

Economic climate for bargaining

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Economic prescription for low economic pressure ahead: Solid real wage gains needed to forestall economic slowdown

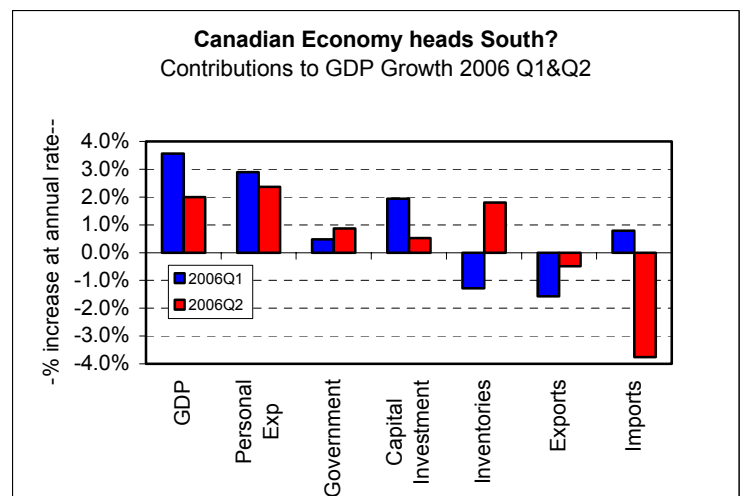
Increasing signs of an economic slowdown are appearing, with housing demand sinking and consumer confidence eroding in the United States.

These indicators are being digested with more than the usual level of concern because of the degree to which the current expansion has been driven by American consumers. In turn, U.S. households have increasingly relied on lines of credit tied to the higher value of their houses to finance current consumption because they've had little real wage or income gains in the past few years.

The housing boom – through residential construction spending and the household wealth effect – has been responsible for generating almost half of U.S. GDP economic growth in the past three years, according to Merrill Lynch. The fear is that a bursting of the housing bubble and drop in house values will lead to not just a slump in housing construction and related industries, but a widespread retrenchment by American consumers, further layoffs and a “hard landing” or recession.

The U.S. government, having built up massive deficits from high income tax cuts and overseas wars during the economic boom, has little capacity left to support American households during a slump.

With over 81% of our merchandise exports going to the United States (equivalent to over 26% of our GDP), Canada is very vulnerable to a downturn south of the border.



The slowing U.S. economy has already started to drag down the Canadian economy. Real GDP growth slowed down to 2% in the second quarter of this year, down from a rate of 3.6% in the first quarter. The slowdown was almost entirely due to lower exports to the U.S. and the higher Canadian dollar leading to a wave of cheaper imports. Without the erosion on the balance of payments, our economy would have grown by close to 4% with domestic demand still strong. But our domestic side can't keep the economy growing if weakness is allowed to spread much beyond our export sectors.

While economic conditions in Canada share some similarities with the United States, we also have differences of degree and some dissimilarities.

Corporations on both sides of the border have been raking in record profits, growing

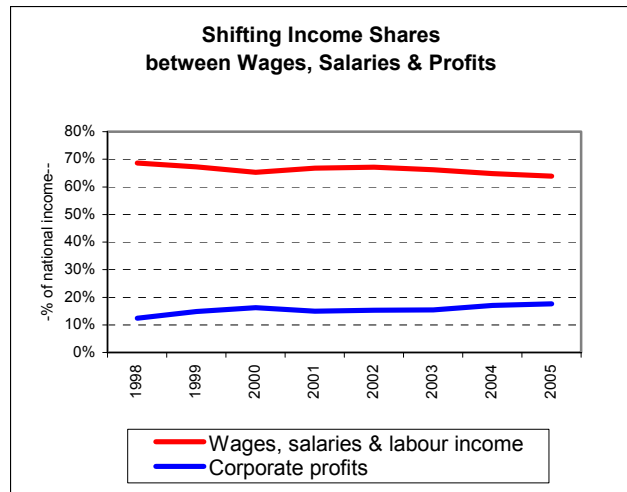
by double digits in each of the past two years. Companies have increasingly poured these excess profits into unproductive activities, with increasing speculation, mergers and acquisitions and share buy-backs.

Real wage increases for workers have been low in both countries (although there have been some recent gains in Canada this year) with labour getting a shrinking share of national income and a negligible portion of any productivity gains. Income inequalities have become accentuated with extreme gains in wealth of the super-rich in both countries.

While Canada has experienced a housing boom like the U.S. and many other countries, house prices in most Canadian markets haven't escalated to the same degree – and so don't have as far to fall. Canadian consumers are also not quite as overextended as those south of the border: our personal savings rate is still positive, if only barely, while the U.S. savings rate has been negative for more than a year. Both the Bank of Canada and the U.S. Federal Reserve have recently signalled an end to two years of gradual interest rate increases. But because the Bank of Canada took an earlier pause, our interest rates are lower. Inflation in Canada has also been running lower than in the U.S. This provides the Bank of Canada with enough room for interest rate cuts later this year or early next year to help support the economy if necessary.

In contrast with the United States, Canada is a net energy and commodity exporter and so has benefited from high energy and mineral prices. As a result, our trade balance and public finances are in solid shape while the United States federal deficit was over \$400 billion and its trade balance deficit almost \$800 billion.

These differences provide some clues about how well Canada can weather an economic low-pressure system sweeping the U.S.



If energy and mineral prices hold up, the Canadian economy should escape with less harm than the U.S. But if these prices plummet, then our collateral damage could be magnified.

Canadian governments, with their fiscal surpluses, have more capacity to support the economy in a downturn. But it is crucial that they don't follow the lead of the Bush administration and squander our remaining fiscal room on ill-advised tax cuts and escalating defence budgets that provide little economic or social return.

There is a simple economic prescription for employers on both sides of the border. It's high time to share more with workers who have had little real wage gains from recent economic growth.

Households, which are responsible for more than 55% of our GDP through consumer spending, will no longer be able to call on rising house values to finance increased spending. Solid real wage increases will be needed to keep the balances of both households and the nation above water in coming years.

