



# AUSTRALIAN FAIR PAY COMMISSION

**2009 Minimum Wage Review**

**ACCI Post-Budget Submission**

**May 2009**



LEADING AUSTRALIAN BUSINESS

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# 1. ACCI Post-Budget Submission

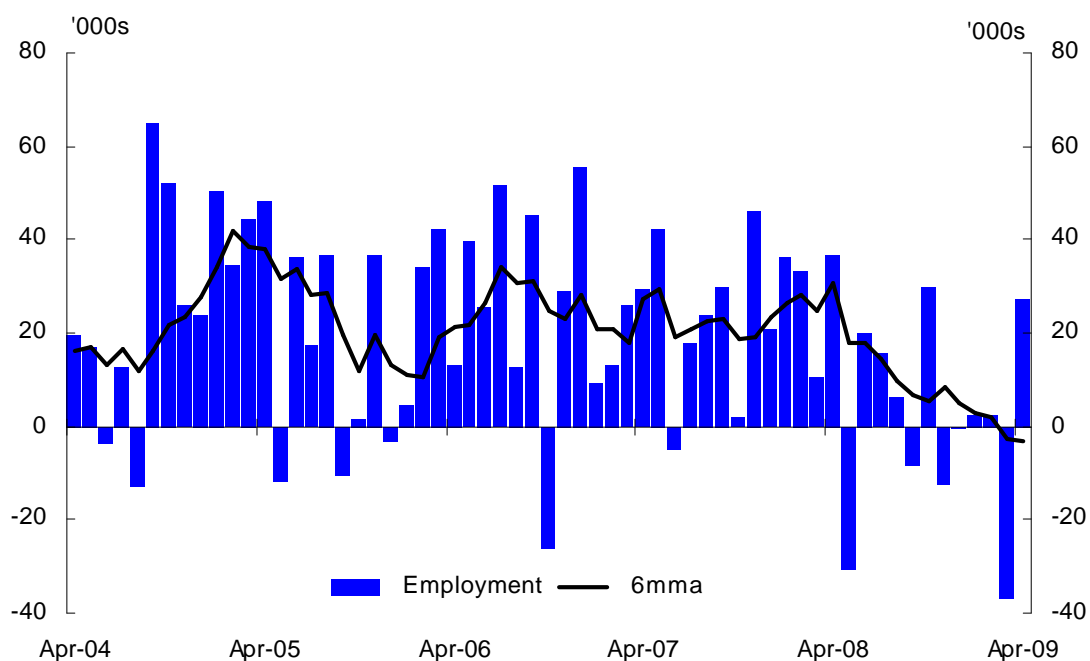
## 1.1 OVERVIEW

1. The updated economic forecasts provided in the 2009-10 Budget strongly support the case ACCI put to the Commission for no uprating of minimum wages in 2009. Treasury is now forecasting the Australian economy will enter recession and that labour market conditions will deteriorate dramatically, including a substantial loss of employment. Given the negative relationship between wages and employment it is clear that any uprating of minimum wages would accentuate the forecast rise in the unemployment rate.

## 1.2 LABOUR MARKET CONTINUES TO DETERIORATE

2. Labour force survey data for March and April show labour market conditions continuing to deteriorate. Employment on net has contracted by almost 10,000 positions over the two months and the unemployment rate has pushed higher to 5.4 per cent. The data is consistent with the early stages of a recession and lead indicators point to significant job losses in the year ahead.

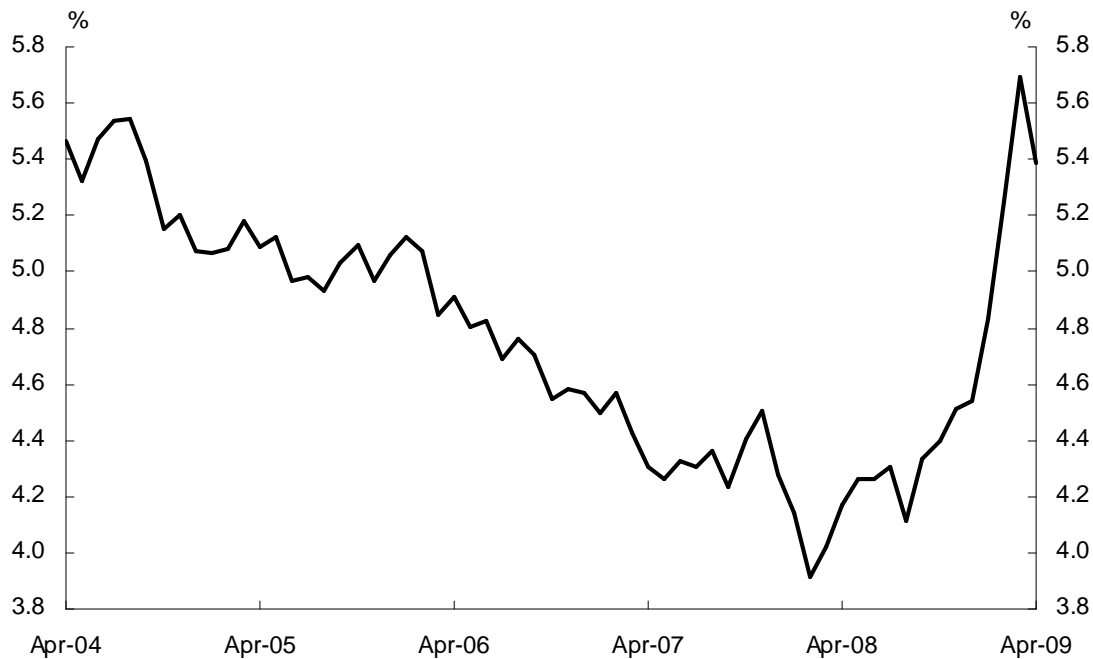
**Employment Monthly Change**



Source: ABS Cat. No. 6202.0

3. Employment data for March saw in excess of 37,000 jobs shed in the month, however, the figures for April showed some of this being clawed back with a rise of 27,300 positions. Monthly labour market figures can be volatile but examining moving averages can assist in revealing underlying trends. The six-month moving average currently shows 3,000 jobs being lost each month. Employment growth stalled in the second half of 2008 and the economy is beginning to shed jobs.
  
4. The unemployment rate has continued to rise, increasing from 5.2 per cent in February 2009 to 5.4 per cent in April 2009. April may have seen a temporary decline in the unemployment rate from the 5.7 per cent level recorded in March but the underlying trend is still one of rising unemployment. Moreover, given the volatility in the monthly labour force statistics the April figures are being viewed by many with caution. Relative to the cycle-low reached in February 2008, the unemployment rate has increased by 1.5 percentage points.

