Australian Retailers Association

# REPLY SUBMISSION
# 2021-22 ANNUAL WAGE REVIEW

10 MAY 2022

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

As outlined in our initial submission made in April, the ARA has taken a principles-based approach to this year's Annual Wage Review. We believe that this year's increase should be based on the actual rate of underlying inflation, using the Trimmed Mean Inflation (TMI) rate, at the time the wage review is handed down, less the impact of the next increase in the superannuation rate, commencing 1 July 2022.

The ARA's follow-up submission remains consistent with these principles but we make the following observations in respect of several key variables that have changed since April 2022, outlined below.

- Since making our initial submission, we note that the actual level of underlying inflation, using the TMI rate, has increased from 2.6% for the December 2021 quarter to 3.7% for the March 2022 quarter.
- We also note that the Reserve Bank of Australia (RBA) has increased its predictions for TMI in the year ahead, while also noting continuing uncertainty and volatility in the market due to global influences[1].

## OVERVIEW

The ARA is Australia's oldest, largest, and most diverse peak retail body, representing a $360 billion sector that employs 1.3 million Australians. 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 previous submission outlined the following principles-based approach to this year's Annual Wage Review, which we have relied upon to inform our position.

- **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 the minimum wage should be based on the actual rate of underlying inflation at the time the Annual Wage Review is handed down, taking into account the increase in the Superannuation Guarantee Rate (from 10.0% to 10.5%) in-line with the approach taken by the panel for last year's review.
- **Principle 3:** 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.

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## RATIONALE

### Deliver a fair, equitable and sustainable increase

As noted, the ARA believes that there needs to be an increase in the minimum wage, so that wages can keep pace with the increases in the cost of living. However, this increase should be based on the March 2022 quarter

[1] Statement on Monetary Policy, Reserve Bank of Australia, May 2022.


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TMI of 3.7% less the 0.5% impact on wages due to the next increase in superannuation. Any increase in wages that exceeds this baseline would be unsustainable, particularly for those retailers with limited financial reserves after two years of continuous disruption due to COVID-19, supply chain issues and natural disasters.

**Provide flexibility for employers if wages grow faster than prices**
We maintain our position that any increase exceeding the current level of underlying inflation creates an urgent need for increased flexibility for employers to make productivity gains, through part-time work arrangements and rostering provisions for all employees.

**Minimise the risk of additional inflationary pressure**
We note that the CPI increased from 3.5% to 5.1% in the March 2022 quarter, largely driven by higher costs of fuel and building supplies. This result confirms that business is already passing higher costs onto consumers and so there is a fine balance to be struck between increasing the minimum wage to keep pace with underlying inflation, without fuelling additional inflationary pressure.

**Rely on best-available information**
With significant uncertainty over the next 12-18 months and the RBA predicting inflation to stabilise and then fall to 3.0% by the end of 2024[2] the most conservative position is to base this year's increase on wages on best-available actual data – in this case, the TMI rate for the March 2022 quarter. This approach would protect against the risk of overstating the actual increase in the cost-of-living next fiscal year, which would potentially create additional and unnecessary inflationary pressure.

## RESPONSE TO QUESTION ON NOTICE

In response to the Commission's question to all parties, regarding relative living standards and the needs of the low paid, the ARA agrees that some of the measures proposed in the recent Federal Budget have the potential to reduce business costs, if passed into law after the election. For example, the proposed tax incentives for vocational training and adoption of digital technology aim to reduce training costs, improve retention of staff and drive innovation that could reduce costs and take some pressure of price inflation.

However, other budget measures have the potential to increase costs, like the omission of retail traineeships from the Australian Apprenticeship Priority List. Not only is this a missed opportunity to address the critical shortage of skilled labour that threatens the sustainable long-term recovery of the sector; it also denies access to employer subsidies that could offset the impact of rising wages and minimise the likelihood of higher costs being passed onto consumers through higher prices.

## EXPRESSION OF INTEREST

The ARA expresses its interest in participating in the final round of consultation when public hearings are conducted on 18 May 2022. We would appreciate further information about the schedule and other details, for planning purposes.

On behalf of the ARA and our members, thank you for the opportunity to provide this submission and outline our rationale in respect of this year's Annual Wage Review. Please contact policy@retail.org.au if the ARA can be of any further assistance.

Yours sincerely

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CEO, Australian Retailers Association

[2] Statement on Monetary Policy, Reserve Bank of Australia, May 2022 at p60.


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