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Fair Work Commission
Annual Wage Review 2019-20
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ARA Annual Wage Review Submission 2019-20

MARCH 2020

ABOUT THE ARA

The **Australian Retailers Association** is the retail industry's peak body, representing a $325 billion sector employing more than 1.3 million people. The ARA works to ensure retail success by informing, protecting, advocating, educating and saving money for its 7,500 independent and national retail members which operate over 60,000 shopfronts across Australia. The ARA ensures the long-term viability and position of the retail sector as a leading contributor to Australia's economy.

Members of the ARA include Australia's most trusted retailers, from the country's largest department stores and supermarkets, to specialty retail, electronics, food and convenience chains, to mum-and-dad operators.

OVERVIEW

Australia's retail sector comprises over 130,000 retail businesses, which employ 1.3 million people; retail is Australia's largest private industry employer, and the second-largest employment sector overall after Health.[1] [2] Retail provides Australians with limitless opportunities to enter the workforce, support themselves through study or transitory periods in their lives, or to pursue fulfilling, prosperous, and rewarding long-term careers.

Retail is also a key industry for female workforce participation, with 55.6% of employees in the sector being women, and is also the largest employer of young people in Australia.[3]

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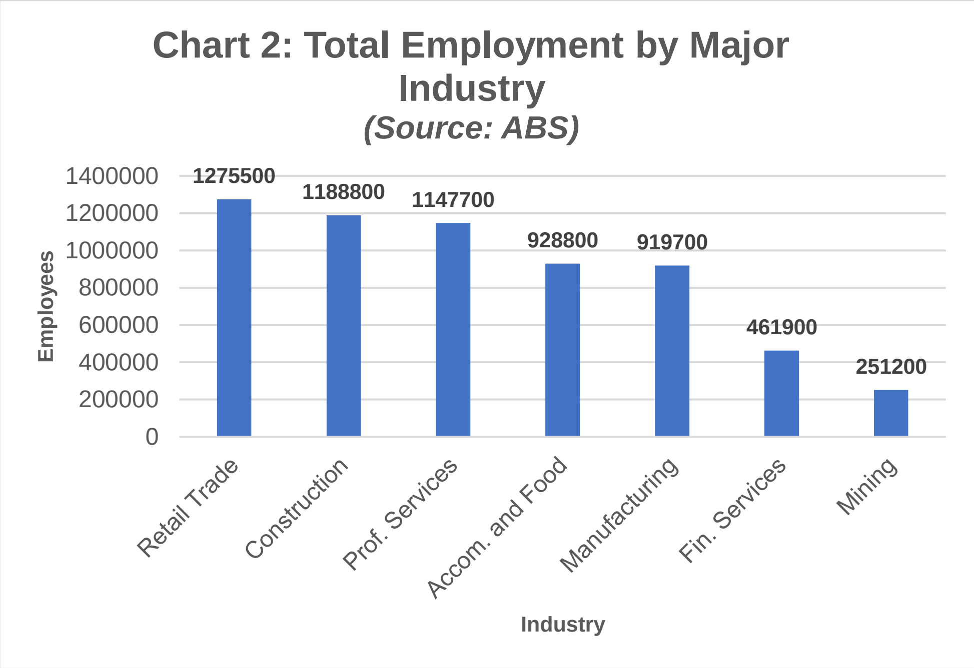
[1] Australian Bureau of Statistics 2020, 8165.0 Counts of Australian Businesses, including Entries and Exits, June 2015 to June 2019.
[2] Australian Bureau of Statistics 2019, 6291.0.55.003, Labour Force (Quarterly), 'Table 05. Employed Persons by State, Territory and Industry Division of Main Job (ANZSIC)', November 2019.
[3] Australian Government 2020, Department of Jobs and Small Business, *Labour Market Information Portal – Retail Trade.*



Despite the benefits associated with employment in retail, ARA members consistently rank labour costs in the top two issues of concern across the retail sector. Our members believe a contemporary workplace relations system should provide support to, and benefits for, both workers and employers.

The ARA believes this should be embodied by a system that enables managers and businesses to maximise productivity, encourages entrepreneurship and competitiveness and, consequently, increases employment opportunities.

Australian retailers face difficult operating conditions. In the last ten years, the structure of the retail sector has shifted and evolved due to globalisation, advances in the digital economy, and changes to business policies (such as employment law). Further, retail has experienced a rapidly changing economic environment, with the Global Financial Crisis and fluctuating Australian dollar having had significant long-term effects on the performance of the sector.

