

# ARA ANNUAL WAGE REVIEW SUBMISSION 2017/18

MARCH 2018

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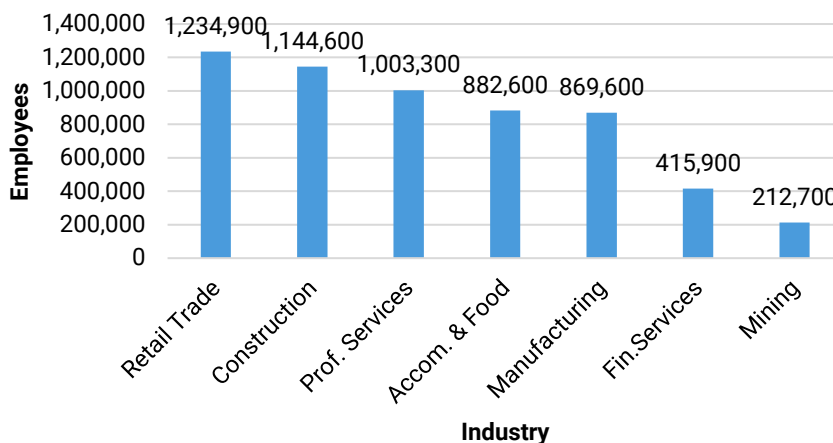
Australian  
Retailers  
Association

## ARA Annual Wage Review Submission 2017/8 March 2018


### About the ARA:

The Australian Retailers Association is the peak industry body for Australia's \$310 billion retail industry. As way of background, the ARA offers support, information and representation to over 7,500 members representing over 50,000 shopfronts across every state and territory making the ARA the largest and most diverse retail industry body in Australia.

### Retail: Australia's Largest Private Sector Employer



<sup>1</sup> ABS, Cat. No. 6202.0 – *Labour Force, Australia*, January 2018.



The ARA works closely with the Government and other industry participants to ensure the long-term viability and position of the retail sector as a leading contributor to the Australian economy. The ARA delivers training, tenancy advice, consumer law advice, workplace health and safety advice and employment relations advice (registered with the Fair Work Commission) in every state and territory. The ARA is the only body undertaking these activities for the retail sector Australia wide.

We believe reform of regulation, reduction in tax and duties along with a reduction in compliance burden for business and consumers will see the Australian economy and Australian retailers return to their traditional strength.

### **Overview:**


Retailers in Australia are continuing to face a difficult operating environment. In the last ten years, the structure of the retail sector has shifted and evolved as a result of globalisation, advances in the digital economy and changes to business practice policies (such as employment). In addition, the retail sector has experienced various economic environments with the Global Financial Crisis and fluctuating Australian dollar having had a significant long-term effect on the performance of the industry.


The ARA and its members have a strong vision for the retail industry – based on well-regulated markets and growth, productive and innovative businesses, responsible collective initiative supported by government where appropriate but removing regulatory burden where possible.

We are committed to promoting retail as a viable and exciting career choice for young people, and to retaining and developing the highest standards of practice for individuals and groups at all levels of our industry while assisting members to deal with new technologies and a changing trading environment.

We are focused on providing members with the information, knowledge and skills necessary to operate more effectively in employment relations and skills growth within an increasingly competitive retail environment exposed to international competition.

Our members range from small sole operator enterprises to medium, large, independent, chain and franchise stores of all types and sizes. Over 80% of our membership consists of businesses ranging from one-to-five stores with most of that number employing less than 200 staff. The ARA has consulted broadly across our membership in preparing our submission for the assistance of the Expert Panel (Panel) in conducting its 2017/8 annual wage review (AWR) for the national minimum wage (NMW) and modern award minimum wages.





ARA membership and retailers in general have experienced significant cost pressures through international competition, reduced margins, declining growth and increased wages costs well above our international competitors.

## **Executive Summary:**

### **ARA position**


The ARA strongly recommends that the Panel hand down an NMW increase which is realistic and reasonable and one that considers a slowly-improving economy, current and imminent wage bill increases for industries undergoing structural adjustment, and underemployment levels.

The major concern for retailers and those involved in the services industries which will confront the Panel is to ascertain the best approach for determining an NMW increase during a period where large sectors of the economy are either in transition or registering minimal growth.

