

Economic climate for bargaining

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This report provides a broad overview of the general trends in wage settlements and other economic information as it pertains to collective bargaining in Canada. Information is taken primarily from the Organisation for Economic Co-operation and Development; Bank of Canada; Workplace Information Directorate of Human Resources and Skill Development Canada (HRSD); and Statistics Canada. Information for the third quarter 2004 (July-September) is generally the most recent information available now. Where possible, more recent information is included.

- **Global Economy**

Although world economic growth has been quite strong, the recent increase in oil prices has depressed incomes and has slowed economic growth in OECD countries. Part of the reason for increased oil prices has been high demand from expanding Asian economies, especially China and Japan. Oil prices are expected to decrease during 2005, but are not expected to return to the low prices of the 1990s.

One serious problem in the global economy stems from the fact that the United States is running record deficits in its current account, while East Asia is running huge surpluses.¹ As a result, East Asian countries have \$1.4 trillion U.S. to their credit, yet they are not buying U.S. goods and services. The U.S. is also running monumental budget deficits as a result of its tax cuts, and spending on defence and homeland security. Growth in the U.S. is expected

to increase by 4.4 per cent in 2004 and slow to 3.3 per cent in 2005.²

- **Currencies**

Because of this global imbalance, the U.S. dollar has depreciated. The Euro is hitting record highs and the Canadian dollar has strengthened in relation to the U.S. dollar. In October, the Canadian dollar was trading at close to 80 cents U.S., which was up from 71.5 cents U.S. in mid-May. By the end of November the Canadian dollar reached highs not seen in a dozen years. On November 26th, the dollar closed at 85.04 cents U.S. This means that our imports from the U.S. are cheaper and our exports to the U.S. are more expensive.

The new strength of the Canadian dollar is expected to continue to dampen the growth of exports and increase imports from the United States.

- **Economic growth**

The OECD assesses that Canada's growth has been higher than expected and the economy is operating close to full capacity. It estimates that growth will increase by 3.0 per cent in 2004 and 3.3 per cent in 2005. It further estimates that government consumption will increase by 2.8 per cent in 2004 and by 3.1 per cent in 2005. Public fixed investment (excluding nationalized industries and public corporations) is expected to increase by 3.4 per cent in 2004 and by 5.4 in 2005.³

The OECD warns that the Bank of Canada needs to continue raising interest rates to keep inflation low. It also advises that “the government should avoid any easing of the fiscal stance at this juncture, despite the unexpectedly large surplus recorded for the last fiscal year. Great vigilance should be exercised over spending, in particular with regard to additional transfers from federal to lower levels of government.”

Nevertheless, third quarter GDP figures were lower than those reported in the second quarter and Statistics Canada revised its first and second quarter GDP figures downwards as well.

Manufacturing exports were lower than expected after a strong second quarter. There was a massive buildup of inventories due to weaker sales and exports of motor vehicles.⁴

On world markets, non-oil commodity prices are also at high levels because of global economic expansion. Canada’s exports in primary products can be expected to rise over time.

Canada’s current account surplus with the rest of the world decreased by \$1.8 billion in the third quarter to \$9.4 billion. This is the first significant drop since the end of 2002.⁵

• **Public and Private Investment**

The Bank of Canada will raise interest rates when it believes the economy is not able to produce enough to satisfy demand without causing inflation. The Bank believes the Canadian economy is now close to this point, but there is a lot of debate on this subject.

Jim Stanford CAW, argues that the Canadian economy is not at full capacity, despite what mainstream economists say. Average earnings are growing more slowly than inflation and unit labour costs are declining. There are high levels of unused labour supply because of unemployment, underemployment and involuntary self-employment rates. More people would participate in the economy if they thought they could find work.

