ECONOMIC CLIMATE *for* BARGAINING

June 2009 **Vol. 6, No. 2**

Frontline Summary

Economic Outlook Summary

It should come as no surprise to anyone, but Canada is now officially in a recession, after our economic output (real GDP) dropped for two quarters in a row.

Thanks to quick action by governments around the world to support banks, financial markets are stabilizing while stock markets have recovered about a third of their losses.

Now further action is needed to provide support, jobs and stable incomes for households, which are now at record levels of debt and facing increasing job and income insecurity.

There are now more than 1.5 million unemployed people in Canada, an increase of almost 400,000 since October.

Economic forecasts have stabilized, with economists expecting on average:

- A 2.3% decline in our economy this year, followed by subpar growth of 1.9% in 2010.
- National consumer price inflation to average close to zero this year and 1.6% next year.
- The national unemployment rate to average 8.4% this year and 8.9% or higher in 2010.

This issue includes sections on:

Moving beyond stimulus to a real recovery
Quick action to deal with the financial crisis has demonstrated what a positive difference governments can make when they want to. Now that the financial sector has been rescued, attention needs to turn to the people in the rest of the economy – otherwise we will be in for a slow and rocky recovery.

Canadian and provincial economic forecasts
Averages of the latest forecasts of main economic indicators for Canada and the provinces.

Unemployment problem continues to grow
Job loss has been mostly concentrated in a few sectors and regions, but the impacts of the recession are expected to spread, with unemployment rising in all regions.

Benefits of public services
A major new study shows that the dollar value benefits of public services are very large and exceed the benefits of tax cuts for the vast majority of families.

Public pensions prove security and payoff
The financial crisis exposed deep flaws in our pension system. Any reforms must include significant strengthening of the public pension system and better guarantees for workplace pensions.

Inflation: more uncertainty on the horizon
Overall inflation rates have tumbled this year, but there is increasing uncertainty about it in future years. Rising food prices have made the impact worse for lower incomes.

Union wage increases continue to provide gains
Wage increases negotiated in major settlements are falling, but they have continued to outpace inflation.

Next issue: September 2009

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!

Moving beyond stimulus to a real recovery

The extraordinary economic measures that governments around the world have taken – including rock bottom interest rates, record deficits, concerted economic stimulus, and unprecedented support to banks and key industries – now appear to be having some positive effect.

Credit lines to businesses are being thawed, stock markets have recovered more than a third of their losses, and consumer confidence is climbing from record lows. The economy is still declining and unemployment still rising, but it would be much worse if no action had been taken. The fact that the situation isn't as bad as it could be-that we lost half a cup instead of more-is positive.

This experience has demonstrated what enormous positive differences governments can make to the economy when they want to. For years neo-conservatives have told us that private markets are more efficient, governments should get out of the way of business, deficit spending is bad, and that we can't afford a few million (or billion) for different social or environmental programs.

But when businesses and banks faced trouble from an economic crisis of their own making, these same governments showed no hesitation in pulling out all the stops: intervening in the economy in extraordinary and unprecedented ways, providing hundreds of billions in assistance, and running record deficits.

If nothing else, this should finally put the lie to their argument that it can't be done, that we can't afford it, or that we can't harness the power of public sector to effect positive change.

With stock markets rising some are claiming that the economic recovery has taken hold and the sooner we go back to business as usual, the better. This is both too premature and also wrongheaded.

As it stands now, the road to economic recovery will be slow, rocky and long. As we suggested earlier this year, the recession is more likely to have a W shape with double dips instead of a strong recovery. There are a number of reasons for this:

