

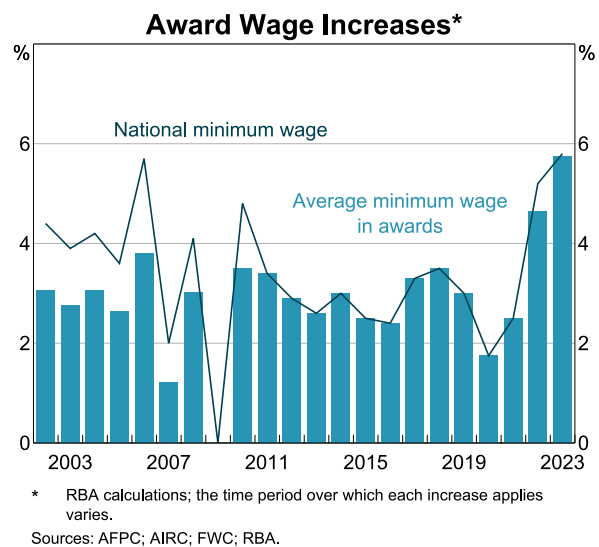
ANNUAL WAGE REVIEW 2023

- The Fair Work Commission (FWC) announced a **5.75 per cent** increase to modern award minimum wages, effective 1 July 2023 (Graph 1). Around 30 per cent of employees are estimated to be directly or indirectly affected by the increase in award rates (the share of the wage bill affected is lower at around 15-20 per cent) (Graphs 2 and 3).¹
- The national minimum wage (NMW) will increase by **8.6 per cent**, to \$882.80 per week or \$23.23 per hour, effective 1 July 2023. This consists of a headline increase of 5.75 per cent and a further boost from a technical adjustment that realigned the NMW for workers not covered by awards to a different wage classification.² The FWC estimates that fewer than 1 per cent of employees will receive this increase.

The decision³

- In coming to its decision, the FWC placed significant weight on the impact of current high inflation and declining real wages on award-reliant employees and their ability to meet basic financial needs. The Panel noted the decline in living standards and financial pressure experienced by these employees.
- The Panel suggested there is no evidence of a wage-price spiral at present. It noted that increases in award wages have a small effect on the WPI in aggregate, with limited evidence of spillovers to other methods of setting pay, and this gave confidence that they would not cause or contribute to any wage-price spiral. The Panel acknowledged that although the labour market appears to be at a turning point, the unemployment rate is still expected to be low from a historical perspective.
- The Panel noted that award wage increases would disproportionately benefit female workers and those in less secure employment and potentially contribute to narrowing the aggregate gender pay gap. Given continued gender pay gaps in the labour market, the FWC will be conducting research to identify gender pay inequity and undervaluation of work and skills across industries and occupations; such research may be addressed in the Annual Wage Review next year. This focus follows amendments to the Fair Work Act in late 2022 requiring the Panel to give greater emphasis to the issues of gender equality and job security.
- The Panel took into account a number of moderating factors, including the 0.5 per cent increase to the Super Guarantee from July 2023, recent weak productivity growth and the expected weakening of the labour market, which may have a particular effect on casual employees or industries with a large proportion of award-reliant employees. It also noted the importance of not entrenching high inflation expectations by appearing to index award and minimum wage increases to inflation.
- Although the increase will result in real wage declines for award-reliant employees, the Panel considered it was the largest increase that could be justified given the current economic situation. The Panel also noted as a general principle that it was desirable for award wage increases to align with inflation and

