

Economic Outlook Summary

Stimulus spending was highly successful at preventing a deeper recession, but now public spending cuts combined with oil price increases are slowing the pace of recovery.

Higher oil prices helped Canada's economy expand at a faster rate at the start of this year, but will cut into growth in future years as consumer demand and our exports are affected.

The rise in energy prices combined with provincial sales tax increases is pushing the national inflation rate towards 3%. In future years, public sector job cuts and wage constraints will curtail employment and economic growth.

Private economic forecasts now expect:

- Economic output (GDP) to increase by an average of 3.0% in 2011 and 2.7% in 2012.
- Unemployment to average 7.6% this year and 7.3% in 2012.
- Consumer price inflation to rise by an average of 2.8% in 2011 and 2.1% in 2012.

Expect delays ahead: bumpy road to recovery

After a strong start, Canada's economy will take a slower and bumpier road to recovery. High consumer debt loads, slow wage growth, higher interest rates, and public spending cuts will put a damper on growth. Businesses have increased their investments, but won't continue to do so unless job and wage growth is stronger.

There's no public sector pay premium—just a smaller pay gap

Business lobby groups have spread a lot of misinformation about public sector pay premiums. The difference is there's less pay inequality in the public sector, including a significantly smaller pay gap for women. The average salary for men in the public sector is actually lower than in the private sector. The focus shouldn't be on making public sector wages reflect private sector norms, but instead on reducing growing income inequalities, particularly in the private sector.

Public sector losses cut into job growth

Recent figures show job cuts are reducing overall public sector employment, with losses most pronounced in education. Further job cuts are expected and could lead to the first overall annual decline in public sector employment since 1997. Despite a decade of strong job growth, public sector employment is still a smaller share of total employment than it was every year up to 1995.

Rising fuel prices swell oil profits, less thrill elsewhere

Once again, rising oil prices have flared up the cost of living. This is great for oil industry profits, but causes pain elsewhere. The impact of rising gas prices is worse for lower and middle-income families and manufacturing exporters. Smarter investments financed by higher taxes on the oil industry could reduce the economic disruptions caused by gyrating gas prices.

Public sector constrains wage increases

Average wage increases in settlements negotiated in the first quarter averaged only 1.3%, well below inflation and the lowest increase since 2004. A difficult bargaining season lies ahead.

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. Thanks to Pierre-Guy Sylvestre for his contribution.

ECONOMIC CLIMATE

for BARGAINING

Expect delays ahead: bumpy road to recovery

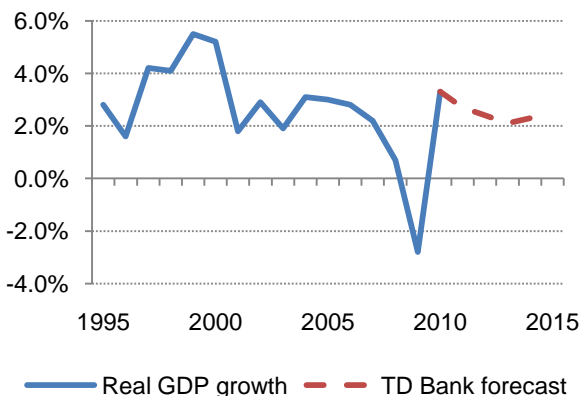
Thanks to stimulus measures and rising commodity prices, Canada came out of the recession with some strength—economic growth of 4% in the first quarter, 270,000 jobs created over the past year and unemployment down to 7.4%—but the road ahead will be bumpier and slower, just like the results of some of the infrastructure road projects.

Projections in the federal budget, based on private sector averages, forecast Canada's economic output to expand by 2.9% this year, and then gradually down to a growth of 2.5% by 2014.

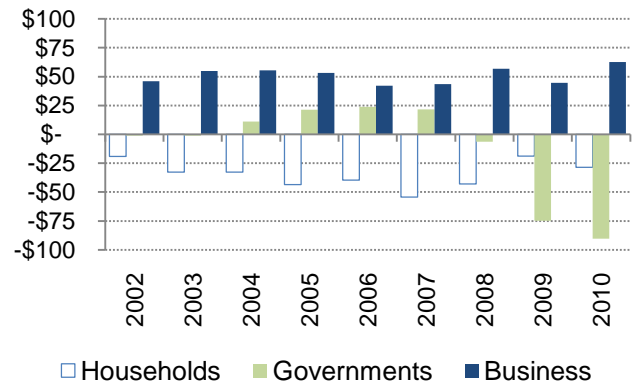
The Bank of Canada and Canada's independent Parliamentary Budget Officer are even more subdued: they expect the economy could slow to barely above 2% in some future years. To put this in perspective, Canada's economy grew by an average of 4.6% during the 1960s and 1970s, at 4% coming out of the 1980s recession and 3.2% coming out of the 1990s recession.

