ECONOMIC CLIMATE *for* BARGAINING

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Frontline Summary
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Economic Outlook Summary

Canada is slowly emerging from the recession, with both the economy and employment marking some signs of growth towards the end of 2009.

But the economic recovery is expected to be slow and bumpy in the years ahead.

The two factors that pulled our economy out of deeper water are public stimulus spending and record low interest rates.

If these are choked off, we risk a double-dip recession because there are no other immediate candidates for sustaining economic growth and households can't keep on paying for the recovery on their credit cards.

On average, private economic forecasts expect:

- After declining by 2.5% this year, economic output (GDP) to increase by an average of 2.4% in 2010 and by 3.3% in 2011.
- Unemployment to rise from an average of 8.4% this year to an average of 8.7% in 2010 and then drop to 8.2% in 2011.
- Canada's consumer price inflation to average 0.3% in 2009, but then increase to 1.5% in 2010 and 1.9% in 2011.

No exit—without major structural changes
The recession is barely over, but already some are already calling for "exit strategies" and cutbacks to stimulus spending. If we go back to the same business-as-usual economic policies that caused this economic crisis, we won't be any further ahead. We need to make major structural changes to move forward and to prevent turning our country into an economic fossil.

The facts on deficits and debts
There is growing alarmism about government deficits and debts that will be used as an excuse to cut public services and workers' wages. The bottom line is that Canada is in by far the best fiscal situation of all G7 countries and isn't remotely close to facing any sort of deficit or debt crisis.

Employment prospects on the mend?
After bouncing around during the summer and fall, there are signs that job markets are starting to look up. But the situation remains very fragile. Governments need to maintain and increase their support for jobs and public services otherwise we will continue to have rising unemployment. One obvious area for investment is the enormous potential for green job opportunities in Canada, including in the public sector.

Inflation slowly rising
Inflation has been in the basement for a number of months, but is expected to slowly rise back towards 2% during the next two years. The biggest increases will be in Ontario and BC, where new harmonized sales taxes are expected to increase the overall cost of living by close to one percent or more on their own.

Wage increases down, but still moving up
Average wage increases have fallen towards 2% in recent months. Public sector workers have achieved slightly higher increases than private sector workers, but this has only partially made up for years of lagging wage increases. Continuing modest wage increases are expected next year.

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No exit — without major structural changes

Canada avoided what could have been the worst economic downturn since the Great Depression with significant amounts of stimulus spending, representing a complete reversal of recent economic policies.

But some people are already pushing for "exit strategies" from government stimulus before the recession is really over.

They think that coming out of this recession we can easily shift from public-spending led growth and turn right back to their business-as-usual economic policies, as happened after the 1990s recession.

But this recession is different. Previous recessions in Canada were explicitly caused by governments hiking interest rates in order to slow down the economy and suppress wage and inflation growth.

By subsequently lowering interest rates, they were able to provide a strong boost and bring the economy out of recession while cutting government spending without slowing down the economy.

We don't have that option this time. This economic crisis was caused not by governments intentionally slowing down the economy with high interest rates, but by the economic policies that were put in place over the past three decades.

Interest rates are already at record lows: they can't be lowered further to stimulate the economy.

As a result of slow wage growth and still rising house prices, family household debt continues to increase to record levels in Canada. This means that without real wage growth, we are unlikely to have a consumer-led recovery without risking another bubble and bust.

Despite the recession and financial crisis, overall business balance sheets are in remarkably good shape. Business bankruptcies have actually *fallen* during the past year, while individual bankruptcies have increased by over 40%.

But businesses aren't going to invest in our economy unless they can make money selling, and without stronger wage growth, consumers can't afford to keep on buying.

With all countries around the world bound up together in this recession, there aren't strong prospects for export markets to pull us out, either.

This means there is no real exit strategy that can successfully pull us out of this recession with business-as-usual economic policies. After taking a slightly left turn, we can't take a sharp right turn to get back on the highway of growth.

Much as they would love to veer sharply right and slash government spending, both Prime Minister Stephen Harper and Finance Minister Jim Flaherty have enough brains to realize this would put us back in the ditch.

It was the policies of deregulation, supply-side tax cuts, low wage growth, unbalanced growth and a focus on short-term speculative profits that caused this crisis. More of the same won't get us out.

Our governments have repeatedly given the business lobby everything they've asked: ever falling corporate and business taxes; "free-trade" agreements and investor rights trumping citizen rights; weak environmental, health, labour, and investor protection laws; privatization, P3s, low wages, temporary foreign workers and low interest rates.

Despite all this, our underlying economy remains weak. Coming out of the downturn, the stimulus measures will inevitably yield some economic and employment growth, but these should not be mistaken as the signs of a vibrant economy.

Our economic productivity growth was stagnant even before the recession and our innovation record dismal. Corporations were making record profits, but instead of making productive investments into the economy, they invested overseas and helped fuel a resource and speculative boom that masked the underlying weak economy.

It's time we cut off the "anything-you-ask-for" free buffet for the business lobby.

Following the financial crisis, other countries have taken some steps to reduce executive salaries and bonuses, increase high income taxes, strengthen financial regulations and contain speculative investments.

In Canada, there's been barely a peep about these types of reforms. Instead, federal and provincial governments are even further reducing taxes on business, while shifting taxes to consumers through the HST and encouraging even further growth of the destabilizing financial sector.

Many of the short-term stimulus measures—such as the home renovation tax credit, the home-buyers tax credit and ultra-low interest rates—are once again encouraging another unsustainable real estate boom in Canada.

