

**SUBMISSION TO
FAIR WORK AUSTRALIA**

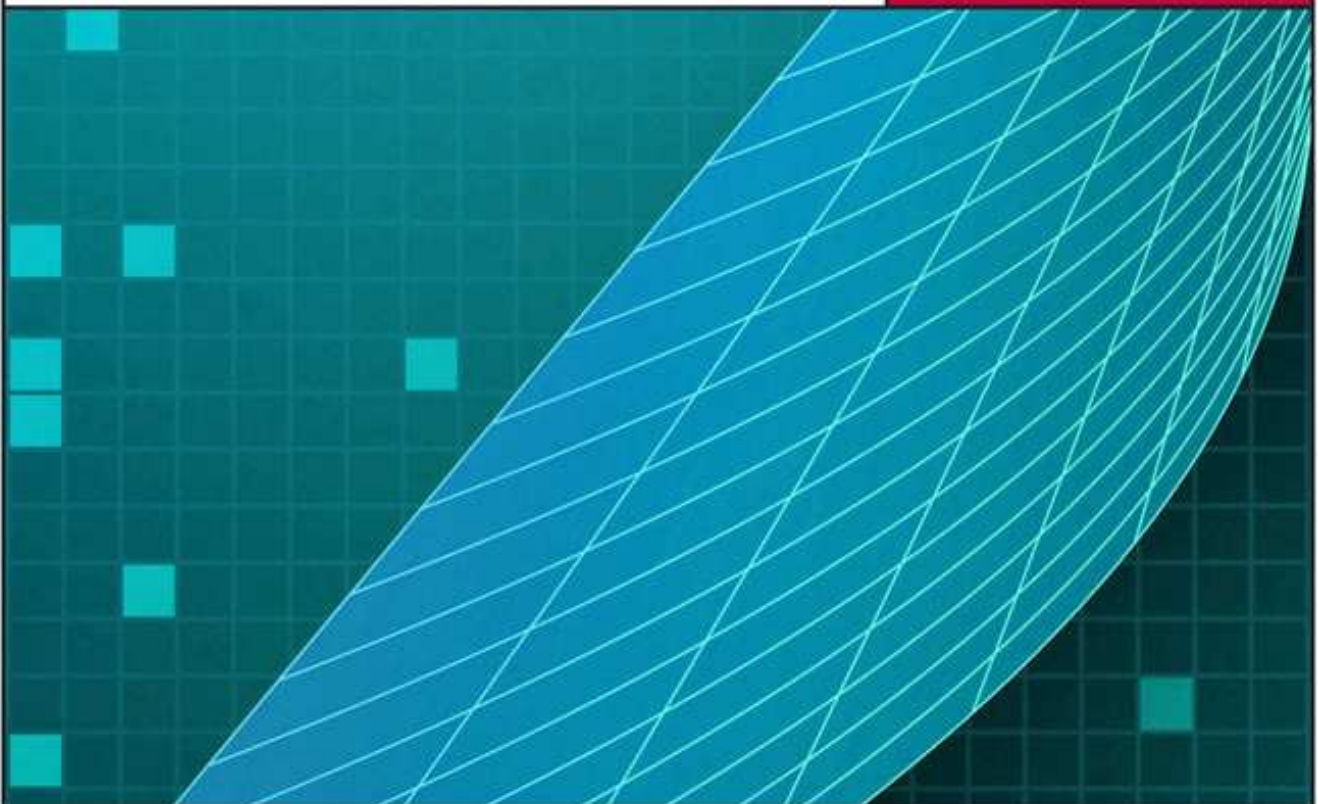


**ANNUAL WAGE REVIEW 2010
POST-BUDGET SUBMISSION**



AUSTRALIAN INDUSTRY GROUP

14 May 2010



ANNUAL WAGE REVIEW 2010

POST-BUDGET SUBMISSION

1. Introduction

1. In its Statement of 21 December 2009, Fair Work Australia invited parties to file further supplementary submissions following the Federal Budget.

2. Taxation and transfer changes

2. In the 2010-11 Budget, the Government honoured its previously announced changes to taxation and transfers.
3. The impact of these changes in increasing the disposable incomes of families is explained in Chapter 4 of our March 2010 submission.