There's usually much more of a bounce coming out of recessions, but this time the two forces pulling Canada's economy forward—public stimulus investment and consumer spending—are ready to slow. High household debt together with slow wage and job growth has already resulted in consumer spending coming to a standstill.

**Canadian economic growth
Actual and Forecast 1995 to 2015**



**Surpluses and Deficits by Sector
(billions)**



When interest rates rise, we can expect more retrenchment. Plans for public spending cuts and austerity measures will also act as a drag on economic growth. High oil prices have boosted Canada's exports, but we can't expect much more stimulus there with a high Canadian dollar and the U.S. and European economies still in the doldrums. Elsewhere, rising oil prices are drowning out prospects for recovery.

The federal government is handing almost all its chips to business, betting on it to boost economic growth. Corporations are sitting on large piles of cash and with further tax cuts, those piles will only grow. But there's no reason for them to make real investments in the economy and create jobs unless they expect a return—and that won't come unless job and wage growth is stronger. Corporations have accumulated an average \$50 billion every year in surpluses after investments while households have gone increasingly into debt (see above).

Governments need to redress economic and growing inequalities in debt loads. They can do this by increasing taxes on business and making public investments that will create jobs and really get the economy moving—in early learning and education, community services, energy efficiency and renewable energy and, of course, in rapid public transit as well.

Canadian and Provincial Economic Forecasts

Canadian Economic Outlook- Average of Private Sector Forecasts				
<i>Annual growth rates unless indicated</i>	2009	2010	2011	2012
	<i>Actual</i>		<i>Forecast</i>	
Growth in the Economy				
Real GDP	-2.8%	3.2%	3.0%	2.7%
- Consumer Spending	0.4%	3.3%	2.6%	2.4%
- Business Investment	-20.8%	7.3%	12.1%	7.8%
- Government Spending	4.3%	4.7%	1.4%	-0.3%
Labour Market				
Employment growth	-1.6%	1.4%	1.7%	1.4%
Unemployment rate	8.3%	8.0%	7.6%	7.3%
Productivity growth	0.9%	1.1%	1.2%	1.2%
Inflation - Consumer Price Index	0.3%	1.8%	2.8%	2.1%
Corporate Profits before tax	-33.1%	21.2%	14.1%	8.2%
Real Personal Disposable Income	0.8%	3.6%	2.4%	2.5%
Personal Savings Rate	4.6%	4.8%	4.2%	3.9%
Housing Starts (000s)	149	191	174	178
Interest Rates and Exchange Rate				
Short-term 3 Month T-Bill	0.33%	0.56%	1.33%	2.44%
Long-term 10 Year Bond	3.23%	3.24%	3.48%	3.99%
Exchange rate C\$ in U.S. cents	\$ 96.0	\$ 97.1	\$103.9	\$103.2

Averages based on latest forecasts from seven different Canadian forecasters as of 10 June 2011.

Provincial Economic Outlook								
% annual growth except where noted								
	<u>Real GDP</u>		<u>Employment</u>		<u>Unemployment Rate</u>		<u>Inflation</u>	
	2011	2012	2011	2012	2011	2012	2011	2012
Canada	3.0	2.7	1.7	1.5	7.6	7.3	2.8	2.1
Newfoundland and Labrador	4.1	2.0	3.4	1.3	12.9	12.3	2.2	2.0
Prince Edward Island	2.3	2.0	0.8	1.1	11.2	10.9	1.6	1.9
Nova Scotia	1.8	2.0	0.7	1.1	9.1	8.8	3.0	1.9
New Brunswick	1.9	2.2	0.1	1.0	9.4	9.0	2.1	1.9
Québec	2.4	2.4	1.5	1.2	7.7	7.5	2.9	2.3
Ontario	2.9	2.6	1.9	1.5	8.1	7.8	3.1	2.0
Manitoba	3.0	2.7	1.4	1.2	5.0	5.0	2.3	2.0
Saskatchewan	4.0	3.5	1.4	1.7	4.9	4.8	2.4	2.4
Alberta	4.1	3.4	2.8	2.0	5.7	5.3	1.8	2.1
British Columbia	2.8	2.9	1.2	1.8	7.6	6.9	2.2	1.9

Based on the average forecasts from five different bank forecasters as of June 10, 2011.
National averages may differ from those reported in the Canadian Outlook table because they are from a smaller group.

