Submission to the Low Pay Commission on the issue of the National Minimum Wage

March 2016

The following reflects the views of the members of Retail Ireland on the issue of the level of the National Minimum Wage.

1. Executive Summary

In 2015 Retail Ireland welcomed the establishment of the Low Pay Commission (LPC). We continue to support the principle that the National Minimum Wage should be reviewed on an annual basis and that the Low Pay Commission is the appropriate body to carry out this review. Retail Ireland fully accepts the requirement for a National Minimum Wage.

It is the strongly held view of Retail Ireland and its members that the level of the National Minimum Wage should be retained at its current €9.15 level. Furthermore, we believe that the decision to increase the rate by €0.50 (6%) in 2015 and its knock-on impact on other wage grades, has been partly responsible for the stunted growth in numbers employed in the retail sector.

The following is the basis for our position:

1. ***There is no evidence base for any further increase in the level of the National Minimum Wage in 2017***

There has been no increase in the cost of living in recent years. In fact, goods deflation allied with a number of other factors means that the cost of living in 2015 was 0.3% lower than in 2014. In the same period good prices fell by 3.8% and by 5.5% in the period 2011-15. It is the firmly held view of Retail Ireland that the level at which the NMW rate is set should be a function of available economic evidence. Retail Ireland is disappointed that economic evidence was disregarded during the setting of the rate for 2016.

2. ***A further increase in the National Minimum Wage at this point would negatively impact upon the creation of new jobs in retail as the sector continues to recover***

Retail is the largest private sector employer in Ireland with over 270,000 people employed. This sector has had a very difficult last seven years with turnover in this period falling by 20% and the numbers employed in the sector reducing by 44,000. Over 3,500 retail outlets closed during the recession and the sector has only recently begun to see an improvement in performance. This improvement, however, is only marginal and is concentrated in urban areas and to specific retail categories. Sales volumes are also recovering at twice the rate of sales values which suggests that a high level of price competition in the sector. The decision to increase the National Minimum Wage by 6% from January 1st 2016 will have an impact on our sector's ability to increase employment and in areas where sales growth remains flat, potentially lead to further closures. No further pressure should be applied to the cost base of a sector still in recovery mode.

3. ***A further increase in the National Minimum Wage could potentially lead to job losses in the sector and/or reduced hours for employees in those businesses who could not afford to pay the increase***

In some retail operations labour costs can account for up to 30% of the total cost base. Any further increase in the hourly cost of labour at this point would only serve to further inhibit the sector's recovery and restrict retailers' ability to grow their employee numbers and in turn ease the Live Register burden on the State. For those who could not afford an increase in the rate they would have to consider other cost saving measures such as a reduction in hours for some staff. Increases in employment costs in the UK have contributed to the materialisation of such a situation.

4. ***An increase in the National Minimum Wage has the potential to negatively impact upon investment in the sector***

The recent recession resulted in a freeze in all non-essential investment projects in the retail sector. As the sector continues to recover, it is hoped that many businesses will return to a position that will enable them to resume investing in badly needed capital programmes in the coming months. A further increase in employment costs would give retailers cause to question potential future investment in their businesses which would in turn negatively impact upon those industries which support the sector.

5. ***An increase in the National Minimum Wage will only further add to wage inflation across the sector due to relativity wage claims***

While it is too early to show using hard data, Retail Ireland has received anecdotal evidence which suggests that the decision to increase the National Minimum Wage rate from January 1st 2016 has exerted further pressure on retailers to maintain relative wage levels for other staff grades. Such a move is motivated by a desire for recognition of higher levels of experience and service, for those at grades in excess of the National Minimum Wage level. This continues to place great pressure on the cost base of Irish retailers at a time when operating margins continue to be extremely tight.

2. Introduction

Retail Ireland is the representative body for the entire retail sector in Ireland and is affiliated to Ibec. Our members include the majority of Ireland's high street retail brands, including department stores, DIY, electrical retailers, fashion and footwear retailers, major supermarket groups, symbol groups, and forecourt and specialist retailers.

Retail is Ireland's largest industry and largest employer, with a presence in every city, town and village, right across the country. The sector employs over 270,000 people (and supports thousands of additional spin-off jobs), while paying over €8 billion in wages, generating over €5 billion in taxes every year and accounting for over 10% of Irish GDP, retail proudly stands tall as Ireland's largest industry and largest employer. There are close to 44,000 retail and wholesale businesses in Ireland with 90% of these Irish-owned and Irish-operated.

