PRIVATE SECTOR 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 to seek pay increases of between 2.5% and 5.5% in 2022.

Labour Market Backdrop

The economic recovery is picking up steam with 2022 likely to be characterised by rapid economic growth. This assumes minimal economic disruption from Covid-related lockdowns. Retail sales by volume increased 8.8% in 2021 (up 6.3% on 2019) and the NERI projects strong growth in household consumption this year as household saving is unwound and pent-up demand realised. Personal consumption will rise by close to 10% this year.

The Covid-adjusted unemployment rate was 7.8% in January, or 202,000 persons. This compares to 27.1% or 642,000 persons in January 2021. Total employment and labour force participation reached an all-time record in Q4 2021 although annual hours worked in Q4 2021 were, at 77.6 million hours, just marginally up on the last pre-Covid quarter (77.5 million hours in Q4 2019) Participation rates for all age cohorts (particularly the 15-24 and 55-59 cohorts) and all geographic regions (particularly the Midlands and the Mid-West) have also increased since Q4 2019.

All institutional forecasters are projecting that the unemployment rate will continue to fall for at least the next two years. The NERI is guiding that the unemployment rate will average under 6% in 2022, with the economy close to full employment by end 2023.

The general outlook for wage growth is also very positive, albeit with the usual variation from sector to sector. Employment growth between Q4 2019 and Q4 2021 was very strong in ICT (+30.9%), in professional, scientific and technical (+22.8%), in finance, insurance and real estate (15.4%), in education (+11%), in public administration (+14.8%), and in industry (+9.7%). Other sectors have had slower and more tentative recoveries with face-to-face and/or travel-based sectors like *accommodation and food services, arts and entertainment, wholesale and retail,* and *transport* still not yet back at pre-Covid levels of employment. These sectors are all likely to experience very strong recoveries in the first half of 2022.

Average weekly earnings 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 of *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.

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 HICP inflation was 5.7% in December while the CPI was 5.5%, and both were 5.0% in January. However, HICP and CPI inflation were both negative for the first 11 months of the pandemic and only exceeded 2% in July. The CPI was 0.9% in 2019, -0.3% in 2020 and 2.4% in 2021. Monthly inflation declined in January. However, annual inflation is likely to remain in excess of 5% for the first half of 2022 due to base effects, before declining in the second half of the year. As such, the NERI anticipate that inflation will average close to 4% for the year as a whole. Recent HICP inflation projections for 2022 are 4% (ESRI), 4.5% (Central Bank) and 4.6% (European Commission).

We might understand the current inflation as the latest stage in the pandemic cycle. An initial period of deflation has been followed by higher than average inflation arising from base effects. The next phase is unclear. The high level of inflation could be transitory as the pandemic cycle washes out with a gradual tapering down of prices as the low base effects become less relevant and as supply chain issues resolve themselves. On the other hand, the current high level of inflation could anchor expectations at a higher level and therefore embed structurally higher price inflation in a self-fulfilling way.

The main factors contributing to inflation in January are Housing & Home Energy costs (39% contribution) mainly reflecting higher rents and the rising cost of home heating, gas and electricity, and Transport costs (36% contribution), which mainly reflects higher prices for diesel and petrol. Other factors include higher prices for alcoholic beverages, tobacco products, and a range of foodstuffs. We can see that the bounce-back in energy costs is the main contributor to inflation with housing costs an important secondary factor.

Overall, the last two years have seen a cumulative increase of 5% in the HICP, an annual average of 2.5%. The NERI is of the view that inflation will peak in the Winter of 2021-22. The post-lockdown rebound in demand is likely to level out over the course of the next year or so, while supply chain issues should ameliorate. The future trajectory of energy prices is less certain given geopolitical tensions.

Table 1 Consumer Prices (Annual Change, %), HICP Unless Stated

2021	Aug	Sept	Oct	Nov	Dec	Jan
Euro	3.0	3.4	4.1	4.9	5.0	5.1
UK	3.2	3.1	4.2	5.1	5.4	5.5
US	5.3	5.4	6.2	6.8	7.0	7.5
China	0.8	0.7	1.5	2.3	1.5	0.9
Ireland	3.0	3.8	5.1	5.4	5.7	5.0

Notes: US (PCE), UK and China (CPI)

Sources: Eurostat: *Inflation – Flash Estimate*, Trading Economics, US Federal Reserve, Bank of England

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 inflation 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. Inflation pressure should ease in future years. Consumer inflation in the euro area is likely to average 2% 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' is therefore close 5% to 5.5%.

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 pay increases in the region of 2.5% to 5.5% in 2022. 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, higher starting pay, additional annual leave and improved sick pay and pension benefits.

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