0%	1.5%
Mar 2016	2.0%	1.6%
Jun 2016	1.9%	1.6%
Sep 2016	1.9%	1.5%
Dec 2016	1.8%	1.2%
Mar 2017	1.8%	1.0%
Jun 2017	1.9%	1.0%
Sep 2017	1.9%	1.4%
Dec 2017	1.9%	1.5%

Source: ABS, Cat. No. 6345.0, Wage Price Index, Australia, Original, Percentage Change from the Corresponding Quarter of the Previous Year, Total Hourly Rates of Pay Excluding Bonuses, Private Sector, All Industries

Chart 11: Wage Price Index – States, All Sectors, 2013 - 2017



Source: ABS, Cat. No. 6345.0, Wage Price Index, Australia, All Sectors

126. The WA Government estimated wages growth to remain subdued consistent with high levels of spare capacity in the labour market and that WPI growth would gradually increase as economic activity strengthens and the labour market tightens but remain below the long-run average of 3.5 per cent⁴¹.
127. Many advanced economies are also experiencing subdued wage growth.
128. Spare capacity in the labour market is an important short-term cyclical factor that influences wages growth.
129. A Commonwealth Treasury analysis of wage growth cited that the recent subdued wage growth has been experienced by the majority of employees, regardless of income or occupation. Additionally, wage growth has been low across all methods of pay setting and, in recent years, increases in award wages have generally been larger than the overall increase in the Wage Price Index. At the same time, award reliance has increased in some industries while the coverage of collective agreements has fallen⁴².
130. Larger businesses paid higher average real wages and had higher real wage growth. On average over 2001-02 to 2013-14, businesses with more than \$50 million turnover had annual real wage growth of 2.5 per cent compared with only 0.5 per cent growth for businesses in the \$0-\$2 million turnover category⁴³.

Average Weekly Earnings

131. Full time average weekly ordinary time earnings (AWOTE) is generally considered the most stable earnings data due to the exclusion of overtime, part-time and junior employees. Earnings data measures average weekly earnings of employees at a point in time as opposed to the WPI, which measures hourly wage inflation for a basket of jobs.
132. AWOTE in WA remains the highest of the states at \$1,740.90, only surpassed by the ACT at \$1,801.30. The WA level exceeds the national average by \$173.00 per week.
133. WA is also the highest AWOTE for males at \$1,879.70 of all states and territories, and the highest for females except for the ACT.
134. WA's high-AWOTE levels have persisted through the post resources investment boom period, continuing to exert cost pressures on businesses in difficult trading conditions.

Table 16: Average Weekly Ordinary Time Earnings, (Dollars, Trend)

National	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
All Persons								
1,567.90	1,582.80	1,519.60	1,524.10	1,441.20	1,740.90	1,355.60	1,642.70	1,801.30
Males								
1,662.70	1,678.90	1,588.40	1,638.10	1,494.50	1,879.70	1,242.30	1,798.10	1,665.90
Females								
1,409.00	1,439.20	1,395.00	1,339.10	1,340.00	1,457.70	1,254.60	1,434.10	1,665.90

Source: ABS, Cat. No. 6302.0, Average Weekly Earnings, November 2017, Trend

⁴¹ Mid-Year Financial Projections Statement, Western Australian Government, December 2017

⁴² Analysis of Wage Growth: Australian Government (The Treasury), November 2017, page 2

⁴³ *ibid*, page 56

Monthly Working Hours

135. As noted in table 17, all states delivered increases in total monthly working hours over the period from March 2017 to March 2018, while WA remained flat recording a decline of 0.01 per cent. This decline equated to 10,760 working hours and confirms that the WA labour market remains weak with significant spare capacity.
136. Over the five years from March 2013 to March 2018, WA was the only state or territory to have recorded a decline in monthly working hours, falling by 2.27 per cent.
137. Nationally, from March 2013 to March 2018, the increase in monthly working hours was 7.47 per cent, highlighted by Victoria (+14.59 %), New South Wales (+9.67 %) and the ACT (+9.66%).

Table 17: Percentage Change in Monthly Hours Worked in all Jobs (all persons, seasonally adjusted)

National	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Percentage Change – March 2017 to March 2018 (1 year)								
+2.65%	+4.25%	+3.32%	+3.44%	+3.05%	-0.01%	+3.38%	-1.75%	+7.41%
Percentage Change – March 2013 to March 2018 (5 years)								
+7.47%	+9.67%	+14.59%	+6.92%	+3.67%	-2.27%	+6.83%	+6.36%	+9.66%

Source: ABS, Cat. No. 6202.0, Labour Force, March 2018

138. Nationally, over the year March 2017 to March 2018, monthly working hours worked in all jobs for males increased by 1.78 per cent while there was an increase of 3.96 per cent recorded for females.
139. For full time employment, male working hours increased 1.59 per cent and females increased 4.56 per cent and in part time employment male working hours by 3.81 per cent while females increased 2.50 per cent⁴⁴.
140. For the period from March 2013 to March 2018, nationally the total monthly hours in all jobs for males increased 4.62 per cent and for females increased 11.94 per cent. The change in full-time hours for males increased by 3.08 per cent and in part-time hours increased by 24.17 per cent. For females, full-time hours increased by 9.98 per cent while part-time hours increased 17.09 per cent⁴⁵.
141. The data suggests that working hours worked by female employees in both full-time and part-time employment has increased significantly at the expense of their male counterparts, indicating an increase in female workforce participation. Noticeably, there was a significant increase in male part-time working hours.

Enterprise Bargaining

142. National system enterprise agreements under the FW Act are to provide a “*simple, flexible and fair framework that enables collective bargaining in good faith, particularly at the enterprise level, for enterprise agreements that deliver productivity benefits*”⁴⁶.

⁴⁴ ABS, Cat. No. 6202.0 Labour Force, March 2018

⁴⁵ *ibid*

⁴⁶ Fair Work Act 2009 (Cth), s.171(a)

143. Enterprise agreements allow the participants at the workplace who are intimate with the businesses and industries in which they work, and the economy in which they operate, to negotiate appropriate and relevant terms and conditions of employment, importantly including wages and wage growth.
144. The December Trends in Enterprise Bargaining report produced by the Department of Jobs and Small Business continues to show a decline in enterprise agreements. Agreements current at the end of the December quarter totalled 12,982 across public and private sectors, a decline from 18,942 that were current at the end of the December quarter 2014. This represents a decline of 31.5 per cent.⁴⁷
145. There was a total of 1,047 agreements approved in the December 2017 quarter that presented an average annualised wage increase (AAWI) of 2.5 per cent, down from 3.1 per cent from the corresponding quarter in 2016⁴⁸. The number of agreements approved in the December quarter 2017 is a 35 per cent reduction on the level approved in the December quarter 2014.
146. For private sector agreements, the AAWI was 2.6 per cent in the December quarter 2017, down from 3.0 per cent in the December quarter 2016 and down from 3.3 per cent in the December quarter 2014⁴⁹.
147. The AAWI for public sector agreements approved in the December quarter 2017 was 2.3 per cent, down from 3.2 per cent in the December quarter 2016 and down from 3.5 per cent in the December quarter 2014⁵⁰.
148. Wages growth for agreements approved in the quarter that formally covered unions had a combined AAWI of 2.5 per cent whereas those with no unions formally covered had an AAWI of 2.4 per cent⁵¹.
149. The enterprise agreement data clearly demonstrates the restraint being applied at the workplace level for wage increases. With the average duration of agreements approved in the December quarter being at 3.0 years, all parties in agreement making have committed to restraint for a significant period of time.
150. This is particularly the case within WA, where the AAWI for agreements approved in the December quarter was 1.8 per cent, with only the Northern Territory having a lower AAWI at 1.3 per cent. The December quarter AAWI of 1.8 per cent represents a decline from the September quarter 2017 AAWI of 2.1 per cent demonstrating that restraint is continuing to be applied within WA and for longer periods as shown by the increasing average agreement duration.
151. The average duration of agreements in WA was 3.2 years, exceeding the national agreement average of 3.0 years and exceeded only by the Northern Territory with an average duration of 3.5 years.⁵²
152. The low AAWI within enterprise agreements approved in the December quarter 2017 in WA clearly confirms the restraint being shown by workplace participants as the state economy has been challenged over preceding years and is approaching recovery. Employees and their representatives have acknowledged the significance of current circumstance and enterprise agreements are showing wage restraint at 1.8 per cent for an average agreement duration of over three years. Clearly, restraint is seen as necessary for the foreseeable future.

⁴⁷ Trends in Federal Enterprise Bargaining, December Quarter 2017, Department of Jobs and Small Business, Table 4

⁴⁸ *ibid*, Table 3

⁴⁹ *ibid*

⁵⁰ *ibid*

⁵¹ *ibid*, Table 13

⁵² *ibid*, Table 10

Table 18: Enterprise Agreements Approved in Quarter

Agreements Approved in the Quarter	Dec 16	Mar 17	Jun 17	Sep 17	Dec 17
Public sector agreements	69	58	45	38	47
Public sector AAWI (%)	3.2	2.5	2.5	2.0	2.3
Public sector duration (yrs)	4.3	3.2	3.3	3.3	3.1
Private sector agreements	1289	912	802	642	1000
Private sector AAWI (%)	3.0	2.7	2.6	2.4	2.6
Private sector duration (yrs)	2.3	3.0	2.9	3.0	2.8
All sector agreements	1358	970	847	680	1047
All sectors AAWI (%)	3.1	2.7	2.6	2.2	2.5
All sectors duration (yrs)	3.3	3.0	3.0	3.2	3.0
WA agreements	103	103	73	60	92
All sectors AAWI (%)	2.5	1.9	2.0	2.1	1.8
All sectors duration (yrs)	2.7	2.6	2.8	3.2	3.2

Source: Trends in Federal Enterprise Bargaining Report, September Quarter 2017, Department of Jobs and Small Business

Productivity

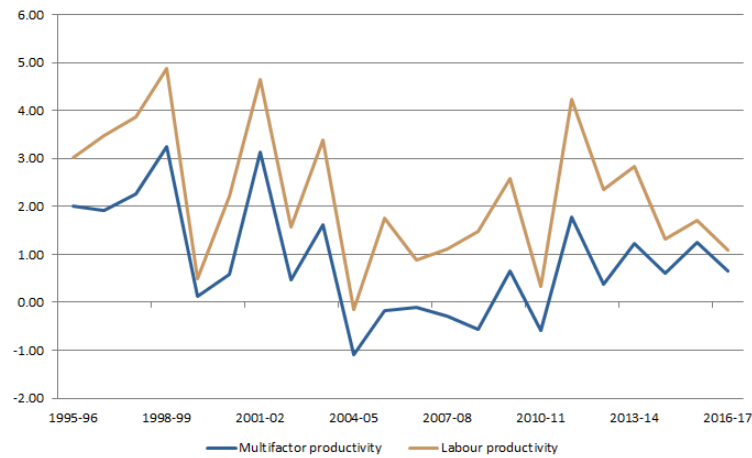
153. Key productivity measures include labour, capital and multifactor productivity.
154. The Productivity Commission identifies that *“the ABS aggregate multifactor productivity (value adding output produced per unit of combined inputs of labour and capital) is the measure that comes closest to the underlying concept of productivity — efficiency of producers in producing output using both labour and capital. Growth of multifactor productivity is the growth of output over and above the growth of labour and capital inputs”*⁵³.
155. The Productivity Commission also noted that, over the longer term, productivity growth is the primary driver of incomes and, in turn, living standards. *“Australia’s strong productivity growth throughout the 1990s was a key contributor to Australia’s strong wage growth, which coincided with increased employment and declining unemployment rates”*⁵⁴.
156. It is important therefore to give consideration to multifactor productivity which the Productivity Commission has identified the measure that comes closest to the underlying concept of productivity.
157. Multifactor productivity remains weak and grew just 0.8% (annual average) between 2011-12 to 2016-17.
158. The RBA Statement on Monetary Policy in May 2018 states that *“measured labour productivity growth has been low for several years ...”* and in *“recent quarters, growth in GDP has been outpaced by both growth in employment and the total number of hours worked. This implies that labour productivity has fallen, although this measure can be quite volatile. Measured multifactor productivity growth – which accounts for capital as well as labour inputs to production – has also been relatively low in recent years”*⁵⁵.

