Australian Retailers Association

SUBMISSION
2022-23 ANNUAL WAGE REVIEW

31 MARCH 2023

EXECUTIVE SUMMARY

The Australian Retailers Association (ARA) supports a sustainable increase in the minimum wage to help retail workers keep pace with the rising cost of living.

This increase in wages should be based on the underlying rate of inflation at the time the Fair Work Commission (FWC) hands down its decision - using the Trimmed Mean Inflation (TMI) rate - less the impact of increases in superannuation from July 2023 and the projected decrease in inflation for 2023-24 as forecast by the Reserve Bank of Australia (RBA).

The ARA therefore recommends an increase of 3.8% in the minimum wage to take effect from 01 July 2023, based on the current rate of TMI at 6.9% less the 0.5% increase in superannuation and less the projected 3.1% decline in inflation through 2023-24.

This recommendation equates to a 4.3% increase in labour costs for employers, including the impact of the next increase in superannuation that will take effect at the same time as the next increase in the minimum wage.

We believe an increase of this magnitude strikes the balance between an employer’s ability to keep pace with the rising costs of doing business, against an employee’s expectation that wages grow in line with prices.

We also believe that any increase in the minimum wage should be balanced carefully against the impact it could have on the rate of unemployment, with due consideration to the prevailing and projected economic conditions. In the context of today’s tight labour market and peak inflation, it is important that a wage-price spiral is avoided.

The ARA takes the position that any increase in wages that exceeds the underlying rate of inflation would need to be offset by productivity gains, to reduce the risk of wages growth creating additional inflationary pressure and avoid over-stretching smaller retailers who have limited reserves to incur higher labour costs, in addition to higher costs of doing business.

INTRODUCTION

The ARA is the oldest, largest and most diverse national retail body, representing a $400 billion sector that employs 1.3 million Australians – making retail the largest private sector employer in the country. As Australia’s peak retail body, representing more than 120,000 retail shop fronts and online stores, the ARA informs, advocates, educates, protects and unifies our independent, national and international retail community.

We represent the full spectrum of Australian retail, from our largest national and international retailers to our small and medium sized members, who make up 95% of our membership. Our members operate in all states and territories, across all categories - from food to fashion, hairdressing to hardware, and everything in between.

This submission to the 2022-23 Annual Wage Review (AWR) has been developed in collaboration with our panel of research partners and is informed by engagement with ARA member advisory committees, responses to member surveys and direct consultation with members.

Australian Retailers Association (ABN 99 064 713 718)
Level 1, 112 Wellington Parade, East Melbourne VIC 3002

We believe that a contemporary workplace relations system should provide mutually beneficial outcomes to employees and employers, enabling retailers to maximise productivity, improve competitiveness and increase employment opportunities, while providing employees with sustainable wages growth and career pathways.

We also believe that the Commission's decision should be based upon best-available information to ensure that the increase in the minimum wage for 2023-24 keeps pace with higher costs of living, without exceeding the projected TMI rate over the period that the FWC's determination will be in force.

This submission reflects these beliefs and adopts a principles-based approach, as outlined below.

The recommendations outlined herein are based on currently available data, including the TMI rate from the December 2022 quarter and the RBA's forecast for inflation through 2023-24. The ARA will outline more specific proposals in its Reply Submission, which will be informed by economic data to be published in April 2023.

GUIDING PRINCIPLES

In its 2021-22 AWR Submission, the ARA used a principles-based approach to inform our recommendations to the Commission. This year, we have applied the same three guiding principles we used in last year's submission, in addition to a new principle to account for the impact of current economic uncertainty.

PRINCIPLE 1
Wages growth should keep pace with higher costs of living, using the TMI rate as a measure of underlying inflation, removing volatile inputs from the Consumer Price Index (CPI).

PRINCIPLE 2
Any increase in wages should be based on the actual rate of underlying inflation at the time the AWR decision is handed down, also factoring in the impact of higher superannuation, in-line with the approach taken by the panel in previous years.

