AUSTRALIAN INDUSTRY GROUP SUBMISSION

Fair Work Commission

Annual Wage Review 2024-25

Initial Submission

4 April 2025

Table of contents

1. Introduction

The Australian Industry Group urges the Panel to be conscious of the changing balance of pressures in the Australian economy when determining the minimum and award wages during the 2025 Annual Wage Review (AWR).

In seeking to provide a fair safety net of minimum wages the Panel must strike a fair balance between the equally important and inherently interconnected interests of employees and employers. In the past three AWRs, achieving this balance has proven an especially challenging task, due to the co-occurrence of high inflation and wages growth alongside weakening business conditions and poor productivity performance.

However, in 2025 the balance of these pressures in the Australian economy has shifted – with inflation and wages significantly moderating, while business conditions and productivity have continued to decline. Current economic settings therefore warrant a significantly lower increase to minimum and award wages than those contained in recent decisions.

In advancing this submission, the Australian Industry Group points to five lines of evidence supporting the need for a lower increase in this year's AWR:

The Australian economy continued to deteriorate over the last year, with 2024 marking the longest period of low growth in Australia since the recession of the early 1990s. Household consumption remains soft, investment growth fell considerably, while industry output continued to weaken with particular difficulties in industrial and consumer-oriented sectors. As private sector activity declined the economy has become increasingly dependent on government spending, with a rise in public demand during 2024 proving critical in preventing the economy from falling into near-recession conditions. Official forecasts point to only a modest recovery across 2025, with a return to normal growth conditions not expected until mid-2026.

After several years of elevated price pressures inflation moderated significantly in 2024, with the CPI falling from 4.0% to 2.4% over the year. This reflected easing global inflationary pressures, further slowing Australian growth, and the RBA's maintenance of restrictive monetary policy. It was also supported by energy bill subsidies for households and small businesses, which are estimated to have contributed 0.6 percentage points to the fall in CPI. The inflation outlook is subject to considerable uncertainty due to domestic and global policy factors, but from a cost-of-living perspective warrants a much lower increase to minimum and award wages than in previous years.

Business financial performance weakened with the slowing economy in 2024. Gross operating profits declined in aggregate and for most industries, with particularly poor results for industrial and consumer sectors as well as small businesses. However, wage pressures have remained significant, putting downward pressure on operating margins and profitability. The cumulative effect of recent high AWR decisions also weighed on business, with several award-reliant industries showing evidence of falling financial performance and employment. Business capacity to pay award and minimum wages increases is at its lowest point in several years.

The labour market remains a singular positive in Australia's economic performance, with headline indicators continuing to show resilience at levels at or near full employment. However, most of this resilience is owed to a dramatic surge in employment in government-supported (public and private non-market) industries during 2024. This obscured a marked deterioration in the private market sector, where most industries were weak and several showed contracting employment. This reveals that underlying conditions in the private sector labour market are far weaker than headline indicators suggest.

Productivity performance in the Australian economy also remained poor. After several years of volatility due to pandemic-induced distortions, it was anticipated that productivity growth would by now be returning towards its long-run trend. This has not proven the case, with all measures of productivity showing negligible growth in 2023-

24, and a decline during the second half of 2024. A return to trend productivity growth – which was identified in the previous two Panel decisions as a precondition for real increases in award wages – has demonstrably yet to occur.

When considered together, these five factors point to the need for a significant moderation in the increase in minimum and award wages in this year's AWR compared to previous recent decisions.

There is also a need to secure the significant improvements in access to employment seen over recent years. Labour market resilience has ensured participation is at record highs while unemployment and under-employment remain very low. Indicators for female and youth participation are also much stronger than historic levels. If this resilience is jeopardised by disemployment resulting from a more than moderate increases to minimum wages, it will lead to reduced access to employment that particularly harms vulnerable cohorts.

We note that previous AWR processes have raised the prospects of a 'catchup' decision that would restore the real value of minimum and award wages to their level prior to the inflationary outbreak in 2021. Panel decisions in 2023 and 2024 indicated that economic and productivity conditions did not support such an outcome at those times. We point to the continued deterioration in economic and productivity performance over the last year to argue that present conditions do not support such an outcome in the 2025 AWR.

The submission that follows addresses these relevant considerations that should guide the Panel. Having regard to the aforementioned factors, our view is that **any increase in award and minimum wages should not exceed 2.6 per cent**. Given current rates of inflation this would deliver a modest increase in real wages for employees receiving the AWR, while recognising the weak economic conditions and reduced capacity to pay affecting business that increases the likelihood of negative impacts on employment from a higher decision.

Ai Group's proposed increase may be adjusted in further submissions made during the AWR, depending on changing economic conditions as revealed in subsequent data releases, particularly with relation to inflation and employment indicators.

We finally note that the announcement of new tariff measures by the US government on April 2 introduces a considerable degree of uncertainty to Australia's economic outlook. These are the most significant changes in the global trade system in a century. They will have complex, volatile and differential effects on industries, inflation, employment and more for our highly trade-exposed economy. At the time of this submission, the impacts on the Australian economy are yet to be fully analysed, let alone felt. As additional information on expected and actual impacts becomes available, Ai Group will address this in subsequent submissions to this year's AWR.

2. Statutory considerations

The FW Act requires that the Commission conduct an AWR each financial year. The AWR involves a review of the national minimum wage and modern award wages.

In conducting an AWR, the Commission is to be guided by various relevant statutory considerations. These include the objects of the FW Act, the minimum wages objective and the modern awards objective. The object of the FW Act is set out in s.3: (emphasis added)

> (3) The object of this Act is to provide a balanced framework for cooperative and productive workplace relations that promotes national economic prosperity and social inclusion for all Australians by:
>
> (a) providing workplace relations laws that are fair to working Australians, promote job security and gender equality, are flexible for businesses, promote productivity and economic growth for Australia's future economic prosperity and take into account Australia's international labour obligations; and
>
> (b) ensuring a guaranteed safety net of fair, relevant and enforceable minimum terms and conditions through the National Employment Standards, modern awards and national minimum wage orders; and
>
> (c) ensuring that the guaranteed safety net of fair, relevant and enforceable minimum wages and conditions can no longer be undermined by the making of statutory individual employment agreements of any kind given that such agreements can never be part of a fair workplace relations system; and
>
> (d) assisting employees to balance their work and family responsibilities by providing for flexible working arrangements; and
>
> (e) enabling fairness and representation at work and the prevention of discrimination by recognising the right to freedom of association and the right to be represented, protecting against unfair treatment and discrimination, providing accessible and effective procedures to resolve grievances and disputes and providing effective compliance mechanisms; and
>
> (f) achieving productivity and fairness through an emphasis on enterprise-level collective bargaining underpinned by simple good faith bargaining obligations and clear rules governing industrial action; and
>
> (g) acknowledging the special circumstances of small and medium-sized businesses.

The objects of the FW Act state that it is directed towards, *inter alia,* providing a *'balanced'* framework, that promotes *'national economic prosperity'* by providing laws that *'promote economic growth'*, ensuring a *'fair'* safety net, emphasising *'enterprise-level collective bargaining'* and recognising the *'special circumstances of small and medium-sized businesses'*. The 2024 AWR should be conducted in a way that is consistent with these objects.

The minimum wages objective is central to the conduct of an AWR. It is in the following terms, at s.284(1) of the FW Act: (emphasis added)

> (1) The FWC must establish and maintain a safety net of fair minimum wages, taking into account:
>
> (a) the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and

(aa) the need to achieve gender equality, including by ensuring equal remuneration for work of equal or comparable value, eliminating gender-based undervaluation of work and addressing gender pay gaps; and

(b) promoting social inclusion through increased workforce participation; and

(c) relative living standards and the needs of the low paid; and

(e) providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.

The minimum wages objective applies to the making of a national minimum wage order, as required by s.285(2)(a)(ii) of the FW Act.[1] It also applies to the review of wages in modern awards.[2]

The modern awards objective is not expressly relevant to the making of a national minimum wage order.[3] It is, however, relevant to the review of wages in modern awards.[4]

The modern awards objective is as follows: (emphasis added)

> The FWC must ensure that modern awards, together with the National Employment Standards, provide a fair and relevant minimum safety net of terms and conditions, taking into account:
>
> (a) relative living standards and the needs of the low paid; and
>
> (aa) the need to improve access to secure work across the economy; and
>
> (ab) the need to achieve gender equality in the workplace by ensuring equal remuneration for work of equal or comparable value, eliminating gender-based undervaluation of work and providing workplace conditions that facilitate women's full economic participation; and
>
> (b) <u>the need to encourage collective bargaining</u>; and
>
> (c) the need to promote social inclusion through <u>increased workforce participation</u>; and
>
> (d) the need to promote flexible modern work practices and the efficient and productive performance of work; and
>
> (da) the need to provide additional remuneration for:
>
> (i) employees working overtime; or
>
> (ii) employees working unsocial, irregular or unpredictable hours; or
>
> (iii) employees working on weekends or public holidays; or
>
> (iv) employees working shifts; and
>
> (f) <u>the likely impact of any exercise of modern award powers on business, including on productivity, employment costs</u> and <u>the regulatory burden;</u> and
>
> (g) the need to ensure a simple, easy to understand, stable and sustainable modern award system for Australia that avoids unnecessary overlap of modern awards; and

[1] Section 284(2)(a) of the FW Act.
[2] Section 284(2)(b) of the FW Act.
[3] *Annual Wage Review 2021 – 22* [2022] FWCFB 3500 at [6].
[4] Section 134(2)(b) of the FW Act.

(h) <u>the likely impact of any exercise of modern award powers on employment growth, inflation and the sustainability, performance and competitiveness of the national economy.</u>

Clearly, the modern awards objective requires a consideration of various matters relevant to employers, employees and the national economy.

In prevision decisions concerning AWRs, the Commission has made various observations about the statutory criteria that guide the Panel's decision in an AWR, which remain relevant. In particular:

- Generally speaking, differently constituted Panels should evaluate the evidence and submissions before them in accordance with a consistent and stable interpretation of the legislative framework. Justice requires consistent decision making unless a difference can be articulated and applied.[5]

- The statutory tasks in s.134 and s.284 involve an *'evaluative exercise'* which is informed by the considerations in s.134(1)(a)–(h) and s.284(1)(a)–(e) of the Act, as well as the object in s.3.[6]

- The matters listed in s.134 and s.284 are broadly expressed and 'do not necessarily exhaust the matters which the Panel might properly consider to be relevant'.[7]

- No particular primacy is to be given to any of the specific factors that the Panel must take into account.[8]

- There is often a degree of tension between the economic and social considerations which the Panel must take into account. A substantial wage increase may better address the needs of the low paid and improve the living standards of award-reliant employees relative to those employees who are not award reliant; but it may, depending upon the prevailing economic circumstances, adversely affect the performance and competitiveness of the national economy. A substantial wage increase may reduce the capacity to employ the marginalised and hence impact on employment growth or add to inflationary pressures.[9]

- The range of considerations that the Panel is required to take into account calls for the exercise of broad judgment rather than a mechanistic or decision rule approach to wage fixation. It is on this basis that some past AWR decisions have rejected proposals for the adoption of real wage maintenance; a medium-term target for the NMW; and the variation of modern award minimum wages based on trends in market wages.[10]

- The Panel's task is to consider relevant statutory matters in the context of the prevailing economic and social environment.[11]

- The considerations which the Panel is required to take into account do not generally set a particular standard against which a modern award or the *'safety net of fair minimum wages'* can be evaluated; many of them may be characterised as broad social objectives.[12]

- There is no justification to increase the NMW by a higher rate than modern award minimum wages. To do so would create a significant risk of disemployment effects—thus putting low-paid workers at risk of

[5] *Annual Wage Review 2021 – 22* [2022] FWCFB 3500 at [119].
[6] *Annual Wage Review 2022 – 23* [2023] FWCFB 3500 at [22].
[7] *Annual Wage Review 2022 – 23* [2023] FWCFB 3500 at [22].
[8] *Annual Wage Review 2021 – 22* [2022] FWCFB 3500 at [8].
[9] *Annual Wage Review 2021 – 22* [2022] FWCFB 3500 at [161].
[10] *Annual Wage Review 2017 – 18* [2018] FWCFB 3500 at [44].
[11] *Annual Wage Review 2021 – 22* [2022] FWCFB 3500 at [4].
[12] *Annual Wage Review 2017 – 18* [2018] FWCFB 3500 at [15].

unemployment and poverty. Nor would it be fair to those on higher modern award minimum wages as it would erode the recognition of their higher skill and relative *'work value'*.[13]

- The notion of *'fairness'* in the modern awards objective and minimum wages objective includes the perspectives of employers and employees.[14]

- There are differences in the expression of the economic considerations that the Panel is required to take into account under the modern awards objective and the minimum wages objective. Nonetheless, the underlying intention of the various economic considerations referred to in s.134 and s.284 is that the Panel takes into account the effect of its decisions on national economic prosperity and in so doing gives particular emphasis to the economic indicators specifically mentioned in the relevant statutory provisions.[15]

- In order to identify *'low paid'* employees, the Commission has adopted a threshold of two-thirds of median adult full-time ordinary earnings as an illustrative benchmark.[16]

- The relative living standards of employees are affected by the level of wages that they earn, the hours they work, tax-transfer payments and the circumstances of the households in which they live. It is therefore necessary to have regard to a range of measures applying to the relative living standards of the low paid and the household circumstances in which they live.[17]

- Even though the '*need to encourage collective bargaining'* is not an element of the minimum wages objective, it is one of the objects of the FW Act and, therefore, it is appropriate that it is considered in relation to the making of the national minimum wage order.[18]

- The Panel's decision-making process should be as transparent as possible and should disclose the factors which are most relevant in a particular year.[19]

[13] *Annual Wage Review 2017 – 18* [2018] FWCFB 3500 at [105]; noting that in the 2023 AWR, the Commission adopted a different approach, by aligning the NMW to the C13 rate.
[14] *Annual Wage Review 2021 – 22* [2022] FWCFB 3500 at [18].
[15] *Annual Wage Review 2017 – 18* [2018] FWCFB 3500 at [10].
[16] *Annual Wage Review 2021 – 22* [2022] FWCFB 3500 at [70].
[17] *Annual Wage Review 2015 – 16* [2016] FWCFB 3500 at [397].
[18] *Annual Wage Review 2021 – 22* [2022] FWCFB 3500 at [80].
[19] *Annual Wage Review 2021 – 22* [2022] FWCFB 3500 at [120].

3. The state of the economy and outlook

The performance of the Australian economy continued to deteriorate across 2024. Economic growth was weak throughout the year, marking the longest period of low growth in Australia since the recession of the early 1990s.

Household spending remained weak in spite of cost-of-living assistance measures in the 2024-25 federal budget. Investment growth fell considerably, while industry output continued to weaken with particular difficulties in industrial and consumer-oriented sectors. As the private sector weakens the economy has become increasingly dependent on government spending, with public demand accounting for the majority of growth over 2024.

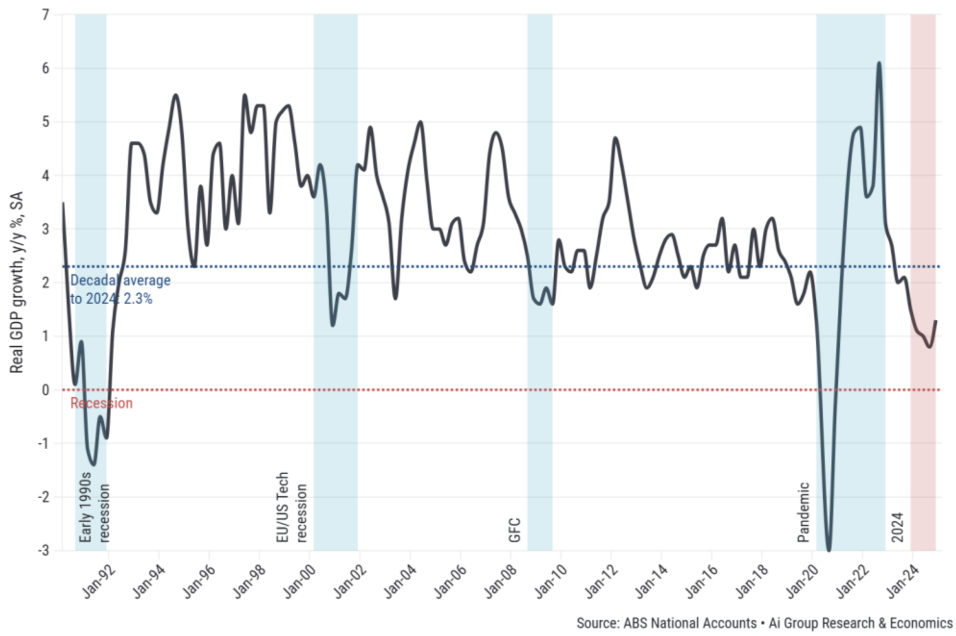
Inflation continued to moderate as the economy slowed and monetary policy remained restrictive. However, much of the disinflation effect was due to price-suppressing energy subsidies in the 2024-25 budget. Measures which remove this effect shows underlying inflation remains too high and continues to warrant restrictive monetary policy.

