

AUSTRALIAN RETAILERS ASSOCIATION (ARA)
SUBMISSION TO THE FAIR WORK COMMISSION WAGE PANEL
FAIR WORK AUSTRALIA ANNUAL WAGE REVIEW 2020-2021

The Australian Retailers Association (ARA) is pleased to have the opportunity to contribute to the Annual Wage Review (AWR).

The ARA is the retail industry's peak body. The retail industry is a \$340 billion sector employing more than 1.2 million people¹. The ARA advocates for and supports around 7,500 independent, national and international retail members.

As a leading contributor to Australia's economy, ARA's membership ranges from the country's largest food and grocery retailers and department stores to specialty retail, electronics, food and convenience chains as well as independent operators – over 95 per cent of our membership are small and medium size businesses.

The retail sector experienced immense challenges throughout the COVID-19 pandemic, and the retail recovery has been uneven. The retail community was impacted by enormous business disruption and volatility during lockdowns, with significant variations in lockdown approach and duration between each state and retail sub-sector. Whilst household goods and essentials performed strongly through 2020 as consumers stayed at home, recording double digit growth over the course of the year, other categories suffered, particularly discretionary retailers. The clothing, footwear, and personal accessories category suffered a 65 per cent YOY decrease in April 2020², recording negative growth for most of the year, as did cafes, restaurants and takeaway food. These negative results were compounded in states most affected by the duration and frequency of lockdowns such as Victoria.

Whilst there has been encouraging performance in recent months amongst many categories of retail, these results follow a challenging period for the retail sector pre-pandemic which included natural disasters over the 2019-20 Australian summer – drought, bushfires, and flooding in parts of the country.

During the pandemic, significant government stimulus, mainly in the form of the JobKeeper and JobSeeker schemes, helped to generate overall retail spending growth. While the Australian Government's support packages were gratefully received, as many of these programmes have concluded, significant spending power has been removed from the economy. Until sufficient data is available from the end of JobKeeper, we believe there is insufficient information on which to base an evaluation on minimum wage changes.

Despite the strong performance within overall retail during this stimulus period, significant recovery challenges remain within parts of our sector. CBDs remain severely impacted by reduced foot traffic compared to pre-pandemic levels, particularly in Melbourne and Sydney. Property Council figures indicate office occupancy in March 2021 remains at only 35 per cent

¹ Australia Bureau of Statistics 2021, 6291.0.55.003, Labour Force (Quarterly), 'Table 04. Employed persons by Industry division of main job (ANZSIC)', February 2021.

² Australian Bureau of Statistics, Retail Trade, Australia, April 2020, 'Table 12. Retail turnover, state by industry subgroup, seasonally adjusted'

in Melbourne, and 50 per cent in Sydney³, and groups such as international students and tourists also remain largely absent. Travel retailers operating in the nation's airports have also been omitted from government support packages despite continued closures of international borders. Airport passenger numbers are down 71 per cent compared to 2019 and the recent frequency of snap lockdowns continues to deter domestic passengers from booking flights.

Further, all retailers have recently had to absorb the increased employment costs of a 1.75 per cent rise to minimum wages and awards, effective from 1 February 2021, with the impact beginning to be felt at a time that most other support measures have concluded.

As JobKeeper concluded end of March 2021, we are yet to see economic data which reveals the impact of the end of this program on challenged retailers within the sector. The conclusion of JobSeeker will also impact retail spending in the coming months.

OVERVIEW

Australia's retail sector comprises over 130,000 retail businesses⁴, which employ 1.2 million people; retail is Australia's largest private industry employer, and the second-largest employment sector overall after Health. Retail provides Australians with significant opportunities to enter the workforce, support themselves through study or transitory periods in their lives, or to pursue fulfilling, prosperous, and rewarding long-term careers.

Retail is also a key industry for female workforce participation, with 53.9 per cent of employees in the sector being women and is also the largest employer of young people in Australia.⁵ Further, many key frontline roles are held by women, who make up 68 per cent of all sales assistants and 75 per cent of checkout operators.

Despite the benefits associated with employment in retail, ARA members consistently rank labour costs in the top two issues of concern across the retail sector. With the recent wage increase in February 2021, alongside rising superannuation costs and the impact of labour shortages, these costs continue to accrue during this uncertain economic period.

Our members believe a contemporary workplace relations system should provide support to, and benefits for, both workers and employers. Despite the essential changes on casuals in the Federal Parliament in 2021, there is still a long road ahead for industrial relations reform in Australia.

The ARA believes this should be embodied by a system that enables managers and businesses to maximise productivity, encourages entrepreneurship and competitiveness and, consequently, increases employment opportunities.

Australian retailers continue to face difficult operating conditions. In the last 12 months, the retail sector faced unprecedented challenges due to state and federal regulations during the pandemic. Protracted and snap lockdowns and the subsequent decline in economic activity resulted in job losses and business closures, many of which are permanent.