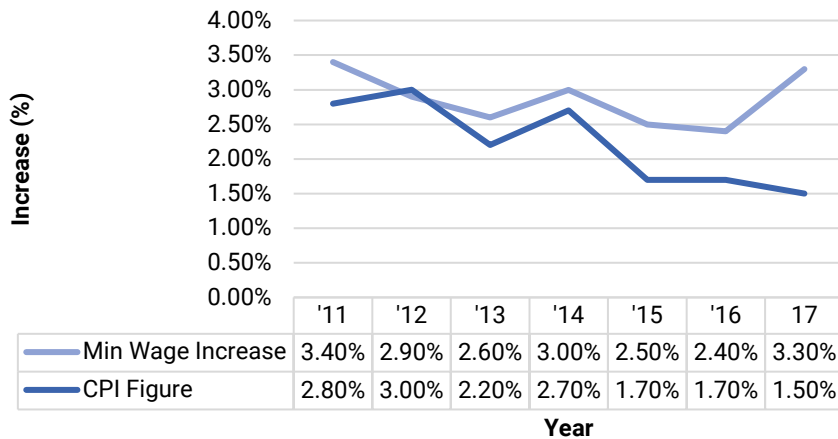
With respect to the Panel, recent AWR decisions have been generous, given the faltering economy and slow pace of growth across key sectors, high underemployment and youth unemployment, recovering jobs market, global risks, rising business costs and increased global competition through the rising dollar. We ask the Panel to consider high NMW increases over recent years as compensation that the economy, employment levels and businesses can no longer afford.

The ARA recommends that the Panel, given continuing economic readjustment and fledgling recovery in the labour market at the time of the 2017-18 AWR, that the Panel award a 1.9% increase in the NMW, translating to an increase of \$13.20 per week, for a total of \$708.10 per 38-hour week. We have reached this figure through working with the nation's peak business group, the Australian Chamber of Commerce and Industry (ACCI), and our retailer membership.

The ARA's position preserves the value of the NMW over recent years where wages have been outstripping selling prices in the retail industry for an extended period. This position is also broadly in keeping with historical decisions of the Panel in aligning wage increases with, or slightly above, CPI inflation (with the exception of the Panel's 2016/7 decision).



### Time Series Comparison: Minimum Wage Increase and CPI (2011-2017)



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The ARA supports the ACCI position in outlining the economic risks and the state of the national economy, when assessing the capacity to pay within the sector. Our members and the ACCI membership have taken the below factors into account:


- CPI inflation remains low, affecting WPI growth, when considering the causative link between inflation growth and wages growth.
- The minimum wage function must not exacerbate the risk of unemployment for those most vulnerable in the labour market.
- A relatively recent pick-up in the economy that employers don't yet have the capacity to pay large increases, as wage growth lags economic growth.
- Part-time employment growth is strong, while underemployment simultaneously remains high, reflecting spare capacity in the labour market.
- Increasing competition and technological disruption are impacting on the ability of businesses to give substantial pay-rises to employees in affected industries, including retail.

Economic growth has tracked below long term trend over the past year and is expected to remain below trend in the year ahead. That disappointing growth outcome has seen labour

<sup>2</sup> ABS, Cat. No. 6401.0 – Consumer Price Index, December 2017.

<sup>3</sup> Fair Work Commission - National Minimum Wage Order, 2011-2017.





market conditions continue to deteriorate. The Australian economy continues to face transition in the near term. Until recently, the private domestic economy was weak, and a recent pick-up in economic growth has been partly due to large amounts of public investment. Technological advances continue to disrupt traditional industries, including service-driven industries such as retail, leading to continuing uncertainty.

## **1: Wage Growth:**

Growth trends in non-statutory private sector wages should be a key consideration in the Panel's evaluation of the capacity of firms to pay an increase in statutory wages to award reliant employees.

Growth in non-statutory private sector wages is the most relevant indicator because it reflects the market's response to other factors such as the unemployment rate, productivity and economic growth.

The Wage Price Index (WPI) is the most appropriate indicator because it controls for changes in the composition of the workforce. In contrast, average weekly ordinary time earnings (AWOTE) is affected by changes in the jobs that people do rather than how much is paid to those holding those jobs.

Similarly, the average annualised wage increase (AAWI) in collective agreements does not take into account changes in other conditions or work practices that may have been exchanged for wage increases.

Private sector WPI should be referred to over headline WPI because the capacity of the public sector to grant wages increases is divorced from the capacity of private firms.

