
C Wages and earnings outcomes and trends

C.1 Wages and earnings

Employees in the retail industry earn less on average than employees in most other industries, reflecting the low average skill level of retail employees. In February 2011, average weekly earnings (AWE) for all retail employees (\$614.00 per week) were 61 per cent of the average across all industries.¹ This outcome is strongly influenced by the high proportion of retail employees who are paid junior rates of pay and/or work part time. However, even among full time adult employees, average weekly ordinary-time earnings in retail are only about three-quarters of the average across all industries (with this ratio slightly lower for male employees and slightly higher for female employees) (ABS 2011b).

Information on average hourly earnings of full time adult employees in the retail industry and the equivalent across all industries is provided in table C.1.

Table C.1 Average hourly cash earnings, full time non-managerial adult employees, May 2010

	<i>Ordinary time</i> ^a	<i>Overtime</i> ^b	<i>Total</i>
	\$	\$	\$
Total Retail trade	24.20	32.30	24.40
All industries	31.80	42.30	32.20

^a Ordinary time earnings relates to payment for award, standard or agreed hours of work, including allowances, penalty payments, payment by measured result, regular and frequent bonuses and commissions (where a retainer/wage/salary is also paid). ^b Overtime earnings relates to payment for hours in excess of award, standard or agreed hours of work.

Source: ABS (*Employee Earnings and Hours*, Cat. no. 6306.0).

¹ The general approach in this report to retail data coverage was described in chapter 1. However, in this appendix, unless otherwise stated, data for retail *include* motor vehicles and motor vehicle parts and all fuel retailing.

Earnings by method of setting pay

Retail employees on individual arrangements earned more than twice as much on average than employees on awards (table C.2), suggesting that individual pay-setting arrangements have mainly been for managerial and other more senior staff. Unlike the pattern observed in nearly all other industries, on average retail employees who are paid award rates of pay appear to earn more than employees who have the main part of their pay set by a collective agreement. However, this might largely be explained by compositional differences between the two groups of employees — this could include for instance, differences in the relative proportions of juniors, casual and part time employees.

The difference between average weekly earnings in the retail industry and all industries is also partly due to the much lower number of average hours worked by retail employees and the higher incidence of junior rates of pay. When the distributions of adult hourly wages are compared, median hourly earnings for award-reliant adult employees in retail was only slightly lower than the median hourly earnings for all award-reliant adult employees (Pech et al. 2009, based on ABS *Employee Earnings and Hours*, May 2006, Cat. no. 6306.0, unpublished data).

Table C.2 Earnings by method of setting pay, May 2010

Average weekly total cash earnings

	<i>Award only</i>	<i>Collective agreement^a</i>	<i>Individual arrangement^b</i>	<i>All methods of setting pay</i>
	\$	\$	\$	\$
Retail trade	460.70	416.00	925.20	608.80
All industries	520.00	1050.60	1146.10	1010.30

^a Includes registered and unregistered collective agreements. ^b Includes registered and unregistered individual arrangements.

Source: ABS (*Employee Earnings and Hours*, Cat. no. 6306.0).

C.2 Wages growth

Over the 12 year period from June 1998 (the introduction of the ABS Wage Price Index) to June 2010, wage growth (as measured by the growth in total hourly rates of pay excluding bonuses) has been lower in the retail industry than overall wage growth (that is, across all industries). Average annualised growth in retail wages over the period was just over 3.1 per cent, compared with 3.6 per cent across all industries.

A similar pattern is evident in the more recent data. Over the five years to the June quarter 2010, average annualised growth in retail wages was 3.4 per cent for the retail industry and 3.8 per cent for all industries, and in the 12 months to the March quarter 2011, retail wages grew by 3.3 per cent compared to growth of 3.9 per cent for all industries (ABS 2011f).

Average weekly ordinary time earnings (AWOTE) for full time adult employees in the retail industry increased, in the 12 months to February 2011, by only 0.7 per cent. This was less than one-fifth of the growth rate for all industries (3.8 per cent). For the five and ten year periods ended February 2011, AWOTE in the retail industry grew at an annualised rate of 3.5 and 4.1 per cent, compared with 4.8 per cent for all industries in both periods (ABS 2011b).

Differences between the growth in the wage price index and the AWOTE measure can be the result of changes in the quality or composition of labour, for example, the skill level of the workforce. The wage price index total hourly rates of pay measure is designed to measure changes in wages for a given quantity and quality/composition of labour, while changes in average weekly earnings are affected by both the number of hours worked and the quality/composition of the workforce.

