



National
Retail
Association

FAIR WORK COMMISSION

ANNUAL WAGE REVIEW 2019-20

SUBMISSIONS OF THE
NATIONAL RETAIL ASSOCIATION
LIMITED, UNION OF EMPLOYERS

27 MARCH 2020



The National Retail Association Limited, Union of Employers (**NRA**) welcomes the opportunity to represent its members, and the Australian retail sector more broadly, in the Annual Wage Review 2019-20 (**the Review**).

The NRA is the voice of modern Australian retail, representing approximately 6,000 member businesses over 28,000 retail outlets, comprising traditional retail, online retail, and mixed channel retail.

It is the view of the NRA and its members that Australian businesses cannot sustain any increased cost pressures either at this time or for the foreseeable future.

As such, we ask that the Expert Panel either defer any determination arising from the Review, or alternatively make no change to minimum wages. The current situation facing the national (and indeed global) economy is such that no decision by the Expert Panel to increase minimum wages, or the size of any such increase, could be considered sound, defensible or well-founded.

1. COVID-19 – an unprecedented economic crisis

- 1.1. The Australian economy had already been shaken by the bushfires and floods that ravaged the nation in the summer of 2019-20. With the advent of COVID-19, Australian businesses face an economic crisis that is unprecedented.
- 1.2. The rapid and widespread economic decline now confronting the nation shows no signs of abating, despite the fiscal shock responses currently being implemented in Australia and around the world.
- 1.3. The social distancing requested by the Prime Minister and National Cabinet has hit many small and medium retailers hard. Supply lines are being affected, customer numbers are in free fall and – whether by government decree or by the cruel facts of economics – many of them will be forced to close their doors in coming weeks. For many, those doors will never open again.
- 1.4. Those businesses large enough to survive are also shedding staff at a rapid rate in order to do so. In this environment, retail business owners cannot possibly absorb a wage increase. Indeed, even the consideration of increasing wages at this point is merely adding more trauma and stress to what is already an extraordinarily difficult business environment for many small operators.
- 1.5. While some may argue that sections of the retail sector are profiting from recent consumer behaviour, it should be remembered that:
 - a) these are the minority of businesses by number, and by employment numbers; and
 - b) many of those larger businesses have enterprise agreements in place and may not be immediately affected by award increases.
- 1.6. If retailers are required to pass on an increase to minimum wages at the same time as experiencing a severe contraction in revenue in a weakened economy, the likely outcome is that employees will lose their positions and thereby increase unemployment, reliance on welfare, and a further reduction in discretionary spending.
- 1.7. This is not mere conjecture; it is already happening.



2. Retail continued to lag even before the pandemic

- 2.1. Even before COVID-19 reached Australian shores, the Australian retail sector was lagging behind other sectors. This was certainly not helped by the bushfires and floods of the summer of 2019-20.
- 2.2. Although increasing efforts are being made throughout the retail sector to engage in competition on such attributes as design, style, aesthetic and brand ethics, the most significant point of difference between competing products and brands remains price.
- 2.3. As more businesses enter the market, the need to compete on price as well as in other areas is heightened, and certainly in practical terms a price response is often the only means by which a business may compete in the short term.
- 2.4. The result of this is that margins in the retail sector continue to decline, with net margins for food and non-food retailing declining by approximately 1.75% since 2011/12.¹
- 2.5. Whilst this may seem a relatively small decline, this means that the net margin for food retailing as at the end of 2017/18 was just under 5%, and the net margin for non-food retailing was just under 4%.²
- 2.6. In terms of gross margins, non-food retailing in particular has suffered, with a reduction in gross margins of 6% between 2011/12 and 2017/18.³
- 2.7. Although the tourism industry felt the first effects of COVID-19 most keenly in the form of travel bans, retailers supporting or relying on tourist trade also experienced financial strain at that early stage.
- 2.8. In terms of turnover, the Australian Bureau of Statistics recorded a decline in sales of 0.7% (seasonally adjusted) in the month of December 2019, and a further 0.3% in January 2020. Once again, these may not seem like large numbers, but annualised they represent a 6.0% reduction in sales. This is a very significant challenge for the retail industry to overcome, even before the impact of COVID-19 is felt.

