

ANNUAL WAGE REVIEW 2011-12

CCIQ Reply Submission to Fair Work Australia

27 April 2012

1.0 EXECUTIVE SUMMARY

- 1.1 As the peak business organisation in Queensland, the Chamber of Commerce and Industry Queensland (CCIQ) welcomes this opportunity to provide a reply submission in response to data published after 16 March 2012. CCIQ has prepared this submission after reviewing all first round submissions provided by stakeholders to the 2011/12 Annual Wage Review and the results of the latest Commonwealth Bank Pulse Survey of Business Conditions for the March Quarter 2012. CCIQ is strongly of the view that any minimum wage adjustment must reflect economic conditions (particularly in relation to those industries that are award-reliant and are not performing well), be conducive to the continual provision of employment opportunities, and recognise the needs of business.
- 1.2 The Minimum Wage Panel must recognise that minimum wage decisions continue to disproportionately impact on particular employers (SMEs) and sectors of the economy. The majority of award reliant employees tend to be located in industries which are experiencing poor economic conditions (ie retail, hospitality, accommodation, construction, manufacturing industries). Employers in these industries currently have very limited capacity to afford a substantial increase in minimum wages.
- 1.3 A substantial increase to minimum wages is not recommended at a time when economic conditions remain weak and uncertain, particularly in award reliant industries. This position is based on feedback provided by CCIQ in our first submission and feedback provided by other stakeholders that shows many businesses are in a precarious position with diminishing capacity to absorb the continuing onslaught of rising business costs. The cost imposts for the coming financial year, including the carbon price, transitional arrangements associated with the modern awards, and increasing costs associated with implementing the Fair Work Act, are just the tip of the iceberg of concerns raised by business.
- 1.4 Many businesses require time to overcome the significant cost implications associated with industrial relations changes and wage increases over previous years. Subsequently, CCIQ believes an increase to minimum wages above that supported by award reliant businesses will jeopardise the performance of the economy and further reduce the ability of these employers to employ and retain staff, and remain viable in the longer term.
- 1.5 CCIQ is not supportive of stakeholder positions that push for an increase to minimum wages and modern award rates greater than \$10 per week, for example the ACTU's claim for an increase of \$26 per week to the national minimum wage. As highlighted throughout CCIQ's submissions to the 2011/12 Annual Wage Review, there are a number of exceptional circumstances that justify the Minimum Wage Panel awarding an increase of less than \$10 per week. Subsequently, CCIQ does not believe it is appropriate to substantially increase minimum wages in the current economic environment, as a substantial wage increase at similar levels as the past few years will only exacerbate the current precarious situation.
- 1.6 CCIQ does not want to see an outcome where incentives to employ are diminished and employment opportunities are reduced. Minimum wages must not become a barrier to gaining employment. CCIQ believes it is essential for the Minimum Wage Panel to focus on employment outcomes and maintaining the viability of businesses to ensure they continue to employ staff throughout the coming financial year. The capacity of businesses to continually absorb cost increases is significantly diminishing in an environment where consumers are price sensitive. Businesses will have limited options available but to implement cost cutting measures, which is likely to include reducing employment numbers.
- 1.7 CCIQ reiterates our support for the position put forward in our first submission: CCIQ strongly urges Fair Work Australia to implement an increase the minimum wage that is substantially less than \$9 per week, with preferably no increase until such time when businesses are better placed to afford it and remain viable.
- 1.8 It is essential that Fair Work Australia makes sensible decisions regarding an increase to minimum wages. It would be irresponsible to substantially increase minimum wages in an environment where so many businesses are struggling to maintain their current employment levels and maintain their viability for the long term. Wages must be maintained at a level that allows businesses to remain competitive and profitable, therefore generating and maintaining demand for jobs. There is a need to renew confidence in the economy by encouraging sustained and secure employment levels.

