ECONOMIC CLIMATE *for* BARGAINING

September 2010 **Vol. 7, No. 3**

Frontline Summary

Economic Outlook Summary

Canada's economy started the year with a bang but is already starting to fizzle, along with the economies of other advanced nations.

It is now apparent that last spring's alarmism about public sector debt crises was overblown and the subsequent drive for fiscal austerity misguided.

With increasingly sombre economic forecasts, further restraint will simply make the situation worse. Instead, governments should focus on boosting employment and economic growth through strategic and productivity-enhancing investments.

Private economic forecasts now expect:

- Economic output (GDP) to increase by an average of 3.2% in 2010 and 2.5% in 2011.
- Unemployment to average 8% this year and 7.7% in 2011.
- Consumer prices to rise by an average of 1.8% in 2010 and 2.1% in 2011.

Deficit, debt and demographic fears exaggerated

The very real economic crisis of last year was swiftly followed by a largely manufactured public debt crisis that helped lay the foundation for austerity budgets. In reality, public borrowing costs have continued to decline and debt levels remain manageable. Concern about the impact of aging on public pensions and health care costs is also overblown. Combined, these are expected to add the equivalent of two percentage points of GDP to public spending over the next 20 years. These amounts aren't trivial but they could easily be paid for by restoring government revenue to the share of our economy it was a decade ago.

Opportunities lost: employment changes through recession and recovery

Canada's employment levels are finally back to where they were two years ago when the recession began, but with an additional 370,000 unemployed. Slower employment growth on the horizon means it will take at least a few years for unemployment rates to recover. This section looks at how employment has changed by industry through the recession and recovery.

Inflation accelerated by HST, energy and electricity price hikes

New sales taxes, tax increases and electricity price increases are hiking inflation rates in a number of provinces this year. This won't be the end of these inflationary pressures, either, with Québec set to increase its sales tax next year and electricity prices expected to continue to rise.

Public sector compensation chill spreads

The wage trends of recent years, with public sector wage increases outstripping those in the private sector, have now reversed. Private sector settlements have increased while wage freezes or chills threaten to spread across the public sector. Many private sector employers have already learned from the negative impacts of their recent cost-cutting; it's not too late for public sector employers to learn from these mistakes as well.

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.

* Please note that underlined words are hyperlinks available in the electronic version.

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Deficit, debt and demographic fears exaggerated

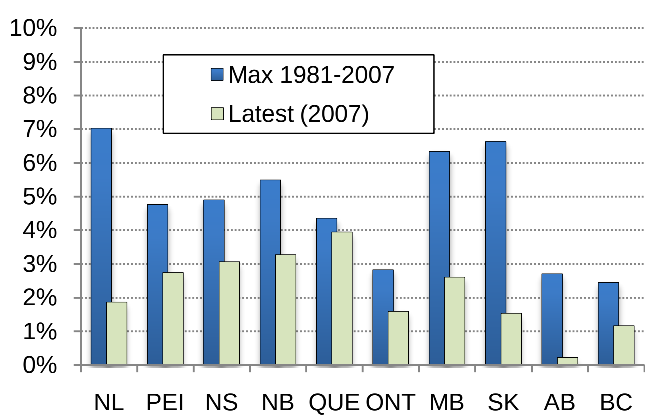
The public debt crisis of last spring—with alarmism about deficits in Greece, Spain, Portugal and Italy—turned out to be a dud.

It helped lead to austerity budgets and an austerity agenda at the G20 meetings in Toronto, but it is now clear that the emerging crisis was exaggerated.

After a brief spike in the spring, the long-term cost of borrowing for the governments of most western nations has declined by 15-25% or more below the rates of last spring. For some countries, the interest rates on their ten-year bonds are close to or at historical lows. If there really was a concern about their underlying fiscal situation, lenders wouldn't be willing to lend money at these low rates.

The fiscal situation in Canada is one of the best in the world. The federal government can now borrow at a rate of less than 3% for its ten-year bonds. This is close to its lowest rate ever and far below the 12% rate ten-year bonds demanded in 1990. The cost of borrowing for provinces is only slightly higher: less than 4% for 10-year bonds.

Debt Interest as a Share of GDP
Canadian Provinces



Source: Statistics Canada *Provincial and Territorial Economic Accounts*, Tables 2 and 8, data to 2007. http://www.statcan.gc.ca/pub/13-018-x/2009002/tab-eng.htm

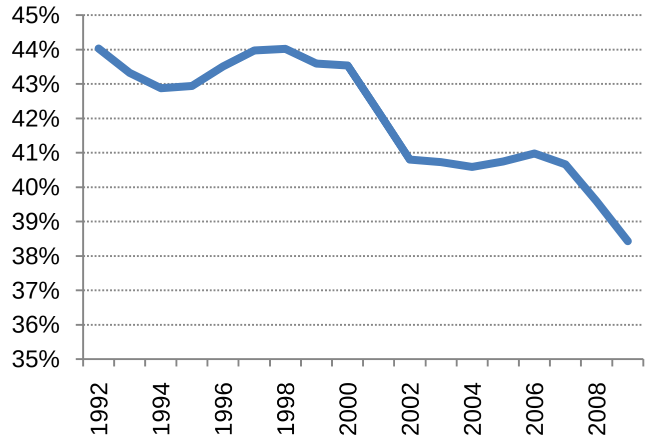
As the chart below shows, the cost of debt interest payments for most provinces as a share of their economies are considerably below the maximums they reached in recent decades. The latest figures reported in the chart are for 2007. Since then, provincial debts have increased, but borrowing rates have also declined. As a result, even for Ontario, the province with the largest increase in recent deficits, debt interest payments are expected to max out at 2% of provincial GDP by 2015 before declining again.