Canadian Economic Outlook			
Annual growth rates unless indicated	2005	2006	2007
<i>Growth in the Economy</i>			
Real GDP	2.9%	2.9%	2.8%
- Consumer Spending	3.9%	3.7%	2.8%
- Business Investment	9.4%	8.8%	7.5%
- Government Spending	2.7%	3.6%	3.7%
<i>Labour Market</i>			
Employment growth	1.4%	1.8%	1.1%
Unemployment rate	6.8%	6.3%	6.4%
Productivity growth	2.3%	1.5%	1.6%
Inflation - Consumer Price Index	2.2%	2.2%	1.8%
Corporate Profits before tax	10.8%	6.8%	3.3%
<i>Other</i>			
Real Personal Disposable Income	2.5%	4.1%	2.6%
Personal Savings Rate	1.2%	1.5%	1.5%
Housing Starts (000s)	225	221	191
<i>Interest Rates and Exchange Rate</i>			
Short term 3 Month T-Bill	2.69%	4.08%	4.03%
Long term 10 Year Bond	4.07%	4.34%	4.37%
Exchange rate US\$/C\$	\$82.60	\$88.40	\$88.02
<i>Consensus average based on latest forecasts from different Canadian forecasters as of Sept 11, 2006</i>			

Federal fiscal forecast: triple-E budget before the election with spending cuts to follow

Canadian governments are in better fiscal state than they have been for more than a decade. All federal and provincial governments in Canada, with the sole exception of Prince Edward Island, declared surpluses last year. The Ontario government recently announced that it had achieved a surplus of \$298 million in 2005/6, shortly after projecting a deficit of \$1.4 billion for that year.

And the good fiscal conditions should extend into this year as well. Alberta, B.C., Ontario and the federal government are all expected to register higher surpluses this year than they had forecasted in their recent budgets. Most other provinces are also likely to have their public finances improve this year.

While the federal government will benefit from higher than anticipated surpluses this year, there doesn't appear to be much fiscal room that will be available in future years, as a result of the tax cuts introduced in the last budget. Other promises will eat into virtually all the remaining projected surpluses for future years after \$3 billion in annual debt payments.

For instance, the promise to cut another percentage point from the GST within five years will cost about \$6.5 billion by 2010. Knowing how tight finances would be in future years, federal finance provided projections only two years out in the Budget 2006, but relatively generous projections by TD Bank estimate a surplus of \$5.1 for that year, after \$3 billion in debt reduction.¹ The provinces may be offered the GST tax room as a fix to the fiscal balance. Fulfilling the tax cut promises and other promises will no doubt mean significant cuts to program spending in areas not considered core federal responsibilities by the Conservatives. This is where the focusing on federal priorities part of the fiscal balance agenda will come in.

The Conservative campaign promise to restore the fiscal balance developed into a 140-page document in the federal Budget 2006. But the spate of provincial surpluses has taken a bit of wind out of the lobby by Premiers for extra transfers from the federal government.

This proposal appeared to be an attempt to not just get support from the provinces, and particularly Québec, but also to narrow the role of the federal government, particularly in social areas, and to revive a number of economic union proposals. Some of these economic union proposals include reducing "barriers to internal trade and labour mobility" and following through on commitments in the Agreement on Internal Trade, identifying measures to improve work incentives for low-income Canadians, and pursuing further tax harmonization, including of provincial sales taxes with the GST.

The federal government may go full forward or put some of this more controversial agenda on the backburner until after the next election. At the very least, it could proceed with some reform and top-up of the Equalization program, and with measures for education and training. Equalization reform will likely adopt some, but not all, of the recommendations of the federal Expert Panel on Equalization and Territorial Formula Financing. These included:

- Return to a 10 province standard
- 50 percent exclusion of resource revenues in the formula
- Exclusion of user fees
- Apply market-value approach for property taxes
- Simplify the representative tax system from 33 to 5 tax bases
- Apply a fiscal capacity cap so that, despite the partial exclusion of resource revenues, the fiscal capacity of an equalization-receiving province should not exceed the fiscal capacity of the lowest non-receiving province
- 3 year moving average with two year lag to calculate payments

¹ Don Drummond. 2006. *The Status Quo Federal Fiscal Outlook : Not Much Room Here.* (TD Economics Special Report, July 24 2006.)

The Panel's estimates of the impact of these recommendations on each province for 2007/8 are included in the table below. These estimates are of interest because they illustrate how significantly each of these specific changes could affect the payments to different provinces, and they also demonstrate the considerable amount of latitude that the federal government has in the formula to craft a solution that could be politically palatable to all provinces.

These estimates already assume a 50 percent exclusion of resource revenues. The impact of the resource revenue proposal is an estimate of its impact on different provinces, assuming the current fixed program entitlement of \$11.7 billion for 2007/8. Full inclusion of all resource revenues without this assumption would result in billions more in annual equalization payments.

Education and training, including additional provincial transfers, are also likely to be a major theme in the coming federal budget. The federal government appears ready to offer a large-scale devolvement of its activities in skills development and training with their associated funding to the provinces. It will focus new federal support for education and training on individuals in order to promote "choice" – and privatization. Needless to say, the Harper Conservatives see little role for the federal government in social programs, such as affordable housing and homelessness, outside of providing tax credits or direct supports to individuals and businesses. With workers finally making

some real wage gains, skilled labour shortages will be played up as an excuse to promote labour mobility and participation. These might also include increasing "incentives to work" and later retirement.

Greater per capita transfers for post-secondary education would help to address Ontario's concerns about their fiscal balance while initiatives on labour market training and apprenticeship would be seen to be doing something about skilled labour market shortages.

CUPE's submission to the federal fiscal balance consultations is available at: http://www.cupe.ca/economics/Ottawa_should_not_us

The federal government will also highlight environmental issues over the next few months, with their "Green Plan II". This is expected to include a Clean Air Act, and regulations on greenhouse gas emissions, toxic chemicals, a clean water framework, clean technology strategy, toxic site clean-up and revamping of the environmental assessment process. Notably absent will be new taxes and disincentives for the use of fossil fuels, which many environmental groups have called for – and where they may actually be effective. Regulations are considered less efficient – and less effective if they don't carry heavy penalties or are not strongly enforced. Spending is expected to be less than \$3 billion over five years and consultations may take many years.

