VACC Submission to the Annual Wage Review 2017

Dated 29 March 2017

About us

This submission is from the Victorian Automobile Chamber of Commerce (VACC) and its Division, the Tasmanian Automobile Chamber of Commerce (TACC).

VACC is the peak body for the automotive industry in Victoria and Tasmania. VACC is a Registered Organisation operating under the *Fair Work (Registered Organisations) Act 2009*. First established in 1918, VACC now represents the interests of over 5,000 member businesses in the automotive industry. VACC members employ over 50,000 people.

VACC members range from new and used vehicle dealers (passenger, truck, commercial, motorcycles, recreational and farm machinery), repairers (mechanical, electrical, body and repair specialists, i.e. radiators and engines), vehicle servicing (service stations, vehicle washing, rental, windscreens), parts and component wholesale/retail and distribution and aftermarket manufacture (i.e. specialist vehicle, parts or component modification and/or manufacture) and recycling.

The Australian automotive industry makes up approximately 65,000 businesses nationally. The vast majority of these businesses (96%) are small family-owned and operated businesses employing less than 20 employees or operate as sole traders. For the 2015-16 financial year, aggregate employment for the industry was recorded at 369,457 people. In gross domestic product (GDP), the automotive industry as a whole accounted for approximately $36.4 billion, or 2.2% of Australia's annual GDP in current prices.

Summary of position and rationale

VACC supports a modest wage increase of 1.2% in the 2017 Annual Wage Review. A 1.2% increase to the national minimum wage translates to $8.07 per week, for a total of $680.77 per week. VACC's submission endorses the Australian Chamber of Commerce and Industry's (ACCI) submission to this review.

VACC contends that the Expert Panel should take the following key factors affecting the automotive industry into consideration in reaching its decision:

- Business conditions vary widely, leading to uncertainty and vulnerability to changing economic situations. Labour costs remain one of the key issues facing businesses moving forward. These factors have led to a rationalisation of employment in the automotive industry in the last financial year and a general reluctance to hire new labour.

- Businesses face high training costs and low initial productivity when employing apprentices and trainees in comparison to skilled labour. High apprentice wage rates have combined with economic uncertainty to deter businesses from investing in the next generation of skilled labour despite ongoing skills shortages. A significant increase in wages across the board, or for apprentices and trainees more specifically, would act as a further disincentive on hiring apprentices and trainees.

- 2017 will mark the end of car manufacturing in Australia, with the closures of the last plants in Victoria and South Australia. Approximately 40,000 jobs are expected to be lost across the automotive and associated industries as a result. Wage increases should be moderated (1.2%) so as not create a disincentive to employers from employing those workers who lose their jobs, directly or indirectly, from plant closures.

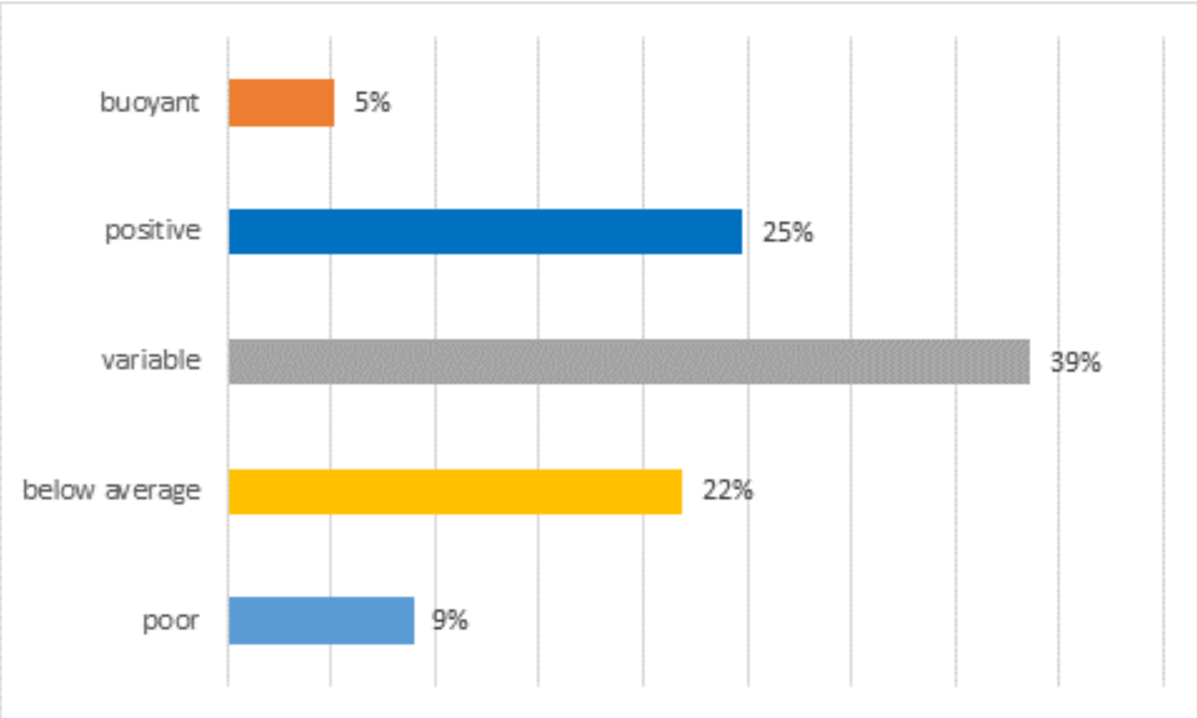
- Australia's overall economic climate remains vulnerable, with low inflation rates and average wage growth. Any significant increase (beyond 1.2%) to the minimum wage is out of line with current industry trends.

