Australian Retailers Association

SUBMISSION
2021-22 ANNUAL WAGE REVIEW

01 APRIL 2022

The Australian Retailers Association (ARA) supports an increase in the minimum wage to help keep pace with the rising cost of living. This increase in wages should be based on the actual rate of underlying inflation and consider the impact of increases in superannuation on wages.

Any increase that exceeds inflation would need to be offset by productivity gains, to reduce the risk of wages growth creating additional inflationary pressure and avoid over-stretching smaller retailers who have limited reserves to incur additional costs after more than two years of continuous disruption.

OVERVIEW

The ARA is Australia's oldest, largest, and most diverse peak retail body, representing a $360 billion sector that employs 1.3 million Australians. We represent the full spectrum of Australian retail, from our largest national and international retailers to our small and medium sized members, who make up 95% of our membership. Our members operate more than 100,000 shopfronts and online stores nationally, trading across all retail categories - from food to fashion, hairdressing to hardware, and cosmetics to computers.

This submission to the 2021-22 Annual Wage Review (AWR) has been developed in collaboration with our panel of research partners and informed by engagement with member advisory committees, responses to a member survey (*n*= 252) and direct consultation with members and the ARA Council. Key insights are outlined below.

- Retail trade has grown over the past two years, but strong headline numbers have masked high volatility and an uneven recovery, particularly for impacted retailers in hair and beauty, travel, hospitality and CBD precincts.
- Members report that costs have increased significantly over the past two years. While some have absorbed these increases, there is evidence that higher costs have translated to higher prices with the Reserve Bank of Australia (RBA) confirming that underlying inflation is now at a seven-year high of 2.6%.[1]
- With higher costs driving higher prices, there is an acknowledgement that wages should also increase. However, there is a need to balance any increase against the capacity of retailers to incur additional costs at a time when margins are already under significant pressure, when even a modest increase in wages could put the viability of smaller retailers at risk. Consideration should also be given to the impact that any increase in wages could have on prices at a time when external factors are already creating price-driven inflation.

These insights have informed the ARA's principles-based approach to this year's Annual Wage Review.

- **Principle 1**: Wages growth should keep pace with higher costs of living, using the Trimmed Mean Inflation (TMI) rate as a measure of underlying inflation, removing volatile inputs from the Consumer Price Index (CPI).
- **Principle 2:** Any increase in wages for 2022-23 should be based on the RBA's actual rate of underlying inflation at the time the Annual Wage Review is handed down, and factor in the increase in the Superannuation Guarantee Rate, from 10.0% to 10.5%, in-line with the approach taken by the panel for last year's review.
- **Principle 3:** Any increase in wages that exceeds underlying inflation should be offset by productivity gains, to help retailers absorb higher labour costs without placing additional financial pressure on businesses.

[1] RBA Measures of Underlying Inflation, February 2022 (https://www.rba.gov.au/chart-pack/aus-inflation.html sourced on 25 February 2022)

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SECTORIAL CONTEXT

Australia's retail sector comprises 145,000 retail businesses[2] and employs 1.3 million[3] people, making retail the country's largest private sector employer and the second-largest employment sector overall after health. With average weekly earnings of $745, the estimated annual wages bill for Australian retail is circa $53 billion.

Retail provides Australians with opportunities to enter the workforce in entry level roles and to pursue long-term careers. Retail is a key industry for female workforce participation, with 54% of employees in the sector being women, including 68% of all sales assistants[4] and 75% of all checkout operators[5].

The ARA membership represents about two-thirds of the sector, with our members operating around 100,000 shopfronts nationally. They consistently rank rent, labour costs and workplace flexibility as the highest concerns for the sector.

Our members believe a contemporary workplace relations system should provide mutually beneficial outcomes to employees and employers, with a system that enables retailers to maximise productivity, improve competitiveness and increase employment opportunities.

