



**Retail
Ireland**

ibec

National Minimum Wage

February 2018

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

Submission to the Low Pay Commission Consultation Process 2018

Name	Retail Ireland	
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Are you (Please tick)	Employer	<input type="checkbox"/>
	Employee	<input type="checkbox"/>
	NGO	<input type="checkbox"/>
	Union	<input type="checkbox"/>
	Other (please specify) ___ Representative body for the Irish retail industry ___	
Size of Organisation (Number of Employees)	0-10	<input checked="" type="checkbox"/>
	11-25	<input type="checkbox"/>
	26-50	<input type="checkbox"/>
	51-100	<input type="checkbox"/>
	100+	<input type="checkbox"/>

The following reflects the views of the members of Retail Ireland on the issue of the level of the National Minimum Wage in 2019.

1. Introduction

Retail Ireland is a division of Ibec and is the leading public affairs, government relations and trade representation body for the Irish retail industry. We represent a broad mix of the very best in Irish retail from global multiples to indigenous Irish chains to smaller, independent and stand-alone operators and are proud to be the voice of Irish retailers. Our members come from every sector of retail, 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 280,000 people (and supports thousands of additional spin-off jobs), the sector is the biggest contributor to the Irish Exchequer, generating 23% of total tax receipts in Ireland. This is more than twice that of Ireland's second largest sector, financial services, which accounts for 11%. The majority of the 37,400 retail and wholesale enterprises operating in Ireland are small businesses with 85% of businesses employing less than 10 people.

A healthy retail sector is vital to the Irish economy and to the commercial life of our towns and cities. Employment in this labour-intensive sector has grown by 2.3% in the past four years with 6,300 more people working in retail than four years ago. These growth figures are very disappointing when you consider that employment in retail declined by over 45,000 from a peak of some 320,000 in 2008.

The UK's decision to leave the EU poses significant challenges and potential risks to the Irish retail sector. In the past twelve months consumers have remained sensitive to any macro-economic shock and this is unlikely to change during the EU and UK negotiations. The most obvious short-term impact is the devaluation of sterling against the euro and the impact the falling value of the pound is having on retailers in the border area. This has led to the return of cross border shopping, and resulted in a significant jump in online shopping in all parts of Ireland, from UK online retailers.

Retail Ireland welcomes the opportunity to comment on the future position regarding 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.

2. Overview of general economic environment

According to the quarter three National Accounts, the economy is on track to grow by almost 6% in 2017. Despite some quarterly volatility Ireland is now experiencing a period of rapid economic expansion. The current phase of growth is underpinned by business investment and strong consumer spending. Over 55,000 net new jobs in 2017 were matched with the highest real wage growth in Europe. As a result, Irish households are seeing their disposable incomes grow at over four times the eurozone average. There are external risks to this in the medium-term, recent movements in the euro-sterling exchange rate caused Ireland's competitiveness to deteriorate relative to our trading partners. It is now very important that other costs are kept in line to avoid a further decline,

not least if the UK Government is unable to follow through on recent Brexit political commitments. Therefore, the risk of losing competitiveness will need to be carefully managed over the coming years.

Over the past few years inflation in Ireland was extremely low and the overall cost of living is now the same as it was in 2008. The cost of certain items such as rents did increase, but only 35.7% of minimum wage workers are renting from a private landlord. Furthermore, roughly 12% of minimum wage workers are renting in Dublin where rental costs increased most. As minimum wage workers are not alone in rental challenges, it is better to target the cost at source through public policy intervention. Given that these costs are driven by a limited supply, it is likely that raising incomes to increase affordability would just drive up prices further.

3. Industry trends

Despite an uncertain external environment, 2017 proved to be a relatively strong year for the Irish retail sector. According to the Central Statistics Office (CSO) in 2017 total sales value grew by 4.5% compared to 2016's growth of 0.4%. Overall the data states that all but one retail category didn't see an uplift in performance in 2017.