3. Labour costs continue to be significant for retail businesses

- 3.1. The Productivity Commission in 2014 identified that, notwithstanding the variety of cost structures throughout the retail sector, labour and occupancy costs were the most significant costs of doing business in the retail sector.⁴
- 3.2. The Reserve Bank of Australia noted more recently that this trend is continuing, with labour costs still being the largest single component of the cost of doing business in retail.⁵

¹ Carter M (2019), *Competition and profit margins in the retail trade sector*, Reserve Bank of Australia Bulletin, June, page 116

² Ibid

³ Supra, note 1 at page 117

⁴ Productivity Commission (2014) *Relative Costs of Doing Business in Australia: Retail Trade* at page 62. Retrieved from <http://www.pc.gov.au>

⁵ Supra, note 1 at page 120



3.3. It is for this reason why the variation of labour costs, especially in a time of severe economic stress, is such a critical concern of retailers.

4. Recent events render earlier economic information/forecasts unreliable

- 4.1. In its Mid-Year Fiscal and Economic Outlook in December 2019, the Australian Government predicted a return to budget surplus, noting that while drought and bushfires had contributed to a reduction in GDP growth, GDP was still predicted to be 2.25% in 2019-20 and is expected to strengthen to 2.75% in 2020-21.⁶
- 4.2. However, the impacts of bushfires since December 2019 and the advent of COVID-19 “materially affect (the Australian Government’s) assessment of the economy.”⁷
- 4.3. The economic impact of the bushfires over the summer of 2019-20 is expected to reduce GDP growth by 0.2%, with most of this impact being felt in the March quarter.⁸ Whilst it may be hoped that the economy may recover from this as spending in bushfire-affected areas increases into the June quarter, the effect of COVID-19 may well inhibit further growth for the foreseeable future.
- 4.4. Although the Australian Government’s assessment of the economic impact of COVID-19 is ongoing, preliminary estimates are that the effect of this will be a reduction in GDP growth of at least 0.5% in the March quarter, however this estimate contemplates only direct impacts and does not account for broader impacts such as supply chain disruptions.⁹
- 4.5. As such, the economic impact of COVID-19 may well be greater than currently estimated. It is noted by the Australian Government that at present, it is too early to tell what the full economic impact of COVID-19 will be.¹⁰ However, it is acknowledged that COVID-19 creates and increases risk of a prolonged economic downturn.¹¹
- 4.6. Indeed, recent data indicates that almost half of Australian businesses are suffering adverse effects from the COVID-19 pandemic, and 86% of businesses expected to be adversely affected in the coming months.¹²

In the face of the present dynamic circumstances, in which there is no degree of certainty as to the short- or long-term economic implications, the NRA submits that there is no reliable data currently in existence on which the Expert Panel may reasonably rely upon in making a determination to increase minimum wages, or the size of any such increase.

⁶ Commonwealth of Australia (2019) *Mid-Year Fiscal and Economic Outlook* at page 3. Retrieved from <https://budget.gov.au/2019-20/content/myefo/index.htm>

⁷ Kennedy S (2020) *Opening Statement – March 2020 Senate Estimates*, Secretary to the Treasury, 5 March at page 2

⁸ *Ibid* at page 3

⁹ *Ibid* at page 4

¹⁰ *Ibid* at page 5

¹¹ *Ibid*, at page 6

¹² Australian Bureau of Statistics (2020) *Business Indicators, Business Impacts of COVID-19, March 2020*, cat. no. 5676.0.55.003, viewed 26 March 2020,

<https://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/5676.0.55.003Main%20Features1March%202020?opendocument&tabname=Summary&prodno=5676.0.55.003&issue=March%202020&num=&view=>



In these uncertain economic circumstances, the NRA again urges the Expert Panel to defer any consideration of an increase to minimum wages, preferably for 12 months but for a minimum of 6 months, in order to allow a true assessment of the prevailing economic conditions.

If the Expert Panel is of the view that it is not empowered to delay its determination, then the NRA submits that there should be no increase to minimum wages in the present Review.

Yours sincerely,

A handwritten signature in black ink that reads "L. Carroll".

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