

ARA SUBMISSION

2023-24 ANNUAL WAGE REVIEW

APRIL 2024

INTRODUCTION

The Australian Retailers Association (ARA) welcomes the opportunity to make a follow-up submission to the Fair Work Commission (FWC) in respect of this year's Annual Wage Review (AWR), enabling us to present the best available data in support of our recommendation.

We reaffirm our support for an equitable increase in the minimum wage that helps Australian households address cost-of-living pressures, without increasing business costs beyond what is necessary to ensure that wages keep pace with higher prices.

Our position is that any increase in wages should be based on the underlying rate of inflation at the time the FWC hands down its decision - using the Trimmed Mean Inflation (TMI) rate - less the impact of higher superannuation. We also believe that this year's increase should be considerate of the positive impact of the Stage Three Tax Cuts.

The ARA's position reflects a principles-based approach, as outlined in our previous submission, that we believe strikes a careful balance between sustainable wage growth and the risk of further inflationary pressure.

RECOMMENDATION

In the ARA's first submission, we recommended an increase of 3.1% in the minimum wage to take effect from the 1 July 2024. This recommendation was representative of the Reserve Bank of Australia (RBA) forecasts for TMI in June 2024 (3.6%)¹ less the increase in superannuation to take effect from 1 July 2024 (0.5%).²

Since March, newly published labour and economic data has provided more clarity as to the state of the retail sector and overall economy. In alignment with these insights, the ARA reaffirms its initial recommendation of 3.1% increase to the minimum wage to take effect from 1 July 2024.

This reflects a reduction in the TMI rate from 4.2% in the December 2023 quarter to 4.0% for the March 2024 quarter³ aligning with the RBA projections of declining inflation to 3.6% by June 2024,⁴ relative to the time the FWC hands down its decision.

This recommendation equates to a 3.6% increase in labour costs for employers, including the forecasted 0.5% superannuation increase that will take effect from the same time as the next increase in the minimum wage.

DATA PUBLISHED POST-MARCH

New data points released since our initial submission in March 2024 reaffirms our recommendation.

¹ RBA Outlook | Statement on Monetary Policy – February 2024 | RBA

² ATO Super Guarantees | ato.gov.au/tax-rates-and-codes/key-superannuation-rates-and-thresholds/super-guarantee

³ ABS Consumer Price Index, Australia, March Quarter 2024 | Australian Bureau of Statistics (abs.gov.au)

⁴ RBA Outlook | Statement on Monetary Policy – February 2024 | RBA

Inflation continues to decline

The TMI rate declined from 4.2% for the December 2023 quarter, to 4.0% for the March 2024 quarter – affirming the continued moderation of inflation and revealing the fifth consecutive decline in inflation since the high of 6.8% in December 2022.⁵ These figures show alignment with RBA forecasts.

Lower retail inflation

The Consumer Price Index (CPI) continued declining to 3.6% in the March 2024 quarter⁶ with retail price inflation falling to 2% over the same period.⁷ Lower price inflation continues to constrain retailers, requiring greater sales volumes to offset business costs.

Nominal retailer turnover growth

Retail trade seasonally adjusted turnover from January 2024 to February 2024 experienced a growth of only 0.9%.⁸ This data highlights that turnover growth for retailers remains stagnant and insecure. While overall there was growth for the sector, most categories experienced fluctuations in turnover, revealing the overall instability of the sector.

Employment downturn

The retail sector remains the second largest employer but is hiring fewer people due to uncertain trading conditions and higher costs – hiring 9.4% of the workforce in the February 2024 quarter, down from 9.7% in the February 2023 quarter.⁹ To ensure that the retail sector can continue to create jobs and positively engage with the labour market, caution should be given to any policy frameworks that can impede business growth, and correspondingly, restrict a retailer's ability to expand their workforce.

