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Briefing Note:

Penalty Rates and Employment: One Year Later

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Summary

- One year after the first stage of the reduction of penalty rates for Sunday and holiday work in several retail and hospitality industries, there is no evidence of improved job-creation performance in the affected sectors. To the contrary, employment growth in the sectors which experienced lower penalty rates has ranked among the worst of any of the 19 broad sectors for which employment data is reported by the Australian Bureau of Statistics.
- The accommodation and food services (hospitality) sector recorded a rate of job-creation in the past 12 months significantly slower than the overall Australian economy. The retail sector experienced no job growth at all.
- For full-time employment, the retail sector shed 50,000 full-time jobs in the last year – a decline of 7.6 percent, the worst of any sector. The hospitality sector also recorded a decline in full-time work (2,000 lost jobs, a decline of 0.6 percent).
- Hours of work patterns also deteriorated in both the retail and hospitality sectors (most dramatically in retail). Average weekly hours worked declined, the incidence of very short hours of work grew, and underemployment rose. Those trends contrast with stability in working hours patterns in the broader economy.
- These weak employment results were recorded in a year when the overall rate of job creation in Australia (including full-time job creation) was relatively strong. Almost all of the sectors where penalty rates did *not* change created jobs (both total and full-time) *faster* than the retail and hospitality sectors (where penalty rates were reduced).
- This relatively poor employment performance was not caused by lower penalty rates; rather, it reflects other sectoral and macroeconomic issues (including the weak growth of domestic purchasing power, which in turn reflects the very slow growth of economy-wide wages). Nevertheless, this finding certainly contradicts arguments by employer representatives that lower penalty rates would lead to both more jobs and longer hours of work.

The Promises of Employers

On 1 July 1 last year, the first phase in the reduction of penalty rates paid for work on Sundays and holidays was implemented in several retail and hospitality industries. The lower penalty rates were ordered by the Fair Work Commission following public hearings. The penalty rate for Sunday work is to be reduced by up to 50 percentage points of the base wage; the rate for working public holidays will be cut by up to 25 points. In most affected sectors, the reductions are being phased in over three or four years. The 2017 reductions were smaller: cutting the penalty by 5 percentage points in one year. The second and subsequent reductions will be larger (up to 15 percentage points in a year). The second stage of the reductions took effect on 1 July 2018.[1]

In the hearings and public debates leading up to the Fair Work Commission's decision, employer representatives from the retail and hospitality sectors indicated that by reducing the extra wage costs associated with work on weekends and holidays, lower penalty rates would stimulate more work in the relevant sectors: via both new hiring, and longer hours of work for existing employees.

For example, the Restaurant and Catering Association, in a submission to the FWC hearings, argued that lower penalty rates would increase employment on Sundays and holidays by about 40,000 positions.[2] The National Retail Association estimated the cuts would reduce overall labour costs by up to 5 percent, and spark both new hiring and longer working hours.[3] The chief executive of the Australian Retailers Association said that under the lower penalty rates, retail workers "will get more employment from their employers, that is a certainty."[4]

The Empirical Reality

With one full year of experience under the first stage of the penalty rate reductions, the validity of these claims can now begin to be judged. The Australian Bureau of Statistics publishes industry-level employment data each quarter (in its *Detailed Quarterly Labour Force* publication, Catalogue 6291.0.55.003). We have compared the most recent data from this source (for May 2018) to the employment levels recorded one year earlier. We consider both changes in total employment, and changes in full-time employment – since employer organisations indicated that both headcounts and average hours of work would benefit from reduced penalty rates.

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[1] For details of the reductions and their timing see Fair Work Commission, "AM2014/305 Penalty Rates Case," https://www.fwc.gov.au/awards-and-agreements/modern-award-reviews/am2014305-penalty-rates-case.

[2] Shane Rodgers, "Retail Penalty Rate Cut Would Create 40,000 Jobs: Submission," *The Australian*, 13 July 2015, https://www.theaustralian.com.au/national-affairs/industrial-relations/retail-penalty-rate-cut-would-create-40000-jobs-submission/news-story/6b7850cfdfe61350ce09a56e08cd1427.

