

## Ensuring retail success since 1903



**Submission to**

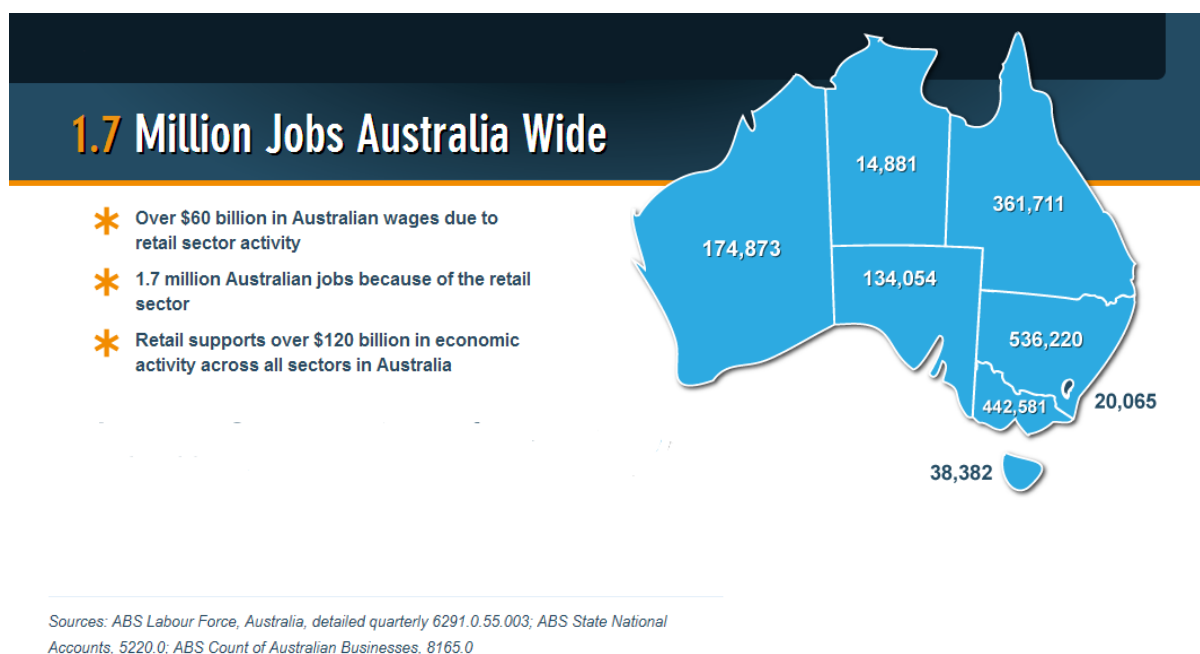
*Minimum Wage Review 2016*

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## Submission to Minimum Wage Review 2016

### About

As way of background, the ARA offers support, information and representation to over 5,500 member retailers representing over 50,000 retail outlets across every state and territory making the ARA the largest and most diverse retail industry body in Australia. 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 and employment relations advice (registered with the Fair Work Commission) in every state and territory making the ARA 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 a significant effect on the performance of the industry. The ARA offers support, information and representation to around 5500 retailers across the nation, and works closely with government and other industry participants to ensure the long-term viability and position of the retail sector as a leading contributor to Australia's economy.

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 percent of our membership consists of businesses ranging from one to five stores with most of that number employing less than 200 staff.

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

## **EXECUTIVE SUMMARY**

### **ARA POSITION**

The ARA strongly recommends that the Fair Work Commission (FWC) hand down a minimum wage increase that is realistic and reasonable and one that considers weak economic trading conditions, 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 FWC is to ascertain the best approach for determining a federal minimum wage increase during a period where large sectors of the economy are either in decline or registering minimal growth. What also must be taken into account is that the retail sector could hold potential wages growth if costs through wages are kept under control.