⁵³ Productivity Commission Inquiry Report, Volume 2, Workplace Relations Framework, No.76, 30 November 2015, page 1128

⁵⁴ Ibid, page 1157

⁵⁵ Reserve Bank of Australia, Statement on Monetary Policy, May 2018, page 31

Chart 12: Market Sector Productivity, National, Hours Worked Basis



Source: ABS, Cat. No. 5260.0.55.002, Estimates of Industry Multifactor Productivity, 24 January 2018

Table 19: Productivity Growth Cycles – Market Sector Industries Aggregate

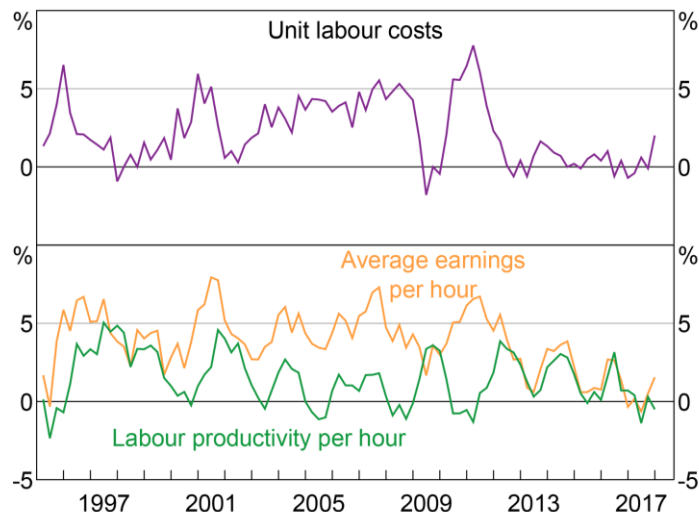
Compound Annual Percentage Change Between MFP Growth Cycle Peaks

Productivity Indexes	1998-99 to 2003-04	2003-04 to 2011-12	1998-99 to 2011-12	2011-12 to 2016-17(a)	1998-99 to 2016-17(b)
Labour Productivity					
Hours worked	2.42	1.51	1.86	1.84	1.85
Quality adjusted hours worked basis	1.99	1.02	1.39	1.27	1.36
Capital Productivity	-0.67	-2.14	-1.57	-0.54	-1.29
Multifactor Productivity					
Hours worked	1.17	-0.05	0.42	0.82	0.53
Quality adjusted hours worked basis	0.91	-0.33	0.15	0.49	0.24

(a) Incomplete cycle; (d) average for all growth cycles including incomplete cycle

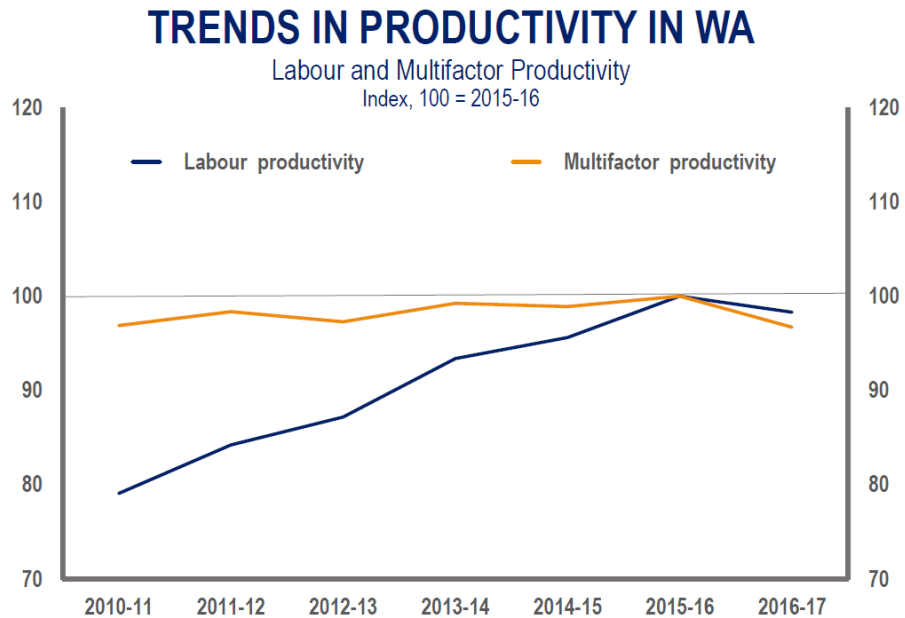
Source: ABS, Cat. No. 5260.0.55.002, Estimates of Industry Multifactor Productivity, 24 January 2018

Chart 13: Unit Labour Costs Growth (Non-farm, year-ended), RBA Chart Pack, May 2018



Sources: ABS; RBA

Chart 14: Trends in Productivity in WA

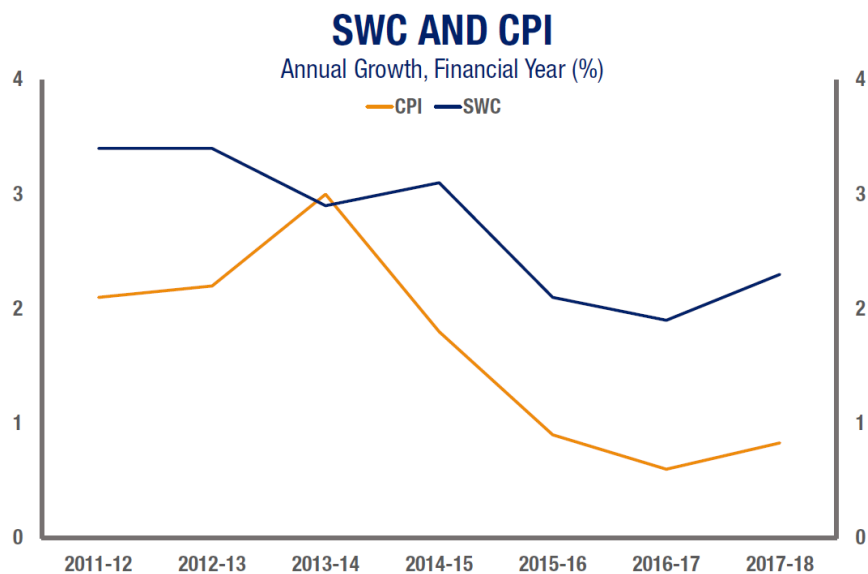


Source: ABS, Cat. No. 5260.0.55.002, Estimates of Industry Multifactor Productivity, 24 January 2018

Wages Growth

159. As can be seen in Chart 15 below, State system employees have benefited from increases in the SMW exceeding the Perth CPI to deliver real wage growth.

Chart 15: State Wage Case Increases and CPI



Source: ABS Cat. 6401.0; SWC [2018].

160. Further, over the last three years, both the WPI and AWOTE have exceeded the rate of inflation as reflected in Chart 16.

Chart 16: Wages and Inflation in WA

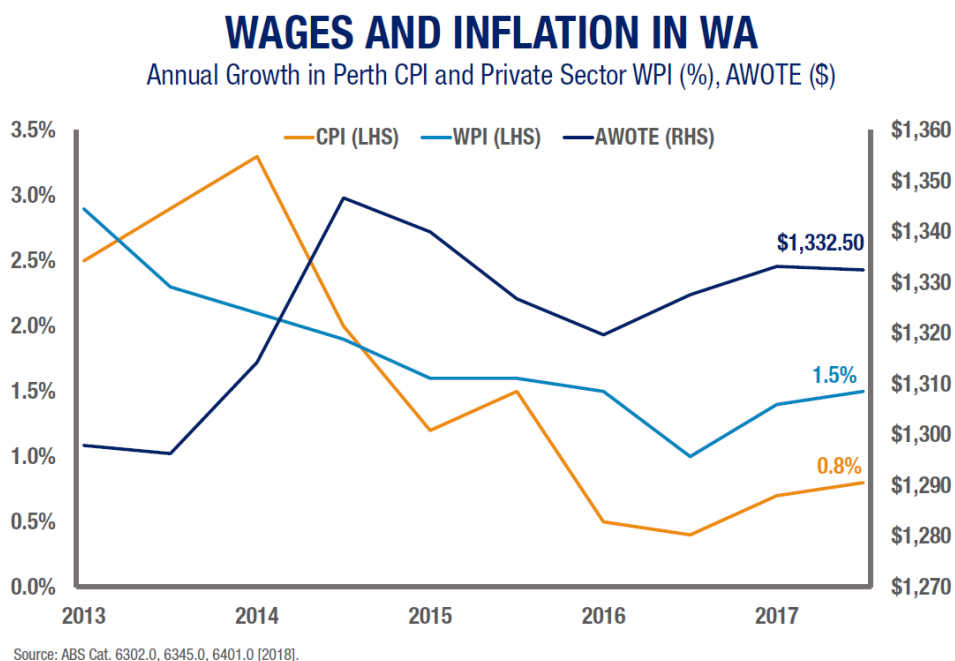


Table 20: Variance – CPI and WPI, December 2015 to March 2018

Quarter	Perth CPI %	WPI (WA) %	Variance%
Dec 2015	1.5	1.5	0.0
Mar 2016	0.7	1.6	+0.9
Jun 2016	0.5	1.6	+1.1
Sep 2016	0.5	1.5	+1.0
Dec 2016	0.4	1.2	+0.8
Mar 2017	1.0	1.0	0.0
Jun 2017	0.7	1.0	+0.3
Sep 2017	0.8	1.4	+0.6
Dec 2017	0.8	1.5	+0.7
Mar 2018	0.9		

Source: ABS, Cat. No. 6401.0 Consumer Price Index; ABS, Cat. No. 6345.0 Wage Price Index

161. Over the last ten quarters, wages growth has outpaced increases in CPI to provide real increases in disposable income. Equally, since 2011-12, the awarded increases arising from the State Wage Case have matched or exceeded increases in CPI to further demonstrate growth in disposable incomes in WA.
162. This growth will be assisted by the reduction in personal income taxes announced in the 2018 Federal Budget that will provide further benefits through real increases in disposable incomes to the low and middle-income earners.

4. The Small Business Community

163. According to Australian Bureau of Statistics data⁵⁶, of the 2,238,299 actively trading businesses operating at the end of 2016-17, most (93.2 % or 2,085,729) had annual turnover of less than \$2 million. Of these businesses, nearly a quarter (24.6 % or 551,224) had a turnover less than \$50,000, about one-third (34.7 % or 776,196) had turnover of \$50,000 to less than \$200,000 and a further one-third (33.9 %) of businesses had an annual turnover of \$200,000 to less than \$2 million. A relatively small proportion (2.9 %) of business had an annual turnover of \$5 million or more.
164. The majority of businesses (61.2 % or 1,370,051) were non-employing. There were 868,248 (38.8 %) employing businesses at the end of 2016-17 of which the majority (70.1 % or 608,733) employed between 1 and 4 people whilst only 0.2 per cent employing businesses employed more than 200 people.
165. Of the 2,238,299 actively trading businesses, 393 were in the public sector. Of the remaining 2,237,906 private sector businesses, 839,507 (37.5 %) were companies, 586,547 (26.2 %) were sole proprietors, 267,442 (12.0 %) were partnerships and 544,410 (24.3 %) were trusts.
166. In 2015-16, small business employed 44.1 per cent of the Australian workforce, paid \$1.51 billion dollars in wages and salaries, added \$378.4 billion in industry value add (34.9% of all industry) and generated 46.2 per cent of all business income⁵⁷.
167. The ABS define businesses in employment terms as (a) large businesses, employing 200 or more persons, (b) medium businesses, with employment of 20 to less than 200 persons, and (c) small businesses, employing less than 20 persons (including non-employing businesses). ABS small businesses include non-employing businesses (sole proprietorships and partnerships without employees), micro-businesses (businesses employing between one and four people including non-employing businesses), and other small businesses (businesses that employ between five and 19 employees).
168. Nationally, of the 2,238,299 actively trading businesses, 97.5 per cent are small businesses.
169. Of the 868,248 employing businesses, 812,084 (or 93.5%) are small businesses, 2.3 per cent are medium businesses and only 0.2 per cent large businesses.
170. The substantial majority of employing businesses nationally are small businesses (93.5%) of which the largest proportion are micro-businesses (70.1%).
171. The business survival rate for micro businesses (employing 1-4 persons) nationally is 69.0 per cent, 77.8 per cent for businesses employing 5 to 19 persons and 83.7 per cent for large businesses employing over 200 persons. For non-employing businesses, the survival rate is only 58.9 per cent⁵⁸.
172. There are 551,224 businesses with an annual turnover of \$50,000 or less, 776,196 businesses with a turnover of between \$50,000 and \$200,000, and 758,309 businesses with a turnover of between \$200,000 and \$2 million⁵⁹.

