

# ARA ANNUAL WAGE REVIEW SUBMISSION 2018/19 MARCH 2019

AUSTRALIAN RETAILERS ASSOCIATION

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Australian  
Retailers  
Association



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Fair Work Commission  
Annual Wage Review 2018/9  
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# ARA Annual Wage Review Submission 2018/9

MARCH 2019

## ABOUT THE ARA

The Australian Retailers Association (ARA) is the peak industry body for Australia's \$320 billion retail industry. As way of background, the ARA offers support, information, and representation to over 7,750 members representing over 65,000 shopfronts 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, 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

In Australia, over 130,000 retail businesses employ nearly 1.3 million people; retail is Australia's largest private industry employer.<sup>1</sup> <sup>2</sup> Retail provides countless Australians the opportunity to enter the workforce, support themselves through their studies or transitioning periods, and forge fulfilling and prosperous careers.

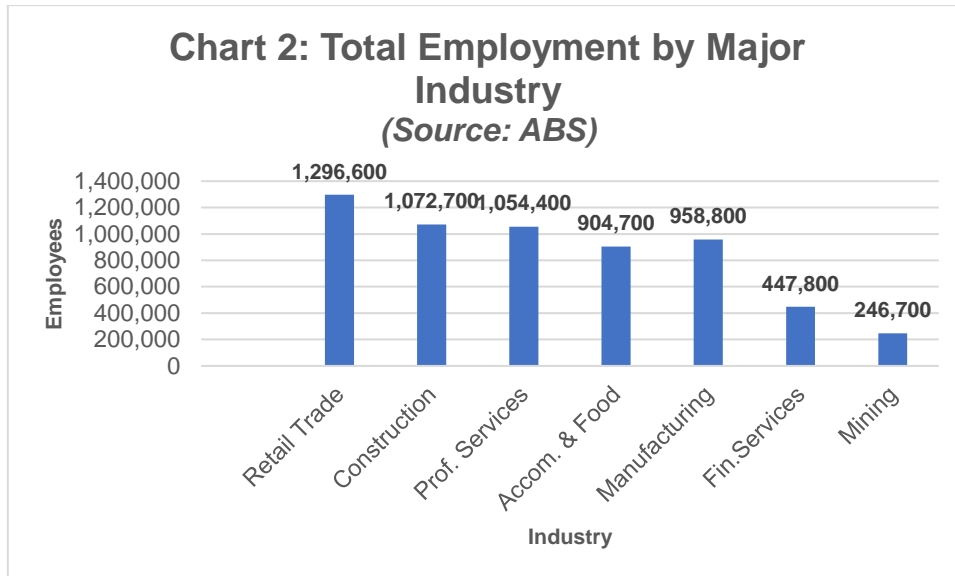
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<sup>1</sup> Australian Bureau of Statistics 2018, 8165.0 Counts of Australian Businesses, including Entries and Exits, June 2013 to June 2017.

<sup>2</sup> Australian Bureau of Statistics 2018, 6291.0.05, Labour Force (Quarterly), 'Employed Persons by State, Territory and Industry Division of Main Job (ANZSIC)', November 2018.



Retail is also a key industry for female workforce participation, with 55.4% of employees in the sector, as well retail is the largest employer of young people.<sup>3</sup>



Despite the positives associated with employment in retail, ARA members consistently note that one of their two major concerns are managing labour costs. Our members agree that a contemporary workplace relations system is one which provides support and benefits for workers and employers alike.

The ARA believes this is synonymous with a system that supports managers and businesses in maximising productivity, encourages entrepreneurship and competitiveness, and consequently, increases employment opportunities.

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

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<sup>3</sup> Australian Government 2019, Department of Jobs and Small Business, *Labour Market Information Portal – Retail Trade*.



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.

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

Our members range from 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 1-5 stores with most employing less 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 2018/19 Annual Wage Review (AWR) for the National Minimum Wage (NMW) and modern award minimum wages.

## 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. Currently, retail for the past twelve months has an average growth of 3.02% year-on-year, while the 50 year average growth for retail is 3.80%

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.

Governments and institutions such as the Fair Work Commission (FWC) are responsible for creating and maintaining the framework that influences this. Unfortunately, a myriad of lingering issues with this framework are continuing to quell opportunities for businesses and employees to be successful. While recent changes to employment legislation and regulations have addressed significant issues, the ARA compels the Commonwealth to use this Budget to prioritise continuing improvement to the framework.

One key concern is the decline in Enterprise Bargaining over recent years, which has increased costs for businesses, worsened outcomes for employees, and reduced flexibility.