³ Property Council of Australia, 'Half of the Sydney workforce are now back in their CBD offices', 30 March 2021

⁴ Australian Bureau of Statistics, 8165.0 Counts of Australian Businesses, including Entries and Exits, June 2016 to June 2020.

⁵ Australian Government 2020, Department of Jobs and Small Business, *Labour Market Information Portal – Retail Trade*.

The retail recovery in 2021 has been uneven. The failure of the vaccine rollout in Australia has not allowed for the predicted bounce in consumer confidence. With only 5 per cent of the population immunised, it remains unclear when international borders will reopen. Since the end of JobKeeper in March 2021, sections of the retail sector such as travel retail and CBD retail are trying to operate without financial support and without leasing protections – they have been hit hard and many will not recover. Business owners continue to face economic uncertainty without consumer confidence and without a full outlook of economic data from the end of JobKeeper, changes to the NMW will have unintended consequences for entire industry sectors in Australia.

Australia has the highest minimum wage in the OECD, which is compounded by other benefits (penalty rates, overtime, loadings).

The ARA and its members remain committed to a vision for a strong retail sector based on market environment that will foster innovative business practices freed from the burden of excessive regulation.

We remain committed to promoting retail as an exciting career choice for young people, and to developing and maintaining the highest standards of industry practice for individuals and groups at all levels, while helping members embrace new technologies and changing trading conditions.

We are focused on providing members with the information, knowledge and skills to operate more effectively in employment relations, and skills growth within an increasingly competitive retail sector exposed to international market forces and entrants.

The ARA membership, and retailers in general, have experienced significant cost pressures from international competition, reduced margins, declining growth and increased wage costs which are far higher than those faced by international competitors.

Our members range from small, family-run operations to medium and large enterprises, national chains, and franchise stores of all types and sizes. Over 95 per cent of our members are small and medium enterprises ranging from one to five stores, many of these employing fewer than 20 staff. The ARA has consulted broadly across our membership in preparing our submission for the assistance of the Expert Panel (Panel) in conducting its 2020-21 Annual Wage Review (AWR) for the National Minimum Wage (NMW) and modern Award minimum wages.

ARA POSITION

The ARA recommends the Panel defer decisions of the National Minimum Wage (NMW) until 30 November 2021. The ARA will only be able to deliver a position on the NMW once there is sufficient economic data modelling of the changes to the retail industry as a result of JobKeeper having finished along with the removal of other government stimulus measures such as JobSeeker from the national economy. JobKeeper concluded at the end of March 2021, along with the wind back of many state based leasing support schemes. The relevant data will not be available until the end of September 2021 and therefore the ARA is unable to make a fiscally sound recommendation at this time.

The ARA is of the view that decisions on NMW prior to the availability of this data would not be in the national interest nor the interests of a retail recovery, which will impact on job outcomes for many workers. We can only advise on decisions for the NMW once the

September 2021 quarterly GDP figures are made available. Retail trade data for that quarter will not become available until the beginning of November 2021.

Should there be a subsequent decision that affects the minimum wage, the ARA recommends that it be limited to no more than the rate of CPI growth over the preceding 12 months.

As Australia's largest private sector employer, the need to ensure retail businesses remain viable at all – let alone retain the capacity to retain and pay employees – is a critical consideration that must override any decision to routinely increase mandatory wage levels during an ongoing pandemic that resulted in Australia's first recession since at least the Global Financial Crisis, and perhaps since the Great Depression.

During 2020, overall year-on-year retail sales growth in Australia was 6.1 per cent, in contrast to the 50-year long term average for the sector of 3.8 per cent. However, this growth was driven by significant temporary stimulus measures which were injected into our economy to help prolong the life of businesses that might otherwise have been forced to close or significantly reduce staff. That stimulus was successful in the short-term as these figures demonstrate. However, whilst some retailers have emerged in robust shape through stimulus induced spending, many within discretionary retail, along with those in CBD and tourist locations, and those affected by prolonged forced closures in 2020 or snap lockdowns continue to severely struggle. The Covid threat continues to linger over these retailers in particular. In the longer-term, all retailers will be impacted by the reduction in stimulus spending. For example, Queensland, Western Australia, and Tasmania all recorded double digit growth while Victorian retail sales were only up 0.26 per cent year-on-year. The polarisation is exacerbated when examining discretionary spending, with the Clothing, Footwear and Personal Accessories category shrinking 8.6 per cent over the year, with Cafes, Restaurants and Takeaway Food sales falling more than 15 per cent⁶.

The recovery has been very uneven, and remains in uncertain territory. There was significant volatility during lockdowns and variations between states and sub-sectors - household goods and essentials performed very strongly through 2020 as consumers stayed at home, recording double digit growth over the course of the year. However other sectors suffered, particularly discretionary retailers. The clothing, footwear, and personal accessories category suffered a 65 per cent YOY decrease in April 2020, recording negative growth for most of the year, as did cafes, restaurants and takeaway food.