3. Economic outlook - update

Summary

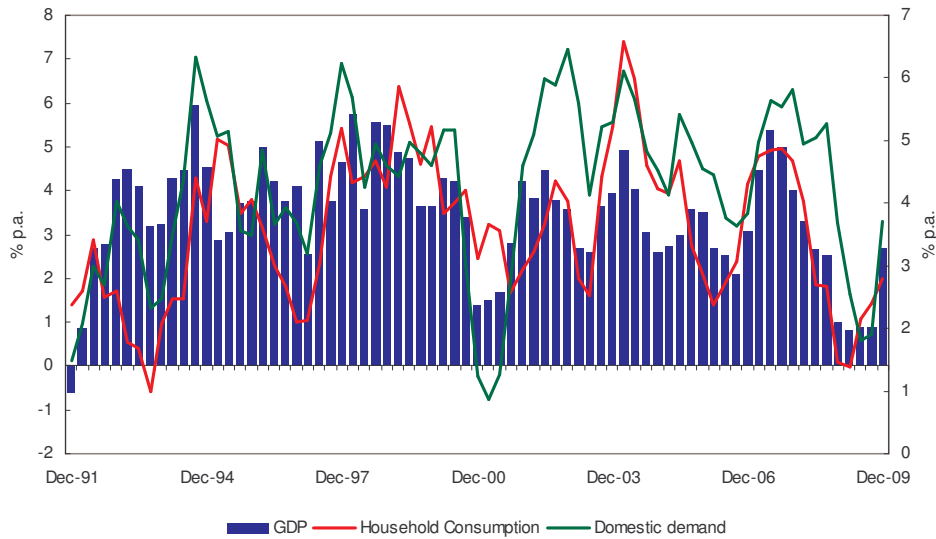
4. Recent data suggest that the Australian economy continues to grow, though softness persists in some areas of activity.
5. The labour market is seeing a lift in full-time employment, boosting consumers' perceptions of job security and incomes growth. Wealth indicators, such as housing prices and stock prices, have helped to support high levels of consumer confidence. Recent partial economic data suggest, however, that retail sales are soft and housing finance approvals continue to fall. Higher interest rates, and, in the case of the latter, the phasing out of the First Home Buyers' Boost, are the key drivers of this weakness.

6. The Reserve Bank Board continues to hold the view that the economy will return to trend growth by late 2010 and in early May the Board raised the official cash rate further to a level more consistent with longer-term averages.
7. The key industrial economies remain soft though there are signs of improving growth in the United States economy and economic forecasts have lifted. As yet however, industrial economy growth remains constrained by weak consumer demand and business investment.
8. Concerns around high levels of public debt in Europe have fuelled fears of rising risk premia and consequently, global long-term interest rates, with the potential to constrain economic recovery.
9. Significant growth remains confined to a relatively narrow base of economies, largely the Asian emerging economies driven by stronger growth in China. However, China has recently acted to tighten monetary conditions to forestall inflationary pressure and reduce the potential for destabilising asset price busts. The impact of this development on the region's growth prospects remains uncertain.
10. Ai Group's manufacturing, construction and services indices, in common with the official data, are showing signs of modestly improving activity levels across the sectors.

Recent economic data

11. The Australian economy has seen an improvement in annual growth rates over recent quarters, with GDP growth accelerating from 0.8% at its trough in March quarter 2009 to 2.7% in December quarter 2009.

Chart 1: Australian economic growth to December quarter 2009

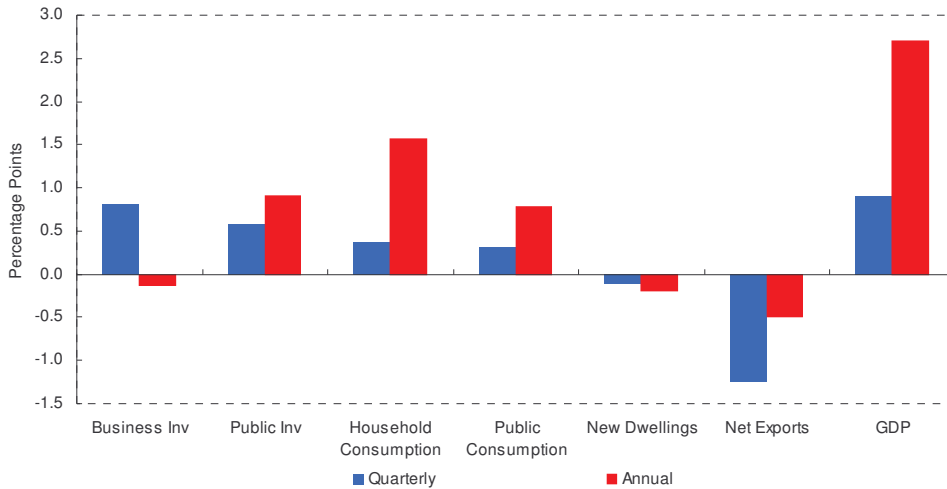


Source: Australian Bureau of Statistics

12. The improvement in growth over the past year has been largely driven by strong fiscal stimulus which boosted public sector consumption and investment.