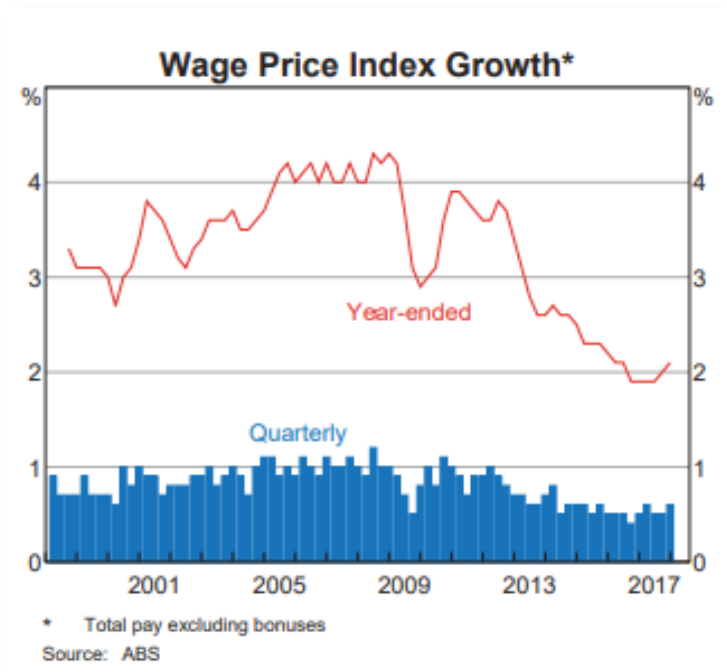
Private sector WPI continues to record new lows, with sustained weakness now having been exhibited over several years.

The latest figures show wage growth has begun to recover after reaching record lows at the time of the Panel's decision last year, at 1.8%. WPI growth is currently sitting at 2.1%, which is marginally higher than CPI.<sup>4</sup>

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<sup>4</sup> ABS, Cat. No. 6345.0 – *Wage Price Index*, December 2017.





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The implications of low non-statutory wage growth for the capacity of firms to fund a statutory wage increase also depends on other economic indicators.

## 2: Unemployment and Underemployment:

Australia's unemployment rate has declined measurably year-on-year between January 2017 and January 2018, representing a fall from 5.7% to 5.5%<sup>6</sup>. However, with respect to the retail industry, 63% of jobs growth has been part-time. This reflects the diminished capacity of the retail industry to grow employment further, due to increases in cost pressures and competition, and weak sales growth.

This is partially reflected in the high rate of underemployment, despite a slight decrease year-on-year. The underemployment rate sits at 9.6% in January 2018, decreasing from 9.7% in January 2017. Underemployment is especially high in South Australia, Queensland and

<sup>5</sup> RBA – *The Australian Economy and Financial Markets, Chart Pack*, March 2018.

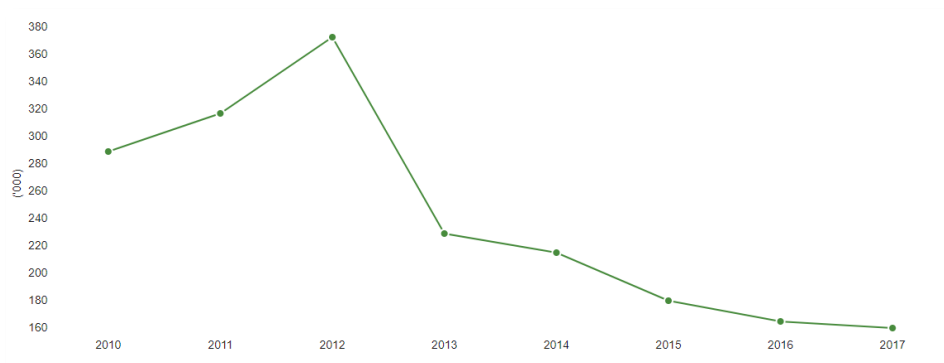
<sup>6</sup> ABS, Cat. No. 6202.0 – *Labour Force, Australia*, January 2018.

Tasmania with rates all above 10% in January 2018. In particular the female underemployment rate in those states, and in Western Australia, is above 12%. Youth underemployment as a proportion of the labour market has increased to 18.5% in January 2018, compared to 13.5% in January 2017.<sup>7</sup>

Retail is a key employer for Australia's youth and low-skilled workers, as well as an entry-level occupation for many Australians. Large increases in wage costs impact on the industry's ability to continue to play this important role in Australia's prosperity.