To their credit, most private sector economists now recognize that economic growth going forward will be much slower than usual after a recession. Some also realize we will need public spending to keep the economy growing for at least the next few years.

However, most of them are still advocating the same old failed business-as-usual economic policies. And, increasingly, they are also pushing for public sector "restraint" and more privatization and P3s of public services so the private sector can make greater profits off the public purse.

This is a crucial time for our economic future. Canada managed to avoid some of the worst impacts of the global recession partly by luck and circumstance and because we hadn't gone as far down the free-market route as other countries. We managed to maintain stronger bank regulations and a good system of public mortgage insurance, despite recent moves to weaken them.

But we won't be as lucky next time if we continue on this route. We need to act now to fix what went wrong with our economic system and build on our strengths.

This needs to include:

Maintain and improve public services to increase the "social wage", create jobs and better stabilize the economy. Public services provide a great deal for the public and also provide the best source of stimulus and stability for the economy. For instance, investments in early learning and childcare provide the best economic boost and pay off many times. Improved public pensions and affordable housing also need to be priorities.

A fairer and more progressive tax system*.* We need taxes to pay for public services, but our tax system also needs to be improved. Supply-side tax cuts for business and the affluent have failed to strengthen our economy. At a minimum, we need to increase taxes on capital gains, speculative activities and on high incomes.

Stronger regulation of both the Canadian and international financial systems. Our financial system needs to function more like a public utility for the benefit of the rest of the economy and less like a casino where workers and small investors lose out to the big money on Bay Street.

Proactive economic and environmental policies. Canada is on the verge of becoming an economic fossil and losing out on the greatest opportunity of our lifetime: rebuilding our economy, workplaces and communities to make them more sustainable, more efficient and create millions of jobs while doing so.

The facts on deficits and debts

It was bound to happen.

Before the recession was over, the alarmism about deficits and debts was already escalating.

Some claim that rising public sector debt is sowing the seeds for another crisis. Many are calling for public sector cuts and "restraint" to balance the books.

Don't forget that a year ago, many of these same people were clamouring for big <u>increases</u> in public spending because the stock market took a dive. As a result, our governments spent lots of money and especially in the areas they called for. The stimulus spending was necessary, although a lot of it should have been better spent.

The federal government even promised $6 billion to induce BC and Ontario governments to bring in harmonized sales taxes (HST), shifting taxes from businesses onto consumers. And at the same time federal and provincial government are speeding up their plans to cut corporate income taxes for business.

Even though unemployment will continue to increase with the economy stumbling along, just because the stock market and incomes on Bay Street are rising, they now want the taps turned off for others.

The numbers may appear alarming: combined federal and provincial deficits of $90 billion this year. However, this number needs to be kept in perspective: it amounts to only 1/60th of our total national *net* worth.

Canadians and especially public sector workers should be understandably concerned: if not about the debt, but about the reaction to it. After the 1990/91 recession, federal and provincial governments took a cleaver to the public sector. Employment in the public sector was cut by more than 6% and total public spending as a share of our economy was cut from a share of 53.3% in 1992 down to 39.1% in 2007.

But how much should we be concerned? Are these deficits and debts really a problem? Will growing deficits cause another crisis? Are we going to hit a debt wall? Is another round of cuts to the public sector inevitable?

It's time to look at some facts.

There is no economic rule or need for government budgets to be balanced.

Having a balanced budget every year is <u>bad</u> for the economy because it prevents governments from acting to moderate growth when the economy is booming, and from stimulating the economy in a recession. Canadian governments that passed balanced budget legislation realized the folly of their ways in a hurry this past year.

There isn't even any economic rule that says that governments should, on average, balance their budget over the economic cycle and not have what is called a "structural deficit". National economies tend to keep on growing: they don't retire and die like people do, so they should keep on investing for the future.

This means that to provide the same level of public services for future generations in a growing country, governments need to devote an increasing amount to public investments: in health care, education, and other services. This isn't just public spending; they are also investments that pay dividends in terms of future economic growth and well-being.

Just as families invest in their own education, health and housing because they are good investments, governments need to keep doing so with public services, or else we will all be poorer and worse off in the future.

When it really comes down to it, annual deficits are almost meaningless as a measure of our real fiscal or economic health.

A better measure of fiscal health is the debt/GDP ratio. As long as the economy and public revenues grow at the same rate or faster than public debt over the long-term, then the debt/GDP ratio will be stable or decline. This would help ensure that our children and future generations don't have to pay a greater share of their income on taxes than we do.

This is also why interest rates are big concern. If the interest rate is higher than the rate of economic growth, then interest payments on the debt will increase faster than our capacity to pay for them and, without surpluses, the debt/GDP ratio will rise.

However, there is no "correct" target for the debt/GDP ratio. It all depends on what balance we want between public services and private services in our economy and society.

During the 1990s, Canadian governments severely cut back on spending and support in many areas, including infrastructure. This may have helped reduce our public financial debt, but it did so at the expense of our public and social infrastructure. The federal government's debt may have been reduced by $100 billion, but this is because much of the problem was just offloaded down onto municipalities and households. During the same time, our municipal infrastructure debt grew to an estimated $123 billion. Meanwhile, with slow wage growth and the rising cost of tuition, other public services and housing, household and student debt loads also escalated.