PRINCIPLE 3
Given the current economic uncertainty, any increase in wages should also take into account the broader economic context and rely on best available information at the time the AWR decision is handed down, balancing historical data points against widely accepted forecasts for inflation and unemployment.

PRINCIPLE 4
Any increase in wages that exceeds underlying inflation should be offset by productivity gains, to help retailers absorb higher labour costs without placing additional financial pressure on businesses.

RECOMMENDATION

In line with these principles, the ARA's recommendation is for a 3.8% increase in the minimum wage from 01 July 2023.

This factors in a base position of 6.9% TMI less the impact of the 0.5% increase in the Superannuation Guarantee Rate (SRG) from 01 July 2023 less the impact of lower inflation in the 2023-24 period, which we have assumed to be the average of 4.3% and 3.3% based on the RBA's forecasts for TMI in December 2023 and June 2024 respectively.

We believe this recommendation is in-line with the RBA's policy to return inflation to the target range of 2-3% as quickly as possible.

Australian Retailers Association (ABN 99 064 713 718)
Level 1, 112 Wellington Parade, East Melbourne VIC 3002

Table 1: **ARA Recommendation**
Key variables and assumptions

Principle	Variable	Assumption
Based on actual rate of TMI when AWR decision is handed down	6.9% (a)	Actual TMI for December 2022
Less the impact of increases in SGR in 2023-24	Less 0.5% (a)	Actual increase in SRG from July 2023
Less the impact of decreases in TMI forecast for 2023-24	Less 3.1% (f)	Actual TMI for December 2022 quarter (6.9%) less the average TMI for 2023-24, based on the RBA forecasts for December 2023 (4.3%) and June 2024 (3.3%)

This recommendation equates to a 4.3% increase in labour costs for employers, including the impact of the next increase in superannuation that will take effect at the same time as the next increase in the minimum wage.

We believe this recommended increase will provide an equitable and sustainable benefit for employees, enabling them to share in productivity gains while also considering the prevailing economic conditions impacting employers, as outlined in the following sections of this submission.

RATIONALE

Rate of inflation expected to slow significantly

We note that the current rate of TMI is 6.9% but there is no forecast for the next TMI data point to be reported in April 2023, which would inform the Commission's deliberations at the time the AWR decision is handed down.

In lieu of that data, our current assumptions are based on the rate of TMI falling from 6.9% to 4.3% in December 2023 and 3.3% in June 2024, in-line with RBA forecasts. We intend to update our base position and recommendation in our Reply Submission, once the March 2023 TMI figures have been published.

Other economic indicators point to broader slowdown

We submit that the Commission should make its decision in the context of economic conditions for the year ahead, not exclusively based on high inflation rates experienced since last year's decision. We note that the RBA's forecast for inflation will decline to an average of 3.8% in 2023-24, with analysts advising that price inflation peaked at the end of 2022. We also note that the RBA is forecasting other economic indicators to deteriorate through 2023-24 including declines in Gross Domestic Product (GDP) and household consumption.

Table 2: RBA Forecast Table, February 2023 Statement on Monetary Policy[(a)]
Percentage change over year to quarter shown[(b)]

Measure	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25
Gross domestic product	2.7	2.3	1.6	1.4	1.6	1.7
Household consumption	5.5	2.5	1.7	1.7	1.8	2.0
Wage price index	3.5	4.1	4.2	4.1	4.0	3.8
Consumer price index	7.8	6.7	4.8	3.6	3.2	3.0
Trimmed mean inflation	6.9	6.2	4.3	3.3	3.1	2.9

(a) Forecasts finalised on 8 February. The forecasts are conditioned on a path for the cash rate broadly in line with expectations derived from surveys of professional economists and financial market pricing. Other forecast assumptions: TWI at 62; A$ at US$0.69; Brent crude oil price at US$82bbl. The rate of population growth is assumed to be in line with its pre-pandemic average.

