



Australian National Retailers Association

**Post-Budget Submission to
the Fair Pay Commission
Minimum Wage Review 2009**

June 2009

Australian National Retailers Association
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EXECUTIVE SUMMARY

The Australian National Retailers Association (ANRA) urges the Fair Pay Commission to avoid adding to employment costs during a recession.

Protecting employment must be the priority for the 2009 Minimum Wage decision. An increase in real wages in 2009-10 would have a disastrous impact on job security and job creation, affecting thousands of Australians.

Economic conditions have deteriorated sharply since October 2008. With the economy forecast to enter a recession in 2009-10, unemployment is predicted to reach 8.5 per cent unemployment in 2010.

The retail sector has already been hard hit by job losses, with 60,600 full-time jobs lost during 2008. Further job losses are likely if retail turnover contracts in 2009-10.

With higher penalty rates and higher casual loadings to take effect from January 2010, employers already face rising costs due to award modernisation.

In light of these conditions, an increase in the federal minimum wage would exacerbate the pressure on employers seeking to retain staff at a time of stagnant or falling sales.

On a more positive note, low and middle income households are benefiting from falling inflation, new transfer payments and tax relief. More than \$20 billion in new payments have been allocated as part of the Government's two stimulus packages. Eligible families and individuals will receive far more from these payments than from any conceivable increase in the minimum wage.

As in the 1980s, it would be appropriate to see these payments as part of the 'social wage', reducing the onus on private employers to raise wages to maintain real living standards. The minimum wage is simply one part of a broad safety net: decisions on the value of the minimum wage should reflect the other elements of that safety net.

ANRA recommends that the Fair Pay Commission announce a \$5 increase in the minimum wage. In other circumstances, a partially indexed wage increase would mean falling real wages. However, the combination of higher transfer payments and tax relief in 2009-10 will, in most cases, more than offset this effect.

INTRODUCTION

The Australian National Retailers Association (ANRA) represents the leading national retailers in Australia, across a broad range of retail products and services. Members of the Association include Australia's most trusted household names in supermarket chains, department stores and speciality retailers.

ANRA members are:

Woolworths	McDonalds	Bunnings Group
Coles Group	Just Group	Best + Less
Franklins	David Jones	Angus and Robertson
Borders	Luxottica Australia	Harvey Norman

In 2007 ANRA members employed about 450,000 Australians.

ANRA was formed in 2006 to ensure that governments, and the community, understand the contribution retailing makes to the national economy. The retail sector touches the lives of all Australians every day. An efficient, competitive retail sector generates tremendous consumer and economic benefits. ANRA seeks to ensure that public policy makers understand the retail sector and support policies which enhance the capacity of the sector to meet consumer needs.

The Australian National Retailers Association (ANRA) appreciates the opportunity to advise the Commission on the state of employment in the retail sector.

AUSTRALIA IN 2009

ANRA believes that the 2009 Minimum Wage Review needs to reflect the severe deterioration in the economy which has occurred since October 2008.

A contracting economy

The Australian economy is forecast to tip into a recession later this year. Economic growth in the current financial year has been feeble, with changes in the national accounts of 0.2 per cent (September quarter), - 0.1 per cent (December quarter) and 0.4 per cent (March quarter) recorded.

The Treasury's Budget forecasts are for no growth in 2008-09 and - 0.5 per cent growth in 2009-10.

With consumers concerned about job security and battered by substantial losses in household wealth, expansionary fiscal and monetary policy is having only a limited effect. Lower interest rates and two large government stimulus packages have boosted demand but have not, yet, re-ignited consumer spending. The priority for many consumers is to reduce household debt: the household saving ratio more than doubled in the last six months of 2008 to reach its highest level since the last recession.¹

1. ABS Australian National Accounts (Cat No 5206), December 2008, p.10.

Rising unemployment

As the Commission itself has noted in its latest monitoring report, 2008 saw the lowest rate of employment growth in four years. Unemployment is now rising, with the unemployment rate rising from 4.2 per cent in April 2008 to 5.4 per cent in April 2009. In just twelve months, 114,000 more Australians have become unemployed. Most of this rise in unemployment (100,000) has occurred since December 2008.