⁵⁶ ABS, Cat. No. 8165 Counts of Australian Businesses, June 2013-June 2017

⁵⁷ ABS Cat. No 8155, Australian Industry, 2015-16

⁵⁸ *ibid*

⁵⁹ ABS, Cat. No. 8165 Counts of Australian Businesses, June 2013-June 2017

173. The survival rate for businesses increases as annual turnover increases from 50.4 per cent for turnover of \$50,000 or less, 62.2 per cent for turnover of between \$50,000 and \$200,000, and 73.7 per cent for turnover of between \$200,000 and \$2 million.
174. As at 30 June 2017, there were 228,527 businesses in WA of which 97.1 per cent are small businesses (non-employed and employing 1-19 employees):

Table 21: Number of Western Australian Businesses Employing by Business Size

Non-employed Businesses	Employing 1- 19	Employing 20 - 199	Employing 200 +	TOTAL
143,988	77,846	6,213	410	228,527
63.0%	34.1%	2.7%	0.2%	100.0%

Source: ABS, Cat. No. 8165.0, Counts of Australian Businesses 2016 – 17

175. WA small business contributed \$39.7 billion to the WA economy in 2014-15, accounting for 19.7 per cent of WA's GSP⁶⁰.
176. Small business is a significant sector of the WA community. Small businesses are diverse and operate in all sectors of the economy. Most importantly they operate in, and contribute to, every region and regional community throughout the state 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 are more likely to be located in regional areas compared with larger businesses.
177. The Bankwest Curtin Economics Centre (BCEC) reports that over three-quarters of small business are located in Perth, with around 37 per cent selling entirely within their own region and a further 37 per cent limiting sales to within WA⁶¹.
178. Small businesses are generally less diversified in their product offerings and customers, less equipped to deal with soft demand and have less flexibility in terms of meeting workplace operational requirements.
179. In addition, small businesses face a higher cost of financing their operations. Research by the Reserve Bank of Australia (RBA) on small business finance shows that they often face higher interest rates relative to large businesses.
180. The very nature of small business often limits access to additional funds for their business. Lack of access to additional funds is a significant barrier to business development or the introduction of new goods, services, processes or methods, including the introduction of technology and other innovations.
181. Business owners have to fund their own business development or source necessary funds from debt or equity sources.
182. Businesses report the main reason for seeking debt or equity finance was to maintain short-term cash flow or liquidity (36%) followed by finance to replace equipment or machinery (28%)⁶².
183. The ABS reports that for micro businesses (employing 1-4 persons), business owners' sources for debt finance were from banks (67.8%), finance companies (27.6%) and from friends or family (7.0%) with the owners themselves providing funds for 12.4 per cent of requirements.

⁶⁰ The Engine Room for Growth? Bankwest Curtin Economics Centre, May 2017, page viii

⁶¹ *ibid*, page x

⁶² ABS, Cat. No 8167.0, Selected Characteristics of Australian Business, 2015-16

184. For businesses employing 5 to 19 employees, these figures are similar - banks (72.2%), finance companies (27.0%) and from friends or family (6.7%) with the owners themselves providing funds for 9.0% per cent of requirements⁶³.
185. While small business owners source debt finance funds for their business, they are required of course to service that debt finance or repay family and friends directly from the performance of their business.
186. It is therefore not uncommon for small businesses to have much more at stake than medium and larger businesses, often where business owners have mortgaged the family home to establish, operate and continue the viability of the business through challenging times. Small business owners 'have a lot on the line' and the cost of failure is significant.
187. Small business owners not only have to earn an income from the business to meet the same living requirements of employees (mortgage payments, school costs, power/gas, groceries, etc), they also must satisfy the additional pressures of meeting business funding requirements, operational requirements (such as rent, wages and salaries of staff, insurances, stock/inventory) and business compliance needs and costs. If they are an employing business, there is the added responsibility for staff. Small business owners invest significant time outside of 'normal' business hours that places substantial pressures on their own family life and health and well-being.
188. Among the key findings of the 2017 BCEC Small Business Survey, more than 50 per cent of small business owners reported a negative impact on their physical and mental wellbeing arising from work-related stress⁶⁴. Importantly, the survey found that financial stress included unpredictable income and cash flow as the top driver of business stress.
189. By their very nature small businesses are particularly sensitive to challenging economic conditions. This sensitivity is reflected in the ABS small business survival rates relative to medium and large businesses.
190. Small business operating conditions in WA have been extremely difficult.
191. The competitive environment has been challenging not only due to the economic conditions in the State, but also from competition not only from within the state, but also from interstate and overseas.
192. Global businesses are entering more frequently and dominate the Australian and WA business landscape, with the scale being offered by these businesses placing local business under increasing pressure. For example, in the retail sphere consider the most well-known in Amazon (USA), Aldi (Germany), H&M (Sweden), Ikea (Sweden), Costco (USA), Gap (USA), Zara (Spain), and Uniqlo (Japan).
193. Local businesses must compete, not only on product lines but certainly for dollar spend. Competition for the retail dollar is becoming more intense and this places businesses, particularly those relying on discretionary spend, under increasing pressure. The discretionary dollar is being directed by consumers more frequently toward larger enterprises, including overseas operators, that are able to reduce prices, absorb costs and compress margins with more ease than a small business is able to endure.
194. Further, on-line retailing continues to expand rapidly. According to the National Australia Bank Online Retail Sales Index, consumers spent approximately \$24.7 billion over the 12 months to January 2018, the equivalent to 7.9 per cent of traditional bricks and mortar retailers. Year-on year online sales increase 14.1 per cent compared to last year. This continues to also threaten small business.

⁶³ ABS, Cat. No 8167.0, Selected Characteristics of Australian Business, 2015-16

⁶⁴ The Engine Room for Growth? Bankwest Curtin Economics Centre, May 2017, page xi

195. The small private sector businesses, the providers of significant employment opportunities within the community, are losing consumer spending into the larger businesses that are capital strong and can withstand a wider range of competitive forces.
196. While business conditions are showing encouraging signs of improvement, due to a long period of weak trading conditions over the last four years, small businesses remain somewhat cautious, and this is particularly the case in engaging on additional labour where labour costs have a direct and immediate bearing of the propensity of small businesses to actually employ. Businesses are less capable of passing on higher costs to consumers and must instead absorb costs from operating margins or reduce costs. This places additional pressures on small business owners.
197. When combined with the difficulties faced by small businesses in passing on higher costs to consumers in the current economic environment higher, labour costs could present a major constraint.
198. Speaking to the Commonwealth Standing Committee on Economics in February 2018, Reserve Bank Governor Philip Lowe said: *“strong competition from new entrants and changes in retailing business models are putting downward pressure on prices of many consumer durables and groceries”*, adding that *“many firms are wary of adding to their cost base in the current environment”*⁶⁵. He went on to cite that among the reasons for subdued wage increases is the *“continuing spare capacity in the economy, the heightened senses of competition due to globalisation and technology change”*.
199. Reserve Bank Assistant Governor (Economic) Luci Ellis said in a speech in February this year that businesses, *“even when facing strong demand and rising cost pressures seem reluctant to raise their prices [they] believe that competition is so intense that they would lose too much business if they did so. They are especially reluctant to grant wage rises because this would increase one of their most important costs. Despite firms’ reluctance to raise prices, margins cannot be squeezed forever the ongoing effects of heightened competition in retail. Australia has seen a marked increase in the number of major retail players. Foreign retailers ... has also induced the existing players to reduce their cost to stay competitive”*⁶⁶.
200. In the February Statement on Monetary Policy, the RBA noted that *“the competitive environment limits retailers’ ability to pass on increases in costs to consumers”*⁶⁷.
201. As noted in paragraph [163], 59.3 per cent of small businesses have an annual turnover of less than \$200,000. This does not provide capacity for the absorption of cost increases, the compression of operating margins or reductions in profits.
202. In 2016, APEC (Asia-Pacific Economic Cooperation) identified small and medium enterprises (SMEs) as the ‘engines of growth and innovation’ in the APEC region.
203. Small business is the engine for WA’s growth and communities in suburban Perth and regional WA rely on their continued existence. They provide local jobs as well as local goods and services. Importantly, they provide the opportunity for employment for many young people to enter the workforce for the first time and gain valuable employment and skills experience.

⁶⁵ Commonwealth Standing Committee in Economics, House of Representatives, Hansard, 16 February 2018, Philip Lowe, Governor, Reserve Bank of Australia

⁶⁶ Reserve Bank of Australia, Three Questions About the Outlook, Assistant Governor (Economic) Luci Ellis, speech on 13 February 2018

⁶⁷ Reserve Bank of Australia, Statement on Monetary Policy, February 2018, page 59

5. The 2018 State Wage Case

204. The notion of 'fairness' must ultimately be from dual perspectives, from those who are the recipients of wages and salaries and from those who are required to fund the payment of wages and salaries.
205. CCIWA acknowledges the role of the WAIRC to provide a fair system of wages and salaries. This role needs to be undertaken having regard to considerations such as the state of the WA economy, employment, inflation, productivity, and the capacity of employers to bear the costs of increased wages and allowances, together with consistency and equity.
206. Additionally, CCIWA would submit that the WAIRC must also consider the promotion of social inclusion through workplace participation with respect to the setting of the State Minimum Wage (SMW) and award wages and allowances. Access to paid employment opportunities is a critical part of ensuring social inclusion and as such any minimum wage fixation framework could not be effective if it did not consider the impact on and therefore the likely response of employers to minimum wage outcomes.
207. In balancing these considerations there are a range of matters that should be borne in mind by the WAIRC and which guard against setting wage rates that are so high as to be damaging. In particular, CCIWA submits:
- (a) The task of ensuring a guaranteed safety net of fair wages and conditions through the SMW and award wages needs to balance the notion of 'fairness' from the perspective of not only those who are the recipients of those wages but also from the perspective of those who are required to fund them;
 - (b) The necessity to acknowledge the special circumstances of small and micro-businesses, the cohort covered by the State system, and the greater award reliance of small businesses and their inability to absorb large increases in employment and other business costs;
 - (c) To promote social inclusion through workplace participation, if wages are set at a level that is higher than the productive value of an individual this will result in negative employment impacts. If wage increases cannot be passed on or absorbed, employers will be forced to reduce costs which may ultimately include working hours, incomes and employee headcount;
 - (d) The notion of 'employment costs' extends beyond the base award rates of pay and any increase in the wage bill of a business also translates to an increase in the amounts an employer is required to pay in superannuation, payroll tax, leave liabilities, penalty rates, and workers compensation premiums;
 - (e) The need to ensure a 'fair system of wages and conditions' would suggest that excessive increases in wages should not be contemplated and any increases must be sustainable for those required to fund them, small and micro-businesses with higher levels of award reliance;
 - (f) In considering the likely impact of any increase to the SMW and award rates of pay, excessive wages will create inflationary pressures in the economy. A low inflationary environment such as currently exists in WA should also direct against a large increase in wages where the revenue of a business will not adjust as readily to fund excessive wage increases through price increases passed on to the consumer. If labour costs increase at a rate faster than inflation, the increased costs will need to be absorbed by businesses which can have negative employment effects where the increased costs need to be contained;

- (g) Considering the 'needs of the low paid' should not merely focus on living costs but should also take into consideration the need to remain in employment and, in circumstances of higher levels of underemployment among the low paid, the need for employees to have access to more hours. If wages are set at a level that is too high there will be a consequential reduction in employment opportunity and hours.
208. CCIWA cannot accept an argument or blanket proposition that high minimum regulated wage increases are good for the economy because they would, for example, have a positive stimulus effect.
209. While the WAIRC is required to balance the considerations provided in s.50A(3) of the IR Act, CCIWA submits that this does not require the WAIRC to apply minimum wage and award wage fixation as a way to stimulate growth in market wages or for broader economic stimulus. The primary task is to set the SMW and award wages so as to 'ensure a fair system of wages and conditions of employment'.
210. Australia is a high wage economy and has one of the highest national minimum wages in the world. The OECD ranking of national minimum hourly rates, expressed in \$US for comparative purposes, shows that Australia is ranked second with a minimum hourly rate of \$US11.10 behind France (\$US11.20), and ahead of Luxembourg (\$US11.00), Germany (\$US10.30), and Belgium (\$US10.20).
211. The OECD inflation rate in February 2018 is 2.2 per cent, while the March 2018 individual national inflation rates were 1.56 per cent in France, 1.10 per cent in Luxembourg, 1.56 per cent in Germany and 1.39 per cent in Belgium.
212. The NMW at 1 July 2017 is \$694.90 per week (\$18.29 per hour) and the SMW is \$708.90 per week (\$18.66 per hour). The SMW in WA exceeds the NMW at present by \$14.00 per week or 2.02 per cent.
213. In addition to WA having a higher statutory minimum wage than the national minimum wage, WA also has the highest average weekly ordinary time earnings of all states at \$1,740.90 that exceeds NSW, the second highest at \$1,582.80, by \$158.10 per week or 10.0 per cent. WA also exceeds all other states for average weekly ordinary time earnings for males and for females⁶⁸.
214. From the March quarter 2017 to the March quarter 2018, Perth has had lowest average CPI than any state capital at 0.8 per cent. The national average CPI over the same period was 1.9 per cent.
215. Over the last year, wages growth in WA, as represented by the Wage Price Index (WPI), has exceeded the CPI indicating WA employees have experienced real wages growth. The average private sector WPI for the period from the December quarter 2016 to the December quarter 2017 was 1.2 per cent while the average CPI has been 0.74 per cent. National WPI over the same period was 1.9 per cent for the private sector, equal to the national CPI.
216. As mentioned previously, the notion of 'fairness' with respect to the increases in the SMW and award wages and conditions most importantly must be considered from two perspectives, those are the recipients of the SMW and award wages and conditions and those who are required to fund them.
217. The State industrial relations system coverage is limited to small businesses, principally sole traders, partnerships, and trusts.