Most recently, natural disasters over the 2019-20 Australian summer – drought, bushfires, and flooding in parts of the country as the drought begins to break – have been compounded by the international onset of COVID-19, or novel Coronavirus, the reverberations from which appear on objective analysis likely to induce a moderate to severe recession in Australia during the 2020 calendar year. Should this eventuate, the retail sector stands to be hit hard.

Despite this, the ARA and its members remain committed to a vision for a strong retail sector based on well-regulated markets, growth, productive and innovative businesses, responsible collective initiatives supported by government as appropriate, but freed from regulatory burdens where possible.

We remain committed to promoting retail as a valid, exciting career choice for young people, and to developing and maintaining the highest standards of industry practice for individuals and groups at all levels, while helping members embrace new technologies and changing trading conditions.

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

The ARA membership, and retailers in general, have experienced significant cost pressures from international competition, reduced margins, declining growth and increased wage costs which are far higher than those faced by international competitors.

Our members range from sole operators to medium/large enterprises, independent retailers, national chains, and franchise stores of all types and sizes. Over 80% of our membership consists of businesses ranging from one to five stores, with most employing fewer than 20 staff. The ARA has consulted broadly across our membership in preparing our submission for the assistance of the Expert Panel (Panel) in conducting its 2019-20 Annual Wage Review (AWR) for the National Minimum Wage (NMW) and modern Award minimum wages.

EXECUTIVE SUMMARY

ARA Position

The ARA strongly recommends the Panel defer any decision on the NMW until after March quarter GDP figures are available on 3 June (and ideally until after retail trade figures for April are released on 4 June), with any subsequent decision to increase the minimum wage to be limited to the rate of CPI growth over the preceding 12 months (approximately 1.8%) or less.

The ARA believes such a position is responsible, realistic and reasonable. In the context of sluggish GDP growth during 2019, high real minimum wages by international standards during that period, and underemployment levels, we believe this position would be well justified even without the sequence of natural disasters Australia has recently experienced.

Indeed, with even the impact on economic activity, business viability and employment as a result of those events still unlikely to be fully reflected in available economic indicators, this position may even be excessive given the unknown economic consequences of COVID-19, which the ARA believes (at time of writing) lie almost entirely ahead of us, and which cannot be accurately anticipated or pre-emptively mitigated in any credible or meaningful sense.

We submit that the need to ensure retail businesses remain viable at all – let alone retain the capacity to retain and pay employees – is a critical consideration that must override any decision to routinely increase mandatory wage levels for the first time since at least the Global Financial Crisis, and perhaps since the Great Depression.

A major concern for retailers and those involved in services industries, which will confront the Panel, is to ascertain the best approach for determining an NMW outcome based on a period in which large sections of the economy were either in transition or registering anaemic growth even before the onset of COVID-19. During 2019, year-on-year retail sales growth in Australia averaged 2.6%, in contrast to the 50-year long term average for the sector of 3.8%.

With due respect to the Panel, recent AWR decisions have been generous given the flat economy, persistent slow growth in key industries, high underemployment and youth unemployment, tepid jobs growth, global risks, rising business costs, and increased global competition. Again, these factors predate the both ongoing impact of natural disasters and the eventual (and, likely, substantial) impact of COVID-19. We implore the Panel to retrospectively regard high real NMW rises in recent years as compensation to employees that the economy, private businesses, and particularly small to medium enterprises can no longer afford.

Governments and institutions such as the Fair Work Commission are responsible for creating and maintaining an industrial framework that influences this. Myriad legacy issues within the current framework continue to quell opportunities for businesses and employees to succeed, and these issues stand to be compounded by the impact of COVID-19 on the economy. While changes to employment legislation in recent years have addressed some issues, the ARA urges the Panel to use this review to help safeguard the viability of the businesses in our sector that provide hundreds of thousands of jobs.

An ongoing key concern of the ARA is the decline in Enterprise Bargaining in recent years, which has increased business costs, worsened employee outcomes, and reduced flexibility.

GENERAL

The ARA strongly recommends the Panel defer any decision on the NMW until after March quarter GDP figures are available on 3 June (and ideally until after retail trade figures for April are released on 4 June), with any subsequent decision to increase the minimum wage to be limited to the rate of CPI growth over the preceding 12 months (approximately 1.8%) or less.