While the Australian economy is likely to strengthen over the coming year, it will take some time for a full recovery. Forecasts do not expect Australia to return to its average growth conditions until mid-2026, with dependence on government spending as a growth driver to continue. The outlook is also subject to significant downside risk emanating from global and domestic risks, such that a future recovery path is far from assured.

3.1 Overall performance of the Australian economy

Australia's economic performance has continued to decline throughout 2024. Following a post-pandemic rebound in 2022, economic growth has been well-below the long-run average. Real GDP growth was 1.3% p.a. in the December quarter of 2024, having spent most of the year at or below 1.0% (Chart 1). This was well below the decadal average of 2.3%, and outside of the pandemic the longest period of sustained low growth since the recession of the early 1990s. Economic conditions currently are weaker than during both the US/EU recession of the early 2000s and the Global Financial Crisis of 2008-09.

Chart 1: Australian GDP growth, 1990-2024



Headline growth figures obscure the extent of weakness in the private economy. As the economy has slowed, it has also become reliant on increasing government spending to prop up economic activity. Private final demand – a measure of demand from businesses and households - grew by only 0.9% over 2024, while public demand (from governments) increased by 4.6%[20]. As a result, public demand accounted for the majority of the domestic contribution to GDP growth during the year (Chart 2). This increase in public demand was critical in preventing the economy falling into near-recession conditions; but also reveals that underlying conditions in the private economy are far weaker than headline growth figures suggest.

Chart 2: Domestic contributions to GDP growth, 2022-2024

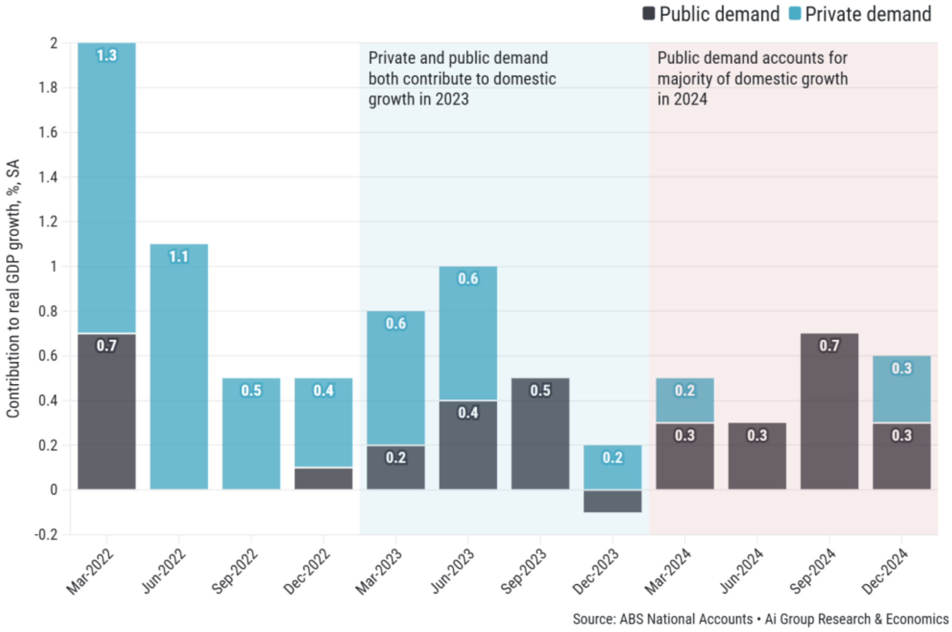
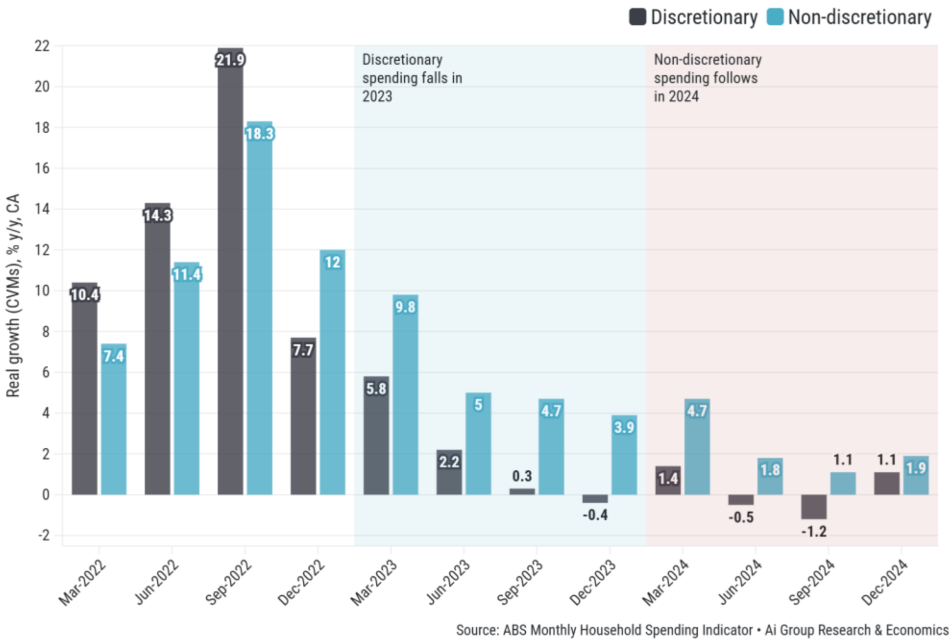


Chart 3: Growth in real household spending, 2022-2024



[20] ABS National Accounts, series A124830484V and A124830485W

3.2 Household spending dynamics

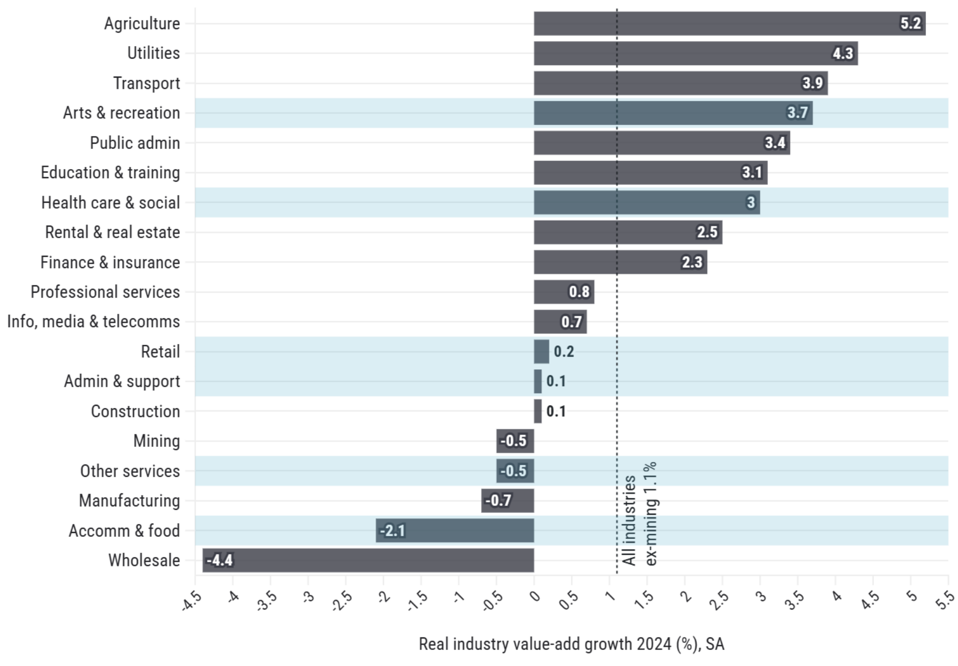
Household spending has continued to be weak as the economy has slowed. In the December quarter of 2024, real household spending increased 1.5% on an annualised basis, slightly weaker than than the 1.6% a year prior. However, the composition of spending changed in 2024. Where low growth in 2023 was largely due to contracting discretionary spending, during 2024 both discretionary and non-discretionary types were soft (chart 3). This points to weakness in household spending becoming more generalised and entrenched over the last year.

Several policies announced in the 2024-25 Federal budget – including the reprofiling of the Stage 3 income tax cuts, transfer payment indexations and energy bill relief – were expected to drive an increase in household spending in the second half of 2024. While this has eventuated, the effect has been relatively weak and has not yet produced a material turnaround in household spending growth.

3.3 Industry output and investment performance

Industry performance deteriorated with the weakening economy in 2024, albeit pronounced differences between industries. Overall, real industry value-add (exclusive of mining) grew by 1.1% in 2024. This is a noticeable slowdown from the rate of 2.5% in 2023 and 4.3% in 2022 (Chart 4).

Chart 4: Growth in gross value added by industry, 2024



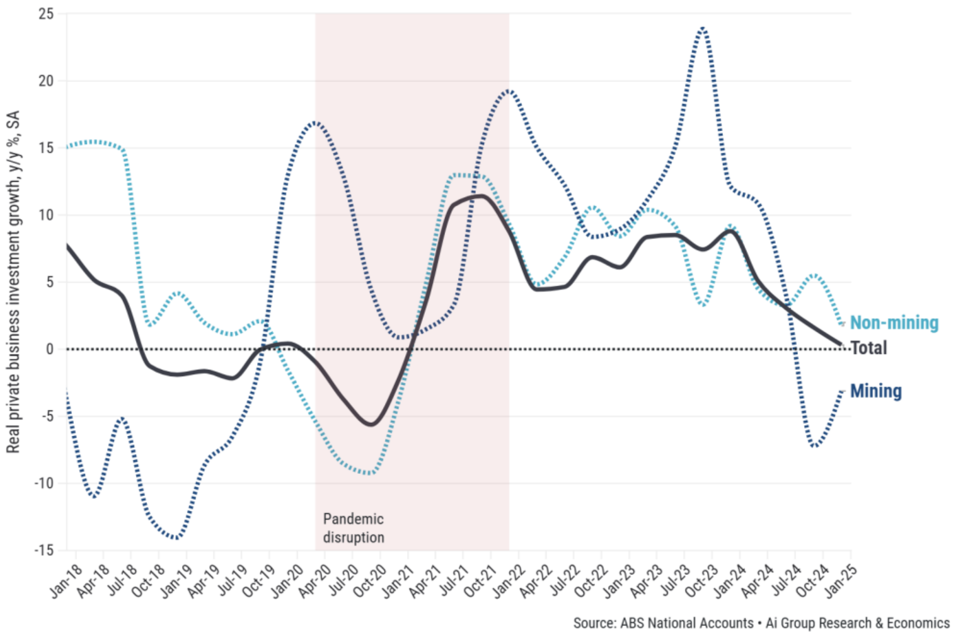
Source: ABS National Accounts • Ai Group Research & Economics
Highlights denote award-reliant (>25%) industries

Amongst the stronger performers were the non-market industries of public administration, education and healthcare & social, which all benefit from increasing government spending to post growth rates more than three times the all-industry average. Transport and utilities both benefited from easing energy prices to post stronger growth during the year.

Weaker results were seen in many industrial sectors, with construction posting negligible growth while manufacturing and wholesale trade both contracted during 2024. Several consumer facing industries – including retail, accommodation and food, administrative services and other services – also showed no growth or contraction as a result of weak consumer spending. Of the six award reliant industries, only healthcare and social and arts & recreation posted strong growth figures, with the remaining four all facing weak business conditions.

There has also been a notable slowing in rates of business investment (Chart 5). Private business investment has stalled across 2024, growing by a negligible 0.3% p.a. in the December quarter of 2024. While much of this was due to a rapid decline in mining investment, a similar pattern has occurred for the non-mining sector, where investment growth rates fell from 9.2% at the end of 2023 to only 1.8% by late 2024. This reflects the general weakness in the economy as businesses adjust their investment intentions downwards in the face of poor market conditions.

Chart 5: Private business investment growth rates, 2018-2024



3.4 Inflation dynamics and expected future path

After several years of elevated pressures, inflation continued to ease in 2024. Across the year the Consumer Price Index fell from 4.0% to 2.4% p.a., while the Producer Price Index declined from 4.2% to 3.2% p.a. (Chart 6). These reductions in inflation measures reflect moderating global inflationary pressures, further slowing Australian growth, and the RBA's maintenance of restrictive monetary policy.

However, an additional disinflationary factor was the introduction of energy bill subsidies for households and small businesses in the 2024-25 federal budget. These were supplemented by similar subsidies from the Queensland and Western Australian state governments. These policies had the effect of artificially suppressing energy prices and thus measured CPI. Treasury estimates that these federal and state subsidies have suppressed CPI by 0.6 percentage points during their period of operation in the 2024-25 financial year[21].

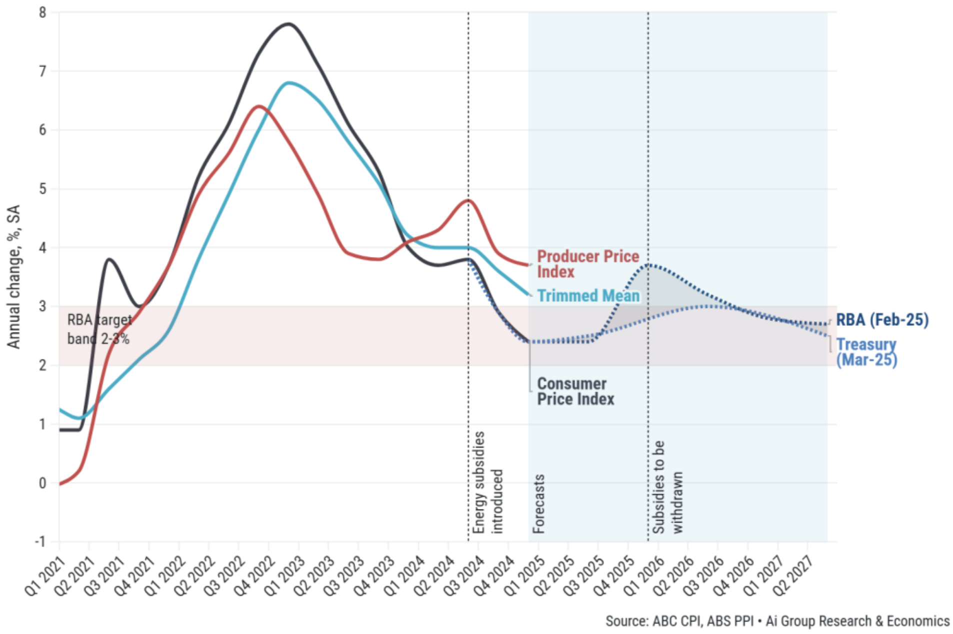
The Trimmed Mean Inflation (TMI) measure – whose methodology removes volatile items and excludes the effect of these subsidies – therefore provides a better indicator of underlying consumer inflation for the period from the September quarter of 2024 onwards. Reflecting the distortion of the energy subsidies, the TMI has declined by less than CPI, falling only to 3.2% p.a. by the end of 2024.

Despite this divergence, it is appropriate to continue using CPI as the relevant measure of inflation for the purposes of the 2025 AWR. While the TMI provides a better macroeconomic indicator of underlying inflation in Australia, the CPI continues to measure inflation 'as experienced' by households. CPI is therefore the appropriate baseline on which to measure the real impact of AWR increases to nominal award and minimum wages.

---

[21] Treasury, *Budget 2025-26*, Budget Paper No.1, p. 15.

Chart 6: Australian inflation measures, 2019-2024 and forecasts



The energy subsidies have also introduced greater uncertainty into the inflation outlook for 2025:

- In February 2024, the RBA forecast CPI to rise again to 3.7% in the latter half of 2025, before continuing to moderate back into band in 2026[22]. This forecast was based on the then-valid assumption that energy subsidies terminate at the end of the 2024-25 financial year, removing their suppressive effect and causing inflation to temporarily lift before returning to a downward trajectory.

- In the 2025-26 Budget the Commonwealth announced an extension of the energy subsidies for six months. This will extend their inflation suppressive effect to the end of 2025, making the most recent RBA CPI forecast likely an overestimate. Treasury forecasts issued in March include the effect of the extension, and predict that the energy subsidies will continue to suppress inflation by 0.5 percentage points through to the December 2025 quarter[23].

