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Frontline Summary

U.S. economy coming off the rails: can Canada escape? traces the financial market mess that is compounding fundamental economic problems and outlines policies that should be taken to reduce the damage. This section also includes a consensus forecast of major economic indicators for Canada and the provinces.

Municipal infrastructure deficit reaches estimated $120+ billion summarizes a recent study by the Federation of Canadian Municipalities into the extent of the infrastructure deficit, together with CUPE analysis of shortfalls in federal transfers.

Public sector job growth strong, but not as stellar as numbers suggest. The Labour Force Survey reports that Canada has continued to create jobs at a remarkable pace this year, especially in the public sector. There is no doubt that job growth has been strong**,** but there is good reason to believe that it hasn't been as strong as these figures report.

The new Fordism: *corrosive two-tier wage system* reports on a potentially corrosive tow-tier wage system and other measures included in recent UAW contracts that should not be imported.

Inflation rates ready to slide in new year. Consumer price inflation has accelerated in recent months, thanks especially to energy and housing price increases. This has had a proportionately harder impact on middle and lower income Canadians. For a number of reasons, rates of consumer price inflation should taper off in the new year.

Strong labour markets deliver real wage gains. Major collective bargaining settlements have delivered average wage adjustments of over 3% so far this year, approximately one percent above inflation in most provinces, except Alberta and Newfoundland.

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U.S. economy coming off the rails: can Canada escape?

The main economic indicators from the United States all look good:

- Economic growth of 4.9% in the 3rd quarter
- Unemployment rate of 4.7% and job growth of over 1.6 million in the past year
- Inflation averaging 2.5% during the past year.

By these measures, it appears on the surface that the U.S. economy is one of the healthiest economies in the world. It can be difficult to understand what all the recent concern and talk about recession is about.

In addition, followers of the business and financial media have had to learn a whole new language: such as ABCPs, CDOs, MBS, and other terms and acronyms[1].

There has been an explosion of new financial products and derivatives during the past two decades. A lot of this involved slicing and dicing and repackaging existing financial obligations, such as mortgages, car loans and credit card debt into financial securities that investors could directly own. It also involved creating new financial instruments, such as hedges and swaps that were intended to provide insurance and protect against risk related to these securities.

This financial innovation was very successful in many ways. Together with accommodating monetary policy it lowered the cost of credit and loans, which led to a housing boom in many countries. It also made many people and businesses, such as hedge funds and private equity funds, very wealthy.

At the same time the financial industry, and particularly oversight of these new products, became increasingly unregulated in the United States, Canada and other countries. Many investors, including pension funds, corporations and governments, had little understanding of what they were investing in or what risks they entailed. Many borrowers, such as those with sub-prime mortgages, also had little understanding of their risks and obligations.

This became increasingly dangerous since the owners of the assets, such as mortgage-backed securities, were now separated by many degrees from those who borrowed the money.

They weren't alone. It turns out that few in the financial industry, financial regulatory bodies or even rating agencies had a clear idea of the risks and obligations involved in these securities.

This has become abundantly clear since the past summer. When interest rates rose and housing prices inevitably fell in the U.S, rising mortgage defaults made it evident that even the financial industry couldn't untangle the mess of obligations.

The market for these investments completely froze up. It turned out that many investors, from supposedly sophisticated agencies such as the Caisse de Dépots and the Government of Ontario, to the Yukon Government and small Norwegian towns above the Arctic Circle, had invested significantly in the stuff and had no idea how risky their investments were.

As a result of all these newly uncovered losses, risks and uncertainties, banks and other lenders have increased the rates they charge for loans and tightened up their lending conditions, which is leading to a credit crunch. Interest rate cuts by the Bank of Canada and other central banks can help, but they haven't made up for the increased spreads or mark-ups charged by lenders (75 basis points higher this year). Nor can lower interest rates eliminate the great uncertainties that still exist.

These financial market developments are not solely responsible for our economic troubles. The housing price boom and over-indebted households would have inevitably led to a financial reckoning at some point. But the financial mess severely compounded these fundamental economic problems. It made the economic boom bigger and longer and is likely to do the same for any bust.

Now many leading finance industry economists are predicting a 50% or higher probability of a recession in the United States and many think it could be lengthy.

[1] These are acronyms of terms for similar classes of securities: ABCPs are Asset-Backed Commercial Paper; CDOs are Collateralized Debt Obligations and MBS Mortgage-Back Securities.

The question is whether Canada, which is so closely tied to the United States economy, can escape its economic carnage.

One view is that the world economy, with the growth of China, India and other nations, has become more diversified and can weather a downturn by “decoupling” from the U.S. economy.

