



Master Grocers Australia Ltd

Trading as:
MGA Independent Retailers

Annual Wage Review

Submission to
**The Fair Work Commission
Wage Panel**

2016 - 2017

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1. ABOUT MASTER GROCERS AUSTRALIA (MGA INDEPENDENT RETAILERS)

MGA Independent Retailers (MGA) is a national employer industry association representing independent grocery, liquor other retail outlets including hardware, in all States and Territories. These businesses range in size from small, to medium and large, and make a significant contribution to the retail industry, accounting for approximately \$15 billion in retail sales.¹

There are 2,700 branded independent grocery stores, trading under brand names such as: IGA, IGA Xpress, FoodWorks, Foodland, Farmer Jacks, Friendly Grocers, Supa IGA and SPAR, with a further approximately 1,300 independent supermarkets trading under their own local brand names. In addition, there are numerous independent liquor stores operating throughout Australia and trading under names such as: Cellarbrations, The Bottle O, Bottlemart, Duncans, and Local Liquor, which are either single or multi-store owners. Our member's independently own hardware stores and trade under brand names including; Mitre 10 and True Value Hardware. These stores which collectively employ more than 115,000 staff are comparatively much smaller when juxtaposed against the large supermarket chains of Coles and Woolworths which combined represent approximately 80 per cent of the retail supermarket industry.

A substantial number of employees in the independent supermarket and liquor sector are employed on the minimum award rates set by the General Retail Industry Award 2010 ('GRIA'). The level of susceptibility to a wage increase is far greater on independent supermarkets and liquor stores because many of these businesses are generally small in nature, community-based, and family-run. These businesses face genuine difficulty in absorbing the costs of wage increases as opposed to their larger chain counterparts, and they struggle to maintain viability when faced with increased wages costs. Any wage increase can cause financial difficulties and this can impact on the levels of employment.

MGA thanks the Fair Work Commission ('the Commission') for the opportunity to make this submission to the Minimum Wage Panel ('the Panel') on behalf of its members for the purposes of the Annual Wage Review 2016-17.

2. EXECUTIVE SUMMARY

MGA supports an increase to the national minimum wage and modern award rates of not more than 1.1 per cent or \$8.15 (rounded to the nearest 10 cents) based on a 38-hour working week in the General

¹ PricewaterhouseCoopers, *The economic contribution of small to medium-sized grocery retailers to the Australian economy, with a particular focus on Western Australia* (June 2007), p iv

Retail Industry Award. It is not economically feasible for the independent supermarket and liquor store sector across Australia, which forms the predominant membership of MGA, to sustain an increase to award rates in excess of 1.1 per cent, following the 2.4 per cent increase in July 2016.

MGA members are awaiting a number of decisions from the Commission which is currently undertaking the Award Modernisation Process. Proposed variations concerning casual conversion, increased remote allowances, blood and bone marrow donor leave, the extension of minimum engagement for full time employees and the inclusion of overtime for casual employees all have the capacity to significantly increase wage costs.

Whilst MGA is aware that the Commission has given its decision in the Sunday Penalty Rates case and that the outcome has produced pleasing prospects for employers we understand that there is the likelihood of an appeal against the decision. Even if the decision is upheld there will be a need to phase in any adjusted penalties and therefore the benefits of the decision, if any, for employers would not be realised for some considerable time.

It is imperative that the Panel is cognisant of the value independent supermarkets and liquor stores provide to the Australian economy and to the communities in which they operate. In particular, they are a key gateway for employment which is of significant importance given high levels of unemployment amongst young Australians (those aged between 15 and 24) who, as an age group, are predominantly employed in award-reliant retail businesses.

Independent supermarkets are primarily small businesses with limited resources that operate in the most concentrated supermarket sector, where 80 per cent of the market share is controlled by Coles and Woolworths. At present Australia's inadequate competition laws provide no relief against the unwarranted market saturation, creeping acquisitions and anti-competitive tactics undertaken by the duopoly. Nevertheless, independent supermarkets and liquor stores endeavour to remain viable in unsuitable market conditions.