## General

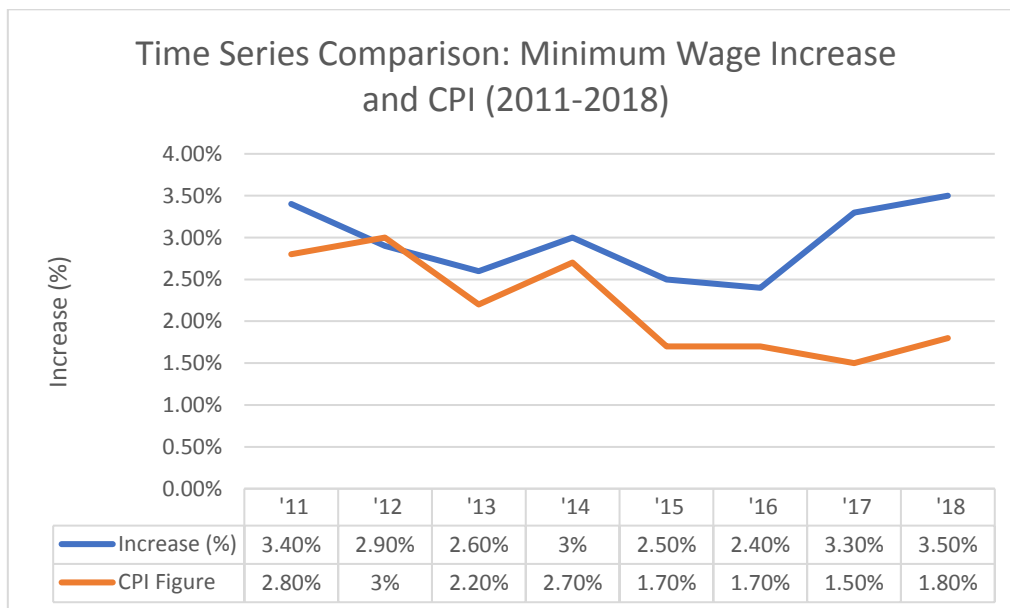
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With respect to the Panel, recent AWR decisions have been generous, given the now-vulnerable economy, with GDP growth for 2018 sitting at 2.3% and slow pace of growth across key sectors, slowing jobs market, global risks, rising business costs and 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 2018-19 AWR, that the Panel award an increase not more than 1.8% increase in the NMW, translating to an increase of \$12.95 per week, for a total of \$732.15 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).





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 Wage Price Index (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 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 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 2.1%. WPI growth is currently sitting at 2.3%, which is marginally higher than CPI.<sup>4</sup>

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.

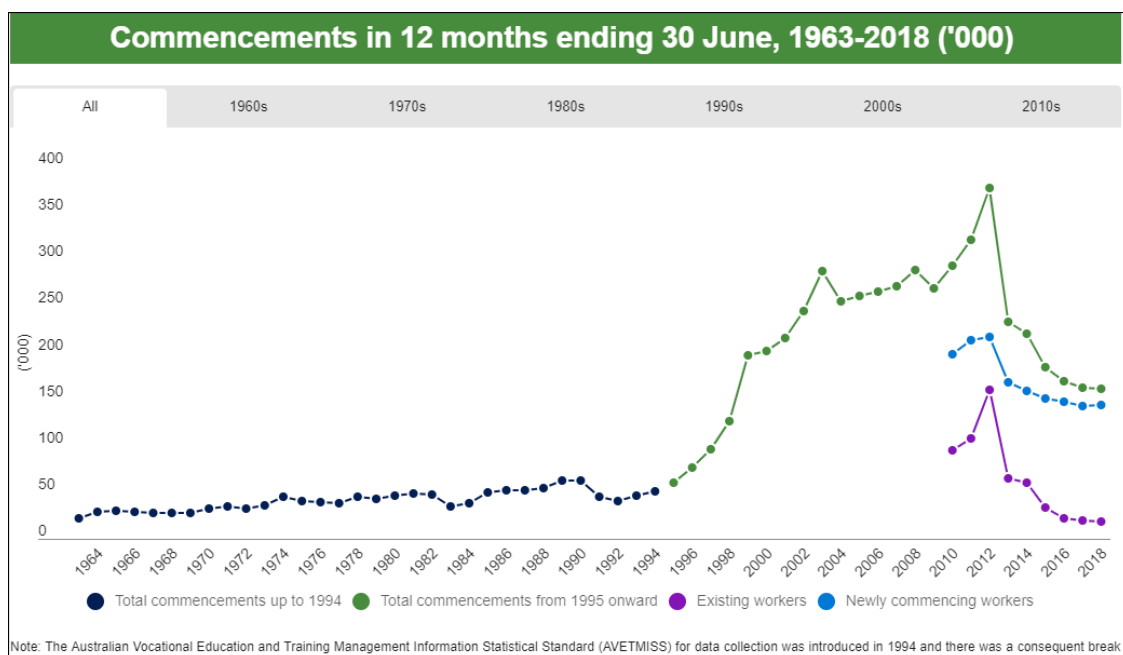
## 2. UNEMPLOYMENT & UNDEREMPLOYMENT

Australia's unemployment rate has declined significantly year-on-year between January 2018 and January 2019, representing a fall from 5.5% to 5.0%<sup>5</sup>. However, with respect to the retail industry, over two-thirds 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 8.3% in January 2019, decreasing from 9.6% in January 2018. Underemployment is especially high in South Australia, Queensland and Tasmania with rates all above 10% in January 2019. In particular the female underemployment rate in those states, and in Western Australia, is above 12%.

Retail is a key employer for Australia's youth, low-skilled workers, and is 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)<sup>6</sup>



<sup>4</sup> ABS, Cat. No. 6345.0 – *Wage Price Index*, December 2018.

