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KPMG Econtech

The Economic Impact of Wage Cost Increases in the Restaurant and Catering Industry

ADVISORY

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Executive Summary

On March 28 this year the Minister for Employment and Workplace relations formally requested that the AIRC undertake an award modernisation process. Broadly, this process involves the development of modern awards which will operate in conjunction with the new Australian Workplace Relations system introduced by the Rudd Government. As part of this process the AIRC is required to review all federal awards along with Notional Agreement Preserving State Awards (NAPSA). As a result of the process, there is likely to be new awards made that will result in an overall reduction in the number of awards operating in Australia's industrial relations landscape.

Currently, workers in the restaurant and catering industry (where the employer is a constitutional corporation or where the employer is based in Victoria or in the Territories) are covered by Notional Agreement Preserving State Awards that are based on various workplace factors. A major implication of the award modernisation process for the restaurant and catering industry is the potential wrap up of restaurants, cafes and caterers into an award based on the hotels award (Hospitality Industry Award). The application of hotel conditions and rates to restaurants, cafes and caterers would result in increased costs for these businesses without any corresponding productivity increase at the national level, though the detailed wage impacts will vary across states.

Recently, Restaurant & Catering Australia conducted a survey amongst their members to estimate the wage cost implications of the proposed award modernisation process for their industry. The table below shows the estimated average wage cost impacts across the entire restaurant and catering industry.

It must be stressed that these estimates were provided to KPMG Econtech by Restaurant & Catering Australia (RCA). The assessment of these estimates falls outside of KPMG Econtech's Terms of Reference for this project. KPMG Econtech is not in a position to assess the validity and the reasonableness of the wage cost impacts on the restaurant and catering industry.

Table 2: Overall Average Wage Cost Impacts on the Restaurant and Catering Industry of Award Modernisation.

NSW	VIC	QLD	SA	WA	TAS	ACT	Australia
3.55%	0.41%	5.35%	15.70%	1.50%	-3.70%	-0.47%	3.38%

Source: Restaurant & Catering Australia

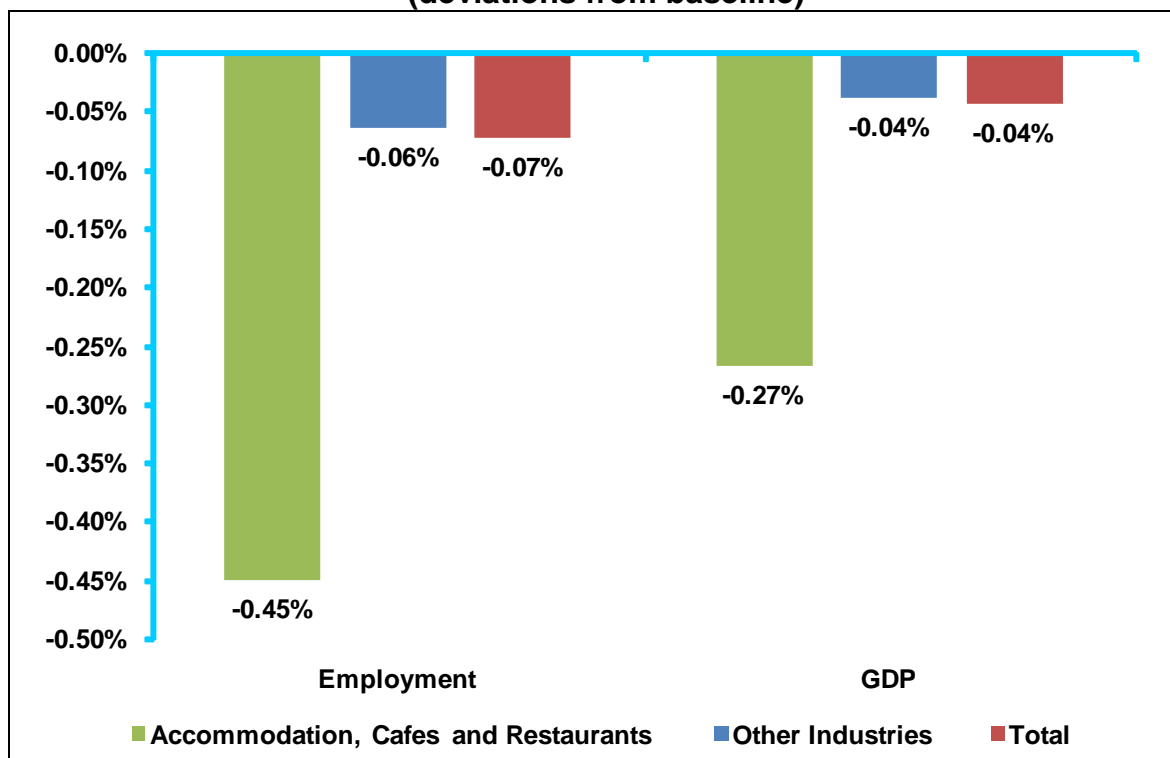
The RCA's estimates of wage impacts as a result of the proposed changes to awards under the award modernisation process are not uniform across states. This is because each of the States is coming from a different industrial relations environment. Weekend penalty rates, casual loadings, base rates of pay and penalties for work out of the usual 9 am to 5 pm range vary significantly from state to state.

These sectoral labour cost estimates are introduced to MMR, KPMG Econtech's Computable General Equilibrium (CGE) model as a "shock" at the state level, after adjusting for the fact that the restaurant and catering industry is part of the wider Accommodation, Cafes and Restaurants sector in the model. The adjustment is based on wage costs shares of the restaurant and catering industry within the wider Accommodations, Cafes and Restaurants sector in each state. While the award modernisation process covers a wide range of

industries, and would imply changes to wage rates applicable in those industries, we only model the economy-wide impact of an increase in the restaurant and catering industry

The results from MMR suggest that employment will be lower by 0.07 per cent due to the increase in wage costs compared to the baseline case of no policy change. The lower level of employment leads to a lower level of GDP by 0.04 per cent than would otherwise be the case.

Chart 1
Key Effects of Restaurant and Catering Industry wage increases
(deviations from baseline)



Source: MMR

There is a varied employment response across industries to wage cost changes in the restaurant and catering industry. The results from MMR suggest that the increase in labour costs (except for Tasmania and ACT) hits a number of industries particularly hard. Clearly, the largest impact is felt in the Accommodation, Cafes and Restaurants sector, where the direct impacts of the wage cost increase are concentrated. However, the above chart also shows that there are spill-over impacts across other industries from the wage cost increase in the Accommodation, Cafes, and Restaurants sector.