2.0 ECONOMIC CONSIDERATIONS AND THE CURRENT LABOUR MARKET

- 2.1 A key consideration of the Minimum Wage Panel must be to deliver a minimum wage adjustment that reflects the performance and competitiveness of the economy. CCIQ's first submission to the Review highlighted the challenges currently being faced in the Queensland economy. Key issues raised included:
- The two speed economy is particularly apparent in Queensland. Key industries including tourism, retail, construction and other non-mining sectors continue to struggle at present;
 - Queensland businesses continue to experience an unbalanced economy with some regions and sectors performing better, whilst others are not seeing any sign of a return to better economic times;
 - This tough economic environment is placing significant pressure on Queensland businesses, with many struggling to remain viable. Latest figures show that Queensland has the highest level of business insolvencies of all states and has maintained an exit rate higher than the national average;
 - Queensland continues to have the highest unemployment rate of all mainland states.
- 2.2 The majority of stakeholders that provided submissions to the current review also raised a number of serious concerns regarding the performance and competitiveness of the economy. Key concerns raised and supported by CCIQ include:
- Flat labour market figures, with unemployment and under employment expected to rise in 2012;¹
 - Economic growth remains below trend and has been largely driven by strong growth in the mining sector. Many non-mining related industries are continuing to struggle with limited growth and challenging/deteriorating trade conditions;²
 - Businesses have limited capacity to pass on costs to price sensitive consumers;³
 - The high Australian dollar continues to have a negative impact on some industries and businesses (ie tourism, retail, agriculture);⁴
 - Business expectations for the year ahead remain weak;⁵
 - Increasing difficulties are being experienced by those businesses/industries that compete against international competitors with lower costs and less stringent regulatory environments. Globalisation and the increasing trend of online retailing is also impacting local businesses;⁶
 - Productivity growth is declining and remains sluggish;⁷
 - There continues to be a decline in business investment and profitability, alongside reduced consumer spending and rising business costs;⁸
 - Global economic uncertainty is impacting on confidence in the domestic marketplace and is resulting in weaker global demand;⁹
 - The significant natural disasters experienced throughout various states and territories over the past two years (ie Queensland, New South Wales, Victoria and South Australia) continues to have ongoing impacts on many businesses, their staff and their communities.¹⁰
- 2.3 The latest Commonwealth Bank CCIQ Pulse Survey of Business Conditions for the March Quarter 2012 found that despite a surge in business confidence in the Queensland economy following the recent State Government election, actual performance during the quarter remains troubling. Queensland businesses remain concerned about significant instability and leadership uncertainty nationally, which is further dampening consumer confidence and spending. The biggest issue weighing on the minds and fortunes of Queensland businesses is the impending commencement of the carbon tax which is resulting in businesses holding off on making any major commitments to spending, employment and expansion until it is clear exactly how the carbon tax will impact on their business activity and operating costs. Reduced business and consumer spending has also been evident following concerns around the spending cuts that have been foreshadowed in the Federal Budget.
- 2.4 Key issues highlighted in the latest Commonwealth Bank CCIQ Pulse Survey include:
- The majority of businesses reported weaker (38%) or similar (36%) levels of business activity so far in 2012;
 - The majority of businesses (49%) continue to report declining levels of profitability;
 - Employment is not expected to change materially over the coming three months to June, with 70% of businesses expecting the same or similar levels;
 - As has been the case for the past 4 years, businesses remain unable to make the significant building, plant or equipment investments required for business and economic expansion;
 - All regions experienced a downturn in general business conditions, sales, profitability and employment levels, with the downturn attributed to various factors including reduced mining activity, depressed international markets and the impact of reduced spending during the Queensland state election period;

- The level of demand and economic activity continues to remain the most significant factor impacting on opportunities for business growth and is largely influenced by falls in domestic confidence and spending, and reduced international demand due to international economic instability and the high Australian dollar;
- Various business costs stemming from business taxes, compliance, insurance premiums, wage costs and input costs such as electricity have also been identified as major constraints on business growth. This reconfirms the ongoing need for all levels of government to urgently improve the business operating environment and implement cost cutting measures.

2.5 The ABS has also released updated employment data since CCIQ provided its first submission to the Minimum Wage Panel. Queensland's unemployment rate remained unchanged between February and March 2012 in trend terms, and fell 0.2% in seasonally adjusted terms. Over the three months from January to March 2012, there has been an additional 1,800 and 700 people unemployed respectively in Queensland in seasonally adjusted and trend terms. Queensland continues to maintain an unemployment rate that is significantly higher than the national unemployment rate (0.3% higher in both trend and seasonally adjusted terms). This is a trend that has persisted throughout the 2011/12 financial year and is a trend that Queensland businesses are keen to see reversed.