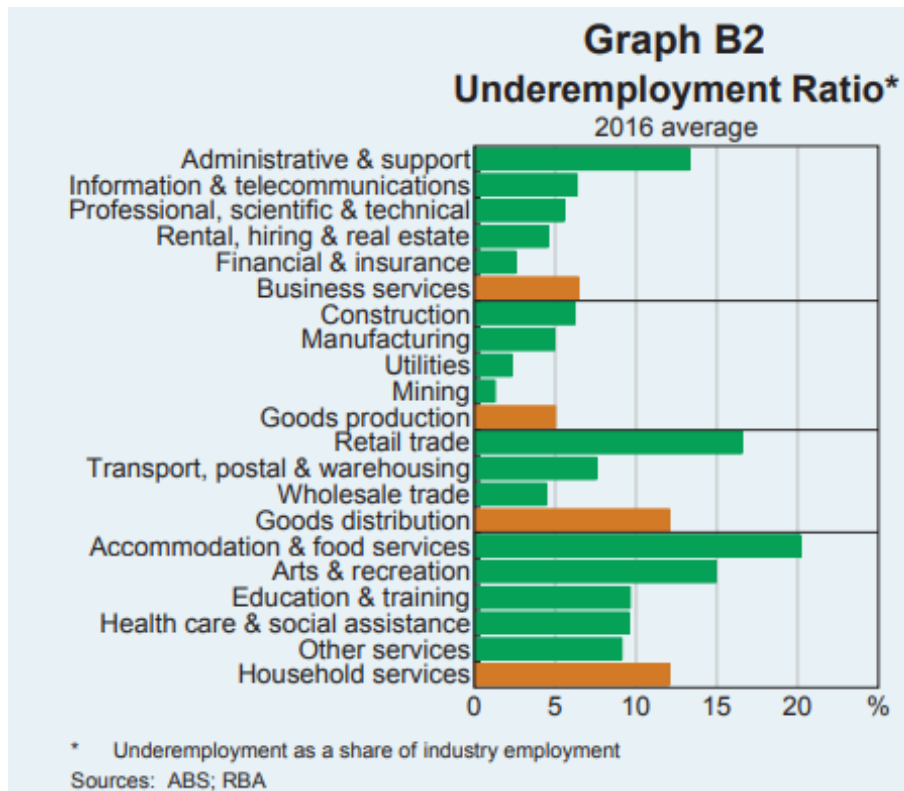
<sup>5</sup> ABS, Cat. No. 6202.0 – *Labour Force, Australia*, January 2019.

<sup>6</sup> NCVET – *Historical time series of apprenticeships and traineeships in Australia*, December 2018





Apprenticeship commencement figures for the June 2017 quarter show that combined trade and non-trade commencements are down 21% compared to June 2014. In 2018 there was the lowest number of apprenticeship commencements since 1998 and the lowest number of completions since 2001. 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 the second highest at approximately 17%<sup>7</sup>, reflecting weakening conditions for the sector.



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As such, the ARA is in full agreement with ACCI's proposed 1.8% increase in the NMW, which seeks to minimise employment losses and underemployment in a mixed labour market

### 3. RETAIL INDUSTRY BUSINESS CONDITIONS

The 2018/19AWR 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 business viability are rising tenancy costs, wage bill increases, and increased competition.

The ARA disagree with assessments that the Panel's historic NMW increases have been overly cautious, and the argument that large increases in the NMW do not have adverse effects on employment. In an increasingly competitive business environment, every cost

<sup>7</sup> ABS, Cat. No. 6202.0 – *Labour Force, Australia*, January 2019.

<sup>8</sup> Underemployment as a share of industry employment Sources: ABS; RBA Feb 2017.



increase has a material impact. The past 12-month period has seen a number 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.

Table 1: Retail Brand Collapses and Closures since 2016

Year	Retailer	Result	Stores
2016	Dick Smith	Liquidation	331
2016	Pumpkin Patch	Liquidation	84
2016	Payless Shoes	Liquidation	132
2017	Herringbone, Rhodes & Beckett	Administration (business sold)	29
2017	Specialty Fashion Group	Store closures	1000
2017	Oroton	Administration (business sold)	62
2018	Maggie T	Store closures	28
2018	Diana Ferrari	Store closures(moved online)	17
2018	Toys R Us		44
2018	Retail Food Group	Store closures	1545
2018	Roger David	Liquidation	57
2019	Napoleon Perdis	Administration	56
2019	Ed Harry	Liquidation	87
2019	Build-a-Bear	Administration	10

