

# Ai GROUP SUBMISSION

SENATE SELECT COMMITTEE ON  
TEMPORARY MIGRATION

MARCH 2020



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### **Recommended reports and submissions from AI Group:**

*Ai Group 2015, Submission to Parliament of Australia, Senate Education and Employment References Committee, Inquiry into the impact of Australia's temporary work visa programs on the Australian labour market and on the temporary work visa holders*

*Ai Group 2018, Workforce Development Needs Survey Report.*

*Ai Group 2019, Submission to Standing Committee on Social Issues, Legislative Council, New South Wales Parliament, Inquiry into the Modern Slavery Act 2018 (NSW).*

*Ai Group 2019, Australian manufacturing in 2019, local and global opportunities*

*Ai Group 2020, National CEO Survey Business Prospects in 2020: Policy action can overcome caution, slow growth and weak productivity.*

<https://www.aigroup.com.au/policy-and-research/mediacentre/reports/>

<https://www.aigroup.com.au/policy-and-research/mediacentre/submissions/>

### **About Australian Industry Group**

The Australian Industry Group (Ai Group) is a peak national employer association representing and connecting thousands of businesses in a variety of industries and sectors across Australia. Our membership and affiliates include private sector employers large and small from more than 60,000 businesses employing over 1 million staff. Ai Group promotes industry development, jobs growth and stronger Australian communities. Our members have a common interest in creating more competitive businesses and a stronger economic environment. We provide advice, services, networks and advocacy to help members and industries thrive, and the community to prosper.

### **Australian Industry Group contact for this submission**

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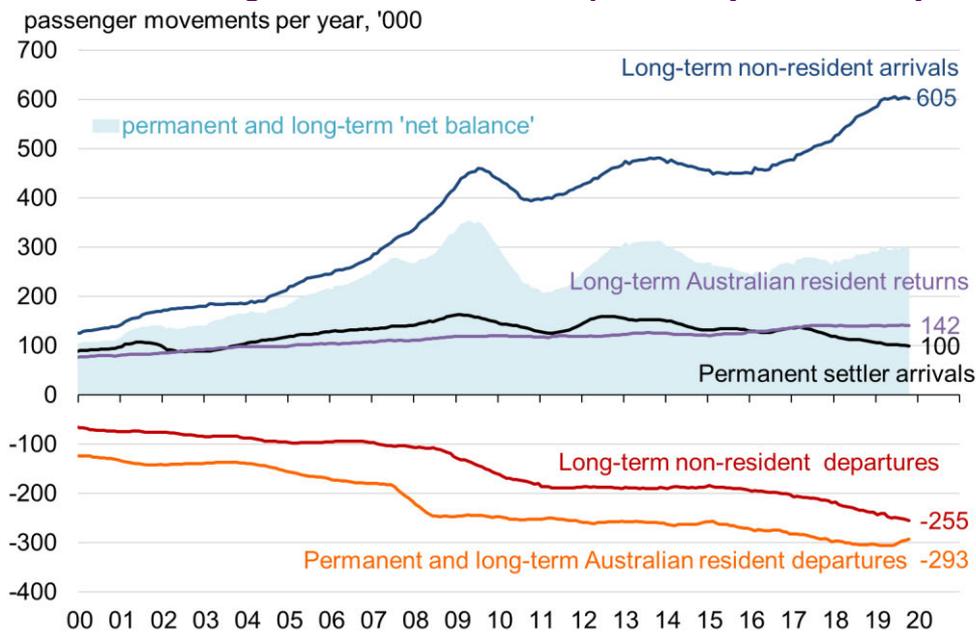
# 1. Annual skilled migration program

Ai Group strongly supports Australia’s permanent migration program and its focus on skilled migration. Skilled migrants generate the greatest benefits to the Australian community through their direct contribution to our national employment and skills base. Many also bring specialist knowledge that provides even bigger benefits by helping train the local workforce and by deepening our entrepreneurship, innovation and international linkages. Those that enter via the ‘demand-driven’ streams such as employer sponsored migration experience a better skills match and faster entry to the labour market, thereby utilising more of their skills more quickly on arrival in Australia than those who arrive independently to seek work.