Impact of Different Changes to the Equalization Formula proposed by the Expert Panel

by Province for 2007/8 (\$millions)

	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC	Total
50 percent inclusion of resources*	144	-19	-96	-79	-347	0	-117	431	0	84	0
10 Province standard	59	16	107	86	860	0	133	113	0	479	1853
Exclude user fees from formula	-37	-11	-55	-49	-156	0	-48	-45	0	-72	-472
Use market value approach	3	0	-17	-10	355	0	19	-9	0	-526	-187
Simply RTS from 33 to 5 taxes	26	20	160	98	-58	0	82	172	0	0	499
Cap on Fiscal Capacity	-299	0	0	0	0	0	0	-506	0	0	-805
Total Impact	-105	4	99	45	653	0	69	156	0	-35	887

* assuming the currently established \$11.7 billion equalization entitlement for 2007/8

Source: Expert Panel on Equalization. Putting Equalization Back on Track, Annex 10, Table 10.

<http://www.eqtf-pfft.ca/english/EQTreasury/index.asp> Accessed Sept 12, 2006

Job making machine starts to stall in summer

Canada's job-making machine stalled in the summer, with three months of job losses totalling 26,000 from May to August, according to the *Labour Force Survey*.² The job losses nudged the unemployment rate up to 6.5% from a 32-year low of 6.1% reached in May.

The number of paid jobs dropped by 43,000 in August, including 25,000 less in the public sector. According to the *Labour Force Survey*, public sector employment was at an estimated 3.19 million in August, almost 1% higher than in December. Private sector employment has increased by 2.2% so far this year, but shed 19,000 jobs in August. The number of self-employed increased by 27,000 in August, but is still 64,000 lower than in December.

Despite the job losses in recent months, employment growth has been very strong so far this year, with 194,000 more jobs than last December. According to the *Labour Force Survey*, over 206,000 extra full-time jobs have been created so far this year while part-time employment has dropped by 12,000.

Most of the recent job losses have been in the goods sector, with 18,000 fewer jobs in August. This sector is being affected by the high Canadian dollar, weaker foreign demand and slowing growth in housing construction.

- Manufacturing lost another 11,000 jobs in August, with job losses totalling 87,000 since December – and 240,000 over the past four years.
- The booming construction industry has added almost 200,000 new jobs in the past four years, but the industry unexpectedly lost 9,000 jobs in August. A drop in housing starts in July and August no doubt contributed to this decline.
- The resource sector has also been a source of strong employment growth,

with employment up by 20,000 since last December.

- Employment in the utilities sector has been relatively flat this year, but is down by almost 5% from 12 months ago.

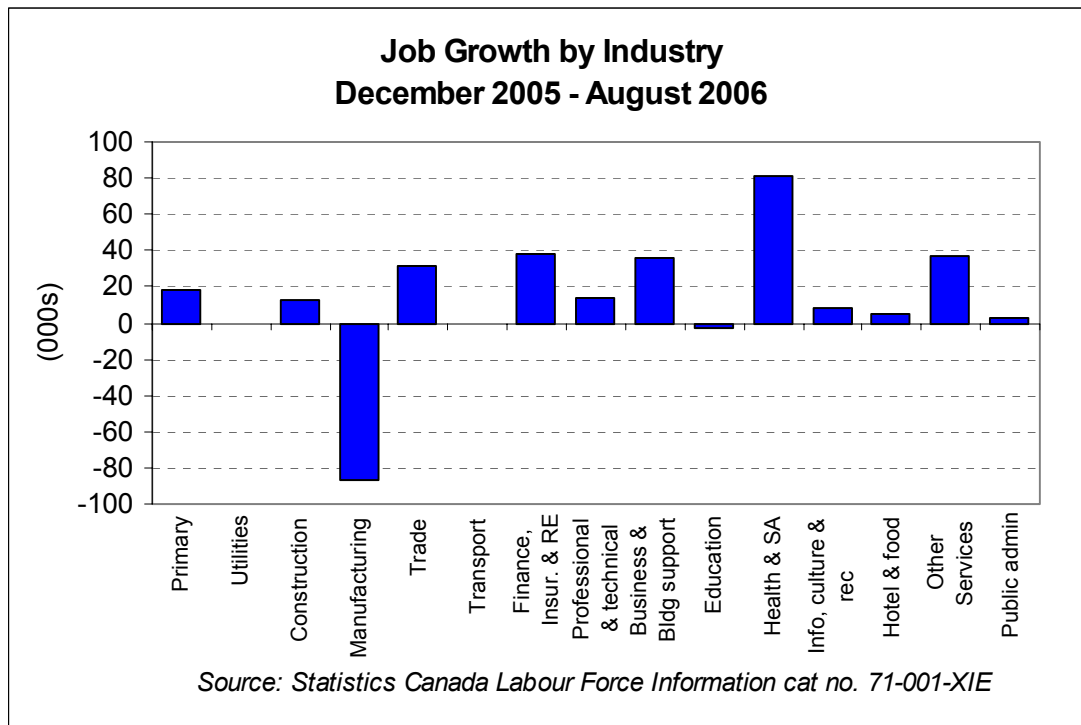
Overall employment in the services sector was virtually flat in August, but is still 250,000 higher than in December.

- Health and social services has contributed almost a third of all new jobs, with employment up by 81,000.
- Employment growth has also been strong in a range of service industries, including business, building and other support services; other services (which includes repair and personal services and non-profit organizations); and finance, insurance, real estate and leasing. All of these sectors have added over 30,000 additional jobs this year and grown at more than twice the pace of overall employment growth.
- Employment in education services dropped by a reported 20,000 in August, with overall employment down by 5,000 since December.
- Public administration lost a reported 21,000 jobs in August and is up by only 3,000 jobs – or less than half a percent – this year.