The employment impacts on other sectors are generated from the decreased levels of demands for each industry outputs, which are in turn derived from two effects. Firstly, lower employment in the Accommodation, Cafes and Restaurant sector reduces labour income, this then reduces consumer spending. The reduction in consumer spending has a negative impact on other industries in the economy. Secondly, the Accommodation, Cafes and Restaurants sector contracts as a result of the higher wages, thus the industry demands less intermediate inputs from other industries.

1 Introduction

On March 28 this year the Minister for Employment and Workplace relations formally requested that the AIRC undertake an award modernisation process. Broadly, this process involves the development of modern awards which will operate in conjunction with the new Australian Workplace Relations system introduced by the Rudd Government. As part of this process the AIRC is required to review all federal awards along with Notional Agreement Preserving State Awards (NAPSA). As a result of the process, there is likely to be new awards made that will result in an overall reduction in the number of awards operating in Australia's industrial relations landscape.

Restaurant & Catering Australia (RCA) has commissioned KPMG Econtech to analyse the wider economic impact of the increase in wages within the restaurant and catering industry that result from the award modernisation process as part of its submission to the AIRC. The award modernisation process covers a wide range of industries and would also result in changes to wage rates applicable in those industries. However, this report focuses solely on the broader economic implications of an increase in wages within the restaurant and catering industry.

This report is structured as follows.

- Section 2 sets the scene for the review by examining the recent performance and outlook for the Australian economy and the Hospitality industry.
- Section 3 provides a general overview of the award modernisation process and its impact on the restaurant and catering industry.
- Section 4 uses MMR to simulate the broader national, industry and regional effects of the award modernisation process for the restaurant and catering industry.

While all care, skill and consideration has been used in the preparation of this report, the findings refer to the terms of reference of the Restaurant & Catering Australia and are designed to be used only for the specific purpose set out below. If you believe that your terms of reference are different from those set out below, or you wish to use this work or information contained for it for another purpose, please contact us.

The specific purpose of this report is to estimate the broader economic impact of the increase in wages within the restaurant and catering industry that result from the award modernisation process.

The findings in this report are subject to unavoidable statistical variation. While all care has been taken to ensure that the statistical variation is kept to a minimum, care should

be used whenever using this information. This report only takes into account information available to KPMG Econtech up to the date of this report and so its findings may be affected by new information. Should you require clarification of any material, please contact us.

2 Economic and Industry Outlook

This section describes the economic outlook of the Australian economy and the Hospitality industry, sourced from KPMG Econtech's latest macroeconomic and industry forecasts.

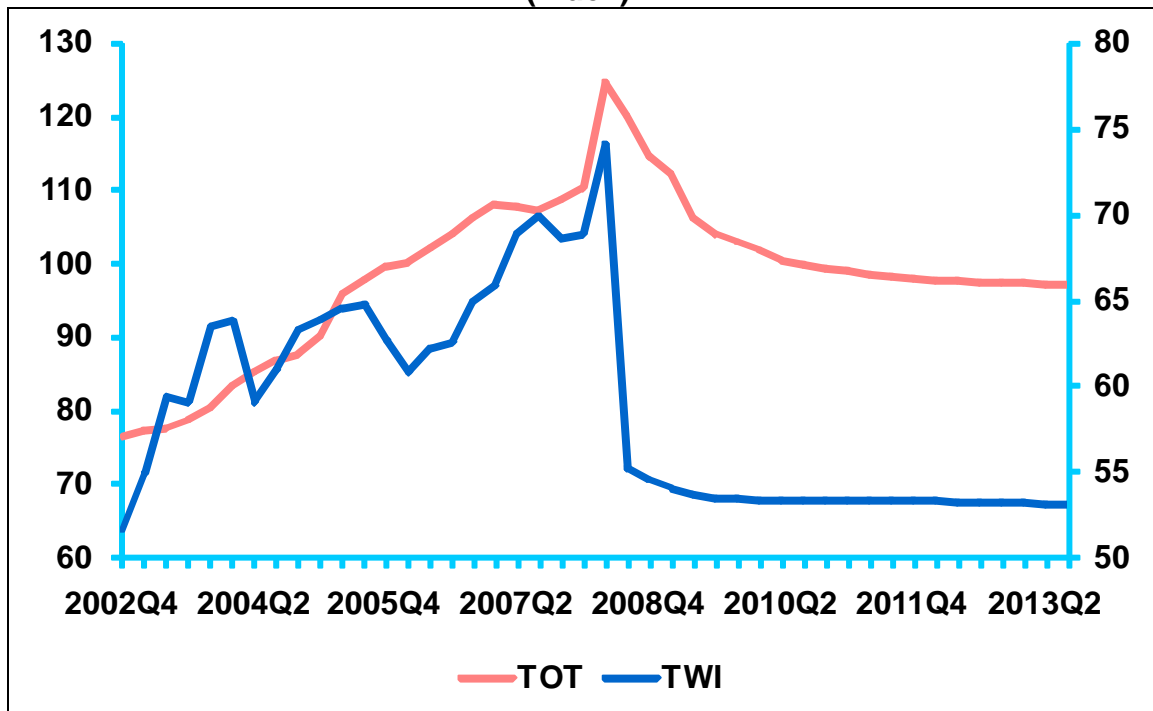
2.1 Economic Outlook

Growth in domestic spending will be very weak this year and next. The bursting of the debt bubble has impaired the balance sheets of financial institutions around the world, reducing the availability and increasing the cost of debt. This has flowed on to an increase in the cost of equity, reflected in the large falls in international share markets.

While the assets of Australian banks are less impaired than many of their foreign counterparts, Australian banks are highly dependent on foreign wholesale funding, so problems in world debt markets are affecting Australian borrowers. Overall, tight credit and expensive equity are causing business and consumers to revise down their spending plans. Weak growth in domestic spending means that real Gross National Expenditure (GNE) is forecast to rise by a mere 0.9% in 2008/09 and by only 1.7% in 2009/10

The expected slowdown in global growth and continued financial market turmoil has led to sharp falls in commodity prices. As a result, Australia's terms-of-trade, and hence the Australian dollar exchange rate has deteriorated from the spectacular levels reached at the beginning of this year. The forecast for the terms-of-trade and trade-weighted-index are shown in the chart below.