ECONOMIC CONTEXT

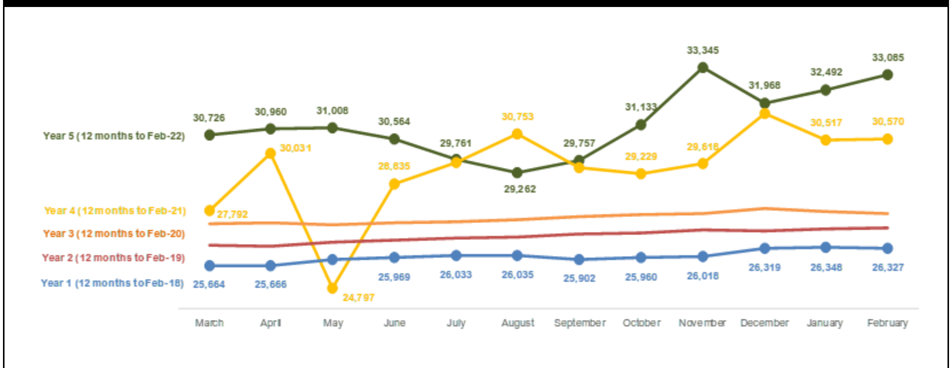
Continued growth of the retail sector

Despite the challenges of the past two years, overall retail sales have continued to grow through the pandemic with retail trade up 7% in 2019-20 and a further 5% in 2020-21, in comparison to the long-term average of 4%. These results have strengthened in recent months, with February 2022 up 9% from the same time last year[6] and are largely driven by government stimulus and limited spending options during the pandemic.

Uneven impact of lockdowns and recovery

These headline numbers mask the uneven impact of the pandemic across our sector along with the slow recovery for highly impacted retailers in hair and beauty, travel, hospitality, and CBD precincts. These annual numbers also mask the volatile nature of consumer spending, which has swung between record highs and record lows over the past two years, creating unprecedented financial challenges for retailers.

Chart One – Monthly Retail Trade ($million)
Retail trade is at record highs but highly volatile



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2 ABS Counts of Australian Business, July 2021 (https://www.abs.gov.au/statistics/economy/business-indicators/counts-australian-businesses-including-entries-and-exits/latest-release sourced on 29 March 2022)

3 National Skills Commission: Labour Market Insights, September 2021 (https://labourmarketinsights.gov.au/industries/industry-details?industryCode=G sourced on 29 March 2022)

4 National Skills Commission: Labour Market Insights, September 2021 (https://labourmarketinsights.gov.au/occupation-profile/Sales-Assistants-(General)?occupationCode=6211 sourced on 29 March 2022)

5 National Skills Commission: Labour Market Insights, September 2021 (https://labourmarketinsights.gov.au/occupation-profile/Checkout-Operators-and-Office-Cashiers?occupationCode=6311 on 29 March 2022)

6 ABS Retail Trace (https://www.abs.gov.au/statistics/industry/retail-and-wholesale-trade/retail-trade-australia sourced on 29 March 2022)

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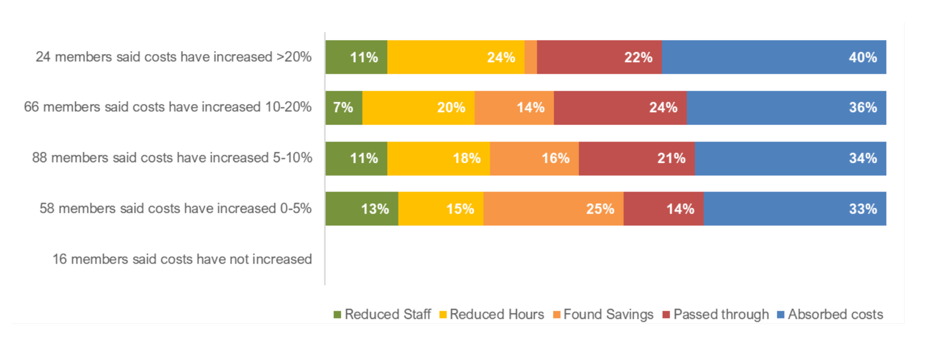
Costs have increased across the sector

Based on survey responses from ARA members, costs of doing business have increased significantly in the past two years, with pandemic restrictions and regulations adding significant operational costs to all businesses. Flooding across the country in early 2022 exacerbated supply chain constraints that had already increased costs for retailers in the first half of 2021-22. Coupled with historically high fuel prices due to the conflict in Ukraine and the ongoing potential for further disruption due to Covid-19, these and other external factors have the potential to continue putting pressure on costs. Survey responses also indicate that 20% of responding members have passed through these higher costs to consumers, while 35% have absorbed these increases for the time being.

