ANNUAL WAGE REVIEW 2024-25

SUBMISSION OF AUSTRALIAN BUSINESS INDUSTRIAL AND BUSINESS NSW (NSW BUSINESS CHAMBER LTD)

April 2025

About ABI and Business NSW (NSW Business Chamber Ltd)

Australian Business Industrial (ABI) is registered under the *Fair Work (Registered Organisations) Act 2009* and has over 2,000 members. NSW Business Chamber Ltd (trading as Business NSW) is registered under the *Industrial Relations Act 1996* (NSW) and is a State registered association recognised pursuant to Schedule 2 of the *Fair Work (Registered Organisations) Act 2009* (Cth). As NSW's peak business organisation, Business NSW has almost 50,000 member businesses across NSW.

ABI is comprised of Business NSW members who specifically seek membership of a federally registered organisation.

This submission has been approved by the Council of ABI on behalf of its members and endorsed by the workplace policy committee of Business NSW.

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1. Executive Summary

Recommendation:

That the Expert Panel determine a 2.5 per cent increase would be appropriate in the current economic environment, in addition to the 0.5 per cent Superannuation Guarantee increase due on 1 July 2025.

Both the minimum wages objective and the modern awards objective require that, as part of the Annual Wage Review, the Expert Panel (the Panel) take into account the 'relative living standards and the needs of the low paid'.

In addition to those considerations, the Panel is also required to take into account the needs of businesses by way of 'the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth'.

Providing a minimum wage increase that matches inflation at a time when inflation is not expected to continue at this historically high rate, will penalise businesses when increasing costs are already hurting businesses significantly. Further, the relationship between wages and prices can be the mechanism by which high inflation persists.

Our suggested approach continues to be to consider productivity growth and expected inflation.

Accordingly, in our submission, we focus on two key factors to determine a reasonable rate of growth in the minimum wage and modern awards:

- **labour productivity growth** – whereby higher outputs justify higher wages but higher wages without higher outputs can result in sustained inflation;
- **inflation rate** – indication of the rising cost of living experienced by workers and businesses.

Labour productivity has been lacklustre in the past two years. After peaking in March 2022, labour productivity once fell to levels last seen in 2016. While it was encouraging to observe a rebound in labour productivity during the September quarter of 2023, with the upward momentum continuing into the end of that calendar year, overall labour productivity remained below its peak. In the latest December 2024 quarter, GDP per hour worked declined by 0.1% quarter on quarter, marking its third consecutive quarterly decrease.

If real wage growth exceeds labour productivity growth, businesses are likely to raise prices as compensation, leading to sustained inflation.

Other factors we have taken into consideration when developing our recommendation include:

- **overall performance of the Australian economy**, including business confidence and expected performance in NSW; and
- the increase in the Superannuation Guarantee.

Our Q3 NSW Business Conditions Survey, undertaken in March 2025, found that business confidence had risen to its highest reading in almost three years, although this improvement is likely due to the RBA's interest rate cat in February 2025.

Our final consideration is the increase in the Superannuation Guarantee by a further 0.5 per cent from 1 July 2025. While this is a deferred benefit for employees, it is a cost to employers *now* and should be a key consideration when determining this (and any other) year's increase.

Given the above, it is our recommendation that a 2.5 per cent increase would be appropriate in the current economic environment, in addition to the 0.5 per cent Superannuation Guarantee increase due on 1 July 2025.

Such an increase should be non-inflationary and can be borne by employers without adding additional stress to input costs, while providing employees with some compensation for inflation. It is our view that an increase in line with the current inflation rate would pose a real risk of significant adverse effects to the national economy.

Foreword: Statutory considerations

When considering whether to vary (set or revoke) minimum award wages, the Panel must take into account economic factors referenced under the Minimum Wages Objective, the Modern Awards Objective and the general matters prescribed under the object of the Act.

Section 284 of the Act sets out the Minimum Wages Objective which requires the Commission to establish and maintain a safety net of fair minimum wages, taking into account:

(a) the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and
(b) promoting social inclusion through increased workforce participation; and
(c) relative living standards and the needs of the low paid; and
(d) the principle of equal remuneration for work of equal or comparable value; and
(e) providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.

Further, section 134 sets out the modern awards objective which requires the Commission to ensure that modern awards, together with the National Employment Standards, provide a fair and relevant minimum safety net of terms and conditions, taking into account:

(a) relative living standards and the needs of the low paid; and
(b) the need to encourage collective bargaining; and
(c) the need to promote social inclusion through increased workforce participation; and
(d) the need to promote flexible modern work practices and the efficient and productive performance of work; and
(da) the need to provide additional remuneration for:
 (i) employees working overtime; or
 (ii) employees working unsocial, irregular or unpredictable hours; or
 (iii) employees working on weekends or public holidays; or
 (iv) employees working shifts; and
(e) the principle of equal remuneration for work of equal or comparable value; and
(f) the likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden; and
(g) the need to ensure a simple, easy to understand, stable and sustainable modern award system for Australia that avoids unnecessary overlap of modern awards; and
(h) the likely impact of any exercise of modern award powers on employment growth, inflation and the sustainability, performance and competitiveness of the national economy.

