# ECONOMIC CLIMATE for BARGAINING

**June 2007** **Vol. 4, No. 2**

## *Frontline Summary*

**Canadian economy on unstable foundations**
Canada's economy is growing, but our economic growth, based on the unstable foundations of the oil sands and consumer spending, could become increasingly rickety with inflation and interest rates set to rise.

**Employment growth still strong, but showing signs of weakness**
Job losses have mounted in manufacturing, while much of the recent job growth has been in self-employment and lower-paid private service sector jobs.

**Made In Canada Jobs Campaign**
CUPE has put its support behind the CLC's Made In Canada Jobs Campaign, recognizing that our jobs depend on good quality employment in other sectors and on healthy employment in manufacturing, processing and resources.

**Looking Ahead: A 10-Year Outlook for the Canadian Labour Market**
The federal government's 10 year outlook for the labour market provides projections of employment, retirement rates, labour supply, and labour shortages for detailed occupational groups.

**Turning what corner?** summarizes the latest federal government plan for climate change and air pollution, illustrates where emissions are growing and at what cost.

**Climate Change: profile of impacts** outlines how climate change and measures to reduce climate change could affect CUPE members in general.

**Inflation rising** summarizes recent trends in inflation and examines how misguided environmental policies have increased food prices.

**Wage gains increase for public employees** provides a brief summary of wage settlement increases achieved in major collective agreements.

## Canadian economic growth on unstable foundations

The Canadian economy has grown slightly faster than expected even while the U.S. economy is showing signs of weakness. But Canada's growth has been based on high rates of consumer spending and unbalanced resource sector growth. Business investment and government spending have been disappointing, despite high profits and public surpluses and low interest rates.

Canada's overdependence on resource exports and consumer spending for economic growth should be much more of a concern, with the U.S. slowing down and increasing levels of household debt. Our economic growth, based on the unstable foundations of the oil sands and consumer spending, could become increasingly rickety with inflation and interest rates set to rise.

Forecasters at the major banks expect employment to grow by an average of 2% this year, bringing the unemployment rate for the year to 6.2%. This rate of growth may be too optimistic, given recent weaknesses in the labour market.

Low levels of capital investment, job losses in manufacturing and high job growth in lower paid parts of the service sector will translate to continued slow productivity growth.

The most troubling recent development is the emergence of higher inflation. Inflation has been driven up by higher prices for food and shelter, while "core inflation" has also increased.

Food prices have escalated largely because of misguided environmental policies in Canada and the United States that subsidize conversion of food crops into ethanol. This hurts lower income people the most, who spend much more of their budget on food, while also doing little to benefit the environment.

Higher rates of inflation – and the Bank of Canada's reaction to them – have already resulted in higher interest rates, which have pushed up the value of the Canadian dollar. These, in turn, have led to lower rates of capital investment and increasing job loss in the manufacturing and processing industries.

**Canadian Economic Outlook**

| *Annual growth rates unless indicated* | **2006** | **2007** | **2008** |
|---|---|---|---|
| ***Growth in the Economy*** | | | |
| Real GDP | 2.8% | 2.4% | 2.7% |
| - Consumer Spending | 4.2% | 3.3% | 2.9% |
| - Business Investment | 9.9% | 6.3% | 7.4% |
| - Government Spending | 3.9% | 2.5% | 2.8% |
| ***Labour Market*** | | | |
| Employment growth | 2.0% | 2.0% | 1.2% |
| Unemployment rate | 6.3% | 6.2% | 6.3% |
| Productivity growth | 1.2% | 0.7% | 1.7% |
| ***Other*** | | | |
| Inflation - Consumer Price Index | 2.0% | 2.2% | 2.3% |
| Corporate Profits before tax | 5.0% | 4.4% | 2.3% |
| Real Personal Disposable Income | 4.9% | 3.5% | 2.8% |
| Personal Savings Rate | 1.8% | 1.9% | 1.8% |
| | | | |
| ***Interest Rates and Exchange Rate*** | | | |
| Short term 3 Month T-Bill | 4.02% | 4.37% | 4.71% |
| Long term 10 Year Bond | 4.21% | 4.41% | 4.80% |
| Exchange rate US$/C$ | $88.18 | $90.39 | $90.60 |

**Consensus average based on latest forecasts from different Canadian forecasters as of June 4, 2007**

Economic forecast tables for the provinces have not been included in this issue of the *Economic Climate for Bargaining* because the forecasts on which they are based are largely out-of-date

## Employment growth still strong, but showing signs of weakness

*Mounting job losses in manufacturing*

Canada's economy has generated a large number of new jobs in the past few years, with 1 million new jobs created in the past three years and 290,000 in the past 12 months. Employment growth has been well above population and labour force growth, which has led to record low unemployment rates.

But there are signs that the job growth party may be slowing down. There were only 4,000 jobs created in the past two months. There was another big increase in the number of self-employed in May, which has provided more than two-thirds of the new jobs created so far this year. Total paid employment declined by 46,500 in May.

Because it is a survey, monthly labour force numbers can bounce around from month to month and the figures for one single month should not be interpreted as a trend. Figures for quarterly, year-over-year changes or longer periods give a much more solid sense of what is actually happening in the labour market. The numbers should also be interpreted in relation to other developments in the economy.

Trends so far this year show:

- Solid growth in service sectors, especially in accommodation and food services, information, culture and recreation, and public administration.
- Continued job loss in manufacturing and agriculture exceeding the job growth in natural resources, construction and utilities.
- Strong job growth for women, older workers and in part-time employment.

This reflects a still booming oil and gas sector generating solid employment growth in related industries and services with the help of growing household and government spending.

But the overdependence on the resource economy to generate growth is contributing to growing weaknesses in manufacturing and agriculture.

High oil and gas prices, a low US dollar and capital inflows for takeovers have pushed up the Canadian dollar. This together with inadequate investment by corporations and globalization of production has severely damaged the manufacturing and agricultural sectors. It is not just jobs that have been lost: Canada's overall manufacturing production, shipments and new orders have barely increased.

During the past twelve months, from May 2006 to May 2007:

- *Total employment* increased by 1.8% or 290,000 jobs, faster than the 1.7% growth rate of the labour force, keeping the unemployment rate at its 33 year low of 6.1%.

- *Part-time employment* has increased by 4.1%, faster than the 1.2% increase in full-time jobs. In recent months, these differences have become more acute.

- *Private sector* employment has increased by 1.1%, almost twice the rate of the 0.6% increase in public sector employment. However, in recent months, private sector employment has dropped, while the public sector has continued to grow.

- *Self-employment* has increased at a rate of 5.9% in the past year, much faster than the 1.0% rise in the number of paid employees. These different growth rates have also diverged even more in recent months.

- *Employment* growth for adult women of 175,000 jobs and a drop in unemployment of 17,500, with slower employment growth and a rise in the unemployment for men.