Retail Ireland welcomes the opportunity to comment on the existing position with regard to the National Minimum Wage. Furthermore, Retail Ireland and its members would like to express support for the Ibec submission on this issue and would like to build on that submission by making some observations specific to the retail sector.

3. Economic Environment

3.1 Overview of general economic environment

General economic growth was strong in 2015 with full year growth expected to top 6%. However, these growth figures should be taken in context. A large proportion of the growth to date has been directly attributable to the growth in Irish exports. Firms in certain sectors have been well positioned to take advantage of this growth and this has helped feed the recovering Irish economy. This recovery, however, is not homogeneous across sectors.

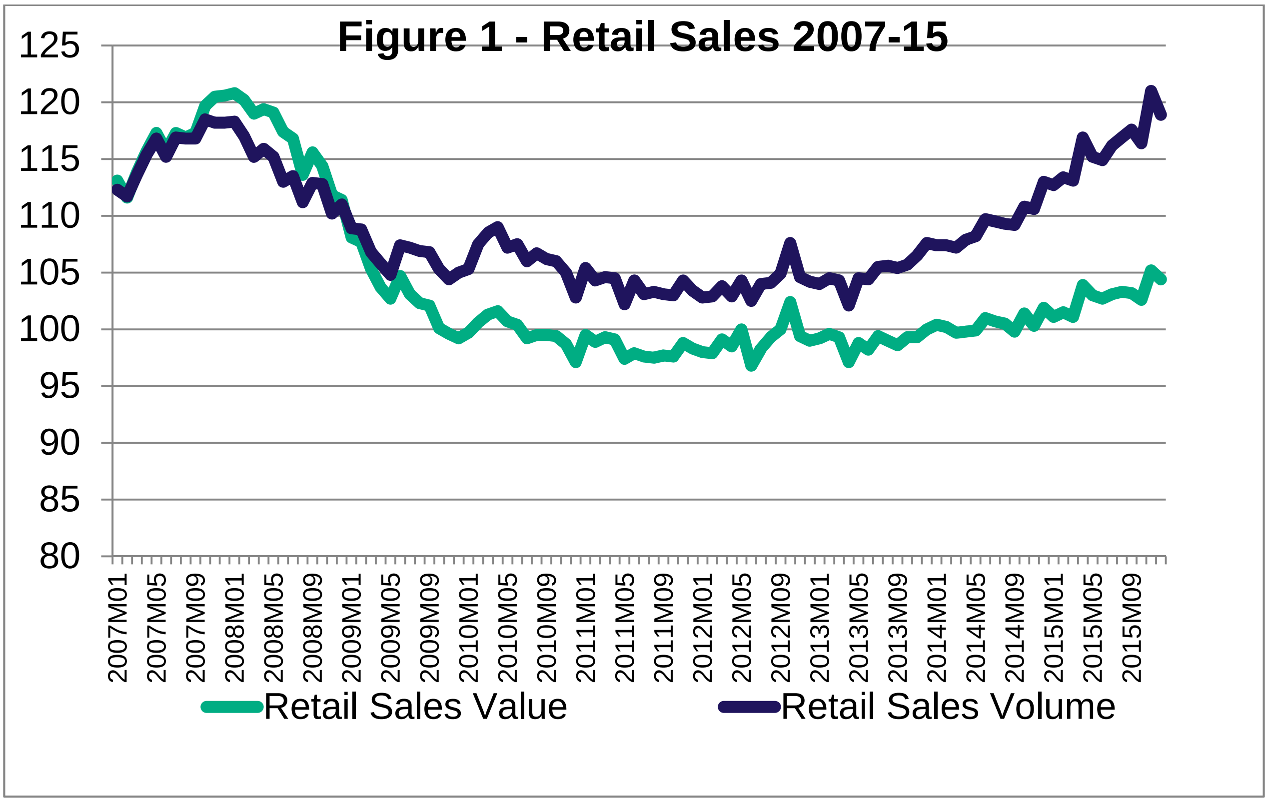
The situation for those businesses dependent on the domestic economy and domestic demand remains difficult. They have not experienced the growth levels of those businesses with an export focuses but remain challenged by a creeping cost base. This is eroding margin and calling into question the long term sustainability of these businesses.

While export orientated businesses appear to be growing at an impressive rate, those focused on the domestic economy remain challenged and growing incrementally rather than in line with GDP growth which is expected to top 4% this year. This is distorting the true economic picture.

3.2 Retail sector performance in period 2008-2016

Turbulent period

The retail sector remains scared by the recession Ireland experienced during the period 2008-15. During the recession, turnover in the sector fell by close to 20%; while employment in the sector fell by 44,000; and 3,500 retail units closed. The sector continues to track 10% below 2010 levels and we have seen no real growth in employment numbers to date.



