

## ■ The economic situation remains uncertain ahead of collective bargaining in 2013

**A new round of collective bargaining began in the autumn of 2012 and will continue throughout 2013. New wage agreements affecting around 2.5 million employees are to be signed in what continues to be an uncertain economic situation. The social partners will need to take this and a number of other factors into account when they negotiate new collective agreements. As previously, it is expected that the wage levels set in the agreements for the manufacturing industry will act as a norm for other contractual areas on the Swedish labour market. As the sector that sets the norm for wage increases, the social partners in the manufacturing sector should reach new wage agreements that also take into account the development of employment and unemployment in Sweden.**

### Wage formation has worked well over the last 15 years

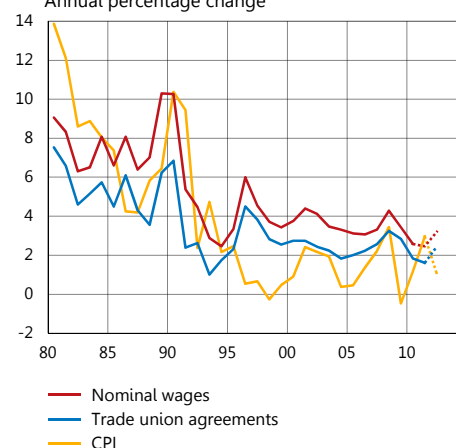
During the 1990s, several institutional changes were implemented in the Swedish economy which also had an impact on pay formation. For example, the Riksbank introduced an inflation target in January 1993 and this came to affect the inflation expectations of the social partners. Wage formation in Sweden was also changed by the Rehnberg Agreement of 1991-1992 and the Industrial Agreement that was introduced in 1997.<sup>22</sup> The structural reforms implemented during this period have helped to slow down the rate of increase in wage levels in trade union agreements, and nominal wages and inflation have decreased (see Figure A7). At the same time, GDP growth has increased.

Real wages are an important part of the companies costs and thus play major role in the development of employment. In the collective bargaining process, the social partners must balance the need for good purchasing power for the employees on the one hand against a reasonable development of costs for the companies on the other hand so that employment does not fall.

### Collective bargaining in 2012 – a brief review

The 2012 round of collective bargaining is now in principle complete. The conclusions from the collective bargaining process this year are that the manufacturing industry set the norm for wage increases and that other contractual areas closely followed this norm. The round of collective bargaining in 2012 was preceded by the signing of a new Industrial Agreement in the summer of 2011.<sup>23</sup> This agreement, which among other things regulates bargaining procedures within the contractual areas in the manufacturing sector, more clearly outlined the leading and normative role of the manufacturing industry with regard to wages. The hope was that this would lead to other contractual areas following the norm more closely.

**Figure A7. Nominal wages, trade union agreements and the CPI in Sweden**  
Annual percentage change

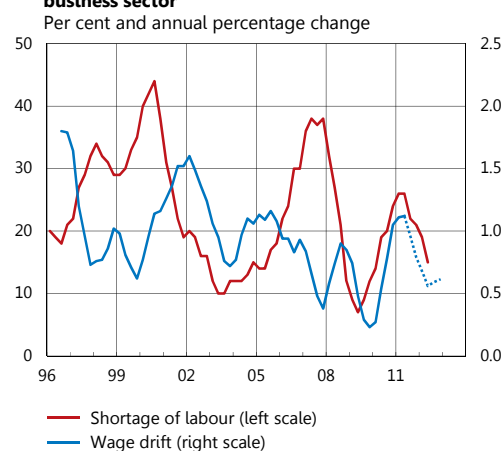


Sources: National Mediation Office, Statistics Sweden and the Riksbank

<sup>22</sup> The Rehnberg Agreement was a proposed stabilisation agreement that all of the contractual areas followed to a very great extent in their collective agreements. The Rehnberg Agreement also entailed the removal of the price and wage clauses in the collective agreements, which in turn has reduced the risk of so-called price-wage spirals and/or wage-wage spirals arising in the economy. The Industrial Agreement is an agreement between the social partners in the manufacturing sector that, among other things, includes regulations on collective bargaining procedures in the sector. The Industrial Agreement has become an important institution in Swedish wage formation and the collective agreements in the manufacturing sector have come to act as a benchmark for other contractual areas.