This effect explains the divergence in current official forecasts of inflation over the next year (Chart 6). Both Treasury and the RBA expect CPI to track at 2.5% until the middle of 2025, after which it rises again in the second half of the year before returning into the target band by late-2026. The RBA expects an earlier and steeper rise than Treasury as its forecasts do not factor in the energy subsidy extension. Nonetheless both forecasts ultimately map the same long-term path: that CPI will be at 2.5% in the second quarter of 2025, and around 3.0% by the end of the 2025-26 financial year.

3.5 Economic forecasts and risks to the outlook

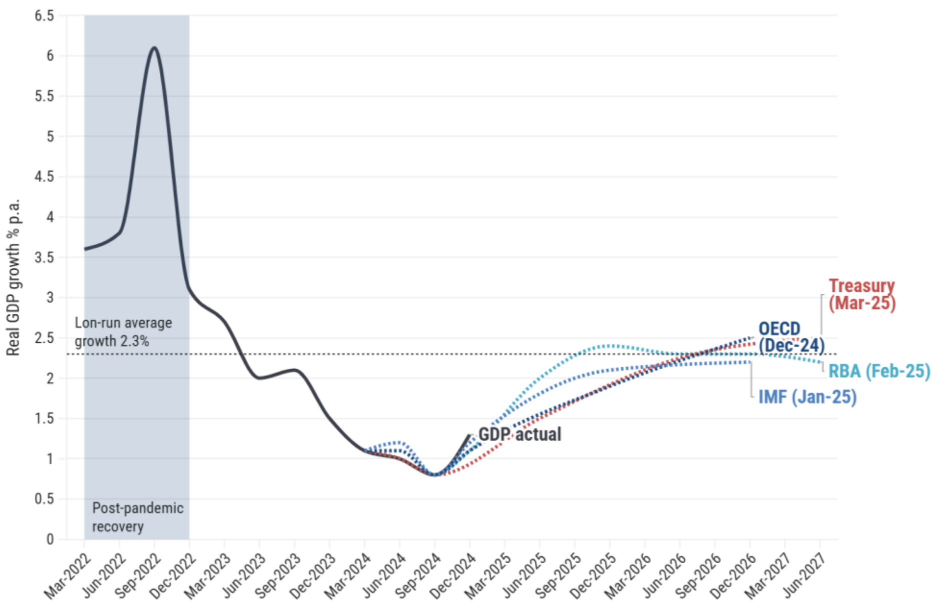
The slight improvement in GDP growth in the December quarter of 2024 suggests the Australian economy may have now turned a corner. However, forecasts suggest it will take until the middle of 2026 for the economy to return to its normal performance (Chart 7). While the precise paths differ, all official forecasters expect real GDP growth of around 2.0% p.a. over 2025, before stabilising around the long-run average (2.3% p.a.) in 2026.

---

[22] RBA, *Statement on Monetary Policy February 2025*, Table 3.1
[23] Treasury, *Budget 2025-26*, Budget Paper No. 1, p. 48.

This expected return to growth conditions also remains dependent on continued high levels of government spending. Both the RBA and Treasury forecast public demand to growth well above GDP over 2025-26 (respectively at 4.3% and 3.0% p.a.)[24]. Business investment and household consumption growth will be more moderate at around half that level. The dependence on government spending that is built into the forecasts points to the continued weakness of the private economy and fragility of the recovery.

Chart 7: Australian GDP growth outlook to 2027



Source: ABS National Accounts, Treasury MYEFO, RBA SoMP, OECD and IMF Economic Outlooks • Ai Group Research & Economics

There remains significant risk to the economic outlook originating from domestic and international sources. Globally, the tariffs currently being announced by the US and their effects remain highly uncertain, as does the impact of any retaliatory measures from its trade partners. Domestically, these forecasts are predicated on further monetary policy easing, which will in turn depend on a continued path of steady disinflation. Heightened volatility in global financial and commodity markets will also impact Australia's future growth path, as will the effects of new trade barriers being erected by the Trump Administration in the US.

The tariffs announced on 2 April by the US government will also have a significant impact on Australia's economic outlook. They will affect economic performance in complex ways, with impacts for industries which export to the US, industries which are exposed to import competition from products displaced from the US market, heightened currency volatility, heightened financial market volatility, and the transmission of inflationary pressures through global supply chains. The response of other governments will also shape the final impacts. At the time of writing it is too early to definitively determine the expected scope of these impacts on economic, employment, financial and other indicators relevant to the AWR.

However, the balance of these risks is to the downside, with weaker-than-forecast performance possible depending on how trade flows adjust, how and global factors are transmitted to the Australian economy. Greater clarity will emerge over the coming weeks as the impacts on industry become better understood. Ai Group will address how this new information will affect Australia's economic outlook in subsequent submissions to the 2025 AWR.

[24] RBA, *Statement on Monetary Policy February 2025*, Table 3.1; Treasury, *Budget 2025-26*, Budget Paper No. 1, Table 2.2.

4. The performance of the labour market

The Australian labour market proved surprisingly resilient despite the continued slowdown in economic growth in 2024. Headline unemployment, underemployment, labour utilisation and job creation all continued steadily, holding the labour market at conditions near full employment. Indicators for female and youth cohorts also remained steady, and most indicators of female participation are at or near their highest levels.

However, this strong performance in headline indicators obscures mounting weakness in the private sector labour market. Labour utilisation in the market sector was flat across the year, with many industrial and consumer-facing industries showing reduced employment levels due to poor business conditions. Wages growth also slowed at the fastest rate since the global financial crisis, reflecting underlying weakness across many industries.

These private sector declines were masked by a dramatic surge in employment in the public sector and non-market private sectors. Employment in these industries is government-supported, and in significant part driven by policy and spending decisions rather than market dynamics. During 2024, these industries saw employment increase by 8.2%, compared to only 0.9% in the private market sector. Had this surge in government-supported employment not occurred, the labour market would have moderated significantly in response to reduced employment generation in the private market sectors.

There is reason to expect this surge in government-supported employment will not continue in 2025, given the deteriorating fiscal position of the federal and many state governments. If it moderates, the weakness in the private market sector will no longer be counter-balanced, and manifest as a decline in overall labour market conditions.

4.1 Headline labour market indicators

Following the disruptions of the pandemic period, Australia's labour market has been very tight. During 2022, the main indicators of unemployment declined to historically low levels (Chart 8), while employment generation surged rapidly (Chart 9). These trends moderated in 2023 as the labour market eased, but in 2024 have held steady at very tight rates. In the year to the December quarter of 2024 in seasonally adjusted terms:

- The unemployment rate rose from 3.9% to 4.0%
- The underemployment rate fell from 6.5% to 6.1%
- The rate of underutilised hours fell from 5.8% to 5.7%
- The number of filled jobs rose by 3.1%
- The number of hours worked rose by 2.5%

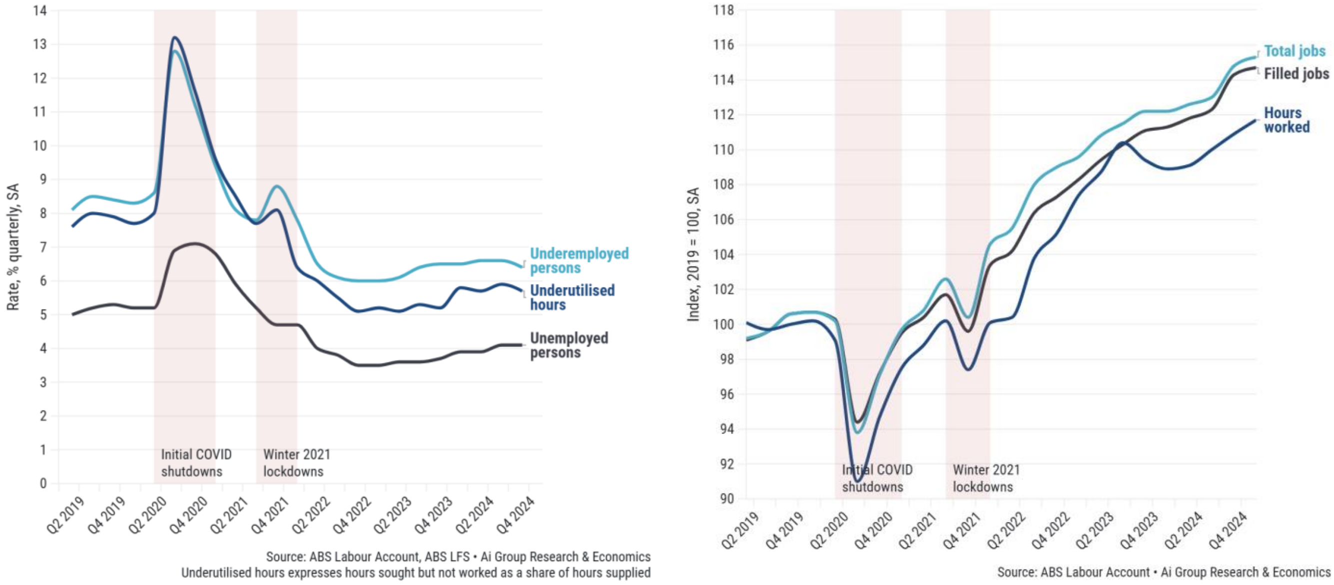
Despite the slowdown in economic conditions, there has been little appreciable weakening of the labour market across 2024. Hours worked fell slightly in early 2024 and showed a lower rate of growth across the year than other headline indicators. But in aggregate, the economy has been able to generate sufficient labour demand to absorb new entrants, for the last two years holding the labour market at levels close to estimates of full employment[25].

Labour market resilience has also extended to the youth and female cohorts. Unemployment rates for these groups fell markedly in the post-pandemic labour market cycle and have held steady at low rates across 2024[26]. Female unemployment has tracked at or slightly under the total population, while youth unemployment has narrowed the

[25] The RBA does not provide a numerical estimate of 'full employment' for the Australian economy. However, modelling based on historical relationships and economic theory estimates an unemployment rate of between 4.0% to 5.5%. The unemployment rate has been at or below the lower bound of these model estimates since early 2022. See RBA, *Statement on Monetary Policy February 2024,* Section 4.
[26] FWC, *Statistical Report – Annual Wage Review 2024-25 Version 1*, Charts 6.5 and 6.12.

gap which existed prior to the pandemic. Most other indicators of female labour force participation – including underemployment, participation, monthly hours worked, and proportion working part-time hours – are at or near their strongest recorded levels[27].

Charts 8 and 9: Headline labour market indicators, 2019-2024



4.2 Private and government-supported labour market dynamics

However, this resilience in headline indicators obscures mounting levels of weakness in the private sector labour market over the last two years. To identify this effect, it is necessary to disaggregate the Australian labour market into three sectors with distinctive patterns of sensitivity to economic trends:

1. The **public sector**, which consists of employment directly for government agencies. Public sector employment is funded by government spending, and changes in employment levels are driven by policy decisions not market dynamics. It accounts for 15% of jobs in Australia in 2024.
2. The **private non-market sector**, which consists of the public administration, healthcare & social and education & training industries. While these services are delivered by private businesses, they are in significant part funded by government spending. Employment in this sector is largely driven by policy decisions with low sensitivity to market dynamics. It accounts for 17% of jobs in Australia.
3. The **private market sector**, which consists of all other private sector industries. These industries receive very limited government funding, with employment outcomes highly sensitive to changes in product and labour market dynamics. It accounts for 68% of jobs in Australia.

The first two groups can be considered 'government-supported' for the purposes of the AWR, insofar as employment outcomes are primarily driven by policy and funding decision rather than market dynamics. Disemployment associated with changes in market conditions and/or wage rates are likely to only affect the private market sector, as the government-supported sectors are insulated from market dynamics and typically able to recover increases wage costs through funding arrangements with governments.

---

[27] FWC, *Statistical Report – Annual Wage Review 2024-25 Version 1*, Charts 6.3, 6.4, 6.6 and 6.8.

When we disaggregate employment indicators by these groups, evidence emerges that surging employment in the government-supported sectors has hidden a material weakening in the private sector labour market.

Data on labour utilisation reveals this trend. In the eighteen months to the end of 2024, hours worked in the Australia economy grew by 1.4% (Chart 10). However, this was entirely due to the non-market sector, where utilisation increased by 6.3%. Utilisation in the market sector declined from a peak in the middle of 2023, and despite a recovery in the latter half of 2024 remains 0.7% below the level of the June quarter of 2023. The market sector has seen slightly contracting employment as the economy has slowed, leaving the non-market sector responsible for all overall employment growth.

Chart 10: Labour utilisation by sector, 2019-2024

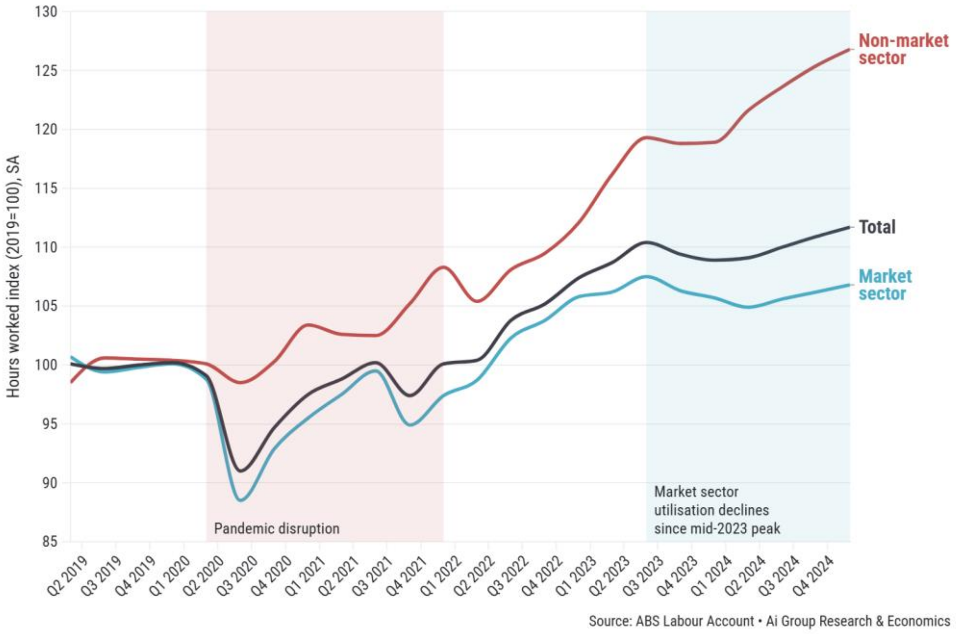
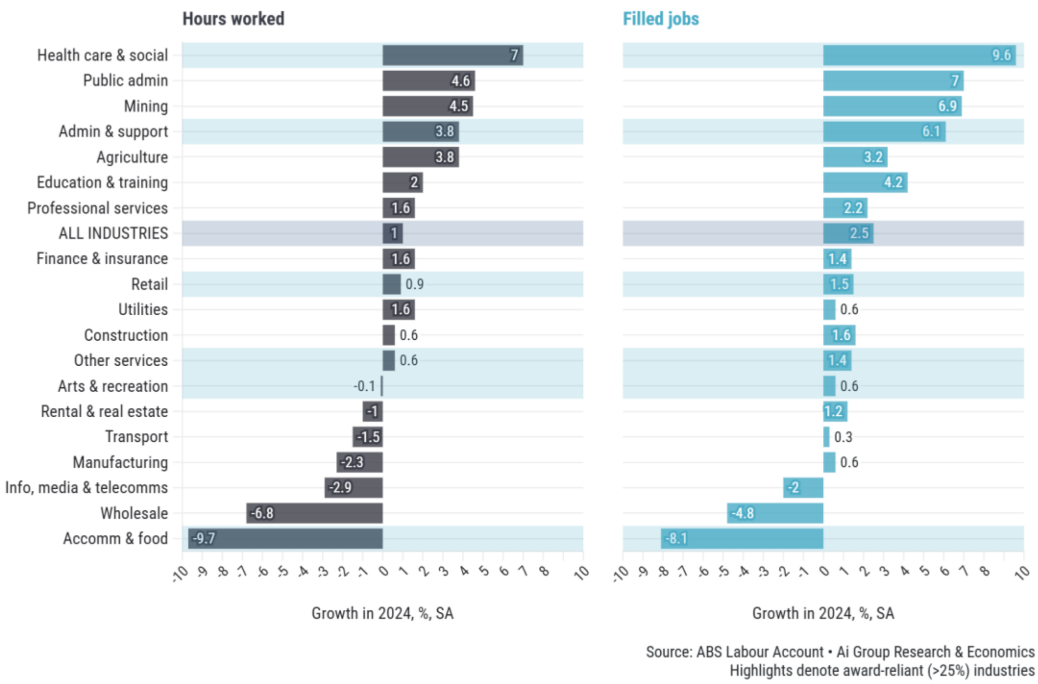


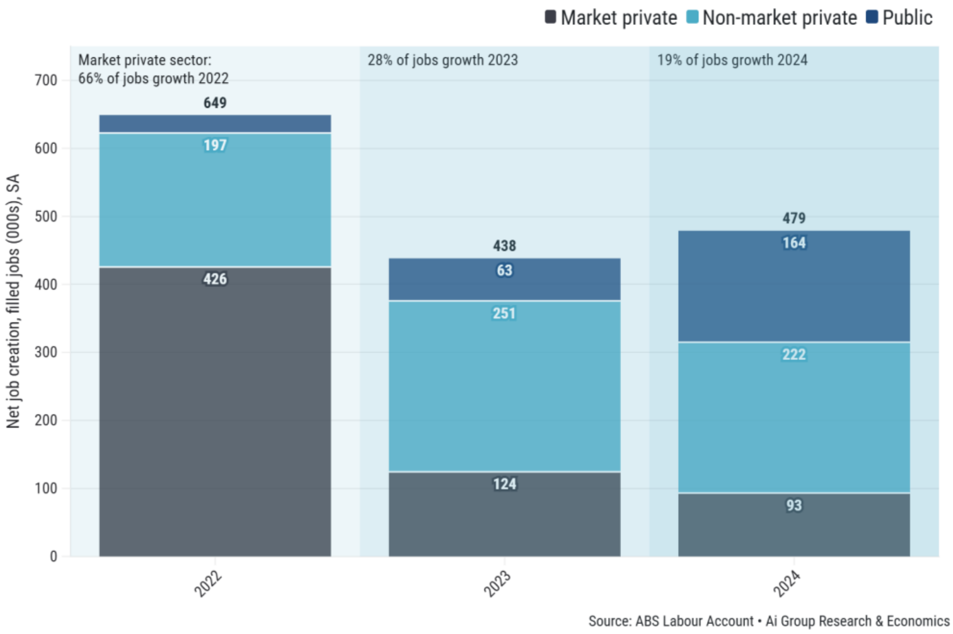
Chart 11: Change in employment by industry, 2024



This pattern of a weak market sector alongside a booming non-market sector is evident in industry level data (Chart 11). Employment growth in 2024, measured by both filled jobs and hours worked, was extremely strong in the three non-market sectors and well above the all-industry average. But across the market sector industries employment growth was very weak. Six market sector industries saw labour utilisation decline in 2024, while three also saw the number of filled jobs shrink. Poorer performance is observed in industrial or consumer-facing industries, consistent with the weak conditions affecting those part of the economy through the year.