Job growth for *women* (+2.7%) has increased at more than double the rate for men, resulting in close to the lowest unemployment rate in over 30 years for adult women.

In the main public service sectors:

- *Health care and social assistance* employment has continued to grow, but at a lower pace. According to the Labour Force Survey, employment has increased by 56,500 in this sector in the past 12 months ago (+3.2%), including 17,400 during the first five months of this year. Employment growth in this sector has been concentrated in Ontario, with 50,000 new jobs in the province.

- *Educational services* employment has also grown, increasing by 3.3% or 37,700 jobs since last May. During the past 12 months, there has been strong growth of employment in educational services in Alberta (+8,100 jobs), British Columbia (+7,400 jobs), Ontario (+12,900 jobs), Nova Scotia (+5,000 jobs) and Saskatchewan (+1,900 jobs).

- *Public administration* employment has declined slightly in the past 12 months, but is up by 18,000 so far this year.

Job growth has been strong in some other service sectors during the past year, including:
- Accommodation and food services (+75,100 jobs, +7.4%)
- Information, culture and recreation (+39,000 jobs, +5.2%)

Employment in the good sector of the economy shows increasing divergence:

- *Manufacturing* employment has declined by 78,100 during the past 12 months, including over 60,000 jobs lost this year alone.

- The decline in manufacturing has especially hurt Ontario (-60,600 jobs) and Quebec (-39,000 jobs) in the past year. Total employment in this sector has declined by more than 10% and by more than 250,000 jobs in the past three years.

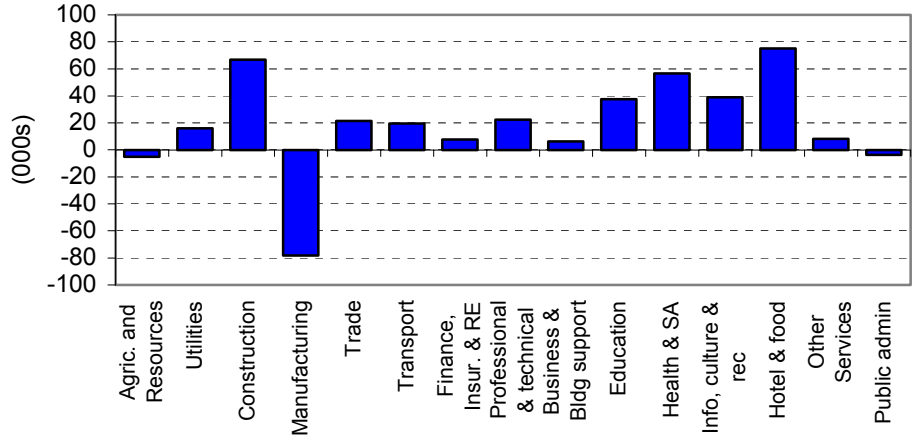
- *Utilities* employment increased by a reported 16,000 jobs (+13.1%) in the past 12 months, virtually all in Ontario.

- *Natural resource* industries continued to add jobs, with employment increasing by 16,300 and 5% during the past 12 months. Most of these were in Alberta and British Columbia.

- *Agricultural* employment has dropped steeply by 21,300 or 6.1% in the past 12 months.

- *Construction* employment has grown by 66,700 in the past twelve months, up by 6.2%. This growth has been spread around the country, but the biggest growth has occurred in British Columbia, with job growth of 25,000 over the past year.

**Job Growth by Industry**
**May 2006 - May 2007**




*Source: Statistics Canada Labour Force Information cat no. 71-001-XIE*

## Made In Canada Jobs Campaign

Together with other unions, CUPE is supporting the CLC's *Made in Canada Jobs Campaign* to push the federal government to maintain and strengthen employment in Canada's manufacturing and processing sectors.

Federal government policies encourage the extraction and export of raw materials and resources, with fewer jobs involved in value-added processing. Hundreds of thousands of well-paid jobs have been lost in these sectors, affecting hundreds of communities across the country.

For example, Canada's highly subsidized oil sands production and the proposed Keystone pipeline is geared towards the export of crude oil and raw bitumen for processing in the United States. If the bitumen and oil just to be exported through this pipeline was upgraded and refined in Canada, it would strengthen our industrial and refining capacity and create an estimated 18,000 jobs in many different provinces.

Public sector jobs depend on good quality employment in other sectors and particularly on a healthy employment in manufacturing, processing and resources.

- When good paying manufacturing jobs are lost, communities lose the tax base that supports local and provincial community services, such as health care, recreation, social services, etc. Smaller resource-based communities or those dependent on manufacturing and the processing of resources are especially vulnerable. Provincial cuts to services and downloading of costs to local governments have made local government services in Ontario especially vulnerable.

- Manufacturing job losses lead to a greater need and demand for social and community services at the very time that the money needed to pay for these is being squeezed.

Job losses in manufacturing generally haven't been replaced with other jobs in the communities that have been hard hurt – and they certainly haven't been replaced with jobs that provide comparable incomes and benefits.

Workers who manage to get new jobs after being laid-off from manufacturing jobs suffer an average 25% drop in annual earnings. This means a drop in annual income of $10,000 or more for a typical worker. Those who aren't able to find new jobs are even worse off.

For more information, see:
http://canadianlabour.ca/index.php/made_in_canada_jobs

## ***Manufacturing job losses by Community***

*from 2002, 3 month moving averages, unadjusted*

| | Thousands of jobs | | | |
|---|---|---|---|---|
| | Maximum since 2002 | Dec-06 | Job Loss | % of Total Manufacturing Jobs |
| St. John's | 4.7 | 4.6 | 0.1 | -2% |
| Halifax | 15.9 | 11.2 | 4.7 | -30% |
| Saint John | 6.2 | 6.2 | 0.0 | 0% |
| Saguenay | 12.7 | 11.1 | 1.6 | -13% |
| Québec | 46.8 | 36.3 | 10.5 | -22% |
| Trois-Rivières | 14.1 | 10.6 | 3.5 | -25% |
| Sherbrooke | 21.1 | 14 | 7.1 | -34% |
| Montréal | 326 | 268.4 | 57.6 | -18% |
| Ottawa-Gatineau | 44.5 | 44.3 | 0.2 | 0% |
| Kingston | 7.5 | 5.5 | 2.0 | -27% |
| Sudbury | 5.1 | 3.1 | 2.0 | -39% |
| Oshawa | 35.7 | 28.8 | 6.9 | -19% |
| Toronto | 507.8 | 408.2 | 99.6 | -20% |
| Hamilton | 84.1 | 54.7 | 29.4 | -35% |
| St. Catharines - Niagara | 33.4 | 24.7 | 8.7 | -26% |
| London | 42.3 | 40.7 | 1.6 | -4% |
| Windsor | 51.2 | 40.2 | 11.0 | -21% |
| Kitchener | 66.6 | 61.6 | 5.0 | -8% |
| Thunder Bay | 7.8 | 5.3 | 2.5 | -32% |
| Winnipeg | 51.9 | 48.9 | 3.0 | -6% |
| Regina | 7.3 | 6.7 | 0.6 | -8% |
| Saskatoon | 13.5 | 10.4 | 3.1 | -23% |
| Calgary | 56.8 | 51.1 | 5.7 | -10% |
| Edmonton | 58.9 | 50.2 | 8.7 | -15% |
| Abbotsford | 12.7 | 9.2 | 3.5 | -28% |
| Vancouver | 119.2 | 107.4 | 11.8 | -10% |
| Victoria | 9.8 | 5.9 | 3.9 | -40% |
| **Source: Labour Force Historical Review 2006, Table 31m3** | | | | |