Stanford points out that there is, however, a physical capacity constraint, which means that machinery, tools, equipment, furniture, buildings and parts are insufficient to keep up with demand. This is mainly due to the fact that business investment has been at low levels, despite historically high profits and low taxes.⁶

It should also be pointed out that public investments in the economy’s physical capacity continue to be low. Government investment in fixed capital formation decreased in the third quarter, as it did in the second quarter.⁷ Both public and private investment must grow significantly if unemployment and underemployment of labour is to be overcome. Public investment in infrastructure continues to be too low. The Federation of Canadian Municipalities estimates the infrastructure deficit to be \$60.46 billion and growing.⁸

• **Government Finances**

For the seventh year in a row, the Federal government has announced a budget surplus. This year the surplus is \$9.1 billion, which is \$2.1 billion larger than last year’s surplus. Once again, the whole surplus was applied to the federal debt.⁹

The GST contributes 15.2 per cent to federal government revenues, while corporate income taxes are even less, at 14.7 per cent. The Goods and Services Taxes revenues decreased slightly, because of slow consumer spending and cheaper imports due to the strong dollar. As well, GST-HST rebates to municipalities meant revenues were down.

Despite the \$0.3 billion decline in EI revenue caused by the reduction in premium rates, the government took in \$17.5 billion in Employment Insurance premium revenues. It spent \$15.1 billion on EI during 2003-04. The surplus amounts to almost \$2.5 billion (\$2,488 million).

In its Annual Financial Report, the government announced it spent \$2.0 billion *less* on program spending than it said it would at the time of the 2004 budget. The Department of Finance attributes this to “the year-end spending freeze and delays in implementing initiatives from previous budgets.”

The government points out that program expenses increased by \$7.8 billion over the previous year, but we have to take a longer view. As a percentage of GDP, program expenses declined from 15.7 per cent in 1993-94 to 11.6 per cent in 2003-04.

The federal government forecasts a surplus of \$5.9 billion next year.¹⁰ The Alternative Federal Budget forecasts a federal surplus of \$ 7.7 billion next year.¹¹

- **Inflation:**

In October 2004, the Consumer Price Index registered a 2.3 per cent increase over the same month last year. A dip in gasoline prices last year, together with soaring gasoline prices this year, are the major reasons for this increase.

The Bank of Canada predicts that total CPI inflation will continue to be affected by increased energy prices and will increase to about 3 per cent until mid-2005, when world oil prices are expected to fall. The “core inflation” rate is projected to be about 1.5 per cent for the rest of 2004 and will reach 2 per cent by the end of 2005, continuing at this rate through 2006.¹²

The Bank of Canada raised interest rates on September 8 and October 19. Up until the release of third quarter economic results for Canada, it was widely expected interest rates would be increased on December 7th. Because of the fear that a rising dollar may further hurt exports, the Bank of Canada is expected not to increase interest rates as previously anticipated.¹³

Table 1: Inflation and Core Inflation in Canada, 2002 to present

	2002	2003	2004Q1	2004Q2	2004Q3	October 2004
CPI	2.2	2.8	0.9	2.2	2.0	2.3
Core inflation	2.3	2.2	1.3	1.7	1.6	1.4

Adapted from, Statistics Canada, *Consumer Price Index*, October 2004, Table 4, p.19; Bank of Canada, *Indicators of Capacity and Inflation Pressures for Canada*, www.bankofcanada.ca/en/indinf.htm, December 1, 2004.

What is “core inflation”?

Increasingly in negotiations, employers refer to the “core inflation” rate discussed by the Bank of Canada. The core inflation rate excludes changes in the price of fruits, vegetables, gasoline, fuel oil, natural gas, mortgage interest rates, inter-city transportation, or indirect taxes. These days, the core inflation rate tends to be lower than the CPI.

The central bank has the responsibility of maintaining the purchasing power of money and so, justifies its anti-inflationary policies. The causes of certain price changes, however, are considered to be beyond the scope of the Bank’s policy. The Bank of Canada relies on the “core inflation” rate to assess the underlying inflationary pressures that it can do something about. It prefers to ignore some fluctuating and apparently short-term changes in prices that it argues, have little to do with monetary policy.

