VACC Submission

In Response to the Australian Fair Pay Commission (AFPC)

2009 Minimum Wage Review

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About the Victorian Automobile Chamber of Commerce

The Victorian Automobile Chamber of Commerce (VACC) is the peak industry employer association in the retail automotive industry (RS&R Industry) representing approximately 5,500 members in Victoria and Tasmania. This representation covers businesses which operate in over 20 industry sectors (set out below) employing over 40,000 employees in the automotive repair, services and retail sector. VACC also represents 329 businesses in Queensland which have joint membership of both the Motor Trades Association of Queensland and our organisation. VACC also provides administrative and industrial relations support to the Automotive Dealership Group in New South Wales which represents approximately 180 businesses in this State.

The majority of VACC members are small businesses striving to trade profitably, provide a valuable service to the community and employ people. Our members located in all communities in Victoria and Tasmania provide essential transport, servicing and supply of running requirements for all types of vehicles.

VACC principal services

VACC supports the RS&R industry by providing a comprehensive range of services including the following:

- Public affairs advocacy and representation of key industry policy issues to government and other industry stakeholders;
- Research of industry issues and preparation of submissions to Federal and State Governments;
- Supply of apprentices through the VACC Group Apprenticeship Scheme which currently employs over 500 apprentices and trainees working within the retail automotive sector across Victoria and Tasmania;
- Business management and technical training and careers advice;
- Promotion of the industry, including the Melbourne International Motor Show;
- Community events sponsorship;
- Education and training sponsorship;
- Business support and process services;
- Road safety information;
- Communicator of industry information and business management advice;
- Industrial relations, OHS & training advisory services;
- State-wide retail automotive industry technical information service;
- National industry magazine highlighting current and emerging industry issues;
- Supply of automotive technical research and information;
- Setting of minimum industry standards and codes of conduct;
- Dispute resolution;
- Surveying and supply of statistics and economic data

Industry sectors represented by VACC

VACC provides services to the following sectors in the RS&R industry:

- New car dealers
- Used car dealers
- Commercial vehicle dealers
- Truck repairers
- Motorcycles dealers
- Farm machinery dealers
- Commercial vehicle body builders
- Radiator repairers
- Air-conditioning specialists
- Automobile repairers
- Auto-transmission specialists
- LPG specialists
- Automotive electricians
- Alternative fuel specialists
- Service stations and convenience stores
- Tyre retailers
- Smash repairers
- Towing operators
- Roadside service contractors
- Automotive recyclers and dismantlers
- Car hire and rental
- Engine re-conditioners
- Windscreen fitters
- Automotive accessory retailers
- Motor trimmers
- Exhaust and undercar specialists
- Diesel specialists
- Vehicle painters
- Car detailers
- Car wash businesses
- Roadhouses and truck stops

VACC position on an increase to minimum rates of pay in 2009

VACC supports the position of the Australian Chamber of Commerce and Industry (ACCI) that the Australian Fair Pay Commission (AFPC) should postpone a further increase in minimum wages until there is greater clarity on the extent and duration of the economic downturn.

VACC believes that the minimum wage review should be postponed for the following reasons:

- The current economic issues facing the Australian economy and labour market in 2009, particularly the rising unemployment level and the decreased availability of credit for small businesses, make it an inopportune time for a wage review.
- There is still uncertainty regarding the scale and duration of the current economic conditions and instability in the jobs market.
• There most recent wage increase awarded by the AFPC which came into effect on 1 October 2008 was particularly high.

• There has been a significant fall in vehicle sales this year, which is predicted to continue, and has led to closures of automotive dealerships. The viability of other dealerships is also in doubt.

• The ripple effect of falling car sales and the general slowdown in consumer demand has had a significant impact on other businesses in the RS&R industry.

• Higher wages and on costs will force employers to consider the unpalatable option of staff redundancies to offset cost increases to the business. Many of our members have had to take this option since late 2008 to keep businesses operating. Another wage increase to employees is likely to exacerbate the situation.

The current economic climate

Despite a small increase in the rate of unemployment from 4.9%\(^1\) in December 2008, the unemployment level as at February 2009 is 5.2%. Although this level is historically low by recent Australian standards, the extent of the downturn in the economy is unclear and already there are indications that the unemployment rate will rise significantly in 2009.