(b) Forecasts are rounded to the first decimal point. Shading indicates historical data.

Sources: ABS; CEIC Data; Consensus Economics; Refinitiv; RBA

Australian Retailers Association (ABN 99 064 713 718)
Level 1, 112 Wellington Parade, East Melbourne VIC 3002

Business margins and cashflow under pressure

We believe that the following insights and data about trading conditions across the retail sector should also inform the Commission's deliberations.

- There are early indications that economic growth is slowing, particularly in the retail sector with the first month-on-month declines in retail trade for more than a year reported for December 2022 and small increases of 1.8% and 0.2% reported in January 2023 and February 2023 respectively. These results confirm expectations of an anticipated slowdown in consumer spending through 2023-24 as higher interest rates continue to impact discretionary spending.

- The costs of doing business continue to increase and place pressure on retail businesses, as evidenced by the results of our member survey (*n*= 141) summarised below:
  - More than one-third of respondents indicated that business costs have increased by more than 10% over the past 12 months, with a further half indicating that costs had increased 5-10% over the same period.
  - More than two-thirds of respondents said that labour costs were higher than the same time last year. These increases are in addition to higher energy, transportation, leasing and insurance costs.
  - Nearly three-quarters of respondents confirmed that these higher costs had been passed onto consumers as higher prices but more than half also said they had incurred higher prices by reducing margins.

- The same survey confirmed that more than 80% of respondents indicated they were under greater financial stress than the same time last year and were budgeting higher costs and lower margins for the year ahead.

The ARA's findings are reinforced by a survey conducted by MYOB[1] in January 2023, which found that more than half of small and medium enterprises believe Australia will be in recession by January 2024. The same survey found that small businesses are dealing with rising costs by "cutting into profits (31%), passing costs onto customers (30%) or dipping into savings (24%)" with detrimental impacts on margins, cashflow and inflation.

SECTORIAL CONTEXT

Retail sector has broad reach and impact

The health of the Australian retail sector impacts all Australians. The sector directly employs one in ten workers and is dominated by small and medium size businesses, with more than 95% of the country's 157,000 retail businesses employing fewer than 20 employees.[2] Many of these businesses are family owned and operated.

More broadly, retail offerings help to improve the lifestyle, wellbeing and vitality of Australian communities.

The retail sector has demonstrated remarkable resilience over the last three years, adapting and responding to multiple challenges and disruptions that have impacted consumer spending, labour markets and supply chains.

Data released by the ABS in early-2023 confirmed this trend, with retail trade increasing to $414 billion for the 12 months to January 2023, accounting for 16.9% of GDP over the same period. This result was driven by 15 consecutive months of growth in retail trade up to November 2022.[3]

However, these strong headline results have also been driven by price increases due to inflation and continue to mask the uneven impact of the post-pandemic recovery across the sector - particularly for small businesses in at-risk categories and regions.

[1] MYOB Business Monitor | MYOB (myob.com/au)
[2] Counts of Australian Businesses, June 2022 | Australian Bureau of Statistics (abs.gov.au)
[3] Retail Trade, November 2022 | Australian Bureau of Statistics (abs.gov.au)

Australian Retailers Association (ABN 99 064 713 718)
Level 1, 112 Wellington Parade, East Melbourne VIC 3002

Economic headwinds pose risk to sector

With the first month-on-month declines in retail trade for more than a year in December 2022, followed by 1.8% and 0.2% increases in January 2023 and February 2023 respectively, there are indications of a slowdown in the retail sector ahead, as higher interest rates continue to impact household spending.

The impact of inflation is also starting to impact retail volumes, with the ARA noting that up to two-thirds of the recent growth in retail spending has been driven by price increases due to inflation.[4] Analysts expect that inflation will continue to mask the decline in retail spending, which is projected to extend into 2024.