Concern is also being raised about escalating health care and pension costs as our population ages. For instance, TD Bank recently warned that health care costs could consume 80% of provincial program spending within 15 years. Once again, this is overblown alarmism. It is true that health care spending in particular has increased at a strong pace in recent years, but much of this was to rebuild our health care systems following the cuts of the 1990s.

Even the International Monetary Fund (IMF), one of the strongest advocates for "fiscal consolidation", recently estimated that public spending on pensions by Canada and other advanced countries will only increase by 1% of GDP over the next 20 years. They also expect that the impact of aging will increase public health care spending by 1% of GDP by 2030. The bigger problem is fast-rising prices for prescription drugs, health care supplies and services, which are expected to increase public health care costs by another 2% of GDP.

These amounts certainly aren't trivial, but they could easily be paid for by restoring tax revenues to the shares they were ten years ago. In the past decade tax cuts reduced Canadian government revenues by more than 4% of GDP, as the chart on the next page shows—and this was before the recession hit.

Total Canadian government revenue as share of economy (GDP)

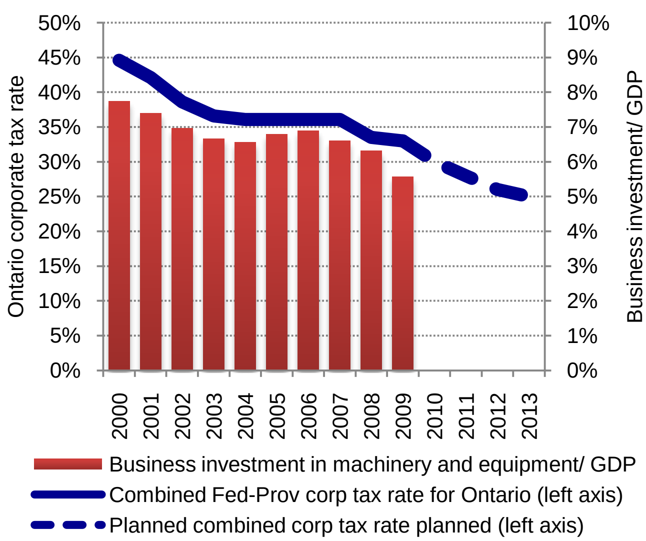


Source: Statistics Canada tables 385-0032 (figures only available from 1992) and table 380-0002.

If Canadian governments raised the same share of revenue from the economy as they did a decade ago, total government revenues would be $70+ billion higher annually. This alone would be sufficient to eliminate <u>all</u> federal and provincial deficits in a year.

Clearly, Canadian governments don't have a spending problem; if anything they have a revenue problem. In fact, total Canadian government current spending as a share of the economy recently dropped below 35%. That's the lowest for at least three decades and a full 14 percentage points lower than it was in 1992.

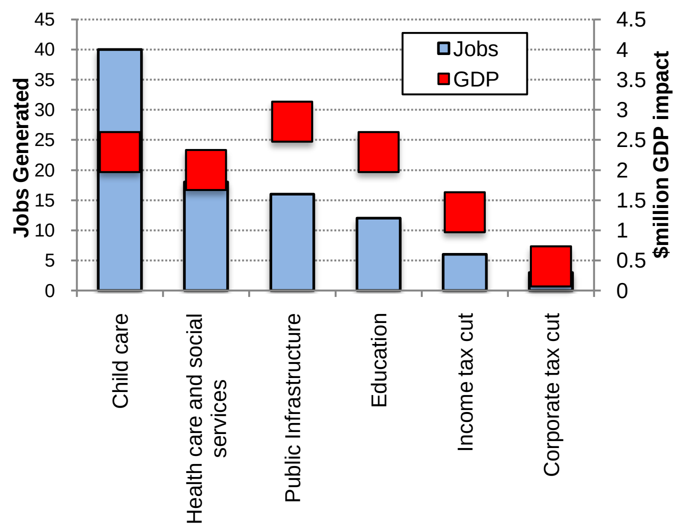
Corporate tax cuts leading to lower, not higher, rates of investment



A large proportion of the tax cuts introduced during the last decade were focused at reducing tax rates for businesses and high income earners. It was—and is still—argued that these type of tax cuts would increase savings and lead to higher rates of investment and stronger economic growth, with more jobs and higher incomes trickling down for the rest.