3.3 Current retail sector performance

Delayed recovery

The Irish retail sector is only now emerging from the toughest period in its history. During 2015 we saw the first signs of sustained growth in the sector with the value of full year sales increasing by 2.8% compared to 2014. While this was encouraging and the first period of sustained growth since 2008, the story across sectors remains mixed with certain categories outperforming the average rate of growth and others significantly underperforming in comparison. The retail recovery is still in its infancy and many pressures remain.

Despite this period of growth the sector is still operating at levels far below that reached during the boom years. Many businesses are still constrained by boom time costs and charges. The retail sector has been one of the last sectors of the economy to experience uplift in performance and recovery in the sector continues to lag behind the general economy.

Heavy emphasis on price remains

The retail sector remains an intensely competitive market with prices at a historically low level, running in line with 2002 price levels. This has led to intense competition between retailers and this competition has in turn helped keep prices low as value for money has become the main driving force behind the consumers' choice of shopping destination. Retailers are operating in a changed consumer landscape. The recession has dramatically altered the behaviour of consumers and loyalty levels are at an all times low. Consumers now, more than ever, make a purchasing decision on the basis of price and this drive for value for money shows no sign of abating in the short term. Retailers have been forced to react to this and the drive for internal cost savings in order to offer better value for money to the consumer remains intense. This is reflected in the CSO retail sales data where a dramatic divergence between sales value and sales volumes has been a consistent trend in 2015 and into 2016. The recovery in the volume of sales continues to run at twice that of the recovery in sales values. Most recent data suggests sales volumes have increased by 6.1% but sales values are up only 3.9% in the year to the end of January 2016. This reflects the price sensitive nature of the modern consumer and the absolute necessity to keep costs down in order to remain competitive and stay in business. Retailers remain compelled to heavily discount prices in order to attract footfall.

Uneven recovery

The performance of the retail sector in recent months has been mixed when compared on a regional basis. The recovery is uneven with the greater Dublin area and other urban areas continuing to record the strongest recovery. Regional locations continue to lag behind. While there is no official CSO data available on the regional distribution of retail sales, Retail Ireland, though it members, has anecdotal evidence which suggests that the majority of the recovery in the sector is coming from the urban areas. Stores in regional locations have not returned to any significant sustained level of growth yet. This on-going lack of growth outside of the major urban areas poses a major threat to the long term sustainability of the sector in these areas. The retail sector is a crucial component in the social fabric of rural Ireland. It disappearance from these areas would have a devastating impact upon these rural communities which rely on it for employment and social cohesion.

The sector also remains susceptible to any downturn in consumer confidence. While international factors may not have a direct impact on the Irish retail sector, any softening in international economic growth rates or negative impacts resulting from a decision by the UK to exit the European Union, would undoubtedly feed back into domestic demand levels here in Ireland. This would quickly lead to a reversal of this fragile growth trend and would put the sector back in a very weak position. The sector needs to be cognisant of the potential for such an external shock and will be required to adjust their business input costs accordingly.

Creeping cost base

Allied to recent increases in employment costs, the retail sector remains challenged by increases in other crucial input costs. In recent months retailers have been reporting a noticeable increase in rents in key locations. A recent report by the Society of Chartered Surveyors entitled 'SCSI Residential and Commercial Property Review & Outlook 2016' reported an increase in rents in prime retail areas in Dublin of 16.8% in the year to the end of 2015. This highlights the pace of rent increases facing Irish retailers in the capital. During the downturn some retailers were able to negotiate a rent freeze for a fixed period of time, this period has now lapsed in most cases and rent increases in double digits are once again becoming the norm.

Along with employment and rent costs a myriad of other costs are also beginning to climb once more. These include local authority rates, insurance and utility costs. We must also recognise the impact that the weakening Euro against both Sterling and Dollar has had. While this current swing has been good news for some Irish businesses, those who import products or raw materials from the UK have seen their sourcing costs increase by up to 20% in some cases. Given the inability to recover these costs in the market place retailers have been forced to absorb these costs, thereby further limiting their already small margins on sales.

The retail sector has also experienced significant restructuring in recent years and this is likely to continue in 2016. This is evidenced by the number of examinerships in recent times including the Xtra Vision/HMV, Ladbrokes, Mothercare and the Karen Millen, Warehouse, Coast Group. These retail chains employed in excess of 1,000 people in Ireland.