In Canada’s case, this view is based on the range of differences between our economies, including: lower levels of indebtedness, healthy government finances and a diversification of our exports with a greater share of our natural resources going to other countries.

At the same time, 75% of our exports still go to the United States, the troubled auto industry remains our biggest exporter, and we are clearly not immune from financial market problems. We are suffering from some of the same fundamental financial market problems, though perhaps not to the same degree. However, sometimes the impacts of economic problems in the U.S. can be magnified in Canada.

One thing is for certain. There will be increasing levels of speculation about whether Canada can “decouple” and escape the worst of any downturn south of the border. But idle speculation won’t help.

What is needed are economic policies that help with decoupling, cushion economic downturns, and learn from past mistakes. Further deregulation, cuts to public services, privatization, tax cuts, free trade will only make the situation worse. Fortunately, Canada’s federal and provincial governments are all running substantial surpluses and can afford to take proactive measures.

At a minimum, these should include:

- Taking steps to increase economic security for workers and households, such as extending and improving employment insurance benefits and expanding other social benefits and supports.
- Industrial policies to support manufacturing, forestry and other sectors of the economy that are being badly hit.
- Increased direct public investment in infrastructure, especially municipal infrastructure.
- Effective policies to get private business to use their profits to make productive capital investments – and not just tax cuts which have fuelled speculative investments.
- Substantial climate change policies, which would reduce uncertainty in this crucial area, spur investment and result in greater efficiencies and savings.
- Increased support for public services, including education, child care, health care, skills, literacy and training.
- Real and effective regulation of the financial industry in Canada, which is sorely lacking.
- Macroeconomic monetary, fiscal and trade policies designed to promote economic stabilization instead of laissez faire approaches.

Canadian Economic Outlook			
Annual growth rates unless indicated	2007	2008	2009
Growth in the Economy			
Real GDP	2.6%	2.4%	2.6%
- Consumer Spending	3.9%	3.2%	2.9%
- Business Investment	4.6%	6.4%	5.7%
- Government Spending	2.6%	3.2%	3.5%
Labour Market			
Employment growth	2.2%	1.4%	1.1%
Unemployment rate	6.0%	6.1%	6.2%
Productivity growth	0.5%	1.3%	1.3%
Inflation - Consumer Price Index	2.2%	1.8%	2.0%
Corporate Profits before tax	5.2%	3.4%	4.3%
Real Personal Disposable Income	3.7%	3.0%	2.8%
Personal Savings Rate	2.1%	2.0%	1.8%
Housing Starts (000s)	226	208	194
Interest Rates and Exchange Rate			
Short term 3 Month T-Bill	4.10%	4.24%	4.77%
Long term 10 Year Bond	4.27%	4.52%	5.00%
Exchange rate US$/C$	$94.46	$100.85	$97.75
Consensus average based on latest forecasts from different Canadian forecasters as of Nov 30, 2007			

Provincial Outlook								
% annual growth unless where noted					Unemployment			
	Real GDP		Employment		Rate		Inflation	
	2007	2008	2007	2008	2007	2008	2007	2008
Newfoundland & Labrador	2.6	2.5	2.2	1.2	6.1	6.2	2.4	2.3
Prince Edward Island	6.4	1.3	1.0	0.7	13.6	13.0	1.5	1.7
Nova Scotia	1.9	1.9	1.4	0.7	10.3	10.2	1.6	1.9
New Brunswick	2.3	2.6	1.3	1.0	8.0	7.7	1.8	1.9
Quebec	2.3	2.5	1.7	0.9	7.5	7.3	1.6	1.8
Ontario	2.1	2.1	2.1	1.0	7.3	7.2	1.8	1.8
Manitoba	1.9	2.0	1.4	0.9	6.5	6.7	1.9	1.9
Saskatchewan	3.2	2.8	1.5	1.0	4.4	4.4	2.3	2.3
Alberta	3.9	3.5	2.5	1.3	4.2	4.1	2.7	2.9
British Columbia	4.6	3.7	4.7	2.2	3.5	3.8	5.2	3.6
Based on consensus forecasts from four different forecasters. However, many of the forecasts are a few months old and do not take account of important recent developments. For instance, inflation is expected to be lower.								

Municipal infrastructure deficit reaches estimated $120+ billion
plus cost of new infrastructure pegged at $115 billion

Recent analysis shows that the municipal infrastructure deficit – the investments required to repair and upgrade municipal infrastructure assets to minimum acceptable levels – has reached $123 billion, above the previous estimate of $60 billion.