However, this approach has been a failure. Instead of leading to higher rates of investment, corporate tax cuts appear to have simply subsidized higher corporate profits and have resulted in lower rates, not higher rates of business investment (*see chart below*). At the same time, Canada's productivity growth and real wages for workers have been stagnant. Despite this lack of success, federal and provincial governments continue to press further corporate tax cuts that will soon cost our governments an additional more than $8 billion a year in lower revenues.

Public Investment Yields Strongest Impact
(per $1 Million invested or spent)
Sources: Informetrica Ltd, Centre for Spatial Economics, Finance Canada.



In addition, economic studies show public spending and investment has a much stronger positive economic impact than tax cuts do, especially during periods high unemployment.

The real economic and fiscal priority for governments shouldn't be to cut back on public spending and public sector wages: it should be to strengthen growth of the economy, employment, workers' wages and revenues. If they do this, then deficits should take care of themselves.

Economic growth starts to fizzle

Canada's economy started the year with a bang, propelled by public stimulus, consumer spending, residential construction and a rebound in commodity prices and exports.

But growth prospects are already fizzling as governments terminate their stimulus measures, house construction slows, and business investment still not picking up the slack. However, business won't invest without expectation of higher sales and profits. This won't happen without rising employment, wages or exports.

We warned in previous years about the economic impact of housing busts and economic growth stagnating without more activist economic policies. Now it looks like a second slowdown, if not a double-dip, will hit us sooner rather than later.

Economic growth forecasts for next year have already been downgraded by half a percent to 2.5%: fairly weak for a country coming out of recession. Even then, this rate of growth is dependent on a healthy boost of business investment that may not materialize as long as considerable unused capacity remains.

With slower growth on the horizon, the Bank of Canada is expected to hold off on its interest rate hikes. Forecasts for both short and long-term interest rates for next year are already a full percentage point below what they were a few months ago.

Forecasts for employment and unemployment rates aren't much changed—expected to decline to 7.7% next year—but that may change if existing sources of growth fade away.

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	0.5%	-2.5%	3.2%	2.5%
- Consumer Spending	2.9%	0.4%	3.5%	2.9%
- Business Investment	3.4%	-19.9%	1.1%	7.5%
- Government Spending	4.1%	5.1%	4.8%	1.0%
Labour Market				
Employment growth	1.5%	-1.6%	1.7%	1.6%
Unemployment rate	6.1%	8.3%	8.0%	7.7%
Productivity growth	-0.5%	0.9%	1.6%	1.3%
Inflation - Consumer Price Index	2.4%	0.3%	1.8%	2.1%
Corporate Profits before tax	8.0%	-32.3%	20.7%	9.6%
Real Personal Disposable Income	3.7%	1.2%	2.2%	2.7%
Personal Savings Rate	3.6%	4.4%	3.3%	3.4%
Housing Starts (000s)	212	149	187	176
Interest Rates and Exchange Rate				
Short-term 3 Month T-Bill	2.33%	0.33%	0.67%	1.70%
Long-term 10-Year Bond	3.61%	3.23%	3.14%	3.55%
Exchange rate C$ in U.S. cents	$ 93.81	$ 95.97	$ 95.48	$98.58
Averages based on latest forecasts from seven different Canadian forecasters as of 10 September 2010.				

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Provincial outlook: shifting gears to slower growth

Economic growth rates for virtually all provinces have been downgraded in the most recent forecasts.

Slower growth and the possibility of political gridlock in the United States could particularly hurt Ontario, Québec and British Columbia whose economies are more vulnerable to economic conditions south of the border.

Saskatchewan and Alberta are expected to grow at relatively stronger rates as long as prices and demand for their key commodities don't fall too much. Strong fiscal balances should also prevent these governments from significant cuts to public spending and compensation, which also bodes well for economic and employment growth.

The economies of Atlantic Canada weren't hit as hard during the recession. With less room to regain and strong ties to the struggling U.S. economy, they are expected to grow at a moderate rate.

The table below 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 forecasters.

Provincial Economic Outlook

% annual growth except where noted

	Real GDP		Employment		Unemployment Rate		Inflation	
	2010	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**
Canada	3.2	2.6	1.7	1.6	8.0	7.6	1.8	2.0
Newfoundland & Labrador	3.7	2.7	2.9	1.4	14.6	13.9	2.3	1.9
Prince Edward Island	2.2	2.1	3.0	0.8	10.7	10.4	2.2	1.5
Nova Scotia	2.2	1.9	0.6	1.1	9.0	8.7	2.3	1.9
New Brunswick	2.4	2.2	0.3	1.3	8.9	8.6	2.1	1.7
Québec	3.1	2.4	1.8	1.4	8.0	7.6	1.6	1.9
Ontario	3.6	2.5	1.9	1.6	8.7	8.2	2.3	2.2
Manitoba	2.6	3.0	2.0	1.5	5.4	5.2	1.2	1.8
Saskatchewan	3.5	4.0	1.5	2.0	5.0	4.7	1.7	2.3
Alberta	3.2	3.7	0.7	2.2	6.6	6.2	1.4	2.1
British Columbia	3.5	2.9	1.9	1.6	7.5	7.2	1.6	2.1

Based on the average forecasts from four different bank forecasters as of 10 September 2010.
National averages may differ from those reported in the Canadian outlook table because they are from a smaller group.