- The recessions of the early 1980s and early 1990s involved – and were significantly caused by – high interest rates. Recoveries following these recessions were spurred by interest rates that were halved over the next few years. This time around, interest rates in Canada and elsewhere are already at record lows and have nowhere to go but up. This will slow and hamper the recovery.
- Rising stock prices might help pay for bonuses on Bay Street and Wall Street, but they don't pay the bills on Main Street. For this we need more jobs and higher wages. However, both of these are being cut in many areas. Household debt is at record levels in Canada. With less job security and constrained incomes, people are saving more and spending less. Borrowing rates will eventually rise, pinching families more.
- Despite record profits, businesses have invested shrinking shares into the Canadian economy in recent years. Now with plummeting profits and consumers retrenching, there's little sign business investment will bounce back on its own.
- A declining US dollar means that Canadians can't hope for a strong export-led recovery by piggy-backing on stimulus spending south of the border.
- Rising commodity prices help our resource industry but they increase costs for other sectors, and dry up markets for other export industries by inflating the Canadian dollar.

This all means that the public sector must continue to play the leading role in getting our economy back on track and moving ahead. The job is only half done. Governments need to move beyond stimulus and crisis intervention to put in place the foundation for a lasting and sustainable recovery.

The benefits of infrastructure stimulus spending to the economy will be spread out over a few years, which is positive considering the outlook. But to provide longer lasting benefits, infrastructure stimulus spending needs to involve much more than patching roads, restoring existing crumbling infrastructure or subsidizing more costly urban sprawl. It also needs to improve our economic and environmental efficiency, and spur further investments and benefits for businesses and households.

We will be missing out on a crucial once-in-a-lifetime opportunity if we don't direct our infrastructure spending in a strategic way with a focus on public transit, retrofitting buildings to make them more energy efficient, and following urban design to make our communities more energy efficient. This way, our stimulus spending would not just have short-term economic benefits, but also longer lasting economic *and* environmental benefits. If these investments were integrated with a forward-looking economic strategy (including targeted procurements and Made-in-Canada policies), then much greater benefits would flow to our workplaces and communities.

Federal and provincial governments also need to strengthen social protections for people who have lost their jobs or their pension savings as a result of the financial crisis. Support from the government shouldn't mainly go to the financial industry and corporations who caused this crisis. This isn't just important for reasons of fairness and justice, but also for the economy. Support to the lowest incomes provides the strongest short-term economic stimulus. It also combats declining confidence and rising insecurity that can paralyze an economy.

Access and benefits under the employment insurance program needs to be greatly expanded with a uniform entrance requirement of 360 hours and benefit levels raised to 60% of earnings. Our pension system desperately needs reform with greater benefits under the CPP/QPP and OAS public pension plans and a stronger private pension benefit guarantee fund (see *Public Pensions*, page 7). These measures would not only direct support to the most vulnerable; they would also provide high levels of economic stimulus directly to the local communities that are most in need, reducing fiscal pressures on their local governments.

Support is also needed to expand other public services. This is especially essential now with low wage growth, rising inequality and record household indebtedness. Not only do investments in public services deliver the highest levels of economic stimulus and "bang for the buck" – double or triple the levels through income tax cuts, for instance – they also provide very substantial benefits for all households.

As a recent study (see *Groundbreaking Study*, page 6) has shown, the dollar value of public services that an average Canadian family receives amounts to over 60% of their income. For someone at the minimum wage, the value of these benefits can be as high or higher than their wage income. Stronger public services – through a national early learning and child care program, reduced tuition fees, improved health care services, and better community services for instances – would reduce the cost of living for households in a very progressive way and provide a solid foundation for a stronger recovery.

Canadian Economic Forecasts

The following table presents an average of the most recent economic forecasts publicly available for the Canadian economy, provided by the major banks.

This table includes forecasts from the TD Bank, Royal Bank of Canada, Scotiabank, BMO Capital Markets, CIBC World Markets, National Bank of Canada and Desjardins credit union.

Canada's economy continues to decline, although not at as quickly an accelerating rate as earlier this year. Forecasts from most major banks have stabilized and are no longer being revised downwards as frequently as before.