<sup>23</sup> Five trade unions and 12 employer organisations signed the new Industrial Agreement. The Swedish Paper Workers' Union, which signed the old Industrial Agreement, chose not to sign the new agreement for various reasons.

**Figure A8. Labour shortage and wage drift in the business sector**



Note. The series for wage drift is smoothed using a 3-quarter moving average. Shortage of labour refers to seasonally-adjusted data.

Sources: National Institute of Economic Research, National Mediation Office, Statistics Sweden and the Riksbank

In mid-December 2011, the trade unions and employers signed new collective agreements within the framework of the Industrial Agreement. The agreement for workers in the engineering sector entailed agreed wage increases of 3.0 over a period of 14 months, that is, 2.6 per cent per year, which became the norm for the rest of the labour market. A total of 57 wage agreements were signed in the manufacturing industry in December last year.

The wage agreements reached since the agreements in the manufacturing sector were signed have closely followed the norm set in this sector. The mediation work of the National Mediation Office and strong coordination among the employers probably contributed to this. In some agreements, for example the agreements for employees in the retail, local government and hotel and restaurant sectors, the increase in average wages was actually above the norm. However the increase in wage cost was in line with the norm as there were several different cost-reducing components, or so-called offsetting items, in the agreements.<sup>24</sup> On the other hand, the social partners in the teachers' contractual area signed wage agreements in which the wage-cost increases for 2012 were above the manufacturing industry's norm.

#### **The agreement level is important for the final wage level – but other factors also play a role**

Since 1998, the agreements at the trade union level have on average accounted for approximately 70 per cent of the final wage level in Sweden. There are thus other factors that also affect the final wage level. If employers find it difficult to recruit a certain occupational category, then this may, for example, push up wages for workers in this category. The difficulties may be due to an increase in the demand for certain skills at the same time as there is a shortage of this particular type of labour. Other factors can also affect the local pay formation process, for example companies may want to change their wage structure in order to increase productivity and this can contribute to the final wage level being higher than the level in the trade union agreements. It is assumed that these factors will be reflected in the difference between the final wage level and the level in the trade union agreements. This residual item is often referred to as wage drift.

The demand for labour in Sweden has continued to decline in 2012, which among other things is reflected in the companies' employment plans and their perception of the shortage of labour as expressed in the Business Tendency Survey of the National Institute of Economic Research. It is expected that the rate of wage drift in the business sector will continue to fall in 2012 against the background of an improvement in the shortage of labour (see Figure A8). The Riksbank's assessment is that the rate of wage drift in the economy as a whole will fall to around 0.6 per cent, which is approximately 0.5 percentage points below the historical average. This assessment means that the total rate of wage increases, that is the level in the trade union agreements plus wage drift, will be 3.2 per cent in 2012.

<sup>24</sup> The offsetting items included lower increases in starting salaries, lower wage increases for certain age groups, the introduction of a new form of employment, a postponed revision of starting salaries and various wage supplements, reduced administration costs by simplifying the regulations on trial employment, greater flexibility in the scheduling of working hours and productivity improvements by the removal of individual guarantees and increased local pay formation. The new form of employment relates to vocational introduction or vocational training programmes in which young people can be employed on 75 per cent of a starting salary or, alternatively, the average wage for the age group for a period of 12 months.

### Many wage agreements will be renegotiated in 2013

A new major round of collective bargaining covering approximately 2.5 million employees will begin in 2013 (see Table A2).<sup>25</sup> In addition, there will be a large number of application agreements that will cover several hundred thousand employees.<sup>26</sup> In total, approximately two thirds of the employees in Sweden will be affected by the round of collective bargaining in 2013. A large proportion of the current collective agreements will expire on 31 March next year.