Job growth of adult women has been especially strong, with employment 137,000 higher (over 98% full-time) and an unemployment rate of 5.4%. Employment of adult men has increased by a total of 46,000 this year, 95% full-time. In contrast, youth employment is only 11,000 higher than it was last December, with an unemployment rate up to 12.3%.

Job growth has continued to be especially strong in Alberta, with employment increasing at an annual rate of more than 6% so far this year. The province has added 78,000 new jobs this year, equivalent to 40% of the total job growth in Canada.

² Unless otherwise indicated, all figures in this section are from Statistics Canada's *Labour Force Survey*.



Employment growth has also been strong in the other oil and gas rich provinces of Saskatchewan, Newfoundland and British Columbia. Together, these provinces have accounted for over 60% of all new jobs in Canada this year.

Job growth in Ontario had been growing at a respectable pace this year, but it has recently started to wane with job losses in manufacturing, largely in food processing and motor vehicles and parts.

According to another source of employment figures, public sector employment increased by 95,000 or 3% from the second quarter of 2005 to the second quarter of this year.³ Employment growth was strongest for the federal government, where payroll numbers were up by 31,000 or over 8%. Part of this employment gain was probably associated with hiring for the 2006 Census.

Payroll employment by local governments increased by 19,000 or 5% over the year,

³ Statistics Canada, Public Institutions Division, *Public sector employment, second quarter 2006*. (August 28, 2006)
<http://www.statcan.ca/Daily/English/060828/d060828c.htm>

while employment by provincial and territorial governments was virtually unchanged. Employment at universities and colleges was up by 15,000 or 5% and up by 13,000 or 2.2% at school boards. Health and social service institutions increased their payroll employment by 19,000 or 2.5% from the previous year.

The attached appendix, *Where have the new public sector jobs gone?*, provides some analysis of different estimates of public sector employment growth from 2000 to 2005.

Despite the recent weakness in the labour market, employment growth is expected to be mildly positive over coming months. TD Economics and the Bank of Montreal forecast monthly average employment growth of about 10,000 during the next six months, with job gains concentrated in services, the resource sector and in Western Canada. However, construction, manufacturing and other export-related industries are expected to see further job losses.

The strong labour market has helped to generate positive real wage gains in most industries during the past year. According to

a number of different surveys, average weekly and hourly earnings (including overtime) have increased by about 3.7% over last year.

Canada's recent strong rate of employment growth and aging workforce has led to growing concerns about looming labour shortages. According to some reports, Canada will have a labour shortage of 1 million workers by 2016, while Alberta will have a shortage of 332,000 workers by 2025.⁴ This had led to a greater push for better recruitment, skills recognition, education, training and apprenticeship programs. Governments and business groups are also pushing for increased labour mobility and flexibility, improving work incentives for low-income, and raising the retirement age.

⁴ Watson Wyatt Canada. *Labour Shortages of 1 Million Workers by 2016*. (Special Memorandum June 2006;) Conference Board of Canada: *Alberta's Labour Shortage: Just the Tip of the Iceberg*. (June 2006.)

Low wages remain pervasive in Canada

More than one in six Canadian workers – over 2.3 million – were low paid and earning poverty wages as recently as 2005, despite the strong economy and low unemployment rates.

Canada's strong economy and historically low unemployment rates have failed to make a serious dent in the number of low paid workers or in the numbers of working poor. Minimum wages were introduced to protect workers from poverty and exploitation, but they aren't doing that anymore in Canada.

The real value of the minimum wage is far below what it was thirty years ago in every province in Canada. The federal minimum wage from 1976 would be worth in \$10.19 in today's dollars. Today, the average provincial minimum wage is only \$7.32 and there is no separate federal minimum wage.

A wage of less than \$10 an hour is widely accepted as a low pay poverty wage because a single individual working full-time all year would need at least this amount to earn above Statistics Canada's low income levels for a larger Canadian city. Single parents and those supporting more than themselves require at least \$13 an hour to reach these low income levels.

Analysis of detailed labour force survey data for 2005 shows:

- Over 17% of Canadian workers (more than 2.3 million) were paid less than \$10 per hour in 2005.
- More than one in five of all working women – over 1.4 million – were paid less than \$10 an hour in 2005.
- One in eight male workers (12.8%), or 892,000 workers, were paid a poverty wage in 2005.
- Over 1.1 million of those working for less than \$10 an hour were 25 years of age or older.
- More than 50% – or over 1.3 million – of all young workers were paid less than \$10.
- A high ratio of seniors – more than 21% – also work for less than \$10 an hour.
- More than 1.2 million “full-time” workers (defined as those who worked more than 30 hours at their main job) were paid less than \$10 an hour at this job. Many other low paid workers worked multiple jobs at low wages, but were classified as part-time.

There is a very clear relationship between low rates of unionization and low pay. Sectors with higher rates of unionization have much lower incidence of low paid workers; while industries with high ratios of low paid workers tend to be poorly unionized.

CPI up by 2.5%; higher in Alberta and Maritimes but accuracy of CPI questioned

The Consumer Price Index (CPI) increased by an average of 2.5% during the first seven months of this year.

Recent year-over-year increases have been at a similar rate, up by 2.5% in June and 2.4% in July. Higher energy and home prices continue to be responsible for most of the increase in the index. The national energy price index increased by 11.7% in the previous 12 months, with a 16.1% increase in gasoline, 12.1% increase in fuel oil, and 6.3% increase in the price of electricity. If energy price increases are excluded from the CPI, then the index would have increased by only 1.4% since July 2005.

Lower prices for some imported consumer goods such as computers, video equipment and clothing have helped to keep inflation down. The higher value of the Canadian dollar no doubt contributed to these price declines.

The “core inflation rate” used by the Bank of Canada excluding the eight most volatile components only increased by 1.5% in the 12 months to July 2006. This shows that underlying inflationary pressures are very low and was a major reason why the Bank of Canada did not increase the key bank rate at its last two announcement dates.

