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An Analysis of the Impact of Penalty Rate Cuts on National Growth Trends

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Background

This report builds on previous research by The McKell Institute on penalty rates and industrial relations, including:

- Who loses when penalty rates are cut? (2015)
- The economic impact of penalty rate cuts on rural NSW (2015)
- The economic impact of penalty rate cuts on metropolitan Brisbane (2015)
- The importance of penalty rates for our health workforce (2016)
- The impact of the FWC's February 23 Sunday Penalty Rates Decision (2017)
- Unfair Burden: The impact of Sunday penalty rate reductions on regional and rural Australia (2017)
- Counting the Cost: The impact of Sunday penalty rate reductions on Urban Australia (2017)
- Assesing the Impact: The consequences of reduced public holiday penalty rates on Labour Day and Grand Final Weekend (2017)

Further McKell Institute research into penalty rates and industrial relations can be found at: http://www.mckellinstitute.org.au/policy-areas/industrial-relations/

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Note

The opinions in this paper are those of the authors and do not necessarily represent the views of the McKell Institute's members, affiliates, individual board members or research committee members. Any remaining errors or omissions are the responsibility of the authors.

Overview

On 23 February 2017, the Fair Work Commission (FWC) made the decision to reduce the rates of pay for workers in certain key industries: retail, hospitality, fast food and pharmacy sectors. The proposed changes began to be implemented in July 2017, and are scheduled to sequentially reduce hourly rates of pay for employees in the affected industries until 2020.

This discussion paper explores the relationship between penalty rate cuts and national economic data by examining the December 2017 national growth trend data released by the Australian Bureau of Statistics. While strong business investment is evident, there is clear evidence that household consumption is weakening.

Evident in the data is a correlation between the reduction in take-home pay for workers experiencing reduced penalty rates and a dampened consumption. Most evident is a reduction in consumer spending in Quarter 3, 2017 – the first quarter since penalty rate reductions have been in place, suggesting the reduction in take-home pay for workers has reduced their capacity to spend.

Penalty rates have long since been a mainstay of the Australian economy and have been a significant source of income for low and middle income workers who rely significantly on the additional pay they get on weekends and public holidays. Changes in the take-home pay for workers employed in these industries will be severe, especially for regional and rural workers as a report by the McKell Institute outlines.[i]

This report seeks to identify any role that penalty rate reductions have had on trend growth rate by assessing data from the first quarter that penalty rate reductions have been in place (Q3, 2017).

Key Findings

Finding 1: The growth in GDP for the September 2017 quarter was 0.6% of which the Gross Value Added by the Retail industry was 0.74% which was a decline from the previous quarter where the Retail Industry added 0.88% in Gross Value.

Finding 2: In the first quarter since penalty rate reductions have been in place, growth in consumer spending has been low, particularly in retail. In the months between July and October 2017, the trend estimate for Retail Industry Turonver has been at 0.0% and fallen to -0.1% in October 2017.

Finding 3: The Wage Price Index, which measures changes in the price of wages and salaries over time, shows a very modest increase of 0.5% in the September quarter of 2017. This index is a key economic indicator and a vital information source on the state of a nation's monetary policy. The 0.5% increase indicates a slow rate of wage growth, below international averages[ii].

Finding 4: Employment in the Accommodation and Food Services Industry saw a drop between May and August 2017, during which the penalty rate cuts came into effect. While the available data does not demonstrate a causation between penalty rate cuts and job losses, there is no evidence suggesting the penalty rate cuts have been overtly beneficial for job creation in the sector.

Changes to Penalty Rates

Award	1 July 2017	1 July 2018	1 July 2019	1 July 2020
	Percent of award	*Percent of award*	*Percent of award*	*Percent of award*
Fast Food	150 to 145	145 to 135	135 to 125	
Hospitality	175 to 170	170 to 160	160 to 150	
Retail	200 to 195	195 to 180	180 to 165	165 to 150
Pharmacy	200 to 195	195 to 180	180 to 165	165 to 150

Table 1: *Full Time and Part Time Sunday Penalty Rate transitional arrangements*[iii]

Award	1 July 2017	1 July 2018	1 July 2019	1 July 2020
	Percent of award	*Percent of award*	*Percent of award*	*Percent of award*
Fast Food	175 to 170	170 to 160	160 to 150	
Hospitality	175 to 170	170 to 160	160 to 150	
Retail	200 to 195	195 to 185	185 to 175	
Pharmacy	225 to 220	220 to 205	205 to 190	190 to 175

Table 2: *Casual Sunday Penalty Rate transitional arrangements*[iv]

Award	Public Holiday Penalty Rate Percentages	
	Full Time and Part Time	**Casual**
Hospitality	250 to 225	275 to 250
Restaurant	250 to 225	250
Retail	250 to 225	275 to 250
Fast Food	250 to 225	275 to 250
Pharmacy	250 to 225	275 to 250

Table 3: *Public Holiday Penalty Rate changes – No transitional arrangements*[v]

Impact of Penalty Rate cuts on Growth Trends

The following analysis demonstrates the impact of the cuts in penalty rates on the growth trends of the quarter July 2017-September 2017 nationally. The growth in the retail industry during this period is lower than the overall national growth trend.Turnover in the retail industry[vi] and Gross Value Added by this industry reduced in the quarter ending September 2017 during which the cuts in penalty rates were sequentially enforced[vii]. The Accommodation and Food Services industry was also affected by cuts in the rates for Hospitality and Fast Food workers.