### Unemployment Rate

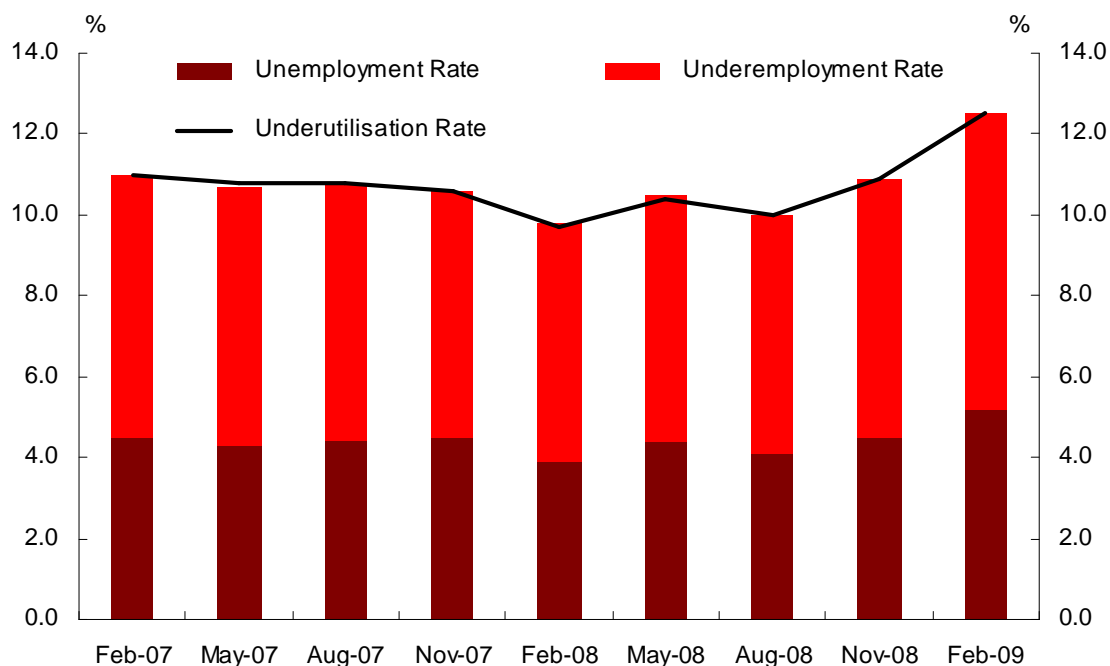


Source: ABS Cat. No. 6202.0

5. Underemployment has also increased sharply as the economy contracts and the labour market softens. The rate of underemployment increased +0.9 percentage points to 7.3 per cent in the February quarter of 2009. After reaching a recent low of 5.9 per

cent in February 2008 the rate of underemployment has since risen 1.4 percentage points. When combined with the rise in the unemployment rate, the rate of labour force underutilisation in the economy has increased 2.8 percentage points over the past twelve months to 12.5 per cent in February 2009. One in eight people in the labour market are now unable to find sufficient work.

### Underutilisation Rate



Source: ABS Cat. No. 6105.0

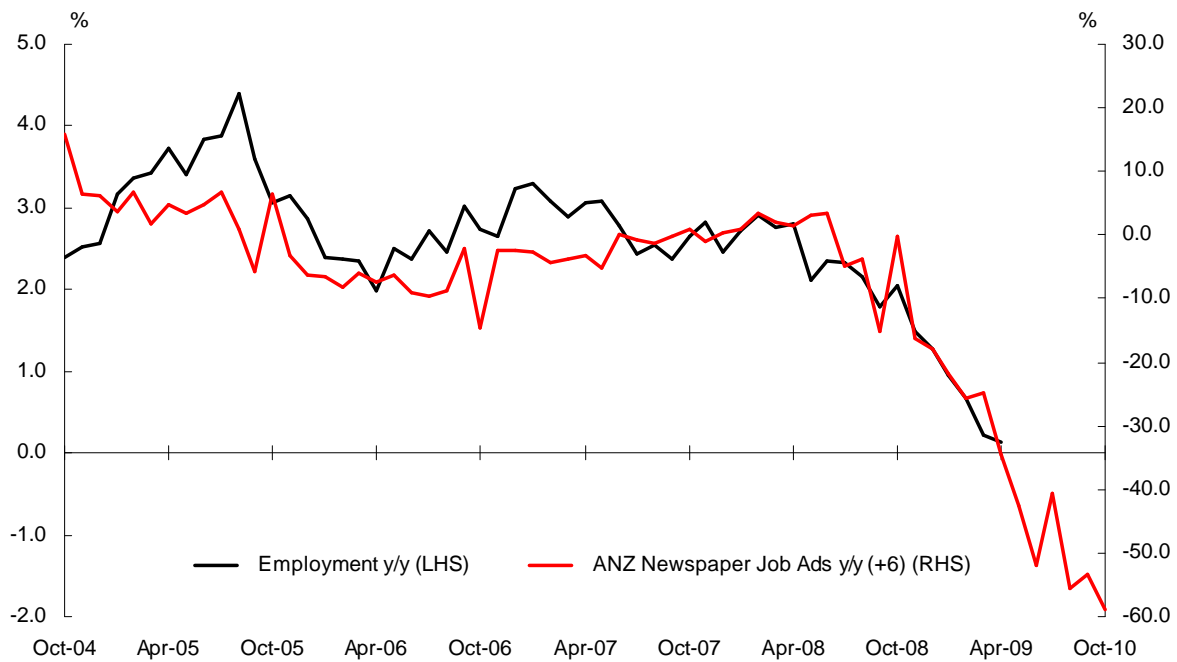
6. Leading indicators of employment continue to point to a sharp deterioration in labour market conditions in the near-term and are consistent with a substantial loss of employment over the next six to twelve months. The DEEWR Skilled Vacancies index fell in each of the last two months and over the year to April 2009 has slumped -61.5 per cent. The year-end decline is the steepest on record with the series dating back to July 1983.
  
7. The ANZ Newspaper Job Advertisements series has fallen further from its level in February to be -58.9 per cent lower over the year to April 2009. The percentage decline in the series is significantly deeper than that experienced in either the early 1990s or early 1980s recessions, when the year-end contraction only just surpassed 50 per cent.

8. ANZ’s Head of Australian Economics, Warren Hogan, noted:

Total job ads have fallen in each of the past 12 months and are now half the level they were in April 2008. This suggests that total employment in Australia will contract over the year ahead. Most of the 1.7 percentage point increase in the unemployment rate thus far has been due to labour force growth and rising participation, rather than falling employment. However, the ongoing weakness in job ads suggests that falling employment levels will be the key driver of rising unemployment over the year ahead.<sup>1</sup>

9. The magnitude of the decline in the ANZ Newspaper Job Advertisements series is consistent with employment contracting almost 2.0 per cent over the year to October 2009. That would imply a loss of roughly 200,000 jobs over the next six months.