# Looking Ahead: A 10-Year Outlook for the Canadian Labour Market

Human Resources and Skills Development Canada recently released *Looking Ahead: A 10-Year outlook for the Canadian Labour Market*. The document was completed in October 2006, but publicly released in May 2007.

As with all projections into the future, this outlook should not be taken unconditionally. But this document is based on considerable analysis and also illuminates the advice and policy directions that the federal government might take.

Some relevant highlights:

- Occupations currently showing signs of more acute shortages at the national level are concentrated in:
  - health (physicians, nurses, nurse aides and orderlies, technicians, technologists);
  - managers (due to retirements);
  - university teachers, psychologists and lawyers;
  - home builders, contractors, and trades supervisors.
- Employment is expected to grow by an average of 1.4% a year from 2006-2011, slowing down to 0.8% a year from 2011-15.
- Employment growth in the service sector is expected to average 1.2% a year during the 2006-16 period, higher than the 0.8% annual growth rate for jobs in the goods sector. Employment growth in health, professional services and computer system design is expected to be especially strong.
- More than two-thirds of the new jobs created in the next 10 years are expected to be in occupations requiring post-secondary education or in management.
- The unemployment rate is expected to drop to 5.6% by 2015 as employment growth outpaces labour force growth. Unemployment rates for those in management occupations or those requiring college or university education will drop the most.
- About 3.8 million workers are expected to retire in the next decade: this will provide two-thirds of all new job openings, with only 1.7 million jobs coming from expansion demand.
- New job creation and retirements will be weakest in low-skilled occupations, requiring high school or on-the-job training.

Most of the above occupations facing current shortages are expected to continue to do so in the future, although the "excess demand" in social sciences (university teachers, lawyers and psychologists), and in natural sciences (engineers, geologists) is expected to taper off.

**Employment Projections by Industry**

| | Average annual employment growth % | | |
|---|---|---|---|
| | **2001-05** | **2006-10** | **2006-15** |
| *All Industry* | *1.8* | *1.4* | *1.1* |
| Agriculture | -1.6 | 0.1 | 0.3 |
| Other Primary | 2.2 | 1.7 | 1.0 |
| Construction | 4.7 | 1.7 | 1.3 |
| Manufacturing | -0.4 | 0.3 | 0.6 |
| Utilities | 1.7 | 0.5 | 0.1 |
| Trade | 2.1 | 2.1 | 1.2 |
| Transport and storage | 0.5 | 1.4 | 1.0 |
| Finance, Insurance & real estate | 2.9 | 1.0 | 0.7 |
| Professional business services | 2.1 | 1.9 | 1.6 |
| Computer System Design | 1.3 | 2.4 | 2.6 |
| Other professional services | 4.1 | 2.1 | 2.1 |
| Management, Admin and support services | 4.0 | 1.7 | 1.5 |
| Information, culture and recreation | 2.1 | 1.1 | 1.1 |
| Accommodation and food | 1.4 | 1.5 | 1.2 |
| Other services | 0.1 | 0.2 | 0.3 |
| Health and social | 2.8 | 2.6 | 2.0 |
| Education | 2.6 | 1.1 | 0.8 |
| Public administration | 1.5 | 0.7 | 0.7 |

The HRSDC *Looking Ahead* report also has employment projections, including projections of retirement rates, labour supply, demand and projected imbalances by detailed occupational group.
http://www.hrsdc.gc.ca/en/publications_resources/research/categories/labour_market_e/sp_615_10_06/page01.shtml

# Turning what corner?

*The federal plan for climate change and the cost of rising emissions*

The federal government released its revised action plan to reduce greenhouse gases and air pollution in April. Its emphasis is on limits to industrial emissions, the development of energy efficiency standards for various appliances and mandatory fuel-efficiency standards for automobiles starting in 2011.

The plan also proposes absolute reductions in the emissions of other air pollutants responsible for smog and acid rain. These include $NO_X$ (nitrogen oxides), $SO_X$ (sulphur oxides), VOCs (volatile organic compounds) and PMs (particulate matter).

The government claims this will "turn the corner" on climate change and lead to an absolute reduction in greenhouse gas emissions of 20% by 2020 from 2006 levels. This would still be about 5% or more above Canada's Kyoto target ten years after the Kyoto period. Even with these much weaker goals, the plan provides little assurance that it will meet these targets. Facilities will be subject to short-term "emissions-intensity targets". This means that they can increase their levels of greenhouse gas pollution if they increase production levels.

The plan has at least nine different loopholes for companies that don't even reach these weak targets, including credits for past action, exemptions for certain types of processes, a 3-year grace period for new businesses, credits for investment in a technology fund, unlimited purchase of offsets from "unregulated activities" (such as planting cover crops), and a range of different opportunities for the purchase of emission credits.

Whether this or stronger policies are implemented, it is becoming increasingly clear that all sectors of society are going to have to take account of their greenhouse gas emissions and pay a price for this form of pollution.

Quebec, which has had one of the lowest rates of growth of GHG emissions in Canada, just announced a carbon tax on all fossil fuels at the equivalent of $3.33 per tonne $CO_2$, which translates to 0.8 cents a litre for gasoline. This is less than a tenth of most estimates of the social cost of the pollution associated with greenhouse gas emissions, but it is a start.

The table on the following page shows how much Canada's greenhouse gas (GHG) emissions have increased by broad sectors of the economy and by province.

The table also shows how much they are expected to increase by 2010 and the degree to which this is above Canada's Kyoto targets. For illustrative purposes, it also shows the cost of these *excess emissions* if they were priced at a rate of C$30/tonne of carbon dioxide ($CO_2$), which is considered a reasonable and moderate charge at this time.[1] The cost of the excess pollution at this price adds up to about $8 billion and is equivalent to 0.6% of Canada's current economic output. The choice of a baseline year will always be somewhat arbitrary, but 1990 was selected as the baseline for targets by international agreement under the Kyoto accord and there has been full knowledge of the agreement since then.