Graph 1



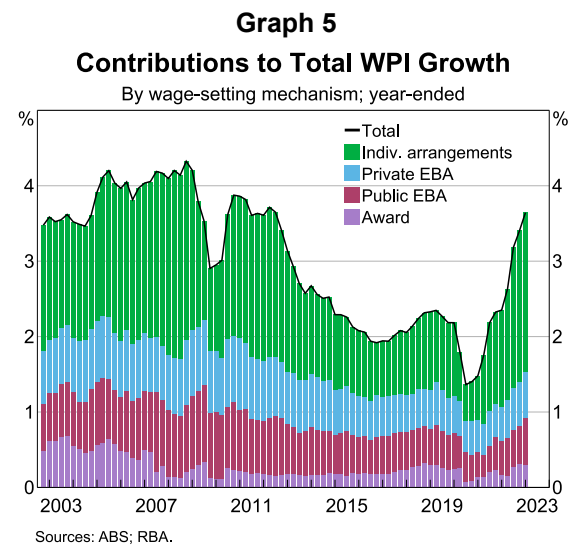
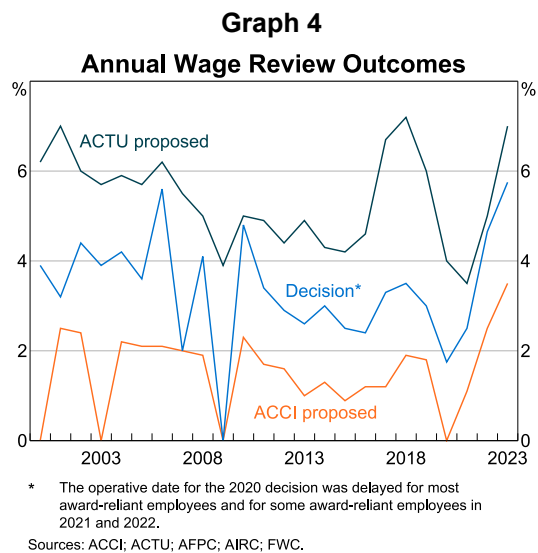
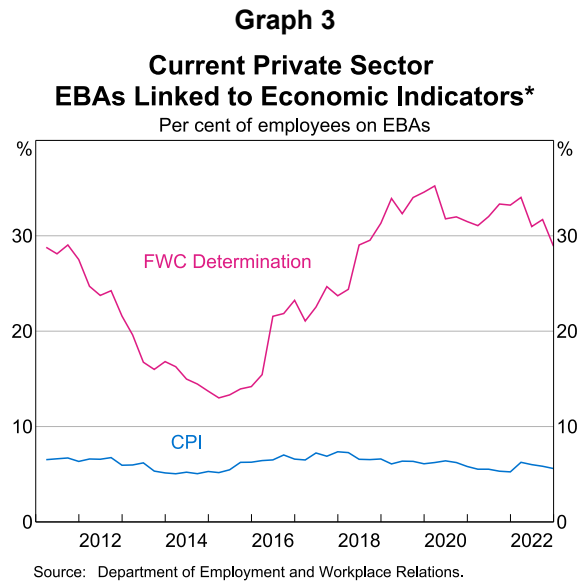
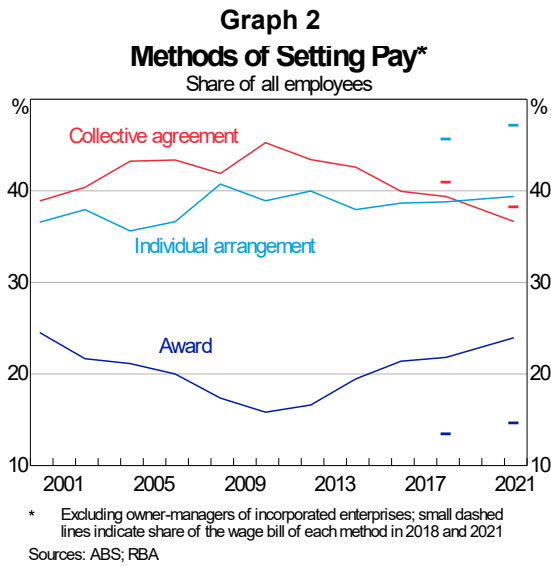
1 See [Bishop and Cassidy \(2019\)](#) and

2 The NMW was previously aligned with the C14 classification rate, which was intended to apply as a transitional rate to new employees. It will now be aligned with the C13 rate, which is the lowest wage classification rate applicable to ongoing employment in most awards.

3 For the full 80 page decision, see [FWC \(2023a\)](#); for the 3 page summary version, see [FWC \(2023b\)](#).

trend productivity growth, and suggested a return to awards following such a path was likely to be possible when inflation reverts to a more normal level and productivity growth picks up to its trend growth rate.

- The award increase was below the 7 per cent proposed by the ACTU and above the 3.5-3.8 per cent proposed by the ACCI and other employer representative groups (Graph 4).



