ECONOMIC CLIMATE for BARGAINING

September 2009 **Vol. 6, No. 3**

Frontline Summary

Economic Outlook Summary

Canada's economy is expected to pull out of recession during the second half of this year because of a big boost in government spending and ultra low interest rates which have spurred consumer spending.

But economic growth going forward is likely to remain weak. Households are hemmed in by high levels of debt and slow wage growth. Businesses aren't stepping up their investment. The rising petro-fuelled dollar is damaging our other exports. Interest rates will inevitably rise. And, with rising deficits, governments are planning to slow spending growth.

Hacking at public spending, asset sales and privatizations may provide a short-term fiscal fix (and subsidize the private sector) but don't support long-term economic growth.

On average, private economic forecasts expect:

- Economic output (GDP) to decline by 2.2% this year and then grow by 2.2% in 2010.
- Unemployment will continue to rise from an average of 8.4% this year to 9% in 2010.
- Inflation to average 0.3% this year but gradually rise next year towards 2%, with an average of 1.7% expected for 2010.

Recovery underway, but will be weak and fragile
Thanks to extraordinary economic measures, Canada and other countries around the world are starting to recover from the economic crisis. But unless we change direction and deal with the real causes of the crisis, we will go into another boom and bust cycle in a few years and workers will be even further behind.

Canadian and provincial economic forecasts
This section provides averages of the latest forecasts of main economic indicators for Canada and the provinces.

Stimulus measures stem job losses, but more action needed
Economic stimulus measures have slowed job losses since March, but Canada's unemployment problem continues to grow. Youth and adult men have been most affected so far. Now there are disturbing signs of public sector job losses.

After 33 years, minimum wages still below inflation
Many provinces have recently hiked their minimum wages, but more increases are needed. In every province but Newfoundland, the real value of the minimum wage is still less than what it was 33 years ago.

Inflation dips below zero, but not for long
Canadians are benefiting from lower prices as inflation fell by 0.9% in July—its biggest drop in over 50 years. This drop was caused entirely by energy prices falling from their record levels of last year. Expect the inflation rate to gradually rise towards 2% over the next few years.

Recession grinding down wage increases
Together with the declining economy, wage increases in settlements are also falling, although not as much as inflation. Wage increases for public sector workers are still higher than the private sector, but with governments forcing pay freezes on their employees, that may change soon.

The *Economic Climate for Bargaining* is published four times a year by the Canadian Union of Public Employees. Please contact Toby Sanger (tsanger@cupe.ca) with corrections, questions, suggestions or contributions!

Next issue: December 2009.

ECONOMIC CLIMATE *for* BARGAINING

Recovery underway but will be weak and fragile

The world economy has struggled through an extraordinary economic downturn in the past year.

This year will be the first time since the 1930s that overall global economic output has declined. Unlike more recent recessions, the downturn has directly affected all countries around the world.

And unlike in recent recessions, governments around the world have taken extraordinary measures to prevent a more serious collapse:

- Record low interest rates (and even negative central bank interest rates in Sweden).
- Nationalizations and bail-outs of key financial and manufacturing corporations.
- Other forms of extraordinary government support for financial markets and business lending.
- Trillions in public stimulus and record government deficits to boost the economy.

These actions have largely been successful. We've avoided a depression-style downturn and economic growth is starting to pick up in most countries.

However, unemployment will continue to rise and growth will be weak and fragile. Governments need to maintain stimulus and public spending and increase support to workers and for employment to prevent a double-dip recession.

The actions taken to rescue the world economy reversed decades of most countries pushing increasingly "free-market" policies, willfully blind to the growing social, economic and environmental problems these created.

These policies included:

- Deregulation and "self-regulation", especially of financial markets.
- Regressive tax reform that helped fuel speculation.
- Reduced public services and social security, with increased privatization leading to growing household debt and instability.
- Inadequate public and private investment in productive areas of the economy.
- Free trade and globalization.
- Low inflation, low interest rates and easy credit policies.

These measures were combined with attacks on labour, resulting in low wage growth and escalating household indebtedness. The collapse of financial, housing, and stock markets may have put the crisis onto the front pages, but what really caused it was growing instability and inequality.

The countries and regions that were most affected by the crisis are the ones that most forcefully pushed these free-market policies, while countries that retained stronger regulations and public services have been less affected.

Most recessions in the past 60 years were intentional: caused by governments raising interest rates to slow down the economy, and to reduce inflation and wage increases.

This global recession is different. It was caused by the economic system itself and the free market policies that governments blindly pursued.

Now that they have succeeded in rescuing their economies from further collapse, there's a growing danger that governments will just return to the same old economic policies that caused this crisis.

Fortunately, there is a strong push from countries such as France for stronger international financial regulation and controls on executive pay. Unfortunately, this is being resisted by Canada, with the federal finance minister claiming these aren't problems here.

Instead Canada's federal and many provincial governments appear more intent on once again attacking public sector deficits, public services and implementing regressive tax reforms than putting in place these types of positive reform.

This amounts to attacking the symptoms and consequences of the crisis while ignoring its real causes.

Unless we have political leaders who can learn from this crisis, our economy will go into another boom and bust cycle in a few years, and workers will be even further behind.

We need to invest more in public services such as education—and send our political leaders back to school (and to the workplace)—to create a stronger, more equal and sustainable economy.

Canadian Economic Outlook

The outlook for the Canadian economy is finally starting to look up, after more than a year of steadily deteriorating conditions and worsening forecasts.

A strong boost of government spending and re-growth of consumer spending, aided by ultra-low interest rates and incentives, is expected to pull the Canadian economy out of recession in the second half of this year.

