



Submission

to the

Minister of Labour

on the

2009 Review of the Minimum Wage

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Introduction

The New Zealand Retailers Association thanks the Minister for the opportunity to comment on the 2009 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 (approximately 20% of the total workforce) employed in some 49,000 retail outlets throughout the country. Annual retail sales in total now exceed NZ\$66 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 our 2007 Minimum Wage Review submission, we cautioned the previous Government Minister on the consequential impacts that were likely to occur if the rate was considerably higher than CPI. We commented similarly in our 2008 Minimum Wage Review submission that the conditions (labour market and economic) were far from favourable to justify an increase. It was therefore, no surprise to us in undertaking this 2009 review that increased redundancies and business closures, as well as an alarming reduction in recruitment of youth workers, has occurred within the retail sector (based on feedback from our membership).

2009 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 clear that neither the current and forecast labour market conditions, nor economic conditions are favourable. To highlight the severity, we quote the following sources:

Statistics New Zealand on 4 August 2009.

On an annual basis, filled jobs fell by 2.1% and full-time equivalent employment fell by 3.2%. This is the third consecutive annual fall for these two series and the

largest declines since the 1991/92 recession. Compared to the June 2008 quarter, 10 out of the 15 industries surveyed recorded a fall in filled jobs. There was particular weakness in manufacturing (down 12%), hospitality and forestry & mining (both down 10%) and finance & insurance (down 7%). These were partially offset by growth in property & business services (up 4%) and health & community services and education (both up 3%).

Wage growth is expected to continue easing over 2009 and 2010 as economic activity remains weak and the labour market continues to soften. Wages typically lag changes in economic conditions and employment due to the time lags involved in wage negotiation. With unemployment expected to continue rising into 2010 there will be increased competition for jobs which should lead to wage growth easing further. Falling consumer price inflation may also contribute to weaker wage growth over the next eighteen months.

Household Labour Force Survey (HLFS) results for the June 2009 quarters

The continued weakening in the labour market has hit youth (15-24 year olds) hard with an annual rise in the number unemployed of 21,000 and a fall in employment of 23,300. The youth unemployment rate increased to 16.3% in the June 2009 quarter

New Zealand is currently facing the most severe business downturn in many years. As indicated above the unemployment rate continues to increase and in particular the impact of this crisis on the employment of Maori and Pacific Islanders and school leavers and students is most severe.

In the retail industry where a large proportion of students and young people are employed, employers have been progressively reducing the hours that their employees are needed to work in an effort to match the reduction in business activity. We are aware from our membership that a significant number of small businesses are having to make staff redundant just to maintain a positive cash flow.

Indications are that retail employers are unable to afford wage increases except for a few significant employees, usually the most senior, to ensure they retain the skill and experience. Wages for junior employees are most unlikely to rise this year.

Faced with this situation the New Zealand Retailers Association strongly urges that the minimum wage rate remain unchanged this coming year until we can confidently predict an end to the recession and an improvement in the rate of youth employment.

Recommendation: that the present adult minimum wage should be maintained and that no increase be applied.

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

John Albertson
Chief Executive