We, however, are not so much concerned with the *causes* of inflation.

We are concerned with its *effects* on the wages of our members. Since workers have to pay for price increases in all the items in the CPI basket, then they should all be included at the bargaining table.

- **Unemployment**

The November 2004 unemployment rate rose to 7.3 per cent, up 0.2 percentage points from October. Youth unemployment in November was 13.2 per cent.

Table 2 Cross-Canada Unemployment rate, October - November 2004, seasonally adjusted, percentages

	October	November	Change
Canada	7.1	7.3	0.2
Newfoundland And Labrador	15.8	16.5	0.7
Prince Edward Island	11.8	10.5	-1.3
Nova Scotia	8.8	9.0	0.2
New Brunswick	10.1	9.9	-0.2
Quebec	8.6	8.9	0.3
Ontario	6.5	7.0	0.5
Manitoba	5.1	5.1	0.0
Saskatchewan	5.2	5.4	0.2
Alberta	4.7	4.6	-0.1
British Columbia	6.9	6.4	-0.5

Source: Statistics Canada, Labour Force Survey, December 3, 2004

- **Wage Adjustments from Major Settlements** ¹⁴

Third quarter 2004 settlements gained in major collective bargaining provided average increases of 1.3 per cent annually over the contract term. This was the same rate as in the second quarter, but lower than the 2.8 per cent average increases of the first quarter.

Second quarter average wage increases in the private sector averaged 2.5 per cent, while public sector wage adjustments averaged – 0.4 per cent.

The steep decline between the first and second quarters was due to the 15 per cent wage cut imposed on B.C. health care workers in May 2004. Excluding the BC HEU-HEA agreement, second quarter public sector agreements increased wages by an average of 2.5 per cent. When these parties last bargained, wage adjustments averaged 3 per cent.¹⁵

Third quarter private sector wage adjustments averaged 0.9 per cent. Public sector agreements averaged 1.6 percent.

The low public-sector wage adjustments in the third quarter are due mainly to two new settlements with the Health Employers Association of British Columbia. 40,000 nurses and paramedics are subject to wage freezes. Excluding these agreements, public sector wage adjustments average 3.1 per cent.

The low private sector wage adjustments in the third quarter are due to several Air Canada agreements that vary from wage freezes, to cuts of 10 per cent. Excluding these agreements, the private sector averaged wage increases of 2.7 per cent.¹⁶

Table 3: Average Wage Settlements, Major Collective Bargaining, 2003 to present

	2003	2004 Q1	2004Q2	2004Q3
All	2.5	2.8	1.3	1.3
Public Sector	2.9	2.8	-0.4	1.6
Private Sector	1.2	2.7	2.5	0.9

Source: Human Resources and Skills Development Canada, Workplace Information Directorate, Wage Adjustments from Major Settlements, *Wage Settlements Bulletin*, 15:11, November 2004.

- **Sectoral Differences in Major Settlements**

If we look at how average settlements have fared so far this year, we see significant differences between different sectors of the economy:¹⁷

- Utilities: 3.2 per cent
- Information and Cultural Industries 2.8 per cent
- Education, Health and Social Services: 0.5 per cent
- Public Administration: 2.8 per cent
- Transportation: 0.4 per cent
- Primary Production: 2.9 per cent
- Construction: 2.7 per cent
- Wholesale and retail trade: 1.6 per cent
- Financial and Professional Services: 2.0 per cent
- Entertainment and Hospitality 2.6 per cent

Year-to-date wage adjustments from public sector settlements are averaging 1.1 per cent, while private sector adjustments are averaging 2.2 per cent. Year-to-date inflation is running at 2.8 per cent.¹⁸

