



Submission

to the

Minister of Labour

on the

2008 Review of the Minimum Wage

26 September 2008

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Introduction

The New Zealand Retailers Association thanks the Minister for the opportunity to comment on the 2008 Review of the Minimum Wage.

Background

The retail industry is a substantial contributor to the New Zealand economy and a very large employer. Statistics New Zealand's Annual Enterprise Survey notes that there are over 325,000 people (estimated to be 17% of the total workforce) employed in some 49,000 retail outlets throughout the country. Annual retail sales in total now exceed NZ\$60 billion.

The minimum wage is a legitimate mechanism to protect the inexperienced employees until they acquire the skills to become more experienced and therefore more marketable and able to command a higher wage. It also acts as a guide for retail employers to decide on what margin is appropriate for different levels of skill and experience. Our annual survey of wages clearly shows that our members on average pay in excess of the minimum wage and have done so for a number of years.

On average, retailers operate on a net margin (profit as a percentage of sales) of 5.7%. This is a very fine margin and does not allow room for error. All businesses factor in cost adjustments in their annualised planning process. However, incremental pressures applied from increased minimum wage rates (and the subsequent demands for relativity that they drive) coupled with cost increases from changes to the holidays act, KiwiSaver and removal of youth rates, have impacted businesses severely.

In 2007 the minimum hourly wage was raised to the level to which the Government aspired in its current term – being \$12.00 per hour - if economic conditions permitted. We opposed this inflated increase, having recommended a link to CPI only. In our 2007 Minimum Wage Review submission, we cautioned the Minister on the consequential impacts that were likely to occur if the rate was considerably higher than CPI. It was no surprise to us in undertaking this 2008 review that increased redundancies and business closures, as well as a reduction in recruitment of youth workers, occurred within the retail sector (based on feedback from our membership).

2008 Review

The objective for the minimum wage is “to set a wage floor that balances the protection of the lowest paid with employment impacts, in the context of current and forecast labour market and economic conditions and social impacts”.

It is our opinion that as:

- ***Current and forecast labour market conditions are not favourable***
 - Unemployment is rising as is the number of businesses closing their doors as a consequence of heightened margin squeeze (considerably contributed to by employment costs (including minimum wage/minimum wage relativities. 4 weeks annual leave, KiwiSaver contributions etc)).
 - Redundancies have increased. Our advisory team are increasingly providing assistance to retailers who have been faced with no other option than to reduce hours or staff simply to remain viable.
- ***Economic Conditions are not favourable***
 - Retail spending and subsequent growth is down (Statistics Retail Trade Survey data 2008)

- Business costs have risen across the board
- Alan Bollard stated on 11 September 2008 “the RBNZ expected a prolonged period of household sector adjustment and below average growth”

a rise in the minimum wage is not viable or desirable at this time.

Should the Government disregard this recommendation and decide to increase the minimum wage, a price will have to be paid and the burden of that increased cost falls on the small retailer. It is useful to remember that the average business in New Zealand employs less than five people and probably takes an income from that business that is little more than the average adult wage. Increases in the minimum wage have flow on affects, and we ask you to spare a thought for the small business having to absorb these costs from a profit that is itself not far above the minimum wage and is in no way guaranteed.

Based on the rationale contained above, we therefore **strongly recommend** that:

- ***the present adult minimum wage should be maintained and that no increase be applied.***

However, should the Government oppose this recommendation, we believe that any adjustment should simply be in line with CPI at the maximum.

We would be happy to make ourselves available to discuss our submission with you further.

John Albertson
Chief Executive