Congress Private Sector Committee Bulletin

Congress Guidance for Private Sector Unions on Pay Bargaining in 2025

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Introduction

Each year, the **Congress Private Sector Committee (PSC)** issues pay guidance to 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 commencing the following year. This bulletin provides guidance for 2025.

The development of the guidance for 2025 has been informed by the fact that over the last three years wage growth has failed to keep pace with inflation. This has led to a loss in the purchasing power of wages. We therefore encourage unions in 2025 to negotiate wage increases that would reverse the loss.

This bulletin contains relevant information on the labour market including details on inflation, employment and wages. It also sets out the other relevant factors before detailing the pay guidance to for 2025.

Economic Outlook

The Irish economy has been performing very well with strong growth in domestic output and almost full employment. The domestic outlook remains positive and output should increase by close to 2.5% in 2024 and then 3% in 2025. Monetary policy will continue to ease and the lower interest rates will add to both consumption and investment. The modestly expansionary budget will further contribute to growth and the strong public finances would enable a countercyclical response were a downturn to occur.

Real wage growth will continue through the rest of 2024 and 2025 as a tight labour market combines with a declining rate of inflation. Wage growth and continued albeit weakening employment growth will drive an increase in real disposable income and in personal consumption. The outlook for exports is more mixed. In particular, US policy shifts in relation to tariff policy and corporation tax policy are a significant risk to the medium-term outlook. There are also concerns about the short-run performance of the UK and EU economies.

Business sentiment and consumer confidence are mixed but modestly positive overall. The services PMI (56.3) is consistent with a positive rate of expansion while the manufacturing PMI (49.9) is very marginally negative due to weakness in new orders. The construction PMI is also negative (49.4). Consumer confidence remains below its long-run average but is on a generally upward trajectory perhaps reflecting the return to positive income growth.

Inflation

Price inflation is now coming under control. The HICP[1] measure of inflation rose by just 0.5% in the year to November and by 1.5% once energy and unprocessed food are excluded. The CPI rose by 0.7% between October 2023 and October 2024 (+0.3% over the previous month) and by 2.3% excluding energy and unprocessed food. Falling prices for the volatile energy products category are driving the current disinflation[2] (electricity is at -16.9% year-on-year) with restaurants & hotels now the largest component of upward price pressure. While acknowledging the recent disinflation, the CPI has nevertheless increased by over 21% in the last four years. Prices are not falling they are merely growing at a slower rate. The CPI is on target to grow by an average of just over 2% in 2024.

Institutional projections for inflation suggest it will fluctuate around the 2% mark over the next two years, or close to the ECB's inflation target of just below 2%. The range of institutional[3] projections for 2025 (whether CPI or HICP) is fairly tight. The projections range from 1.2% to 2% for 2025 and 1.5% to 2% for 2026. Department of Finance estimates for the personal consumption deflator which measures the average increase in price for domestic consumption are somewhat higher at 2.5% in 2025 and an average of 2.4% between 2026 and 2030.

The annual rate of inflation marks the 'zero-point', below which real wages are falling. Thus, nominal wages will likely need to grow by close to 2% in 2025 and close to 4% over the next two years simply to keep pace with the cost of living. Only nominal wage increases beyond this level will represent actual real wage increases. Lower increases are consistent with declining real wages. It should be noted that real wages declined in 2022 and again in 2023. Economy-wide real wages fell in the three years from Q3 2021 to Q3 2024.

Labour Market

Labour market data remains strong. The employment rate (15-64) was 75.3% in Q3 2024, an improvement of 1.1 percentage points over the previous year. Employment increased by a robust 3.7% or 98,600 people while the unemployment rate fell marginally to

1 The HICP and the CPI are similar indices of prices and price changes in the economy. The main difference between the two is that the HICP does not include mortgages in its basket of goods and services. This explains why the CPI has been growing faster than the HICP in recent months.
2 Disinflation refers to a lower rate of increase not to falling prices.
3 These include the Department of Finance, Central Bank, NERI, ESRI, OECD, EU Commission, IMF and IBEC.