The ARA believes such a position is responsible, realistic and reasonable. In the context of sluggish GDP growth during 2019, high real minimum wages by international standards during that period, and underemployment levels, we believe this position would be well justified even without the sequence of natural disasters Australia has recently experienced.

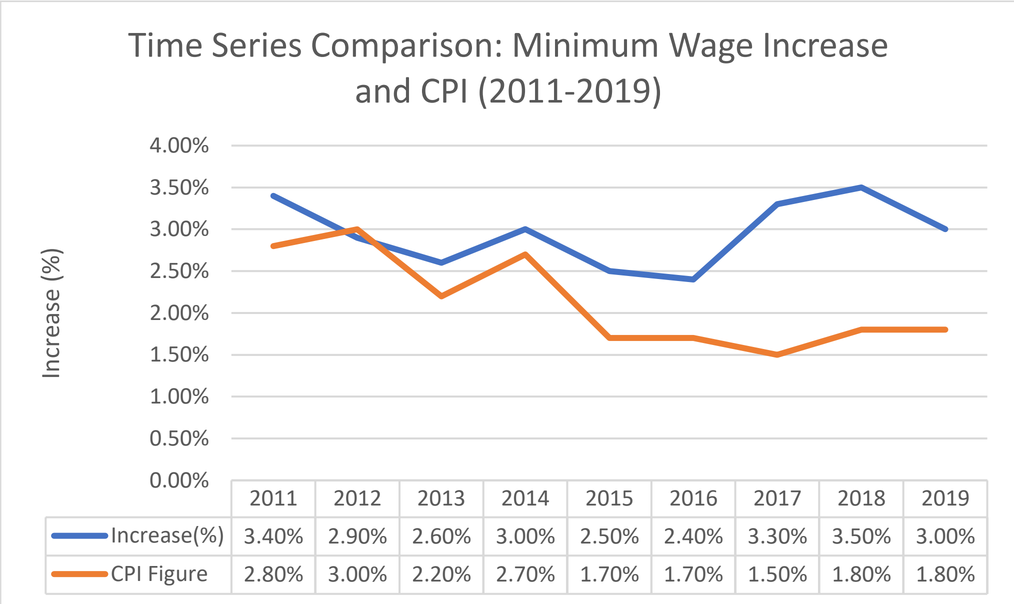
With due respect to the Panel, recent AWR decisions have been generous, given the economy is now vulnerable to a COVID-19-triggered recession, after GDP growth in 2019 of 2.2%, persistent slow growth in key industries, high underemployment and youth unemployment, tepid jobs growth, global risks, rising business costs, and increased global competition. Again, these factors predate the both ongoing impact of natural disasters and the eventual (and, likely, substantial) impact of COVID-19. We implore the Panel to retrospectively regard high real NMW rises in recent years as compensation to employees that the economy, private businesses, and particularly small to medium enterprises can no longer afford.

The ARA recommends the Panel, given Australia’s now-precarious economic outlook and fragile labour market at the time of the 2019-20 AWR, defer any decision on the NMW until after March quarter GDP figures are released on 3 June, and preferably until after February retail trade figures are released on 4 June, so a better informed decision that more accurately reflects the state of the Australian economy and the retail sector specifically can be made.

We further recommend that if any increase is made to the NMW at that juncture, this should be no more than the increase in the CPI over the preceding year (approximately 1.8%). This would represent an increase in the NMW of $13.33 per week to $754.13 per 38 hour week.

We have arrived at this position after extensive consultation with ARA members of varying sizes, and note a significant minority of these stakeholders advocated no NMW increase whatsoever in the current review. The ARA does not accept these views at the time of writing.

The ARA's position would maintain the real value of the NMW at a level which, after years of wage rises outstripping retail sales and price growth, is already among the highest minimum wages across the OECD bloc. It also broadly reflects historical decisions of the Panel aligning wage rises with, or slightly above, CPI increases (with the exception of its 2016-17 decision).