An uneven recovery

The recovery in our sector is uneven, with the greater Dublin area and other urban areas continuing to record the strongest recovery. Regional locations continue to lag. Brexit and intense competition from pure play online retailers are posing a major challenge to the long-term sustainability of the sector in these areas. Between Q2 and Q3 of 2017 the proportion of cars parked in Northern Ireland shopping centres with an Irish registration increased from 32% to 48%. Before it was typically the Border counties that were affected by cross border shopping however, with the sharp increase in online shopping, other parts of the country are now affected by the sterling depreciation. As a result, retailers are focussing investments on better performing high streets, shopping centres and retail parks (Figure 2).

Digital revolution

Irish consumers are now more comfortable than ever shopping in a virtual world. Christmas 2017 will undoubtedly return record online sales numbers. According to Central Bank statistics, total e-commerce spends will likely exceed €16 billion in 2017. This would represent a close to 50% increase since 2015. This lays a substantial challenge for Irish retailers, as we know that 70% of all digital purchases are transacted on websites based outside of Ireland. A growing cost base linked to rising commercial rates, rents, insurance and government mandated wage rates, all give an undue advantage to online retailers with no presence or employment in Ireland.

Brexit

As a sector, retail is one of the most exposed to Brexit pressures and as we review full year sales data we continue to see the impact on our sector. Consumer spending was noticeably weaker in the second half of 2017 than the leading general economic indicators such as employment and wages would suggest. It is likely that cross-border trade in cars and other goods, accompanied by strong growth in cross-border online shopping, has driven this phenomenon. Brexit also leaves the Irish retail sector particularly exposed to higher logistics costs and supply chain disruption and the potential reintroduction of customs controls and duties.

Creeping cost base

The State has played a significant role in driving input costs and reducing retail's competitive position. Since 2015, the National Minimum Wage has increased by 10.4% and the energy PSO levy was increased from €70.75 (€80.30 including VAT) to €92.28 in October of last year. In that period retailers have also seen rents return to pre-crash levels in prime retail locations, along with local authority rate increases. Our members also report public and employer liability insurance increases of between 5 and 10 per cent. Proposals contained within the Public Health (Alcohol) Bill 2015, the Employment (Miscellaneous Provisions) Bill 2017 and the Waste Reduction Bill 2017 have the potential to introduce large costs for Irish retailers. The implementation of the Sugar Sweetened Drinks Tax and the Grocery Goods Regulations have also added to the cost of doing business. From a business point of view this is damaging competitiveness at a time when retailers are not able to pass through cost pressures in the form of higher prices.

Heavy emphasis on price remains

The CSO report that the recovery in the volume of sales remains at just under twice that of value growth. As figure 1, demonstrates the dramatic divergence between sales value and sales volumes has been a consistent trend since 2009. The price of goods fell by 2.1% in 2017 and the overall price of goods is now lower than in 2000. This reflects the absolute necessity for retailers to keep costs down to remain competitive and stay in business.

Consumer sentiment

Consumer sentiment has been inconsistent throughout 2017, largely due to Brexit related uncertainty. According to the Consumer Price Index, in December 2017 consumer sentiment declined slightly to 103.2 compared to 103.6 in November 2017. Throughout 2017, retailers have had to react to continued uncertainty through price reductions and promotions. However, due to already tight operating margins such actions cannot continue in the long term and retailers will be required to adjust their business input costs accordingly.

Employment

Job creation and employment growth in the retail sector continues to be slow, despite improving domestic economic conditions. As the largest or second largest employer across all regions low growth rates are a concern. Retail employment has remained relatively flat since 2010, total employment grew by 17%, while in retail it only increased by 10%. This slow growth in retail is not surprising given that the sector has faced extreme difficulties in recent years and employers are increasingly facing a battle to remain competitive. Hence, they are reluctant to take on additional employment costs unless necessary.

4. Retail Ireland's position on the National Minimum Wage

It is the view of Retail Ireland and its membership that any adjustment in the minimum wage needs to consider trends in prices, overall economic conditions, employment creation and the competitiveness implications arising from Brexit. During this time of heightened uncertainty, an evidenced-based approach is the only way to determine a fair and sustainable rate that will ensure competitiveness.