The table shows that oil and gas industries and transportation will be responsible for about half of Canada's growth in emissions since 1990[2]. The cost of this excess above Kyoto levels (6% below 1990 emissions) is about $2 billion for each of these sectors. Power generation and other industries will be responsible for a third of the increase, with residential, commercial, and public only responsible for 6% and other sectors, including waste, responsible for 12%.

Almost half of Canada's total increase in emissions by 2010 will have come from Alberta, partly due to its growing economy, but also due to the booming oil and gas sector. Two-thirds of Alberta's increase in emissions will come from higher emissions from oil and gas and other industries. At the cost of $30/tonne $CO_2$, the cost of this additional pollution would total $3.7 billion in 2010.

Ontario is responsible for about 20% of the growth in emissions. Over half of its increase is expected to come from transportation and a third from power generation. Saskatchewan will have added about 12% of Canada's total increase, with most coming from oil and gas and agriculture, and British Columbia will have added about 9%, with most of its increase coming from transportation and oil and gas industries.

[1] $CO_2$ emission trading permits for the 2010 period are now trading at about C$35/tonne on the European Climate Exchange. http://www.europeanclimateexchange.com/default_flash.asp

[2] This is an underestimate: the oil and gas and fossil fuel industries are in fact responsible for about 22% higher emissions as some of their emissions are classified in other sectors.

| GHG Emissions by Sector and Province (in Megatonnes of $CO_2$ equivalent) and Illustrative Costs | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| By Sector | Kyoto | 1990 | 2004 | 2010 Forecast | 2010 above Kyoto | % above Kyoto | Cost of excess at $30/T (millions) | |
| | | | | | | | | |
| Total | 563 | 599 | 758 | 828 | 265 | 47% | $ | 7,962 |
| Power Generation | 89 | 95 | 130 | 131 | 42 | 47% | $ | 1,247 |
| Industrial | 128 | 136 | 135 | 173 | 45 | 35% | $ | 1,347 |
| Residential and Agriculture | 43 | 46 | 45 | 45 | 1 | 3% | $ | 43 |
| Commercial & Public Admin | 24 | 26 | 38 | 40 | 16 | 64% | $ | 467 |
| Oil and Gas | 71 | 76 | 127 | 133 | 62 | 87% | $ | 1,858 |
| Transportation | 140 | 149 | 193 | 210 | 70 | 50% | $ | 2,092 |
| Other sectors | 66 | 70 | 89 | 97 | 31 | 47% | $ | 936 |
| | | | | | | | | |
| By Province | | | | | | | | |
| Canada | 563 | 599 | 758 | 828 | 265 | 47% | $ | 7,962 |
| Newfoundland & Labrador | 9 | 10 | 11 | 11 | 2 | 17% | $ | 48 |
| Prince Edward Island | 2 | 2 | 2 | 2 | 0 | 6% | $ | 4 |
| Nova Scotia | 19 | 20 | 23 | 25 | 6 | 33% | $ | 186 |
| New Brunswick | 15 | 16 | 24 | 23 | 8 | 53% | $ | 239 |
| Quebec | 82 | 87 | 93 | 99 | 17 | 21% | $ | 517 |
| Ontario | 166 | 177 | 205 | 216 | 50 | 30% | $ | 1,489 |
| Manitoba | 17 | 18 | 20 | 23 | 6 | 36% | $ | 182 |
| Saskatchewan | 40 | 43 | 69 | 72 | 32 | 78% | $ | 947 |
| Alberta | 158 | 168 | 235 | 281 | 123 | 78% | $ | 3,692 |
| British Columbia | 48 | 51 | 67 | 73 | 25 | 52% | $ | 752 |

Source: Calculations based on Natural Resources Canada, *Canada's Energy Outlook: the Reference Case 2006,* and additional data files.

## Climate Change: profile of impacts

Global warming is already affecting Canadians: through changes in the weather, in their communities, in their workplaces and already on their household bills.

It is very difficult to calculate what the impacts and costs will be: it involves a great deal of uncertainty, increasing risk and unpredictable impacts over a long time period.

The Stern Review on the economics of climate change, commissioned by the UK government and by far the most comprehensive analysis so far on the economics, estimated that the long-term costs would amount to between 5% and 20% of global economic output by the end of the century, if we don't take action to reduce emissions. The cost of preventing this damage is estimated at approximately 1% of GDP if action is taken soon, but costs will rise rapidly if action is further delayed.

While Canada's federal government has been negligent in not acting on this issue, CUPE members and other working families need to be aware of the coming changes so they can plan for the future and take action.

The impacts and costs of climate change involve:

- *Direct impacts and adaptation measures:* to cope with the warming climate, more extreme weather events and the wide range of resulting consequences.
- *Mitigation and reduction actions and impacts:* to reduce greenhouse gas emissions and prevent further damaging climate change.

These impacts can be further categorized for CUPE members by where they will take place: through *households, workplaces* and broader impacts through *Communities.* The following table provides an outline of the ways CUPE members could be affected in these different areas.

Certain areas of Canada have already been significantly affected. There has been a $10 billion loss in timber resources from the spread of the pine beetle in Western Canada, significant warming in the North and human health impacts. Federal government researchers estimate that extreme temperatures and air pollution now cause 2,500 premature deaths in just four Canadian cities, equivalent to $2.7 billion in lost earning power.

Some of the impacts and costs can be determined in a relatively straightforward manner, others are much harder to establish. Good environmental policies can reduce emissions and damages in a cost effective way. Poorly designed and misguided policies, such as turning food crops into fuel ethanol, will result in more damage than good.

| | **Outline of Potential Climate Change Impacts and Measures** | | |
|---|---|---|---|
| | **Households** | **Workplaces** | **Communities** |
| ***Direct Impacts and Measures to Adapt to Climate Change*** | Weather*:* warmer temperatures, more extreme weather, increasing floods and droughts, impacts on animals and ecosystems.<br><br>Health*:* heat waves, smog, extreme weather disasters, new pests, fewer cold-related diseases.<br><br>Costs*:* for cooling, repair and adaptation, water services, insurance premiums, food price increases, higher taxes and prices to pay for society-wide costs.<br><br>Risks and costs increase, especially for poor and vulnerable, certain populations. | Need for *investment* in buildings, utilities and infrastructure for repair and adaptation.<br><br>*Health and safety* conditions in workplaces to cope with heat, other impacts.<br><br>*Benefit* plans affected by changing conditions, increased risks.<br><br>Increased pressure on *health and social services* to cope with human health and social service impacts. | Increased social costs and risks from impacts and for adaptation measures.<br><br>Broader direct impacts on jobs and industries: especially in forestry, agriculture, tourism, and resources.<br><br>Adaptation opportunities in building infrastructure maintenance and repair. |
| **Mitigation and Reduction Actions and Impacts** | Information, education and advocacy required to make changes.<br><br>Energy efficiency and waste reduction activities in home and household activities.<br><br>Higher costs for goods and services from public policies: for fuels, food, transportation and general price increases from putting a price on pollution.<br><br>Health benefits from reduced heat and pollution.<br><br>Financial benefits from increased energy efficiency.<br><br>Distributional impact: up-front investments needed, which are much more difficult for lower income households. | Development of environmental education, training, audits, workplace committees and strategies, collective agreement provisions.<br><br>Energy conservation and efficient transportation measures for workplace: retrofits, waste reduction, recycling, vehicles, public transit, alternative work arrangements.<br><br>Health co-benefits from reduced pollution.<br><br>Economic benefits from energy efficiency and reduced waste.<br><br>Potential for job losses, job gains and changing job roles in many areas. | Credible public political leadership needed to reduce uncertainty with comprehensive and definite strategy, regulatory framework and reliable research and information.<br><br>Range of different measures required: education, information, R&D, regulations and standards, economic instruments, direct public investments, subsidies, improved public infrastructure transit and urban planning, model behaviour, persuasion, and penalties.<br><br>Transition, adjustment and redistribution measures to reduce impact on different sectors, households and vulnerable communities.<br><br>Cleaner communities and broader health, social, economic and environmental benefits realized from reduced pollution and waste. |