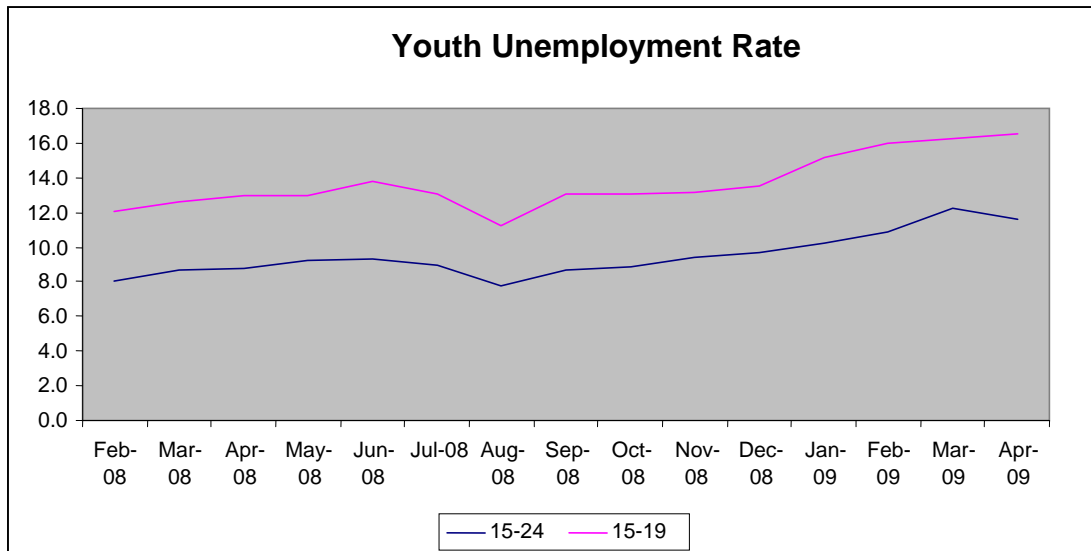
As the table below indicates, unemployment is rising quickly, from different bases, in all States. The shift is most evident in New South Wales where 56,500 people have become unemployed in the last twelve months. New South Wales accounts for 31 per cent of national employment and 35.5 per cent of national unemployment.²



The rate of youth unemployment is rising, with 16.5 per cent of people aged 15 to 19 unemployed in April 2009 (the corresponding rate in April 2008 was 13 per cent). The rate for people aged 15 to 24 has increased to 11.6 per cent in April 2009. The unemployment rate for the youngest age group is at its highest level since November 2002: the rate for the broader 15 to 24 group is at its highest level since August 2004.³

2. ABS Labour Force Australia (Cat No 6202.0), April 2009, tables 2 and 4.

3. ABS Labour Force Australia (Cat No 6202.0), April 2009, tables 14 and 17.



Cost of living pressures easing

Inflation is now subsiding. The consumer price index fell by 0.3 per cent in the December quarter 2008, after a rise of 1.2 per cent in the previous quarter. This drop is the largest quarterly fall in inflation since September quarter 1997 and dragged inflation back from an annual rate of 5 per cent to 3.7 per cent. While inflation rose slightly (0.1 per cent) in the March 2009 quarter, the annual rate fell back to just 2.5 per cent.

The Budget forecasts predict that inflation will be 1.75 per cent in 2008-09 and in 2009-10.

Most Australian households will benefit from a surge of government payments since December. The first stimulus package provided \$8.7 billion in individual and family payments; the second package offers another \$12.1 billion in direct payments.

In addition, changes to income tax, the childcare tax rebate and the Low Income Tax Offset are boosting disposable incomes. Since 2007, for example, the threshold for the 15 per cent tax rate has been raised from \$30,001 to \$35,001 (from 1 July 2009). Changes to the Low Income Tax Offset are of more direct benefit to people employed under the minimum wage. The Low Income Tax Offset is being raised progressively to ensure that by 1 July 2010 low income taxpayers will enjoy an effective \$20,000 tax free threshold.