However, despite improving credit markets, low interest rates and low tax rates, business investment remains anemic. After an initial bounce back, Canada's economic recovery is expected to be slow, with higher unemployment rates persisting for a number of years. Growth will fragile and threatened if economic stimulus measures are cut back.

The Organization for Economic Co-operation and Development (OECD) is more pessimistic than Canadian forecasters, expecting Canada to eke out growth of only 0.7% next year.

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 -2.2% this year, according to private forecasters. Next year the economy is expected to grow by about 2.2%, with forecasts ranging from 1.4% to 2.8%.
- **Unemployment.** Canada's unemployment rate is expected to continue to rise from an average of 8.4% this year to an average of 9% in 2010, with a range from 8% to 9.9%. The jobless rate is not expected to fall until part way through next year.
- **Inflation.** Canada's inflation rate will climb out of negative territory this fall and then rise gradually through next year. Forecasts of inflation for this year average 0.3%, with a range from 0% to 0.8%. Inflation next year is expected to average 1.7%, with a range from 1.3% to 2.1%.

Canadian Economic Outlook – Average of Private Sector Forecasts				
Annual growth rates unless indicated	**2007**	**2008**	**2009**	**2010**
	Actual		*Forecast*	
Growth in the Economy				
Real GDP	2.5%	0.4%	-2.2%	2.2%
- Consumer Spending	4.6%	3.0%	-0.7%	1.6%
- Business Investment	3.7%	0.2%	-13.1%	0.1%
- Government Spending	3.7%	4.8%	3.6%	4.7%
Labour Market				
Employment growth	2.3%	1.5%	-1.8%	0.4%
Unemployment rate	6.0%	6.1%	8.4%	9.0%
Productivity growth	0.5%	-1.1%	-0.5%	1.6%
Inflation - Consumer Price Index	2.2%	2.3%	0.3%	1.7%
Corporate Profits before tax	4.1%	5.7%	-34.2%	10.2%
Real Personal Disposable Income	3.7%	4.2%	1.0%	2.9%
Personal Savings Rate	2.5%	3.7%	5.3%	5.7%
Housing Starts (000s)	228	211	135	150
Interest Rates and Exchange Rate				
Short-term 3 Month T-Bill	4.15%	2.33%	0.32%	0.97%
Long-term 10 Year Bond	4.28%	3.61%	3.21%	3.86%
Exchange rate C$ in U.S. cents	$ 93.04	$ 94.30	$ 87.94	$ 96.10
Average based on latest forecasts from seven different Canadian forecasters as of September 3, 2009.				

Provincial Economic Forecasts

Ontario is expected to lag the nation this year and next. Its economy will shrink by about 3.1% this year, worse than the national average. Growth will resume next year, but again at a subpar rate.

Saskatchewan is expected to register the best economic performance: it may be the only province to avoid a decline this year, followed by above average growth next year. The economies of Manitoba and Nova Scotia are also faring relatively better than average.

Total employment levels are expected to fall by 1.8% this year, and then grow by only 0.6% next year, less than the growth in both population and labour force. This means the unemployment rate is expected to climb in every province next year.

Inflation remains subdued and has averaged below 1% in every province except Saskatchewan so far this year (see *CPI Inflation by Province and City* chart below). For most provinces, inflation for 2009 is expected to end up very close to what the average has been in the first seven months of this year. The inflation rate will gradually rise over next year in all provinces, but likely remain below 2%. Ontario and B.C. will see the biggest increase in consumer prices, pushed up by the introduction of new harmonized sales taxes in both provinces on July 1 of next year.

This table presents an average of the recent publicly-available forecasts of main economic indicators at the provincial level. The averages are calculated from provincial economic forecasts provided by TD Bank, the Royal Bank of Canada, BMO Capital Markets, the Bank of Nova Scotia and CIBC. 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	- 2.4	2.2	- 1.8	0.6	8.5	9.2	0.3	1.5
Newfoundland & Labrador	- 3.7	2.6	- 3.2	0.5	15.3	15.7	0.3	1.4
Prince Edward Island	- 1.7	1.6	- 2.5	0.5	12.7	13.1	- 0.4	1.3
Nova Scotia	- 0.9	2.0	- 0.3	0.5	9.3	9.7	- 0.6	1.3
New Brunswick	- 1.1	2.0	- 0.4	0.5	9.3	9.9	- 0.1	1.1
Québec	- 1.6	2.0	- 1.1	0.5	8.8	9.5	0.3	1.3
Ontario	- 3.1	2.1	- 2.7	0.3	9.4	10.2	0.4	1.7
Manitoba	- 0.4	2.2	- 0.2	0.9	5.1	5.5	0.7	1.3
Saskatchewan	0.1	2.5	1.8	1.0	5.0	5.4	1.0	1.5
Alberta	- 2.4	2.4	- 1.1	0.9	6.5	7.0	- 0.2	1.4
British Columbia	- 2.0	2.5	- 2.5	1.2	7.7	8.0	0.2	1.6

Based on the average forecasts from five different bank forecasters as of September 3, 2009.
National averages may differ from those reported in the Canadian outlook table because they include a smaller group.

Stimulus measures stem job losses, but more action needed

Disturbing rise in public sector job losses

Economic stimulus measures have helped to stem job losses from the recession, but more action is needed. Past experience shows it takes many years after the end of a recession for employment and unemployment rates to recover.

In the first five months of this recession, from October 2008 to March 2009, more than 70,000 jobs were eliminated every month. Since March, fewer jobs have been lost, but Canada's unemployment problem continues to grow.

- The unemployment rate increased sharply to 8.7% in August from 6.2% a year earlier.
- There are now more than 1.6 million unemployed in Canada: almost 500,000 more jobless than a year ago and 450,000 more than last October.
- There have been 486,000 full-time jobs lost since October.