This estimate includes "sub-deficits" of:

- $31 billion for water and waste water systems
- $22.8 billion for public transit
- $21.9 billion for transportation (including roads, bridges, sidewalks, bicycle paths, etc.)
- $40.2 billion for community, recreational, cultural and social infrastructure, and
- $7.7 billion for waste management.

These estimates were developed from an extensive survey of municipalities conducted by McGill University infrastructure expert Dr. Saeed Mirza, for the Federation of Canadian Municipalities (FCM) during October and November 2007[2].

This infrastructure deficit developed in Canada during the 1980s and 1990s when new investment in infrastructure increased by only 0.1% a year.

Since 2001, capital investment by local governments has grown at a faster rate, but most of this has gone to new services and facilities to meet the needs of increasing urbanization and city growth.

Meanwhile, little has gone to maintain and rehabilitate existing infrastructure. The existing capital stock is aging with much reaching or exceeding the end of its useful life. Inadequate maintenance and repair has hastened the deterioration. This has led to dangerous accidents, such as bridge collapses, and expensive remedial repairs to services such as water and sewer mains.

Neglect and deferral of investments soon means higher costs. Emergency repair, especially of underground infrastructure, is more expensive than well-planned maintenance and renewal. Inadequate maintenance reduces service life, adding to long-term costs of replacement. Inadequate capacity and emergency repairs adds to delays and costs for the public and private sectors.

In addition to the $123 billion infrastructure deficit, the FCM survey estimates that municipalities require $115 billion for *new* infrastructure needs. This includes:

- $35.7 billion for water supply systems
- $20.9 billion for wastewater and stormwater systems
- $28.5 billion for transportation
- $7.7 billion for public transit
- $18.1 billion for cultural, social, community and recreational facilities, and
- $4.3 billion for waste management.

These estimates do not appear to explicitly take account of the investments necessary to deal with climate change and global warming. For municipalities, this means both investments to help with *adaptation* to the inevitable climate changes that will occur over the coming decades; and investments in *mitigation* to reduce greenhouse gas emissions.

Municipalities have a more important role than any other level of government in Canada in terms of making practical changes in these areas. This could be a very opportune time to make these investments – if there was an effective national plan to reduce our greenhouse gas emissions and if municipalities had the funds available for this task.

Municipalities are now responsible for over 52% of the public capital infrastructure stock in Canada, up from 31% in 1961. During the same period, the federal government's share has declined from 24% to less than 7% and the share of provinces has declined from 45% to 39%.

While municipalities are responsible for well over half of Canada's public infrastructure, they receive less than 10% of all tax revenues. Virtually all of this is in the form of regressive property taxes and user fees, which fall most heavily on lower income households.

During the same time that municipalities have had to take responsibility for a greater share of public infrastructure (as well as other services), federal and provincial governments cut back on the transfers that they provided to local governments.

[2] Saeed Mirza, 2007. *Danger Ahead: The Coming Collapse of Canada's Municipal Infrastructure.* Federation of Canadian Municipalities, 2007. http://www.fcm.ca/english/advocacy/deficit.html

CUPE research shows that if federal and provincial transfers had kept pace with local government needs, expenses, or other revenues since 1996, they would have received $42 billion to $56 billion more over the 1996 to 2006 period, including about $4 to $7 billion more a year in transfers in recent years[3].

The Conservative government claims that its *Building Canada* infrastructure plan is the largest federal investment in infrastructure undertaken since the second world war. This claim is true only because it has been stretched out over a number of years.

In reality, the Harper government has put very little extra into infrastructure funding above what was committed by previous governments. Federal infrastructure funding will only increase by 1% a year after the gas tax funding reaches its maximum in 2009/10 – less even than the expected rate of inflation[4].

Finance Minister Flaherty now says the federal infrastructure funding will lever more than $100 billion in infrastructure investments if investments by other levels of government and the private sector are included. These claims clearly fall far short as more municipalities are forced to once again defer their capital investments as a result of budget pressures.