MGA submits to the Panel that an increase in excess of 1.1 per cent to the minimum award rates will adversely affect independent supermarkets and liquor stores. If independent retailers need to cope with an unreasonably high wage increase they will have no choice but to implement measures such as staff reductions, and the employment and allocation of more shifts to juniors in preference to senior staff members. Such adjustments would be inevitable in light of previous adjustments that have already been made.

3. LEGISLATIVE STANDPOINT

The Commission is required to undertake an annual wage review each financial year, which involves an assessment of award wages and the national minimum wage order. This function is mandated by s.285(1) of the *Fair Work Act 2009* (Cth) ('the Act').

The overarching imperative of the Commission is to “establish and maintain a safety net of fair minimum wages”² by taking into account the “minimum wages objective”. Specifically, this requires the Commission to consider:

- (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; and
- (c) relative living standards and the needs of the low paid; and
- (d) the principle of equal remuneration for work of equal or comparable value; and
- (e) providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.³

The legislative note contained in s.284(2) of the Act also specifies that the Panel must have regard to the “modern awards objective” in s.134 when varying modern award minimum wages. According to the modern awards objective, the Commission must ensure that modern awards, together with the National Employment Standards, provide a fair and relevant minimum safety net of terms and conditions, taking into account:

- (a) relative living standards and the needs of the low paid; and
- (b) the need to encourage collective bargaining; and
- (c) the need to promote social inclusion through increased workforce participation; and
- (d) the need to promote flexible modern work practices and the efficient and productive performance of work; and
- (da) the need to provide additional remuneration for:
 - (i) employees working overtime; or
 - (ii) employees working unsocial, irregular or unpredictable hours; or

² Fair Work Act 2009 (Cth), s.284(1)

³ *Ibid.*

- (iii) employees working on weekends or public holidays; or
- (iv) employees working shifts; and
- (e) the principle of equal remuneration for work of equal or comparable value; and
- (f) the likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden; and
- (g) the need to ensure a simple, easy to understand, stable and sustainable modern award system for Australia that avoids unnecessary overlap of modern awards; and
- (h) the likely impact of any exercise of modern award powers on employment growth, inflation and the sustainability, performance and competitiveness of the national economy.

Complementing these considerations are the general objects contained in s.3 which the Panel must also consider. While many of these objects overlap with the content contained in ss.134 and 284, MGA draws the Panel's attention to s.3(g) which requires acknowledgment of the special circumstances of small and medium-sized businesses.

Business competitiveness and viability is directly impacted in a negative manner by unsustainable increases to award rates of pay. This is particularly the case with respect to small businesses, which carry a large proportion of award-dependent employees and derive only modest incomes from their operations. An increase in award rates of pay will involve a direct trade-off between the livelihood of small business proprietors and individuals paid in accordance with award rates.

MGA notes that the Panel may, under s.285 (2)(b), make one or more determinations about modern award minimum wages. It is therefore open to the Panel to:

- (a) decline to make any determination about modern award minimum wages; or
- (b) make modern award minimum wage determinations specific to particular modern awards.

The ability to grant a differential increase for one or more modern awards is within the purview of the Commission's powers. This would consequently allow those industry sectors, such as retail, which will be most affected by an increase to the minimum award wage, to be granted an exemption from any increase to the designated modern award.

MGA notes that there is no overriding obligation imposed on the Panel to adjust wage rates in all modern awards. Section 284(1) of the Act provides that the Panel must 'establish and maintain' a safety

net of minimum wages, while s.285(1) and (2) only place mandatory statutory obligations on the Panel to conduct and complete an annual wage review in each financial year. It is therefore open to the Panel to make no adjustment to the minimum award rates of pay which, based on the rising unemployment levels in Australia and competitive business environment, is not unreasonable in the circumstances.

Nevertheless, the reasons predicating a minimal increase in the vicinity of 1.1 per cent for GRIA-reliant employers will be considered in this submission. It is MGA's considered opinion that an increase of this nature will adequately satisfy the Panel's considerations, and ensure the continued sustainability of independent supermarkets and liquor stores in Australia.