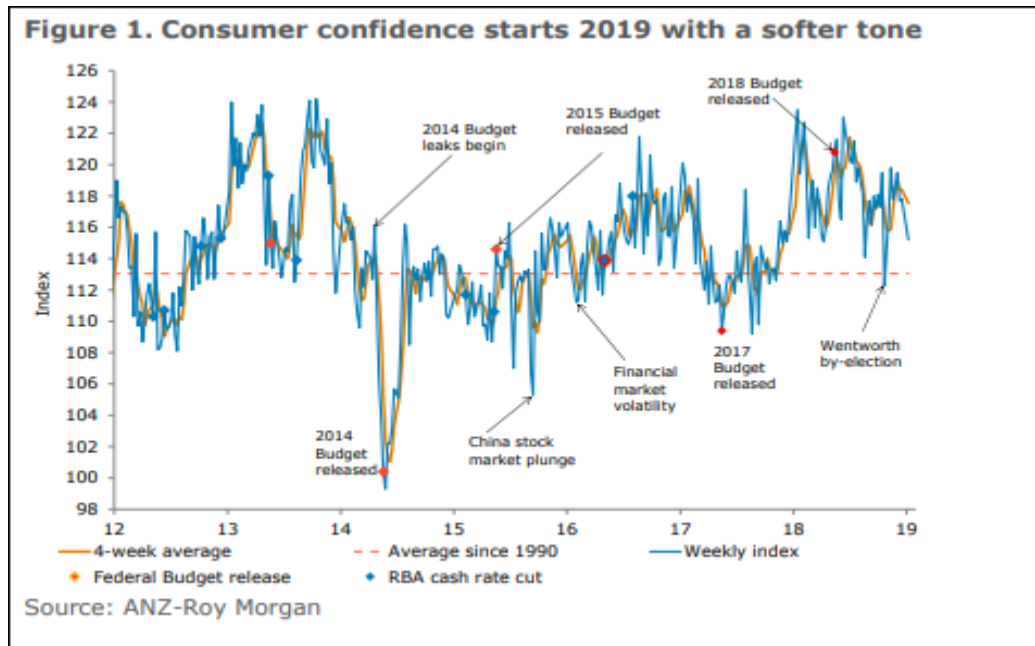
Retail trade viability in 2019 is directly related to the Panel's AWR considerations. The AWR impacts on the capacity for an award-reliant industry to pay employees more, hire more workers and provide part-time and casual employees with more hours. A sharp increase in the NMW will see more store closures 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 as evidenced in Roy Morgan's regular

consumer confidence readings. The results of these readings continue to show weak sentiment. 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, consumers are more likely to reduce spending to 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.



Roy Morgan *Australian Consumer Confidence*, February 2018.

## Retail Trade and CPI Inflation

The Consumer Price Index (CPI) in the December quarter 2018 rose by 0.5%, following a rise of 0.4% 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 (9.4% {largely due to excise}), fruit (5%) and furniture (1.8%). 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, as well as tightening consumer spending due to the negative wealth-effect of the housing market decline.

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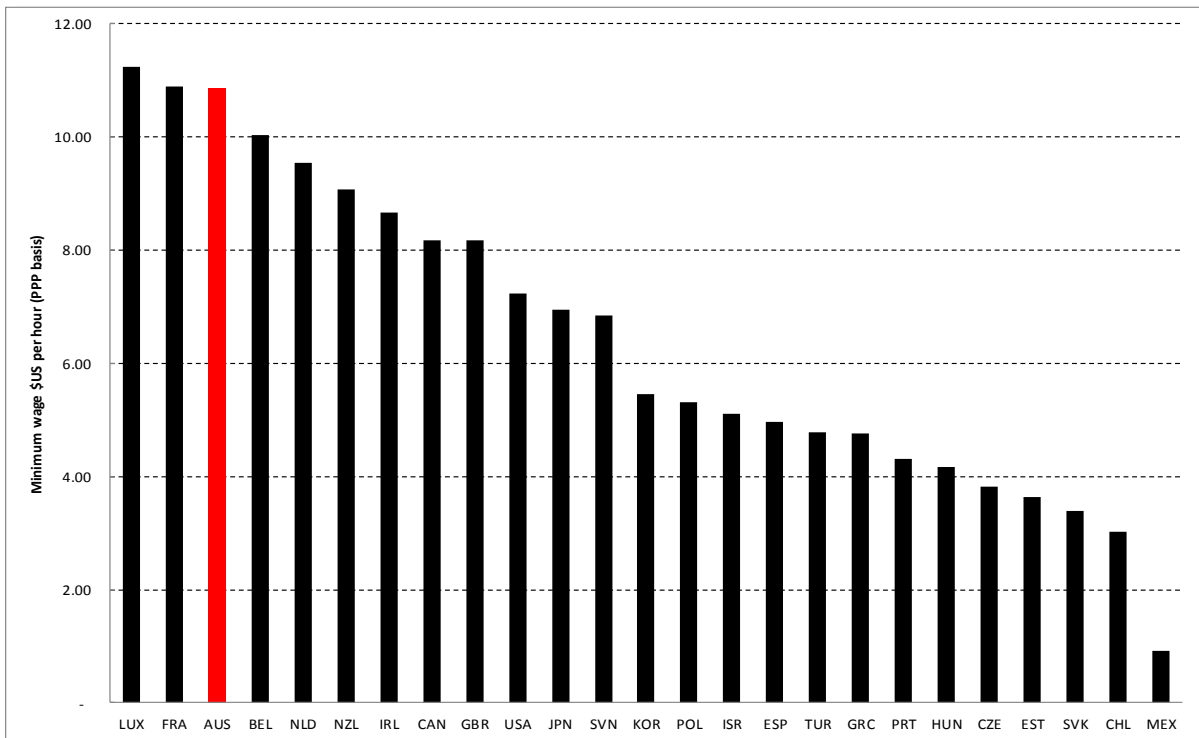
The Panel can assist the retail industry in growing - rather than shrinking - employment through a sustainable increase in the NMW, in-line with CPI at 1.8%.