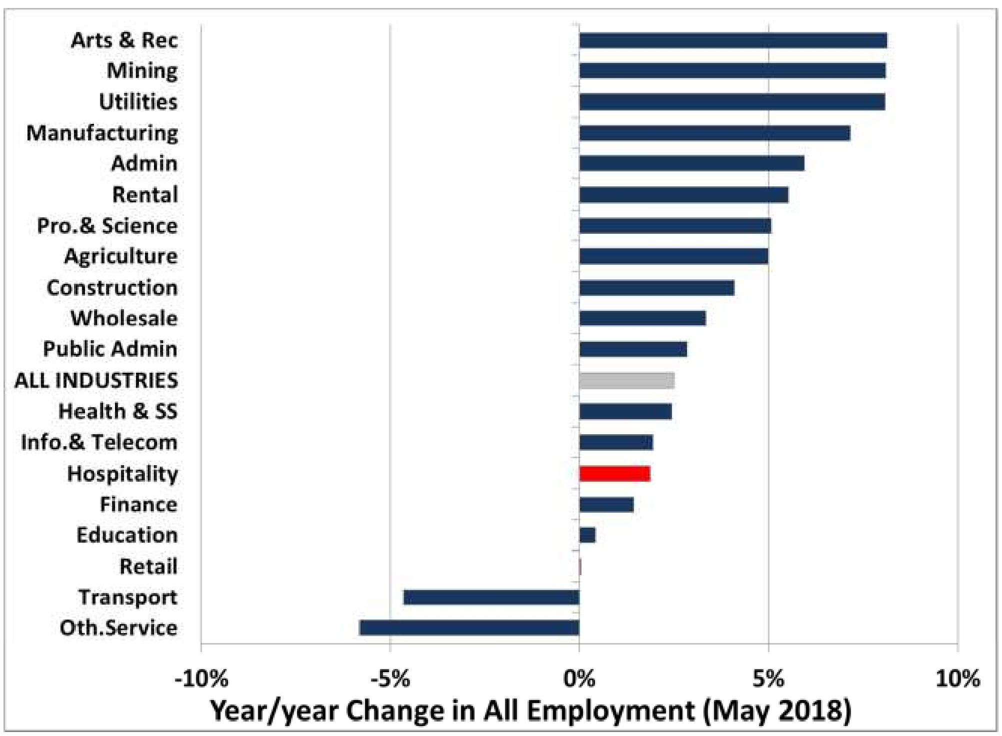
[3] Natasha Bita, "Weekend Penalty Rates Cuts will Create Huge Jobs Boom," *The Daily Telegraph*, 23 February 2017.

[4] Anthony Galloway and Genevieve Alison, "Wage Against the Machine," *Herald Sun*, 23February 2017.

The full findings of this analysis are reported in Appendix 1, for 19 different sectors (at the two-digit level), for both total employment and full-time employment. During the past year, Australia's labour market experienced a relatively vibrant period of job-creation: with a total of over 300,000 new jobs created from May 2017 through May 2018 (an increase of 2.5 percent).

There has been great variation, however, in the rate of employment growth across sectors of the economy. The fastest job-creation was experienced in the mining, utilities, and arts and recreation industries (with employment growth of 8 percent in each). The worst employment change was recorded by the catch-all "Other Services" category (which captures various private service occupations such as repair, household, and personal services); it lost 30,000 jobs (a decline of almost 6 percent).