Opportunities lost: *employment changes through recession and recovery*

Canada has enjoyed relatively strong job growth over the past year. Over 400,000 new jobs have been created since July 2009, the bottom-point of the recession. Employment is now back to the level it was in October 2008.

But with population and the labour force growing by more than 370,000 since the start of the recession, too few jobs have been created to substantially reduce unemployment. The national unemployment rate is now 8.1%, down from 8.6% in July 2009, but still two percentage points higher than it was two years ago. Over 1.5 million people remain unemployed.

Employment growth is expected to shift into a lower gear in the next few years. Instead of increasing by an average of 33,000 a month as it has over the past year, job growth is expected to slow down to about 23,000 a month. This means it will take at least another three or more years for the unemployment rate to decline back down to 6.1%.

With overall employment levels now close to where they were at the start of the recession, the table on the following page shows some of the impacts the recession and recovery have had on the job market.

More people are working part-time: part-time employment has increased by 6.3% (or 200,000) with an equivalent number of full-time jobs lost. With no overall increase in employment, the growth in the labour force by 370,000 has led to a similar increase in the number of people unemployed.

The greatest job loss by demographic group was for youth aged 15-24, but because they are a shrinking share of the population, the number of unemployed young people increased by 17%, far lower than the 40% increase in the number of jobless adult men and women.

Public sector employment has increased by 91,000 or 2.6% since October 2008, while private sector employment declined by 149,000 and self employment increased by 59,000. However, current levels of public sector employment represent an almost identical share of the labour force (19%) and population (12.8%) as they did two years ago.

Stimulus spending didn't lead to any significant increase to the share of public sector employment; instead it limited the loss of private sector jobs.

With the exception of construction and resources, the industries hardest hit by the recession still haven't recovered and in fact are worse off than a year ago.

One in eight jobs in Canada's manufacturing sector (240,000) have disappeared over the past two-years and there are few signs of recovery. Manufacturing employment is even lower than it was a year ago. Employment in transportation, warehousing and agriculture has also continued to decline.

Health care and social assistance has experienced the greatest job growth, with an increase of 142,000 or 7.4% since October 2008. Some of this job growth is no doubt related to increased demand for these services as a result of the recession, but much also represents an ongoing trend: in the decade before the recession, employment increased by almost 3% a year.

Professional, scientific and technical services has also experienced strong growth, with employment rising by 116,000 or 9.6% since October 2008. This area includes the offices of lawyers, accountants, architects, engineers, designers, management consultants, advertising and other professional services. Employment in this sector also grew at a pace of 3.5% a year in the decade before the recession. Stimulus spending no doubt gave this relatively higher paid sector of the economy an even bigger boost with the demand for engineering and other professional services associated with construction projects.

What is striking is that all other major sectors of the economy experienced either only moderate rates of increase or decline during the past two years.

Crises can provide great opportunities to retool and rebuild the economy for a stronger future. Other than advancing a number of conventional infrastructure projects, this recession represented lost opportunities and further decline of Canada's manufacturing capacity. What comes next is now a bigger concern: whether governments will manufacture a fiscal crisis to gut Canada's public services.

Job Impact of the Recession and Recovery
Employment and Labour Force Changes for the Latest Month since the start of the recession in October 2008 and bottom of the recession in July 2009

All figures in thousands except where indicated as %

					Change from		% change
	Oct-08	**July-09**	**Aug-10**		**Oct-08**	**July-09**	**from Oct-08**
Labour force	18,356	18,363	18,727		371.6	363.9	2.0%
Employment	17,216	16,780	17,216		0.5	436.0	0.0%
Full-time	14,025	13,522	13,826		-199.3	304.0	-1.4%
Part-time	3,191	3,259	3,391		199.9	132.0	6.3%
Unemployment	1,140	1,583	1,511		371.2	-72.1	32.6%
Unemployment rate (%)	6.2	8.6	8.1		1.9	-0.5	
Participation rate (%)	67.9	67.2	67.4		-0.5	0.2	
Employment							
Women 25 +	6,858	6,816	6,978		119.6	162.3	1.7%
Men 25 +	7,749	7,569	7,795		45.9	226.0	0.6%
Youth	2,609	2,396	2,444		-165.1	47.6	-6.3%
Public sector	3,465	3,408	3,556		90.8	147.6	2.6%
Private sector	11,101	10,645	10,952		-149.4	306.5	-1.3%
Self-employed	2,650	2,727	2,709		59.2	-18.1	2.2%
Employment by Industry							
Goods							
Agriculture	328	324	302		-25.5	-21.6	-7.8%
Forestry, fishing, mining, oil and gas	338	316	341		3.0	25.4	0.9%
Utilities	149	149	149		0.2	-0.5	0.1%
Construction	1,255	1,130	1,239		-16.9	108.4	-1.3%
Manufacturing	1,980	1,756	1,738		-241.2	-17.8	-12.2%
Services							
Trade	2,681	2,640	2,697		15.3	57.0	0.6%
Transportation and warehousing	872	811	804		-68.1	-6.6	-7.8%
Finance, insurance, real estate and	1,071	1,093	1,091		20.2	-1.8	1.9%
Professional, scientific and technical	1,204	1,203	1,320		116.1	117.4	9.6%
Business, building and other support	672	683	676		3.4	-6.8	0.5%
Educational services	1,212	1,187	1,232		20.3	44.9	1.7%
Health care and social assistance	1,921	1,937	2,063		141.9	125.1	7.4%
Information, culture and recreation	747	786	762		15.0	-24.4	2.0%
Accommodation and food services	1,066	1,043	1,061		-5.3	18.3	-0.5%
Other services	768	791	767		-1.3	-24.6	-0.2%
Public administration	952	932	976		23.6	43.4	2.5%