4. THE VALUE OF INDEPENDENT SUPERMARKETS

The supermarket and grocery sector is the largest contributor to retail turnover and it has grown consistently over the last two decades.⁴ Independent supermarkets constitute around 17 per cent of the supermarket industry.⁵ For these stores, wage costs, including the payment of penalty rates, are significant factors in assessing their viability.

More than 115,000 individuals are employed in the independent supermarket industry, either on a full-time, part-time or casual basis, and working across a seven day working week. Given that almost 285,000 people are employed in grocery retailing (including supermarkets) accounting for almost one-quarter (23.9 per cent) of all retail industry employment in Australia⁶, the value of independent supermarkets cannot be downplayed.

To ensure job stability, increased workforce participation – particularly in circumstances of an increasing national unemployment rate – and the overall performance and competitiveness of the national retail sector, MGA submits that the Panel considers the wide-reaching benefits of the independent supermarket sector.

Despite struggling for survival against the likes of Coles and Woolworths, independent supermarkets play a fundamental role in the communities in which they operate, as they are heavily committed to

⁴ PricewaterhouseCoopers, *The economic contribution of small to medium-sized grocery retailers to the Australian economy, with a particular focus on Western Australia* (June 2007), p iii

⁵ Ferrier Hodgson – Ferrier's Focus May 2011, from *Wesfarmers and Woolworths annual reports 2010*, NARGA November 2010 Report, *Master Grocers Australia December 2010*

<http://www.stuartalexander.com.au/aust_grocery_market_woolworths_coles_wholesale.php>

⁶ ABS, *Labour Force Survey – Detailed Quarterly – May 2013*, Catalogue No. 6291.0.55.003, Data cube E06, Employed Persons by Sex, Industry, State, Status in Employment.

supporting their employees, many of whom include working mothers, tertiary students, school children, trainees and apprentices. Further, independent supermarkets are a key means for developing transferable job skills (e.g. interpersonal and communication skills) which enables employees who work in the industry to better enhance their abilities and qualifications, thereby contributing to social and economic participation. The flexibility which they offer by way of employment options – offering both permanent and casual positions – as well as providing opportunities to those who wish to aspire to managerial levels, denotes their importance in encouraging and increasing labour force participation.

Independent supermarkets enhance competition and consumer choice which is fundamental in Australia given the market concentration in the supermarket industry. Independent supermarkets have variable price merchandising, product selection, convenience and customer service, so as to offer customers a different and more distinct experience in grocery shopping.

The ability for independent supermarkets and liquor stores to compete is hindered in an environment where heavy discounting practices have become a common practice instituted by the chains. Unlike their large chain counterparts, independent retailers cannot implement cross-subsidisation mechanisms as many of these retailers are single store owners. Additionally, their reliance on the GRIA means they are susceptible to any wage increase which has the corollary effect of increasing the magnitude of penalty and overtime payments. In comparison, stores such as Coles and Woolworths operate under enterprise agreements with more beneficial penalty rates and overtime loadings provisions.

The financial prosperity of independent supermarkets is crucial to sustaining their businesses. These independent supermarkets source a greater proportion of their goods and services from local producers and local service providers (e.g. local accountants, local printers, and local storage, warehousing and wholesalers), and account for a larger proportion of grocery employment than the market share they hold. In contrast, these types of support services would likely be procured interstate or centrally by other major grocery retailers. Therefore, as Pricewaterhouse Coopers validly points out in its report on the economic contribution of small to medium-sized retailers to the Australian economy:⁷

The local businesses and employees supported by independent retailers, and the communities in which independent grocery retailers operate who gain significant social and community benefits as a result of the economic participation of small to medium sized enterprises, would be adversely impacted by any reduction in their market share.

⁷ PricewaterhouseCoopers, *The economic contribution of small to medium-sized grocery retailers to the Australian economy, with a particular focus on Western Australia* (June 2007), p 45.