For these reasons, Ai Group was disappointed with the reduction to a maximum of 160,000 places in the annual permanent migration stream that was announced in the Budget in May 2019. This reduction was not warranted. Nor does it accord with recent trends in economic or population growth.

Growth in Australia’s Estimated Resident Population (ERP) had already slowed slightly before this announcement, to 388,000 or 1.56% p.a. in Q1 of 2019, from 395,000 and 1.60% in Q4 of 2018 (and a recent peak of 415,000 and 1.72% p.a. in Q1 of 2017). The monthly arrivals and departures data indicates, however, that more people arrived as non-residents for long-term stays (12 months) in 2019 and fewer arrived as permanent settlers (chart 1.1).

**Chart 1.1: Australian long-term arrivals and departures (12 months+), to Oct 2019**



Source: ABS arrivals and departures, October 2019.

The number of people arriving in Australia on long-term but temporary visas has remained elevated in 2019, at more than 600,000 over the year to October 2019. The majority of these arrivals are students and backpackers. These groups make enormous contributions to the economy and the labour market, but they are not necessarily the best fit for occupational skill shortages, which are rising in many industrial sectors and particularly in the infrastructure and engineering construction

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fields. For these industries, permanent skilled migration and/or employer sponsored skilled migration are a better solution.

Ai Group notes the findings of the Productivity Commission (PC) in its formal review Australia's migration program (April 2016). It found that the greatest benefits to the community come from younger, highly skilled migrants. In the long-term, the PC found that immigration delivers a measurable 'demographic dividend' which will raise output and incomes for everyone:

*"Continuing [Net Overseas Migration] NOM at the long term historical average rate [of 0.6% of the population] and assuming the same young age profile as the current intake is projected to increase GDP per person by around 7 per cent (equivalent to around \$7000 per person in 2013 14 dollars) in 2060 relative to a zero NOM scenario. **Increasing or decreasing the level of NOM from this rate is projected to have a corresponding impact on GDP per person, all other factors equal.***

*The results reinforce the importance of age and skills in the migrant intake. Increasing the average age structure of NOM to reflect that of the Australian population is projected to reduce real GDP per person, **while increasing the share of migrants entering in higher skilled occupations is projected to lead to an expansion in real GDP per person.**" (PC, p. 15).*

The benefits of migration – and especially skilled migration - to national *per capita* output and income present a compelling argument for restoring the annual migration intake to its previous cap of 190,000 and for strengthening the focus on skilled migration categories.