Chart 2.1
Terms of Trade and Australian Dollar (TWI)
(index)



Source: KPMG Econtech

2.2 Accommodation, Cafes and Restaurants Sector Outlook

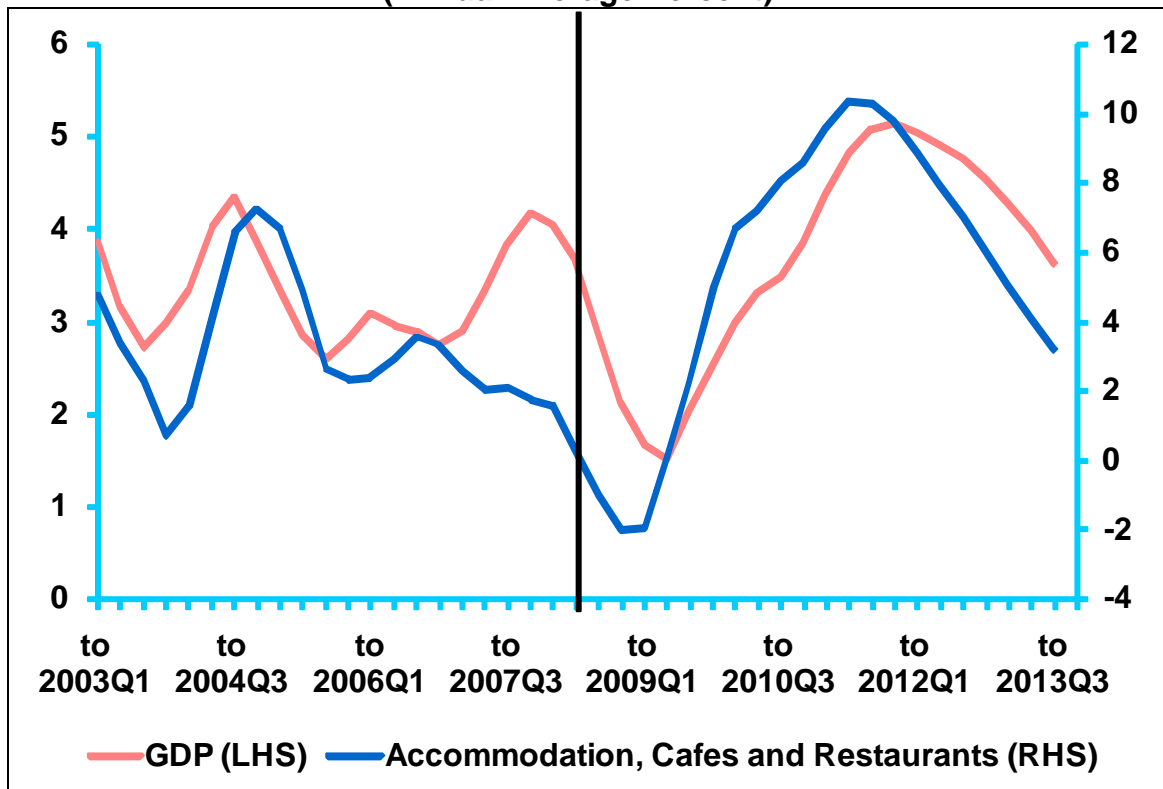
The Accommodation, Cafes and Restaurants sector has a high reliance on domestic and international tourism. In the past this industry has suffered as a result of the high Australian dollar and high oil prices. The combination of high fuel prices and the high exchange rate have boosted outbound tourism and dampened inbound tourism while at the same time high petrol prices have cut into discretionary income.

The current outlook for the economy has mixed effects on the outlook for this industry. On the one hand the depreciation of the Australian dollar should make Australia more attractive as a holiday destination for international tourists. On the other, the uncertainty surrounding financial markets, tight credit and high borrowing costs will see both domestic and international consumers rein in discretionary spending.

Thus growth in the Accommodation, Cafes and Restaurants sector will be weak over the short term as domestic consumers rein in spending. However, the outlook is more positive over the medium term. As the Australian and global economy begin to recover from the credit crisis, consumers begin to increase discretionary spending once more and

this has a positive effect on output in this industry. International tourists are attracted to Australia due to the low Australian dollar making travel to Australia relatively cheaper than other travel destinations. Chart 2.2 below compares output growth for the national economy and the Accommodation Cafes and Restaurants sector and shows that the sector will fare well compared to the national economy over the medium term.

Chart 2.2
National and Accommodation, Cafes and Restaurants Sector
Output Growth
(Annual Average Percent)



Source: KPMG Econtech

3 Award Modernisation Process

The previous section outlined the economic environment against which the review is undertaken. This section provides a broad outline of the award modernisation process and its implications for the restaurant and catering industry.

3.1 Background

On March 28 this year the Minister for Employment and Workplace relations formally requested that the AIRC undertake an award modernisation process. Broadly, this process involves the development of modern awards which will operate in conjunction with the new Australian Workplace Relations system introduced by the Rudd Government.

As part of this process the AIRC is required to review all federal awards along with Notional Agreement Preserving State Awards (NAPSA). As a result of the process, there is likely to be new awards made that will result in an overall reduction in the number of awards operating in Australia's industrial relations landscape.

At the end of June 2008 the AIRC finalised a list of industries and occupations which will be designated with a priority status. The award modernisation process for these 14 priority industries is to be completed by 19 December 2008, whilst the full award modernisation process is to be completed by 4 December 2009. The restaurant and catering industry is included within the 14 priority industries.

Following the determination of the priority industries a series of consultations with employee and industry groups was undertaken. This process involved the lodgement of written submissions, proposals covering the scope, content and transitional provisions, along with the development of a draft modern award. These exposure drafts for the priority industries were made publicly available on 12 September 2008.

3.2 Implications of Award Modernisation for the Industry

Currently, workers in the restaurant and catering industry (where the employer is a constitutional corporation or where the employer is based in Victoria or in the Territories) are covered by Notional Agreement Preserving State Awards that are based on various workplace factors. A major implication of the award modernisation process for the restaurant and catering industry is the potential wrap up of restaurants, cafes and caterers into an award based on the hotels award (Hospitality Industry Award). The application of hotel conditions and rates to restaurants, cafes and caterers would result in increased costs for these businesses without any corresponding productivity increase at the national level, though the detailed wage impacts will vary across states.