13. This was reflected in infrastructure spending including the school building programme, and a strong increase in housing finance approvals for First Home Buyers. Household consumption also played a significant role as consumers continued to spend supported by low interest rates and consumer related government spending measures.

Chart 2: Contributions to Australian economic growth: December quarter 2009



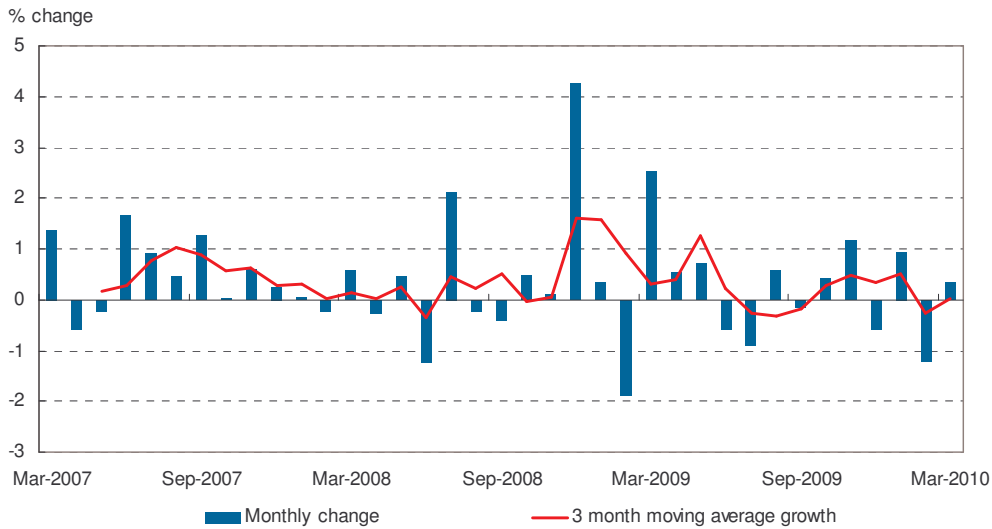
Source: Australian Bureau of Statistics

14. More recent domestic economic data released over April / May suggest ongoing improvement in the overall economy, though soft spots remain reflecting the impacts of tighter monetary policy and the fading of earlier policy stimulus.

15. Retail sales growth has been volatile since the second half of 2009 and the first few months of 2010 have seen trend growth become negative as higher interest rates and still high levels of household indebtedness constrain consumer demand.
 - Illustrating the volatility in sales, the value of retail turnover in seasonally adjusted terms increased by, a less than expected, 0.3% in March 2010, following a revised fall of 1.2% in February and a 0.9% increase in January.

- Highlighting the overall weakness in demand, seasonally adjusted turnover in volume terms rose by just 0.1% in the March 2010 quarter.

