PRIVATE SECTOR COMMITTEE BULLETIN

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Congress Guidance for Private Sector Unions on Pay Bargaining in 2022

Introduction

Each year, the Congress Private Sector Committee (PSC) issues guidance to unions in the private sector. *This guidance includes the level of pay increase that unions should seek from employers in pay bargaining negotiations commencing the following year. This bulletin provides guidance for 2022. The Nevin Economic Research Institute (NERI) has provided economic assistance to the PSC in this matter.*

The bulletin contains pertinent information on conditions in the labour market including details on recent movements in wages, employment and inflation in the economy. In addition, the bulletin sets out the other factors relevant to pay bargaining in 2022. Finally, we detail the guidance to unions on pay bargaining for 2022. Congress advises affiliate unions in the private sector, that subject to the prevailing conditions in the enterprise concerned, they should seek pay increases of between 2.5% and 4.5% in 2022.

Labour Market Backdrop

Th economic recovery is picking up steam with rapid economic growth likely to manifest in 2022. Retail sales by volume increased 9% between October 2019 and October 2021. The NERI and other institutions are projecting that personal consumption will grow very strongly next year as pent-up demand increases and household savings unwind. However, this strong projection assumes minimal economic disruption from Covid-related lockdowns.

The number of PUP recipients had fallen below 55,000 by the end of October. The number on the PUP may rise in December-January depending on the impact of restrictions on economic activity but should resume its decline after that. The Covid adjusted unemployment rate (CAUR) was down to 6.9%, or 180,000, in November. For context, the CAUR was 20.4% in November 2020. All institutional forecasters are projecting that the unemployment rate will continue to fall for at least the next two years. Indeed, the Department of Finance is projecting record employment growth of 13.2% in 2022. The NERI is guiding that the unemployment rate will be well under 6% by the end of 2022, with the economy close to full employment by end 2023.

The general outlook for wage growth is also positive, albeit with the usual variation from sector to sector. Average weekly earnings have increased 8.9% overall and 8.8% in the private sector in the two years between the 3rd quarter of 2019 and the 3rd quarter of 2021, with average hourly earnings up 7.6% and 7.5% respectively over the same time period. However, these figures are skewed upwards by the composition of jobs lost during the crisis. Over the two year period, hourly and weekly earnings increased in almost all sectors with the sole exception being *transportation and storage*.

As is the case in other European countries, there is now evidence of labour shortages in areas like driving, software and construction. The economy-wide and the private sector job vacancy rates (JVR) of 1.5 and 1.6 are at their highest recorded levels since at least 2008. The Central Bank and European Commission project that compensation per employee (a mix of longer hours and wage increases) will increase by 4.8% and 5% respectively in 2022.

Inflation

Inflationary pressures have been building in recent months. Rising inflation globally relates to demand pressures, loose fiscal policy, labour shortages, base effects in energy and various commodities, as well as global supply chain issues related to availability of inputs and transport bottlenecks. Irish CPI inflation was 3.8% in September, 5.1% in October and 5.3% in November. However, inflation had been negative for the first 11 months of the pandemic and has only exceeded 2% in the last five months.

The main factors contributing to inflation in Ireland are Transport costs (39% contribution), which mainly reflects higher prices for diesel and petrol, Housing & Home Energy costs (36%) mainly reflecting higher rents and the cost of home heating and electricity, and Restaurants & Hotels (12%). Overall, we can see that the bounce-back in energy costs is the main contributor to inflation. Notably, the last two years have seen a cumulative increase of just 4.2% in the CPI and 4.3% in the HICP, an annual average of 2.1%.

There is significant uncertainty about short-run developments in consumer prices. The Department of Finance estimate that the personal consumption deflator will be 3.3% in 2022. HICP inflation projections for 2022 are 2.2% (Dept. of Finance), 2.3% (NERI), 2.5% (ESRI), 2.9% (Central Bank) and 3.1% (European Commission).

Notwithstanding the current spike, the Central Bank is projecting average annual inflation of just 1.6% over the 2020 to 2023 period. The NERI is of the view that inflation will peak in the fourth quarter of 2021 before settling back to around 2% in the second half of 2022 and an average of close to 2% thereafter.

The annual rate of inflation marks the 'zero-point', below which real wages are falling. In other words, nominal wages will likely need to grow by greater than 2% in 2022, if they are to keep pace with the cost of living. Only nominal wage increases beyond this level will represent actual real wage increases, while smaller nominal increases imply declining real wages. Consumer inflation in the euro area is likely to average 1.9%-to-2.0% over the medium term, i.e., the ECB target, and indeed 2% is close to the historical long-run average for Ireland, the UK and the United States.

Productivity and Baseline Claims

Compensation for labour productivity growth is the fundamental driver of real wage growth over the long-term. Labour productivity growth can be volatile from year-to-year and it is therefore more useful to focus on long-run averages. For example, the Department of Finance forecasts labour productivity will actually decline by 7.2% next year. However, this reflects an assumed significant compositional shift in employment, with lower value added jobs restored post-lockdown. Similarly, labour productivity grew by over 27% in 2020 due to the differential impact of Covid on the various economic sectors, with low productivity sectors worst affected by the crisis.

The Department of Finance is projecting that average labour productivity will increase by an annual average of 1.3% between 2022 and 2025. A general economy-wide baseline claim of 'inflation plus productivity', based on Department of Finance forecasts, is therefore close to 3.5%.

A further point is that an 'inflation plus labour productivity' formula is only appropriate if the labour share of income is already at an appropriate level. The labour share has been falling consistently in recent decades. This has helped drive an increase in market inequality. Reversing the falling labour share trend implies the need for an annual wage mark-up to take wage increases above the long-run inflation plus productivity base line.

Employers were generally able to suppress wages below the long-run average when unemployment was high, as was the case in Ireland for much of the last decade. However, the tightening labour market represents an opportunity for workers to redress this imbalance and obtain wage growth in excess of the long-run average.

Finally, it's worth recalling the enormous taxpayer bailout of the Irish business sector during Covid as well as the sacrifices made by workers.

It is imperative that workers share fairly in the gains from economic recovery.

Pay Bargaining 2022

Having regard to the commentary in the earlier sections of this bulletin it is clear that unions in the private sector would be justified in seek baseline minimum pay increases in the region of 2.5% to 4.5% in 2022. In approaching pay bargaining unions should have particular regard to the disproportionate impact of inflation on lower paid workers. Sectoral and firm level differences will inform the actual level of increase being sought. In addition, unions should continue to seek improvements in other conditions of employment for example, hours, higher starting pay, additional annual leave and improved sick pay and pension benefits.

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