Unemployment Rates										
	Trend					Seasonally Adjusted				
	Mar 11	Feb 12	Mar 12	% Δ Feb 12 – Mar 12	% Δ Mar 11 - Mar 12	Mar 11	Feb 12	Mar 12	% Δ Feb 12 – Mar 12	% Δ Mar 11 - Mar 12
NSW	5.0	5.1	5.0	-0.1	0.0	5.2	5.1	4.8	-0.3	-0.4
VIC	4.8	5.5	5.5	0.0	0.7	4.4	5.5	5.8	0.3	1.4
QLD	5.4	5.5	5.5	0.0	0.1	5.5	5.7	5.5	-0.2	0.0
SA	5.5	5.2	5.1	-0.1	-0.4	5.4	5.2	5.2	0.0	-0.2
WA	4.3	4.1	4.0	-0.1	-0.3	4.3	3.9	4.1	0.2	-0.2
TAS	5.6	7.0	7.2	0.2	1.6	5.5	7.0	7.0	0.0	1.5
AUS	4.9	5.2	5.2	0.0	0.3	4.9	5.2	5.2	0.0	0.3

Source: ABS Catalogue 6202.0

2.6 The latest regional unemployment rates also show that many Queensland regions continue to maintain unemployment rates significantly higher than the Queensland (5.5%) and national (5.2%) average. These regions include Far North (9.9%); Wide Bay-Burnett (9.5%); West Moreton (7.1%); South and East Brisbane (6.8%); Gold Coast and Gold Coast South (6.7%); and Sunshine Coast (6.3%).

Unemployment rates in Queensland regions					
	Mar 11	Feb 12	Mar 12	% change Feb 12 - Mar 12	% change Mar 11 – Mar 12
Brisbane	5.6	6.0	5.5	-0.5	-0.1
Brisbane City Inner Ring	3.8	5.3	4.2	-1.1	0.4
Brisbane City Outer Ring	5.9	6.5	6.3	-0.2	0.4
South and East Brisbane	7.2	7.0	6.8	-0.2	0.4
North Brisbane	4.7	5.1	5.5	0.4	0.8
Ipswich City	8.4	5.6	4.2	-1.4	-4.2
Balance of QLD	6.7	7.3	6.6	-0.7	-0.1
Gold Coast	8.0	6.8	6.7	-0.1	-1.3
Gold Coast North	6.8	9.3	5.8	-3.5	-1.0
Gold Coast South	8.1	6.5	6.7	0.2	-1.4
Sunshine Coast	4.5	7.4	6.3	-1.1	1.8
West Moreton	2.1	13.7	7.1	-6.6	5.0
Wide Bay-Burnett	4.7	8.5	9.5	1.0	4.8
Mackay-Fitzroy-Central West	6.5	5.6	5.4	-0.2	-1.1
Darling Downs-South West	5.3	5.9	3.9	-2.0	-1.4
Northern-North West	6.7	6.7	5.6	-1.1	-1.1
Far North	10.6	10.3	9.9	-0.4	-0.7

Source: ABS Catalogue 6291.0.55.001

- 2.7 It is clear to see that there are many economic issues that require consideration during the 2011/12 Annual Wage Review. Any adjustment to minimum wages must account for the performance and competitiveness of the economy. A substantial increase to minimum wages is not recommended at a time when economic conditions and labour market figures remain weak and uncertain, particularly in award reliant industries. Subsequently, CCIQ does not support a significant minimum wage adjustment in the current economic environment. A substantial wage increase at similar levels as the past few years will only exacerbate the current situation, with significant negative implications for the performance of the national economy and for employment levels.