Chart 3: Monthly, quarterly & annual growth in retail turnover



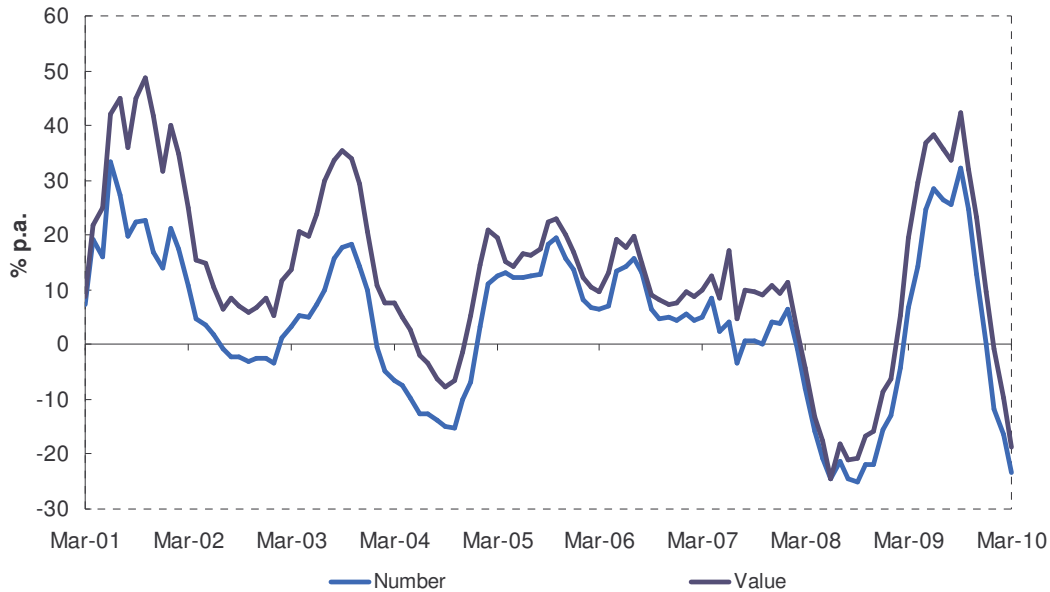
Source: Australian Bureau of Statistics

16. There is some reason to remain cautious about the strength of retail sales over coming months. The Reserve Bank’s aggressive increases in the official interest rate since October 2009 and the potential for further increases may deter consumers who remain in the throes of lifting saving and running down debt. Much will depend on continued improvement in employment prospects supporting consumer willingness to spend.
17. Indicating some willingness to spend, growth in consumer credit over the past eight months suggests that consumers may be becoming more willing to spend.
 - Other personal credit rose by 0.5 per cent over March, following a rise of 0.5 per cent in February. Over the year to March, other personal credit increased by 2.4 per cent.

18. Improvements in the housing sector, particularly among first home buyers, played an important role in the early stages of economic recovery. This was largely due to the sharp reductions in home mortgage rates following the RBA's 425 basis point reduction in the official cash rate since September 2008 and the boost to the First Homebuyers' Grant. Australia's long-term deficit of housing stock has also played, and will continue to play, a role in supporting underlying housing construction.
19. However, there have been signs of an easing in demand for housing finance over recent months as interest rates have increased, with expectations of further rises, and the boost to the First Home Buyers subsidy has been wound down.
- The value of owner occupied housing commitments fell by 3.4% in March (seasonally adjusted), while the number of owner occupied housing commitments was also 3.4% lower in the month, hitting a 9-year low of 48,260.
 - The decline in the number of commitments in March was the sixth in succession and was stronger than the 2.0% drop anticipated by the markets.
 - Reflecting the recent softening in housing commitments, the number of owner occupied dwelling commitments in March 2010 was 23.3% lower than at the same time last year.
 - The value of owner occupied housing commitments was 18.8% lower than at the same time last year (a 17-month low).

- In trend terms, the number of commitments for owner occupied housing finance fell for a ninth consecutive month, declining by 4.1% in March.

Chart 4: Annual growth in housing finance approvals by value and number (seasonally adjusted)



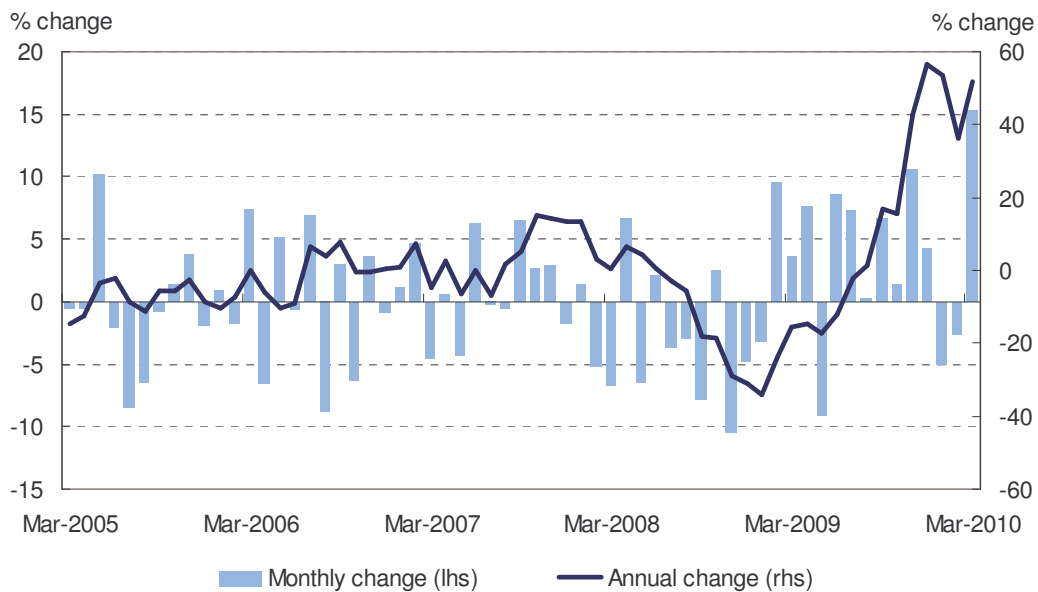
20. Suggesting that the housing construction sector will be seeing an easing in activity when the current pipeline of projects is worked through, the seasonally adjusted number of finance commitments for construction of new dwellings decreased by 7.3% in March, although they remain 1.6% higher than at the same time last year.