Alberta, Prince Edward Island, Nova Scotia and New Brunswick have all experienced higher rates of inflation than the national average during the past year. Higher gas and heating fuel prices have been the main culprit driving up consumer prices in the Maritime provinces, while the higher cost of housing and shelter has driven up the CPI in Alberta and especially in Calgary.

CPI inflation has been somewhat lower in British Columbia, Quebec and Manitoba and close to the national average in Saskatchewan, Ontario and Newfoundland and Labrador. A recent electricity price hike approved by the Ontario Energy Board has pushed up the price of electricity in the province by almost 10% compared to a year ago.

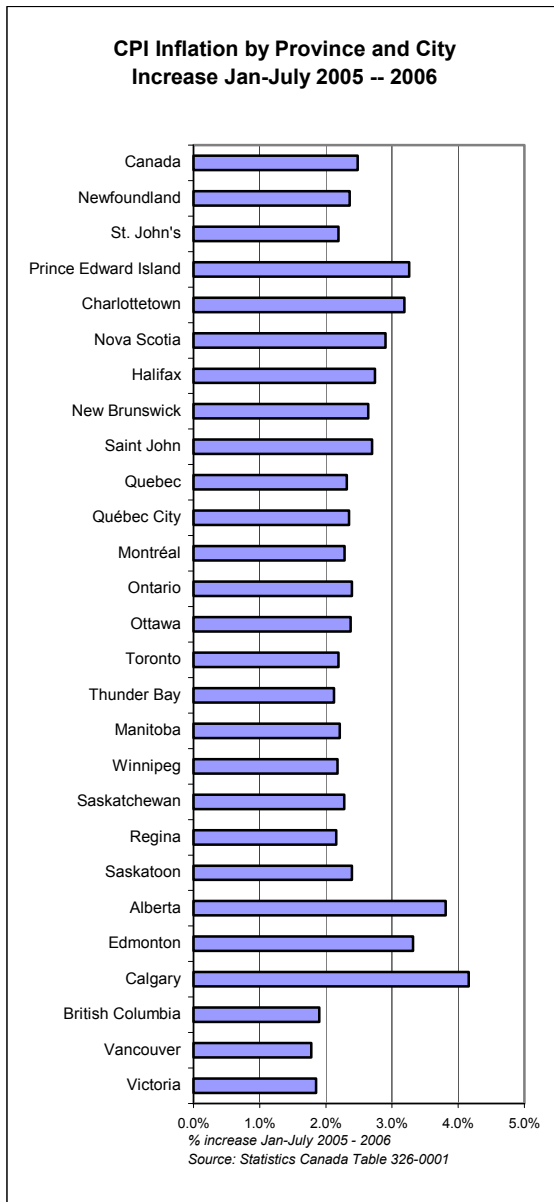
Despite large increases in house prices in Vancouver and Victoria, the consumer price indexes for these two cities and for the province overall has increased by less than 2% so far this year. Part of the reason for this lower increase is because of the way that Statistics Canada calculates the cost of housing and shelter. The CPI uses Statistics Canada’s *New Housing Price Index* (NHPI) as a measure of the cost of owned accommodation, even though new houses are only about 20% of the total of all homes sold in Canada each year.

While the cost of resale houses in Vancouver has increased by over 20% in the past year, Statistics Canada’s NHPI for Vancouver has increased by only 5.2%. The NHPI is supposed to adjust for changes in the quality of homes, but these differences are much too large to be explained by quality differences, especially for existing homes. Other surveys of prices changes for standard homes in British Columbia are in the double-digit range.⁵ It seems clear that Statistics Canada’s method of calculating the cost of owned accommodation has led to underestimates of the higher cost of living, especially in some regions.

Statistics Canada had estimated that the impact of the 1% cut to the GST could reduce the CPI by about 0.6% on its own. But overall prices increased by 0.1% from June to July, suggesting that either underlying cost pressures would have increased the CPI by 0.7% that month and/or that many retailers did not pass on the GST cut.

It was recently revealed by Statistics Canada that computer errors resulted in underestimates of the cost of hotel rooms

⁵ Royal LePage *Survey of Canadian House Prices*. (Second Quarter 2006.)
<http://www.royallepage.ca/CMSTemplates/GlobalNavTemplate.aspx?id=361>



used in the calculation of the CPI for the past five years. While spending on hotels is only a small part of the total CPI basket, the overall impact of this was that the national CPI was underestimated by 0.1 percentage points in each of the past five years. While Statistics Canada has fixed this computer problem starting April 2006, it is their policy to not revise the CPI for previous years.

This error has meant lower wage increases for workers whose wages are explicitly or implicitly indexed to inflation and lower payments for transfers that are indexed to the CPI, such as Old Age Security and the GIS. With many parts of the personal income tax system also indexed to inflation, the underestimate has led to higher income tax revenues. While 0.1 percentage points a year may not seem like much, it adds up over time. It means that the CPI was out by a total of about 0.5% this year and by a cumulative total of 1.5 percentage points added up over the past five years.

Forecasters are now expecting that consumer prices will increase by an average of 2.2% this year and by between 1.2% and 2.2% next year, depending on the price of energy.

Prices are expected to increase next year by an average of 2.8% in Alberta and 2.3% in B.C. In other provinces, inflation is expected to run below 2%.

CUPE's On-line Inflation calculator

CUPE has developed an inflation calculator for our website that allows anyone to calculate annual inflation rates using the CPI for every province and all the 16 Canadian cities for which inflation rates are available. <http://www.cupe.ca/cpicalculator.php>

Monthly CPI data are not available using this calculator, but Statistics Canada now makes its detailed Consumer Price Index publication available for free:

<http://www.statcan.ca/english/Subjects/Cpi/cpi-en.htm>

Base rate wage settlements increase to 2.7% in second quarter

Base-rate wage adjustments for large collective bargaining units of 500 employees or more increased by an average of 2.7% in the second quarter of 2006, up from 2.2% in the first quarter.