Survey of the Australian automotive industry

VACC, in conjunction with the State and Territory Motor Trades Associations of Australia, conducted a national survey of over 1,000 member businesses in November 2016. The survey (*Automotive Industry National Survey 2016-17*) sampled all sectors of the automotive industry and collected detailed information concerning the business environment, labour market, skill shortages and other key issues of importance affecting automotive businesses. The survey has a margin of error of 3.1%.

Australian automotive businesses reported predominantly variable business conditions during 2016. A slightly larger portion of businesses (31%) experienced either below average or poor business conditions than businesses that experienced positive or buoyant business conditions (30%). In general, this demonstrates that the majority of automotive businesses are currently operating on a fine line of profitability and are especially vulnerable to economic fluctuations such as reduced demand or higher operating costs, including but not limited to labour costs.

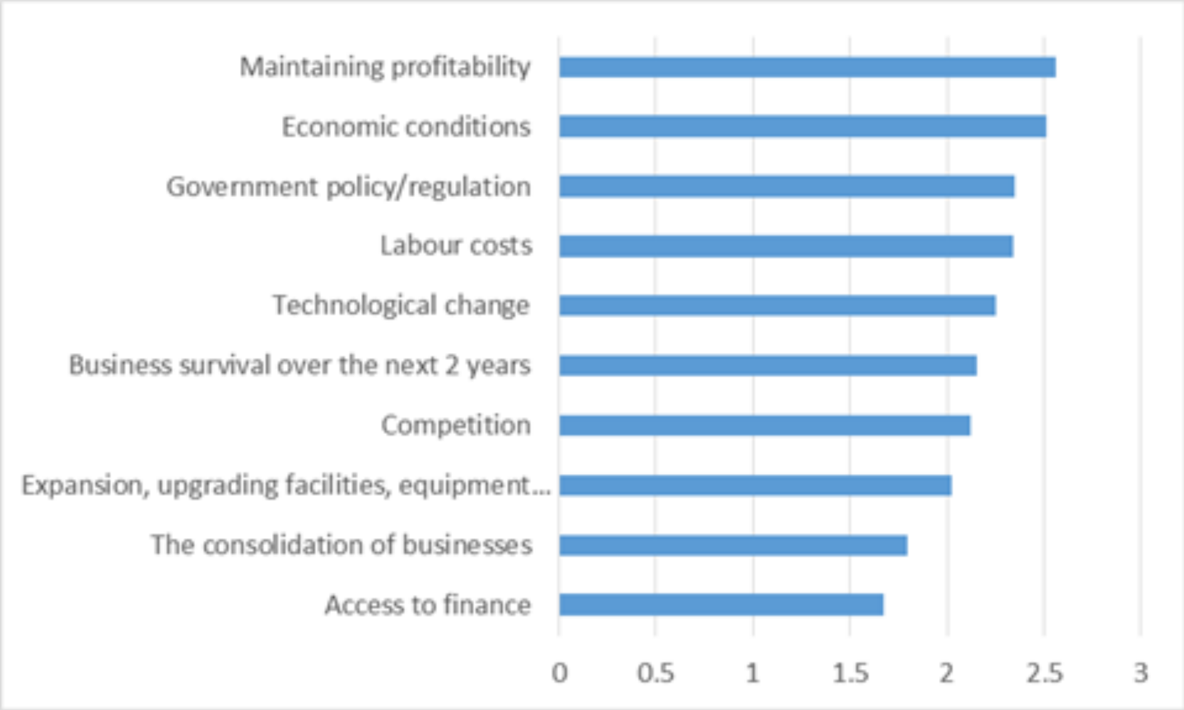
Automotive business conditions – National, 2016



