

2020 State Minimum Wage Case

Questions for Treasury Witness from UnionsWA

On page 1 of Attachment A – Economic Conditions and Outlook it says:

The risks to economic growth for the State weigh heavily on the downside. Activity in the State's domestic economy is likely to be significantly lower than projected at Mid-year Review and will continue to contract in the short to mid-term.

Question: What is the contribution of low wages growth to the state economy's downside risk?

Answer:

The downside risks are primarily due to the restrictions on certain activities, the impact of social distancing on activity, weak household and business confidence, and the consequent loss of jobs. Heightened uncertainty and decline in employment and/or hours of employment are likely to have a more significant impact on household sentiment and spending than change in wages in the current circumstances.

Wages represent a source of income from which households can spend and therefore support activity, and a cost to business. In the current environment, more businesses than usual are likely to be operating on slim margins. Others that have closed but would consider re-opening when restrictions are removed and demand recovers, but are also likely to re-open with slimmer than usual margins. Some businesses (and households) will have substantially weaker balance sheets. In these circumstances, changes in wages will have a greater influence on business viability (and therefore to overall employment levels and consequently household spending) than in more 'normal' circumstances.

On page 2 it says:

Population growth is likely to be significantly weaker than anticipated at Mid-year Review in the near-term, as the closing of the international borders halts overseas migration (which is the major contributing factor to population growth). Net interstate migration and net international migration are expected to lift once interstate and international borders are reopened, although likely at a slower pace than previously forecast.

Question: what will be the impact of lower population growth on household and consumer spending?

Answer:

Lower than forecast population growth in Western Australia would result in lower than forecast levels of household consumption, holding household consumption per capita constant.



On page 3 it says:

The Treasury index of commodity prices, which is weighted by export value, remained at an elevated level in March 2020 because falls in the price of crude oil had yet to translate into lower LNG prices (due to lags), while the iron ore price had remained resilient and the gold price was elevated due to robust demand (see Chart 1).

Question: What are the opportunity costs, and risks, for the WA economy in relying on global commodity markets instead of domestic consumption, to support the state economy?

Answer:

Western Australia's natural endowments and its competitive advantage in mining and agriculture mean that it benefits significantly from trade. Its small population means that it is not able to consume all of its production, highlighting the importance of trade to economic activity in the State.

Western Australia has benefitted from having a large, commodity based, external sector to date in 2020. While the iron ore price, the most important commodity price for Western Australia, initially declined from a high level in response to the COVID-19 outbreak, it subsequently stabilised and recently exceeded \$US90 per tonne. Further, export volumes, including of iron ore, have remained solid to date in 2020 (with the exception of an impact from Cyclone Damian). Importantly, the State's largest iron ore producers are amongst the lowest cost producers in the world, which mitigates some of the risk of being a major commodity exporter.

On page 5 it says:

... the COVID-19 pandemic presents significant downside risks to the Mid-year Review forecasts for household consumption growth.

... given that households tend to spend less and save more in an environment of elevated uncertainty (particularly surrounding job and income security), weaker household spending (especially for discretionary items) is likely to persist to some degree over the longer term.

Question: What will be the impact on consumer confidence and discretionary spending of having no real wages growth for the March Quarter 2020?

Answer:

Any impact of flat real wages in the March quarter on consumer confidence and discretionary spending will have been overwhelmed by the impact of the announcements of restrictions on certain activities and consequent reductions in employment and hours worked in the State.

On page 6 it says:

Outside of mining, investment is expected moderate as restrictions and lower consumer demand weigh heavily on firm profitability. This is particularly the case for industries such as accommodation and food services, real estate, recreation and culture, and tourism. Even once restrictions are lifted, it is likely that this investment will remain subdued for a period thereafter as weaker confidence lingers and as firms take time repairing their balance sheets.

Question: Where does business investment in industries such as accommodation and food services come from if there is no increase in consumer spending?

Answer:

Business investment in industries that rely on consumer spending is likely to be heavily impacted by COVID-19. Any investment in the near-term is likely to be centred around maintenance of existing infrastructure and/or operations and investment required to restart operations.

A recovery in consumer confidence and spending will be important in sustaining and supporting new investment in these industries.

On page 7 it says:

The COVID-19 related travel restrictions have, however, introduced substantial downside risks to services exports, particularly the State's two largest service exports - tourism and education. Business services are also likely to be negatively impacted by the sharp contraction in global demand in 2020.

Question: What in the domestic WA economy can replace the consumer demand previously generated by international tourism and education visitors?

Answer:

Household consumption in Western Australia consists of consumption by Western Australian households (or consumers), both in Australia and overseas. Purchases of goods and services by consumers based overseas (i.e. tourists or international students) are captured in Western Australia's service exports, while Western Australians' spending while holidaying and studying overseas is captured as a service import.

An increase in spending by Western Australian's that would otherwise have holidayed overseas or interstate will mitigate the decline in domestic demand previously generated by international tourism and education to the extent that Western Australians substitute overseas/interstate holidays with domestic holidays.

On page 9 it says:

Even after employment opportunities recover when COVID-19 related restrictions are lifted, firms are likely to seek to repair balance sheets by minimising operating costs. However, there will also be scheduled wage increases agreed to prior to the onset of COVID-19 for a proportion of the labour force.

Question: What will be the impact of these scheduled wage increases on consumer demand in WA?

Answer:

There are many factors that impact of consumer confidence and spending. Income is just one of those. Confidence and spending in Western Australia are more likely to be influenced by trends in employment and hours worked, and overall economic conditions, than by scheduled wage increases in the short to medium term.