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

April 2015

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

Retail Ireland welcomes the establishment of the Low Pay Commission (LPC) and accepts that the National Minimum Wage should be reviewed at appropriate intervals. It is, however, the strongly held view of Retail Ireland and its members that the level of the National Minimum Wage should be retained at its current €8.65 level.

The following is the basis for that conclusion:

1. ***There is no evidence base for increasing the rate of the National Minimum Wage during 2015***

There has been no increase in the cost of living since the rate was last reviewed. In fact, goods deflation allied with a number of other factors means that the cost of living in 2014 was 0.6% lower than in 2008. Furthermore, given that close to 75% of those employed in the retail sector reside outside of Dublin, consideration needs to be given to the regional differences in purchasing power.

2. ***An increase in the National Minimum Wage at this point would negatively impact upon the creation of new jobs in retail as the sector recovers***

Retail is the largest private sector employer in Ireland with over 270,000 people employed. This sector has had a very difficult last six 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 very recently begun to see an improvement in performance. This improvement, however, is only very marginal and is concentrated in urban areas and to specific retail categories. An increase in the level of the National Minimum Wage rate now would adversely effect employment in the regions which need it most.

3. ***An 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***

Labour is a very significant proportion of the total cost base for retailers and to increase 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.

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. It is hoped that the sector will be able to recommence investing in badly needed capital programmes in the coming months. Any increase in labour cost 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 could lead to wage inflation across the sector due to relativity wage claims***

Any increase in the National Minimum Wage rate would exert further pressure on retailers and result in employee claims for all wage costs to rise to maintain relativities for levels of experience and service, even for those just above the National Minimum Wage level. This is simply not justifiable or sustainable in the present fragile trading climate.

2. Introduction

Retail Ireland is the representative body for the entire retail sector in Ireland and is affiliated to Ibec. Our members have over 3,000 shops, including department stores, DIY, electrical retailers, fashion and footwear retailers, major supermarket groups, symbol groups, 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 has been strong in 2015 and the recovery would certainly appear to be underway; however, these growth figures should be taken in context. The economy remains 3.5% below its peak in volume terms and 7.5% down in turnover terms. Many businesses therefore continue to face challenging trading conditions and are constrained by legacy cost factors.

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 running at close to 5% per annum.

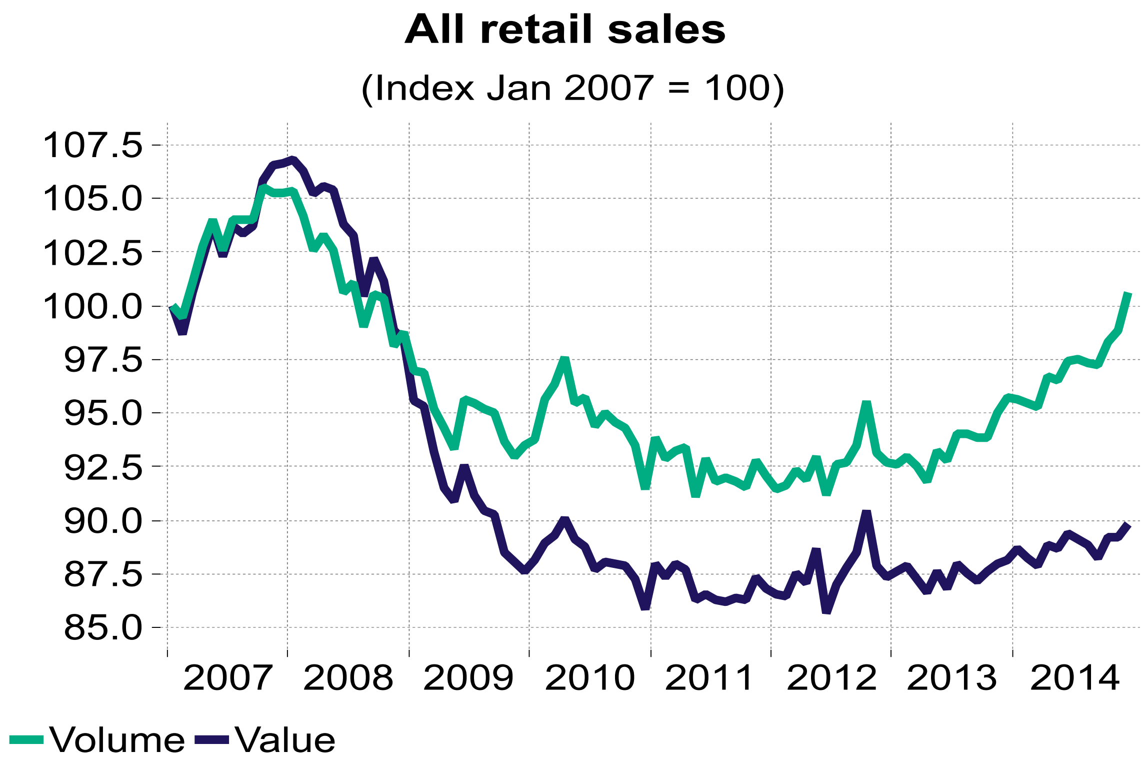
3.2 Retail sector performance in period 2008-2015

