

3 April 2023

Fair Work Commission
Annual Wage Review 2022-23
GPO Box 1994
Melbourne VIC 3001

By email: awr@fwc.gov.au

Dear Members of the Expert Panel,

**Annual Wage Review 2022-23
Submissions of the National Retail Association Limited, Union of Employers**

The National Retail Association Limited, Union of Employers makes the **enclosed** submissions concerning the Annual Wage Review 2022-23.

Yours sincerely,



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National Retail Association



National Retail Association Limited
Union of Employers
Annual Wage Review 2022-23
Initial Submissions

April 2023

1. INTRODUCTION AND SUMMARY

- 1.1. The National Retail Association (**NRA**) is a peak industry body which has been representing businesses across the retail and associated sectors for close to 100 years. Retail is one of Australia's largest employers, with over 1.3 million Australians employed in the sector.
- 1.2. In supplying Australians with the goods they need, our members' operations (from their retail shops to their head offices and fulfilment/distribution centres) see them engage a wide range of employees who are covered by a number of modern awards. Our sector's primary modern award, the *General Retail Industry Award 2020* is the largest modern award by coverage, followed closely by associated awards, such as the *Fast Food Industry Award 2020*, the *Restaurant Industry Award 2020*, and the *Clerks—Private Sector Award 2020*.¹
- 1.3. Our members employ a diverse range of employees, providing opportunities to all Australians. Our members are often the first employers of young Australians, offer opportunities and growth to those who seek careers in retail, and provide variable and ad-hoc work to those who seek flexibility.
- 1.4. In supplying goods and engaging such a large and broad range of employees, our members are at the coal face of dealing with both supplier and consumer trends. They are immediately impacted by changes or volatility in either. The 2022/23 year has seen economic uncertainty remain post-pandemic, where unfolding international events and inflation (and measures implemented to attempt to address these) have resulted in supply chain disruptions, a tighter labour market, and increasing interest rates. These events have caused disruption to our members' operations and ultimately has resulted in hesitation and reduced spending by end consumers.
- 1.5. The NRA submits any increase to the minimum wages under the 2022-23 Annual Wage Review (**Review**) should be reflective and considerate of current (and predicted future) impacts of both supply issues and waning consumer demand.
- 1.6. The NRA highlights that we intend on filing supplementary submissions following further consultation with our members.

2. LEGISLATIVE FRAMEWORK

- 2.1. Under the *Fair Work Act 2009* (Cth) (**Act**), the Fair Work Commission (**Commission**) must conduct an annual wage review each financial year.²
- 2.2. The minimum wages objective requires the Commission to establish and maintain a safety net of fair minimum wages, taking into account factors such as:
 - (a) The performance and competitiveness of the national economy including productivity, business competitiveness and viability, inflation, and employment growth; and
 - (b) Promoting social inclusion through increased workforce participation.
- 2.3. The modern awards objective further requires the Commission to take into account a number of factors, including:
 - (a) The likely impacts of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden; and

¹Fair Work Commission (2023) *A profile of employee characteristics across modern awards*, March 2023.

²*Fair Work Act 2009* (Cth) s 285(1) ('Fair Work Act').

- (b) The likely impact of any exercise of modern award powers on employment growth, inflation and the sustainability, performance and competitiveness of the national economy.³
- 2.4. In the absence of any statutory indication, the Panel may determine the weight to be given to the above and other factors at its discretion.⁴
- 2.5. The NRA submits in light of the current economic climate, that significant weight should be given to the above factors and the likely significant impact a substantial increase to minimum wages will have on retailers' ability to compete and engage employees in the retail sector.

3. ECONOMIC AND RETAIL CONTEXT

- 3.1. The legislative framework set out above expressly requires consideration to be given to the wider socio-economic context in which the Review is undertaken. Past Reviews have affirmed that industry conditions are relevant to this broad economic context.⁵

THE YEAR THAT WAS

- 3.2. Following the significant increase to wages which followed last year's Review, coupled with unfolding international events and conflicts, retailers faced uncertain and difficult times.

What our members are saying

- 3.3. As set out in the introduction, our members employ a large and diverse range of people. Our members range across small, medium, and large enterprises, who all enjoy seeing people upskill and grow as team members of their organisations.
- 3.4. Our members want to keep staff and want to see their businesses perform. The reality, however, is that our members are seeing the after-effects of Covid-19 and ongoing global conflicts in supply chain disruptions and costs, increased interest rates, and a tightened labour market. These have resulted in both increased costs to do business and reduced consumer spending.
- 3.5. Ultimately, our members are saying the costs burden which they are currently experiencing would only be amplified by a significant increase this Review.

Supply chain disruptions

- 3.6. In terms of the retail supply chain, many retailers have seen, and continue to see, impacts on their ability to source and stock goods post-pandemic.
- 3.7. Primarily, retailers saw continued increased costs to ship products and delayed shipping times. In August 2022, 53% of retailers reported having been affected by supply chain issues.⁶ Further, a third of small to medium retailers have been, and continue to expect to be, significantly impacted by supply chain issues.⁷
- 3.8. These supply chain issues have meant costs to transport goods have remained inflated, and delays in stocking goods have persisted.⁸

³ Fair Work Act, s 134(1).