[3] *Transfers to Municipalities fell Billions Short in 2006*. CUPE Economic Brief, November 2007. http://www.cupe.ca/economics/Transfers_to_Municip

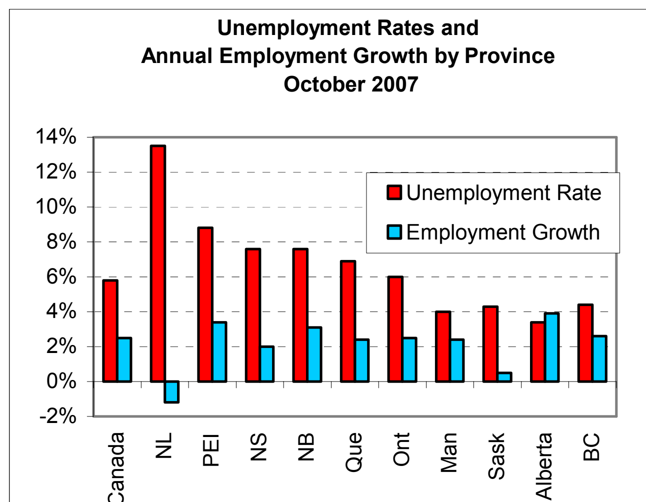
[4] *Building Canada but not by much…* CUPE Economic Brief, November 2007. http://www.cupe.ca/economics/Building_Canada_but_

Public sector job growth strong, but not as stellar as numbers suggest

Remarkable job growth

Statistics Canada's Labour Force Survey shows that the labour market has continued to create jobs at a remarkable pace this year:

- 346,000 new jobs added in the ten months from
- the beginning of the year to October[5].
- 2.5% annual employment growth, more than 1% faster than estimated population growth.
- 5.8% national unemployment rate, the lowest in 33 years.
- All-time high *employment rate* of 63.7% (share of working age population that is employed)
- 2%+ annual employment growth in every province, except Newfoundland and Saskatchewan.
- 4.2% unemployment rate for adult women.



While job growth has been strongest in Alberta and the West, job growth in other provinces in also impressive. Ontario has added 109,000 new jobs since the start of the year, Quebec an additional 85,000 and New Brunswick an extra 15,000.

A large share of the new jobs added since the start of the year have been in the public sector, with a reported 179,000 new jobs, including:

- 75,000 in public administration (+9%)
- 40,000 in health care and social assistance (+2.2%)
- 20,000 in education (+2.2%)

The Ontario provincial election temporarily bumped up employment in public administration in October, but even without these extra jobs, the labour force survey reports that job growth in public administration was almost 7%. There has been some alarmism in the media about the high rate of public sector employment growth. As is discussed below, these estimates are almost certainly too high.

The strong job market is having results in boosting wages. According to this survey, average hourly wages have increased at an annual rate of more than 4% for three months in a row.

These increases are starting to make up for two decades of mostly stagnant real wages, but they aren't enough considering the tight labour market and labour's reduced share of national income.

A positive sign is that lower income occupations are sharing in the wage gains. The labour force survey reports that average hourly wages for primary occupations were up by a reported 9% over last year, wages for sales and service occupations up by 5%, and health occupations up by 5.7%.

not all rosy

But the job market situation isn't all rosy:

- More than one-third of the new jobs created this year are in self-employment, which is less stable, and often part-time or precarious.
- Part-time employment has grown at a much faster rate than full-time employment.
- Manufacturing continues to lose jobs: 82,000 have been lost this year alone (a drop of 3.9%) and a total of 298,000 lost from November 2002 to October 2007.

With the high dollar, many more job losses in the manufacturing and processing sector are on the way. Chrysler chopped over 1,000 jobs at its Brampton plant in early November. At the end of November, Abitibi-Bowater announced the elimination of more than 1,000 jobs at paper and saw mills across the country.
Jim Stanford at the CAW forecasts that 300,000 more jobs will be lost in the next two to four years if the dollar remains at parity and no substantial action is taken to help the manufacturing sector.

[5] The Labour Force Survey figures are based on the survey results for October 2007, unless otherwise indicated.

Other surveys show more sober gains

While there is no doubt that we have had solid job growth, it may not be as strong as the Labour Force Survey reports. Statistics Canada also conducts a much larger direct payroll survey of employers through the *Survey of Employment, Earnings and Hours.*

This survey (which doesn't cover the self-employed) reports slower employment growth: 1% in the first nine months of the year, compared to 1.3% for the labour force survey. It also reports more realistic job growth in public administration and slower wage growth (3.1% compared to 4.1%).

Neither survey is perfect nor provides a completely accurate view of the employment situation. The *Labour Force Survey* gets much more attention in Canada because it is released almost two months earlier than the payroll survey, has richer demographic detail, is seasonally adjusted and has a wider scope. But it is a smaller survey and so is considerably less accurate in its detail.

Despite its limitations, the information in the payroll survey is more accurate in its coverage of the public sector and more relevant for most of CUPE's membership[6].