The last number of years has been a very difficult time for the retail sector in Ireland. While key indicators are pointing to improvements in the sector's performance in 2015, the retail recovery is still in its infancy and many pressures remain.

The sector is still operating at levels far below that reached during the boom years. 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. 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.

In recent times the retail sector has seen intense competition with prices at a historically low level and 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. There is no indication that this will change anytime soon, with consumers showing no loyalty and shopping for best value across all retail sectors.

The performance of the retail sector in recent months has been mixed. Overall it was a generally satisfactory Christmas for the sector with sales values increasing by 1.8% on Christmas 2013. This incremental recovery has continued in the first quarter of 2015 with marginal increases in sales values month on month. The recovery, however, is uneven with the greater Dublin area continuing to record the strongest recovery, with regional locations lagging behind. The sector is also susceptible to any downturn in consumer confidence and remains challenged by legacy costs including boom time rent and commercial rates levels and upward only rent review clauses.



3.3 Pace of recovery & current retail sector performance

Recovery within the retail sector has been extremely slow to materialise. When compared with general economic recovery, the pace of recovery in the retail sector lags significantly behind. Turnover in the sector remains 15% behind the level attained in 2008 while to date improvements in consumer sentiment have not quite translated into improved retail sales numbers. Consumers remain reluctant to spend and only the promise of good value will secure the required footfall. This is evidenced by recent retail sales numbers for February which show sales volumes increasing by 5.3% in the year to February but sales values only 0.9% up in the year (excluding bar and car sales). This has led to significant discounting in the sector in recent months meaning further pressure on retailer margins and profitability.

In terms of the coming year there is renewed hope of growth following positive trends during 2014 and a Christmas trading period up on 2013. Strong January VAT returns, which were €225 million or 12.9% ahead of last year, suggest the recovery may finally be starting to gain some traction. However the tentative recovery remains uneven and focused on Dublin and the other major urban centres. In many large regional towns the retail sector continues to underperform and individual retailers continue to consider their options and future viability in these underperforming areas of the country.

The retail sector has also experienced significant restructuring in recent years and this is likely to continue in 2015. This is evidenced by the number of examinerships in recent times including the Karen Millen, Warehouse and Coast Group. This chain of stores employed 300 people in Ireland.

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

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 an increase in the level of the National Minimum Wage at this time. 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 2014 running at -2.0%. In our own sector, prices remained at a historic low in 2014 with Christmas 2014 prices on a par with 2002 levels. For example, two important categories for Irish consumers saw strong deflation in 2014 with food and non-alcoholic beverage price inflation at -2.2% and clothing and footwear at -3.3%. 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 which highlights the level of 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 in 2015 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.