The risks associated with high wage increases in relation to entry-level positions can be considered in the context of apprenticeship commencements, which have declined significantly in recent years.

### Apprenticeship Commencements: 2010-2017 ('000s)




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Apprenticeship commencement figures for the June 2017 quarter show that combined trade and non-trade commencements are down 15.7% compared to the year to June 2014. Trade commencements fell by 6.3% and non-trades fell again by 0.1%. Total in-training numbers for June 2015 were 268,635, down 4.7% from 2016 and have fallen by 33.5% since 2013. This fall equates to some 135,000 fewer apprentices (approx) gaining skills in a work-based setting directly linked to a real job outcome. Proportionally, female in-training numbers have fallen by

<sup>7</sup> ABS, Cat. No. 6202.0 – *Labour Force, Australia*, January 2018.

<sup>8</sup> NCVET – *Historical time series of apprenticeships and traineeships in Australia*, December 2017.





an alarming 45.3% since 2013, which is 17.3% higher than the fall in male-in-training numbers at 28% across the same period.<sup>9</sup>

There are in excess of 1 million people in the labour market without work or without sufficient hours of work. The underemployment rate in the retail industry was 17.4% in the three months to November 2017<sup>10</sup>, reflecting weakening conditions for the sector.

As such, the ARA is in full agreement with ACCI's proposed 1.9% increase in the NMW, which seeks to minimise employment losses and underemployment in a mixed labour market

### **3: Retail Industry Business Conditions:**

The 2017/18 AWR is happening within a context of continuing historically difficult trading conditions with flat or negative employment growth. A recent membership poll conducted by the ARA uncovered the top three concerns for retailers affecting their business viability are: rising tenancy costs, wage bill increases, and increased competition.

We disagree with assessments that the Panel's historic increases in the NMW have been overly cautious, and the argument large increases in the NMW do not have adverse effects on employment. In an increasingly competitive business environment, every cost increase has a material impact. The past 12-month period has seen a range of prominent retail businesses enter into administration, close their doors completely, or slash store numbers. In each case, when a business consolidates its operations due to cost increases, the effects on employment are adverse.

Retail trade viability in 2018 is directly related to the Panel's AWR considerations. The AWR impacts on the capacity for an award-reliant industry to pay employees more, hire more workers and provide part-time and casual employees with more hours. A sharp increase in the NMW will see more store closures and greater unemployment within the sector.


#### **Consumer confidence:**

Retail as an industry is already struggling, with year-on-year revenue growth dropping significantly, partially due to weak consumer confidence, and the Roy Morgan regular consumer confidence reading continues to show weak sentiment. Consumer confidence

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<sup>9</sup> NCVER – *Apprentices and trainees 2017: June quarter - Australia*, December 2017.

<sup>10</sup> ABS, Cat. No. 6202.0 – *Labour Force, Australia*, January 2018.



remains in the doldrums by any measure and personal savings in these conditions are still at high levels as consumers brace for the perceived worst.

When consumer confidence is low, retail trade suffers, and the absence of robust consumer confidence levels in recent times has been detrimental to the viability of the sector. The associated effects on business confidence and profitability also reduce the capacity of retailers to pay large wage increases, or take on additional employees.

Figure 1. ANZ-Roy Morgan Australian Consumer Confidence & inflation expectations

Last week (17-18 Feb)	Weekly change, %	Four-week average	Monthly average since 1990	Inflation expectations (four-week ma)
115.3	-3.5%	119.6	112.9	4.4%

Data collected last weekend (Saturday and Sunday), based on around 1,000 face-to-face interviews. Not seasonally adjusted. Further data history on page 5.