This payroll survey shows what are probably more realistic job growth numbers especially for the public sector. Over the period from September 2006 to September 2007, this survey shows job growth of:

- 71,500 in the total public sector or 2.3%, half the 145,000 jobs growth reported by the Labour Force Survey for the same period.
- 27,500 or 3.5% in health and social services for this period
- 10,000 or 2.8% in universities, colleges and trade schools.
- 9,400 or 2.4% in local governments
- 9,300 or 1.5% in local school boards.

These figures represent a respectable rate of job growth, close to the average rate of job growth for the entire economy. Whatever measure is used, public sector employment is still less than 20% of total employment in Canada – far less than it was in any year before 1997 and less than in many other more productive countries.

[6] The September 2006 issue of the Economic Climate for Bargaining includes an analysis of differences between labour force survey and the payroll survey with a focus on public sector employment. http://www.cupe.ca/updir/Economic_Climate_-_Sept_2006.pdf

The new Fordism: *corrosive two-tier wage system*

The no-strike agreement recently reached between the Canadian Auto Workers and Magna International has generated considerable discussion among trade unionists in Canada.

But there is another troubling development in the recent auto agreements south of the border that has garnered much less attention – and is potentially much more corrosive.

All three United Auto Workers agreements with the Big Three – GM, Ford and Chrysler – introduced a new two-tier wage structure. Essentially all new hires – as well as many existing temporary part-time, long-term supplemental workers, and any in-sourced workers – will now be paid a wage and benefit package that is half the value of what existing employees receive.

Hourly wages for these “entry-level” employees will be about $14.60 an hour. Not only is this pay rate about half the $28/hr base rate for traditional auto jobs doing similar work, it is also almost 20% lower than the average hourly wage rate for all production workers in the United States. Pension and health benefits will also be much reduced.

Each agreement has provisions for limiting this new wage and benefit structure to either “non-core” jobs in the case of GM and Chrysler or to a 20% limit of corporate-wide employment at Ford. But these provisions have many exceptions and there is little doubt that the lower-tier proportion will spread as buy-outs continue, restructuring proceeds and further agreements are signed.

Under the current agreement, GM could have one-third of its workforce at the entry-level rate. The share of entry-level jobs could also reach that level at Ford, despite the ostensible 20% limit, because of many exclusions.

Entry level employees will be able to apply for traditional jobs as they become available, but the wide gulf in compensation for similar work will no doubt prove to be very divisive.

At a 25% share of employment for each of the Big Three, the new wage structure would gain the auto makers a combined over $2 billion a year compared to compensation levels for traditional production jobs. With the dynamics of huge gains for employers and divisiveness on the shop floor, it is hard not to imagine that so-called “traditional jobs” could soon be entirely phased out.

The UAW-Big Three agreements also include other concessionary provisions including shifting complete responsibility for retiree benefits to the union through a Voluntary Employees Beneficiary Association (VEBA) and the diversion of future wage increases to these. The VEBAs could become bankrupt as has happened with other ones.

This two-tier wage structure is not new and was modelled on the earlier Delphi agreement. Other employers, such as Caterpiller, have also introduced a divisive two-tier wage structure.

Nevertheless, the recent UAW agreements have institutionalized an inequitable and corrosive wage structure at what was labour’s manufacturing heart in the United States. Instead of offering families a real chance for a step up to a middle-class life, auto and other manufacturing jobs could soon become a relatively low wage employment trap. This would not only intensify current intergenerational inequities, but could also cement family inequalities for generations.

Some argue that the North American auto industry is not competitive or financially sustainable at “traditional” rates of compensation. This ignores the impact of free trade, globalization of production, and inadequate and misguided investment in this sector.

The danger is that this type of two-tier wage structure will spread further: to other employers, sectors and to Canada. Whether or not the model spreads directly to our workplaces, it could still have profound indirect impacts.

A weakened manufacturing sector with lower wages corrodes the economic and social basis of our communities as well as the ability to pay for public services. At this wage rate, few entry level Ford workers will even be able to afford the product of their labours, let alone make a decent living.

Equally concerning is that it will be much harder to maintain decent pensions and benefits in the public sector when these have been washed away for workers in the private sector.

Inflation rates ready to slide in new year

Rising energy and housing prices, including higher mortgage interest costs, continue to push up the cost of living for Canadians and especially middle and lower income families.

The consumer price index for Canada rose by 2.4% in October from a year earlier. Energy prices increased by an average of 8.6% during this period, including a 13.5% increase in gasoline prices, 14% increase in heating fuels and a 7.8% increase in natural gas prices.

Higher mortgage interest rates, higher house prices and other associated costs pushed up the cost of owned accommodation by 4.8% compared to a year before. On the positive side, the new car price index declined by 2.5%.

