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Minimum Wage Decision Award Wages Put RBA In The Hot Seat

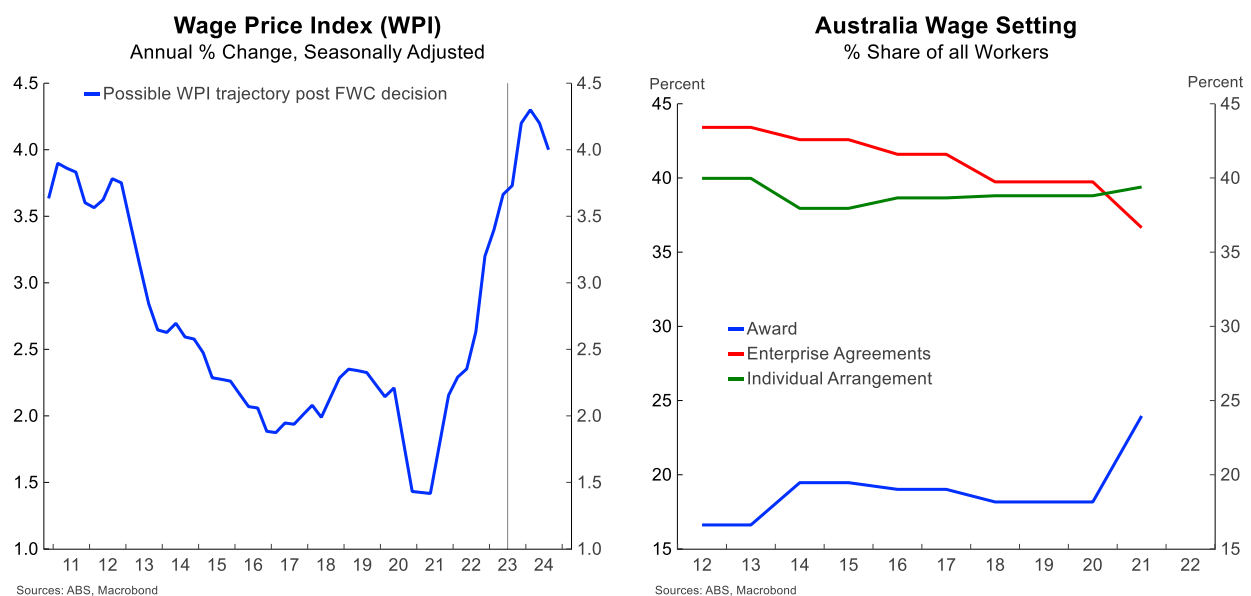
- The Fair Work Commission (FWC) delivered its long-awaited 2023-24 minimum wage decision. Around 2.6 million persons on a minimum wage, award or enterprise agreement tied to an award will receive a 5.75% increase in their wages from 1 July 2023.
- This is higher than last year's decision, which was a 5.2% rise for the minimum wage and a 4.6% rise for the award wages.
- If we allow for the FWC shifting up the minimum wage to the higher C14 award rate, the effective rise in the minimum wage is 8.6% (not 5.75%). It impacts only a small number of workers directly, that is, around 184k or less than 1% of the workforce.
- The decision was higher than what was factored into the Federal Budget. Reporting from the Senate estimates earlier this week suggested that Treasury expected around a 7% increase for minimum wage earners and at least a 4.5% increase for those on award wages.
- The minimum wage decision is expected to see real wages growth (i.e. wages adjusted for inflation) in 2023-24 for those affected. Policymakers – Federal Treasury and RBA - expect inflation to moderate and grow between 3.25% and 3.60%, respectively, in 2023-24. However, the increase will not offset the sharp fall in real wages over recent years.
- What does this outcome mean? We estimate it could add up to 0.4 percentage points to the growth rate in the Wage Price Index (WPI) in the September quarter of 2023 compared to the September quarter of last year. This could bring the growth rate to 1.5% over the quarter and 4.2% in annual terms.
- Last year's minimum wage increase led to a 1.1% lift in wages growth over the September quarter 2022. The pace of wages growth then softened and grew by 0.8% in each of the following two quarters.
- Our view is that the boost to purchasing power from the decision is higher than last year's decision, will generate a greater spending impulse and see wages growth remain higher. Our Group view is unchanged at a 4.1% peak. But we see a strong risk that wages growth could rise to a peak of up to 4.25% before next year's minimum wage decision. Wages warming up will add to inflationary pressures.
- The RBA Governor at Senate Estimates this week appeared very concerned around nominal wage growth during a period of weak productivity growth. In our opinion, next week's decision has now become a very close call. The odds have shortened considerably that the RBA may need to tighten again.
- Interest-rate markets are attaching a probability of around 40% of a rate hike next week and are fully priced for a rate hike occurring by August.