Our debt/GDP target should also take account of where our revenues come from and how we treat our natural assets, such as the environment and our natural resources. If we are depleting all our resources—such as oil, gas, minerals, forests, soils, and fish—and polluting the earth, then we are leaving an enormous environmental and resource debt for future generations.

For instance, Norway has been able to run large surpluses because the government has generated lots of revenue from offshore gas. It has saved and invested most of these revenues because it wants to share the benefits of this non-renewable resource with future generations.

The Alberta and Canadian government have done the opposite with tar sands: rapidly exploiting a non-renewable resource, leaving an environmental debt for future generations by polluting the land, water and air; and spending the proceeds on current consumption through tax breaks.

Canada is in by far the best fiscal situation of all major western countries. We've been the only G7 country to run overall surpluses in recent years and by all measures, our public debt ratios are very manageable: less than half what they were in 1995 as a share of our economy and less than half the average of other G7 countries.

As the economy grows, revenues will increase, recession-related public spending will decline, and our debt/GDP ratio will fall consistently again.

There is absolutely no need to cut and slash public spending once again. Public spending as a share of our economy was cut steeply during the past fifteen years, from a share of over 53% in 1992 down to a thirty year low of 39.1% in 2007. This represents *over than $200 billion less* in public spending as a share of our economy. While there will always be some stories of waste, there is simply not a lot to save without cutting public services for people.

Tax revenues as a share of our economy have been cut to 32% of our economy, 4.5 percentage points less than they were in 1998 and considerably lower than the OECD average. Even the more pessimistic forecasts from the Parliamentary Budget Officer are for the federal deficit to be only 1% of GDP in 2015. While it is not necessary to eliminate the deficit, even this amount could ultimately be erased by taxing capital gains and executive stock options at the same rate as employment income, or by restoring the two percent cut to the GST.

Low interest rates make public debts much more manageable. One reason why there was more concern about deficits during the 1990s was because borrowing rates were much higher. The federal government's short-term borrowing rate was over 10% in 1990, and didn't fall below 5% until after 1995. Now it is less than 0.25%. The Bank of Canada can keep interest rates low for a long time, but even if they are increased to 2% or 3%, it still adds up to big savings in interest payments on the debt.

Cuts to public spending and public sector wages would have a depressing impact on the economy. This would make it harder to meet fiscal targets with slower economic and revenue growth. Investment in public services has a stronger stimulus effect and creates more jobs than tax cuts.

We can owe it to ourselves. Investments in our public debt through government bonds are the type of secure long-term investment that pension funds and ordinary investors need more of.

The bottom line is that Canadian governments are not even remotely facing any sort of deficit or debt crisis. We need to make these facts very clear to stop those who are intent on using deficits as an excuse to cut public services, squeeze wages, sell off public assets and privatize our jobs and services.

Canadian economic outlook: recovery likely to be slow and bumpy

Canada is slowly emerging from the recession, with both the economy and employment marking some growth in the second half of this year.

The recession in Canada officially ended in the 3rd quarter of this year with economic growth of less than 0.1% (0.4% at an annual rate), much slower than recoveries after previous recessions.

Government stimulus spending and record low interest rates are the two main life lines that pulled the economy out of deeper water. These led to a strong bounce-back of the housing market, higher consumer spending and unexpected early growth in business investment.

But the economic recovery is expected to be slow and bumpy in the years ahead. Interest rates are bound to rise and stimulus spending is slated to be choked off. Consumers can't keep on paying for the recovery on their credit cards: renewed investment by both the public and private sectors is needed for sustained recovery.

The following table presents an average of the most recent economic forecasts publicly available for the Canadian economy, provided by the major banks.

On the key indicators:

- **Economic Output.** The Canadian economy is expected to decline by an average of -2.5% this year, followed by growth of 2.4% in 2010 and 3.3% in 2011.
- **Unemployment.** The unemployment rate is expected to continue to rise from an average of 8.4% this year to 8.7% in 2010 and then decline to 8.2% in 2011.
- **Inflation.** Consumer price inflation is expected to average 0.3% this year, 1.5% in 2010 and 1.9% in 2011.

Canadian Economic Outlook- Average of Private Sector Forecasts

Annual growth rates unless indicated	**2008**	**2009**	**2010**	**2011**
	Actual		*Forecast*	
Growth in the Economy				
Real GDP	0.4%	-2.5%	2.4%	3.3%
- Consumer Spending	3.0%	0.0%	2.4%	3.1%
- Business Investment	0.2%	-14.2%	1.4%	5.1%
- Government Spending	4.8%	3.9%	4.9%	2.5%
Labour Market				
Employment growth	1.5%	-1.6%	0.6%	1.8%
Unemployment rate	6.1%	8.4%	8.7%	8.2%
Productivity growth	-0.6%	0.2%	1.7%	0.9%
Inflation - Consumer Price Index	2.4%	0.3%	1.5%	1.9%
Corporate Profits before tax	5.7%	-34.9%	12.7%	12.7%
Real Personal Disposable Income	4.2%	1.4%	3.3%	3.1%
Personal Savings Rate	3.7%	4.9%	5.1%	5.4%
Housing Starts (000s)	211	142	162	165
Interest Rates and Exchange Rate				
Short-term 3 Month T-Bill	2.33%	0.31%	0.66%	2.44%
Long-term 10 Year Bond	3.61%	3.23%	3.73%	4.03%
Exchange rate C$ in U.S. cents	$ 94.30	$ 88.52	$ 98.52	n/a

Averages based on latest forecasts from seven different Canadian forecasters as of 7 December, 2009.