- **Small Bargaining Units**

The Workplace Information Directorate conducts sample surveys of small, medium and large bargaining units, as well as compiling information on major settlements. Third quarter settlements in small bargaining units (between 100 and 499 employees) reported average increases of 2.4 per cent. Public sector settlements in this group were on average 2.7 per cent, while private sector settlements in small units averaged 2.3 per cent increases.¹⁹

Table 4. Jurisdictional Wage Adjustments (average percentages), 2003-2004

	Nfld -Lab	PEI	NS	NB	Que	Ont	Ma n	Sask	Alta	BC	Multi- Prov.	Fed. Jurisd.	Public Sector	Private Sector
2003	3.1	3.2	3.3	2.8	2.2	3.3	2.8	3.0	3.0	1.3	2.5	1.8	2.9	1.2
2004 (year to date)	1.0	2.4	4.0	4.1	2.6	3.0	2.9	1.5	3.1	1.8	2.6	1.0	1.1	2.2

Source: Workplace Information, Wage Settlements Bulletin, August 2004 15:8, p.4

Employers' Forecasts

- Morneau Sobeco (Compensation Trends and Projections for 2005) survey of 300 employers, forecasts average salary increases for 2005 range from 2.5 per cent for hourly-pd non-unionized workers to 3.2 per cent for executives. Employers surveyed by Morneau Sobeco predict 2.1 per cent increases for the public sector in general and 1.7 per cent for unionized public sector workers in 2005.²⁰
- Watson Wyatt (2004 Annual Canadian Salary Survey of 429 employers) reported salary increases of 3.2 per cent in 2004 declining from 3.3 percent actual increase in 2003. Employers are forecasting 2005 increases of 3.1 percent in the private for-profit sector and 3.0 per cent in the public sector.²¹
- The Hay Group (Compensation Planning Update for 2005), survey includes, among others, 133 employers in the broader public sector. Increases in the base pay scale of the broader public sector are expected to be 2.1 percent in 2005.²²

The Bank of Canada expects increases in average hourly earnings of permanent workers to rise between now and 2006. The increase in unit labour costs are expected to be at or below 2 per cent.²³

Table 5. Selected Recent Major Settlements – July, August, September 2004

Employer		Average Annual Percentage Increase	# of Employees	Duration	Expiry
Air Canada	Flight attendants	-4.9	7,110	25	2006-06-29
Ryerson University, ON	Office	2.7	690	36	2007-06-30
Hamilton-Wentworth SB, ON	Custodial	2.3	550	36	2006-08-31
Durham Region Municipality, ON	Inside	2.2	1,300	48	2008-03-31
Bruce Power, ON	Trades	3.0 (with COLA)	2,480	36	2006-12-31
Capital District Health Authority, N.S.	Health and Social care professionals	5.1	3,100	36	2006-10-31
Bell Canada, ON, QUE	Craft and service	2.9 (with COLA)	7,190	48	2007-11-30
Central Care Nursing Home, ON	Non-medical	2.1	600	39	2007-03-31
Toronto DSB, ON	Trades	3.0	700	12	2004-08-31
Univ. Western Ontario	Teaching Assist	4.1	1,400	24	2006-08-31
Cara Operations, Vancouver Int'l Airport, BC	Hotel and restaurant	0.7	650	36	2007-07-31
Pacific National Exhibition, BC	Service and maintenance	2.0	2,200	36	2006-12-31
Durham Region Police Services, ON	Police officers	3.9	840	24	2005-12-31
Epcor Utilities, ALTA	Office	3.3	910	36	2006-12-23
Epcor Utilities, ALTA	Utility workers	3.3	650	36	2006-12-23
Aliant Telecom, Atlantic Coast	Office and technicians	2.9	4,500	36	2007-12-31