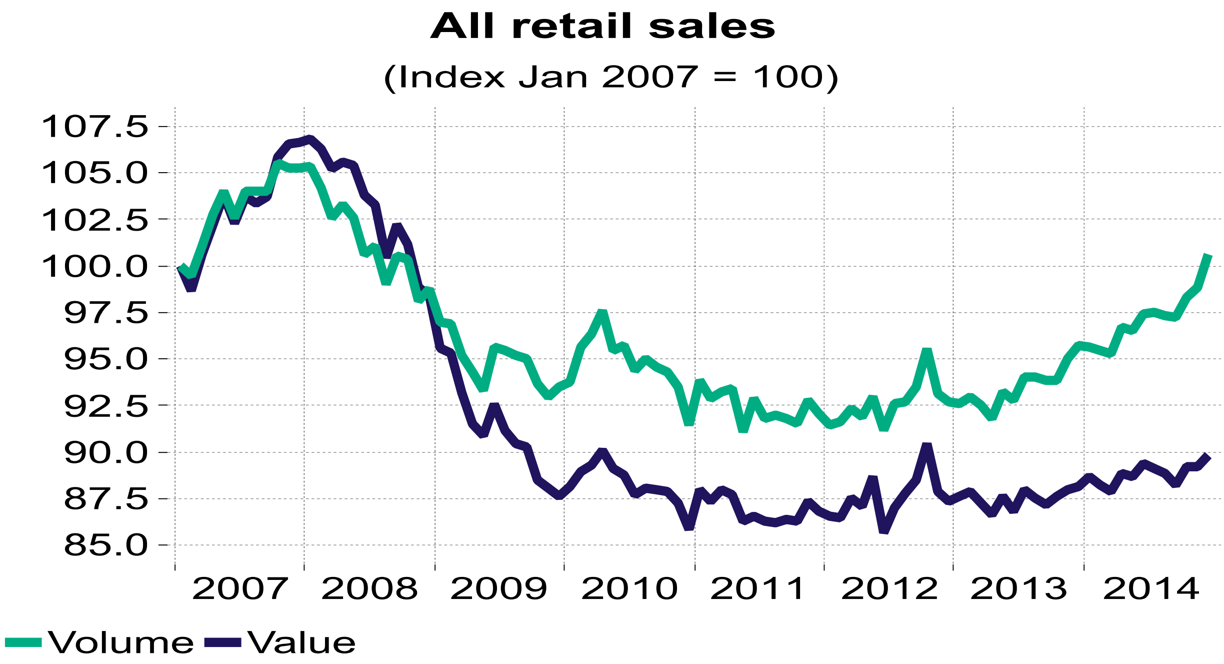
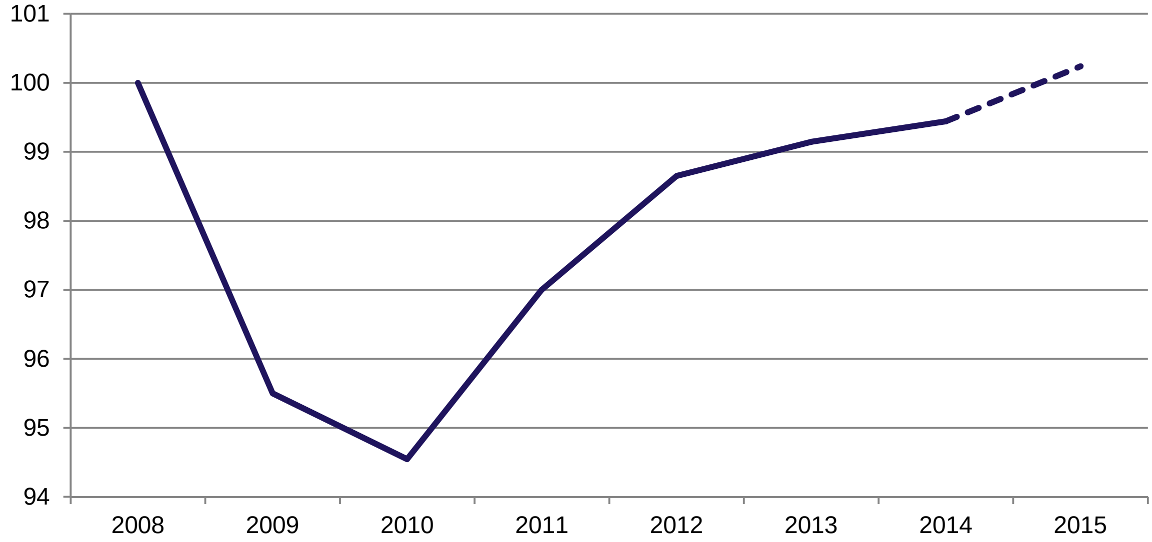


Figure 4: Price Inflation 2008 – 2015 (Index 2008 = 100)