On a global scale Australia is faring comparatively well in the current situation compared with other OECD counties. By way of comparison, Britain is experiencing its highest levels of unemployment in 12 years with two million individuals claiming jobless benefits and an unemployment rate of 6.5%.\(^2\) Although Australia may currently be faring better than other OECD countries, this does not provide any comfort for businesses which would be required to find the cash flow to pass on a further general wage increase, particularly of the magnitude sought by the ACTU OF $21.00 per week.

The capacity for the unemployed and low-paid to obtain and remain in employment

The numbers of employees currently obtaining low-paid employment demonstrate that there is still a capacity currently for the low-paid to obtain a job and remain in employment. Over


the year to November 2008 the number of employees in low-skilled occupations increased by 2.2 per cent compared with an increase of 2.1 per cent for higher-skilled employees. 3

The statistics are less encouraging over the six months to November 2008 which showed only a 0.5% increase for low-skilled workers. 4 Despite this slowing down in the number of low-skilled workers taking up work, there is still cause for optimism. However an across-the-board general increase in wages which does not take account of the financial capacity of individual businesses to absorb this increase, could further weaken the market to the extent that businesses decide they are no longer able to take on another new employee.

Provision of a safety net for the low paid

On 1 October 2008 the Federal Minimum Wage was increased by $21.66 per week or by 4.1%. 5 In addition to the increase in the Federal Minimum Wage, the Australian Government announced changes to the tax-transfer system, including personal income tax cuts to be introduced over four years and an increase of the 30% income tax threshold amongst other measures. 6 These changes have already provided considerable relief from the financial pressure on the low to medium-paid wage earners who would usually rely on the annual increases to minimum rates of pay.

According to AFPC’s own information in the Economic and Social Indicators – Monitoring Report, the disposable income of all modelled households increased in “real terms” from August 2005 to November 2008. 7 This increase of modelled households ranged from 12% (for a married couple without children) to 4% at the lower end of the pay scales (for a single-parent allowance with a child aged from 8 to 12 years) in the groups of “modelled households” surveyed. 8 All of the “modelled households” benefited again from the tax cuts in July and the October 2008 minimum wage increase. The increase in wages in “real terms” which are at the high end of the scale, demonstrate that there is a stable safety net in place which appropriately provides protection for low-paid workers.

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4 Ibid
5 Ibid
6 Ibid
7 Ibid
8 Ibid
National profile of the RS&R industry

Table 1 below confirms that the general automotive industry on a national basis is predominantly made up of businesses in the retail, service and repair sectors of the automotive industry, with a smaller number of businesses engaged in manufacturing or wholesaling activities.

Table 1 - National breakdown of business in the RS&R Industry 9

<table>
<thead>
<tr>
<th>MANUFACTURING</th>
<th>No of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>For all manufacturing sectors, there are a total of</td>
<td></td>
</tr>
<tr>
<td>Automotive electrical component manufacturing</td>
<td>2,830</td>
</tr>
<tr>
<td>Motor vehicle body and trailer manufacturing</td>
<td>10,045</td>
</tr>
<tr>
<td>Motor vehicle manufacturing</td>
<td>26,303</td>
</tr>
<tr>
<td>Motor vehicle and motor vehicle part manufacturing</td>
<td>854</td>
</tr>
<tr>
<td>Other motor vehicle parts manufacturing</td>
<td>21,297</td>
</tr>
<tr>
<td>Tyre manufacturing</td>
<td>4,211</td>
</tr>
<tr>
<td>Total manufacturing (national)</td>
<td>65,540</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>WHOLESALE</th>
<th>No of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>commercial vehicle wholesaling</td>
<td>3,992</td>
</tr>
<tr>
<td>car wholesaling</td>
<td>6,809</td>
</tr>
<tr>
<td>motor vehicle dismantling and used parts wholesaling</td>
<td>2,465</td>
</tr>
<tr>
<td>motor vehicle new parts wholesaling</td>
<td>12,975</td>
</tr>
<tr>
<td>motor vehicle and motor vehicle parts wholesaling</td>
<td>862</td>
</tr>
<tr>
<td>trailer and other motor vehicle wholesaling</td>
<td>785</td>
</tr>
<tr>
<td>Total wholesale (national)</td>
<td>27,888</td>
</tr>
</tbody>
</table>

