



Key findings:

Economic and Social Indicators – Monitoring Report

January – June 2008

Economic activity

- Economic growth in Australia slowed over the six months to March 2008 to a more moderate rate.
- Aggregate employment growth has moderated since the beginning of 2008. Combined with steady growth in the labour force, this has resulted in a small increase in the unemployment rate. Around two-thirds of all jobs created in 2007-08 were full-time positions, similar to the aggregate proportion of employees in full-time positions (around 70 per cent). Growth in the number of job vacancies slowed over the six months to May 2008.
- The Consumer Price Index increased by 4.5 per cent over the year to the June quarter 2008, while underlying inflation was 4.4 per cent – its highest level in seventeen years.
- Most aggregate wage measures have been reasonably steady over the past few years. However, labour productivity has slowed on a number of measures and real unit labour costs have increased slightly.

Employment growth for low-paid workers

- Trends in employment rates for demographic groups that contain relatively high proportions of low-skilled workers have been similar to those of the general population. There were no significant changes in employment rates for these groups in the months immediately after the Commission's first and second general Wage-Setting Decisions took effect.
- Since 2006-07 there has been no significant difference in output growth between those industries that are most sensitive to the Commission's decisions and other industries. The performance of the more Pay Scale reliant industries has improved in that time, with Retail trade experiencing relatively strong growth.
- Relative to all industries, some of the more Pay Scale reliant industries have experienced higher than average employment growth over the past year, while others have experienced lower than average growth.
- Over the six months to May 2008, employment in low-skilled occupations grew at a higher rate than employment in higher skilled occupations, with employment of Labourers and related workers increasing significantly.

Wage growth for low-paid workers

- Results from the Melbourne Institute Wages Report indicate that, over the past few years, wages for the lowest-paid employees (i.e. employees whose pay is determined solely by an award) have been growing more slowly than the labour force as a whole.
- Industry-level data indicate that wage growth increased in some low-skilled industries, particularly Accommodation, cafes and restaurants and Retail trade, around the time of the Commission's 2006 general Wage-Setting Decision. Some low-skilled occupations also showed an increase. Wage growth in low-skilled industries and occupations appears to have been steadier through the time of the Commission's 2007 general Wage-Setting Decision.
- Recent wage growth under collective agreements in Retail trade and Accommodation, cafes and restaurants has been lower on average than most other industries, and relatively close to wage growth under awards in those industries.

Living costs for low-paid households

- The ABS' analytical living cost index for employee households increased by 5.7 per cent over the year to the June quarter 2008 – its highest annual increase since the June quarter 2001.
- Various organisations have suggested that the costs for low-paid households are increasing at a greater rate than for other households. The Secretariat has compiled a living cost index for low-paid employee households, based on the ABS methodology, to examine this issue.
- The low-paid household living cost index was primarily based upon average expenditure patterns of low-paid households (from the 2003-04 ABS Household Expenditure Survey) and prices data from the CPI release.
 - Low-income employee households are defined as the bottom 20 per cent by equivalised total current weekly household income of households whose principal source of household income is wages and salaries.
- As there are minor differences in average expenditure patterns, recent changes in living costs for low-income employee households (or low-paid households) are estimated to have been similar to those of employee households as a whole (increasing by 5.8 per cent over the year to the June quarter 2008).
- The analytical living cost indexes differ from the CPI in that they include interest charges but exclude house purchases. Rising interest charges over 2007-08 are the main reason that the living cost index for employee households has increased by more than the CPI.

Disposable incomes and work incentives

- The report focuses on the circumstances of groups other than those households with one adult earner on the single Federal Minimum Wage (FMW). These groups include employees in higher Pay Scale classifications; part-time and

secondary earners; workers with a disability; junior employees and employees to whom a training arrangement applies.

- The September monitoring report analyses and tracks the disposable incomes and work incentives of low-wage earners in these groups, to complement the focus in the March monitoring report on households with one earner on the FMW.
- For Pay Scale reliant employees earning at least up to the C4 classification wage (currently around \$750 per week), the wage rises granted by the Commission and relevant changes to the tax and social security systems have resulted in sustained real increases in disposable income for a variety of household types.
- The Commission's modelling suggests that, for individuals in a broad range of circumstances, there are financial incentives to take up low-paid employment. However, the Commission notes that some groups face weaker financial incentives, for example, people contemplating a return to part-time work whose partners are already in low-paid full-time work.
- Financial modelling also suggests that people receiving Disability Support Pension (DSP) have favourable incentives to combine part-time employment with DSP receipt, if they are able to do so. For example, a single person without children would increase their disposable income by around \$127 a week if they were able to work 12 hours per week at the FMW, effectively retaining 77 per cent of their gross earnings.
- Young people living independently of their parents appear to face broadly comparable work incentives to those facing low-paid adults. Most young people living at home would experience substantial increases in disposable income if they took a low-paid job at junior wage rates. For example, a 16 year old and 18 year old taking up employment in the retail industry would be financially better off by at least \$190 and \$263 per week, respectively.
- While apprentice wages are often lower than the wages payable to full-time adult and junior employees, student income support payments are available to supplement apprentice or trainee wages in some cases. This additional source of income can improve the financial incentive to take up such training arrangements.