Retail Trade Turnover Stalled in Q3 2017

The trend estimate for September 2017 (0.0%) follows a similar unchanged estimate for August 2017 (0.0%) and similary for July 2017 – 0.0%. This shows that despite claims that penalty rates will increase economic activity, retail turnover has seen a stand still with sales showing 0% growth[viii]. This suggests that the reduction in consumer spending opponents of penalty rate reductions voiced prior to the changes appears to be evident in the available data.

Furthermore, the Retail Turnover Trend for October 2017 fell by 0.1% indicating decling expenditure on retail and wholesale goods by individuals.

Household goods retailing fell by 0.5%, cafes, restaurants and takeaway food services declined by 0.1% and Department stores by 0.1%[ix]. This is an indication of the reduced consumer expenditure in this quarter in the mentioned sub-sectors of the retail industry. Opponents of the reduction in penalty rates argued consistently that a reduction in penalty rates would have adversely impacted Australians' ability to engage in consumer spending.

While the penalty rate reductions are only in their infancy, the initial retail spending data suggests that these concerns may have been justified.

Wage Growth Remains Slow

The Wage Price Index which measures the changes in wages and salaries rose by a mere 0.5% in the June-September quarter of 2017. Employment in these sectors has shown only a modest increase with employment in the Retail Industry only increasing by 0.07% between May and August 2017 and employment in the Accomodation and Food Services Industry increasing by 0.08%[x] while industries like Agriculture, Education and Transport saw employment increase by 0.17%, 0.08% and 0.28% respectively[xi].

When comparing the percentage change from the corresponding quarter of the previous year, the rates of pay for the Retail Trade (Public and Private) are among the lowest in the nation with only a 1.6% change from Quarter 3 of 2016[xii].

Employment in retail and hospitality has not increased beyond national trends

Proponents for a reduction in penalty rates have long argued that such a change would result in a significant growth in employment. In submissions to the Fair Work Commission, proponents of a penalty rate reduction suggested up to 40,000 new jobs would be created as a result of the changes[xiii]. While the changes only started to came into effect on July 1, 2017, there is no evidence of a major surge in employment in the affected industries.

In fact, for the Accomodation and Food Services Industry, the original stock data collected by the Labour Force Quarterly detailed survey shows a drop in the number of employed people in total between May and August 2017 when the penalty rate cuts came into effect in the Hospitality and Fast Food industry[xiv]. While this period only covers the first month that the penaly rate changes have come into effect, the available data demonstrates no direct causation between the changes in penalty rates and an increase in employment in the accommodation and food services sector.

Growth Trends

According to the ABS, GDP grew by 0.6 % in the June-September 2017 quarter from a 0.7% growth rate from the previous quarter[xv], showing a decline in income, expenditure and production.

The Gross Value Added by the Retail Industry was 0.74%, falling from 0.88% in the previous quarter – Quarter 2 2017. While the economy grew by 0.6%, the retail industry dampened this growth trend.

This highlights the impact of the cut in penalty rates on patterns of consumer expenditure in these industries. Even thought the cuts are being phased in sequentially, there is evidence that the lower consumer consumption that coincided with the widespread reduction of penalty rates has negatively impacted growth trends in the economy.

Justification for Penalty Rate cuts are not evident in Q3 2017 Growth Data

As mentioned previously, the Retail Industry has not shown any significant rise in employment and the Accommodation and Food Services industry has actually seen a slight reduction in employment.

Household consumption expenditure fell in this quarter by 0.09% which shows the decline in consumer expenditure on goods and services in the industry. Consumption is one of the biggest components of aggregate demand in an economy and the fall in household consumption expenditure causes a large drop in Gross Domestic Product. However, this quarter saw an increase in investment which may have caused the adverse effects of the fall in consumption to be abated by the rise in Investment.

Conclusion

The indicators and data provided illustrate the impact that the cuts in penalty rates have had on the Australian economy. While Q3 2017 saw penaly rates only marginally reduced, the evidence suggests some correlation between the reduction in take home pay for this significant portion of the labour market and a reduction in overall consumer spending. While investment remains strong, the poor consumer spending result in Quarter 3 is of concern, and should be considered in further deliberations regarding the reduction of the take home pay of Australian workers.

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