In line with this legislation, the Panel must therefore take into account the performance and competitiveness of the national economy and the likely impact of any exercise of modern award powers on business.

It should be noted that the broader objects of the Act include the promotion of productivity and economic growth for Australia’s future economic prosperity.

Guide to this submission

This submission is divided into three parts. Part I examines the relevant empirical evidence on the economy and labour market including the needs of the low paid and the effects of low inflation, Part II summarises the evidence and provides our recommendations and Part III considers the modern award groupings from last year's Annual Wage Review.

Note on terminology

This submission refers to a change to the 'minimum wage', 'minimum wages' or the NMW in the context of what the Panel might consider with respect to both the NMW and modern award minimum wages. That is, any reference should be viewed as referring to the totality of implications associated with changes to modern award minimum wages and other wages impacted by the AWR decision.

Part I — Economic and labour conditions

Economic conditions

Australia recorded modest economic growth in 2024. Despite a rebound in quarterly growth (0.6%) in the December quarter, the annual growth rate of 1.3% remained well below its long-term average of about 2.5% (see Table 1 and Graph 2).

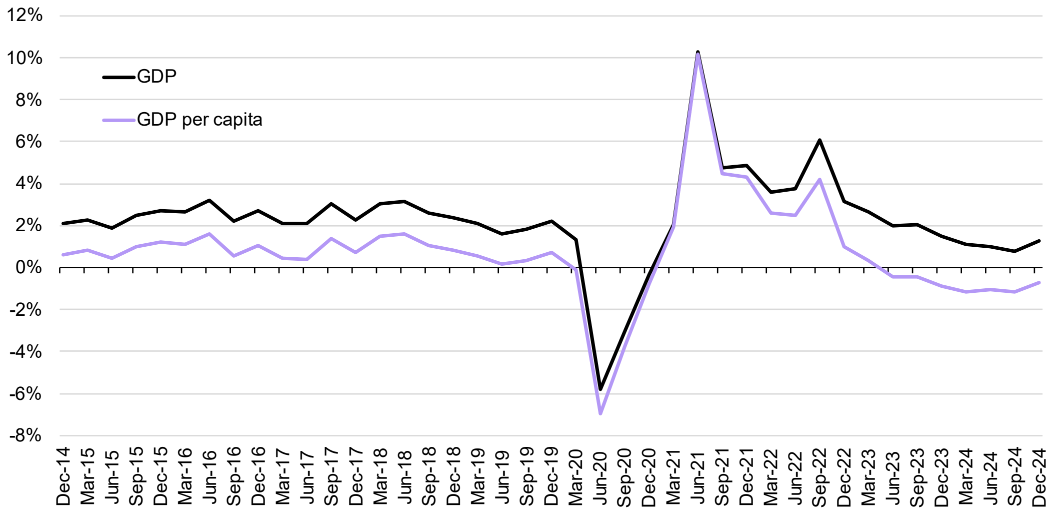
As economic growth has been largely driven by population growth in recent years, GDP per capita had been declining and the economy was considered by some to be in a "GDP per capita recession". The 0.1% quarter-on-quarter increase in GDP per capita in the December quarter was the first positive result in two years. However, it was not sufficient to offset previous quarters' decline, leaving GDP per capita still 0.7% lower than a year ago.

Table 1: Key macroeconomic indicators

	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
GDP growth (% change, quarterly)	0.1	0.2	0.2	0.3	0.6
GDP growth (% change, annual)	1.5	1.1	1.0	0.8	1.3
GDP per capita growth (% change, quarterly)	-0.4	-0.4	-0.2	-0.2	0.1
GDP per capita growth (% change, annual)	-0.9	-1.2	-1.1	-1.2	-0.7

Note: Data are seasonally adjusted.
Source: ABS, *Australian National Accounts: National Income, Expenditure and Product, December 2024*, Catalogue No. 5206.0