	2011	2012	2013	2014	2015	2016	2017	2018	2019
Increase(%)	3.40%	2.90%	2.60%	3.00%	2.50%	2.40%	3.30%	3.50%	3.00%
CPI Figure	2.80%	3.00%	2.20%	2.70%	1.70%	1.70%	1.50%	1.80%	1.80%

The ARA's position reflects consideration of economic risks and the state of the national economy, whilst assessing the capacity of the sector to pay. We have taken the following factors, based on conditions during calendar year 2019, into account:

- CPI inflation remained low, affecting Wage Price Index (WPI) growth, when considering the causative link between inflation and wages growth.
- NMW settings and decisions must not exacerbate the risk of unemployment for the most vulnerable at the lowest-paid end of the labour market.
- Part time employment growth was strong whilst underemployment simultaneously remained high, reflecting continued spare capacity in the labour market.
- Increased competition and technological disruption continued to impact on the ability of businesses to give substantial pay rises to employees in industries such as retail.

Whilst GDP growth in the December 2019 quarter of 0.5% exceeded the expectations of most economists, it remains the case that the impact of bushfires and floods had not fed into national accounts figures at that point, whilst the spectre of COVID-19 was then unknown. For these reasons, in addition to the points listed above, we do not believe valid NMW decisions can be made until further economic data is available that better reflects the state of the economy.

GDP growth tracked below long term trend during 2019, and is widely expected to contract from the March 2020 quarter onwards. In turn, this will almost certainly cause a sharp deterioration in labour market conditions. The ARA believes the Australian economy is uniquely poised atop a precipice due to unforeseen and unforeseeable external factors, and in such a climate we believe the inherent conservatism of our position on the NMW is justified.

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 factors such as unemployment, productivity and economic growth.

The WPI is the most appropriate control index because it reflects changes in the composition of the workforce. By contrast, Average Weekly Ordinary Time Earnings (AWOTE) is affected by changes in the jobs people do rather than how much people holding those jobs are paid.

Similarly, the Average Annualised Wage Increase (AAWI) in collective agreements does not account for changes in conditions or work practices that may have been exchanged for wage increases.

Private sector WPI should be prioritised over headline WPI because the capacity of the public sector to increase wages is discrete from that of private firms. Private sector WPI continues to record new lows, with sustained weakness now having been exhibited over several years.

Latest figures show wage growth has resumed its decline after recovering marginally from record lows by the time of the Panel's decision last year to sit at at 2.3%. WPI growth is currently sitting at 2.2%, which is marginally higher than CPI.[4]

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, and we reiterate that all of these observations reflect 2019 and do not account for the dire economic effects of COVID-19 for which Australia is braced at the time this submission was written.

2. UNEMPLOYMENT AND UNDEREMPLOYMENT

Australia's unemployment rate barely moved between January 2019 and January 2020, rising from 5.1% to 5.2%.[5] However, in the retail sector, over two-thirds of jobs created were part-time. This reflects the diminished capacity of the retail industry to grow employment, due to increases in costs, competition, low consumer confidence, 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 8.5% in January 2020, increasing from 8.3% in January 2019, remaining above 10% in Tasmania, with South Australia and Western Australia

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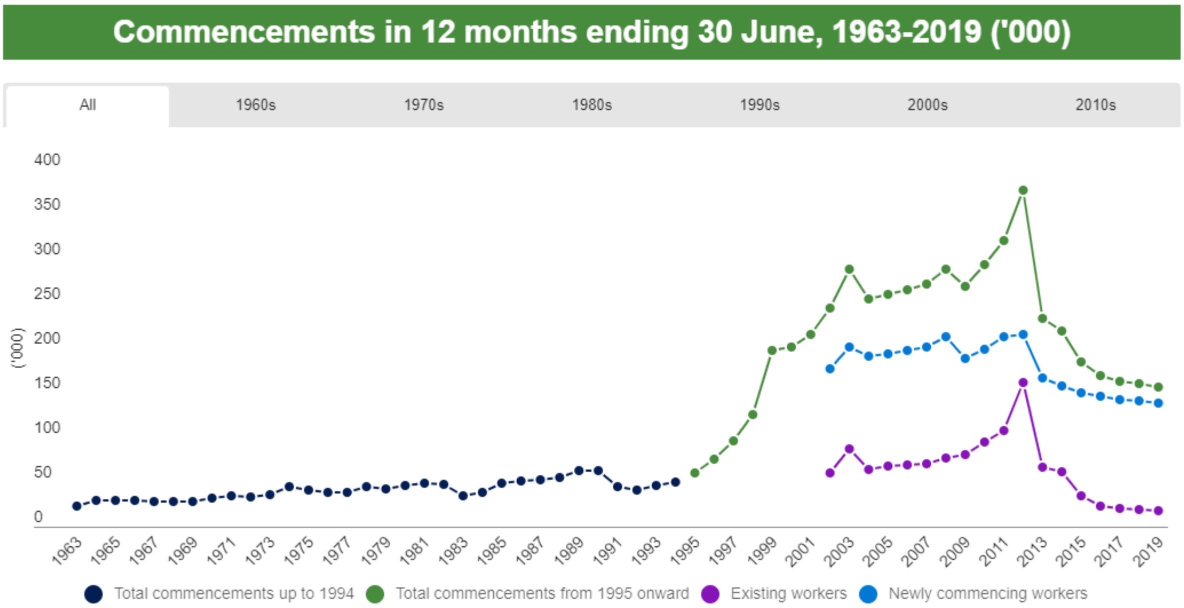
[4] ABS, Cat. No. 6345.0 –*Wage Price Index,* December 2019.