⁶⁸ ABS. Cat. No 6302.0, Average Weekly Earnings, November 2017, Seasonally Adjusted

218. Populist commentary generalises and discusses all business in the context of large corporations. This is fundamentally unrepresentative of the economy that is comprised of over two million businesses, the smallest cohort being large businesses.
219. Small businesses in WA have been under considerable pressure to maintain viable operations and continued employment of staff in challenging economic conditions where operating margins have been eroded and growth constrained.
220. Decisions on the SMW and award rates of pay particularly affect the State's small business sector who are more award-reliant than larger businesses. Small businesses are not favoured by a capacity to absorb increases in operating costs and generally have less capacity to adjust to adverse changes in business conditions.
221. For small business, the relationship between changes to minimum and award wages, economic prosperity and the creation of jobs can be a delicate one.
222. CCIWA advocates strongly for small business as an extremely important sector in our community and urges the WAIRC to carefully consider the unique position of small businesses at this time and assist small businesses to emerge from difficult times and cultivate an environment that fosters business stability and employment.
223. Creating employment opportunities and maximising participation in paid employment is of critical importance for a strong and resilient economy.
224. CCIWA would submit that the WA economy and labour market remain relatively susceptible at the current position of the economic cycle. As WA appears to have reached the bottom of the downturn, the long-awaited recovery that will follow is expected to be gradual, requiring careful guidance and significant caution must be exercised to avoid any 'distortions', 'distractions', 'impediments' or 'shocks' that may constrain recovery.
225. One evident impediment and risk would be any wage adjustments inconsistent with the strength of the WA economy and the capabilities of its small business sector to pay minimum wage increases.

5.1 Fair System of Wages and Conditions

Fair system of wages and Conditions - s50A(3)(a)(i)

Meet the needs of the low paid - s50A(3)(a)(ii)

Provide fair wage standards in the context of living standards prevailing in the community - s50A(3)(a)(iii)

Contribution to improved living standards of employees – s50A(3)(a)(iv)

Protect employees who may be unable to reach Industrial Agreement – s50A(3)(a)(v)

Ensure that the Western Australian award framework represents a system of fair wages and conditions of employment - s50A(3)(e)

226. The award system is of fundamental importance to the private sector small business employers and employees in WA that are not covered by the national system.
227. The State award framework provides a responsible and fair system of minimum wages and conditions that provides for the needs of the low paid and the living standards of minimum and award wage earners.

228. The framework is equally important for the small business private sector employers remaining under the State system to provide a balanced and fair framework for the employment of staff. As predominantly small and micro-businesses they are directly reliant on the award framework of terms and conditions of employment.
229. The Productivity Commission in 2015 stated that, “as a safety net, awards also increase the wages and conditions for some employees above what they would otherwise be able to negotiate for themselves”. Importantly, the Productivity Commission went on to say that this is evidenced “by almost one in five employees whose wages and conditions are set at exactly the award rate” and that it is in this way that awards “therefore rectify some of the imbalance of bargaining power that can exist in employer-employee relationships”⁶⁹.
230. The Commission also noted that “award reliant employees are more likely to work in the accommodation and food services, administrative and support services, retail trade, and health care and social assistance industries. Award reliant employees are more likely to be female, and are younger and less skilled on average than other groups”⁷⁰.
231. For the private sector small businesses under the State system, there is significant reliance upon the SMW and award wages and conditions as industrial agreements are not a practical or viable option. As the Productivity Commission stated, “increasing the wages of the low paid through minimum wages and conditions is a better method of income redistribution than the tax transfer system”⁷¹. It was further noted that no system of re-distribution is perfectly targeted and that many households that receive award wages are not in the lowest-income households.
232. As the Australian Government submitted to this year’s Annual Wage Review (AWR), around 35 per cent of small business employees are paid award classification wages⁷². It also noted that the proportion of employees with their pay set by an award is higher in certain industries, including Accommodation and Food Services (41 %), Administrative and Support Services (38 %), Retail Trade (33 %), and Rental, Hiring and Real Estate Services (24 %). Together, these industries account for 39 per cent of all award-reliant employees. Small businesses in these industries account for a large share of employment: 46 per cent, 34 per cent, 35 per cent and 77 per cent respectively⁷³.
233. Absent accurate data on the actual coverage of the State award system, it would be reasonable to assume that the national data would be translatable to a large degree to indicate that State award reliance would be concentrated at lower-paid award classifications and industries. Therefore, the impact of the State Wage Order will be largely felt by those on the minimum wage and lower award classifications.
234. The operation of the State award framework therefore provides the mechanism to meet the needs of award reliant low-paid employees in WA. The small business private sector covered by the State system are similarly reliant on the award framework to provide equitable and fair wages and conditions that support business.
235. Providing fair and reasonable increases in the SMW and award wages supports low paid and award reliant employees.

⁶⁹ Productivity Commission Inquiry Report No. 76, Workplace Relations Framework, 30 November 2015, page 328

⁷⁰ *ibid*, page 308

⁷¹ *ibid*, page 331

⁷² Australian Government Submission to the 2017-18 FWC Annual Wage Review, 3 March 2018, paragraph 166

⁷³ *ibid*, paragraph 167

236. In its submission to this year's AWR, the Australian Government stated that *"while there are many measures of income inequality, household disposable income (after taxes and transfers) is the best measure"*⁷⁴.
237. The Government submitted that *"household disposable income is a more comprehensive measure of living standards than individual earnings. It is measured at the household rather than the individual level, to take account of sharing between family members. It also adjusts for household size ('equivalised') and takes into account investment income, direct taxes, and transfer payments in addition to wage and salary earnings"*⁷⁵.
238. The HILDA⁷⁶ survey defines equivalised income as a measure of material living standards, obtained by adjusting household disposable income for the household's 'needs'.
239. The HILDA survey indicates there has been little net change in income inequality between 2001 and 2015. The Gini coefficient, a common measure of overall inequality with 0 meaning total equality and 1 meaning total inequality, has remained at approximately 0.3 over the entire 15 years of the HILDA Survey⁷⁷.
240. ABS data shows that Australia's income inequality has been relatively stable over the past decade. The Gini coefficient for equivalised household disposable income was 0.336 in 2007-08 and 0.323 in 2015-16⁷⁸. The Productivity Commission in 2013 found that income taxes, and direct and indirect transfers reduce the measured Gini coefficient by about one third.
241. From the HILDA survey, table 22 shows the growth in median household equivalised income from 2001 to 2015. Perth has had the highest growth in median equivalised income of some 52.4 per cent, the highest of the state capitals, well exceeding the second highest capital, Brisbane (34.8 %). The Perth median income stands at \$56,073, \$6,863 higher than Brisbane. Equally, Perth has the lowest income poverty rate of the state capital cities at 6.3 per cent as shown in table 23.

Table 22: Growth in median household equivalised income by region, 2001 to 2015

	Median in 2001 (\$, December 2015 prices)	Median in 2015 (\$, December 2015 prices)	Percentage Change
Sydney	39,597	44,799	13.1
Melbourne	38,709	48,494	25.3
Brisbane	36,494	49,210	34.8
Adelaide	33,480	44,378	32.6
Perth	36,797	56,073	52.4
Other urban NSW	34,381	43,278	25.9
Other urban VIC	29,636	40,072	35.2
Other urban QLD	31,084	42,053	35.3
Other urban SA	23,996	35,802	49.2
Other urban WA	35,753	45,753	28.0
Urban TAS	31,699	38,426	21.2
ACT and urban NT	46,702	66,464	42.3
Non-urban Australia	31,780	42,808	34.7

Source: HILDA Survey, page 30

⁷⁴ Australian Government Submission to the FWC 2017-18 Annual Wage Review, 13 March 2018, paragraph 246

⁷⁵ *ibid*, paragraph 247

⁷⁶ The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 15, University of Melb / Melb. Institute. 2017

⁷⁷ *ibid*, page 29

⁷⁸ ABS. Cat. No 6523.0, Household Income and Wealth, Australia 2015-16

Table 23: Income poverty rates by region, 2001 to 2015 (%)

	2001-2003	2004-2006	2007-2009	2010-2012	2013-2015	Change
Sydney	11.8	10.2	11.1	11.5	10.5	-1.3
Melbourne	9.9	10.9	11.2	9.4	7.6	-2.3
Brisbane	9.2	9.4	9.2	8.0	7.9	-1.4
Adelaide	14.5	13.7	14.8	12.9	10.1	-4.4
Perth	9.6	8.6	10.2	8.3	6.3	-3.2
Other urban NSW	13.2	12.8	15.5	13.8	11.6	-1.6
Other urban VIC	16.9	17.1	21.2	16.4	16.5	-0.5
Other urban QLD	13.3	11.6	13.5	14.0	12.6	-0.7
Other urban SA	19.2	15.3	17.1	18.7	21.1	1.9
Other urban WA	8.9	11.7	10.0	8.7	8.5	-0.4
Urban TAS	21.5	15.6	17.3	14.2	16.4	-5.0
ACT and urban NT	6.7	4.5	2.8	2.8	5.0	-1.7
Non-urban Australia	15.2	14.5	15.9	12.8	11.0	-4.2

Source: HILDA Survey, page 35

242. No level of poverty is acceptable but there are significant limitations as to the effectiveness of minimum wage fixing in addressing this.
243. It is uncontroversial that increases to the SMW and award rates of pay contribute to improved living standards of employees by simple virtue of the delivery of an increase in income.
244. However, the wage fixation process must consider the impacts on employment more generally rather than on necessarily increasing the incomes of those who are currently employed.
245. Award rates of pay and conditions must also serve to increase employment opportunities and increase the availability of more work for those currently employed. This can only be achieved by facilitating business capability to provide more hours for those who identify as underemployed and employment opportunities for those not in work, thereby increasing the overall workforce participation rate in WA.
246. As reported by the Australian Government in its submission to the 2017-18 AWR, low-paid workers have a diverse range of characteristics and analysis from the HILDA Survey shows that in 2016:
- (a) Just over half (53.9 per cent) of low-paid workers were female, while 46.1 per cent were male.
 - (b) Low-paid work tended to be concentrated among younger workers.
 - (c) Over half (55.3 per cent) of low-paid workers were aged under 30, with 16.1 per cent aged between 15 and 19 years old, and around a quarter (25.1 per cent) in the 20 to 24-year old age cohort. About 11.4 per cent of low-paid workers were aged over 55 years old.
 - (d) Just under a quarter of low-paid workers were full-time students (23.4 per cent).
 - (e) Low-paid workers lived in a range of households. About 57.9 per cent of low-paid workers were single without children, 22.4 per cent were a member of a couple without children, 15.9 per cent were a member of a couple with children and 3.9 per cent were single parents.
 - (f) Excluding the loading that is paid to casuals, about 63.2 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.

247. Further, the Australian Government's submission noted that the characteristics of low-paid workers indicate that low-paid jobs are an important pathway into the workforce:
- (a) 35 per cent of people who entered the workforce do so by taking a low-paid job.
 - (b) 45 per cent of workers aged under 25 entered the workforce through low-paid work.
 - (c) 43 per cent of those with Year 12 qualifications or below entered the workforce through low-paid work.⁷⁹
248. As the Expert Panel indicated in its 2016-17 AWR decision: *"there is little basis for comparing the household income of the low-paid and the award-reliant with that of households that are principally reliant on social welfare benefits or private savings, when the purpose is to identify whether an increase in the NMW and modern award rates of pay will assist the relative standards of the low-paid."*⁸⁰
249. Wages are only one determinant of living standards. Household context is also important, along with other income sources and individual circumstances. Analysis using the HILDA survey shows that employees in the low-paid group are more likely to be:
- (a) employed part-time (58.4%) compared to all low-paid employees (55.0%);
 - (b) young (66.0% aged between 15 and 24) compared to all low-paid employees (41.2%);
 - (c) a full-time student (37.1%) compared to all low-paid employees (23.4%);
 - (d) living with parents (70.4%) compared to all low-paid employees (41.4%).⁸¹
250. Low-paid jobs play a principal role as an entry point into the workforce, through which people can build skills and experience to gain higher paid work in the future. The Productivity Commission in 2013 found that for low income households, workforce participation and the number of hours worked are the most important drivers of income growth. Compared to unemployed people, people in employment have a higher level of wellbeing and lower levels of financial stress.
251. The small business sector is a principal provider of entry level employment opportunities in WA. However, the higher SMW compared to the NMW is potentially detrimental to the creation of entry level jobs which are currently, at the statutory minimum level, more 'expensive' than their national system counterparts.
252. As previously submitted, the HILDA survey in 2017 found that over 35 per cent of people who enter the workforce do so by taking a low-paid job. Low-paid jobs are a particularly important pathway for younger and less educated workers.
253. The HILDA survey also shows that low-paid employment is often temporary with over two-thirds of individuals who enter low-paid employment leave within one year. Most move into higher paid work, and this is more likely the longer the person has been in low-paid work. The median increase in hourly wages for those moving from low-paid to higher paid jobs was 59 per cent.⁸²
254. Individuals in low paid work are also supported through the tax and transfer system. Australia's taxation system is an individual one and each individual circumstance is different. The implications therefore are that tax-transfer system is both complex and individualistic.