There's no “public sector pay premium”—just a smaller pay gap

There's been much media commentary—and disinformation—about the “public sector pay premium”.

Thanks largely to the *Wage Watch* report produced by the Canadian Federation of Independent Business (CFIB), it now seems to be accepted wisdom that public sector workers are paid significantly more than similarly-employed private sector workers.

The CFIB and others have used this apparent fact to argue for contracting-out and privatizing public services, requiring public sector pay to reflect prevailing local private sector wages, tight constraints on public sector pay and eliminating the right to strike for public sector workers. Catherine Swift, long-time president of the CFIB, has even claimed that public sector wages and pensions could result in Canada facing a Greek-style debt crisis and said it would be ideal if public sector unions were eliminated entirely.

Setting aside all the inflamed rhetoric and extremist positions, how much truth is there to this claim that public sector workers are overpaid? As it turns out, not much at all.

The CFIB's *Wage Watch* report seemed suspicious from the start and has been well-critiqued elsewhere. In particular, the data was manipulated in various ways that appear to have biased the results. Secondly, it never reports *actual wage* or salary levels for specific jobs or occupations—only overall averages—and then it claims these results apply to all workers in these areas.

To investigate further, the Canadian Union of Public Employees commissioned an expert to replicate the CFIB's analysis, purchasing the same detailed census data they used, and comparing salaries by occupation just as they had, but without some of the data manipulations that biased the results.

The results are revealing. They show that overall average salaries are slightly higher for public sector workers, **but this is entirely because of a smaller pay gap for women** in the public sector than in the private sector.

On average, *men in the public sector are actually paid slightly less (-0.8%)* than men employed in similar occupations in the private sector. Women in the public sector are paid more (+4.4%) than women in similar occupations in the private sector, which accounts for the overall average 1.9% public sector “pay premium” of public sector workers.

Average Annual Salary for Comparable Occupations full-time, full-year workers			
	Public	Private	Difference
Male	\$61,817	\$62,284	-0.7%
Female	\$46,421	\$44,389	4.6%
Total	\$52,780	\$51,780	1.9%
Source: Livingwork analysis of Statistics Canada census data.			

Women still face a pay gap compared to men employed in similar occupations in the public sector, but it's 5% smaller than the significantly larger 29% pay gap women in the private sector face.

There are also greater pay discrepancies for all other types of workers in the private sector than in the public sector, whether measured by age, occupation, or region of the country. Older workers in the public sector, those in higher paying occupations, and those in regions where the economy is booming all make less on average than their private sector counterparts.

This is to be expected. Pay gaps for women are smaller in the public sector because pay equity laws apply to the public sector and rarely to the private sector, public sector employers tend to follow better practices, and the stronger presence of unions reduces wage inequalities.

Similar factors reduce wage inequalities along other dimensions. Established pay grids mean workers in similar occupations receive similar salaries irrespective of age. The impact of national pay standards for the federal government mean there are narrower differences in wage levels for public sector workers across provinces and regions than for those working in the private sector.

As the chart on the above page shows, average salaries tend to be higher in the private sector for better paid occupations, while for generally lower paid occupations, public sector pay tends to be higher. The largest public sector pay premium is in the sales and service occupation group, but this includes police officers and firefighters, which accounts for a large part of the higher average public sector pay.

These results raise an important question: what should set the norm for workers' wages in the public sector—and elsewhere?

Business groups, such as the CFIB, clearly believe private sector pay scales should always set the standard for all workers. In fact, while the CFIB says all other public sector workers should be paid less, they suggest public sector executives should receive more. They've also argued against pay equity laws, against minimum wages, against living wages, against improved public pensions, and say it would be "ideal" if unions were eliminated.

In some regions most public sector workers are paid more than private sector workers, just as in other regions with faster growing economies most public sector workers are paid less than similar workers in the private sector. We should make no apologies about this. Canada is a country, not just a collection of individuals, businesses and private markets. Fundamental to the notion of citizenship is the notion of equality. That's what our democratic systems of governance, legal institutions and public services are all designed to provide.

