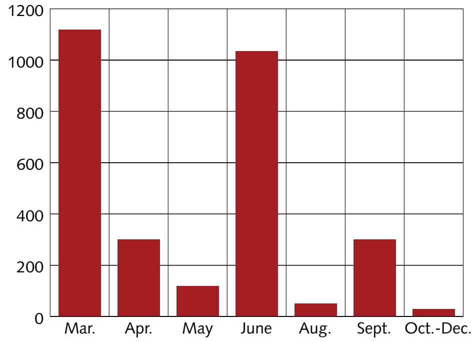
Wage bargaining round indicates higher rates of wage increase

Both the wage demands and the outcomes in this year's wage bargaining round have been higher than in the previous bargaining round. Agreements have been concluded in several large areas such as manufacturing, the construction sector, trade, local government, the hotel and restaurant sector and in a number of smaller areas. The final size of total wage increases will also be affected by wage increases outside the scope of the agreement. Overall, the view of the Riksbank is that wages will rise by around 4.5 per cent in the coming years. This is more than one percentage point higher than in recent years.

Figure B1. The number of employees whose agreements expire in this/these month(s) in 2007
Thousands



Source: National Mediation Office

The wage bargaining round in 2007

The wage bargaining round in 2007 covers around 350 agreements for approximately 3 million employees. Many employees in the business sector have agreements which expired on 31 March, for example, in large agreement areas in manufacturing, the construction sector and trade. The agreements for the hotel and restaurant sector and for salaried employees expired on 30 April. Agreements in the local and central government sectors expire on 30 June and 30 September respectively. Most employees (around 73 per cent of those covered by the wage bargaining round) have agreements which expire in March and June this year (see Figure B1).

Negotiations during the 2007 bargaining round have taken place in accordance with the bargaining procedure agreed upon by the parties since 1997-98. In 1997, the Industrial Agreement was signed where the industrial partners agreed on joint principles for wage formation and the forms for wage negotiations. Since then, other parties in the labour market have also signed negotiation agreements. Starting with the 1998 bargaining round, the Swedish Trade Union Confederation (LO) has also taken the initiative to coordination prior to wage bargaining round, including a recommendation on joint demands. Other central organisations have also to a greater or lesser extent coordinated their contractual demands in subsequent bargaining round. The employers have also engaged in coordination to a varying extent in the run-up to the bargaining round. The LO coordination also establishes the role of the manufacturing sector as a norm-setter for the other LO member unions. The outcome of the agreements for the LO member unions may also affect wage bargaining in other agreement areas.

LO coordination

Through its coordination, LO has had a dominating influence on the outcome of this spring's wage bargaining. In the autumn of 2006, LO adopted a proposed recommendation to all unions on joint demands for the negotiations in 2007. The proposal had a low-wage profile since LO's demand entailed wage increases in kronor and not in per cent. This also meant that female-dominated agreement areas with low wages would have more scope for wage increases above the labour-market average through a special gender equality allocation. The recommendation also contained proposals on how unions could undertake sympathy action. By the beginning of December, all LO unions had adopted the final recommendation.

LO's recommendation on joint demands in the wage bargaining round was SEK 825 per month or a minimum of 3.9 per cent. This can be compared with the recommendation for the 2004 wage bargaining round, which was SEK 650 per month or a minimum of 3.2 per cent. The LO unions also demanded that there be a gender equality allocation for the 2007 agreements of SEK 205 per month, which could be distributed according to the proportion of women in the industry concerned. IF Metall decided against a gender equality allocation and instead had a higher general demand of SEK 840 per month.

An important component in LO's coordination was that the manufacturing sector would negotiate first and set the norm for other LO unions. IF Metall succeeded in having around 85 per cent of its demands accepted. The norm for the other LO unions was then 85 per cent of the initial demands, i.e. SEK 700 per month or at least 3.4 per cent as a general wage increase and a gender equality allocation of SEK 175 per month. If processed statistics are used for average monthly wages and the number of women in the respective industry from Statistics Sweden's structural wage statistics, percentage wage increases can be calculated for what other LO unions can expect to receive on the basis of the norm set by the manufacturing sector (see Table B1). The calculations in the table are also in line with the agreement outcomes to date, which may be important from the point of view of forecasting.