These factors have resulted in retail's contribution to GDP falling 0.4% in the December 2022 quarter, compared to a 0.5% increase in overall GDP. The ABS attributes this decline to softening consumer demand, which was partly offset by an increase in food retailing following four consecutive falls as shopping patterns stabilised following Covid-19 lockdowns.

These and other economic headwinds are likely to coincide with significantly higher costs of doing business and lower profit margins[5] through 2023-24, as observed in responses to our member survey referenced herein.

Tight labour market is driving wages growth

The retail sector employs more than 1.3 million people, or 10% of the Australian workforce. This makes retail the country's largest private sector employer and second-largest employment sector overall after health.[6]

Retail provides millions of Australians with opportunities to enter the workforce in entry level roles and/or pursue long-term careers. While there are strong career pathways available across the sector, many employees enter the workforce with their first job in retail, gaining experience while at school or in tertiary studies before moving industries at the end of their schooling.

The sector is also one of the largest employers of women in Australia and employs a large number of part-time and casual workers, given retail trading hours allow for more flexible shift times than other sectors.

These employees are engaged mostly on enterprise bargaining agreements but 29.5 % of retail employees are employed on modern awards, some of which include:

- General Retail Industry Award 2020
- Hospitality Industry (General) Award 2020
- Fast Food Industry Award 2010
- Hair and Beauty Industry Award 2010
- Pharmacy Industry Award 2020

Retail wages have been growing faster than inflation over the past five years, with average weekly ordinary time earnings increasing 18.5% in the five years to November 2022, in comparison to 16.7% increase in CPI over the same period. We also note that the gender pay gap for the retail sector is 13.2% in comparison to the rest of the economy at 22.8%.[7]

Costs continue to increase across the sector

Flooding across the country in 2022 exacerbated supply chain constraints caused by Covid-19. Coupled with high fuel prices due to the conflict in Ukraine, significant increases in energy costs and the ongoing potential for further disruption from climate events, these factors have the potential to continue putting pressure on costs.

[4] Price not volume driving Australian retail sales growth, September 2022 | Inside Retail (insideretail.com.au)
[5] Deloitte Access Economics Retail Forecasts: A sprint to Christmas | Deloitte Australia | Deloitte Access Economics (www2.deloitte.com.au)
[6] Retail Trade | Labour Market Insights (labourmarketinsights.gov.au)
[7] Workplace Gender Equality Agency | Data Explorer 2021-22 (wgea.gov.au)

Australian Retailers Association (ABN 99 064 713 718)
Level 1, 112 Wellington Parade, East Melbourne VIC 3002

Survey responses from ARA members indicate that the costs of doing business have increased significantly in the past year with respondents reporting that most cost categories are higher than previous years and higher than budgeted, meaning the magnitude of these increases was largely unexpected. Members also report that they are budgeting for even higher increases next year.

Table 3: ARA Member Pulse Survey, January 2023
Actual and projected increases in costs of doing business (*n*=141)

Cost category	Members with higher costs in FY23	Members budgeting higher costs in FY24			
		0-2% increase	2-5% increase	5-10% increase	>10% increase
Overall costs	98%				
Labour costs	70%	15%	41%	32%	10%
Cost of goods sold	78%	19%	34%	30%	17%
Leasing costs	67%	21%	43%	26%	11%
Energy costs	87%	8%	25%	38%	29%
Fuel costs	83%	17%	33%	27%	23%
Logistics costs	79%	24%	26%	28%	22%

While 72% of retailers who participated in the survey indicated that they will continue to pass on higher costs as higher prices, potentially driving a price-wage spiral, our survey found that 56% of ARA members absorbed higher costs into reduced margins and 42% reported offsetting higher costs by finding savings in other areas.

The cumulative impact of these actual and projected increases is putting more pressure on business, with more than 80% of respondents saying they were under more financial stress than 12 months ago.

ECONOMIC CONTEXT

Inflation above long-term trends

At current levels, both the CPI and TMI are well above the long-run average but these variances are more pronounced in some categories, particularly those that experienced high demand and supply chain challenges over the pandemic.