⁷⁹ Australian Government Submission to the FWC Annual Wage Review 2018, 13 March 2018, paragraph 39

⁸⁰ [2017] FWCFB 3500, paragraph 286

⁸¹ Australian Government Submission to the FWC Annual Wage Review 2018, 13 March 2018, paragraph 52

⁸² The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 15, University of Melb / Melb. Institute. 2017

255. Australia's social security system comprises two types of payments: pensions and allowances. The objective of pensions is to 'provide an adequate level of income to those unable or not required to support themselves'. Allowances on the other hand are paid to 'people of working age and are intended to provide short-term financial assistance to those seeking paid employment and those who are employed on low incomes'.
256. Both pensions and allowances are means tested ensuring Australia's social security system is one of the most 'targeted' in the developed world, resulting in those on low incomes deriving a greater benefit from the system than those on high incomes.
257. Social security income transfers are financed via taxation, of which personal tax contributes the greatest share.
258. Taxes and transfers function together to redistribute income and are interrelated and interacting.
259. The Productivity Commission clarified that "*in analysing the tax and transfer system as a whole, it is also important to keep in mind that taxes and transfers can have separate and sometimes competing objectives. While the redistribution of income is a key role shared by the tax system and the transfer system, the primary role of the tax system is to raise revenue to fund public expenditure, of which transfer expenditure is just a subset*"⁸³.
260. The Commission also noted that "*taxes and transfers can affect a variety of incentives, most prominently, incentives to undertake paid work and incentives to save and invest. This is because taxes and transfers affect the post-tax returns to these activities. In the case of paid work, the tax and transfer system influences whether to enter the workforce, whether to work part-time or full-time, how many hours to work, and whether to obtain more highly paid jobs. In the case of saving and investment, the tax and transfer system influences whether to save and invest, when to save and invest, how much to save and invest, how long to save and invest for, and what asset classes to invest in*".⁸⁴
261. The Commission highlighted that, for any given individual, the effect of a change in tax rates or transfer payments on their labour market decisions can be difficult to discern. Taxes and transfers are just one of many factors influencing work decisions.
262. The personal tax-transfer system plays a key role in the social support of individuals, the societal function of distributing 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.
263. The net effect of the personal tax-transfer system is to reduce the incomes of higher income households and increase the incomes of lower income households by distributing income across households more equally. The ABS reports that there was no significant change in income inequality from the mid-1990s to 2005-06 despite there being a more pronounced increase in private incomes at higher income levels than the increases for those on low and middle incomes.
264. The 2017 Productivity Commission 5 Year Productivity Review report noted that "*the tax and transfer system has successfully supported those in genuine need is undeniably positive*"⁸⁵.

⁸³ Productivity Commission Working Paper, Tax and Transfer Incidence in Australia, October 2015, page 1

⁸⁴ *ibid*, page 13-14

⁸⁵ Productivity Commission, 5 Year Productivity Review, Supporting Paper No.1, 3 August 2017, page 47

265. The report cited studies confirming that Australia's tax and transfer system *"has generally been successful in redistributing income to support those on low incomes, and that growth in wage income for those on low incomes has generally been strong compared with growth in other countries (OECD 2011)"*⁸⁶.
266. The important role of the tax and transfer system, and the benefits provided to the low paid, were evidenced in the 2018 Federal Budget announced on 8 May 2018 that delivered a tax relief package through the low-income tax offset (LITO) for the targeted benefit of low and middle-income earners.
267. At present, the LITO is \$445 and applies if taxable income is \$37,000 or less, reducing by 1.5 cents for each dollar over \$37,000, and expires for those earning \$66,667.
268. The LITO has been lifted from \$66,667 to \$125,000 and will be paid to low income employees on top of the existing low-income offset, reducing by about 1.5 cents for each dollar over \$90,000 a year.
269. Individuals earning less than \$37,000 per year will get an \$200 extra a year.
270. For an employee on the State Minimum Wage (SWC) of \$708.90 per week or \$36,862.80 per annum, the benefit equates to \$3.85 per week representing an effective increase to the SWC of at least 0.54 per cent. This will be in addition to the current tax offset.
271. The LITO increases by \$530 for individuals (up to \$1,060 for working couples) earning between \$48,000 and \$90,000 per annum, an effective net gain of over \$10.00 per week.
272. This benefit is paid by the ATO after an individual has lodged their annual tax return meaning that the additional \$200, the equivalent of \$3.85 per week, will be a full net amount paid to the individual not subject to taxation.
273. The increase will come into effect next financial year and will give the low-paid a net income boost by as much as \$530 a year after income earners lodge their tax return for the 2018-19 financial year.
274. It is relevant to note that the tax-transfer system not only impacts on individuals but also business with the Australian Government's taxation review in 2008 citing that business *"remits much of the personal income tax to the ATO through pay as you go (PAYG) withholding. Businesses may be required to pay fringe benefits tax (FBT) and make superannuation guarantee payments on behalf of their employees. Businesses also interact with the tax-transfer system in their own right — for example, through the company income tax system, the payment of payroll tax, GST, excise, various taxes on land, and a range of other taxes levied on business inputs"*⁸⁷.
275. It is accepted that employment provides benefits to individuals, their families and communities. A job boosts incomes, skills and self-confidence and provides an opportunity for social engagement.
276. The award system framework, both at a national and a state level, provides a safety net of fair system of minimum wages and conditions that meets the needs of the low paid, provides fair wage standards for minimum and award wage earners, and contributes to the living standards of employees.
277. The private sector small business employers in WA and their employees are substantially award reliant. The award framework should be appropriate to the circumstances of the small businesses that are award reliant employers.

⁸⁶ Productivity Commission, 5 Year Productivity Review, Supporting Paper No.1, 3 August 2017, page 47

⁸⁷ Australia's Future Tax System, Consultation Paper Summary, 10 December 2008

5.2 Equal Remuneration for Work of Equal and Comparable Value

Provide equal remuneration for men and women for work of equal or comparable value - s50A(3)(a)(vii)

278. CCIWA maintains its support for gender equity and improving pay equity in WA. While recognising that the gender pay gap is improving, CCIWA acknowledges that much remains to be done.
279. Further, CCIWA supports the principle of equal remuneration for work of equal or comparable value.
280. As the Commission-in-Court noted in the Reasons for Decision in the 2016 State Wage Case, the gender pay gap “*is not the same as, or a proxy for, equal remuneration for work of equal or comparable value*”⁸⁸.
281. However, the gender pay gap is an important element to examine and understand when considering broader changes in remuneration practices occurring throughout workplaces both around Australia and in WA. This is particularly relevant in acknowledging the progress and fundamental change that is being achieved.
282. CCIWA believes that continued progress to address equal remuneration and the narrowing of the gender pay gap is best achieved by means involving education and consultation through co-operative initiatives and programs that would deliver practical and meaningful business-driven change rather than imposed outcomes.
283. Nationally, the *Workplace Gender Equality Act 2012 (Cth)* (WGEA Act) has strengthened the legislative processes to improve and promote equality for both men and women in the workplace. The stated principles of the legislation are⁸⁹:
- (a) Promote and improve gender equality (including equal remuneration between women and men) in employment and in the workplace;
 - (b) Support employers to remove barriers to the full and equal participation of women in the workforce, in recognition of the disadvantaged position of women in relation to employment matters;
 - (c) Promote, amongst employers, the elimination of discrimination on the basis of gender in relation to employment matters (including in relation to family and caring responsibilities);
 - (d) Foster workplace consultation between employers and employees on issues concerning gender equality in employment and in the workplace;
 - (e) Improve the productivity and competitiveness of Australian business through the advancement of gender equality in employment and in the workplace.
284. The WGEA Act requires non-public sector employers with 100 or more staff to report annually against standardised indicators that are critical to gender equality, including gender composition of the workforce; equal remuneration between women and men; and the availability and utility of employment terms, conditions and practices relating to flexible working arrangements for employees and to working arrangements supporting employees with family or caring responsibilities.
285. The Workplace Gender Equality Agency (WGEA), created under the WGEA Act, is charged with promoting and improving gender equality in Australian workplaces.

⁸⁸ 2016 WAIRC 00358 at paragraph 203

⁸⁹ <https://www.wgea.gov.au/about-legislation/workplace-gender-equality-act-2012>

286. The WGEA provides valuable internal and external resources and tools to assist employers to develop policies and strategies related to the standardised gender equality indicators.
287. The data collated and analysed by the WGEA provides insight on gender pay equity across Australian enterprises employing 100 or more employees. The WGEA first began collecting and reporting data for the 2013-14 financial year.
288. The business demographic required to report under the WGEA Act is principally national system employers. Data collected encompasses all employees within an organisation, including executives, managers, non-managers and other employees.
289. Therefore, the gender pay gap data and subsequent analysis incorporates all employee remuneration data and does not differentiate between award-covered and award-free employees. Additionally, for those who may be award-covered, the data is not separated by industrial relations jurisdictional coverage. This however is not to diminish the focus on the work that needs to be done nor to question the validity of the status of current gender pay equity.
290. The data provides critical overall guidance on the status of gender pay equity, identifies the progress that is being made or otherwise, and aspects that require further attention.
291. The WGEA dataset covers 4,052,105 employees from over 11,000 employers. The dataset represents over 40 per cent of employees in Australia (50% men and 50% women) 54.1 per cent of whom were full-time permanent employees, 21.8 per cent part-time permanent employees and 24.1 per cent casual employees.
292. The WGEA 2018 Gender Equity Insights report released in March 2018 for the 2016-17 reporting year shows that among full time workers, the gender pay gap was 17.3 per cent for base salary, representing a decrease of some 1.7 percentage points over the previous two years.
293. The WGEA reports that every country in the OECD has a gender pay gap in favour of men⁹⁰. On average, women in the OECD earn 15.5 per cent less than men. In the UK the average real hourly gender pay gap was 19.0 per cent in 2015, and when hours of work are factored in, the average weekly gender pay gap rises to 36 per cent.
294. In the US, over the last decade the gender pay gap has remained between 17 per cent and 20 per cent. Germany had one of the highest average gross hourly gender pay gaps in Europe at 22.3 per cent in 2014.
295. The gender pay gap is the difference between women's and men's average weekly full-time base salary earnings, expressed as a percentage of men's earnings. It is a measure of women's overall position in the paid workforce and does not compare like roles.
296. The full-time gender pay gap for total remuneration has also decreased from 23.1 per cent in 2015-16 to 22.4 per cent 2016-17⁹¹.
297. In February 2018, the WGEA update on Australia's gender pay gap statistics showed that Australia's full-time gender pay gap was 15.3 per cent⁹².

⁹⁰ <https://www.wgea.gov.au/sites/default/files/International-gender-reporting.pdf>

⁹¹ Workplace Gender Equality Agency; Gender Equity Insights 2018, WGEA/Bankwest Curtin Business School, March 2018, page 15

⁹² Workplace Gender Equality Agency; Australia's Gender Pay Gap Statistics, February 2018

298. The gender pay gap differs across the states and this is explained by the different industry profiles of each state and territory. WA had the widest full-time base salary gender pay gap at 22.5 per cent in November 2017 (down from 23.7% in November 2016), and South Australia the smallest with 10.3 per cent.
299. It is worth noting that the three widest pay gaps occur in the resource sector dominant states of WA (22.5%), Northern Territory (20.2%) and Queensland (18.3%). The mining and construction sectors reflect the traditionally high earnings and low representation of women in those sectors.
300. The WGEA data shows that the full-time gender pay gap, both for base salary and total remuneration, has been narrowing since WGEA reporting began. For base salary, the gender pay gap has decreased from 19.9 per cent in 2013-14 to 17.3 per cent in 2016-17 while for total remuneration this has decreased from 24.7 per cent in 2013-14 to 22.4 per cent in 2016-17.
301. The WGEA report on Australia's gender pay gap in February 2018 highlights that across industry sectors the largest full-time base salary gender pay gap in November 2017 was in Financial and Insurance Services at 26.1 per cent, followed by Rental, Hiring and Real Estate Services at 23.6 per cent, Arts and Recreation Services 23.0 per cent and Health Care and Social Assistance at 22.8 per cent. The lowest was Public Administration and Safety and Other Services at 6.8 per cent followed by Retail Trade at 8.1 per cent⁹³.
302. Nationally, the gender pay gap was highest for managers (28.8%) compared to non-managers (20.9%) on a total remuneration basis.
303. The WGEA noted that the "*gender pay gap typically increases with occupational hierarchy*"⁹⁴ though the gender pay gap has narrowed across every managerial occupation in the three years to 2016-17.
304. Of the occupations, the highest base salary gender pay gap is in technicians and trades at 20.7 per cent followed by key management personnel at 20.2 per cent with the lowest for clerical and administrative at 6.5 per cent⁹⁵ followed by community and personal service workers at 6.6 per cent⁹⁶. The base salary gender pay gap for all managers was 22.7 per cent and for non-managers 14.4 per cent.
305. Women in management roles is highest in health care and social assistance at 70.3% in 2016-17 and the lowest in construction.
306. In the four years since the WGEA reporting began, the proportion of employers with a formal remuneration policy and strategy has increased 10 percentage points from 48.9 per cent in 2013-2014 to 58.8 per cent in 2016-17⁹⁷.
307. The proportion of employers undertaking a pay gap analysis has increased from 24.0 per cent to 37.7 per cent capturing 2.4 million employees. The WGEA reports that the "*biggest increase in this behaviour has occurred in the last two reporting years, where the proportion of organisations undertaking a pay gap analysis grew by almost 11 percentage points, from 27.0 per cent in 2015-2016 to 37.7 per cent in 2016-2017*"⁹⁸
308. Among those organisations that conducted a pay gap analysis, more than 50 per cent also reported taking action in the light of the results.