4.5%. The labour force (15-89) is expanding rapidly and grew by 3.5% or 98,200 in the last year with the female participation rate at a record 61.8%. Hours worked increased 2.9% (2.4 million hours) in the year to Q3.

The most recent administrative data (September) show the seasonally adjusted employee index increased just 1.4% year-on-year, which is the first time it has fallen below 2% since the Covid lockdowns ended in 2021. Even so, the index is up 14.9% since 2019. The job vacancy rate was 1.2% in Q3. This is unchanged from the previous year and higher than pre-Covid levels.

Survey data indicates particularly strong annual employment growth in Q3 in *Professional, Scientific & Technical* activities (21,400 or 11.8%), in *Accommodation & Food Services* (16,900 or 9.2%) and in Industry (17,900 or 5.5%). However, there was a decline in *Administration* employment (-7.4%), in *Agriculture, Forestry and Fishing* (-1.5%) and in *Wholesale & Retail* (-0.2%). Employment growth is mostly full time (98,600 persons or +4.5%) with a modest increase in part-time employment (3,800 or +0.7%). Administrative data shows divergent 5-year performance for the different sectors with the *Construction* sector performing best (+24.5%) and the *Arts and Entertainment* sector the worst (+1.4%). The most recent data shows there were 121,200 people unemployed in October or 4.2%. Overall, the employment picture is healthy albeit with signs that the employment surge is ending.

Average weekly earnings increased by 5.3% year-on-year in Q3 with average hourly earnings increasing 4.7%. Weekly earnings increased in every sector in nominal terms with the largest increase in *Transportation & Storage* at +7.7%. Weekly earnings growth was weakest in *Professional, Scientific & Technical* at just 1.7% which was 0.2% real wage growth (CPI basis). Private sector weekly wage growth was also 5.3%.

The same broad picture emerges for hourly wages with nominal increases in each main sector. The *ICT* sector had the highest hourly wage growth at 10% whereas *Professional, Scientific & Technical* had wage growth of just 0.9% (the only sector with a decline in real terms).

The CPI increased by an average of 1.5% in Q3. As such, average weekly and hourly earnings across the economy grew strongly in real terms in Q3 (+3.8% and +3.2% respectively). The Indeed wage growth tracker shows an increase in posted wages of 4.3% year-on-year in October (4.4% rolling average over the last three months). CPI inflation was just 0.7% implying that strong real wage growth is continuing.

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 has consistently advocated for measures to boost Ireland's long-run productivity[4].

Labour productivity growth can be highly volatile from year-to-year with large sectoral and cyclical differences. It is therefore more useful to focus on longer-run trends and averages. We can project that labour productivity over the medium-term is likely to average between 1% and 1.5% consistent with productivity growth in advanced economies in recent decades. All else equal, real wages are expected to broadly grow at a level close to that of labour productivity growth.

The Department of Finance projects that average labour productivity will grow by an annual average of around 1.3% over the 2025 to 2030 period. A longer term productivity plus inflation baseline for nominal wage growth is therefore around 3.3% assuming close to 1.3% growth in labour productivity and 2% growth in inflation (the ECB target). The Central Bank is projecting that the CPI will increase by 2% in 2025.

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 been falling over recent decades, which has driven an increase in market inequality. Reversing a falling labour share requires wage increases above the long-run inflation plus productivity base line.

The labour market as of late 2024 is close to, though not at, full employment. A number of sectors have labour shortages notably the construction sector. This context of a tight labour market means that there is now an opportunity in certain sectors for workers to redress the imbalance between labour and capital income and to obtain wage growth in excess of the long-run average.

Pay Bargaining 2025

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 PSC believes that in 2025, it is appropriate for unions in the private sector to seek to secure pay increases in the range of 4% to 7% where affordable.

In addition, and 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 protect weekly working hours;
- Utilise where appropriate measures such as the Small Benefits Exemption Scheme;
- Introduce and enhance service pay awards;
- Secure additional benefits, for example shorter working time, additional annual leave, increased sick pay and paid family leave and improved pension benefits.

4 Policies to achieve this include higher levels of investment in infrastructure, in education (including life-long learning), and in public R&D, as well as policies to support horizontal innovation achieved through worker voice and improved dialogue with employers.