Part-time employment has increased, but this doesn't begin to substitute for the full-time jobs that have been lost, in terms of either quantity or quality.

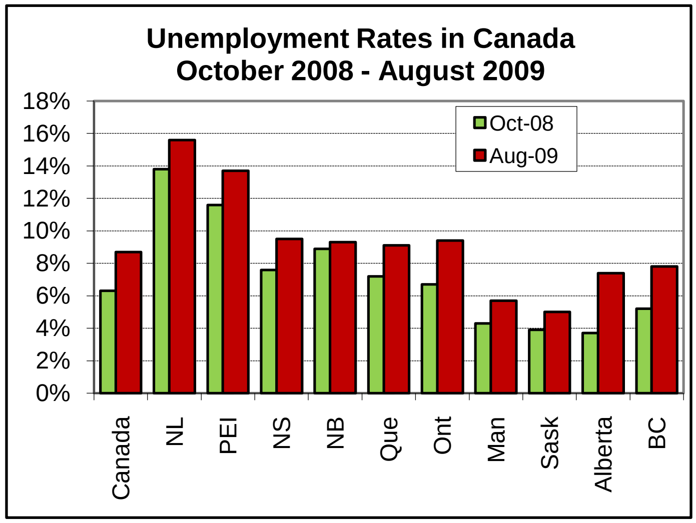
In August, the labour force figures showed a surprise increase in employment of 27,000, but these were all part-time jobs, mostly in retail and trade which tend to be much lower-paid. This small monthly increase in employment wasn't even statistically significant in terms of the *Labour Force Survey*.

Youth have been dealt most of the job loss so far in this recession:

- There were 210,000 fewer jobs for young people aged 15-24, equal to 54% of total job loss.
- The unemployment rate for youth in August was 16.3%, up from 12% in October.
- The unemployment rate for students averaged 19.2% this summer, the 2nd highest on record.

Adult men are faring worse than women in the recession so far: their unemployment rate has increased to 8.4%, up from 5.5% last October, compared to an unemployment rate of 6.1% for women, up from 4.7% in October.

Virtually all the net job loss has been in the goods sector, and particularly manufacturing and construction. Jobs lost in the goods sector are equivalent to more than 95% of Canada's total net job loss since October. The job losses in construction and manufacturing have continued, even though Canadian governments have focused their economic stimulus measures in these areas.



Workers in other industries, such as transportation, business services, education, accommodation and food, have also suffered significant job losses. At the same time, there has been job growth in some service industries.

Back to school—and to the unemployment line

A disturbing sign is growing job losses in the public sector. According to the *Labour Force Survey*, there were 65,000 fewer public sector jobs in August than last October. Much of public sector job losses appear to be concentrated in the education sector, both among universities and colleges and school boards, and in provincial government administration, with a large share in Ontario.

Statistics Canada's payroll employment figures also show similar trends.

These job statistics correspond to what we're seeing in different workplaces:

- McMaster University is threatening to cut 50% of its contract positions this fall and more in the winter term.
- Guelph University is cutting one third of its sessional instructors.
- University of Western Ontario has cut staff through buy-outs, early retirements and layoffs.
- Many other universities are also making across-the-board cuts.

In New Brunswick, 588 educational support staff were dealt layoff notices in June as a result of the province's funding cuts. CUPE helped mobilize a campaign that succeeded in getting the province to restore funding, but not all the laid-off workers will be rehired.

CUPE BC school board locals are reporting increasing numbers of members receiving layoff notices as a result of the BC government's funding cuts.

Unfortunately, the pressure for cuts to public service jobs, services and wages is only likely to grow, as federal and provincial governments shift from stimulating the economy to attacking deficits.

These types of public sector job cuts make no sense for a number of reasons:

- During a recession, governments should increase public sector employment to stimulate the economy, and not reduce it.
- University and college enrolment has continued to grow strongly. With rising youth unemployment enrolment is likely to grow even more this year.
- Canada's overall productivity has actually declined since 2000, with labour productivity falling since 2006. We need to build a better educated and higher skilled economy.
- Investments in public services, and especially in education and health and social services, don't only improve the quality of life and increase long-term productivity, they also provide much greater economic stimulus than tax cuts.

Impacts by Province

Workers in all provinces have suffered from the recession, but the impacts have been particularly strong in three provinces: Ontario, Alberta and B.C. Together, these provinces have accounted for over 80% of the total jobs lost and 75% of the rise in unemployment.

Workers in each of these provinces have experienced higher than average rates of job loss and higher than average increases in unemployment and unemployment rates. Unemployment in Alberta is now double what it was last October. In B.C., unemployment has increased by 50% while in Ontario it has increased by more than 40% compared to the national average of 39%. The unemployment situation in each of these provinces would be even worse if people hadn't given up looking for work.

Labour markets in Manitoba and Saskatchewan have fared the best so far.

In Manitoba, employment has actually grown since the recession started, but because the labour force has grown even faster, unemployment has increased.

Saskatchewan has lost 3,000 jobs, but had an increase in unemployment of 6,000 with labour force growth.

Employment in New Brunswick has dropped by 4,300, but unemployment has increased by only 1,300 because 3,000 people have dropped out of the province's labour force: the highest proportion of any province.

Forecasts

The unemployment situation in every province is expected to get worse next year. Forecasters expect the national unemployment rate to increase to an average of about 9% next year, with some expecting it to hit 10%, up from an average of about 8.5% this year.

Workers in Ontario are expected to suffer the biggest increase in unemployment, with the jobless rate rising above 10% for the year (see *Provincial Economic Outlook* table on page 3).

