



# GLOBAL ECONOMICS UPDATE

## Union deals point to easing wage growth next year

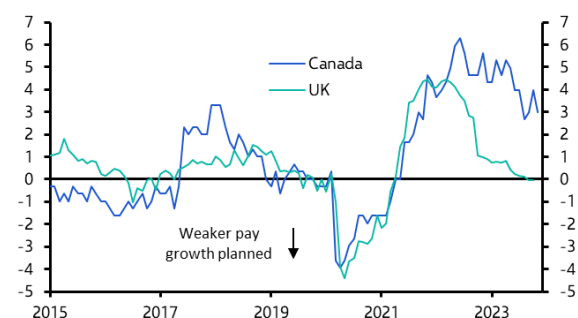
- **Some of the negotiations by trade unions and large firms in advanced economies over recent months have resulted in large pay rises of up to 10%. However, they have typically also locked in much smaller gains for next year and hence shouldn't cause serious concern among central banks.**
- Given previous fears that high headline rates of inflation might spark a wage-price spiral, central banks are watching indicators of pay growth very closely. Internationally comparable data from the OECD show that labour compensation growth has already fallen to 3.4% y/y in the US and 3.9% in Canada, but remains higher at 5.2% in the euro-zone and Australia and 7.2% in the UK. Trade union pay negotiations, many of which happen towards the end of the calendar year, can offer some insight into likely trends next year, although admittedly falling membership has meant that these signals are not as valuable as they once were.
- At face value, some recent deals seem very worrying from a central bank's perspective, albeit encouraging from the point of view of the employees. For example, headlines suggest that German public sector workers achieved an 11% pay rise while staff at Virgin Australia got a raise of 15.5% and US auto workers achieved 25% gains. However, these deals typically apply to a number of years and hence the annual gains – which are most relevant to central banks' annual inflation targets – will be considerably lower.
- Table 1 shows the main deals reached over recent months in annual terms. **Typically, annualised pay gains recently issued or relating to early 2024 have been in the order of 5%.** There have been some exceptions of up to 10%, such as for auto workers in the US and Canada and Australian airport staff. **But in those instances and others, firms have tended to lock in more subdued gains of between 3% and 4% for later in 2024 and heading into 2025. So it seems that while many employers are offering compensation for the recent sharp rise in the cost of living, they intend for this to be a one-off.** This is consistent with the message from other leading indicators of pay growth including surveys of pay expectations. (See Chart 1.)
- **The UK is possibly an exception, where the latest pay deals are still worryingly high at 6% to 7%.** These might also be one-offs, but since the deals were negotiated for one year only, we cannot draw the same comfort about the future pace of pay growth that we can for several other advanced economies.
- The rate of pay growth which is consistent with central banks' inflation targets will depend on the pace of productivity growth. (See [here](#).) It is the labour cost per unit of output which matters for broader price pressures, or roughly the pace of wage growth *minus* the rate of productivity. **Chart 2 shows that wage gains in the US are already broadly consistent with the 2% inflation target since productivity growth is over 1%.** We expect that this will continue to be the case in 2024, supporting our view that the US Fed will be able to bring interest rates back to more normal levels relatively quickly.
- In the euro-zone, Canada and Australia, recent falls in productivity are an upside risk to inflation. But we suspect that this decline has partly reflected a return to normality after COVID-related labour shortages left productivity relatively stretched. (See [here](#).) **Assuming that productivity growth returns to a neutral pace of between 1% and 2%, central banks should feel able to reduce interest rates if wage growth slows to between 3% and 4% as pay negotiations outside the UK suggest.** Note, too, that even if wage growth stays somewhat elevated, firms have scope to absorb the rise in their costs into profit margins.
- Japan does not feature in Table 1 because much rests on the spring wage negotiations (Shunto). The trade union confederation RENGO's higher pay hike request suggests to us that the 2024 Shunto will conclude with a 2.5% base pay hike, above last year's 2.1%. **With productivity growth at around 1%, such gains are no threat to the Bank of Japan's inflation target. Nonetheless, we suspect that it will use the positive upward trend in wages as an opportunity to finally raise interest rates out of negative territory.** (See [here](#).)



**Table 1: Recent Pay Deals in Major Advanced Economies**

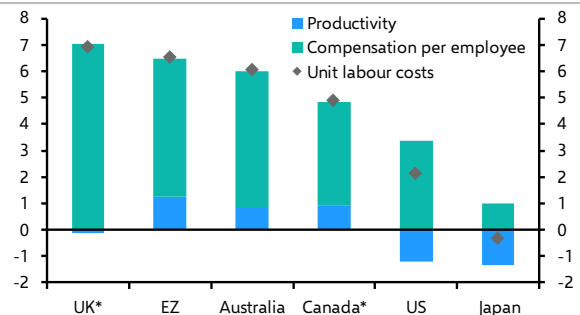
Region	Sector	Union	Date of agreement	Deal
US	Writers	SAG-AFTRA	Sep. 23	7% Sep. 23 4% Jul. 2024 3.5% Jul. 2025
	Actors	SAG-AFTRA	Nov. 23	11% Nov. 23 4% Jul. 2024 3.5% Jul. 2025
	Auto workers	UAW	Nov. 23	11% Nov. 23 5% average over following 3 years
UK	School teachers (England)	NEU	Jul. 23	6.5% Sep. 23
	Police	NPCC	Sep. 23	7% Sep. 23
Germany	Auto workers (Tesla)	IG Metall	Nov. 23	4% Nov. 23 + €1,500 bonus
	Public sector workers	Ver.di	Sep. 23	5.5% Sep. 23 5.5% Sep. 24
	Metal workers	IG Metall	Dec. 23	5.5% Jan. 25 + €3,000 bonus
Italy	Auto workers	UILM FIM-CISL	Mar. 23	6.5% Mar. 23 4.5% Jan. 2024
Ireland	Mechanical workers	MEBSCA	Nov. 23	3.5% Sep. 23 1.9% Aug. 24 1.5% Dec. 24
Canada	Auto workers	Unifor	Sep 23	10% Sep. 23 2% Sep. 24 3% Sep. 25
	Port workers	ILWU	Jul. 23	5% Jul. 23 5% Jul. 24 4% Jul. 25 4% Jul. 26
Australia	Virgin ground staff	TWU	Nov. 23	8.4% Nov. 23 3% Nov. 24 3.5% Nov. 25
	Public sector workers	CPSU	Nov. 23	4% Mar. 24 3.8% Mar. 25 3.4% Mar. 26

**Chart 1: Surveys of Firms' Pay Expectations (Z-score of deviation from historical norm)**



Source: NFIB US, REC UK, CFIB Canada

**Chart 2: Unit Labour Costs & Drivers (% y/y, Q3 2023)**



Source: OECD, \*Q2 2023



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