The most significant change for restaurants, cafes and catering businesses is in those States where the parent State award is not based on a hotel award and thus weekend penalties, penalty rates for hours worked after 7 pm, and casual loading beyond that required to compensate for pro-rata leave loading are not as high as those rates currently proposed under the exposure draft.

Given a high proportion of workers covered by awards within restaurant and catering industry, establishing a National Award across the hospitality sector will apply hotel conditions on to restaurants, cafes and catering businesses, this implies higher wage costs for this industry. In addition, casual and junior workers make up a high proportion of workers in the restaurant and catering industry. Further, the relative importance of the night time and the weekend period in terms of working hours in this industry also implies higher wage costs as a result of the change in award wage coverage.

Recently, Restaurant & Catering Australia conducted a survey amongst their members to estimate the wage cost implications of the proposed award modernisation process at the state and the national level. At the national level, wage rates are estimated to increase for all the different employment and working hour types, other than casuals. Increases are highest for juniors, night-time work and weekend working hours. Although at the national level wages increase for full time and part time staff, this result is skewed by the large increases in full-time and part-time wage rates in Queensland, for all other states there is a decrease the base rate. Thus, total wage impacts across the States depend on the relative importance of junior rates and penalty rates compared to full-time and part-time rates in a particular State

Details of the overall wage cost impacts for the restaurant and catering industry can be found in the following section. It must be stressed that estimates of overall wage cost impacts were provided to KPMG Econtech by Restaurant & Catering Australia. The assessment of these estimates falls outside of KPMG Econtech's Terms of Reference for this project. KPMG Econtech is not in a position to assess the validity and the reasonableness of the wage cost impacts on the restaurant and catering industry.

4 Economic Impacts of Wage Cost Changes in the Restaurant and Catering Industry

The previous section outlined the direct impacts of the award modernisation process for the restaurant and catering industry and how changes the proposed changes in award wages would increase wage costs for the industry. This section will estimate the economy-wide flow-on impacts of this increase in wages using KPMG Econtech's Computable General Equilibrium Model (CGE), MMR.

4.1 Empirical Literature Review

There are several empirical studies that attempt to estimate the effect wage changes have on employment using Australian data. For example, Lewis and Kirby (1988) found that a 10 per cent fall in real wages brought about a rise in employment of 8 per cent. This implies employment elasticity with respect to real wages of -0.80 . Pissarides (1991) estimated a three-equation model of the Australian labour market. The three equations were for employment, real wages and the labour force and estimated a long-run real wage elasticity with respect to labour demand of -0.79 .

Debelle and Vickery (1998) adopted an error-correction framework. The labour demand equation is estimated over two time horizons. The first time horizon is from 1978 to 1997 where labour demand is measured by aggregate hours worked in the non-farm economy. Since this series is not available prior to 1978 a second time horizon from 1969 to 1997 is used, where labour demand is measured by aggregate hours worked in the whole economy adjusted for the share of non-farm output in total output. The estimate of the long-run wage elasticity of employment for the period from 1978 to 1997 is -0.4 and for the period from 1967 to 1997 period is -0.67 . The authors claim the difference is due, in part, to the non-farm economy being less volatile than the whole economy. Debelle and Vickery use the lower estimate of -0.4 to estimate the effect real wages have on unemployment and find that a 2 per cent fall in real wages could result in a fall in unemployment of one percentage point.

A summary of these Australian studies is shown in Table 1. It shows that the overall wage elasticity of labour demand using Australian data varies from -0.03 to -1.57 with the majority of studies giving an estimate of about -0.80 . This is despite the fact that different methodologies, estimation periods and definitions were used in these studies.

Table 4.1: Australian studies on the overall wage elasticity of demand

Author	Time Period	Coefficient on the real wage
Lewis and MacDonald (2002)	1961/1 – 1998/3	-0.8
Bernie and Downes (1999)	1971/2 – 1998/3	-0.84
Bernie and Downes (1999)	1969/1 – 1997/4	-1.04*
Pissarides (1991)	1966/3 – 1986/2	-0.79
Russell and Tease (1991)	1969/3 – 1987/4	-0.61
Lewis and Kirby (1988)	1967/3 – 1987/1	-0.78
Debelle and Vickery (1998)	1978/1 – 1997/4	-0.60
Han and Woodland (2003)	1966/13– 1990/4	-1.57
Valentine (1980)	1959/4 – 1977/2	-0.03

*re-estimation of Debelle and Vickery (1998) using private sector data and vacancies.

Source: Webster (2000) and KPMG Econtech

However, the overall wage elasticity with respect to labour demand may not be directly applicable to the sector level, particularly when the characteristics of employment within that sector are quite different from the average characteristics of employment at the national level. For the restaurant and catering industry, workers tend to be relatively less skilled and research has shown that employment of less skilled workers is more responsive to wage changes than for other workers. For example, Hammermesh (1993) found that less educated and less skilled workers have higher wage elasticities of demand than other workers.

It is necessary to point out that estimated wage elasticity with respect to the minimum wage is usually lower than the aggregate wage elasticity estimates. The reason for this is what is known as the “fallacy of the inflated denominator” (James, Wooden and Dawkins, 2001). This relates to when the effect of an increase in the minimum wage is averaged over the subgroups resulting in lower wage elasticities for employees affected by the minimum wage. Thus, the estimated effect would be larger if the elasticity for minimum wage dependent employees only were estimated.

In summary, most international studies show that a higher minimum wage reduces employment. However, there are some studies that reach the opposite conclusion. The Australian studies are more consistent, as all of these studies show that higher wages result in employment losses. Because our award system produces higher minimum wages than in most other countries, it has been argued that higher minimum wages are likely to have a more negative effect on employment in Australia than for other countries. On balance, the literature leads us to expect that higher minimum wages would lead to lower employment, especially in Australia.

4.2 The MMR model

MMR is a medium-term Computable General Equilibrium (CGE) model of the Australian economy. The underlying database is calibrated for the Australian 2006-07 economy using ABS 2006-07 sectoral information. MMR has many features that are important for analysing the economic impacts of increasing minimum wage rates, including the following.

