ECONOMIC CLIMATE *for* BARGAINING

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Frontline Summary

Economic Outlook Summary

With ongoing global economic uncertainty and cuts to public spending, Canada's economic growth will be moderate this year and next.

Unemployment rates are expected to decline slowly, remaining above 7% until next year.

Global economic uncertainty is delaying hikes in interest rates, now expected in mid-2013 to limit further increases in household debt.

Higher interest rates could cause a real estate correction and slower economic growth next year, but the federal and provincial governments will be in better fiscal state and should be prepared to intervene with stimulus at that time.

Public sector wage settlements will remain modest until budgets are balanced, but should improve following then. However, low interest rates will put pressure on pensions.

Inflation should move towards the target rate of 2%, but will be swayed by fluctuating oil and gas prices.

The economic consequences of austerity

Austerity budgets have plunged Europe back into recession and deepened its financial crisis. Bailout loans might save the banks and the Euro, but if they come on condition of ongoing austerity, they'll also deeper division. Europe must learn from its bloodied past and opt for reinvestment over austerity.

Federal budget ramps up assault on workers

Harper's first majority government budget launched a broad-based assault, not just on environmental protections but also on workers, which will lead to an ongoing erosion of wages.

Employment: increasingly older, oilier and occidental

After months of stagnation, the Canadian economy started creating new jobs in March and April. Employment figures are showing clear trends: no increase in public sector jobs, an aging workforce and a shift to the west and resource sectors.

Inflation landscape fracked by natural gas

After reaching 3.7% last spring, inflation has declined in recent months, but by different rates in provinces along an east-west divide. The inflation landscape should shift again as growing economies push up prices in the west and price increases subside in the east.

Wage settlements show growing divergences

Recent collective agreements have provided diverging wage increases in different sectors and regions of the economy: higher increases in the private sector and in provinces with a strong primary sector, low in central Canada and B.C. and moving lower in Ontario.

The *Economic Climate for Bargaining* is published four times a year by the Canadian Union of Public Employees. Contact Toby Sanger (tsanger@cupe.ca) for more information.

The Economic Consequences of Austerity

Economies around the world have weakened significantly because of misguided austerity, unbalanced growth and continued uncertainty in Europe.

Deep spending cuts have already pushed Britain, Spain, Greece and other European countries back into recession and significantly slowed growth in other countries including Canada.

The risks of the United States going back into recession are over 50%, with cuts to public spending at the deepest since the 1950s. Despite federal stimulus spending, state and local governments cut spending through the recession with their balanced budget straightjackets. Many cities have not only cut essential public services and laid off thousands of workers, but literally turned off streetlights to save money. With Republicans in control of Congress, the federal U.S. government is now also at the chopping block, betting that a damaged economy will give them the keys to the White House.

In Europe, Greece's economy has gone from bad to worse with successive austerity measures imposed in exchange for EU/IMF loans and a renegotiation of debt. Public debt levels and debt ratios have continued to grow as the economy has spiraled deeper down. Unemployment rates in Spain, Greece, Portugal, Ireland and Latvia—all countries that have imposed harsh austerity measures—have all tripled since 2007. In Spain and Greece a quarter of the workforce is unemployed, with youth joblessness at over 50%.

Not surprisingly, the devastating economic conditions created by austerity are now pushing more banks over the brink in these countries. While the millions of unemployed elicit little sympathy with German and UK conservative governments, they are moved by the prospect of bank failures in Spain and other countries because that would then affect exposed banks in their own countries. Now they may finally agree to a limited pan-European scheme to guarantee the bad bank debt of these countries and prevent their exit from the Euro currency, but it will come at a stiff price: ongoing fiscal austerity.

While these measures might save the Euro, we can't expect the people of Spain, Greece and other affected countries to enthusiastically endure decades of fiscal austerity and hardship so the bankers of Europe remain unscathed.

It's these conditions that result in extremism—just as the reparation payments imposed on Germany after the First World War led to the rise of Hitler and Nazism and ultimately to another world war, as Keynes suggested it would.[1] Already in Greece, one of the major winners of their first round of elections this year was a fascist party whose symbol is a minor variation on the Nazi flag. Instead of more austerity what Europe needs is re-investment and democratic economic renewal as was so successfully achieved with the Marshall Plan after the Second World War.

