National Retail Association

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Fair Work Commission
Annual Wage Review 2021-22
GPO Box 1994
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By email: awr@fwc.gov.au

Dear Members of the Expert Panel,

Annual Wage Review 2011-22
Submissions in reply of the National Retail Association Limited, Union of Employers

In accordance with the timetable of the Annual Wage Review 2021–22 (the **Review**), the National Retail Association Limited, Union of Employers (**NRA**) make these submissions in reply.

1. QUESTION ON NOTICE: 2022-23 BUDGETARY MEASURES

1.1. In response to the question on notice addressed to all parties regarding the 2022-23 Budget, the NRA welcomes the budgetary measures as outlined in the summary of measures information note provided by the Fair Work Commission.[1]

1.2. These measures, in conjunction with the recent changes to monetary policy as discussed below, will contribute to further easing of cost-of-living pressures during the period under consideration for the current Review.

1.3. Additionally, the 50% cut to the fuel excise can be expected to have a swift downward effect on headline CPI, which includes fuel and other highly volatile price measures.

2. PERFORMANCE OF RETAIL TRADE

2.1. The Shop, Distributive and Allied Employee's Association (**SDA**) submits that 'despite signs of a positive economic recovery and the community learning to live with COVID-19, there has been no corresponding improvement for lme workers, like retail workers.'[2]

2.2. In support of this submission, the SDA notes that retail trade 'performed strongly' over the past twelve months to February 2022, with growth in three of the last four months and yearly growth in retail trade at 9.1%.[3] Further, it notes that household spending increased by 6.3% in the December quarter 2021.

[1] Fair Work Commission (14 April 2022), *Information note – Summary of measures from the 2022-23 Budget*.
[2] SDA Submission (1 April 2022) 5 [18] ('SDA Submission').
[3] Ibid.

2.3. The SDA asserts that 'the trend of high household spending and strong retail trade outcomes is expected to continue as Australia moves past lockdowns, but this will be unsustainable if wage growth does not follow'.[4]

2.4. The SDA also refers to the submission of the Australian Council of Trade Unions (**ACTU**) that rising household consumption weighs in favour of an increase to the minimum wage because household spending supports award-reliant industries in the recovery from COVID-19.[5]

2.5. The SDA's submissions in this respect ignore the extreme volatility of retail trade figures during the relevant period. As noted in the NRA's initial submissions, seasonally adjusted retail turnover reached unprecedented highs of 24.9% in April 2021 and lows of -3.2% in July 2021.[6]

2.6. This volatility undermines the SDA's suggestion that the current strength of retail trade and household spending can be expected to continue throughout the relevant period, even notwithstanding the effects of the changes to monetary policy discussed below.

2.7. The ACTU submits that 'an increase in real wages is necessary to ensure that continued growth in household spending is sustainable, especially as the impact of improved household savings during lockdowns fades over time.'[7]

2.8. While conceding that household consumption has been 'more volatile since the start of the COVID-19 pandemic', the ACTU notes that there have always been 'strong rebounds following any negative impacts on growth' resulting from the pandemic.

2.9. Growth has followed the ends of lockdowns and the peaks of each COVID-19 variant. However, the persistent effects of COVID-19 in the form of supply chain disruptions and labour shortages, as well other recent natural disasters, negate these suggestions that the current strength of retail trade can be expected to continue with any certainty.[8]

2.10. The NRA joins with the submission of the Australian Chamber of Commerce and Industry (**ACCI**) that growth in household consumption for the December quarter does not 'reflect normal or particularly strong conditions but rather a return from the lockdowns, with pent-up demand driving stronger spending.'[9] This assessment is shared by the Australian Bureau of Statistics (**ABS**).[10]

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[4] Ibid.
[5] Ibid; see ACTU Submission (1 April 2022) 62-64 [83]-[87] ('ACTU Submission).
[6] Australian Bureau of Statistics (4 May 2022) *Retail Trade, Australia* <https://www.abs.gov.au/statistics/industry/retail-and-wholesale-trade/retail-trade-australia/latest-release#total-retail-turnover> accessed 6 May 2022; see NRA Submission (1 April 2022) [4.4] ('NRA Submission').
[7] ACTU Submission (n 5), [87].
[8] See NRA Submission (n 6) 3.1ff.
[9] ACCI Submission (1 April 2022) 17 [97] ('ACCI Submission).
[10] Australian Bureau of Statistics (2022), *Australian National Accounts: National Income, Expenditure and Product* < https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release> accessed 6 May 2022.

