ECONOMIC CLIMATE for BARGAINING

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Frontline Summary

Straight flush for public surpluses?
For the first time in decades, all federal and provincial governments in Canada are likely to report surpluses this budget season. But underneath the healthy public finances lurks an increasingly unhealthy distribution of income and an unsustainable economic model.

Federal budget expectations include more tax cuts and a range of measures that will serve double-duty to "fix the fiscal balance" and focus on the five "Es": environment, education, equalization, the economy and election-readiness.

Share of public spending declines
Public spending as a share of the economy has been on a downward trend during the past decade. Much of the reduction has been due to lower federal debt payments, but federal program spending as a ratio of the economy has also declined thanks mostly to relatively lower spending on social services.

National and provincial economic outlook tables provide a consensus forecast for major economic indicators, including economic output (GDP), employment, unemployment rates and inflation.

The hidden surplus and deficit highlights the fiscal balances of the other sectors of the economy. This shows an unprecedented and growing imbalance, with growing deficits for the personal sector and escalating record surpluses for the corporate sector. Slow rates of corporate investment in Canada spell troubling signs for our economic future.

Employment continues to grow rapidly.
The total number of jobs created in Canada has continued to grow at a strong pace, pushing unemployment rates to historic lows. For the first time in 12 years, employment in the public sector has exceeded 3 million on an annual basis. But overall job quality is declining.

The deepening divide summarizes recent studies that have shown what many Canadians have experienced first-hand: increasing levels of inequality and a growing gap in wages, income and wealth between the rich and the rest of us.

Little progress on closing Canada's gender earnings gap summarizes recent numbers on earnings and income inequality between men and women. Canada fares surprisingly poorly in comparison with other OECD countries.

Persistently higher poverty levels for recent immigrants
Despite a much greater emphasis on skilled "economic class" immigration to Canada, the relative poverty rates of recent immigrant families has gotten worse. The face of Canadian poverty is increasingly that of a skilled and underemployed immigrant.

Offloading insecurity
The shift of income shares to the rich and to corporations is far from the only concern on families' minds. Governments and employers are also increasingly shifting risk from themselves onto individuals, workers and families in many areas.

Collective bargaining priorities: is there common ground? sums up a Conference Board of Canada report on the collective bargaining priorities of management and labour for 2007.

Seesawing energy prices push inflation up and down summarizes recent inflation trends and expectations.

Wage gains strengthen for public sector workers provides a brief report on wage gains achieved in major collective agreement settlements.

Straight Flush for Public Surpluses?

For the first time in decades, all federal and provincial governments in Canada are likely to report surpluses this budget season.

Quebec and B.C. have already tabled their budgets for the year, with surpluses expected for both 2006/7 and 2007/8. Other provinces are expected to follow suit.

Last year, only Ontario and Prince Edward Island registered deficits. With elections on the horizon in both these provinces, their finances will no doubt show great improvement thanks to extra transfers from Ottawa and a bit of creative accounting where needed.

Signs are pointing to an underlying federal surplus of $9 billion or more for both this fiscal year and next, which should give the government money to "fix the fiscal balance", pay down another $3 billion on the debt and roll out another array of gimmicky promotional tax cuts. The federal budget will involve further use of end-of-the-year trust funds, which will reduce final surplus amounts and provide provinces with the flexibility to adjust their finances the way they want.

It is mostly just those on the bottom of public barrel, such as local and first nations governments, which continue to struggle with their finances.

Healthy public finances reflect both a growing economy but also an increasing unhealthy distribution of income. Record corporate profits have contributed to double-digit increases in corporate tax revenues at the federal level. Federal personal tax revenues have grown at over 9% thanks partly to very high rates of income growth among the most affluent in Canada and our-still progressive tax system. Inadequate indexation of the personal tax system to the real cost of living has also contributed to higher tax revenues.

Despite historically low unemployment rates, wage increases for most workers has been relatively low for such a strong job market. Higher costs, especially for housing, have kept household spending and capital investment growing at a rapid pace, fuelling economic growth.

In contrast, corporations have increasingly stockpiled cash from their growing profits and put a smaller and smaller share of their gains into productive investments in the Canadian economy. Corporate profits have increased by 58% since 2001, while business investment has only increased by 30% and investment in machinery and equipment has only increased by 15%.

Canada's economic model is becoming increasingly unsustainable. Oil, gas and mining companies have generated a larger share of total profits in recent years. In effect, we've been converting our natural resources wealth into short-term corporate profits and only reinvesting a portion of the proceeds back into productive investments in the economy.

Government investment in the economy has fared a little better: it has increased by 37% since 2001, with most of that increase coming in the last two years.

The outlook for 2007 isn't much better. Capital investment in the Canadian economy is expected to increase by only 4.6% this year, according to Statistics Canada's survey of private and public investment intentions. Two-thirds of the growth in investment is expected to come from increased public sector investment directly by governments, public utilities and in public transit, with private investment only contributing one-third of increased investments.

Federal Budget Expectations

Federal surpluses will allow the Harper government to finance an election-ready budget. It is widely expected to include increased funding for:

- A package of *environmental and climate change measures*, including the already announced $1.5 billion Canada EcoTrust Fund. It will likely include a flexible set of greenhouse gas reduction measures for industry, including the launching of an emissions-trading system, but is unlikely to include broad-based carbon taxes. It will also no doubt include an array of different tax break and incentives and other funds to support environmental measures, including additional funds for public transit.

- Reforming the *Equalization program* along the lines proposed by the federal expert panel will involve an extra $1 billion or more for this program on an ongoing basis from the federal government (see *Economic Climate for Bargaining* September 2006, page 5).

- *Education funding* should also be prominent in the budget. This will likely involve increased transfers for post-secondary education and separating the funding in a dedicated PSE transfer. It may also involve a reform of the federal government's direct support for training and education to include greater emphasis on private sector measures, such as vouchers and/or tax incentives.

- *Infrastructure funding* could be repackaged in a separate fund, with an emphasis on public-private partnerships, and the creation of an increased and perhaps permanent transfer for municipalities.

- *Tax cuts and incentives* will be heavily emphasized again. In addition to tax incentives for environmental and educational purposes, the budget will include tax cuts and incentives for the working poor (the repeatedly announced *Working Income Tax Benefit*), for seniors (re-announced seniors tax splitting and age credit increase), individuals (through the "tax-back guarantee"), and corporations (though more rapid capital cost allowances). The budget will also likely include a limited measure to address the promise to defer capital gains taxes on re-investments. It could also include an acceleration of the cuts to corporate income taxes as well as additional R&D and commercialization tax incentives as part of a science and technology strategy.