- MMR distinguishes the 18 Australian and New Zealand Standard Industry Classification (ANZSIC) 1-digit industries, so its industry detail matches that found in ABS data on pay setting methods by industry. Wages rates can be independently adjusted for each of the 18 industries. This makes MMR suitable for distinguishing between the effects of changing the wage rates on different industries.
- Importantly, our modelling approach takes into account that the wage system has different effects on different industries for at least three reasons. First, our analysis shows that wage changes in each industry differ due to industry differences in minimum wage coverage. Second, MMR takes into account that labour accounts for differing shares of costs in each industry. Third, MMR also takes into account that changes in labour costs have different effects in trade-exposed industries than in non-trade-exposed industries.
- MMR allows for substitution between labour and capital in production in each of the 18 industries. The elasticity of substitution between labour and capital is set to 0.5 in each industry, which is at the bottom of the range of 0.5 to 1.25 in Australian empirical work. For example, the ORANI model traditionally uses an elasticity of 0.5 in its medium-run mode and 1.25 in its long-run mode. Two other of KPMG Econtech's CGE models, MM2 and MM600+, use an elasticity of 0.75. Treasury's TRYM model uses an elasticity of 0.8 while Treasury's earlier model known as NIF88 used an elasticity of 1.0.
- MMR produces results for key broad economic aggregates such as employment, GDP, labour productivity and consumption.
- MMR produces industry-by-industry results for variables such as employment, value added (i.e. contribution to GDP) and labour productivity.

In the modelling of an increase in the minimum wage the results are based on the standard medium-run closure of MMR. Therefore, for the alternative scenario, MMR estimates what the Australian economy would be like after several years with the higher minimum wage, not the trajectory that the economy would follow to that point.

MMR models a medium-run equilibrium and some of the key assumptions involved are as follows.

- *External balance:* in MMR, the balance of trade is at a sustainable level. Specifically, the trade balance is set to zero. The real exchange rate needed to achieve this trade surplus is determined by MMR. Thus shocks to international trade affect the real exchange rate, not the trade surplus.
- *Private investment:* the level of business investment and associated capital stocks are held fixed. This is because the model refers to a medium-run equilibrium, whereas capital stocks only fully adjust in the long run.
- *Private saving:* the level of private sector saving and associated asset accumulation are sustainable. Specifically, private saving is held constant in MMR by fixing the quantity of capital that is owned locally.

More information on MMR is available in the model documentation on KPMG Econtech's web-site (www.econtech.com.au).

4.3 Labour Cost Implications of Award Modernisation

Table 4.1 reports the estimated direct wage costs impacts on the Restaurant and Catering industry by state. The table shows the estimated overall average wage cost impacts across the entire restaurant and catering industry.

It must be stressed that these estimates were provided to KPMG Econtech by Restaurant & Catering Australia (RCA). The assessment of these estimates falls outside of KPMG Econtech's Terms of Reference for this project. KPMG Econtech is not in a position to assess the validity and the reasonableness of the wage cost impacts on the restaurant and catering industry.

Table 4.1: Overall Average Wage Cost Impacts on the Restaurant and Catering Industry of Award Modernisation.

NSW	VIC	QLD	SA	WA	TAS	ACT	Australia
3.55%	0.41%	5.35%	15.70%	1.50%	-3.70%	-0.47%	3.38%

Source: Restaurant & Catering Australia

The RCA's estimates of wage impacts as a result of the proposed changes to awards under the award modernisation process are not uniform across states. In fact, according to RCA, award modernisation helps the Tasmania and ACT industry to reduce their wage costs. The variation in wage costs impacts across state reflects

- the compositional differences in employment of Restaurant and Catering services in terms of full time, part time, casual, and juniors;
- the differences in ordinary work hours and times in terms of weekend, night time and overtime; and
- the current awards applicable in each state.

In general, total wage impacts across the States depend on the relative importance of junior rates and penalty rates compared to full-time and part-time rates in a particular State. This is because the proposed wage increases are higher for junior workers and those workers covered by penalty rates than for full or part time workers (those who work 9 am – 5 pm).

While the award modernisation process covers a wide range of industries, and would imply changes to wage rates applicable in those industries, we only model the economy-wide impact of an increase in the restaurant and catering industry

In MMR, restaurant and catering industry is part of the Accommodation, Cafes and Restaurants sector in the model. Two ABS publications (ABS Catalogue No. 8655.0, Table 8 and ABS Catalogue No. 8695.0, Table 8) provide wage costs for Restaurant and Catering services and Accommodation services by state for the year of 2006-07. From the ABS information, wage cost shares of the restaurant and catering industry are calculated. These wage cost shares are then used to derive the overall wage costs impacts on the Accommodation, Cafes and Restaurants sector.

Table 4.2 reports wage cost shares for the restaurant and catering industry out of the Accommodation, Cafes, and Restaurants sector for the year of 2006-07 by State, the direct average wage cost impacts of award modernisation in the restaurant and catering industry, and finally overall wage cost impacts of award modernisation in the Accommodation, Cafes and Restaurants sector.

Table 4.2: Wage Cost Shares of Restaurant and Catering Industry by State, 2006/07

	NSW	VIC	QLD	SA	WA	TAS	ACT	AUS
Wage Cost Impact in the Restaurant and Catering Industry	3.55	0.41	5.35	15.70	1.50	-3.70	-0.47	3.38
Wage Cost Share of the Restaurant and Catering Industry	58.50	67.60	53.60	66.70	70.10	33.60	69.40	60.60
Wage Cost Impact in the Accommodations, Cafes and Restaurant Sector	2.07	0.28	2.87	10.48	1.05	-1.24	-0.32	2.05

Source: ABS, Restaurant & Catering Australia

These industry labour cost estimates are introduced to MMR as a “shock” at the state level. The model then estimates the impact of the wage increase on output and employment by industry at the state level. These state results add up to produce Gross Domestic Product (GDP) and employment by industry at the national level.