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3. IMPACT OF INTEREST RATES RISES

3.1. On 3 May 2022, the Reserve Bank of Australia (**RBA**) announced its decision to increase the cash rate by 25 basis points to 0.35%, the first change to official interest rates since November 2010. The stated reason for this decision is that inflation is higher than expected, with headline CPI now at 5.1% and underlying inflation at 3.7%.[11] The cash rate increase has been passed on to variable rate home loans in full by all four major banks.

3.2. The RBA has signalled further rate rises across the coming year, foreshadowing that the cash rate may eventually reach 2.5% in 2023.[12] In light of the RBA's decision, Westpac and ANZ have revised their cash rate forecasts to 2.25% by May 2023, with CBA predicting 1.60% by February 2023 and NAB predicting 2.60% by August 2024.[13]

3.3. Inflation is a lynchpin figure in the SDA's emphasis on cost-of-living pressures.[14] The RBA expects inflation to decline across 2022 and 2023 towards the 'target range' of 2-3% in response to these interest rates rises and as supply-side disruptions are resolved.[15]

3.4. These changes can reasonably be expected to have a significant impact on household spending. Commentators anticipate that the rates hikes 'will be very powerful in Australia' and that 'many households will tweak spending decisions as interest rates begin to normalise'.[16]

3.5. The retail and fast-food industries will likely be impacted proportionately more because consumption of these goods and services, apart from some non-discretionary categories of retail goods, is likely to be respond more readily to changes in household spending decisions.

3.6. At the same time, interest rate rises are likely to have a proportionately lower impact on award-reliant employees in the retail and fast-food industries who are, as the SDA points out, less likely to own homes.[17] While currently strong retail performance can be expected to weaken, the effects of rates rises in terms of the cost of living will be relatively less significant for employees in these sectors.

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[11] Reserve Bank of Australia, *Statement by Philip Lowe, Governor: Monetary Policy Decision* (3 May 2022) <https://www.rba.gov.au/media-releases/2022/mr-22-12.html> accessed 6 May 2022 ('RBA Statement').

[12] See Australian Financial Review (3 May 2022) *Cash rate rises the RBA has to have* <https://www.afr.com/policy/economy/later-cash-rate-rises-to-2-5pc-not-unreasonable-rba-20220503-p5ai17> accessed 6 May 2022.

[13] RateCity (4 May 2022), *If the RBA cash rate hits 2.5% - how much more will you pay?* <https://www.ratecity.com.au/home-loans/mortgage-news/rba-cash-rate-hits-2-5-will-pay> accessed 6 May 2022.

[14] SDA Submission (n 2) 2 [10].

[15] RBA Statement (n 11).

[16] See Australian Financial Review (28 April 2022), *How much rate rises will cost you* <https://www.afr.com/policy/economy/how-much-rate-rises-will-cost-you-20220428-p5agss> accessed 6 May 2022.

[17] SDA Submission (n 2) 3 [14]; citing Martin O'Brien, *O'Brien Report of s 285 – Annual Wage Review 2021-22* (expert report, 29 March 2022), 5 [17].