21. In line with the lift in housing finance over most of 2009, building approvals, which lag finance approvals, have strengthened solidly, though the data remains volatile.

- The seasonally adjusted number of dwelling units approved increased by 15.3% to 16,383 in March, following declines in the previous two months.

- The annual rate of growth in dwelling approvals strengthened from 36.3% in February to 51.6% in March, only slightly below the strong annual rates of growth recorded in December 2009 (56.5%) and January 2010 (53.5%).
- However, the monthly result was strongly affected by a 59.9% increase in approvals in the volatile other dwellings sector (largely comprising apartments) which drove the increase in total dwelling approvals in March. The number of private sector house approvals rose by a seasonally adjusted 0.5% in the month.
- The trend number of total dwelling approvals expanded at a rate of 1.5% in March, the fourteenth successive month of growth.

Chart 5: Annual growth in building approvals by value and number (seasonally adjusted)

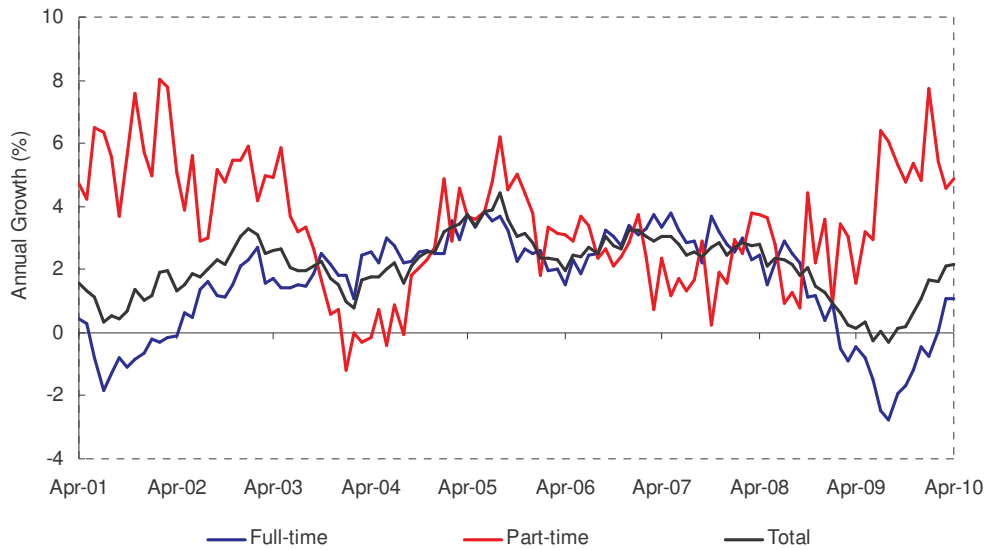


22. Looking ahead the easing in finance approvals suggests a slowing in building approvals over coming quarters.

23. A key to sustained resilience in consumer demand is the outlook for the labour market. Rising levels of business confidence on the economic outlook appear to be having a positive impact on firms' willingness to lift full-time employment in recent quarters.

- National employment increased by 33,700 (0.3%) to 11,025,500 in April (seasonally adjusted).
- The rise in total employment was underpinned by an eighth consecutive monthly rise in full-time employment, by 37,500 to 7,735,500, which more than offset a third successive fall in part-time employment, by 3,900 to 3,290,000.
- Annual employment growth accelerated in April, up from 2.1% in March to 2.2% (the strongest rate of increase since August 2008).
- Annual growth in full-time employment was stable in April at 1.1%, while annual growth in part-time employment lifted from 4.6% in March to 4.9% in April.