As in the 1980s, it would be appropriate to see these payments as part of the 'social wage', reducing the onus on private employers to raise wages to maintain living standards.

PRIORITIES FOR 2009

ANRA recognises that the Commission is required to consider four key issues when setting the federal minimum wage:

- the capacity for the unemployed and low paid to obtain and remain in employment;
- employment and competitiveness across the economy;
- providing a safety net for the low paid; and

- providing minimum wages for junior employees, and employees to whom training arrangements apply and employees with disabilities that ensure those employees are competitive in the labour market.

In light of the general economic conditions sketched above, ANRA believes that this year the Commission must give priority to protecting employment. Federal Government policy is, rightly, focused on preventing job losses. The 2009 Minimum Wage Review should support this objective.

While the link between higher minimum wages and higher unemployment is sometimes disputed, research for the Commission indicates that a 10 per cent increase in average wages reduces employment by about 8 per cent.⁴ A leading analysis has concluded that “the oft-stated assertion that recent research fails to support the traditional view that the minimum wage reduces the employment of low-wage workers is clearly incorrect”. The same review found that⁵

First, we see very few – if any – studies that provide convincing evidence of positive employment effects of minimum wages, especially from those studies that focus on the broader groups (rather than a narrow industry) for which the competitive model predicts disemployment effects. Second, the studies that focus on the least-skilled groups provide relatively overwhelming evidence of stronger disemployment effects for these groups.

Employers facing falling or stagnant turnover can not afford rising business costs. In labour intensive sectors such as retail, labour costs are a major proportion of the costs of doing business and, inevitably, must be reviewed when conditions deteriorate.

There is also a strong social argument for a cautious approach to raising labour costs during a recession. The long-term social and economic consequences of unemployment, for individuals and households, are well understood. Unemployment is devastating to individuals and households. The problem is most acute for people suffering from long-term unemployment. The long-term unemployed lose attachment to the workforce; as a general rule, the longer the period of unemployment, the more difficult it is for individuals to return to work.

Australia’s experience since the last recession shows how difficult it is to reduce unemployment even with strong, sustained jobs growth. A short-term rise in unemployment persists well after the economy begins to recover.

The evidence for hysteresis in the Australian labour market is clear. Since December 1991, 3,081,200 jobs have been created but unemployment has fallen by only 331,200. A 40 per cent rise in employment has produced no more than a 39 per cent fall in unemployment.⁶ In effect, nine jobs have had to be created to reduce unemployment by one person.

Eventually, many years of strong jobs growth will reduce the number of unemployed people, including long-term unemployed. But this process is slow. Over the last five years of rapid

4. P Lewis *Minimum Wages and Employment*, Research Report No 1/06, p.8

5. David Neumark and William Wascher *Minimum Wages and Employment*, Bonn, Institute for Study of Labor, 2007, p.i.

6. ABS *Labour Force Australia Spreadsheets (Cat No 6202.0.55.001)*, January 2009, table 02.

economic growth, the number of long-term unemployed fell by only 48,000 while the total workforce grew by 1,112,500.⁷

The Commission will be well aware of the general weakness of the labour market in 2008-09. ANRA would draw the attention of the Commission to the situation in the retail sector.