This asymmetry between sectors is particularly stark when viewed in terms of job creation. Chart 12 shows net job creation rates for the public, private non-market and private market sectors over the three years since the pandemic. In 2022, the private market sector added 425,000 jobs: accounting for 66% of net job creation in Australia, roughly proportionate to its share of total employment. In 2023 this declined to 124,000 (28% of total) and in 2024 just 93,000 (19%). This points to disemployment occurring in the private market sector due to weak economic conditions and declining financial performance (discussed in Section 5).

Chart 12: Net job creation by sector, 2022-2024



However, the effect of this decline was masked by a sudden surge in job creation in the government-supported industries over the last two years. Employment in these industries grew by 8.2% in 2024, well above the 0.9% growth in the private market sector. This surge in government-supported employment ensured that aggregate job creation levels held steady at around 450,000 p.a. in 2023 and 2024. However, it has also led to a pattern where job creation has become dependent on government-supported industries, which in 2024 contributed a much greater share of net new jobs (81%) than their underlying share of the labour market (32%) would warrant.

This surge in government-supported employment has been sufficiently large to distort the overall labour market. Had it not occurred, the disemployment observed in the private market sector would have manifested as steadily weakening aggregate employment levels. Table 1 provides simple modelling of the implied unemployment rate which would have occurred under different growth scenarios for government-supported employment in 2024.

If government-supported employment had grown in 2024 at the same rate as 2023, the modelling results in an implied unemployment rate of 4.3%. If it had grown at its long-run rate it results in an implied 5.5% unemployment rate. While actual outcomes would likely differ due to dynamic effects in the labour market, this simple modelling illustrates that the surge in government-supported employment in 2024 was sufficiently large to materially suppress overall unemployment levels.

Table 1: Modelled unemployment rates for government-supported employment growth in 2024

Growth Scenario	Annual growth rate to Q4-24	Net jobs created (000s)	Difference from actual (000s)	Implied unemployment rate (Dec-24)
Actual rate (2024)	8.22%	385.6	0	4.0%
Previous year rate (2023)	7.17%	336.4	-49.2	4.3%
Long-run rate (2013-2022)	2.92%	136.9	-248.7	5.5%
Private market sector rate (2024)	0.86%	40.3	-345.3	6.1%

Source: Ai Group Research & Economics, from ABS Labour Account and ABS Labour Force Survey
Notes: "Government-supported employment" comprises the public and non-market private sectors. Model estimates the implied unemployment rate under different scenarios for net job creation in these sectors during 2024. Estimates are based on a multiple job holding rate of 6.7%, and assumes the Dec-24 participation rate of 67.1% under all scenarios.

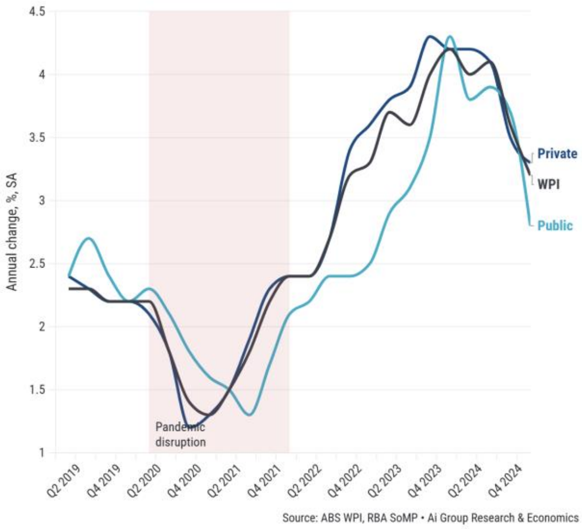
There is reason to expect the recent surge in government-supported employment cannot continue at the same rate in 2025. The fiscal position of both the federal and many state budgets has deteriorated over the recent cycle, and will be unable to sustain the spending increases necessary to support an 8.2% annual rate of employment growth. If it moderates, the disemployment occurring in the private market sector will no longer be counter-balanced by that in the government-supported sectors. Unless employment generation materially improves in the private market sector in 2025, this will manifest as a weakening of overall labour market outcomes.

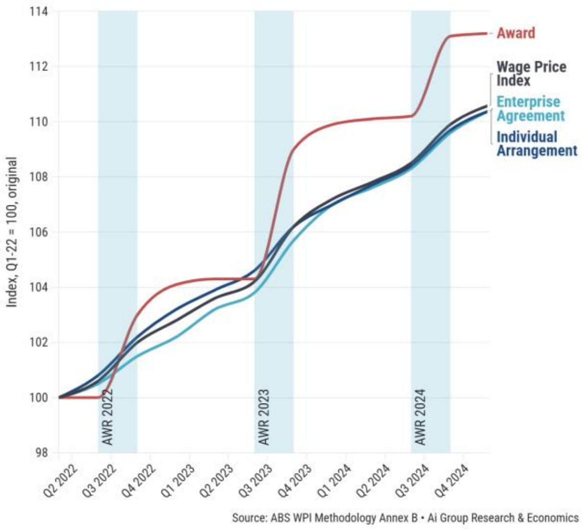
4.3 Wages dynamics and the impact of AWR decisions

The underlying slowdown in the labour market is also evident in slowing wages growth. Following a peak in mid-2023, growth in the Wage Price Index (WPI) declined from 4.2% to 3.2% p.a. over 2024 (Chart 13). Private sector wages broadly tracked the aggregate, with public sector wage growth falling slightly faster due to the impact of several large public sector enterprise agreements during the year.

The 1.0% decline in the WPI in 2024 is the steepest fall in the indicator over a twelve-month period since the Global Financial Crisis of 2008-09. This is further evidence of underlying labour market weakening despite the resilience of headline employment indicators.

Charts 13 and 14: Wages growth (WPI) by sector and method of setting pay





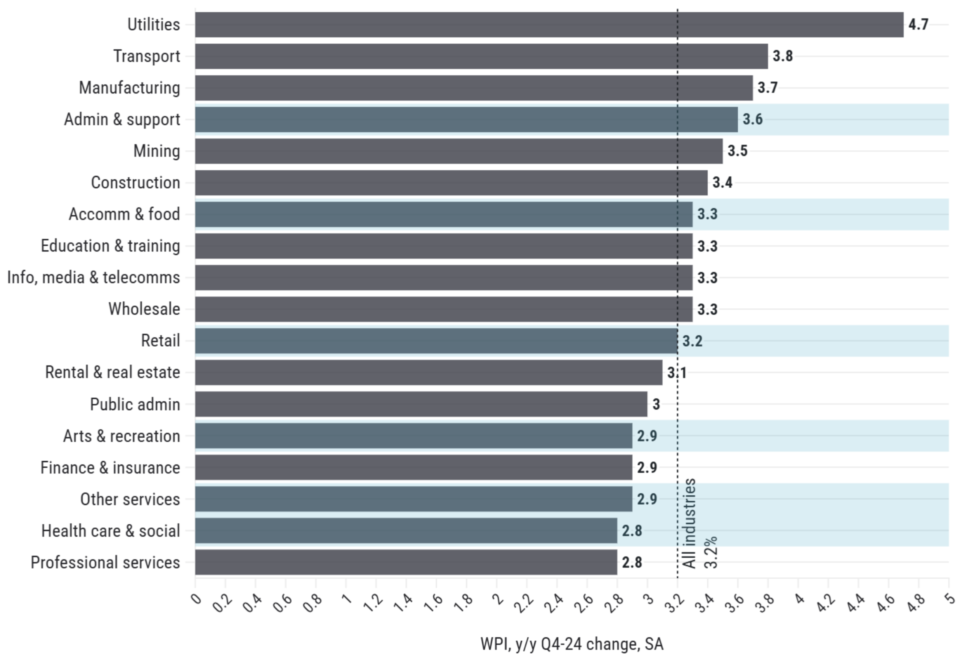
An analysis of the composition of wages growth suggests this slowing would have been steeper in the absence of recent minimum wages decisions. Chart 14 presents the components of the WPI indicator by method of setting pay. It shows that enterprise agreement and individual arrangement wages have grown on a similar track to overall wages. However, since 2022 award wages have grown at a much higher rate, due to the impact of the last three AWR decisions which have exceeded background rates of wages growth.

With awards accounting for 23% of the Australian labour force, and the AWR colouring broader wage setting patterns across the economy, recent high increase in award wages have raised overall wages growth. The WPI would likely have peaked lower in 2023, and fallen further in 2024, in the absence of these higher recent AWR decisions.

When disaggregated to the industry level, wages growth has been relatively evenly clustered. Most industries saw wages grow between a range of 2.8% and 3.4% during 2023 (Chart 15). All industries saw wages growth decline by around the economy-wide average, with the exception of utilities which saw an increase associated with enterprise bargaining outcomes in that industry.

There is only a weak correlation between rates of wages growth and industry performance. The manufacturing and accommodation & food industries saw wage rises well-above the average, despite the fact that both saw contracting output (Chart 4) and employment (Chart 12). Finance & insurance, healthcare & social and arts & recreation all saw below average wages growth despite being amongst the stronger growing industries during the year. This weak correlation reflects that effect of award and enterprise bargaining outcomes, which are coloured by inflation outcomes than market dynamics or industry performance.

Chart 15: Wage price index by industry, 2024



Source: ABS WPI • Ai Group Research & Economics
Highlights denote award-reliant (>25%) industries

5. Business performance and capacity to pay considerations

Business financial performance weakened with the slowing economy in 2024. Gross operating profits declined in aggregate and for most industries during the year, with particularly poor results for the industrial and consumer sectors most exposed to the deterioration in economic conditions. Proxy indicators suggest that small business profitability declined dramatically in 2024, the second year of steep decline.

Despite these reductions in financial performance, businesses have still had to confront high wage pressures. While the growth in wages costs slowed in 2024 with the downturn in the private sector labour market, they were significantly above growth in sales income, putting downward pressure on margins and profitability. The cumulative effect of recent high AWR decisions also weighed on business, with several award-reliant industries showing evidence of falling financial performance and employment during the year.

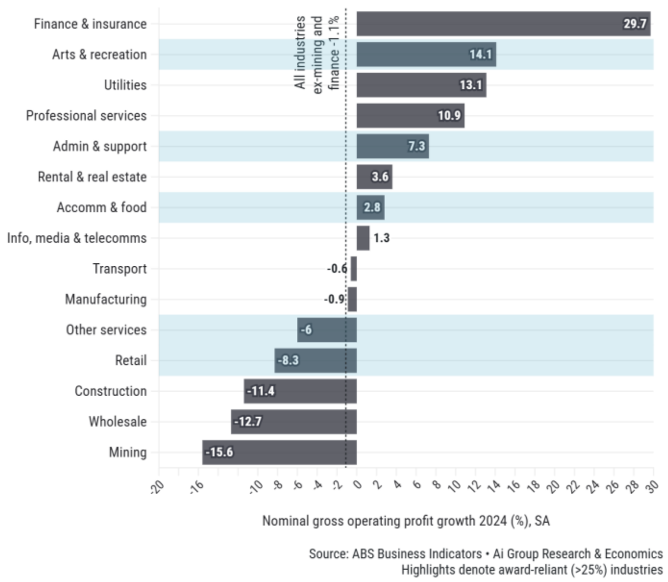
When read in conjunction with data on the performance of the economy and labour market, the financial performance of business reveals a reduced capacity to pay minimum wages increases in the coming year.

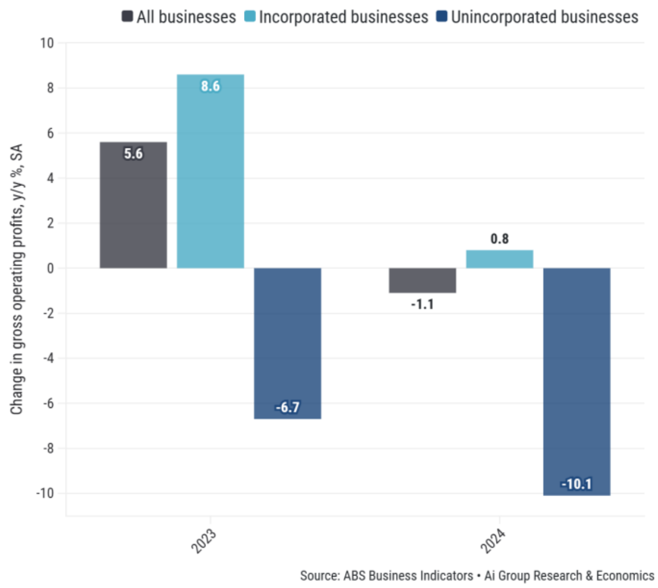
5.1 Business financial performance

The slowdown in the Australian economy is impacting industries in different ways, leading to a broad spread in financial performance between industries (Chart 16). In 2024, business gross operating profits across all industries contracted by 6.8% on 2022 levels. However, this aggregate figure was skewed by both a large decline for the mining industry (due to falling commodity prices) and a large increase for financial and insurance services (reflecting movements in financial markets during the year).

A more accurate picture of financial performance is therefore given by the indicator for all-industries excluding mining and finance, where gross operating profits declined by 1.1% in 2024. Nonetheless, this aggregate conceals wide industry-level differences. Gross operating profits growth varied between a high of 29.7% to a low of -15.5%, reflecting the differential business conditions seen across industries.

Charts 16 and 17: Growth in nominal gross operating profits, by industry and business type, 2024





As seen in data for output (Chart 4) and employment (Chart 11), financial performance shows a pattern where industrial and consumer-oriented sectors have fared worse than the economy-wide average. The industrial sectors of wholesale trade, construction, manufacturing and transport all saw nominal profits decline in 2024 as industrial business conditions were poor. Retail and other services also saw a material decline in profits due to weak consumer spending.

Financial pressures on small businesses also intensified in 2024. While profits data is not available by business size, a proxy measure is that for unincorporated businesses, which are typically small businesses (Chart 17). When mining and finance are excluded, profitability in unincorporated businesses declined by 10.1% in 2024, following a 6.7% fall in 2023. This compares to profits growth of 0.8% in incorporated businesses (i.e. companies).

Small businesses are a major employer of those receiving minimum wages. Small businesses (defined as 1-19 employees) accounted for 86.0% of employees directly receiving the NMW and 54.1% of those on a modern award[28]. These smaller businesses are already financially vulnerable, and any reduced employment in this group will impact minimum wage employees significantly.