Provincial economies: down and up (almost) all together now

This is the first time in at least thirty years that all provinces have gone through an economic downturn together. In previous recessions central Canada was hit hard, but either western or eastern provinces continued to grow. This time, all are expected to show negative economic growth although of varying degrees.

The economic damage has been greatest in Ontario, Alberta and British Columbia. The economy of Newfoundland and Labrador will also register a significant drop in economic output, but this is more related to a drop in the price of oil than of broader economic decline. In other provinces, there's been far less damage.

The provinces that went down the hardest this year are also expected to bounce back more next year. All the hardest hit provinces are expected to register higher than average economic growth along with Saskatchewan.

Employment growth is expected to remain slow and lag the economic rebound. In every province, next year's unemployment rate is expected to be higher than this year's average, but will decline later during the year.

Consumer price inflation has averaged less than 1% so far this year in every province except Saskatchewan (see *CPI Inflation by Province and City* chart below). Prices will gradually rise next year, but inflation is still expected to average below 2% in every province.

Inflation is expected to rise the fastest in Ontario and British Columbia with new harmonized sales taxes (HST) proposed for July 1. These will increase the overall rate of inflation by 0.7 to 1.5 percentage points in each province, spread over two years, and lead to an increase in the Canadian inflation rate of 0.4 to 0.8 percentage points (depending on how much businesses pass on their savings through lower prices).

This table presents an average of the recent publicly-available forecasts of main economic indicators at the provincial level, calculated from forecasts provided by TD Bank, the Royal Bank of Canada, BMO Capital Markets and the Bank of Nova Scotia. The national averages may be different from those reported above because they include a smaller group of forecasts.

Provincial Economic Outlook

% annual growth unless where noted

	Real GDP		Employment		Unemployment Rate		Inflation	
	2009	2010	2009	2010	2009	2010	2009	2010
Canada	-2.5	2.6	-1.6	0.9	8.4	8.8	0.2	1.3
Newfoundland & Labrador	-3.5	2.8	-2.8	0.7	15.5	15.8	0.2	1.1
Prince Edward Island	-0.9	1.8	-2.1	0.9	12.6	12.9	-0.5	1.1
Nova Scotia	-1.1	2.1	-0.1	0.6	9.3	9.6	-0.5	1.0
New Brunswick	-1.3	2.3	-0.1	0.7	9.1	9.4	-0.2	0.7
Quebec	-1.7	2.3	-1.0	0.8	8.6	9.0	0.4	1.0
Ontario	-3.3	2.6	-2.4	0.7	9.2	9.7	0.3	1.8
Manitoba	-0.4	2.6	0.1	0.7	5.2	5.8	0.7	1.0
Saskatchewan	-1.5	3.1	1.6	1.9	5.0	5.6	1.2	1.2
Alberta	-2.5	2.9	-1.1	1.0	6.6	7.2	-0.2	1.4
British Columbia	-2.4	2.9	-2.5	1.3	7.6	7.8	0.1	1.7

Based on the average forecasts from five different bank forecasters as of December 7, 2009.
National averages may differ from those reported in the Canadian outlook table because they are from a smaller group.

Employment prospects on the mend?

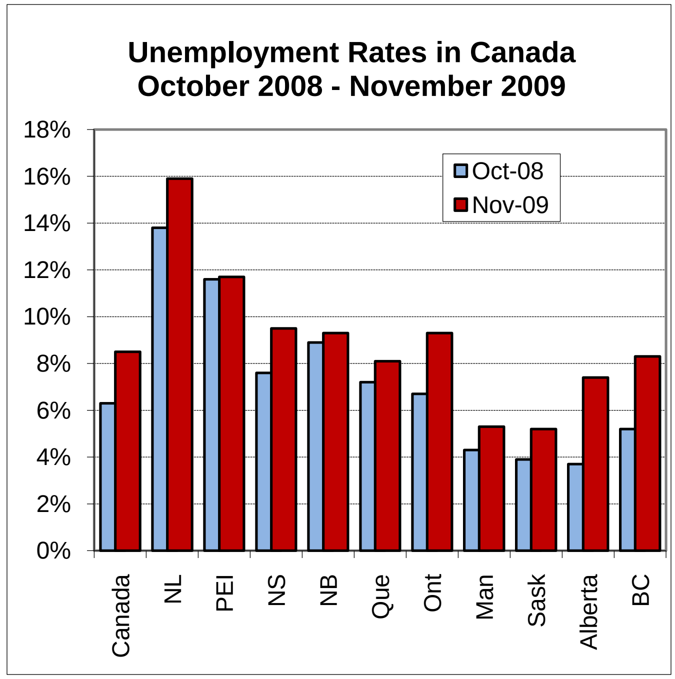
More support and care needed to prevent a double-dip

After bouncing around since the early summer, there are some signs that employment prospects may be looking up.

While the *Labour Force Survey* numbers usually aren't very reliable on their own from month to month, other signs also suggest further growth job.

Surveys of hiring intentions and online job demand by the Bank of Canada, Manpower Canada and Monster Inc., as well as other economic indicators, point to increasing hiring in coming months, with more firms planning to hire than cut back.

But, as with economic output, there will be no rip-roaring recovery in the jobs market. Private sector economists are forecasting job growth averaging only 0.6% in the coming year. That's less than half the average rate of job growth since 1976. If the labour force continues to grow faster, this will lead to rising unemployment.