On the key indicators:

- **Economic Output:** Forecasts for the decline in real GDP or the economic output of Canada range from -1.5% to -2.9% for this year, with an average of -2.3%. Economic growth next year is expected to be below potential, with forecasts ranging from 1.3% to 2.5%.
- **Unemployment Rate:** The forecast for the unemployment rate for 2009 ranges from 7.8% (RBC) to 9.0% (TD Bank); and from 8% to 9.9% for 2010.
- **Inflation:** The forecasts for national consumer price inflation for this year range from +0.5% (BMO) down to -0.8% (TD Bank). For 2010, they range from 0.8% to 1.9%.

Canadian Economic Outlook- Average of Private Sector Forecasts

Annual growth rates unless indicated	**2007**	**2008**	**2009**	**2010**
Growth in the Economy				
Real GDP	2.7%	0.5%	-2.3%	1.9%
- Consumer Spending	4.5%	3.0%	-1.1%	1.5%
- Business Investment	3.5%	1.4%	-10.5%	-0.1%
- Government Spending	3.7%	3.6%	3.4%	4.7%
Labour Market				
Employment growth	2.3%	1.5%	-1.9%	0.1%
Unemployment rate	6.0%	6.1%	8.4%	8.9%
Productivity growth	0.7%	-1.0%	-0.1%	1.6%
Inflation - Consumer Price Index	2.2%	2.4%	0.1%	1.6%
Corporate Profits before tax	3.3%	6.4%	-22.4%	4.7%
Real Personal Disposable Income	3.7%	4.2%	0.8%	2.3%
Personal Savings Rate	2.7%	3.7%	6.1%	6.1%
Housing Starts (000s)	228	211	138	150
Interest Rates and Exchange Rate				
Short-term 3 Month T-Bill	4.15%	2.33%	0.33%	1.06%
Long-term 10 Year Bond	4.28%	3.61%	3.06%	3.69%
Exchange rate C$ in U.S. cents	$93.04	$94.30	$83.94	$91.38

Consensus average based on latest forecasts from seven different Canadian forecasters as of June, 2009.

Provincial Economic Forecasts

This table presents an average of the recent publicly-available forecasts of main economic indicators at the provincial level.

The averages are calculated from provincial economic forecasts provided by TD Bank, the Royal Bank of Canada, BMO Capital Markets and the Bank of Nova Scotia. The national averages may be different from those reported above because they include a smaller group of forecasts.

Provincial Outlook								
% annual growth unless where noted					Unemployment			
	Real GDP		Employment		Rate		Inflation	
	2009	2010	2009	2010	2009	2010	2009	2010
Canada	- 2.2	1.9	- 2.0	0.4	8.5	9.1	- 0.2	1.3
Newfoundland & Labrador	- 2.4	1.8	- 2.0	0.3	14.9	15.4	0.1	1.5
Prince Edward Island	- 1.4	1.3	- 2.1	0.3	12.3	12.8	- 0.2	1.3
Nova Scotia	- 1.3	1.7	- 1.0	0.3	9.7	10.3	- 0.2	1.2
New Brunswick	- 1.3	1.7	- 1.2	0.3	10.3	10.8	- 0.4	1.5
Quebec	- 1.7	1.7	- 1.7	0.2	9.0	9.4	- 0.3	1.1
Ontario	- 2.7	1.8	- 2.5	0.3	9.5	10.0	- 0.1	1.2
Manitoba	- 0.8	1.9	- 0.7	0.3	5.7	6.2	-	1.2
Saskatchewan	0.5	1.8	0.6	0.5	5.3	5.9	0.6	1.3
Alberta	- 2.6	1.9	- 1.5	0.5	6.2	6.7	- 0.4	1.6
British Columbia	- 2.0	2.3	- 2.2	0.9	7.2	7.6	- 0.1	1.9

Based on the average forecasts from four different bank forecasters as of June, 2009.
National averages are different from those reported in the Canadian outlook table because they include a smaller group.

Unemployment problem continues to grow

Canada's unemployment problem continues to grow. There are now more than 1.5 million unemployed in Canada: the highest number of people out of work in 15 years and almost 400,000 more jobless than there were in October.

The national unemployment rate at 8.4% is the highest in 11 years.