Public sector employees achieved gains of 2.8% in the second quarter, compared to 2.2% for private sector employees. This included agreements covering over 230,000 public sector employees, mostly in the education, health and social services sector in British Columbia.

Public administration settlement increases averaged 3%, education, health and social services 2.8%, information and culture 2.4% and utilities 1.7% (Hydro-Quebec agreement).

Settlements include an increasingly wide range of bonus and incentive provisions that further boost compensation. In the public sector these include signing bonuses, gain sharing provisions, goal sharing plans, team incentive plans, individual incentive plans and the B.C. Government's "fiscal dividend bonus".

Alberta workers led all provinces with increases averaging 3.4% in the second quarter. Ontario settlements covering 200 or more employees averaged 2.9% in the second quarter, up from 2.6% in the first quarter. Public sector employees gained average increases of 3.2%, up from 2.9% in the first quarter. Increases in the education sector averaged 3.3%, health and welfare services 2.8%, and local government 3.3%.

Surveys expect solid real wage gains in 2007

According to recent employer surveys, the tight labour market means that Canadians can look forward to their best wage and salary increases in years. Salary and compensation surveys by the Hay Group, Watson Wyatt, Hewitt Associates, Morneau Sobeco, Mercer Human Resources and WorldatWork anticipate base salary increases averaging 3.4% to 3.8% for Canada in 2007.

Employee recruitment and retention is now by far the most important human resource issue for employers, according to these surveys. More employers, including many public sector employers, are using bonuses to attract and retain employees.

Results from some of these surveys include:

- Broader public sector employers anticipate an average base salary increase of 3.3% in 2007, compared to an average of 3.5% for all sectors, according to the Hay Group. Salary increases for clerical staff in the broader public sector are expected to be slightly lower, at 3.1%, but the average for most other levels is expected to be 3.3%.

- Watson Wyatt's survey found that Canadian employers expect to increase base salaries by an average of 3.5% next year, with employers in the public sector an average 3.6%. Higher increases are expected in the Finance and Professional/Business industry sectors. Projected average base salary increases by city and region are: Vancouver 3.5%, Calgary 3.9%, Saskatchewan 3.4%, Manitoba 3.3% Toronto 3.4%, other SW Ontario 3.3% Montreal 3.3%, Atlantic 3.4%.
- The survey by Hewitt Associates anticipates overall salary increases of 3.7% in 2007, with salary increases in Calgary expected to average 5.2%. Vancouver employers predict increases of 3.7%, with an average 3.5% for Montreal and 3.4% for Toronto.

These base wage increases are higher than current and expected levels of inflation, but are roughly equivalent to inflation and labour productivity growth.

Major Collective Bargaining Settlements in 2006

Average Wage Settlements Major Collective Bargaining by Year

	2003	2004	2005	2006 First Quarter	2006 Second Quarter
All	2.5	1.8	2.3	2.2	2.7
Public Sector	2.9	1.4	2.2	2.2	2.8
Private Sector	1.2	2.2	2.4	2.5	2.2

Source: Human Resources and Skills Development Canada, Major Wage Settlements by Quarter, Percentage Wage Adjustment, [latest information as of Sept 12, 2006], <http://www.hrsdc.gc.ca/en/lp/wid/mws/index.shtml>

Average Wage Settlements by Province

	Nfld-Lab	PEI	NS	NB	QC	Ont	Man	Sask	Alta	BC	Multi Prov	Federal Juris
2004	1.0	2.4	4.7	4.1	2.6	3.0	2.6	1.0	3.1	-1.6	2.7	1.6
2005	2.1	2.5	3.2	3.0	1.6	2.7	2.9	1.9	3.0	0.5	4.1	2.6
2006 First Quarter	-	-	-	3.8	2.1	2.7	2.4	2.1	3.1	1.6	3.3	2.3
2006 Second Quarter	2.0	2.8	3.1	1.2	1.6	2.9	3.1	-	3.4	2.7	4.1	2.7

Source: Human Resources and Skills Development Canada, Average Annual Wage Adjustments Yearly Tables, [latest information as of Sept 12, 2006], http://www.hrsdc.gc.ca/en/lp/wid/aawa/quarterly_index.shtml

Average Wage Settlements by Industry

<i>Industry</i>	2004	2005	2006 First Quarter	2006 Second Quarter
Primary	3.0	2.1	1.5	2.7
Utilities	3.1	2.6	2.6	1.7
Construction	2.7	2.5	-	3.7
Manufacturing	2.4	2.5	2.1	1.8
Wholesale and Retail	1.5	1.9	1.7	2.1
Transportation	0.5	2.9	2.2	2.8
Information & Culture	2.7	2.3	3.3	2.4
Finance & Professional Services	1.3	2.3	2.5	2.7
Education, Health Soc. Services	0.9	2.1	2.1	2.8
Entertain/Hospitality Industry	2.7	2.4	2.7	3.1
Public Administration	2.4	2.4	2.7	3.0

Source: Human Resources and Skills Development Canada, Major Wage Settlements by Quarter, [latest information as of Sept 12, 2006]] http://www.hrsdc.gc.ca/en/lp/wid/mws/quarter/quarter_industry.shtml