In recent years, average wage increases negotiated under enterprise agreements in the retail industry have also been lower than the average across all industries. Data from the Department of Education, Employment and Workplace Relations (DEEWR) indicate that over the four quarters to September 2010, average annualised wage increases (AAWI) per employee in retail ranged between 3.4 and 3.5 per cent, compared with uniform increases in each quarter, across all industries, of 4.1 per cent.² This continues a longer term trend. Since the June quarter 2005, the retail AAWI has been between 0.5 and 0.7 per cent lower than the all industries figure (DEEWR Workplace Agreements Database).

Thus, using a range of measures, growth in retail industry wages and earnings has consistently been lower than the average for all industries.

² AAWIs for all agreements current at the end of each quarter. Estimates of AAWI generally exclude increases paid in the form of conditional performance pay, one-off bonuses, profit sharing or share acquisition, as these data cannot readily be either quantified or annualised.

C.3 International comparisons of labour costs

Several submissions compared Australia's wage costs to those overseas, for example, in the United States and the United Kingdom. The following are examples of comments in submissions:

The impact of a minimum wage rate which is over double that of the USA and approximately 50% greater than the UK, often dictates that an Australian business either reduces sales staff or increases prices to cover the associated costs. (Bicycle Industries Australia Ltd, sub. 53, p. 13)

The minimum wage for all workers in Australia is one of the highest in the world, and is 110% higher than the United States. The prices of goods in Australia are increased by higher wages at all points of the supply chain, not just with retail employees. (Westfield, sub. 103, p. 22)

The focus in these submissions was on Australia's minimum wages. In terms of basic minimum wage rates, Australia's hourly minimum wage is clearly high by comparison with other developed countries, whether expressed as a percentage of median (OECD 2010) or average wages (ILO 2008), or when converted to a common currency using nominal exchange rates or purchasing power parity exchange rates (AFPC 2009).

However, comparisons of minimum wages provide no real insight into relative retail industry labour costs in different countries. While retail employees around the world are typically relatively low paid, most are likely to receive wages that are higher than national minimum wage levels. The Commission notes, for example, that for the financial year 2009-10, the average hourly wage for all retail employees in the United States, including commissions, was US\$12.94 (BLS 2011), compared to the Federal minimum wage of US\$7.25 (U.S. Department of Labor 2011).³

Also, when considering comparative *labour costs* faced by retail firms, the quality and composition of the workforce (including the proportion on higher classifications) must be taken into account.

Researchers at Morgan Stanley, based on analysis of hourly rates of pay for employees of selected listed retailers in Australia, the United States and the United Kingdom, for the financial year 2009-10, estimated that total labour rates were on average 27 per cent lower in the United States and 29 per cent lower in the United Kingdom than in Australia (Kierath and Wang 2011). These estimates are not

³ Wages include: base rate; incentive pay, including commissions and production bonuses; cost-of-living allowances; guaranteed pay; hazardous-duty pay; and tips. Excluded are overtime pay, severance pay, shift differentials, non-production bonuses, employer cost for supplementary benefits, and tuition reimbursements.

necessarily reflective of labour cost differences in retail more generally. This is because they are for selected listed (typically larger) retailers only and, although based on company disclosure where available, in other cases they are based on certain assumptions, including about labour costs as a proportion of sales and hours worked.

The total cost of labour to a retail business comprises — in addition to base wages — above-award rates of pay and overtime, penalty rates and loadings, other allowances and non-monetary entitlements (such as staff discounts, which are common in retail), the costs of hiring, firing and training and labour ‘on-costs’ (such as payroll tax, workers compensation insurance premiums and employer superannuation contributions).

Some submissions particularly emphasised the importance, when making international labour cost comparisons, of taking into account penalty rates. While the ACTU claim that penalty rates in Australia are moderate by international standards (trans. p. 42), other participants consider that the penalty rates employers in the Australian retail industry are required to pay are high in comparison with many other countries. DCK Australia Pty Ltd, for example, stated:

In USA and across most of Asia, stores are open until 10-11pm every night and there are no penalty rates for working night shifts or weekends. (sub. 117, p. 2)

The Commission has undertaken a comparison of compensation for work on rest days and public holidays in selected OECD countries (table C.3). Some countries such as Finland and France have relatively generous compensation provisions. Relative to some other countries, penalty rates are higher in Australia. Penalty rates do not apply at all in retail in most states in the United States. In many other countries, such as the United Kingdom, statutory requirements are for compensation by way of leave in lieu, rather than penalty rates.

