This year's wage bargaining is expected to result in low wage rises

The relatively high wage agreements resulting from 2007's round of wage bargaining brought with them a slower downwards adjustment of wages in parts of the economy than would otherwise have been justified by the rapidly deteriorating situation on the labour market prevailing since the autumn of 2008. Wage agreements in several sectors turned out to be badly suited to later developments on the labour market. This primarily applies to areas of the manufacturing industry where many local crisis agreements were therefore signed during 2009. This year, wage agreements will be renegotiated for a large part of the labour market. One factor that may complicate this round of wage bargaining is the fact that there are now greater differences between the labour market situations in different sectors than there have been in several previous rounds of wage bargaining. What significance will this division of the Swedish economy have for such factors as the leading role of the Industrial Agreement in wage bargaining? Another issue which may be relevant, considering the result of the previous round of wage bargaining, is the possibility of creating greater flexibility in the new wage agreements. All in all, this year's wage bargaining is expected to result in historically low wage increases.

Slow adjustment of wages to the situation on the labour market since the autumn of 2008

The autumn of 2008 was characterised by instability on the financial markets and severe falls in production across large areas of the global economy. In Sweden, industrial production declined sharply, but activity also decreased significantly in other sectors such as construction and transport. The situation on the labour market deteriorated rapidly and, from the autumn of 2008, a wave of redundancy notices swept the country. Between September 2008 and September 2009, a total of 163 000 individuals received redundancy notices.

The deterioration of the labour market was also noticeable in wage formation. The rate of wage increases in the Swedish economy declined from 4.3 per cent in 2008 to a preliminary figure of 3.4 per cent for 2009. The relatively high wage agreements signed during 2007, when the labour market developed relatively strongly, brought with them a slower downwards adjustment of wages than could otherwise have been justified by the rapidly deteriorating situation on the labour market. The adjustment of wages has primarily taken place through the reduction of wage increases over and above the levels of the sectoral/industry-wide agreements[15] (often designated as wage drift or errors and omissions). Between 2008 and 2009, wage drift decreased by 0.6 percentage points, from over 1.0 per cent to a preliminary figure of just over 0.4 per cent. The Riksbank's company interviews conducted in 2009 also confirm this view, as the respondents often stated the amount of wage drift as "non-existent" or "marginal". The main part of wage adjustment has

15 The term sectoral/industry-wide agreements, as used here, refers to a collective agreement between a union and a federation – for example, IF Metall and Teknikföretagen.

probably taken place through no or very low wage increases in local wage formation. However, it has also taken place by other means. For example, in some areas of manufacturing industry, employees have received compensation in the form of paid leave instead of wage increases, which has contributed towards the low wage increases recently experienced in this sector.

Many local crisis agreements were signed in the manufacturing industry during 2009

The Swedish manufacturing industry was impacted particularly severely by the major global economic slowdown. The levels of the sectoral/industry-wide agreements signed during 2007 for areas of manufacturing industry were poorly suited to the rapidly depleted labour market. In order to reduce the number of lay-offs, at the beginning of March 2009, parties within areas of manufacturing industry reached a temporary framework agreement, the Framework Agreement for Lay-offs and Training. The framework agreement, which applies for no longer than until the end of March this year, provides the manufacturing sector with the possibility of concluding local agreements permitting wage decreases of no more than 20 per cent and decreased working hours without lower limit. According to a survey conducted by Teknikföretagen, an employers' organisation in the engineering industry, almost 400 of the organisation's affiliated companies have signed local agreements in line with the framework agreement.[16] These local agreements, often designated crisis agreements, affect a total of approximately 50 000 employees within the engineering industry. The result of the survey indicates that working hours in the affected companies decreased by an average of 18 per cent, while wage costs decreased by an average of 13 per cent. The average duration of these agreements is just above six months.

Similar crisis agreements have been concluded within other areas of manufacturing industry, such as the steel and metalworking industry, the chemical industry and the mining industry, with an estimated total of 100 000 employees being affected by agreements of this type. According to employers, crisis agreements have meant that over 10 000 employees have avoided redundancy.

Just above 550 wage agreements are to be renegotiated in 2010

This year, just above 550 collective wage agreements will be renegotiated by Swedish labour market parties. These negotiations will cover just above 3.3 million wage earners or approximately 4 out of 5 wage earners in Sweden. Table B3 provides an overview of the extent of the collective bargaining this year and next year. The largest portion of the agreements expires on 31 March of this year.