**ANZ Newspaper Job Ads and Employment**



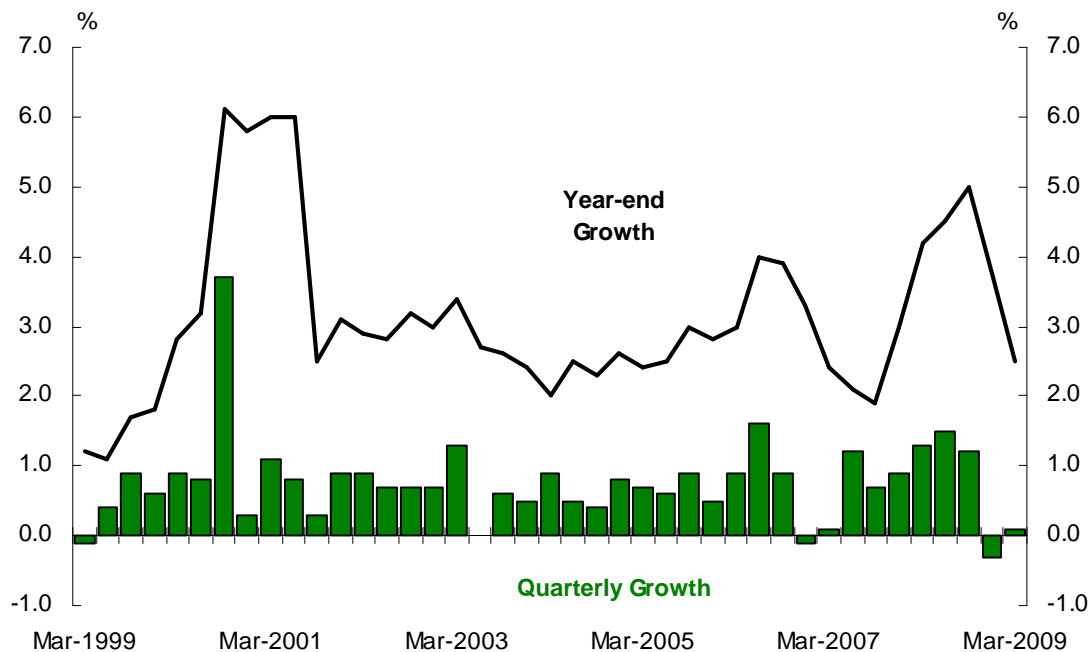
Source: ANZ

<sup>1</sup> ANZ, ANZ Media Release: Job advertisements continue to fall in April, 4 May 2009, page 1–2.

### 1.3 HEADLINE INFLATION MODERATING SHARPLY

10. The March quarter *Consumer Price Index* was released in late April and showed headline inflation moderating sharply. The year-end rate of headline inflation slowed -1.2 percentage points to +2.5 per cent in the March quarter. After peaking at 5.0 per cent in the September quarter of 2008, the headline inflation rate has since halved in the space of six months and is now comfortably back within the Reserve Bank’s 2 to 3 per cent target range.

**Headline Inflation**



Source: ABS Cat. No. 6401.0

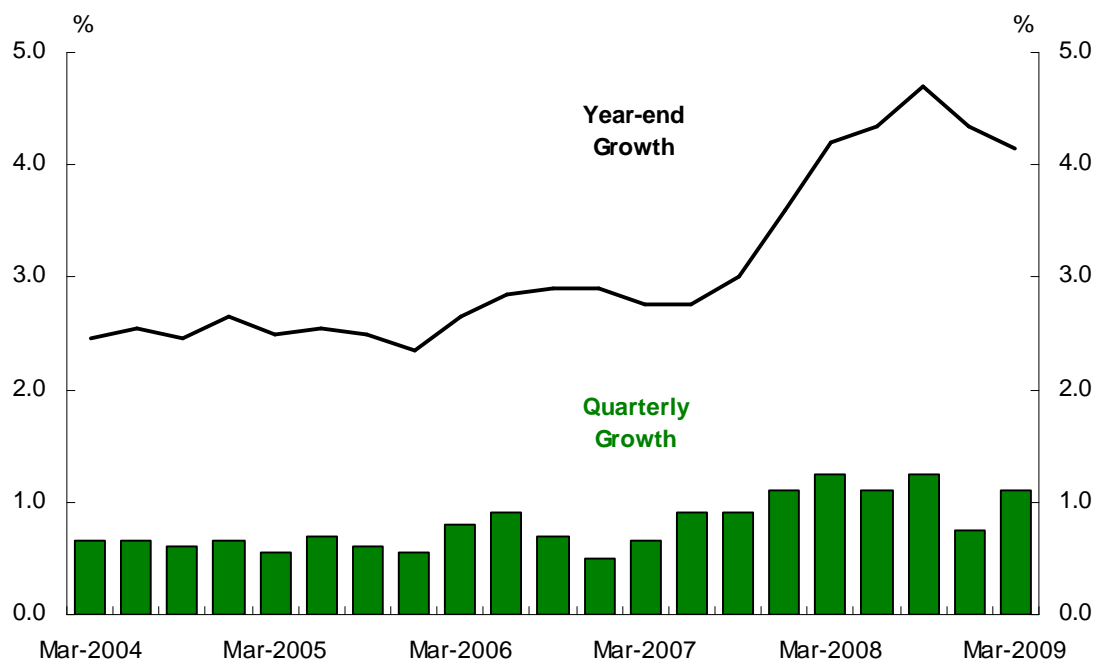
11. Sharp falls in petrol prices and interest rates have been important drivers of the pronounced moderation in inflation. Transportation and financial & insurance services prices have detracted -0.6 and -0.1 percentage points, respectively, from year-end headline inflation. Clothing & footwear and recreation prices fell in the March quarter and the quarterly pace of housing and household contents & services prices has eased significantly in the past six months.

CONSUMER PRICE INDEX	Quarterly change				Year-end	
	Jun-08	Sep-08	Dec-08	Mar-09	growth	contribution
Food	-0.1	1.4	2.0	2.2	5.7	0.9
Alcohol and Tobacco	1.9	1.4	1.4	1.0	5.7	0.4
Clothing and Footwear	3.0	-0.7	0.4	-0.5	2.1	0.1
Housing	1.1	2.6	0.7	0.9	5.5	1.1
Household Contents and Services	1.6	-0.9	0.3	0.8	1.9	0.2
Health	2.4	-0.2	-1.2	4.4	5.3	0.3
Transportation	3.1	1.0	-6.9	-1.5	-4.6	-0.6
Communication	0.1	0.2	0.4	0.4	1.0	0.0
Recreation	-0.2	1.3	0.5	-1.1	0.5	0.1
Education	0.0	-0.5	0.0	5.4	5.0	0.1
Financial and Insurance Services	3.8	1.7	-0.3	-6.3	-1.4	-0.1
All Groups CPI	1.5	1.2	-0.3	0.1	2.5	
All Groups CPI excluding volatile items	1.3	1.1	0.5	0.3	3.2	
Underlying Inflation	1.10	1.25	0.75	1.10	4.15	
Trimmed-Mean	1.2	1.2	0.6	1.0	3.9	
Weighted-Median	1.0	1.3	0.9	1.2	4.4	

Source: ABS Cat. No. 6401.0

12. Underlying inflation has also slowed significantly, albeit not to the same degree as headline inflation. Underlying inflation, as measured by the average of trimmed-mean and weighted-median inflation, in year-end terms has moderated from a peak of 4.7 per cent reached in September 2008 to 4.2 per cent in the March quarter 2009. While remaining elevated for the time being, the Reserve Bank expects underlying inflation is slow to 3 ¼ per cent by December 2009.

