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UnionsWA submissions in relation to National Accounts data for March quarter 2022 and Labour Force data for April 2022

Appl No. 1 of 2022

**ON THE COMMISSION'S OWN
MOTION**

**Western Australian Industrial Relations
Commission**

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The Western Australian Industrial Relations Commission (Commission) issued an application to make a State Wage Order pursuant to section 50A of the *Industrial Relations Act 1979 (WA) (IR Act)* to determine rates of pay for the purposes of the *Minimum Conditions of Employment Act 1993 (WA) (MCE Act)* and State awards.

UnionsWA filed a submission requesting the Commission issue a general order pursuant to Section 50A of the Act to increase award wages and the statutory minimum wage by 7.6%.

1. Response in relation to National Accounts data for March quarter 2022

National Accounts data – GDP; SFD; Profit share of national income

On 1 June 2022, the Australian Bureau of Statistics released data on Australian National Accounts: National Income, Expenditure and Product - estimates of key economic flows in Australia, including gross domestic product (GDP), consumption, investment, income and saving for the March Quarter 2022. This submission is UnionsWA's response to that release.

The ABS found that national Gross Domestic Product (GDP) rose 0.8% in seasonally adjusted chain volume terms in the March quarter 2022 and was up 3.3% throughout the year.¹

Household and government spending drove growth this quarter with total final consumption contributing 1.4 percentage points to GDP. Household spending rose 1.5 per cent with increases across a number of discretionary categories.

March key figures, percentage changes

	Dec 20 to Mar 21	Mar 21 to Jun 21	Jun 21 to Sep 21	Sep 21 to Dec 21	Dec 21 to Mar 22	Through the year, Mar 21 to Mar 22
Chain volume GDP and related measures (b)						
GDP	1.8	0.8	-1.8	3.6	0.8	3.3
GDP per capita (c)	1.8	0.6	-1.8	3.5	0.3	2.5
Gross value added market sector (d)	1.9	1.4	-1.6	3.6	0.7	4.2
Real net national disposable income	3.4	2.5	-4.0	2.6	1.4	2.4
Productivity						
GDP per hour worked	0.8	-1.1	3.1	-0.8	1.7	2.8
Real unit labour costs	0.3	-	0.1	-0.8	-2.0	-2.7
Prices						
GDP chain price index (original)	3.1	3.4	0.2	-0.6	4.9	8.2
Terms of trade	7.7	8.0	-0.5	-4.9	5.9	8.3
Current price measures						
GDP	3.8	3.2	-0.6	3.5	3.7	10.2
Household saving ratio	13.8	11.8	19.7	13.4	11.4	na

The ABS also found the following for State and territory final demand (SFD: summing government final consumption expenditure, household final consumption expenditure, private gross fixed capital formation

¹ ABS release, *Australian National Accounts: National Income, Expenditure and Product* (March 2022)
<https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/mar-2022>

and the gross fixed capital formation of public corporations and general government) with WA having the second largest increase for the quarter after Victoria.

	Percentage change from Dec 21 to Mar 22								
	NSW	Vic.	Qld	SA	WA	Tas.	NT	ACT	Aust.(a)
Final consumption expenditure									
General government	2.1	2.4	3.2	1.1	5.3	3.4	6.2	1.7	2.7
Households	1.9	2.7	0.4	0.9	0.0	-0.5	-0.1	3.0	1.5
Gross fixed capital formation									
Private	-1.1	2.2	-2.0	0.3	3.2	-6.7	-1.7	-2.2	0.5
Public	-1.3	1.6	3.8	1.0	8.3	-2.8	9.1	1.7	1.7
State final demand	1.2	2.4	0.8	0.8	2.2	-0.6	2.2	1.7	1.6

- nil or rounded to zero (including null cells)

a. Australia estimates relate to Domestic final demand.

Centre for Future Work Director Greg Jericho observed that corporate profits now account for a record 31.1% of national income:²

Share of national income going to corporate profits



Using corporate gross operating surplus as a percentage of total factor income

Source: ABS 5206.0, Table 7, derived • Get the data • Created with Datawrapper

The record share of corporate profits in national income strongly suggests that there is ample scope within both economies for a substantial increase to minimum and award wages. UnionsWA notes that page 17, paras 60-62 of the Minister's initial submission noted that

Gross Operating Surplus (GOS) plus Gross Mixed Income (GMI) increased across most industries over the course of the 2020-21 financial year. While it is important to note that this data reveals little about the profitability or otherwise of individual businesses, the measure provides some insight into local conditions at the aggregate industry level.