- Additional *spending initiatives* could include more money for defence and extra funding to meet their promises on child care spaces and on health care wait times.

The budget will also include mention of a number of measures proposed in their *Advantage Canada* agenda to strengthen the economic union, including reducing barriers to mobility, harmonizing taxes and regulations, streamlining regulations, and promoting competition.

Specific deeper cuts to federal program spending will probably be deferred as much as possible to future years, but caps on federal program spending growth will be re-emphasized to please fiscal conservatives. The privatization of public assets through sale and leaseback arrangements will be used to help finance budget measures over the short-term.

Share of Public Spending Declines

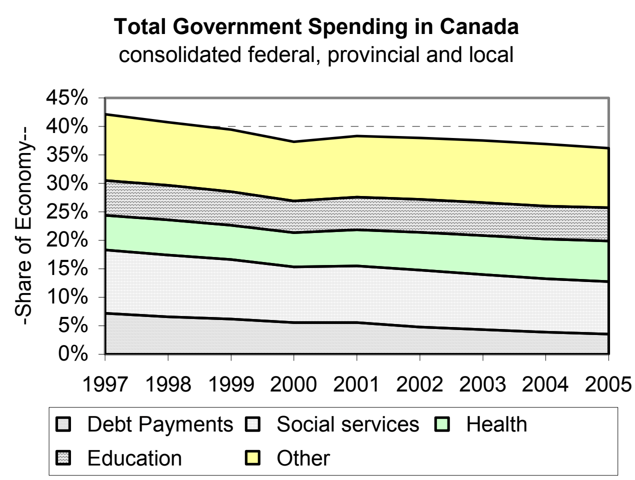
Public spending in Canada as a share of the economy has been on a downward trend during the past decade. Overall spending by all levels of government has declined from about 42% of the economy in 1997 to about 37% of the economy in 2005[1].

Most of the relative decline in public spending has been the result of lower spending by the federal government. The percentage share of federal spending as a ratio of the total economy has dropped by about 20% in the past nine years: from 19% of GDP in 1996/97 to 15.2% in 2005/6. Much of the reduction of federal spending has been due to lower debt payments – thanks mostly to both lower interest rates and to a lower level of total federal debt outstanding. Despite some recent increases, particularly in health spending, federal program spending as a ratio of the economy is still considerably below averages prior to 2000.

Federal revenues as a share of the total economy dropped by about 10% from 1997/98 to 2005/6. Most of this decline was due to lower Employment Insurance premiums and a lower share of personal income tax revenues.

Total spending by provinces as a share of GDP is lower because provinces have been able to reduce their spending on debt payments. Program spending by all provinces and territories has remained relatively stable as a share of the total economy during the past decade.

While overall program spending by provinces has been fairly stable as a share of the economy, the ratio of spending on health care has increased by over 10%, while the proportion of spending on social services has declined considerably. The ratio of total provincial spending on education has been relatively stable over the past decade, although a higher share of it has gone to post-secondary education.



Source: Statistics Canada Financial Management System

[1] These ratios are based on data from Statistics Canada's Financial Management System (FMS) and so are different from budgetary figures, which are based on public accounts numbers. The FMS consolidates government spending applying the same rules and categories to all levels of government and are more comparable with economic data in the national accounts. However, different levels of government report on different fiscal years. These figures are based on fiscal year spending and revenue data as a ratio of calendar year economic data.

National and provincial and industry economic forecast tables

Canadian Economic Outlook

Annual growth rates unless indicated	2006	2007	2008
Growth in the Economy			
Real GDP	2.7%	2.3%	2.9%
- Consumer Spending	4.1%	3.0%	2.9%
- Business Investment	9.2%	6.8%	7.7%
- Government Spending	3.4%	2.9%	3.1%
Labour Market			
Employment growth	1.9%	1.6%	1.2%
Unemployment rate	6.3%	6.4%	6.4%
Productivity growth	0.8%	1.2%	1.8%
Other			
Inflation - Consumer Price Index	2.0%	1.6%	2.0%
Corporate Profits before tax	5.7%	3.8%	3.8%
Real Personal Disposable Income	4.8%	2.9%	3.0%
Personal Savings Rate	1.8%	1.5%	1.7%
Interest Rates and Exchange Rate			
Short term 3 Month T-Bill	4.08%	4.01%	4.22%
Long term 10 Year Bond	4.23%	4.10%	4.63%
Exchange rate US$/C$	$ 87.88	$ 85.10	$ 86.99

Consensus average based on latest forecasts from different Canadian forecasters as of March 1, 2007

Provincial Economic Outlook

% annual growth unless where noted	Real GDP		Employment		Unemployment Rate		Inflation	
	2007	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**
Canada	2.3	3.0	1.3	1.2	6.3	6.4	1.7	2.1
Newfoundland & Labrador	3.5	1.8	1.1	0.6	14.6	14.9	1.4	1.7
Prince Edward Island	1.8	2.1	0.6	0.9	11.3	11.4	1.5	1.8
Nova Scotia	2.2	2.4	0.8	0.9	7.9	7.9	1.7	1.8
New Brunswick	2.2	2.5	0.6	0.8	8.5	8.5	1.5	1.8
Quebec	1.9	2.8	1.0	1.0	8.0	7.9	1.3	2.0
Ontario	1.8	2.8	0.9	1.2	6.5	6.4	1.4	2.2
Manitoba	2.6	2.9	0.8	0.8	4.3	4.3	1.5	1.9
Saskatchewan	2.8	3.0	1.5	0.8	4.3	4.4	1.6	1.9
Alberta	3.7	3.5	2.8	1.9	3.5	3.5	2.6	2.6
British Columbia	3.3	3.5	1.9	1.8	4.9	4.8	1.7	2.1

Based on consensus forecasts from different private sector forecasters as of March 1, 2007.
The Canadian average may differ from national forecasts because of different coverage.

The Hidden Surplus and Deficit

The state of public finances gets a lot of attention at this time of year. But little attention is paid to the surpluses and deficits of other sectors of the economy.

These numbers show an unprecedented and growing imbalance between the financial health of the personal sector (households and unincorporated businesses) and the corporate sector during the past decade. Equally troubling is what they spell for our economic future: a disturbing lack of investment in the Canadian economy by businesses.

Canadian households have traditionally generated significant surpluses or net savings after all expenses. These surpluses were then loaned to corporations and governments through investments in stocks, bonds, pensions and other financial assets.[2] Governments and corporations have borrowed indirectly from the personal sector, providing with households with future investment income and ongoing economic security.

This has all changed in the past decade.