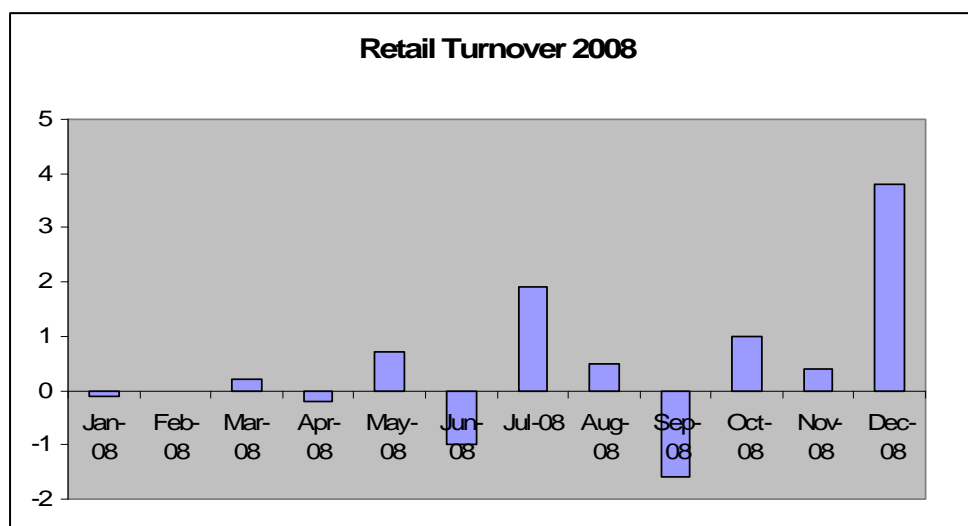
THE RETAIL SECTOR IN 2009

The retail sector is the largest single employer in Australia, providing about 1.5 million jobs which is equivalent to 15 per cent of the national workforce.

The sector makes a vital contribution to greater labour force participation by young people and older people re-entering the workforce. About half of all employees aged 15 to 19 and one in five of employees aged 20 to 24 work in retail. Retail is the second largest employer of women.

The retail sector has been the first industry to be hit by the economic slowdown, with turnover and employment falling sharply in 2008. Its tentative “recovery” in 2009 has been propelled by unprecedented cuts to interest rates and unprecedented cash handouts to consumers. The stimulus imparted by cash handouts will peter out by mid-2009.

Retail has been battered by the worst business conditions since 2000. In real terms, retail sales grew by just 0.6 per cent in 2008. As the table below shows, sales in 2008 were volatile. Disaggregating turnover into sales by segment reveals that all segments of the sector, even food retailing, suffered significant fluctuations in turnover. Food retailing recorded month to month falls in trade on five occasions in 2008. Segments reliant on discretionary spending, such as department stores, household good retailing and clothing and softgoods, saw even softer sales.



During December 2008 and January 2009, retail turnover recovered to some degree, spurred by the cumulative effect of interest rate cuts and the Government’s first fiscal stimulus package.

7. ABS Australian Labour Market Statistics (Cat No 6105.0), January 2009, table 3.2

Retail turnover rose 3.8 per cent in December 2008, the largest monthly rise since 2000. Sales momentum was maintained in January, with a 0.5 per cent increase recorded. Access Economics estimates that the stimulus package led to an additional \$1.3 billion in retail spending over these two months.

While the boost of the first stimulus package fell away in February (retail turnover fell 2 per cent that month), the Government's second stimulus package saw retail sales revive strongly in March (an increase of 2.2 per cent) and April (an increase of 0.3 per cent). Altogether, Access Economics estimates that the two government stimulus packages led to an extra \$2.8 billion in retail activity from November 2008 to March 2009.

Nevertheless, taking into account both stimulus packages, Access Economics predicts that conditions in the sector will scarcely improve for at least the next eighteen months. Access Economics forecasts growth in real terms of just 1.3 per cent in 2008-09, a fall of 0.3 per cent in 2009-10 and a negligible increase of 0.1 per cent in 2010-11.

The weak state of retail sales in 2008 had an immediate impact on employment. In the twelve months to November 2008, the retail sector suffered significant job losses: a net loss of 45,000 jobs across Australia. These job losses occurred while the economy was still growing and more than 156,000 new jobs were created.

As turnover lifted in December and January, employment in the retail sector recovered slightly. By February 2009, employment had improved, with net job losses in the retail sector over twelve months shrinking to 14,300.⁸ However, this reassuring picture begins to fray on closer analysis.

The net national loss of 14,300 jobs in the sector in the last twelve months obscures the scale of full-time job losses and job losses in particular States and market segments.