² Greg Jericho, 'Australian businesses benefited from rising prices. Workers? Not so much'

https://www.theguardian.com/business/grogonomics/2022/jun/02/australian-businesses-benefited-from-rising-prices-workers-not-so-much?CMP=Share_iOSApp_Other

...

Across all industries, GOS plus GMI increased by 23.9 per cent in 2020-21.

The National Accounts testify to the strong conditions of the national and WA economies, which are consistent with a similarly strong increase in minimum and award wages in WA.

Productivity and real unit labour costs

As the ACTU put it in its reply submission for the current national Annual Wage Review:³

Mainstream economics tells us nominal wage increases that match inflation and productivity growth allow workers to both meet the rising cost of living and gain their fair share of rising national prosperity without placing pressure on prices. This is because improvements in productivity are, by definition, expanding the productive capacity of the economy to produce goods and services. An increase in wages that matches such an expansion of potential economic output will not put additional pressure on prices. In contrast to employer representatives' claims that nominal wage increases equal to or greater than inflation would be unsustainable, both the Governor of the Reserve Bank and the Secretary of the Treasury have publicly supported this position: that nominal wages can grow at a rate equal to the sum of the inflation rate and the productivity growth rate before they begin to put upward pressure on headline inflation.

On 16 February 2022, Treasury Secretary Dr Steven Kennedy testified before the Senate Economics Legislation Committee that:

“If we can achieve productivity growth of 1.5 per cent [and assuming inflation growth of 2.5%], then nominal wages can grow at four per cent and put no pressure on inflation. However, on the other hand, if productivity is only 0.5 per cent, then wages can only grow at three per cent before they begin to put pressure on inflation”.

On 9 August 2018, Reserve Bank Governor Dr Philip Lowe testified before the Standing Committee on Economics that wages should be increasing at the rate of labour productivity growth plus the rate of inflation, saying:

“I think wages in Australia should be increasing at three point something. The reason I say that is that we are trying to deliver an average rate of inflation of 2½ per cent. I'm hoping labour productivity growth is at least one per cent—and I'm hoping we can do better than that—but 2½ plus one equals 3½.”

Greg Jericho noted that the National Accounts release found

In the March quarter real (non-farm) labour costs fell 2.3%. Outside of the June 2002 quarter that was ravaged by the pandemic, that is the biggest one quarter fall since 2016 and the second-worst fall for more than 20 years.

Real (non-farm) unit labour costs are now 5.3% below where they were before the pandemic:

³ ACTU, Reply Submission to the 2021-22 Annual Wage Review, p.36 <https://www.fwc.gov.au/documents/wage-reviews/2021-22/submissions/actu-replysub-awr2122.pdf>

The continuing fall in labour costs

Real unit labour costs (non-farm) index (Dec 2019=100)



Chart: Greg Jericho • Source: ABS 5206.0, Table 44, derived • [Get the data](#) • Created with [Datawrapper](#)

The productivity and unit labour cost figures indicate that:

- A minimum wage increase equivalent to recent annual CPI inflation growth (5.1% nationally; 7.6% in Perth) combined with a 2.8% increase in GDP per hour worked, should not increase inflationary pressures
- The inflationary pressures that currently exist do *not* originate from labour costs, which have declined and continue to decline

The WACOSS and UnionsWA claims for a 7.6% increase are modest when considered in this context.