Table B1. Expected agreement outcomes based on the industrial norm and agreement outcomes to date in the agreement areas of the Swedish Trade Union Confederation (LO)

Workers in:	Average monthly wage 2006 (SEK)[1]	Proportion of employed women (%)[2]	General demand (SEK)	Gender equality allocation (SEK)	Expected agreement outcome (SEK)	Expected agreement outcome (%)	Agreement outcome (%)
Manufacturing	20,600	21	714	0	714	3.5	3.4
Construction	23,600	2	802	4	806	3.4	3.4
Trade	19,300	50	700	87	787	4.1	4.3
Hotel and restaurants	17,400	64	700	111	811	4.7	4.8
Transport	20,600	11	700	19	719	3.5	
Business services	19,600	36	700	62	762	3.9	3.8[4]
Other services	19,000	56	700	98	798	4.2	
Local government	17,700	85	700	147	847	4.8	4.8[5]
County councils	18,400	81	700	142	842	4.6	4.6[5]
Central government	20,000	31	700	55	755	3.8	
All sectors	19,600					4.0	
Business seector	20,300					3.8	

1. The statistics for 2006 (a 3 per cent increase) have been projected using the average monthly wages in 2005 according to processed statistics of wage structure

2. The proportion of employed women according to Statistics Sweden's statistics of wage structure

3. Average outcome per agreement year including frames for local review, costs of shorter working hours, costs of collective agreement occupational pensions, etc.

4. Concerns only the property agreement between Fastigo and the Swedish Building Maintenance Workers' Union.

5. Concerns only the main agreement between the Swedish Association of Local Authorities and Regions and the Swedish Municipal Workers' Union.

Sources: Social partners, the Swedish Trade Union Confederation, Statistics Sweden and the Riksbank

Agreement outcomes so far in line with norm set by the manufacturing sector and LO's coordination

The first agreements in the 2007 bargaining round were concluded in mid-March. As usual and in accordance with the LO coordination, the manufacturing sector was the first to conclude an agreement. The engineering industry collective agreements which affect a total of 315,000 blue- and white-collar

Table B2. Agreed levels in a sample of agreements concluded to date during the 2007 wage bargaining rounds

Agreements	Parties	Employees	Wage frames etc. per agreement year 2007	2008	2009	Total 2007-2009
Engineering	IF Metall and Teknikarbetsgivarna	165,000	3.7	3.5	3.0	10.2
Engineering	Sif, the Swedish Association of Graduate Engineers and Teknikarbetsgivarna	150,000	3.7	3.5	3.0	10.2
IT	Sif, the Swedish Association of Graduate Engineers, Jusek and Civilekonomerna/Almega ITA	53,000	3.7	3.5	3.0	10.2
Retail trade	The Commercial Employees' Union and the Swedish Trade Federation	120,000	4.4	4.4	4.4	13.2
Wholesale trade	The Commercial Employees' Union and the Swedish Trade Federation	27,000	3.7	3.7	3.7	11.2
Construction	The Swedish Building Workers' Union and Swedish Building Industries	70,000	3.4	3.4	3.4	10.2
Almega service	The Salaried Employees' Union (HTF) and Almega Service Employers' Association	45,000	3.7	3.5	3.0	10.2
Hotels and restaurants	The Hotel and Restaurant Union and the Swedish Hotel and Restaurant Association	45,000	4.9	4.5	4.2	13.6
Salaried employees	The Salaried Employees' Union (HTF), Akademikerförbunden and the Swedish Trade Federation	50,000	3.8	3.3	3.1	10.2
Main agreement municipalities	The Swedish Municipal Workers' Union and the Swedish Association of Local Authorities and Regions	455,000	4.8	4.5	4.3	13.6
Main agreement county councils	The Swedish Municipal Workers' Union and the Swedish Association of Local Authorities and Regions	75,000	4.6	4.4	4.2	13.2

Note. The wage frames, etc. per agreement year include wage frames, frames for local wage review, costs of shorter working hours, costs of collective agreement occupational pensions, etc.

Sources: Social partners, LO-tidningen and the Riksbank

workers in the more technology-intensive manufacturing industry were the first to be concluded. The cost frame of these agreements totals 10.2 per cent over a three-year period or an average of 3.4 per cent a year. Of these, the wage frame, including local wage reviews, accounts for an average of 3.2 per cent a year. In addition, there are other changes, e.g. in the form of collective agreement occupational pensions and shorter working hours, which correspond to 0.2 per cent per year. The total cost of the engineering industry collective agreement is on average just over 1 percentage point higher per year than in the last agreement.

The levels in these agreements have provided guidance for the rest of industry as well as for other industries in the business sector.