FWC decisions have been generous, given the faltering economy and slow pace of growth across key sectors, rising unemployment, weak jobs market, global risks, rising business costs and increased global competition through the rising dollar. We seek the FWC to consider high minimum wage increases over recent years as compensation that the economy, employment levels and businesses can no longer afford.

The ARA recommends that the Fair Work Commission adopt the 2016-2017 Annual Wage Review and **award an increase of no greater than 1.2 per cent, translating to a \$7.90 per week increase to the national minimum wage and bringing it to \$664.80 per week.** The ARA has arrived at this figure through working with the nations peak business group, the Australian Chamber of Commerce and Industry (ACCI), and our retailer membership.

The ARA's position preserves the value of the minimum wage over the last recent years where wages have been outstripping selling prices in the retail industry for an extended period.

The ARA supports the ACCI position in outlining the economic risks and the state of the national economy capacity to pay within the sector.

Our members and the ACCI membership have taken the below factors into account:

- Softening labour market conditions have impacted low-paid, low-skilled workers most significantly and we have seen our youth unemployment rate reach unsustainably high levels.
- The minimum wage function must not exacerbate the risk of unemployment for those most vulnerable in the labour market.

- Wage growth across the economy is at a record low, showing that employers don't have the capacity to pay large increases. This is consistent with weak labour market conditions.
- Census data shows that small business employers in the most award-reliant industries have, on average, lower income than the people they employ.
- The Consumer Price Index (CPI) in the December quarter 2015 rose by 0.4 per cent, following a rise of 0.5 per cent 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 (due, in part, to taxation policies), clothing and footwear, and cultural and recreational services. The CPI increased by 1.7 per cent through the year to the December quarter 2015, having risen by a similar magnitude through the year to the December quarter 2014.<sup>1</sup>

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 market conditions continue to deteriorate. The Australian economy is facing a difficult period of transition in the near term. It is expected the sharp downturn in resource sector investment will continue weighing heavily on growth and it remains unclear the extent to which expansion in other sectors of the economy will be sufficient to offset the drag on growth.

Labour market conditions are weak and the job opportunities for the low paid are diminished as a result. Underemployment has also increased and remains particularly acute in award-reliant industries. It is also important to remember that some sections of the labour market are weaker than others, with youth unemployment at 12.2 per cent in February 2016. As mentioned elsewhere in this submission, this is the cohort that suffers most from minimum wage increases.

There are in excess of 1.6 million people in the labour market without work or without sufficient hours of work. The ARA is in full agreement with ACCI's proposed \$7.90 increase in the National Minimum Wage which seeks to minimise employment losses in a weak labour market.

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<sup>1</sup> ABS Cat. 6401.0 - Consumer Price Index, Australia, Dec 2015

The ARA has also collated wages growth information from research partner Roy Morgan Research as part of our submission to indicate real wages movements over the last 14 years.

ARA/Roy Morgan data clearly shows much of the myth built around wages in the retail sector is due to the proportion of employees working within the sector because of lifestyle and flexible work hours through part time and casual employment. If measured as a full time employee wage within the sector this would reflect a very different story.

Chart showing the steady increase in wages over the last 14 years: ARA/Roy Morgan Research