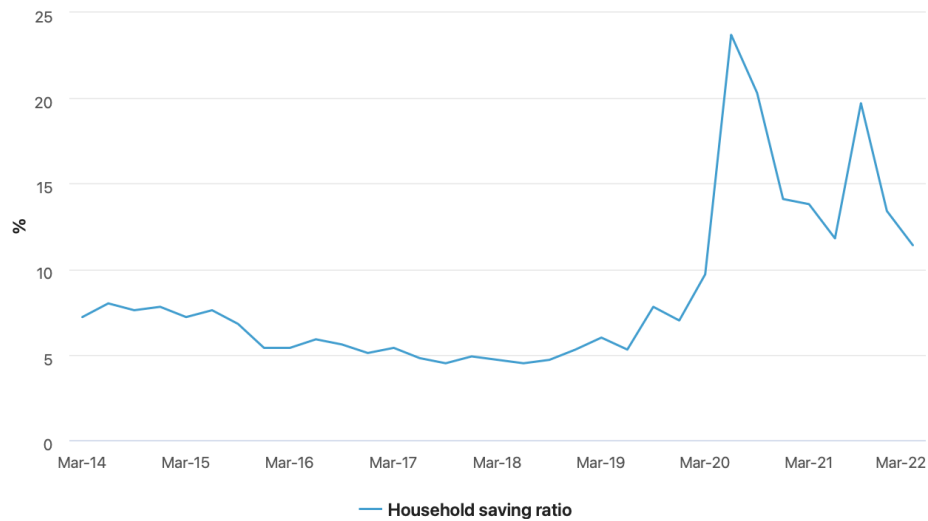
Household savings not a substitute for pay increases

The ABS also found that

The household saving ratio declined from 13.4% to 11.4%, remaining above pre-pandemic levels.

Household saving fell as the rise in household spending outpaced growth in gross disposable income. Household gross disposable income rose 0.6% with growth in labour (COE) and non-labour income partly offset by an increase in income payable.

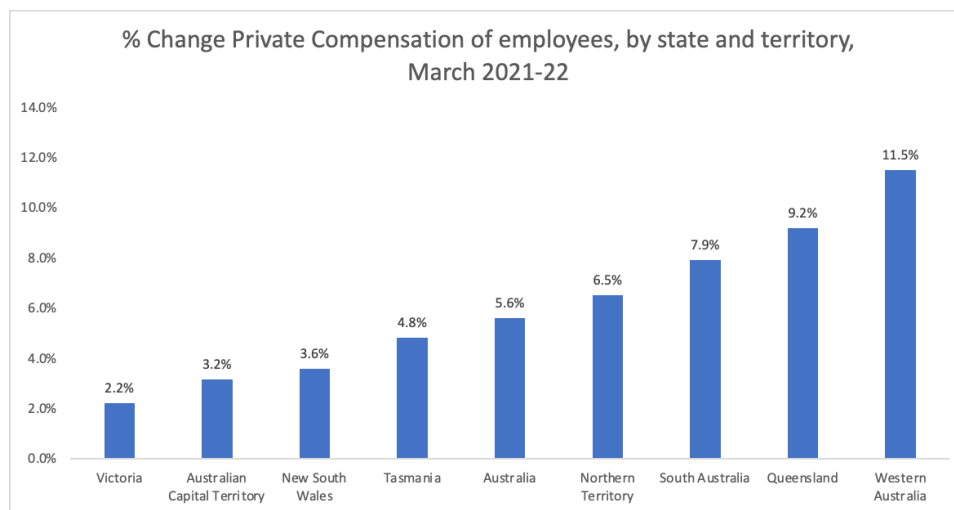
Household saving ratio, seasonally adjusted



The continued downward trend of the household saving ratio strongly suggests that household spending cannot rely on ‘savings’ as a substitute for a pay increase addressing the cost of living.

Compensation and remuneration ‘in-kind’ not a substitute for base wage increases

The National Accounts data also contains information on ‘Compensation of Employees’ by state and territory. It shows WA in the lead at 11.5%.⁴



⁴ ABS release, National Accounts (April 2022) Table 44. Compensation of Employees, State by Sector: Current prices

Compensation of employees is different from a base wage, as it includes wages and salaries (in cash and in kind) and employers' social contributions. The ABS notes that⁵

Penalty payments (e.g. overtime, hazardous work allowances), supplementary allowances such as housing and meal allowances (unless paid as social benefits), holiday pay, payment while on sick leave, bonuses, and commissions, tips and gratuities paid directly to the employee by a third party are included in wages and salaries.

However, it does indicate that a 7.6% increase to minimum and award wages would not be excessive compared to broader employee costs. On page 11 of the WA Treasury's 'Economic Conditions and Outlook' submitted by the Minister, it was argued that

Businesses have been using a range of ways to attract and retain people without building increases into base wages. This includes the use of targeted bonuses and one-off payments ...