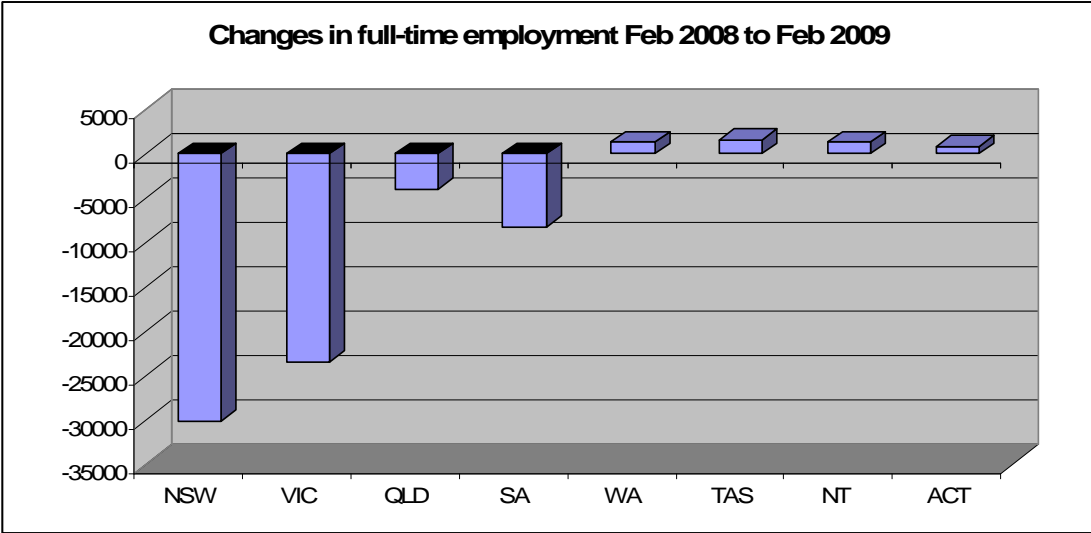
Continued growth in food retailing and in the West Australian market have partly offset deep falls in other market segments and in the eastern States. Employment in food retailing rose by 32,000 while 83,000 jobs were lost in household and personal goods retailing.



8. ABS Labour Force, Australia, Detailed, Quarterly, February 2009.

The creation of 21,500 jobs in Western Australia has not negated the loss of 43,400 jobs in New South Wales (17,200 jobs lost), Victoria (10,900 jobs), Queensland (3,700 jobs) and South Australia (11,600 jobs).

Disaggregating these statistics further reveals a significant shift away from full-time employment. The loss of full-time jobs has been largely obscured by a spike in part-time employment. In the twelve months to February 2009, 60,600 full-time jobs disappeared in the retail sector, with 46,300 new part-time jobs created.



AWARD MODERNISATION

Employment in the retail sector is strongly based on industry awards. With 29 per cent of the workforce engaged under awards, retail has one of the highest concentrations of pay scale reliant employees. Changes to the federal minimum wage therefore have a direct impact on the pay scales of hundreds of thousands of retail employees. Minimum wage decisions also have an indirect impact on other retail employees by raising the benchmarks for enterprise negotiations.

ANRA has already noted that retail jobs are under pressure due to poor retail sales, with many jobs already lost. Adding to this pressure are the higher business costs which will flow from the Government’s award modernisation process. The Australian Industrial Relations Commission has produced two “modern” retail and fast food awards which will take effect from 1 January 2010.

Under the new general retail award, and even more so under the new fast food award, many employers will face higher penalty rates and higher casual loadings. About 40 per cent of the retail workforce will be affected by the changes to week-end penalty rates. Sunday penalty rates for retail workers in New South Wales, for example, will rise overnight from 150 per cent loading to 200 per cent. Casual loadings will rise in nearly all jurisdictions, with the higher penalty rates applying to a higher base loading.

The tables below indicate major new costs arising from the shift to the modern retail award.

