

Budget Estimates 2022 - 2023

TOPIC: s 22 **MODELLING MINIMUM WAGE ANALYSIS, IMPACT ON AGGREGATE WAGES, INFLATION.**

WITNESSES: Luke Yeaman, Sarah Hunter, Ineke Redmond

Strategic Narrative

- In its submission to the 2022-23 Annual Wage Review, the Government recommended that the Fair Work Commission (FWC) ensures the real wages of Australia's low paid workers do not go backwards.
- s 22
- Administered wage decisions, including the Annual Wage Review (AWR) s 22 are supporting growth in wages.

KEY FACTS AND FIGURES *Detail may inform the Key Facts and Figures Brief

- Nominal wages (as measured by the WPI) are expected to grow by 4 per cent in 2023–24, before easing back to 3¼ per cent growth in 2024–25 as the labour market softens and administered wage outcomes normalise.
- At the 2023-24 Budget, Treasury assumed FWC determinations would add around ½ of a percentage point to wages growth in 2023–24. This includes the AWR and Aged Care Work Value Case.
- On 2 June 2023, the Fair Work Commission (FWC) announced that modern award wages would increase by 5.75 per cent and the National Minimum Wage would increase by an aggregate 8.6 per cent, effective from 1 July 2023.
 - The outcome of the AWR decision was a slightly larger increase than the technical assumption used in Budget, but does not materially increase the forecasts for wages and inflation in the 2023-24 Budget. Treasury will update its forecasts, considering the full range of new data, at MYEFO.

Talking Points

- The Government is supporting wage growth by recommending that the FWC ensures the real wages of Australia’s low paid workers do not go backwards.
- The impact of the AWR is expected to add around ¼ of a percentage point to the WPI in 2023-24, increasing inflation by around ¼ of a percentage point in total spread evenly across 2023-24 and 2024-25.

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s 22 [Redacted]

- Stronger nominal wages growth and easing inflation are expected to see an earlier and stronger return to real wages growth, with real wages growth forecast to return from early 2024.

Timeline of Key Events: Fair Work Commission’s Annual Wage Review

Date	Action
31 March 2023	Lodgement of the Government’s initial submission to the Fair Work Commission’s 2022-23 AWR.
28 April 2023	Lodgement of the Government’s responses to questions on notice to the 2022-23 AWR.
12 May 2023	Lodgement of the Government’s post-Budget submission to the 2022-23 AWR.
17 May 2023	Treasury and Department of Employment and Workplace Relations officials appeared at public consultations to the 2022-23 AWR.
2 June 2023	FWC announced the outcome of the 2022-23 AWR: an increase to modern award wages of 5.75 per cent and an aggregate increase to the National Minimum Wage of 8.6 per cent.
1 July 2023	The minimum wage order will take effect.

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Background

Process

- Annual Wage Review submission
 - Each year, the Australian Government provides a submission to the Fair Work Commission’s (FWC) Annual Wage Review (AWR). The Government lodged its initial submission to the 2022-23 AWR on 31 March 2023.
 - The Government’s submission provides the latest data and evidence, details the current economic circumstances, and highlights the need to manage macroeconomic risks.
 - In its 2023 submission, the Government recommended that the Commission ensures the real wages of Australia’s low-paid workers do not go backwards.
 - The Government also made a post-Budget submission to the Commission to ensure the Commission has up to date information on the economic outlook and key economic forecasts, and additional measures that will take effect in 2023-24 that may be relevant to their considerations.
 - The Government’s post-Budget submission for the 2022-23 AWR was lodged with the Commission on 12 May 2023.
 - Senior officials from Treasury and the Department of Employment and Workplace Relations appeared at the Consultation Hearing for the AWR on 17 May 2023.

- The FWC is an independent body that considers a range of submissions and evidence, including the Government submission, in making a decision on minimum and award wage rates for the coming year.

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Impact analysis

- Annual Wage Review

- For the purpose of the 2023-24 Budget wages forecasts, Treasury assumed a similar approach would be taken in the June 2023 AWR determination as was adopted in the decision impacting wages growth in 2022–23.
 - The decision impacting 2022–23 wages increased the wages of national minimum wage (NMW) workers by 5.2 per cent and award wages by between 4.6 per cent and 5.2 per cent.
- Treasury assumed an average increase of 5.2% in award (and award-linked) wages.
 - The national minimum wage was assumed to increase broadly in line with March quarter 2023 inflation (unpublished forecast: 6.9 per cent), equivalent to around a \$56 per week for a full-time worker.
 - Treasury assumed a smaller per cent increase for other awards, either the same dollar amount or in line with expected aggregate wages growth of 4 per cent in 2023-24, whichever is larger. This is equivalent to an estimated average pay increase of around 5.2 per cent.
 - Around 580,000 additional workers are estimated to be on award-linked EBAs or individual agreements (5 per cent of employees).