UnionsWA reiterates the point we made on page 8 of our Reply Submission in reference to the *Wages Crisis: Revisited* report. Alleviation measures 'cannot replace wage gains' as 'wage growth generates more powerful and sustained increases in incomes [because] wage increases are compounded each year, with subsequent gains applied to a larger base.'⁶

WA workers on minimum and award wages need a substantial wage increase – not bonuses and one-off payments.

Household Consumption missing in WA – to the detriment of Hospitality and others

The ABS found that Household consumption was up 1.5% in the quarter, noting that

Demand from households was reflected in increased Gross Value Added (GVA) for Transport, postal and warehousing, Arts and recreation services, and Accommodation and food services.

However, it should be noted that household spending was strongest in the eastern States (e.g. the Australian Capital Territory (3.0%), Victoria (2.7%), and New South Wales (1.9%)) whereas the contribution to Final consumption expenditure by households in WA was **0.0%** (see State Final Demand table above).

The ABS also observed that 'wage growth trailed inflation, despite a strong labour market.'⁷ This is corroborated by the most recent BankWest Curtin Economic Centre (BCEC) *Monthly Labour Market Update – April 2022* which found that⁸

Across the states, the biggest year-on-year divergence in CPI and WPI has occurred in WA, where inflation outpaced wage growth by a staggering 5.4 per cent, including by 2.8 per cent this quarter.

⁵ ABS releases: *Australian National Accounts: National Income, Expenditure and Product methodology* <https://www.abs.gov.au/methodologies/australian-national-accounts-national-income-expenditure-and-product-methodology/mar-2022>; *Compensation of employees* <https://www.abs.gov.au/statistics/detailed-methodology-information/concepts-sources-methods/australian-system-national-accounts-concepts-sources-and-methods/2020-21/chapter-11-gross-domestic-product-income-approach-gdpi/compensation-employees>

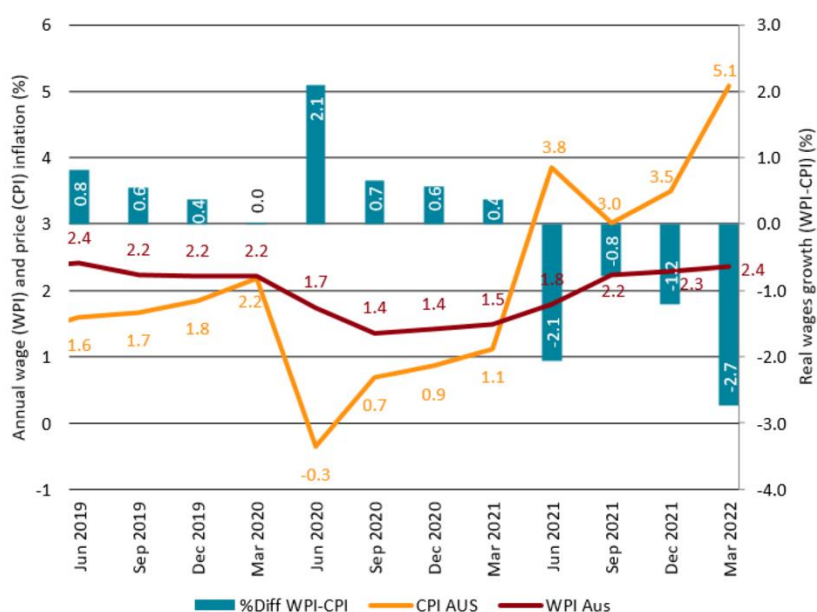
⁶ Andrew Stewart, Jim Stanford and Tess Hardy *The Wages Crisis Revisited* (p.36) <https://australiainstitute.org.au/wp-content/uploads/2022/05/Wages-Crisis-Revisited-WEB.pdf>

⁷ ABS article, '12 things that happened in the Australian economy in March quarter 2022' <https://www.abs.gov.au/articles/12-things-happened-australian-economy-march-quarter-2022>

⁸ BCEC *Monthly Labour Market Update – April 2022* (p.2) <https://bcec.edu.au/assets/2022/05/Monthly-Labour-Market-Update-April-2022.pdf>

Other states affected by falling real wages included QLD (-3.5 per cent), SA (-2.5 per cent) and VIC (-2.3 per cent). NSW (-2.0 per cent) recorded the smallest fall in real wages.