Graph 2: Annual economic growth

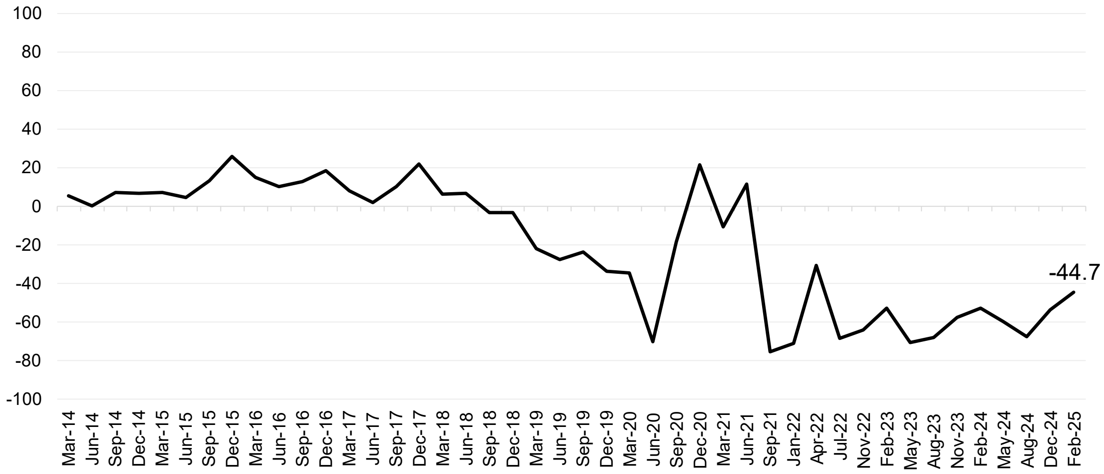


Note: Data are seasonally adjusted.
Source: ABS, *Australian National Accounts: National Income, Expenditure and Product, December 2024*, Catalogue No. 5206.0

Business NSW monitors business conditions through its quarterly Business Conditions Survey. The headline Business Confidence Index – which has a range of -100 to +100 – has been deep in negative territory since late-2021, indicating that pessimists have far outnumbered optimists within the NSW business community (Graph 3). The latest reading of -44.7 (recorded in February 2025), albeit still negative, is the highest reading in nearly three years.

Business conditions are showing signs of green shoots, which have helped to support the gradual recovery of business confidence. However, business sentiment remains fragile as businesses continue to deal with a broad mix of challenges associated with running a business.

Graph 3: Business NSW Business Confidence Index



Source: Business NSW, *Business Conditions Survey (March 2025)*

Currently, the greatest challenge of running of a business is financial management, followed by regulation and compliance (Table 4).

Financial management challenges arise due to a combination of issues. While the cost of doing business continues to increase, customers are taking longer to pay their invoices, as identified by Business NSW research. Cashflow remains a risk to business viability, especially for small business.

As for regulation and compliance, Business NSW research has found that the majority of businesses consider the existing level of regulatory and compliance requirements as above what is necessary. Excessive regulatory and compliance requirements are a significant cost borne by businesses.

Table 4: Challenges of running a business

Issues	Score (out of 10)
Financial management	7.1
Regulation and compliance	6.5
Strategic planning	6.3
Marketing	6.2
Staff management	6.2
Cyber security	6.1
Digital transformation and optimisation	6.0

Note: n=789; a higher score represents a greater challenge
Source: Business NSW, *Business Conditions Survey (December 2024)*

In terms of the hierarchy of business cost concerns, wages have consistently ranked in the top five in the past year (Table 5). Wage growth pressures remain a risk amid persistent skill shortages across different industries. Moreover, as other business costs (such as insurance) continue to surge, there is limited capacity for businesses to absorb wage increases, especially when it is not justified by an equivalent improvement in productivity.

Table 5: Business cost concerns

Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025
Insurance cost	Insurance cost	Insurance cost	Insurance cost	Insurance cost
Taxes, levies and other government charges	Taxes, levies and other government charges	Taxes, levies and other government charges	Taxes, levies and other government charges	Taxes, levies and other government charges
Energy cost	Energy cost	Energy cost	Wages	Supplier cost
Wages	Wages	Wages	Energy cost	Energy cost
Transport cost (including toll charges)	Supplier cost	Supplier cost	Supplier cost	Wages
Supplier cost	Transport cost (including toll charges)	Transport cost (including toll charges)	Transport cost (including toll charges)	Transport cost (including toll charges)
Loan repayments	Loan repayments	Rent	Rent	Rent
Rent	Rent	Loan repayments	Loan repayments	Loan repayments