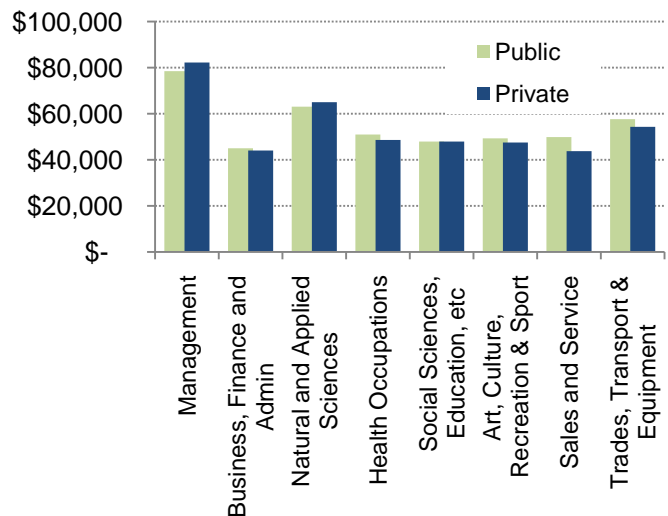
Public servants shouldn't be expected to take pay cuts in relation to those doing the same job in other regions if their local economy weakens. If this happened, economic disparities and boom-bust cycles would be worsened and it would be much harder to deploy skilled public sector workers to these regions.

Disinformation from business and politicians about public sector pay has been designed to generate public resentment against public sector workers, but their ultimate target is to reduce wages for their workers by eliminating the equalizing effect of public sector salaries on the private sector.

The ones who would really benefit from public sector wages emulating the private sector are those at the top: high income earners and business owners, who could gain higher profits without the equalizing effect of public sector wages on their employees.

Lower paid workers would be paid less and there'd be even greater inequalities in wages between men and women, by age and by region—for all workers, not just those in the public sector. Women, who make up 62% of the public sector workforce, and other low-paid workers would lose the most.

Average annual salary by major occupation, public and private sectors full-time, full-year



It's these policies of inequality that led to the current economic mess: no growth in real wages over the past three decades for the majority of workers, widening inequality with all the gains going to those at the top; record profits for corporations but with little real investment in the economy and stagnant productivity; and an increasingly unstable economy where the public pays the price for the booms and busts generated by the private sector.

There are good reasons pay scales in the public sector are more equitable than the private sector. They *should* reflect public values and broader social norms rather than simply what private employers and markets desire to pay.

The focus shouldn't be on making public sector wages similar to those in the private sector, but instead on reducing growing income inequalities for all and particularly those in the private sector. More equitable wages need to be combined with an expansion of public pensions, benefits and services available to all, such as an expanded CPP/QPP, national pharmacare program, extended health care and early learning programs.

Public sector losses cut into job growth

After a decade of positive gains, public sector employment is likely to decline this year.

Labour force figures show the public sector lost 44,000 jobs in May, although that month should have registered a temporary hiring blip with the census and the federal election. This represents a 1.2% loss in total public sector employment and a net loss of 15,000 jobs since the start of the year.

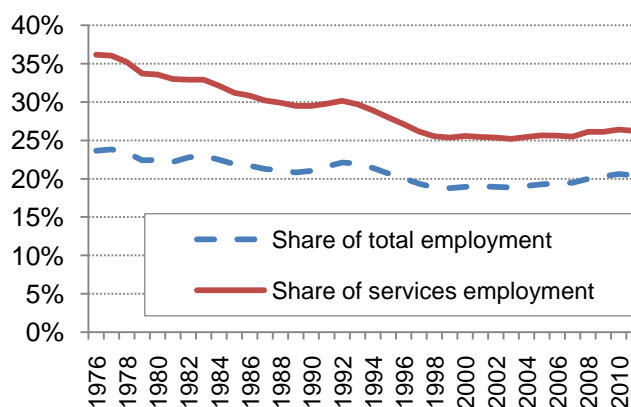
Monthly labour force figures fluctuate, but with federal and provincial governments imposing tight spending controls, the longer term trend for public sector employment is likely down. Overall government spending is expected to increase by only 1.4% this year and then decline slightly next year (see page 2). With inflation and costs rising at two to three percent, this amounts to a decline in real dollar terms. Much of the drop may be associated with winding down of stimulus spending and reduced transfers, but further public sector job cuts are also expected in a number of areas.