Inflation accelerated by HST, energy and electricity price hikes

In the midst of a soft economy, consumer inflation is rising not because of underlying price pressures but because of increases to sales taxes for consumers and hikes to electricity prices in some provinces.

The national consumer price index increased by 1.8% in the 12 months to July, after a 1% increase in June. Inflation increased by 0.5% just in the one month from June to July.

Prices increased fastest in Ontario, British Columbia and Nova Scotia, all provinces that either introduced new Harmonized Sales Taxes in July or hiked their HST rates.

In Ontario, the annual inflation rate reached 2.9% as a result of a one-month increase of 0.9% in July. In British Columbia, the annual rate rose to 2% with an increase of 1.1% in July alone. In Nova Scotia, where the existing HST was increased from 13% to 15%, inflation rose by 1.7% over the year and by 1.1% in the month of July.

In other provinces, average prices were flat between June and July, with some provinces recording declines and others increases. This suggests that these sales tax hikes caused most of the overall increase in prices in July. However, sales tax increases weren't the only factor driving prices up.

Overall energy prices increased by 7.9% in July from the year before. On a yearly basis, the biggest increase was for fuel oil, rising by almost 23% nationally and over 20% in most provinces. Electricity delivered a big jolt to prices in a number of provinces with an increase of 9.8% over the year.

This won't be the end of price increases driven by sales tax or electricity price hikes. Québec's planned increase to its sales tax in on 1 January 2011 will boost inflation in that province next year along with the national average. Electricity prices will also continue to rise over coming years in a number of provinces because of preferential rates paid for private generation of renewable energy and the need for new investments to improve the grid.

Inflation Outlook

On average, forecasters expect consumer prices at the national level to increase by 1.8% in 2010 and by 2.1% in 2011. This represents a range of forecasts of 1.6% to 2.1% for 2010 and a range of 1.8% to 2.4% for 2011.