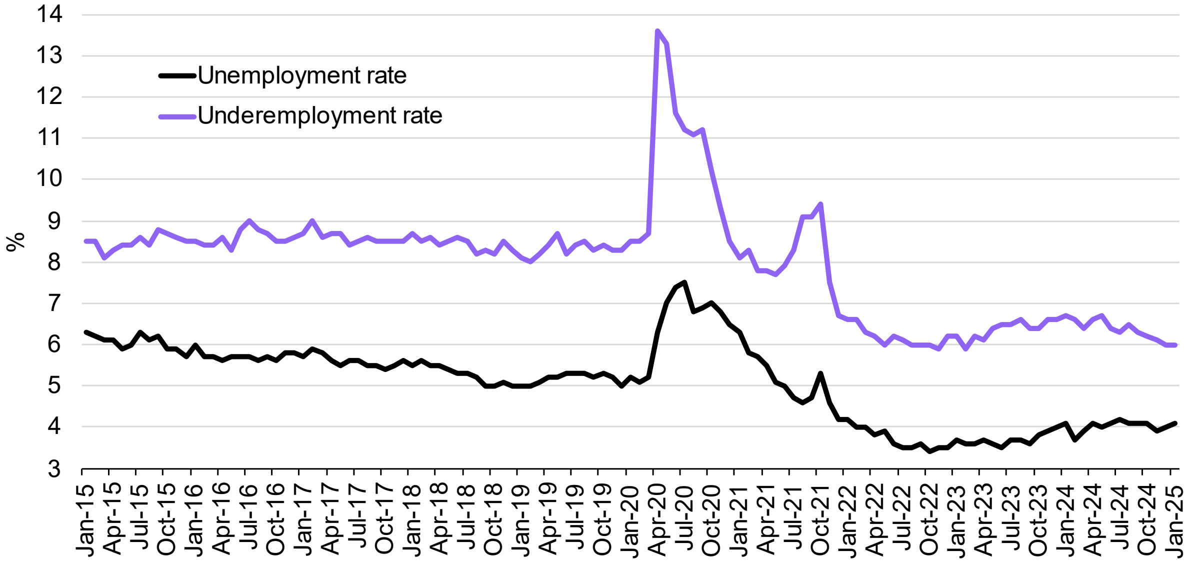
Source: Business NSW, *Business Conditions Survey (March 2025)*

Labour market conditions

The Australian labour market has been exceptionally tight since late-2021, with the unemployment rate hitting a record-low of 3.4% in October 2022 (Graph 6). While it is clear that the unemployment rate has bottomed out, the increase has been gradual. The latest seasonally adjusted unemployment rate (January 2025) of 4.1% remains low by historical standards.

Also reflecting the tight labour market is the underemployment rate, which captures the proportion of the labour force that are employed but desire more work hours. The latest seasonally adjusted underemployment rate (January 2025) of 6% is well below the range of 8% to 9% for the five years prior to the pandemic (Graph 6).

Graph 6: Unemployment & underemployment

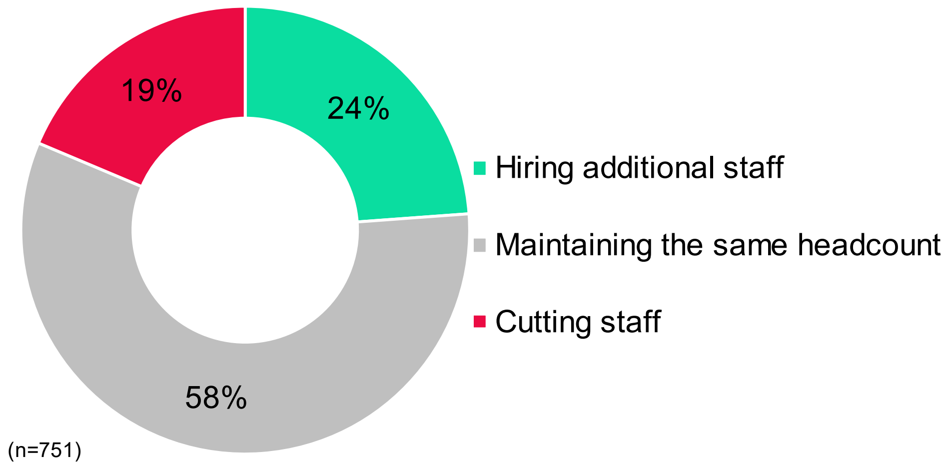


Note: Data are seasonally adjusted
Source: ABS, *Labour Force, Australia, January 2025*, Catalogue No. 6202.0

Labour market conditions in NSW are unlikely to ease in the first half of 2025. Business NSW research has found that the majority of businesses are planning to either maintain the same staff headcount (58%) or hire additional staff (24%) for the three months from March (Graph 7). Only 19% intend to reduce staff headcount.

