



Key findings:

Economic and Social Indicators – Monitoring Report

July – December 2008

- The Report focuses on the period from June to December 2008, during which the Commission's third general Wage-Setting Decision was implemented. This was a time when the labour market was responding to slowing domestic and international activity.
- The report was completed prior to the publication of the January 2009 Labour Force Survey data. However, the trends identified in the monitoring report were confirmed by that survey, with employment slowing further and the unemployment rate increasing to 4.8 per cent.
- While a large switch towards part-time employment in December was largely offset in January, the trend over the last six months was still toward greater part-time employment and less full-time employment
- The slowing in economic growth has begun to flow through to the labour market. The number of people employed increased by around 153,000 in the six months to December 2007 but slowed to 98,000 in the six months to June 2008 and 35,000 (or 0.3 per cent) in the six months to December 2008.
- According to results from the main business surveys, the labour market is expected to weaken significantly during the course of 2009. A reduction in working hours has borne the brunt of the initial adjustment. However, many businesses expect a decline in employment and the rate of unemployment to rise further. Inflation is expected to moderate from a relatively high rate.
- Of the more Pay Scale reliant industries, employment declined in Retail trade and Accommodation, cafes and restaurants over the six months to December 2008.
- The number of employees in low-skilled occupations increased by 2.2 per cent over the year to November 2008, compared with an increase of 2.1 per cent for higher-skilled employees. However, low-skilled employment growth slowed quickly over the second half of 2008.
- High inflation outcomes have offset recent increases to the Federal Minimum Wage, leaving its real value broadly unchanged. However, after taking into account the interaction of wages, taxes and transfers, the Commission's modelling suggests there has been a continued improvement in real household disposable incomes for the households that are most reliant on a minimum wage earner.

Macroeconomic developments

- Economic growth has slowed from a peak in early 2007. The extent of the slowing that occurred was marked, as illustrated by the 0.3 per cent contraction in non-farm GDP in the September quarter of 2008.
- The slowing in economic growth has begun to flow through to the labour market. The number of people employed increased by around 153,000 in the six months to December 2007 but slowed to 98,000 in the six months to June 2008 and 35,000 in the six months to December 2008.
- Part-time employment grew more quickly than full-time employment in 2008. Part-time employment increased by 3.4 per cent over the year, whereas full-time employment increased by 0.4 per cent. While there is some volatility on a month-to-month basis, the trend towards part-time job creation is a significant change compared with the year before, when economic growth was stronger.
- Measures of nominal wages have continued to grow steadily over the past six months. Consumer price inflation peaked in the second half of 2008 but has begun to slow, with prices increasing by 3.7 per cent over the year.
- Private sector forecasts for key economic and labour market indicators range widely, suggesting considerable uncertainty over the outlook. Various forward-looking surveys point to a weakening in business conditions, profitability and employment intentions, with some indicators comparable with previous periods when there was a sharp increase in unemployment.

Employment of low-paid workers

- Over the second half of 2008, part-time employment rates increased and full-time employment rates decreased for a selection of demographic groups with a high concentration of low-skilled people. These shifts were also evident for the aggregate labour market. The largest fall in the total employment rate was for 20-24 year olds who are not in full-time education.
- Over the six months to November 2008, growth in the number of employees in low-skilled occupations has slowed significantly, to around 0.5 per cent, with the average number of hours of employment increasing at a higher rate.
- Growth in the number of employees in Property and business services and Health and community services has generally been above that for all employees. In contrast, growth in the number of employees in Retail trade and Accommodation, cafes and restaurants has generally been below that for all employees.

- Average wages in Accommodation, cafes and restaurants grew at a significantly lower rate in the September quarter 2008 than in Retail trade and all industries on average. Generally, wage growth has been lower for low-skilled occupations than higher-skilled occupations.

The safety net and work incentives

- The report focuses on the circumstances of households with one adult worker on the Federal Minimum Wage. These groups include: a single person without children; a couple without children; a single parent pensioner with one child aged 5 to 7; a single parent allowee with a child aged 8 to 12 and a couple with two children aged 5 to 12.
- Over the period from August 2005 to November 2008, the disposable incomes of all the households that were modelled increased in real terms. The approximate real increases for each of the household types over this period were as follows:
 - 12 per cent for a couple without children;
 - 9 per cent for a couple with two children aged 5 to 12;
 - 7 per cent for a single-parent pensioner household and a single person without children; and
 - 4 per cent for a single-parent allowee with a child aged 8 to 12.
- The disposable incomes of the same five household types are compared to their relevant Henderson Poverty Lines (HPLs). Disposable incomes relative to relevant HPLs improved slightly for households with one FMW earner following implementation of the Commission's second minimum wage decision in October 2007. Over the longer term, there has been a slight decline in the ratios for all FMW-earner household types.
- Recent research by the Melbourne Institute for the Commission examined recent trends in household income, wealth and financial hardship among low-paid employees in Australia. This research found that low-paid employees were more likely than employees who were not low-paid to have low levels of household income and/or wealth. Despite this fact, the research also established that the majority of low-paid employees did not have low levels of household income and/or wealth.
- The report also considers financial incentives for a person who is unemployed to take up a full-time job at the FMW. These include replacement rates, net financial gain and the proportion of earnings retained for the same household types. Overall, financial incentives for most household types appear to have strengthened. For the most part, these changes have been driven by tax cuts and, to a lesser extent, annual increases in the FMW.