

Inquiry into Payroll Tax Rebate, Revenue and Other Legislation Amendment Bill 2015

**Submission to the Finance and Administration Committee,
Queensland**

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**National Retail
Association**

Prepared by the National Retail Association

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About the Submitter

The National Retail Association (NRA) is a not-for-profit industry organisation providing professional services and critical information and advice to the retail, fast food and broader service industry throughout Australia. NRA is Australia's largest and most representative retail industry organisation, representing more than 19,000 stores and outlets.

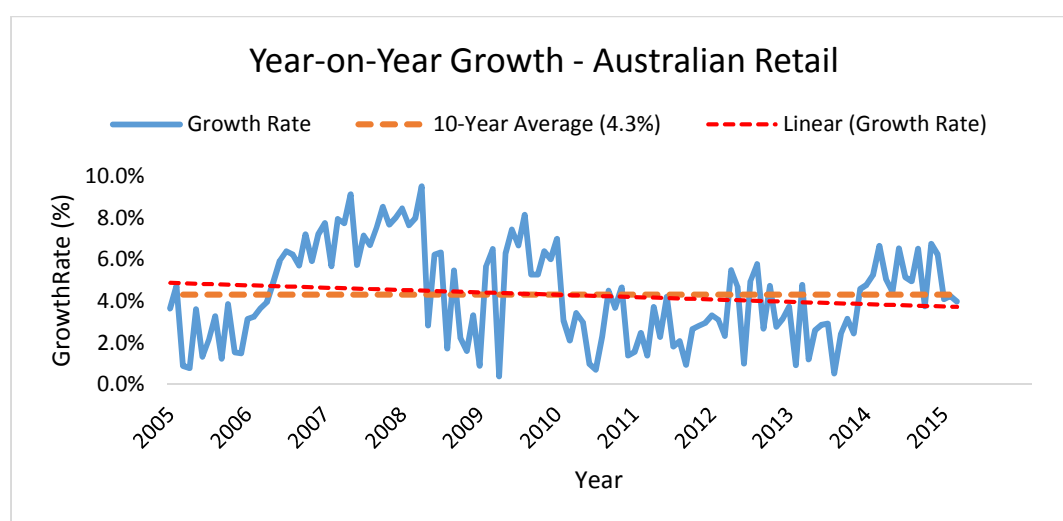
This membership base includes the majority of national retail chains, as well as independent retailers, franchisees and other service sector employers. Members are drawn from all sub-categories of retail including fashion, groceries, department stores, home wares, hardware, fast food, cafes and personal services like hairdressing and beauty.

The NRA has represented the interests of retailers and the broader service sector for almost 100 years. Its aim is to help Australian retail businesses grow.

Australia's Retail Service Sector

The NRA's submissions regarding the payroll tax rebate set out in the *Payroll Tax Rebate, Revenue and Other Legislation Amendment Bill 2015* are made in the context of the general performance of the retail service sector throughout Australia.

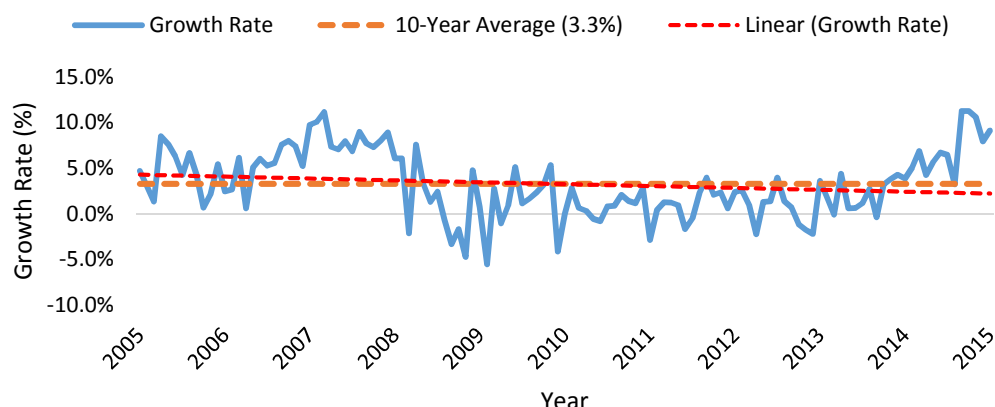
The long-term performance of the Australian retail sector suggests that business operators have faced incredibly challenging economic conditions for a protractive period of time. For the past ten years, a clear, downward trend has become evident in the retail trade turnover data, released by the Australian Bureau of Statistics. Although strong growth was experienced throughout 2006 and 2007, the Australian Retail industry has had sustained periods of poor sales performance, only recently returning to above average sales growth. However, analysis conducted by the National Retail Association indicates that this trend may not continue into 2015, with the possibility of a return to below average sales growth.