[5] ABS, Cat. No. 6202.0 – *Labour Force, Australia*, January 2020.

falling just short of that level in January 2019. In particular, the female underemployment rate in those states, and in Western Australia, remains near or above 12%.

Retail is a key employer of Australian youth, low-skilled workers, and is an entry-level occupation for many. Large increases in wage costs adversely impact the industry's ability to continue to play this crucial role in Australia's labour market. 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.

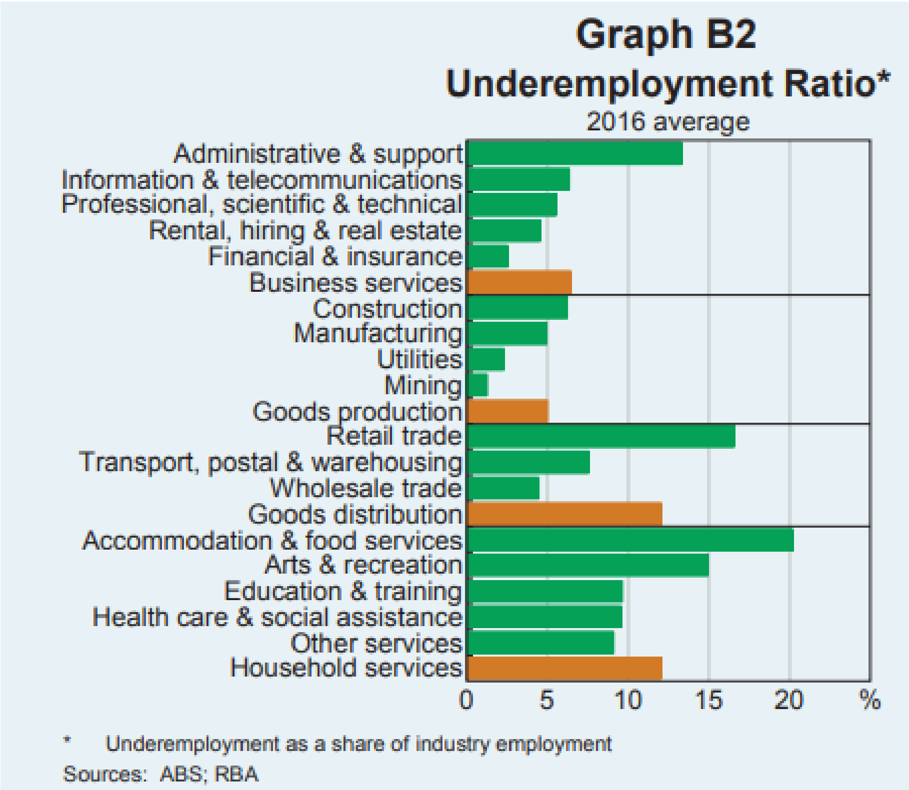
Apprenticeship Commencements 1963-2019 ('000s) [6]



[6] NCVER – *Historical time series of apprenticeships and traineeships in Australia*, December 2019

Apprenticeship commencement figures for 2019 show combined trade and non-trade commencements were down 23.9% compared to 2014. In 2019 there was the lowest number of apprenticeship commencements since 2004, and the lowest number of completions since 2007. There are more than 1,000,000 people in the labour market without work or without sufficient hours of work. The underemployment rate in the retail sector was the second highest at approximately 17%[7], reflecting weak conditions for the sector.[8]

A recent sign of rapid weakening in the labour market due to the COVID-19 emergency



emerged from news supermarket chain Coles intended to hire an additional 5,000 casual staff to assist with restocking shelves following well-reported panic buying and hoarding by Australian consumers. Coles received 36,000 applications for these roles – far greater than the number it would have received in a more neutral labour market environment.