# Inflation rising

*Subsidies for ethanol boosting grocery bills, inflation, and even the price of beer*

Canada's inflation rate is moving up, due partly to wrongheaded "environmental" policies. Unfortunately, the cure for these higher prices – an expected hike in interest rates by the Bank of Canada – will be equally misguided.

The two major factors pushing up inflation recently have been continued increases in housing and shelter costs and rising food prices. A major factor increasing food price around the world has been government subsidies and regulations mandating use of ethanol, which leads to a diversion of food crops to fuel. This has particularly hurt low and middle-income households, and poor people around the world, for whom spending on food is a much larger share of their budget.

Despite last summer's cut in the GST, average consumer prices were 2.2% higher in April 2007 than a year before.

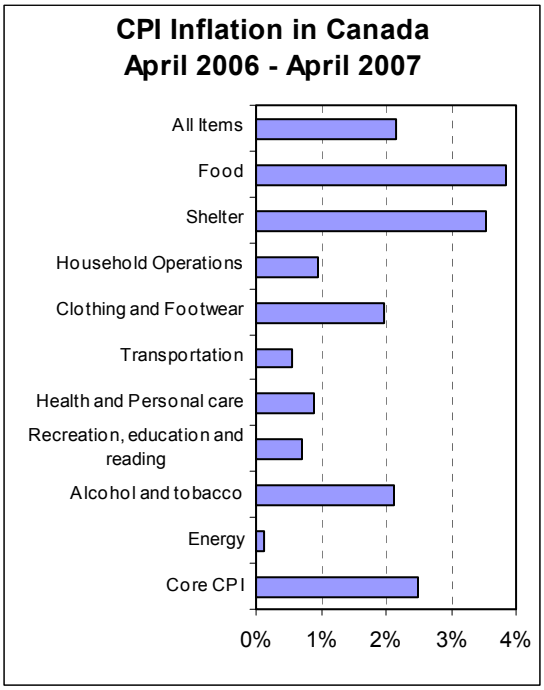
All major economic forecasters have bumped up their expectations for CPI inflation this year and next. At the start of this year, forecasters at the large banks expected Canada's CPI to increase by an average of 1.6% in 2007 and by 2.0% in 2008. Now the average forecast for CPI this year is 2.2% this year and 2.3% in 2008. Those who have updated their forecasts in the past month expect higher rates of 2.4% or 2.5%.

The core inflation rate, which excludes energy and other volatile prices, increased by 2.5% in April, the highest it has risen in four years. The Bank of Canada has strongly indicated that it will increase short-term interest rates soon.

This has already led to higher mortgage and consumer credit interest rates, higher prices for consumers and an increase in the value of the dollar. The higher dollar and higher interest rates will cause more damage and job loss for Canada's manufacturing, forestry and other struggling export sectors, but it will do little to tackle the real reasons for increasing inflation.

Statistics Canada's shelter and housing price index increased by 3.5% in April from the previous year. Higher prices for houses, mortgage interest costs, insurance premiums and water all helped to push up these costs.

The real impact is probably higher because the way that Statistics Canada calculates the CPI underestimates the impact of house price increases on inflation, especially in major centres such as Vancouver and Toronto. House price increases have started to taper off in recent months, with the new housing price index rising at 8.9% in April, but mortgage interest rates have been increasing.




The Bank of Canada's latest statement pushed mortgage rates up further. The posted rate for a five year mortgage is now more than 69 basis points higher than at the beginning of this year (1 basis point equals 1/100$^{th}$ of a percentage point).

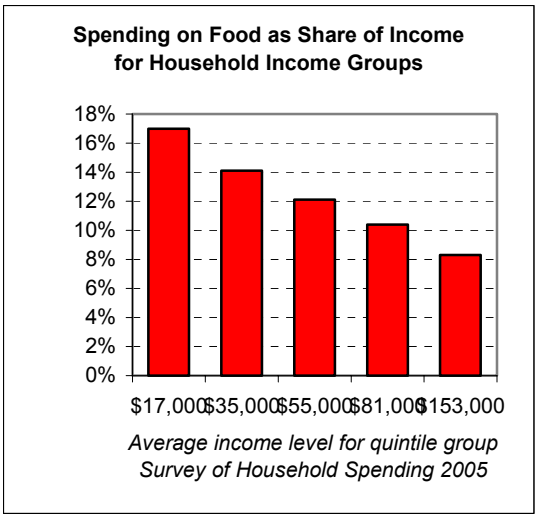
This increase in interest rates so far this year would translate to extra interest costs *of more than $1,100 a year* for a standard 20 or 25-year mortgage for $225,000 (75% of the value of a $300,000 home - the average home selling price in Canada now). The banks have benefited from these higher rates. Most of the major banks in Canada have reported a double-digit increases in profits, with the profit of the big five banks reaching about $4.5 billion in the second quarter of this year.

Average food prices increased by 3.8% in April from the previous year, with a 4.5% increase for food purchased from stores.

There were similar substantial increases for meat, diary and cereal products. Prices for fruits and vegetables, which are usually more volatile, increased by an average of 10%. For an average household in Canada, the higher food prices this year will add about $250 to their annual grocery bill – and a total of about $3 billion for all the 12.2 million households in Canada.

Food price increases particularly hurt lower and middle-income earners: food and grocery bills account for 17% of total spending by lower income households, double the average 8.3% share for higher income households[3].

The culprit for rising grocery bills is what is being marketed as a green alternative to gasoline: ethanol and other biofuels. In North America, ethanol and biofuels are mainly produced from food crops, such as corn, wheat, canola and even soybeans. Regulations to mandate a minimum biofuel content in gasoline in Canada and the United States, together with billions in subsidies for the industry, have resulted in the diversion of billions of bushels of corn and other crops to ethanol production.