This fragile recovery must be considered when taking a decision on the future rate of the minimum wage. Given the current position, any move to increase the rate at this point will undoubtedly jeopardise this recovery which is still at an embryonic stage.

3.4 Impact of 2015 Increase in NMW

While it is certainly too early to give an in-depth analysis of the impact of the decision by the Low Pay Commission to increase the National Minimum Wage by €0.50 effective January 1st 2016, we can take a lead from the employment data over recent months. These numbers suggest growth in employment levels in the retail sector remains stubbornly slow. In the period 2013-2016 we have seen negligible employment growth in the sector. This would suggest that retailers, burned by the experience of the last 8 years, remain reluctant to increase their cost base by investing in the acquisition of new staff. A significant adjustment in input costs was necessary during the downturn, business were required to cut costs, staff numbers and available hours in order to survive. There is a clear reluctance to return to a situation that may require the business to further downsize in future years.

It should be noted however that the decision to increase the National Minimum Wage by €0.50 has also impacted wage rates well above that rate. Many employees have sought wage increases through parity of esteem claims and this has fed into a significant rise on total labour costs in recent months. Retail Ireland highlighted concerns around this issue in our submission and subsequent meeting with the Low Pay Commission during 2015. We have received feedback from our members that these fears have been realised and we believe that the data, when it emerges, will demonstrate these wage pressure in the system at grades above the NMW.

Any move to further increase the NMW rate would only exacerbate this problem and given the fragile condition which the sector still finds itself in, could conceivably lead to pressures on headcount as budgets are squeezed between increasing costs and only a marginal growth in net sales values within these businesses.

Such a scenario would be of grave concern to the retail sector which is seeking to increase the numbers employed in the sector in the coming years. In the UK we have seen the representative trade body, the British Retail Consortium (BRC) suggest in its *'Retail 2020'* report that up to 900,000 jobs, close to one third of all jobs in the sector, could be lost in the sector over the next ten years due to increasing employment costs and other technological factors. We have a responsibility to avoid replicating such a scenario here in Ireland.

Increased labour costs
The decision to increase the NMW also had further impacts on the labour cost base of Irish retailers. Retail Ireland welcomed the recommendation from the Low Pay Commission that Government should seek to limit the impact on employers through altering PRSI rates. Unfortunately while Government took the decision to implement limited changes to the employers PRSI regime, this only marginally offset the effect of the increase in the NMW. This has only proven to act as a further disincentive to increasing employee numbers for Irish retailers and made maintaining current employee numbers more expensive.

4. Retail Ireland Position on the National Minimum Wage

4.1 The Economic Rationale

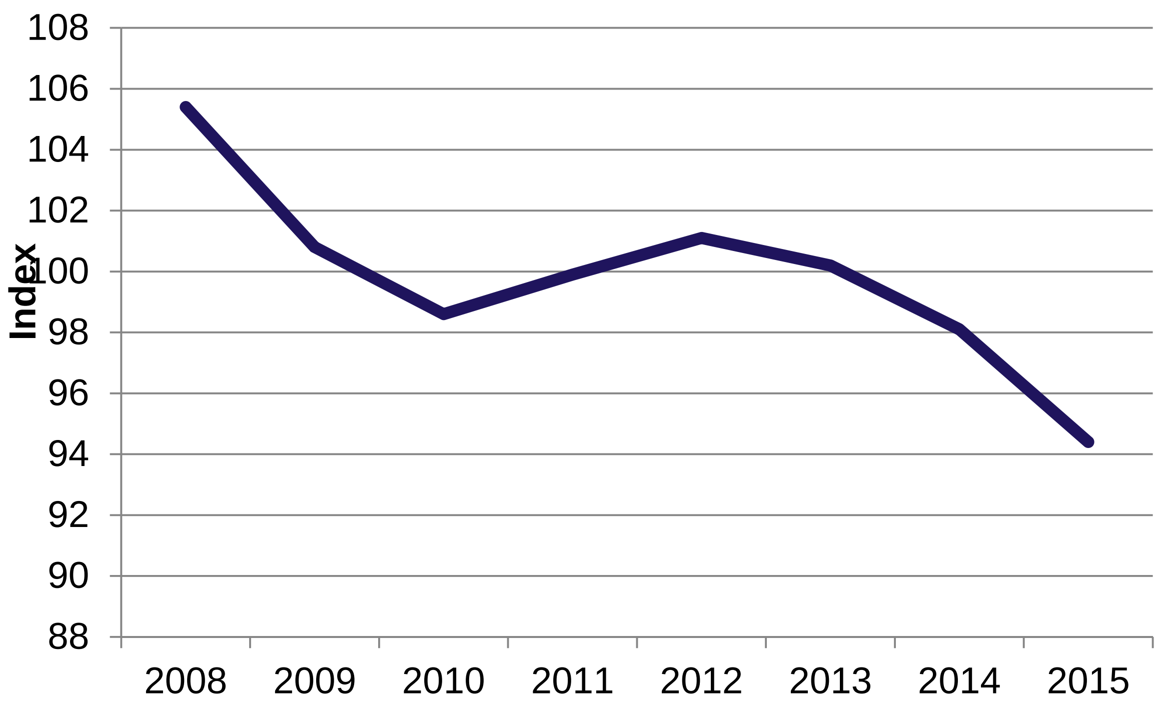
It is the view of Retail Ireland and its membership that given the prevailing economic environment in Ireland, there can be no justification for a further increase in the level of the National Minimum Wage at this time. Maintenance of the existing rate is the minimum requirement at this juncture. There are a number of reasons for this conclusion.

