



Australian National Retailers Association

**Submission to
Fair Work Australia**

**Minimum Wage Review 2010
March 2010**

Australian National Retailers Association
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EXECUTIVE SUMMARY

ANRA recommends that the Federal Minimum Wage is increased by \$10 per week and that for the retail sector this increase does not come into effect until October 1, 2010. This recommendation is underpinned by exceptional circumstances currently confronting the retail sector and comprising two key factors; the persistent challenging outlook for the retail sector and the impact of the new modern awards system on wage rates from July 1, 2010.

The Federal Government's stimulus package, released in early 2009, kept the retail sector relatively buoyant in the first half of last year. But during the second half of the year the impact of the cash payments disappeared, interest rates started to increase and retail spending growth slowed. The Reserve Bank of Australia has indicated that it intends to move the official cash rate up towards more 'normal' levels. This implies more interest rate rises during 2010. These rising interest rates, combined with a tightening in fiscal policy as the Federal Government focuses on repaying debt, and a reluctance by households to add to borrowings, all point to a challenging year for retailers in 2010.

ANRA is also urging Fair Work Australia to consider the impact of the introduction of new wage rates around the modern award system. For many retail employees, especially casuals and those who work on Sundays, there is already a legislated wage increase that will begin on July 1 2010, by virtue of the award modernisation process. The new modern award system will add considerable costs to retailers. ANRA estimates that even allowing for transitional arrangements, changes to Sunday penalty rates on permanent employees alone will cost the sector around \$19 million on July 1.

Consequently, we are urging Fair Work Australia to delay the introduction of the new Federal Minimum Wage until October 1 2010. This delay will minimise the potential double-hit on employers of a rise in the minimum wage and the impact of the introduction of the new modern awards wage rates.

A delay in the start date would also allow employers sufficient time to deal with the administrative and implementation issues around any increase in the Federal Minimum Wage.



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 Ltd *	McDonalds	Bunnings Group
Coles Group	Just Group	Best + Less
Franklins	David Jones	RedGroup Retail
Reece	Luxottica Australia	Harvey Norman
Spotlight	Forty Winks	Supercheap Auto Group
CostCo		

* incorporating Supermarkets, Big W, Dick Smith

ANRA members employ over 450,000 Australians, which represents almost 1 in 20 Australian employees.

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 Fair Work Australia on the state of the retail sector.

RETAIL SECTOR: Current Conditions and Outlook

General economic conditions

The global economy experienced a major slowdown in 2009, when the world economy contracted by 0.8%, from 3.0% in 2008¹.

Australia was not immune to this slowing in growth, but performed better than most other major economies and better than expected by most economic forecasters. Australian growth slowed from 3.6% in 2007/08 to 1.0% in 2008/09 and is expected to grow 1½ per cent in 2009-10². This was a stronger performance than initial Treasury forecasts of 0% growth for 2008/09 and a 0.5% contraction in 2009/10, as detailed in the May 2009 Budget papers.

More recently broad economic data has been generally more positive, implying the Australian economy has started on the path to recovery.

However, this recovery is a two-speed one. Commodity-based industries are being supported by a return to strong export demand, especially from China. Similarly, the construction industry is being underpinned by continuing government support and population pressures. In contrast, retail spending growth remains below trend amid reduced government stimulus and rising interest rates.

There are also considerable risks around the sustainability of the recovery; in particular threats from the world economy remain. This is most evident in the shaky recoveries of the US and UK economies and the continuing challenges in Europe, such as Greece. So far the signs are positive for Australia, but caution needs to be exercised until the recovery takes a firmer hold.

Current state of retail sector

In early 2009 the retail sector was partially shielded from the impact of a general slowdown in the economy by the effect of the Federal Government's stimulus package, especially the cash payments made to most taxpayers.

But the impacts of these payments started to dissipate as 2009 progressed.

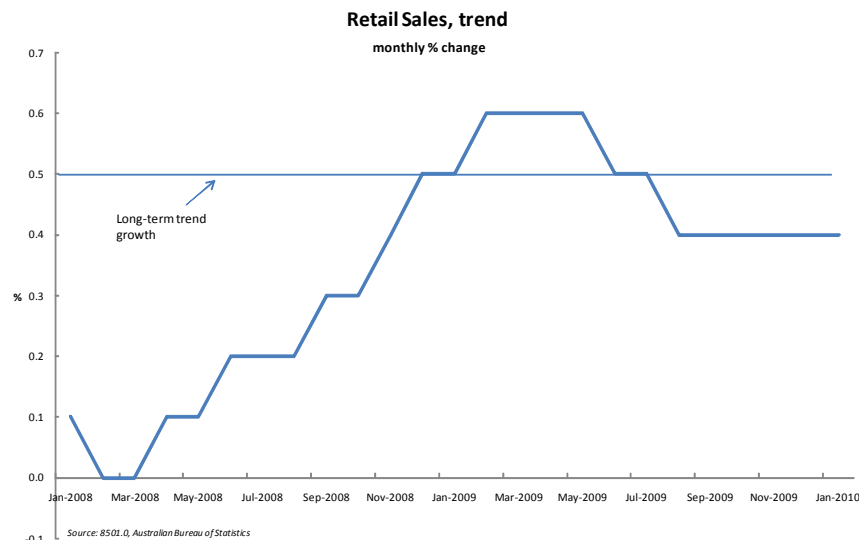
This reduced impact of the stimulus package coincided with a turnaround in the interest rate cycle, as the Reserve Bank of Australia started to raise the official cash rate in October 2009. The official cash rate is now at 4%, from 3% at its low point.