The financial condition of Canadian households has deteriorated from healthy surpluses to growing deficits: we've changed from being lenders to heavy borrowers. Since 1999, the personal and unincorporated business sector has accumulated deficits of over $200 billion – equivalent to about $17,000 per household.

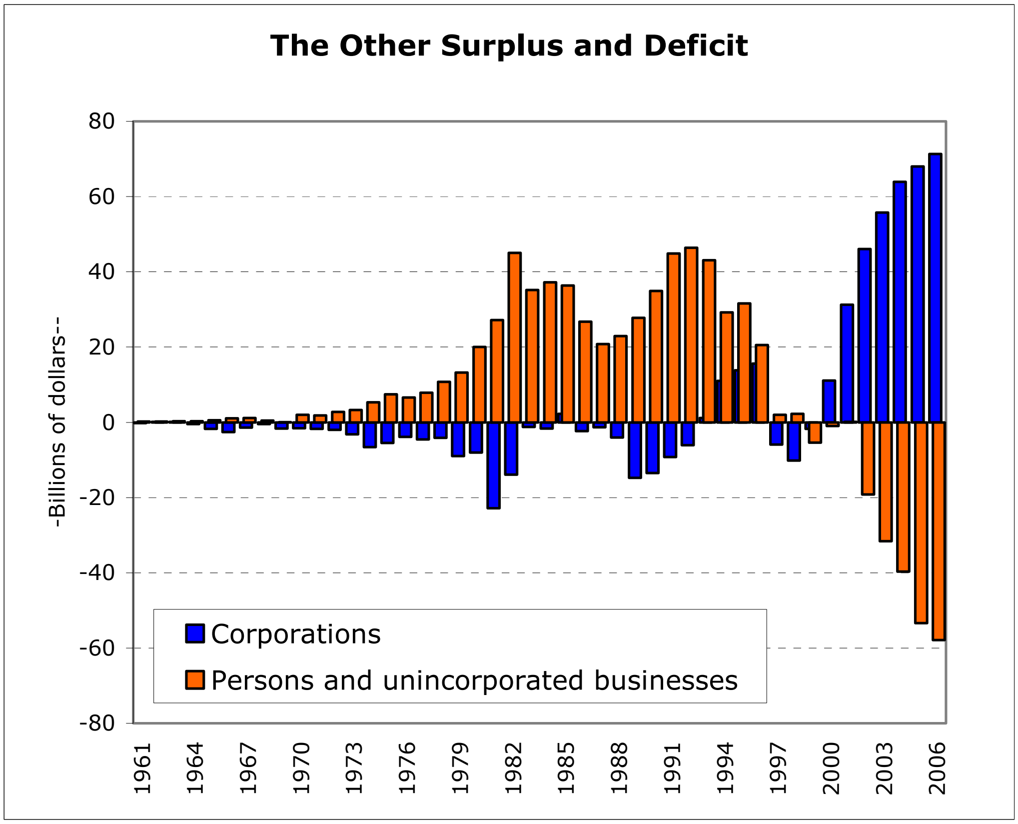
In contrast, Canadian corporations have amassed growing surpluses. Corporate profits have of course been much higher, but the surplus shows how much corporations have in the bank after all income, current expenses and what they put back into the Canadian economy in terms of capital investments.

In just the past five years, corporations have accumulated over $300 billion in surpluses – equivalent to more than $24,000 for each Canadian household[3]. These surpluses are about ten times the surpluses generated by all governments in Canada during the same period.

Despite the record profit growth and low tax rates, fixed capital investment by corporations in Canada has increased at an average of only 5.3% a year since 1998, less than half the double-digit rate of previous decades and half the rate of growth in corporate profits. Growth of business investment in machinery and equipment has been especially slow during the past decade.

[2] The surplus or deficit of a sector is defined as its income after current expenditures and after investment in capital assets, such as houses, buildings, machinery and equipment and inventories. To account for the value of these capital assets on an annual basis "capital consumption allowances" are added. For the personal sector, residential houses account for virtually all their capital assets. The personal sector also includes unincorporated businesses and non-profit agencies that account for less than 10% of the total income of this sector.

[3] Government business enterprises, such as crown corporations, are also included with the corporate sector, but represent less than 10% of the total.



These imbalances highlight a number of troubling trends:

- Slow wage and income growth for Canadian families
- Rising cost of living and especially of housing
- Growing indebtedness of households
- Household debt levels have grown at the same time that income tax rates have declined and that income inequality has increased.
- Further cuts to income taxes can do little to improve conditions for families.
- Cuts to corporate tax rates and slow wage growth have contributed to record setting profits, but haven't led to increased productive investments.
- Productivity has grown by an average of less than 1% a year since 2000.
- Corporations have put increasing amounts of their surpluses into share buy-backs, reductions of debt, mergers and acquisitions and often speculative financial investments.
- These moves have resulted in a relatively smaller pool of more secure long-term income investments particularly suitable for pension investment.
- Canadian corporations are directing more and more of their investment overseas: they have invested a net of more than $230 billion in foreign subsidiaries and associated enterprises since 1995.

Employment Continues to Grow Rapidly

but job quality declining

The number of jobs created in Canada has continued to grow at a strong pace. Total employment reached 16.7 million in January 2007: an increase of 2.4%, or 400,000 more jobs than in January 2006.

This helped to push the unemployment rate to 6.2%, down from 6.6% the previous year. Unemployment rates are especially low in Alberta (3.3%) Saskatchewan (4%), Manitoba (4.1%) and B.C. (5.2%). Despite solid job growth in Newfoundland and PEI, their unemployment rates remain in the double-digits.

Half of the new jobs created in the past twelve months were in Alberta and B.C, with another 100,000 created in Ontario. Quebec added 60,000 jobs while Saskatchewan registered strong employment growth of 4.6% with an extra 22,000 jobs.

A high proportion of the new jobs created in the past twelve months in provinces outside of Alberta and Saskatchewan were part-time jobs. Most of the new jobs created – 83% across the country and almost 99% if Alberta is excluded – were in the service sector.

Annual labour force survey figures show an increase of 75,000 in public sector jobs last year, but the monthly figures show a decline in public sector employment later in 2006, leading to an overall decline from January 2006 to January 2007.

The monthly figures show a large increase in employment in the health care and social assistance sector, but annual figures for last year show a more modest increase of about 51,000 compared to the previous year.

Public sector employment tops 3 million in 2006 – for the first time in 12 years.

Total employment in the public sector averaged 3,039,000 in 2006, according to Statistics Canada's survey of public institutions. This is the first time that the annual total has averaged more than 3 million since 1994.