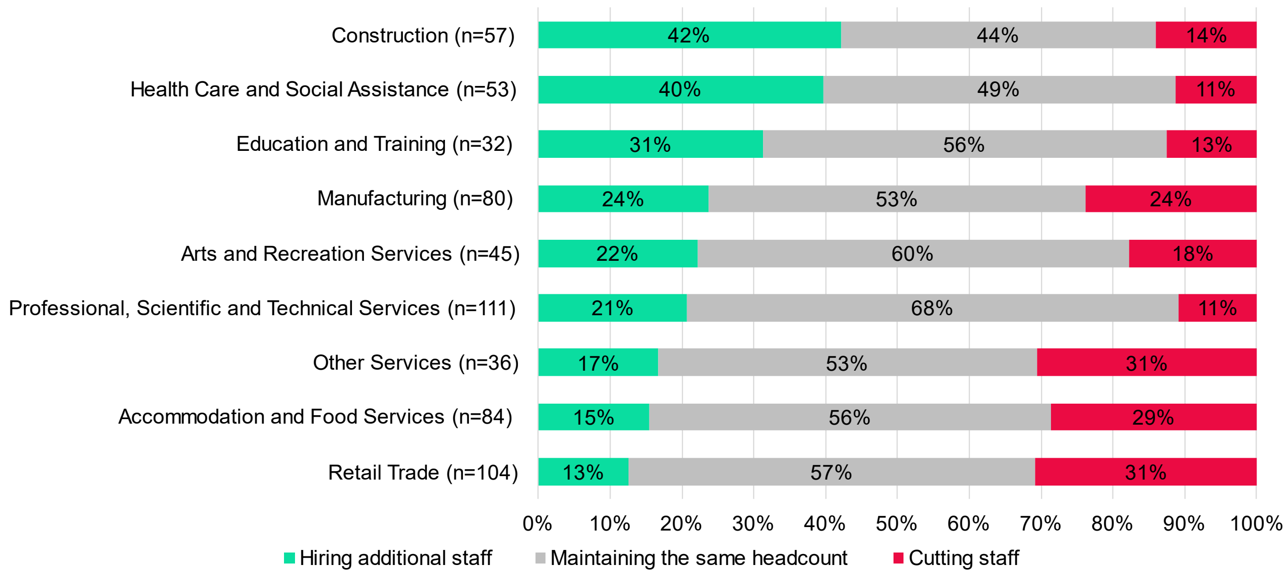
Demand for workers varies by industry. According to the latest Business Conditions Survey, competition for workers in 'Construction' and 'Health Care and Social Assistance' is likely to be particularly strong, with over 40% of businesses in these industries intending to expand their workforce (Graph 8). On the other hand, while consumer-facing sectors ('Retail Trade', 'Accommodation and Food Services' and 'Other Services') will see around 30% of businesses reducing staff headcount, there are still businesses in these industries (13%, 15% and 17%, respectively) planning to hire more staff. Hence, the overall labour market is expected to remain tight (by historical standards) in 2025.

Graph 7: Plans for staff headcount for March to May 2025



Source: Business NSW, *Business Conditions Survey (March 2025)*

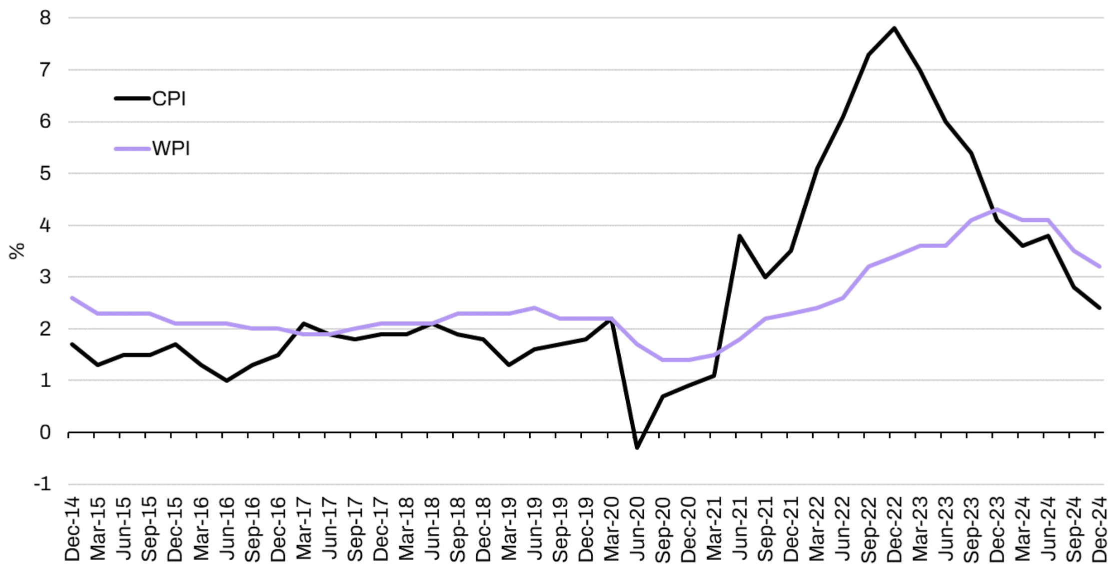
Graph 8: Plans for staff headcount for March to May 2025 (by industry)



Note: Industries with less than 30 respondents have been excluded
Source: Business NSW, *Business Conditions Survey (March 2025)*

For the most recent quarter (December 2024), wage growth came in at 3.2% while inflation was at 2.4% (Graph 9). Australian workers have had real wage growth (when wage growth outpaces inflation) since the December quarter of 2023. This follows ten quarters (or two-and-a-half years) of real wage decline as wage growth could not keep pace with headline inflation, which accelerated to a peak of 7.8% in the December quarter of 2022.