[1] Keynes, John Maynard. 1919. *The Economic Consequences of the Peace.*

In Canada, the situation isn't nearly as bad, but our governments are still pursuing damaging economic policies that force ordinary people to pay for the costs of the financial crisis. Crude Keynesian economic stimulus spending prevented an even worse economic depression from occurring, but it did little to lay the foundation for longer lasting economic growth or shared prosperity. On the contrary, the resulting deficits have been inflated and used to justify deep cuts to public services, wage constraints and an ongoing erosion of living standards—which are hampering economic growth.

Canada also needs structural economic changes and a rebalancing of the economy, as was achieved after the Great Depression and which resulted in an unparalleled increase in global living standards, shared prosperity and the expansion of democratic institutions. Sustained economic growth will evade us until we achieve:

- *Greater equality and real wage growth* to provide the demand needed for economic growth and to enable households to reduce their increasingly dangerous levels of debt.

- *Concerted public investments in transit*, public infrastructure, public services and in climate change mitigation and adaptation to increase our productive capacity and living standards—financed by fair taxes and our historically low interest rates.

- *Strengthening industry with sector strategies*, training, R&D and other support to diversify our economies and support good sustainable value-added jobs and reduce the economic instability from an over-reliance on a boom and bust resource sector.

Bottom Line for the Economy and Bargaining

With all the attention paid to economic problems in Europe and the United States, it's important to recognize that Canada's economic situation and potential is extremely strong.

We have strong public finances, are blessed with extensive resource wealth, solid institutions, a healthy and well-educated population, modern infrastructure, sustainable public services and a corporate sector with a very good balance sheet. The challenge is to reinforce, diversify and enhance these strengths, and not to weaken them.

Our economic growth should be stronger coming out of the recession, but it will be held back over the next few years by economic uncertainty abroad, cuts to public spending in Canada, high levels of household debt and continued low rates of business investment.

A major concern is the potential for a correction in the housing market, sparked by interest rate hikes now expected for mid-2013. This wouldn't cause a financial crisis as has happened in other countries thanks to our system of public mortgage insurance, but it would still inflict economic damage through a slowdown in construction and a decline in household wealth and related spending. Higher interest rates will also divert spending from other areas. While house prices are overblown in many areas of the country, the impacts will be more severe in larger urban centres and could result in a setback on the path to lower unemployment.

High commodity prices and an emphasis on resource development will mean continued strong growth in primary sectors of the economy and related regions. This is reflected in forecasts of higher economic growth and higher wage increases in Alberta, Saskatchewan and Newfoundland. (see *Provincial Economic Outlook* table on page 4).

It's not just these provinces that are going after profits from resource development: the Ontario government is opening up larger areas for mining development in its Northern Ontario "Ring of Fire" region while the Québec government is putting a lot of emphasis and money into its controversial "Plan Nord" strategy.

The emphasis on private sector and resource development together with public sector austerity will result in diverging wage increases by sector and region over the next few years. With the exception of Ontario, all other provinces and the federal government are expected to eliminate their deficits within three years. This should herald the end of their explicit austerity measures, although we can expect ongoing pressure to curtail benefit costs, more precarious work arrangements and ongoing pressure for increased privatization and P3s from a private sector flush with cash.

Relatively low interest rates and the federal government's two year delay of retirement for Old Age Security benefits will put increased pressure on workplace pension plans to reduce early retirement provisions and ultimately to delay retirement age to 67 in line with the OAS.

Before these changes take effect, a lack of individual retirement security will mean growing participation of seniors and older workers in the labour force, particularly in private services. At the same time, parts of the public sector should prepare for a wave of retirements over coming years which could provide growing opportunities for younger workers.