According to this survey, which is different from the labour force survey, employment in the public sector grew by 2% last year, just slightly faster than the overall average for Canada. The strongest growth in public sector employment was in the federal government at 4.3%, which includes military personnel and reservists.

Employment at the local general government level increased by 2.7% in 2006 while employment in post-secondary education institutions grew by 2.3%.

Employment growth in local school boards and in health and social service institutions was slightly below the average at 1.9% and 1.8% respectively. Job growth at the provincial general government level was considerably below the average at 0.6% and was slightly negative for government business enterprises.

Overall Job Quality Declining

Despite very strong job growth and record low unemployment rates, Canada's economy has not grown very rapidly. This disconnect led many to question whether the Statistics Canada's figures were correct.

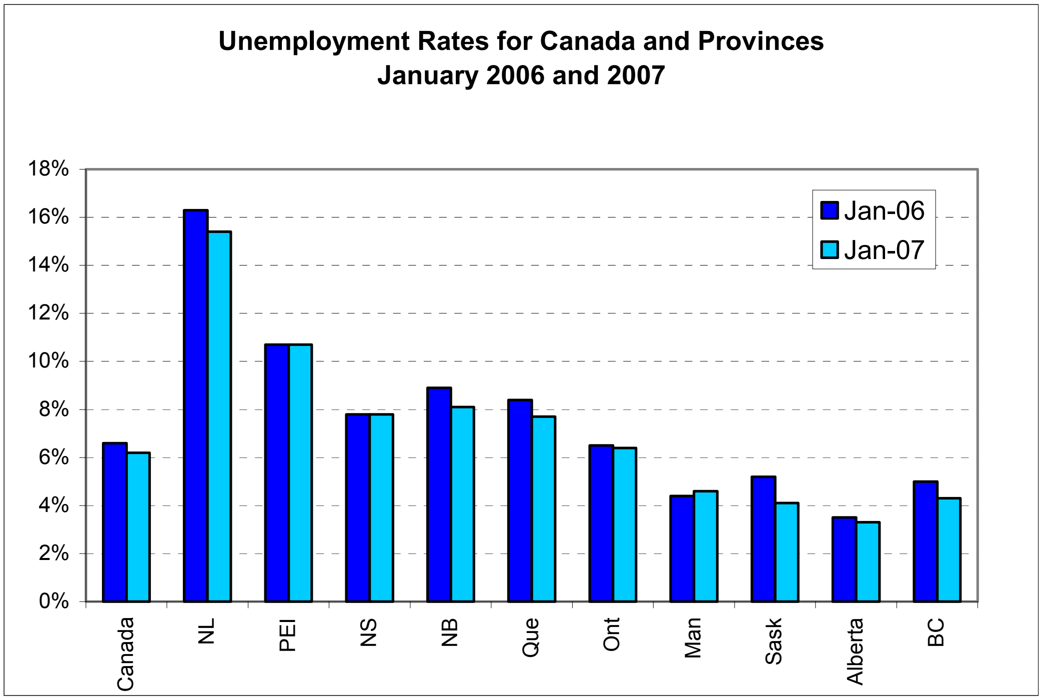
The truth is more sobering: the "quality" of many of the new jobs created has declined.

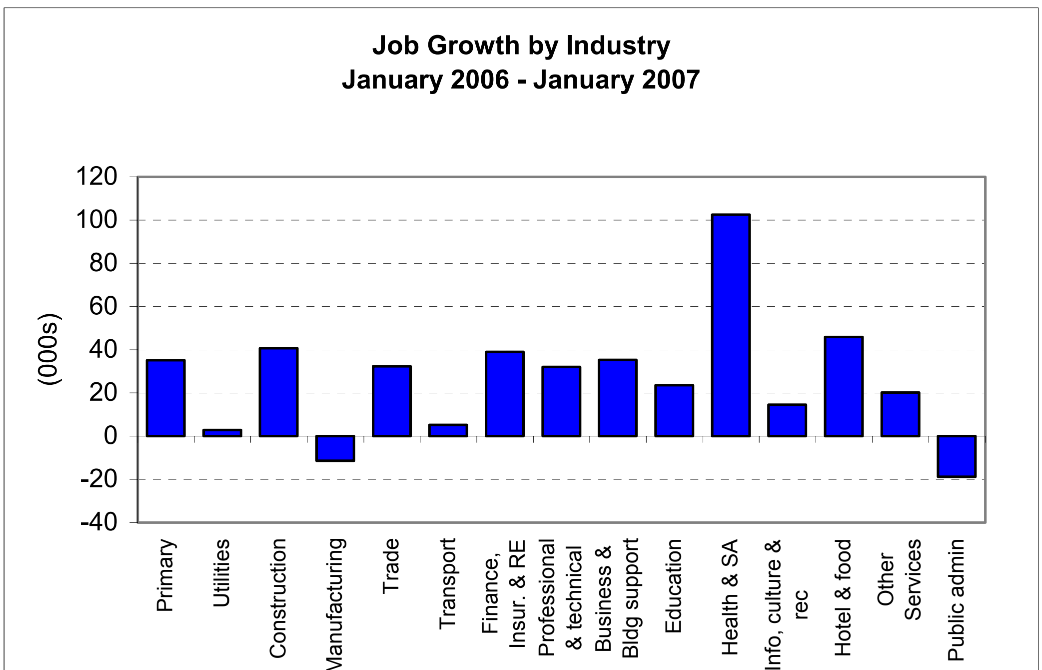
According to the CIBC's *Employment Quality Index*, which accounts for the type and pay of employment, the overall quality of jobs in Canada declined in the past six months to its lowest level since the early 1990s.

Many of the new jobs created are part-time and lower-paid jobs. According to the labour force survey, average weekly wages only increased by 1.9% in the past 12 months, below the rate of inflation.

The number of employees covered by a union contract increased by only 0.6%, while the number of non-unionized employees increased at 4% in the 12 months to January 2007. Annual figures for 2006 show an increase in union-covered jobs of 1.2% compared to 2005, with a 3% increase in the number of non-union employees.

These trends also point to a related troubling trend: slow productivity growth. Productivity growth can lag when employment is growing at a fast pace, but the Canadian economy has also suffered from a low rate of capital investment by governments and corporations.





Source: Statistics Canada Labour Force Information cat no. 71-001-XIE

The Deepening Divide

Earnings, income and wealth inequality getting worse

Numerous recent studies have shown what many Canadians have experienced first hand during the past decades: increasing levels of inequality and a growing gap in wages, income and wealth between the rich and the rest of us.