Figure 2. Confidence falls 3.5% on political events



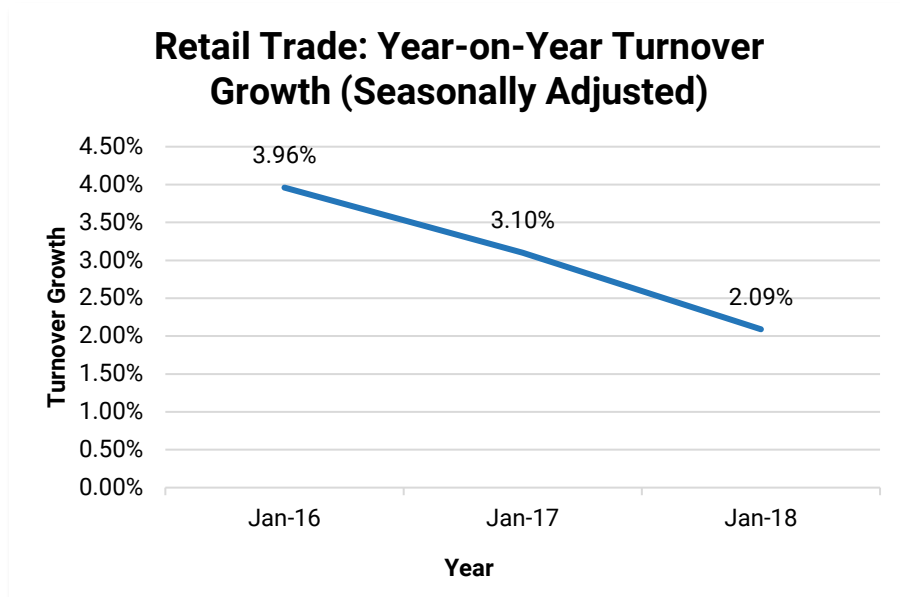
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### Retail trade and CPI inflation:

The Consumer Price Index (CPI) in the December quarter 2017 rose by 0.6%, following a rise of 0.6% in the September quarter. Increases in measured average price inflation throughout the Australian economy were largely driven by increases in the prices of alcohol and tobacco (7.3% {largely due to excise}), health (4%) and housing (3.4%). Retail-related sectors, including clothing and footwear (-3%), household goods (-0.8%) and food and non-alcoholic beverages

<sup>11</sup> Roy Morgan, Finding No. 7410 – ANZ-Roy Morgan Australian Consumer Confidence, February 2018.

(-0.2%) all experienced deflation. CPI increased by 1.9% through the year to the December quarter 2017<sup>12</sup>.



Sales growth, where it has happened, has been minimal. We have seen recent significant deflation in consumer prices driven by deflationary pressure including fuel costs and overseas competition.<sup>13</sup>

The Panel can assist the retail industry in growing - rather than shrinking - employment through a sustainable increase in the NMW, in line with CPI at 1.9%.

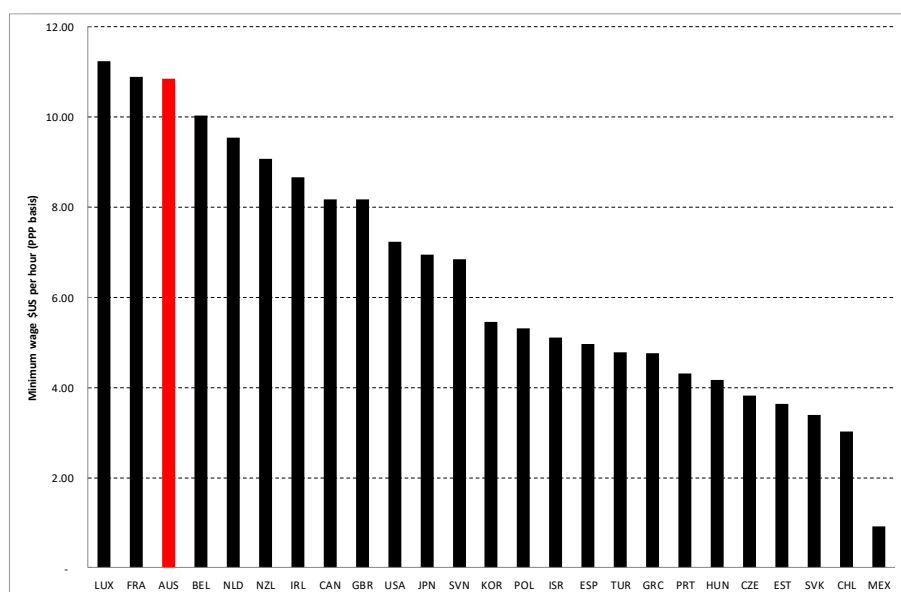
## 5: Australian Wages:

Australia has a much higher minimum wage than most overseas jurisdictions, which is complicated further due to the provision for additional entitlements such as penalty-rates, overtime and casual loading.

<sup>12</sup> ABS, Cat. No. 6401.0 – *Consumer Price Index*, December 2017.