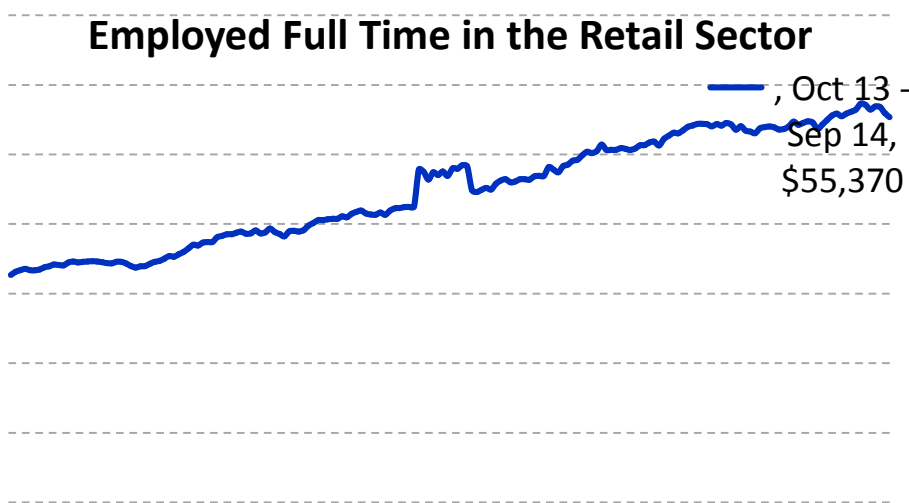
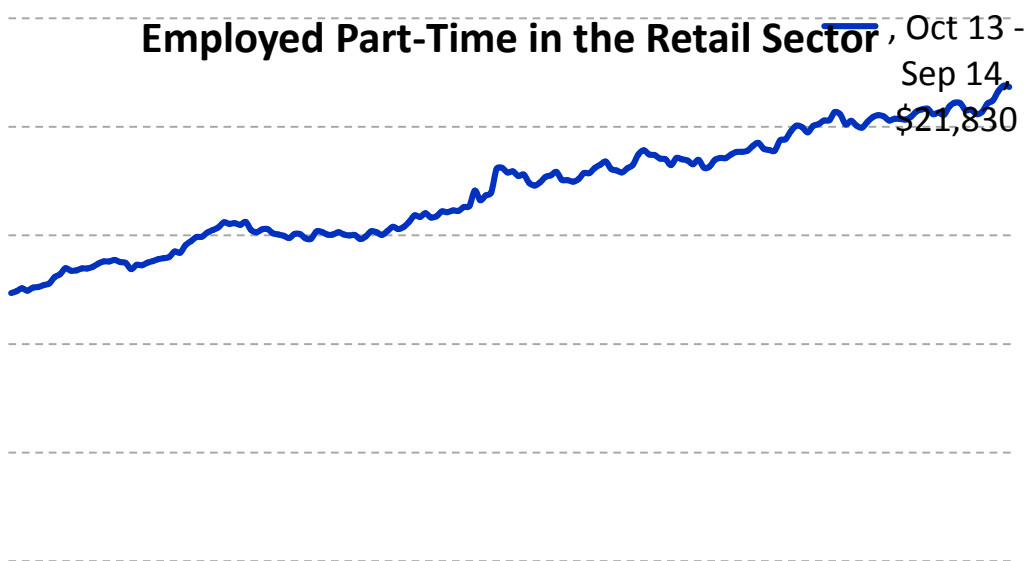


Chart showing the steady increase in wages over the last 14 years: ARA/Roy Morgan Research



## *FURTHER TO THE SUBMISSION*

The ARA's submission addresses the key considerations of FWC 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 survey of ARA members to determine their current concerns in retaining their staff and hours.

The survey questions were formed to consider the FWC's minimum wage 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 FWC 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 national minimum wage case.

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.

## Apprentices in In-Training 1998 - 2015<sup>2</sup> (in thousands)



The most recent apprenticeship commencement figures<sup>3</sup> for June 2015 quarter, show that combined trade and non-trade commencements are down 15.7% compared to the year to June 2014. Trade commencements fell by 7.8% and non-trades fell again by 21.5%. Total in-training numbers for June 2015 were 308 000, down 12% from 2014 and have fallen by 40% since their peak in 2012. This 40% fall equates to some 200 000 fewer apprentices gaining skills in a work based setting directly linked to a real job outcome. Proportionally, female in-training numbers have fallen from 36% of all apprentices and trainees in 2012 down to being only 26% of the total in-training in 2015.

The ARA also maintains that the increase to a 9.5 percent superannuation levy has been an effective pay increase which has not been taken into account in recent wage decisions and did have a substantial economic impact on business viability, workers compensation and payroll tax in addition to increases in minimum wages.