In monitoring projections and forecasts regarding increased unemployment as a result of the COVID-19 pandemic, the ARA notes these appear to foresee an unemployment rate of between 8% and 10% by the end of calendar year 2020. Based on ongoing communication with our members, at the time of writing we believe the eventual figure is likely to fall at the upper end of this range if not exceed it altogether. This consideration underpins our position that the AWR should at a minimum be deferred for some months, and limited to the rate of CPI growth (or less) if any increase is eventually mandated.

[7] ABS, Cat. No. 6202.0 – *Labour Force, Australia*, January 2019.
[8] Underemployment as a share of industry employment Sources: ABS; RBA Feb 2017.

3. RETAIL INDUSTRY BUSINESS CONDITIONS

The 2019-20 AWR is occurring against the backdrop of historically difficult trading conditions with flat or negative employment growth. In the context of COVID-19, a recent survey of ARA members found 57% intended to cut staff hours and 32% intended to cut staff numbers.

The ARA disagrees with assessments that the Panel's historic NMW increases have been cautious, and disagrees vigorously with arguments that large NMW increases do not adversely affect employment. In an increasingly competitive business environment, every cost increase has a material impact. The past year has seen several prominent retail businesses enter administration, close down, or slash store numbers. In each case, when businesses consolidate or terminate operations due to cost imposts, the effect on employment is negative.

A further finding of the ARA member survey on the impact of COVID-19 was that 70.2% expected to face cashflow difficulties as a direct consequence of the pandemic, while a further 19.1% were uncertain. Clearly, and without pre-empting the impact of the COVID-19 event, its effects will not be uniform, with some retail businesses likely to weather the crisis better than others. Even so, these findings do not engender any confidence whatsoever with regard to the overall ability of the sector to continue to absorb above inflation increases in costs at this time, nor in probability for a period after the pandemic passes and the sector begins to recover.

Table 1: Retail Brand Collapses and Closures since 2018 (Size: over 10 stores)

Year	Retailer	Stores
2018	Roger David	57
2018	Max Brenner	37
2018	Tasman Butchers	17
2018	Cobbler Plus & Watch Works	114
2018	Metalicus	12
2018	Oliver Brown	50
2018	Espirit	29
2018	Toys R Us Australia	44
2018	Red Lea Chickens	22
2018	Baby Bounce	12
2018	Aussie Farmers Direct	100
2018	Doughnut Time	223
2018	Outdoor Furniture Specialist	27
2018	Maggie T	28
2018	NQR Discount Groceries	18
2019	Harris Scarfe	66
2019	Critini's Pizza	13
2019	Bardot	72
2019	Co-Op and Curious Planet	34
2019	Dimmeys	30
2019	Ziera	23
2019	Focus Group	38

2019	Build-A-Bear	30
2019	Ed Harry	87
2019	Napoleon Perdis	56
2020	Jeans West	126
2020	Bose	119
2020	Colette	140
2020	Ishka	60
2020	Kikki-K	65