Source: Automotive Industry National Survey 2016-17

The survey also asked business owners to identify the key issues facing their automotive businesses in 2016. 'Maintaining profitability' and 'economic conditions' were ranked as the two most significant issues. It is significant that 'economic conditions' has replaced 'cash flow' since the VACC's 2014 Nielson telephone survey of members, indicating that businesses are electing to store liquidity to protect against a possible economic downturn rather than investing in growing their businesses, such as employing additional staff. These statistics signal the vulnerability and uncertainty many automotive businesses face at a time of weak and uneven economic growth.

Key issues moving forward for automotive businesses – National, 2016



Source: Automotive Industry National Survey 2016-17

'Labour costs' rated as the fourth most significant issue currently facing automotive businesses in the 2016 national survey. Between 2014-15 and 2015-16, ABS labour force data shows a sharp decline in aggregate employment of 4.1% within the automotive industry. This represents the largest reduction in industry employment in the past five years. A correlation can be found between a recent reduction in the willingness of automotive businesses to hire staff and growing concerns over volatile economic conditions and high labour costs.

Year	Automotive Industry Employees	Yearly Change
2011-12	372,321	N/A
2012-13	365,480	-1.8%
1013-14	383,287	4.9%
2014-15	385,138	0.5%
2015-16	369,457	-4.1%

Source: ABS data

Apprenticeships and traineeships

Apprenticeships and traineeships are vital for both job seekers and the Australian automotive industry. Training programs provide opportunities for many job seekers, particularly young people, to develop valuable trade skills and establish meaningful and long lasting careers. Likewise, industry benefits by alleviating the long-term skills shortages that necessitate a reliance on foreign labour.

Auto Skills Australia's 2015 Automotive Environmental Scan found that only 25% of businesses aimed to hire apprentices that year – a rate lower than at any time since the Automotive Environmental Scan's inception.[1] Demand is highest for skilled workers, including 457 visa holders, rather than apprentices. The higher costs and comparatively lower production capacity associated with hiring and training apprentices and trainees compared with tradespeople are key factors supressing demand for apprentices and trainees amongst small businesses. The 2015 survey constitutes the most recently available data on the topic of skills shortages in the Australian automotive industry. It is expected that the 2017 survey will show little if any improvement in this area.

Data modelling combining ABS Census and labour force data, business counts and automotive skill shortage surveys reveal the following average non-metropolitan skills shortages by State out to 2022:

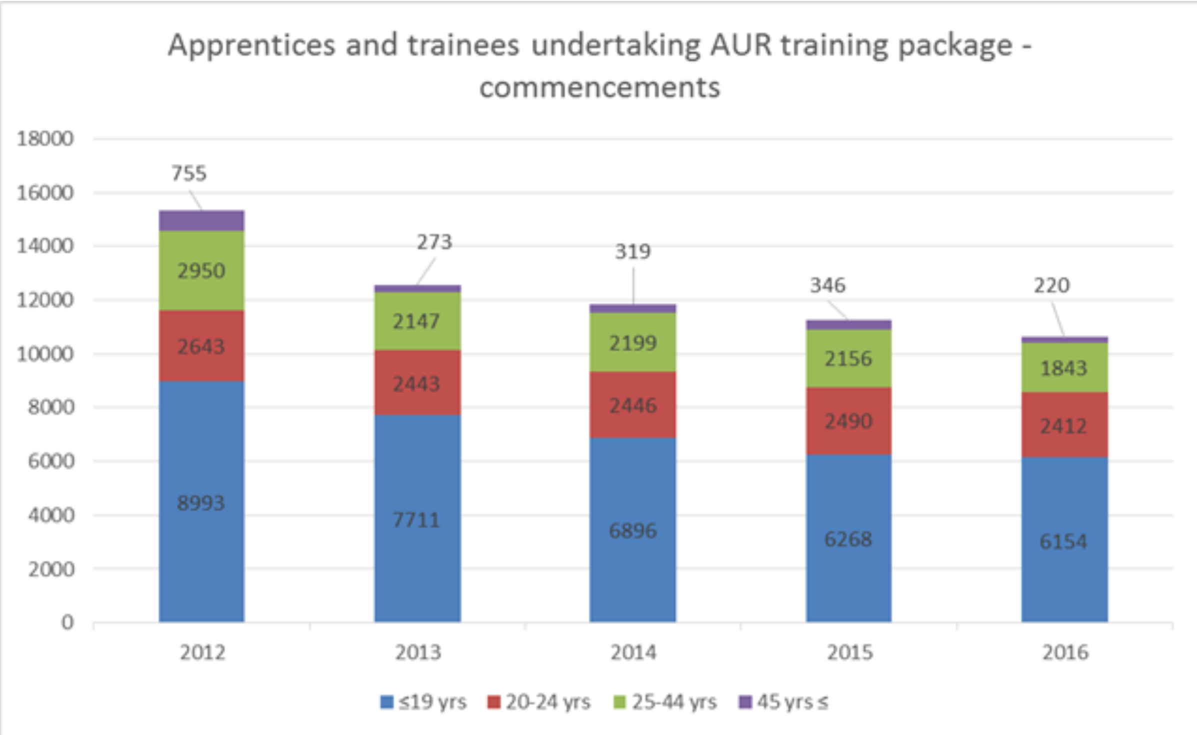
	NSW/ ACT	VIC	QLD	SA	WA	TAS	NT	Total
Motor Mechanics (General)	1,300	1,160	1,000	830	1,010	100	115	5,515
Automotive Electrician	280	195	218	115	138	15	45	1,006
Diesel Motor Mechanics	280	235	215	180	212	25	92	1,239
Motorcycle Mechanics	120	98	80	68	90	20	30	506
Small Engine Mechanics	152	134	140	127	105	18	30	706
Panel Beaters	520	428	390	330	425	25	40	2,158
Vehicle Painters	385	302	218	180	264	25	40	1,414
Motor Vehicle Parts Interpreters	320	290	265	225	242	10	30	1,382
Motor Vehicle Salespersons	250	140	270	100	100	N/A	N/A	860
Total	3,607	2,982	2,796	2,155	2,586	238	422	14,786

Source: ABS data

There has been a declining trend in the numbers of automotive apprentices and trainees in-training coinciding with the Fair Work Commission's order to significantly increase rates of for apprentices and trainees in 2013. The Commission's order occurred at a time of existing fragility in the apprentice and trainee job markers, with a declining trend in commencements since 2012. This is not unique to the automotive industry, but reflects general trends across all industries.