## 4. 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.

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.

<sup>9</sup> ABS, Cat. No. 8501.0 – Retail Trade, January 2018.



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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.

## 5. ARA MEMBERSHIP POLL FEBRUARY TO MARCH 2019

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

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<sup>10</sup> OECD Statistics database.





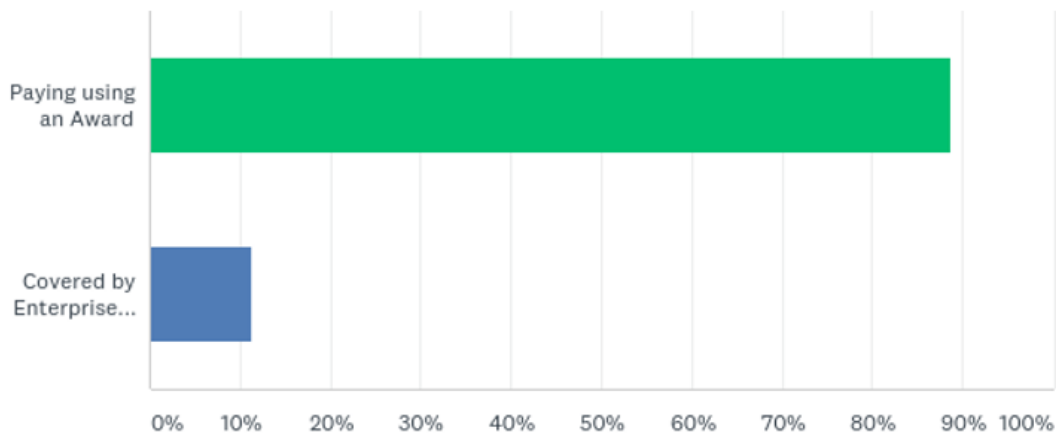
The survey questions were formed to consider the Panel's NMW consideration along with economic data and the impacts of taxation increases, consumer spending, superannuation and business costs.

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.

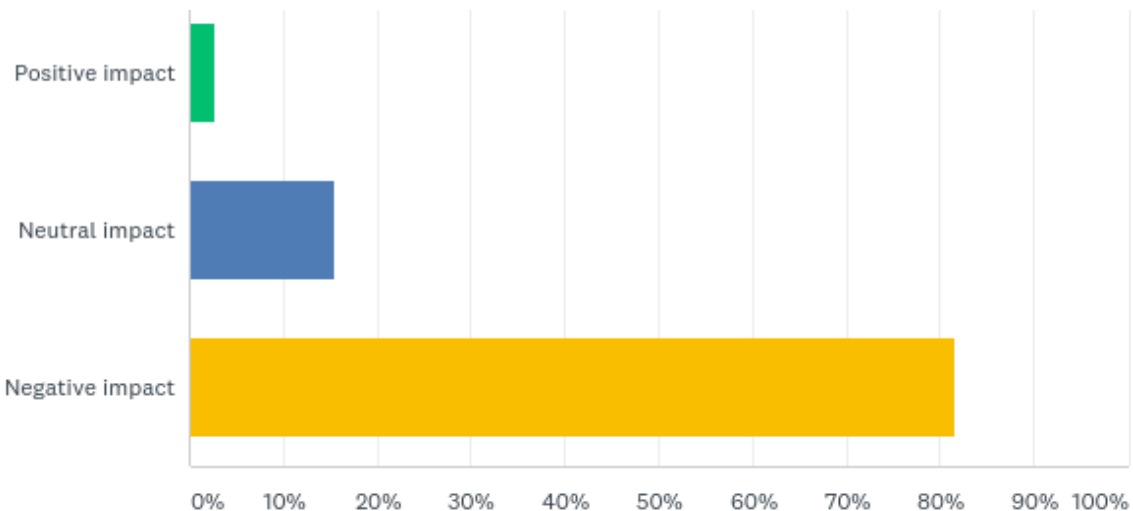
## Poll Questions and Responses

### 1. Are you using approved Enterprise Bargaining Agreement or paying using an award



*88.73% are using an award, with only 11.27% covered by an enterprise agreement.*