During the past decade, the real value of what we produce as a country has increased by almost 30% per person. Yet most Canadians have not benefited from this increased prosperity: wages have barely kept pace with inflation, even though labour productivity – the amount that each person produces each hour – has increased by about 18%.

Survey, tax and census data all show that income inequality in Canada increased substantially during the 1980s and 1990s – both before taxes and after taxes. After 1996, changes to Canada's tax and transfer system added to increased income inequality in Canada. In the late 1990s, the evidence is that inequality was fuelled by large income gains for those with the highest incomes[4]. Other studies have demonstrated that the income shares of the super-rich – the very top 0.1% – has doubled or tripled in Canada and the United States[5].

The distribution of wealth has also become increasingly concentrated among the richest in Canada since 1999, with the poorest going deeper into debt[6].

Other studies have shown that the after tax income gap is at its highest in over 30 years and that it has grown ever faster since the late 1990s. The richest 10% of families has enjoyed a 30% increase in real earnings compared to a generation ago. They are the only group that has experienced gains in their share of the economic pie, while the share of middle and low-income earners has shrunk. And it is not because of increased work effort: all but the richest 10% of families are working harder and longer – an extra 200 hours more a year compared to 1996[7].

While income gains and tax benefits have increasingly gone to the most affluent, minimum wages across Canada are worth, on average about 20% less than they were thirty years ago. Cuts to public spending, monetary policies and a range of other government economic and labour market policies also contribute to the suppression of wage gains for workers.

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4 Marc Frenette, David Green and Garnett Picot, December 2004. *Rising Income Inequality in the 1990s: An Exploration of Three Data Sources.* Statistics Canada, 2004. Catalogue No. 11F0019MIE – No. 219. http://www.statcan.ca/bsolc/english/bsolc?catno=11F0019M2004219 Garnett Picot and John Myles, February 2005. *Income Inequality and Low Incomes in Canada: An International Perspective.* Statistics Canada, 2005. Catalogue No. 11F0019MIE – No. 240. http://www.statcan.ca/bsolc/english/bsolc?catno=11F0019M2005240

5 See especially a number of studies by Emmanuel Saez. http://elsa.berkeley.edu/~saez/ Also Marc Frenette, David Green and Kevin Milligan, February 2006. Revisiting Recent Trends in Canadian After-Tax Income Inequality using Census Data. Statistics Canada. Cataogue No. 11F0019MIE2006274. http://www.statcan.ca/bsolc/english/bsolc?catno=11F0019M2006274

6 Statistics Canada, December 2006. *The Wealth of Canadians: An Overview of the Results of the Survey of Financial Security 2005.* http://www.statcan.ca/bsolc/english/bsolc?catno=13F0026M2006001

7 Armine Yalnizyan, March 2007. *The Rich and the Rest of Us: The changing face of Canada's growing gap.* Canadian Centre for Policy Alternatives. http://www.growinggap.ca/

Little progress on closing Canada's gender earnings gap

Progress towards reducing the earnings gap between men and women has slowed in recent years.

According to Statistics Canada's *Survey of Labour and Income Dynamics*, the average earnings of women who worked full-time full-year was only 71% of men in 2003, a ratio that hasn't changed much in ten years[8].

Total income, which also includes investment income and transfer payments, shows much more of a gap: average income for women was just 62% of men in 2003. Income gaps for older women are considerably higher than those for younger women.

The gender wage gap in Canada is now worse than the OECD average and larger than all other OECD nations, with the exception of more traditional societies such as Korea, Japan, Germany and Switzerland[9].

There has been good progress in the number of Canadian women working in professional fields, such as doctors, dentists, lawyers, and as business, financial and social science professionals. But the majority of working women continue to work in what have been traditional female occupations: 67% of employed women work in teaching, nursing and related health occupations, clerical, administrative, sales, and service jobs. There has been little change in the proportion of women working in these often lower-paid occupations in the last decade.

While some progress has been made in reducing wage gaps in most occupation, significant wage gaps still remain in all occupation groups: in not one major occupation group is the average hourly wage of women equal or higher than men.

Women in some higher paid professional occupations, such as in health, make almost as much as men, but the gender wage gap is much greater in lower-paid occupations such as retail sales where there is also a much lower rate of unionization. The wage gap is also much larger in trades, manufacturing and primary industry occupations.

Increasing overall levels of income inequality in society have also detrimentally affected women: women represent over 60% of all low-paid workers, with one in five working women earning less than $10 an hour. Women are also represented less at the very top income levels, which have seen the highest income gains in recent years. With many women at the bottom end of the earnings spectrum, income inequality *between women* – as measured by the ratio of the median to average earnings – has also worsened in the past ten years.

[8] Statistics Canada, March 2006. Women in Canada: A gender-based statistical report, p. 152. Catalogue No. 89-503-XPE

[9] OECD, February 2007. *Society at a Glance: OECD Social Indicators – 2006 Edition.*

Persistently higher poverty levels for recent Immigrants

The earnings and income gap for recent immigrants to Canada has worsened during the past two decades.

Recent immigrants are at least three times as likely to have low incomes as the Canadian born during their first year in Canada[10]. These rates worsened during the late 1990s and early 2000s.

About 20% of recent immigrants remained in chronic low income over five years: income and earnings remain are persistently lower even over ten years. Virtually all the increase in low-income rates in Toronto, Montreal and Vancouver during the 1990s was among immigrants.

A shift to much greater emphasis on skilled "economic class" immigrants instead of family class immigrants has done little to improve these outcomes and in many cases their situation has worsened. In fact, the gap between recent immigrants and the Canadian born was worse among those with graduate degrees.

Low income and earnings rates for recent immigrants from Africa and Asia remain much worse than for those from Europe.

Positive overall economic conditions have a much more beneficial impact on immigrants' incomes than most other factors. With many skilled immigrants who have been in Canada for years still unemployed, underemployed, and earning low wages, our governments should expand settlement, integration, equity and other labour market programs instead of just focusing on employers' needs by escalating the use of the Temporary Foreign Workers Program.

Canada collects few statistics that identify ethnic or visible minority group. But these results for recent immigrants suggest the need for much stronger equity programs to address the needs of these immigrant groups and visible minority groups in general.

Many recent immigrants would also benefit greatly from improvements to minimum wages and other labour standards.

[10] Low income is defined as having a family income of less than half of the median income, also referred to as the *Low Income Measure*. Garnett Picot, Feng Hou and Simon Coulombe, January 2007. *Chronic Low Income and Low-Income Dynamics Among Recent Immigrants,* Statistics Canada Catalogue no. 11F0019MIE – No. 294.

