PrivateSectorBulletin

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Congress Guidance for Private Sector Unions on Pay Bargaining in 2019

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 2019 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 2019. Finally, we detail the guidance to unions on pay bargaining for 2019.

Labour Market Backdrop

Labour market conditions are generally improving. The seasonally adjusted unemployment rate was 5.3% in November, down from 6.4% the previous year.

Employment grew by a robust 3.0%, or 66,700 people, in the year to the third quarter (Q3) of 2018.

Even so, Ireland's labour market performance is mediocre by EU standards with an unemployment rate that is higher than 12 other EU countries. For example, the unemployment rate is 4% in the UK and 3.3% in Germany.

In addition, the Job Vacancy Rate (JVR) remains low and is unchanged at 1.1% in the year to Q2 2018. Ireland's JVR is just half of the EU average of 2.2%. Finally, the total employment rate for 20 to 64 year olds was just 15th in the EU in 2017, at 73.0%.

By way of comparison, Sweden was at 81.8%. Overall, it appears the economy is not overheating, that there is some remaining slack in the Irish labour market, and that there is potential for further strong employment growth.

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.

Real Wages

The strengthening labour market should facilitate **stronger wage growth** in the short-to-medium-term.

Average hourly earnings across the economy increased by 2.1% to €22.62 in the year to Q3 2018, while average weekly earnings increased 3.2% to €740.32, and average weekly paid hours increased by 0.9 hours to 32.7.

Weekly and hourly earnings increased over the year in each main economic sector, with hourly wage increases ranging from 0.4% in public administration to 5.8% in transportation and storage.

Conditions are improving in the private sector with weekly earnings up 3.6% in the year to Q3 2018 and hourly earnings up 2.2%.

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Inflation remains subdued. Consumer Price Inflation (CPI) was 0.6% year-on-year in November and has been below 1% since 2012.

We can infer that real hourly earnings in the private sector grew by close to 1.4% in the year to Q3 2018, as the CPI averaged a subdued 0.8%. Real hourly earnings increased in 11 of 13 economic sectors. The exceptions were public administration and healthcare.

Baseline Claims

The Department of Finance estimate the **personal consumption deflator**[1] will be 1.5% in 2018, 2.0% in 2019 and 2.1% in 2020.

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 2.0% in 2019 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 21 long-run average for Ireland, the UK and the US.

Given the cyclical position of the Irish economy, we can expect that inflation will marginally exceed 2% over the short-to-medium term.

Compensation for **labour productivity growth** is the fundamental driver of real wage growth. The Department of Finance forecasts labour productivity will increase by 4.4% in 2018, 1.4% in 2019 and 1.3% in 2020.

A general economy-wide baseline claim of ‘*inflation plus productivity*’ is therefore in the region of 3.4% in 2019, and a further 3.4% in 2020. The ESRI project that average hourly earnings will increase by 2.9% in 2019.

Other Factors

The baseline average is just a guide. Context matters and we should consider other factors beyond inflation and productivity.

Important factors include the sufficiency, or otherwise, of labour’s existing share of total income; the tightness of sectoral labour markets, as well as corporate performance and profits. The wage share in the economy using the new GNI* measure is marginally below the EU average.

Labour costs in Ireland’s business economy (analogous to the private sector) are the second lowest amongst the group of 10 high income EU countries with a population over 1 million.

Every other country bar Finland and the UK has labour costs at least 10% above that of Ireland. In addition, Ireland’s wages and salaries index for the business economy increased by just 6.4% between 2012 and 2017.

This compares to 9.9% in the EU as a whole.

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

Finally, gross operating surplus, corporate tax receipts, and retail sales are all growing very strongly.

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.

The National Minimum Wage will rise by 25 cents to €9.80 (a 2.6% increase) for an experienced adult worker in 2019.

> ***“Labour costs in Ireland are among the lowest in developed EU economies”***

However, the Living Wage Technical Group estimate the 2018 living wage at €11.90 per hour, and if we assume a 2% increase in 2019, the living wage will be close to €12.14. If this is borne out, the NMW will be just 80.7% of the living wage next year.

An increase of 3.4% will clearly be insufficient to alter the fundamentally precarious position of such workers. Low-wage workers are also more likely to be renting – and with the national average monthly rent increasing by 7.6% year-on-year in the 2nd quarter of 2018 – low-wage workers are on average likely to be experiencing higher than average cost of living increases.

Irish workers also have to endure extremely high costs of childcare compared to other OECD countries. These costs are a barrier to labour market participation.

While much greater medium-term state investment in childcare is required, higher wages in the short-term are also required to ensure workers can remain within the labour force despite these costs. This is a particular issue for low-wage workers.

Pay Bargaining in 2019

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 at least 3.4% in 2019**.

In addition, where sector specifc or enterprise specific performance is above the average for the economy, unions should take this into account when formulating wage claims. Consideration should also be given to other (non pay) benefits that may accrue to workers on foot of negoatiations.

However, factors such as the cost of accommodation and childcare mean that this level of increase will not be sufficient to improve the living standards of workers.

As such, it is the view of the Private Sector Committee that unions should seek - where possible and appropriate - pay increases that would adequately compensate workers for the excessive costs they are currently facing.