Selected Recent Settlements – June 2006

<u>Employer</u>	<u>Occupations</u>	<u>Number of Employees</u>	<u>Average Annual Increase</u>	<u>Duration in Months</u>	<u>Expiry Date</u>
<u>Utilities</u>					
Hydro-Québec	(CUPE) scientific and other professional employees	3,400	1.7	60.0	Dec 31, 2009
<u>Education, Health and Social Services</u>					
BC School Boards various	(CUPE) Various employees	14,330	2.0	48.0	June 30, 2010
College Compensation and Appointments Council	(OPSEU) academic employees	8,600	3.4	48.0	Aug 31, 2009
Edmonton Catholic Separate School District No. 7	(CEP) office employees and technicians	800	3.0	24.0	Aug 31, 2007
Government of Newfoundland and Labrador	Association of Allied health Professionals: health and social care professional employees	710	2.0	36.0	June 30, 2008
McMaster University	(CAW) support employees	2,080	3.7	36.0	June 15, 2009
Niagara Catholic District School Board	(CUPE) support employees	860	2.6	48.0	Aug 31, 2009
Okanagan Labour Relations Council	(CUPE) office, service & maintenance employees	1,020	2.0	48.0	June 30, 2010
Thames Valley District School Board	(CUPE) educational service employees	1,120	2.0	36.0	Aug 31, 2008
Winnipeg School Division No. 1	(Winnipeg Association of Non-Teaching Employees) teaching assistants, office and food service employees	1,300	3.0	47.9	June 30, 2009
<u>Public Administration</u>					
City of Red Deer	(CUPE) inside and outside employees	600	4.0	24.0	Dec 31, 2007
Government of Nova Scotia	(CUPE) service and maintenance employees	1,650	3.3	48.0	Oct 31, 2009
Government of Canada	(Union of Canadian Correctional Officers)	5,950	2.8	96.0	May 31, 2010
Government of Ontario	(Professional Engineers Government of Ontario)	500	2.4	48.0	June 30, 2009

Source: Human Resources and Skills Development Canada, Major Settlements Reached in June 2006. [latest information as of Sept 12, 2006], <http://www.hrsdc.gc.ca/en/lp/wid/mws/Listmonth.shtml>

APPENDIX A

Where have the new public sector jobs gone?

Canada's Labour Force Survey has reported strong employment growth in recent years, adding more than 1.4 million jobs from 2000 to 2005.⁶ These include over 200,000 new jobs in construction, 281,000 new jobs in retail and wholesale trade, and a total of over 400,000 new jobs in education, health and social services and public administration combined.

There is no doubt that Canada's job market has produced a lot of new jobs in the past few years. But are there really as many new jobs as the labour force numbers report? Where are the new jobs located and what types of jobs are they?

Nobody knows exactly how many people are employed or where they are employed. All we have are estimates based on different surveys. The two main surveys that Statistics Canada uses for estimating employment levels are the *Labour Force Survey* (LFS) and the *Survey of Employment, Payroll and Hours* (SEPH).

The LFS and the SEPH are fundamentally different surveys that provide very different information. The LFS is a household survey that provides a wide range of demographic and labour force information. This includes estimates of unemployment rates and many other variables, which are not available through the SEPH.

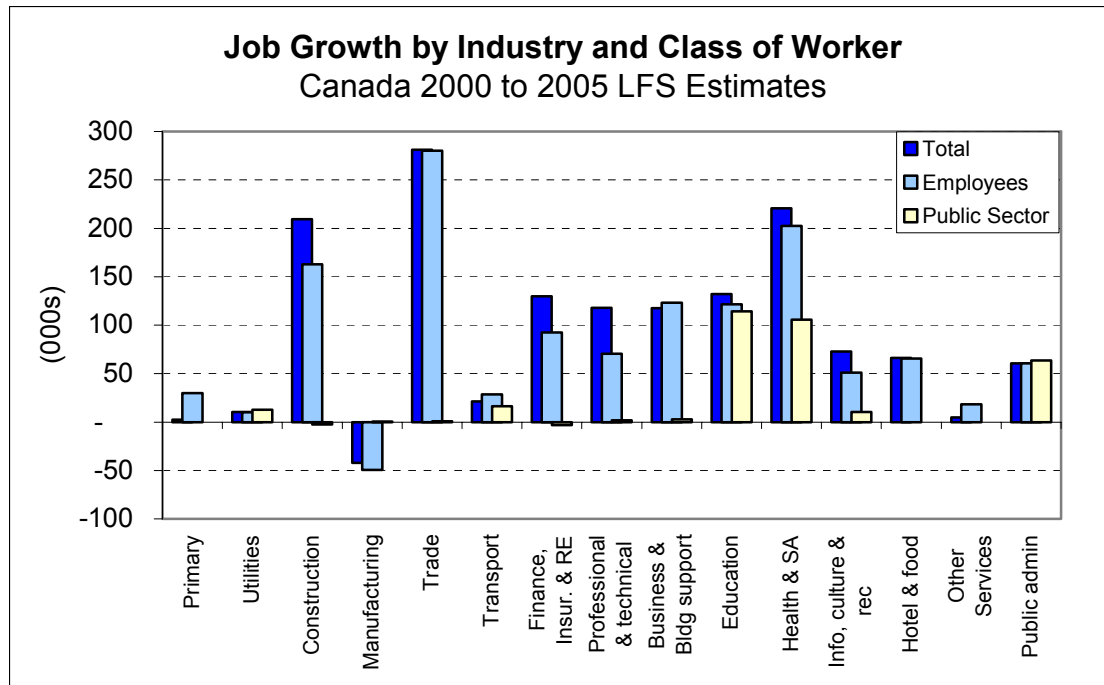
The SEPH is an establishment-based survey that provides a fine level of detail but only about only a few variables: primarily employment, earnings and hours at a detailed industry level. The SEPH also excludes many workers that are included in the LFS. The SEPH provides a more accurate measure than the LFS of the number of people actually employed by different establishments – businesses and organizations – but it has much less information about the characteristics of workers.

Labour Force Survey estimates

Of the 1.4 million new jobs that the Labour Force Survey calculates were created in the past five years, an estimated 138,000 were "self-employed". This category includes business owners as well as the self-employed who work with no additional paid work. By definition they are all considered part of the private sector. The number of actual *employees* increased by a total of 1,268,000 from 2000 to 2005 as calculated by the LFS. A large number of these jobs were created in the construction, trade, hotel and food, finance, business services and other predominantly private industry sectors. The LFS estimates that there was employment job growth of 384,600 in the three sectors with a stronger public sector presence (educational services, health care and social assistance and public administration) between 2000 and 2005. Of the 384,600 new jobs in these three sectors, 283,000 were classed as public sector jobs. These included 114,000 jobs in educational services, 105,000 new jobs in health care and social assistance and 64,000 new jobs in public administration. A net total of 40,000 public sector jobs were created in other sectors, such as utilities, transport, and culture and recreation for a total of 323,000 additional public sector jobs created from 2000 to 2005.