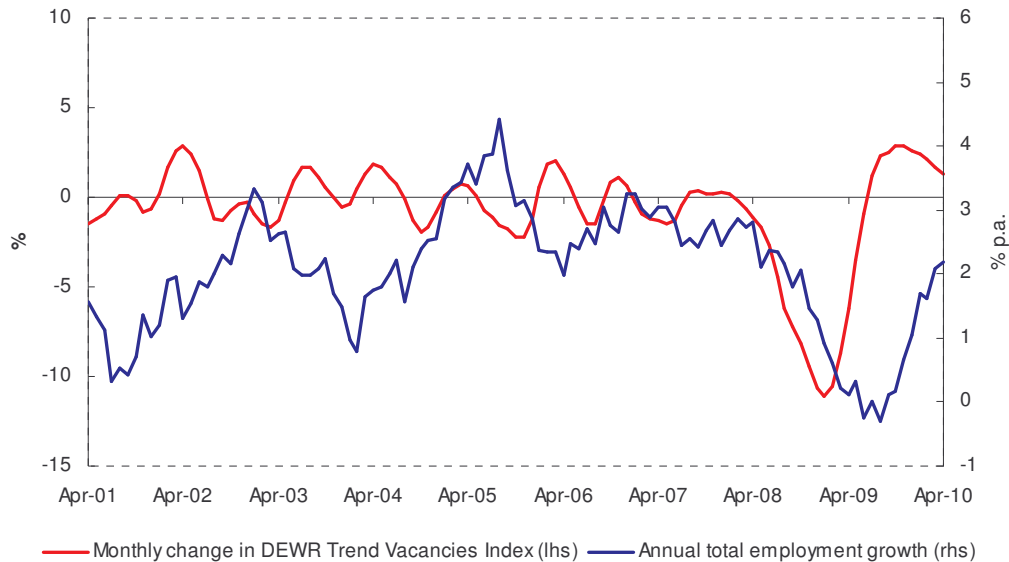
Chart 6: Annual growth in employment (seasonally adjusted)



24. The lagged effect of recent improvement in economic activity is being reflected in the strengthening in the labour market data, reflecting the lag between changes in activity and employment which is generally around two quarters.
25. However, despite recent improvements, the tightening of monetary policy carried out by the Reserve Bank since October 2009 is likely to have its most significant impact in the second half of this year and this may cause some softening of employment growth.
26. Job vacancies data suggest that labour market conditions will continue to improve but at a slower rate as monthly vacancy growth has slowed in recent months.
 - The Department of Education, Employment and Workplace Relation's Skilled Vacancy Index (SVI) (trend) increased by 1.3% in April 2010 to 46.4 (2007 = 100).

- Vacancies rose for two of the three occupational groups: Trades (up by 2.4%) and Associate Professionals (up by 0.8%). Professionals decreased by 1.7%. In annual terms, the SVI is 18.6% higher than in April 2009.

Chart 7: Monthly change in job vacancies and annual employment growth



27. The net effects of the recent improvement in labour market outcomes and the impact of the tightening of monetary policy will drive consumers' willingness to spend over coming quarters. Overall, consumers are likely to remain relatively cautious given some uncertainty around the timing and extent of further increases in borrowing rates.

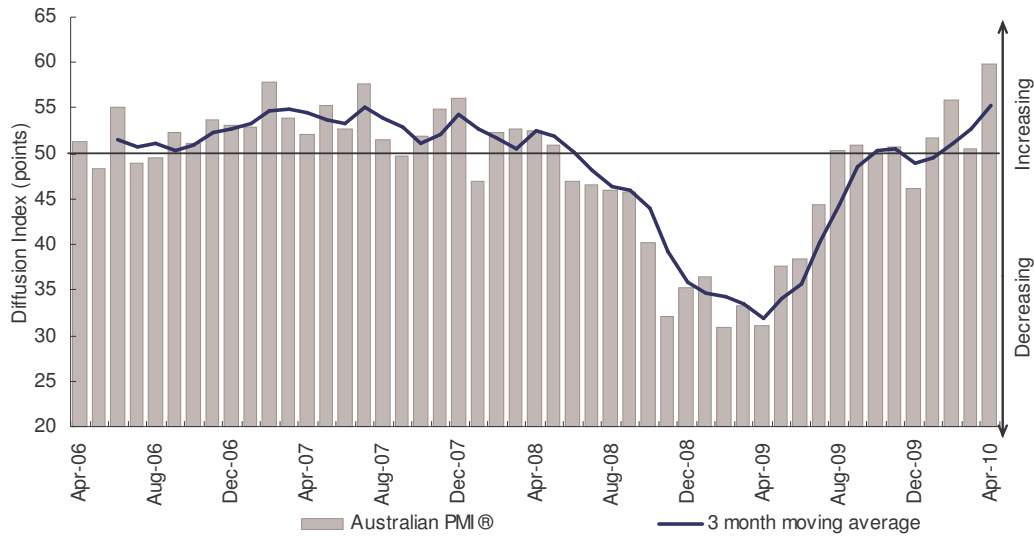
Recent Ai Group data on industry activity

28. Overall, Ai Group's monthly sectoral performance indicators suggest an improvement in activity across a broad sectoral base. The manufacturing sector has picked up the pace of growth into early 2010, though it still has to recover ground lost in 2008-09. The construction sector has seen a broadening of growth into 2010 away from reliance on the housing sector. The services sector saw growth return in April following a lacklustre start to 2010.