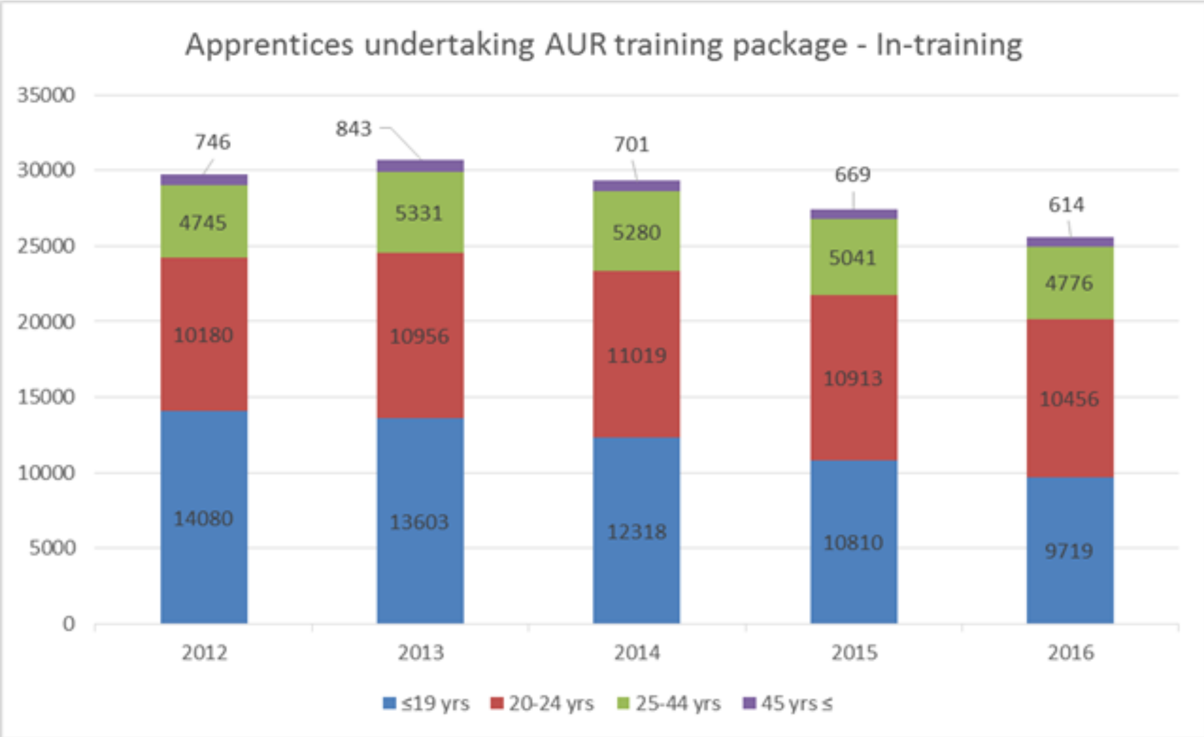
[1] Auto Skills Australia, Automotive Environmental Scan 2015, p 15.

The decline in automotive apprenticeship and traineeship commencements is most significant within the '19 years and under' age bracket. Given approximately half of apprenticeship and traineeship commencements fall into this bracket, the substantial decline in youth enrolments is the main factor for the consistent decline in aggregate national apprenticeship and traineeship commencements since 2012. The declining uptake of apprentices in the industry despite demonstrable skills shortages – particularly for younger apprentices and trainees – is evidence that the cost of labour has reached beyond the market's tolerance levels.



Source: NCVER data

The numbers of apprentices and trainees in-training provide a similar picture of decline. In-training rates for apprentices and trainees aged 19 years and under have been declining continuously since 2012. From 2012 to 2014, apprentices and trainees aged 19 years and under comprised approximately half of all those in-training. However, apprentices and trainees aged 20 to 24 years old have taken over to become the largest single category of those in-training since 2015. Unfortunately, this shift has not occurred because of an increase in older or adult apprentices and trainees, but due to the continuous declining participation rates of those aged 19 years and under in-training.



Source: NCVER data

Closure of automotive manufacturing in Australia

2017 will mark the final year of significant car manufacturing operations in Australia, with the closure of Toyota's factory in Altona, Victoria on 3 October, and Holden's plant in Elizabeth, South Australia on 20 October. These closures follow the end of manufacturing by Ford, who closed their Broadmeadows and Geelong plants in Victoria in October 2016. While these decisions have been expected for some time, Australia's automotive industry continues to undergo significant restructuring to prepare for a future largely comprised of imported vehicles and parts, plus servicing and repairs.

The Productivity Commission has estimated that net direct job losses expected from the end of vehicle manufacturing in Australia will reach approximately 40,000.[2] These losses will be felt significantly in Victoria, which houses many of the recently closed and remaining manufacturing plants. While many of these workers will hopefully find alternative work in the automotive industry, many risk becoming trapped on the long term unemployed list.

It is important to note that the Australian automotive industry is significantly greater than car manufacturing alone. Retail, research and innovation, repairs and servicing, transport technology, information systems and other sectors will continue to employ Australians long after the last manufacturing plants close. Growth in these associated sectors will be particularly important over the coming years to provide work opportunities for those directly or indirectly impacted by plant closures. Workers will therefore rely on the Fair Work Commission to ensure that business conditions are in a state that will allow employers to take on new employees and reduce the number of long term unemployed.