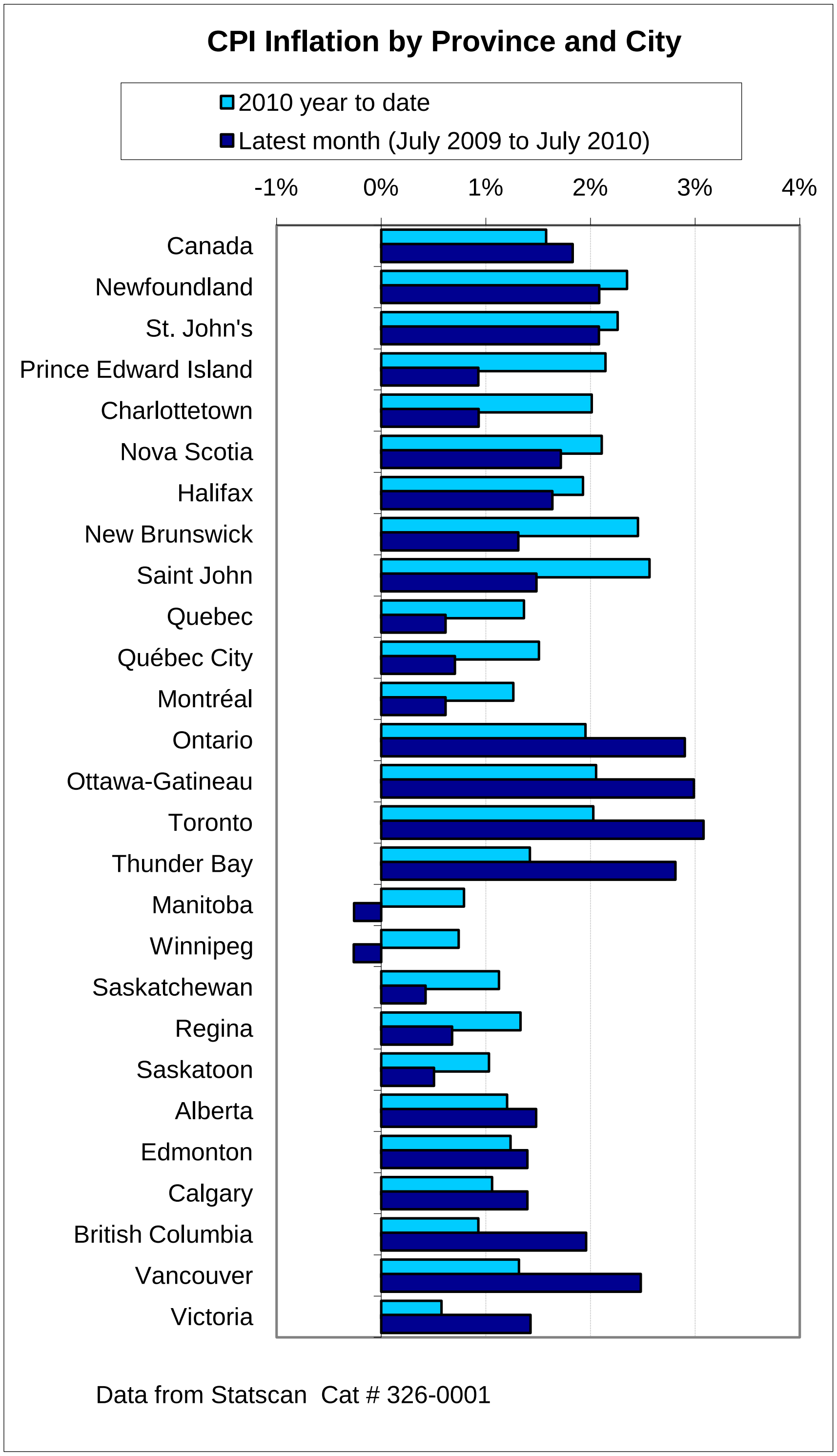
At the provincial level, forecasts of inflation for Ontario have been bumped up, with prices now expected to rise by an average of 2.3% in 2010 and 2.2% in 2011.

The inflation rate in Atlantic Canada is also expected to exceed 2% in 2010, consistent with the trends experienced so far this year (*see chart next page and Provincial Outlook table on page 4*). Some of this reflects this region's greater exposure to the rising price of fuel oil for home heating.

In 2011, inflation is expected to be more subdued in Atlantic Canada, but rise again in the western provinces, with prices in Saskatchewan, Alberta and British Columbia all expected to increase by more than 2%.

Forecasters peg inflation in Québec to be 1.6% this year, rising to 1.9% next year with the hike in the Québec Sales Tax.

Manitoba's inflation rate has been the lowest in the country so far this year, rising by only 0.8% in the first seven months of 2010. It is expected to average 1.2% for the year, rising to 1.8% in 2011.


CPI Inflation by Province and City
2010 year to date
Latest month (July 2009 to July 2010)
-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

Public sector compensation chill spreads

Canada's economy may have officially emerged from the recession, but public sector workers are increasingly feeling the chill of wage and compensation freezes—and being forced to pay for the cost of mounting deficits and tax cuts with foregone wage increases.

The average base wage increase negotiated in collective agreements settled in the second quarter (months of April to June) declined to 1.8% for public sector workers, half the average for 2008.

At the same time, negotiated wage increases for private sector workers are recovering from the recession and reached an average of 2.5% in the second quarter.

Wage settlements by industry generally reflect this trend, with workers in the trade, finance and professional services industries gaining average increases of 3% so far this year, while those in public administration received just above 1%. Wage increases for workers in education, health and social services have trended down since 2008 and averaged just 2.3% for the first half of this year.

Because of the limited number of agreements settled in the early part of this year, recent wage increases don't necessarily provide an accurate representation of this cooler bargaining climate by province.

Settlements included average wage increases of 3.3% for Québec in the second quarter, followed by 2.7% in Alberta and 2.4% in Ontario. Workers in BC were at the bottom with a 0% increase, reflecting the provincial government's two year "net zero" bargaining mandate.

However, these recent increases don't take account of Quebec's Common Front agreement with the provincial government covering over 400,000 workers which provides wage increases of 6% over five years (or 1.2% a year), with an additional 4.5% dependent on inflation and economic growth. Nor do they reflect the two-year public sector compensation freeze announced by the Ontario government.

No government has legislated wage freezes on existing collective agreements in the two years since the Supreme Court struck down sections of British Columbia's Bill 29 that had gutted labour rights for health care workers in that province. Governments have generally instead just reduced spending and transfers or provided a restricted bargaining mandate for new agreements.

While many exceptions remain, a wage chill is definitely spreading further throughout the public sector. Sectors that had seemed relatively immune, such as municipal workers, are increasingly being targeted for wage freezes by some politicians.