Offloading Insecurity

Canadians have suffered from a growing income gap and increasing inequality during the past decade. Virtually all the benefits of the growing economy have gone to the top 10%, while the middle class and the poor have had to work harder for a smaller share of the pie.

But shifting shares of income are not the only economic concerns on the minds of Canadians and their families. There has been a more insidious, but related, shift that has also taken place: a shift of risk and responsibility for security from employers and governments onto the back of individuals and their families.

The economic argument for this has been to make markets more competitive, flexible and dynamic, but the benefits of these policies have gone almost entirely to businesses and the very affluent. At a time when our future standard of living depends on more on the "human capital" and abilities of people, this approach doesn't make sense.

People – just like businesses, communities and nations – need a certain level of security in order to develop, grow and prosper. Unfortunately, over the past decade governments and employers have taken steps to chip away at our sources of collective security and to transfer risk onto individuals and families in a range of different areas:

- Reduced *job security*, through globalization, outsourcing, privatization and the increased use of temporary and contingent workforce.
- Cutbacks to *income security* through lower real minimum wages, steep reductions in the coverage of Employment Insurance and cuts to social assistance rates.
- Lower *retirement security* for most Canadians, with reductions in pension plan coverage, a shift from defined benefit to defined contribution plans, and increased reliance on private RRSPs and away from public pension plans.
- Low wage growth has also meant *less family and community security*, as family members have to work more hours to get by, face higher costs for child care and education – and have less time to contribute to their families and communities.
- Increasing *health and welfare insecurity*. Canada is fortunate to have an effective public health care system, but increasing workloads are leading to higher levels of stress, while there is increased pressure to privatize health care services and to delist medical drugs and services. Employers are contributing with a push to Health Savings Accounts and other individualized schemes.

While these measures may help governments and employers to reduce their levels of risk and buttress their own bottom lines and surpluses, they don't benefit us more broadly as a society.

Insecurity is most effectively reduced through *collective* pooling of risk, best through public social insurance programs, but also through workplace-based programs if public coverage is not available.

The attack on these sources of our collective security explains in large part why priorities at the bargaining table continue to focus on these areas.

Collective Bargaining Priorities: is there a Common Ground?

The Conference Board of Canada's *Industrial Relations Outlook 2007* argues that impending labour shortages are driving collective bargaining priorities for labour and management in 2007.

According to the Conference Board, retirement rates are set to skyrocket after 2010 and by 2015 there will not be enough qualified people to fill the jobs available: labour shortages are expected to continue for many years after then.

The Conference Board has been joined by other business lobby groups (such as the C.D. Howe Institute, the Fraser Institute and the Conservative Party of Canada) in these warnings to argue that Canada's social and health care programs are unsustainable. They argue for more of what hasn't worked – tax cuts and privatization – to prepare for labour shortages in the future.

Alarmism about labour shortages has also been used to justify expansion of the Temporary Foreign Worker Program and internal trade agreements. These can undermine workers and citizen rights and suppress possibilities of long-fought for real wage gains.

Despite growing threats of globalization, outsourcing and privatization, tighter labour markets do provide workers with limited increased leverage to achieve our priorities at the bargaining table.

According to the Conference Board study, management priorities at the bargaining table in 2007 include:

- Achieving increases in productivity and flexibility in the workplace, while providing greater levels of job security.
- Employee engagement
- Emphasis on regional based bargaining

Labour priorities for 2007 are identified as:

- Safeguarding retirement income, particularly by securing defined benefit plans
- Protecting health benefits
- Stronger job security guarantees
- Increasing wages, particularly in the public sector

The report suggests that common ground can be achieved in the struggle to attract workers by creating workplaces that are creative, constructive and collaborative – with secure jobs and benefits. It also includes a brief discussion about the labour movement's struggle for renewal.

Seesawing Energy Prices Push Inflation up and down

Rising House Prices Main Factor in Regional Inflation Trends

Canada's inflation rate fluctuated up and down last year as a result of seesawing energy prices. The annual average for 2006 ended up right on the federal government's target rate of 2%, despite the percentage point cut in the GST.

A drop in gasoline prices early this year led to a decline in the latest inflation figures down to 1.2% in January 2007. Excluding energy, the Consumer Price Index (CPI) increased by 1.8%.

Consumer price inflation rates varied widely across Canada last year: ranging from a 1.5% rise in Thunder Bay to a 4.6% increase in Calgary *[See the following table for rates by province and major city].* These different price trends continued through in January's inflation figures.

While gas prices have fluctuated, the main factor consistently pushing the inflation rate up – and causing different price increases in different parts of the country – is house price increases. Mortgage rate increases (up 5.1% since January 2006) and higher insurance premiums (up 7.7%) have also contributed to increases in homeowner costs. Statistics Canada's measure of homeowner costs hasn't adequately accounted for recent house price increases as it only measures the cost of new homes.

The following table shows the 2006 average price and 2007 forecast for resale houses for different provinces and major cities across Canada. House prices are expected to increase by an average of 6%-7% this year, following average increases of 11% last year, according to the Canada Mortgage and Housing Corporation and the Canadian Real Estate Association. Alberta is expected to lead the way again, with price increases averaging over 15%, while price increases in central and eastern Canada are expected to average less than 5%.

During the past year, retail gas prices have swung up and down by at least 20% in most regions and by more than 30% in some cities across Canada. Pump prices have reflected changes of up to 50% in crude oil prices caused by instability in the mid-East, supply problems and speculation.

Natural gas prices dropped by more than 20% from January 2006 as a result of lower winter temperatures, high stocks and a more temperate hurricane season. The price of heating oil dropped by 2.7% in the past twelve months. However, the average price of electricity has increased by more than 4% in the past year.

More electricity price increases are coming down the line in different provinces. B.C. Hydro recently announced that rates would rise by 11% to fund repairs and upgrades of their facilities.

Over the medium and longer-term, retail prices for gasoline and other fuel energy sources are almost certain to gradually increase in both Canada and the United States as both countries take steps to reduce carbon emissions and global warming. The price increases from these measures will probably not be very steep at first, but will rise over time and will forestall more drastic increases later on from dwindling supplies.

The cost of energy and goods and services that are relatively more carbon intensive will most likely face higher price increases. For instance, products and services that use more energy and travel further will experience higher price increases as will energy sources based on coal, heavy oil or other fuels as opposed to hydro or other renewable sources of power.

Economic forecasters expect that slower growth in housing prices and lower average energy prices will lead to lower inflation this year. The full-year impact of the cut in the GST will also keep a lid on the annual inflation rate. On average, major forecasters expect Canada's national consumer price inflation to increase by 1.6% this year, but there is a wide range in expectations of from 0.9% to 2.1%.