		Average Annual Percentage Increase	# of Employees	Duration	Expiry
Calgary Board Education, ALTA	Teachers	2.5	5,680	48	2007-08-31
Brock University, ON	Teaching Asst.	4.7	700	36	2007-06-30
Carleton University, ON	Support	3.0	700	36	2007-06-30
Government of New Brunswick,	Nurses	4.5	4,390	48	2007-12-31
Health Employers Assn, BC	Para medics	0.0	13,000	24	2006-03-31
Ottawa Hospital, ON	Non-medical	2.8	3,000	36	2004-09-28
University of Windsor	TAs	3.0	900	36	2007-08-31
City of Saskatoon	Inside-outside	1.7 (COLA)	1,380	36	2006-12-31

Source, Workplace Information Directorate, Human Resources and Skills Development Canada, *Wage Settlements Bulletin*, September 2004 p.4; October 2004, p.4; November 2004, p.5

Recent Decisions

Some important recent settlements will not be reported by the Workplace Information Directorate until later in December. We can take note of the following:

- Arbitration in the case of blue collar workers in the amalgamated City of Montreal resulted in a three-year contract with increased hours of work and 8.5 per cent increase over 6 years. On average the increase will be only 1.4 per cent per year²⁴

The Montreal Gazette (1 octobre, 2004) says workers will get a 1.5% pay raise each year for 3 years, starting Nov. 1. All employees will get a lump sum payment of 2% for 2002 and 2% for 2007. As well, they say 20 basic pay categories were created. When added together this amounts to 8.5% over 6 years, but lump sum payments should not be counted the same way since they don't increase the base rate.

SCFP en bref (25 octobre 2004), reports that all salaries were reduced. SCFP en bref also noted that paid holidays were rolled back from 15 to 8 per year; sick leave was reduced; protection against sub-contracting was abolished, among other rollbacks. CUPE Local 301 is challenging the binding decision for the first collective agreement for the new megacity of Montreal.

- On October 15, Mediator Vince Ready imposed a seven year contract on 4,300 unionized BC Ferries Services workers. The binding arbitration includes a wage freeze for the first three years, followed by annual increases of one, one, two and two per cent²⁵
- PSAC members are currently voting on tentative agreements with the Federal Government. PSAC recommended acceptance of agreements with the Canadian Food Inspection Agency, Parks Canada Agency, Canada Revenue Agency, Table 2 and Table 5; The tentative agreement averages 2.4 per cent over 4 years. PSAC recommends Table 1 and Table 3, members do not accept Treasury Board's final offer.²⁶
- After a long October strike, 6,500 CUPE members accepted an agreement with New Brunswick Hospitals that provides a 12.6 increase over 4 years.²⁷

Selected Current Key Public Sector Negotiations in Progress

• Government of Canada	Various Unions	118,470 employees
• Canadian Food Inspection Agency	PSAC and PIPSC	4,350 employees
• Canada Revenue Agency	PSAC and PIPSC	41, 480 employees
• Government of Nova Scotia	CUPE	1,600 employees
• Capital District Health NS	NSGEU	4,800 employees
• Nova Scotia Health Organizations	CUPE	3,300 employees
• Government of New Brunswick,	Teachers	7,600 employees
• Government of Quebec	Various Unions	323,470 employees
• SAQ, Québec	Synd. Empls.SAQ	3,500 employees
• Ontario Nursing Homes,	SEIU	3,200 employees
• Ontario Hospital Association,	Various unions,	74,170 employees
• Government of Ontario,	AMAPCEO	6,000 employees
• Reg. Health Author. Manitoba,	CUPE/Nurses	22,000 employees
• Government of Saskatchewan, Sask.	Gov't -Gen. Empls	9,860 employees
• Government of Saskatchewan,	Teachers	12, 400 employees
• Saskatchewan Assn of Health Orgs.	Various Unions,	24,530 employees
• Sask Power,	CEP and IBEW,	1,980 employees
• Health Authorities of Alberta,	AUPE	20,000 employees
• Government of Alberta,	AUPE	19,000 employees
• Hydro-Québec,	CUPE	2,800 employees

¹ A country's "current account" is that section of a country's balance of payments statement which includes total international transactions for import and export payments, interest on debts, profits from foreign direct investment, remittances from migrants and aid grants. The current account plus the capital account equals the balance of payments. A current account surplus implies that a country is a net lender to the world. A deficit implies that a country is a net borrower.