⁴ *Shop, Distributive and Allied Employees' Association v Australian Industry Group & Ors* [2017] FCAFC 151 at [95]; see also *Bat Advocacy NSW Inc v Minister for Environment Protection, Heritage and the Arts* [2011] FCAFC 59 at [44].

⁵ [2020] FWCFB 3500 at [122].

⁶ Commonwealth Bank, *Rising costs and ongoing supply chain issues stimulate adaptation and innovation*, August 2022.

⁷ NAB Business Insights, *Supply Chain: The impact on SMEs & how business is responding (Q4 update)*, January 2023.

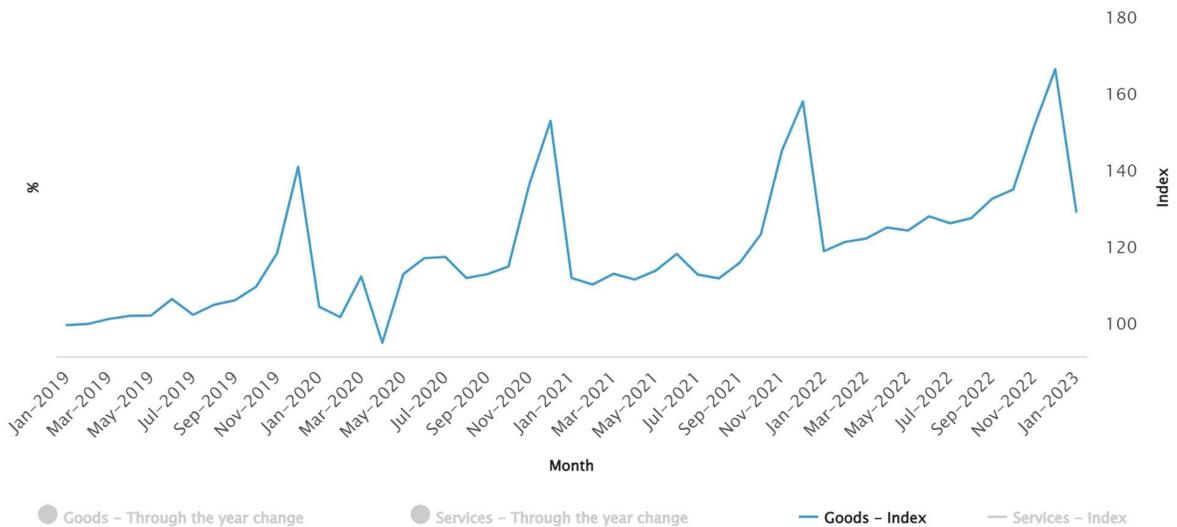
⁸ Mondaq, *Supply Chain Disruption – The Risk To Global Economic Recovery*, September 2022.

3.9. The NRA submits, where our members are impacted by inflated costs and delays to deliver their goods to consumers on time, the Panel ought consider the impact any increase to the minimum wages this Review will have on the viability of our members.

Increased cash and interest rates

- 3.10. It is uncontroversial that the cash rate target and interest rates have been significantly increasing over the past 12 months.
- 3.11. We have seen the cash rate increase from 0.10% in April 2022 to 3.6% in March 2023. The resulting effects of interest rates have been significant, with these rises greatly impacting both consumer confidence and spending.
- 3.12. In surveying over a thousand consumers in August 2022, the NRA’s *Consumer Sentiment Report* found that over the next 6 months:
 - (a) 66% of respondents intend on reducing their spending on non-essential products;
 - (b) 62% of respondents intend on relying more on sales and discounts;
 - (c) 60% of respondents intend on reducing their visits to café, restaurants, and takeaway premises;
 - (d) 39% of respondents intend on reducing their online shopping; and
 - (e) Only 2% of respondents do not expect to make any changes to their spending habits.⁹
- 3.13. While retail spending increased during the pandemic, following consistent interest rate rises, retail spending has seen a sharp decrease in late 2022. Per the ABS, spending significantly dropped by 3.9 percent in December, only recovering 0.2 percent in January:

Household spending on goods and services, current price, calendar adjusted



Source: Australian Bureau of Statistics, Monthly Household Spending Indicator January 2023

⁹ National Retail Association, *Consumer Sentiment Report*, August 2022.

- 3.14. Increased interest rates with reduced and hesitant consumer spending has meant our members are seeing increasing costs with decreased demand.
- 3.15. The Panel ought consider hesitant consumer behaviour coupled with rising interest rates in determining any increase to the minimum wages this Review.

Tight labour market and decreased productivity

- 3.16. Over the past 12 months, we have seen a tight labour market remain, resulting in increased real wages. While focus has been on employee retention, we have seen actual employee productivity reduce.
- 3.17. A tight labour market has remained as unemployment continued to be low, currently sitting at 3.5%. Wages and labour costs have responded in kind, where the Wage Price Index reflected wages rising 0.8% in the December 2022 quarter, totalling a 3.3% increase over the 2022 year.¹⁰
- 3.18. While wages have increased, we have seen actual productivity of employees decrease. From December 2021 to December 2022, the ABS reported productivity reduce by 3.5%, in terms of GDP per hour worked.¹¹
- 3.19. In a tight market, with increased wages and decreased productivity, our members are facing increased costs to achieve same outcomes.
- 3.20. The NRA submits, in light of the increased underlying costs to employers, the Panel ought consider the impact of any increase to the minimum wages this Review.