The unemployment rate in Alberta has already risen to double its pre-recession lows and in British Columbia the unemployment rate is almost double the 4% low it reached two years ago.

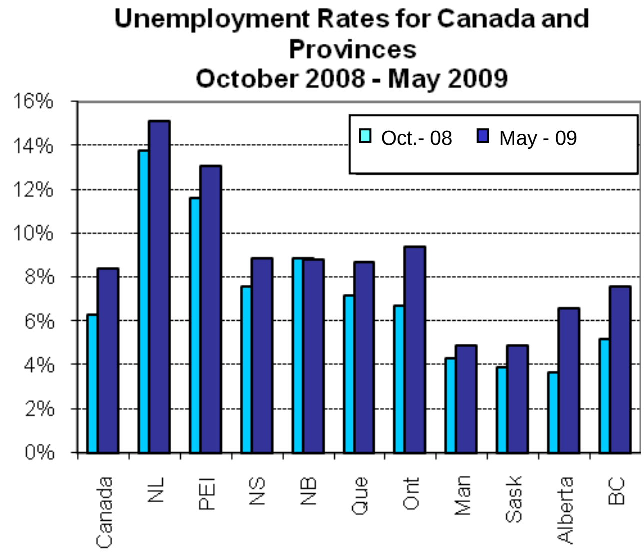
Virtually all the increase in unemployment since October is in just four provinces: Ontario (+192,000 unemployed), Québec (+63,000), Alberta (+64,000), and British Columbia (+59,000). Together, these provinces accounted for more than 95% of the increase in unemployment.

Manitoba and Saskatchewan continue to hold out relatively well: their unemployment rate at 4.9% remains the lowest in Canada.

The job loss so far has also been concentrated in just a few sectors of the economy. In the manufacturing sector, 186,000 jobs have been eliminated since October and in construction 110,000 jobs have been cut. Together these two sectors account for 80% of the 363,000 total decline in employment since October. Both sectors have seen almost one in ten jobs eliminated in the past seven months.

Most of the jobs have been lost in the private sector, with the number of private sector employees declining by 322,000 or -2.9% since October.

While fewer jobs have been cut in the public sector – a total of 44,000 or -1.3% of public sector employment – it is disturbing that there is any reduction of employment in the public sector at all. Higher employment in the public sector is needed to deliver the increased services needed by people during this recession and to counteract the downturn in the private sector economy.



The drop in public sector employment appears to be all either in public administration (-20,000) or in education services (-24,000).

Also disturbing are the quality of jobs lost. Employers are cutting full-time jobs at faster rate and replacing them with part-time jobs. The number of full-time jobs has dropped by 407,000 while part-time employment has increased by 44,000.

Unemployment is rising for all groups, but youth and adult men have suffered the greatest loss in jobs: youth employment (aged 15-24) has fallen by 5.1% or 134,000 jobs while 203,000 jobs held by adult men (-2.6%) have been cut.

Unemployment is expected to rise through to next year. Private bank forecasters expect Canada's unemployment rate to increase to an average of 8.9% in 2010, up from an average of 8.4% this year (see *Canadian Economic Outlook* table on page 3). Some, such as the TD Bank, expect the national unemployment rate to increase above 10% in early 2010.

As the impacts of the recession spread, the unemployment rate in all provinces is expected to increase this year and next (see *Provincial Outlook* table on page 4).

Ground-breaking study demonstrates major benefits of public services

A recent study put a dollar value on the benefits that Canadian families gain from public services. It showed that the vast majority of Canadians are getting a great value – a "quiet bargain" – from the public services they receive from their taxes.

The ground-breaking study by the Canadian Centre for Policy Alternatives calculated in detail the dollar value of public services provided by federal, provincial and local governments. These services include health care, education, child care, social services, pensions, EI, social assistance and other transfers, municipal services, transportation, public transit, policing, firefighting, protection of people, environmental protection, community services, recreation and culture, and the wide range of other public and social services.

The study then estimated the value of these benefits by family type and income level in relation to household use and consumption patterns.