3.7. Additionally, interest rates on savings accounts are likely to increase, making saving relatively more attractive for households at the same time as spending is contracting. The household savings ratio, which in the December quarter 2021 decreased from 19.8% to 13.6%, can be expected to increase.[18]

3.8. The RBA notes that wage growth has recently picked up due to the tightness of the labour market, suggesting that while 'aggregate wages growth was subdued during 2021 and no higher than it was prior to the pandemic, the more timely evidence from liaison and business surveys is that larger wage increases are now occurring in many private-sector firms'.[19]

3.9. The NRA accepts that current wage growth, at 2.3%, is lower than headline CPI at 5.1% and trimmed mean inflation at 3.7%. However, the disparity between these figures can be expected to reduce significantly during the period under consideration for the current Review in response to the change in monetary policy discussed above.

4. PRODUCTIVITY

4.1. The SDA submits that wage growth has not kept pace with productivity gains in the retail industry, suggesting 'in a twenty-year period, labour productivity grew by 55% per hour, while wages per hour grew by only 48% - a 7% shortfall for increasingly productive retail workers'.[20]

4.2. This is an uninformative and irrelevant statistic for the Panel's consideration in view of the object of the Review to provide a 'fair and relevant' minimum safety net of award wages.[21]

4.3. Since it is not clear what data the SDA has relied on in constructing this statistic with respect to productivity, it is difficult to comment on the reliability of the statement let alone its relevance to the Panel's consideration.

4.4. Further, a point-to-point comparison of productivity growth risks significant distortion, since arbitrarily taking a different point of reference, for example one year earlier or later than 2000-01, affects the figures reached significantly without making any sensible difference in the appropriateness of the timeframe for the purposes of the posited analysis.

4.5. The ACCI notes that MFP growth was 'stable but anaemic' at below 1% in the business cycle prior to the pandemic and remained low through 2019-20 and 2020-21.[22] The NRA joins with the ACCI in submitting that '[given] the weakness of MFP and labour productivity growth in recent years… an undue or inflated increase in minimum and award minimum wages cannot be justified.'[23]

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[18] See ABS (n 10).
[19] Ibid.
[20] SDA Submission (n 2) 5 [20].
[21] *Fair Work Act 2009* (Cth), s 134(1).
[22] ACCI submission, 20-21 [108]-[113]; see ABS (13 December 2021), *Estimates of Industry Multifactor Productivity* <https://www.abs.gov.au/statistics/industry/industry-overview/estimates-industry-multifactor-productivity/latest-release>
[23] ACCI submission (n 9) 21 [113].

4.6. The Productivity Commission, to which the SDA submission refers, has noted that although labour productivity rose across the market sector in 2019-20, most industries with larger increases, including retail trade, were those that had large falls in hours worked due to COVID-19 restrictions, combined with relatively flat increases in output.[24]

4.7. The Productivity Commission further notes that COVID-19 caused structural and technological changes which may have lasting impacts on productivity, for example in movements towards online shopping, driven by investment in firms to develop new practices and products.[25]

5. CONCLUSION

5.1. The NRA reiterates its submission that the Panel should exercise caution in making its decision regarding modern award minimum wages. From the perspective of retail, significant uncertainty remains despite the positive indications of economic recovery from the pandemic.

5.2. In particular, the Panel should avoid giving undue weight to the presently strong performance of retail trade, since the foreseeable reduction in household spending following recent interest rates rises is likely to impact retail trade swiftly and significantly.

5.3. While inflation and costs of living are high, the NRA submits that the Panel should give due weight to the foreseeable effects of the budgetary measures and monetary policy discussed above in reducing these pressures on relative living standards and the needs of the low paid.

5.4. The Panel's task is not to address decades of purported 'wage stagnation' overnight, but to set fair and relevant minimum wages considering matters including employment growth and the performance and competitiveness of the national economy in the context of current economic conditions.

5.5. Finally, the NRA submits that the Panel should view the SDA's submissions in relation to productivity with a high degree of caution.

Yours sincerely,

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[24] Productivity Commission (June 2021), *Productivity Insights – Recent developments* <https://www.pc.gov.au/research/ongoing/productivity-insights/recent-developments-2021/productivity-insights-2021-recent-developments.pdf> accessed 6 May 2022, 31.
[25] Id. 39.