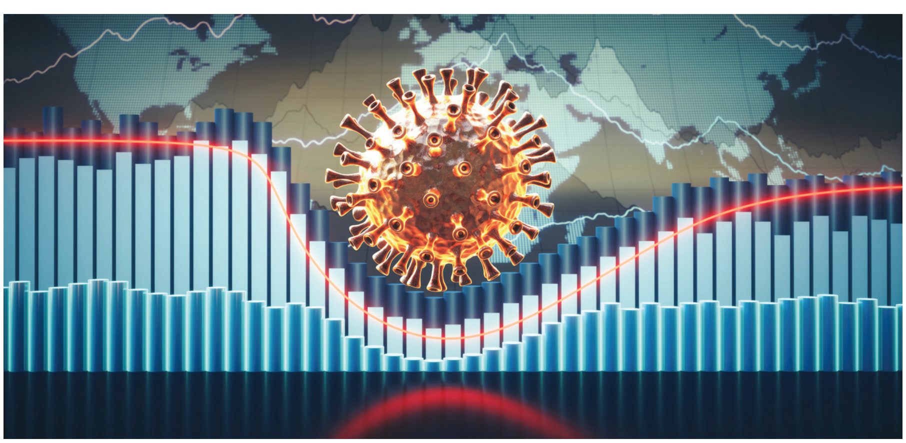
Inflation is wacky, but need for wage increases is clear

The fallout from the COVID-19 pandemic will make tracking and understanding inflation a challenge in 2021. But we can't let employers and governments use these ups and downs to block long-overdue and much-needed public sector wage increases.

The Bank of Canada and the federal Department of Finance monitor inflation closely. The Bank thinks a healthy economy should have low and stable inflation. The Bank has set a target for inflation of between 1.0 and 3.0 per cent. If inflation gets too low, it's a signal the economy needs a boost – and the Bank uses its tools to increase the amount of money in the economy. If inflation gets too high, the Bank pulls back the supply of money in the economy by reducing its bond purchases or increasing interest rates.

The Department of Finance is interested in inflation because it doesn't want to be pushing out stimulus spending while the Bank is trying to put the brakes on growth. This debate is not just technical, it's politically charged, with pro-austerity forces looking for any excuse to cut back on government spending and keep workers' wages low.

Unfortunately, the COVID-19 pandemic means it is going to be quite challenging to track price changes and interpret their meaning this year. Most of the inflation figures mentioned in the news are year-over-year comparisons, and the last year has seen dramatic fluctuations in prices. The Consumer Price Index (CPI) is the most widely used measure of inflation in Canada, but it is not a perfect measure and many people will face quite different changes in their cost of living. In April 2020, the CPI fell by 0.2 per cent, the first reduction in over a decade. CPI stayed below its pre-pandemic level until October 2020. This means the overall inflation numbers for April through October 2021 are going to be deceptively large, because they're being compared to a temporarily low price level. This is what we call 'the base effect.'



The April 2021 data shows that the overall price level rose by 3.4 per cent compared to April 2020, but only 0.5 per cent compared to March 2021. Prices are definitely going up, just not as fast as the number in news headlines makes it appear. We should expect the base effect to be smaller in the next few months, but headline inflation numbers will still need to be interpreted with caution until the end of the year.

Dramatic increases in the price of some commodities, such as lumber, have made the public debate even more muddled. Commodities aren't captured in CPI since they are not final consumer goods. But if the prices of inputs like steel, wood, and semi-conductors stay high, we will eventually see price increases in final consumer products, and that will feed into higher inflation in the longer term.

What does this mean for workers? Expect the usual suspects to be pointing at the high price of a 2x4 at your local lumber yard as an excuse to reduce public sector borrowing and warn about the dangers of wage increases tipping us into an era of runaway inflation.

The truth is that while prices are increasing, inflation is nowhere near out of control, and workers' wages have fallen behind for too long. Increasing workers' wages is one of the most sustainable and healthy ways to support an economy, since we generally spend those extra dollars in a local business.

Who's left behind in labour market recovery

As vaccination rates continue to rise and public health restrictions are eased, most of the jobs lost during the pandemic should slowly return. But in every economic crisis, there are workers whose jobs disappear permanently, and this time will be no different.

Hard hit industries such as airlines and hospitality will likely have a longer path back to 'normal.' Permanent changes in how we work – more touchless and automated tools, more online delivery of services, fewer in-person office spaces – may also displace workers. Understanding who's being left behind as the labour market recovers is key to putting the right supports in place, tailored to those workers' needs.

Tracking workers who are unemployed or underemployed is an important first step in understanding who might be left behind in the recovery. It's also important to look at how long workers have been out of work. If lots of workers from the same industry have been unemployed for several months, it's a good sign that jobs in that industry are scarce, and it will be difficult for these workers to transition into new jobs. We also need to know who has dropped out of the labour market altogether. Together, these three categories help us understand the transitions happening in the labour market, and point policy makers in the right direction to offering the supports needed to bridge workers to better jobs.