With no strong engine of growth outside the public sector, this fragile recovery will be threatened if governments cut public spending or wind down stimulus measures too quickly. If these areas are cut, we could easily have a double-dip recession, with rising unemployment choking off an emerging recovery.

There has been overall net job loss of 321,000 since October 2008, concentrated in the more economically cyclical and vulnerable sectors of the economy. This includes 205,000 jobs gone in manufacturing, 80,000 fewer jobs in construction despite the infrastructure and housing stimulus, 31,000 fewer jobs in primary and resource industries, and 52,000 fewer jobs in transportation.

At the same time, there has been very strong job *growth* of 59,000 in finance, insurance and real estate—precisely the sectors of the economy that were supposedly hit by the financial crisis. In fact, employment in this sector in Canada has never been higher. Meanwhile in the United States and other countries this sector continues to shed jobs. But job growth in this sector in Canada will slow down when the real estate boom starts to fizzle.

There was also an increase of 72,000 in the number of self-employed since October of last year, a category that often involves some disguised unemployment.

Job loss has been overwhelmingly concentrated in the private sector and among youth and adult males. Employment of adult women has actually increased over the past year, although not by as much as labour force growth.

According to the *Labour Force Survey*, overall employment in the public sector was the same in November 2009 as it was in October 2008, with job gains in education, health care and social assistance offsetting job losses in public administration and other sectors.

Statistics Canada's payroll employment survey suggests there has been stronger job growth in the public sector, with an increase of 1.4% or 50,000 jobs compared to a year ago. According to this survey, there have been job gains in local government, health and social, post-secondary education and the federal government, but job losses in provincial government and school boards.

Despite recent public sector job growth, employment in the public sector is still below its average for the past three decades. And as a share of total employment in the services sector, public sector employment remains significantly below its long-term average (*see chart below*).

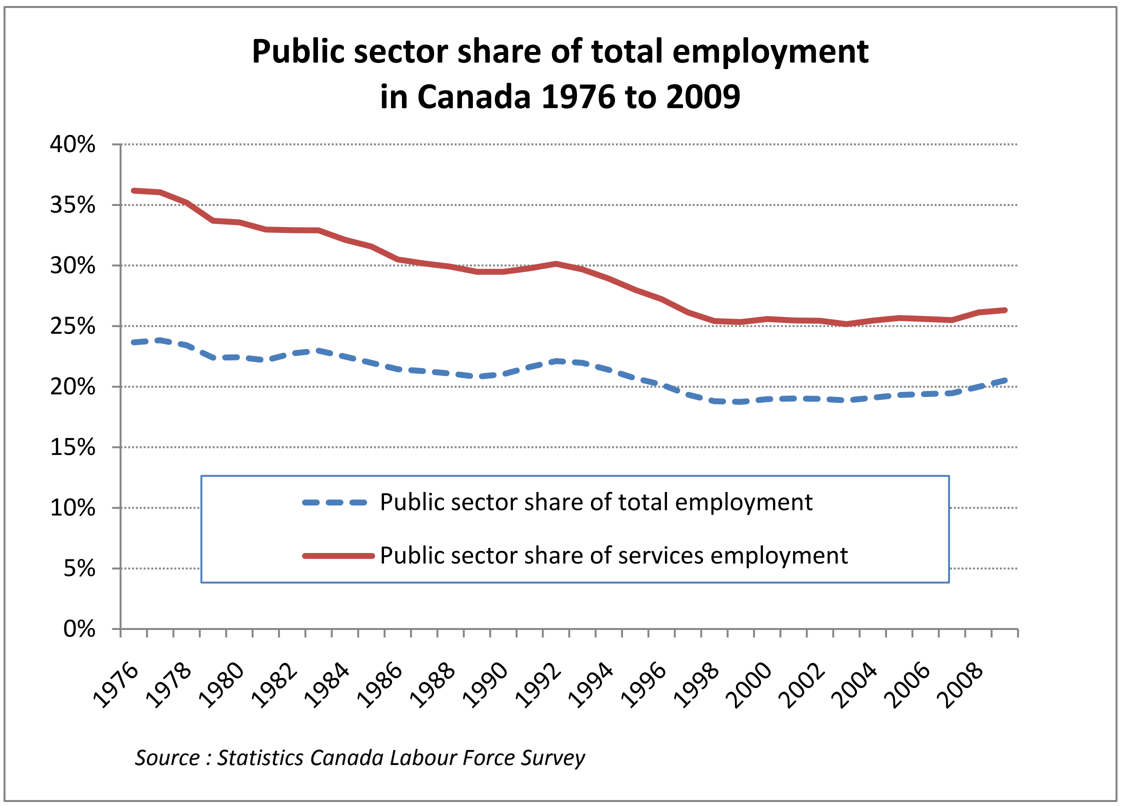
There is large potential for the creation of new jobs and sustainable employment opportunities from green investments in a variety of different areas.

In particular, these include investments in renewable energy and associated manufacturing industries, energy and environmental efficiency improvements to other sectors, retrofits of existing buildings, and an expansion of public transit and intercity transit.

While many of these jobs would be in the private sector and in related spin-off industries, many of them could and should also be in the public sector.

The good news is that many of the jobs created will be for occupations for which there are many skilled workers in Canada and that have experienced rising unemployment.

Furthermore investments in these areas will pay off many times over: in rising employment, an improved environment, and in a stronger and more productive economy by increasing our efficiency and competitiveness.