### Underlying Inflation

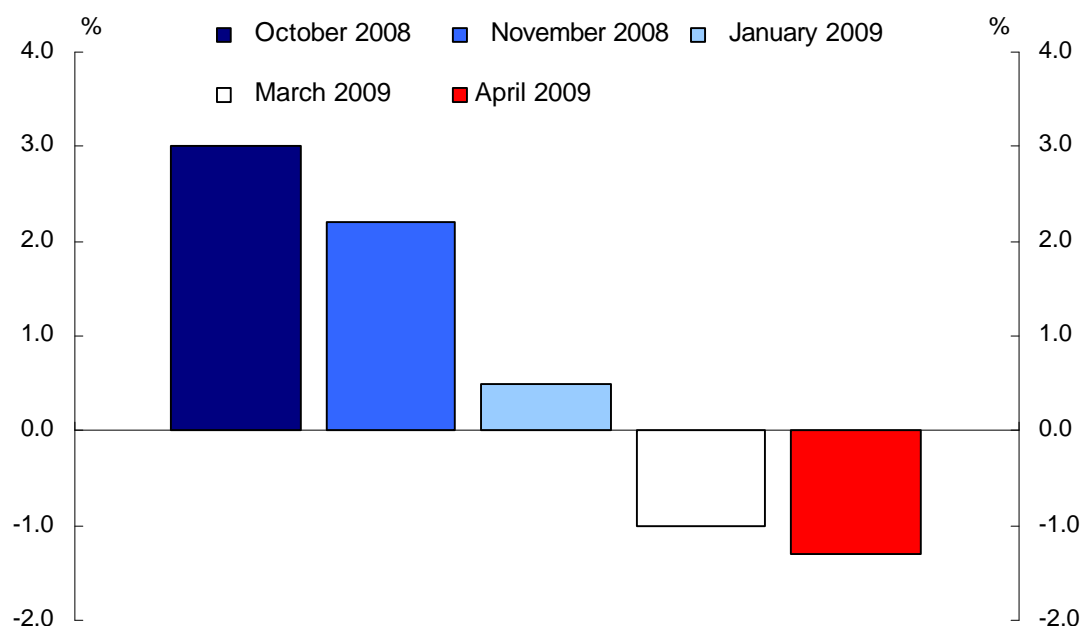


Source: Treasury

## 1.4 IMF DOWNGRADES GLOBAL GROWTH OUTLOOK

13. The release of the April 2009 *World Economic Outlook* saw the IMF make a further downward revision to their forecasts for global growth. World output is now expected to contract by 1.3 per cent in 2009, revised down from a decline of between -0.5 per cent and -1.0 per cent in forecasts released in March 2009.

### IMF World Economic Outlook: Global Growth Forecasts



Source: IMF

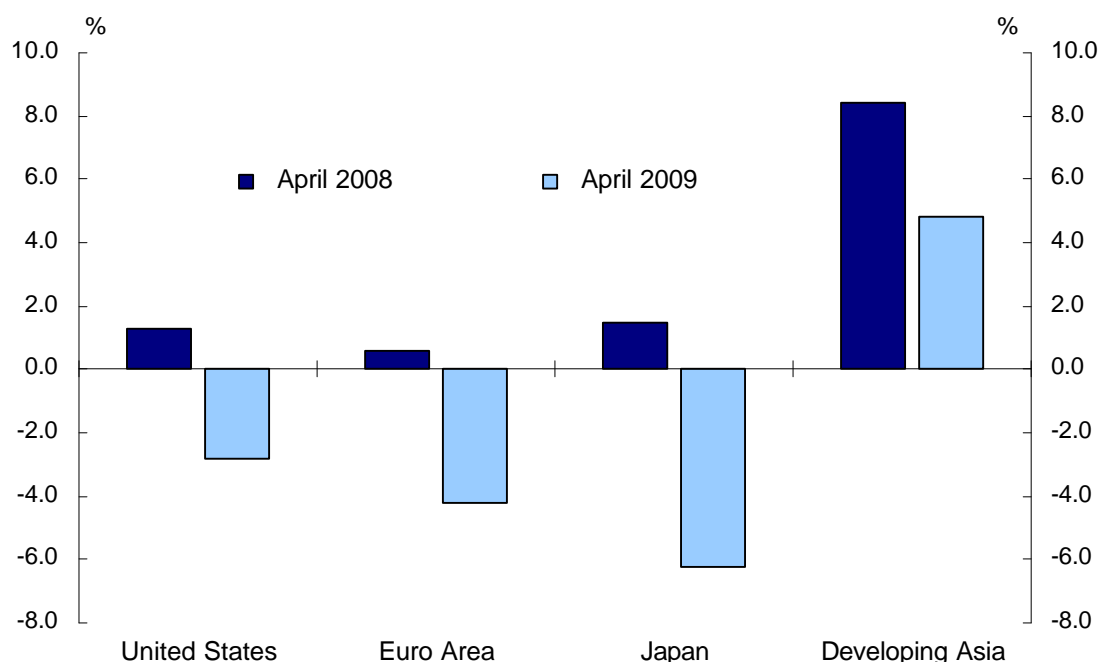
14. The negative growth outlook stems largely from the continuing impact of the global financial crisis on the real economy. The collapse in business and consumer confidence following the intensification of the crisis in late 2008 led to a sharp contraction in economic output across the advanced economies.

The global economy is in a severe recession inflicted by a massive financial crisis and acute loss of confidence. While the rate of contraction should moderate from the second quarter onward, world output is projected to decline by 1.3 per cent in 2009 as a whole and to recover only gradually in 2010, growing by 1.9 per cent.<sup>2</sup>

<sup>2</sup> Treasury, *Budget 2009-10: Budget Strategy and Outlook*, pages 2-3.

15. The IMF expects the effects of the global recession to be concentrated disproportionately on the advanced economies. Economic activity in 2009 is expected to contract by 2.8 per cent in the US, 4.2 per cent in the Euro area and 6.2 per cent in Japan. The IMF forecast Australian economic activity will contract by 1.4 per cent in 2009 before commencing a slow recovery with growth of 0.6 per cent in 2010 and 1.9 per cent in 2011. The pace of growth in the Australian economy is not expected to reach above 3.0 per cent until 2014.

**IMF World Economic Outlook: Real GDP Growth 2009**

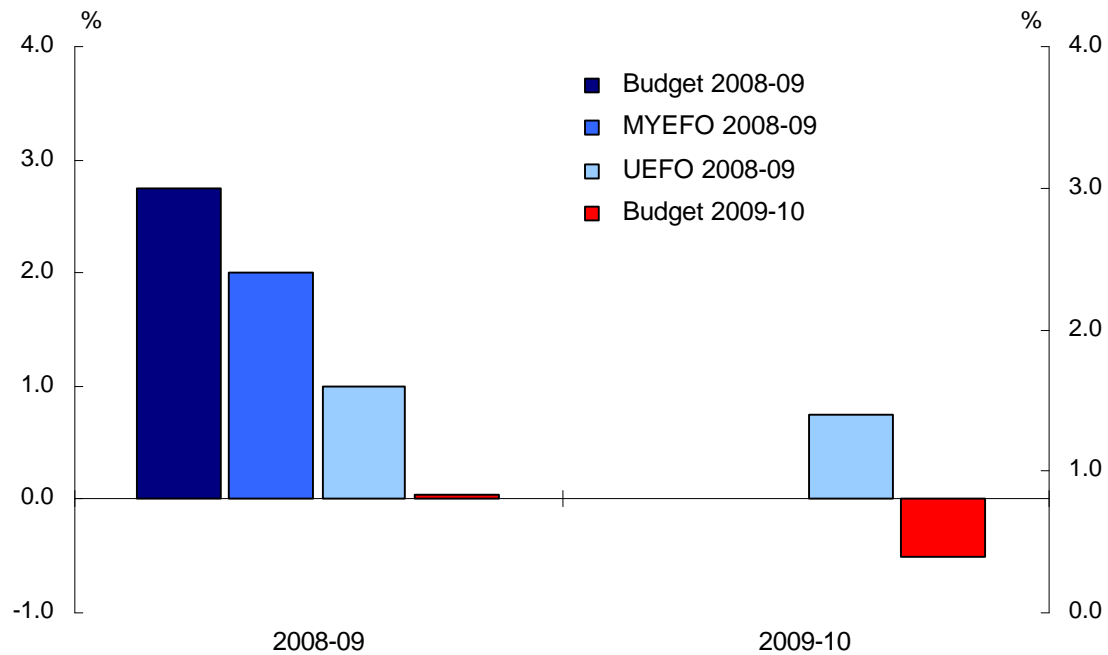


Source: IMF

**1.5 TREASURY FORECASTS RECESSION ‘INEVITABLE’**

16. Treasury’s growth forecasts were revised down significantly in the 2009-10 Budget. The downgrade comes just over three months after a negatively revised set of economic forecasts were issued in early February, which in turn had followed a downgrade to the growth outlook in late 2008. The Australian economy is now expected to follow the rest of the world into recession, with conditions in the labour market forecast to deteriorate markedly.