Changing measurements

On the first point, unemployment and underemployment, Statistics Canada's Labour Force Survey has been tracking what they call 'labour underutilization' since the beginning of the pandemic. This indicator was created because traditional unemployment indicators would have missed many of the ways the pandemic has affected workers.

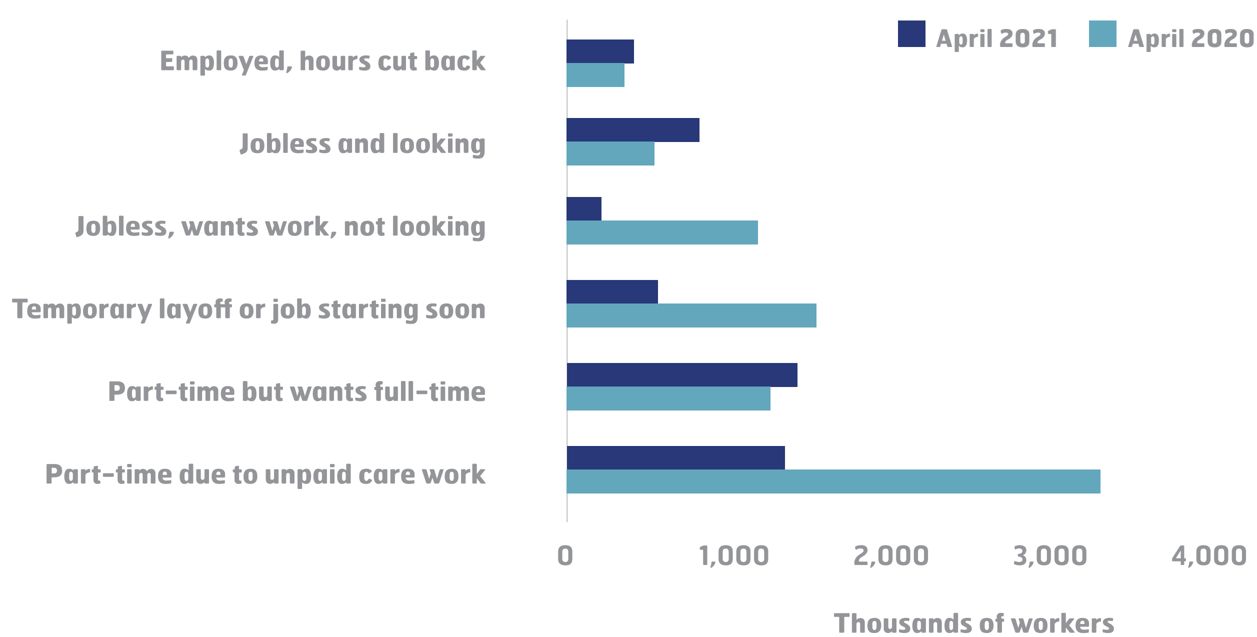
The measure looks at four categories of workers:

- still employed, but have worked less than half of their usual hours;
- jobless and searching for work;
- jobless and wanted work, but have given up looking; and
- jobless but on temporary layoff or waiting for a job to start soon.

To get a more complete picture, we can include more related information from Statistics Canada: workers with part-time positions who would like more hours, and workers doing part-time jobs so they can meet unpaid care responsibilities.

Continued on p. 3

Changes in types of underemployment during the pandemic



Source: Statistics Canada Labour Force Survey, April 2021 and Table 14-10-0028-01

Some of these indicators of underemployment have improved dramatically since the peak of April 2020. There are fewer workers on temporary layoff, fewer workers who have had their hours cut back by more than half, and fewer unemployed workers who are so discouraged by job prospects that they're not looking even though they want to work.

This is definitely good news. But there are still a significant number of workers whose hours have been cut back dramatically, or who would like to work more hours but can't find full-time work. This indicator signals that at least some of the recovery training supports that governments are offering should be available to employed workers, and that training needs to be flexible to accommodate work schedules. In addition, the number of workers who work part-time to accommodate unpaid care work signals the importance of affordable child care to the full economic participation of parents of young children.

Supporting transitions to new jobs

Long-term unemployment is defined as the number of workers who have been without a job, and looking for work, for more than 27 weeks. In April 2021, more than half a million workers had been unemployed for more than 27 weeks, and more than 300,000 of those workers had been unemployed for more than a year. Most of the increase here comes from occupations that have been directly affected by COVID-19 public health measures, such as food services and retail sales. These workers are most likely to need significant income and training supports to successfully transition into new employment, most likely in new occupations.

> **More than 90,000 women aged 15-24 have dropped out of the labour market altogether**

While long-term unemployment has increased for most demographic groups, young women are the exception. Many core age workers (25-54) and young men that have been out of work for months haven't given up searching for work. But more than 90,000 women aged 15-24 have dropped out of the labour market altogether. Many of these young women were employed in food services, or in retail jobs that have been hit hard by public health measures. We don't know yet if these young women are taking on unpaid care work, if they will go to school for further training, or if their sectors will eventually bounce back.

There will be new jobs in several sectors, such as early childhood education and the green economy. Budget 2021 introduced some new money for training programs, but nearly all of it was employer focused. What we need for a just recovery is worker-focused training opportunities, and broad supports to make sure that workers who need training can get it.