² Organization for Economic Cooperation and Development, "United States", *Economic Outlook*, No. 76, preliminary edition, 30 November, 2004. www.oecd.org/OECD/EconomicOutlook

³ Organization for Economic Cooperation and Development, "Canada", *Economic Outlook*, No. 76, preliminary edition, 30 November, 2004. www.oecd.org/OECD/EconomicOutlook

⁴ Statistics Canada, *Canadian Economic Accounts Quarterly Review*, Third Quarter 2004, November 2004, p.p. 1, 7-8.

⁵ Statistics Canada, "Canada's balance of international payments: Third quarter, 2004", *The Daily*, November 29, 2004, p.2

⁶ Jim Stanford, Economist, Canadian Auto Workers, "Alternative Perspectives on Current Monetary Policy Issues", Bank of Canada Meetings, November 2004.

⁷ Statistics Canada, *Canadian Economic Accounts Quarterly*, Third Quarter 2004, p.12

⁸ Federation of Canadian Municipalities, "Infrastructure Deficit Counter"

http://www.fcm.ca/newfcm/Java/deficit/counter_e.asp

⁹ Department of Finance Canada, "Annual Financial Report of the Government of Canada – Fiscal Year 2003-04" www.fin.gc.ca/afr/2004/afr04_1e.html

¹⁰ Department of Finance, "Economic and Fiscal Update", November 16, 2004.

¹¹ Canadian Centre for Policy Alternatives, Alternative Federal Budget, Economic and Fiscal Update, November 10, 2004.

¹² Bank of Canada, "Table 3: Projection for Core and Total CPI Inflation", *Monetary Policy Report*, October 2004, p.32

¹³ Bruce Little, "Suddenly signs point to no rate increase", *Globe and Mail*, Thursday December 2, 2004.

¹⁴ Major Settlements are defined as those with bargaining units involving 500 or more employees in all industries and jurisdictions across Canada. This group covers approximately 60 per cent of all unionized workers. Human Resources and Skills Development Canada, Workplace Information Directorate, Wage Adjustments from Major Settlements, *Wage Settlements Bulletin*, 15:11, November 2004.

¹⁵ Workplace Information Directorate, *Wage Settlements Bulletin*, August 2004.

¹⁶ Human Resources and Skills Development Canada, Workplace Information Directorate, *Wage Settlements Bulletin*, 15:11, November 2004.

¹⁷ Workplace Information Directorate, *Wage Settlements Bulletin*, November 2004, p.4

¹⁸ Workplace Information Directorate, Human Resources and Skills Development Canada, *Wage Settlements Bulletin*, 15:11 November 2004, p.4.

¹⁹ Workplace Information Directorate, *Wage Settlements Bulletin*, November 2004, p.8

²⁰ Morneau Sobeco, "Salary Increases Expected to be Modest in 2005", News Release, September 8, 2004

²¹ Watson Wyatt, "Modest Pace of Salary Increases Continues in Canada, Watson Wyatt Survey Finds", September 3, 2004.

²² Includes 0% and Decreases. "Base Salary Policy" refers to the change in the pay scale, while "Base Salary Actual" refers to the total expected increase in payroll. Hay Group, Table 1. Overall Weighted Average for Anticipated Increases at a Glance – Approved and Not Yet Approved, *Bulletin*, September 2004.

²³ Bank of Canada, *Monetary Policy Report* October 2004, p.30

²⁴ Paul Lauzon, "Les vilain cols bleus de Montreal", *l'aut'Jornal*, 27 octobre, 2004

²⁵ AIL Labour Letter, Canadian Edition, November 2004,

²⁶ Public Service Alliance of Canada, <http://www.psac.com/home-e.shtml>

²⁷ AIL Labour Letter, Canadian Edition, November, 2004