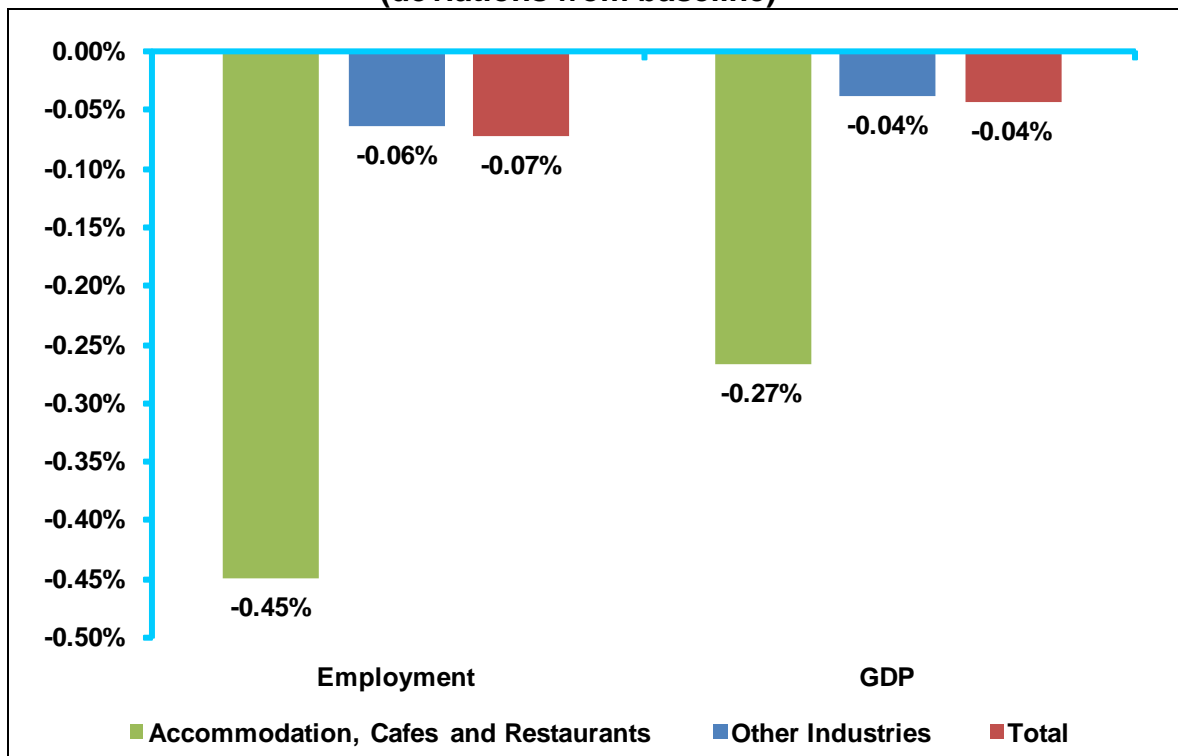
4.4 Economic Implications of Wage Cost Increases in the Restaurant and Catering Industry

The wage costs of the Accommodation, Cafes and Restaurants sector for each state in MMR is shocked by the estimates in Table 4.1, adjusted by the wage cost shares of the Restaurant and Catering services as in Table 4.2.

4.4.1 National and State Effects

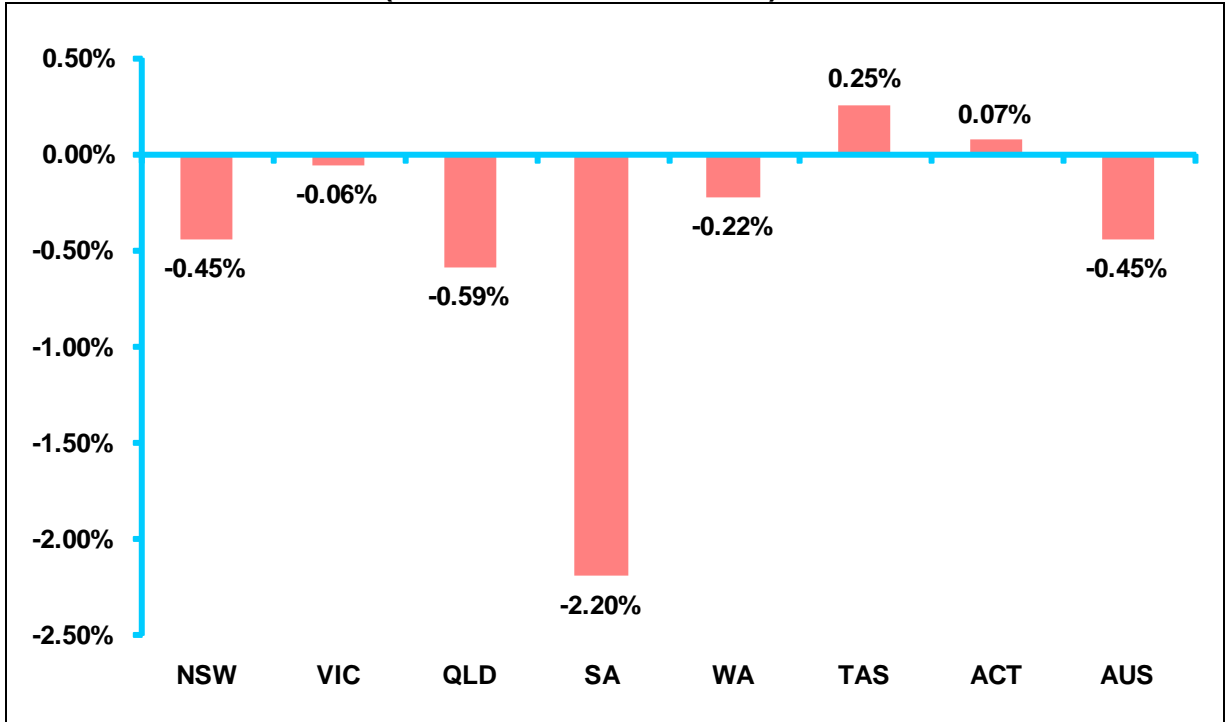
Chart 4.3.A, B and C shows the national and State GDP and employment effects of the wage cost increase in the Restaurant and Catering industry over the baseline case of no policy changes.

Chart 4.dfkjg
Key National Effects of Restaurant and Catering Industry wage increases
(deviations from baseline)