4.1.1 Cost of living changes

There has been a negligible change in the cost of living in Ireland in recent years. Inflation in 2014 was 0.2%. This was driven in part by low energy and commodity prices. Goods price deflation has been a constant theme in recent months with goods inflation in 2015 running at -2.3%. In the period 2011-2015, goods prices have decreased by 5.5%. In our own sector, prices remained at a historic low in 2015 with Christmas 2015 prices on a par with 2000 levels. For example, two important categories for Irish consumers saw strong deflation in 2015 with food and non-alcoholic beverage price inflation at -2.1% and clothing and footwear at -3.7%. This, while undoubtedly good news for Irish consumers, has made it very difficult for retailers to recoup any of their input costs as prices continue a race to the bottom. This is further reflected in the retail sales performance data from the CSO which continues to see volume growth running at twice the rate of sales value growth. This highlights the large scale on-going discounting which remains a feature of the Irish retail landscape.

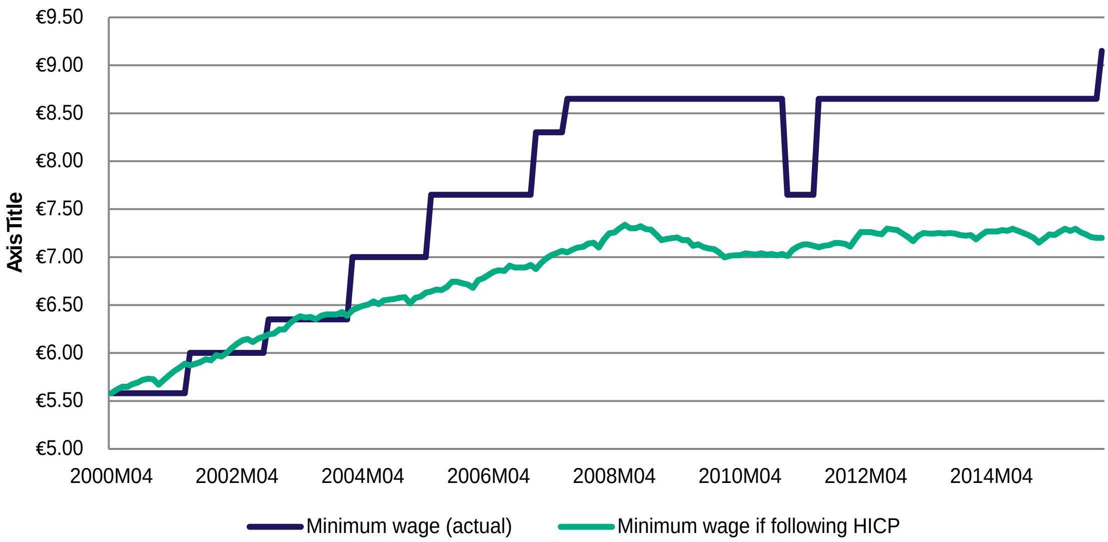
Forecasts from Ibec and other economic commentators suggest that this low level of price inflation is likely to continue during 2016 with only marginal inflation expected. Furthermore, it is forecast that goods inflation will remain low as intense competition amongst retailers ensures consumers benefit from discounted prices.

Figure 3: Goods Price Inflation 2008-15



As figure 4 demonstrates, the NMW has grown at a rate fair great than inflation over the last 15 years. From 2006 onwards there was a clear divergence between the NMW and the rate of inflation. Prior to this point the two tracked each other closely. This has resulted in the NMW running at 27%, or €1.95, above its natural level had this trajectory been maintained.