The results demonstrated that the large majority of Canadians would be better off with public services than with recent tax cuts.

The value that a Canadian family, with a median average income of $66,000 in 2006 received from public services added up to $41,000 a year: equivalent to about 63% of their employment and other income.

The average benefit *per person* adds up to about $17,000 a year. This amount is close to the annual income someone made by working full-time at the minimum wage. In other words, someone working at the minimum wage receives as much benefit from these "social wages" – the value of public services per person – as they do from their employment income.

Public services provide very large benefits to a significant majority of families. More than two-thirds of Canadians live in households where the benefits from public services add up to more than 50% of their private income.

The study also demonstrated that the vast majority of Canadian families would be better off with improved public services instead of recent tax cuts. For example:

- 80% of Canadians would be better off if the Harper government had transferred equivalent funding to local governments instead of cutting the GST.
- 75% of Canadians would be better off if provincial governments had invested more in health care and education instead of cutting income taxes in the late 1990s and early 2000s.
- Almost 90% would be better off if the federal government had invested in improved federal public services instead of cutting the capital gains tax in the early 2000s.

In effect, these tax cuts, followed by public service cuts and constraints, functioned as a massive transfer of benefits and income from the large majority of Canadian households to a small minority of the highest income and most affluent.

Higher income households with annual incomes of over $100,000 a year also derive large benefits from public services, but they form a smaller share of their total household income.

The types of benefits received by families depends on their household type: families with children receive a relatively higher benefit from education, seniors more from health care, single parents and senior parents more from transfers, and those with higher incomes gain relatively greater benefits from local services.

Although the types of benefits vary depending on household type and income level, the average overall value is remarkably significant and similar in range for different Canadian households. No matter what household type, age or income level, these benefits add up to between $13,000 and $25,000 a year for each Canadian.

The relative equality in benefits for different types of households underlines the importance of maintaining a strong fabric of diverse but universal public services: a fabric that supports a strengthened set of shared national values and a stronger society.

While these figures are impressive, they are conservative and likely to be underestimates. The study valued public services at their cost although in most instances public services provide value at a significantly lower cost than equivalent private services would cost. For example:

- Canada's public health care system provides better overall health care than the private U.S. system at a considerably lower cost.
- Public education provides better value at a lower cost than private education.
- Shared services such as libraries, parks, recreation facilities, public transit, policing, clean water, waste collection, etc. can be provided much more efficiently at a lower cost than similar private services.

In addition, investments in public services provide much greater economic stimulus "bang for the buck" than tax cuts. Investments in public infrastructure, health or education all create about two to three times as many jobs as an equivalent amount in income tax cuts. Investments in early learning and child care yield five times as many jobs and high levels of ongoing economic stimulus.

Public pensions provide security – and payoff

The rebound in stock markets is providing some relief for the devastating losses workers pension savings suffered as a result of the stock market crash. But this relief is limited and overshadowed by other problems. The economic and financial crisis has further exposed deep flaws in our pension system. Fundamental reforms are needed to strengthen retirement security for Canadians. Stock market around the world lost an average of 50% from the crash and financial crisis. Rapid action by governments around the world to stimulate their economies and prop up their banking sector has had a positive impact.

By late May, the value of stock markets around the world had increased by an average of about 33% since the lows they reached earlier in the year. However, this increase only amounts to a third of the losses suffered by these investments as a result of the crash. On average, stocks are still down by about 33% compared to their previous highs.

Particularly hard hit are those with RRSPs, defined contribution (DC) pension plans heavily weighted towards stocks and speculative investments, as well as members of workplace pension funds facing difficulties related to the financial crisis. Added to these problems are extremely low interest rates and returns for bonds or other secured investments.

Many Canadians saw the immediate impact of these losses many months ago when they opened their monthly RRSP statements after the stock market crash. But we've had to wait until just recently to find out how much the big pension funds lost – and it's not pretty.

The organizations entrusted with investing the contributions workers pay into the Canada Pension Plan and the Québec Pension Plan (CPP/QPP) lost over $60 billion with their stock market investments.