The retail sector prides itself in its ability to provide significant employment opportunities for people at all levels of qualifications and to reward employees with fair and sustainable wages. Since 2000, Retail Ireland Skillnet, Ireland's leading body in retail education and training, has provided certified learning programmes to 14,000 people within the Irish retail sector. Retail Ireland is currently

working with the Apprenticeship Council to develop a national apprenticeship for the retail sector which will commence later this year.

Allied to this many of our members are committed to generous and fair terms and conditions that provide measures such as private health insurance and pension provision. Retail Ireland's members seek to support, engage and motivate their employees by raising the levels of education and skills within their organisations and through measures that enhance job quality and job security. While we understand the remit of the Low Pay Commission in respect of this consultation, it is disappointing that the debate on terms and conditions in the retail sector continues to revolve around one single number and does not take the broader package on offer into account.

Retail Ireland strongly encourages that these factors outlined within this submission will be considered when the Low Pay Commission makes its decision. It is Retail Ireland's firm view that should the Commission see fit to recommend an increase in the minimum wage in 2019, it should be proportionate and in line with current and predicted levels of inflation over the coming year (circa 1%). We believe inflation tracked increases, or decreases, offer retailers certainty and enable them to plan for medium term and build business plans around a manageable cost base. Furthermore, any recommendation would reflect the significant increases in the minimum wage since 2015, the minimal increase in the cost of living in recent years and the general increase in wage rates in the retail sector at present, of between 1-2% per annum.

The following is the basis for our position:

Any increase in the National Minimum Wage should be evidenced based

It is the firmly held view of Retail Ireland that the level at which the minimum wage is set should be a function of available economic evidence. While economic indicators are now pointing to strong and sustainable growth in Ireland's economy in 2018, the retail sector continues to struggle. Turnover is still below peak levels while volumes are above, employment is still 7% below 2007, the sector has also been adversely affected by the previous changes in the minimum wage. Depreciation in the euro-sterling exchange rate continues to impact the retail sector.

Prices have remained flat for the past four years. Inflation was only 0.4% last year and the overall cost of living is the same as it was in 2008. There are however, two differing trends underlying this. The price of services continues to rise while the price of goods continues to fall.

Any increase in the National Minimum Wage must not discourage job creation and employment growth

Between 2013-2017, employment in the retail sector has grown by 2.3% or 6,300 jobs. These growth figures are very disappointing when you consider that employment in retail declined by over 45,000 from a peak of some 320,000 in 2008. In 2018, Ireland's minimum wage is now 10.4% higher than 2015. With the CSO reporting that, 26% of minimum wage workers are in retail, we believe that recent increases in the National Minimum Wage has been partly responsible for the stunted growth in numbers employed in the retail sector.

As part of the development of a future strategy for Irish retail, Retail Ireland commissioned surveys and in-depth interviews with senior retail industry business leaders to assess their views on the current retailing environment, as well as their ambitions and expectations for the future. When

asked whether employment in the Irish retail sector will grow or contract in five years' time, half of respondents reported that overall employment in the sector may contract between 2017 and 2020, citing competitiveness, a more uncertain economic outlook and the increasing use of automation and technology in the sector. While retailers anticipate limited growth in overall employment in the sector they anticipate the quality of roles and positions in the sector will improve as the sector evolves.

New research by the CSO showed that in 2016 10.1% of employees were on the minimum wage. As the minimum wage is now 4% higher, it is likely that an even greater share of employees is on this rate. This suggests that future increases in the minimum wage will have a bigger impact on labour costs. It will also have wider knock on effects, as it impacts the wages of those who are paid a premium above the minimum wage e.g. paid an hourly rate of €1 above the minimum wage. The higher the number of people who are on the minimum wage or who are paid a premium above it, the bigger the impact an increase in the minimum wage will have on business costs.