Figure 4 - Evolution of the Minimum Wage



4.1.2 International minimum wage comparisons

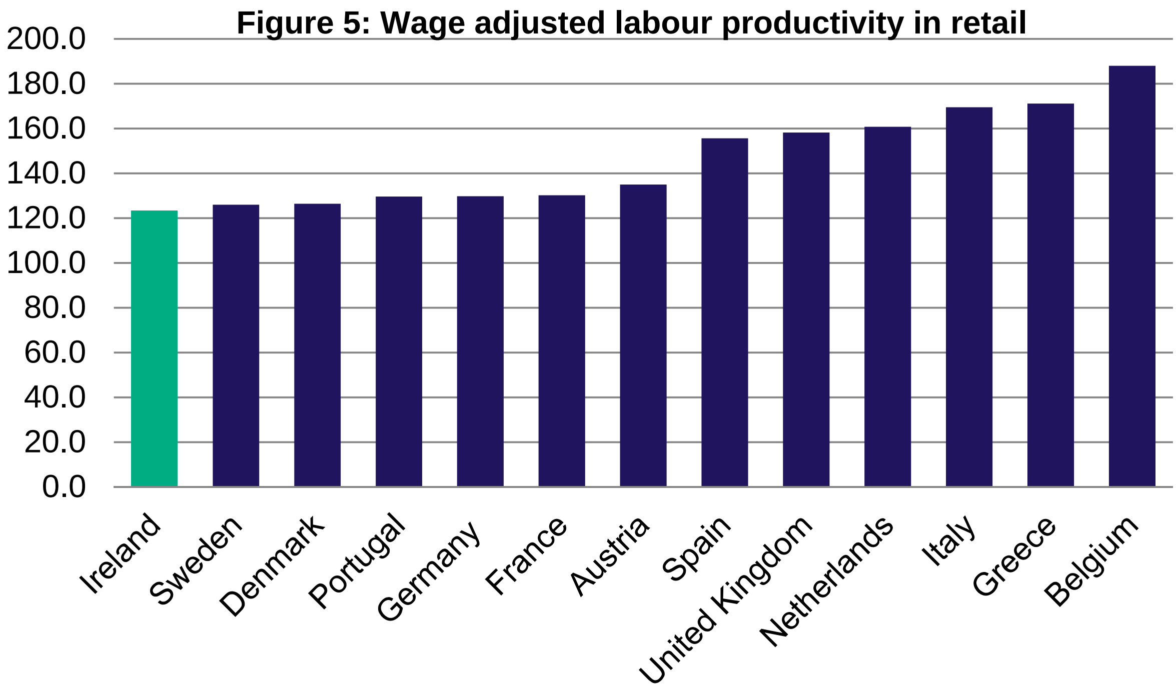
When considering the level at which to set the National Minimum Wage, consideration should also be given to that level which prevails in competing economies in the Euro area and beyond. Ireland currently has the second highest minimum wage in Europe. Even when adjusted to reflect purchasing power, Ireland's national minimum wage remains in the top six highest in Europe behind countries such as Belgium, Germany and France. It is still, however, well ahead of other Western European countries including the UK. In purchasing power terms Ireland's minimum wage is €131 per month greater than the minimum wage in the UK. Given that the UK is our closest trading partner and competitor for inward investment in many cases, this salient point should be borne in mind also.

Table 1: 10 largest minimum wages in the EU, H1 2016	
Country	**€, nominal**
Luxembourg	€1,923.0
Ireland	**€1,546.4**
United Kingdom	€1,529.0
Netherlands	€1,507.8
Belgium	€1,501.8
Germany	€1,473.0
France	€1,466.6
Spain	€764.4
Malta	€728.0
Greece	€683.8

The position vis-a-vi our other European neighbours is similar. Ireland has the 6th highest median wage in Wholesale and Retail of any country in Europe (table below). This directly conflicts with the assertion that Ireland, and the retail sector in particular, has a 'low pay problem' as made by certain commentators in recent months.