<sup>13</sup> ABS, Cat. No. 8501.0 – *Retail Trade*, January 2018.

This means that AWR decisions extend beyond a mere increase in the NMW for award-reliant industries such as retail. Unless the NMW is set below the lowest wage at which all individuals can be productively employed, the NMW will negatively impact employment to at least some degree. More generally, the marginal cost of deviations from the efficient price grows as the difference between the efficient price and the distorted price increases.



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The above chart reflects Australia's hourly minimum wage in red – the third-highest in the OECD. Further, the fact that Australia has a much higher minimum wage than other countries means it would be reasonable to expect the cost of increasing the NMW to be higher.

<sup>14</sup> OECD Statistics database.



## **6: ARA Membership Poll (February-March 2018):**

The ARA's submission addresses the key considerations of Panel when performing its wage setting function, which is to promote the economic prosperity of the people of Australia having regard to:

- The capacity for the unemployed and the low paid to obtain and remain in employment;
- Providing a safety net for the low paid;
- Providing minimum wages for junior employees.

The ARA has also conducted an online poll of ARA members to determine their current concerns in retaining their staff and hours.


The survey questions were formed to consider the Panel's NMW consideration along with economic data and the impacts of taxation increases, consumer spending, superannuation and business costs.

It is the ARA's contention throughout this submission that any consideration of the retail sector's capacity to pay must take into account the retail outlook.

The Panel should consider any increase on an award-by-award basis and provide an interim decision or statement prior to handing down a final decision, as well as reject extreme increases suggested by some to the NMW case.

### **ARA member poll: Business confidence**

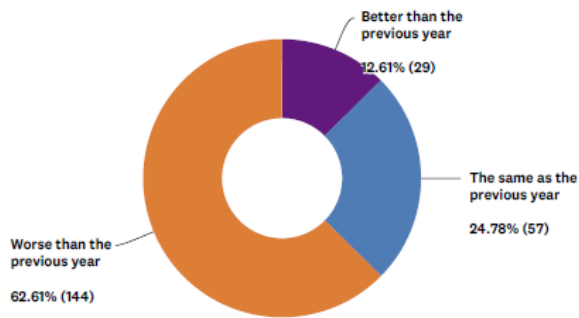
The 2017/8 AWR is happening within a context of continuing historically difficult trading conditions with flat or negative employment growth.





Q8 Describe the Christmas/post-Christmas retail sales season you have just experienced:

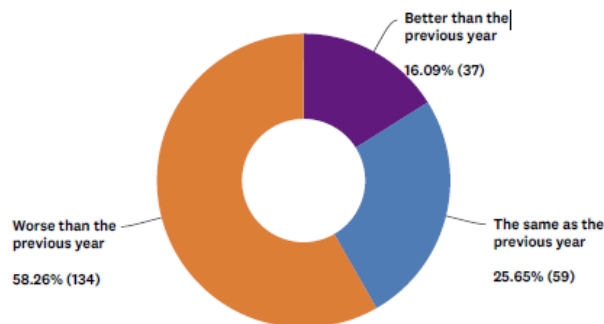
Answered: 230 Skipped: 0



62.61% of retailers described the 2017/8 Christmas/post-Christmas season as worse than the year before, an increase from 56.5% from 12-months ago.

Q10 Describe the past seven months' trade (from July 2017) you have recently experienced:

Answered: 230 Skipped: 0



Almost 84% of retailers described 2017/8 retail trade to date as being worse than the year before or stagnant.

