



## Key findings:

### Economic and Social Indicators – Monitoring Report

July – December 2007

#### Introduction

Changes in minimum wages have different impacts across the labour market. The Australian Fair Pay Commission's (Commission's) *Economic and Social Indicators – Monitoring Report* monitors developments in the labour market and the safety net for people who are likely to be most affected by changes in minimum wages.

This document provides a snapshot of the key findings of the Report, which covers the period July - December 2007. Please refer to the Report for further details.

The Report can be downloaded from:

[www.fairpay.gov.au/fairpay/Research/Research2008/Research2008.htm](http://www.fairpay.gov.au/fairpay/Research/Research2008/Research2008.htm)

#### The economy

Overall, the economy has performed strongly in the period considered. The non-farm economy grew by 4.5 per cent in real terms over the year to the September quarter 2007.

Employment has grown moderately over the past year, at 2.5 per cent, but labour force participation has been generally stable at 65 per cent of the working age population. As a result, the unemployment rate has edged lower in 2007, to 4.3 per cent.

Generally, labour costs have been growing steadily, at around 4 per cent over the year to December 2007. Consumer prices rose by 3 per cent over the same period, which is slightly higher than was expected at the time of the Commission's July 2007 decision.

#### Industry trends

The Commission monitors changes in employment, wages and productivity in those industries most reliant on minimum wages for the remuneration of their employees.

Seven industries account for 85 per cent of all Pay Scale reliant employees (and 60 per cent of total employment in the economy). These are Accommodation, cafes and restaurants, Manufacturing, Retail trade, Property and business services, Education, Health and community services, and Personal and other services.

Overall, wages in those industries with greater sensitivity to minimum wages have grown more slowly than in other segments of the economy in the past year.

Employment patterns have been diverse, with strong growth in the Retail trade sector, at 6.4 per cent, and the level of employment in the Accommodation, cafes and restaurants sector unchanged. Job vacancies in most industries continue to be high, compared with the levels recorded over the past five years.

### **Labour market outcomes for low-skilled and low-paid workers**

The Commission monitors labour market trends for those demographic groups and occupations with a relatively high proportion of low-skilled or low-paid workers. A focus is placed on trends in skill levels, unemployment and participation rates for particular groups, such as single parents and migrants from non-English speaking countries.

Labour force participation and employment rates for many of these groups have continued to improve over the past year. There has been a particularly strong improvement in the employment of single parents.

The results from an analysis of occupational employment suggest that employment growth in low-skilled occupations — Elementary clerical, sales and service workers and Labourers and related workers — has been lower than for all other occupations in recent years.

### **Safety net and work incentives**

In order to monitor trends in the value of the income safety net and work incentives, the Commission examines changes in the real value of the Federal Minimum Wage. The real value of that wage has been broadly steady in the year to December 2007.

The Commission also looks at the real disposable incomes of a number of household types, each containing one worker only, who is on the Federal Minimum Wage. The Commission's December 2006 increase in minimum wages particularly benefited single people with or without children, whereas there was a lesser effect for couples, due to higher effective marginal tax rates. Subsequently, disposable incomes for all four household types modelled by the Commission rose as a result of the July 2007 income tax cuts and the October 2007 minimum wage increase.

However, the minimum wage has declined relative to average earnings and disposable incomes for some household types have declined relative to the relevant Henderson Poverty Lines.

Work incentives are assessed by comparing the disposable incomes of the same household types, when earning the Federal Minimum Wage, with the income they would receive when out of work and receiving income support. Over the past two years, financial incentives to take a job at the Federal Minimum Wage have improved for all household types identified. This has occurred largely through an easing in the rate at which benefits are reduced as earnings rise and as a result of changes which effectively raised the minimum threshold for the payment of income tax.