Fig. 1 shows how retail spending growth trended over 2009 – a solid start which dissipated as the year drew to a close. Retail sales are still growing below their long-term trend of 0.5% per month.

¹ IMF, Economic Outlook, Jan 2010

² MYEFO Dec 2009, Federal Treasury

Fig.1



This below-average consumer spending growth, in the face of rising interest rates, is the current climate facing retailers.

Rising interest rates to keep lid on retail spending

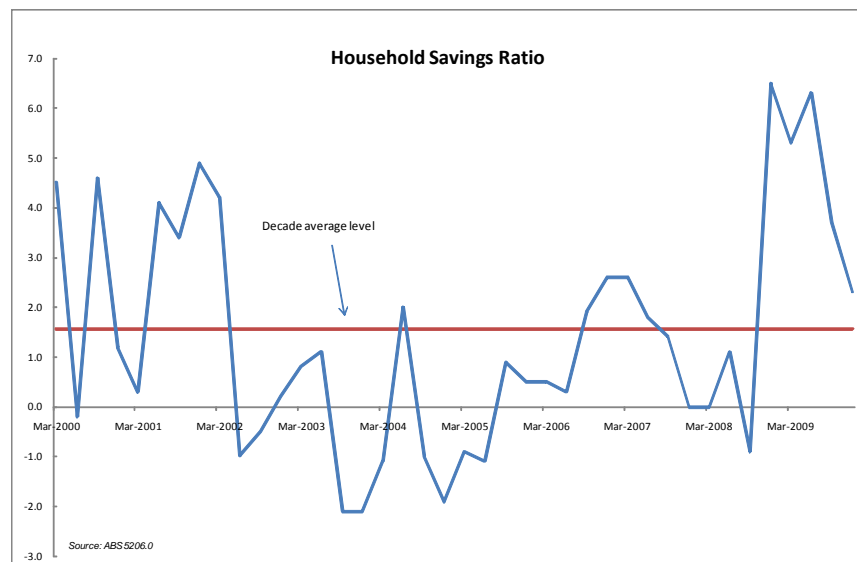
Over the next 12 months, rising interest rates will continue to cap retail spending growth.

Other sectors of the economy are showing signs of recovery. However, the retail industry’s recovery remains in the very early stages and activity is nowhere near the levels it was prior to the Global Financial Crisis.

Comments by Reserve Bank of Australia officials and Board meeting minutes suggest interest rates are likely to rise further during 2010. This will not only directly crimp consumption, it is also likely to re-focus consumers on reducing debt levels to minimise the impact of these higher interest rates on the household budget.

This shift to debt reduction, and thus away from immediate consumption, is best illustrated through the household savings ratio. This quarterly measure compares the level of household income with the level of household saving. Fig 2 shows that this rate was high during late 2008 and early 2009 as households focus on debt repayment. It still remains above decade averages despite falls in the last 2 quarters of 2009.

Fig.2



The outlook for rising interest rates also puts direct pressure on retailers own borrowing costs and capital investment plans. This adds to the list of challenges facing the industry in 2010.

In its March 2010 Retail Forecasts publication, Access Economics has a mixed outlook for the retail sector and expects annual retail sales growth to remain below its long-term trend until at least 2014. The surge in jobs growth in late 2009 and early 2010 would most likely assist retailers as households become less concerned about their employment prospects. However, this would be offset by headwinds from rising interest rates during 2010.

In essence, the retail sector is likely to face continuing tough conditions in 2010.

Employment outlook

The softening in retail spending in late 2009 is being reflected in the employment situation in the retail sector.

The Australian Bureau of Statistics quarterly report on employment (6291.0) shows that the retail sector lost 34,700 jobs in the 12 months to February 2010 (sea. adj). The prospect of only modest retail spending growth, as interest rates rise during 2010, suggests that further employment falls are possible over the next 12 to 18 months.

Any increase in the minimum wage above ANRA’s suggested \$10/week may exacerbate this sluggish outlook for employment in retail over the next 12 months.

In addition, any wages decision that adds to costs, while not accompanied by rising sales, also increases the risk of under-employment. If retailers face increased wages bills but

stagnant sales, then they would be forced to look at policies such as reducing working hours, leading to under-employment.

Retail has relatively high exposure to award system

The annual minimum wage decision is critical for the retail sector for two reasons – the relatively high proportion of award employees within the sector and the strong flow-on effect this has to non-award enterprise level negotiations/agreements.