Figure 1: Wage and Consumer Price Indexes, Australia



Notes: Seasonally adjusted values are used.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Australian Bureau of Statistics Cat No 6202.0.

The lack of Household Consumption in WA is reflected in this real wage decline noted by UnionsWA, WACOSS, and the BCEC. The '0.0%' result puts in doubt the WA Treasury's forecasts about Household Consumption as contained in page 13 in the Treasury 'Economic Conditions and Outlook'.

Economic Forecasts

Western Australia, Annual Growth (%)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	Actual	Estimated Actual	Budget Year	Outyear	Outyear	Outyear
Demand and Output ^(a)						
Household Consumption	2.7	5.0	2.25	2.75	2.5	2.5
Dwelling Investment	2.0	12.75	0.5	-3.0	1.5	5.75
Business Investment	4.6	4.75	8.25	4.0	0.5	0.25
Government Consumption	6.2	3.0	2.5	1.25	2.5	2.5
Government Investment	4.0	12.5	16.5	7.5	3.25	0.75
State Final Demand	4.4	5.25	4.0	3.0	2.25	2.5

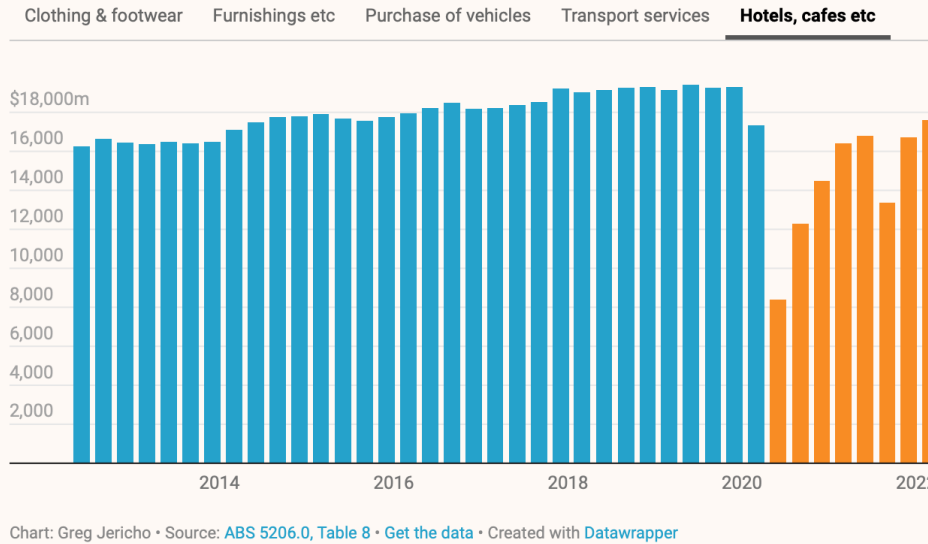
The ABS also noted that for WA's Household Consumption

Strength in purchase of vehicles (16.5%) and health (3.7%) spending was offset by weakness in hotels, cafe and restaurants (-4.6%).

Greg Jericho observed that

... while there has been a strong growth in travel and eating out, it remains well below pre-pandemic levels:

Consumption of transport and hospitality still has a way to go



Businesses in the accommodation and food services industry both in WA and nationally, are suffering from the lack of Household Consumption spending on these categories of discretionary items. This situation is not going to be improved if real wages are allowed to go backwards in a time of dramatically increasing CPI inflation. Only the UnionsWA and WACOSS submissions to the state minimum wage case recognise the reality that institutional decisions need to be made to increase minimum and award wages.

National Accounts and cost of living pressures

In its Submission to the Annual Wage Review for the National Accounts, the new Federal government observed that⁹

High and rising inflation and falling real wages are creating cost-of-living pressures, particularly for Australia's low-paid workers. Economic conditions are particularly challenging given inflation is at a 21-year high of 5.1 per cent and is expected to increase further in the near-term due to persistent and compounding supply shocks. The current inflation rate is 2.7 percentage points higher than wages growth as measured by the Wage Price Index (WPI), which means on average, Australians are experiencing the sharpest decline in real wages in 21 years. The National Accounts results released this week provide further evidence of the broad-based domestic price pressures which were clear in the Consumer Price Index (CPI) release for the March quarter 2022.