Jobs Impact of the Recession

Employment and Labour Force Changes for the Latest Month,
and since October 2008, start of the recession

All figures in thousands except where indicated as %

					Change from		% change
Labour Force	**Oct-08**	**Oct-09**	**Nov-09**		**Oct-09**	**Oct-08**	**from Oct-08**
Labour force	18346	18382	18448		65.8	101.7	0.6%
Employment	17195	16795	16874		79.1	-320.8	-1.9%
Full-time	14004	13626	13665		38.6	-339.5	-2.4%
Part-time	3191	3169	3209		40.4	18.6	0.6%
Unemployment	1152	1587	1574		-13.2	422.7	36.7%
Unemployment rate (%)	6.3%	8.6	8.5		-0.1	2.2	
Participation rate (%)	67.8%	67.0	67.2		0.2	-0.6	
Employment							
Women 25 +	6854	6857	6910		53.0	55.4	0.8%
Men 25 +	7740	7563	7583		19.7	-157.4	-2.0%
Youth	2601	2375	2382		6.4	-218.8	-8.4%
Public sector	3462	3407	3462		54.3	-0.2	0.0%
Private sector	11082	10632	10689		56.9	-392.3	-3.5%
Self-employed	2651	2755	2723		-32.0	71.6	2.7%
Employment by Industry							
Goods							
Agriculture	326	322	318		-4.1	-8.2	-2.5%
Forestry, fishing, mining, oil and gas	339	302	308		5.8	-31.4	-9.3%
Utilities	149	150	149		-1.0	0.3	0.2%
Construction	1251	1178	1171		-7.2	-79.7	-6.4%
Manufacturing	1975	1757	1769		12.6	-205.1	-10.4%
Services							
Trade	2677	2632	2632		0.0	-44.7	-1.7%
Transportation and warehousing	871	820	818		-1.6	-52.3	-6.0%
Finance, insurance, real estate and leasing	1071	1118	1130		12.2	59.2	5.5%
Professional, scientific and technical services	1204	1197	1207		10.0	2.9	0.2%
Business, building and other support services	670	639	641		2.3	-28.6	-4.3%
Educational services	1208	1197	1234		37.9	26.2	2.2%
Health care and social assistance	1922	1955	1959		4.1	37.0	1.9%
Information, culture and recreation	749	785	782		-3.3	33.0	4.4%
Accommodation and food services	1066	1035	1041		6.3	-24.7	-2.3%
Other services	766	786	780		-6.0	13.3	1.7%
Public administration	953	924	935		11.3	-17.9	-1.9%

Inflation slowly rising: *Ontario and BC to be hit by HST*

Canada's inflation rate is on track to average about 0.3% or less in 2009. This is lowest annual rate of inflation we've experienced since 1994 when it was 0.1%. Before that, we have to go all the way back to 1954 to find an inflation rate this low.

But this low inflation rate doesn't reflect broader price trends, nor will it hold into the future. It is entirely due to a drop in gasoline and other fuel prices from their highs of last year. If energy is excluded, the consumer price index increased by 1.4% in October compared to a year before.

Lower mortgage rates and a drop in new housing prices also helped keep a lid on inflation during the past year. The high value of the Canadian dollar should have also lowered the cost of imported goods, but many imported consumer prices are sticky and take a long time to come down, if ever.

None of these factors are expected to keep inflation down in coming years. Private sector economists are forecasting that consumer price inflation will increase by an average of 1.5% in 2010, with a forecast range between 1.1% and 1.8%.

In 2011, national consumer price inflation is expected to inch up with an average forecast of 1.9% and a range between 1.7% and 2.1%. The Bank of Canada doesn't expect inflation to return to its 2% target rate until the second half of 2011.