⁹³ Workplace Gender Equality Agency; Australia's Gender Pay Gap Statistics, February 2018

⁹⁴ Workplace Gender Equality Agency; Gender Equity Insights 2018, WGEA/Bankwest Curtin Business School, March 2018, page 15

⁹⁵ Ibid, page 16

⁹⁶ Ibid, page 16

⁹⁷ Workplace Gender Equality Agency; Gender Equity Insights 2018, WGEA/Bankwest Curtin Business School, March 2018, page 31

⁹⁸ Ibid, page 31

309. Additionally, the number of employers that have some measure in place to support employees who are experiencing family or domestic violence increased from 74.3 per cent in 2013-2014 to 81.9 per cent in 2016-17.
310. The February 2018 WGEA statistics show that the number of organisations with an overall gender equality strategy and/or policy has increased to 71.5 per cent.
311. The 2018 WGEA Gender Insights Report finds that “*more Australian organisations than ever before are taking specific actions on pay equity*”⁹⁹.
312. The significance of the WGEA Act was acknowledged in the 2015 Review of the Industrial Relations Framework in Queensland which stated that the reports required from employers under the WGEA Act have been “*instrumental in providing the impetus for change in some workplaces*”¹⁰⁰.
313. The WGEA data is extremely useful to demonstrate the increased focus by business and the progress that is being made on addressing pay equity and the actions organisations are taking to implement change. This is specifically relevant for the business demographic from which WGEA data is sourced.
314. The WGEA Data Explorer provides a national analysis of workforce composition as shown in Table 24:

Table 24: WGEA – Gender Workforce Composition

Workforce Composition	2014		2017		% Change	
	Female	Male	Female	Male	Female	Male
Managers						
CEO	15.7%	84.3%	16.5%	83.5%	+0.8%	-0.8%
Key management personnel	26.1%	73.9%	29.7%	70.3%	+3.6%	-3.6%
Other executives/general managers	27.8%	72.2%	30.4%	69.6%	+2.6%	-2.6%
Senior Managers	31.7%	68.3%	34.9%	65.1%	+3.2%	-3.2%
Other managers	39.8%	60.2%	41.9%	58.1%	+2.1%	-2.1%
Non-managers						
Clerical and administrative	75.6%	24.4%	74.4%	25.6%	-1.2%	+1.2%
Community and personal service	73.5%	26.5%	71.9%	28.1%	-1.6%	+1.6%
Machinery operators and drivers	10.8%	89.2%	12.3%	87.7%	+1.5%	-1.5%
Sales	59.7%	40.3%	60.0%	40.0%	+0.3%	-0.3%
Professionals	51.7%	48.3%	53.2%	46.8%	+1.5%	-1.5%
Technicians and trades	11.8%	88.2%	12.4%	87.6%	+0.6%	-0.6%
Labourers	28.0%	72.0%	32.5%	67.5%	+4.5%	-4.5%
Employment type						
Full-time	35.8%	64.2%	37.2%	62.8%	+1.4%	-1.4%
Part-time	75.4%	24.6%	75.4%	24.6%	0.0%	0.0%
Casual	57.2%	42.8%	55.7%	44.3%	-1.5%	+1.5%

Source: WGEA Data Explorer (<http://data.wgea.gov.au/>)

⁹⁹ Workplace Gender Equality Agency; Gender Equity Insights 2018, WGEA/Bankwest Curtin Business School, March 2018, page 54

¹⁰⁰ A Review of the Industrial Relations Framework in Queensland, December 2015, pages 91-92

315. The WGEA data is sourced from medium to large national system employers. The remuneration information is gathered across all layers of organisational hierarchy and is reflective of organisational size and complexity, management structures and industry sectors.
316. Of Australia's more than two million trading businesses, around 95 per cent are small enterprises with up to 19 employees, around four per cent are medium sized enterprises with between 20 and 199 employees and less than one per cent are large enterprises with more than 200 employees.
317. At 30 June 2017, there were 77,846 businesses in WA employing from 1 to 19 employees and 6,213 employing between 20 and 199 employees¹⁰¹.
318. The largest cohort covered by the WA industrial relations system is the public sector. The private sector employers remaining under the state system comprise small and micro-businesses that are predominantly sole traders, unincorporated partnerships and unincorporated trusts.
319. This private sector cohort is predominantly award-reliant.
320. When analysing the method of pay setting, usually by award, collective or individual agreement, the WGEA found that the gender pay gap is wider when pay is set by individual arrangement (19.1%) compared to when pay is set by award or collective agreement (13.1%).
321. The operation of the gender-neutral award system and award classifications support and enforce the principle of equal pay for work of equal value.
322. Remuneration structures within an award are established taking into account the relevant skills, level of education / qualifications required and responsibilities incumbent on the role as well as the principle of equal remuneration for work of equal or comparable value. Pay equity is established in awards regardless of gender.
323. The Productivity Commission considered the issue of equal pay for work of equal value in its 2015 report examining Australia's workplace relations framework and noted that "*awards appear to have reduced gender wage inequality*"¹⁰².
324. Equal pay cases are complex and difficult. As the Productivity Commission report outlined, it "*is not possible to determine meaningfully that different occupations deserve equal pay simply because they share some common features*"¹⁰³.
325. There are innumerable dimensions of jobs that do not necessarily equate. The Productivity Commission determined that "*making judgments that identify 'equal work' in a way that could genuinely inform precise wage differentials looks to be profoundly difficult*"¹⁰⁴.
326. It is well established that equal remuneration cases are difficult, complex and resource intensive.
327. An essential ingredient is the need to identify the extent to which gender is the determinant factor, that is, to show that the industry workforce is dominated by women and that the industry is undervalued and that there is a causal relationship between the two.
328. It is intrinsically difficult to identify an appropriate comparator.

¹⁰¹ ABS, Cat. 8165.0, Counts of Australian Businesses

¹⁰² Productivity Commission Inquiry Report No. 76, Workplace Relations Framework, 30 November 2015, page 355

¹⁰³ *ibid*

¹⁰⁴ *ibid*

329. The cohort of private sector employers covered by the state system comprises small and micro-businesses are reliant upon state awards for the determination of wages and conditions. Equity is delivered through the award system for businesses and employees covered by the state system.
330. Any consideration of equal remuneration cases within the State system is problematic given the nature of the private sector cohort covered by the State system, the dispersed nature, number and size of the affected employer group, award respondents and scope and the outdated nature of the current awards.
331. The small, private sector businesses under the State system are not resourced or capable of participating in complex equal remuneration cases, which requires all affected parties to be engaged.
332. Further complexity exists in WA due to the operation of two different workplace relations systems in WA that deliver different minimum award rates of pay for employers operating within the same industry in the State depending upon the corporate structure of the business. Symptomatic of this is the existence of two different statutory minimum wages in WA that may apply to like (and competing) businesses in the same industry or sector.
333. CCIWA does not believe it is possible or indeed necessary to consider such equal remuneration matters for a small, award reliant private sector that is not capable of effective participation or representation.
334. There is minimal impact, if any, that can be achieved by the WAIRC given the limited private sector coverage of the State system and the role of State awards in establishing equity and fairness.
335. As the WAIRC has previously identified, an increase in the minimum wage will have a limited effect on the gender pay gap but may assist in some industries where women are more likely dependent on minimum award rates. An increase in the minimum wage will assist to some extent the gender pay gap and *“contributes to providing equal remuneration for men and women for work of equal or comparable value”*¹⁰⁵.
336. As previously submitted, the most effective means of ensuring equal remuneration for men and women for work of equal or comparable value involves education and consultation through co-operative initiatives and programs that would deliver business-driven change rather than imposed outcomes.
337. The WGEA has shown that since its establishment and through active engagement with and support to business, positive outcomes are being delivered.
338. CCIWA acknowledges the Interim Report of the Ministerial Review into the State’s Industrial Relations System that was delivered on 20 March 2018.
339. The Review, established on 22 September 2017, was bound by eight Terms of Reference.
340. Term of Reference 3 directed the Review to consider the ‘inclusion of an equal remuneration provision...with the objective of facilitating the conduct of equal remuneration cases and other initiatives in the Western Australian Industrial Relations Commission’.
341. Term of Reference 6 was to consider the ‘updating of State awards for private sector employers and employees’.
342. The Review acknowledged that the State award system is outdated and in need of rejuvenation.

¹⁰⁵ [2016] WAIRC 00358 at paragraph 201

343. As a result, the Review recommends the modernisation and consolidation of State awards to a proposed set of 27 awards (plus a Miscellaneous Award) to be established either on an industry or occupational scope similar to the national modern awards framework under the Fair Work Act.
344. CCIWA would submit that it would be more appropriate to await the outcome of the Ministerial Review of the State Industrial Relations System for what would ultimately present a more relevant and current framework in which the matter of equal remuneration within a new award framework may be potentially considered.
345. As equal remuneration cases are essentially a comparative exercise where the remuneration and the value of the work of a female employee or group of female employees is compared to that of a male employee or group of male employees, CCIWA submits that such an effective comparative exercise cannot be satisfactorily undertaken.

5.3 Skills Development

Encourage ongoing skills development - s50A(3)(a)(vi)

346. The 2018 State Wage Case is occurring at a time when WA is experiencing rising youth unemployment.
347. In March 2018, the youth unemployment rate (15 to 24-year-olds) was 17.1 per cent¹⁰⁶, the highest level since February 1996. The national youth unemployment rate in March 2018 was 13.4 per cent.
348. For the period March 2017 to March 2018, the youth unemployment rate averaged 13.8 per cent while the national the average was 12.7 per cent.
349. CCIWA is extremely concerned that youth unemployment has not only remained persistently high, it is deteriorating as evidenced by the latest data.
350. Youth unemployment is a particularly acute and concerning challenge. It is continuing to trend in an unacceptable direction and it is crucial to encourage employment opportunities for 15 to 24-year-olds.
351. Therefore, it is important that every avenue is made available and accessible to encourage entry level opportunities for those with lower levels of skills.
352. Youth must be provided with pathways to employment.
353. With approximately 80 per cent of jobs in WA created by the private sector, it is the success of businesses that will be able to provide these opportunities, ultimately by small and medium businesses within the community, particularly in regional WA.
354. In order to avoid the build-up of a large pool of youth at risk of becoming long-term unemployed, care is required to avoid pricing low-skilled youth out of entry level jobs through large increases in award wages.

¹⁰⁶ ABS, cat No 6202.0, Labour Force, March 2018

355. As the Australian Chamber noted in its reply submission to this year's AWR¹⁰⁷, the damaging effects of youth unemployment were described in a CSIRO Report as follows:
- "Youth unemployment and failure to find the first job have been shown to have 'scarring' effects on those entering the job market, with potentially lasting negative effects on health and career prospects. Unemployment early in life is associated with a higher risk of being unemployed or discouraged from looking for work in the future, as well as lower earnings than peers, especially among low skilled workers. As a result, the current issues of youth unemployment in Australia may have a long-term impact."*
356. Managing the risk of youth and long-term unemployment will need to involve policy settings at all levels that encourage people to acquire the skills that businesses need and that better encourages businesses to take a chance on labour market entrants.
357. It will also be critical that young people not only have the skills to enter work, but also to remain in work, and to adapt to the changing work and workplaces they will encounter across their careers that will be subjected to multiple disruptions and continuous change.
358. One critical aspect to this will be the availability of apprenticeship and traineeship opportunities to enable entry to the labour market and a pathway to higher paid jobs.
359. Apprentices and trainees are critical to the economy, providing an essential conduit by which the economy can continue to develop its required skills for the future. They are the source of key skills in so many sectors and without the flow through of skilled workers entering the labour market, skill shortages will inevitably develop.
360. Apprenticeships and traineeships are an important option for youth employment, particularly for those who do not seek a tertiary education. Without this option, the WA economy could be faced not only with higher levels of youth unemployment but also with long-term unemployment as a lasting consequence.
361. Vocational education and training (VET) is essential in not only transitioning people to higher paid employment later in life but in ensuring that the labour market has the pipeline of skills needed to support future productivity, sustainability and growth.
362. There are challenges confronting the VET sector and it is important that these challenges are not exacerbated.
363. Minimum wage settings need to actively facilitate and support employment and training opportunities for young people and those seeking to gain or add skills and qualifications.
364. The minimum wage setting must, in balance with other considerations / imperatives, actively support businesses to provide training and employment opportunities for young people, including the minimum wages and conditions for trainees and apprentices.
365. Apprenticeships and traineeships are in decline in WA. While a range of factors have influenced the decline, the overall economy and business trading conditions have not provided the platform upon which to engage apprentices and trainees.