- The Canada Pension Plan Investment Board lost $23.6 billion with its investments, with a decline of 18.6% for the year ending 31 March 2009.
- The Caisse de Dépôt, which manages the Québec Pension Plan, lost $40 billion in 2008, a decline of -25%.

Until ten years ago, the CPP had been entirely invested in highly secure government bonds. However, in 1999, federal and provincial governments decided to put these savings into private sector investments through a CPP Investment Board instead, arguing that they would provide a much higher rate of return than government bonds. CUPE was one of the very few organizations that spoke out against this move.

The results after ten years? A ten-year annualized return for these private sector investments of only 4.3%, and only 2% after inflation. This is considerably less than the average annual return of 5% or more the CPP would have made if they had left these investments in government bonds. This difference in return may seem small, but it adds up. We'd have about $13 billion more in the CPP fund if the investments hadn't been privatized. Last year it cost $189 million to operate the CPP Investment Board, including millions in annual salaries and bonuses for the top executives.

Some of the biggest public sector workplace pension plans also lost large amounts:

- Ontario Teachers' Pension Plan lost $19 billion, or -18% of its previous value.
- Ontario Municipal Employees Retirement System (OMERS) lost $8 billion, or -15%.
- Hospitals of Ontario Pension Plan (HOOPP) lost $3.6 billion, or -12% of its value.

These losses should be seen in the context of strong gains in recent years, fuelled by the stock market boom and speculative investments. While sustained high rates of growth are unlikely to return for many years, these large public sector workplace pension plans and the defined pension benefits they provide are reasonably secure.

More at risk are a number of private sector workplace pension plans. Mismanagement has put a number of major corporate pension funds into peril, including those of the auto companies and other major private sector employers. Unfortunately, some companies are using the financial crisis to try to dump their pension obligations or exact other concessions in bargaining.

Some of these proposals may seem harmless at first – relaxing pension solvency funding rules, or changing assumptions about future interest rates – but they add up to less funding and less security for workers' pensions. This is a dangerous route to take, as GM, Nortel and other workers who thought they had a decent pension have now found.

Instead, the Canadian Labour Congress and other unions are arguing:

- Weaker pension funding rules are not acceptable and will undermine workers retirement security.
- The federal government could provide temporary financing relief on a case-by-case basis to pension funds in genuine trouble just as it is providing backstop financing for banks and insurance companies.
- Canada needs a national system of pension insurance as they have in the United States.

These measures will help to rescue existing defined benefit pension (DB) plans that are currently at risk. But less than one in three workers in Canada now has access to workplace DB pensions. Everyone else has to rely on much more risky defined contribution RRSP style plans, their own RRSP and private investments, or public pensions including CPP/QPP and Old Age Security (OAS) benefits.

For the first time in our history, we may experience a substantial increase in the average retirement age as more people need to keep on working because the financial crisis has vaporized a large part of their retirement savings.

In addition, women are more at risk of retirement insecurity than men are because their average wages are lower, savings for retirement are lower and their retirement savings also need to last longer because women tend to live longer than men. This results in a "retirement gender gap" that can best be narrowed through improved public and workplace defined benefit pension plans.

The financial crisis has demonstrated the enormous benefits of having decent public pension plans that Canadians can depend on, no matter what direction the stock markets go. The contributor-funded CPP/QPP and the federal government funded OAS ensures everyone a basic level of income in retirement.

The problem with these public pensions is that the benefits they provide are too low. The CPP currently provides a *maximum* monthly benefit for an individual of only $908.75 (equal to $10,905 a year). The average CPP monthly payment is barely over $500 a month or $6,000 a year, with many collecting less than this. Old Age Security provides a maximum of $516.96 a month or $6,203 a year, with the average benefit at $490. Even at their maximum levels, these benefits are considerably below the poverty line.