Figure 1. Employment Growth by Sector, 12 Months

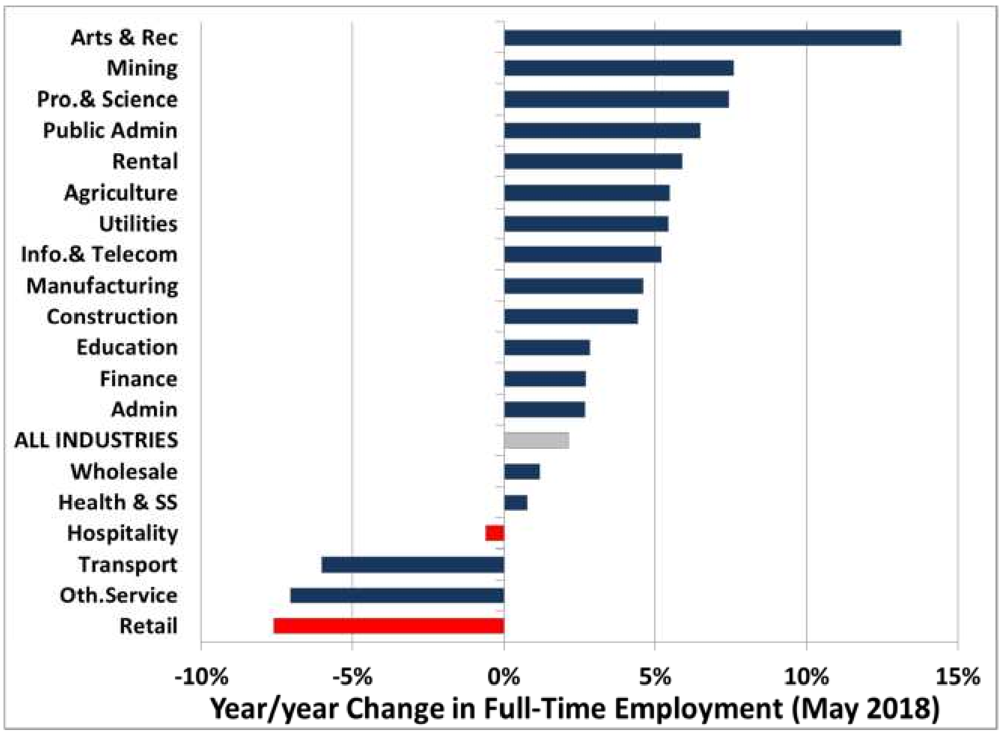


Source: Authors' calculations from ABS Catalogue 6291.0.55.003, Table 4, original data.

Despite the supposedly stimulating effect of lower penalty rates, the hospitality and retail sectors rank near the bottom of Australian industries in their job-creation performance over the past year. The ranking of these two sectors is indicated in Figure 1, which ranks the 19 sectors (and the national average) by the rate of job-creation over the past 12 months.

The hospitality sector ranks 14th out of the 19 sectors, creating 16,800 jobs – representing a 1.9 percent increase in total employment (significantly slower than the national average). The retail sector performed even worse, with virtually no net job creation; retail ranked 17th out of the 19 sectors (better only than the transportation and other service categories, both of which shed labour over the last year).

Figure 2. Full-Time Employment Growth by Sector, 12 Months



Source: Authors' calculations from ABS Catalogue 6291.0.55.003, Table 5.

The comparison is even worse for these two sectors when we consider only full-time employment (see Figure 2). Both the hospitality and the retail sectors shed full-time jobs during the last year. In fact, the retail sector lost full-time work at a faster rate than any other industry in Australia: shedding 50,000 full-time jobs in the year, or 7.6 percent of the initial level. There are now fewer full-time workers in Australia's retail sector than there were in 2004 (when Australia's population was one-fifth lower than at present, and total real consumer spending was one-third lower[5]). The hospitality sector also shed 2,000 full-time jobs in the past year, a decline of 0.6 percent. That places the hospitality sector 16th out of 19 sectors in terms of full-time job-creation performance over the past year. Both sectors have experienced a conversion of full-time work into part-time positions in the last year.

[5] Authors' calculations from ABS Catalogue 3101.0 Table 1 and Catalogue 5206.0 Table 2.

The sharp contrast between the relatively strong job-creation experienced in the broader economy, and the much weaker performance of the two sectors which experienced a reduction in penalty rates, is summarised in Table 1. In total employment growth, and especially in full-time employment growth, both sectors rank among the worst-performing of any industry in Australia in the year since the penalty rate reductions began phasing in.

Table 1
Relative Job-Creation Performance of Sectors Experiencing Lower Penalty Rates
(Year to May 2018)

	Growth in Employment		Growth in Full-Time Employment	
	Percent	**Rank (of 19 sectors)**	**Percent**	**Rank (of 19 sectors)**
Hospitality	1.9%	14	-0.6%	16
Retail	0.0%	17	-7.6%	19
Total Economy	2.5%		2.1%	

Source: Authors' calculations from ABS Catalogue 6291.0.55.003, Tables 4 and 5, original data.[6]

Average Hours of Work After the Penalty Rate Cuts

Employers argued lower penalty rates would spur growth in total employment, and the preceding statistics indicate that has not occurred. They also argued lower penalty rates would also boost average hours worked for existing workers, as businesses opted to open (or stay open longer) on Sundays and public holidays thanks to savings on labour costs. ABS statistics confirm that this is not occurring, either.