Small business owners in the independent supermarket industry operate in an award-reliant industry and often earn less income than their employees – despite working longer hours, having more experience, and making significant capital investments. Operating a business is not devoid of significant psychological stresses which will only be compounded by rising wage costs. Owning and operating a business comes with significant liability, and for many MGA members, if an analysis was undertaken between the hours invested in working in their store and the profits yielded at the conclusion of each week, many retailers would be found to be earning below the national minimum wage or the minimum modern award wage.

A growing trend in recent years is the introduction and prevalence of self-service checkouts in the chain supermarkets. This results in increased productivity levels from a purely statistical point of view. However the capacity for independent retailers to adopt these mechanisms is limited. Self-service checkouts result in a reduced number of retail jobs and therefore the independent sector remains critical in halting the unabated unemployment level growth. Any apparent improvement in aggregate labour productivity does not automatically translate into an immediate capacity to increase award wages more rapidly, particularly if the statistics are being generated from retailers that are phasing out the human element associated with customer service.

MGA submits that the Panel be cognisant of the fundamental importance of independent supermarkets in the Australian economy, in determining that there should be a wage increase of not more than 1.1 per cent. An increase of this nature will ensure these businesses remain economically sustainable to continue serving the communities in which they operate and contribute to the domestic economy.

5. THE RETAIL INDUSTRY

The retail industry is a significant contributor to Australia's economy and employment levels. There are more than 133,000 retail businesses in Australia, contributing around 5 per cent of gross domestic product and 9 per cent of total hours worked in the Australian economy.⁸ Food retailing – the bulk of which in terms of turnover comes from supermarkets and grocery stores – accounted for around 48 per cent (\$108.2 billion) of total retail turnover in 2013-14.⁹

⁸ Productivity Commission 2014, *Relative Costs of Doing Business in Australia: Retail Trade*, Research Report, Canberra, p 2.

⁹ *Ibid* p. 38

Approximately 95 per cent of all retail businesses are either non-employing or small businesses (1 – 19 employees)¹⁰, and around 51 per cent of retail employees work in a full time capacity, with the remaining portion working either on a part-time or casual basis.¹¹ Despite generating \$69.7 billion in economic output, the retail industry’s contribution to the overall economy has been declining, albeit slightly, over the past decade.¹²

The Australian retail sector, particularly independent supermarkets, employs a far greater proportion of the least-skilled and most vulnerable workers in Australia, including youth, students, single parents, non-primary income earners in households, trainees, apprentices, and mature-aged workers returning to the workforce. As stated earlier in this submission, more than 115,000 individuals are employed in the independent supermarket industry across a variety of roles, and this represents a significant proportion of all employees employed in grocery retailing as a whole.

The retail industry, as distinct from other private sector industries, employs a high proportion of award reliant employees. The Commission’s Research Report 1/2017¹³ at 3.22 refers specifically to the retail industry as one of the highest award reliant industries in Australia, with 37.2 per cent of the industry being award reliant. Clearly the retail industry forms a critical component of the overall national economy.

A substantial majority of independent supermarkets and MGA members are reliant on the GRIA, and MGA submits that the Panel be mindful of the impact of any wage increase on award-reliant industries. In support of this point, MGA refers to the Panel’s 2009-10 Annual Wage Review decision, wherein it accepted that:

*for some employers, particularly in award-reliant industries, there will be cost increases arising from the application of modern award wages and conditions. And this is clearly a relevant consideration for us.*¹⁴

Increases to the award rates of pay effectively magnify the labour costs associated with retail businesses which put a further strain on their operations.

¹⁰ ABS, *Counts of Australian Businesses, Including Entries and Exits, June 2010 to June 2014*, April, Canberra, Catalogue No. 8165.0

¹¹ ABS, *Labour Force, Australia, Detailed, Quarterly, Nov 2014*, Catalogue No. 6291.0.55.003.

¹² Productivity Commission 2014, *Relative Costs of Doing Business in Australia: Retail Trade*, Research Report, Canberra, p 37.

¹³ Fair Work Commission Award Reliant workers in the household income distribution Carlos Jimenez and david Rozenbes February 2017 page 14

¹⁴ [2010] FWA FB 4000, 291.