### Recommendations:

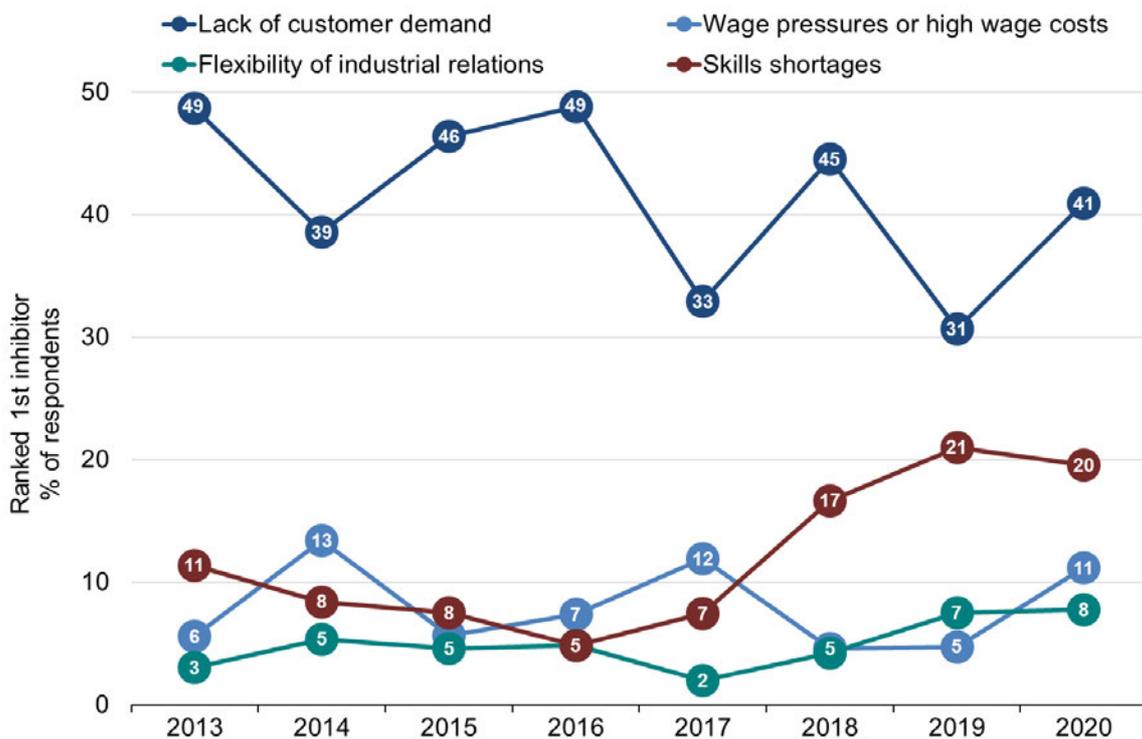
- **The permanent migration planning level should be restored to the previous cap of 190,000 places per year.**
- **Within this total, greater priority should be given to the skilled migration stream and especially to the demand-driven components of skilled migration.**

## 2. Rising Concerns about Skill Shortages

This year’s CEO survey of business prospects asked businesses what factors they most expected to inhibit business growth in 2020. Respondents ranked a ‘lack of customer demand’ as their greatest constraint to growth with just over two-fifths (41%) of CEOs identifying it as their most significant factor, up from 31% of respondents in 2019 and similar to the results for 2018 (45%). Slow or low customer demand is the single biggest inhibitor of business and has been for the history of Ai Group’s Business Prospects reports. Slow global and local demand is expected to be a concern for respondents much as it was in 2018, 2016 and 2015 (see chart 1.1).

Labour market concerns continue to feature prominently for businesses in 2020. The second most pressing concern for CEOs in 2020 is skill shortages with 20% of businesses nominating this as their top concern. This is much the same as last year when 21% of leaders identified skill shortages as their leading impediment for 2019. The past three years has seen this factor feature more prominently. These concerns reflect the rising demand for labour seen in 2018 and 2019, as was indicated across a range of data sources including the monthly ABS Labour Force surveys and Ai Group’s Australian PMI®, PSI® and PCI®.

**Chart 2.1 Expected inhibitors to business growth, 2013 to 2020**



\* Percentage of respondents who ranked each factor first in each year, out of a list of possible inhibitors.

Almost a third of businesses (28%) in this year’s CEO survey plan to increase employment in their business in 2020, so concerns about skill shortages for specific occupations and locations are expected to continue during 2020 (see full report attached).

Wage pressures or high wage costs jumped up to 11% of respondents noting it as a primary inhibitor, an increase from 5% in the previous two years. Wages growth has been fairly stagnant for some

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time now and with the RBA forecasting wage growth to remain at 2.3% in 2020, the increase in the proportion of respondents noting wage costs as its primary inhibitor could possibly reflect those businesses with a higher proportion of award-reliant staff, which have seen increases of 3.0% or more over the last three years. Flexibility of industrial relations was a primary inhibitor for 8% of CEOs, up from 7% in 2019 and 4% in 2018.