### Treasury Real GDP Forecasts



Source: Treasury

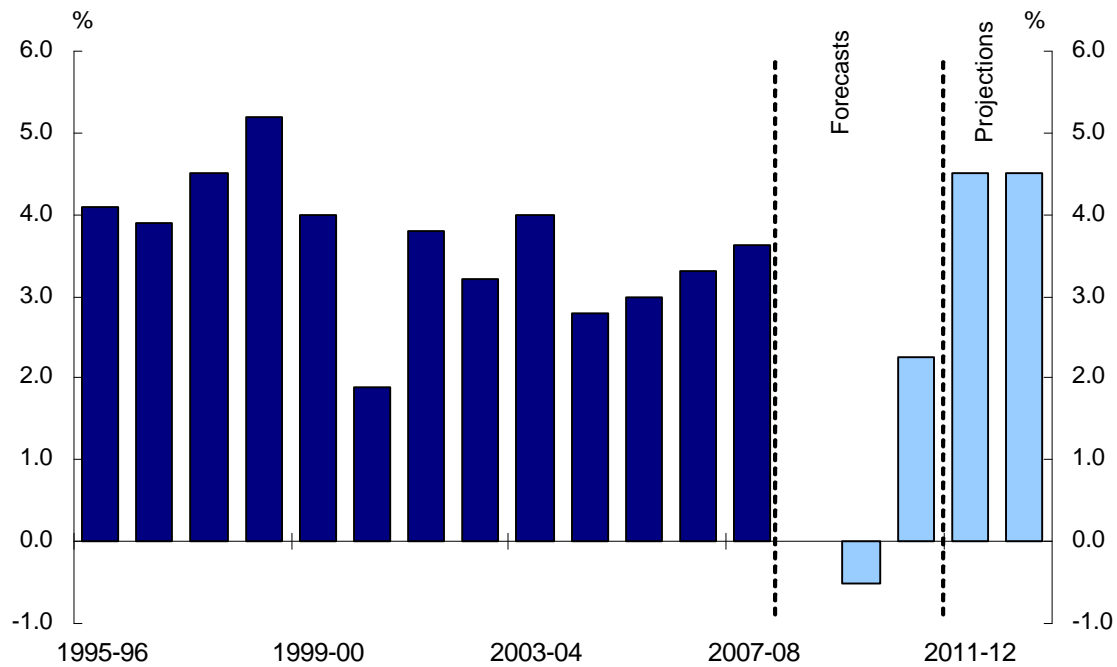
17. Treasury now concedes that it is 'inevitable' that the economy will enter recession:

The global economy is experiencing the sharpest synchronised downturn since the Great Depression, and is expected to contract in 2009 for the first time in six decades. The magnitude and speed of transmission of the global recession means that a recession in Australia has become inevitable.<sup>3</sup>

18. Economic activity is expected to stall in 2008-09 before contracting by  $-\frac{1}{2}$  per cent in 2009-10, driven in large measure by a forecast collapse in business investment. Moreover, it is anticipated the recovery from the downturn will only be gradual, with growth forecast below trend at  $2\frac{1}{4}$  per cent in 2010-11.
19. It is important to note that, not only is the recovery forecast to be gradual over a period of years, but that even on those official forecasts there is no recovery in the 2009-10 year that is relevant for the purposes of the current wage review being conducted by the Australian Fair Pay Commission.

<sup>3</sup> Treasury, *Budget 2009-10: Budget Strategy and Outlook*, pages 2-3.

### Treasury Real GDP Forecasts



Source: Treasury

20. Beyond the 2010-11 forecast horizon, Treasury assumes the economy will grow at a significantly above trend 4 ½ per cent annual rate in 2011-12 and 2012-13. Projections constitute technical assumptions about long-run growth prospects rather than explicit economic forecasts.
  
21. In the past, Treasury has typically assumed the economy would return to its long-run growth rate of 3 per cent in the forward estimates period. In a significant departure from that past practice, Treasury now assumes that the economy will record growth that is 1 ½ percentage points faster than this rate coming out of the downturn. Those projections are inconsistent with the IMF’s forecasts that the economy will struggle to return to long-run trend growth of 3 per cent by 2014 noted above.

TREASURY, DOMESTIC ECONOMY FORECASTS

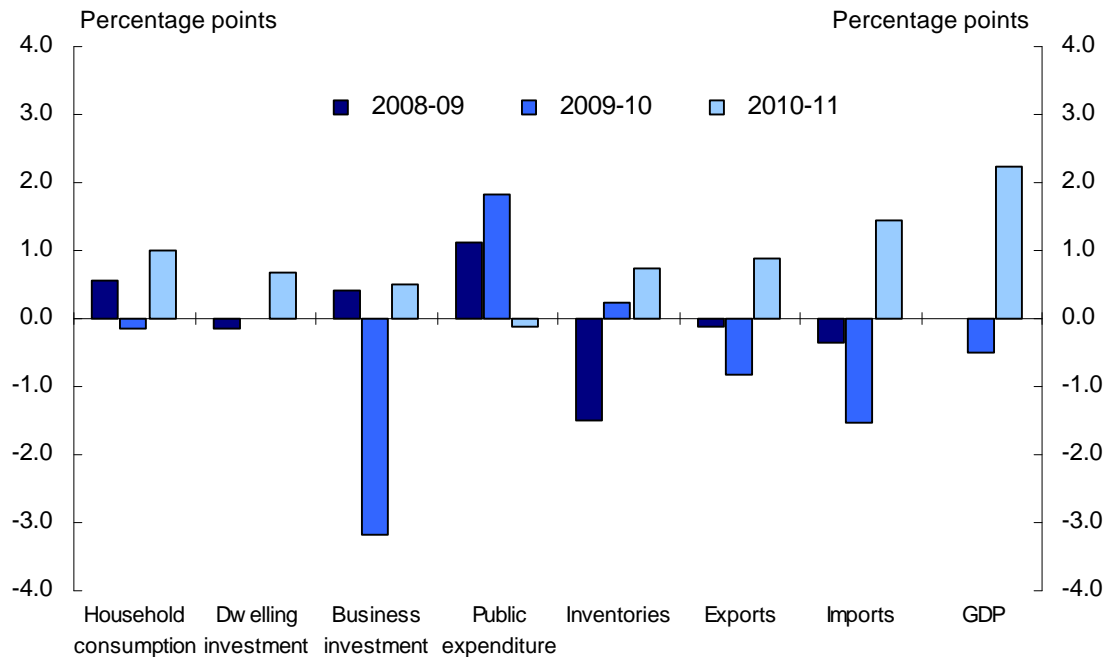
	Outcomes	Estimates	Forecasts	
	2007-08	2008-09	2009-10	2010-11
<b>Demand and Output</b>				
Household consumption	3.7	1	- 1/4	1 3/4
Dwellings	1.6	-2 1/2	0	11 1/2
Business Investment	14.2	2 1/2	-18 1/2	3 1/2
Private Final Demand	5.5	1/2	-4	2 3/4
Public Final Demand	4.6	5	7 3/4	- 1/2
Domestic Final Demand	5.3	1 1/2	-1 1/4	2
Change in Inventories (a)	0.2	-1 1/2	1/4	3/4
Exports	4.3	- 1/2	-4	4 1/2
Imports	12.9	-1 1/2	-6 1/2	6 1/2
Net Exports (a)	-1.9	1/4	3/4	- 1/2
Real GDP	3.6	0	- 1/2	2 1/4
Non-farm	3.6	- 1/4	- 1/2	2 1/4
Farm Product	4.5	13	1	0
<b>Other Selected Measures</b>				
Terms of trade	5.2	8 3/4	-13 1/4	0
Employment (b)	2.4	- 1/4	-1 1/2	1/2
Unemployment Rate (c)	4.2	6	8 1/4	8 1/2
Consumer Price Index (b)	4.5	1 3/4	1 3/4	1 1/2
Wage Price Index (b)	4.1	4 1/4	3 1/4	3 1/4

