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What does survey evidence tell us about Irish consumer's earnings expectations?

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Over the course of 2023, the Central Bank of Ireland Expectations Survey (CBIES) gauged consumers' economic expectations based on a representative sample of the population in Ireland. This *Box* focuses on respondent's earnings expectations over the short (one-year ahead) and medium-term (three-years ahead) horizon and, in conjunction with their expectations for inflation, what their expectations for real earnings growth are. Using regression analysis based on the data collected, we identify the factors explaining nominal earnings expectations, including socio-demographic characteristics and other economic expectations. This work updates and extends previous survey analysis for H1 2023 with new data collected in September and December 2023.[2]

Qualitative earnings expectations over the next 12 months have risen steadily since May. The share of respondents expecting their earnings to increase rose from 49 per cent in May to 58 per cent in December (Figure 1). The difference between the proportion of respondents expecting their earnings to rise and the proportion of respondents expecting earnings to decline (the net balance) stood at 51.9 per cent in December up from 41 per cent in May. Earnings expectations appear to be positively associated with past (perceived) earnings growth (orange line in Figure 1). Additionally, respondents working in the low-consumer facing services sector were most optimistic about their future earnings, while those working in the manufacturing were most pessimistic.

[1] Irish Economic Analysis Division
[2] The survey is undertaken on behalf of the Central Bank of Ireland by Ireland Thinks. The total number of survey responses was 1,060 in September and 1,517 in December.

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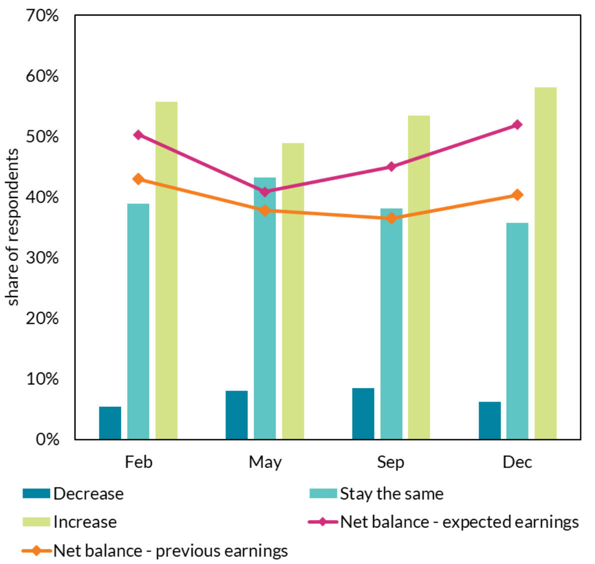
More respondents expect nominal earnings to increase over the coming year

Figure 1: Qualitative earnings expectations (1-year ahead)



Source: CBIES
Note: The difference in the balance statistic for expected nominal earnings are statistically significant across survey waves
Note: To limit the effects of outliers, data are winsorized at the 2nd and 98th percentile. Weights are used to ensure the representativeness of the sample.
The net balance is the difference between the positive and negative responses.

Relatively stronger earnings expectations amongst males and workers in low-consumer facing-sectors

Figure 2: Real earnings expectations by socio-demographic characteristics (One-year ahead) – December 2023 survey

Source: CBIES
Note: Weights are used to ensure the representativeness of the sample. High-consumer facing sectors includes Retail, Accommodation. Low-consumer facing services includes ICT, Financial and Prof sectors. Public includes Education, Health and Public Admin. Expected inflation is expressed in negative terms.