Canadian and Provincial Economic Forecasts

Canadian Economic Outlook – Average of Private Sector Forecasts				
Annual growth rates unless indicated	**2010**	**2011**	**2012**	**2013**
	Actual		*Forecast*	
Growth in the Economy				
Real GDP	3.2%	2.5%	2.2%	2.3%
- Consumer Spending	3.3%	2.2%	2.0%	2.3%
- Business Investment	7.3%	13.7%	6.0%	6.4%
- Government Spending	4.7%	0.5%	-1.1%	-0.1%
Labour Market				
Employment growth	1.4%	1.5%	1.0%	1.2%
Unemployment rate	8.0%	7.5%	7.3%	7.1%
Productivity growth	1.3%	0.9%	1.3%	1.1%
Inflation - Consumer Price Index	1.8%	2.9%	2.1%	2.0%
Corporate Profits before tax	21.2%	15.0%	7.3%	6.1%
Real Personal Disposable Income	3.6%	1.2%	1.5%	2.2%
Personal Savings Rate	4.8%	3.8%	3.2%	3.4%
Housing Starts (000s)	192	193	199	184
Interest Rates and Exchange Rate				
Short term 3-Month T-Bill	0.56%	0.91%	0.99%	1.58%
Long term 10-Year Bond	3.24%	2.78%	2.19%	2.88%
Exchange rate C$ in U.S. cents	$ 97.1	$101.2	$99.5	$102.2

Averages based on latest forecasts from eight different Canadian forecasters as of June 8, 2012.

Provincial Economic Outlook								
% annual growth except where noted								
	Real GDP		**Employment**		**Unemployment Rate**		**Inflation**	
	2012	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**
Canada	2.2	2.3	1.0	1.3	7.3	7.1	2.0	2.0
Newfoundland & Labrador	1.9	2.9	1.2	1.3	12.4	11.8	2.3	2.1
Prince Edward Island	1.8	1.7	1.0	0.8	11.2	10.8	2.1	1.8
Nova Scotia	1.7	2.5	1.2	1.5	8.5	8.1	2.1	2.1
New Brunswick	1.6	1.9	0.5	1.0	9.5	9.1	2.1	1.9
Québec	1.7	2.0	0.3	1.2	8.0	7.7	2.0	1.9
Ontario	2.1	2.1	0.9	1.1	7.7	7.5	1.9	2.0
Manitoba	2.6	2.5	0.9	1.1	5.3	5.1	2.0	2.0
Saskatchewan	3.4	3.4	1.3	1.6	4.8	4.7	2.7	2.6
Alberta	3.5	3.3	2.6	2.0	4.9	4.6	2.6	2.5
British Columbia	2.3	2.5	1.3	1.5	6.9	6.8	2.0	1.5

Based on the average forecasts from four different bank forecasters as of June 8, 2012
National averages may differ from those reported in the Canadian outlook table because they are from a smaller group.

Federal budget ramps up assault on workers

As more details of the federal Conservatives' first majority budget have been revealed, it could be the "transformative" budget they promised—and not in a good way.

Together with gutting of many environmental protections, the budget omnibus bill has launched a broad-based attack on workers and their wages.

These include a range of direct and indirect measures to erode the power of workers and wages. They include:

- New rules will allow employers to pay temporary foreign workers wages 15% below the prevailing rate, and fast-track approvals for skilled workers to no more than ten days—less time than it takes Canadian banks to clear cheques on foreign banks.
- Eliminating Employment Insurance (EI) benefits for claimants who don't take jobs at up to less than 30% below their previous wage will lead to an ongoing erosion of wages.
- Abolition of the Employment Insurance Tribunal and delegating EI appeals to a much smaller centralized Social Services Tribunal responsible for dealing with CPP and OAS pension appeals will eliminate balance and local input into the appeals process. This new tribunal will be staffed with members directly appointed by the federal government as opposed to the previous system which included referees nominated by labour and business.
- Elimination of the federal *Fair Wage and Hours of Labour Act* will mean contractors on federal construction jobs can pay their workers as little as the minimum wage, accelerating a race to the bottom and undermining unions.
- The budget also abandons requirements for federal contractors to abide by the *Employment Equity Act* and institute employment equity plans. This was a small but effective lever to get private businesses to treat discriminated workers—women, Aboriginal Canadians, racialized workers, and those with disabilities—more fairly.
- The Harper government has of course severely curtailed the right to strike by legislating workers under federal jurisdiction back to work with little hesitation on many instances, and—in the case of postal workers—directly intervened to reduce wage increases previously offered by the employer.
- Layoffs of public sector workers and cuts in the 2012 budget will reduce employment by approximately 40,000, according to Ottawa's Parliamentary Budget Officer. Job losses increase to well over 100,000 when taking account of cuts in the previous two budgets and spending cuts by provincial governments.
- Instead of improving the Canada Pension Plan as they had promised, the 2012 federal budget will require Canadians to work two years longer to qualify for Old Age Security. This and other pension changes for the CPP will effectively increase the retirement age to 67 and force seniors to work longer.
- The Harper government has accelerated its pursuit of free trade deals across the globe with whomever will sign, seemingly unconstrained by strategic national objectives. These will lead to job losses, lower wages, weakened Canadian economic ability and constrain the ability of our governments to strengthen their local economies. Combined with its tripling of the threshold for the review of foreign takeovers to $1 billion, these deals will lead to more sell-offs of Canadian firms, export of jobs to lower wage jurisdictions (as happened to Caterpillar and Aveos workers) and ongoing pressure to reduce wages.
- The federal budget is also remarkable for its absence of support for manufacturing or measures to strengthen any industry outside the oil, gas and resource sectors. Much of the content in the 425 page omnibus budget bill is devoted to steam-rolling environmental and fisheries protection regulations, agencies and the citizen input that could interfere with more rapid exploitation and export of our raw resources.