Table 2 provides data on several indicators of working hours patterns for the two affected industries (retail and hospitality), and for the economy as a whole. This data confirms that average working hours, the incidence of very short hours of work, and the prevalence of underemployment have become worse in the retail and hospitality sectors, not better. Moreover, this deterioration in working hours occurred during a year when working hours patterns were broadly stable in the economy as a whole. Industries which experienced a reduction in penalty raters, therefore, actually experienced falling average hours of work and growing underemployment, and performed worse in this regard than most sectors where penalty rates did not change.

[6] For several series considered in this report, only original data (not seasonally adjusted or trend) is available, so we have used the ABS original actual data throughout for consistency. In analysing the impact of a specific event, this approach is most appropriate in any event (since smoothed series unduly dilute the visibility of discrete events). And by comparing May data to the previous May we control for seasonal factors.

Table 2 Changes in Working Hours of Sectors Experiencing Lower Penalty Rates *(May 2017 to May 2018)*				
Sector	**Year**	**Short-Hours Share of Employment[1]**	**Average Weekly Hours**	**Under-employment Ratio[2]**
Retail	2017	25.4	29.3	15.4
	2018	26.6	28.1	17.3
	Change	1.2	-1.2	1.9
Hospitality	2017	33.2	27.0	20.0
	2018	33.3	26.1	20.7
	Change	0.1	-0.9	0.7
Total Economy	2017	15.0	33.5	9.0
	2018	15.0	33.2	8.8
	Change	0.0	-0.3	-0.3

Source: Authors' calculations from ABS Catalogue 6291.0.55.003, Tables 11 and 19. Totals may not add due to rounding.

1. Share of total employment working less than 20 hours per week.
2. Underemployed people (wanting more hours of work) as share total employment.

The deterioration in working hours patterns has been most severe in the retail sector. Average weekly hours of work declined by more than one full hour – reflecting the destruction of 50,000 full-time jobs (noted above) and the growing prevalence of part-time work. The share of employed people working less than 20 hours per week grew, also by over one full percentage point. And the underemployment ratio (share of employed people who want more hours) increased by almost 2 percentage points.

A similar, although slightly less dramatic, pattern is visible in the hospitality industry. Average hours of work fell by almost one full hour. The prevalence of short-time work, and reported underemployment, also grew. In both sectors, therefore, there is no evidence of longer hours of work for the existing workforce: to the contrary, part-time work, short hours, and underemployment are becoming more severe.

These negative trends contrast with the experience in the broader labour market. In the year ended in May 2018, the overall incidence of underemployment actually declined during the year (thanks to relatively strong job-creation). The incidence of very short working hours was stable. Average hours of work declined, but only slightly, due to the continuing disproportionate growth in part-time work.

So while part-time work and underemployment are still clearly problems in the overall labour market, those problems stabilized somewhat during the past year. In the two industries which received *reductions* in penalty rates, however, those problems clearly became *worse*.

Understanding the Poor Job Performance of Retail and Hospitality

We do not suggest that the reduction in penalty rates for work on Sundays and holidays *caused* the relatively poor employment performance recorded over the past year in the retail and hospitality sectors – including an outright decline in full-time employment in both sectors. Rather, the relatively weak job-creation numbers reflect bigger sectoral and macroeconomic issues.

In particular, both sectors are directly dependent on the level of domestic consumer spending power for their overall output, and hence their employment performance. Indeed, there are no sections of the Australian economy more dependent on domestic spending power than retail and hospitality. Historically weak wage growth, combined with uncertainty created by deteriorating job security,[7] record-high household debt,[8] and the decline in housing prices in key markets has clearly contributed to sluggish growth in consumer spending.

Industry-specific pressures also help to explain the relatively weak job-creation record of these two domestic service sectors. The retail sector, in particular, has experienced dramatic structural change in recent years, with the erosion of traditional department stores, the growth of big-box and online retail models, and continuing contraction among smaller retail stores (which are the most labour-intensive element of broader retail trade). These factors explain why the net job creation record of the retail sector has been very weak over the last several years – an established trend that was never likely to be "fixed" by reductions in weekend and holiday pay rates.

These structural and macroeconomic forces are clearly the dominant determinants of employment trends in both sectors. Any employment impact (positive or negative) of changes in labour regulations (such as penalty rates, minimum wage levels, etc.) will generally be overwhelmed by swings in broader business conditions. For this reason, the claim that labour cost savings for employers would somehow lead to an upward shift in the broad employment trajectory of either sector, was never convincing.