Source: ABS 8501.0 – Retail Trade, Australia, Jan 2015

The downwards trend in retail trade turnover is reflected in a number of category sub-divisions, which are key to the Australian Retail industry. In particular, those businesses that are largely dependent on discretionary expenditure, have experienced a clear downward trend in sales growth across the past ten years. While recent retail trade turnover data suggests short-term improvement, especially for household goods retailing (See below), it is uncertain whether this will develop into a sustained growth trend through 2015. Regardless, most categories in the Australian Retail industry are currently experiencing significant challenges in achieving sales growth that exceeds the 10-year average.

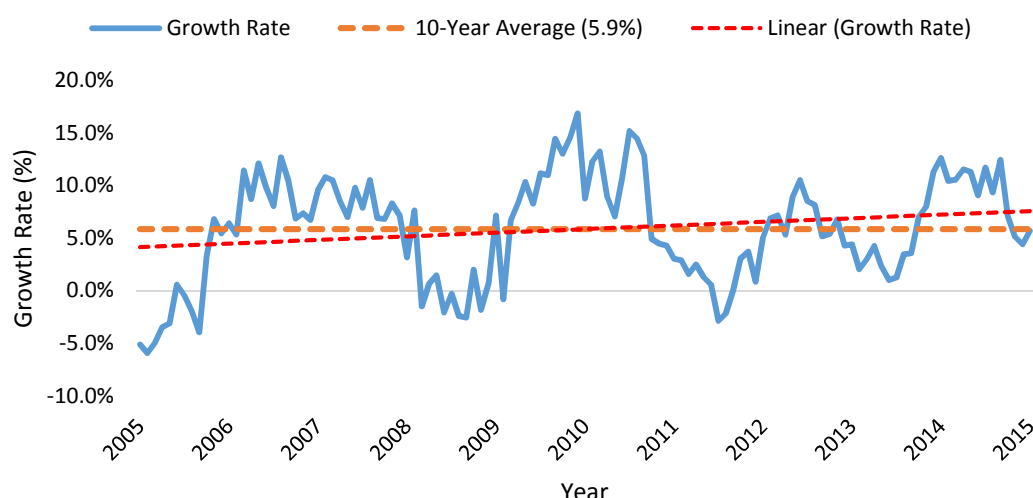
Year-on-Year Growth - Household Goods Retailing



Source: ABS 8501.0 – Retail Trade, Australia, Jan 2015

At present, the only Retail category experiencing a positive, long-term trend in sales growth is cafes, restaurants and takeaway food services. With a 10-year average growth rate of 5.9 per cent, this category experienced double-digit growth, at multiple time points, across the past five years, relative to other industries, which have been growing at an average of less than 3.5 per cent.

Year-on-Year Growth - Cafes, Restaurants & Takeaway



Source: ABS 8501.0 – Retail Trade, Australia, Jan 2015

Research conducted by the National Retail Association also indicates that, relative to historical standards, consumer spending is weak. Indeed, as a result of reduced consumer confidence, the viability of many retail businesses have been impacted by a decline in consumer demand, and increases in operating costs including labour, rents, and utilities.

The most recent business data available from the Australian Bureau of Statistics indicates that 3.1 per cent of retail businesses ceased trading in the twelve months to June 2013, with all of these closures occurring in small business (1-19 employees)¹.

¹ 8165.0 - Counts of Australian Businesses, including Entries and Exits, Jun 2009 to June 2013

Service industry employment now dominates the Australian economy. In 1966 46% of all employed persons in Australia worked in production industries. Today 77% of all employment is attributable to the service sector, rising from 54% in 1966.