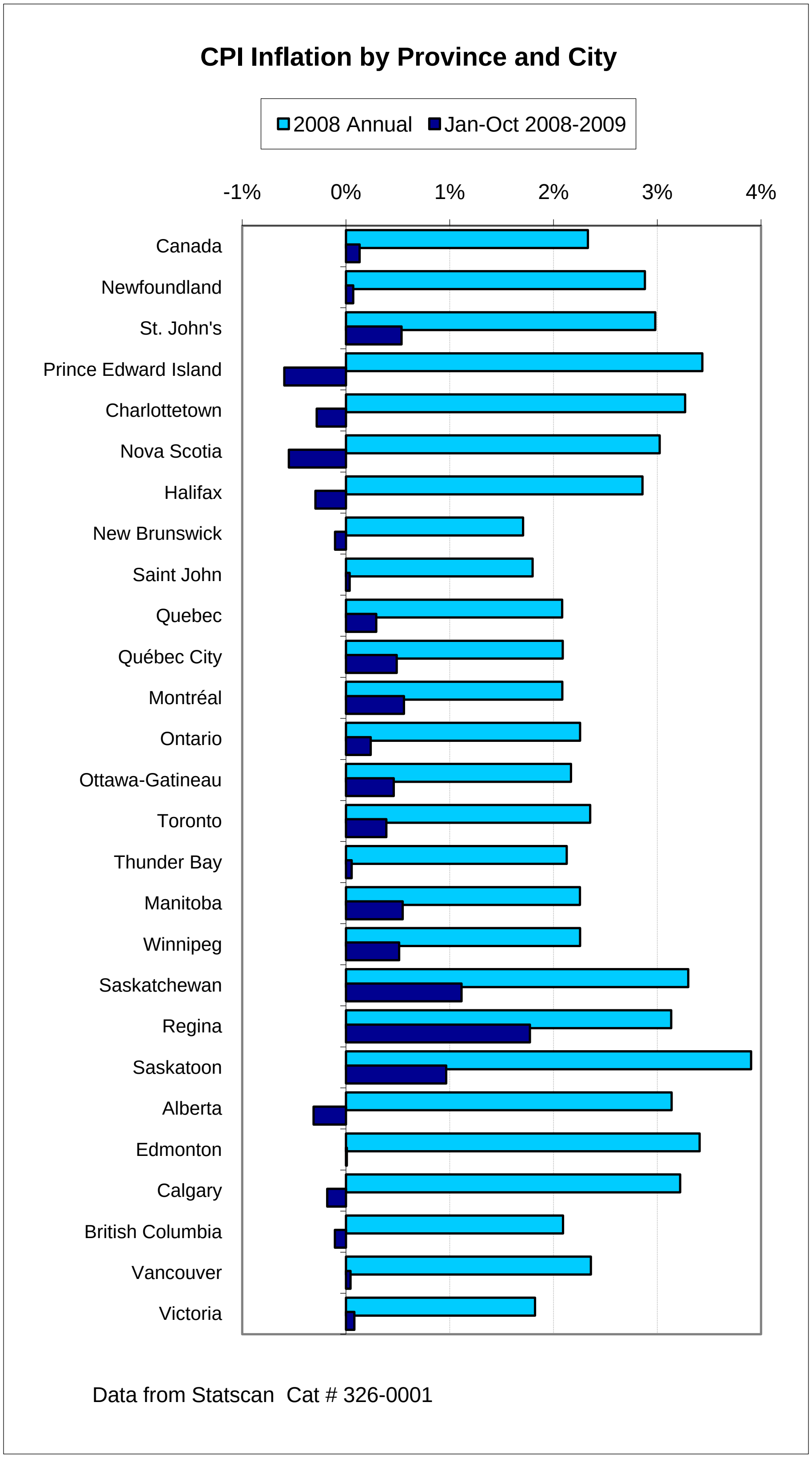
Inflation by province

Inflation in every province except Saskatchewan has been 0.5% or lower so far this year (*see chart on next page*). Overall inflation continues to be negative for the year in provinces such as the Maritimes and Alberta.

In Saskatchewan, an 8.5% increase in the cost of electricity is keeping inflation higher, together with larger than average increases in the cost of rent, house repairs, restaurant meals and personal care.

Inflation is expected to gradually rise towards 2% during the next two years in most provinces. Forecasts are for inflation to be below 2% in all provinces next year, and in most provinces in 2011 as well. However, prices should increase the most in Ontario and British Columbia as consumers digest the proposed new harmonized sales tax (HST) planned for July 1, 2010.

For instance, TD Bank is forecasting Ontario's inflation to rise to 1.9% in 2010 and to 2.4% in 2011, and for inflation in BC to be 1.5% in 2010 and rise to 2.4% in 2011.


CPI Inflation by Province and City
2008 Annual
Jan-Oct 2008-2009
-1%
0%
1%
2%
3%
4%
Canada
Newfoundland
St. John's
Prince Edward Island
Charlottetown
Nova Scotia
Halifax
New Brunswick
Saint John
Quebec
Québec City
Montréal
Ontario
Ottawa-Gatineau
Toronto
Thunder Bay
Manitoba
Winnipeg
Saskatchewan
Regina
Saskatoon
Alberta
Edmonton
Calgary
British Columbia
Vancouver
Victoria
Data from Statscan Cat # 326-0001

Average wage increases down, but still moving up

Despite the economic downturn and more publicized cases of labour concessions, workers are continuing to gain modest wage increases.

Base wage increases achieved in major collective agreements averaged 1.9% in the 3rd quarter of 2009 (July-Sept), down from 2.7% in the 2nd quarter.

As the table on the following page shows, low wage increases for workers under federal jurisdiction have kept the average down.

Wage increases negotiated in Newfoundland, New Brunswick, Saskatchewan and Alberta have all averaged above 4% so far this year.

By economic sector, negotiated wage increases for workers in utilities, construction and education, health and social services have all averaged over 3% for the duration of their settlements.

Other salary surveys show similar trends:

- According to Statistics Canada's payroll survey, averaged weekly earnings increased by 1.9% in September compared to a year before.
- Statistics Canada's *Labour Force Survey* reported that average weekly wages increased by 1.7% in November compared to a year before, and by 2.3% on an hourly basis.

The average hourly wage increase for unionized workers was 2.9%, higher than the 1.9% increase for non-unionized workers. This was a reversal of the trend of the previous decade, during which average wage increases for non-unionized workers exceeded those of unionized workers in eight years out of eleven.

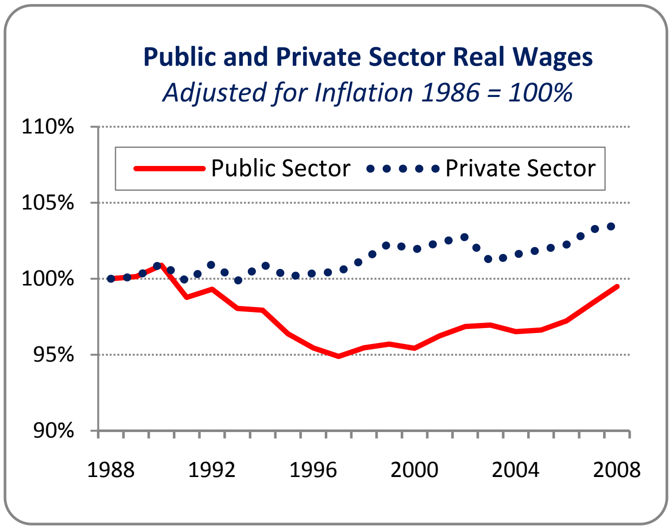
In recent years among unionized workers, public sector workers have achieved higher average wage increases than those in the private sector. This too, represents a reversal of previous trends.