The Australian Wage Setting System

In Australia, wages are determined in three main ways: through Individual Agreements (IAs), Enterprise Bargaining Agreements (EBAs) and Awards. The latter two can be considered “collective agreements.”

Around 26% of workers are covered by Awards, which are legally enforceable determinations that set out minimum terms and conditions of employment. Most of these workers are employed on a part time and casual basis in the hospitality, retail trade and healthcare industries. There are considerable variances across industries in terms of the share of workers covered by awards (see table over page).

The FWC sets out these minimum terms, which are reviewed on an annual basis. In reviewing these minimum standards (which includes the minimum wage), the FWC is required to consider macroeconomic factors, including productivity, competitiveness, inflation and employment growth, as well as microeconomic factors such as inequality and relative wage growth.



2023-24 Minimum Wage Decision

What does the Fair Work Commission (FWC) 2023-24 minimum wage decision mean?

The Decision will see:

- 184k people on the minimum wage receive a level shift in their wages from \$812.60 per week to \$834.80 per week (C14 award wage). This higher level will then grow by 5.75% from 1 July 2023 to \$882.80 per week.
- 2.3 million people on awards receive an increase of 5.75% from 1 July 2023.
- 74k persons on enterprise bargaining agreements tied to the minimum wage also receive an increase of 5.75% from 1 July 2023.

In addition, there are around 320k aged care workers who will receive a 15% increase in their award wage on 1 July 2023. This was a FWC decision from last year, which was provided for in the Federal Budget last month.

2022-23 Minimum Wage Decision

The FWC 2022-23 minimum wage decision saw minimum wage earners receive a 5.2% increase, while most award earners received a 4.6% increase.

This led to a 1.1% increase in the Wage Price Index (WPI) over the September quarter 2022 and also supported momentum in the WPI in the December quarter due to the staggered implementation of the wage increase for some award categories.

Modern Award Reliance by Industry Division

Industry division	Proportion of employees in industry that are modern award-reliant (%)
Accommodation and food services	59.6
Administrative and support services	42.3
Other services	36.4
Retail trade	29.5
Arts and recreation services	25.9
Health care and social assistance	23.0
Rental, hiring and real estate services	21.4
Manufacturing	19.1
Construction	13.4
Transport, postal and warehousing	12.5
Wholesale trade	10.0
Information, media and telecommunications	7.3
Education and training	6.6
Electricity, gas, water and waste services	5.7
Professional, scientific and technical services	5.4
Financial and insurance services	4.1
Public administration and safety	4.0
Mining	1.1*
All industries [#]	20.5

Note: * Estimate of modern award reliance for Mining has a relative standard error of greater than 50 per cent and is considered too unreliable for general use. # All industries excludes Agriculture, forestry and fishing, which is out of scope of the EEH survey.

Source: Kelvin Yuen and Josh Tomlinson, *A Profile of Employee Characteristics Across Modern Awards* (Fair Work Commission Research Report No 1/2023, March 2023) Chart 3.1.

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