If there are heavy wage increases in Award-reliant industries there will be an effect on the national economy, including productivity, business competitiveness and viability, inflation and employment growth. The capacity of an independent supermarket or liquor store to pay its workers is determined by the prices of its products, any changes in productivity, the level of industry competition, and basic operational expenses. The burden of any heavy award increase in the GRIA is ultimately placed on the retailer who will be under pressure to increase wages to ensure staff retention, or to increase prices which will affect overall viability.

The supermarket industry in Australia is highly competitive. It is clear that the independent supermarket sector is particularly award reliant and that makes the task of meeting higher wages even more demanding for employers as they struggle against their rivals who generally have enterprise agreements. The competition is made more intense by the ability of the chain stores, such as Coles and Woolworths, to utilise their buying power to buy up land and force highstreets to close down and businesses to disappear. As wages increase and the cost burden becomes more demanding smaller businesses are unable to cope with the pressures of increased wages

MGA submits that while the independent supermarket and liquor store sector is a substantial contributor to Australian employment as a whole, its longevity in maintaining high employment levels will be greatly assisted by awarding a minimal wage increase to the GRIA of no more than 1.1 per cent.

6. THE IMPACT OF AWARD MODERNISATION AND THE REVIEW OF MODERN AWARDS

The highly labour intensive nature of the retail industry means workplace regulations have an inevitable impact on workplace practices and productivity.

Since the GRIA was established as the national award for retail industry penalty rates have been standardised across the country, with some awards in South Australia, NSW and Queensland having penalty rates increases for weekends over a period of 5 years. Award rates have also consistently risen over that period of time, since the completion of the modern awards transition. Keeping in mind that both Coles and Woolworths have their own enterprise agreements, this indicates that a significant portion of independent supermarkets are reliant on the GRIA to dictate wages and terms and conditions of employment.

The large scale increases in labour costs associated with wage increases in recent years have been borne by small businesses as opposed to their large counterparts (e.g. Coles and Woolworths) whose operations are governed by enterprise agreements with favourable penalty rates. The discriminatory nature of the award modernisation process ultimately exposes the difficulties faced by small businesses and places them at the mercy of the Panel's wage decision.

The most significant possible change to the GRIA in recent years is the decision by the Full Bench of the Fair Work Commission to reduce the Sunday Penalty rate. Whilst the Full Bench of the Fair Work Commission recently handed down its decision to reduce the Sunday penalty rates¹⁵ there remains the strong possibility that there will be a challenge to the decision. This would of course result in a delay to the implementation of the any benefit that might be derived from this progressive step. In any event even if the appeal is unsuccessful and the original decision stands, there would inevitably be a delay in the implementation of any positive employer benefits as the decreases in the rates are likely to be over a four year period. In the circumstances MGA submits that the Sunday Penalty rates decision should not be given any significant consideration in determining wage increase in the current review. There remain a number of outstanding issues still being reviewed in the Fair Work Commission as part of the in the most recent four yearly review of the modern awards. MGA is still waiting for the outcome of such applications as casual conversion, blood and bone marrow donation leave, proposed increases in remote allowances and family and domestic violence leave. Whilst each of these applications may have merit in some regard, from a financial perspective any increases to the award in each of these applications would have significant impact on the viability of independent retailer businesses.

Although is not a matter for the Wage Panel it should be borne in mind that retailers also feel the impact on their financial sustainability when State Governments suddenly decide to increase the number of public holidays, causing retailers to pay higher public holiday penalty rates .

7.

ECONOMIC EFFECT OF A WAGE INCREASE

Increased award rates negatively impact on the ability of employers to provide sufficient hours of work. Retail Employers often manage increases in award rates of pay by reducing the number of hours offered to their employees, and in many instances take on that work themselves to mitigate the cost burden.

¹⁵ 4 Yearly Review of Modern Awards – Penalty Rates – Hospitality and Retail Sectors [2017] FWCFB

As part of preparing this submission, MGA conducted a survey of its 2,500 members in January to February 2017 to obtain tangible evidence on a range of issues including ascertaining the impact of a wage increase on members' operations, and the impact of the 2.4 per cent in July 2016 on their businesses.