ECONOMIC BRIEFS

Taxing pandemic profiteering

The Parliamentary Budget Officer recently estimated that a one-time tax on corporations whose profits rose during the pandemic would generate $7.9 billion in revenue. A tax of this kind was implemented during World War II, with the reasoning that those who were able to profit from a crisis should help pay for the cost of rebuilding.

Canada's excess profits tax rate during World War II was 100 per cent. The PBO's estimate is based on doubling the federal corporate income tax rate from 15 per cent to 30 per cent on the portion of profits deemed 'excess,' defined as profits greater than expected based on average margins from 2014 to 2019. The PBO applied this higher rate only to the excess portion, and restricted their review to corporations that had $10 million or more in annual revenues in any year from 2016 to 2020.

There is no shortage of corporations that had profits go up during the pandemic. Canadians for Tax Fairness research found that Extendicare, which owns and operates private long-term care facilities, is one of the companies that would have had to pay an excess profits tax. During a pandemic that killed thousands of residents in long-term care facilities, Extendicare's profit margin grew from 2.8 per cent to 5.1 per cent.

Missing data masks inequality

During the pandemic, Canadian policy makers have found that much of our data is missing specifics that would help address inequalities. While most data collected by the federal government includes information on two genders, men and women, it is less common to have information on the other ways that discrimination and oppression commonly work in our society, such as racialization, indigeneity, sexual orientation, and gender expression.

This is slowly changing. The 2021 Census broke new ground by asking questions about sex at birth and gender identity for the first time. During the pandemic the Labour Force Survey started collecting disaggregated data by race, asking people to report which racialized population groups they belong to. Budget 2021 advances this effort further with $172 million over five years for a Disaggregated Data Action Plan to improve government data on race, gender and sexual orientation. Information like this could help governments uncover systemic discrimination and make better decisions to address it.

CUPE publishes *Economy at Work* four times a year to provide members and staff with news and analysis on economic issues, and to support our members at the bargaining table.

Find *Economy at Work* online at **cupe.ca/economyatwork** with links to relevant materials. Subscribe to the email edition at **cupe.ca/subscribe**.

All content written by Angella MacEwen unless otherwise indicated. Edited by Karin Jordan.

Proofing by Céline Carré and Valérie Ménard. Layout by Sarah Walker.

Please email **amacewen@cupe.ca** with corrections, questions, suggestions, or contributions.

CUPE Canadian Union of Public Employees

ECONOMIC DIRECTIONS

Base year effects — The dramatic economic impact of the COVID-19 pandemic will make it more challenging to track economic indicators and interpret their meaning this year. Many indicators are expressed in year-over-year growth, and there were sudden and sharp changes in these indicators last year. The timing and direction of last year's changes will have to be taken into consideration when interpreting this year's indicators.

Economic growth — Canada's economy is benefiting from increased global demand for a number of commodities, such as lumber, steel, and agricultural products. This has resulted in the Canadian dollar trading near or above 80 cents US since mid-March. This means that $1 Canadian is worth about $0.80 US. The IMF has forecast real economic growth in Canada will be 5.0 per cent this year, a prediction that remains dependent on continued rollout of vaccinations and other measures preventing a fourth wave. The commodities boom is highly regionalized. Strong growth in some sectors, and the resulting increase in the value of the Canadian dollar, will act as an economic drag in other regions. Government stimulus plans should take this return to a two-speed economy into account.

Jobs — Employment for higher-wage workers has returned to pre-pandemic levels, but remains significantly lower for low-wage workers, especially those in highly affected industries like hospitality, tourism and food services. Long-term unemployment has increased dramatically, as more than half a million people have been without work for 27 weeks or more as of April 2021.

Wages — Wage indicators have also been slightly misleading during the COVID-19 pandemic. Since job losses have been concentrated among lower-wage workers, average wages are higher, but only because there are fewer low-wage workers employed. Public sector employers are likely to be especially reluctant to move on wages, but private sector employer organizations are already talking about labour shortages, which is more likely an issue with the low wages on offer. As prices for food and shelter are continuing to rise, it will be especially critical for workers to stand firm on the need for real wage increases.

Inflation — Overall inflation is starting to pick up, but it remains to be seen how much of the price pressure is temporary and how much is permanent. Base year effects — comparing the current year to highly variable price levels from last year — make interpreting inflation indicators more complicated. The overall Consumer Price Index (CPI) for April 2021 was 3.4 per cent, higher than the Bank of Canada's target, but this is only because of base year effects. The Bank calculates three alternative variations, CPI-trim, CPI-median, and CPI-common, and all three of these remained between 1.7 and 2.3 per cent for April, indicating that there is still sufficient room for governments to make critical infrastructure investments without stoking excess inflation.

Interest rates — The Bank of Canada has indicated that it expects to keep its key lending rate at 0.25 per cent through to the end of 2022. This means that rates might start to increase earlier than previously expected. Government borrowing remains affordable, with 30-year federal government bonds selling at 2.0 per cent interest.