16 Teknikföretagen's survey is a sample survey of 660 of their 3 000 affiliated companies. The result of the survey is presented on Teknikföretagen's website.

Table B3. Wage agreements expiring during 2010 and 2011 – an overview

Expiry date	Sector/industry /group	Number of employees	Number of central agreements
31 March 2010	Manufacturing, construction (blue-collar), commerce (blue-collar), municipal sector	2 075 000	300
30 April 2010	Commerce (hourly), hotel and restaurant, staffing, transport, construction (hourly), service and media companies	366 000	120
31 May 2010	Manufacturing, property, municipalities, transport	123 000	55
30 June 2010	Almega, community care services, other care	56 000	26
31 August 2010	Postal distribution	1 000	6
30 September 2010	Government, Almega, personal assistants	321 000	27
30 November 2010	Service companies	6 000	3
31 December 2010	Banking, insurance, shipping, press distribution, surveillance and security	109 000	14
	Collective agreements	3 057 000	551
	Application agreements	260 000	---
	Total	3 317 000	551
2011	Transport, the Church, nurses	300 000	40

Note. An application agreement is an agreement signed between an employees' organisation and a single company that is not a member of an employer confederation.

Source: National Mediation Office

Lower demands now, compared with the previous wage bargaining round

During 2007, approximately 500 wage agreements were renegotiated for approximately 3 million wage earners in the Swedish labour market. At the end of 2006 and start of 2007, when many employee organisations presented their demands and wage negotiations for a relatively large part of the labour market were underway, the Swedish economy was characterised by a gradual improvement of economic activity and strong growth in employment. From Q1 2006 until Q1 2007, the number of people employed increased by 2.5 per cent, which entailed a rapid improvement of labour market conditions. The relatively high level of economic activity and strong labour market had an impact on the level of the demands. For example, during the autumn of 2006, the Swedish Trade Union Confederation (LO) recommended its members to request SEK 825 per month in wage increases, or at least 3.9 per cent, in a one-year agreement with the employer organisations. LO's joint demands also included a gender equality frame of SEK 205 per month. The parties in

the engineering industry were the first to conclude an agreement in mid-March 2007, in which IF Metall received approximately 85 per cent of their demands. The level of this three-year agreement became normative for other labour market sectors. According to the calculations of the National Mediation Office, the average level of sectoral/industry-wide agreements in the economy as a whole amounted to 3.0 per cent per year for the period 1 April 2007 – 31 March 2010.[17] Wage drift can also be added to this.

Collective bargaining is now taking place in a situation in which the labour market is weak, corporate profits are low and the productivity of the Swedish economy has declined over an extended period of time. Furthermore, according to Prospera's most recent survey, the social partners have relatively low expectations regarding future wage increases. Consequently, it is perhaps not so remarkable that demands are lower now than they were in the previous round of wage bargaining. At the start of November 2009, LO-affiliated trade unions presented their joint demands for the wage bargaining rounds. The LO affiliates demand year-long agreements for wage increases of 2.6 percent, with a minimum figure of SEK 620 per month. The affiliates also demand wage supplements for low-wage earners equivalent to SEK 125 per month for sectors with an average monthly wage of less than SEK 21 300. The Confederation of Swedish Enterprise has made calculations of 180 sectors in which LO affiliates are included. According to these calculations, the minimum wage increase in krona, wage supplements for low-wage earners and other demands entail an average cost of 3.2 per cent. To this can be added costs for proposed changes to general employment conditions and collective insurance schemes, as well as wage increases above and beyond negotiated levels.

Several conceivable reasons for tensions in the wage bargaining rounds

There are several conceivable reasons for the tensions between the parties in this year's rounds of wage bargaining. One reason is that the manoeuvres regarding agreement levels so far indicate that the parties are taking widely differing standpoints in negotiation. LO's demands can be seen in the light of the Confederation of Swedish Industry's previous offer of zero wage increases in the sectoral/industry-wide agreements for the agreement year 2010. Considering the weak situation on the labour market, it may be reasonable to believe that the employee organisations will receive less than the 85 per cent of demands they received in the last round of wage bargaining.