9 Counts of Australian Businesses, Including Entries and Exits, Cat. 8165, 2008, ABS
Table 1 (cont’d)

<table>
<thead>
<tr>
<th>RETAIL</th>
<th>No of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive Body, Paint and Interior Repair</td>
<td>32,180</td>
</tr>
<tr>
<td>Automotive Electrical Services</td>
<td>6,049</td>
</tr>
<tr>
<td>Automotive Repair and Maintenance,</td>
<td>2,609</td>
</tr>
<tr>
<td>Car Retailing</td>
<td>51,348</td>
</tr>
<tr>
<td>Fuel Retailing</td>
<td>32,420</td>
</tr>
<tr>
<td>Motor Cycle Retailing</td>
<td>2,767</td>
</tr>
<tr>
<td>Motor Vehicle Parts Retailing</td>
<td>13,214</td>
</tr>
<tr>
<td>Motor Vehicle Parts and Tyre Retailing</td>
<td>131</td>
</tr>
<tr>
<td>Motor Vehicle Retailing</td>
<td>1,020</td>
</tr>
<tr>
<td>Motor Vehicle and Motor Vehicle Parts Retailing</td>
<td>398</td>
</tr>
<tr>
<td>Motor Vehicle and Transport Equipment Rental and Hiring</td>
<td>681</td>
</tr>
<tr>
<td>Other Automotive Repair and Maintenance</td>
<td>59,602</td>
</tr>
<tr>
<td>Other Motor Vehicle and Transport Equipment Rental and Hiring</td>
<td>2,623</td>
</tr>
<tr>
<td>Passenger Car Rental and Hiring</td>
<td>6,138</td>
</tr>
<tr>
<td>Trailer and Other Motor Vehicle Retailing</td>
<td>1,202</td>
</tr>
<tr>
<td>Tyre Retailing</td>
<td>6,837</td>
</tr>
<tr>
<td><strong>Total retail (national)</strong></td>
<td><strong>219,219</strong></td>
</tr>
</tbody>
</table>

Numbers of employees in RS&R businesses

The RS&R industry is predominantly made up of small businesses. Until 2005, the vehicle industry organisations across Australia collectively conducted a national survey of members by an outside firm of consultants, AC Nielsen. These surveys which were conducted from 2001 to December 2004 were used to support submissions for national wage case hearings before the Australian Industrial Relations Commission until 2005. This data shows that approximately 90% of employers surveyed employed less than 20 employees.

The data derived from a national survey of members, conducted by AC Nielsen on behalf of the Vehicle Industry Organisations in December 2004, *(ACN December Survey 2004)*, showed that more than 54.2% of Industry businesses have less than 5 employees *(see Table 2 below)*. A further 26.4% employed between 5 and 9 staff, with the remaining 19.6% employing 10 or more employees.
While some time has passed since the national surveys were conducted VACC believes that this information is still a reliable indicator of the composition and distribution of businesses in the industry. 10 This national breakdown of businesses in the RS&R Industry is consistent with the overall national figure based on ABS data published in December 2007 which show that 96% of businesses in Australia employ less than 20 people which amount to 1.93 million businesses. Included in this figure are 1.2 million businesses that do not employ staff. 11

The survey results derived from the AC Nelsen Report also demonstrated that business activities in the RS&R Industry are divided nationally across metropolitan and regional (including country) locations (see Table 3 below).

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10 2004, "December Survey, Ac Nielsen, Referenced from, VACC Submission, 2008, to Australian Industrial Relations Commission, In the matter of: Award Modernisation Request From the Minister for Employment and Workplace Relations, Victorian Automobile Chamber of Commerce."

11 Australian Bureau of Statistics, 14 December 2007, Media Release, "over 2 million businesses in Australia, ABS."
Decline in automotive sales

Over the past few months, the RS&R Industry nationally has been severely affected by the economic downturn. The car dealership sector has been adversely affected due to a sharp decline in sale of new vehicles. According to the Federal Chamber of Automotive Industries (FCAI) in the February 2009 VFACTS National Report, total vehicle sales have fallen by 21.9% in February 2009 or 19,657 vehicles compared to the same month in 2008.¹³ ¹⁴ These figures indicate an ongoing trend since the January 2009 VFACTS which also showed a decrease in national new car sales of 18.5%.