Consumer prices in October increased especially over the past year in:

- Alberta, by 5%, mostly as a result of higher increases in the cost of housing and gasoline.
- Saskatchewan by 3.6%, pushed up by very high house price increases as well as higher gasoline and other energy prices.
- New Brunswick by 3.3%. High price increases for energy, especially fuel oil, electricity and natural gas as well as gasoline were responsible.
- Prince Edward Island by 3.1%, mostly as a result of higher prices for fuel oil, electricity and gasoline.

In other provinces, the Consumer Price Index increased by between 1.6% and 2.3%, including:

- Newfoundland: 2.1%
- Nova Scotia: 2.3%
- Quebec: 1.9%
- Ontario: 2.3%
- Manitoba: 1.9%
- British Columbia: 1.6%

The inflation numbers above are for changes in the consumer price index for the period from October 2006 to October 2007, the latest figures available[7].

These year-over-year inflation numbers are important for tracking recent price changes. Wage settlements and benefits are often tied to these inflation numbers.

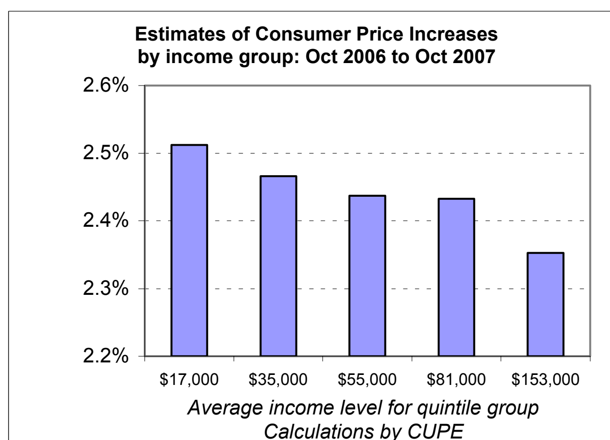
The October figures are also widely used as the basis for indexing public pensions, other benefits and the tax system.

But the monthly inflation numbers can bounce around from month to month, depending on the impact of volatile factors, such as the price of gasoline. As a result, they don't always give an accurate sense of inflation trends through the year.

Calculations of the average rate of inflation for the year to date give a better indication of inflationary trends for the year. These figures, which are not available elsewhere, are provided in the chart on the following page.

Changes in the cost of living, which inflation is widely used to track, will be different for each household, depending on what they buy. Lower and middle income families will usually face a larger increase in the cost of living when prices for things such as food or gasoline increase faster because they form a larger part of their spending budget.

The following chart shows that consumer prices have increased faster for lower and middle income households than for higher income households.



At the same time, the "core rate of inflation" – which excludes goods and services with prices that change a lot – increased by only 1.8% in the year to October. This means that the Bank of Canada will be less concerned about inflation pressures and is likely to reduce its key interest rate over the next few months.

7 More details can be found through Statistics Canada's monthly *Consumer Price Index* at: http://www.statcan.ca/english/Subjects/Cpi/cpi-en.htm. The detailed publication includes information about price changes by province and city, including for gasoline and fuel prices. http://www.statcan.ca:80/bsolc/english/bsolc?catno=62-001-XWE

Inflation Outlook

Earlier this fall, economic forecasters had expected consumer prices to rise by an average of about 2.3% in 2008, following an increase of about 2.4% in 2007. Those forecasts are reflected in the Provincial Outlook Table on page 3.

But since mid-October two major things have happened that will affect inflation.

- In its October Economic Statement, the federal Conservatives announced they would cut the GST by another percentage point effective January 1, 2008, rather than in 2010, as originally planned.
- The Canadian dollar rose much higher than expected in relation to the US dollar and most other currencies.

If the cut in the GST is fully passed on to consumers, then it should reduce inflation by about 0.6 percentage points because approximately 60% of the consumer price index basket is subject to the GST. But there is good reason to believe that many businesses and retailers did not pass on the savings from the 2006 GST cut in 2006 and instead used it as an opportunity to increase their prices.

Prices change for a wide variety of reasons, many of which are hard to determine with certainty. It appears that a little over half of the savings in 2006 was passed on to consumers and so inflation only fell by about 0.3 percentage points below what it would have otherwise been. It is difficult to determine what the impact will be this time, but retailers and businesses might use it as a chance to profit again. If so, the impact on inflation will again be less.