Employment trends: increasingly older, oilier and occidental

After many months of stagnation, the Canadian economy started creating new jobs in March and April, before taking another pause in May.

In the first five months of the year employment increased by 1% compared to the same period last year. This is in line with forecasts, but at slower pace than the last decade and lower than what a recovery should deliver. As a result there's been little decline in unemployment: the jobless rate remained at 7.3% in May and has averaged 7.4% so far this year, little down from the 7.6% average of last year.

Employment figures are showing a number of clear trends.

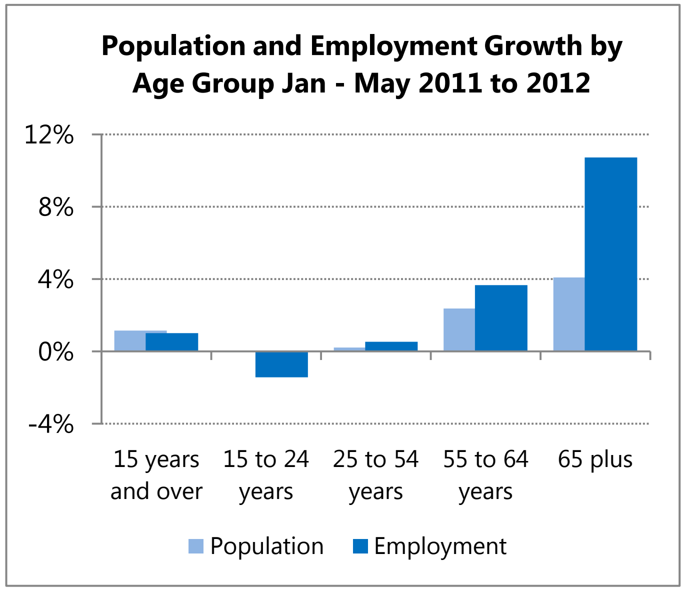
Public sector employment flat-lining. All the increase in jobs in the first five months of this year compared to last year was in the private sector, with no increase in public sector jobs.

By industry, by far the biggest increase in jobs has been in the resource sector, where total employment has increased by 11% so far this year. There has also been strong job growth in "other services" (personal, repair and community) and accommodation and food services, and a decline of jobs in public administration.

Go west old man. The booming resources sector has meant that the three Western provinces of Alberta, British Columbia and Saskatchewan gained 70% of the new jobs created over last year. Employment increased by 3.6% in Alberta and its unemployment rate dropped below 5% for the first time since the start of the economic crisis. The biggest increase in jobs in Alberta has been for older workers, with employment of men 55+ up by 10% over last year.

Seniors at your service. Virtually all the increase in employment this year has been among older workers, aged 55+, who accounted for 85% of total job gains.

In contrast, employment of youth continued to decline (*see chart at bellow*). While some of this reflects underlying demographic trends, the workforce is aging much more rapidly than the population. Employment of seniors aged 65+ increased at more than twice their rate of population growth. Youth unemployment rates haven't declined compared to last year and their participation rates have fallen.



Older workers—from choice or necessity—are increasingly working in the service sector jobs youth used to fill. Retail trade has had the largest hike in older workers of all industries, with employment of those aged 55+ up by 32,000, with an equivalent drop in workers younger than 55. Young workers are increasingly working in the goods sector, principally construction and manufacturing, two of the few areas where there's been an increase in youth employment.