After the official end of both the 1980s and 1990s recessions, it took two years for employment levels to recover to the levels they were at the start of the recession. It takes much longer for unemployment rates to fall. After the 1980s recession, unemployment rates never dropped to their pre-recession low before the 1990s recession hit. And after the 1990s recession, it wasn't until 1999 that unemployment rates fell to the 7.3% low they had reached in March 1990: seven years after the recession was officially over.

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**	**July-09**	**Aug-09**		**July-09**	**Oct-08**	**from Oct**
Labour force	18,346	18,363	18,412		49.1	66.0	0.4%
Employment	17,195	16,780	16,807		27.1	-387.3	-2.3%
Full-time	14,004	13,522	13,518		-3.5	-486.2	-3.5%
Part-time	3,191	3,259	3,289		30.6	98.9	3.1%
Unemployment	1,152	1,583	1,605		21.9	453.4	39.4%
Unemployment rate (%)	6.3%	8.6%	8.7%		0.1	2.4	
Participation rate (%)	67.8%	67.2%	67.3%		0.1	-0.5	
Employment							
Women 25 +	6,854	6,816	6,840		24.0	-14.5	-0.2%
Men 25 +	7,740	7,569	7,577		8.0	-163.3	-2.1%
Youth	2,601	2,396	2,391		-4.9	-209.5	-8.1%
Public sector	3,462	3,408	3,397		-11.5	-65.3	-1.9%
Private sector	11,082	10,645	10,695		49.2	-386.9	-3.5%
Self-employed	2,651	2,727	2,716		-10.6	64.8	2.4%
Employment by Industry							
Goods							
Agriculture	326	324	320		-3.7	-6.0	-1.8%
Forestry, fishing, mining, oil and gas	339	316	319		3.3	-19.6	-5.8%
Utilities	149	149	148		-1.3	-0.6	-0.4%
Construction	1,251	1,130	1,142		12.1	-108.3	-8.7%
Manufacturing	1,975	1,756	1,739		-17.3	-235.6	-11.9%
Services							
Trade	2,677	2,640	2,661		21.2	-15.9	-0.6%
Transportation and warehousing	871	811	819		8.3	-51.6	-5.9%
Finance, insurance, real estate and leasing	1,071	1,093	1,110		17.5	39.3	3.7%
Professional, scientific and technical services	1,204	1,203	1,213		10.4	8.9	0.7%
Business, building and other support services	670	683	650		-32.7	-20.0	-3.0%
Educational services	1,208	1,187	1,171		-16.7	-37.7	-3.1%
Health care and social assistance	1,922	1,937	1,941		3.5	18.7	1.0%
Information, culture and recreation	749	786	795		9.2	46.6	6.2%
Accommodation and food services	1,066	1,043	1,045		2.0	-20.9	-2.0%
Other services	766	791	800		9.1	34.0	4.4%
Public administration	953	932	934		1.9	-18.7	-2.0%

After 33 years, minimum wages still behind inflation

After years of stagnation, many provinces have recently increased their minimum wages for workers. Despite these recent increases, the real value of the minimum wage in every province in Canada is still less than what it was 33 years ago, with the exception of Newfoundland.

This means that the over half a million Canadians who are paid minimum wages are worse off than they would have been 33 years ago—back when the Bay City Rollers were topping the music charts.

Workers in British Columbia, which now boasts the lowest minimum wage in Canada at $8.00 an hour, are the worst off. In 1974, B.C.'s minimum wage was $2.50 an hour, which would be worth $10.00 an hour in today's dollars as a result of inflation.

If B.C.'s minimum wage had kept up with inflation over this time, minimum wage workers who work full-time full-year would get a wage increase of $4,000 per year: far more than the value of any tax cut for these workers.

The average minimum wage in Canada in 1976 would now be worth $9.58 in today's dollars. That's 10% above the average provincial minimum wage today. The federal government's national minimum wage of $2.90 in 1976 would now be worth $10.70 in today's dollars.