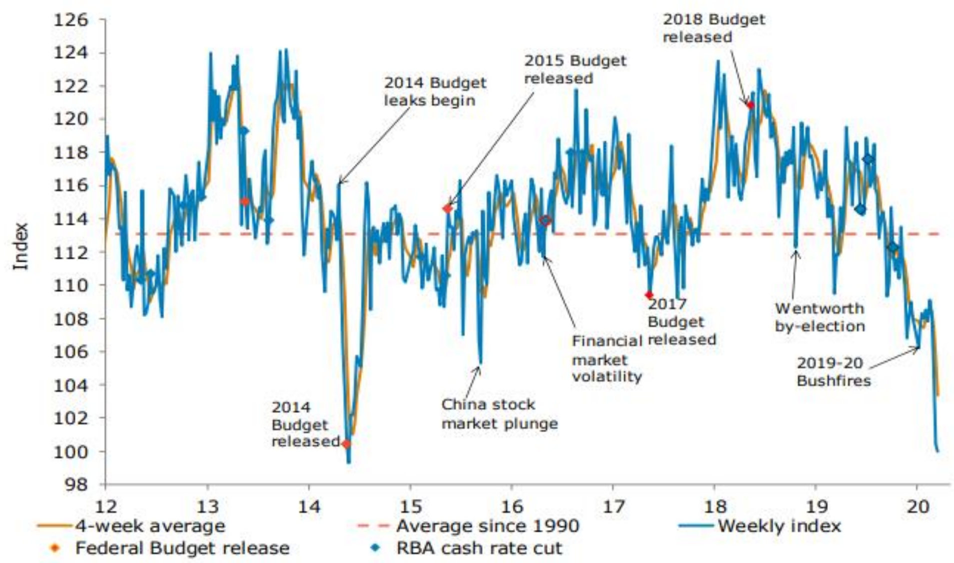
Retail trade viability in 2019 is directly related to the Panel's AWR considerations. The AWR impacts on the capacity for an award-reliant industry to pay employees more, hire more workers, or provide part-time or casual employees more hours. Further increases in the NMW above CPI growth will cause more store closures and greater unemployment within the sector.

Consumer Confidence

The retail industry was already struggling well before the natural disasters of the 2019-20 Australian summer and the plunge in public sentiment that has accompanied the onset of the COVID-19 pandemic, with year-on-year revenue growth dropping significantly during 2019 and early 2020. Roy Morgan's regular consumer confidence readings (*see below*) chart a corresponding collapse in confidence during this period. While consumer confidence is being constantly pressured by issues such as lack of economic growth, declines in the housing market and ongoing concerns around political issues, all available anecdotal evidence ahead of official ABS trading data for February 2020 onwards suggests consumers are now making savage cuts to discretionary spending to build a buffer against the threat of unemployment.

When consumer confidence is low, retail trade is traditionally among the first sections of the economy to suffer; sharp falls in consumer confidence levels over the past year have compounded this trend, with COVID-19 now posing an existential level of threat to the viability of the sector. The related impact on business confidence and profitability has reduced the capacity of retailers to pay large wage increases, or take on additional employees.

Confidence decline 0.4%



Source: ANZ-Roy Morgan, ANZ Research

Roy Morgan *Australian Consumer Confidence*, March 2020.

Retail Trade and CPI Inflation

The Consumer Price Index (CPI) in the December 2019 quarter rose by 0.7%, after a rise of 0.5% in September. Increases in measured average price inflation across the Australian economy were driven by increases in tobacco prices (8.4%, largely due to excise), fruit (6.8%), and petrol (4.4%). The overall CPI increase in 2019 was 1.8%. Sales growth, where it occurred, was minimal. We have recently seen falls in consumer prices driven by deflationary pressures in response to protracted soft trading volumes, and tight consumer spending due to low consumer confidence and a housing market which remains soft by post-GFC standards.[9]

