Time for ‘re-set’ on pay deals due to falling inflation – Stratis

ANDY PRENDERGAST

With the inflation rate falling faster in 2024 than previously forecasted, Stratis Consulting are advising that pay settlements should moderate to lower rates to avoid negative effects on Ireland’s competitiveness – pointing to a 2.5% to 3.5% range for 2025.

As the labour market remains quite tight, pay moderation might be a challenge for employers, coupled with the ‘acceleration’ to the national living wage by 2026, the employment relations firms notes, in its Assessment of Pay Trends for 2025.

For the first time in roughly three years, real wage growth returned this year as wage deals started to surpass the inflation rate. Real earnings grew by around 2.5% in Q1 of this year, with an annualised real earnings increase of 2.4% projected for 2024.

The broad range of deals struck in 2024 were between 3.0% and 4.5% per annum. The IRN/CIPD survey 2024 indicated an average rise of 4.1% in pay settlements (unionised and non-union) in 2024, while a follow up analysis of mostly unionised pay deals concluded in the first half of 2024 showed the vast majority of deals above 3%, with around one-third above 4%.

Ibec’s recent pay trends survey showed that 85% of member firms increased pay by an average of 4.1% this year, with a projected average increase of 3.4% in 2025.

Stratis, led by Managing Partner Brendan McGinty, now says that it expects to see general pay settlements “in the range of 2.5% to 3.5% over 2025, but tapering towards the lower end of this range by the end of 2025.”

LABOUR MARKET CONDITIONS

The unemployment rate is likely to average 4.3% for 2024. For next year, the ESRI expects unemployment to fall to around 4% by the end of 2025, with the employment figure expected to exceed 2.9m by the end of 2025.

Nevertheless, Stratis notes that the Central Bank “has cautioned that momentum continues to slow and the pressures on supply versus demand seen in the labour market in recent times will ease, with employment growth falling as a result.”

The Central Bank projects that nominal wage growth will slow down in 2025 and 2026.

Stratis notes that there is “some evidence of unions pushing for 3-year agreements in anticipation they may do better now, ahead of lower inflation rates taking hold, for 2025 and 2026.”

“If a business is considering a longer agreement it should factor in the expected reduction in inflation over 2025 and 2026”.

The Central Bank sees inflation (CPI) averaging 1.6% for 2024, a rise to 1.9% for 2025 and then falling again to 1.5% in 2026. The ESRI is forecasting CPI inflation to come in at 2.3% in 2024 and drop to 1.9% in 2025. It predicts HICP inflation to come in at 2% for 2024 and 2025. The Department of Finance are projecting HICP inflation to be 2.1% for this year and next year, and then a drop to 2% in 2026.

NON CONSOLIDATED PAY

Stratis also notes that there is a focus by some employers on the use of lump sum or non-consolidated payments, “which are useful to reduce the consolidation effect of some base rate increases.”

This may include recourse to the higher tax-free limits of up to €1,500 (increased from €1,000 in Budget 2025) to be available under the Small Benefits Exemption Scheme, it says.

Some deals “are also reflecting service-based changes to pay/benefits, whilst adjustments to private healthcare provision continue to feature in some cases.”

In concluding pay deals, Stratis advises that employers “should also be mindful of the wider impact for others”.