The federal Conservatives passed a regulation to require 5 per cent average ethanol or other biofuel content in Canadian gasoline by 2010 and also announced $2 billion in subsidies for production of these fuels. This, together with similar actions in the U.S., has pushed the price of corn to its highest level in a decade, double what it was about a year ago, and also driven the price of other cereals much higher.

Products made from corn are pervasive through our food system. It is widely used to make sweeteners, thickeners, as a feed for livestock, cereals, oils, and many other products. Already, the higher cost of corn has pushed up prices for meat, diary and other products and also driven up prices for inputs, such as fertilizer, and substitute production.

It is estimated that ethanol distilleries in the U.S. will consume 130 million tonnes of corn in 2008, about half of its entire crop and 20 per cent of the total global production. To meet the Canadian target for ethanol and biofuels of 5% of fuel consumption by 2010, this would require about 50% of total corn production, about 11% of wheat and 8% of canola, if it were all sourced domestically[4].

The ethanol and biofuel boom – and lack of a definite greenhouse gas reduction plan – has also perversely helped lead to high retail prices for gasoline.

Oil companies say they are scaling back or reconsidering plans to expand oil refinery capacity with the emphasis on biofuels and lack of certainty about emissions regulations. This has allowed oil companies to hike retail prices far above what they should be based on the current price for crude oil[5]. There is no doubt also a fair amount of opportunism on the part of oil companies to hike prices by restricting refinery production and perhaps attempting to forestall the introduction of carbon taxes or other greenhouse gas emission measures. Profits of Canadian petroleum and coal manufacturers increased by almost 34% in the first quarter of this year to $2.7 billion.[6]

The ethanol and biofuel boom is pushing up food prices all around the world. Food prices are expected to rise by 5-7% in the U.S. this year and next. Much worse is the impact on other countries and poor people around the world, where food is a much higher share of household expenses – up to an average of 50% in some countries.

[3] Survey of Household Spending 2005 data tables.

[4] Frederic Forge 2007. *Biofuels – An Energy, Environmental or Agricultural Policy?*, Library of Parliament, 8 February 2007. http://www.parl.gc.ca/information/library/PRBpubs/prb0637-e.pdf

[5] See New York Times. *Oil Industry Says Biofuel Push May Hurt at Pump*, May 24, 2007. Also see Hugh Mackenzie, Canadian Centre for Policy Alternatives: http://www.gasgouge.ca/ ; "The problem is oil company gouging, not higher prices". http://policyalternatives.ca/index.cfm?act=news&call=1630&pa=BB736455&do=Article

[6] Statistics Canada Quarterly financial statistics for enterprises. May 24, 2007 http://www.statcan.ca/Daily/English/070524/d070524a.htm

According to the IMF, global food prices increased by 10 per cent in 2006, driven mostly by higher corn, wheat and soybean oil prices, thanks to rising U.S. demand for ethanol and biofuels, turning food into fuel[7]. For instance, this has led to a tripling or quadrupling of tortilla prices, a major protein source for the poor, in parts of Mexico, tortilla riots, and government price controls. And, in what might be a particular concern for Canadians, diversion of crops to ethanol is also leading to higher beer prices in different parts of the world.

If these policies to encourage ethanol and biofuel production from our food crops actually helped the environment by reducing greenhouse gases, they may have some merit. However producing ethanol from corn or wheat is very energy-intensive and only leads to small reductions in greenhouse gas emissions. If 5% of the fuel used in Canada came from corn-based ethanol, our greenhouse gas emissions would only drop by 0.5%.[8] Production of ethanol from sugar, as is done in Brazil, is much more energy efficient, but it has also led to destruction of rainforests, so the overall benefits are very debatable.

The federal subsidy of 10 cents a litre for ethanol works out to a subsidy of about $120 per tonne of CO2 reduced when the ethanol is produced from corn. This is a very inefficient way of reducing greenhouse gas emissions and far higher than the cost of reducing most greenhouse gas emissions in others ways through industry reductions or retrofits [9].

Ethanol production from corn and other food crops can also lead to soil depletion, fertilizer pollution and could lead to further water shortages. It can take about 4 gallons of water to produce 1 gallon of ethanol.

Production of biodiesel, as well as ethanol from cellulose, such as wood, straw grass and agricultural residues, is potentially better for the environment, but is not currently economically viable. The subsidy rates are still excessive compared to alternatives.

Subsidies for ethanol and biofuels may be politically justified in part as agricultural subsidy programs, but there is not a lot of evidence that the benefits are going to farmers or small farmers at that. Despite higher revenues from crops, overall farm incomes have declined and smaller farms have not benefited from higher incomes[10]. Few of the new ethanol facilities now being planned are owned by farmers.

If the intention of the policy really is to support farmers, they would be much better off with a real agricultural support program that benefited small farmers, encouraged sustainable agriculture, and didn't penalize families with higher grocery bills by turning food into fuel.

[7] IMF World Economic Outlook, April 2007, page 44. http://www.imf.org/external/pubs/ft/weo/2007/01/index.htm

[8] See Forge 2007, p. 7.

[9] NRCan estimates that an E-10 (10% ethanol) blend from corn produces 3-4% fewer GHG emissions over its lifecycle. This is equivalent to about 83 fewer grams of CO2 per litre at a subsidy of 1 cent a litre, which is equivalent to a subsidy of $121 per tonne.

[10] Statistics Canada Daily May 28, 2007. Net farm income 2006. http://www.statcan.ca/Daily/English/070528/d070528a.htm

# Inflation diverging by province and income group

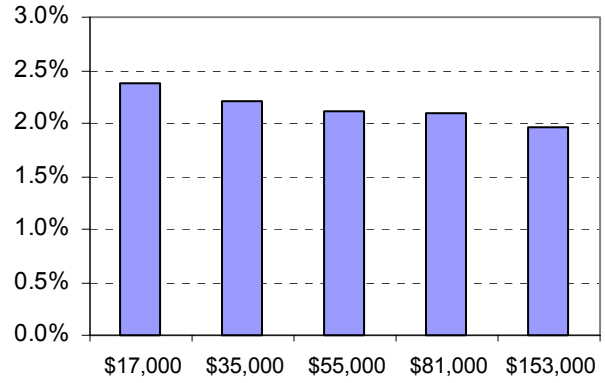
The rate of consumer price inflation varies widely across Canada: from 1.1% in New Brunswick to 5.5% in Alberta. Saskatchewan was the only other province besides Alberta to post an inflation rate above the national average, with an increase of 2.4% in April

Consumer prices in Nova Scotia, Newfoundland, P.E.I and Quebec all increased by an average of 1.4%, while the rise was 1.8% in Ontario, 1.9% in B.C. and 2.2% in Manitoba. The chart below shows average inflation rates for the year to date by province and major city in Canada.