In 2018, Retail Ireland will encourage new entrants into the retail sector through apprenticeships. Due to retail's presence in every town and village in Ireland, the development of apprenticeships will deliver significant benefits for both the employee and employers.

According to the CSO in 2016, 155,100 workers were earning the minimum wage or less, and of this 26% were employed in retail. This would suggest that a little over 40,000 employees in the retail sector, or 14% of the total number employed in retail and wholesale enterprises, are in receipt of the minimum wage. This cohort is largely made up of new entrants to the sector with low skill levels, and those engaged in part time work while in school or college. This is further evidenced by the fact that almost 38% of those in receipt of the NMW are in the 15-24 age group.

The retail sector provides a valuable, flexible source of work for this younger cohort who use such part time employment to supplement their full-time education. Any further increase in the minimum wage must not price new entrants out of the sector, or discourage the creation of entry routes to work. Obliging employers to offer an unrealistic wage for entry-level jobs is yet another barrier to deciding to take on a less experienced employee or a new entrant.

It is clear from a recent Retail Ireland Salary Survey that new entrants to the sector do not stay long at such entry pay rates. Our analysis suggests that the average hourly rate for entry level positions (Sales Assistants) in the sector is €11.31. However, the maintenance of a realistic hourly entry rate is essential to allow retailers to bring new employees into the sector, upskill them and place them on a path of career progression and continuous professional development.

Any rise in the minimum wage not only affects employers through its direct impact on wages but also through employers' PSRI. Like the minimum wage, employers' PSRI for a minimum wage worker increased by 10.4% since 2015 (€156 euro per year). Currently, a minimum wage worker's weekly earnings are just below the threshold for the higher rate of employers' PSRI (€372 vs threshold of €376). Any further increase in the minimum wage will see a dramatic rise in numbers going onto the higher rate of employers' PSRI and this will put increased pressures on business.

As table 2 demonstrates retail is one of the few sectors with the ability to create a diverse range of roles and opportunities outside of the Dublin region. The economic recovery from 2012-2016 was heavily concentrated in Dublin. The rest of the country is now experiencing strong growth, but some regions are still struggling. In Q2 2017, employment in the Border was 11% below its peak. In the second quarter of 2017 both the Border and the South-East experienced the weakest employment

growth. These are also the two regions with the largest proportion of employees on the minimum wage. In the Border region 14.3% and in the South East 13.2% of employees were on the minimum wage. This is substantially higher than Dublin where only 8.3% of employees are on the minimum wage.

Any increase in the National Minimum Wage must not negatively impact the competitiveness of the sector

The Irish retail sector is facing acute challenges from the fallout of Brexit. Since 2016, a more volatile sterling has intensified pressure on retailers from competitors in Northern Ireland and UK based online retailers. Allied to shifting exchange rates, retailers are also facing uncertainty around trade and cross-border price differentials. Ireland's minimum wage is currently 12% higher than the UK. In April 2018, the UK will increase its minimum wage further, but the Irish rate will still be 7% higher. Our VAT rate of 23% is significantly out of line with our nearest neighbour who has a more favourable VAT rate of 20%. Other factors, such as higher input costs in the Republic further contribute to price differentials between Irish retail and our nearest neighbour and biggest competitor.

If retailers are to stay in business, they must remain price competitive; wage levels must be set against the price that the business can charge customers for goods and services. Over the last half decade Ireland had one of the lowest consistent periods of inflation in the history of the State. The latest CSO data indicates that prices fell 2.1% in 2017. Food prices in December 2017 decreased by 1.6% compared to the same month in 2016. Clothing fell by 3.4%, with prescribed medicines decreasing by 2.5% compared to December 2016. Overall inflation in 2017 was 0.4%, forecasts from Ibec and other economic commentators forecast inflation of 0.9% for 2018. Wage pressures arising from rising employee's personal costs including housing, health and childcare are a result of failures of public policy over many years, it is entirely unreasonable to expect individual employers including retailers, to bear the cost of these.