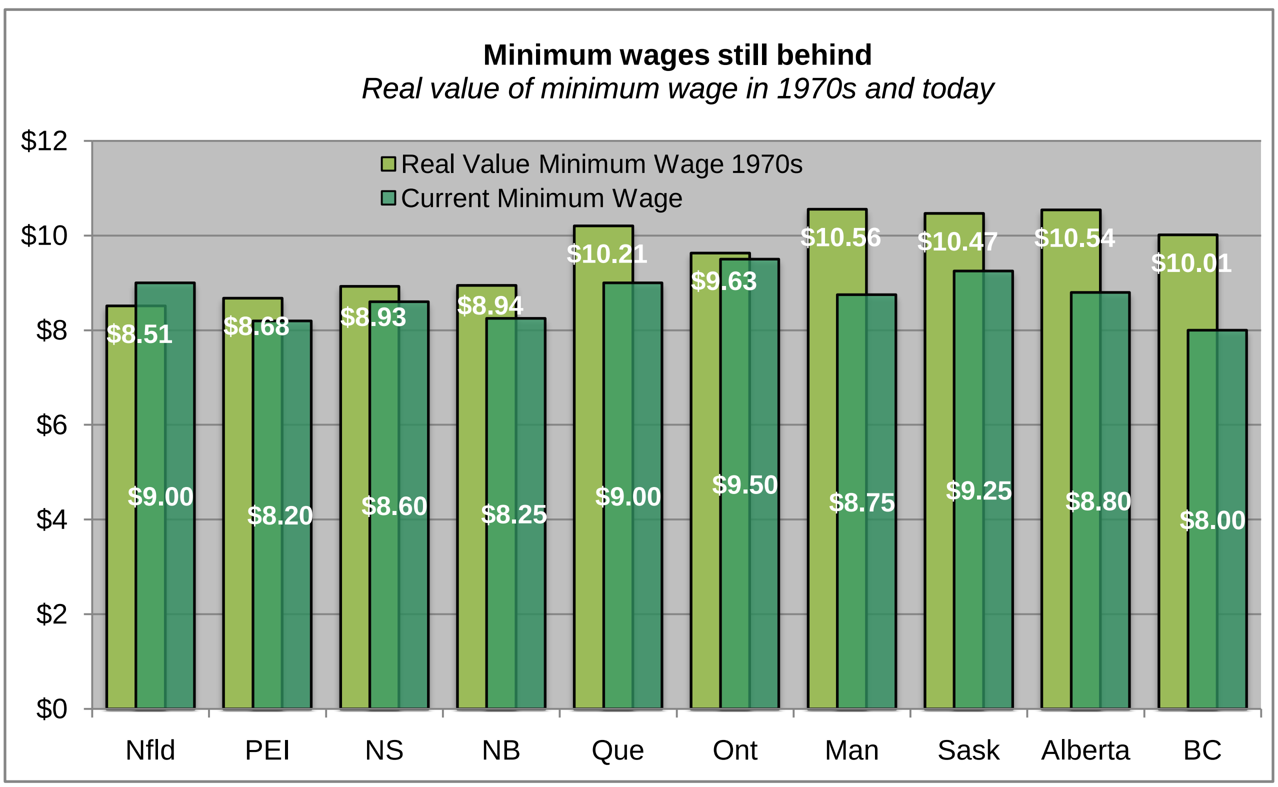
The low level of today's minimum wages is a major reason why so many Canadians continue to live in poverty.

The most widely accepted measure of poverty in Canada is Statistics Canada's *Low Income Cut-Offs* (LICOs). In 2008, these were about $19,000 for an individual living in a mid-sized city in Canada and $22,171 for an individual living in a larger city (500,000+). This means that a single person working full-time full-year would need an hourly wage of at least $10 to $11 an hour to escape poverty. No province provides this yet.

Last year there were 1.7 million Canadian workers who were paid less than $10 an hour. Almost half (47%) of these were full-time workers and 62% were women. Over 500,000 of these were adults working full-time.

The poverty line for a family is higher. For instance, the LICO poverty line for a family of three living in a larger city is $33,900. For a single earner, this is equivalent to $17 an hour for someone working full-time full-year. Almost half of all low wage workers in Canada were their family's main income earner.

Low paid workers need another wage increase. It's the best and easiest way to significantly reduce poverty in Canada.



Inflation dips below zero, but not for long

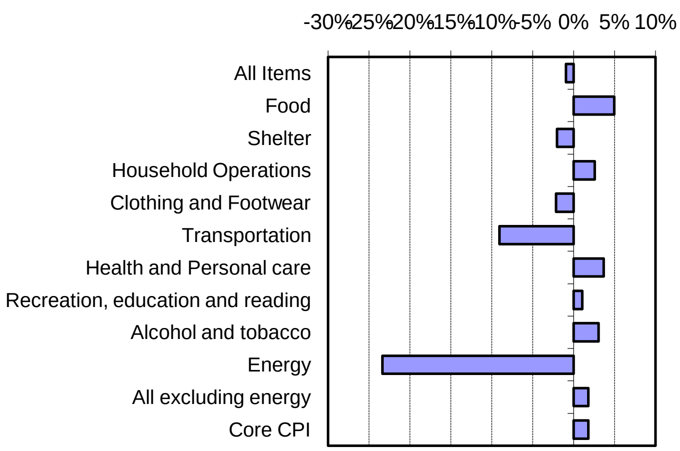
New sales tax to increase cost of living in Ontario and B.C.

Canada's consumer price index (CPI) experienced its largest drop in over 50 years recently when it fell by 0.9% in July from a year earlier.

While this may seem significant, it really isn't, nor does it point to ongoing declines in the cost of living.

It's a big drop from where inflation was a year ago, at 3.4%, but the gyrations have been caused by the same thing. The drop in Canada's main measure of inflation was almost entirely due to a 28% drop in the price of gasoline and even steeper drops in other fuel prices from last year's record levels. Excluding energy, consumer prices increased by 1.8% in July, the same rate as Canada's core inflation rate that month (*see chart below*).

CPI Inflation in Canada
August 2008 to August 2009



Fuel prices have already increased since the summer and by the end of this year could be back to where they were late last year. This means that, if other prices stay on track, the national inflation rate will return to a range of between 1% and 2% later this year and through next year.

What is more surprising is that a drop of less than 1% is the largest decline we've had in 50 years. What is also surprising is how little other prices have fallen as a result of the recession and the drop in energy prices.

Food prices are still 5% higher on average than they were a year ago. Health and personal care products are up by an average of 3.7% and the cost of household operations and furnishings is also up by 2.6%.

While stores may advertise massive sales, consumers aren't really getting much of a break—except in the cost of cars and in areas where there have been long-term price declines, such as electronics and clothing and footwear.

And because food eats up more of the budget of lower and middle income households, these families continue to experience higher inflation rates than the national averages reported by Statistics Canada.

With gyrating energy prices skewing the monthly inflation figures, it makes much more sense to look at averages for the year-to-date to understand where inflation is likely to end up (*see chart on next page*).

Consumer price inflation has averaged 0.4% so far in the first seven months of this year. That is very close to what economic forecasters expect inflation to average this year: 0.3%. The Bank of Canada—the ones that control our money supply—also expect Canada's national inflation rate to average 0.4% this year.