Penalty rates

Jurisdiction	Late night	Saturday	Sunday
"Modern" retail award	\$19.74	\$19.74	\$31.58
New South Wales	\$19.80	\$19.80	\$23.76
Queensland exempt & independent retailers	\$19.83	\$19.83	\$23.79
South Australia	\$20.66	\$16.53	\$26.45
Tasmania	\$15.85	\$15.85	\$31.70
ACT	\$19.80	\$18 - \$21.70	\$23.76

Casual loading

Jurisdiction	Late night	Saturday	Sunday
"Modern" retail award	\$23.68	\$23.68	\$35.53
New South Wales	\$19.74	\$19.74	\$28.84
Queensland exempt & independent retailers	\$19.51	\$19.51	\$23.79
South Australia	\$19.84	\$24.80	\$33.73
Tasmania	\$19.02	\$19.02	\$34.87
ACT	\$18.22	\$24.22	\$27.32

One retailer has indicated that applying the modern award would cost \$12.4 million a year, due primarily to higher Sunday penalty rates (\$6.1 million) and higher casual loadings (\$4.3 million).

ANRA estimates that the higher Sunday penalty rates will lead to an immediate increase in annual wage costs of more than \$100 million, equivalent to the salaries of 2,100 full-time retail jobs or 3,300 retail jobs. This calculation only examines the impact on award employees: it does not make any estimate for the likely flow-on costs to staff engaged under other industrial instruments.

As 24 per cent of retail employees receive casual loadings, higher loadings will have a direct impact on employers.⁹ ANRA estimates that 221,000 retail employees will be entitled to higher casual loadings. Outside Victoria, the average increase in casual loading loadings would be 13.4 per cent.

The modern awards to be introduced on 1 January 2010 will reinforce the importance of the award system in setting terms and conditions in the sector. Changes to the award safety net inevitably raise the benchmarks for enterprise negotiations. Enterprise negotiations now underway have a new starting point – the modern retail and fast food awards.

Changes such as higher penalty rates for Sunday and higher casual loadings are being taken by the relevant union as the new community standard for new enterprise agreements. The national secretary of the Shop, Distributive and Allied Employees' Association has admitted that changes made by the modern retail award will flow through to union claims in enterprising bargaining in 2008.¹⁰

9. ABS *Australian Labour Market Statistics (Cat No 6105.0)*, October 2008, p.24.

10. "Award revamp 'could cost jobs' " *Australian Financial Review*, 17th December 2008, p.3.

The interaction of the new awards and the new Better Off Overall Test will put upward pressure on wage levels. It seems likely that the Better Off Overall Test will be a more restrictive test for new enterprise agreements, applying to (undefined) classes of employees rather than the workforce as a whole. Employers are concerned that the new approach to the fairness test will create greater uncertainty, with the risk that enterprise agreements negotiated by employers and unions could be overturned at a late stage in the process.

RECOMMENDATION

For all the broad economic reasons noted above – significant job losses in the retail sector, stagnant retail spending, the onset of what may prove to be a protracted recession, lower inflation, rising employment costs due to award modernisation – the Australian National Retailers Association urges the Commission to set at most a very conservative increase to the federal minimum wage.

In normal circumstances, the prudent course for the Commission would be to set an increase in the minimum wage commensurate with forecast low inflation. Such an increase would amount to about \$11 a week.

However, in the deteriorating conditions of 2009, full wage indexation would place employment under acute pressure. With 2009-10 likely to be the trough of the recession, ANRA would suggest that the Commission should pare back the 2009 wage increase to \$5.

A smaller increase can be justified in light of the changes made in 2008 and 2009 to income tax and benefits policy as well as the cash handouts paid to individuals and households through the Government's two economic stimulus packages. The combination of higher transfer payments and tax relief in 2009-10 will more than offset the smaller increase in the federal minimum wage. A person employed under the minimum wage would receive \$260 less over twelve months from the proposed \$5 increase than the full \$11 increase. At the same time, this person would have received at least \$900 from the Government's second stimulus package and, in many if not most cases, further significant new payments such as the return to school bonus.