Not all of the new public sector jobs were unionized positions, of course. The LFS estimates that 272,000 of the new jobs in the public sector were covered by a union contract – or 84% of the total new public sector jobs. Public sector jobs accounted for three-quarters of all the new union

⁶ This analysis only examines annual average job data for the period from 2000 to 2005 because some of this information is only readily available on an annual basis and because monthly figures can show considerable variation.



jobs: only 93,000 jobs with union coverage were created in the private sector during these five years.

Employees covered by a union contract include both actual union members and also union exempt workers, such as supervisors and managers, newly hired employees on probation, extension or matched employees, and employees who check off through the Rand formula. Approximately five percent of employees in the public sector who were covered by a union contract fall into these categories.

This suggests that, based on Labour Force Survey estimates, slightly less than 260,000 of the new jobs created in the period from 2000 to 2005 were likely to be actual union member positions in the public sector.

Unfortunately, published LFS data sources do not provide a more detailed breakdown, nor do they provide published estimates of union jobs by occupation.⁷

Survey of Employment, Earnings and Hours estimates

While the Labour Force Survey is the most prominent source of employment information, it is not the only one. As discussed above, the Survey of Employment, Earnings and Hours also provides more detailed estimates of employment by industry sector (but it also excludes some categories of employment).

According to the SEPH, employment levels increased by 1,270,000 during the period from 2000 to 2005. This is almost exactly the same as the LFS increase in the number of employees, so these results are fairly consistent at an aggregate level.

But the SEPH estimates of new jobs created in the three sectors with a high public sector presence (educational services, health care and social assistance and public administration) are

⁷ Analysis of labour force micro data could provide some of this information, but this can be expensive and time-consuming: the microdata files cost \$321 for each month of data and \$3,210 for a year.

quite different from the LFS numbers. While the LFS estimates are 364,600 new jobs for these three sectors, the SEPH estimates are 292,200.

Part of this difference may be explained by increased use of contract workers, casual workers and differences in industry classification, particularly among jobs that have been contracted out. People are only counted as employees in the SEPH if they are issued T4s. For instance, laundry workers or cleaners in a hospital who are working for an outside firm may classify themselves as being part of the health sector when surveyed by the LFS, but the SEPH may classify them as part of the building and business services sector. Unfortunately, SEPH does not collect or provide any further information on whether these jobs are public sector jobs or unionized positions.

Public Institutions Employment Survey

A separate survey operated by the Public Institutions Division (PID) of Statistics Canada that is associated with the SEPH, provides separate estimates of the total number of public sector employees.

This survey calculates that the growth in public sector employment from 2000 to 2005 was 193,000. This included an increase in public sector employment in education services of 50,000, in health and social services of 65,000, in public administration of 71,000 and a net increase in other areas of about 7,000. About 39,000 of the increase in public administration employment was in local government employment, according to this survey. Using the 80% ratio from the LFS for the number of union positions in the public sector, this suggests that about 154,400 of the increase in public sector employment were union members.

In comparison, the LFS calculates an increase in public sector employment of 323,000. This large discrepancy might be explained by the increased use of contract employees, contracting-out and casual employees in what have been traditionally public sector jobs.

CUPE membership figures of 545,000 for 2005 were equivalent to about 17.5% of the total 3.1 million public sector employees reported by the Labour Force Survey for 2005. CUPE membership numbers were 18% of the 2.98 million public sector employees as reported by the PID.

CUPE of course also represents many employees who work for private sector employers, but using this ratio suggests that roughly from 28,000 to 44,000 of the additional public sector employment in the period from 2000 to 2005 would have come to CUPE if these ratios held constant.⁸ This gives a wide range, but with an average of about 36,000.

During this same period, CUPE membership numbers increased by 55,000. This indicates that CUPE has increased its share of unionized workers in public sector workplaces during this period or increased its share in private sector workplaces.

⁸ Calculated as 18% of the 154,400 increase in public sector union employees as estimated using PID numbers (= 27,800) or as 17% of the 260,000 new union positions in the public sector as calculated by the LFS (=44,200).

Growth in Public Sector Employment Estimates from different surveys 2000 - 2005

Employment growth 2000 - 2005	Labour Force Survey	Survey of Employment, Payroll and Hours <i>(all in thousands)</i>	Public Institutions Division
Job growth 2000-2005	1,405.5	NA	
- of which self employed	137.8	NA	
Increase in paid employees (LFS)	1,267.7	NA	
Increase in payroll employment (SEPH)	NA	1,270.0	
Public and private paid employees (LFS) or payroll employment (SEPH) increase			
- educational services	121.6	55.2	
- health care and social assistance	202.5	166.1	
- public administration	60.5	70.9	
Total of above sectors	384.6	292.2	
Public sector employment increase			
- educational services	114.2	NA	50.0
- health care and social assistance	105.5	NA	65.0
- public administration	63.7	NA	71.0
- other	39.6		7.0
Total of above sectors	323.0	NA	193.0
- approximate % union members (from LFS)	80%		80%
Estimated growth of public sector union members	258.4		154.4
Total public sector employment (2005)	3,123.1	NA	2,980.0
CUPE membership (2005)	545		545
- ratio of total public sector	17%		18%
Rough estimate of CUPE share of increase in public sector union members (000s)	45.1		28.2
-- Mid-point		36.7	

Sources (all Statistics Canada):

Labour Force Survey Historical Review 2005 CD-ROM (Cat No 71F0004XCB)

<http://www.statcan.ca/bsolc/english/bsolc?catno=71F0004X>

Annual Estimates of Employment, Earnings and Hours (Cat No. 72F0023XCB)

<http://www.statcan.ca/bsolc/english/bsolc?catno=72F0023X>

Reconciliation of public sector employment and public administration employment (Cansim Table 183-0022)

http://cansim2.statcan.ca/cgi-win/cnsmcgi.exe?Lang=E&RootDir=CII/&ARRAY_VREL=1830022&PortalID=3764&ResultTemplate=V3764

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