A real concern is how long this chill will last—and how long it will take for public sector wages to regain lost ground. It took 19 years for the wage increases of public sector workers to recover to where there were in real terms in 1990 following the cuts and freezes of the last recession.

Average wage settlements for private sector workers exceeded those in the public sector for 12 of the last 20 years, including every single year in the 1990s. In recent years, average wage increases for public sector workers have generally exceeded those in the private sector. This has made up some of the ground public sector workers lost during the 1990s, but they still remain behind private sector wage increases relative to 1992 levels.

But this trend is already reversing. As the table on the following page shows, private sector wage settlements outstripped wage increases for public sector workers in the second quarter of this year. And the differences may be growing: wage increases in private sector settlements in June averaged 2.9% compared to 2.0% for public sector workers.

These figures reflect average wage increases negotiated in major collective bargaining settlements and represent base wage increases for unionized workers. In recent years, average wages for *non-unionized* workers have increased at a faster pace than wages for unionized workers.

According to *Labour Force Survey* figures, the average hourly wage for workers covered by collective agreements increased by an average of 2.6% a year from 1997 to 2009 compared to an average of 2.8% for those with no union coverage.[1]

Workers (especially women, younger workers and those in lower paid occupations) protected by unions continue to benefit from higher average and more secure wages than those without unions, but the differences have been shrinking.

Average hourly wages for unionized workers are now about 25% higher than for non-unionized workers, down from a 30% gap in 1997. Women covered by union contracts benefited from average hourly wages 35% higher than non-unionized workers in 2009. For men, the difference was 15%, down from 21% in 1997. Wage benefits of unionization are considerably higher for relatively lower paid workers.

While some of this difference represents the stronger bargaining ability that unions provide to workers, it can also represent differences in worker's skills and experience and differences in types of employers, with higher rates of unionization among larger employers.

Business lobby groups aren't pushing for wage freezes because of concern over deficits. If they were really concerned about public deficits, they would oppose further corporate tax cuts which will cost governments far more in lost revenues than wage freezes will save.

Wage freezes for the public sector could lead to a weaker bargaining climate for all workers. During the 1990s, the share of the total economic pie going to workers in the form of wages, salaries and other labour income declined by almost 10%, from over 55% to just over 51%, where it remains today. During the same period, the share of our economy going to corporate profits more than doubled. Ongoing containment of wages and tax cuts allow businesses to maintain high rates of profit without making productivity-improving investments in the economy.

But for now, compensation planning surveys of Canadian employers by human resource firms suggest it is back to "cautious normal" in terms of salary increases for most other groups of workers:

- Mercer's compensation survey of 600 non-union employers' reports planned average pay increases of 2.9% in 2011, up from 2.7% in 2010 and 2.0% in 2009. Only 2% of organizations are projecting broad-based salary freezes in the coming year, down from 31% in 2009 and 6% in 2010.
- Hewitt Associates' survey of 500 Canadian employers also reports average pay increases of 2.9% in 2011, with a negligible number planning pay freezes or cuts.
- Aon Consulting's survey reports employers are planning average wage increases of 3% next year.

Wage increases by region or type of employee aren't expected to differ, but there are more significant differences by industry, with the largest average wage hikes expected in oil, gas and mining and with lower increases for the public sector.

Private sector employers appear to be learning from the negative impacts of their recent cost-cutting. A global survey of over 1,000 companies by Towers Watson found 65% of companies around the world and 61% of Canadian companies recently reported problems attracting critical-skill employees. A majority found their cost-cutting activities increased employee workloads, adversely affected work-related stress and negatively affected employee engagement.

Similar or worse impacts of cost-cutting will no doubt be felt in the public sector, but given that these wage freezes but it may take longer for the negative consequences to be fully appreciated.

Major CUPE Agreements reported in second quarter of 2010	
Employer	**Average Increase**
City of Sudbury	2.4
University of Saskatchewan	3.0
University of Regina	2.4
Calgary, Edmonton School Boards* *Linked to average weekly earnings*	2.9

[1] Statistics Canada *Labour Force Historical Review 2009.* Data for this variable only available from 1997 on.