### RETAIL CONFIDENCE CONDITIONS

The 2016/17 Minimum Wage Review is happening within a context of continuing historically difficult trading conditions with flat or negative employment growth.

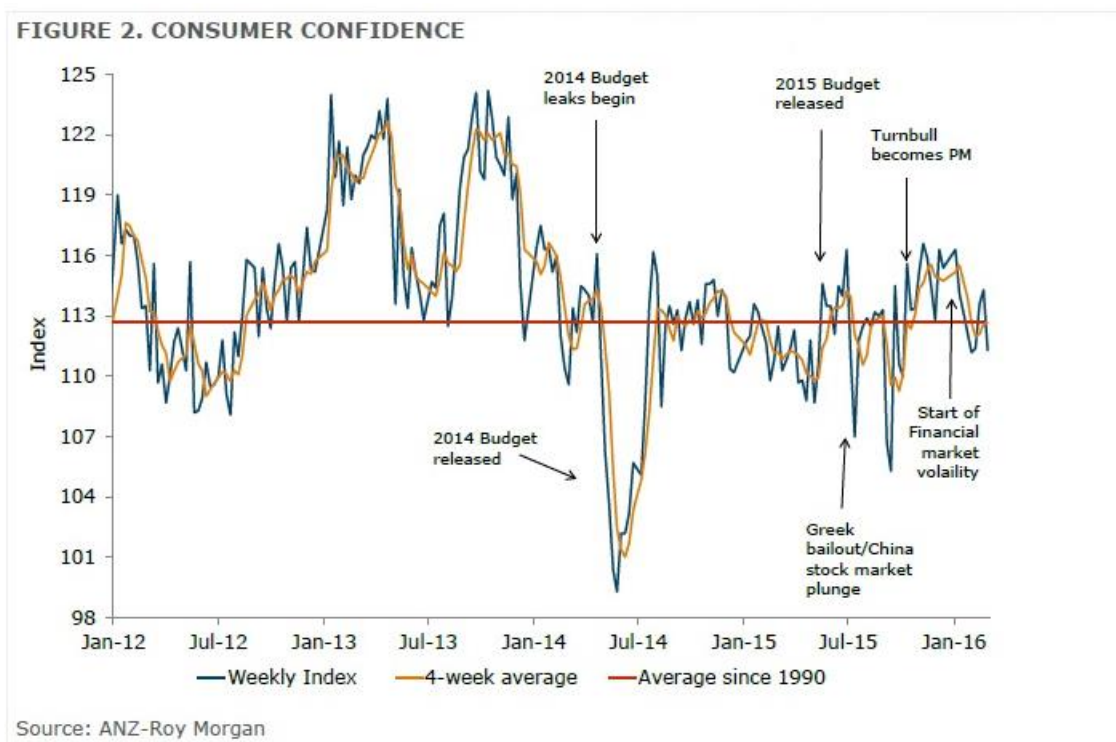
<sup>2</sup> NCVET 2015, Australian vocational education and training statistics: historical time series of apprenticeships and traineeships in Australia, from 1963, NCVET, Adelaide.

<sup>3</sup> NCVET 2015, Australian vocational education and training statistics: apprentices and trainees 2015 — June quarter, NCVET, Adelaide.



Consumer confidence 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. 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.