- (a) contribution to growth
- (b) year-end June quarter
- (c) estimate for June quarter

Source: Treasury

22. The composition of growth is expected to shift markedly in 2009-10 as private sector activity contracts and public final demand deliberately expands in an effort to support growth. Business investment is forecast to slump  $-18 \frac{1}{2}$  per cent in 2009-10 due to the dual impact of the unwinding of the commodity price boom and the effect of the severe global recession on demand and profits. The contraction in business investment alone will subtract in excess of 3 percentage points from economic growth in 2009-10. A tentative recovery is expected in 2010-11, with business investment forecast to rise by  $3 \frac{1}{2}$  per cent.
  
23. Household consumption is seen declining by  $-\frac{1}{2}$  per cent in 2009-10, having been adversely affected by a sharp drop in household wealth and with falling employment curtailing aggregate spending. A downturn in our major trading partners is expected to result in a -4 per cent decline in exports in 2009-10 although a sharper decline in imports, -6 per cent, will lead to net exports contributing  $\frac{3}{4}$  of a percentage point to growth.

### Composition of Growth



Source: Treasury

#### 1.5.1 One million unemployed by mid-2011

24. The effect on the labour market of the economy entering recession is expected to be strongly negative. The outlook for both employment and the unemployment rate has deteriorated significantly as a result of the downgrade of the economic growth forecasts. Treasury is now expecting a substantial loss of employment over the forecast horizon with the unemployment rate expected to hit 8 ½ per cent in mid-2011, consistent with one million unemployed.

25. Treasury note that:

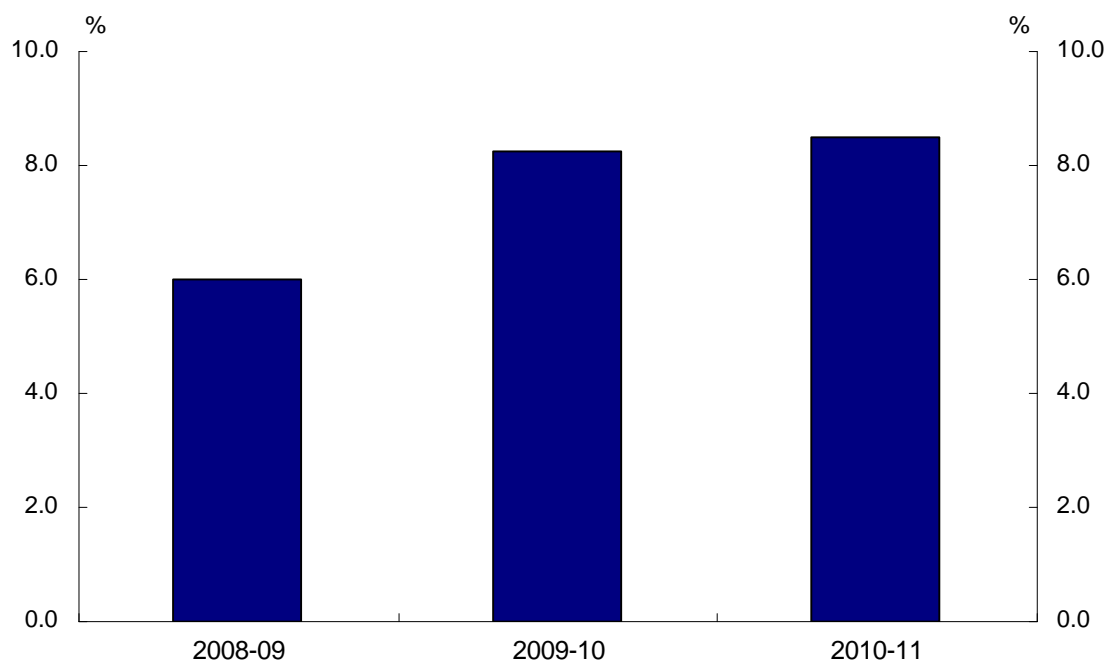
The slowdown in the domestic economy will have unavoidable consequences for the labour market. Employment is expected to contract over 2009-10 before gradually strengthening over 2010-11. The unemployment rate will continue to rise over the forecast period, peaking at 8½ per cent in 2010-11.<sup>4</sup>

26. Taking the most recent employment level data for April 2009 as the starting point, Treasury is forecasting the economy will shed in excess of 200,000 jobs by mid-2010. As a result of both the aggregate

<sup>4</sup> Treasury, *Budget 2009-10: Budget Strategy and Outlook*, page 2-3.

loss of employment and an increase in size of the labour force, the number of unemployed is forecast to rise by more than 300,000 over this same period before pushing still higher by mid-2011. An unemployment rate of 8 ½ per cent in the June quarter of 2011 is consistent with roughly one million people unemployed, an additional 400,000 more unemployed compared to current levels.

### Unemployment Rate Forecasts



Source: Treasury

### 1.5.2 Inflation forecast to moderate further

27. The contraction in economic activity and the easing in demand pressures is expected to see inflation moderate further. Treasury forecast the headline rate of inflation slowing to 1 ¾ per cent in year-end terms over the twelve months to the June quarter 2010. A sluggish economic recovery in 2010-11 will see inflation ease further to just 1 ½ per cent over the four quarters to June 2011. Wages growth and the upward pressure it puts on inflation are forecast to moderate in line with the deterioration in labour market conditions.