Statistics Canada's more accurate but less timely payroll data also show employment in the public sector largely stalled in the first three months of this year. There was little change in most major areas of the public sector, except universities and colleges where employment fell by 5,000 from December to March, all in Ontario. Political and policy statements by federal and provincial governments about the crucial importance of higher education are not yet doing much to prevent job cuts on campuses. This also adds to the higher levels of youth unemployment, as it's often jobs for younger people that are cut first.

Further job losses are also expected in other areas of the public service. Federal departments are planning to cut 6,000 full-time jobs over the next two years just to meet one-third of the operating budget freeze mandated in the 2010 budget. The 5% cut announced in this year's budget could mean another 40,000 federal job cuts, more than 10% of total payroll. We can expect job losses at the provincial and local government level, though hopefully not to the same degree in many areas, through attrition, direct cuts, and contracting-out.

Public sector employment hasn't declined on an annual basis since 1997. There's been solid growth over the past decade, but this represented partial rebuilding after the severe cuts of the mid-1990s. Although public sector employment grew at a faster rate than the private sector every year since 2004, it still represents a smaller share of total employment than any year up to 1995. It's also a much smaller share of total services employment.

**Public sector share of employment
1976 to 2011**



Source: Statistics Canada Labour Force Survey

With the loss of public sector jobs, overall employment rose by 22,000 in May with increases mostly in retail and wholesale trade and self-employment. These types of job gains are of course better than nothing, but they won't lead to major reductions in the unemployment rate when the labour force grows by about 250,000 a year. With household spending waning, job growth in the retail and wholesale sector should also recede.

Forecasters expect employment growth of 1.7% this year to slow to about 1.4% in 2012, partly due to public sector cuts. The unemployment rate is expected to fall more gradually from its current rate of 7.4% to an average of 7.3% next year. (see *Economic Outlook tables on page 2*)

Rising fuel prices swell oil profits, less thrill elsewhere

Canadians are seeing a flaring up of fuel and energy prices on a daily basis. The cost of other goods and services seem to follow this trend. Statistics Canada’s report on inflation for April reported that the Consumer Price Index (CPI) increased by 3.3% over the previous 12 months.

When energy is excluded, inflation rose by 2% in April, lower than the overall rate. Energy prices rose by 17% in April after rising by close to 13% in March. Gasoline prices rose by an average of 26% across Canada and are now just 5% below the record high they reached in July 2008.

Rising oil prices have certainly helped swell oil industry profits, which rose by 17% just in the first quarter. They’ve also helped Canada’s exports to grow, with energy exports up by 9% despite a higher dollar.

Elsewhere, higher oil prices are causing more pain. The impact of rising gas prices is higher on low and middle-income households because more of their budget goes to gasoline and to other goods whose prices rise together with the cost of fuel.