Manufacturing

29. Manufacturing activity picked up pace in April, with the seasonally adjusted Australian Industry Group-PricewaterhouseCoopers Performance of Manufacturing Index (Australian PMI®) rising by 9.3 points to 59.8. The result was significantly above the 50 point level separating expansion from contraction.
30. Strong rises in production, new orders, inventories and input deliveries, combined with a solid lift in employment, drove the rise in the Australian PMI®.
31. Selling prices remained essentially stable in April but input cost growth accelerated sharply, adding to pressure on margins, though wages growth eased back slightly.
32. Reflecting the overall improvement, all sectors across manufacturing, with the exception of clothing & footwear, recorded growth in activity in April. Manufactured exports rose modestly.
33. Activity rose in all states, except Tasmania, with the strongest performances in New South Wales and South Australia.
34. Survey respondents pointed to improved market conditions in the building, infrastructure and mining sectors as positive factors during April. The high Australian dollar, rising interest rates and input cost rises were the key negatives cited by firms.

Chart 8: Australian PMI®

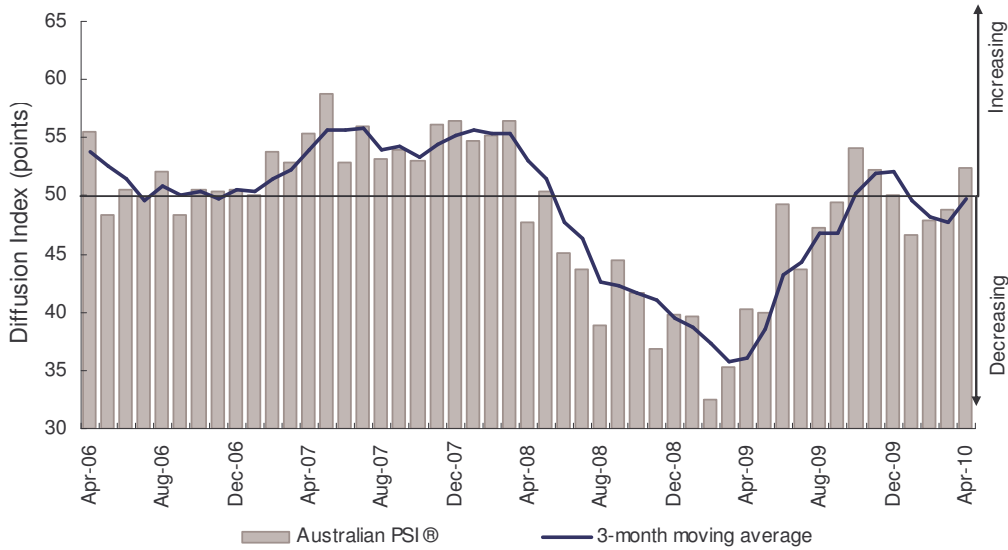


Services

- 35. The services sector expanded in April, following a lacklustre start to 2010. Sales, new orders and employment all lifted in the month, following recent softness.
- 36. The improvement was largely confined to the business-related services sectors, although April saw an easing in the pace of contraction in a number of key consumer-based sectors.
- 37. The seasonally adjusted Australian Industry Group / Commonwealth Bank Performance of Services Index (Australian PSI®) rose 3.4 points to 52.3, above the key level separating expansion from contraction.
- 38. Firms identified the rolling-out of infrastructure construction projects and continued strength in the mining sector as factors boosting activity in the month. By contrast, negative impacts were attributed to interest rate rises and difficulties in obtaining finance.