Graph 9: Consumer Price Index and Wage Price Index (annual change)



Source: ABS, *Consumer Price Index, Australia December Quarter 2024,* Catalogue No. 6401.0, ABS, *Wage Price Index, Australia December Quarter 2024,* Catalogue No. 6345.0

Productivity

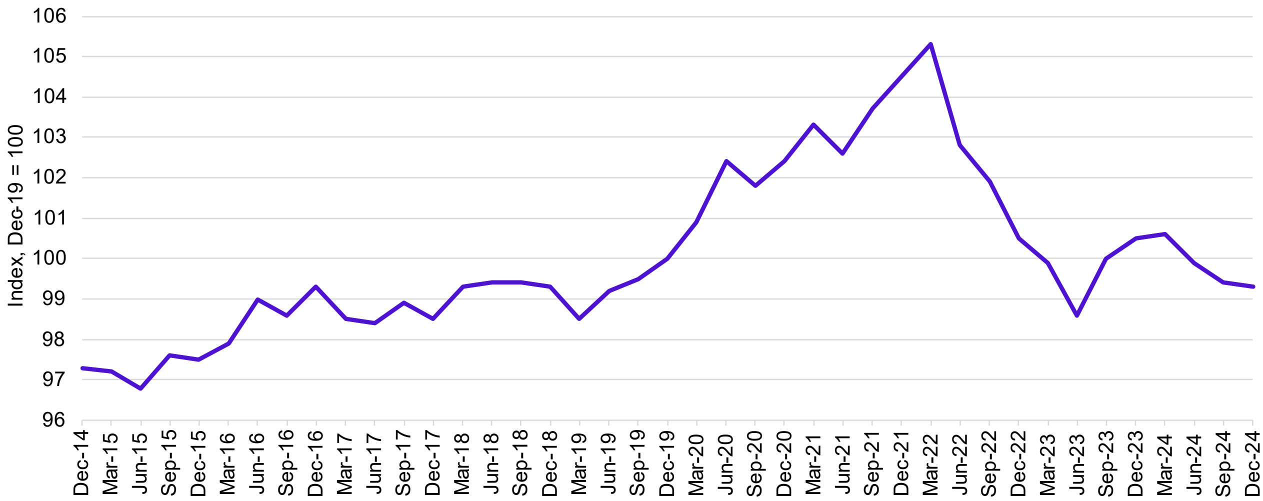
Wages are a key business cost. To ensure wage growth is not inflationary, it is important to examine labour productivity. In the most recent quarter (December 2024), GDP per hour worked – a standard measure of productivity – fell 0.1% quarter on quarter, which was also its third consecutive quarter of decline (Table 10). Productivity had fallen sharply since its peak in March 2022 and the rebound that started in mid-2023 has also failed to maintain momentum (Graph 11). Therefore, the latest productivity level was still 5.7% below its peak, making it difficult for employers to justify wage increases.

Table 10: Quarterly change in labour productivity

	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
GDP per hour worked	0.5	0.1	-0.7	-0.5	-0.1

Note: Data are seasonally adjusted.
Source: ABS, *Australian National Accounts: National Income, Expenditure and Product, December 2024*, Catalogue No. 5206.0

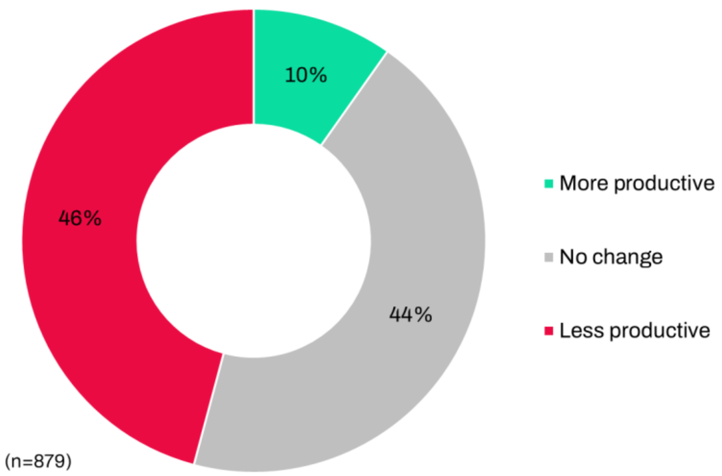
Graph 11: GDP per hour worked



Note: Data are seasonally adjusted.
Source: Business NSW calculation based on data from ABS, *Australian National Accounts: National Income, Expenditure and Product, December 2024*, Catalogue No. 5206.0

To supplement the above macroeconomic data from the Australian Bureau of Statistics, Business NSW has examined the change in workers' productivity at a business level. For the two years to May 2024, 46% of businesses reported a decline in workers' productivity, while 44% noted no change and only 10% experienced an increase (Graph 12).