17 During 2008, approximately 60 collective wage agreements were concluded, covering approximately 570 000 employees. The main part of these agreements run for three years and expire during 2011. A majority of the agreements were concluded during the first six months of 2008, i.e. before the outbreak of the financial crisis and the economic downturn, which also reflects a level of contractual wage increases of approximately 3 per cent per year in several sectors. Groups/industries affected by these agreements include nurses, teachers, parts of the transport sector and personnel in the Church of Sweden. During 2009, approximately 30 new collective wage agreements were concluded, covering approximately 105 000 employees. Major sectors for 2009 were banking and insurance. The duration of these agreements is 1 to 2 years, with the level of wage increases for many agreements being approximately 2 per cent per year. However, the design of these agreements involves difficulties in estimating the levels.

Different areas of the economy have also been affected to varying degrees by the financial crisis, which may create tensions in wage formation. For example, in this wage bargaining round, there are greater differences in the labour market situation within different sectors than there have been in several of the previous wage bargaining rounds. Above all, the labour market situation is clearly weakest within the manufacturing sector. The question is thus whether the Industrial Agreement will also take a wage leadership role in the wage bargaining rounds, a role that has been very important during the most recent agreement periods. If, for example, areas of the economy that are less exposed to competition conclude agreements for significantly higher levels than the manufacturing sector, tensions may become an integral part of wage formation. If wage agreements for the various sectors are instead concluded at approximately the same, relatively high level, structural transformation will be hastened, entailing the risk of a relatively rapid shrinkage of the manufacturing sector.

The parties may also wish to increase the flexibility of the agreements, considering that the levels of the most recent three-year agreements in many sectors were so poorly suited to the situation on the labour market. One approach would be to conclude shorter agreements, such as one-year agreements rather than the three years which has been the standard since 1995. Another variant would be to conclude three-year agreements, but instead increase the possibility of cancelling the agreements. For example, the number of cancellation opportunities could increase from the standard of recent years of either zero or one to possibly two opportunities. A third variation may be to conclude open agreements. This would entail a guaranteed level of wage increases for a longer period of time, determined at union level, with the local parties subsequently determining the allocation of the guaranteed wage increase across the agreement years.[18] Finally, a fourth variant would be, quite simply, to reduce the proportion of wage increases determined at union level and, instead, transfer a larger share of wage formation to the local parties. The parties also currently appear to be taking fairly divergent stances as regards the construction of the approaching wage agreements.

Figure B4. Total wage increases and wage increases agreed at union level in Sweden during the period Q1 1993–Q4 2012
Annual percentage change

Note. Broken lines represent the Riksbank's forecast. The statistics for union-level agreements for the economy as a whole are composed of traditional agreements, minimum wage agreements, default rates of wage increases and agreements without specific figures. Agreements without specific figures have been assigned a value of zero.

Sources: National Mediation Office, Statistics Sweden and the Riksbank

Historically lower wage increases ahead

During the period 2010–2012, wages in the Swedish economy are expected to increase by an average of just over 2.5 per cent. This assessment is based on a number of different factors, such as developments on the labour market, corporate profits and current inflation expectations. Since 1998, the union-agreed wage increases have constituted approximately 50 to 80 per cent of the total wage increases in Sweden (see Figure B4). If we assume that this circumstance will continue to prevail during the period 2010-2012, the Riksbank's forecast

18 Two examples of open agreements are the agreement between Försäkringsbranschens Arbetsgivareorganisation (FAO) and Facket för försäkring och finans (FTF) (The employer and employee organisations in the insurance industry), concluded in March 2009, and the agreement between Bankinstitutens Arbetsgivareorganisation (BAO) and the Financial Sector Union of Sweden, concluded in May 2009.

of approximately 2.5 per cent amount to between 1.4 and 2.0 per cent, according to statistics from the National Mediation Office.

Wage forecast important for employment and inflation forecasts

The wage forecast forms an important component in the Riksbank's assessment of the future development of inflation and employment. Even if the wage forecasts are primarily based upon economic factors, levels of agreements often provide guidance on the future development of total wages. Agreement levels often provide guidance on the development of total wages in future. At present, when only a few agreements have been concluded for the approaching years, the wage forecast is thus based, to a higher degree, on assessments of the rest of the economy, such as, for example, the labour market situation. If the rounds of wage bargaining lead to wage increases clearly diverging from the Riksbank's forecast, either upwards or downwards, this may have consequences for monetary policy (see Chapter 2 – Alternative scenarios and risks).