An aging population and slower labour force growth will gradually lead to lower unemployment rates and pressure for higher wages, but this is being delayed with measures to weaken retirement security and increase the workforce participation of seniors.

While employers claim they are hampered by major labour shortages, the latest figures show there are six unemployed for every job vacancy—and the number of job vacancies has declined since last September, when these figures were first published.

Economic forecasters are predicting continued steady but slow improvements to the jobs situation, with the unemployment rate not expected to decline to under 7% until later in 2013. In this context, there's little justification for the federal government's budget measures to accelerate processing of temporary foreign workers, push more seniors back into the workforce, or to force people off Employment Insurance if they don't accept lower paid jobs.

Inflation landscape fracked by natural gas

After reaching 3.7% last spring, Canada's inflation rate has moderated in recent months. April's increase in the consumer price index (CPI) was 2%, right on the Bank of Canada's target rate, and has averaged 2.3% so far this year.

While gasoline prices recently rebounded to their highest level since 2008, they were partly offset by a 14% drop in natural gas prices over the past year. This has brought down the rate of inflation at the national level, in central Canada and Western provinces, but left it higher in Atlantic provinces where natural gas is much less widely used for home heating.

As the chart on the right shows, inflation has averaged between 2.5% and 3% in provinces from Quebec east in the first four months of this year and between 1.5% and 2.5% from Ontario west.

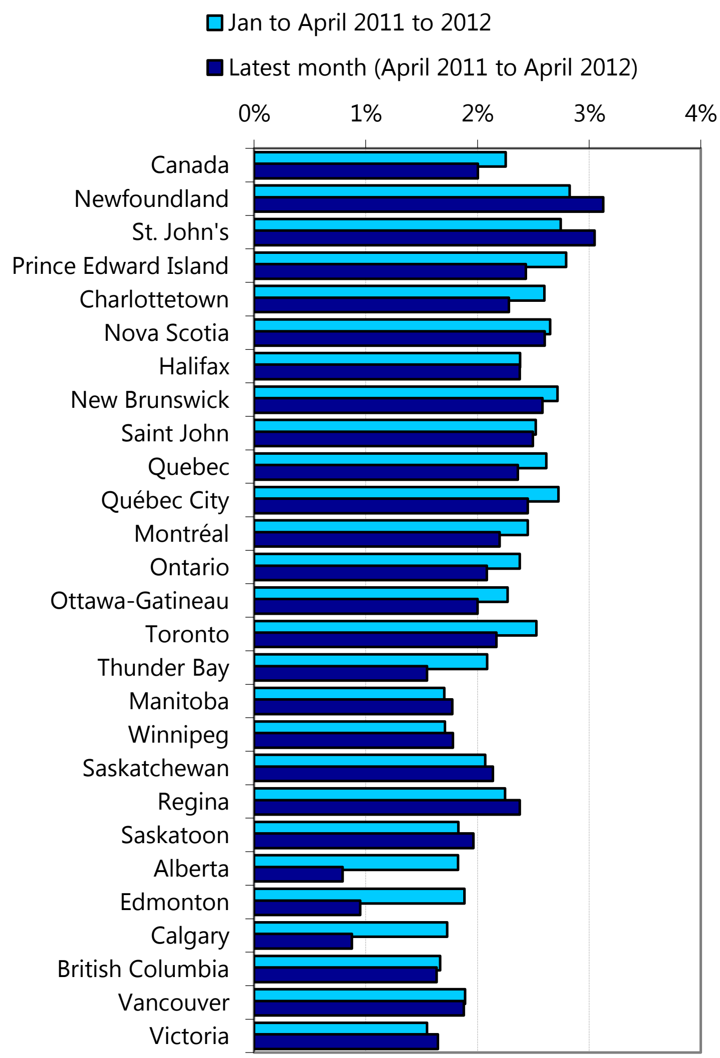
Increases in the cost of most foods, telephone, internet and financial services, tuition fees, vehicles, auto insurance and intercity transportation have all pushed up the rate of inflation over the past year. Lower costs for mortgages, medicine, and home entertainment together with the drop in the price of natural gas and lower electricity rates in some provinces have moderated increases in the cost of living.

Later this year and next, inflation is expected to pick up in Alberta and Saskatchewan with their growing economies and to subside in central and eastern Canada. In British Columbia, the replacement of the HST on April 1, 2013 with an "improved" provincial sales tax will shave about 0.6% off the inflation rate, resulting in an increase projected at close to 1.5%.