It should be noted the aforementioned figures all refer to nominal business income, which is not inflation adjusted and before interest charges and depreciation. Inflation will erode the real value of these movements; while increases in borrowing costs associated with tight monetary policy will mean that business post-interest financial performance will be weaker than these figures imply. Underlying financial performance of businesses is therefore likely to be weaker than the trends recognised by nominal national accounts data.

5.2 Business operating margins

Weakening financial performance has contributed to a decline in business margins in 2024. Industry-level operating margins – defined as gross operating profit as a share of business income – are estimated using national accounts data in Chart 18. The analysis shows that average business operating margins (exclusive of mining and finance) declined from 11.1 to 10.7% in 2024 as a result of weakening financial performance.

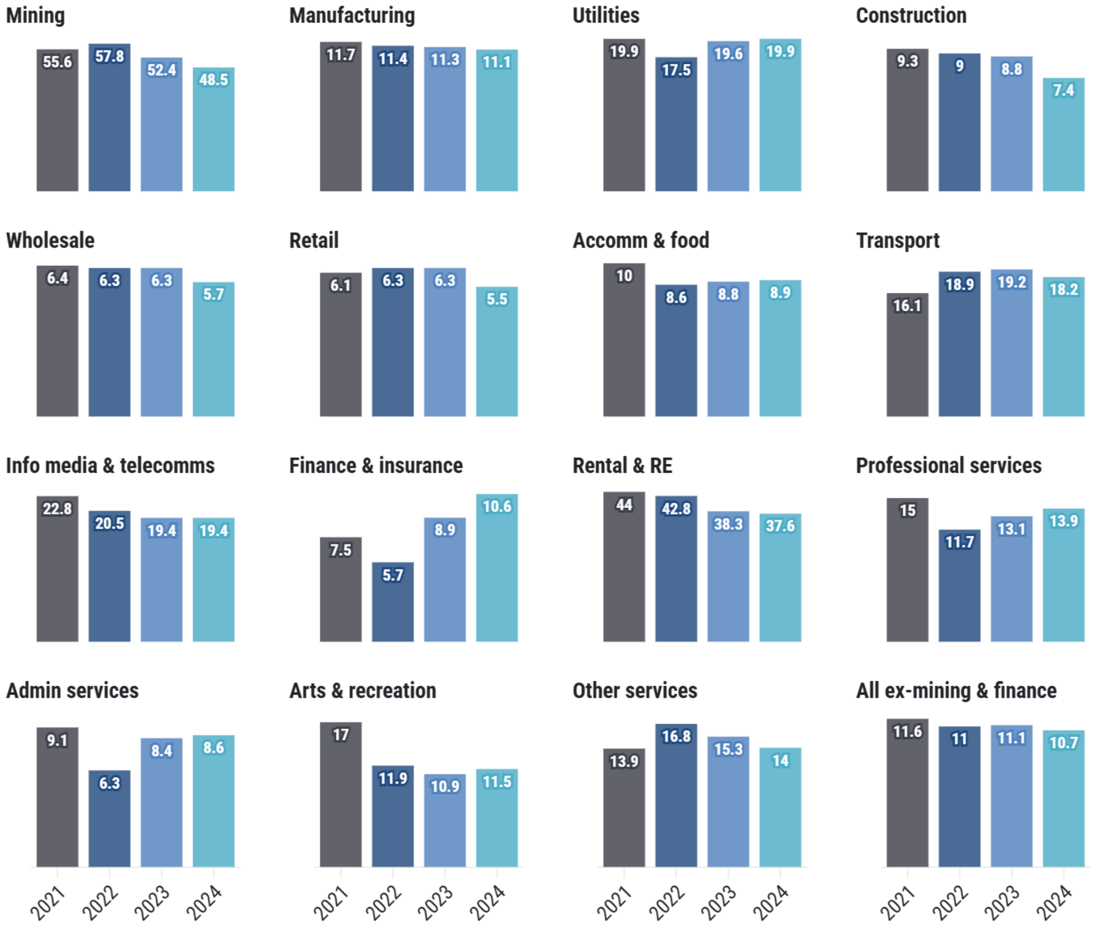
Industry-level analysis shows several areas where decline has been pronounced. Amongst industrials, the manufacturing, construction, wholesale and transport sectors have all seen material margin declines over the last two years. In consumer-oriented sectors, the retail and other services industries have shown a similar pattern.

Industries with declines in operating margins should be considered at particular risk of disemployment effects. Lower margins imply a falling rate of profit, which acts as a disincentive to new investment and thus rates of employment generation.

---

[28] FWC (2024), *Characteristics of employees on the National Minimum Wage*, https://www.fwc.gov.au/documents/wage-reviews/2023-24/characteristics-of-employees-on-national-minimum-wage-2024-02-29.pdf.

Chart 18: Estimated industry operating margins, 2021-2024



Source: ABS Business Indicators • Ai Group Research & Economics
Operating margins are estimated as gross operating profit as a share of business income

5.2 Wages pressures and capacity to pay considerations

Despite the easing of the private sector labour market, wage pressures on industry continue to increase in 2024.

The total wages bill – which incorporates both increases in wage rates and employment growth – increased by 4.8% in market sector industries excluding mining and finance (Table 2). This was a marked easing on the 9.2% increase in 2023, reflecting lower employment generation and wage rate increases during the year.

However, the growth in wage costs continues to exceed that of other business performance indicators, with sales income growing by only 2.4% and profits declining by 1.1%. This was the second year running that wages cost growth exceeded income and profits by an appreciable margin.

The majority of industries experienced high wage pressures. Wages growth exceed profits or income growth in nine of fifteen market sector industries in 2024. Industrial sectors were particularly affected, with manufacturing, construction, wholesale trade and transport all facing wage cost growth significantly higher than income or profits. Several consumer-oriented industries – including the three award-reliant industries of retail, other services and accommodation & food – showed the same pattern. These industrial and consumer industries should be considered particularly vulnerable to the imposts of further increases in wage rates.

Table 2: Gross operating profits, income snad wages growth by industry, 2023 and 2024

	Wages		Gross Operating Profits		Income from sales	
	2023	2024	2023	2024	2023	2024
Mining	10.9%	6.7%	-13.5%	-15.6%	-4.6%	-8.9%
Manufacturing	5.0%	4.7%	3.0%	-0.9%	3.8%	1.0%
Utilities	9.8%	8.1%	15.5%	13.1%	3.4%	10.9%
Construction	12.0%	5.2%	4.9%	-11.4%	6.5%	5.1%
Wholesale	6.4%	2.4%	1.2%	-12.7%	1.3%	-3.5%
Retail	8.9%	3.6%	3.7%	-8.3%	4.3%	4.5%
Accommodation & food	15.4%	5.8%	17.4%	2.8%	14.9%	1.0%
Transport	12.5%	6.1%	12.2%	-0.6%	10.2%	5.0%
Info, media & telecomms	12.4%	6.1%	0.2%	1.3%	6.0%	1.4%
Finance & insurance	9.5%	3.7%	54.9%	29.7%	-1.1%	8.4%
Rental & real estate	5.2%	3.5%	-4.3%	3.6%	6.7%	5.6%
Professional services	8.9%	5.1%	16.1%	10.9%	3.4%	4.6%
Admin & support	7.1%	4.8%	43.8%	7.3%	7.6%	4.3%
Arts & recreation	9.2%	6.9%	-1.6%	14.1%	7.8%	8.3%
Other services	9.3%	5.1%	1.7%	-6.0%	11.9%	2.2%
All market sector industries	9.3%	4.8%	-2.9%	-6.8%	3.5%	1.1%
All market sector industries ex-mining & finance	9.2%	4.8%	5.6%	-1.1%	4.9%	2.4%

Source: ABS Business Indicators, Tables 6, 11 and 15.

5.3 The cumulative impact of previous AWR decisions

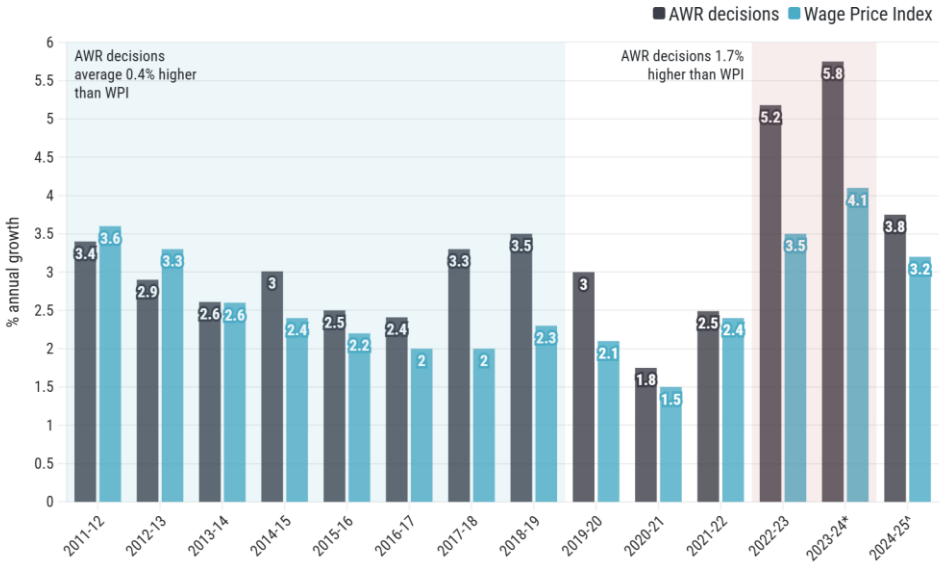
The previous three AWR decisions have awarded increases to the National Minimum Wage (NMW) and award wages which are high by recent historical standards. As noted in those decisions, the quantum of these increases reflected high prevailing rates of inflation at the time, and the Panel’s desire to minimise the reduction in the real value of the incomes of NMW and award employees.

However, this has led to minimum wage increases which were high relative to the then-prevailing labour market conditions in Australia. Chart 19 compares AWR decisions with the economy-wide increases in wages (WPI) during the year the decision was in force.

In the years prior to the pandemic the AWR decision tracked closely to economy-wide wages, averaging 0.4% higher than the WPI over the 2011-12 to 2018-19 financial years. Since the pandemic AWR decisions have moved much higher, at 1.7% above the WPI in 2022-23 and 2023-24. The relation for the 2024 AWR decision will be revealed by forthcoming data, but presently it sits 0.6% higher than the most recent WPI reading.

Ai Group argues it is not sustainable for AWR increases to track above broader wages growth for an extended period. This will have the effect of compressing the relativity between NMW and award employees and other employees, at the margin creating a relative disincentive for demand for labour in award roles.

Chart 19: Annual Wage Review decisions and wages growth, 2011-12 to 2024-25



Source: FWC National Minimum Wage Orders, ABS WPI • Ai Group Research & Economics ^ WPI data for Dec-24 quarter.
*Due to a decision to end alignment between the NMW and C14 modern award rate, the NMW rose by 8.6% in 2023-24. This analysis uses the 5.8% increase in award rates as the wage outcome resulting for the majority of employees subject to the AWR in that year.

The cumulative impact of the prior above-normal increases raises the risk of future disemployment effects. In 2024 employment contracted in two award reliant industries (arts & recreation and accommodation & food) and was weak in another two (retail and other services). These four industries have struggled with the cumulative effects of high AWR decisions alongside declining market conditions and are already showing indications of disemployment. As they account for 44.1% of award employment in Australia[29], there is a significant risk that a further high AWR decision will contribute to disemployment effects and thus reduced employment generation in award roles.

5.5 The Superannuation Guarantee

The Superannuation Guarantee (SG) will rise from 11.5% to 12.0% from 1 July 2025. This will be the fifth and final 0.5% p.a. SG increase undertaken as part of a set of reforms commenced in 2021. Consistent with previous AWR decisions, this increase should be taken into account as a moderating factor in any increase in this year's decision due to its impacts on employment costs and capacity to pay considerations.

In its decision regarding the 2024 AWR the Panel wrote:

> **[159]** "… the Superannuation Guarantee contribution rate will increase by a further 0.5 per cent effective from 1 July 2024, bringing the total contribution rate to 11.5 per cent. This is a cost to employers which, if they employ modern award-reliant workers, they will have to bear simultaneously with the cost of modern award minimum wage increases flowing from this Review. We have treated these matters as moderating factors".[30]

This year's final increase in the SG will have the same effect on employers as in previous years: namely, an additional cost of employment which will have to be borne alongside any wage increases resulting from the AWR.

---

[29] Ai Group calculations from *ABS Employee Earnings and Hours*, May 2023 microdata.
[30] *Annual Wage Review 2023 - 24* [2024] FWCFB 3500 at [159].

6. Productivity performance and wage considerations

Productivity is a critical factor in determining the capacity of the Australian economy to sustain wage increases. Productivity improvements are the ultimate source of all growth in national wealth, as they increase the creation of value from which returns to both labour (wages) and capital (profits) can be claimed. Without productivity improvements, it is not possible to sustainably increase real wages over the medium-term.

In the 2023 AWR decision, the Panel articulated a principle which linked the real value of minimum and award wages with national productivity performance:

> **[10]** … In the medium to long term, it is desirable that modern award minimum wages maintain their real value and increase in line with the trend rate of national productivity growth. A <u>return to that path</u> is likely to be possible in future Reviews when there is a <u>reversion to a lower inflationary environment and trend productivity growth.</u>[31]

This principle was cited as a moderating factor in determining the quantum of minimum wages rises in both the 2023[32] and 2024[33] AWRs. This was due to evidence showing that productivity growth had been weak since the pandemic and, at the time of these decisions, had yet to return to its longer-term trend rate of growth. In the 2024 decision, the Panel again linked the real value of award wages to productivity performance, stating:

> **[8]** … At the same time, we consider that it is not appropriate at this time to increase award wages by <u>any amount significantly above the inflation rate</u>, principally because labour productivity is no higher than it was four years ago and productivity growth has only recently returned to positive territory[34].

In determining the 2025 AWR, it is critical to assess how national productivity growth has performed over the last year to determine whether it has yet to return to its long-run trend.

6.1 Identifying Australia's long-term productivity trend

Forming an estimate of Australia's long-term productivity trend is necessary to determine the 'baseline' against which recent performance can be assessed. Many observers, including the Panel in the 2024 AWR decision[35], cite an estimate of 1.2% p.a. for Australia's long-run trend productivity growth. While this is frequently attributed as an "official estimate", greater specificity should be applied to what this figure represents:

- The 1.2% p.a. figure specifically refers to average annual growth in Australia's economy-wide labour productivity (measured as GDP per hour worked) observed during the decade 2010-2019[36]. This period is selected simply as the calendar decade prior to the pandemic, and has no analytic rationale.
- It is not an official forecast nor estimate. The most recent Treasury Budget uses the 1.2% figure as an *assumption* underpinning its macroeconomic modelling[37], not an output of that modelling nor a forecast of expected future trend.

---

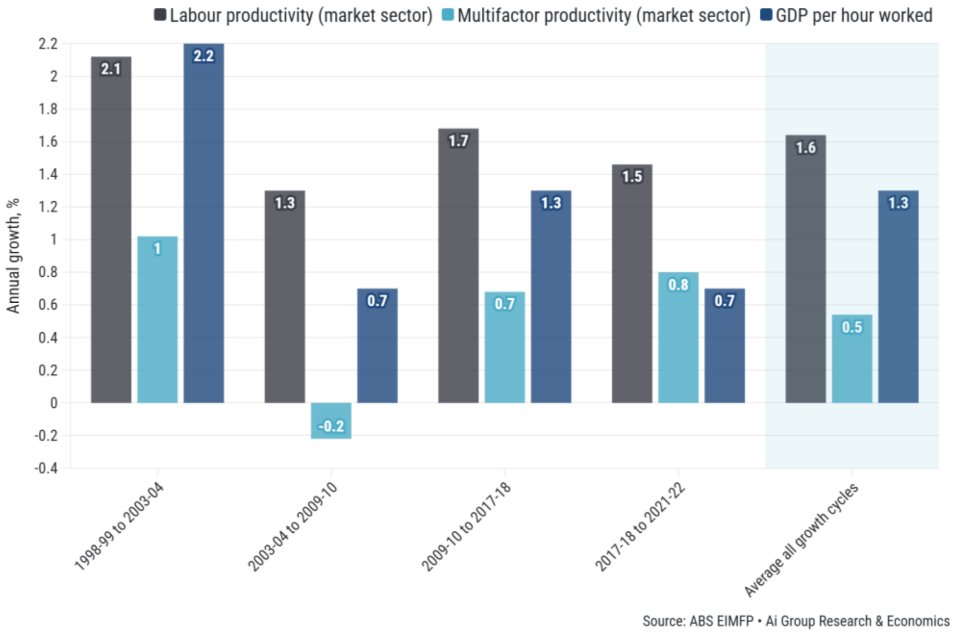
[31] *Annual Wage Review 2022 – 23* [2023] FWCFB 3500 at [10].
[32] *Annual Wage Review 2022 – 23* [2023] FWCFB 3500 at [176(4)].
[33] *Annual Wage Review 2023 – 24* [2024] FWCFB 3500 at [8].
[34] *Annual Wage Review 2023 – 24* [2024] FWCFB 3500 at [8].
[35] *Annual Wage Review 2023 – 24* [2024] FWCFB 3500 at [144].
[36] See RBA, *Recent Trends in Australian Productivity,* RBA Bulletin – September 2023, Graph 3.
https://www.rba.gov.au/publications/bulletin/2023/sep/recent-trends-in-australian-productivity.html
[37] Treasury, *Budget 2024-25*, Budget Paper No. 1, p. 70.