The February 2009 VFACTS National Report showed that Victoria was the most adversely affected nationally by the decline with a 23.3% decrease in vehicle sales compared to the previous month. The statistics for Victorian new vehicle sales in January 2009 showed a 16.9% decrease which was second only to the ACT.¹⁵ The significant decrease in Victoria is of great importance as Victoria accounts for 25.2% of new vehicle sales nationally.¹⁶

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¹³ FCAI Article, 4th March 2009, New Vehicle Sales Fall 21.9% in February, ANZ.
¹⁵ ibid
It is too early to identify a trend only two months into 2009 but it is the uncertainty of future sales which is unsettling in the RS&R industry generally. The reason for this sudden and sharp decline in new car sales is occurring because many consumers see spending on cars as “discretionary” spending which can be postponed.\(^{17}\)

Because the purchase of vehicles is viewed as discretionary, vehicle sales are particularly at risk. The drop in new vehicle purchases may prove to be a timely indicator of where the investment cycle is heading and according to a report by ANZ, Economics and Markets Research "that direction is downwards for 2009 and 2010".\(^{18}\) The report also predicts that the national market for new vehicle sales will fall by at least 11% this year compared to 2008.\(^{19}\)

Although it is clear that vehicle sales have declined over the past few months and predictions are that sales will continue to decline throughout 2009, the current estimates may be conservative according to a media release issued on 18 March 2009 by Deloitte. Deloitte provides audit, tax, consulting and financial advisory services to the RS&R industry.

The Deloitte media release states that the current sales figures have been artificially inflated because car companies, distributors and dealers have attempted to clear their excessive inventories.\(^{20}\) An article published in The Age also shares this view stating that 'It's not unusual for dealers to make a $10 profit selling a new car'.\(^{21}\)

**Impact of the financial downturn on car dealerships**

Whilst the impact of the economic downturn is affecting all sectors of the RS&R industry, the major impact is in the new car dealership sector. The withdrawal of financial services by GE Money and GMAC Finances has created further hardship for these businesses which are already suffering from a decline in vehicle sales. These types of finance companies are crucial to the ongoing viability of car dealerships as they own the cars on a dealership showroom floor. The finance companies purchase the vehicles from manufacturers or importers and lease them to dealerships for ongoing sale as fleet or private vehicles. The closure of two of Australia’s biggest automotive financiers, GE Money and GMAC Finance, has put the financial viability of approximately 60 of Australia’s 400 new car dealers at risk.\(^{22}\)

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\(^{17}\) ANZ Economics and Markets Research, 27 February 2009, *2009: a hard road ahead for vehicle sales*

\(^{18}\) *ibid*

\(^{19}\) *ibid*

\(^{20}\) *18 March 2009, Media Release – Vehicle sales falter as car companies and dealers rush to clear inventories according to Deloitte report. Deloitte.*


If this figure proves to be accurate the closure of these dealerships could result in between 2000 to 3000 job losses.\textsuperscript{23} If alternative financial arrangements cannot be found more dealerships will struggle to survive despite the financial assistance put in place by the Federal Government.

Although large dealerships have been in the public spotlight as the businesses which have been hit hard by the economic downturn, smaller businesses are clearly also struggling to cope. The case study set out below illustrates the difficulties small business operators are experiencing due to the economic downturn and why it is important to give businesses the maximum opportunity to remain open by not imposing an additional financial burden on them at this stage.

**Case Study – Family Dealership**

(Source: Strong, Geoff, 26 November 2008, *Local failure, National Consequences, The Age*)

*The closure of a small, family-owned, Holden dealership in Kyneton has created a ripple effect throughout the town of 5,000. The dealership opened its doors in 1948 amid a wave of post-World War II optimism. In 1953 the business was bought by Jack Lee and has been run by the family, with three generations working in the business, until its closure in October last year.*

*The closure of the dealership has forced 15 people directly out of work in the company and leaving the future of others uncertain. The effect of the closure of the business is not isolated to the actual dealership and those left out of work, but it has created a domino effect which permeates throughout the town. According to Macedon Ranges Shire, the estimated annual cost of losing the car dealer to be as high as $10 million in lost wages and spin-offs to other businesses.*

*A local tyre and battery supplier to the dealership believes that its closure will cost them $80,000 a year. "We supplied all their tyres and batteries, another company provided lubricants and one of the smash repairers did the detailing on their used cars," he said.*

No matter the size of the business (as the potential closure of GM, Ford and Chrysler shows) closure is a reality which threatens all types and sizes of businesses in the industry. As the case study shows, the risk of closure affects rural areas where the flow-on effects of

\textsuperscript{23} Russell, 2008.
businesses closing their doors has a much greater impact on the entire community than it might have in a metropolitan area.