Table 2: Median wages and the low pay threshold			
Country	**Median wage**	**Low pay threshold**	**Median wage (Wholesales & Retail)**
Denmark	€24.97	€14.98	€22.58
Ireland	€18.25	€10.95	€13.54
Luxembourg	€17.83	€10.70	€14.03
Belgium	€16.42	€9.85	€14.59
Finland	€15.96	€9.58	€14.12
Germany	€15.39	€9.23	€13.13
Netherlands	€15.32	€9.19	€15.66
Sweden	€14.91	€8.95	€14.71
France	€13.74	€8.24	€11.89
Austria	€12.96	€7.78	€11.21
United Kingdom	€12.62	€7.57	€9.06
EU	€11.95	€7.17	€9.96
Italy	€11.87	€7.12	€10.19
Spain	€9.41	€5.65	€7.86
Cyprus	€9.35	€5.61	€7.15
Greece	€9.06	€5.44	€7.48
Malta	€7.52	€4.51	€5.96
Slovenia	€7.20	€4.32	€6.12
Portugal	€5.06	€3.04	€4.54
Croatia	€4.77	€2.86	€4.61
Czech Republic	€4.44	€2.66	€3.93
Estonia	€4.09	€2.45	€3.32
Poland	€3.95	€2.37	€3.07
Slovakia	€3.93	€2.36	€3.54
Hungary	€3.44	€2.06	€2.96
Latvia	€2.85	€1.71	€2.47
Lithuania	€2.69	€1.61	€2.26
Romania	€1.96	€1.18	€1.73
Bulgaria	€1.52	€0.91	€1.28

Unfortunately wage labour productivity in Ireland is not in line with our counterparts in other European Member States. The Irish retail sector has the third lowest level of wage labour productivity in the EU. This must be borne in mind when considering the appropriate level for the NMW.



4.2 Employment Growth in the Retail Sector

While the retail sector has lost over 40,000 jobs in recent years, recent indications would suggest that retailers are once more considering further recruitment. Given the challenges that remain in the sector, the numbers of new jobs at this stage remain relatively low. There is however, very significant potential for employment growth within the sector over the coming months and years given the right conditions. In our strategy document ***"Strategy for Retail 2014-2016"*** Retail Ireland forecasts that over 40,000 jobs can be created in the retail sector by 2020. This would bring employment in the sector to over 310,000 people. However, in order to achieve this ambitious target the eco-system in which the sector operates must be enterprise friendly and conducive to growth.

Given the regional profile and spread of the employment within this sector we can deduce that the retail sector also has the ability to create a large number of jobs outside the Dublin region in the coming years. An increase in the cost base of the sector at this crucial juncture would only serve to inhibit this ability and would restrict the sector's ability to give career opportunities to those wishing to embark on a career in retail. This would in turn place the burden of supporting those on the Live Register back on the State and stunt the growth of the retail sector into the future.

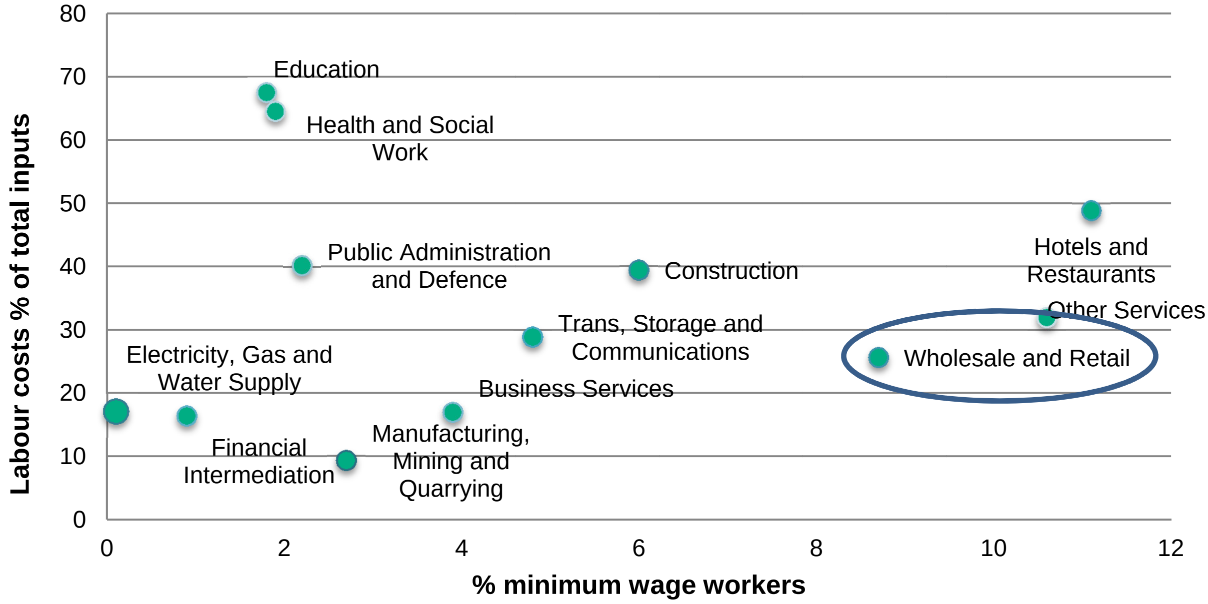
4.3 Labour costs as a proportion of total input costs

The retail sector is a labour intensive industry employing close to 270,000 people nationwide. Like some other sectors such as hotels and restaurants, labour costs account for a very significant proportion of total input costs. In the case of retail, labour costs make up close to 30% of total input costs in some retail businesses. This means that changes to the National Minimum Wage and its relative effect on other wage rates within the sector, have a disproportionate effect on the retail sector.