Next year will be a different story. It is likely to involve a gradual return towards the average inflation rates we've become used to during the past two decades. Forecasters from the major banks expect consumer price inflation to average 1.7% in 2010. This is a little higher than the Bank of Canada's forecast of 1.5% inflation for next year. The central bank is forecasting a return to its target of 2% inflation for 2011 but many private-sector forecasters think this could take a little more time.

There's a range in private sector forecasts for inflation in 2010: some are forecasting 1.3% inflation, with others expecting inflation to average 2.1% for the year.

A major factor that will push up the cost of living and inflation next year are plans by Ontario and B.C. to replace their provincial retail sales taxes with a combined harmonized sale based on the GST next July.

These moves—pushed strongly by the federal government—will lead to a massive shift in the tax burden from businesses to consumer households. This shift will amount to at least $3.8 billion in Ontario and at least $1.6 billion in B.C. each year, according to estimates by the CD Howe Institute. Because the GST is imposed on more goods and services than the provincial retail sales taxes, it will also mean a further increase in the cost of living in both these provinces.

How much it increases the cost of living and inflation depends on how much businesses pass on their tax cuts to consumers. Past experience shows that businesses have rarely passed on the full value of their tax cuts.

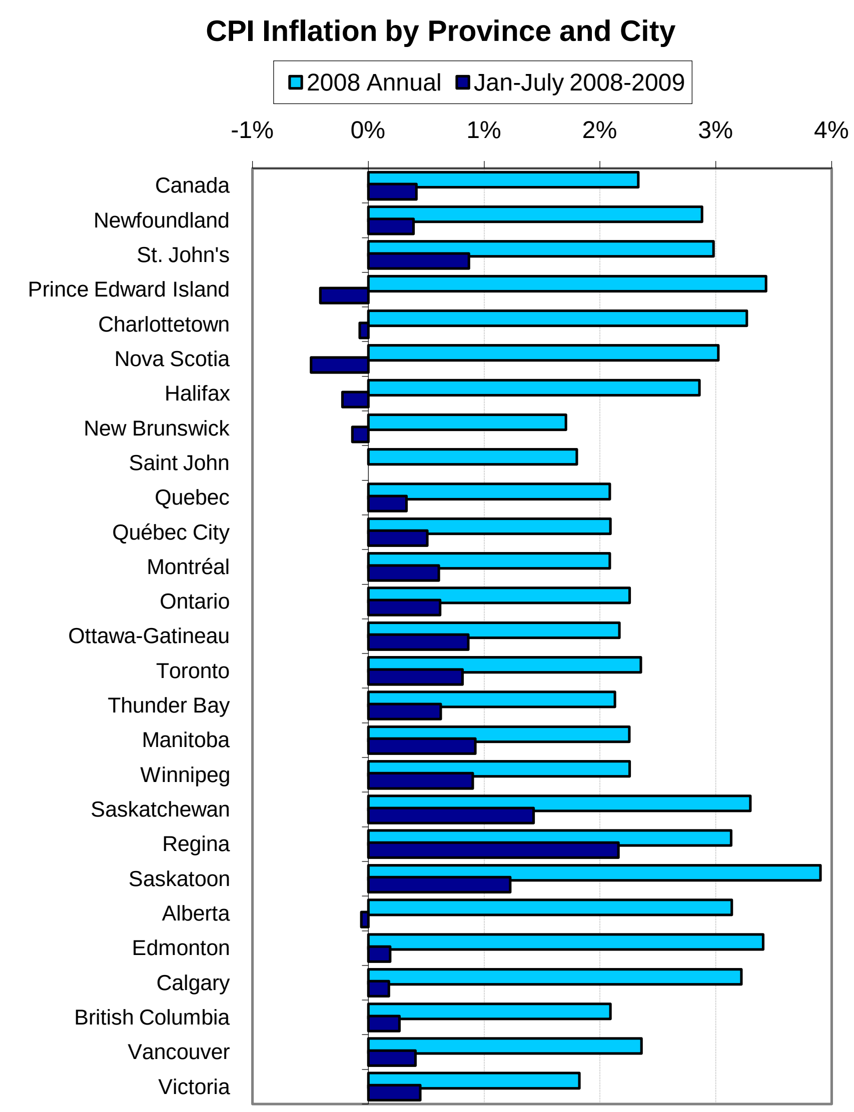
Even if these tax cuts are passed on, the TD Bank estimates that the new tax in Ontario will increase the overall inflation rate by 0.4 percentage points.

Inflation by Province

Inflation rates have varied a lot by province across Canada, as the following chart shows.

In Nova Scotia, consumer prices have dropped by -0.5% so far this year while in Saskatchewan they are up by 1.4%. These variations have also been driven by different changes in the price of energy.

Next year forecasters are expecting provincial inflation rates to converge closer to 1.5%, but for Ontario and B.C. to experience higher rates thanks to the new sales taxes (see *Provincial Economic Outlook* table on page 3). Since the sales taxes are being imposed halfway through the year, they will also increase inflation in these provinces in 2011.