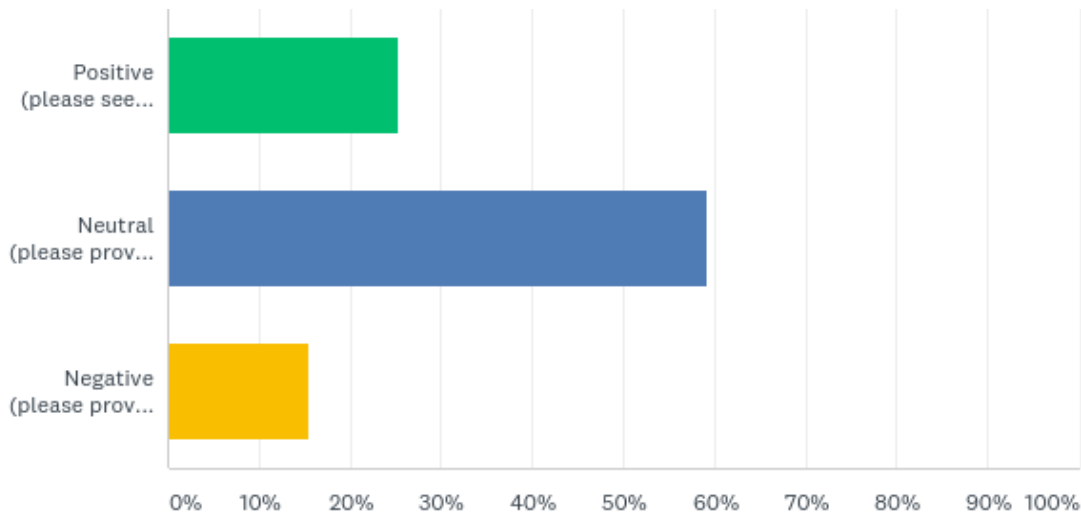
### 2. Describe the impact on employment and labour costs in your business from last year's 3.5% minimum wage increase by the Fair Work Commission



*2.82% stated that it had a positive impact, 15.49% a neutral impact and a staggering 81.69% stated that it had a negative impact on their business.*

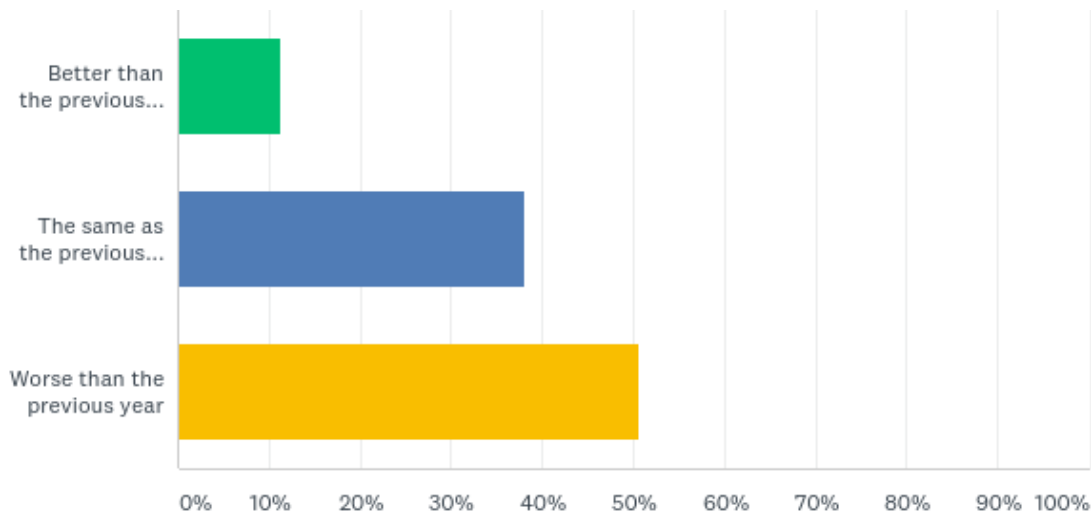


### 3. What impact has the Fair Work Commission's reduction of Sunday Penalty Rates had on your business over the last two years?



Sunday Penalty rates showed 25.35% believed that the reduction in rates had a positive impact, 59.15% a neutral impact and 15.49 a negative impact. The ARA believes that the very high increase in the minimum wage over the last two years has offset any benefit of Sunday Penalty Rates.

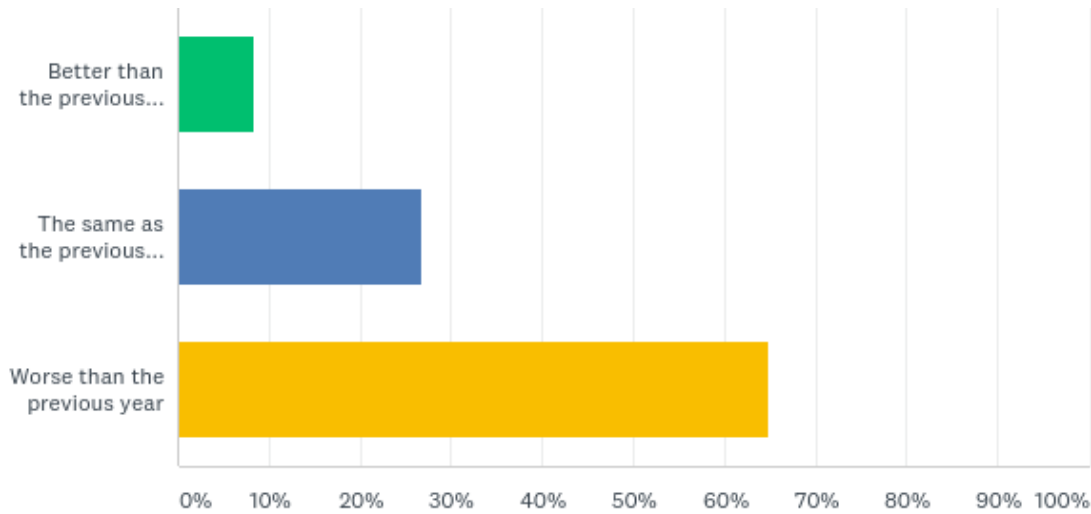
### 4. Describe the Christmas/post-Christmas retail sales season you have just experienced



Only 11.27% of retailers experienced a better Christmas than last year, 38.03% thought that Christmas trade was the same as 2017, however 50.70% said that Christmas trade was worst than last year.