Furthermore close to 40% of retail businesses are classed as SMEs with turnover of less than €200,000 per annum. A further 39% have turnover of less than €1 million per annum with only 35% having turnover in excess of €1 million each year. Given the labour intensive nature of the sector and the scale of the businesses operating within the industry, any change to input costs seriously affect the viability of these businesses which, as outlined above, are only now emerging from the worst recession in the history of the State.

There is no ability within the retail sector to absorb a further increase in the cost base given the problems that still face the sector and the cost recovery difficulty that exists in the marketplace.

Figure 6: Minimum wage sensitivity by sector



4.4 Threats to future investment in the sector

Firms within the retail sector have seen their ability to invest in their businesses badly hampered in recent years. As the economy contracted, the retail industry, like most other sectors, looked to protect employees and cut costs elsewhere in the business. One of the first budgets cut was the investment budget. Expansion of stores, investments in technology and other infrastructure was put on hold as businesses battled to keep the store doors open. With the stabilisation of the sector in recent months and hopes for real growth in the coming years, retail businesses will once again begin to consider making considerable investments in order to secure their long term future. This will inevitably have a significant positive knock on impact in other sectors of the economy who supply the retail sector. The construction industry, the ICT sector and financial services firms would reap the benefit of any increase in investment in the retail sector. Any move to increase input costs for retailers, either through labour costs or any other fixed cost would no doubt hinder these investment opportunities and force retail businesses to reconsider the prudence of long term investment at this point.

4.5 Pay trends in Retail

There has been considerable debate around the issue of pay increases in recent months. While a recent Ibec survey of its members' intentions in this regard found that close to 1 in 2 companies plan to pay an increase to employees in 2016, the same survey found that of those companies operating in the retail sector, only 33% planned to pay an increase. The reason behind this discrepancy is the simple ability to pay principle. A significant number of businesses in the retail sector remain simply unable to pay an increase in wages to their staff in 2016. As outlined above, the recovery in the sector has significantly lagged behind the recovery in the general economy as it has proven difficult to convert improved consumer sentiment into an increase in retail sales. Of those companies planning to award a pay increase in 2016 the average increase is in the region of 2-2.5%.

Retailers continue to closely monitor input costs and efforts to remove any excess cost within their businesses continued during 2015 and will remain a priority over the coming year.

Given this context it would be highly inappropriate to introduce any increase in the National Minimum Wage at this delicate stage.

5. Closing Remarks

The Irish retail landscape remains an incredibly competitive place. Consumers are still demanding the best possible value from retailers and if they don't feel they are receiving that value they will go to a competitor. This means retailers must continually battle to keep cost increases down as there is no opportunity to pass an increase in costs onto the consumer. Without the ability to offer competitive prices to customer, sales will be endangered, jobs threatened and the sector's recovery will be further stifled. Over 40,000 jobs have already been lost in our sector in recent years and it is vital that nothing is done to undermine efforts to replace those lost jobs.

Retail Ireland reiterates its support for the Low Pay Commission and its role in setting the level of the National Minimum Wage. We also accept that the minimum wage should be reviewed at relevant intervals.

Retail Ireland is, however, strongly opposed to any move to further increase in the National Minimum Wage during 2016. As outlined in this submission, any move to increase the cost base of retailers at this crucial juncture would only serve to inhibit the signs of growth which has begun to appear in recent months and stifle the ability of the sector to grow employment. In recent months retailers have had to contend with an increase in employment costs, rents, utility cost and local authority rate. All of this has been managed in the context of only marginally increasing sales values.

It is in this context that Retail Ireland calls on the LPC to maintain the NMW at its current level and offer employers the opportunity to grow their staff numbers in the coming years.

For further information:

Should you require any further information, Retail Ireland and its members would be happy to provide it. In order to clarify any aspects of this submission please contact Thomas Burke, Director of Retail Ireland, at thomas.burke@ibec.ie or by phone at 01-6051558.