- It is sensitive to the temporal period selected, as during different periods Australia has obtained higher or lower productivity results.
- It does not represent Australia's overall productivity performance. This should properly be measured as multifactor productivity (MFP), which measures output in terms of both labour and capital inputs. MFP growth is consistently lower than labour productivity due to capital deepening (see Chart 22).
- As an economy-wide measure it is likely to differ from other industry-level productivity data, which use value-add in the market sector rather than total GDP as the numerator.

Given these caveats, it is important to establish a more reliable baseline regarding long-run trend productivity for the purposes of the AWR. Ai Group argues most appropriate method is to use 'growth cycle analysis', which measures average growth between observed peaks in the productivity cycle[38]. In past reviews the Panel has placed greater weight on productivity measured using these multi-year cycles than more volatile annual movements[39].

The most recent ABS growth cycle estimates (Chart 20) show that 'trend' productivity figures are highly sensitive to the temporal baseline selected. Across the four observed growth cycles, labour productivity averaged 1.6% p.a., MFP 0.5% and GDP per hour worked 1.3% per annum. However, there is significant variation in the averages between cycles, as well as divergent movements between the three productivity measures. This reveals the importance of making appropriate temporal and measure selections in establishing a baseline productivity growth trend.

Chart 20: Growth cycles in Australian market sector productivity



We suggest that the figures for the third growth cycle (2009-10 to 2017-18) are arguably the most appropriate baseline at the present time. This is because the fourth growth cycle (2017-18 to 2021-21) was affected by the disruptions of the pandemic, making the third cycle the most recent reliable estimate available. Market sector measures also provide a superior understanding of productivity trends than the all-economy (GDP per hour worked) measure for the purposes of the AWR. This is because movements in GDP are affected by a range of exogenous factors (including trade effects) which are unrelated to productivity dynamics occurring within industries.

---

[38] See Australian Bureau of Statistics, *Interpreting ABS productivity statistics*, December 2023, https://www.abs.gov.au/articles/interpreting-abs-productivity-statistics
[39] *Annual Wage Review 2022 – 23* [2023] FWCFB 3500 at [87].

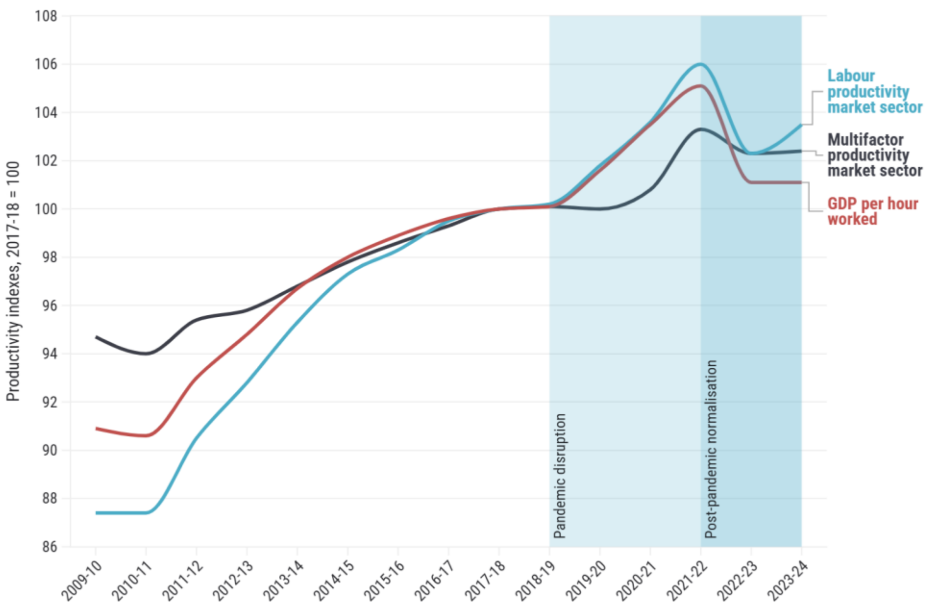
For the purposes of the 2025 AWR, this suggests that appropriate baselines for long-run trend productivity growth are:

- Market sector labour productivity: 1.7% p.a.
- Market sector multifactor productivity: 0.7% p.a.
- GDP per hour worked: 1.3% p.a.

6.2 Productivity performance data since the pandemic

Australia's productivity performance has been especially weak in the years following the pandemic. As recognised in previous AWR decisions[40], the social disruptions during 2020 and 2021 led to significant abnormalities in productivity performance. Public health restrictions which curtailed the operations of lower-productivity service industries led to a significant lift in aggregate productivity, which was a temporary compositional effect rather than underlying improvement. When this effect exited from 2022, measured productivity returned to lower levels (chart 21). This distortion has made the interpretation of productivity data especially challenging in recent times.

Chart 21: Australian productivity indexes, 2009-10 to 2023-24



Source: ABS EIMFP, ABS National Accounts • Ai Group Research & Economics

With this effect now fully worked through, it has become clear that productivity growth has been weak in Australia since the pandemic (Chart 21 and Table 3). In the five years since 2018-19, labour productivity has grown by an average of 0.7%, MFP by 0.5% and GDP per hour worked by 0.20% per annum. All three measures are well below the trend rates suggested by growth cycles analysis (1.7%, 0.7% and 1.3% respectively), with labour productivity growing at only a third the level of the long-run average and GDP per hour worked at a sixth.

The data also reveals that 2023-24 was an especially poor year, with labour productivity growing by 1.1%, MFP by 0.1% and GDP per hour worked showing no growth at all. Moreover, nearly all the increase in labour productivity was due to hours reallocation effects – where labour moves from lower- to higher-productivity industries – rather than direct improvements in industry productivity. Hours reallocation effects contributed 1.2% to labour

[40] *Annual Wage Review 2023 – 24* [2024] FWCFB 3500 at [144].

productivity growth during 2023-24, compared to only 0.1% for direct productivity increases[41]. This implies there was almost no productivity growth in overall (MFP) productivity, economy-wide (GDP) productivity, or *direct* labour productivity, in Australia during the year.

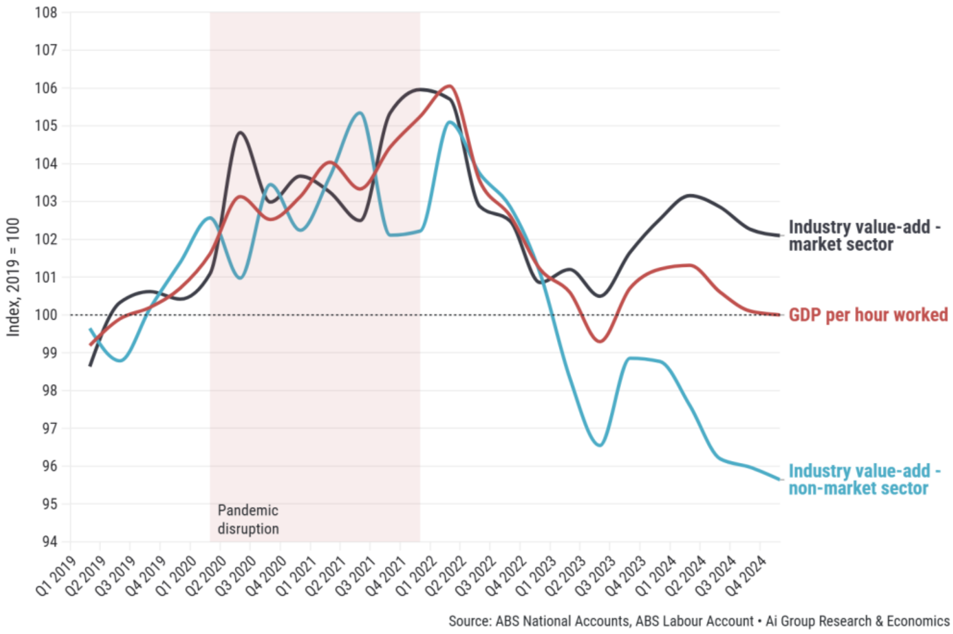
Table 3: Annual average growth in Australian productivity measures

	1-year (2023-24)	5-year (2017-18 to 2023-24)	Long-run trend (2009-10 to 2017-18)
Market sector labour productivity	1.1%	0.7%	1.7%
Market sector multi-factor productivity	0.1%	0.5%	0.7%
GDP per hour worked	0.0%	0.2%	1.3%

Source: ABS EIMFP, ABS National Accounts.

Given that ABS productivity statistics are only available on a financial year basis, it is also useful to consult quarterly national accounts aggregates to investigate whether low productivity performance has continued in the second half of 2024. Quarterly productivity indicators should be read with considerable caution – they are subject to significant volatility, making annual or growth cycle data a more reliable indicator. Nonetheless, they provide some indication of short-run direction, and also provide insights into the performance of the non-market sector

Chart 22: Australian labour productivity aggregates, 2019-2024



The national accounts indicators suggest that below trend productivity performance has continued to slip in the second half of 2024 (Chart 22). On an economy-wide (GDP per hour worked) basis, productivity has steadily declined throughout 2024, and presently sits at the same as level as 2019. This indicates there has been zero aggregate productivity growth in Australia for five years. Both the market (-0.4% in 2024) and non-market (-3.2%) sectors posted steep declines over 2024, with the non-market sector performing especially poorly.

[41] See *ABS Estimates of Industry Multifactor Productivity 2023-24*, Direct Aggregation Across Industries (DAAI), https://www.abs.gov.au/statistics/industry/industry-overview/estimates-industry-multifactor-productivity/latest-release#direct-aggregation-across-industries-daai-

When read together, the aforementioned data shows that Australia's productivity performance continued to decline throughout 2024, and on both a one- and five-year basis remains well below its long-run growth trend. Forecasts that productivity growth would begin a return toward trend, noted with due and appropriate caution in the 2024 AWR decision[42], have unfortunately failed to eventuate. A return to trend productivity, previously identified by the Panel as an enabling condition for the maintenance of real minimum wages, has clearly yet to occur. In this context, and consistent with the principles informing past AWR decisions, it would be premature to increase award wages by an amount significantly above inflation.

[42] *Annual Wage Review 2023 – 24* [2024] FWCFB 3500 at [71].

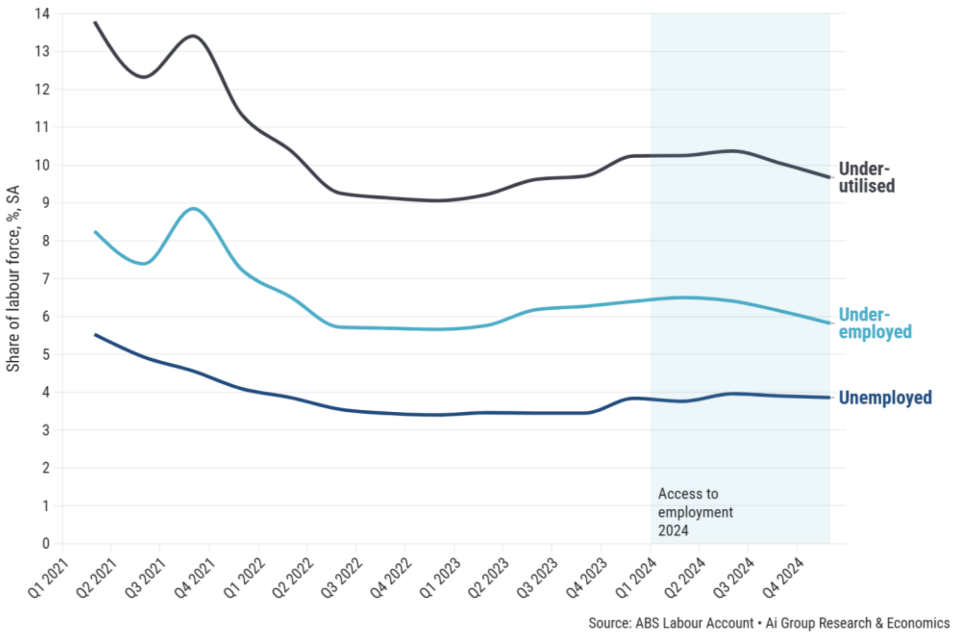
7. A fair and relevant minimum safety net

The Panel is tasked with determining and maintaining a fair and relevant safety net. Fairness is to be assessed from the perspective of both employers and employees. [43] Fairness to employers is dealt with in section 5 of this submission.

Fairness in relation to the employee safety net should consider both wage and non-wage changes to employment. Individuals' access to employment and the number of hours worked by those employed, is also of relevance, alongside wage rates. It is the combination of these that determines individuals' benefits derived from employment-related remuneration. In addition to remuneration from employment, income support and other forms of support provided by governments are also clearly relevant in determining a fair and relevant safety net.

The overall resilience in the labour market throughout 2024 has ensured no increases in the number of individuals without access to desired levels of employment (Chart 23). The 479,000 net jobs created during the year was sufficient to absorb new labour market entrants, holding the unemployment rate steady across the year. Job creation was appropriately balanced between full- and part-time roles to ensure the under-employment rate fell slightly, leading to a corresponding slight fall in the under-utilisation rate. Female and youth rates show a similar pattern (see Section 4). All indicators of access to employment are currently tracking at or near record-level lows.

Chart 23: Indicators of access to employment, 2021-2024



However, and as noted in Section 4, this labour market resilience was highly dependent on surging rate of government-supported employment. Of the 479,000 net jobs created during 2024, 34% were generated in the public sector and 46% were in the non-market private sector (Chart 13). This is a significantly higher proportion of job creation from government-supported sectors than their underlying share of employment (31%) would warrant. It also reveals that the private market sector is not generating sufficient employment to deliver its appropriate contribution toward absorbing new labour market entrants.

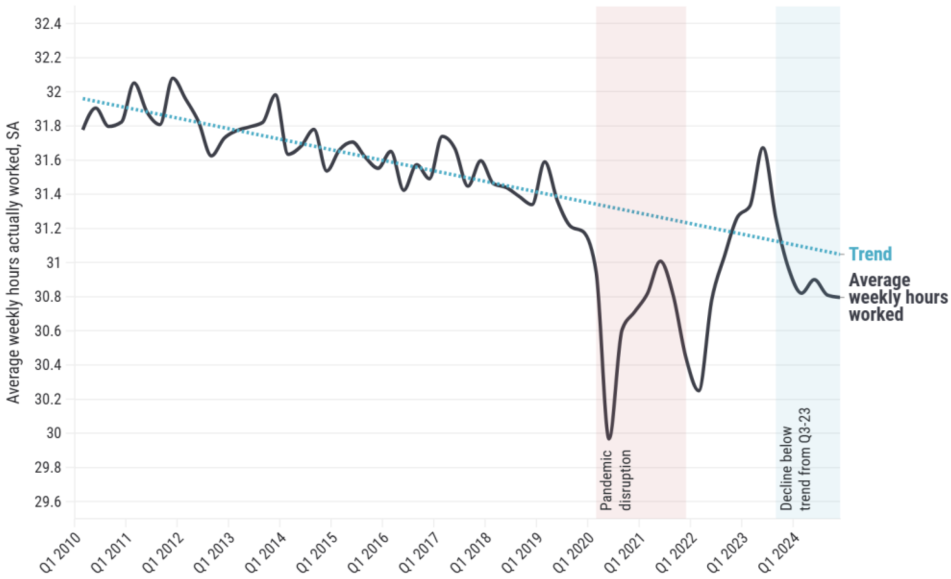
Insofar as the Australia labour market remains resilient, it is largely due to this sudden surge in government-supported employment, which is unlikely to be sustainable in the medium term. Without a recovery in private market

[43] *Annual Wage Review 2021 – 22* [2022] FWCFB 3500 at [18].

sector outcomes the labour market – and thus access to desired levels of employment – is likely to weaken materially over 2025.

There was also a marked decrease in hours worked per employee since the latter half of 2023 (Chart 24). Average hours worked per employee recovered and then grew strongly across 2022 and early 2023. However, this indicator began to decline from the start of 2023, and throughout 2024 has tracked below its long-term trend path. Outside of pandemic-interrupted years, this is a much steeper decline in per-employee hours worked than at any time in the preceding decade.