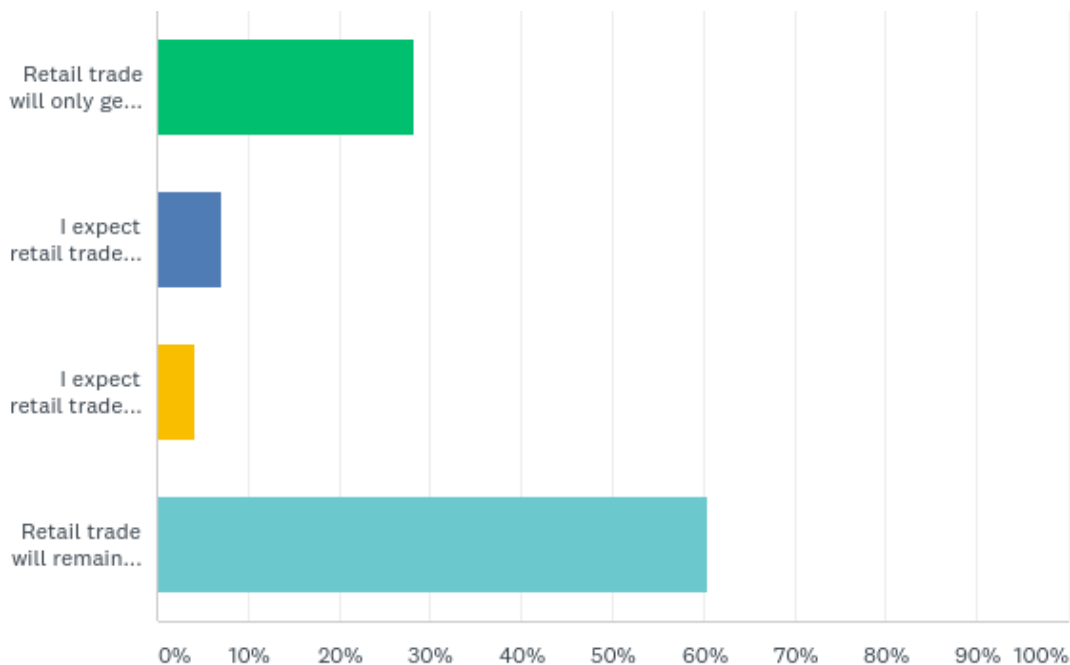


### 5. Describe the past seven months' trade (from July 2018) you have recently experienced



8.45% of retailers surveyed stated that the last 7 months trade was better than last year, 26.76% stated that it had been the same with 64.79 stating that the last 7 months trade was worse than the previous year.

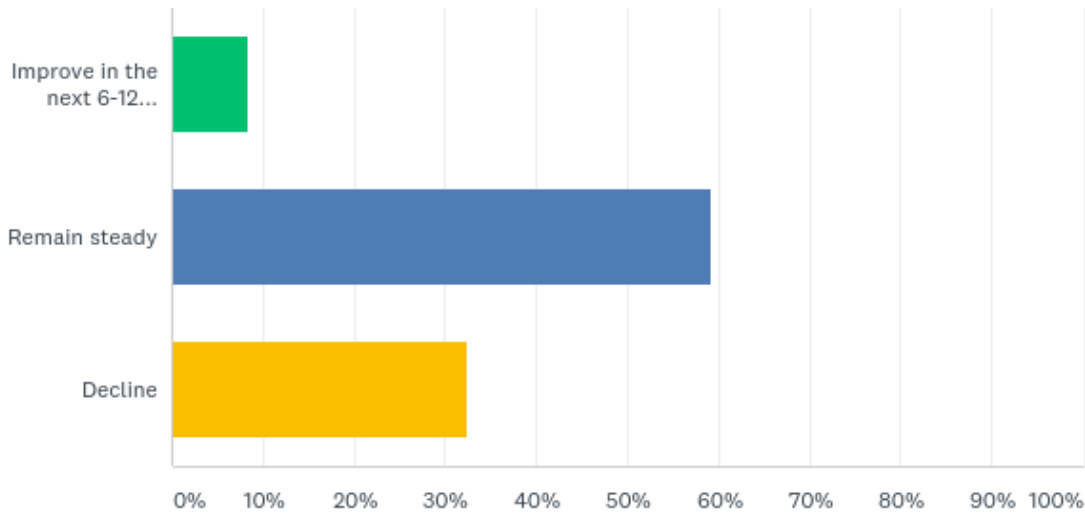
### 6. When looking forward, what do you expect for your business' retail trade in 2019/20



28.17% stated that retail trade will get worse in 2019/20, 7.04% stated that retail trade will recover in the coming months, 4.23% they expected retail trade to recover mid-year, whilst 60.56% stated that retail trade will remain stagnant throughout 2019/20.