When considering the level at which to set the National Minimum Wage, consideration should also be given the level that prevails in competing economies in the Euro area and beyond. The increase in the minimum wage over recent years pushed Ireland's minimum wage from the 5th to the 2nd highest in the EU. In purchasing power parity (PPP) terms, Ireland's ranking is slightly lower (6th) due to the higher cost of living in Ireland. While the higher cost of living may warrant a higher wage floor, it is important to keep in mind that in terms of competitiveness, it is the nominal rate that matters. The National Competitiveness Council noted in its "Cost of Doing Business 2017" report that labour accounts for 75%-90% of location sensitive costs. This makes labour costs central to our overall competitiveness, particularly for a small country like Ireland that relies heavily on exports. The Low Pay Commission noted in its submission last year that as a share of median earnings, the minimum wage is relatively low in Ireland. This is because Ireland has the second highest median wage in the EU, that is driven by specific sectors of the economy that are dominated by multinational companies. Looking at the minimum wage as a proportion of average earnings in the two largest minimum wage sectors (retail and hospitality), Ireland had the 3rd highest in retail and the 2nd highest in hospitality (Figure 3).

Any increases in the National Minimum Wage must not hinder investment or business confidence

Retail is a fast-moving, highly dynamic sector that has seen fundamental changes in recent years in the way consumers shop and engage in-store and online. As reported in our Strategy document 'Shaping the future of Irish retail 2020', senior retail industry business leaders confirmed they are planning increased capital investment in the next three years with a keen focus on new technologies and store refurbishment, aimed at creating a more compelling customer experience and greater engagement to drive sales. Investments such as this are essential to retain existing customers and attract new ones.

However, Irish retailers are facing growing competition from international, often internet only retailers. It has been estimated that up to 70% of e-commerce sales in Ireland are conducted with online retailers with no presence or employment in Ireland. Brexit and its effects on exchange rates will continue to drive this trend until EU and UK negotiations are concluded. Any move to increase input costs for retailers, either through labour costs or any other fixed cost should consider the future investment needs of sectors most exposed to Brexit and in need of transformations to adapt to changing consumer demands, and not force retail businesses to reconsider the prudence of long term investment at this point.

Furthermore, large one-off adjustments can be detrimental to planning, budgeting and forecasting especially for small businesses who are most impacted by rising input costs. If it is recommended by the Low Pay Commission that the economic conditions require a further increase to the minimum wage, Retail Ireland would like to see modest increases introduced rather than large one-off adjustments. Modest increases ensure that businesses are better able to absorb wage cost increases as opposed to larger one off increases every 2/3 years. Increasing the minimum wage modestly would mitigate the need for a significant correction in the future as has traditionally been the case (the exception being increase applied in January 2017).

A growing cost base linked to rising commercial rates, rents, insurance and government mandated wage rates combined with an ever-increasing legislative burden, all give an undue advantage to our competitors, and are eroding retailer's confidence. Such an imbalance in competitive positions and confidence is not sustainable. Retailers require certainty in their cost base and a whole government approach to supports that work with the country's largest private sector employer to secure investment and employment opportunities.

5. Closing Remark

On behalf of our members we would like to reiterate that the minimum wage should be a function of available economic evidence and increased or decreased depending on the prevailing economic conditions.

As outlined in this submission, the domestic economy is currently experiencing a steady phase of growth. Nevertheless, it is vital that the minimum wage is appropriate, competitive and affordable whilst also considering the cost of living. According to the CSO, 26% of minimum wage works were employed in retail. Therefore, special care and attention must be taken in determining the rate during 2018 due to the significant impact Brexit is already having on our sector. Any move to increase the cost base must not hinder retailer's ability to Brexit proof their businesses and maintain cost competitiveness.

