Private Sector Bulletin

BULLETIN OF THE PRIVATE SECTOR COMMITTEE OF THE IRISH CONGRESS OF TRADE UNIONS, WINTER 2019

CONGRESS GUIDANCE FOR PRIVATE SECTOR UNIONS ON PAY BARGAINING IN 2020

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 2020 and 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 in the economy. In addition, the bulletin sets out the other factors relevant to pay bargaining in 2020. Finally, we detail the guidance to unions on pay bargaining for 2020. Congress advises affiliate unions in the private sector to seek pay increases of between **3.5% to 4.5% in 2020**.

Labour Market Backdrop

The labour market strengthened over the last year. The seasonally adjusted unemployment rate was 4.8% in October, down from an average of 5.8% in 2018. Employment grew by a robust 2.4% year-on-year in the third quarter, and is up 54,000 over the previous year.

Despite the improvement, Ireland's labour market performance is decidedly mediocre by EU standards with an unemployment rate that is higher than 12 other EU countries and an employment rate significantly below that of top performing countries such as Sweden. The unemployment rate is 3.7% in the USA, 3.5% in the UK and 3.1% in Germany. Ireland also has one of the weakest Job Vacancy Rates (JVR) in the EU. The NERI argued in their Quarterly Economic Observer that the economy was not overheating, that there was some remaining slack in the Irish labour market, and that there is potential for further strong employment growth. The short-run outlook is positive for the Irish economy with a crash-out Brexit unlikely to materialise before the end of 2020, if at all. All institutional forecasters are projecting that the unemployment rate will continue to fall until at least the end of 2019. However, Brexit represents a significant downside risk to these forecasts.

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Low Pay Economy

Despite the fact that average hourly earnings increased by 4.7% year-on-year in the private sector in Q3 2019, all the indicators demonstrate that Ireland remains a low pay economy.

According to EADS, (Earnings Analysis CSO), median weekly earnings (2018) stood at €592.60 per week or €30,815 per annum. Furthermore, in the Accommodation and Food sector, 68.1% of workers earn below € 400 per week. In addition, 43.9% of workers in Wholesale and Retail earn less than €400 per week. The position of female workers is even more stark with the median weekly wage being € 523.25 or € 27,209 per annum. Low pay is also endemic amongst young workers.

Congress advocates that the statutory wage setting mechanisms currently in place have been rendered useless by an effective veto exercised by the employers through their non-participation in the Joint Labour Committees (JLCs) system. Congress has been calling for legislative reform to ensure that the system of JLCs can function more effectively. Structured collective bargaining is one of the most effective means of eliminating low pay and Government must act to support the functioning of collective bargaining.

Basline Claims

The Department of Finance estimate the personal consumption deflator will be 1.7% in 2020 and that HICP inflation will be 1.3%. We can think of the deflator as a 'zero-point', below which real wages are falling. In other words, nominal wages would need to grow by 1.7% in 2020 just to keep pace with the cost of living. Only nominal wage increases beyond this represent real wage increases while smaller nominal increases actually represent real wage decreases. 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 long-run average for Ireland, the UK and the US. Given the cyclical position of the Irish economy and the receding threat of a no-deal Brexit, it is possible that consumer inflation will marginally exceed 2% over the short-to-medium term. Compensation for labour productivity growth is the fundamental long-run driver of real wage growth. Labour productivity growth can be volatile from year-to-year. The Department of Finance forecasts labour productivity will increase by an annual average of 1.34% between 2019 and 2023. A general economy-wide baseline claim of 'inflation plus productivity' is therefore close to 3.1%, if using Department of Finance forecasts. However, these forecasts are based on the receding possibility of a no-deal Brexit.

A further point is that an 'inflation plus labour productivity' formula is only appropriate if the labour share of income is at an appropriate level. The labour share has been falling consistently in recent decades and is marginally below the EU average. This has driven an unacceptable increase in market inequality. Weekly wage growth in the private sector stagnated between 2008 and 2015. Reversing the falling labour share trend necessitates an annual wage mark-up to take wage increases above the long-run inflation plus productivity baseline. Finally, institutional forecasters are predicting strong wage growth in 2020 arising from a tightening labour market. The Central Bank and the EU Commission respectively project 4.2% and 3.7% growth in compensation per employee in 2020, while the NERI (3.9%) and the ESRI (4.5%) are projecting robust growth in average hourly earnings.

Employers are generally able to suppress wages below the long-run average when unemployment is high and this was the case in Ireland for most 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.

PAY BARGAINING 2020

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 pay increases of the order of 3.5% to 4.5% in 2020. Sectoral and firm level differences will inform the appropriate level of increase being sought. In addition, unions should continue to seek improvements in other conditions of employment for example, full pay during periods of maternity leave, additional annual leave, improved sick pay and pension benefits.