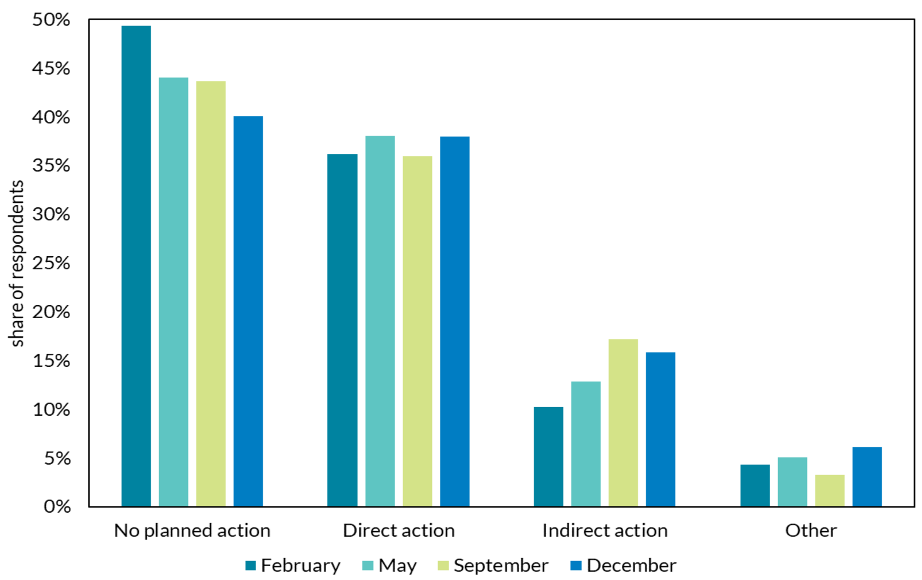
On a quantitative basis, average nominal earnings expectations for the next 12 months have also increased from 1.6 per cent in May to 2.2 per cent in December, albeit are unchanged when compared to February 2023. As inflation expectations declined steadily throughout 2023 (see Figure 29), real earnings expectations, the difference between nominal earnings expectations and inflation expectations, gradually increased but remained negative in December survey results. In December, average real earnings expectations over the next year stood at -2.3 per cent, up from -4.2 per cent in September. Relatively higher expectations for real earnings were observed amongst males and Dublin-based respondents as well as those with gross annual income above €50,000, tertiary-level qualifications, and workers in low-consumer facing services sectors (Figure 2). Even though short-term earnings expectations remain negative in real terms, sentiment appears to be improving. A

gradual increase in expected purchasing power is broadly consistent with current *Bulletin* projections, as moderating headline inflation and strong nominal earnings developments allow for a degree of real wage catch-up to occur from 2024.

Respondents were asked about their expectations for wage catch-up with inflation over the next three years. More specifically, we ask whether respondent's earnings would be sufficient to afford current standard of living in three years' time. In December, 41 per cent stated that their earnings would be just about sufficient to afford the same quantity of goods and services with a further 20 per cent expecting future earnings to be more than sufficient. Combined, over 60 per cent of respondents expect their real earnings to either remain at the same level or be higher three years from now. Wage-catch up expectations became more pessimistic as the year progressed, with the share of respondents expecting future earnings to be insufficient increasing from 34.1 per cent in February to 39.7 per cent in December. Greater optimism regarding real earnings expectations over the next year relative to three years' time suggests more subdued expectations over the medium-term horizon. This could reflect currently much lower inflation than at the start of 2023, providing workers with less leverage when negotiating higher pay in more distant future.

Share of respondents planning direct action for wage increase has remained relatively unchanged

Figure 3: Share of respondents planning future action to seek higher earnings



Source: CBIEES
Note: To limit the effects of outliers, data are winsorized at the 2nd and 98th percentile. Weights are used to ensure the representativeness of the sample.
Direct action refers to respondents selecting "request wage increase", "change job" or "work more hours". Indirect action refers to respondents who expect a trade union to act on their behalf. In both cases the timeframe for expected action is the next three months.

