PrivateSectorBulletin

Bulletin of the Private Sector Committee, Irish Congress of Trade Unions
Issue 5, Winter 2017/18 www.ictu.ie

Guidance for Private Sector Unions on 2018 Pay Bargaining

Introduction

Since 2015 the Congress Private Sector Committee has issued guidance to unions in the private sector on the level of pay increase that should be sought from employers in pay bargaining negotiations commencing the following year.

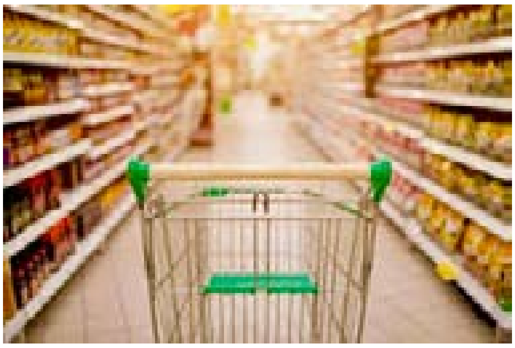
This bulletin has been prepared following discussions at the Congress Private Sector Committee and with the assistance of the Nevin Economic Research Institute (NERI).

The bulletin contains important information on the current conditions in the labour market, details recent improvements in pay in the economy and lists some of the other factors that are relevant to pay bargaining in 2018.

In the final section of the bulletin we detail the guidance to unions on pay bargaining for 2018.

Labour Market Backdrop

The economic and **labour market context is improving**. Ireland's unemployment rate has been steadily falling (6.1% in November) while employment was up 2.4% in the second quarter year on-year. The job vacancy rate improved marginally over the year and was 1.1% in the third quarter of 2017.



While Ireland's headline GDP growth figures can be misleading the CSO's new '*modified domestic demand*' indicator suggests the domestic economy is expanding quickly. Modified domestic demand grew by 5.1% year on year in real terms in the first half of 2017. All institutional forecasters are projecting that the unemployment rate will continue to fall until at least 2019.

Baseline Claims

The strengthening labour market is improving the climate for wage growth and earnings pressure is now emerging. Average hourly earnings in the private sector were up 2.2% in the third quarter year-on-year while average weekly earnings were up 1.5%.

The CPI remains low (0.6% year on year in October) so real wages are growing for most workers. The Department of Finance estimate the **personal consumption deflator**[1] will be 1.2% in 2017.

The deflator can be thought of as a 'zero-point' below which we can deem real wages to be falling. They also estimate the personal deflator will be 1.7% in 2018 and 1.8% in 2019.

Thus a nominal wage increase below 1.7% is a de facto cut in real wages. Consumer inflation is likely to average 1.9%-to-2.0% over the medium-term (the ECB target) and 2% is close to the 21 year average for Ireland, UK and the US.

Workers need to be compensated for improvements in **labour productivity**. The Department of Finance forecasts labour productivity will increase by 1.2% in 2018 and 1.1% in 2019. The OECD forecast an increase of 1.4% in both years. A baseline claim of '*inflation plus productivity*' is therefore in the region of 2.9% to 3.1%.

The Department of Finance and the Central Bank is forecasting compensation per employee to increase by 3.1% and 3.2% respectively in 2018. The ESRI is forecasting hourly earnings to grow by 3.0% in 2018. Further research on wage trends is available here.

The Current Context

A baseline average is merely a guide – context is everything. We should consider other factors beyond inflation and productivity such as the sufficiency of labour's existing share of total income; the tightness of sectoral labour markets, as well as corporate performance and profits.

1. The personal consumption deflator represents the average increase in prices for all domestic personal consumption.

The wage share in the economy using the new Gross Nationa Income* measure is marginally below the EU average while corporate tax receipts and retail sales are both performing strongly.

In addition, real compensation per employee over the 7 year period 2010-2016 increased by an average of just 0.2% per annum.

Employers were able to suppress wages below the long-run average when unemployment was high and the tightening labour market represents an opportunity for workers to redress this imbalance.

The 2017 **living wage** rate is estimated by the Living Wage Technical Group at €11.70 per hour. Based on a 1.7% price increase this will rise to €11.90 in 2018.

'too many workers struggle with housing and childcare costs'

By comparison the national minimum wage is set at €9.55 in 2018 or 80.3% of the expected living wage rate. As a result, the minimum wage would have to increase by 24.6% to reach the level of the living wage.

A 3% increase will not alter the fundamental situation for such workers.

Low wage workers are also more likely to be renters than home owners and we can expect their cost of living increase to be somewhat larger in percentage terms than the average.

For some workers overall, **housing** makes up 47% of total essential expenditure so the current growth in rent (+6.6% annually in the second quarter) is putting particular pressure on these workers. More information of Housing Costs is available here.

In addition, OECD data shows that **pension** replacement rates in Ireland (34.1%) are significantly below the OECD average (52.9%) for an individual on average earnings.

Workers in Ireland must therefore save more if they are secure a liveable income in old age.

Finally, Irish workers also have to endure the 2nd highest **childcare** costs in the OECD after the United States. More information of Childcare Costs is available here.

Out-of-pocket childcare costs are over three times the OECD average[2] and while the long-term solution to market failure in the childcare sector is heavy state subsidisation or direct state provision, in the short-term the insufficiency of wage levels relative to childcare costs is pushing many lone parents and second earners out of the labour market altogether – to our collective economic cost.

'the minimum wage is just 80.3% of the living wage'

Pay Bargaining in 2018

In light of the commentary above, the Congress Private Sector Committee advises affiliate unions in the private sector of the following in relation of pay bargaining for 2018:

- **through the normal collective bargaining processes and where appropriate, affiliate unions should seek compensation for the excessive costs associated with Housing, Childcare provision and Pensions**

- **this is in addition to a miniumum pay increase of 3.1% to take account of normal productivity and cost of living factors.**

2. Based on net cost as a % of family net income for a worker on 67% of average earnings. Ireland has the 3rd highest childcare costs of 30 countries for a couple/ family on 100% + 67% of average earnings.