Fair Work Australia's Research Report 1/2010 highlights that the retail sector is one of the most award dependent sectors of the Australian economy. The level of award reliance has decreased slightly from a peak in 2002 but retailing remains one of the industries with the highest award dependence. This exposure means that the annual minimum wage decision has a significant direct impact on many businesses in the sector.

In addition to this high direct exposure, retailers who operate under collective agreements or enterprise agreements also feel the effects of award-based decisions. The desire of employee representatives to maintain wage relativities between award and non-award employees means any decision effecting award rates inevitably flows through to the wage negotiation process and becomes the minimum increase for any collective bargaining agreements.

In light of the economic climate facing retailers, the continuing employment outcomes risks and the relatively high exposure of retailing to modern awards we urge Fair Work Australia to exercise caution when considering its minimum wage decision.

MODERN AWARDS: Impact on wages

ANRA is urging Fair Work Australia to consider the impact of the Modern Award system on employment costs in the sector once new wage rates come into effect on July 1. This includes delaying the start date for any rise in the minimum wage to October 1, 2010.

The General Retail Industry Award 2010 incorporates transitional arrangements, which were welcomed by ANRA when announced in late 2009. These arrangements mean that while the new Award came into effect on January 1 2010, new pay rates do not come into effect until July 1 2010. The arrangements also allow for pay increases to be gradually implemented over 5 years in instances where the new award rates and penalties are higher than those prescribed in the previous award.

Nevertheless, even allowing for these transitional arrangements, many retail sector employees will be receiving a wage increase on July 1 2010 via the Modern Award system.

This, in turn, means that many retail employers will be facing rising costs on July 1. This will put additional pressure on retailers who are already facing deteriorating conditions in the sector.

The exact impact of the new Modern Award rates will vary from business to business due to differences in past rates across states and the different combinations of casual and permanent staff that make-up their individual workforces.

Fig. 3 shows the impact across different states, for permanent employees that work on Sunday. Fig. 4 shows the impact across different states, for casual employees that work on Sunday.

Fig. 3 Sunday Penalty Rates – Permanent Employees

- Modern Award - \$31.58 (when fully implemented)

State/Territory	Existing Sunday rates	Change in wages when implemented fully	Wage increase on July 1 2010	% wage increase on July 1 2010
Victoria	\$31.72	-\$0.14	na	
New South Wales	\$23.76	\$7.82	\$1.56	6.6%
Queensland Non exempt stores	\$31.72	-\$0.14	na	
Queensland – exempt and independent retailers	\$23.79	\$7.79	\$1.56	6.6%
Western Australia – part time	\$31.76	-\$0.18	na	
South Australia – shops open after 12.30pm Saturday	\$26.45	\$5.13	\$1.03	3.9%
Tasmania	\$31.70	-\$0.12	na	



Northern Territory	\$31.72	-\$0.14	na	
ACT	\$23.76	\$7.82	\$1.56	6.6%

ANRA has calculated that the changes to Sunday penalty rates for permanent employees alone will lift the sector’s wage bill by around \$90 to \$95 million once the modern awards system is fully implemented. Allowing for the transitional arrangements, the increase in the wages bill due to Sunday penalty rates for permanent employees will be around \$19 million in 2010/11.

Fig. 4 Sunday Penalty Rates – Casual Employees

- Modern Award - \$35.53 (when fully implemented)

State/Territory	Existing Sunday rates	Change in wages when implemented	Wage increase on July 1 2010	% wage increase on July 1 2010
Victoria	\$33.04	\$2.49	\$0.50	1.5%
New South Wales	\$28.84	\$6.69	\$1.34	4.6%
Queensland Non exempt stores	\$31.72	\$3.81	\$0.76	2.4%
Queensland – exempt and independent retailers	\$23.79	\$11.74	\$2.35	9.9%
Western Australia – part time	\$38.12	-\$2.59	na	
South Australia – shops open after 12.30pm Saturday	\$33.73	\$1.80	\$0.36	1.1%
Tasmania	\$34.87	\$0.66	\$0.13	0.4%
Northern Territory	\$38.06	-\$2.53	na	
ACT	\$27.32	\$8.21	\$1.64	6.0%

Casual wages will also increase in many states, due to the impact of the increase in general casual loadings. In Queensland, South Australia and Western Australia casual loadings will rise from 20% to 25%. In NSW, ACT and Queensland casual loadings increase from 23% to 25%. This means that, even allowing for transitional arrangements, casual employees will receive a wage increase of up to 1% on July 1 2010.

These numerous legislated wage increases need to be taken into account when setting the Federal Minimum Wage, including setting the start date.

RECOMMENDATION

ANRA recommends that Fair Work Australia grants a \$10 per week increase in the Federal Minimum Wage from October 1, 2010.

This recommendation recognises that the retail sector faces a number of challenges in 2010, including rising interest rates, increased Federal budgetary constraint and a focus by households on re-paying debt rather than consumption. There are signs that the Australian economy is recovering. However, this recovery is both two-paced and remains vulnerable to further shocks from world economy.

This recommendation also takes into account the already legislated wage increases that will be coming into effect for many retail employees on July 1 as part of the Modern Award system.