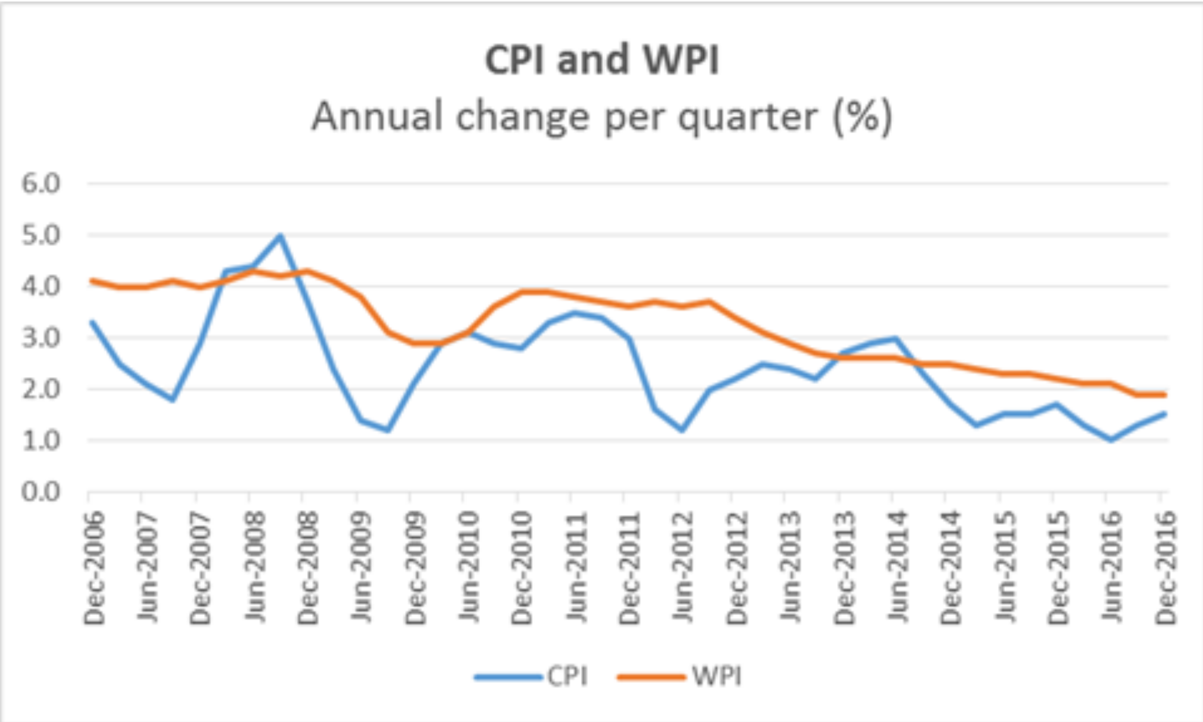
An increase above 1.2% to the minimum wage as part of this year's annual wage review will reduce the ability for businesses, particularly in the automotive industry, to hire those exiting the vehicle manufacturing sector. This is particularly relevant for related component manufacturing and service providers, who are in the process of making significant investments in restructuring and refocusing their businesses towards alternative sectors and industries. Sadly, many component manufacturers will also close. It is therefore important that those businesses transitioning to remain in business can spend their remaining liquidity completing their transition to the new economy, rather than on higher wage growth, to ensure their long-term survival and growth.

[2] Productivity Commission, 'Australia's Automotive Manufacturing Industry', Productivity Commission Inquiry Report, No 73, 31 March 2014.

Overall economic conditions

The wider Australian economy continues to exhibit weakness, restricting business confidence and investment. 2016-17 wage growth and inflation figures followed the general 10-year trend downwards. The annual Consumer Price Index (CPI) figure as of December 2016 was 1.5%, further declining on the previous year's already below trend figure of 1.7%. Private sector wage growth amounted to a 1.8% annual increase as of December 2016. Low average wage growth and inflation figures are indicative of softening demand for goods and services, effecting businesses' profitability.

Average private sector wages continue to grow below rates of increase in the minimum wage. There has been a consistent decline in annual wage growth every quarter since September 2012 for private and public sectors, and since June 2012 for the private sector alone. Low wage growth figures demonstrate that, while some economic conditions are improving, fundamental vulnerabilities continue to exist in the Australian economy. Further significant increases to the minimum wage beyond the 1.2% proposed by VACC and ACCI are out of step with the current broader wage growth trends.



Source: ABS data

Low average private sector wage growth and CPI figures contradict assertions by the Australian Council of Trade Unions (ACTU) that the minimum wage is falling behind the average wage rate. Any significant increase (beyond 1.2%) is out of line with current industry trends. Furthermore, such an increase would further damage business confidence and profitability at a time of volatile and uncertain economic conditions.