Ai Group's 2018 Workforce Development Needs Survey Report\* identified a significant leap in skills shortages across a five year period. Over the past three surveys the percentage of responding employers experiencing skills shortages in the previous 12 months increased from 48 per cent in 2014, to 49 per cent in 2016 and to 75 per cent in 2018. A similar percentage of employers (74 per cent) expected skills shortages to continue over the coming 12 months.

Employers in the survey reported that skills shortages were most prevalent in the technician and trades worker categories of occupations, followed by professionals. In 2018 the recruitment of employees with STEM skills at all occupational levels remained a difficulty for employers, who also reported this difficulty in Ai Group's 2014 and 2016 surveys.

*\*The Ai Group's 2018 Workforce Development Needs Survey Report is available at [https://cdn.aigroup.com.au/Reports/2018/Survey\\_Report\\_WFDNeeds\\_Skilling\\_Sept2018.pdf](https://cdn.aigroup.com.au/Reports/2018/Survey_Report_WFDNeeds_Skilling_Sept2018.pdf)*

### 3. Current Labour Market Trends

The ABS estimates that the national unemployment rate increased from 5.1% in December 2019 to 5.3% in January 2020 (seasonally adjusted). Total employment<sup>1</sup> rose by 13,500 people in the month. An additional 46,200 full-time workers were partially offset by a drop of 32,700 in part-time employment. Despite the rise in total employment, the unemployment rate increased because the labour force (people in work or seeking work) grew by more than the workforce as the participation rate (the proportion of adults in work or looking for work) increased (see table 3.1). An additional 44,600 people were unemployed in January 2019, taking the total to 726,000 people.

Even after the usual seasonal adjustments, these monthly labour market data are volatile and subject to revision. For these reasons, the ABS always recommend the trend estimates as the best guide to underlying patterns in the labour market<sup>2</sup>.

In trend terms, the national unemployment rate held steady at 5.2% in January, up from 5.0% one year earlier. Total employment increased by 20,000, or 2.0% p.a., which is slower than in 2017 and 2018 but around the very long-run average. Growth in January consisted of 14,600 more full-time workers and 5,400 more part-time workers. Full-time employment has increased faster than part-time employment in recent months. As a result, the share of work that is part-time work has fallen to 31.7% of the workforce, from a recent high of 31.8% in May 2018 and a record high of 31.9% in late 2016 (table 3.1 and chart 3.1).

**Table 3.1: Key labour market numbers, January 2020 (trend)**

	Number	Change per month		Change per year	
	'000	'000 m/m	% m/m	'000 p.a.	% p.a.
Total employed persons	<b>12,997</b>	<b>20.0</b>	<b>0.2</b>	<b>257.4</b>	<b>2.0</b>
<i>full-time (35+ hours p.w.)</i>	8,879	14.6	0.2	146.1	1.7
<i>part-time (&lt;35 hours p.w.)</i>	4,117	5.4	0.1	111.2	2.8
Aggregate hours worked	1,785,461	875.9	0.0	22,439.3	1.3
Labour force	13,706	20.5	0.2	291.8	2.2
	Number	Rate		Percentage point change	
	'000	% of labour force		from one year ago	
Unemployment	<b>709.6</b>	<b>5.2</b>		<b>0.1</b>	
Underemployment	1,165.5	8.5		0.2	
Underutilisation	1,875.1	13.7		0.4	
		Rate,		Percentage point change	
		% of adult population		from one year ago	
Participation rate		66.0		0.4	
Employment to population ratio		62.6		0.3	

Source: ABS, *Labour force Australia*, Jan 2020.

Despite this rise in full-time work (absolutely and as a proportion of the workforce), aggregate hours worked across the economy did not grow at all in January and were up only 1.3% p.a. (see Table 1).

<sup>1</sup> Total employment includes all working people including employees, casuals, self-employed and business owners.