**Table A2. Major wage agreements that will expire in 2013**

Expiry date	Examples of sector/branch/group/agreement	No. of trade union agreements	Number of employees (thousands)
2013-01-31	Ships' officers	3	4
2013-02-28	Blue-collar workers in the construction and transport sectors	12	115
2013-03-31	The manufacturing industry, blue-collar workers in the retail and wholesale sectors, IT, telecom, rail transport, energy companies, local authorities (not teachers)	269	1 800
2013-04-30	Chemists' shops, white-collar workers in the retail, construction and transport sectors	78	140
2013-05-31	Smaller industrial branches, hotels and restaurants, bus transport, property maintenance	74	210
2013-06-30	Smaller industrial branches and taxi	20	35
2013-07-31 – 2013-08-31	Independent schools, household services	12	44
2013-09-30	The central-government sector, air freight	6	120
2013-10-31 – 2013-12-31	Insurance, private care and healthcare	10	39
<b>2013</b>		<b>484</b>	<b>2 507</b>

Note. The table presents collective agreements reported to the National Mediation Office up to and including 4 October 2012. Around 100 agreements remain to be renegotiated during 2012. These agreements, which cover a total of approximately 100 000 employees, are not included in the table as they have not yet been reported to the National Mediation Office.

Source: National Mediation Office

The trade unions affiliated to the Swedish Trade Union Confederation presented their joint demands in mid-October. One of the demands is that wage increases in contractual areas where wages are less than the average wage of worker in the manufacturing sector should match the amount in Swedish kronor awarded to manufacturing workers in their new wage agreements. There is also a demand that the lowest wages in all the Confederation's contractual areas should be raised by an amount equivalent to the amount awarded to manufacturing workers. The Confederation of Swedish Enterprise, on the other hand, claims that the unions' demands will squeeze out jobs for young and inexperienced workers. If the unions affiliated to the Confederation succeed in achieving their demands in the approaching round of collective bargaining the increases in wage costs for the new agreements will be higher than the manufacturing sector's norm, which would be a deviation from the pattern set in the rounds of collective bargaining in recent years. It remains to be seen what this will mean for the final results of collective bargaining.

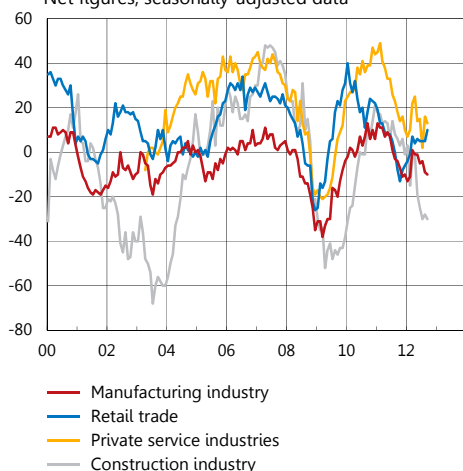
It is likely that the social partners in the manufacturing sector will be the first to sign new wage agreements. Negotiations will probably begin

<sup>25</sup> This means that the round of collective bargaining in 2013 will be of roughly the same extent as the round in 2012.

<sup>26</sup> An application agreement is an agreement signed between an employees' organisation and a single company that is not a member of an employers' confederation.

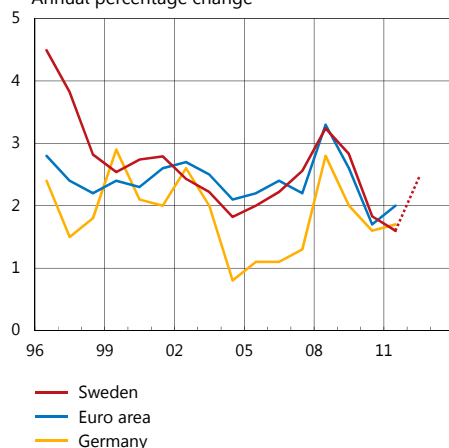
**Figure A9. Confidence indicators for the business sector**

Net figures, seasonally-adjusted data



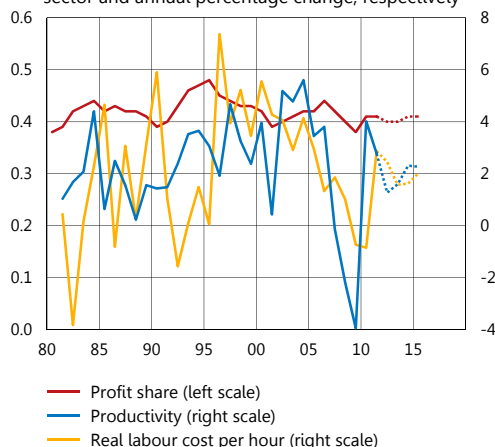
Source: National Institute of Economic Research

**Figure A10. Agreed wage increases**  
Annual percentage change



Sources: Deutsche Bundesbank, ECB, National Mediation Office and the Riksbank

**Figure A11. Profit share in the business sector**  
Gross surplus as share of value added in the business sector and annual percentage change, respectively



Note. Real labour cost per hour deflated by the added-value deflator in the business sector.