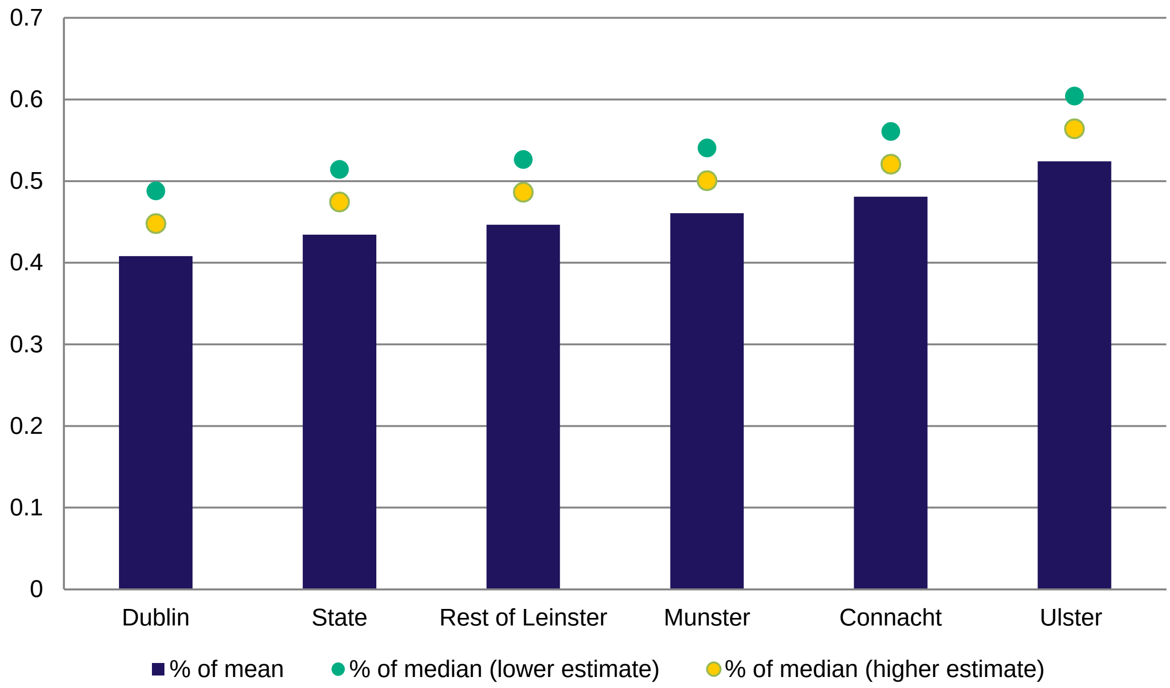
4.1.2 Regional difference in purchasing power

Retail Ireland has significant concerns about the move towards basing the level of the minimum wage on the cost of living in the Dublin region exclusively. Given the regional spread of the retail sector with almost 75% of those employed in the sector residing outside Dublin, it seems inappropriate to base the future level of a minimum wage on the cost of living in Dublin.

Data available from the 2009 National Employment Survey suggests that the minimum wage is set around 52% of the average wage in Ulster 48% of the average in Connacht and 43.4% of the average in the State. The median for the state in the same year was 50.4% according to the OECD (and the average 43.4%) a gap of 7 percentage points. This, however, is not publicly available at a regional level. This gap has been between 4% and 8% per annum for the last decade. This suggests that minimum wages as a proportion of the median wage in Ulster may be as high as 60% of median wages and higher than 50% of median wage for all regions outside Dublin. For the employment effects of the National Minimum Wage outside of the immediate Dublin commuter belt and particularly in the West this is particularly worrying; particularly so given the adjustment in wages which have taken place since. This regional variation must be taken into account when deciding the rate of the National Minimum Wage.

It is for this reason that Retail Ireland would advocate for the setting of a minimum wage at a level which reflects these regional disparities and regional spread of those employed currently earning that rate.