## 1.6 ACCI BUSINESS SURVEYS AT RECORD LOWS

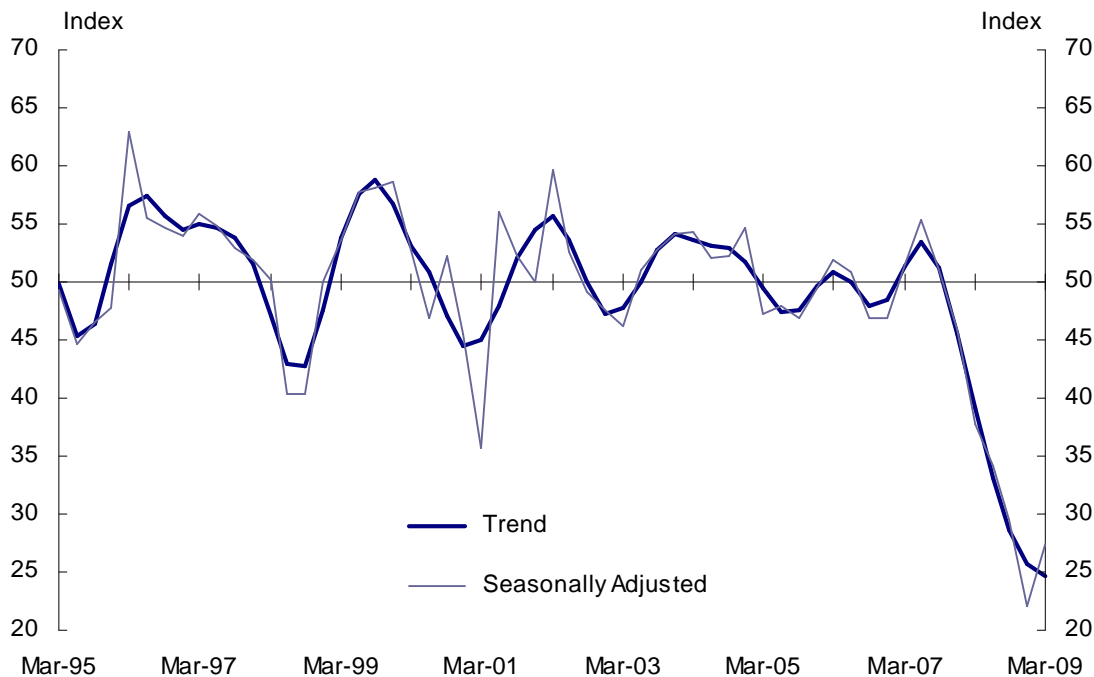
28. ACCI provided evidence on the state of trading conditions from a range of our quarterly business surveys in our initial submission to

the Commission. Since that point updated readings on two of those surveys show business conditions continuing to deteriorate in the March quarter 2009. Data for the *Commonwealth Bank-ACCI Business Expectations Survey* and the *Survey of Investor Confidence* revealed all indicators in each survey hitting record lows in March.

### 1.6.1 Commonwealth Bank-ACCI Business Expectations Survey

- 29. The *Commonwealth Bank-ACCI Business Expectations Survey* results for the March quarter were released in early May and showed business conditions are extremely poor. In trend terms, all indices declined in the quarter and all posted new historic lows.
- 30. The index on *Expected Economic Performance* edged 1 point lower to 24.7 in trend terms in March 2009, having declined now for the past seven quarters after peaking in the June quarter of 2007. Since the onset of the global financial crisis in mid-2007 the index has fallen 28.8 points and is now mired well below its long-run average of 49.5. While there are some signs of the index stabilising it nevertheless remains deep in negative territory and signals a substantial contraction in economic activity in the first three months of 2009.

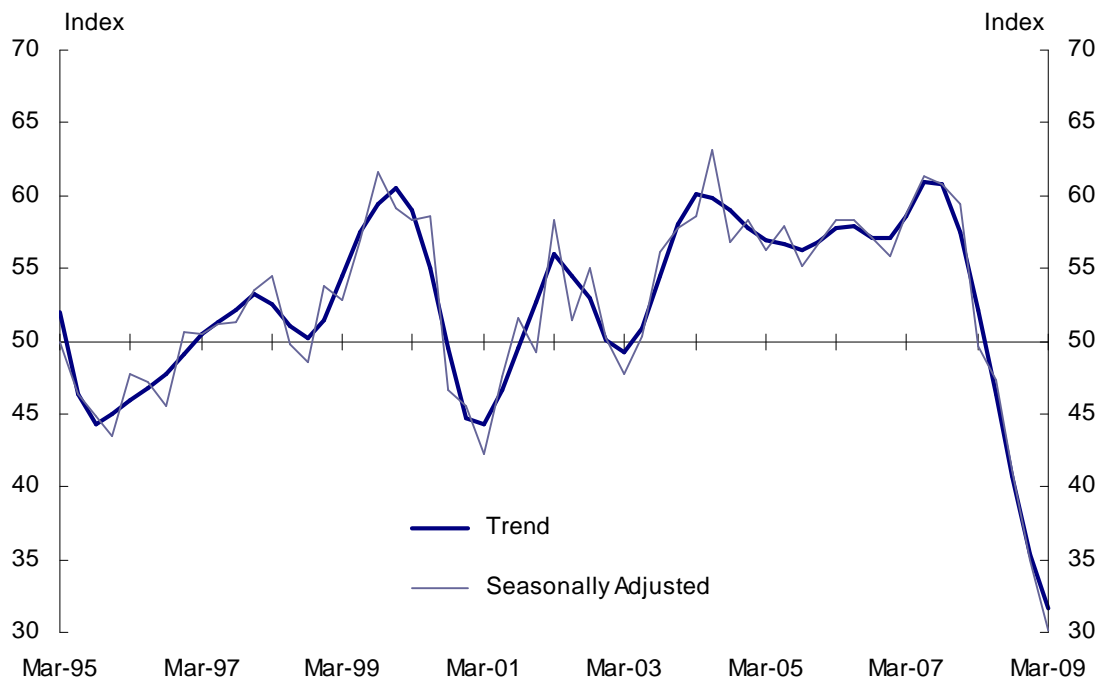
#### Expected Economic Performance



Source: Commonwealth Bank-ACCI Business Expectations Survey

31. The trend *General Business Conditions* index also pushed lower in March 2009, dropping -3.8 points to 31.7. After peaking at 60.9 in the June quarter of 2007 the trend index has fallen for seven consecutive quarters and at 31.7 is now a staggering 29.2 points below that peak. In excess of 54 per cent of respondents reported their own business conditions deteriorating in the March quarter, with only 12.7 per cent registering an improvement.

### General Business Conditions



Source: Commonwealth Bank-ACCI Business Expectations Survey

32. The breadth and depth of the economic downturn currently affecting business is underscored by the fact that every single indicator in the survey hit a fresh record low in March. Businesses reported only four of eleven quarterly indicators are expected to improve in the June quarter, and even then only marginally. Expectations for the remaining seven indicators are for a substantial further deterioration in June. The employment indicator in the survey has declined now for eight successive quarters and is 14 points below its long-run level at 38.4. The survey is sending a strong signal that business are cutting back on employment and overtime in the face of the worst business conditions on record.