From:
Sent: Friday, 2 June 2023 5:59 PM
To: Notes policy groups
Subject: Note EA: Fair Work Commission Annual Wage Review 2023 [SEC=OFFICIAL]

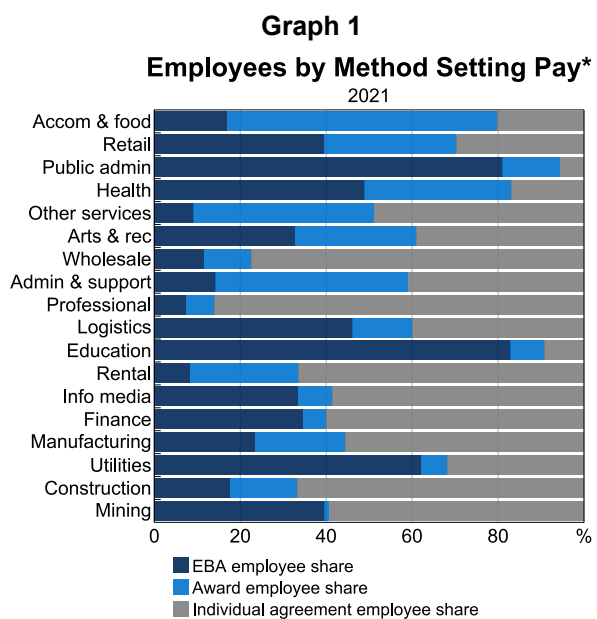
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Prices, Wages and Labour | Economic Analysis Department
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RETAIL WAGES BARGAINING

Retail trade employees make up around 10 per cent of employment

Around 70 per cent of employees in this industry have wages determined by FWC outcomes (i.e. Awards) or EBAs (Graph 1).



Because many retailers' wages are now close to the Award, new EBAs in the retail industry are likely to be linked to the FWC minimum wage decision; they cannot be lower because of the Better Off Overall Test (BOOT).

Implications for retail wages growth

As has been the case for a number of years, wage outcomes in newly negotiated retail EBAs are generally expected to still depend on FWC decisions, either because they will be directly linked to the decision, or because in practice wages in the retail sector have converged to be close to the Award.

Economic Analysis Department

15 June 2023

AN UPDATE ON LIAISON MESSAGES – JUNE 2023

there has been little evidence to date to suggest that this year's decision will have a bigger effect on wage bargaining outcomes than prior years.

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Regional and Industry Analysis
19 June 2023

JULY 2023

Summary of Economic Conditions

Liaison has not identified larger-than-normal spillovers from the award and minimum wage decision

The Bank's liaison program provides little evidence to-date of a larger effect of this year's Fair Work Commission (FWC) decision on wage bargaining outcomes relative to previous years.

A few firms suggested that they will look to offset the effect of the Award increase on labour costs, including by reducing hours worked or giving non-award reliant employees lower wage increases.

Economic Group
21 June 2023

EMPLOYMENT AND WAGES – QUARTERLY SUMMARY – JUNE 2023

There has been little evidence to date to suggest that this year's decision will have a bigger effect on wage bargaining outcomes than in prior years. A few firms have suggested they will look to offset the effect of the Award increase on labour costs, including by reducing hours worked or giving non-Award reliant employees lower wage increases.

- Wages growth in the **retail** sector over the year ahead is largely expected to depend on FWC outcomes, either because workers are covered directly by the Award, or because EBA outcomes depend on Award wages (see [D23/165606](#) for more).

Speaking notes – Update on risks to the wages growth outlook

FWC (baseline chart)

- In early June, the FWC granted a 5.75% increase to award earners and 8.6% increase to minimum wage earners.
 - Minimum wage earners account for <1% of the employee pool while around 20% of employees are directly affected by the award rate increase and a further 10% are indirectly affected, according to our best historical estimates.
 - This indirect effect includes when EBAs and IAs anchor their changes to the FWC decision, while some firms may want to retain pay relativities between groups of workers.

Scenario 1 – standard direct and indirect effects of FWC 2023 (baseline chart + yellow)

- The yellow series on this chart reflects the upgrade to the May SMP profile resulting from the stronger-than-expected FWC decision, including an update to the spillovers to award-influenced IA and EBAs based on the 10 per cent historical precedent.
- So far there is nothing to suggest the indirect effects will be larger than in the past.
 - RIA's liaison provides little evidence of a larger effect on wage bargaining outcome this year compared to previous years.
 - A few firms suggested that they will look to offset the effect of the Award increase on labour costs, including by reducing hours worked or giving non-award reliant employees lower wage increases.
 - 'Catch up' of award rates to EBAs looks relevant in select cases, such as for some employees on retail EBAs but early analysis of EEH microdata does not appear to suggest it is a broad enough phenomena to be first order.

Key takeaways

- the FWC decision has introduced some upwards pressures/risk to our May SMP profiles.
- The direct, and standard indirect effects of FWC 2023 are material but not necessarily threatening a

Notes: return of inflation to its target in isolation.

Key statistics

There were 2,160,000 public sector employees at the end of June 2022 comprising:

- 254,000 employees in Commonwealth government;
- 1,713,500 in state government; and
- 192,500 in local government.