Public Sector Compensation Measures Across Canada	
Federal government	The federal government imposed increases of 2.3/1.5/1.5/1.5 from 1 April 2007 to 31 March 2011 for all bargaining employees. The 2010 Federal budget froze salary and operating budgets for all departments except for National Defence at 2010-11 levels for three years. This will lead to significant cuts to program spending and job losses through attrition.
Newfoundland and Labrador	Most provincial public sector workers achieved increases of 8/4/4/4 from 1 April 2008 through to 31 March 2012.
Prince Edward Island	The provincial government froze the salaries of MLAs and staff for two years and has suggested a wage freeze for public servants, but has not adopted a policy or legislated any changes. Much of the public sector in PEI doesn't have the right to strike and goes to binding arbitration. Some of the larger agreements are proceeding to arbitration, and the province also recently negotiated a 6% increase over three-years with its teachers.
Nova Scotia	The province has a bargaining mandate with increases of 1% for 2010/11 and 2011/12; some public sector units have achieved increases of 1.9% a year.
New Brunwsick	The province announced a wage freeze in 2009, but subsequent settlements have included increases of 2.5% or more a year.
Québec	An agreement between the province and the Common Front covering over 400,000 workers provides 6% over five-years with an additional increase of 4.5% dependent on inflation and GDP growth.
Ontario	Ontario's Public Sector Compensation Restraint Act (Bill 16) in Budget 2010 froze compensation structures for non-bargaining employees. The province is now consulting with unions and employers representing the province's broader public sector to include at least two-years of "no net increases to compensation" in newly negotiated collective agreements. This is intended to exclude the increased cost of existing benefits packages and the cost of advancement through pre-existing pay grids. The province has warned that total program expense growth must be held to 1.9% a year from 2012/13 on to achieve balanced budgets by 2017/18.
Manitoba	The province announced a two-year wage freeze for public servants. Negotiations are discussing possible significant increases at either end of the contract.
Saskatchewan	Saskatchewan's *Essential Services Act* removed the right to strike for most health care workers, including most CUPE members. SAHO offered health care workers 9.5% over four-years with increases of 4/2/1.5/2 from 1 April 2008 to 31 March 2012. A tentative agreement was reached 16 August 2010.
Alberta	The province pushed for wage adjustments in the education sector to be tied to increases in Alberta Average Weekly Earnings. These provided increases of 5.99% last year and will provide an increase of 2.9% this year. Three and four-year agreements providing 5% a year in health care expire 31 March 2011 and 2012.
British Columbia	British Columbia imposed a "net zero" bargaining mandate on broader provincial public sector employees for two years starting 2010. However, some groups have gained wage increases and other improvements under this mandate.

Major Collective Bargaining Average Wage Settlements by Year and Quarter						
	2008	***2009***	***2009Q3***	***2009Q4***	***2010Q1***	***2010Q2***
All Average	3.2	*2.4*	*1.9*	*2.1*	*2.1*	*2.0*
Public Sector	3.5	*2.5*	*2.2*	*2.3*	*2.2*	*1.8*
Private Sector	2.5	*1.8*	*1.6*	*1.6*	*1.8*	*2.5*
CPI Inflation:	***2.3***	***0.3***	***-0.9***	***0.8***	***1.7***	***1.4***

Average Wage Settlements by Province – Major Agreements												
	NL	**PEI**	**NS**	**NB**	**QC**	**ON**	**MB**	**SK**	**AB**	**BC**	**Multi Prov**	**Federal**
2008	*5.0*	*3.0*	*4.0*	*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*	*4.5*	*3.0*	*2.1*	*1.6*
2009Q3	-	-	*3.4*	*6.0*	-	*2.2*	-	*4.8*	*4.5*	*2.9*	*3.0*	*0.8*
2009Q4	-	-	*2.3*	-	*2.1*	*1.9*	*2.4*	-	*4.3*	*3.0*	*0.0*	*1.8*
2010Q1	*1.1*	-	*2.1*	*2.6*	*1.9*	*2.0*	*3.3*	-	*5.6*	*0.2*	-	*1.9*
2010Q2	*1.7*	*1.9*	-	-	*3.3*	*2.4*	-	*2.0*	*2.7*	*0.0*	-	*2.1*
2010CPIQ2	***1.8***	***1.4***	***1.6***	***1.9***	***1.1***	***1.9***	***0.4***	***1.3***	***1.1***	***0.7***		***1.4***

Average Wage Settlements by Industry – Major Agreements						
Industry	**2008**	***2009***	***2009Q3***	***2009Q4***	***2010Q1***	***2010Q2***
Primary	*4.3*	*2.5*	-	-	*0.8*	-
Utilities	*2.3*	*3.0*	*3.0*	*2.5*	*2.9*	*0.0*
Construction	*5.4*	*3.7*	*4.2*	*2.5*	*2.1*	*2.5*
Manufacturing	*1.1*	*1.6*	*1.2*	*1.2*	*1.2*	*1.3*
Wholesale and Retail	*2.8*	*1.8*	*1.9*	*1.7*	*1.9*	*4.3*
Transportation	*3.1*	*1.1*	*0.3*	*2.1*	*3.6*	*1.9*
Information & Culture	*2.0*	*2.1*	*3.1*	*1.9*	*0.0*	-
Finance & Professional Services	*2.8*	*2.6*	*2.9*	*2.2*	-	*3.1*
Education, Health, Social Services	*3.8*	*3.0*	*2.7*	*2.4*	*2.1*	*2.5*
Entertainment and Hospitality	*1.9*	*2.0*	*1.9*	-	*2.4*	*1.2*
Public Administration	*2.7*	*2.1*	*2.0*	*2.4*	*2.8*	*1.0*

Source: Human Resources and Skills Development Canada, Major Wage Settlements, [latest information as of September 7, 2010] http://www.hrsdc.gc.ca/eng/labour/labour_relations/info_analysis/index.shtml , Consumer Price Index (Statistics Canada 326-0001).

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