- This assumption added $\frac{1}{4}$ of a percentage point to the WPI and $\frac{1}{2}$ of a percentage point to AENA.
 - This is above the historical average contribution from the AWR decision.
 - Treasury assumes that the FWC determination will have a modest spill-over effect on non-award wages.
- Based on Treasury modelling, it is assumed the passthrough to CPI is around half the increase in AENA, or a $\frac{1}{4}$ percentage point.
- The Government recommended that the FWC ensures the real wages of Australia’s low-paid workers do not go backwards.
 - Other submissions have been varied in their recommendations. Unions, such as the Australian Council of Trade Unions, have called for a 7 per cent pay rise across all awards. Meanwhile key employer groups, such as the Australian Retailers Association and the Australian Chamber of Commerce and Industry, have called for lower pay rises of 3.8 per cent and 3.5 per cent respectively.

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Annual Wage Review outcome

- The Fair Work Commission’s Expert Panel released its 2022-23 Annual Wage Review (AWR) decision on 2 June 2023.
- The decision increased modern award wages by 5.75 per cent effective from 1 July 2023.
- Separately, a technical, two-step change will result in an aggregate 8.6 per cent increase to the NMW. This means a minimum wage earner will receive a total wage increase of \$1.85 per hour, taking their pay to \$23.23 per hour.

1. The Panel increased the NMW rate by 5.75 per cent consistent with the announced increase for modern award wages more broadly.
 2. The Panel also ended the alignment between the NMW rate and the C14 (introductory) classification wage rate in modern awards. This interim step aligns the NMW with the current C13 classification wage rate.
 - The C13 classification wage rate is considered the lowest classification rate applicable to ongoing employment in most modern awards.
- In total, the Panel’s decision on modern award minimum wage rates and the NMW rate is expected to benefit roughly one quarter of all employees.
 - Up to 2.7 million award-reliant workers (23 per cent of all employees) will benefit from the Panel’s 5.75 per cent increase to modern award minimum wage rates.
 - An estimated 79,200 minimum wage workers will benefit from the technical increase in the NMW. This is a subset of the up to 1.6 per cent of employees (184,000) that were being paid the NMW in May 2021.
 - Given, the targeted, technical increase for NMW reliant workers, around 104,000 adult employees may be paid a modern award minimum wage rate (\$22.61 per hour) below the NMW rate (\$23.23 per hour) in 2023-24. This includes workers covered by awards (88,900) or EBAs (15,900) who were paid a base rate equivalent to the 2022-23 NMW (\$21.38 per hour).
 - The outcome of the AWR decision was a slightly larger increase than the technical assumption used in Budget. This stronger outcome does not materially increase the forecasts for wages and inflation in the 2023-24 Budget.
 - The decision is estimated to increase award (and award-linked) wages by an average of 5.8 per cent. This is higher than the average increase Treasury assumed of 5.2 per cent.
 - In isolation, without consideration to any other data or assumptions, this update would mechanically add 0.1 per cent to the wages and inflation forecast. Treasury will update its forecasts, considering the full range of new data, at MYEFO.

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Contact Officer
Consultation

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Table 1: Summary of AWR Budget judgements and outcomes

	Budget Assumption	Outcome
Minimum wage increase	6.9% (\$56 p/w for full time worker)	8.6% (\$70.20 p/w for full time workers)
Award wages (and award linked)	4% or \$56 p/w, whichever is larger	5.75%
Estimated average pay increase (total)	5.2%	5.8%
Workers who received minimum wage increase	184,000 receive 6.9%	79,200 receive 8.6% (Non-award workers with IAs on the NMW) 104,800 receive 5.75% (Award and Award-linked EBA workers on the NMW)
Employees on award wages (May 2021)	2,659,400 employees (23.0% of all employees)	
Employees on award-linked EBA's or Individual arrangements	Around 5% of employees (Based on RBA estimate)	
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Impact on WPI (rounded)	Direct: 1/4 Total: 1/4	Direct: 1/4 Total: 1/2
WPI spillover assumption	50% over 6 quarters	
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Impact on AENA (rounded)	Direct: 1/4 Total: 1/2	Direct: 1/2 Total: 1/2
AENA spillover assumption	50% over 6 quarters	
Assumed pass-through to CPI	50% of AENA impact	
Impact on CPI	¼ percentage point s 47J	¼ percentage point s 47J