3.0 KEY ISSUES FOR CONSIDERATION DURING THE 2011/12 ANNUAL WAGE REVIEW

- 3.1 In CCIQ's first submission to the 2011/12 Annual Wage Review, several key issues were highlighted that we believed required consideration during the review. These issues included concerns surrounding the Fair Work Act, the impact of the carbon tax, the two speed economy, increasing number of business insolvencies, the rising costs of running a business, and the economic circumstances facing our key trading partners. After reviewing the submissions provided by stakeholders to the current review, CCIQ would like to further stress the importance of considering the below issues during deliberations on adjusting minimum wages:

- **Increased employment costs and regulatory burdens:** A number of stakeholders have raised concerns regarding the significant cost increases associated with the modern awards (ie implementing transitional arrangements; increased penalty rates, casual loading and allowances) and the increased regulatory burdens associated with the Fair Work Act (ie unfair dismissal legislation, increased industrial activity, reduced flexibility).¹¹ The implementation of transitional arrangements on 1 July will mean that the majority of award-reliant employees will already receive an increase to their wages (ie increased penalty rates). Furthermore, low income workers are also likely to receive further benefits in the 2012/13 financial year following the implementation of the carbon tax compensation package and increases in other government benefits. CCIQ believes it is important for the Minimum Wage Panel to take into consideration the additional employment cost imposts being placed on businesses following the implementation of the modern awards and the increases to wages that employees will already receive come 1 July 2012. It would be difficult for employers to absorb a further increase in wage costs following the current review process in addition to the cost implications associated with the Fair Work Act and modern awards.
- **Award-reliant industries:** Some industries are significantly more reliant on modern awards and minimum wages compared to other industries (ie retail, accommodation, hospitality, manufacturing etc).¹² A substantial minimum wage adjustment will have a disproportionately higher impact on these industries, jeopardising the performance of the economy and reducing the ability of these employers to employ and retain staff, and remain viable in the longer term. It is also important to note that award reliant industries are generally underperforming non-award reliant sectors, meaning that a significant minimum wage adjustment is likely to have a devastating impact on these industries leading to further setbacks for the national economy and employment.
- **Wages need to be offset by productivity increases:** A number of stakeholders have stressed the need for any increase to minimum wages to be offset by productivity increases.¹³ As mentioned in section 2.4, productivity growth is in decline and remains sluggish. The ongoing deterioration in productivity performance has limited the ability of businesses to accommodate wage increases. It is not sustainable for minimum wages to continue increasing at current rates without a similar increase being experienced in productivity levels.
- **Implications of increasing the mandatory superannuation guarantee:** Stakeholders believe it is important that the increase to mandatory superannuation payments be taken into consideration by the Minimum Wage Panel.¹⁴ CCIQ has expressed concern regarding the increase in superannuation contributions for employees coming at the expense of business sustainability and economic growth. It is essential that employers are provided with assistance to fund the mandatory superannuation increase, as failure to do so will result in significant increases to the cost of employment with serious implications for business profitability and employment.
- **Uncertainty surrounding the carbon pricing mechanism:** Concerns were raised regarding the cost implications of a carbon price, especially on energy and other input costs.¹⁵ The majority of small and medium businesses are not eligible to receive compensation under the proposed transitional and industry

adjustment schemes. Any increases in operating costs associated with the carbon price will most likely need to be absorbed by the business who are unable to pass on costs in the current competitive and price-sensitive consumer environment, therefore representing a further decrease in profitability and viability. Recent CCIQ research shows that Queensland businesses are currently holding off making any major commitments to spending, employment and expansion until it is clear exactly how the carbon tax will impact on their business activity and operating costs. Any substantial adjustment to minimum wages will only exacerbate this situation. CCIQ remains concerned that in this environment, businesses may have little choice but to reduce the size of their workforce to remain profitable and competitive. Furthermore, CCIQ would like to stress that compensation for possible carbon price impacts on households should not be used as an argument in favour of increasing minimum wages, especially when households are expected to receive adequate compensation through other policy adjustments proposed by the Federal Government.

- **Implications of a significant wage increase on the demand for labour:** Although increasing minimum wages may have a positive impact on workforce participation, the associated negative impact on the demand for labour must also be taken into consideration.¹⁶ CCIQ does not want to see an outcome where incentives to employ are diminished and employment opportunities are reduced. It is essential that minimum wages do not become a barrier to gaining employment.