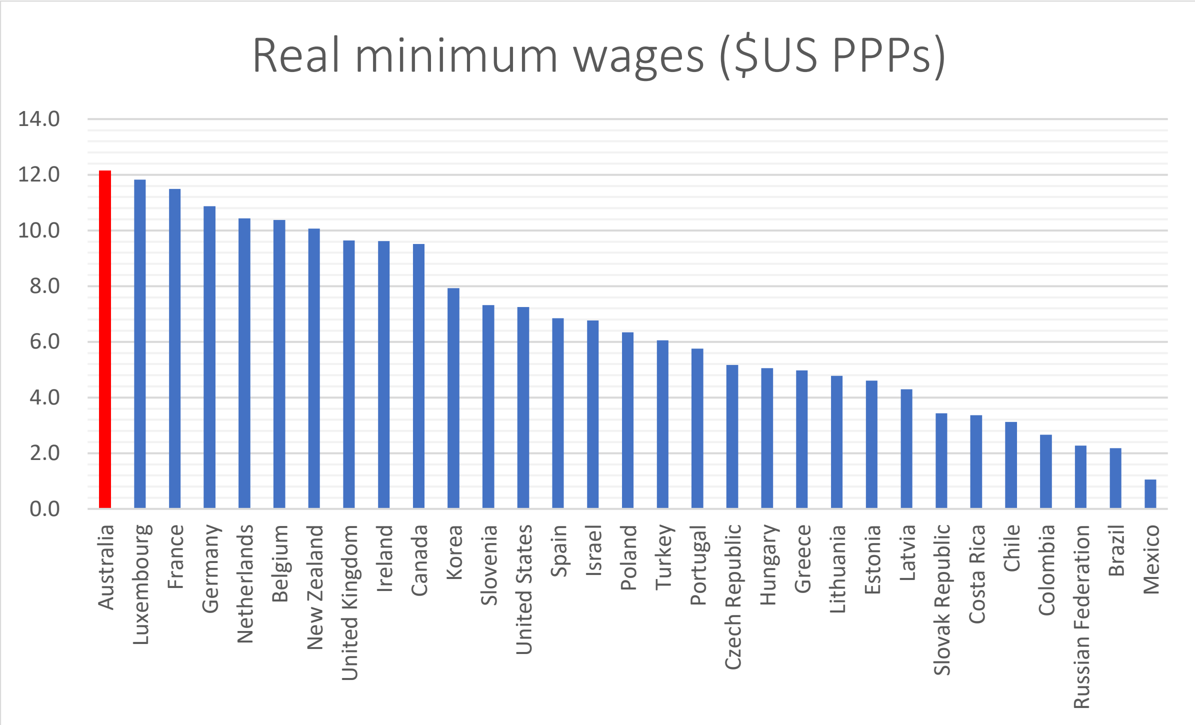
The Panel can assist the retail sector in growing – or at least striving to maintain – employment levels by limiting any eventual increase in the NMW to CPI growth during 2019 of 1.8%.

4. AUSTRALIAN WAGES

Australia has the highest minimum wage in the OECD, which is compounded by other benefits (penalty rates, overtime, loadings). This impedes Australia's international competitiveness.

Thus, AWR decisions transcend simple NMW-linked wage rises for award-based sectors. Unless the NMW is set below the lowest rate at which people can be productively employed, it will impede employment growth. Generally, the marginal cost of deviations from the efficient price grows as the difference between the efficient price and the distorted price increases.

[9] ABS, Cat. No. 8501.0 – Retail Trade, January 2020.



[10]

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

SUMMARY

Whilst the retail sector already faced headwinds in the form of low consumer and business confidence, tepid retail sales growth, high (and rising) cost pressures, and the increasing effects of regulation, competition and industry disruption, the unique challenges posed by natural disasters and particularly the threat of COVID-19 mean wage restraint is not merely desirable, but is now essential.

This submission has comprehensively outlined the difficult trading environment faced by the retail sector. As most small to medium retailers are wholly reliant on Award-based workforces, any increase in the NMW in real terms – which would flow directly to the General Retail Industry Award – during an unprecedented period of potentially catastrophic economic risk will only contribute to, and rapidly accelerate, job losses already occurring in the sector.

The retail industry

- Makes a significant contribution to the overall state of the Australian economy;

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[10] OECD Statistics database, *Real Minimum Wages*.

- Employs more people in Australia than any other private sector industry;
- Employs more young people than any other private sector industry;
- Is the most heavily reliant on Award pay scales than any other industry;
- Suffers a higher disproportionate effect in real NMW increases than other industries due to deregulated trading hours and penalties across all retail awards;
- Was already in a sustained low/negative growth phase, at a time of low consumer and business confidence, before commercial risks from natural disasters and COVID-19 appeared.

The Australian economy was already experiencing protracted transitionary pressures well before the drought, the bushfire crisis, and the significant socio-economic threat presented by COVID-19; the ability of retail businesses (especially at the small to medium end of the sector) to continue to absorb wage increases that substantially outstrip growth in sales and inflation has for some years been impacted by below long-term average economic growth, and now simply no longer exists in light of the current problems afflicting the Australian economy.

The ARA's recommendation to the National Minimum Wage Review is that any decision be deferred until March quarter GDP figures are available on 3 June (and ideally until after retail trade figures for April are released on 4 June) to allow better-informed judgements of Australia's economic circumstances to be made, and that any subsequent decision to increase the NMW be limited to no more than the CPI increase over the preceding 12 months (approximately 1.8%).

The ARA and its members appreciate the opportunity to assist the Panel in its consideration of the 2019-20 AWR. For further information or comment, please contact Russell Zimmerman, the ARA's Executive Director, by email at Russell.Zimmerman@retail.org.au.

Yours sincerely

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