Approximately 54 per cent of respondents to the survey were small businesses with up to 20 employees, and overall, approximately 91 per cent respondents to the survey were enterprises with 50 or less employees.

The survey was voluntary and conducted anonymously, which strengthened its integrity and allowed for increased honesty in the responses. By way of a summary, the survey produced the following results:

- Around 77.9 per cent of respondents were reliant on the GRIA to determine wages and conditions of employment, and an additional 14.5 per cent operated under an enterprise agreement.
- More than 95 per cent of respondents stated that the 2.4 per cent increase in July 2016 had a moderate to severe effect on business operations.
- In relation to the impact of the 2.4 per cent wage increase in July 2016, nearly 68 per cent cited an inability to increase staff numbers, and around 38.5 per cent were compelled to reduce staff.
- The two most prevalent issues that had a severe impact on the business operations of the survey respondents in the preceding 12 months were the increased costs of 20 year old increase in pay (74 per cent) and energy costs (65 per cent).
- Around 49.3 per cent of respondents are likely to reduce staff numbers in the event the Panel awards a wage increase as part of the review.
- Energy costs, competition and increases to 20 year old employee's pay are the three most severe economic factors concerning the respondents in relation to their business.
- At this time approximately 98 per cent of respondents do not offer self-serve checkouts in their supermarkets.

Since its inception, the Panel has awarded wage increases which have exceeded the comparable CPI increase, thereby compensating workers to a greater degree than what would otherwise have been required to alleviate the inflation increase over the same period.

The ongoing viability and prosperity of businesses, particularly small businesses in award-reliant sectors, must be at the forefront of the Panel's deliberations as it is the employer that must invariably fund any wage increase. With labour market conditions weak and as unemployment levels remain high

a greater sense of value must be placed on job creation. Having a higher national minimum wage and award rates in place becomes meaningless if the jobs that pay them disappear and the opportunities for recruitment dry up.

Accordingly, if the Panel does decide to award an increase to the national minimum wage and modern award wages, then it should be modest, in keeping with projected inflation (currently standing at 1.5 per cent), and take into account the over-compensation provided in past decisions. This will ensure that the increase is in line with the pay rises that individual employers could realistically offer employees were they individually charged with making the decision rather than it being mandated under a centralised wage-setting system which does not adequately perpend salient factors such as the faltering economy, rising unemployment and underemployment levels, increasing business pressures, and stagnation across key industry sectors.

Independent retailers are particularly hit hard when State Governments increase the number of public holidays in the year or they take away trading hours that retailers rely on for their sustainability. Queensland and Victoria have been particularly hard hit in the last two years. Queensland is likely to have additional trading hours handed to rival supermarkets by the Government and Victoria has had two additional public holidays added to the already long list of holidays that require large additional penalties. MGA is aware that these are State based factors but nevertheless it is submitted that they should be taken into account when increased wages are being considered.

MGA respectfully submits that if there is a wage increase of no more than 1.1 per cent in 2017, this would enable employers to better absorb increased costs, maintain employment levels, and avoid increasing product prices.

8. UNEMPLOYMENT RATES

The higher the number of people participating in the workforce or the more hours worked, the higher the potential output that can be produced. Higher labour force participation can also reduce the financial pressures associated with providing welfare support as well as promoting social inclusion and equity goals. Therefore it is essential to ensure that any decision by the Panel should not jeopardise the ability of businesses to create jobs.