On a regional level, inflationary pressures in Canada are very much being fuelled by the booming Alberta economy. The average inflation rate for Canada outside of Alberta was 1.7% in April, well below the Bank of Canada's target rate of 2%. The average so far this year for Canada outside of Alberta is only 1.5%. It clearly makes more sense to cool down excessive growth in the oil sands than to punish the rest of the economy with higher interest rates and a higher dollar because of rising prices in Alberta.

These figures are for average inflation rates, which are used as estimates for the change in the cost of living. But each household will experience different changes in their cost of living depending on their income levels, pattern of spending, local price changes and the choices they have available. Unfortunately Statistics Canada doesn't produce regular price indexes for different income levels, but it is possible to generate estimates using spending patterns from the *Survey of Household Spending* for different income groups.

**Consumer price increases by income group**
**April 2006 to April 2007**




*Average income level for quintile group*
*Calculations by CUPE*

These calculations – using price changes for major components of the Consumer Price Index (CPI) – indicate that lower income groups have experienced larger increases in their cost of living than higher-income groups.

The 20% of households with the lowest incomes in Canada (average income ~$17,000) faced price increases averaging about 2.4% compared to 2.1% for the middle-income group (average $55,000) and 1.95% for the highest income group (average $153,000), based on these calculations.

These estimates, like the CPI, are based on spending ratios of total "current consumption". Consumer price increases have a much larger impact on middle and lower income households because their spending is a higher proportion of their income, as they tend to have less to save. A more accurate measure of the cost of living would take these other factors into account, also adjusting for income taxes, pension fund contributions, and investments.

## Inflation Outlook:

All the major banks have recently increased their forecasts for inflation in Canada for this year and next.

The most recent forecasts by major banks predict that Canada's consumer price index will increase by an average of 2.2% in 2007, up from the 1.6% they expected at the start of this year. More recent forecasts peg it even higher, up to 2.5%. The average forecast of CPI for 2008 is 2.3%, up from the average forecast of 2.0% at the start of this year.

Unfortunately, the major banks have not yet released up-to-date forecasts for provincial economies that take into account these recent price trends. However, if current trends continue, we can expect Alberta's CPI to average 4% to 5% this year; for the inflation rate in B.C., Saskatchewan and Manitoba to be a bit above the national average and to be a bit below the national average in Ontario, Quebec and most of eastern Canada.

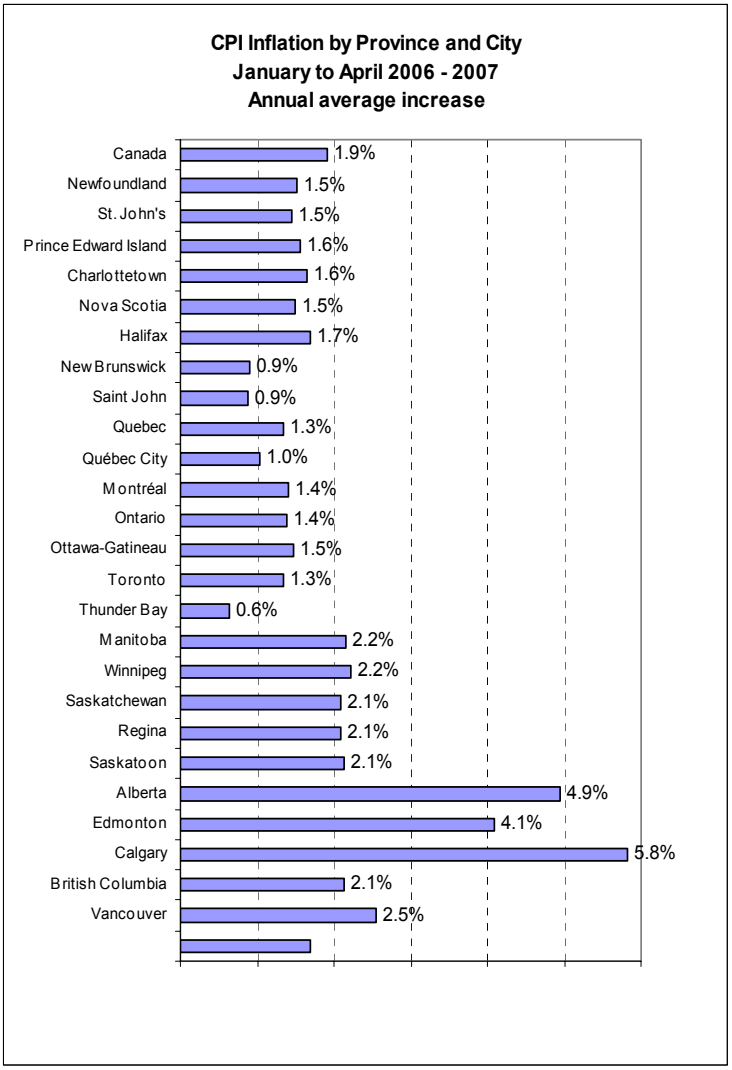
Food and energy prices are the most volatile elements of consumer prices. These prices tend to fluctuate a lot as a result of climate and market conditions. They will continue to fluctuate, but much of the recent momentum appears to be sustained and longer-term.

- The diversion of food for fuel ethanol as a result of public subsidies and regulations will continue to push up prices for food.

- Even though spot and future prices for crude oil are in the mid-$60US range, the price of gasoline at the pump across Canada averages well over $1.00 a litre and is about 15-20% higher than it should be, given normal profit margins[11]. Oil companies are restricting expansion of refining capacity, which has helped to keep prices high.

- Resale house prices are expected to increase by an average of 9.6% this year and by about 5% in 2008, according to both the Canada Housing and Mortgage Corporation and the Canadian Real Estate Association.

Price increases for food, gasoline and shelter have a proportionately much bigger impact on middle and lower income families.