Chart Two – Costs of Doing Business (*n*= 252)
94% of members say that costs have increased in the past year,
with 20% passing through cost increases and 35% absorbing higher costs



Underlying inflation on the rise

Higher costs have started to translate into higher prices, with a 2.6% year-on-year increase in the TMI rate for the December 2021 quarter, the highest rate in seven years. In comparison, TMI has remained relatively stable in the range of 1.1% to 1.7% for 10 of the last 12 quarters.[7] In its February 2022 Statement on Monetary Policy, the RBA noted that inflation in the December quarter was higher than expected due to higher fuel prices, higher prices for "most consumer durable items" and a modest increase in fruit and vegetable prices. Prices look set to continue in the short-term, with the ABS Business Conditions and Sentiments Report[8] indicating that "59% of retail trade businesses expect their prices to increase more than normal over the next three months."

Measures to address inflationary pressure

Prior to the Federal government's announcement of a temporary 50% reduction in fuel excise, the RBA was projecting that underlying inflation would increase from 2.6% to an average of 3.0% in 2022-23. While fuel prices will continue to be excluded from the TMI measure in the short-term, it is reasonable to assume that the reduction in fuel excise, and the continued strengthening of the Australian dollar, will put downward pressure on the price of durable goods and produce over the next six months given the proportion of costs that can be attributed to fuel usage along the supply chain. The combined effect of these factors has the potential to maintain underlying inflation at or below current levels through 2022-23.

Wages growth risks further increasing prices

In terms of wages, the RBA notes that the Wage Price Index increased 2.25% in the December 2021 quarter, due largely to labour shortages and increasingly common "strategies to attract and retain workers other than those involving raising base wages." The RBA also noted that "most firms are not anticipating wages growth to move beyond the 2-3% range over the year ahead" and projected an average 2.5% increase in wages in 2022-23. Without productivity gains, any increase in wages above underlying inflation pose the risk of creating additional inflationary pressure, at a time when external factors are already putting pressure on costs and prices.

[7] Trading Economics Trimmed Mean Inflation Rate (https://tradingeconomics.com/australia/core-inflation-rate sourced on 29 March 2022)

[8] ABS Business Conditions and Sentiments (https://www.abs.gov.au/statistics/economy/business-indicators/business-conditions-and-sentiments/mar-2022 sourced on 31 March 2022)

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CONSIDERATIONS

At a macro level, the continued growth of the retail sector into 2022-23 cannot be taken for granted given the return of outbound international travel diverting a sizeable portion of retail spend offshore, the slow return to pre-pandemic levels of inbound tourism, the removal of government stimulus programs, and the potential for a correction in consumer spending to offset the significant growth in sales volumes coming out of lockdown.

While headline retail trade numbers look strong, the uneven impact of the pandemic and a two-paced recovery mean that not all retailers will be equally placed to increase wages, even if they increase prices.

After two years of disruption, small and medium sized businesses who make up 95% of our membership, have limited reserves to incur higher costs while also paying down debts incurred during the pandemic. While some retailers have passed on cost increases, the ability of others to continue absorbing cost increases without passing on higher costs will diminish in coming months, given the likelihood that government and landlords will start to call in debts incurred and deferred over the past two years.

There remains significant uncertainty about how external factors will impact the cost of doing business and prices over the next 12 months, making it difficult to define a reasonable projection or estimate. However, there is potential for underlying inflation to remain in-line or fall below the current rate of 2.6% through 2022-23.

Measures announced in the federal budget on 29 March 2022 aim to offset higher costs of living through one-off payments to low- and middle-income earners, partially negating the need for an increase in wages. This uncertainty could have a flow-on effect to consumer spending, with retail sales returning to pre-pandemic levels.

For these reasons, any increase in wages should be based on best-available information about actual underlying inflation, not on forward projections for 2022-23.

If the minimum wage increases above underlying inflation, retailers will require productivity gains to protect against the risk of higher labour costs leading to higher prices. In this scenario, the ARA would be seeking productivity improvements, which would include greater flexibility in part-time work arrangements and in the rostering of employees generally - for mutual benefit to employers and employees.

And finally, the rate of superannuation will increase from 10.0% to 10.5% on 01 July 2022. Any increase in the minimum wage should take this movement into consideration, to avoid business incurring an additional cost that could also lead to higher inflation.

RECOMMENDATION

The ARA recommends that the minimum wage be increased from 01 July 2022, in-line with the actual rate of underlying inflation at the time the Annual Wage Review is handed down, factoring in the impact that the July 2022 increase in the superannuation rate will have on wages.

The ARA appreciates the opportunity to provide this recommendation and our rationale to this year's annual wage review. Please contact me through policy@retail.org.au if the ARA can be of any further assistance.

Yours sincerely

Paul Zahra
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