Impact on retailers

- 3.21. Ultimately, the impacts of the above and broader economic factors on retailers has meant both an increase in the cost and ability to do business and consumer apprehension.
- 3.22. The ABS reported:
 - (a) Almost a third of all business are having staffing difficulties;
 - (b) 46% of businesses experienced increased costs; and
 - (c) 41% have experienced supply chain disruptions.¹²
- 3.23. As outlined above, consumer apprehension was a major factor in 2022, where retailers saw sales decrease in late 2022. Overall, ABS data indicates a downward trend of turnover for retailers in the later quarter of 2022, which has continued into 2023:

¹⁰ Australian Bureau of Statistics, *Wage Price Index, Australia*, February 2023.

¹¹ Australian Bureau of Statistics, *Australian National Accounts: National Income, Expenditure and Product*, March 2023.

¹² Australian Bureau of Statistics, *Business Conditions and Sentiments*, June 2022.



Source: Australian Bureau of Statistics, Retail Trade, Australia February 2023

- 3.24. Resulting, retailers are feeling the brunt of productivity, employment costs, and inflation, which in turn is negatively impacting their performance and competitiveness.

LOOKING FORWARD

- 3.25. Unfortunately, retailers do not expect conditions to improve over the coming year.
- 3.26. In terms of direct issues which will impact cost of business and retailers' ability to employ new staff, and keep current employees employed, include:
- (a) Interest rates are expected to continue to rise, and indeed peak, in 2023;¹³
 - (b) Supply chain issues will remain;¹⁴
 - (c) Superannuation guarantee will increase to 11%;¹⁵ and
 - (d) Ultimately, the costs of doing business will increase.¹⁶
- 3.27. As outlined above, the NRA's *Consumer Sentiment Report* highlights consumer hesitation will be emphasised in the coming months.¹⁷ Further, Deloitte has forecasted decreases throughout 2023 to retail spending.¹⁸

¹³ Deloitte, *Retail Forecasts: Red light, green light*, February 2023.

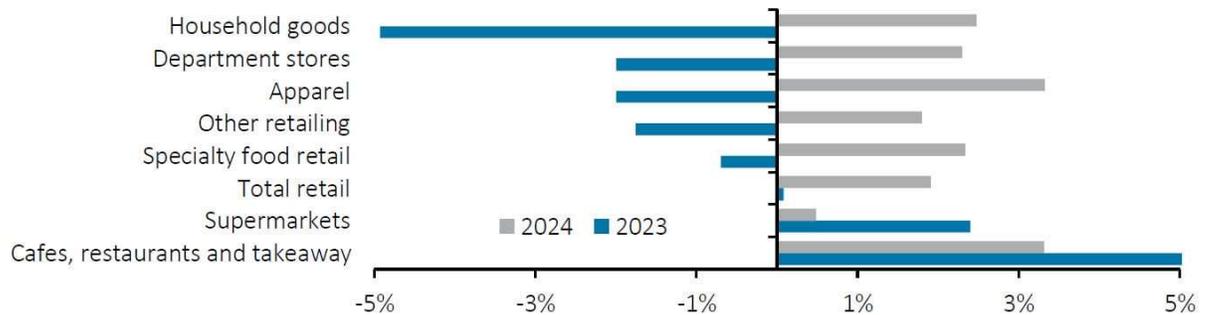
¹⁴ Australian Industry Group, *Australian CEO Expectations for 2023*, January 2023.

¹⁵ Australian Taxation Office, *Super guarantee percentage*.

¹⁶ Australian Industry Group, *Australian CEO Expectations for 2023*, January 2023.

¹⁷ National Retail Association, *Consumer Sentiment Report*, August 2022.

¹⁸ Deloitte, *Retail Forecasts: Red light, green light*, February 2023.



Source: Deloitte Access Economics

- 3.28. With both the cost of doing business to increase and consumer confidence and spending to decline, retailers are faced with a situation where a significant increase to the minimum wages will impact their viability and performance, which in turn will impact their ability to retain and recruit employees.
- 3.29. The NRA submits the Panel ought have significant consideration to the negative impact a significant increase to minimum wages would have on employers, in light of already expected increased costs to business.

4. CONSIDERATION AND CONCLUSION

- 4.1. Ultimately, the above factors mean that our members will be negatively impacted by any significant increase to the minimum wages and award minimum wages.
- 4.2. Increased costs, supply issues, and decreased consumer sentiment and spending simply means our members will see decreased performance and be less competitive in the national economy. While our members are hopeful government measures will be implemented to increase consumer confidence, the current predictions show consumer confidence is not expected to recover in the coming year.
- 4.3. The NRA ultimately submits any increase to the minimum wages should not be significant, where any large increase will result in detrimental effects on employers.