3.2 CCIQ reiterates our support for the position put forward in our first submission to the Minimum Wage Review Panel: CCIQ strongly urges Fair Work Australia to implement an increase to the minimum wage that is substantially less than \$9 per week, with preferably no increase until such time when businesses are better placed to afford it and remain viable. It is essential that Fair Work Australia does what it can to reduce the harmful impacts on business. It would be irresponsible to substantially increase minimum wages in an environment where so many businesses are struggling to maintain their current employment levels and maintain their viability for the long term.

4.0 REFERENCES

¹ Issue raised in submissions provided by stakeholders including the Australian Chamber of Commerce and Industry, Ai Group, Australian Business Industrial, Australian Council of Social Service, Australian Federation of Employers and Industries, Australian Government, Australian Federation of Employers and Industries, Australian Retailers Association, Australian Road Transport Industrial Organisation, Business South Australia, Master Grocers Australia, National Retail Association, Victorian Automobile Chamber of Commerce, Victorian Government.

² Issue raised in submissions provided by stakeholders including the Australian Chamber of Commerce and Industry, Accommodation Association of Australia, Ai Group, Australian Business Industrial, Australian Federation of Employers and Industries, Australian Hotels Association, Australian Retailers Association, Australian Road Transport Industrial Organisation, Business South Australia, Housing Industry Association, Master Grocers Australia, Motor Trade Association of South Australia, National Farmers Federation, Restaurant and Catering Australia, Victorian Automobile Chamber of Commerce, Victorian Government.

³ Issue raised in submissions provided by stakeholders including Ai Group, Motor Trade Association of South Australia, National Retail Association.

⁴ Issue raised in submissions provided by stakeholders including the Accommodation Association of Australia, Australian Business Industrial, Australian Government, Australian Hotels Association, Australian Retailers Association, Business South Australia, Master Grocers Australia, National Farmers Federation, South Australia Wine Industry Association, Victorian Automobile Chamber of Commerce.

⁵ Issue raised in submissions provided by stakeholders including Ai Group, Business South Australia, Master Grocers Australia.

⁶ Issue raised in submissions provided by stakeholders including Ai Group, Australian Retailers Association, National Retail Association.

⁷ Issue raised in submissions provided by stakeholders including Australian Chamber of Commerce and Industry, Australian Business Industrial, Australian Federation of Employers and Industries, Australian Government, Australian Hotels Association, Master Grocers Australia.

⁸ Issue raised in submissions provided by stakeholders including Australian Federation of Employers and Industries, Australian Hotels Association, Australian Retailers Association, Business South Australia, Master Grocers Australia, Motor Trades Association of South Australia, National Farmers Federation, National Retail Association, NSW Government, Victorian Automobile Chamber of Commerce, Victorian Government.

⁹ Issue raised in submissions provided by stakeholders including Australian Federation of Employers and Industries, Australian Government, Business South Australia, Master Grocers Australia.

¹⁰ Issue raised in submissions provided by stakeholders including the Australian Chamber of Commerce and Industry; Accommodation Association of Australia, Australian Federation of Employers and Industries, Business South Australia, Master Grocers Australia, National Farmers Federation, South Australia Wine Industry Association.

¹¹ Issue raised in submissions provided by stakeholders including the Australian Chamber of Commerce and Industry, Accommodation Association of Australia, Ai Group, Australian Federation for Employers and Industries, Australian national Retailers Association, Business South Australia, Master Grocers Australia, National Retail Association, Restaurant and Catering Australia, SA Wine Industry Association.

¹² Issue raised in submissions provided by stakeholders including the Australian Chamber of Commerce and Industry, Australian Hotels Association, Australian Retailers Association, master Grocers Australia, Motor Trade Association of South Australia,

¹³ Issue raised in submissions provided by stakeholders including the Accommodation Association of Australia.

¹⁴ Issue raised in submissions provided by stakeholders including the Accommodation Association of Australia, Ai Group, Housing Industry Association, National Farmers Federation, Victorian Automobile Chamber of Commerce.

¹⁵ Issue raised in submissions provided by stakeholders including the Australian Chamber of Commerce and Industry, Accommodation Association of Australia, Australian Business Industrial, Australian Hotels Association, Business South Australia, Housing Industry Association, Master Grocers Australia, SA Wine Industry Association.

¹⁶ Issue raised in submissions provided by stakeholders including Ai Group, National Farmers Federation.