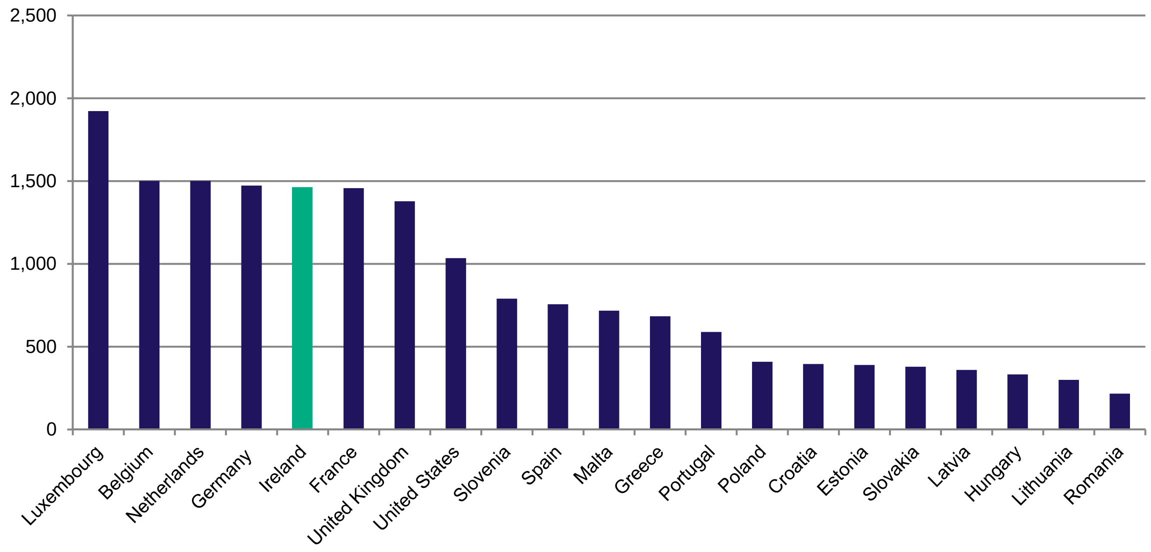
Figure 9: Ratio of median wage to gross pay (2009)



4.1.3 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 fifth 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 €124 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.

Figure 6: Monthly minimum wages in Europe (€)



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 year 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. An increase in the National Minimum Wage at this point would only serve to stifle this growth and discourage retailers from recruiting further staff. 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.

Retailers are once more considering embarking on recruitment programmes. To increase the cost of labour at this point would only serve to further push out this positive development and in some cases discourage that decision indefinitely.

Given the regional profile and spread of the employment within this sector we can deduce that the retail sector 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.

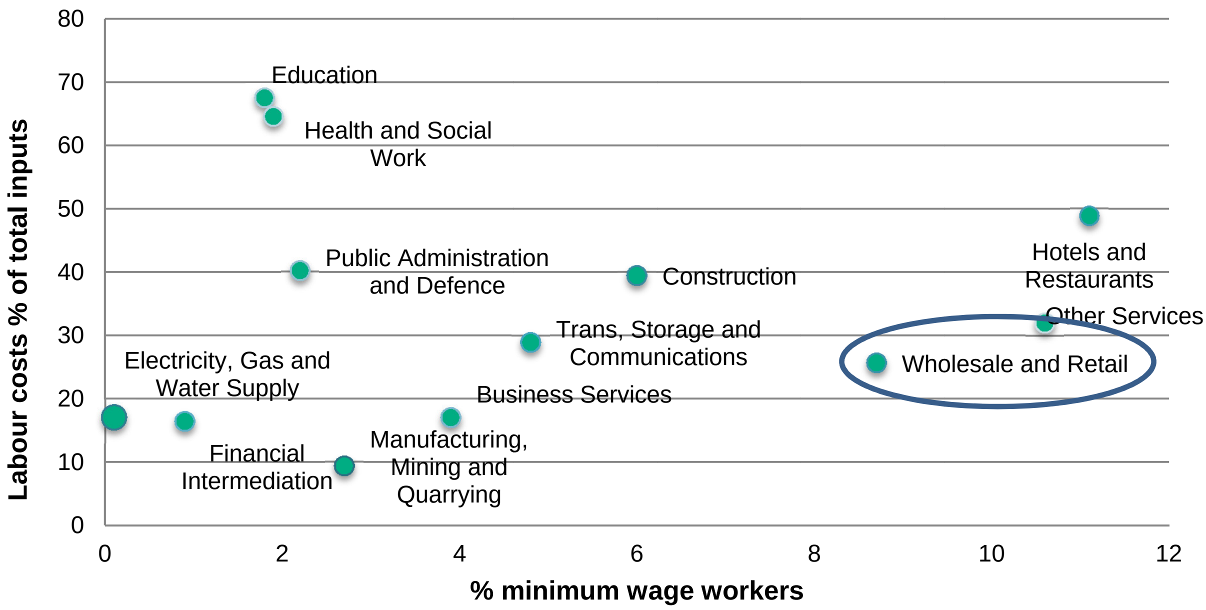
4.3 Labour costs as a proportion of total input costs

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. 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 beginning to emerge 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 legacy problems facing the sector and the cost recovery difficulty that exists in the marketplace.