Chart 24: Average weekly hours worked and trend, 2010-2024



Source: ABS Labour Account • Ai Group Research & Economics
Linear trend is based on observations between 2010 and 2019

The overall resilience of the labour market in 2024 also obscures disemployment effects in some industries which disproportionately affected lower-paid employee categories. Two award-reliant industries – accommodation & food and arts & recreation – saw declines in employment during 2024, while the retail and other services industries reported only weak growth (Chart 12). While not formally classified as an award-reliant industry, manufacturing employs a large number of award employees (133,000 in 2023[44]) and also saw a significant decline in employment during 2024. This weakness in industries employing large numbers of award workers means that access to employment has declined for lower paid employee categories.

In considering the extent of wage increases in this year's decision, we urge the Panel to give considerable weight to the importance of minimising the recent decline in private market sector employment and hours worked. Employees in private sector award-reliant industries with weaker performance are likely to be most vulnerable to disemployment effects. A more moderate wage increase in this year's decision is a critical step the Panel can take to ensure that post-pandemic gains in the safety net due to employment and hours of work are preserved, or at least insulated, from the continuing weakness in the private sector labour market in 2025-26.

[44] ABS *Employee Earnings and Hours 2023*, microdata.

8. Relative living standards and needs of the low paid

The Panel has a long-established practice of taking into account relevant change to taxation and income support arrangements in consideration of the needs of the low paid.

8.1 Budget 2025-26 measures

The 2025-26 Federal Budget, released on 25 March, contained several additional income support measures of relevance for the needs of the low paid. Those measures with the greatest impact on the low paid include:

- **Energy bill relief extension:** The household energy subsidies announced in the 2024-25 budget will be extended for an additional six months to the end of 2025. This will grant all households an additional $150 of energy bill relief across the third and fourth quarter of 2025.

- **Medicare levy thresholds:** The thresholds for the low-income exemption to the Medicare Levy will be raised by 4.7%. This indexing is a higher rate than wages growth (presently 3.2% p.a.), and will thus reverse a degree of 'bracket creep' where low-income earners move into payment of the levy as a result of wage increases. As individuals whose income is close to the threshold are likely to be in roles covered by the NMW or an award, it is likely that the primary recipients of this measure will be those whose wages are determined by the AWR.

- **PBS general patient co-payment reduction:** The general patient co-payment under the Pharmaceutical Benefits Scheme (PBS) will be lowered from $31.60 to $25.00. The value of the measure for individuals is highly sensitive to personal circumstances, but for an individual requiring one PBS script per month is equivalent to $79.20 per annum.

Additionally, announced changes to personal income tax will reduce the 16% rate to 15% in the 2026-27 financial year, and to 14% in the 2027-28 financial year. As these tax cuts will not take effect in 2025-26 they are not a relevant moderating factor for the 2025 AWR, but should be considered in the 2026 and 2027 reviews.

8.2 Indexation and discretionary increase of income support payments

Many lower-income employees live in households that are eligible for income support payments. These payments boost household incomes and should be taken into account when assessing the needs of the low paid.

Australia offers an extensive range of income support payments that can contribute to the incomes of households that include one or more low-paid employees. For instance, many older Australians work part-time and are eligible for an Age Pension payment; younger part-time employees looking for more work can be eligible for a JobSeeker payment; a single parent working part-time can be eligible for a Parenting Payment; and low- and middle-income families with dependent children are eligible for FTB Part A and FTB Part B. Further, low-income households in which there are one or more low-paid employees can also be eligible for a range of supplementary payments including Rent Assistance and the Energy Supplement.

Payment rates for these programs are indexed each year – typically to CPI – to reflect living cost increases. In years where CPI is higher than increases in wage rates, the impact of payments indexation to household incomes can exceed that of increases to wage rates. Changes in payment rates also have a proportionally greater impact on lower income households because of the greater role that income support plays in the total incomes of these households.

Ai Group submits that the indexation and discretionary increases in income support payments, and their greater importance for low-income employee households, should be taken into account by the Panel in its consideration of the needs of the low paid.

8.3 Prospect of further budget measures following federal election

The 2025-26 Federal Budget was handed down earlier than usual due to the Federal election, which will be held on Saturday 3 May. It is likely that additional cost-of-living support measures will be telegraphed by all major parties during the election campaign. Ai Group will follow these announcements in detail and include in our final submission our views on the relevance of any proposed measures that will have a bearing on the Panel's consideration of the needs of the low paid.

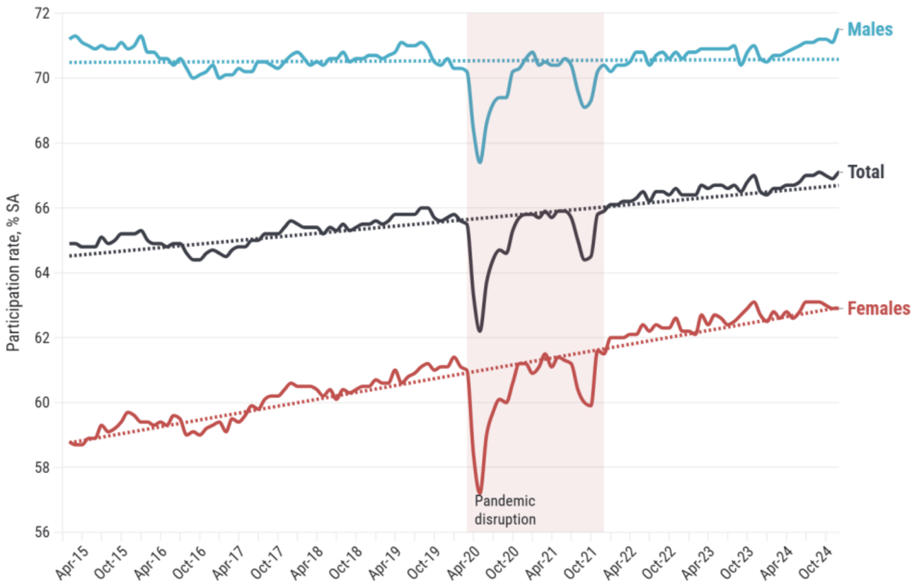
9. Promoting social inclusion through increased workforce participation

Ai Group recognises the importance of participation in the paid workforce for social inclusion. Participation in the paid workforce can be closely linked to individuals' sense of self-worth and provide the financial means by which people can participate in many aspects of social life.

Labour force participation has reached record highs following the pandemic. The participation rate – the share of the civilian population over 15 years in the labour force – averaged 66.8% across 2024, 0.2 percentage points higher than in 2023 and 0.5% higher than in 2022 (Chart 25). Both female and male participation increased during the year, and all measures remain higher than their long-run trend.

Equally important is that this increase in labour force participation has been achieved without increases in unemployment. This indicates that the strong aggregate performance of the labour market has been able to generate sufficient employment to absorb increasing rates of workforce participation.

Chart 25: Participation rates by sex, 2015-2024



Source: ABS LFS • Ai Group Research & Economics
Dashed lines are linerar trend 2015 to 2024.

However, and as argued in Section 4, the rate of aggregate employment generation in 2024 was artificially raised due to a surge from government-supported non-market industries. Rates of job creation in the private market sector decline considerably and were insufficient to contribute their normal share of employment generation. If government-supported employment generation weakens without strengthening of the private sector labour market, it is likely that either unemployment, non-participation or both will rise in 2025.

In the context of the weak economic and business conditions in the private market sector, the balance of risks is that more than a moderate increase in minimum wage rates will erode recent gains and be detrimental to workforce participation and social inclusion (relative to what would be the case in if there were to be a more moderate wage rise). Maintaining employment generation is essential to ensure that labour force participation, subsequent employment and the social inclusion benefits which these offer, can continue to rise.

10. The need to achieve gender equality

10.1 Statutory considerations

Various elements of the FW Act have been considered in these reviews under the heading of gender equality, particularly given (a) the extent to which minimum award wages are directly and indirectly applicable to female employees, and (b) recent amendments to the FW Act directed to gender equality / pay gaps.

This principally encompasses:

- The Object of the FW Act, at s 3(a).
- The Modern Awards Objective, 134(1)(ab)
- The Minimum Wage Objective, s 284(1)(aa)
- Detailed equal remuneration provisions in Part 2-7 of the FW Act, which are not directly subject to these reviews, but (i) have been noted in review decisions, and (ii) may be applied in the wake of these reviews, as was the case following the 2023 Decision.[45]

Section 284(1)(aa) of the FW Act requires the Panel to take into account:

- the need to achieve gender equality, including by ensuring equal remuneration for work of equal or comparable value, eliminating gender based undervaluation of work and addressing gender pay gaps

Section 134(1)(ab) requires the following matters to be considered as part of the modern awards objective: (emphasis added)

- the need to achieve gender equality in the workplace by ensuring equal remuneration for work of equal or comparable value, eliminating gender-based undervaluation of work and providing workplace conditions that facilitate women's full economic participation

The Panel's consideration of gender equality should not be limited to an assessment of remuneration levels between men and women, or the gender pay gap. Rather, it should include other measures to achieve gender equality, such as the following three related matters:

- lifting women's workforce participation;
- sustaining the recent rise in full-time employment of women; and
- encouraging the provision of additional hours of work to underemployed women.

Section 284(1)(aa) does not exhaustively list the matters associated with gender equality that may be taken into account by the Commission and therefore, it is plainly open to the Commission to have regard to these considerations. Further, whilst s.134(1)(ab) is narrower in scope, we submit that these are nonetheless important discretionary considerations that the Commission should take into account in relation to its review of MAMW.

Each of the above outcomes would ensure that women have access to greater financial security and independence, including in retirement. They would result in employees having access to greater opportunities to engage in paid employment, including on a full-time basis. The capacity to maintain full-time employment earnings addresses a key driver to narrow the gender pay gap and thereby, improve gender equality.

---

[45] AWR 2024 decision [2024] FWCFB 3500, at [91]

10.2 Previous AWR decisions

There was a detailed analysis of gender equality considerations in the AWR 2023 Decision[46], including an identification of 10 priority awards which cover the largest number of modern award reliant employees.[47]

The AWR 2023 Decision included the following:

> **[117]** A consequence of the disproportionality of women in the modern award-reliant workforce is that, as found in the 2015-16 Review decision, if Review decisions increase modern award minimum wage rates of pay relative to median wage rates produced by the labour market, then this is likely to reduce the gender pay gap to some degree.
>
> In this Review, the consideration in s 284(1)(aa) concerning the need to achieve gender equality including by, relevantly, addressing gender pay gaps would therefore weigh in favour of increasing modern award minimum wage rates by a percentage amount in excess of the WPI.
>
> **[118]** However, the aggregate gender pay gap cannot be closed simply by adjustments to NMW and modern award minimum wage rates, primarily because the wages of more than three-quarters of the workforce is determined other than in accordance with NMW and modern award minimum wage rates. Indeed, the extent to which it can even be narrowed by this means (assuming NMW and modern award minimum wage increases within the range of reasonableness) is very limited.
>
> **[119]** The gender pay gap across all modern award-reliant employees (difference between average hourly total cash earnings of females and males) is 1.8 per cent but varies markedly by industry.

The AWR 2024 decision determined that a series of awards merited priority consideration as to whether they have been the subject of gender undervaluation with respect to identified classifications. The Panel described the proposed consideration of the priority matters as follows:

> **[171]** … in respect of the four priority categories of occupations/awards identified in section 5 of this decision (paragraphs [112]-[123], the Commission will immediately after the conclusion of this Review initiate proceedings pursuant to s 157 of the FW Act to consider whether the minimum wage rates for the relevant classifications in identified awards should be increased on work value grounds in order to remedy potential gender undervaluation. This will give interested parties a proper opportunity to adduce evidence in respect of all relevant issues.
>
> However, we emphasise two matters. First, it is not intended for these matters to go forward as if they are a blank slate. They will proceed on the gender undervaluation premises established in the Stage 1 and Stage 2 reports, the Teachers decision, the AWR 2023 decision, the Stage 1 Aged Care decision and the Stage 3 Aged Care decision.
>
> Second, consistent with the priorities we have given them and the imperatives of ss 134(1)(ab) and 284(1)(aa) of the FW Act, they will be dealt with to completion in a time-critical manner. We certainly intend that they will be completed by the time of next year's annual wage review such as to permit that Review to move on to the consideration of any further gender undervaluation issues.[48]

10.3 Equal Remuneration Proceedings

Following the AWR 2023 and AWR 2024 decisions the Commission:

---

[46] AWR 2023 decision [2023] FWCFB 3500, [111] – [141]
[47] AWR 2023 decision [2023] FWCFB 3500, at [114]
[48] AWR 2023 decision [2024] FWCFB 280, at [171]

- Commenced proceedings on its own initiative pursuant to s 157(3)(a) of the FW Act to consider variations to modern award classifications and minimum wage rates in a number of modern awards on work value grounds to remedy potential gender undervaluation.[49]
- Initiated various research projects to inform future reviews and proceedings, including a two-stage research process.[50]

The Commission is presently considering making changes (variations) to certain classifications and minimum wage rates in the following awards:

- Aboriginal and Torres Strait Islander Health Workers and Practitioners and Aboriginal Community Controlled Health Services Award 2020 – AM2024/22
- Children's Services Award 2010 – AM2024/23
- Health Professionals and Support Services Award 2020 – AM2024/20
- Pharmacy Industry Award 2020 – AM2024/19
- Social, Community, Home Care and Disability Services Industry Award 2010 – AM2024/21, AM2024/25, AM2024/27
- Social, Community, Home Care and Disability Services Industry Award 2010[51]

This has given rise to significant proceedings, which are considering[52] issues including:

- Having regard to the findings contained in the Stage 1 and Stage 2 reports, has the work to which the classifications apply been historically undervalued because of assumptions based on gender?
- Would variations to the minimum wage rates prescribed for the classifications: Be justified by work value reasons within the meaning of s 157(2A) of the Fair Work Act 2009 (Cth) (FW Act)? Be necessary to achieve the modern awards objective in s 134(1) of the FW Act? Be necessary to achieve the minimum wages objective in s 284(1) of the FW Act?
- Does the work of employees under any of the classifications involve the exercise of 'invisible' skills (including gender-related indigenous cultural skills) and/or caring work of the nature described in paragraphs [156(1)] and [172]–[173] and elsewhere in the >Stage 3 Aged Care decision?
- Is the benchmark rate identified in paragraph [170] of the Stage 3 Aged Care decision appropriate to apply to any of the classifications for which a Certificate III qualification or equivalent is required?
- Is the benchmark rate identified in paragraph [204] of the Stage 3 Aged Care decision appropriate to apply to any of the classifications for which an undergraduate degree qualification or equivalent is required?
- To the extent that any adjustment to the existing classification structure in any of the awards is required, what are appropriate terms (including classification descriptors and minimum wage rates) for a new or modified classification structure?
- To the extent that any increases to the minimum rates for any classifications are justified by work value reasons in order to remedy gender undervaluation, what is an appropriate implementation timetable for such increases having regard to funding and related issues?

---

[49] Gender Undervaluation — Priority Awards, Statement 7 June 2024, [2024] FWCFB 280, at [1]
[50] AWR 2023 Decision [2023] FWCFB 3500, at [137]
[51] Added to the proceedings on the Commission's own motion following applications made by the Australian Services Union, Australian Workers Union, Heath Services Union and United Workers Union (AM2024/25) and Australian Services Union (AM2024/27)
[52] Summarised from https://www.fwc.gov.au/hearings-decisions/major-cases/gender-undervaluation-priority-awards-review

- Should the equal remuneration order (PR525485) applicable to social and community service employees under the Social, Community, Home Care and Disability Services Industry Award 2010 be revoked consequent upon appropriate variations to the classification structure and minimum wage rates in that award?[53]

Proceedings concluded with final hearings on 19 and 20 December 2024.[54] At the time of compiling this submission the Full Bench's decision remains reserved.

10.4 The effect of minimum wages on the national gender pay gap

It is also relevant, as the Panel has previously found[55], to consider that the gender pay gap is mostly driven by higher paid workers. This finding is borne out by the most recent (May 2023) data on employee earnings in Australia. Table 4 below calculates the gender pay gap by method of setting pay for full-time adult non-managerial employees.

It shows that the total earnings gender pay gap is considerably lower for award employees (2.0%) than for all employees (15.9%). It also shows that the gender pay gap for award employees is negative – i.e. favours women – when calculated on an hourly earnings basis. This data makes clear that most of the gender pay gap results from gender wage dynamics facing higher paid workers outside the modern awards system.

While changes to minimum wages above the broader rate of wages growth may have a small impact on the gender pay gap in Australia, it is therefore unlikely this will be more than a very minimal effect.