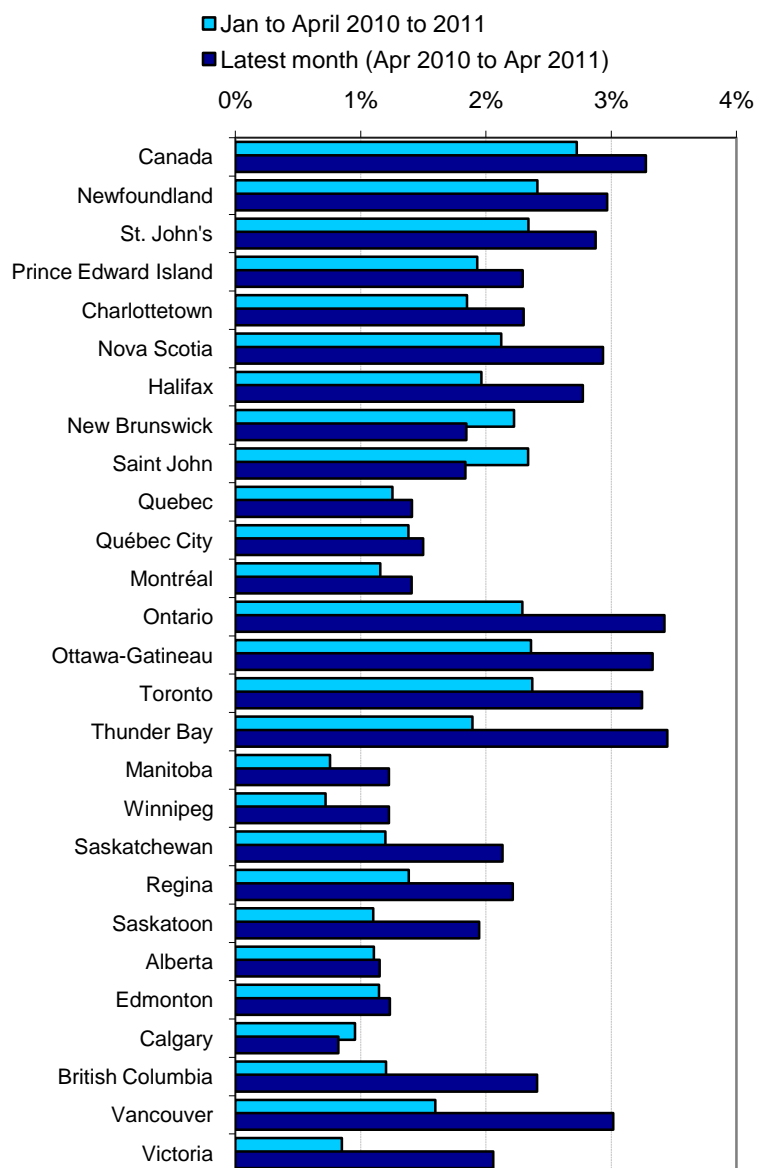
While there’s some trickle down spending from the oil patch, rising oil prices can also deal a double or triple-whammy to other sectors of our economy. They increase the cost of inputs, reduce demand as more spending is consumed by fuel, and have hiked the value of the Canadian dollar, increasing the cost of our exports for others. Employment in the manufacturing sector, which declined by another 22,000 in May, can be especially hard hit.

Economists estimate that the rise in the price of oil will reduce global economic growth by about half a percentage point this year and next. These impacts provide strong arguments for adopting more efficient energy and transportation alternatives, including investments in public transit, not just for environmental and health benefits but also for economic reasons. There’s also a strong rationale for raising taxes on the oligopolistic oil industry to pay for these investments.

Forecasts for the national inflation rate have increased together with the rising price of oil.

Consumer prices are now expected to rise by an average of 2.8% in 2011, with some expecting it to increase by an average of 3.1% over the year. Inflation is expected to be higher in Nova Scotia, Quebec and Ontario, all provinces that have increased their sales taxes over the past year (see page 2). The national rate of inflation is expected to decline to 2.1% next year—but those forecasts also depend on the increasingly erratic price of oil.

CPI Inflation by Province and City



Data from Statscan Cat # 326-0001

Public sector constrains wage increases

Average wage increases in major settlements continue to fall, pulled down by wage constraints in the public sector.

The average annual increase of 1.3% for settlements in the first quarter of 2011 is the slowest rate of wage increase since 2004. With inflation rising at 2.5% during that quarter, this represents a 1.2% decline in the value of real wages. We haven't seen a drop in the value of real wages of this degree since 1995.

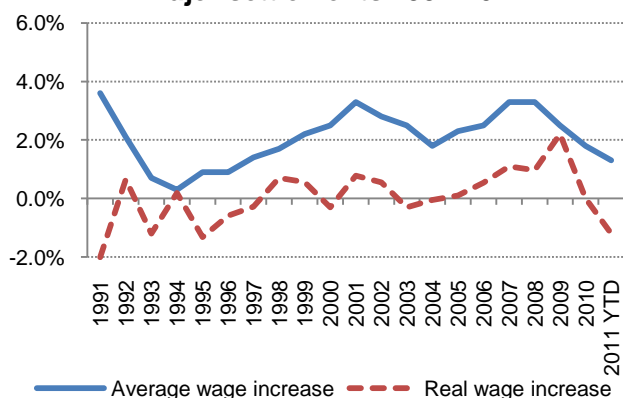
If real wages continue to decline, it will create a serious drag on economic growth because labour income and household spending accounts for more than half our GDP. High household debt loads and rising interest rates will put a further squeeze on household finances.

Settlements for public sector workers averaged 1.2%, a full percentage point below the private sector average of 2.2%.