Figure 10: Minimum wage sensitivity by sector



4.4 Differences in sectoral performance

The pace of recovery within the retail sector is also very uneven between sub sectors of the retail category. It is certainly the case that even within the retail sector, certain categories of retail are recovering at a faster pace than others. Some sectors such as furniture and lighting or electrical goods have in recent months begun to see growth in both sales value and volume. The sub sectors experiencing the strongest growth are also those which were worst hit by the downturn in the economy in the last 5 years. It is worth noting that the value of furniture and lighting sales remains close to 40% behind their 2005 level. Other sub sectors remain significantly challenged and are yet to experience any pick-up in sales. These categories include books, news and stationery and pharmaceuticals, medical and cosmetic articles.

The table below gives an overview of the difference in comparative performance of sub sectors of retail.

Retail sales in Ireland – by value December 2014	**Value Index Vs 2005**	**2014 change %**	**Dec 14 V Dec 13 %**
Supermarkets and convenience stores	123.3	1.6	1.5
Department stores	90.7	1.9	4.8
Specialised food and drinks stores (grocers, butchers, fish mongers, off-licences, bakeries, etc.)	85.1	-3.6	-1.0
Fuel (including petrol and diesel)	109.3	0.3	-3.9
Pharmacies (including medicines, beauty and cosmetics)	99.3	-2.5	0.2
Fashion, footwear and textiles stores	84.3	2.4	2.8
Furniture, lighting and homewares stores	59.2	14.5	9.3
DIY and hardware stores	78.2	2.7	5.6
Computers, electrical and electronics stores	80.8	2.9	3.9
Books, newspapers and stationery stores	62.1	-1.9	-3.7
Other non-food specialised stores (music, toys, garden centres, sports, jewellers, etc.)	75.3	2.3	1.8
All retail sales (excluding motor sales and bars)	**101.6**	**1.4**	**1.8**

4.5 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 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.

4.6 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 2015, the same survey found that of those companies operating in the services sector, only 33% planned to pay an increase. The reason behind this discrepancy is a simple ability to pay principle. The majority of businesses in the retail sector simply are unable to pay an increase in wages to their staff in 2015. 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. Retailers continue to closely monitor input costs and efforts to remove any excess cost within their businesses has continued into 2015.

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

4.7 Potential for general wage inflation due to wage relativity concerns

While a large number of retailers pay entry staff a rate that is above the level of the National Minimum Wage, one of the major concerns for the retail sector is the effect a potential increase in this rate might have on the relative level of their current wage structure. Should there be an increase in the National Minimum Wage, the gap between those retail sector employees earning at grades above that level would decrease. This would inevitably lead to requests for pay increases throughout the sector and significant wage inflation would be the likely outcome. Given the fragile condition which the sector finds itself in currently this could conceivably lead to pressures on headcount as budgets would remain static given the only marginal growth in turnover within these businesses.

Such a scenario would be of grave concern to the retail sector which is looking to increase the numbers employed in the sector at present.

5. Closing Remarks

2015 is a critical year for Irish retail. Unless costs are kept under control, retailers will not be in a position to offer lower prices to consumers, thus endangering sales, threatening jobs and slowing recovery in the domestic economy. Over 40,000 jobs have already been lost in our sector and it is vital that nothing is done to undermine efforts to replace those lost jobs.

Retail Ireland reiterates its support for the establishment of the Low Pay Commission and all efforts to create certainty around the level of the National Minimum Wage into the future. We also accept that the minimum wage should be reviewed at relevant intervals.

Retail Ireland is, however, strongly opposed to any move to increase the National Minimum Wage during 2015. 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.

Getting people back to work has been the number one priority for Government in recent years. Retail Ireland and its members fully support this objective and we look forward to supporting Government plans in this area by growing employment numbers in our sector. In order to do we must first secure the 270,000 existing jobs in the sector by seeking to reduce input costs and encourage an eco-system which supports job creation and certainty for employers.

It is in this context that Retail Ireland calls for the retention of the current National Minimum Wage rate in 2015.

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.