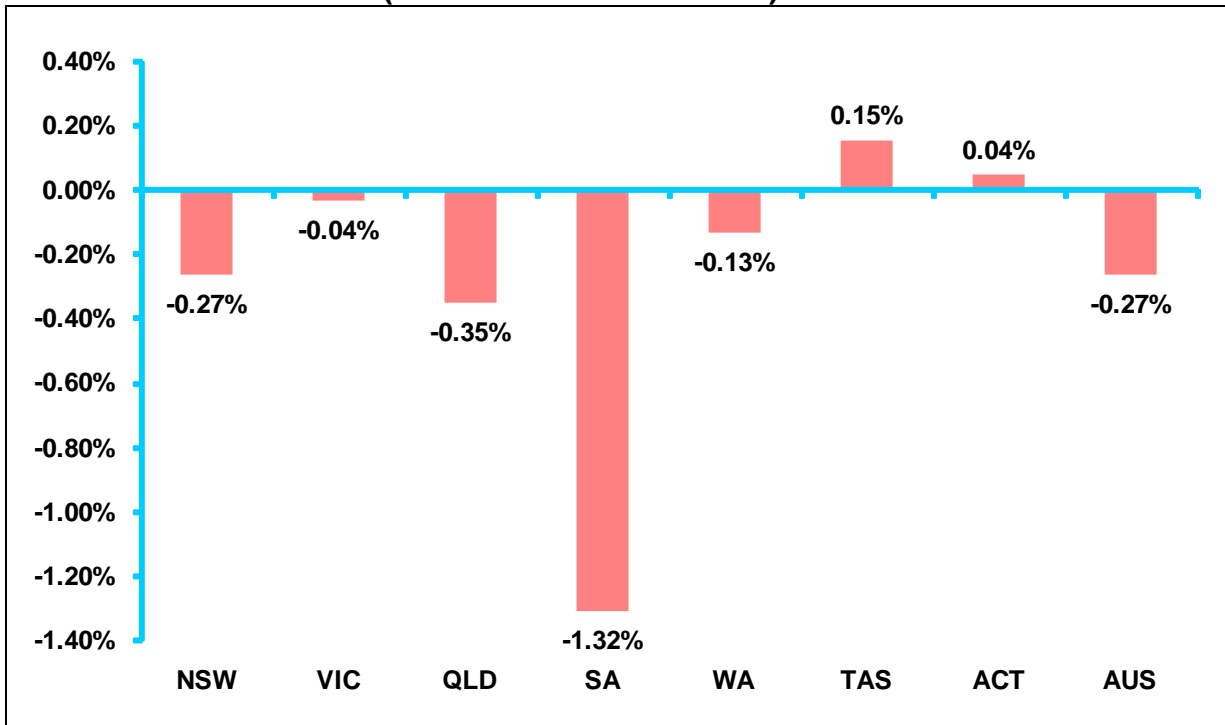
Source: MMR

**Chart 4.3.B:
State Employment Effects
of Restaurant and Catering Industry wage increases
(deviations from baseline)**



Source: MMR

**Chart 4.3.C:
State Output Effects
of Restaurant and Catering Industry wage increases
(deviations from baseline)**



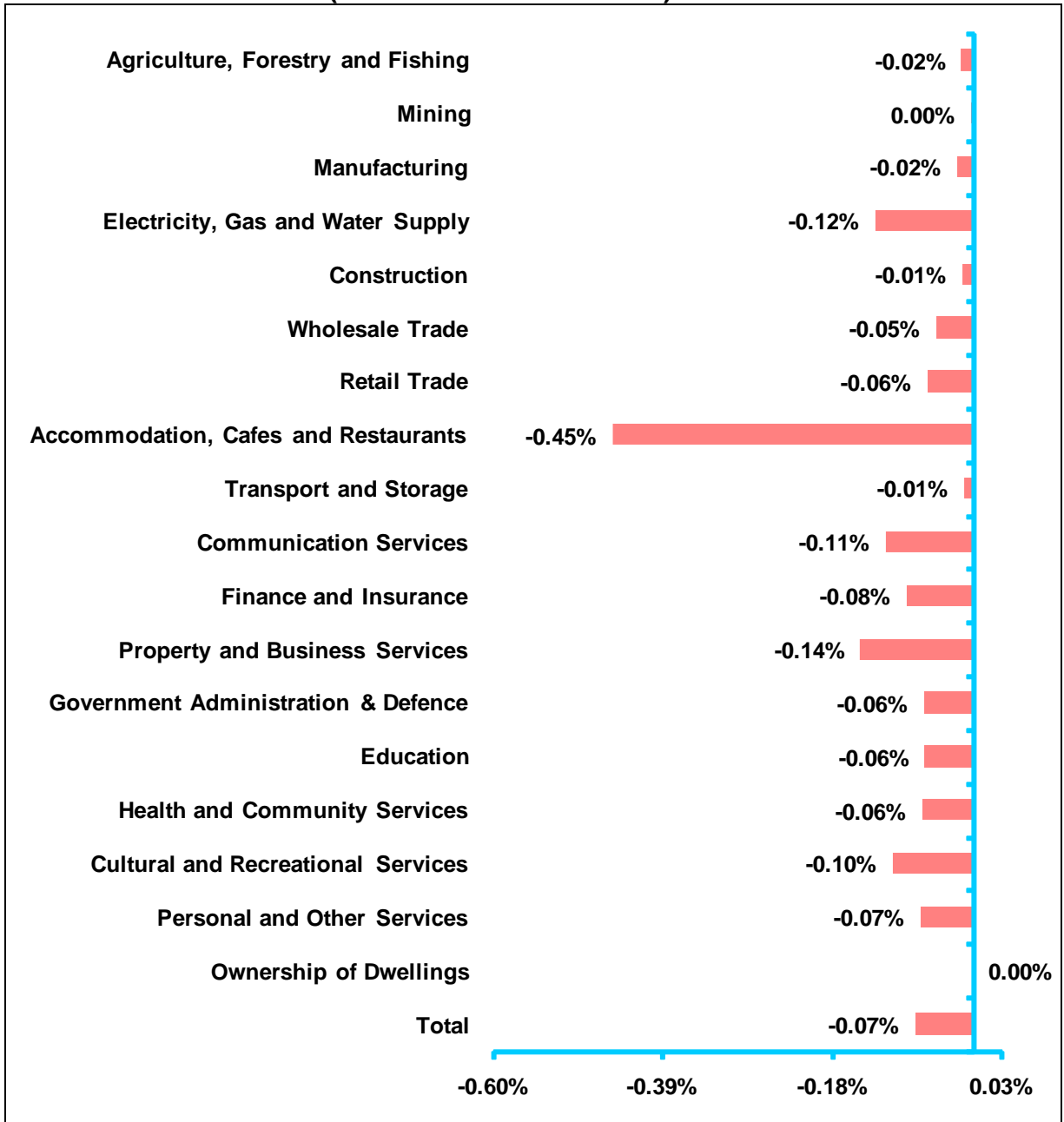
Source: MMR

Higher labour costs, as a result of the changes in the wage costs results in a lower level of national employment. The reduction in employment of 0.07 per cent is equivalent to a loss of about 8000 jobs across Australia, including about 2500 jobs from Accommodation, Cafes and Restaurants and 5500 jobs from other sectors. The reduction in employment leads to a lower level of GDP. GDP is 0.04 per cent lower than in the baseline case. These national results are medium term impacts, where each sectoral capital stock level is assumed to be fixed while the sectoral employment levels are sensitive to the wage rates they face.