39. Services activity expanded in Victoria and New South Wales and was broadly steady in South Australia and Tasmania.

Chart 9: Australian PSI®

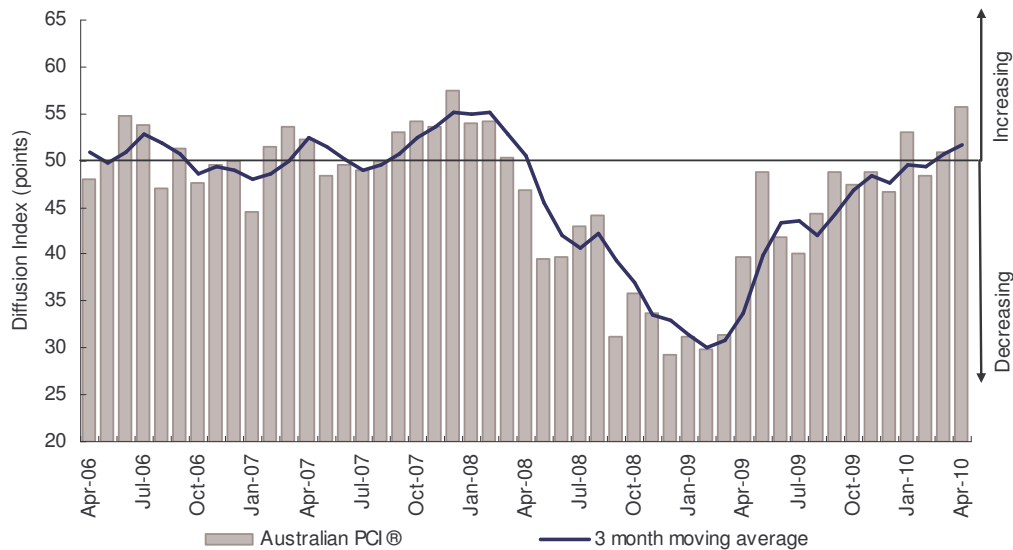


Construction

40. The national construction industry expanded for a second consecutive month in April with increases in activity, new orders and employment, underpinning a stronger level of growth.
41. The seasonally adjusted Australian Industry Group / Housing Industry Association Performance of Construction Index® increased by 4.8 points to 55.8 in April to remain above the critical 50 points level separating expansion from contraction.
42. The improvement in activity was broadly based across the major industry sectors. The house building, engineering and commercial construction sectors all registered a higher rate of growth, while apartment construction improved following declines in activity during the previous four months.

43. The strengthening conditions coincided with reports of an increase in tendering opportunities, a higher acquisition of new contracts and continued support for activity from the Government's school building program. In addition, residential builders noted that customer enquiries and buyer confidence remained at firm levels, with activity also benefiting from a sustained improvement in investor activity.
44. On an aggregate industry basis, both activity and new orders increased in April. This was reflected in a slightly higher rate of growth in deliveries from suppliers and a lift in the employment sub-index.

Chart 10: Australian PCI®



Industry outlook

45. According to Ai Group's recent assessment of the outlook for manufacturing, services and construction carried out with Deloitte, *National CEO Survey – 2010 – solid not stellar*, 2010 is shaping up to be a promising year though growth will be moderate rather than strong.

46. For businesses across the manufacturing, construction and services sectors, 2010 is looking to be an improvement on the weak, but better than expected, outcome for 2009.
47. 2010 is expected to see improvement in activity in all three sectors though it is likely to be stronger in the services and manufacturing sectors than in the construction sector. While improving, growth in manufacturing is coming from a low base following a sharp contraction during 2009.
48. Domestically, firm performance will reflect the impact of positive drivers such as improving consumer confidence in incomes growth and employment prospects, rising household wealth and exposure to strong growth in China. Offsetting these positives will be the fading of Government stimulus and rising interest rates.
49. Wages and prices growth in all sectors look set to remain modest, in line with the forecasts for overall activity outlined by the CEOs in this survey.
50. Manufacturing sales and employment are expected to improve in 2010, although the upturn follows a particularly tough year in 2009.
51. Manufacturers anticipate a 5.6% increase in the nominal value of sales in 2010, to around \$415 billion. The nominal value of manufacturing export sales is also expected to rise, by 4.1% to \$96 billion.
52. Employment in the sector is forecast to grow by 2.9% (29,000 jobs) to 1.02 million, only partly recovering the 80,000 manufacturing jobs lost in 2009.
53. Expenditure on new plant and machinery by the manufacturing sector is expected to decline again in 2010, although spending on research and development and training is expected to rise modestly.

54. Average manufacturing selling prices are forecast to increase by just 3.0% in 2010. Manufacturing wages growth is expected to remain broadly steady, easing from 3.6% in 2009 to 3.5%.
55. The outlook for construction remains relatively weak, with sales expected to rise by a modest 2.5% in 2010.
56. Following six years of strong employment growth, employment in construction grew by a modest 0.9% in 2008/09. Construction employment growth is again expected to be soft in 2010, rising by only 0.5%.
57. Expenditure on research and development and training by the construction sector is expected to rise marginally, following a sharp drop in 2008/09. Investment in plant and equipment is expected to rise strongly in 2010.
58. Average construction selling prices are forecast to increase by just 3.1% in 2010. Construction wages growth is expected to remain broadly steady, at 3.5%.