Using a broad measure of labour costs, the Commission has compared hourly labour costs in Australia with those in a number of European countries as well as the United States. The information presented in table C.4 is for the financial year 2007-08 which was the latest year for which consistent data were available for the retail sector. The figures, which have been converted to constant Australian dollar equivalents and also to US dollar PPP equivalents to adjust for relative purchasing power, suggest that at that time total hourly labour costs in Australian retail were low by comparison with many other developed countries.

Table C.3 Compensation for work on rest days and public holidays in selected OECD countries^a

<i>Country</i>	<i>Compensation provided</i>
Australia ^b	Saturday — permanent employees 25 per cent and casual employees 10 per cent loading. Sunday — permanent and casual employees receive a 100 per cent loading. Public Holidays — permanent and casual employees receive a 150 per cent loading. In addition, casuals receive a standard 25 per cent loading (except on Sunday).
Austria	Rest period must include Sunday and must begin at the latest on Saturday at 1.00 pm. Time off in lieu for working in rest period must be granted within the same calendar week. Additional pay for work on public holidays unless time off in lieu is granted.
Belgium	Employees working on a Sunday must receive a day off in lieu within 6 days. If the work was in excess of 4 hours on the Sunday, a whole day in lieu is to be granted. For work on Sunday of less than 4 hours a half day in lieu is to be granted. Compensation for work on public holidays is treated the same as for Sunday work.
Canada	Work on a public holiday attracts a loading of 50 per cent.
Finland	Work on Sunday attracts a 100 per cent loading.
France	Payment for work on Sunday can be between the normal rate and up to double the normal rate and a day off in lieu.
Germany	A day off in lieu is granted for work on a Sunday. For work on a public holiday an employee is entitled to an additional day's pay, time off in lieu or an additional day's annual leave.
Ireland	Compensation for work on Sunday is additional pay specified as a 'reasonable amount' and/or time off in lieu. Work on a public holiday attracts an additional day's pay or time off in lieu.
Japan	No specified rest day. Work on rest day attracts a loading of no less than 25 per cent and no more than 50 per cent.
Netherlands	No statutory provisions as to payment for working on rest days or public holidays.
New Zealand	Payment for Sunday work is agreed to by the employer and employee in the employment contract or collective agreement. For work on public holidays a loading of 50 per cent applies and a day off in lieu.
Sweden	Time off in lieu applies for work on rest days.
Switzerland	Rest period is Saturday 11.00 pm to Sunday 11.00 pm. A loading of 50 per cent applies where work on the rest day is authorized on a temporary basis.
United Kingdom	Time off in lieu for work during a rest period.
United States	There are no Federal general statutory provisions. In a small number of states a loading applies for work on Sunday, for example, in Rhode Island, Kentucky and Massachusetts a 50 per cent loading applies.

^a For countries other than Australia, the information provided is for 2009. The information for most jurisdictions is based on the statutory provisions contained in the ILO legal database applying to compensation for work undertaken on rest days and/or public holidays and is not retail specific. The level of compensation may vary due to state or provincial legislation or through the use of collective agreements. ^b In Australia, compensation for work on rest days and public holidays is specified in the relevant modern award and the information in the table is specific to employees in the Australian retail sector.

Source: General Retail Industry Award 2010; ILO Travail Database (<http://www.ilo.org/dyn/travail/travmain.section>, accessed 13,14 October 2011); ACTU (sub. DR180).

Table C.4 Total hourly labour costs^a for retail trade, 2007-08^b

	Local currency	\$AUD ^c	\$US PPP ^d
<i>Based on Eurostat data:</i>			
France	21.80	35.74	24.57
Germany	19.90	32.63	24.48
Italy	18.79	30.81	23.86
United Kingdom	14.63	32.66	22.88
Netherlands	18.74	30.73	22.16
Finland	20.24	33.19	22.01
Austria	18.32	30.04	21.50
Ireland	17.61	28.87	18.54
Spain	12.43	20.38	17.28
Greece	11.61	19.04	16.56
<i>Based on National Statistical Agency data:</i>			
United States ^e	16.47	18.36	16.47
Australia ^f	18.47	18.47	12.49