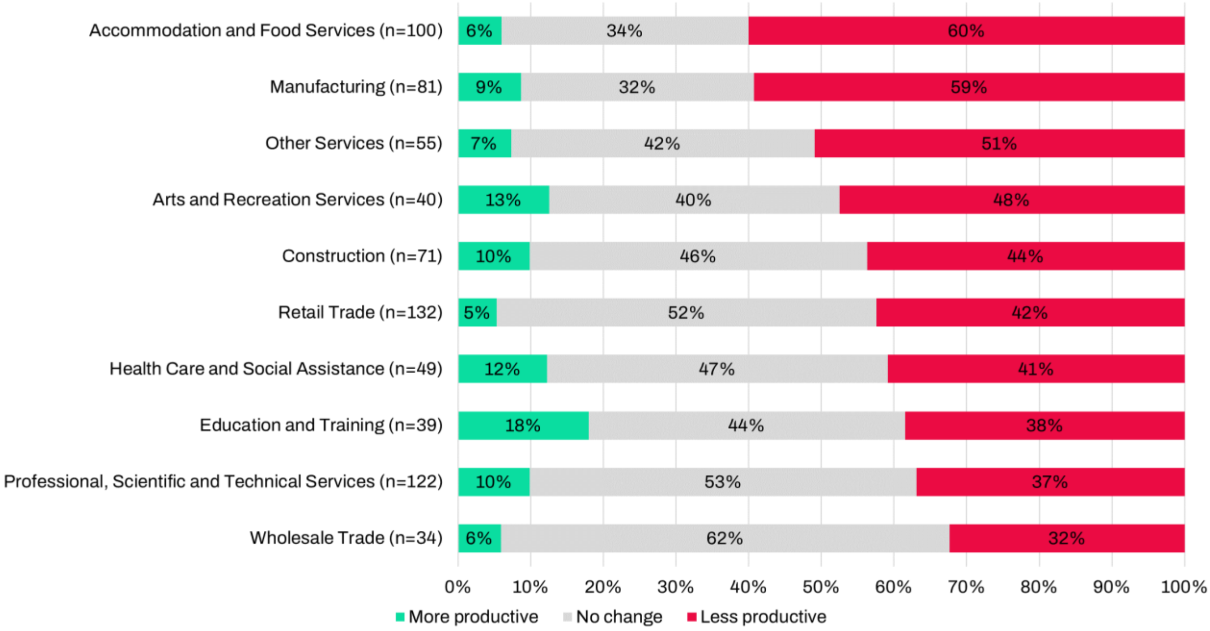
Graph 12: Change in workers' productivity in the two years to May 2024



Source: Business NSW, *Business Conditions Survey (May 2024)*

The change in workers' productivity during this two-year period differed by industry. The industries with the highest proportion of businesses reporting a decline were 'Accommodation and Food Services' (60%), 'Manufacturing' (59%) and 'Other Services' (51%). Two of these three industries are among those most likely to see job cuts in 2025 (Graph 8).

Graph 13: Change in workers' productivity in the two years to May 2024 (by industry)

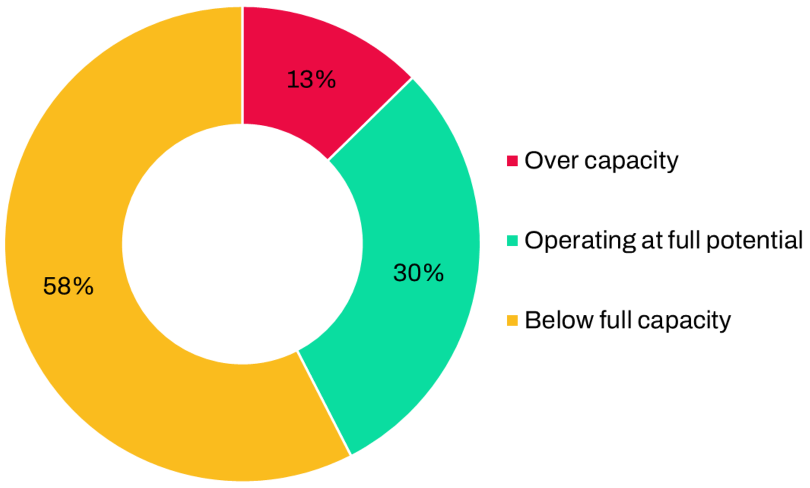


Note: Industries with less than 30 respondents have been excluded
Source: Business NSW, *Business Conditions Survey (May 2024)*

To gauge the potential impact of the recent fall in workers' productivity, Business NSW has conducted further research, asking businesses to rate their operational efficiency. The survey found that only 30% of businesses were operating at full potential in late-2024 (Graph 14). The majority of businesses (58% of total) were operating below full capacity, which was defined in the survey as 'having inefficiency, wastage or room for improvement in operations'. Being over capacity (defined as 'having staff and resources unsustainably over-stretched to meet demand') is the scenario where wage increases could be most readily substantiated. However, only 13% of businesses self-identified to be in this category.

The distribution of operational efficiency self-assessment was generally consistent across industries, except for 'Health Care and Social Assistance' which had a higher-than-average proportion of businesses reporting to be over capacity (Graph 15). This finding is in line with the stronger-than-average demand for workers in 'Health Care and Social Assistance' in 2025 (Graph 8).