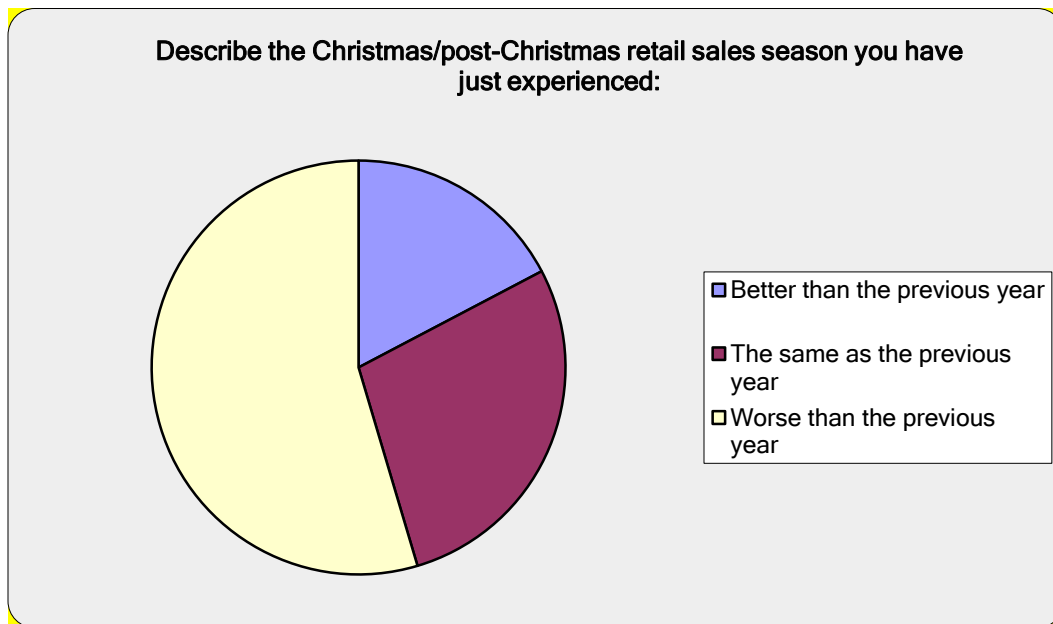
Retail trade viability in 2016 is directly related to Fair Work Commission’s minimum wage considerations because it impacts on the capacity for an award-reliant industry to pay employees more, see more closures and greater unemployment within the sector as seen through consumer confidence.



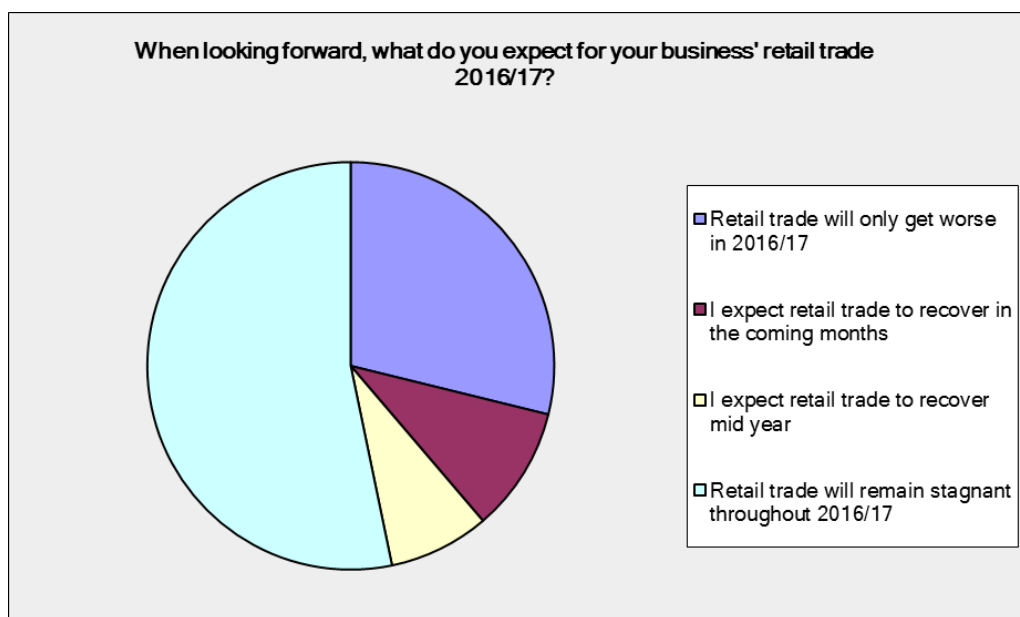
The Roy Morgan regular consumer confidence reading continues to show weak sentiment.

