

Article: Conditions for the 2016 wage bargaining round

At the end of the year, a major wage bargaining round will be initiated and the Riksbank assumes that the inflation target will form a shared starting point in these negotiations. In the Riksbank's forecast of the total wage increases, the centrally-agreed wage increases are important, but wage increases over and above these also play a part. Seen over time, wages have co-varied with the situation on the labour market and inflation, among other things. According to the Riksbank's forecast, the rate of wage increases will rise in the next few years as the labour market strengthens and inflation rises, and real wages will increase slightly more slowly than productivity.

Major wage round in 2016

New wage agreements are to be concluded for around 3 million employees in 2016. The industrial sector is expected to be the first to reach a new collective agreement. Their present agreement will expire at the end of March 2016. One reason why the industrial sector negotiates first is because it is exposed to international competition. Subsequently, the parties in other sectors normally conclude agreements that are in line with those negotiated in the industrial sector. In recent years, however, this "leading role" played by the industrial sector in wage bargaining has been brought into question. Greater globalisation and recent technological developments mean that several parts of the service sector are also exposed to international competition. Labour market trends also differ from one agreement area to another. For example, employment in the industrial sector has fallen while it has increased in the service sector. This may create challenges as regards coordination.

Important to have a common view of future developments in inflation

The aim of monetary policy is for inflation to be close to the inflation target of 2 per cent. However, inflation will periodically vary around the target, as it is not possible to exactly govern inflation. Although inflation has, at times, deviated from 2 per cent, the inflation target has functioned as a joint starting point for the social partners in their negotiations since the end of the 1990s. 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 economic costs. A level playing field and predictability instead reduce uncertainty and create stability in the economy.

In recent years, inflation has been too low. However, the Riksbank has adopted forceful measures to bring inflation closer to target. The repo rate has been significantly cut and is now negative. Comprehensive purchases of Swedish government bonds have also been carried out. This has contributed towards underlying inflation now rising. CPIF inflation is expected to be close to 2 per cent during 2016. The inflation target is defined in

terms of the CPI, not the CPIF. But in periods with major interest rate changes, there are substantial variations in the CPI as this measure includes the direct effects of changed rates. Under such circumstances, the CPIF paints a better picture of inflationary pressures than the CPI does. It is important that inflation continues to rise and becomes established at a level around 2 per cent. A development of this kind contributes towards inflation expectations that are compatible with the inflation target and the stable development of the Swedish labour market.

Many factors influence the negotiations

In an economy with a floating exchange rate, *economic developments, anticipated growth in productivity and expected inflation* are important factors in wage formation. In practice, *international competitiveness* is also part of the wage-setting equation. The *current profit situation* can also be an important factor for consideration. If current profits deviate from the normal level, wages may need to increase more rapidly or more slowly than productivity trends and inflation indicate. The nominal wages that should apply over the period covered by the agreement are agreed on the basis of the parties' perceptions of these conditions.

Reasonable to expect higher wage increases

As wage increases largely determine the development of companies' costs and thus inflation, it is important that the Riksbank monitors the wage bargaining round. The Riksbank makes forecasts for total wage increases, i.e. including wage increases in addition to those agreed centrally. Between 1998 and 2014, the average agreed rate of wage increase has amounted to 2.5 per cent per year (see Figure 1:13). The total wage increases has on average been 3.3 per cent per year during the same period. Normally, therefore, total wage increases are higher than those agreed.⁷

The Riksbank's wage forecasts are based on how wages have co-varied historically with e.g. the situation on the labour market and inflation. The Riksbank has adopted

⁷ The parties negotiate about the level of the agreed wage increases within the area in question. In addition, there is local wage formation and traditional wage drift. In recent years, the number of so-called figureless agreements has increased. These agreements do not specify a percentage figure for wage increases. Instead, wages are set locally and individually. This year, a total of about 800 000 employees will be affected by figureless agreements.

powerful monetary policy measures aimed at pushing inflation closer to the target and stemming a downward trend in inflation expectations. Inflation and economic activity are now rising and the situation on the labour market is thus improving, a development that is expected to be reinforced in the years ahead.

The Riksbank expects productivity in 2016 and 2017 to increase approximately in line with the average development over the period 1998–2014. At the same time, the Riksbank assumes that the inflation target will as previously continue to constitute an important point of departure for negotiations in this wage round and inflation is expected to be slightly higher than the average for the period 1998–2014 over the next few years.

Competitiveness can also play a role in wage formation. A measure of international competitiveness is the development of unit labour costs in a common currency for different countries. To maintain competitiveness in sectors exposed to competition, wage development cannot normally deviate too far from that in key competitor countries. The exchange rate also has considerable significance in this context. If we take the development of the exchange rate into account, labour unit costs increased in Sweden over the period 2011–2014 in line with the United States and Germany, for example. Following this, costs in Sweden have increased more slowly (see Figure 1:14). The overseas competitive situation is therefore relatively favourable at the moment.

The current profit situation can also be considered in the wage bargaining rounds, and here the picture is not clear-cut. There are indicators of the profit situation (e.g. profit expectations in various questionnaire surveys) pointing to a normal or higher-than-normal profit situation. However, real earnings have increased more rapidly in recent years than productivity (see Figure 1:15). The profit share in the business sector is thereby depressed ahead of this wage bargaining round (see Figure 4:12), which may have a restraining effect on wage increases.

The Riksbank's assessment of the prospects for economic activity, productivity and inflation (together with international competitiveness) suggest that the agreed wage increases and wage increases over and above central agreements will be in line with the historical average over the next few years (see Figure 1:13). As demand rises, companies have more opportunities to increase their prices and their margins increase. According to the Riksbank's forecast, the profit share will increase as real wages are increasing more slowly than productivity (see Figure 1:15 and 4:12).

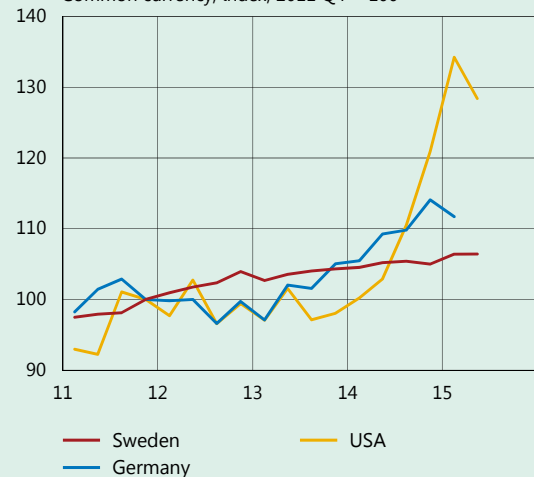
Figure 1:13. Total and negotiated nominal wages
Annual percentage change



Note. Broken horizontal lines refer to the average between 1998 and 2014.

Sources: Swedish National Mediation Office and the Riksbank

Figure 1:14. Unit labour cost
Common currency, index, 2011 Q4 = 100



Sources: Bureau of Labor Statistics, OECD and Statistics Sweden

Figure 1:15. Real wages and productivity
Annual percentage change



Note. Real wages are deflated with CPIF. Productivity is a four quarter moving average. Broken horizontal lines refer to the average between 1998 and 2014.

Sources: Swedish National Mediation Office, Statistics Sweden and the Riksbank