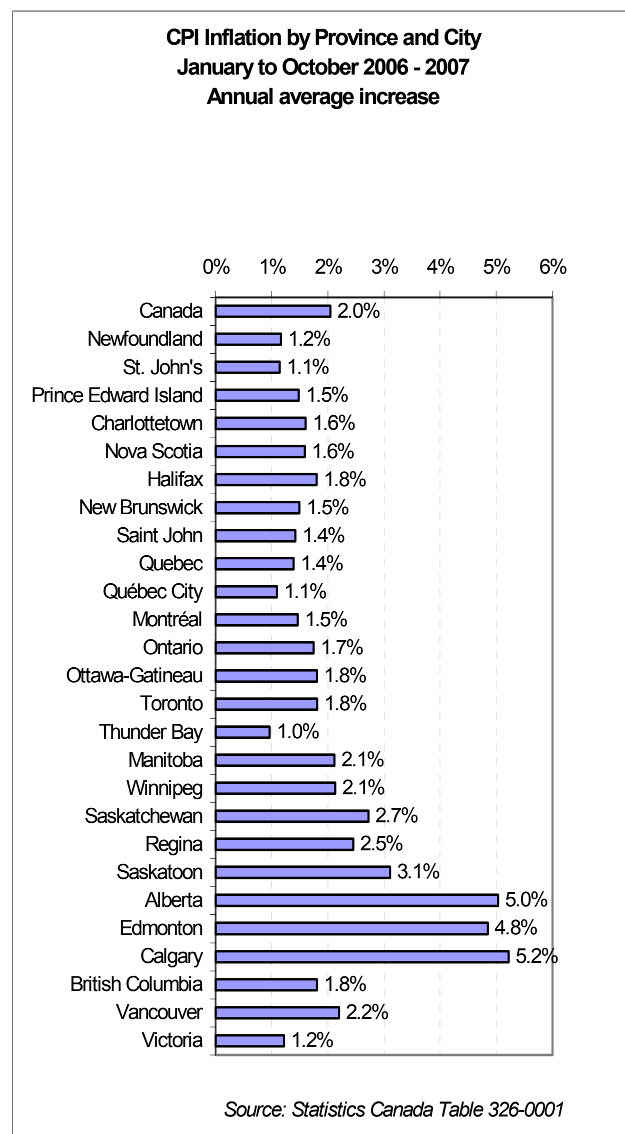
The increase in the Canadian dollar, which makes imported goods much less expensive, also didn't have as big an immediate impact as should be expected. Recent publicity has helped to force retailers to lower their prices and now it appears to be having a stronger impact.

The Canadian dollar has now fallen close to parity with the US dollar. It is expected to average close to this level during 2008. If so, other retailers could be forced to lower their prices to keep closer to U.S. prices.

In summary, economic forecasters expect inflation for Canada to average about 1.8% to 2.0% in 2008, although there is a wide range in their forecasts. Much depends on the direction of house prices, energy prices, and the overall economy, all of which are hard to predict right now and are potentially volatile.

On a regional basis, inflation next year is expected to continue to be highest in Alberta, Saskatchewan and other western provinces and lowest in Newfoundland.

The Provincial Outlook Table on page 3 provides consensus forecasts of CPI inflation by province. But these forecasts haven't taken account of recent developments, such as the GST cut. They should be reduced by about 0.3 percentage points each to get a more accurate current forecast. For example, the forecast of CPI inflation of 3.6% for Alberta should translate to a forecast of about 3.3% to account for these other developments.



Strong labour markets deliver real wage gains

Strong labour markets continue to deliver solid wage increases in most regions of the country, averaging about one percent above the rate of inflation.

Base wage adjustments for major collective agreements averaged 3.9% in the third quarter and averaged 3.2% in the first nine months of the year[8].

The higher wage gains in the third quarter were boosted especially by a large number of agreements settled in Alberta, where labour markets are tighter and inflation rising faster. Excluding Alberta and Saskatchewan, settlements in the rest of Canada averaged 3%.

In comparison, consumer prices increased at an average rate of 2.1% for Canada in the third quarter and by 2% for the first nine months of this year.

The highest base wage increases were achieved in Alberta, with average gains of 4.9% for the year. Despite the relatively high average wage increases, they still have not kept pace Alberta's high inflation rate, which averaged 5% in the first nine months of the year. But there are signs of catch up: base wage increases averaging 5.1% in the third quarter were a bit higher than the inflation rate of 4.8% for the same period.

Workers in Saskatchewan also benefited from strong wage settlements, with average increases of 4% in the third quarter, higher than the 3.1% rate of inflation for the same period.

The only other province besides Alberta where average wage increases in major collective bargaining settlements haven't exceed the rate of inflation was Newfoundland where the two major contracts settled involved an average increase of only 0.5%, below Newfoundland's average rate of inflation for the year to date of 1.2%.