Recent settlements have also shown diverging trends in wage increases. Most public sector workers received average increases of 2% or less, with the exception of those working for utilities or as police or firefighters, who gained increases averaging 3%.

On a regional basis, workers in British Columbia continued to be hammered by the province's wage freeze: wage increases averaged only 0.2% in the first quarter of this year, similar to the average for 2010.

Average wage and real wage increases (after inflation) negotiated in major settlements 1991-2011



Ontario had the highest average wage increase with HRSDC reporting an average of 2.4% (with Ontario Labour reporting a slightly lower average of 2.2%). However, these increases are still considerably below the province's inflation rate for that period of 3%.

In CUPE's major sectors, base wage increases in major settlements in the first quarter averaged 1% in education, health and social services, 1.7% in public administration, 3% in utilities and 2.5% in transportation.

Many sectors are entering into a difficult bargaining season. A large number of members are covered by agreements expiring this year. Discussions could be complicated by a number of provincial elections set for the fall. Despite the improvement in economic and fiscal conditions, a number of employers are pushing for significant concessions on pensions, benefits, and wages—not just low wage increases, but also two-tier wages in some instances.

Major CUPE Agreements reported in January-April 2011		
Employer	Average Increase	Duration (months)
Halifax School Board	1.0	24
New Brunswick support workers	1.0	48
Laval bus drivers	2.0	48
Ottawa Community Housing	2.0	48
University of Ottawa	1.7	36
City of Kingston	2.3	36
Peel Region	2.0	24
City of St Catherines	1.8	48
University of Brock and Guelph teaching assistants	1.7	36
City of London	1.4	48
Waterloo Region	2.0	36
University of Waterloo	1.8	60
University of Windsor TAs	5.8	36
Bruce Power trades	3.0	36
City of Kelowna	1.4	48

Major Collective Bargaining Average Wage Settlements by Year and Quarter						
	2008	2009	2010	2010Q3	2010Q4	2011Q1
All Average	3.2	2.4	1.8	1.8	1.5	1.3
Public Sector	3.5	2.5	1.6	1.3	1.5	1.2
Private Sector	2.5	1.8	2.1	2.2	1.2	2.2
CPI Inflation:	2.3	0.3	1.8	1.8	2.3	2.5

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	4.1	3.7	2.4	2.6	3.4	5.1	4.8	2.5	-	2.9
2009	5.0	3.6	2.9	6.0	2.2	2.4	2.9	5.0	4.5	3.0	2.1	1.6
2010	1.7	2.7	1.5	2.0	1.5	2.0	2.1	2.4	3.6	0.2	2.1	1.7
2010Q3	-	-	1.2	1.8	1.8	2.2	1.2	2.9	2.9	0.7	-	1.7
2010Q4	-	3.4	-	1.4	1.2	1.4	1.4	2.4	1.5	1.5	-	1.7
2011Q1	-	2.0	1.0	1.3	1.2	2.4	1.4	-	1.1	0.2	-	2.0
2011CPIQ1	2.8	1.8	3.4	2.3	2.5	3.0	2.3	2.5	1.4	2.4		2.5

Average Wage Settlements by Industry – Major Agreements						
Industry	2008	2009	2010	2010Q3	2010Q4	2011Q1
Primary	4.3	2.5	3.3	3.5	3.7	-
Utilities	2.3	3.0	1.0	0.0	1.2	3.0
Construction	5.4	3.7	2.3	2.3	2.1	-
Manufacturing	1.2	1.6	1.5	1.8	1.5	1.1
Wholesale and Retail	2.8	1.8	1.1	1.8	0.7	0.6
Transportation	3.1	1.1	2.2	2.1	2.2	2.5
Information and Culture	2.0	2.1	0.9	1.0	0.6	-
Finance and Professional Services	2.8	2.5	3.2	3.6	-	1.2
Education, Health, Social Services	3.8	3.0	1.6	1.2	1.4	1.0
Entertainment and Hospitality	1.9	2.0	2.2	-	2.2	2.0
Public Administration	2.7	2.1	1.5	1.8	1.6	1.7

Source: Human Resources and Skills Development Canada, *Major Wage Settlements*, [latest information as of June 7, 2011] http://www.hrsdc.gc.ca/eng/labour/labour_relations/info_analysis/index.shtml Consumer Price Index (Statistics Canada 326-0001). Q1 = 1st quarter (e.g. January to March inclusive).