State impacts reported in Charts 4.3.B and 4.3.C reflect the magnitude and the direction of the changes in wage costs within the restaurant and catering industry in each state as a result of award modernisation. For example, wage costs within the Restaurant and Catering industry fall in Tasmania and ACT, hence the states have positive employment and output impacts. These regional impacts are generally generated from each region's own economic activities. The contribution of inter-state trade and international trade is marginal. This is because Restaurant and Catering services are region-specific and non-tradable services.

4.4.2 Industry Effects

Chart 4.2.A
Industry Employment Effects of Award Modernisation
in the Restaurant and Catering Industry
(deviations from baseline)



Source: MMR

This section describes the industry-wide economic impacts of the potential changes to wage costs in the restaurant and catering industry that is implied by the award modernisation process.

Chart 4.2.A shows that there is a varied employment response across industries to wage cost changes in the restaurant and catering industry.

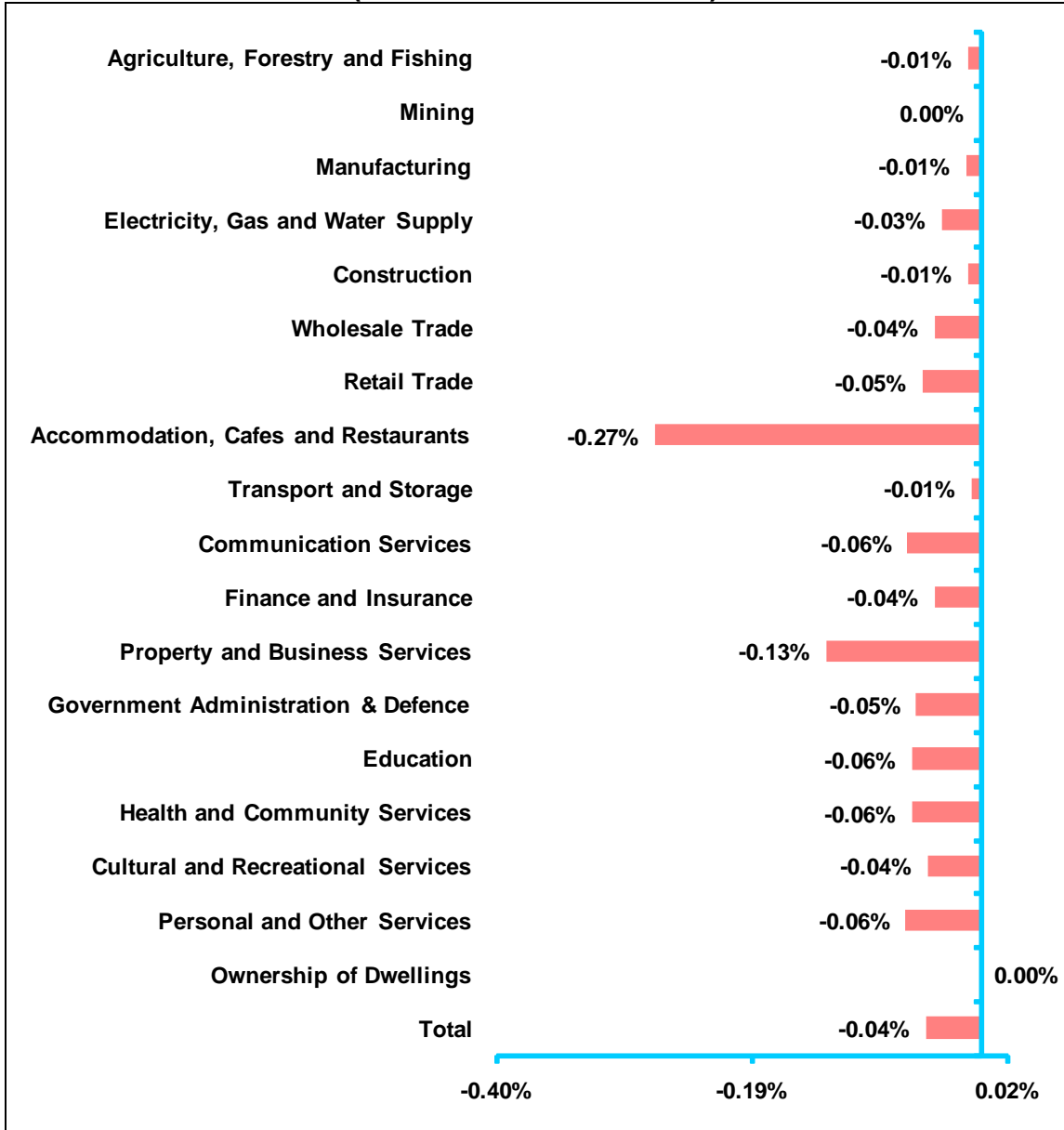
The results from MMR suggest that the increase in labour costs (except for Tasmania and ACT) hits a number of industries particularly hard. Clearly, the largest impact is felt in the Accommodation, Cafes and Restaurant sector, where the direct impacts of the wage cost increase are concentrated, employment in the industry is 0.45 per cent lower than would otherwise be the case. However, the above chart also shows that there are spill-over impacts across other industries from the wage cost increase in the Accommodation, Cafes, and Restaurants sector. In fact, employment in other industries is 0.06 per cent lower than otherwise, this is a loss of about 5500 jobs.

The employment impacts on other sectors are generated from the decreased levels of demands for each industry outputs, which are in turn derived from two effects. Firstly, lower employment in the Accommodation, Cafes and Restaurants sector reduces labour income, this then reduces consumer spending. The reduction in consumer spending has a negative impact on other industries in the economy. Secondly, the Accommodation, Cafes and Restaurants sector contracts as a result of the higher wages, thus the industry demands less intermediate inputs from other industries.

Chart 4.2. B shows the consequent impact on output by industry as a result of the wage cost increases in the restaurant and catering industry.

The estimated employment and other economic impacts under the simulation are likely to be conservative because the elasticity of substitution between capital and labour has been set at 0.5, which is at the bottom end of the range of 0.5 to 1.25 in Australian empirical work – the employment changes are proportional to the assumed level of this elasticity.

Chart 4.2. B
Industry Output Effects of Award Modernisation
in the Restaurant and Catering Industry
(deviations from baseline)



Source: MMR