[7] For a detailed review of the expansion of insecure work in Australia's labour market in various forms, see Tanya Carney and Jim Stanford, *The Dimensions of Insecure Work: A Factbook* (Canberra: Centre for Future Work), https://www.futurework.org.au/the_dimensions_of_insecure_work.

[8] Personal debt reached almost 200 percent of disposable income in early 2018, one of the highest consumer debt burdens in the world; see Stephanie Chalmers, "Household Debt 'Extremely Elevated' after Hitting near 200pc and Tipped to Grow," *ABC News Online*, 18 January 2018, http://www.abc.net.au/news/2018-01-18/household-debt-extremely-elevated-and-tipped-to-grow/9340880.

To some incremental degree, in fact, reductions in penalty rates could slightly exacerbate that unfavourable macroeconomic environment: by reducing earnings for the hundreds of thousands of Australians affected, lower penalty rates directly reduce the disposable incomes of a significant group of workers. Perhaps more importantly, the decision sends a signal through the broader labour market that official policy levers are now being used to suppress wages rather than lift them (thus negatively influencing general wage expectations and reinforcing the record-slow growth of nominal wages). These effects are small, however; we do not believe that they directly explain the weak job-creation experience of these two sectors over the past year.

Nevertheless, the poor employment trend demonstrated in both the retail and hospitality sectors confirms that reductions in penalty rates (and other wage regulations) has clearly not stimulated the boom in employment – whether via more hiring or longer hours – that employer representatives predicted.

Appendix 1
Employment Changes by Sector, May 2017-May 2018 (Total and Full-Time)

		All Employment				Full-Time Employment			
Code	**Sector**	**May 2017**	**Change**	**% Change**	**May 2018**	**May 2017**	**Change**	**% Change**	**May 2018**
1	Agriculture, Forestry & Fishing	313.9	15.7	5.0%	329.6	225.5	12.4	5.5%	237.9
2	Mining	214.7	17.4	8.1%	232.1	206.4	15.7	7.6%	222.1
3	Manufacturing	894.6	64.1	7.2%	958.8	759.9	34.9	4.6%	794.8
4	Electricity, Gas, Water & Waste	141.1	11.4	8.1%	152.6	126.4	6.9	5.4%	133.3
5	Construction	1131.6	46.4	4.1%	1177.9	954.9	42.3	4.4%	997.3
6	Wholesale Trade	348.5	11.7	3.3%	360.1	292.3	3.4	1.2%	295.7
7	**Retail Trade**	**1267.3**	**0.6**	**0.0%**	**1267.9**	**659.3**	**-50.2**	**-7.6%**	**609.1**
8	**Accommodation &Food Services**	**896.2**	**16.8**	**1.9%**	**913.0**	**364.3**	**-2.1**	**-0.6%**	**362.1**
9	Transport, Postal & Warehousing	644.0	-30.0	-4.7%	614.0	505.5	-30.4	-6.0%	475.0
10	Information Media & Telecom.	230.2	4.5	1.9%	234.7	176.8	9.2	5.2%	186.0
11	Finance & Insurance	441.5	6.4	1.4%	447.8	363.7	9.8	2.7%	373.5
12	Rental, Hiring and Real Estate	208.9	11.5	5.5%	220.4	153.3	9.0	5.9%	162.4
13	Prof., Scientific & Technical	1003.5	50.9	5.1%	1054.4	763.6	56.7	7.4%	820.3
14	Admin. & Support Services	396.0	23.6	5.9%	419.6	229.6	6.2	2.7%	235.8
15	Public Administration & Safety	762.7	21.7	2.8%	784.3	604.4	39.3	6.5%	643.7
16	Education & Training	1004.5	4.4	0.4%	1008.8	590.2	16.9	2.9%	607.0
17	Health Care & Social Assistance	1634.6	40.0	2.4%	1674.6	903.7	7.0	0.8%	910.7
18	Arts and Recreation Services	228.1	18.6	8.1%	246.7	110.8	14.6	13.1%	125.4
19	Other Services	506.6	-29.5	-5.8%	477.1	349.8	-24.7	-7.1%	325.1
	Total Employed	**12268.4**	**306.0**	**2.5%**	**12574.4**	**8340.3**	**176.9**	**2.1%**	**8517.2**

Source: Authors' calculations from ABS Catalogue 6291.0.55.003, Tables 4 and 5, original data.