

ARTICLE – Ahead of 2017's wage bargaining rounds

Most of the agreements signed in the most recent wage bargaining rounds run for one year, which means that new agreements for almost 2.5 million employees must be signed in 2017. Compared to the situation prior to 2016's wage bargaining round, both actual inflation and the parties' inflation expectations have clearly risen. The labour market has strengthened further, with a higher rate of employment and lower unemployment. Companies in many parts of the economy are currently experiencing problems in recruitment, which is reflected by large shortages and long recruitment times. Supported by an expansionary monetary policy, resource utilisation in the economy is expected to continue rising and to lead to more normal wage increases, following several years of low figures.

Riksbank safeguarding the inflation target

Since the late 1990s, the inflation target has functioned as a joint starting point for the social partners in their negotiations. It is clear that this has benefited general economic development in Sweden. Major fluctuations in prices and wages make it more difficult for all participants and create socioeconomic costs. Clear rules and predictability instead reduce uncertainty and create stability in the economy. For a long time, monetary policy in Sweden has been characterised by low inflation, great uncertainty over international economic developments and low global interest rates. The Riksbank has taken powerful measures to push up inflation and stabilise it around the target of 2 per cent and to help keep inflation expectations in line with the inflation target. The repo rate has been cut to -0.50 per cent and the Riksbank has made extensive purchases of government bonds. The expansionary monetary policy has contributed towards the positive development of the Swedish economy seen in recent years. In this way, the Riksbank is safeguarding confidence in the inflation target.

Time for a major wage bargaining round again

In 2016, wage agreements for about 3 million employees were renegotiated. Most of these agreements run for one year, which means that new agreements for almost 2.5 million employees must be signed in 2017. For more than half of these employees, including those in the industrial sector, current agreements expire on 31 March 2017. Preparations for the bargaining rounds are already in full swing. In mid-October, the Swedish Trade Union Confederation (LO) and its unions will decide what demands shall be made with regard to the general terms and construction of the agreements. Later in the autumn, quantified demands will be presented by LO and Facken inom industrin (the Swedish Unions within Industry). Negotiations within the industrial sector must be opened, at latest, three months before the current agreement expires, meaning that collective demands must be

exchanged between employees and employers before the end of the year.

Uncertainty over standard-setting by the industrial sector

Since the Industrial Agreement was adopted in 1997, collective agreements in the industrial sector have set the standard for the rest of the labour market. However, ahead of 2016's wage bargaining round, the industrial sector's normative role in wage formation came under question from several directions and the unions included in LO failed to agree on the coordination of their demands. Several trade unions demanded higher wage increases than Facken inom industrin has demanded and employers demanded much lower wage increases. In the end, most of the agreements were nevertheless close to the industrial agreement, that is 2.2 per cent in labour cost increases over one year. One important exception is the agreement reached between Kommunal (the Swedish Municipal Workers' Union) and the Swedish Association of Local Authorities and Regions. They concluded a three-year agreement, and a special initiative for assistant nurses in the agreement gives higher wage increases for this group over all three years of the agreement. However, this special initiative was supported by the industrial workers' unions.

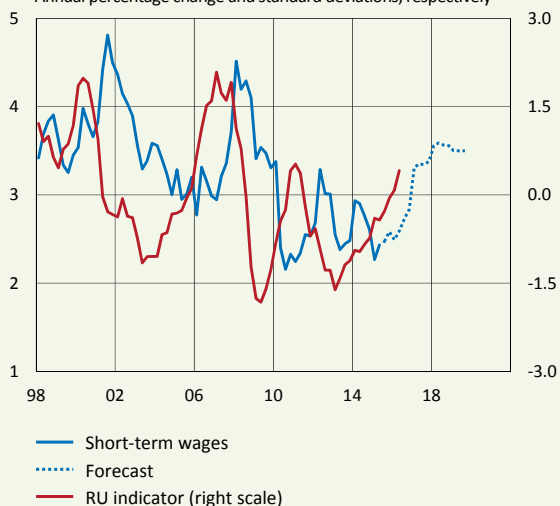
Some uncertainty has also been expressed ahead of 2017's wage bargaining rounds over the acceptance of the industrial sector's normative role in wage formation and coordination within LO. Among other uncertainties, there is a tension between the industrial workers' unions and the associations more oriented towards the home market which is partly based in differences of opinion regarding the economic situation and developments in the labour market. The industrial workers' unions are also concerned that the industrial sector's agreement will form a floor for other groups, for reasons including the increasing proportion of figureless agreements, above all in the public sector. However, abandoning the industrial sector's normative role in wage formation entails risks, particularly as there is a lack of concrete alternatives at present.