Fluctuations in the price of oil and gas will continue to sway the cost of living in directions that are hard to predict. Another wild card is the cost of housing. The TD Bank is predicting the price of existing homes will tumble by an average of 10% next year, after the Bank of Canada begins its long-delayed move to hike interest rates—now expect in mid-2013.

However, the timing of when this happens will be highly dependent on the state of the world and Canadian economies. The results will also be mixed. Statistics Canada uses a new housing price index to track the cost of houses. This has increased at less than the cost of existing homes and so will also fall less as other house prices decline. Higher interest rates will also counteract the impact of housing price declines in the CPI.

CPI Inflation by Province and City



Data from Statscan Cat # 326-0001

The Bank of Canada is expecting consumer price inflation to average 2.2% in 2012 and average close to 2% in both 2013 and 2014.

Wage settlements show growing divergences

Recent collective agreements have resulted in quite different wage increases in different sectors and provinces across Canada.

While major collective agreements settled in the first quarter provided average wage adjustments of 1.8%, similar to 2010 and 2011, the differences between regions and sectors deepened (see table next page).

Private sector wage adjustments settled in the first quarter continued to increase, averaging 2.7% per year over the life of their agreements, up from 2.1% in 2011. Meanwhile wage increases for public sector agreements averaged 1.5%, down from 1.7% in 2011 and below the 2.3% rate of inflation for the first quarter. This will be the third year average public sector wage adjustments have been below those in the private sector after exceeding them for four years.

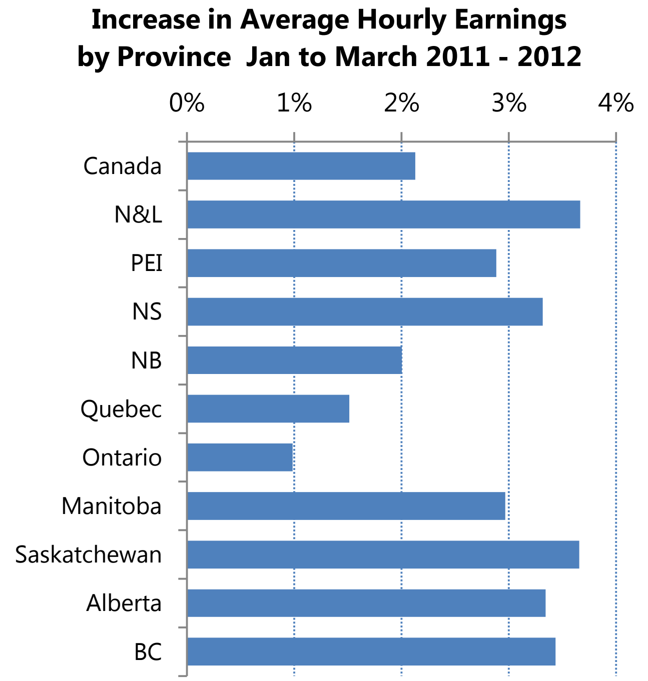
Average wage settlements in Alberta increased to 3% in the first quarter, up from 2.5% in 2011 while in Ontario they averaged 1.4% in the first quarter down from 1.6% in 2011.

In British Columbia, yet more years of provincially imposed public sector wage freezes ensured that B.C. workers got the lowest wage adjustments in the country, just as they have in the previous two years.

In every province except Alberta, average wage settlements from the first quarter were below their rate of inflation—and a full percentage point below inflation in British Columbia, Ontario, Quebec and Nova Scotia.

Workers in primary industries, including the resource sector, utilities and transportation are benefiting from rising wage increases while wage adjustments in education, health and social services have fallen.

Payroll wage data show some similar trends: higher hourly wage increases in utilities and primary industries, such as mining, and lower wage increases in health care and social assistance. Not surprisingly, hourly wage increases in Western Canada and Newfoundland and Labrador are outpacing wage increases in central Canada and the Maritimes.



Source: Statistics Canada Survey of Employment, Payroll and Hours. Cansim 281-0029 Not including overtime.

Recent CUPE agreements demonstrate these diminished wage expectations. Most agreements signed in the first quarter, with the exception of those in Alberta or in the utilities sector, provide average wage increases of 2% or less. Wage increases have declined markedly in Ontario, where the provincial government continues to push for two years of zero percent wage increases for the broader public sector.