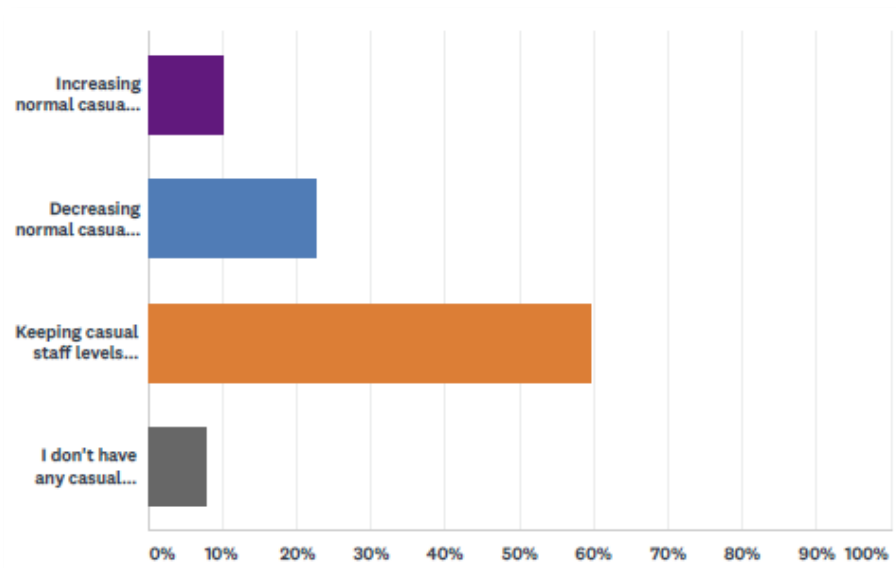
## ARA member poll: Minimum wage

The ARA conducted a membership survey across February and March 2018 to gauge employment intentions across the next 12-months. The results of this survey exposed a lack of confidence amongst retailers in relation to staffing, as well as revealing the impact of the Panel's 2017 NMW decision.

Key findings include:

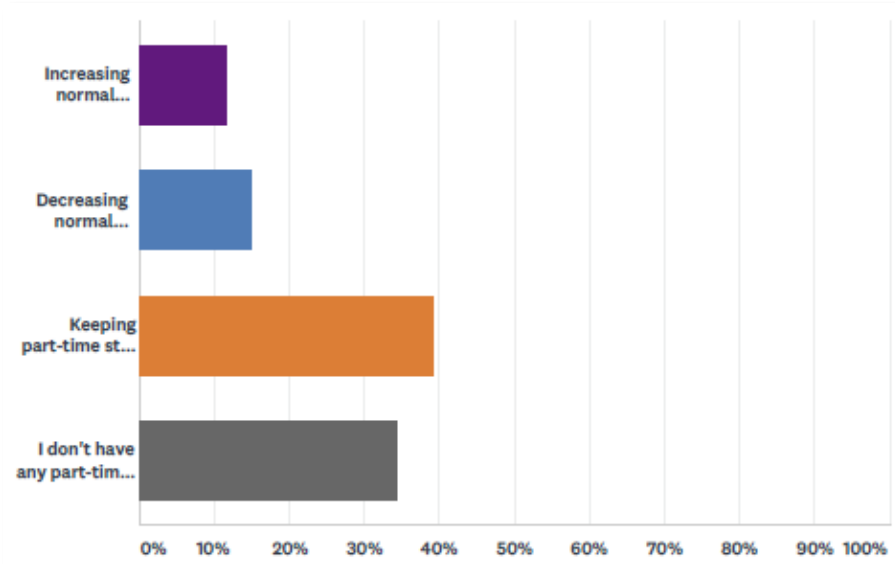
- Overall, only 10.58% of respondents planned to increase staffing levels across any employment level;
- Part-time employment was the least-common level of employment across all respondents, with 34.35% stating that they did not employ an part-time staff;
- Overall, responses showed the largest planned decrease is in casual staffing levels (22.61%) and the largest planned increase was in part-time staffing levels (11.74%).

### **Q2: Indicate your plans for casual employment over the next six-to-12 months:**



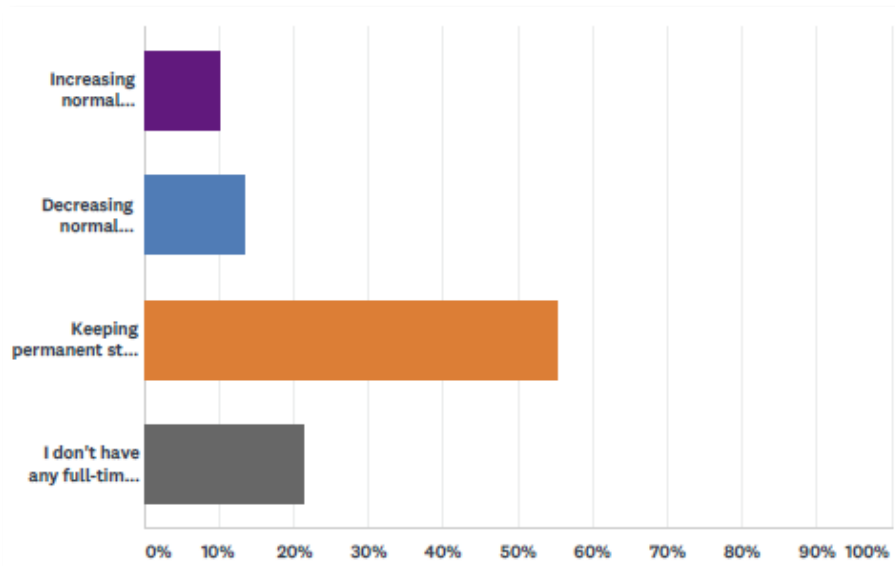
Almost 60% of respondents stated that they plan to keep casual staff levels the same, with nearly 23% planning to decrease casual staff levels over the next six-to-12 months.