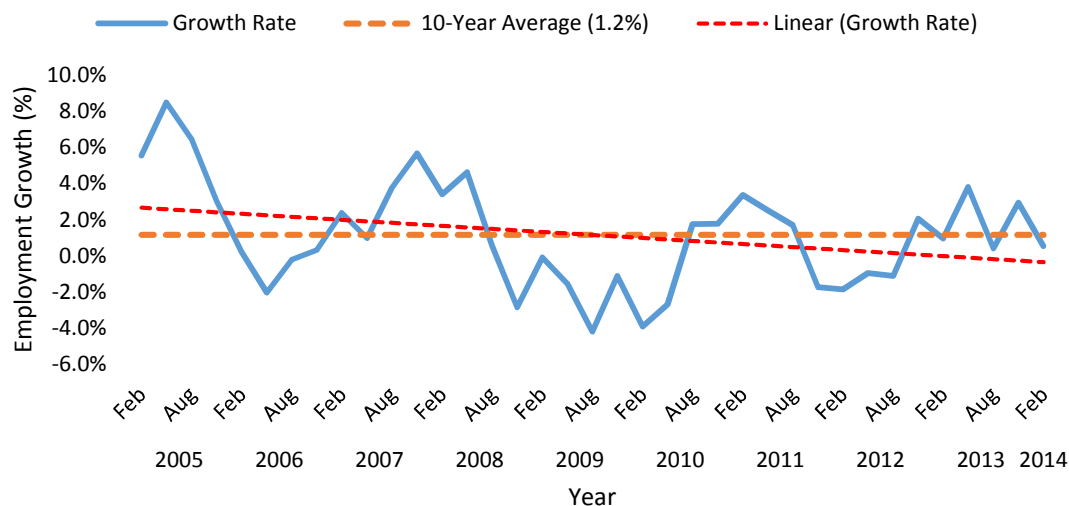
In the 1960s, Australia was evolving from a nation of largely primary industries – of sheep, cattle and wheat – to one of manufacturing. By the late 1960s refrigerators, washing machines, vacuum cleaners and cars had become increasingly available to Australians. This is reflected in the industries which employed most people in August 1966; Manufacturing (26%) and Wholesale and retail trade (21%).

In August 2011, manufacturing was a relatively much smaller component of the economy than it was in the past (accounting for just 8% of employed people). The Health care and social assistance industry was the largest industry (employing 12%), followed by Retail trade (11%) and Construction (9%), while Agriculture and Mining only accounted for 3% and 2% respectively of all employed people.

The growth in some service industries also reflected a changing Australia; some 77% more people worked in the child care industry compared with just 10 years ago. [ABS 4102.0 Australian Social Trends, December 2011]

The Australian Retail industry, however, has experienced a sustained, long-term decline in employment growth across the past ten years. Analysis conducted by the National Retail Association reveals a 10-year average growth rate of 1.2 per cent, which ranks the Retail industry as one of the lowest performing sectors in terms of employment growth, and well below the national average of 2.6 per cent for all other industries. While the sheer size of the retail workforce means that any growth means significant numbers of new jobs, nonetheless the declining rate of growth should be a significant concern for policy makers.