### ARA member results

Over 55.8 percent of retailers described the 2015/2016 Christmas/post-Christmas season as worse than the year before (see chart below).



Over 82 percent of retailers described 2015/16 retail trade as being worse than the year before or stagnant (see chart below).



## ARA MINIMUM WAGE POLL (MARCH 2016)

ARA member feedback (ARA Minimum Wage Poll, March 2016) confirmed employment intentions over the next 12 months. Of most concern are existing employment intentions excluding the impact of higher employee costs.

### Minimum Wage 2016 survey

**Please indicate your plans for permanent employment over the next six to 12 months**

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Answer Options	Response Percent
Increasing normal permanent staff levels	10.9%
Decreasing normal permanent staff levels	24.4%
Keeping permanent staff levels the same	64.7%

### Minimum Wage 2015 survey

**Please indicate your plans for part-time employment over the next six to 12 months.**

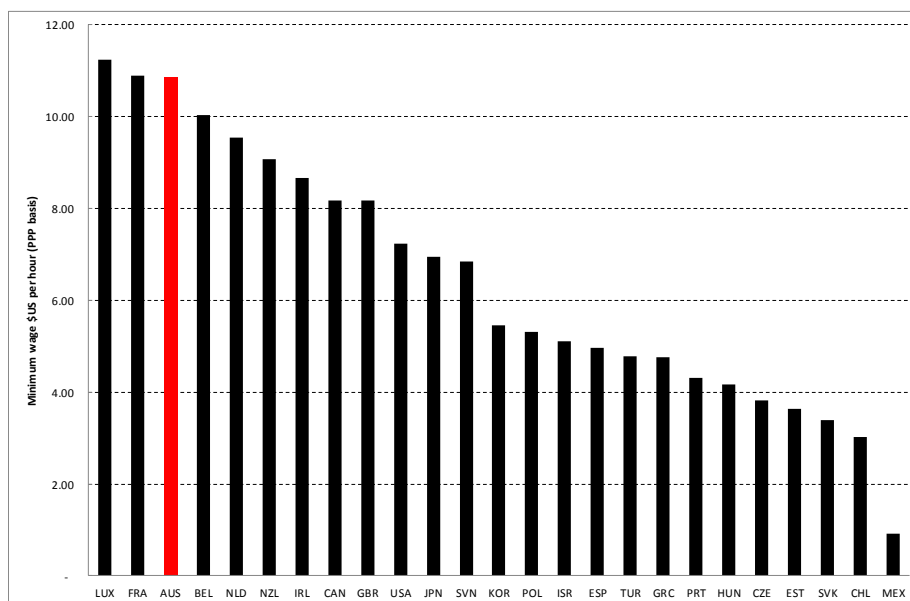
Answer Options	Response Percent
Increasing normal part-time staff levels	9.0%
Decreasing normal part-time staff levels	26.0%
Keeping part-time staff levels the same	65.1%

## Minimum Wage 2014 survey

Please indicate your plans for casual employment over the next six to 12 months.

Answer Options	Response Percent
Increasing normal casual staff levels	13.8%
Decreasing normal casual staff levels	25.6%
Keeping casual staff levels the same	60.6%

Australia has a much higher minimum wage than most overseas jurisdictions. Unless the minimum wage is set below the lowest wage at which all individuals can be productively employed, the minimum wage 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. 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 minimum wage to be higher.



OECD Statistics Database.

## CONCLUSION

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 minimum wage 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 to the **Annual Wage Review and award an increase of no greater than 1.2 per cent, translating to a \$7.90 per week increase to the national minimum wage and bringing it to \$664.80 per week.**

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