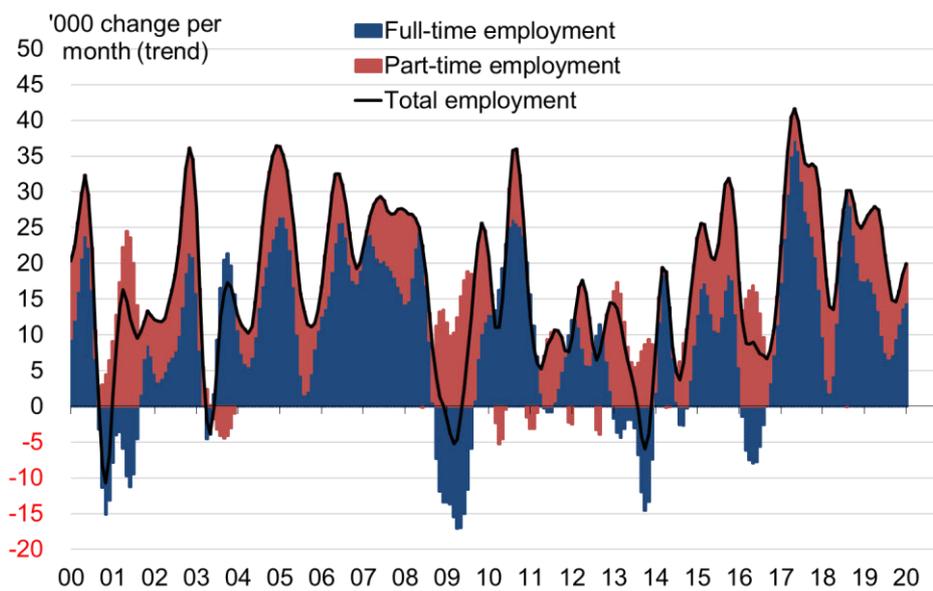
<sup>2</sup> The ABS recommends that “Trend estimates are considered the best indicators of the underlying behaviour in the labour market.” ABS 6202.0, *Labour Force, Australia, Media Release*. Feb 2019. The data below are all trend.

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This indicates that underlying labour demand is probably weaker than the growth in total ‘headcount’ employment suggests.

Even so, this ongoing strength in employment growth is attracting more people into active participation in the labour market to work or seek work. In January, Australia’s participation rate remained near record levels at 66.0%, with the female participation rate reaching another record high at 61.4% (trend). This is partly the result of ongoing and long-term changes in gender work patterns; over the past three decades, rising female participation has more than offset falling male participation. The female unemployment rate is currently at 5.0% while the male unemployment rate is higher, at 5.3%. The divergence in the unemployment rates in 2019 is, in part, related to weaker housing construction activity, which is likely weighing on full-time male employment.

**Chart 3.1: Full-time and part-time employment growth (trend)**



Source: ABS, *Labour force Australia*, Jan 2020.

The underemployment rate (that is, the proportion of the labour force who are working but seeking more hours) remained elevated 8.5% in January. Underemployment remains higher for women (10.5%) than men (6.7%) (see chart 3.2). This reflects differences in work patterns, with women more likely to work part-time in the large services industries in which underemployment is most prevalent. The underutilisation rate (unemployment plus underemployment) remains stubbornly high at 13.7%. Wage growth tends to track more closely to underutilisation rather than unemployment, due to the influence of total ‘spare capacity’ in the labour market (charts 3 & 4). Relatively high persistent labour underutilisation continues to weigh heavily on wage growth.

Across the states, employment grew in all states and territories except for South Australia (-900). The largest employment increases were in Victoria (+7,300), Queensland (+4,700) and New South Wales (+4,600) (trend, table 3.2).

