PRIVATE SECTOR BULLETIN

December 2022

STRONGER TOGETHER
CONGRESS
Irish Congress of Trade Unions

Congress Guidance for Private Sector Unions on Pay Bargaining in 2023

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 negotiations in 2023.*[1]

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 2023. Finally, we detail the guidance to unions on pay bargaining for 2023.

Inflation

The high rate of inflation initially related to loose fiscal policy and released pent-up demand fuelled by record savings, to labour shortages, to Covid pandemic cycle base effects in energy and other commodities, and to supply chain issues related to availability of inputs and transport bottlenecks.

In early 2022 it seemed that the inflationary surge would be temporary due to the unwinding of the base effects and the easing of supply chain disruptions. However, the invasion of Ukraine changed the nature of the cost of living pressures. The nature and scale of the subsequent energy price increase was a supply shock to the Irish economy. Energy and food are core economic inputs and a spike in these prices lead to a pass through to other items.

Core consumer prices were the highest on record in the euro area in October with even higher rates in the US and the UK. Analysis from the CSO in Ireland shows that poorer households have been disproportionately impacted over the last year.

HICP inflation was 9% in November 2022 while consumer inflation expectations for one year ahead are close to 7%. There is significant uncertainty about short-run developments in consumer prices. The various institutional forecasts for inflation have a range of 6% to 7.2% in 2023 and from 2.4% to 3% in 2024.

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 6.5% in 2023 (9% to 9.5% over 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.

Labour Market

The labour market remains strong with the unemployment rate at 4.4% in November and with labour shortages evident in some sectors. The employment rate is close to a record high for females, while the rate for males has risen close to the pre-2008 peak. Growth in actual hours worked has been fastest in ICT, whereas contact intensive sectors still lag. Overall, the labour market has strengthened across almost all relevant indicators over the 2019 to 2022 period.

Even so, real weekly earnings have been declining for most workers due to the high level of price inflation. ICT (10.8% nominal growth) was the only of the 13 economic sectors to experience real annual wage growth in the third quarter of 2022. Overall, private sector wages grew 4.5% annually in the third quarter with CPI inflation of 8.7%. This implies an average fall in real private sector wages of 4.2%.

Research from the Central Bank on posted wages estimates wage growth of 4.6% in the year to October with over 60% of occupations posting wage growth in excess of 3%.

Economic Outlook

The economy continues to benefit from the post-pandemic boost from pent-up demand and grew swiftly in the first half of 2022.

[1] The Nevin Economic Research Institute (NERI) has provided economic assistance to the PSC in this matter.

However, the near-term outlook suggests relatively weak growth in 2023. The Ukraine invasion reduced supplies for many commodities and added to existing inflationary pressures. The ongoing supply shock is reducing global trade and output while uncertainty is impacting consumption and investment decisions. In addition, the decline in real disposable household incomes implies a slowdown in consumption volumes. Consumer confidence is close to a 14-year low and the volume of retail sales has experienced a monthly decline in four of the last six months.

Tightening monetary policy will further depress demand through the investment and consumption channels. Finally, Ireland's main trading partners (Euro area, UK and US) are all expected to stagnate or fall into recession with negative implications for exports. Business expectations (PMIs) are modestly positive for services but negative for manufacturing and for construction.

Despite the bleak headwinds we believe the economy may yet avoid a technical recession. Stagflation appears likely in the short-run. Whether the domestic economy can avoid a recession likely depends on the trajectory of the household savings rate.

Productivity and Baseline Claims

Compensation for labour productivity growth is the fundamental driver of real wage growth over the long-term. The Private Sector Committee advocates for measures to boost Ireland's long-run productivity via higher investments in education, infrastructure and R&D and via horizontal innovation achieved through worker voice and improved dialogue with employers.

Labour productivity growth can be highly volatile from year-to-year. It is therefore more useful to focus on longer-run trends and averages. The Department of Finance projects that average labour productivity will increase by an annual average of almost 2.3% in the three years between end-2022 and end-2025. A medium-term general economy-wide baseline claim of 'inflation plus productivity', based on Department of Finance forecasts, is close to 6.1%. In 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.

It should also be noted that an '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 been falling consistently in recent decades with increasing proportions of the economic pie being captured by capital income. This has helped to drive an increase in market inequality as net wealth is highly unevenly distributed across the population. 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 are generally able to suppress wages below the long-run average when unemployment is high and when there is significant labour market slack. This was the case in Ireland for much of the last decade. However, the labour market as of late 2022 is close to full employment with labour shortages in a number of sectors. 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 2023

The fundamental objective of collective bargaining is to maintain and improve the living standards of workers. Based on our analysis of the prevailing conditions in the private sector of the economy and having regard to various forecasts the Private Sector Committee believes that in 2023, it is appropriate for unions in the private sector to seek to secure pay increases in the range 4% to 7.5%, 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;
- secure and enhance 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.

---

[2] The strongest retail performances (volume) since the onset of the pandemic are (1) clothing, footwear and textiles (+24.6%), (2) pharmaceuticals, medical and cosmetic (+24.1%) and (3) electrical goods (+12%).

[3] Stagflation is a conflation of stagnation (very low or zero growth) and high inflation

[4] This is based on average annual labour productivity growth of 2.3% and average annual HICP growth of 3.8% (Department of Finance: Economic and Fiscal Outlook, Table A9).