The Federal government recommends that the Fair Work Commission ensures that the real wages of Australia's low-paid workers do not go backwards. In the WA context, the claims by UnionsWA and WACOSS are the only submissions for the state minimum wage case that satisfy this criterion.

⁹ Australian Government submission (3 June 2022) <https://www.fwc.gov.au/documents/wage-reviews/2021-22/submissions/ausgov2-sub-awr2122.docx>

2. Response in relation to Labour Force data for April 2022

On 19 May 2022, the ABS released data from its Labour Force, Australia survey for April 2022.¹⁰ It found that the seasonally adjusted national unemployment rate for April 2022 was 3.9% and the WA unemployment rate was 2.9%.

Bjorn Jarvis, head of labour statistics at the ABS, said that

“3.9 per cent is the lowest the unemployment rate has been in the monthly survey. The last time the unemployment rate was lower than this was in August 1974, when the survey was quarterly.”

April 2022, Seasonally adjusted	Unemployment rate	Unemployment rate - monthly change	Underemployment rate	Underemployment rate - monthly change
New South Wales	3.5%	-0.4 pts	5.5%	-0.5 pts
Victoria	4.2%	0.1 pts	6.1%	0.3 pts
Queensland	4.5%	0.5 pts	6.1%	-0.9 pts
South Australia	4.5%	-0.4 pts	7.6%	-0.1 pts
Western Australia	2.9%	-0.5 pts	6.2%	-0.4 pts
Tasmania	3.8%	-0.7 pts	6.9%	0.1 pts
Northern Territory	4.1%	0.1 pts	6.7%	1.6 pts
Australian Capital Territory	3.1%	-0.3 pts	4.7%	0.0 pts
Australia	3.9%	-0.1 pts	6.1%	-0.2 pts

The ABS also noted that the national underemployment rate fell 0.2 percentage points to 6.1 per cent. The WA underemployment rate is only slightly higher than that at 6.2%.

On working hours, the BCEC Update noted that *‘National average monthly hours per worker saw a moderate increase in April 2022 in spite of sluggish wage growth; rising by 1.2 per cent to 136.7 hours worked on average...’*

WA workers once again worked the highest number of hours per month out of all the states; increasing by a moderate 1.9 per cent to 139.6 hours worked per month. In the case of WA, the shift away from part-time work to full-time work will have contributed to the increase in average hours worked, with workers finding more full-time positions.

The lack of response by real wages to falling unemployment, increasing hours, and more full-time work

On 19 May 2022, UnionsWA submitted for consideration by the Commission the following points about the Wage Price Index WPI and CPI.

When put alongside CPI inflation data for the same period, nationally prices are now rising at more than double the pace of private sector rates of pay excluding bonuses.

¹⁰ ABS release: Labour Force, Australia (April 2022) <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/apr-2022#states-and-territories>

In March quarter 2022 the National seasonally adjusted WPI:

- *Rose 0.7% this quarter and 2.4% over the year.*
- *The private sector rose 0.7% and the public sector rose 0.6%.*

The National CPI for the same period

- *Rose 2.1% this quarter.*
- *Over the twelve months to the March 2022 quarter, the CPI rose 5.1%*

For WA, the differences are even more stark

- *WA Quarterly WPI rise: 0.5%*
- *WA Annual WPI rise: 2.2%*

Looked at by Sector in WA

- *WA WPI Private Sector Quarterly: 0.7%*
- *WA WPI Private Sector Annual: 2.4%*
- *WA WPI Public Sector Quarterly: 0.1%*
- *WA WPI Public Sector Annual: 1.2%*

Whereas the Perth CPI

- *Rose 3.3% this quarter.*
- *Over the twelve months to the March 2022 quarter, the CPI rose 7.6%*

UnionsWA reiterates the point we made in our Initial and Reply Submissions. The lack of response by ‘prices’ of labour to an increased demand demonstrates that businesses are not paying potential and actual workers the full value of their labour. Real wage growth is being continually postponed. A binding, institutional decision to increase minimum and award wages is needed to meet the needs of the low paid and provide for improved living standards.