In all other provinces, base wage increases have averaged about one percentage point or more above rate of inflation for the year to date, translating to real wage gains of 1% or more a year, not including other payments or benefits.

Public sector workers achieved slightly higher increases on average than workers in the private sector, with adjustments averaging 4.1% in the third quarter and 3.4% for the year to date.

On an industry basis, workers in primary industries have had wage adjustments averaging 4.6% so far this year with those in utilities and public administration, 3.8% and 3.7% respectively. Workers in education, health, social services, construction, entertainment and hospitality, finance and professional services have gained an average of 3.3% to 3.4%.

Agreements in information and culture and in transportation have provided base wage increases averaging 2.9% and 2.7%. Meanwhile, workers in the manufacturing and trade sectors have not fared as well: obtaining average increases very close to the 2% rate of inflation.

These modest real wage gains are affordable, long overdue, well-deserved and good for the economy. Average increases are considerably below recent executive compensation increases and below the rate of revenue increases for most governments and private sector employers.

Despite alarmism by some business lobby groups about the potential inflationary impact of these wage increases, there is no evidence that they are contributing to broad inflationary pressures: the Bank of Canada's core rate of inflation is now below its target rate of 2%.

Long overdue real wage increases are crucial to help redress the widening gulf of inequality and to help fortify household finances. This will be crucial if the economic problems engulfing the U.S. economy spread north.

[8] Unless otherwise stated, wage rate increases cited in this section are for base-rate wage adjustments averaged over the length of the contract term for major collective bargaining settlements (500+ employees) reached during the period, as reported by the Workplace Information Directorate at Human Resources and Social Development Canada.

Average Wage Settlements Major Collective Bargaining by Year							
	2004	**2005**	**2006**	**2007Q1**	**2007Q2**	**2007Q3**	***2007 YTD***
All	1.8	2.3	2.5	3.1	3.0	3.9	*3.2*
Public Sector	1.4	2.2	2.6	3.3	3.0	4.1	*3.4*
Private Sector	2.3	2.4	2.1	2.6	3.0	3.7	*3.1*
CPI Inflation:	*1.8*	*2.2*	*2.0*	*1.8*	*2.2*	*2.1*	*2.0*

Average Wage Settlements by Province												
	NL	**PEI**	**NS**	**NB**	**QC**	**ON**	**MB**	**SK**	**AB**	**BC**	**Multi Prov**	**Federal**
2004	1.0	2.4	4.7	4.1	2.5	3.0	2.6	1.6	3.1	-1.6	2.7	1.6
2005	2.0	2.5	3.3	3.0	1.6	2.7	2.9	2.0	3.0	0.5	4.1	2.6
2006	1.7	2.7	3.1	2.9	1.8	2.5	2.6	2.1	3.4	2.5	3.8	2.3
2007Q1	-	2.9	1.8	2.9	2.9	2.9	2.7	4.0	3.5	2.3	6.6	2.8
2007Q2	0.5	2.8	3.7	2.0	3.2	2.9	3.0	4.2	4.4	2.9	-	2.7
2007Q3	-	-	2.9	-	-	3.1	3.1	4.0	5.1	3.3	3.6	2.6
2007 YTD	*0.5*	*2.8*	*3.0*	*2.3*	*3.2*	*2.9*	*3.0*	*4.0*	*4.9*	*3.0*	*4.9*	*2.7*

Average Wage Settlements by Industry						
Industry	**2005**	**2006**	**2007Q1**	**2007Q2**	**2007Q3**	***2007 YTD***
Primary	2.3	2.7	3.2	3.2	5.7	*4.6*
Utilities	2.6	2.3	3.1	4.0	4.2	*3.8*
Construction	2.5	3.6	2.9	3.2	3.9	*3.3*
Manufacturing	2.5	2.0	0.7	2.0	4.4	*2.1*
Wholesale and Retail	1.9	1.1	1.4	2.0	1.9	*2.0*
Transportation	2.9	2.1	3.2	2.6	2.9	*2.7*
Information & Culture	2.4	2.5	1.6	3.8	2.0	*2.9*
Finance & Professional Services	2.3	2.5	2.0	3.9	2.6	*3.3*
Education, Health, Social Services	2.1	2.5	3.1	3.1	4.5	*3.4*
Entertain and Hospitality	1.9	2.9	2.6	-	3.5	*3.3*
Public Administration	2.4	2.8	4.0	3.1	3.8	*3.7*

Source: Human Resources and Skills Development Canada, Major Wage Settlements, [latest information as of November 28, 2007] http://www.hrsdc.gc.ca/en/lp/wid/adj/01wage_adj.shtml

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