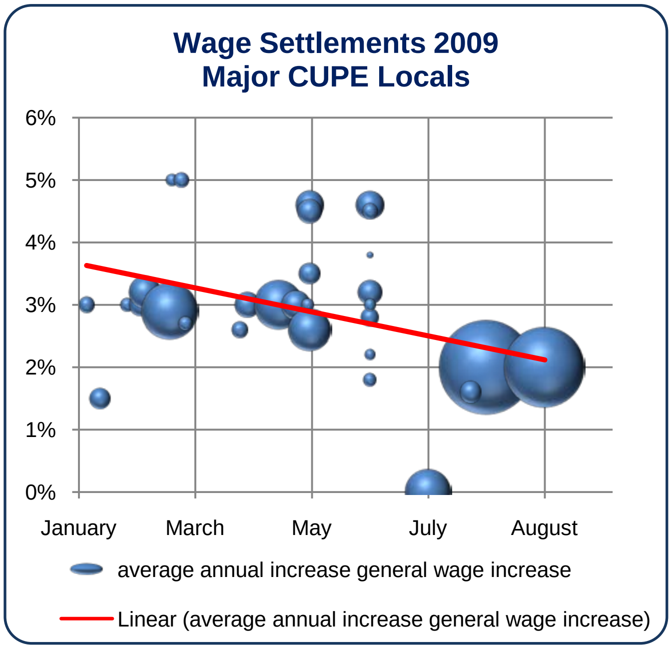


Data from Statscan Cat # 326-0001

Recession grinding down wage increases

The recession and responses to it are increasingly grinding down workers' wage gains. The impacts have been felt more by private sector workers so far, but are now being inflicted once again against public sector workers.

Recent high profile strikes and lock-outs have been caused by employers' demands for concessions on benefits and pensions, but underlying this is a growing chill and push for lower wage settlements.



The chart above illustrates the average general wage settlements for larger CUPE locals throughout the first half of this year. The size of the bubbles represents the number of CUPE members included in each settlement.*

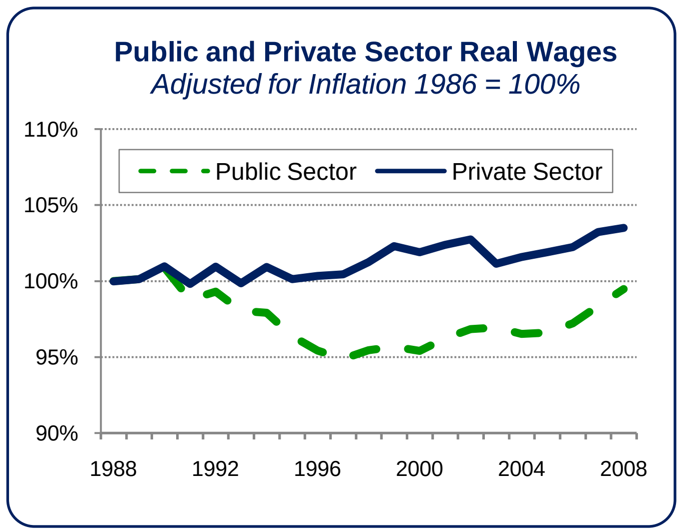
This shows, that while many CUPE locals continued to gain decent wage increases throughout this year, there has been a distinct trend to lower wage settlements.

In some cases, employers have justified these lower wage settlements by the lower rates of inflation we are seeing. In fact, many workers could experience decent real wage increases based on this year's inflation rate. But these abnormally low rates of inflation won't last for long, and certainly not as long as most settlements.

Shortfalls in revenues and rising deficits have already been used as an excuse to impose wage freezes for public employees in British Columbia and New Brunswick and to legislate low wage increases at the federal level. (Not unco-incidentally, these are the same governments that have most aggressively pushed through business tax cuts and other regressive tax measures in recent years).

Even though the recession may soon be officially over, we can expect negotiations and relations with other public sector employers to get more difficult as unemployment and deficits increase.

Our experience through economic cycles is that public sector employees might not get hit early on in a recession, but that they are usually forced to pay for the clean-up through lower wages for a number of years after the recession.



After the recession of 1990/91 a number of governments in Canada imposed wage freezes and austerity measures, followed by severe budget constraints and downloading through the mid 1990s.

As a result, the real value of public sector base wages—after adjusting for inflation—was chopped by 6% on average across Canada from 1990 to 1997. Tax cuts were combined with continued constraints on public sector wages up right through to 2005.

As the chart above shows, it is only in the past few years that the real value of public sector wages have recovered close to the level they were in 1986.

* *Thanks to Shelly Gordon for the inspiration for this chart.*

Settlement Wage Trends

In the second quarter of this year (April to June), the wage increases negotiated in major settlements averaged 2.6%, with an average increase of 2.8% for public sector workers and 1.8% for private sector workers. This compares to average increases of 3.5% for public sector workers and 2.6% for private sector workers in 2008.

While these second quarter wage gains were still decent—and well above the inflation rate during that period—wage increases in the third quarter are likely to be much lower.

Workers in Newfoundland have continued to lead with average increases of 5%, followed by those in Alberta with average wage gains of 4.5%. Workers in construction, utilities and education, health and social services have achieved average increases above 3% so far this year while settlements in other sectors have averaged between 1.5% and 2.5% throughout the life of their agreements.

A number of recent major CUPE settlements are listed in the table on page10. This is followed by tables summarizing average general wage increases gained for workers involved in major settlements (500+), as reported by Labour Canada.

Other Wage Trends

General wage increases negotiated in settlements are usually the most relevant comparison for bargaining purposes. People also often look to average weekly or hourly earnings reported through payroll data for more specific industries. An increasing number of collective agreements are also tying their wage adjustments to changes in average weekly earnings instead of the inflation rate.

For instance, a number of CUPE agreements in the education sector in Alberta now index their wages to average weekly earnings in the province.

In June, average weekly earnings across Canada were 1.8% higher than a year previously. This rate of increase was considerably slower than the 3% increase of a year ago and was partly the result of a decline in average weekly hours worked. The slowdown in earnings was especially evident in Ontario and B.C. and was also connected to a loss of higher paid jobs in the goods sector.

In Alberta, average weekly earnings in June were 4.3% higher than they had been in June 2008, despite a drop in average hours worked.