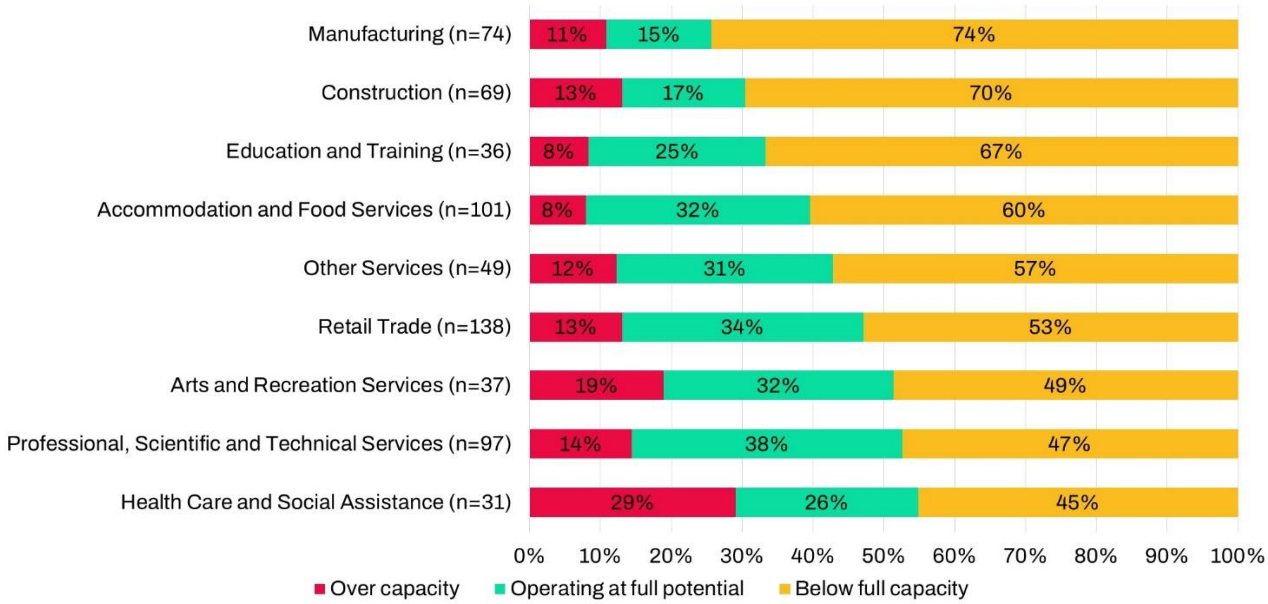
Graph 14: Self-rated operational efficiency



(n=789)

Source: Business NSW, *Business Conditions Survey (December 2024)*

Graph 15: Self-rated operational efficiency by industry



Note: Industries with less than 30 respondents have been excluded
Source: Business NSW, *Business Conditions Survey (December 2024)*

Part II — Minimum wage increase recommendation

Key considerations

An appropriate rate of wage increase is one that compensates workers for inflation experienced without creating a wage-price spiral that causes further inflation.

The determination of wage increase should be based on two key factors:

1. labour productivity growth – whereby higher outputs justify higher wages
2. inflation rate – indication of the rising cost of living experienced by workers.

If real wage growth (i.e. the increase in wages net of inflation) exceeds labour productivity growth, the cost of production becomes higher and businesses are likely to raise prices in response. This would then lead to higher inflation or even the unwelcome wage-price spiral.

Labour productivity levels have fluctuated in recent years (Table 16). After ending financial year 2023-24 with a 1.3% gain, productivity fell again in the December quarter of 2024, down 1.2% from a year ago. Meanwhile, inflation has slowed notably in recent months. The average forecast for CPI growth at the end of financial year 2024-25 is 2.6% (Table 17).

An award minimum wage increase of 2.5% plus the superannuation guarantee increase is deemed appropriate.

Table 16: Inflation, productivity growth and minimum wage increases*

Financial Year	CPI growth (%)	Labour productivity growth (%)	Award minimum wage increase (%)
2021-22	6.1	0.2	5.2
2022-23	6.0	-4.1	5.75
2023-24	3.8	1.3	3.75
2024-25	2.6**	-1.2***	2.50

Sources: ABS, Fair Work Commission, RBA, Budget Papers (December 2024)
Note: *The CPI and labour productivity growth rates are based on the year-on-year change recorded every June quarter. **Average of Treasury forecast (December 2024) and RBA forecast (February 2025). ***Latest figure from the quarter of December 2024.

Table 17: Inflation forecast (%)*

	Jun 2025	Jun 2026
RBA	2.4	3.2
Treasury	2.75	2.75

Source: RBA (February 2025), Budget Mid-Year Economic and Fiscal Outlook 2024-25
Note: *The inflation forecasts are based on the year-on-year change every June quarter.