For further information

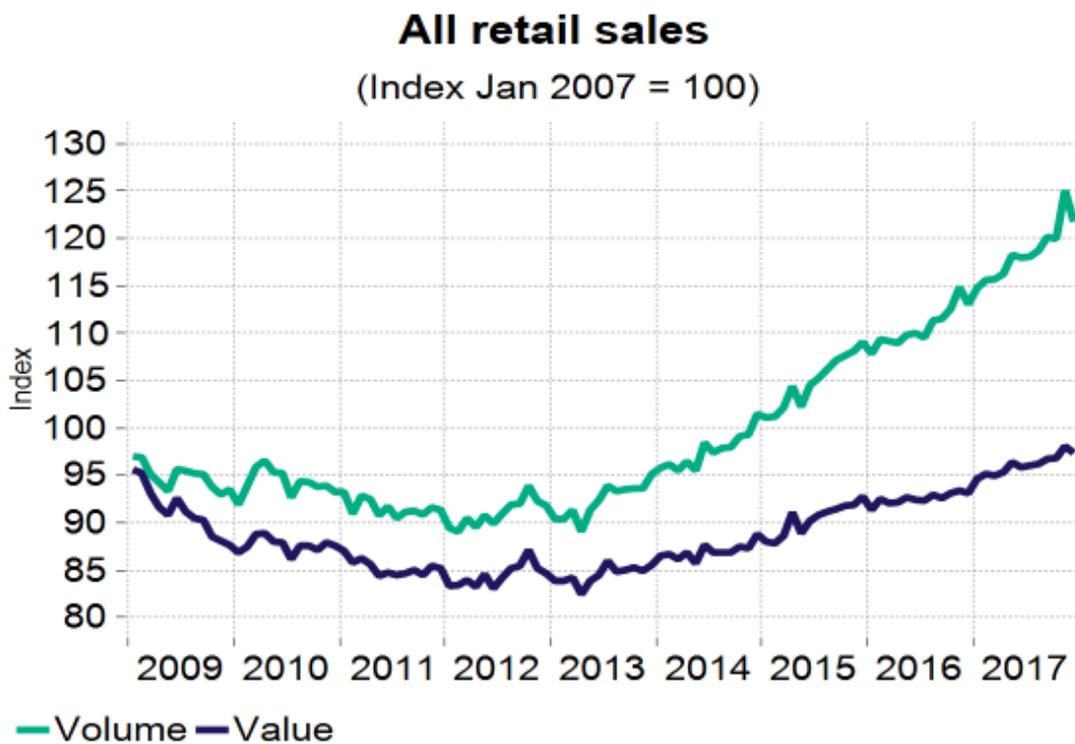
Should you require any further information, Retail Ireland and its members would be happy to provide it. To clarify any aspects of this submission please contact Thomas Burke, Director of Retail Ireland, at thomas.burke@ibec.ie or by phone at 016051558.