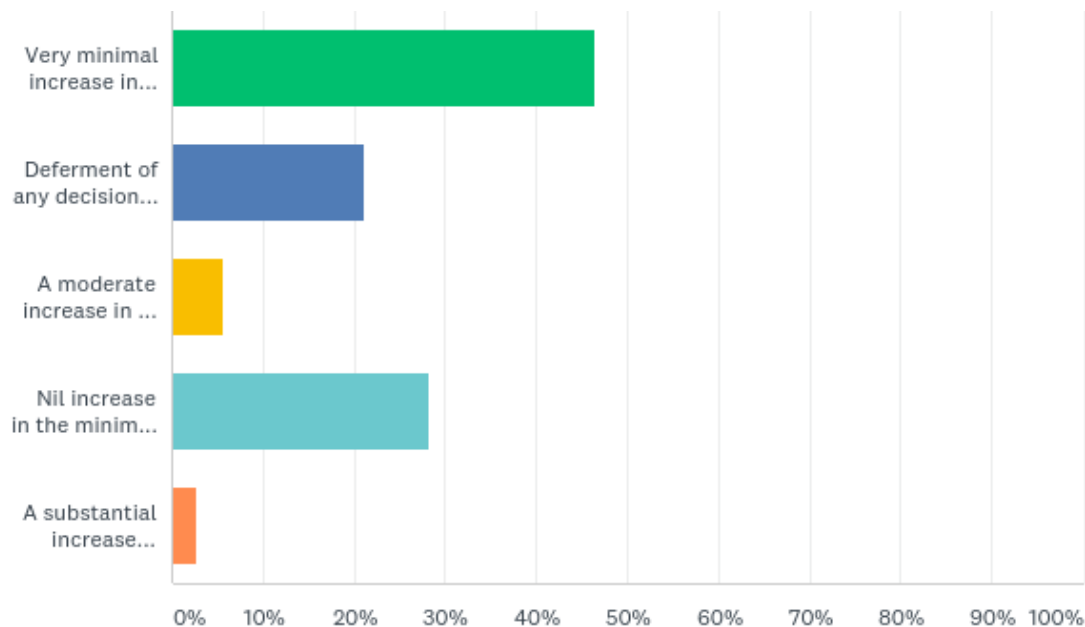


## 7. Your business confidence levels are expected to



8.45% thought that business confidence levels might improve in the next 6 to 12 months, remain steady 59.15% and 32.39% thought that business confidence levels would decline.

## 8. I recommend the ARA's 2019/20 submission to the Fair Work Commission should call for



46.48% call for a very minimal increase in wages to be in line with the CPI, deferment of any decision to increase wages 21.13%, Nil increase 28.17% and a substantial increase above the CPI a total of 2.82%





**9. Please use the scale below to indicate your business concerns for 2019/2020**

	VERY CONCERNED	CONCERNED	NOT AT ALL CONCERNED
Rising rental and tenancy costs	55.71%	22.86%	21.43%
Managing wage bill increases	53.52%	40.85%	5.63%
Energy costs	49.30%	38.03%	12.68%
Competition from Australian online retailers	50.00%	25.00%	25.00%
Consumer demand	47.14%	34.29%	18.57%
Maintaining staff hours	45.71%	35.71%	18.57%
Keeping business afloat	45.07%	25.35%	29.58%
Economic fluctuations	44.29%	45.71%	10.00%
Holding on to current staff	35.21%	40.85%	23.94%
Employing new staff	34.33%	29.85%	35.82%
Understanding industrial relations laws	33.33%	43.48%	23.19%
Updating business practices to comply with new industrial relations laws	29.41%	51.47%	19.12%
Investing in business technology and software	21.74%	44.93%	33.33%
The cost of accepting credit cards	21.74%	40.58%	37.68%
Investing in business equipment	20.29%	34.78%	44.93%
Keeping up with trends in e-commerce	18.84%	50.72%	30.43%
Establishing or growing a multi-channel offering (a combination of physical stores, online and mobile)	19.12%	29.41%	51.47%
The cost of 'buy-now, pay-later' schemes (e.g. Afterpay, ZipPay, etc.)	15.94%	30.43%	53.62%
Training and education opportunities for my employees	8.57%	41.43%	50.00%



## SUMMARY

What can be seen from the information in the questions above is that retailers have many challenges and their concerns over increased costs are at the forefront of their minds.

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 contribute to further job losses already 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 1.8% percent increase in the NMW (translating to an increase of \$12.95 per week, or \$732.15 per 38-hour week).**

The ARA and our members are grateful for the opportunity to assist the Panel in its consideration of the 2018-9 AWR. For further information or comment, please contact Russell Zimmerman, the ARA's Executive Director by email at [Russell.Zimmerman@retail.org.au](mailto:Russell.Zimmerman@retail.org.au).

Yours sincerely,



**Russell Zimmerman**

Executive Director  
Australian Retailers Association