Major CUPE Agreements Reported October – December 2011		
Employer	**Average Increase**	**Duration (months)**
Nova Scotia Government service workers	1.0	24
City of Ottawa	1.9	24
Carleton University Students Association	1.7	36
University of Toronto TAs	1.7	36
York University	2.0	36
City of Toronto outside 416	1.0	48
City of Toronto Local 79	1.1	48
Toronto Public Library	1.1	48
Ontario Power Generation	2.7	36
Community Living Essex	0.6	36
City of Lethbridge inside and outside	2.0	36
City of Edmonton	2.8	36.1
B.C. School Boards	0.0	24
City of Nanaimo	2.0	36

Major Collective Bargaining Average Wage Settlements by Year and Quarter							
	2008	***2009***	***2010***	***2011***	***2011Q3***	***2011Q4***	***2012Q1***
All Average	3.2	*2.4*	*1.8*	*1.8*	*2.0*	*1.7*	*1.8*
Public Sector	3.5	*2.5*	*1.6*	*1.7*	*2.1*	*1.5*	*1.5*
Private Sector	2.5	*1.8*	*2.1*	*2.1*	*1.9*	*2.1*	*2.7*
CPI Inflation:	***2.3***	***0.3***	***1.8***	***2.9***	***3.0***	***2.7***	***2.3***

Average Wage Settlements by Province – Major Agreements											
	NL	**PEI**	**NS**	**NB**	**QC**	**ON**	**MB**	**SK**	**AB**	**BC**	**Federal**
2008	*5.0*	*3.0*	*4.1*	*3.7*	*2.4*	*2.6*	*3.4*	*5.1*	*4.8*	*2.5*	*2.9*
2009	*5.0*	*3.6*	*2.9*	*6.0*	*2.2*	*2.4*	*2.9*	*5.0*	*4.4*	*2.8*	*1.6*
2010	*1.7*	*2.7*	*1.5*	*2.2*	*1.5*	*2.0*	*2.1*	*2.4*	*3.5*	*0.2*	*1.7*
2011	-	*2.0*	*1.4*	*1.0*	*1.8*	*1.6*	*1.7*	*2.7*	*2.5*	*0.5*	*2.2*
2011Q1	-	-	1.5	2.1	1.7	1.4	1.4	1.8	3.0	0.6	2.8
2011CPI	*2.7*	*2.9*	*2.7*	*2.8*	*2.7*	*2.5*	*1.7*	*2.0*	*2.2*	*1.7*	*2.3*

Average Wage Settlements by Industry – Major Agreements						
Industry	***2008***	***2009***	***2010***	***2011***	***2011Q4***	***2012Q1***
Primary	*3.9*	*2.5*	*2.8*	*2.8*	*2.4*	*3.2*
Utilities	*2.3*	*3.0*	*1.5*	*2.7*	*2.5*	*3.5*
Construction	*5.4*	*3.4*	*2.4*	*2.2*	*2.8*	-
Manufacturing	*1.1*	*1.7*	*1.4*	*1.8*	*2.3*	*1.6*
Wholesale and Retail	*2.8*	*1.7*	*1.1*	*1.8*	*1.2*	*5.2*
Transportation	*3.1*	*1.1*	*2.2*	*2.3*	*2.6*	*2.5*
Information and Culture	*2.0*	*2.0*	*0.8*	*1.9*	*1.8*	*1.4*
Finance and Professional Services	*2.8*	*2.5*	*3.2*	*2.1*	*2.1*	*1.6*
Education, Health, Social Services	*3.8*	*3.0*	*1.6*	*1.5*	*1.3*	*0.9*
Entertainment and Hospitality	*1.9*	*2.0*	*2.2*	*1.6*	*1.5*	*1.7*
Public Administration	*2.7*	*2.1*	*1.5*	*1.9*	*1.5*	*2.1*

Source: Human Resources and Skills Development Canada, *Major Wage Settlements,* [latest information as of June 4, 2012] http://www.hrsdc.gc.ca/eng/labour/labour_relations/info_analysis/index.shtml *Consumer Price Index* (Statistics Canada 326-0001). Q1 = 1st quarter (e.g. January to March inclusive).

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