¹⁰⁷ The Australian Chamber of Commerce and Industry, Reply Submission to the Annual Minimum Wage Review 2017-18, 9 April 2018, page 18

Table 25: Apprenticeships and Traineeships (In Training) in Western Australia

	As at 31 Dec 2015	As at 31 Dec 2016	As at 31 Dec 2017	% Change 2015-2017
Apprenticeships (In Training)	17,321	15,696	15,077	-12.96%
Traineeships (In Training)	21,979	19,047	17,019	-22.57%
TOTAL	39,300	34,743	32,096	-18.33%

Source: Government of Western Australia, Department of Training and Workforce Development, December 2017

366. As table 25 shows, the number of apprentices and trainees in training for the period from the December quarter 2015 to the December quarter 2017 declined by 18.33 per cent, a decline of 12.96 per cent for apprenticeships and 22.57 per cent for traineeships. This amounted to 7,204 less individuals in training over the period. If this trend continues it will create a significant skills shortfall over the medium and long term.
367. Table 26 shows the number of commencements in apprenticeships and traineeships over the last three years highlighting the even greater decline in new apprentices and trainees entering the system.

Table 26: Apprenticeships and Traineeships (Commencements) in Western Australia

	12 Months to 31 Dec 2015	12 Months to 31 Dec 2016	12 Months to 31 Dec 2017	% Change 2015-2017
Apprenticeships (Commencements)	7,888	6,422	6,431	-18.47%
Traineeships (Commencements)	19,437	15,086	14,660	-24.58%
TOTAL	27,325	21,508	21,091	-22.81%

Source: Government of Western Australia, Department of Training and Workforce Development, December 2017

368. Movements in wages costs as far as they cascade to apprentices and trainees will contribute to further declines in apprenticeships and traineeships. The resulting inevitable skill shortage will, over time, emerge to exert wage pressures and increase the potential need for the importation of skilled workers to meet the shortfall in demand.
369. Apprenticeships and traineeships are a significant element to addressing youth unemployment.
370. As such, CCIWA urges the Commission-in-Court to consider the trend decline in the apprenticeships and traineeships which are likely to be attributable in part to the cumulative effects of increases to award wages.
371. Compounding this trend is the WA Government's announcement in November 2017 of a proposed change to the payroll tax exemptions for existing trainees (employed for greater than three months), retrospectively applied to December 2017.
372. The proposed amendment will restrict the exemption for traineeships to new employees only with annual wages of \$100,000 or less. No exemption will be available for existing trainees. In doing so, it will remove a significant financial incentive for employers to reskill their current workforce, a decision that is significantly at odds with the need to reskill staff for the jobs of the future.

373. This will significantly stall avenues to training.
374. These changes will further impact on the relative 'attractiveness' of trainees for WA business by removing key incentives that will increase the engagement and training cost of trainees for employers.
375. The declining trend in apprenticeships and traineeships is eroding a key pathway to the workforce for youth that will be exacerbated by the proposed removal of a key incentive to business. Further, it will inhibit the development of skills for the future of WA business and effectively continue reducing the available opportunities to entry level jobs, especially necessary to resolve youth unemployment.
376. This will further focus attention on the actual full-cost to business in engaging apprentices and trainees.
377. Apprenticeships and traineeships provide one avenue to entry level job opportunities within the labour market.
378. Yet there are many who will not pursue a tertiary education, an apprenticeship or a traineeship. Others will be entering the youth labour market having completed tertiary education, an apprenticeship or traineeship. The youth labour market of 15 to 24-year-olds has many dimensions and all will be seeking an entry level opportunity to employment.
379. The concentration of entry level opportunities remains in the award-reliant service sector industries (particularly accommodation, food services and retail).
380. While these sectors provide a significant contribution to the number of available entry level opportunities for youth employment, they are the sectors that have faced, and will continue to face, difficult trading conditions generated by the economic circumstances in the State over recent years and as the economy transitions, intensely competitive market forces and significant changes in business operational models driven by developments in technology.
381. These factors all have implications for many of the traditional entry level jobs and increasingly raises questions about how WA's youth will get a foothold in the modern labour market.
382. Awards reliant industries remain the most important pathway to employment for youth.

5.4 Effect of the State Wage Case Decision

The state of the WA economy and the likely effect of its decision on the level of employment, inflation and productivity – s50A(3)(b)

To the extent that it is relevant, the capacity of employers to bear the costs of increased wages, salaries, allowances, and other remuneration – s50A(3)(d)

383. There is no definitive data as to how many employees are covered by the State industrial relations system and as a result no determinative assessment can be made of employees who are directly reliant on the State Wage Case determination and state award adjustments in wages and allowances.

384. The biennial ABS Employee Earnings and Hours (EEH) data¹⁰⁸ from May 2016, provides indicative estimates only, though of limited definitive value.
385. The EEH, conducted every two years in May, provides data on the composition and distribution of employee earnings, hours paid for and methods used to set employees' pay in Australia. The data is collected, in the first stage, from approximately 8,200 businesses selected from Australia's total of over 850,000 employing businesses (a representative sample of approximately 1%). The second stage of data collection involves selected employers choosing a random sample of their employees, with the sample size dependent upon the size of the business. The EEH data was collected from over 53,000 employees.
386. The EEH data with respect to pay setting methods for non-managerial employees identifies these methods as award-only, collective agreement and individual arrangement.
387. With respect to WA, the data does not distinguish coverage under the applicable industrial relations system in WA, and thus represents both national system and state system estimations.
388. The EEH data shows that, in WA, the award-only pay setting method was 16.4 per cent, up from 14.6 per cent in May 2014. This trend increase in award reliance within WA is also reflected nationally where award-only pay setting increased from 20.4 per cent in 2014 to 24.5 per cent in 2016¹⁰⁹.
389. This is indicative of the increasing reliance by employers on awards for pay setting both nationally and in WA. Most particularly this is relevant for national system employers that are increasingly recognising that collective agreements are not functioning for the purpose for which they were provided.
390. The private sector small business cohort under the State industrial relations system are predominantly award reliant.
391. According to the FWC Award Reliance Survey provided for the 2014-15 Annual Wage Review¹¹⁰, the three most heavily award-reliant small businesses were Accommodation and Food Services (36.9%), Retail Trade (20.6%) and Health care and Social Assistance (11.3%) A similar profile of award reliance existed for large businesses.
392. From the Award Reliance Survey, the reasons businesses chose awards over enterprise agreements were that award rates and conditions are adequate (48.5%) and that agreements were too difficult to implement (12.5%)¹¹¹.
393. The survey recorded that the reasons why small business paid award rates of pay were: Affordability (26.2%), Don't Want to Pay More (20.7%) and Appropriate/Fair Remuneration (18.9%)¹¹².
394. With respect to short-term responses to increases in costs, small business significantly reported in the survey that they would implement strategies to manage or reduce the wage bill (69.4%). The short-term strategies to wage bill management included reduce hours of casual staff (71.8%), more hours worked by owners (69.3%), reduce the number of employees by attrition (63.1%), reduce the length of shifts (54.3%) and reduce overtime (50.7%)¹¹³.

¹⁰⁸ ABS, Cat. No 6306, Employee Earnings and Hours, May 2016

¹⁰⁹ *ibid*

¹¹⁰ FWC, Research Report 1/2015, Award Reliance and Business Size, February 2015, page 9

¹¹¹ *ibid*, page 24

¹¹² *ibid*, page 29

¹¹³ *ibid*, page 56

395. Other identified response strategies to increases in costs included to source cheaper supplies, services and utilities (54.9%), increase efficiency of work techniques and processes including via new equipment (56.2%), cease unprofitable operations or close facilities (44.8%), run down inventories (38.8%) or to absorb entire increase in labour costs as reduced profit (30.6%)¹¹⁴. It was identified that 46.7 per cent of businesses decreased profitability in the financial year of the survey.
396. While this survey was undertaken in 2015 at a national level, these factors maintain their relevance in 2018, though their relative weighting may have shifted. Any weighting change will occur as a result of changes in economic conditions and industry influences, particularly at a state level.
397. An increase in the SMW and increases to award wages and allowances clearly represent an increase to business costs. In the case of the private sector cohort under the State system, this increase in costs can be significant, particularly in the context of recent business trading conditions.
398. An increase in the SMW and increases to award wages and allowances does not represent a single increase to labour costs for a small business. The actual cost to business is compounded with additional labour costs arising from increased superannuation contribution costs, increased workers' compensation premiums, payroll tax, fringe benefits tax, increased leave liability costs, as well as increases to penalties and overtime.
399. These additional costs must be funded by the small business owner from operational revenue or by other means such as financing. Cost changes impact business cash flows.
400. The impact on, and response to, changes in labour costs will be very much determined by each individual business based upon their respective operational circumstances, industry sector, market share and business performance.
401. Employers can select a mix of solutions in response to business cost changes, including an increase in labour costs. These include, for example:
- (a) Reduction of working hours by staff;
 - (b) Increasing the hours of work by owners;
 - (c) Change business operating hours;
 - (d) Withholding the employment of additional staff;
 - (e) Restructuring business operations;
 - (f) Reducing profitability;
 - (g) Increasing prices;
 - (h) Reducing inventories;
 - (i) Reducing product lines and service offerings;
 - (j) Reducing margins;
 - (k) Reduce or delay business investment in new equipment and technology;
 - (l) Reduce overtime and other employee benefits / incentives (e.g. bonuses)
 - (m) Increase productivity; and / or
 - (n) Reducing actual staff employed.

¹¹⁴ FWC, Research Report 1/2015, Award Reliance and Business Size, February 2015, page 55

402. It is also important to consider the substitution effect that arises from any change to existing staff working arrangements as part of any mitigation strategy where business owners further increase their own time / role / involvement in the business to substitute for the reduction in staff working hours, overtime, shifts, or a pause on employment intentions for additional staff. This will further impact on the health and well-being of the business owner.
403. After the recent lengthy period of suppressed business and economic conditions in WA, many small businesses have already implemented a significant number of the strategies listed above, either singularly or in combination, in order to sustain business viability in anticipation of economic conditions improving.
404. However, not all small businesses have the luxury of a range of solutions and strategies from which to select. They may in reality be limited in the actions they can take.
405. It is unambiguous that in the current environment any increases in cost places continued strain on WA business, most particularly on the small business private sector cohort under the State industrial relations system.
406. As mentioned previously in this submission, competition for small business is intense with larger competitors (including overseas entrants) more able to absorb and adjust to changes in costs than are small businesses. With larger capital reserves at their disposal, significant supply advantages to reduce product cost and sales volumes permitting leaner margins, larger businesses have a higher tolerance to difficult times and cost changes.
407. The ability of small businesses to absorb costs is limited, as is the ability to increase prices in a highly competitive environment. Continued reduction of business profits reduces the capability of a business to re-invest in the business whether for business improvements, replacement of equipment, or to invest in staff and staff training.
408. The Australian Small Business and Family Enterprise Ombudsman, responding to calls for significant increases in the current national minimum wage review, said:
- “The greatest impact would be on businesses that use awards, and that is small to medium businesses, which make up more than 97 per cent of businesses in Australia.*
- Nearly half of our small business owners already earn less than the minimum wage and for these people, an increase in awards will mean job losses, limited employment opportunities and businesses closing.*
- They are saying they would like to pay themselves and their employees more but are literally struggling to pay their ever-increasing business bills.*
- When 97% of Australian businesses cannot afford to employ more people, the spark of confidence and potential for economic growth we are seeing will be extinguished¹¹⁵.”*
409. CCIWA would submit that small and micro-businesses are, after some four years of depressed economic and business trading conditions, not capable of sustaining any significant increase in labour costs to their business.
410. Some sectors will face greater challenges from increases in the SMW and award rates than others, particularly in low-paying sectors. Equally, impact differences would also be expected within regional WA, where small business have limited customer bases and restricted markets.