## Commonwealth Bank-ACCI Business Expectations Survey

### Results at a Glance

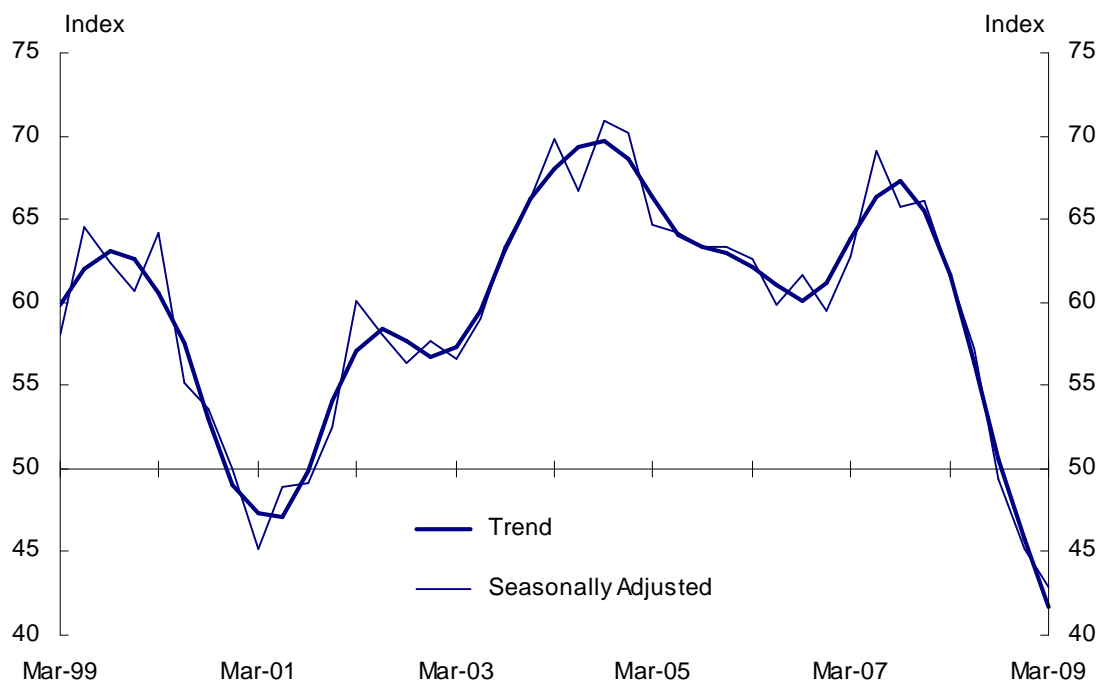
	5 year average	Mar 2008	Dec 2008	Mar 2009	Change	June 2009
Expected Economic Performance (a)	45.5	39.2	25.8	24.7	Down	-
General Business Conditions	54.2	52.2	35.4	31.7	Down	31.9
Sales Revenue	57.8	57.0	41.9	37.0	Down	38.3
Export Sales	52.1	52.0	45.7	43.9	Down	40.4
Wage Growth	68.9	73.2	60.3	54.5	Down	51.2
Non-Wage Labour Costs	66.6	71.4	59.7	52.9	Down	50.3
Selling Prices	56.4	59.1	50.2	45.5	Down	45.1
Profits	48.4	45.6	34.3	33.1	Down	34.6
Employment	55.8	54.7	43.5	38.4	Down	37.5
Overtime Utilisation	52.2	53.5	41.3	35.2	Down	32.7
Investment in Buildings and Structures	51.9	52.0	41.8	35.9	Down	38.7
Investment in Plant and Equipment	56.8	57.5	43.3	39.0	Down	36.4

Source: Commonwealth Bank-ACCI Business Expectations Survey

### 1.6.2 ACCI Survey of Investor Confidence

33. The ACCI *Survey of Investor Confidence* results for the March quarter of 2009 were released in early April. All indicators on own business conditions deteriorated in the quarter and posted new record lows. The one exception was the level of expected capacity in relation to demand which rose to a new high as the sales index hit an historic low, but this also effectively signals a deterioration in underlying business conditions.

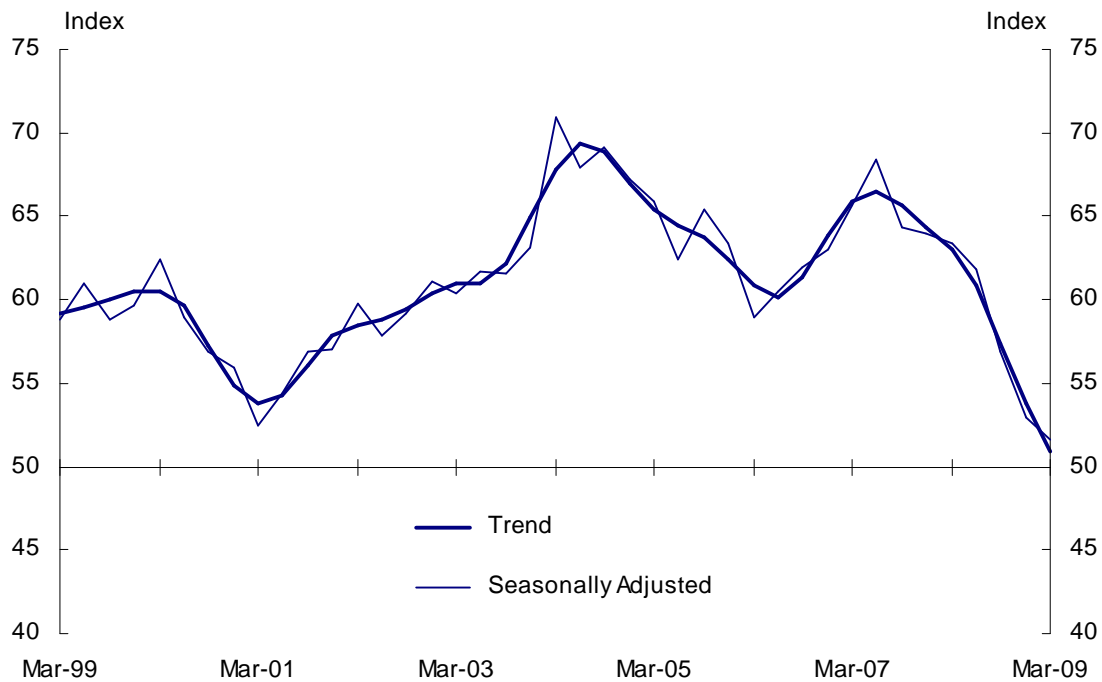
#### National Economic Conditions



Source: Survey of Investor Confidence

34. The *National Economic Conditions* index eased 4.1 points in the March quarter and has fallen now for six consecutive quarters. At 41.7 the index is now 16.9 points below its long-run average and shows business are reporting economic conditions are the most difficult they have seen in the history of the survey.

**Own Business Conditions**



Source: Survey of Investor Confidence

35. The *Own Business Conditions* index hit a record low of 50.9 in the March 2009 quarter and while remaining only just inside positive territory the reading is almost 10 points below its long-run average of 60.6. After peaking at 66.5 in mid-2007 the index has fallen for seven successive quarters and even though trading conditions are the worst on record, business are expecting them to deteriorate yet further.
36. These latest survey results together with the 2009-10 Budget forecasts provide further evidence in favour of the case submitted by ACCI in our principal submission and in evidence on 23 April. That is, sales, profits and business conditions are at generational lows, with both business expectations and official forecasts not factoring in a turnaround of any significance during the forthcoming year. In

these circumstances, the case for the Australian Fair Pay Commission declining to increase Pay Scales at the risk of hindering employment and economic activity is overwhelming.