What makes the industry vulnerable?

The nature of some factors facing the RS&R industry makes it particularly vulnerable in the current economic situation. Some of these factors which impact on the performance of businesses relate to “discretionary” considerations due to the fact that some services offered by the industry are not as essential as others, but nevertheless they are important to the viability of a business. The “discretionary” nature of parts of the industry has lead to it becoming a litmus test for other industries if the economy continues to worsen.

For example, the vast majority of business activities in the industry are undertaken by small to medium size businesses. These businesses are vulnerable to external pressures as they have smaller annual turnovers; meaning they have limited cash flow available at any given time to cover expenses such as wages. A wage increase during normal economic times could cause financial stress to a struggling small business however during a major economic downturn it could mean closure for the business.

VACC has encountered anecdotal evidence which shows that the effects of the financial crisis are now a reality for many members. VACC’s Industrial Relations Department has already dealt with a significant increase in calls regarding redundancies from its members which commenced around the middle of November 2008.

The majority of the redundancies are a result of a downturn in business or a shortage of work. Small businesses in the automotive industry do not have the cash flow to retain staff and as the downturn is beyond the control of businesses the only option to keep a business viable is to reduce overheads and unfortunately this usually means job losses. One particular member from an automotive repair business complained that consumers would put off non-essential repairs until more certain times. The member noted that the repair and service of “second cars” in particular since they are usually not essential to everyday life would be postponed until a later date even if this means the car is no longer running.

According to an article from *The Age* on 6 March 2009, the use of public transport has increased in Victoria over the last 12 months. “In the past 12 months, 30 per cent of people in Melbourne have decreased their car use and two-thirds of these people have moved to public transport”.

less people are using their cars and the inevitable spin off from this development is that there is a downturn in work and pressure builds on businesses to make cuts.

The reduced use of cars has a ripple effect throughout the automotive industry, meaning that cars are not serviced or repaired, new tyres are not fitted, cars are not filled up with petrol as well as more discretionary spending being put on hold such as cars being painted, windows tinted and after-market accessories being fitted.

Many businesses try to keep on staff by reducing hours of work because they know that if they lose skilled staff now they will have greater difficulties later recruiting qualified and experienced staff when eventually business conditions improve.

Much of the vulnerability of the RS&R industry lies in the distribution of its businesses. In December 2004 the proportion of small businesses in non-metropolitan areas was 41.1%. As mentioned in the case study of the Holden dealership in Kyneton, businesses in rural areas can be important to the entire community. The closure of a small business in a rural area can have a significant impact on other local businesses. In addition to the initial closure of the business and the unemployment which it would inevitably create, the closure is costly to other businesses which have relied upon the business to create demand for their products and services.

Summary

VACC supports the ACCI submissions that that the AFPC postpone its 2009 minimum wage review until a later date until the extent of the current economic crisis is evident and there are some economic indicators which point to the economy moving into a more positive cycle.

An increase in wages this year would impose a significant financial burden on many employers in the RS&R industry which could potentially tip a business from continuing to operate but under financial difficulties to either reducing staff or closing its doors. Because small businesses operate on limited cash flow, an unplanned or unexpected cost burden at an inappropriate time could result in the businesses being required to adopt either of these unpalatable options.

The true extent of the economic crisis is uncertain but it has already made its impact felt. This is particularly evident in the steep decline in new vehicle sales which is expected to worsen. There is clear evidence to suggest that the previous minimum wage review in 2008 is adequate to support minimum wage earners until the postponed review is made. This is

supported by the higher numbers of low-paid earners finding jobs, in comparison to higher wage earners. An increase in the minimum wage at present could have the opposite outcome to what is desired.

25 March 2009
References

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