¹¹⁵ Australian Small Business and Family Enterprise Ombudsman, Media Release, 31 January 2018

411. The impact of the State Wage Order will affect employment. Principally this will be in the availability of opportunities for employment or additional working hours.
412. It is a critical consideration to the determination of the SMW to avoid pricing individuals out of the labour market.
413. In a high unemployment environment such as that which exists in WA, it is also important to ensure that those who are in employment remain so, and that further employment opportunities continue to be developed through a successful and viable business community.
414. Small businesses create important entry level opportunities for youth as well as for women and older workers, particularly in local communities.
415. Most award reliant employees are engaged in sectors that are consumer-facing – retail, accommodation, and hospitality. Employment outcomes in these sectors will depend to a considerable extent on how business is performing and, further, these sectors are also closely related to the performance of the economy as a whole.
416. In addition to creating more opportunities for those currently unemployed, it is also important to continue to support business to be able to offer more hours to current employees, thereby also addressing underemployment in the process.
417. Over the last five years (April 2013 to March 2018), total monthly working hours in all jobs in WA has fallen 2.27 per cent, compared to a national increase of 7.47 per cent. WA is the only state that has had a decline in monthly working hours over that period. All other states have experienced increases in monthly working hours - Victoria by 14.59 per cent, the ACT by 9.96 per cent, NSW by 9.67 per cent, the Northern Territory by 6.36 per cent, Queensland by 6.92 per cent, South Australia by 3.67 per cent and Tasmania by 6.83 per cent.
418. Over the last 12 months, working hours in WA have decreased marginally by 0.01 per cent.
419. Businesses have been maintaining their viability through active cost management measures.
420. However, cost management can only go so far before more forceful or drastic measures need to be adopted by a business in order to ensure their continued feasibility if unsustainable cost increases are continued to be placed upon business.
421. CCIWA would submit that small businesses in WA have responsibly managed costs in a highly competitive local, interstate and overseas competitive environment in order to remain viable. However, the ability to continue to absorb costs is not without limit.
422. The important element to the SMW determination should be on supporting business viability by assisting in cost management and stimulating employment opportunities.
423. CCIWA would submit that small businesses have limited capability to bear the costs of increased wages and allowances at this time.
424. While there are positive signs emerging that the economy has reached the bottom of the cycle and with business and consumer confidence improving, this needs to be fostered and not jeopardised. This is particularly the case with respect to the creation of employment opportunities and the reduction of spare capacity in the labour market.

425. The levels of economic buoyancy of the past are not expected to return, and it would be reckless to assume that they will. The WA economy is in transition and needs support.
426. CCIWA submits that a cautious approach to the 2018 SMW and award adjustments is needed as businesses, especially those small and micro-businesses within the coverage of the State system, do not have the capacity to bear any unrealistic increases.
427. Accordingly, CCIWA has recommended a responsible increase to the SMW.

5.5 Relevance of the Annual Wage Review and the National Economy

Relevant decisions of other industrial courts and tribunals – s50A(3)(f)

To the extent that it is relevant, the state of the national economy – s50A(3)(c)

428. Section 50A(3)(f) of the IR Act requires the Commission, in making the State Wage Order, to consider “relevant decisions of other industrial courts and tribunals”.
429. WA remains the only state that has not referred its industrial relations powers for the private sector to the Commonwealth. Thus, the only decision relevant to the private sector would be that arising from the AWR that determines the NMW.
430. CCIWA would submit that there is nothing that arises from the AWR decision that would be relevant or applicable to the matter of the State Wage Case.
431. The Fair Work Commission is required by s.3(a) of the FW Act with respect to the general objects of the Act to ensure “the operation of workplace regulations to promote productivity, sustainability and economic growth for national economic prosperity and social inclusion for all Australians”¹¹⁶.
432. Further, the FW Act requires, through the minimum wages objective and the modern awards objective to take into account, among others, the “performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth”¹¹⁷ as well as “promoting social inclusion through increased workforce participation”¹¹⁸ and “the likely impact of the exercise of modern awards powers on employment growth, inflation and the sustainability, performance and competitiveness of the national economy”¹¹⁹.
433. It is incumbent upon the FWC Expert Panel in the AWR to consider the national economy and the objectives of the FW Act in the purely national context.
434. However, the Australian economy is a composite of individual state and territory economies. Each of the states and territories has different inherent structural and geographic characteristics, different industry and market sectors, labour market conditions and different demographic characteristics that consequently see each state performing differently at various stages of the economic cycle. This leads to significant variations in economic performance between the states and territories.

¹¹⁶ Fair Work Act 2009(Cth), s.3(a)

¹¹⁷ Fair Work Act 2009(Cth), s.284(1)(a)

¹¹⁸ Fair Work Act 2009(Cth), s.284(1)(b) and s.134(1)(c)

¹¹⁹ Fair Work Act 2009(Cth), s.134(1)(h)

435. CCIWA submitted to the 2017-18 AWR that, while the FWC was required to consider the state of the national economy in the review of the NMW, it was essential that the FWC consider the specific circumstances of WA's economy at this time.
436. WA is currently lagging behind the remainder of the country on a large number of important economic and labour market indicators. New South Wales and Victoria are experiencing robust economic performance at present, courtesy of significant infrastructure projects. This was not the case during the height of the resources investment boom where economic performances were reversed.
437. The determination of the NMW and minimum award rates of pay for national system employers, will apply to approximately 80 per cent of WA businesses who fall under the coverage of the FW Act.
438. While the WAIRC is required under s. 50A(3)(b) to similarly consider the effects on the economy and in particular the level of employment, inflation and productivity, and no doubt business competitiveness and viability, economic growth, social inclusion and increased workforce participation, the WAIRC will do so in the narrower context of WA and the State's economic conditions.
439. The comparative impact though will only be to apply to the small cohort of private sector businesses falling within the application of the SMW. This cohort of small and micro-businesses predominantly operate within local communities or within the state boundary.
440. While national economic conditions will influence all aspects of the national economy, for the businesses for which the SMW applies it is the specific considerations of the WA economy and labour markets that are significantly more important when setting the SMW.
441. Respectfully, the decision of the AWR will be arrived at considering the national context, representing the aggregation of state and territory economies and labour market performance. This aggregation disguises the various distortions or anomalies of the various individual economies.
442. It is for that reason that CCIWA would submit that in the 2018 State Wage Case, while the 2017-18 AWR may offer some broader national contextual guidance, the NMW decision in the main should be of limited influence considering the specific cohort to which the SMW applies.
443. CCIWA submits that the determination of the 2018 SMW will, most critically, be required to consider the current tenuous state of the WA economy and the most appropriate method by which to maintain encouragement for business and employment growth for WA.
444. It also requires consideration of wage movement in the community generally.
445. The state's private sector WPI remains lower than the national level as has been the case since March 2014 and is currently at 1.5 per cent in the December 2017 quarter.
446. CPI continues to remain below the national level and has remained at or below 1.0 per cent since March 2016. CPI is currently 0.9 per cent as at the March quarter 2018.
447. WA's AWOTE remains higher than the national level as has been the case since AWOTE data commenced in 2012 and currently exceeds the national AWOTE by \$173.00 per week as at November 2017.
448. The last three State Wage Orders have delivered a rate of increase to SMW lower than the NMW reflecting the declining fortunes of the WA economy and the impacts on business and employment. Currently, the SMW exceeds the NMW by \$14.00 per week.

449. Therefore, in considering fairness in terms of wage rates and living standards, it is essential to weigh both the increases in costs to employees and their impact on living standards and the likely impact of increasing wage rates to unsustainable levels in the current climate.
450. Economic performance will always be the facilitator of increased living standards, by creating more employment opportunities.
451. It is guidance that the WAIRC will provide through the 2018 SMW that will be most impactful.

6. Summary and Concluding Comments

452. The WA economy has been experiencing an extremely challenging period since the end of the resources investment boom. While business and consumer confidence have improved markedly in the latter part of 2017 and into the first quarter of 2018, WA is only at, or near, the bottom of the economic downturn. While positive signs are emerging, confidence needs to be delivered upon and recovery nurtured.
453. At this point of the economic cycle in WA and in a highly competitive trading environment, businesses continue to face challenging conditions. Minimum wages are a critical component of the cost of doing business and making employment decisions in WA, particularly so for small and micro-businesses who are significantly award reliant.
454. CCIWA supports responsible and sustainable wage growth through the State Minimum Wage and award minimum wages.
455. However, caution and restraint in minimum wage setting is particularly important for employees, employers and communities in WA at this time. This must be considered particularly for small businesses that comprise 34.1 per cent of businesses in WA employing between one and 19 employees. Small businesses are critical to the economy throughout the State, especially providing valuable services and employment in regional areas.
456. CCIWA would urge the WAIRC in its deliberations on the 2018 State Wage Case to consider the specific circumstances of the WA economy.
457. As the Productivity Commission noted, the wage regulator “*should systematically consider the risks of variations in economic circumstances on employment and on the living standards of the low-paid*” and “*to safeguard and expand job opportunities, it should moderate the growth in minimum wages whenever the employment outlook is weakening*”¹²⁰.
458. CCIWA would summarise the following key indicators of the WA economy that should be considered by the WAIRC in its deliberations:
- Economic growth** is anticipated to be 1.75 per cent in 2017-18, projected to progress to around 2.25 per cent in 2018-19.
 - Gross State Product (GSP)** fell by 2.7 per cent in 2016-2017, the only decline of all states and territories, ending a 26-year run of economic growth and representing a decline in GSP per capita of 3.3 per cent.

¹²⁰ Productivity Commission Inquiry Report No. 76, Workplace Relations Framework, 30 November 2015, page 177

- c. **Business investment** fell by 28.5 per cent or \$15bn in 2016-17.
- d. **State Final Demand (SFD)** fell by 7.2 per cent, the only decline in SFD of all states and territories and is expected to contract for a fifth consecutive year in 2017-18.
- e. **Gross household disposable income** per capita fell 2.8 per cent, the only decline nationally.
- f. **Consumer Price Index (CPI)** remains low at 0.9 per cent for the March quarter 2018. Perth continues to remain the capital city with the lowest CPI, significantly below the national CPI by one percentage point.
- g. **Household consumption**, the largest component of the domestic economy, has been depressed with households only consuming 0.5 per cent more in 2016-17 than in the preceding year.
- h. **Dwelling investment** declined by around 20 per cent in 2016-17, the first decline in annual figures since the peak of the resources investment boom. Dwelling investment is forecast to decline by a further 10.0 per cent in 2017-18 before a modest increase of 2.0 per cent in 2018-19.
- i. **Residential property prices** remain in decline in Perth, albeit at a marginally slower pace than in recent history. Perth's median house price declined 3.1 per cent in 2016-17 following a fall of 2.7 per cent in 2015-16. Perth continues to experience high rental vacancy rates of 5.1 per cent, well above the market equilibrium rate of 3.0 per cent. Median house rent has fallen 7.7 per cent from June 2016 to March 2018 while median unit rent has fallen 7.1 per cent over the same period.
- j. **Retail sales** remain subdued with WA experiencing a zero-monthly growth rate in retail turnover from February 2017 to March 2018 in trend terms. WA's annual retail sales growth from March 2017 to March 2018 was -0.5 per cent in both trend and seasonally adjusted terms.
- k. **Unemployment** has increased significantly over the first quarter of 2018 reaching a 16 year high in March 2018 of 6.9 per cent, 1.4 percentage points above the national rate of 5.5 per cent.
- l. **Youth unemployment** is unacceptable and continues to increase and in March 2018 reached a 22-year high of 17.1 per cent.
- m. **Apprentices and Trainees** are declining with 22.81 per cent less apprentices and trainees in training at the December quarter 2017 than at the December quarter 2015.
- n. **Underemployment** has increased with the underemployment rate reaching 9.2 per cent in March 2018, up from 8.8 per cent in February 2018. The national underemployment rate is 8.4 per cent.
- o. **Underutilisation rates** have declined with the male underutilisation rate of 14.9 per cent in March 2018, the highest rate since February 2017 and the female underutilisation rate increased 1.8 per cent to 18.9 per cent. WA's overall underutilisation rate is 16.7 per cent, 2.4 percentage points higher than the national rate.

- p. **Participation rates** in WA remain higher than the national rate, with males and female participation rates at 74.0 per cent and 62.7 per cent respectively. The male participation rate has increased by 0.4 per cent since January 2017 while the female participation rate has increased 1.6 per cent over the same period.
 - q. **Wages growth** remains weak with the Wage Price Index (WPI) being at or below 2.0 per cent since December 2014. In the December quarter 2017, the WA WPI was 1.5 per cent while the national rate was 1.9 per cent. From December 2016 to December 2017, the national WPI was an average of 1.86 per cent while WA's WPI averaged 1.22 per cent.
 - r. **Average weekly earnings** in WA remain the highest of all states and the highest for males and females.
 - s. **Monthly working hours** declined 0.01 per cent over the period from March 2017 to March 2018. Over the five years from March 2013 to March 2018, while the national monthly working hours increased by 7.47 per cent, WA was the only state or territory to have recorded a decline, falling by 2.27 per cent. This continues to demonstrate the weak labour market in WA.
 - t. **Enterprise agreements** in WA approved under the FW Act in the December quarter 2017 presented average annualised wage increases of 1.8 per cent over an average agreement term of 3.2 years.
 - u. **Rising operating costs** was cited by 40 per cent of WA businesses as the biggest barrier to doing business in WA.
459. **Considering the persistence of soft labour market conditions, the significant spare labour market capacity, the particular challenges faced by small businesses, unemployment and youth unemployment, and underemployment, along with the economic considerations outlined throughout this submission, the Chamber of Commerce and Industry WA urges the WAIRC to exercise genuine caution and restraint in its setting of the State Minimum Wages and minimum award rates of pay in 2018.**