Increasing retailer insolvencies

In this financial year, 502 retail businesses have entered administration, this is has doubled from 193 reported insolvencies for the same time last year.¹⁰ Many businesses have struggled with the higher costs of doing business, leading to some business having to directly absorb costs without being able to offset them. For this reason, policy decisions that could further exacerbate labour costs should be considered cautiously.

Tight labour market

The unemployment rate continues to rise, rising 0.1% to a total of 3.8% in March¹¹, aligning with forecasts that it will hit a high of 4.5% by the end of 2024.¹² The underemployment rate remains at its consistent highest level of 6.6% while seasonally adjusted employment-to-population ratio fell 0.2% and participation rates fell 0.1% for the same period. This data reflects that the labour market remains tight as growth in employment remains weak.

Full employment and real wages growth

The importance of full employment has been recognised as paramount to achieving real wages growth that is consistent with productivity growth and stable rates of inflation.¹³ Simultaneously, the lack of consumer demands for goods and services is acknowledged as being responsible for exacerbating unemployment and underemployment rates.¹⁴ For this reason, legislative decisions should be reflective of retailer's capabilities, resulting from lessened consumer demands, ensuring business viability is not comprised and full employment is achieved.

⁵ ABS Consumer Price Index, Australia, March Quarter 2024 | Australian Bureau of Statistics (abs.gov.au)

⁶ ABS Consumer Price Index, Australia, March Quarter 2024 | Australian Bureau of Statistics (abs.gov.au)

⁷ MST Marquee Report CPI March 2024 quarter.

⁸ ABS Monthly Business Turnover Indicator, February 2024 | Australian Bureau of Statistics (abs.gov.au)

⁹ Jobs and Skills Australia | 01 National, state and territory dashboards (2024.04).xlsx (jobsandskills.gov.au)

¹⁰ ABC News | Retail insolvencies rise as cost-of-living pressures slash consumer spending - ABC News; ASIC Insolvency

¹¹ ABS Unemployment rate rises to 3.8% in March | Australian Bureau of Statistics (abs.gov.au)

¹² NAB Group Economics | The Forward View – Australia: April 2024 | Business Research and Insights (nab.com.au)

¹³ RBA | Assessing Full Employment in Australia | Bulletin – April 2024 | RBA

¹⁴ ABS | Retail Trade, Australia, February 2024 | Australian Bureau of Statistics (abs.gov.au)

ADDRESSING THE GENDER PAY GAP

The ARA notes the submission-in-reply made by the Australian Council of Trade Unions (ACTU) calls for a 9.0% increase in the minimum wage for feminised industries. We reaffirm our position that the AWR is not the appropriate mechanism to address the gender pay gap, in alignment with observations explored within our first submission.

While the ARA is committed to addressing the gender pay gap in our sector, the ACTU proposition fails to address the fact that the AWR is not gender specific, meaning that any increase would apply to all employees on the minimum wage and awards linked to the AWR, irrespective of gender. We also reaffirm our position that the gender pay gap in our sector is primarily a function of the number of hours worked by women, in comparison to men.

The ARA has taken a principles-based approach to our recommendation of a 3.1% increase in the minimum wage, based on the underlying rate of inflation and commensurate with business capabilities to ensure a fair and sustainable increase.

Any increase above inflation heightens the risk of a wage-price spiral and will disproportionately affect small and medium sized businesses - leading to a possible increase in insolvency rates, which are already high. Given that the gender pay gap in retail is largely the result of hours worked, a 9.0% increase would also serve to grow the gender pay gap between men and women, which is based on total remuneration, rather than close it.

CONCLUSION

Inflation continues to decline, aligning with the RBA's forecasts for the continued moderation of inflation by the June 2024 period. The performance of the retail sector remains uncertain, and the unemployment rate continues to rise, creating greater economic challenges.

For this reason, we believe an increase in the minimum wage of 3.1% plus the 0.5% increase to superannuation factors in these important considerations and correspondingly, strikes a balance between employee needs and employer capabilities.

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