Table 4: MST Marquee Bulletin, January 2023
Compound annual increase in price over the past three years, compared to 25-year long-term average

Category	Change in prices over three years	Change in prices over 25 years	Comment
Electronics	+2.2%	-6.7%	Prices growing 9.9% faster than long-term trend
Furniture	+6.8%	+0.9%	Prices growing 5.9% faster than long-term trend
Hardware	+4.4%	+1.0%	Prices growing 3.4% faster than long-term trend
Living costs	+4.3%	+3.5%	Prices growing 1.8% faster than long-term trend
Food and beverages	+4.4%	+2.7%	Prices growing 1.7% faster than long-term trend
Footwear	+2.2%	-0.5%	Prices growing 1.7% faster than long-term trend
Total basket	**+4.0%**	**+2.5%**	**Prices growing 1.5% faster than long-term trend**
Clothing	+0.1%	-0.7%	Prices growing 0.6% faster than long-term trend
Alcoholic beverages	+2.4%	+2.6%	Prices growing 0.2% slower than long-term trend

Australian Retailers Association (ABN 99 064 713 718)
Level 1, 112 Wellington Parade, East Melbourne VIC 3002

Retail volumes peaked in December

In-line with ABS data noted herein, analysts report that retail sales volumes are flat and that growth in retail trade is being driven by increases in prices, not volumes.

This situation is expected to continue, with analysts taking the view that inflation has peaked and that sales volumes will start to decline at a faster rate as 2023 progresses.[8] As noted, the expectation is that inflation will continue to mask a decline in retail spending, with some categories experiencing a drop in volumes sooner.[9]

Avoiding the risk of a wage-price spiral

While Australia's current high inflation rate is mostly due to external factors, the risk of a harmful wage-price spiral remains a concern with higher wages increasing costs for retailers, who will be more likely to recover those costs from consumers through higher prices, particularly as sales volumes decline through 2023-34.[10]

RBA warning on inflation and legacies of the pandemic

The Governor of the RBA has noted that Australia's number one economic challenge is to ensure that record-high inflation is temporary and does not continue, therefore the Board of the RBA is determined to return the inflation rate in the target band of 2-3%. The Governor takes the view that high inflation is one of the legacies of the global pandemic and Russia's invasion of Ukraine.

He also notes that Australia is experiencing record low unemployment – the lowest since 1974 – and that the high rate of labour participation is a positive economic and social outcome. His view is that declining inflation should preserve the gains made in the labour market, even if there is a rise in unemployment with increased interest rates.

Australia's policies are in line with other central banks in forecasting that inflation will return to target levels over the next 2-3 years, supported by data that shows a clear moderation in household spending in the December 2022 quarter as consumption returns to pre-pandemic levels.

Finally, while the Governor sees the risk of a prices-wages spiral remaining low, he warns that given the combination of a tight labour market, the high level of capacity utilisation and the run of high inflation numbers, we need to guard against a spiral, stating:

> *"In particular, if prices and wages were to chase one another, the end result would be persistently high inflation, even higher interest rates and higher unemployment. It is in our collective interest to avoid this."*[11]

CONCLUSION

Retail spending is moderating, costs are increasing and inflation is forecast to decline as the RBA is determined to reach its target through adjustments to interest rates, while continuing to ward against the danger of a wage-price spiral.

Given these considerations, any wage increase must therefore be sustainable in the current economic environment, while delivering wages growth to retail workers. We believe our recommended increase in the minimum wage of 3.8% strikes this balance.

The ARA appreciates the opportunity to provide this recommendation and our rationale to this year's review by the Commission. Please contact policy@retail.org.au for any questions relating to this submission.

---

[8] MST Marquee 25 January 2023 Bulletin
[9] Ibid
[10] Ibid
[11] RBA Governor's Keynote Address to the Financial Review Business Summit, March 2023 (rba.gov.au)