Sources: Statistics Sweden and the Riksbank

in November or December. By virtue of the Industrial Agreement, the model in which the manufacturing sector takes the lead on wages has been used in the rounds of collective bargaining since 1998. This has worked well and is an important explanation of why wage formation in Sweden has worked much better over the last 15 years than in the 1970s and 1980s. This wage formation model will probably be used in this round too. However, there are also factors that indicate that the norm set in the manufacturing sector will not be followed as closely this time. The export-oriented manufacturing sector is under pressure from weak international demand, while the situation looks better for the retail and service sectors. The confidence indicators also show that there are clear differences between the levels of confidence in different sectors (see Figure A9). The fact that wage increases in the teachers' agreements were higher than in other wage agreements in 2012 may also indicate that the manufacturing sector's norm will be followed less closely.

### Many factors to take into account in collective bargaining

As in previous rounds of collective bargaining, the social partners in the manufacturing sector, and ultimately the partners in other parts of the labour market, will need to take a number of different factors into account in the course of the negotiations. For example international competition, global demand, wage levels abroad, the exchange rate, profit levels, inflation expectations, the supply of labour and the effects on employment and unemployment. Collective bargaining will also be conducted in a situation in which there is great uncertainty about the prospects for the Swedish economy. Development in above all the euro area is weak and entails serious risks. Several indicators for the development of the Swedish economy, for example the purchasing managers' index, point to a slowdown.

The social partners in the manufacturing sector also take into account wage formation in other countries in the course of the collective bargaining process. The competitiveness of the manufacturing industry will be affected if pay levels are higher in Sweden than in the countries we compete with.<sup>27</sup> This is because the agreed wage increases are a significant part of the unit labour costs. Since 1998, the agreed wage increases in Sweden have covaried well with those in the euro area as a whole, while they have on average been higher than in, for example, Germany (see Figure A10).

Assessments of the development of the Swedish krona are also important in the collective bargaining process in the manufacturing industry.<sup>28</sup> During the latest period of unease, the krona has acted as an interesting investment alternative to the larger currencies to a greater extent than previously. The strong krona has increased the pressure on the Swedish export sector, although this has hardly been a decisive factor for the decline in exports in general.

However, not only international factors are important to the manufacturing sector's negotiators; domestic factors such as profit levels, inflation expectations and the supply of labour are also important. It is expected that real labour costs per hour will increase more quickly than

<sup>27</sup> This particularly applies because most of the countries that Sweden trades with and/or competes with have an inflation target that is similar to Sweden's.

<sup>28</sup> The future development of the krona is discussed in for example *Krisen i eurozonen – konsekvenser för svensk industri* (The crisis in the eurozone – consequences for Swedish industry), the Economic Council for the Manufacturing Industry, June 2012, and *Inför 2013 års avtalsrörelse* (Ahead of collective bargaining in 2013), Economic Council for the Manufacturing Industry, October 2012.

productivity in 2012, which means that the profit share in the business sector will be somewhat lower than last year and thus continue to be below its historical average (see Figure A11). According to the Prospera surveys, inflation expectations in the longer term are well-anchored around 2 per cent, while in the shorter term most measures indicate that they are lower than 2 per cent. However, it is unclear what inflation expectations the partners take as their starting point in the negotiations in the manufacturing sector. According to *Facken inom industrin*, an organisation for the trade unions in the manufacturing sector, the Riksbank's inflation target is an important basis for the collective bargaining of the social partners in the sector.<sup>29</sup> It is also possible that in the case of longer contractual periods the partners take the Riksbank's inflation target as their starting point, while in the shorter term they look at various inflation expectations and/or inflation forecasts.<sup>30</sup> The supply of labour in the manufacturing sector is better today than it was before the sector's crisis years of 2008-2009. However, according to the Business Tendency Survey, the shortage of labour in the sector is somewhat more acute than in other sectors.