Hourly and weekly wage levels are also surveyed and reported through Statistics Canada's *Labour Force Survey*. However, these figures are less reliable because they are self-reported estimates, rather than actual payroll figures, and because the *Labour Force Survey* also has a much smaller survey sample size.

According to the *Labour Force Survey*, average hourly earnings across Canada were 3.3% higher in August 2009 than a year earlier. The increase for unionized workers at 2.4% was lower than the 3.8% increase reported for workers without union coverage. On average, workers covered by a union contract earned 23% more per hour than those without a union contract.

A recent compensation planning survey by Mercer of non-unionized employees found that their employers are planning base pay increases of 2.7% in 2010, above the actual increases of 2% provided in 2009. Approximately one-third of companies froze salaries in 2009, but only 8% are planning to do so in 2010.

Recent Major CUPE Settlements				
Employer	**Members**	**Average Annual Increase**	**Duration (months)**	**Settlement Date**
Toronto Hydro	800	3.0%	60	January
Ville de Québec	1,400	1.5%	48	January
Limestone School Board	650	3.0%	48	January
Carleton University	1,700	3.0%	24	February
University of Toronto	3,400	3.2%	36	February
Manitoba Health	10,250	2.9%	48	February
Capital Care Edmonton	500	5.0%	36	February
Calgary Board of Education	700	5.0%	12	February
PEI Government	600	2.7%	36	February
Niagara Home for Seniors	900	2.6%	36	March
Videotron	2,080	3.0%	60	March
York University	2,500	3.0%	36	April
Toronto Community Housing	500	3.0%	36	April
Ontario Power Generation	7,700	3.0%	36	April
City of Calgary – inside	2,700	4.6%	23.9	May
City of Edmonton – outside	2,000	4.5%	23.9	May
City of Ottawa	5,900	2.6%	36	May
Sodexho BC – cleaners	1,500	3.5%	48	May
City of North Bay	300	3.0%	36	June
North Vancouver library	130	3.8%	36	June
City of London – outside	550	1.8%	24	June
City of Calgary – outside	2,530	4.6%	23.9	June
Calgary Public Library	750	4.5%	24	June
Durham Home for the Aged	1,020	2.8%	48	June
Université du Québec à Montréal	2,000	3.2%	60	June
Essex Community Living	450	3%	24	June
Windsor Community Living	370	2.2%	24	June
University of Guelph	800	0%	12	July
Air Canada	6,800	0%	21	July
City of Toronto	29,000	2%	36	July
City of Windsor	1,500	1.6%	48	July
Ontario Council of Hospital Unions (pending approval)	21,000	2%	48	August

Average Wage Settlements Major Collective Bargaining by Year							
		2007	**2008**	***2008Q4***	***2009Q1***	***2009Q2***	***2009YTD***
All Average		3.3	3.3	*3.3*	*2.4*	*2.6*	*2.5*
Public Sector		3.4	3.5	*3.4*	*2.4*	*2.8*	*2.6*
Private Sector		3.2	2.6	*2.9*	*2.9*	*1.8*	*2.2*
CPI Inflation:		*2.2*	*2.3*	*1.9*	*1.2*	*0.1*	*0.4*

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	4.0	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*
2008Q4	*5.0*	*-*	*-*	*3.7*	*2.5*	*3.0*	*1.8*	*3.5*	*5.0*	*2.5*		*2.7*
2009Q1	*5.0*	*3.6*	*3.0*	*-*	*1.7*	*2.5*	*2.8*	*-*	*4.5*	*-*	*-*	*1.8*
2009Q2	*5.0*	*-*	*-*	*-*	*2.8*	*2.5*	*3.2*	*-*	*4.5*	*3.0*	*2.0*	*1.6*
2009YTD	*5.0*	*3.6*	*3.0*	*-*	*2.3*	*2.5*	*2.9*	*-*	*4.5*	*3.0*	*2.0*	*1.8*
2009CPI	*0.4*	*0.4*	*-0.5*	*-0.1*	*0.3*	*0.6*	*0.9*	*1.4*	*-0.1*	*0.3*	*0.4*	*0.4*

Average Wage Settlements by Industry – Major Agreements						
Industry	**2007**	**2008**	***2008Q4***	***2009Q1***	***2009Q2***	***2009YTD***
Primary	4.7	*4.3*	*3.2*	*2.5*	*-*	*2.5*
Utilities	3.9	*2.2*	*-*	*4.1*	*3.0*	*3.3*
Construction	3.3	*5.4*	*-*	*-*	*3.7*	*3.7*
Manufacturing	2.6	*1.5*	*1.9*	*2.9*	*1.7*	*2.1*
Wholesale and Retail	2.4	*2.8*	*3.4*	*1.9*	*2.0*	*1.9*
Transportation	2.7	*3.0*	*2.9*	*1.9*	*1.5*	*1.6*
Information & Culture	3.0	*2.0*	*2.0*	*1.9*	*2.2*	*2.1*
Finance and Professional Services	3.5	*2.9*	*2.9*	*1.7*	*2.8*	*2.5*
Education, Health, Social Services	3.5	*3.8*	*3.4*	*3.5*	*2.9*	*3.2*
Entertainment and Hospitality	3.3	*1.8*	*3.2*	*2.5*	*1.5*	*2.0*
Public Administration	3.5	*2.8*	*3.4*	*2.0*	*2.4*	*2.1*

Source: Human Resources and Skills Development Canada, Major Wage Settlements, [latest information as of September 2, 2009] http://www.hrsdc.gc.ca/en/lp/wid/adj/01wage_adj.shtml, Consumer Price Index (Statistics Canada 326-0001).

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September 14, 2009
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