For every year from 1990 to 1999, wage increases negotiated by private sector workers exceeded the wage increases received by public sector workers.

By 1999, the difference in relative wage increases during the past decade had widened to a gap of almost 7%. Since 2000, this gap has narrowed, but still remains at more than 3%. If public sector workers had gained the same wage increases as private sector workers negotiated, they would have wages more than 3% higher on average.

In real dollar terms, public sector wage increases have not kept up with inflation either. Since 1988, because of average wage increases below the rate of inflation, there has been a cumulative loss in real wages equivalent to 53% or over half a year's wages.

The following chart, repeated from the previous issue of this publication, illustrates the gap that developed during the past two decades.



However, all these wage increases, whether for public or private sector workers, remain modest compared to previous decades, when workers were able to achieve ongoing real wage increases. They also pale beside recent executive and senior management compensation increases. According to the *Labour Force Survey*, average wages for senior management employees increased by an average of 4% a year from 1997 to 2008, compared to 2.5% a year for unionized workers. During the past 12 years, the compensation of Canada's top CEO's increased by over 400%.

Wage Outlook

The Conference Board of Canada's *Compensation Planning Outlook* reports that Canadian workers can expect average pay increases of 2.7% in 2010.

For unionized public sector workers, the average is expected to be 2.3%, compared to 3.2% for non-unionized public sector workers and an average of 2.5% for private sector workers. Wage increases in Saskatchewan and Manitoba are expected to be above the national average, while organizations in Ontario, Quebec and BC expect to provide increases below the national average.

Average Wage Settlements Major Collective Bargaining by Year							
		2007	**2008**	***2009Q1***	***2009Q2***	***2009Q3***	***2009YTD***
All Average		3.3	3.3	*2.4*	*2.7*	*1.9*	*2.4*
Public Sector		3.4	3.5	*2.4*	*2.8*	*2.1*	*2.5*
Private Sector		3.2	2.5	*2.9*	*1.9*	*1.5*	*1.9*
CPI Inflation:		*2.2*	*2.3*	*1.2*	*0.1*	*-0.9*	*0.1*

Average Wage Settlements by Province – Major Agreements												
	NL	**PEI**	**NS**	**NB**	**QC**	**ON**	**MB**	**SK**	**AB**	**BC**	**Multi Prov**	**Federal**
2007	1.6	2.8	3.2	2.5	3.2	3.0	3.0	4.1	4.9	3.0	3.6	2.9
2008	*5.0*	*3.0*	*4.1*	*3.7*	*2.4*	*2.6*	*3.4*	*5.1*	*4.8*	*2.7*	-	*2.9*
2009Q1	*5.0*	*3.6*	*3.0*	-	*1.7*	*2.5*	*2.8*	*5.3*	*4.5*	-	-	*1.8*
2009Q2	*5.0*	-	-	-	*2.8*	*2.5*	*3.2*	-	*4.5*	*2.8*	*2.0*	*1.6*
2009Q3	-	-	*3.4*	*6.0*	-	*2.1*	-	*4.8*	-	*2.9*	-	*0.8*
2009YTD	*5.0*	*3.6*	*3.1*	*6.0*	*2.3*	*2.4*	*2.9*	*5.0*	*4.5*	*2.8*	-	*1.6*
2009CPI	*0.1*	*-0.6*	*-0.6*	*-0.1*	*0.3*	*0.2*	*0.5*	*1.0*	*-0.3*	*-0.1*	*0.1*	*0.1*

Average Wage Settlements by Industry – Major Agreements						
Industry	**2007**	**2008**	***2009Q1***	***2009Q2***	***2009Q3***	***2009YTD***
Primary	4.7	*4.3*	*2.5*	-	-	*2.5*
Utilities	3.9	*2.3*	*4.1*	*3.0*	*3.0*	*3.3*
Construction	3.3	*5.4*	-	*3.7*	*4.2*	*4.2*
Manufacturing	2.6	*1.3*	*2.7*	*1.8*	*1.2*	*1.9*
Wholesale and Retail	2.4	*2.8*	*1.9*	*2.0*	*1.9*	*1.9*
Transportation	2.7	*3.0*	*1.9*	*1.7*	*0.3*	*0.8*
Information & Culture	3.0	*2.0*	*1.9*	*2.2*	*2.7*	*2.1*
Finance & Professional Services	3.6	*2.9*	*1.6*	*2.8*	*2.8*	*2.5*
Education, Health, Social Services	3.5	*3.8*	*3.6*	*2.9*	*2.6*	*3.2*
Entertainment and Hospitality	3.3	*1.8*	*2.5*	*1.5*	*1.9*	*2.0*
Public Administration	3.5	*2.8*	*2.0*	*2.4*	*2.0*	*2.1*

Source: Human Resources and Skills Development Canada, Major Wage Settlements, [latest information as of Dec 7, 2009] http://www.hrsdc.gc.ca/en/lp/wid/adj/01wage_adj.shtml, Consumer Price Index (Statistics Canada 326-0001).

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December 14, 2009
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