6. Appendix

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

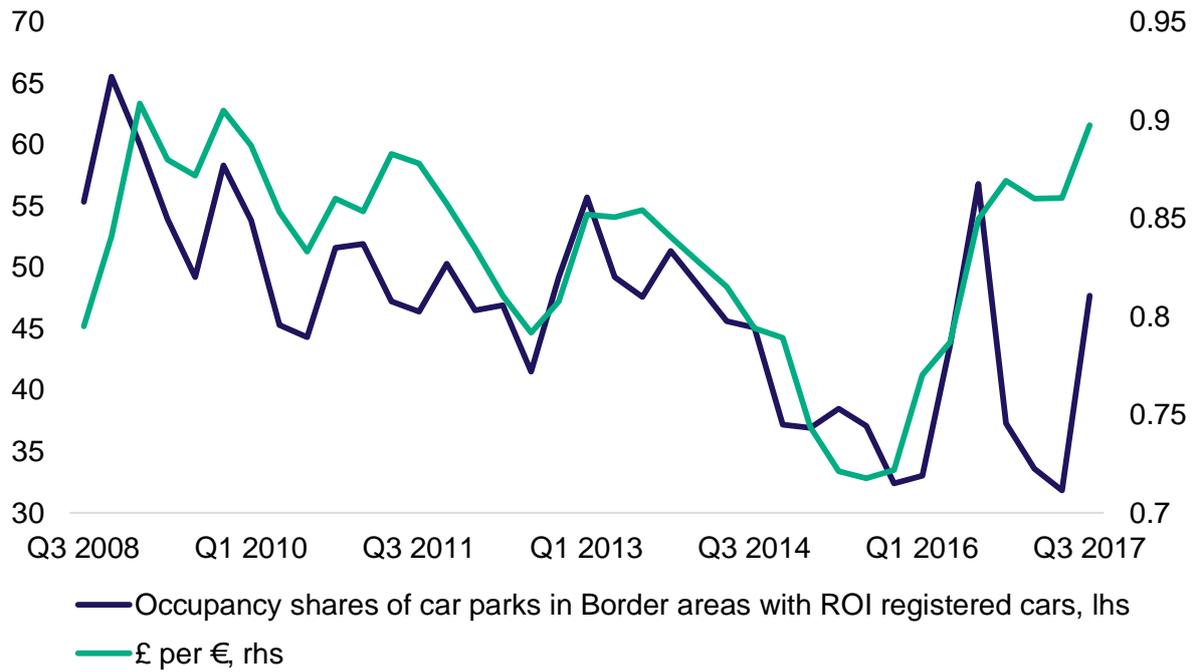
Table 2: Retail as % of private sector employment	
Border	19.4%
Midland	20.4%
West	18.6%
Dublin	16.6%
Mid-East	19.0%
Mid-West	16.9%
South-East	19.5%
South-West	19.0%
State	18.3%

Figure one: All retail sales



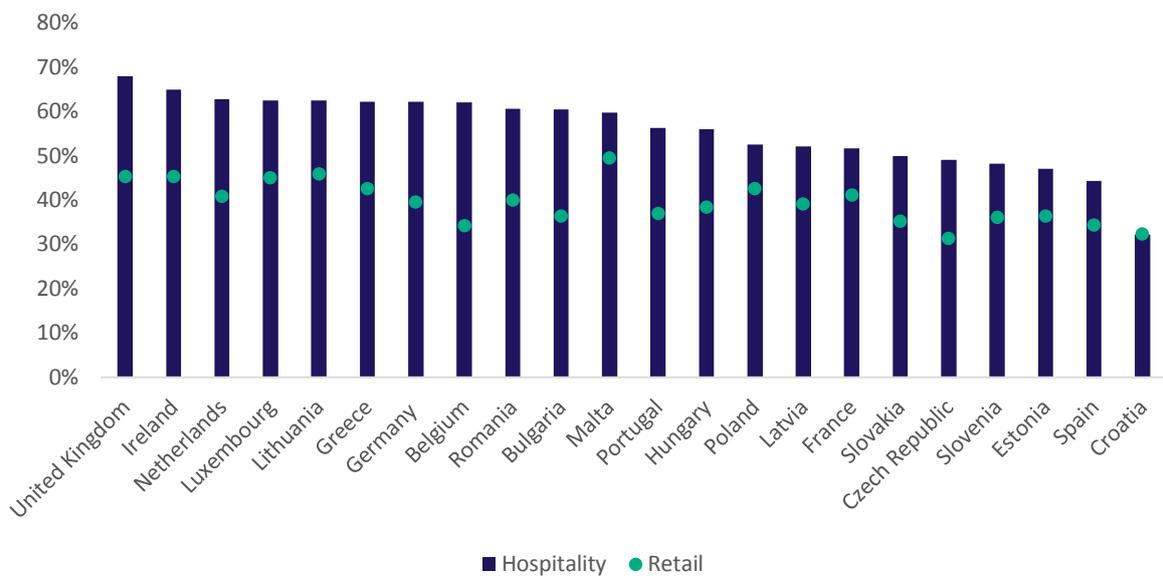
Source CSO

Figure 2: Cross border shopping and sterling



Source: Intertrade Ireland

Figure 3: Minimum Wage as % of average earnings by sector



Source: Eurostat



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