In January 2017 the unemployment rate remained steady at to 5.7 per cent demonstrating Australia's weak labour market conditions. Whilst fulltime employment fell to 8,125,700 part time employment increased to 3,872,500. Unemployment therefor decreased by 0.1pt.¹⁶ However in February 2017 the unemployment rate rose to 5.9% which is the highest level in over a year. The economy lost approximately 6500 jobs during the month of February 2017. There has been a marked transition from full time employment to part time employment demonstrating that there is a considerable number of people looking for additional hours of work. The economy is showing a rise in underemployment leaving millions of people who are working an insufficient number of hours. The State of Queensland is showing the highest level of unemployment at 6.7% and South Australia a close second at 6.6%.¹⁷ Last month Gary Morgan from Roy Morgan Research, in reference to the January unemployment figures, wrote, "For the first time the total Australian employment rate exceeded 12 million in January -12,120,000 (up 221,000) and part time employment 4,035,000 (up 147,000. January) and also marked the first month 8 million Australians are employed full time."¹⁸ A significant increase in wages will make it difficult for small businesses to increase job opportunities and the higher unemployment growth consequently makes it imperative to retain wages growth at a sustainable level. Therefore MGA submits that a wage increase of no more than 1.1 per cent in 2017 would still maintain that steady growth in wages while encouraging businesses to continue to employ more people than might otherwise be possible with a greater increase.

The trend in Australia's unemployment rate is influenced by the high youth unemployment rate. A strong contributor to the high unemployment rate in Australia is the continued trend of high unemployment amongst young persons. For young Australians in regional areas, a cooling of the mining industry has hurt job prospects placing a greater reliance on other industries. One of the largest sources of employment particularly in rural Australia is for young people to work in the local supermarket. The shift in Australia's regional mining opportunities has reaffirmed that Independent retail stores remain a key entry point for young workers into the labour market and into lasting employment. Any wage increase will place increased limitations on those opportunities as retail employers struggle to maintain wage margins.

The Brotherhood of St Laurence maintains a watch on the difficulties faced by young Australians in trying to obtain work in areas drained of employment opportunities. A recent report from the Brotherhood of St Laurence¹⁹ indicates that in outback Queensland, including places such as Cape York,

¹⁶ ABS 6202.0 Labour Force Jan 2017 16/02/2017

¹⁷ ABS 6202-0 Labour Force Australia February 2017 16/3/17

¹⁸ [Http://www.roymorgan.com/findings/7317-australian-unemployment-estimates-january-2017-20170281553](http://www.roymorgan.com/findings/7317-australian-unemployment-estimates-january-2017-20170281553)

¹⁹ Brotherhood of St Laurence "Youth Unemployment 'hotspots' across the nation mapped- rural and regional areas under the most pressure" March 2016

Aurukan, Weipa, Mt Isa, Longreach and Charleville the unemployment rate was as high as 28.4 %. In many of these places there are small local supermarkets that struggle to maintain their viability but nevertheless employ young people. Higher wages will make it difficult to help alleviate some of the stress that is being experienced in these areas.

It should be noted that it is not just regional Queensland that suffers from the low youth employment opportunities but every State of Australia is suffering the same difficulties. For example, the Report's statistics show that the South Eastern Region of Tasmania has a youth unemployment rate of 19.6%, the Southern Highlands of NSW has a youth unemployment rate of 18.4% and areas around West Melbourne have a youth unemployment rate of 17.3%.²⁰ These are just sample statistics of a few areas and they are indicators of a much wider problem. As previously stated by the Brotherhood of St Laurence in its many annual Reports "A prolonged period out of the workforce for a young individual places them at risk of a life sentence of poverty and exclusion from the mainstream of our society. An adequate living standard depends on having sufficient paid work. Unemployment is the chief cause of relative poverty and social exclusion in Australia. The social consequences of extended joblessness, especially for families, are considerable and well known".²¹

The independent retail sector remains one of the few entry-level job paths for young people, as the economy shifts its focus more on services such as education and knowledge industries including information technology and health care. It is clear that although in 2016 there appeared to be a boost in employment figures, job losses across both resource and construction sectors in 2016 have caused negative impacts on employment rates. The capacity of other industries to absorb those job losses will be reliant on the FWC taking a modest approach to any increase to modern award wage rates.

10. DOMESTIC ECONOMIC OUTLOOK

MGA's submission for the Panel to implement a wage increase of no higher than 1.1 per cent is influenced by the uncertainty that Australia and many other countries are facing at the present time.