Table 4: Gender pay gap by method of setting pay, 2023

	Average weekly total cash earnings	Average hourly total cash earnings
Award only	2.00%	-3.60%
Collective agreement	16.00%	7.20%
Individual arrangement	17.60%	12.20%
All methods of setting pay	15.90%	9.30%

Note: *Full-time non-managerial employees paid at the adult rate.* ***Source:*** *ABS Employee Earnings and Hours 2023, Datacube 7 Table 1.*

10.5 Approach for 2025 AWR

Ai Group is not aware of any basis for the Panel to depart from its previous approach to addressing pay disparity considerations, as set out in the AWR 2023 decision:

- Proceeds on the basis that "it is unlikely that a gender pay gap, or gaps can be addressed by uniform percentage wage increases to modern award minimum wages, since this will not improve the position of female modern award-reliant employees relative to male modern award-reliant employees".[56]

---

[53] https://www.fwc.gov.au/hearings-decisions/major-cases/gender-undervaluation-priority-awards-review, following the Expert Panel statement of 24 June 2024 [2024] FWCFB 291 (pdf)
[54] https://www.fwc.gov.au/hearings-decisions/major-cases/gender-undervaluation-priority-awards-review
[55] *Annual Wage Review 2018 – 19* [2019] FWCFB 3500 at [391].`
[56] AWR Decision 2023, 92023] FWCFB 3500, at [119]

- A pay gap or gaps “may better be addressed in the context of a consideration as to whether modern award minimum wage rates in female-dominated industries and occupations are undervalued relative to male-dominated industries and occupations”.[57]

A decision of the Commission in the Gender Undervaluation – Priority Awards Review may give rise to further consideration during this review.

[57] AWR Decision 2023, 92023] FWCFB 3500, at [119]

11. The need to improve access to secure work

11.1 Statutory considerations

Section 134(1)(aa) requires the Commission to take into account 'the need to improve access to secure work across the economy'.

The AWR 2023 Decision found:

> **[142]** We have earlier discussed the limited relevance that s 134(1)(aa) is likely to have in the context of the Review. The outcome of this Review will not affect those legal incidents of employment which may enhance or detract from job security (noting that no party has suggested any alteration to the NMW or standard modern award casual loading of 25 per cent). The Review outcome will only affect the capacity of employees to have access to secure work across the economy to the extent that it promotes or diminishes the capacity of employers to offer permanent employment.

11.2 Indicators of secure work

The corollary of *'secure work'* is usually measured through three statistical indicators: the proportion of casual employees[58], labour hire employees, and employees on fixed-term contracts. Table 4 below presents indicators on the prevalence of these forms of employment in Australia between 2014 and 2024, drawn from relevant ABS surveys.

Table 4: Indicators of secure work, 2014-2024

	Labour hire employees		Fixed-term contract employees		Casual employees^	
ABS Survey	Labour Account survey		Characteristics of Employment survey		Labour Force Survey	
Collection	June months		August months		November quarters	
Source	ABS Labour Hire Workers (Table 1)		ABS Working Arrangements (Table 6)		ABS LFSD (A84631158X)	
Unit	'000 persons	% total employed	'000 persons	% total employed	'000 persons	% total employed
2014	217.1	1.8%	346.7	3.7%	2331.6	24.3%
2015	231.0	1.9%	379.0	3.9%	2401.4	24.4%
2016	231.3	1.9%	399.6	4.1%	2541.0	25.4%
2017	250.4	2.0%	387.1	3.9%	2597.5	25.3%
2018	301.8	2.4%	392.6	3.8%	2677.0	25.2%
2019	308.1	0.0%	379.1	3.6%	2608.1	24.2%
2020	265.7	2.1%	398.7	3.9%	2447.2	22.9%
2021	284.7	2.1%	389.2	3.7%	141.7	23.0%
2022	308.6	2.2%	383.3	3.4%	2722.9	23.3%
2023	308.1	2.2%	339.8	2.9%	2724.5	22.6%
2024	359.1	2.4%	512.3	4.2%	2737.9	22.2%

Notes: For main job of employees. ^ Casuals are defined as employees without paid leave entitlements.

The prevalence of casual employment continued to decline in 2024, and current sits at its lowest level in a decade. However, there was a minor increase in labour hire employment, and a significant increase in fixed-term employment, during the year. While neither indicator has risen materially above typical levels over the last decade, the increase in both during 2024 is noteworthy. It is likely this is associated with the slowdown in the private sector

[58] For the purposes of statistical collection, casual employment is defined as employees who do not have paid leave entitlements.

labour market identified in Section 4, which has seen businesses make greater use of forms of employment without an ongoing commitment to employ in response to weakening business conditions.

In order to sustain the recent increase in permanent ongoing employment, it is important that employers have the confidence to continue to engage employees on that basis. Uncertain economic conditions and/or disproportionately high labour costs may result in employers relying, to a greater extent, on casual employment, labour hire arrangements or fixed-term engagements.

A more than moderate wage increase would potentially undermine the objective of *'improving access to secure work'*. Employers may be less inclined to commit to engaging permanent ongoing staff, given the myriad of additional entitlements, obligations and inflexibilities associated with such forms of employment. More broadly, in the context of current economic conditions it risks undermining the security of jobs, notwithstanding that that there are other variables that impact this issue.

12. Providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability

We deal with the approach that should be adopted by the Panel in respect of junior employees, employees to whom training arrangements apply and employees with a disability in sections 13 – 16 and 18 – 20 of this submission.

In summary, we submit that:

(a) In respect of award / agreement free junior employees, employees to whom training arrangements apply and employees with a disability, the Panel should adopt the same approach as it has done in previous AWRs.

(b) In respect of award covered junior employees, employees to whom training arrangements apply and employees with a disability, any increases awarded in the 2024 AWR should flow on to them, through the operation of existing award provisions that prescribe the minimum wages payable to them.

Such an approach would ensure the continuation of a comprehensive range of fair minimum wages applying to the aforementioned cohorts of employees.

13. The need to encourage collective bargaining

As indicated in the 2023-24 Decision[59], the Expert Panel is required to consider the need to encourage collective bargaining by s 134(1)(b), and this "requires attention to be given to whether the exercise of modern award powers may affect the extent to which enterprise bargaining is occurring".[60]

There is consideration from [136] to [139] of the previous decision of the extent to which changes in the use of enterprise bargaining are, or may be, attributable to changes to legislation, and to determinations in these reviews.

Paragraph [139] of the 2023-24 Decision addresses the relationship between increases in minimum wages and bargaining, or perhaps more accurately to changes in aggregate appetite or propensity to use the enterprise agreement making system under the FW Act as amended from time to time.

The discussion of the conclusions of previous decisions, and in particular references to the AWR 2023 decision and amendments effected by the Secure Jobs Better Pay Act is noted. However, matters identified under paragraph 134(1)(b) must nonetheless be assessed in the context of this review.

Further, as identified in the 2022 AWR decision, 'in making the NMW order, the Panel must give effect to the minimum wages objective. While the minimum wages objective does not refer to *'the need to encourage collective bargaining', one of the objects of the Act is to encourage collective bargaining and, on that basis, it is appropriate to consider that legislative purpose in making the NMW order'*.[61]

It is axiomatic that a higher minimum wage, or high increase(s) in minimum wages, will generally provide greater disincentives to employers engaging in collective bargaining or, at the very least, a potential barrier to the making of enterprise agreements, given the legislative framework requires, in effect, employees are financially better off under any agreement than they would be under an otherwise applicable award.

The practical impact of such a disincentive will vary between industries and employers. In contexts where employers have limited capacity to increase their revenue (including but not limited to employers in government funded sectors) it cannot logically be contested that an increase to award rates will be a barrier to bargaining for some employers, accepting that this may not be the sole factor governing decisions over whether to bargaining and the extent to which it may discourage bargaining is not possible to quantify.

A higher increase can also logically be expected to reduce the motivation for some employees, and by extension, their representatives, to initiate collective bargaining.

The Commission's consideration of the need to encourage collective bargaining should generally have a moderating influence on the determination of the quantum of any increase to both the NMW and award wages more broadly. It is not necessary for Ai Group or any interest arguing for moderation based on this consideration to demonstrate a quantifiable relationship between minimum wage rises and bargaining levels[62], something which is unlikely to be possible given the impacts of legislative changes and general economic considerations. Rather, as stated, this is a general consideration favouring moderation in decision making in this Review.

It is appropriate that bargaining is viewed as a preferential avenue for delivering higher wage increases to employees, including low paid employees, compared to the blunt approach of increasing minimum award wages, given not only because of the statutory imperative to take into account the need to encourage enterprise bargaining but because of:

[59] AWR 2024 decision [2024] FWCFB 3500 at [136]
[60] AWR 2023 decision [2023] FWCFB 3500, 323 IR 332 [148]
[61] AWR 2023 decision [2022] FWCFB 3500 at [80].
[62] See AWR 2023 decision [2023] FWCFB 3500 at [154].

- Enterprise bargaining’s greater capacity to deliver outcomes tailored to the circumstances of particular enterprises, sectors or parts of the economy; and
- The capacity for enterprise level bargaining / single enterprise bargaining to contribute to productivity improvement.

14. Implementation

The implementation of decisions in these reviews may give rise to:

- Variations to modern awards.
- Increases in wage rates in transitional instruments.
- The making of an annual National Minimum Wage Order.

Ai Group makes the following initial submission on the flow on or implementation considerations that arise after the determination of a headline or overall increase to modern award rates of pay in this review.

Section 9 of the 2024 decision addressed the implementation of the Panel's determination of a headline or overall level of increase, continuing previously determined approaches. Ai Group in essence does not oppose again applying these established approaches in 2025, as follows.

14.1 Modern award minimum wages for junior employees

Consistent with previous AWR decisions, any minimum wage increase resulting from this year's AWR should flow apply to minimum award wages for junior employees, through the operation of relevant award provisions that prescribe minimum rates for junior employees based on established approaches for each award.

14.2 Modern award minimum wages for employees to whom training arrangements apply

Consistent with previous AWR decisions, any minimum wage increase resulting from this year's AWR should flow through to the minimum award wages of employees to whom training arrangements apply, through the operation of the relevant award provisions relating to these employees / based on established approaches for each award.

14.3 Modern award minimum wages for employees with disability

Consistent with previous AWR decisions, any minimum wage increase resulting from this year's AWR should flow through to the minimum award wages of employees with disability, through the operation of the relevant award provisions relating to these employees based on established approaches for each award.

14.4 Piece rates in modern awards

Ai Group does not seek changes to established arrangements in awards to flowing on of the outcomes of the AWR in relation to piece rates, consistent with existing approaches in specific modern awards for the calculation of piece rates.

14.5 Casual loadings in modern awards

The standard or prevailing casual loading in modern awards is 25%. During the Award Modernisation process in 2008-09, the Award Modernisation Full Bench of the AIRC in the Priority Stage Award Modernisation Decision found:

> **[49]** In 2000 a Full Bench of this Commission considered the level of the casual loading in the Metal, Engineering and Associated Industries Award 1998 (the Metal industry award). The Bench increased the casual loading in the award to 25 per cent. The decision contains full reasons for adopting a loading at that level. The same loading was later adopted by Full Benches in the pastoral industry. It

> has also been adopted in a number of other awards. Although the decisions in these cases were based on the circumstances of the industries concerned, we consider that the reasoning in that case is generally sound and that the 25 per cent loading is sufficiently common to qualify as a minimum standard.
>
> **[50]** In all the circumstances we have decided to confirm our earlier indication that we would adopt a standard casual loading of 25 per cent. We make it clear that the loading will compensate for annual leave and there will be no additional payment in that respect. Also, as a general rule, where penalties apply the penalties and the casual loading are both to be calculated on the ordinary time rate.

No change is proposed to the standard casual loading in modern awards of 25 per cent.

15. Transitional instruments

In the 2024 AWR, the Panel decided to maintain the approach taken in previous AWRs, increasing the rates in relevant transitional instruments consistent with any increase determined for modern award minimum wages.[63] The Panel determined that:

> **[178]** Our determination in this Review is that the wage rates in all remaining transitional instruments and copied State awards are also increased by 3.75 per cent. This determination comes into operation on 1 July 2024 and takes effect in relation to a particular employee from the start of the employee's first full pay period on or after 1 July 2024. The Commission is not required to publish the rates of the wages in the relevant transitional instruments or copied State awards as so varied, and accordingly we will not do so.

Ai Group does not oppose the continuation of this approach in this 2025 AWR, updated to reflect any level of increase awarded in this review.

[63] *Annual Wage Review 2023 – 24* [2024] FWCFB 3500 at [178]

16. The National Minimum Wage Order

16.1 The form of the National Minimum Wage Order

In the 2024 AWR Decision the Panel determined that:

> **[174]** The NMW order will contain:
>
> (a) A national minimum wage of $915.90 per week or $24.10 per hour;
>
> (b) Two special national minimum wages for award/agreement free employees with a disability: for employees whose productivity is not affected, a minimum wage of $915.90 per week or $24.10 per hour based on a 38-hour week, and for employees whose productivity is affected, an assessment under the Supported Wage System (SWS), subject to a minimum payment fixed under Schedule A to the order;
>
> (c) Wages provisions for award/agreement free junior employees based on the percentages for juniors in the Miscellaneous Award 2020 applied to the national minimum wage;
>
> (d) The apprentice wage provisions and the National Training Wage Schedule in the Miscellaneous Award 2020 for award/agreement free employees to whom training arrangements apply, incorporated by reference; and (e) A casual loading of 25 per cent for award/agreement free employees.

This subsequently gave rise to the issuing of the Annual Wage Review 2023–24 – National Minimum Wage Order on 18 June 2024.

Ai Group is not aware of any difficulties or ambiguities created by the form of the National Minimum Wage Order 2024.

16.2 National Minimum Wage

Ai Group is not proposing changes to the basis on which the NMW is determined this review. We do not seek to change the broad approach taken in the preceding 2024 review decision at [174(a)].

16.3 Casual loading for award / agreement free employees

Section 294(1)(c) of the FW Act requires that the Panel set a casual loading for award / agreement free employees.

The casual loading in the National Minimum Wage Order 2024 is 25 per cent. The National Minimum Wage Order 2025 should prescribe an unchanged 25 per cent loading for award / agreement free employees.

16.4 Special National Minimum Wage 1 and 2 – award/agreement free employees with disability

In the 2023 AWR, the Commission decided to maintain the approach it had adopted in previous years in respect of setting special minimum wages for award / agreement free employees with disability. This was applied again in 2025.

This approach is twofold. For employees whose productivity is not affected, a special national minimum wage is set at the level of the National Minimum Wage (Special National Minimum Wage 1). For employees whose productivity is affected, a special national minimum wage is set in accordance with an assessment under the supported wage system (Special National Minimum Wage 2).

Ai Group does not propose changes to the existing approach to setting minimum wages for award / agreement free employees with disability.

16.5 Special National Minimum Wage 3 – award/agreement free junior employees

In its decision concerning the 2010-2011 AWR, the Panel decided to use the scale in the Miscellaneous Award 2010 (as it then was) to set the special national minimum wage for award/agreement free junior employees. The Panel has followed this approach in subsequent AWR decisions, including the 2024 decision and order.

This approach remains appropriate for setting rates for award/agreement free junior employees. Any 2025 National Minimum Wage Order should reflect the approach taken in the 2024 Order at Item 8.

16.6 Special National Minimum Wage 4 – award/agreement free apprentices

In the 2014 AWR, the Panel reached the following conclusions about the special national minimum wages for award/agreement free apprentices:

> **[613]** We have decided to adopt the provisions of the Miscellaneous Award 2010 as the basis for the special national minimum wages for employees to whom training arrangements apply. The national minimum wage order will incorporate, by reference, the apprentice and NTWS provisions of that award.
>
> **[614]** We also accept Ai Group's submission that the adult apprentice NMW in the order should now be set in accordance with the Miscellaneous Award 2010 which, since 1 January 2014, has specified a rate for adult apprentices. …

The Panel adopted this approach in subsequent AWRs. In the 2023 AWR, the Panel saw no reason to review this approach. This remains the appropriate mechanism for setting rates for award/agreement free apprentices.

16.7 Special National Minimum Wage 5 – award/agreement free employees to whom a training arrangement applies who are not apprentices

In the National Minimum Wage Order 2011, the Panel decided to adopt the minimum wage rates in the National Training Wage Schedule of the Miscellaneous Award 2010 for the special national minimum wage for award / agreement free employees to whom training arrangements apply, other than apprentices. The Panel adopted the same approach in its subsequent AWR decisions.

This remains the appropriate mechanism for setting rates for award/agreement free employees to whom a training arrangement applies who are not apprentices.