Congress Private Sector Committee Bulletin

Congress Guidance for Private Sector Unions on Pay Bargaining in 2024

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Introduction

Each year, the **Congress Private Sector Committee (PSC)** issues guidance to our affiliates with members in the private sector. The guidance includes the level of pay increase that unions should seek from employers in pay bargaining negotiations. This bulletin provides guidance for 2024.[1]

The bulletin contains pertinent information on the labour market including details on wages, employment and inflation. The bulletin also sets out the other factors relevant to pay bargaining in 2024. Finally, we detail the 2024 guidance to unions.

Economic Outlook

Economic growth is now slowing after the robust post-pandemic bounce-back. The savings rate has reverted close to historical norms and retail sales have declined in five of the last eight months. Recent retrenchment in GDP reflects the ending of sector specific booms in investment and exports in pharmaceuticals and ICT. Modified domestic demand is likely to have grown by close to 1% in 2023.

The growth outlook is fairly muted. We expect that modified domestic demand will grow by around 2% to 2.5% in 2024 with a broadly similar outlook for 2025 and 2026. Falling inflation provides some hope that monetary policy will begin to loosen in the second quarter of 2024. Such a development would give a boost to aggregate demand and reduce the rate of business failure. As it happens, the full consequences of ECB monetary policy have yet to fully play out in terms of falling consumption and weaker investment.

Business sentiment and consumer confidence is mixed. The service PMI is very modestly positive but the PMIs for manufacturing and construction imply stagnation or contraction. Consumer confidence is still below its historical average reflecting cost-of-living pressures and pessimism over the trajectory of the economy. However, consumer confidence is steadily improving as these pressures recede and expectations improve. Even so, the mildly expansionary budget and strong real wage growth will increase disposable income in 2024 and drive growth in consumption.

Inflation

After stalling in mid-2023, the inflation rate now appears decisively on a downward trajectory. Annual HICP inflation was 2.7% year-on-year in January. Recent falls in price inflation are primarily the consequence of falling energy/utility prices. The CPI has been higher than the HICP in recent months. This is mainly due to the rising cost of mortgages which are factored into the CPI but not into the HICP. Annual CPI growth was 4.6% year-on-year in December. This was the 2nd lowest rate for the CPI since September 2021. Core CPI, which excludes energy and unprocessed food, grew 5.8%. Overall, the CPI increased 6.3% in 2023 after increasing 7.8% in 2022 and 2.4% in 2021.

Institutional inflation projections suggest that the downward path for inflation will continue.[2] Monetary policy will continue to hit demand while supply chain pressures have mostly eased. The various institutional[3] inflation projections for 2024 (CPI or HICP) for inflation range from 2.3% to 3.1% in 2024 and 1.9% to 2.6% in 2025

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 in the region of 3% in 2024 (and over 5% in the next two years) 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. It should be noted that real wages declined in 2022 and again in 2023 so that workers' wages will need to be somewhat higher than inflation merely to catch-up.

Labour Market

The labour market continues to perform very strongly. The number of people employed was up by 4% annually in the third quarter (+101,600) to 2.66 million with the participation rate at its highest

1 The Nevin Economic Research Institute (NERI) has provided economic assistance to the PSC in this matter.
2 This refers to a lower rate of increase not to falling prices.
3 Department of Finance, Central Bank, NERI, ESRI, OECD, EU Commission, IMF and IBEC.

level since 2008. All the service sectors have seen employment growth year-on-year with the exception of a modest decline in *Administration*. However, total industry has seen a decline with falls in employment in *Industry* and in *Construction*. ICT has seen particularly exceptional growth of 10.8% (17,100). The job vacancy rate fell to 1.2% in Q3.

The labour market is starting to stabilise. More recent data puts the seasonally adjusted unemployment rate at 4.5% in January (127,700) with a modest upward trend. The employee index was at +1.7% year annually in November, albeit with declines in *ICT*, *Administration* and *Education*.

Average weekly earnings increased by 4.6%[4] year-on-year in Q3 with average hourly earnings increasing 6.2%. Weekly earnings increased in 12 of 13 sectors with the largest increase in *Arts & Entertainment* at +10.6%. Weekly earnings were flat in *Transportation & Storage*. Hourly earnings increased in all sectors with the average increases ranging from 0.7% in *Transportation & Storage* to 11.7% in *Arts & Entertainment*.

However, the CPI increased by 6.2% in Q3 meaning that average weekly earnings across the economy fell in real terms in Q3, while average hourly earnings were flat in real terms.[5] The *Indeed* wage growth tracker shows an increase in posted wages of 2.8% year-on-year in December (3.7% rolling average over the last three months). CPI inflation was 4.6%.

Productivity and Baseline Claims

Compensation for the growth in labour productivity is the fundamental driver of real wage growth over the long-term. The PSC strongly advocates for measures to boost Ireland's long-run productivity[6].

Labour productivity growth can be highly volatile from year-to-year. It is therefore more useful to focus on longer-run trends and averages. Labour productivity over the medium-term is likely to average between 1% and 1.5%. If so, real wages should broadly grow within this range. The Department of Finance projects average labour productivity will grow by 3.1% in 2024 though this presumably reflects expected shifts in employment composition. A short-to-medium-term economy-wide baseline claim of 'inflation plus productivity', based on Department of Finance forecasts, is close to 5.4%.[7] Over the longer-term, the productivity plus inflation baseline is nearer to 3% to 3.5% assuming close to 1% to 1.5% labour productivity and 2% inflation.

The range of institutional inflation projections for 2024 (2.3% to 3.1%) suggests 'baseline' real wage growth would be somewhere between 3.3% and 4.6% assuming labour productivity of 1% to 1.5%.

Of course, the 'inflation plus labour productivity' formula is only appropriate if the labour share of income is already at a fair percentage of national income. The labour share has fallen consistently in recent decades. Reversing this trend requires wage increases above the long-run inflation plus productivity base line.

The labour market as of early 2024 is close to full employment. A number of sectors have labour shortages. Therefore, in certain sectors there may be an opportunity for workers to redress the imbalance between labour and capital income and obtain wage growth in excess of the long-run average.

Pay Bargaining in 2024

The fundamental objective of collective bargaining is to maintain and improve the living standards and the conditions of employment of workers. Based on our analysis of the prevailing conditions in the private sector of the economy, taking account of the levels of price inflation in 2023 and having regard to various forecasts the PSC believes that in 2024, it is appropriate for unions in the private sector to seek to secure pay increases in the range of 4% to 6%, where affordable.

While having regard to the level of profitability and the competitive position of the enterprise concerned unions should also seek to:

- Improve the position of lower paid workers for example, by improving new entrant rates of pay;
- The crucial importance of securing and protecting weekly working hours;
- Utilise where appropriate measures such as the Small Benefits Exemption Scheme;
- Introduce and enhance service pay awards;
- Secure additional non-pay benefits, for example shorter working time, additional annual leave, increased sick pay benefits and improved pension benefits.

4 Weekly earnings increased by 3.9% in the private sector with hourly earnings up 5.8%.

5 Average weekly earnings grew in **real** terms for four sectors: *Arts & Entertainment*, *Public Administration and Defence*, *Health and Social work* and *Professional, Scientific and Technical*.

6 For example, via investments in education, infrastructure and R&D and via horizontal innovation achieved through worker voice and improved dialogue with employers.

7 This is based on the Department's 3-year average annual labour productivity growth of 3% and average annual HICP growth of 2.4% (Department of Finance: Economic and Fiscal Outlook, Table A7).