Employment Growth - Australian Retail

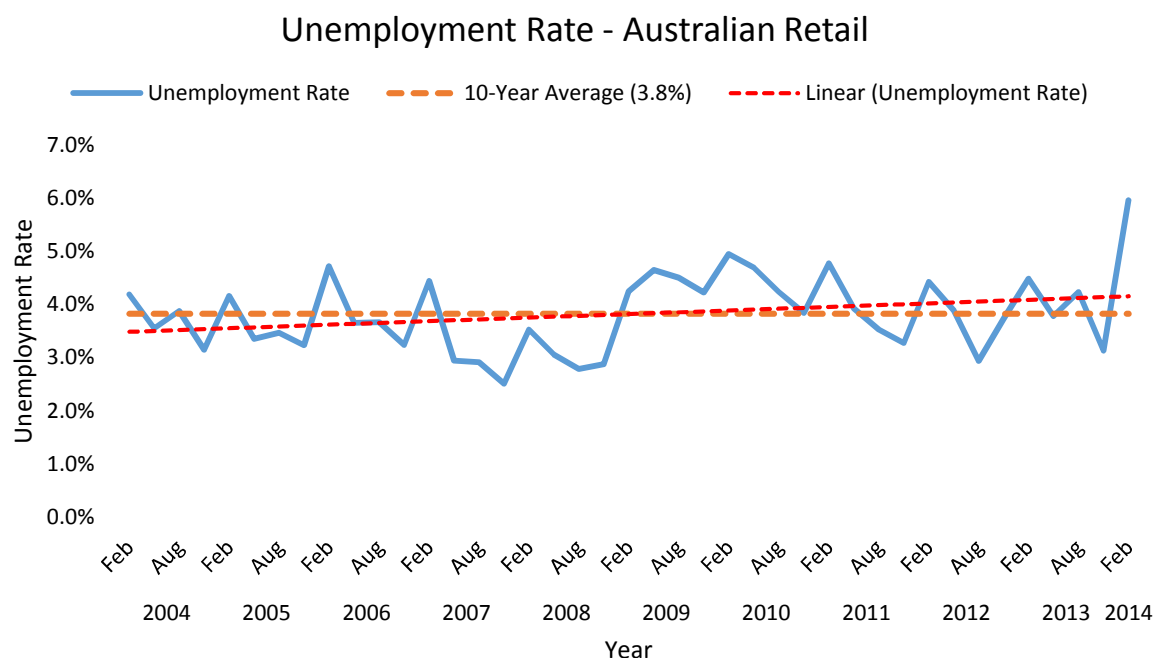


6291.0.55.003 - Labour Force, Australia, Detailed, Quarterly, Feb 2014

Unemployment statistics for the Australian Retail industry also suggest a linear trend towards an increased number of retail workers that are unemployed. Analysis conducted by the National Retail Association indicates that across the past ten years, the Retail industry has had the fourth highest

average unemployment rate, at 3.8 per cent, which is higher than the national average for all other industries (3.1 per cent)².

This evidence, combined with a decline in consumer spending, increase in operating costs, and a contracting rate of employment growth, highlights the sustained economic pressure that has been placed on retail businesses in the past ten years.



6291.0.55.003 - Labour Force, Australia, Detailed, Quarterly, Feb 2014

These challenging trends for the industry are certainly partially attributable to the structural changes and pressures being experienced in the Australian retail sector. Many of these structural changes have been well-documented in previous reports by the Productivity Commission, such as the Economic Structure and Performance of the Australian Retail Industry (2011) and Relative Costs of Doing Business in Australia: Retail Trade (2014).

For example, in recent years, the Australian Retail industry has also experienced an increased level of competition from online, overseas-based retail businesses, which operate in low-wage economies. It is extremely difficult for business owners to pass on any additional wage cost to customers, particularly in an environment where heavy discounting has become the norm in recent years.

Additionally, unlike production or manufacturing, demand is considerably more dynamic where operational requirements are significantly influenced by fluctuations in demand, changing consumer preferences and seasonal factors.

Finally employment is geared towards the young and dominated by casual engagements.

² The industry unemployment rate was calculated using unemployed people who were employed in an identified industry within the past two years. It does not include people that have been unemployed for more than two years, or have never been in the labour market. As a result, within industry unemployment figures will be lower than the labour force-wide unemployment rate.

Submissions

Given the challenges faced by retailers as set out above, the NRA welcomes the relief that its members in Queensland will enjoy as a result of the payroll tax rebate proposed by the Queensland Government as set out in the *Payroll Tax Rebate, Revenue and Other Legislation Amendment Bill 2015*.

The NRA submits that the proposed payroll tax rebate of 25% on wages paid by its Queensland members to apprentices and trainees is likely to encourage retailers and service industries in Queensland to engage more apprentices and trainees during the three year period over which this incentive will apply. This will assist in increasing levels of employment in Queensland - particularly of younger workers - and in the NRA's view, will improve the quality of services provided by those employees once they complete their apprenticeship or traineeship. This can only have positive effects on businesses employing those workers and on the Queensland economy in general.



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