**Q3: Indicate your plans for part-time employment over the next six-to-12 months:**



Nearly 40% of respondents stated that they plan to keep part-time staff levels the same, with nearly 15% planning to decrease part-time staff levels over the next six-to-12 months.

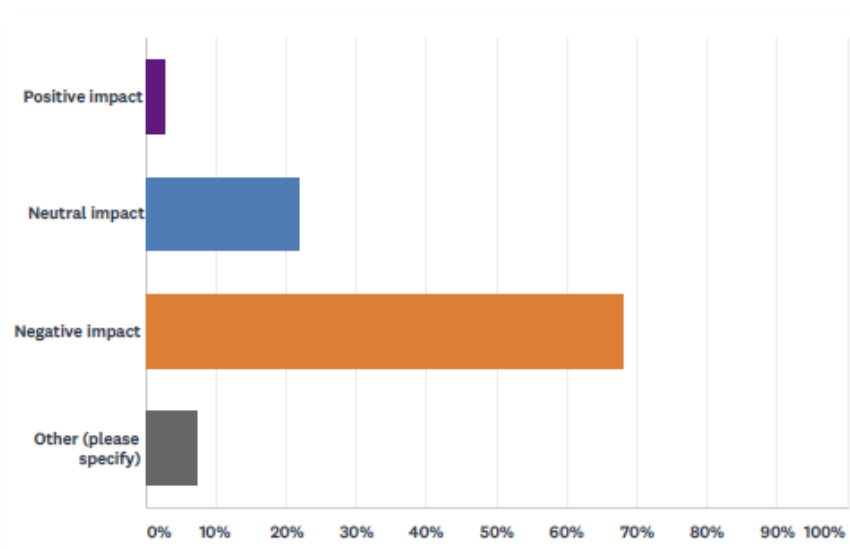
**Q4: Indicate your plans for full-time/permanent employment over the next six-to-12 months:**



Over 55% of respondents stated that they plan to keep full-time staff levels the same, with over 13% planning to decrease full-time staff levels over the next six-to-12 months.

**Q5: Describe the impact on employment and labour costs in your business from last year's 3.3% increase in the NMW:**

More than 68% of respondents answered that last year's NMW decision had a negative impact on employment (see chart overleaf).




## 6: Summary:

The retail industry's submission has outlined the difficult trading environment existing for the retail sector. With most small to medium retailers being reliant on a minimum wage workforce, any move to increase wages within the sector during this time of low consumer confidence and low to negative growth will only further job losses currently underway within the sector.

The retail industry:

- Makes a significant contribution to the overall state of the national economy;
- Employs more people in Australia than any other private sector industry;

- 
- Employs more juniors than any other private sector industry;
  - Is the most heavily reliant on pay scales than any other industry;
  - Suffers a higher disproportionate effect in NMW increases than other industries due to deregulated trading hours and penalties across all retail awards;
  - Is on a low to negative growth period during this time of low consumer confidence and low business confidence in the services sector.

The Australian economy is continuing to undergo a period of transition and while wage restraint is facilitating some recovery in the labour market, the ability to pay excessive wage increases is impacted by well below long-term average economic growth. The labour market continues to indicate spare capacity with some sectors of the labour market weaker than others impact particular sectors of the economy.

The ARA recommends in its AWR that the Panel award a 1.9 percent increase in the NMW, translating to an increase of \$13.20 per week, or \$708.10 per 38-hour week.

The ARA and our members are grateful for the opportunity to assist the Panel in its consideration of the 2017-8 AWR. For further information or comment, please contact [policy@retail.org.au](mailto:policy@retail.org.au).

Kind regards,



Russell Zimmerman  
Executive Director



Heath Michael  
Director of Policy, Government & Corporate Relations