Wage formation is affected by many factors

In the long term, wage development is determined, in theory, by productivity growth and the development of prices. In terms of the more short-term perspective covered by an agreement period, normally 1–3 years, economic developments are also important for the outcome of wage negotiations. In practice, international competitiveness is also taken into account, as wage formation, even in a small open economy with a floating exchange rate, cannot be seen in isolation from the development of costs abroad. The profit situation can also be an important factor in negotiations. The parties’ expectations for these determinants are decisive for the result of the negotiations.

However, the total wage increases are not just determined by the outcome of the central (trade union) negotiations. In an increasing share of the labour market, wage formation takes place locally and individually. In addition, traditional wage drift can be added, as can the effects on wage increases of various structural changes, such as, for example, changes to the composition of the labour force. As well as the development of wages, companies’ labour costs and, ultimately, inflation are also affected by statutory and agreed collective charges.

Figure 4:18. Resource utilisation and wages
Annual percentage change and standard deviations, respectively



Note. The RU indicator is a measure of resource utilisation. It is normalised so that the mean value is 0 and the standard deviation is 1. Forecast also includes an assessment of how outcomes will be revised.
Sources: The National Mediation Office and the Riksbank

Rising wage rate in the period ahead

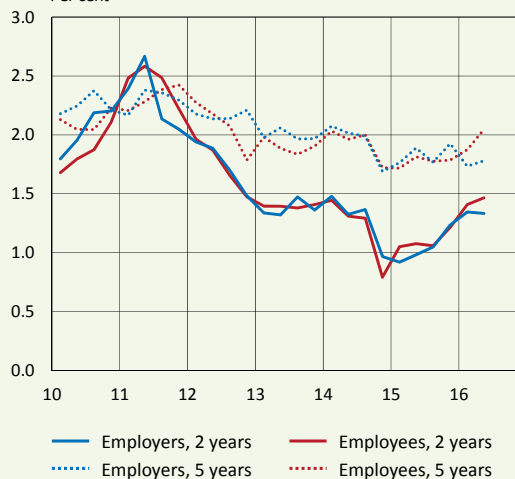
For the current year, wage increases have generally been lower than expected. The outcome of the wage bargaining round was largely in line with the 2013 agreement, despite the significantly stronger position of the labour market. Over the next few years, the Riksbank expects the rate of wage increase to pick up. The expansionary monetary policy has contributed to resource utilisation and inflation rising, which

usually means that the rate of wage increase gradually rises (see Figure 4:18).

Compared to the run-up to 2016's wage bargaining round, both actual inflation and the parties’ inflation expectations have risen (see Figure 4:19). The picture of the current profit situation is not clear-cut. Various surveys indicate that companies assess profitability as normal. However, profit shares are still low from a historical perspective, which may partly be due to structural factors such as changes of the industry composition. At the same time, the labour market has strengthened further, with a rising rate of employment and falling unemployment. Companies in many parts of the economy are already experiencing problems in recruitment, which is reflected by large shortages and long recruitment times. Resource utilisation is expected to continue to rise in the coming years, and this supports a trend towards higher and more normal wage increases after several years of historically low growth figures.

The Riksbank’s forecast for total wage increases suggests continued modest rates of increase this year of just over 2.5 per cent, which will successively rise to about 3.5 per cent in the following years, which is to say approximately in line with the historical average (see Figure 4:20). The forecast means that real wages will rise roughly in line with productivity. The fact that resource utilisation is expected to be higher than normal in the coming years could indicate that wage increases will be higher than forecast. On the other hand, one factor that could restrain wage increases is that wage development is expected to be subdued in several competitor countries.

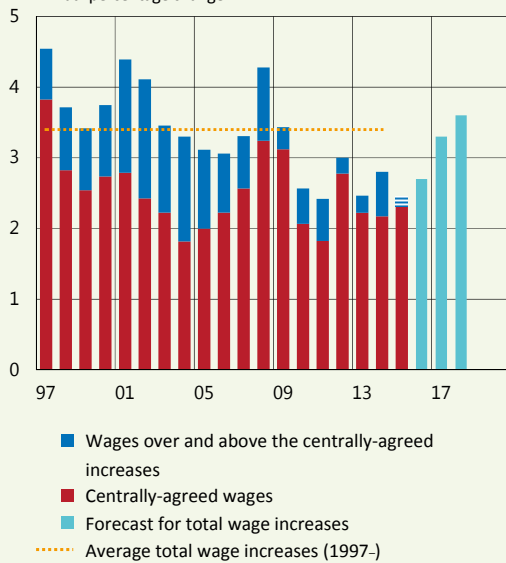
Figure 4:19. Inflation expectations among the social partners
Per cent



Source: TNS Sifo Prospera

Figure 4:20. Total and agreed wages

Annual percentage change



Note. The National Mediation Office changed the method used for calculating agreements in 2009. They excluded figureless agreements from the calculation. These were previously included and assigned a value of zero. This means that agreements before 2009 are slightly underestimated and the errors and omissions item slightly overestimated.

Sources: The National Mediation Office and the Riksbank