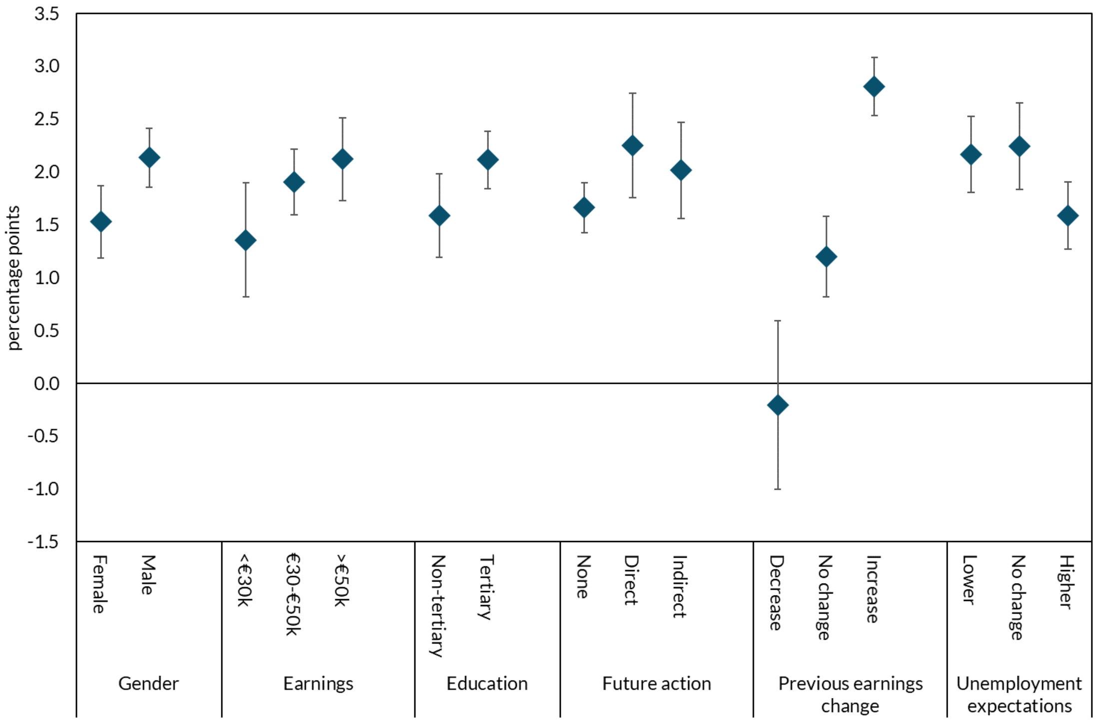
With inflation declining but still remaining high in 2023, there has been a decline in the share of respondents not planning to take an action in near future to seek higher earnings. Just over 40 per cent responded that they have no planned action to seek higher earnings, down from 44 per cent in September and 49 per cent in February (Figure 3). This change mostly reflects the share of respondents expecting unions to demand higher wages on their behalf (indirect action); however, the share remains relatively small (14.4 per cent). The share of respondents planning to take direct action (request increase, change job or work more hours) has remained broadly unchanged during 2023. Overall, survey evidence up to December 2023 does not signal increasing risks of a wage-price spiral whereby higher inflation would lead to unsustainably higher wage demands from workers, which in turn, would feed into inflation. However, this risk should continue to be monitored.

As earnings expectations can influence inflation and consumption, it is important to understand their determinants (Brandao-Marques et al, 2023). In that vein, we combine data from all four survey waves for a regression analysis to assess which demographic factors and economic expectations help explain quantitative nominal earnings expectations one year ahead. Figure 4 presents marginal averages of expected earnings for selected characteristics together with the error bands, keeping other earnings determinants constant at their sample averages. We find that males have significantly higher expected earnings than females. Higher level of education and higher income are also associated with significantly higher expected earnings. Workers planning to take a direct action to seek higher earnings expect significantly higher earnings compared to those who do not plan action or plan to take an indirect action. Perceived earnings growth in the previous 12 months is an important determinant of expected earnings: those who experienced earnings growth have 3 (1.6) percentage points higher expected earnings growth compared to those who reported a decrease (no change) in their earnings. In line with Phillips curve research and international survey expectations analysis, respondents who expect unemployment to increase over the coming year have significantly lower earnings expectations than those who expect unemployment to stay the same or decrease. We do not find a statistically significant role for inflation expectations in explaining nominal earnings expectations based on our analysis of the 2023 data.[3]

[3] We estimate the same regression for qualitative earnings expectations and find similar results.

Persons who received a previous earnings increase have a higher expected earnings expectations - holding all other factors constant

Figure 4: Adjusted means of quantitative nominal earnings expectations across demographics and economic expectations



Source: CBIEES
Note: Regression analysis uses robust errors. We also control for age, region, sector of employment, home ownership and include dummy variable for each survey wave.