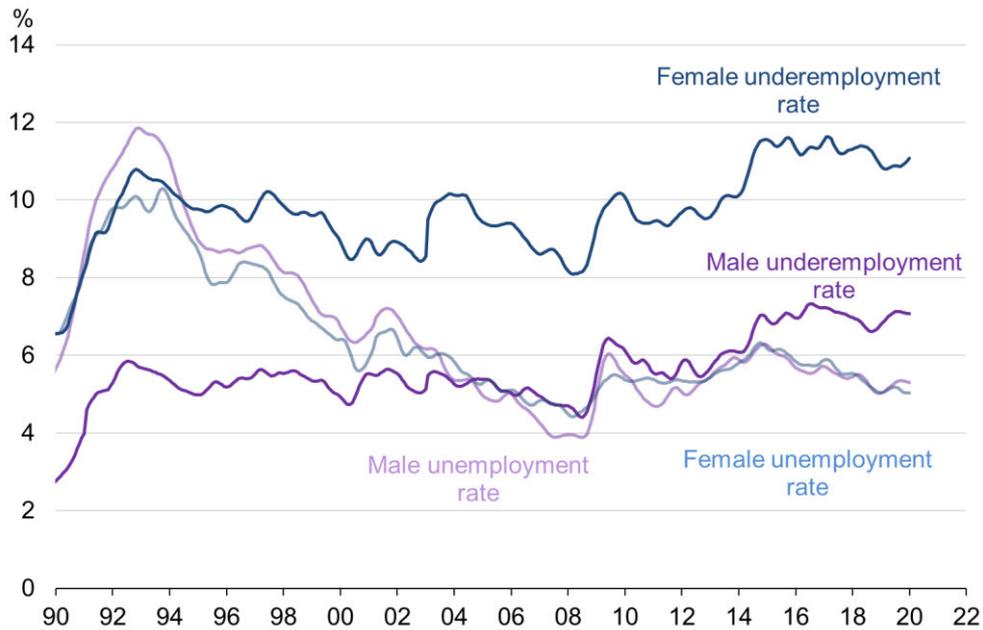
Unemployment rates are showing some convergence in labour markets across states. Very low rates are persisting in New South Wales (4.5%) and the ACT (3.0%), but unemployment in all other states remained at or moved above 5.0% in January (table 3.2 and chart 3.5). Victoria’s unemployment rate increased to 5.0% for the first time since mid-2018. Queensland now has the highest

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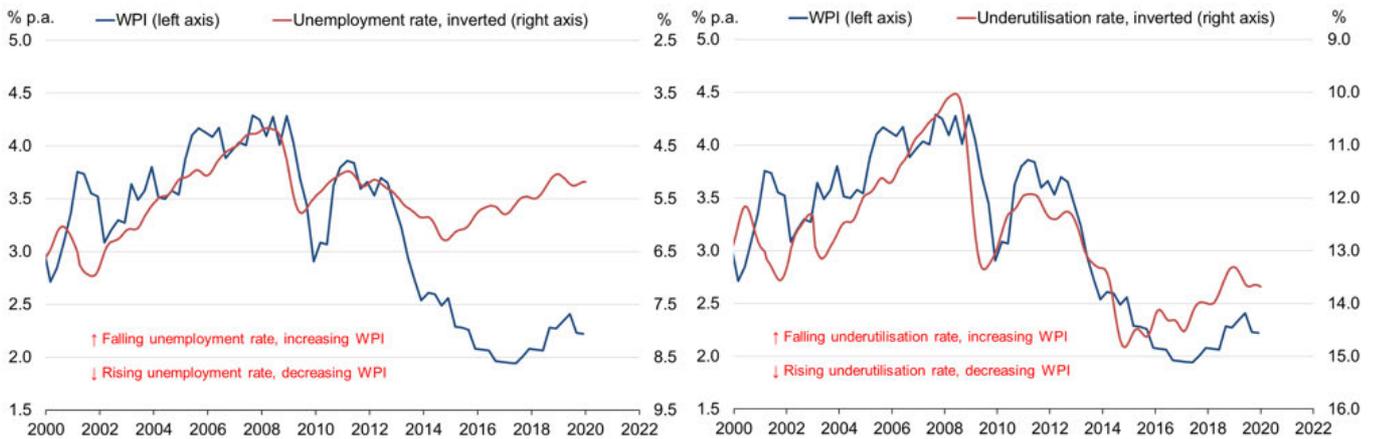
unemployment rate in the country, at 6.1% (trend).