Legacy issues within the current framework continue to quell opportunities for businesses and employees to succeed, and these issues stand to be compounded by the impact of COVID-19 on the economy. While changes to employment legislation in recent years have addressed some issues, the ARA urges the Panel to use this review to help safeguard the viability of the businesses in our sector that provide hundreds of thousands of jobs.

RETAIL INDUSTRY BUSINESS CONDITIONS

After years of wage rises outstripping retail sales and price growth, the ARA's position is that the real value of the NMW is at a level which is already among the highest minimum wages across the OECD bloc. It also broadly reflects historical decisions of the Panel aligning wage rises with, or slightly above, CPI increases (with the exception of its 2016-17 decision).

⁶ Australian Bureau of Statistics 2020. Retail Trade, Australia. 'Table 12. Retail turnover, state by industry subgroup, seasonally adjusted'.

The ARA's position reflects consideration of economic risks and the state of the national economy, whilst assessing the capacity of the sector to pay. We have taken the following factors, based on conditions during calendar year 2020, into account:

- NMW settings and decisions must not exacerbate the risk of unemployment for the most vulnerable at the lowest-paid end of the labour market.
- After initial job losses, part time employment growth continues to improve while underemployment simultaneously remained high (7.9 per cent)⁷, reflecting continued spare capacity in the labour market. In Queensland, South Australia, and Tasmania, underemployment remains above 8.5 per cent.
- It has taken until March 2021 for the number of employees and hours worked to reach pre-pandemic levels, and the impact of the withdrawal of fiscal supports remains uncertain.
- Increased competition and accelerated technological disruption continued to impact on the ability of businesses to give substantial pay rises to employees in industries such as retail.

The 2020-21 AWR is occurring against the backdrop of uneven retail recovery from the economic downfall from COVID-19, many of which are facing ongoing challenges.

The ARA recommends that the Panel exercises caution when assessing increases to the NMW given the current economic climate and uncertainty for business. The past year has seen several prominent retail businesses enter administration, close down, or slash store numbers. In each case, when businesses consolidate or terminate operations due to cost imposts, the effect on employment is negative.

A further finding of ARA member surveys is that, since the end of the JobKeeper program, 37.5 per cent of respondents recorded decreases to cash flow which reflects the uneven recovery which the sector has experienced. Of the ARA's surveyed members who had previously been eligible for JobKeeper, almost a quarter were in a worse financial position than pre-Covid and 12 per cent had already let staff go as at mid-April, while one in five retailers had reduced staff hours following the end of the program. While many retailers have weathered the crisis and have performed strongly over the last twelve months, these findings do not generate confidence that the sector overall will be able to continue absorbing costs higher than the rate of inflation. Many retailers will be reliant on low operating costs and need a reasonable recovery period before there can be any return to normality. With insolvency protections having only recently concluded, it is crucial that the full impact of the pandemic be measured and considered for all businesses ahead of any proposed changes to the minimum wage.

SUMMARY

Over 95 per cent of the ARA's membership are small businesses. Most small to medium retailers are wholly reliant on Award-based workforces, any increase in the NMW in real terms would flow directly to the General Retail Industry Award. The unprecedented period of economic challenges from 2020 will contribute to job losses already occurring in the sector and exacerbate the uneven recovery experienced by sections of the retail sector. A retail recovery is critical to Australia's economic recovery.

⁷ ABS, Labour Force, Australia, March 2021.

The retail industry:

- Makes a significant contribution to the overall state of the Australian economy;
- Employs more people in Australia than any other private sector industry;
- Employs more young people than any other private sector industry;
- Is a key industry for females with over 53 per cent female employment;
- Is the most heavily reliant on Award pay **rates** than any other industry;
- Suffers a higher disproportionate effect in real NMW increases than other industries due to deregulated trading hours which result in greater prevalence of work at times which attract penalties;
- Was already in a sustained low/negative growth phase, at a time of low consumer and business confidence, before commercial risks from natural disasters and COVID-19 appeared.
- Unevenly impacted during the pandemic during 2020 and now experiences uneven recovery with small business, travel retail and CBD retail experiencing ongoing challenges.

The ARA recommends the Panel defer decisions on the National Minimum Wage (NMW) until the two quarters of economic data following the conclusion of the JobKeeper and JobSeeker programs can be assessed to allow for a more informed judgement on Australia's economic health. The Panel should assess both the June quarter's GDP figures which are scheduled for release on 1 September 2021, and ABS retail trade figures up to the end of September, which will be available in the first week of November. The ARA recommends that any subsequent decision to change the NMW be limited to no more than the CPI increase over the preceding 12 months.

The ARA and its members appreciate the opportunity to assist the Panel in its consideration of the 2020-21 AWR. For further information or comment, please contact Paul Zahra, ARA's Chief Executive Officer, by email at Paul.Zahra@retail.org.au.

Yours sincerely



Paul Zahra

CEO, Australian Retailers Association