Over half of pay deals break 3%, but remain below inflation

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Our analysis of over 150 pay agreements in 2022 shows the surge in inflation forcing deals through the 3% per annum upper benchmark of recent years – although still far short of matching inflation – with the expanded tax-free voucher scheme also significant.

2022 was the year when the 3% upper target on annual private sector pay increases was well and truly broken, with this level exceeded by over half of the pay settlements from January to December, listed over the following pages.

The 155 pay agreements and Labour Court recommendations are drawn from those covered in IRN during the year, as well as the pay database of SIPTU, the union with the largest number of private sector members.

Wage deals less sensitive to inflation than before

Over 80 of the deals listed exceed 3% per annum, with about a third of these even going beyond the 4% per annum level. This is based on calculating the average pay increase per annum.

This is a significant turnaround from the past decade, which began with a remarkable consensus around a 2% per annum benchmark and gradually extended to a range of 2-3%, with few agreements outside this tight margin.

Of course, this had been facilitated by consistently low rates of inflation over that period, which facilitated small but steady increases in real earnings.

This ended abruptly with the rise in the consumer price index to as high as 9% in recent months. Indeed, given these high inflation rates, some would have expected wage settlements to climb quickly to match these levels.

But competitive pressures on employers – and awareness on both sides of the negotiating table of the dangers of simply chasing inflation, as was the case in the 1970s and early 1980s – has led to more limited wage increases.

The ICTU Private Sector Committee target for 2023 negotiations is 4% to 7.5% per annum, but this is always tempered in practice with awareness of what increased costs individual businesses can bear.

STRIKES OVER PAY

The ultimate way to test that limit is through industrial action, and 2022 has seen more industrial action on private sector pay than at any point in recent decades.

But even these have been in a limited number of key employments – such as **Bausch & Lomb** and **Kyte Powertech** – and while the eventual settlements of these disputes were better than the last company offer and helped to push pay norms upwards, they were still well below the prevailing rate of inflation.

Both these disputes took place after rejection of Labour Court recommendations, with some other deals (like **Apple Computer** and **Pinewood Healthcare**) taking place after similar rejections without any industrial action.

At the same time, many other Court recommendations on pay were accepted – including one at Luas operator Transdev, with the Kyte Powertech dispute also resolved by a supplementary Court recommendation. While the Court has always tended to follow pay norms rather than set them, it was willing to move with these prevailing norms as they changed over the course of the year.

Also, one of the remarkable features of post-social partnership private sector pay – reaching agreement without recourse to the Court, or even the WRC in many cases – still held largely true, with the majority of agreements being reached at local level.

'WAGE-PRICE SPIRAL'

The concept of a 'wage-price spiral' is based on the experience of the 1970s and early 1980s, when unions were numerically stronger and able to push closer to the even higher inflation rates of that time – only to find that this embedded inflation expectations, with real earnings continuing to fall.

Now union density is lower and employers are also more vulnerable to global competitive pressures, making wage settlements less responsive to inflation, even when pushed to the limit of strike action in a classic industrial relations test of strength.

But the remarkable surge in inflation in 2022, prompted first by post-Covid supply chain issues and worsened by rising energy prices after Russia's invasion of Ukraine, meant that a tight range like 2-3% would not hold.

Earlier in 2022, it appeared that a 2-4% range might emerge *(see our last Wage Settlements Special in IRN 14/2022)*, but with a sixth of all deals in 2022 going over 4% pre annum, the informal pay consensus of the past decade, that has effectively been a ghostly echo of the old social partnership national wage agreements, has become significantly weaker.

Some of the agreements above 4% were also due to special circumstances in those employments, which could include being newly unionised (Dynamic Distribution), or having had no wage increases for several years (Innill Doitean).

SECTOR BY SECTOR

But there is some sectoral variation in the pattern of agreements, some of it unexpected. Taking first the traditional pay leader of the last decade, the multinational-dominated pharmaceuticals and medical devices sector, most of the 14 deals listed are still within the old 2-3% per annum range, with just four above 3% and none above 4%.

However, this could well be in keeping with the approach over the last decade of this sector, which is relatively recession-proof and has tended to value cost certainty and stability over the economic cycle, rather than reacting to a fluctuating labour market or inflation.

The food and drink sector was evenly divided between settlements above and below 3%, although it still had six out of its 21 settlements at 2% per annum or below, showing the continuing competitive pressures on this largely indigenous sector.

In other manufacturing industry, including electronics and engineering, with a mix of multinational and indigenous employers, 75% of the 28 settlements were above 3%, with almost 25% above 4%.

A similar picture emerges from the construction and energy sectors, with over 70% of the deals being over 3% per annum, with Kingspan averaging close to 5%.

In financial services, the main banks **– AIB** and **Bank of Ireland –** led the way early in the year, with deals averaging 3-4% per annum, supplemented in later months with voucher payments at the new Revenue maximum of €1,000, as inflation continued to soar.

Settlements in the print, packaging and media sectors were more subdued, being mostly below 3%, although the **NUJ** claimed major increases after a one-day strike at the **Reach group** (including the Mirror and Daily Star).

In retail and distribution, the two largest grocery multiples (**Tesco** and **Dunnes Stores**) implemented unilateral increases of 10% (although Tesco's was over three years). Across these sectors, deals were evenly divided between those above and below 3%, as a tight labour market put pressure on employers.

In transport, the rapidly-recovering aviation sector returned to the pay bargaining table by not just accelerating pay restoration compared with their Covid recovery deals, but agreeing significant pay proposals in recent weeks at both major airlines (**Ryanair** and **Aer Lingus**) and the main airport operator **Daa**.

As for the commercial semi-states, their deals were mostly in the 2-3% range, with multi-year pay agreements reached in the each of the three CIE operating companies, without any industrial action – a major change from the industrial unrest that characterised the sector in 2016-2017.

Tax-efficient vouchers were used in each **CIE** deal to cover periods not covered by pay increases (due in part to the commercial challenges of the Covid era for public transport) and while most of these deals were above 3% a year, they average under 3% a year when the periods without increases are included.

FRINGE BENEFITS

More broadly, the Revenue's Small Benefits Exemption Scheme – expanded in October to €1,000 in voucher-based payments per annum – was used in many deals to provide relief from inflation, without adding to ongoing labour costs. No fewer than 40 deals of the 155 listed here use them, although few use the maximum €1,000 permitted extent (perhaps due to employer wariness of creating precedents for the future).

Over 20 agreements also included enhanced pay increases for new entrants, the exact opposite of the lower new entrant rates commonly introduced during recessions. These were particularly common in banking, retailing and aviation, reflecting labour market pressures in these sectors.

Other common fringe benefits agreed as part of pay agreements include extra annual leave (both ongoing and once-off) and service pay (with about 10% of deals containing one of these elements), as well as pension improvements (in about ten agreements), with a few also improving sick pay and health insurance.

Although the Covid-19 pandemic mostly receded as an economic factor during the year, at least five companies provided some level of bonus for working during this period.