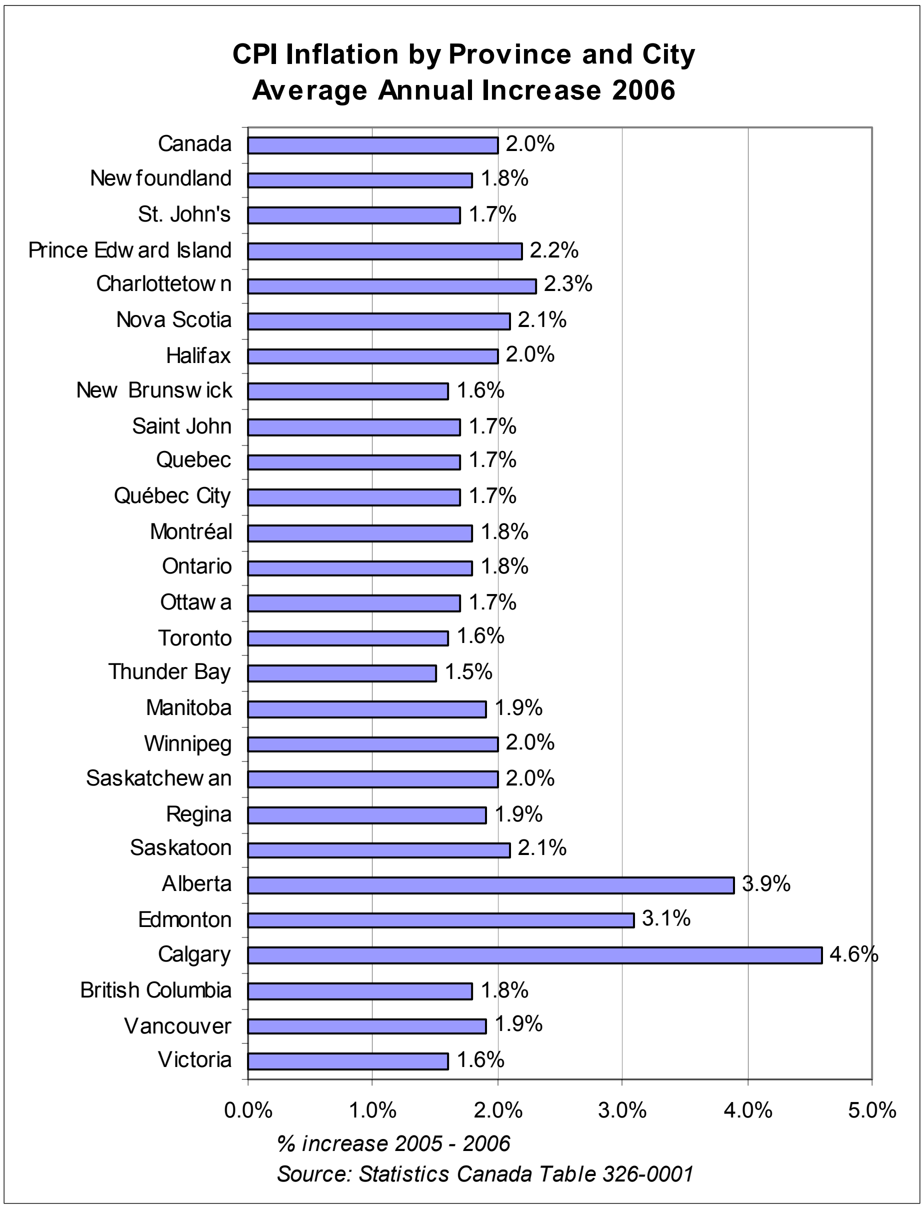
Inflation is expected to be lower in Central Canada, but to increase by 2.6% or more in Alberta *(see Provincial Outlook table on page 4).* The national rate will depend on the direction of energy prices, while provincial rates could be most influenced by housing prices again this year.

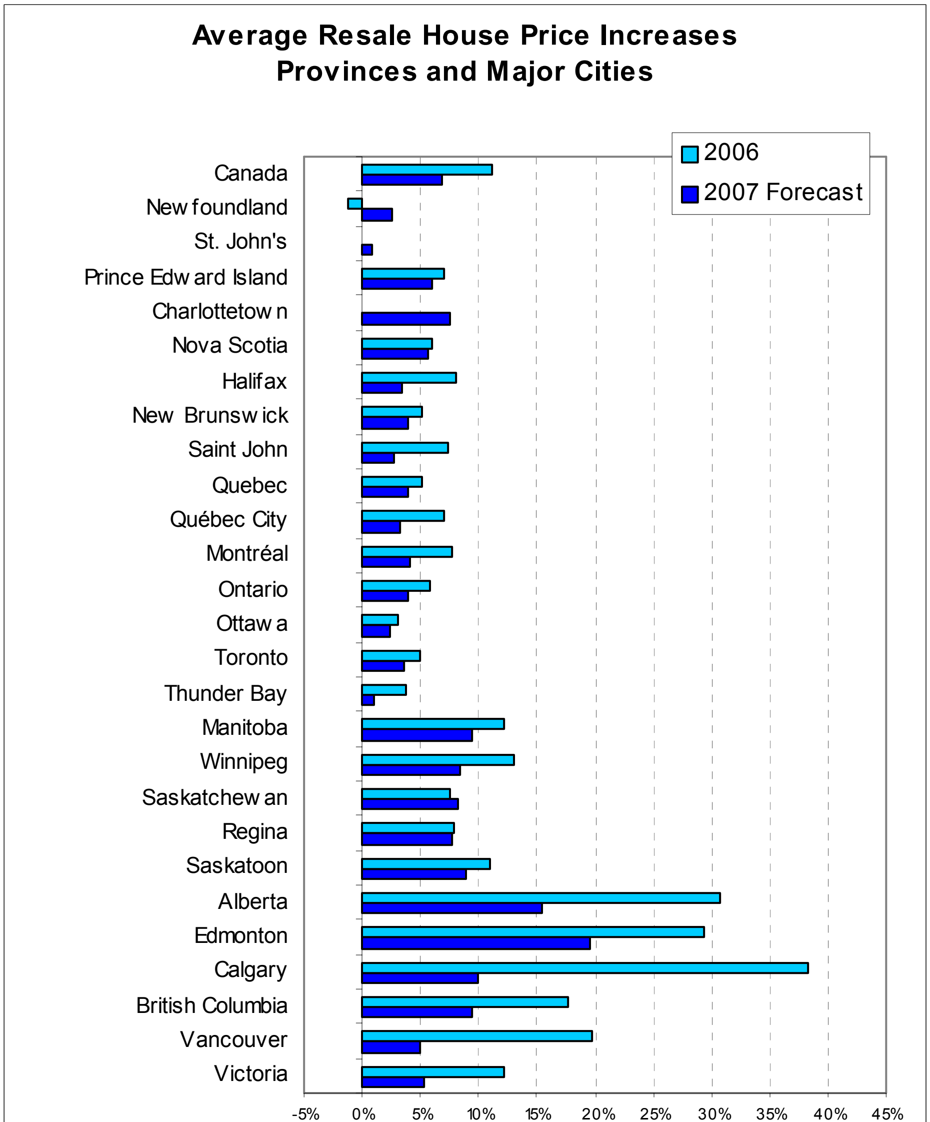
Other Resources:

- CUPE has an on-line inflation calculator that calculates annual inflation rates for all provinces and major cities in Canada: http://www.cupe.ca/cpicalculator.php

- Statistics Canada provides free statistics and analysis on the latest inflation rates together with summary statistics. http://www.statcan.ca/english/Subjects/Cpi/cpi-en.htm
http://www.statcan.ca/english/freepub/62-001-XIB/62-001-XIB2007001.htm
http://www.statcan.ca/english/freepub/62-001-XIB/00107/tables_html/fCPItb5B_en.htm

- The Canada Mortgage and Housing Corporations produces a wide range of housing statistics and forecasts. A useful summary of developments and trends is in the quarterly Housing Market Outlook, with detailed forecasts for many different cities.
http://www.cmhc-schl.gc.ca/en/inpr/homain/foan/index.cfm





Source: CMHC Housing Market Outlook 2007Q1

Wage Gains Strengthen for Public Sector Workers

Wage growth strengthened in 2006, with major settlements achieving base wage increases averaging 2.5% during the year, up from an average of 2.3% in 2005 and from 1.8% in 2004.

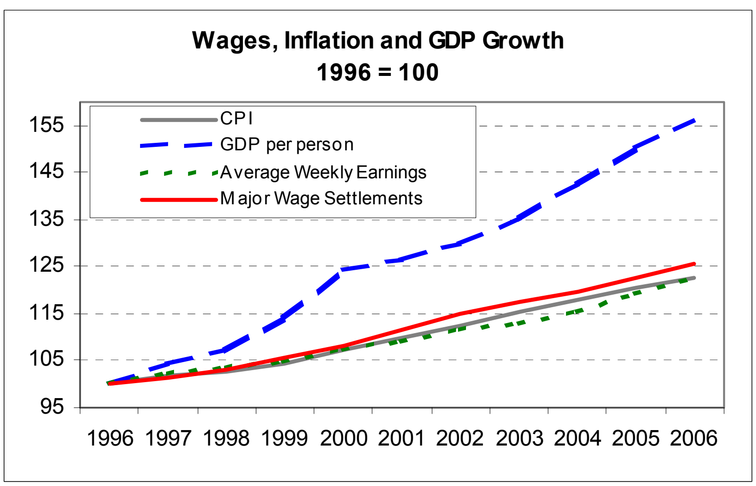
Public sector employees gained average increases of 2.6%, up from an average of 2.2% in 2005. Within the public sector, municipal employees received the largest average increase at 3.2%, above the average increases of 2.7% for federal and provincial administration workers. Workers in the utilities, education, health and social services sectors obtained average increases of 2.5%.

Tighter labour markets, especially in certain regions and industries, helped to generate higher wage gains during the year.

Wage settlements improved during the year for the public sector: agreements in the 4th quarter averaged gains of 2.9%, compared to increases of 2.2% in the 1st quarter of the year.

In comparison, settlements in the private sector averaged base wage increases of 2.1%, just slightly above last year's inflation rate of 2%. Private sector averages were brought down with low wage increases in the retail food sector and for a number of settlements in the manufacturing sector.

Wage gains in Alberta averaged 3.4% for the year, but rose from 3.1% in the 1st quarter to 3.9% in the 4th quarter of the year. Despite the higher wage gains in Alberta, they did not match last year's inflation rate in the province, which reached 3.9%. In British Columbia, wage gains averaged 2.5% for the year, but rose from 1.6% in the 1st quarter to 3.4% in the 4th quarter. However, with lower inflation expected this year and next, most agreements should exceed inflation during the life of their agreements.



Workers in primary industries and in the education, health and social services sectors also benefited from increasing wage gains during the year. CUPE 4600 gained average wage increases of 6% in its recent settlement for sessional lecturers at Carleton University, the highest registered in the 4th quarter of 2006. CUPE has also achieved wage gains of 3.5% or more at other universities. A number of Ontario settlements ratified in January by CUPE included average wage gains of over 3%.

The average duration of contracts signed in the public sector has gradually increased during the past few years: from only 26 months in 2002, to an average of almost 48 months in 2005, by far the longest in over 20 years. Average contract duration in 2006 shortened slightly to 42 months.

An increasing number of settlements reached in 2006 appear to include profit sharing and productivity bonuses. These include CUPE's profit-sharing plan with TELUS, and Hydro Quebec, and a productivity bonus with B.C. Skytrain based on achievement of low absenteeism rates.

Average Wage Settlements Major Collective Bargaining by Year					
		2004	2005	2006	2006Q4
All		1.8	2.3	2.5	2.1
Public Sector		1.4	2.2	2.6	2.9
Private Sector		2.2	2.4	2.1	1.4

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	1.7	2.9	3.1	3.0	1.8	2.5	2.6	2.1	3.4	2.5	3.5	2.3
2006 Q4	1.9	-	2.9	3.7	2.7	1.5	2.6	2.0	3.9	3.4	-	2.2

Average Wage Settlements by Industry				
Industry	2004	2005	2006	2006Q4
Primary	3.1	2.1	2.9	3.5
Utilities	3.1	2.6	2.5	3.6
Construction	2.7	2.5	3.5	3.7
Manufacturing	2.4	2.5	2.0	2.4
Wholesale and Retail	1.5	1.9	1.1	1.1
Transportation	0.6	2.9	2.1	2.9
Information & Culture	2.7	2.4	2.5	1.2
Finance & Professional Services	1.3	2.3	2.5	2.5
Education, Health Soc. Services	0.9	2.1	2.5	2.9
Entertain/Hospitality Industry	2.7	1.9	2.9	2.8
Public Administration	2.4	2.4	2.8	2.8

Source: Human Resources and Skills Development Canada, Major Wage Settlements, [latest information as of March 1, 2007]
http://www.hrsdc.gc.ca/en/lp/wid/adj/01wage_adj.shtml

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