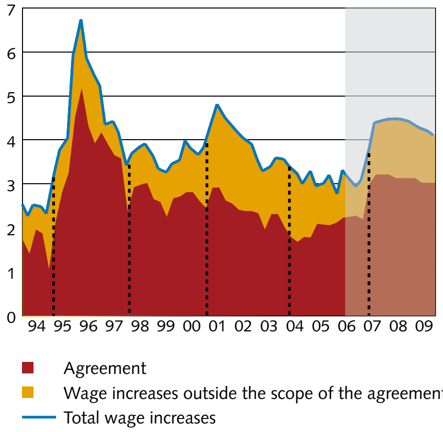
Table B2 shows a summary of agreements concluded in some of the major agreement areas.[4] This shows, among other things, that the agreed wage increases in trade and in the hotel and restaurant sector have reached a higher level than the agreed wage increases in manufacturing and the construction sector according to LO's coordination.

Agreement structure can spur additional wage increases

The outcomes to date in the bargaining round also show that there is a relatively large number of general wage frames in the new agreements. A number of agreements also require substantial additional increases of the minimum wages. There is a risk that the high proportion of general frames and the higher minimum wages will spur

4 It should be emphasised that the agreed levels stated in the table are for some agreement areas the Riksbank's own calculations based on processed statistics of wage structure, while for other areas, the figures quoted have been provided by the parties concerned.

Figure B2. Total wage increases, centrally agreed wage increases according to the National Mediation Office's calculations and wage increases outside the scope of the agreement for the entire economy
Annual percentage change



Note. The last four quarters are preliminary figures. Vertical broken lines show the expiry dates for industrial agreements. The shaded area represent the Riksbank's forecast.

Sources: National Mediation Office, Statistics Sweden and the Riksbank

on wage drift when firms may need to adapt their internal wage structures. A number of agreements to date have been concluded for white-collar workers at the same level as the agreements for blue-collar workers in the manufacturing sector. The difference from previous wage bargaining round is that the white-collar workers' agreements are often somewhat lower due to their historically having had higher wage increases outside the scope of the agreement. Some of the white-collar agreements concluded have also been without a centrally determined wage margin, i.e. agreements where the parties agree that all wage formation should take place locally. Many of the agreements have a premature termination option for the final year. This is the case, for instance, for the agreements in the manufacturing sector. If this option is exercised, it may affect the level of agreed wage increases. The extent to which this will lead to higher or lower wage increases will depend on the state of the labour market in the final year of the agreement, among other things.

Wage increases outside the scope of the agreement

The level of the agreed wage increases can be said to serve as a foundation for the wage forecasts, i.e. they constitute the minimum levels for wage forecasts in the various sectors. The Riksbank uses the National Mediation Office's calculations of the centrally agreed wage increases in its forecasting. They contain a mixture of the wage increases agreed by the parties in the more traditional sense, various fall-back provisions and minimum amounts/minimum increases. Costs associated with reductions of working hours are also included. It should be pointed out that the agreement levels stated in Table B2 are not necessarily the same as the National Mediation Office's calculations of the centrally agreed wage increases. In the table, local wage reviews may, for instance, be included in the wage frames of particular agreement years for the different agreement areas and this will not be included in the National Mediation Office's statistics of centrally agreed wages.

The remaining portion, i.e. the difference between total wage increases and centrally agreed wage increases, consists of locally agreed wage increases – wage drift in the more traditional sense, i.e. wage increases outside the scope of the agreements – and structural effects caused by different composition in the populations measured.[5] Figure B2 shows the development of total wage increases, centrally agreed wage increases and wage drift since 1993. Since 1993, the proportion of wage increases outside the scope of the agreement has accounted for an average of around 34 per cent of the total wage increases. In 2006, the proportion fell to around 27 per cent from around 35 per cent of the previous year. This is partly due to the fact that a large part of the total wage increases in 2006 are still preliminary. Figure B2 also shows forecasts of total wage increases, centrally agreed wage increases and wage drift. The centrally agreed wage increases are expected to be at around 2.9 per cent this year and just above 3 per cent in the years to come. Wage drift will accordingly gradually increase to around 1.3 per cent in 2008 and then subsequently drop back slightly in 2009. The rate of wage drift is expected to be lower in the coming years than during the period 2001-2002, which is partly explained by higher agreed wage increases during the agreement period 2007-2009.

5 One type of composition effect could be, for example, where a younger, less experienced labour force is replacing an older, more experienced labour force in a specific sector, which will change the composition between the groups in that sector. The new composition also entails a change in the average wages in the sector, which will be visible in the wage drift item in the wage statistics.