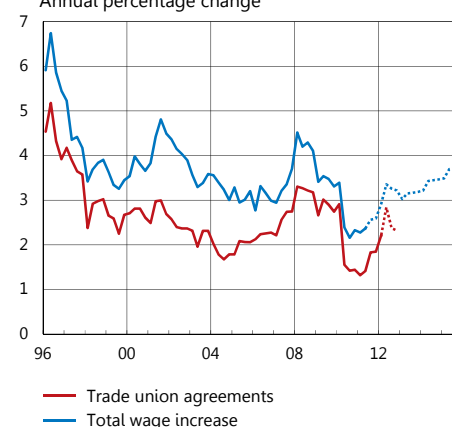
As the sector that sets the norm for wages, the manufacturing sector should also take into account the effects of the new wage agreements on employment and unemployment in Sweden. This may be particularly important as unemployment is high and there are signs that matching on the labour market has become less effective (see the article "Has the functioning of the labour market changed?" in this report). High minimum wages in particular may affect employment for vulnerable groups such as the young, those born abroad and the less qualified.<sup>31</sup>

### The rate of wage increases will continue to be around 3 per cent next year

As the manufacturing sector, which is expected to continue to take the lead on wages, is under strain, the assessment is that the level of wage increases in the economy as a whole will be 3.1 in 2013 (see Figure A12). This assessment is based on a number of different factors, such as developments on the labour market, corporate profits and current inflation expectations. The relatively weak development of the labour market in 2013 will entail an ongoing low level of wage drift. The Riksbank's company interviews in September this year also show that a larger proportion of the companies believe that wage drift will be lower in 12 months' time than it is at present (see Figure A13).

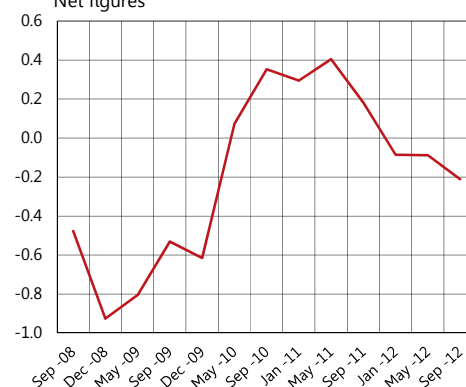
Since 1998, wage increases agreed at the union level have constituted between 60 and 80 per cent of total wage increases in Sweden. If we assume that this will continue to be the case during 2013, then the Riksbank's forecast for total wage increases of 3.1 per cent means that the agreed wage increases will, according to the statistics of the National Mediation Office, be between 1.8 and 2.5 per cent per year, that is equal to or lower than the agreed wage increases in 2012.

**Figure A12. Total wage increases and wage increases agreed at union level in Sweden**  
Annual percentage change



Sources: National Mediation Office, Statistics Sweden and the Riksbank

**Figure A13. Expected wage drift at companies according to the Riksbank's company interviews**  
Net figures



Note. Weighted net figures based on the number of employees in Sweden at the interviewed companies. The question relates to the companies' assessments of wage drift over the next 12 months. The net figures in the diagram represent the balance between the percentage of companies stating that wage drift will increase and those stating that wage drift will decrease. The dates specified in the figure refer to the month in which the company interviews were mainly conducted.

Source: The Riksbank

<sup>29</sup> See *Facken inom industrin*, Avtalspolitisk plattform inför avtalsrörelsen 2011 (Policy platform ahead of the round of collective bargaining in 2011), 15 September 2011.

<sup>30</sup> In recent years, the reports of the Economic Council for the Manufacturing Industry, which are used as a basis for collective bargaining in the manufacturing sector, have discussed the inflation forecasts of the Riksbank and other forecasters one and two years ahead. The two latest rounds of collective bargaining resulted in contractual periods in the manufacturing sector that averaged 22 months (2010-2011) and 14 months (2012). The five rounds of collective bargaining during the period 1995-2009 resulted in contractual periods of around 36 months.

<sup>31</sup> The OECD points to the problem of too high minimum wages in Sweden. See OECD, *Economic Outlook*, no. 91, May 2012.