South Australia and Tasmania continue to have significantly lower participation rates and higher part-time work rates than all other states and territories. This is primarily due to the significantly older age profile of their resident populations.

**Chart 3.2: Unemployment & underemployment rates by sex (trend)**



**Chart 3.3 & 3.4: Unemployment, underemployment and the Wage Price Index**



Sources: ABS, *Labour force Australia*, Jan 2020; ABS, *Wage Price Index*, Dec 2019.

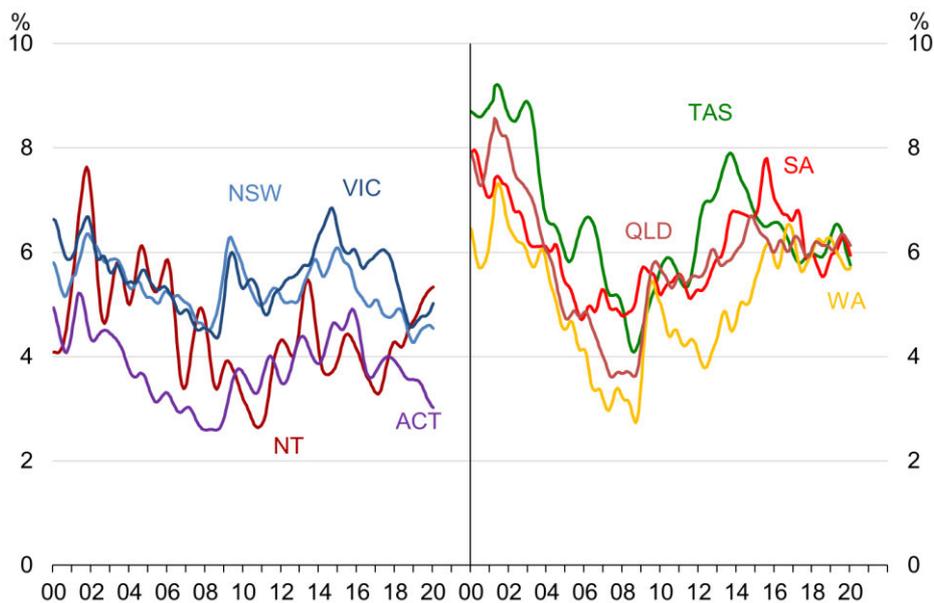
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**Table 3.2: Key labour market numbers by state, January 2020 (trend)**

Trend	Employment growth			Part time workers %	Unemployment rate %	Under-employment rate %	Under-utilisation rate %	Participation rate %
	'000 m/m	'000 y/y	% p.a.					
NSW	4.6	65.3	1.6	30.1	4.5	8.2	12.7	65.4
VIC	7.3	94.6	2.8	32.7	5.0	8.3	13.3	66.7
Qld	4.7	57.1	2.3	31.3	6.1	8.6	14.8	66.0
SA	-0.9	0.3	0.0	35.9	5.9	9.8	15.7	62.4
WA	0.4	20.1	1.5	32.6	5.7	9.1	14.8	68.1
Tas	1.0	8.7	3.5	38.6	5.8	11.2	17.0	61.2
NT	0.3	1.3	1.0	22.0	5.3	5.5	10.8	75.1
ACT	0.1	8.0	3.6	28.3	3.0	6.2	9.2	70.6
<b>Aus</b>	<b>20.0</b>	<b>257.4</b>	<b>2.0</b>	<b>31.7</b>	<b>5.2</b>	<b>8.5</b>	<b>13.7</b>	<b>66.0</b>

Source: ABS, *Labour force Australia*, Jan 2020.

**Chart 3.5: Unemployment rates by state (trend)**



Source: ABS, *Labour force Australia*, Jan 2020.