As the new Federal government submission to the Annual Wage Review points out:

Australia’s low-paid workers, many of whom are young, female and in casual employment, are far more likely than higher paid workers to find themselves experiencing financial hardship. Many of these workers made significant contributions in the provision of essential services during COVID-19.

3. Conclusion

UnionsWA is advocating that the Commission increase minimum and award wages by 7.6%.

(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;

The increase to minimum and award wage should apply from the end of June 2022 onwards for all workers, with no delays for selected industries. The full increase within the Act should be applied to apprentices and juniors.

(ii) meet the needs of the low paid;

Binding, institutional increases to wages, such as those brought by the minimum wage, are needed to ensure workers, particular low wage, and award reliant ones, are benefiting from the 'white hot' economies at both the state and national level. The disjunction between declining real wage growth and strong economic growth must be addressed by decisions of the WA Industrial Relations Commission.

(iii) provide fair wage standards in the context of living standards generally prevailing in the community

The costs of living in WA have increased dramatically, as have been demonstrated by the ongoing need to revise key budget estimates and forecasts upwards, but not real wages growth. The divergence between discretionary and non-discretionary CPI inflation should also be noted when considering the cost of living and the needs of the low paid in WA, as increases in non-discretionary costs will be more impactful for low wage workers.

The National Accounts figures showing that Household Consumption did not grow in WA, despite a declining saving ratio and increases in Compensation for employees, shows that one-off payments and bonuses are not enough to provide fair living standards.

(iv) contribute to improved living standards for employees;

The Vacancy Data for WA shows that employees are in demand, particularly in occupations and skills levels that are more likely to be impacted by minimum and award wages, but real wages are not going up. Workers are being paid less than the full value of their output given that the WA economy is the standout performer in Australia.

As the Federal government has pointed out: *'Australia's low-paid workers, many of whom are young, female and in casual employment, are far more likely than higher paid workers to find themselves experiencing financial hardship.'*

(v) protect employees who may be unable to reach an industrial agreement;

An increase in the state minimum wage in WA of 7.6% or \$59.20 per week, is more likely to assist workers and vulnerable groups of employees who are less likely to negotiate decent increases for themselves. This is particularly the case when collective bargaining (at least as reflected in the Fair Work system) appears to be in long term decline.

(vi) encourage ongoing skills development; and

For apprentices there is an opportunity cost involved in the time spent as an apprentice. Unless regular and generous increases in apprenticeship wages flow on from decisions such as those from

the minimum wage, apprenticeships become increasingly unattractive. Apprentice and trainee wages should be lifted in the usual way to attract new entrants and recognise increased demand.

(vii) provide equal remuneration for men and women for work of equal or comparable value;

Vulnerable groups of employees such as female workers are over-represented within the private sector of the state industrial relations system. Workers with this profile are less likely to negotiate their own Agreements, and more likely to be award reliant in the state industrial relations system.

(a) 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;

(b) to the extent that it is relevant, the state of the national economy;

...

(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;

The National Accounts results for the March Quarter 2022 showing national GDP growth of 0.8%, and WA SFD growth of 2.2%, show both economies are well placed to increase minimum and award wages by amounts that maintain and materially improve the living standards of low wage workers. The lack of wage growth in WA, and Australia, derives from the power of employers to decline to increase wages.

Insofar as state award employers are more likely to be in an industry such as hospitality, a positive decision on real wage growth makes it more likely that potential consumers will go out and spend on discretionary items. This will benefit those businesses

(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;

An increase of 7.6%, as a percentage increase, balances the range of factors that the Commission must consider. It delivers the largest proportionate increase to the lowest paid, while preserving the existing skill-based relativities for award classifications.

(f) relevant decisions of other industrial courts and tribunals; and

(g) any other matters the Commission considers relevant.

UnionsWA contends that the WA and Australian economies are not only recovering quickly but are well placed to make increases to minimum and award wages that will compensate for the rising costs of living and materially improve people's circumstances.

In the absence of specific amounts to be nominated by other parties, only the UnionsWA and WACOSS claims for 7.6% address the full range of the legislated criteria that the WA Commission must consider.