Despite the expectation that the Australian dollar would fall this year, it has in fact started to rise. This must be attributed to the changes that are being felt across the international political spectrum. The Australian dollar was expected to dip below 70 US cents but it is currently at 77 cents due to the United States decision to increase interest rates in March 2017.

²⁰ Ibid page1/4

²¹ Brotherhood of St Laurence, *Australian Youth Unemployment 2014: Snapshot*, Melbourne, 2015, p 6

Inflation was low in December 2016 and remains around 1.5% over the last year. The low inflation according to the Reserve Bank of Australia reflects “weak labour growth, low inflation expectations, heightened competitive pressures in some product markets and low rent inflation due to increases in the stock of housing”²². The Reserve Bank of Australia sees inflation expectations remaining low in line with the inflation outcome over the last year.

A number of factors are impacting on the economy at the present time as the United States adopts a policy of protectionism. The European markets are being affected by the decision in Great Britain to exit the European common market and there are a number of other countries in Europe that are also looking to exit the European market. How this will impact on the domestic market is yet to be determined. The Chinese economy has shown a stronger outlook and due to increased activity in the housing market is showing an increased demand for steel and iron ore from Australia.²³

The Reserve Bank has stated that the forecasts for the year end 2017 GDP growth are lower over the next three quarters than those presented late last year. GDP growth is expected to increase to 2.2% - 3.2 % in late 2017.

The domestic retail sales market remains slow moving. There is increased tourism to Australia and this will no doubt provide some assistance to the markets. Unfortunately, this does not necessarily assist the supermarket industry where the competition remains extremely high. Not only are independent retailers forced to compete against the might of larger stores such as Coles and Woolworths but also the growth of the overseas store now in the market, namely Aldi. There is also strong speculation that another German based supermarket retailer will enter the Australian market in the near future. Whilst independent retailers remain competitive it makes their ability to cope with increased wages more difficult.

To maintain the expected growth in employment and demand, MGA is proposing a modest increase in the minimum wage to allow businesses to continue to confidently engage new staff. Past significant wage increases have created uncertainty in the retail sector and employers remain cautious following previous increases to wage rates, 20 year old rates and apprentice rates. The employment market also remains vulnerable to a decline in the dwelling construction cycle.

MGA submits that there are considerable challenges facing retailers and seeks that a degree of caution be exercised in respect of increasing wages for the next financial year. The impact of higher wages in one of the most important sectors of the economy has the potential to have a detrimental effect on

²² Reserve Bank of Australia Statement on Monetary policy February 2017 page 51

²³ Ibid page 60

Australia's improving financial conditions including the projected rates of employment. Therefore MGA wishes to reiterate that a modest increase of 1.1 per cent will help protect the gains in the Australian economy while ensuring job security and growth within the sector.

11. CONCLUSION

Independent supermarkets have been challenged throughout the 2016-2017 financial year with increasingly unfair competition within the industry. The modern award review is also continuing into the second half of 2017 with the General Retail Industry Award set for several changes that will, if successful, be likely to increase the cost of operating a supermarket. Our members have worked tirelessly to cope with these challenges while continuing to best serve their communities.

Our member's stores have also remained the point of entry into employment for countless employees across Australia, including in those areas around Australia that see exceptionally high youth unemployment. The majority of independent supermarkets and liquor stores that make up our members are small businesses and employ staff under the Award. Therefore they are more susceptible to the economic pressures that flow from increases to the national minimum wage. Any increase to the national minimum wage will therefore be felt by our members and has the capacity to detrimentally affect the industry and its employees.

In light of previous wage increases, MGA members have already engaged in various practices in an effort to cope with the rising costs of operating their business, including staff reductions, reducing employment hours and/or seeking to employ only junior staff. However these cost saving efforts are not sustainable.

MGA urges the Panel to consider these factors and not award an increase to wages in 2016 in excess of 1.1 per cent, so as to allow independent supermarkets and liquor stores to remain viable and serve as a staple source of employment in Australia.

MGA sincerely thanks the Fair Work Commission for this opportunity to make a submission to the Minimum Wage Panel for the purposes of the Annual Wage Review 2016-17.

Jos de Bruin



**CEO
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March 2017**