Related Resources:

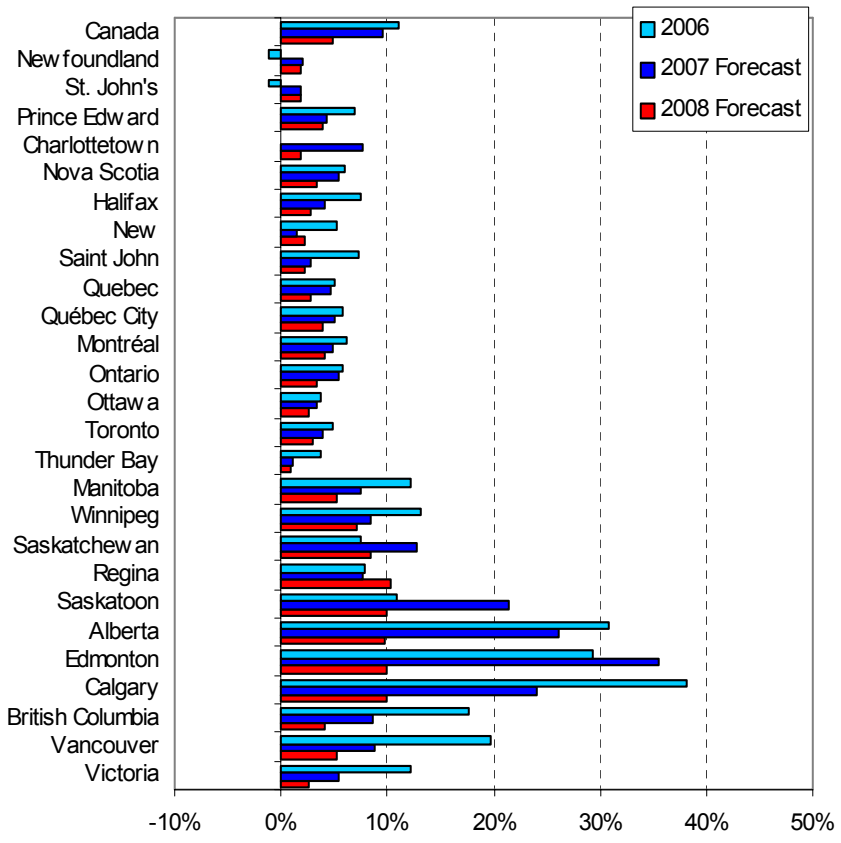
- CUPE has an on-line inflation calculator that calculates annual inflation rates for all provinces and major cities in Canada for different years http://www.cupe.ca/cpicalculator.php

- Statistics Canada provides free statistics and analysis on the latest inflation rates together with summary statistics. http://www.statcan.ca/english/Subjects/Cpi/cpi-en.htm http://www.statcan.ca/english/freepub/62-001-XIB/62-001-XIB2007001.htm

- CMHC Housing Market Outlook for house price forecasts: http://www.cmhc-schl.gc.ca/en/inpr/homain/foan/index.cfm

[11] See Hugh Mackenzie, *Gas Price Gouge, the Sequel*. Canadian Centre for Policy Alternatives. http://www.gasgouge.ca/index.php http://policyalternatives.ca/Reports/2007/05/ReportsStudies1624/

**Average Resale House Price Increases**
**Provinces and Major Cities**




*Source: CMHC Housing Market Outlook 2007Q2*

## Wage gains increase for public employees

Wage settlements reached in the first quarter of 2007 continued to provide union members with increased real wage gains. Average base wage increases for major agreements strengthened to 3.1%, above the average 2.5% achieved in 2006.

Public sector workers achieved greater gains, with average wage adjustments rising to 3.3% in the first quarter, up from 2.6% in 2006.

Public sector wage increases were led by agreements in Saskatchewan with average annual increases of 4% over three years (including CUPE municipal workers) and a 4.2% annual average increase for CUPE teaching assistants at the University of Toronto.

Wage adjustments averaged 3.1% in education, health and social services and utilities. Transportation workers gained annual increases averaging 3.2% in the 1st quarter, but this didn't include CUPE's arbitration settlement with Air Canada, which was settled in April. The average increase for workers in the information and culture sector during the 1st quarter was 1.6%

Seventy percent of public sector workers obtained wage increases between 3% and 3.9%, and twenty percent obtained wage increases between 4% and 4.9%.

Wage increases in the private sector were lower, averaging 2.6% in the first quarter of 2007, up from an average of 2.1% in 2006.

Wage adjustments in the private sector ranged widely, from a first year wage cut of 14% for meat packers in Quebec to an agreement with 6.6% average annual increase over two years for construction workers in northern Alberta and N.W.T.

On a regional basis, the 4% average wage gains for first quarter major settlements in Saskatchewan was followed by average 3.5% increases in Alberta and 3.1% gains in New Brunswick. Ontario, Quebec and Prince Edward Island shared average increases of 2.9%. Wage settlements in the first quarter averaged 2.7% in Manitoba, 2.3% in British Columbia, and 1.8% in Nova Scotia.

Agreements settled included a number of profit-sharing, productivity and merit pay provisions as well as recruitment and retention adjustments and provisions, especially for health care occupations. Agreements involve increasing use of health spending accounts, use of labour-management committees and inclusion for flexible work time and leave provisions in a number of agreements.

## Average Wage Settlements Major Collective Bargaining by Year

| | 2004 | 2005 | 2006 | 2007Q1 |
|---|---|---|---|---|
| All | 1.8 | 2.3 | 2.5 | 3.1 |
| Public Sector | 1.4 | 2.2 | 2.6 | 3.3 |
| Private Sector | 2.2 | 2.4 | 2.1 | 2.6 |

## Average Wage Settlements by Province

| | Nfld-Lab | PEI | NS | NB | QC | Ont | Man | Sask | Alta | BC | Multi Prov | Federal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2004 | 1.0 | 2.4 | 4.7 | 4.1 | 2.6 | 3.0 | 2.6 | 1.0 | 3.1 | -1.6 | 2.7 | 1.6 |
| 2005 | 2.1 | 2.5 | 3.2 | 3.0 | 1.6 | 2.7 | 2.9 | 1.9 | 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 | 2.4 | 3.5 | 2.3 |
| 2007 Q1 | - | 2.9 | 1.8 | 3.1 | 2.9 | 2.9 | 2.7 | 4.0 | 3.5 | 2.3 | 6.6 | 2.8 |

## Average Wage Settlements by Industry

| *Industry* | 2004 | 2005 | 2006 | 2007Q1 |
|---|---|---|---|---|
| Primary | 2.9 | 2.3 | 2.7 | 3.0 |
| Utilities | 3.1 | 2.6 | 2.3 | 3.1 |
| Construction | 2.7 | 2.5 | 3.5 | 2.9 |
| Manufacturing | 2.4 | 2.4 | 2.0 | 0.7 |
| Wholesale and Retail | 1.4 | 1.9 | 1.1 | 1.4 |
| Transportation | 0.6 | 2.9 | 2.1 | 3.2 |
| Information & Culture | 2.7 | 2.4 | 2.5 | 1.6 |
| Finance & Professional Services | 1.3 | 2.3 | 2.5 | 2.0 |
| Education, Health Soc. Services | 0.9 | 2.1 | 2.5 | 3.1 |
| Entertain/Hospitality Industry | 2.7 | 1.9 | 2.9 | 2.6 |
| Public Administration | 2.5 | 2.4 | 2.8 | 4.0 |

Source: Human Resources and Skills Development Canada, Major Wage Settlements, [latest information as of May 30, 2007]
http://www.hrsdc.gc.ca/en/lp/wid/adj/01wage_adj.shtml

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