^a Data shown are the total labour costs for all firms, except for France, Germany, Italy, Finland, Austria and Greece, where only data for firms with 10 or more employees were available. Unless otherwise indicated, data are sourced from Eurostat. Total labour costs include compensation of employees (wages and salaries, including bonuses, allowances, commissions, employer's social contributions and vocation-training costs), other expenditures, plus taxes less subsidies. ^b Except for Australia and the US, data exclude retail of motor vehicles and motorcycles and parts. Data for all countries include fuel retailing. ^c Exchange rates used to convert to Australian dollars are the annual average 2008 financial year exchange rates for the Euro, Pound and US dollar. ^d Purchasing power parities (PPPs) are rates of currency conversion that equalise the purchasing power of different currencies by eliminating price level differences across countries. GDP-based PPPs from the OECD have been used. ^e Data for the US are compensation of employees from the Bureau of Labor Statistics which include wages and salaries, plus total benefits, including paid leave, employer contributions to pension and insurance funds and government social insurance. ^f Total labour costs for Australia are from the ABS and include wages and salaries and employers' social contributions. Taxes payable by employer are excluded.

Source: Eurostat (2011); ABS (*Australian System of National Accounts*, Cat. no. 5204; *Labour Force, Australia, Detailed*, Cat. no. 6291.0.55.003; *Balance of Payments and International Investment Position, Australia*, Cat. no. 5302.0); OECD (2011); US Bureau of Labor Statistics (2011).

However, when making international comparisons of the effect of labour costs on retail businesses' cost competitiveness, the relative contribution to output of retail workers in each country should also be taken into account. A retail worker in one country may cost more per hour to employ, but may also be more productive. For this reason 'unit labour costs' — defined as the labour cost (including wages, entitlements and on-costs) as a proportion of a given unit or measure of output — can be a better basis for cross-country comparison.

For the retail industry as a whole, data analysed by the Commission suggests that the cost of compensation of employees as a proportion of the value of retail sales is higher in Australia than both the United States and the United Kingdom (table C.5).

Table C.5 Ratio of labour compensation to retail sales^a

Country	2009	Average 2002 to 2009
	%	%
Australia	17.9	17.9
United States	13.5	13.8
United Kingdom	12.3	12.7

^a To the extent possible, the Commission has tried to ensure the industry coverage is comparable between countries. In each case sales of motor vehicles, motorcycles and parts and sales of restaurants, cafes and beverage services are excluded. Fuel retailing is included, except for Australia. Definitions of labour compensation, whilst not identical, do in each case include wages and salaries, overtime payments, commissions, bonuses and employer contributions for employee pension, superannuation or government social insurance, as relevant. Retail sales figures vary in some respects, for example, in their treatment, of sales/goods and services tax.

Source: ABS (*Retail Trade*, Cat. no. 8501.0; *Labour Force, Australia*, Detailed Cat. no. 6291.0.55.003); Office of National Statistics (UK) (*Annual Business Survey 2011*, *Annual Business Inquiry 2010*); US Department of Commerce Bureau of Economic Analysis (*National Income and Product Accounts 2010*); US Census Bureau (*Monthly Retail Trade Report 2011*).

The Commission is aware that there is substantial variation in such ratios across retail sub-sectors and within sub-sectors based on the level of sales or turnover of businesses. One source of disaggregated information is the Australian Taxation Office (ATO) benchmarks for small business. The ATO publishes labour cost as a ratio of turnover for nearly 40 separate retail segments. These ratios vary from less than five per cent at the low end of the business turnover range for a small number of segments through to, in one instance, 28 per cent at the top end of the turnover range. These ratios are not directly comparable with the retail-wide ratio for Australia in table C.5 because, for instance, the measure of labour costs used by the ATO is not as broad.

Citigroup analysis (Citi Investment and Research 2011b) comparing Australian retailers with successful global retailers found that in three categories, for which comparative company data were available, the employee cost to sales ratio for the relevant Australian retail group (across all their divisions) significantly exceeded that for the benchmark global retailer:⁴

- Grocery retail — Coles (Wesfarmers) 12.9 per cent, Woolworths 11.5 per cent, Tesco (UK) 10.9 per cent
- Department stores — David Jones 17.1 per cent, Myer 15.0 per cent, Marks and Spencer (UK) 10.0 per cent
- Specialty clothing — Just Group 20.7 per cent, Zara (Europe) 16.2 per cent.

⁴ The figures relate to the 2009 financial year reporting period for the relevant retailer. The figure for Myer was amended after the original research was published by Citi.