Increasing the benefits provided under the CPP program – for instance doubling them so they provide up to 50% replacement rate of the average wage – could ensure that maximum benefits provided at least meet the poverty line. Increasing the benefits paid under the CPP would benefit over 90% of working Canadians and would also provide relief to workplace-based defined benefit plans that are integrated with the CPP.

Since the CPP is self-funded, it will take many years to achieve these improvements in an equitable way. As an immediate bridging measure, the CLC and CUPE have called on the federal government to immediately increase OAS benefits by 15%. This would help to lift all seniors over the poverty line.

Instead of addressing these issues, federal and provincial ministers of finance are now proposing changes to the CPP that amount to tinkering in relation to the fundamental changes that are needed. The proposals involve a number of changes to make it easier for workers to collect their CPP pensions while working. Comments about these proposed changes are being accepted until July 31.

Inflation: more uncertainty on the horizon

For Canadians who have become used to relatively stable national rates of inflation of close to 2% since early 1990s, there's a lot of uncertainty on the horizon.

The road ahead will involve a number of twists, turns, dips and rises in the inflation rate before we get a clearer longer-term view of what to expect into the future.

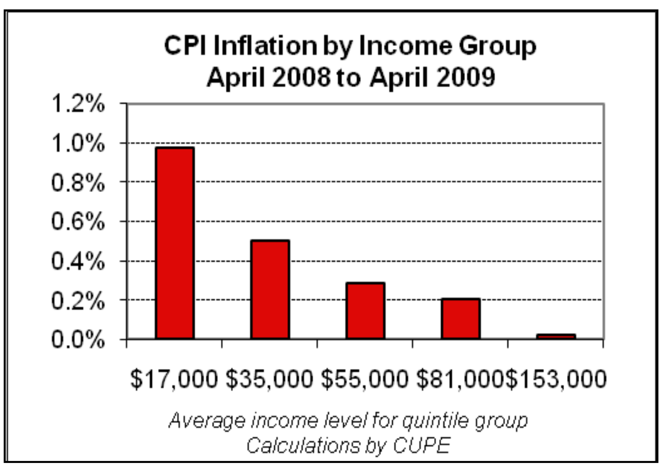
The economic crisis has whacked the inflation rate with prices for houses, energy and interest rates falling.

Last summer, before the crisis hit with full force, Canada's annual inflation rate jumped to 3.5%, pushed up in part by high oil and gas prices. It has dropped pretty steadily since then, falling to only 0.4% this past April.

The annual inflation rate is expected to fall further and average close to zero or perhaps slightly negative for 2009 (see Canadian Economic Outlook table, page 3) This sparked concerns about deflation and its impact on the economy, but those concerns have now melted away as gas and other prices have risen.

Later this year and next consumer price inflation will start to revive again. Most are expecting Canada's inflation rate to be between 1% and 2% in 2010, with an average of 1.5%. After that, there are other causes for uncertainty ahead.

Some are concerned about rising rates of inflation in the United States and elsewhere as a result of governments "monetizing their debt" by buying back government bonds. Higher inflation would also help to erode the real value of government debt in future years thereby making it more manageable.



This is less of a direct concern in Canada, but because of our very close economic and trading relationship, we could get sideswiped by rising rates of inflation in the United States. A higher Canadian dollar wouldn't be able to adjust completely.

On the other side of the equation, there's uncertainty about what the federal government will decide when its current inflation control agreement comes to an end in 2011.

Since 1991, the federal government has had successive agreements with the Bank of Canada to keep an inflation target aimed at 2%. Now they are engaged in a lot of research and discussion about whether to adopt a lower target for the inflation rate, or to adopt a *price level* target instead. With a price level target, the government would try to compensate in the future for deviations from its target inflation rate in the past.

But this is all high level theoretical discussion right now. At the street level, Canadians are experiencing very different rates of inflation and changes in their cost of living, depending on where they live, what they buy, and what their income is.

Canadian families have of course experienced very different rates of inflation depending on what region of the country they live in. Statistics Canada reports in some detail on inflation and price trends in different provinces and cities, but unfortunately it doesn't report on how inflation affects families of different income groups or different household types.

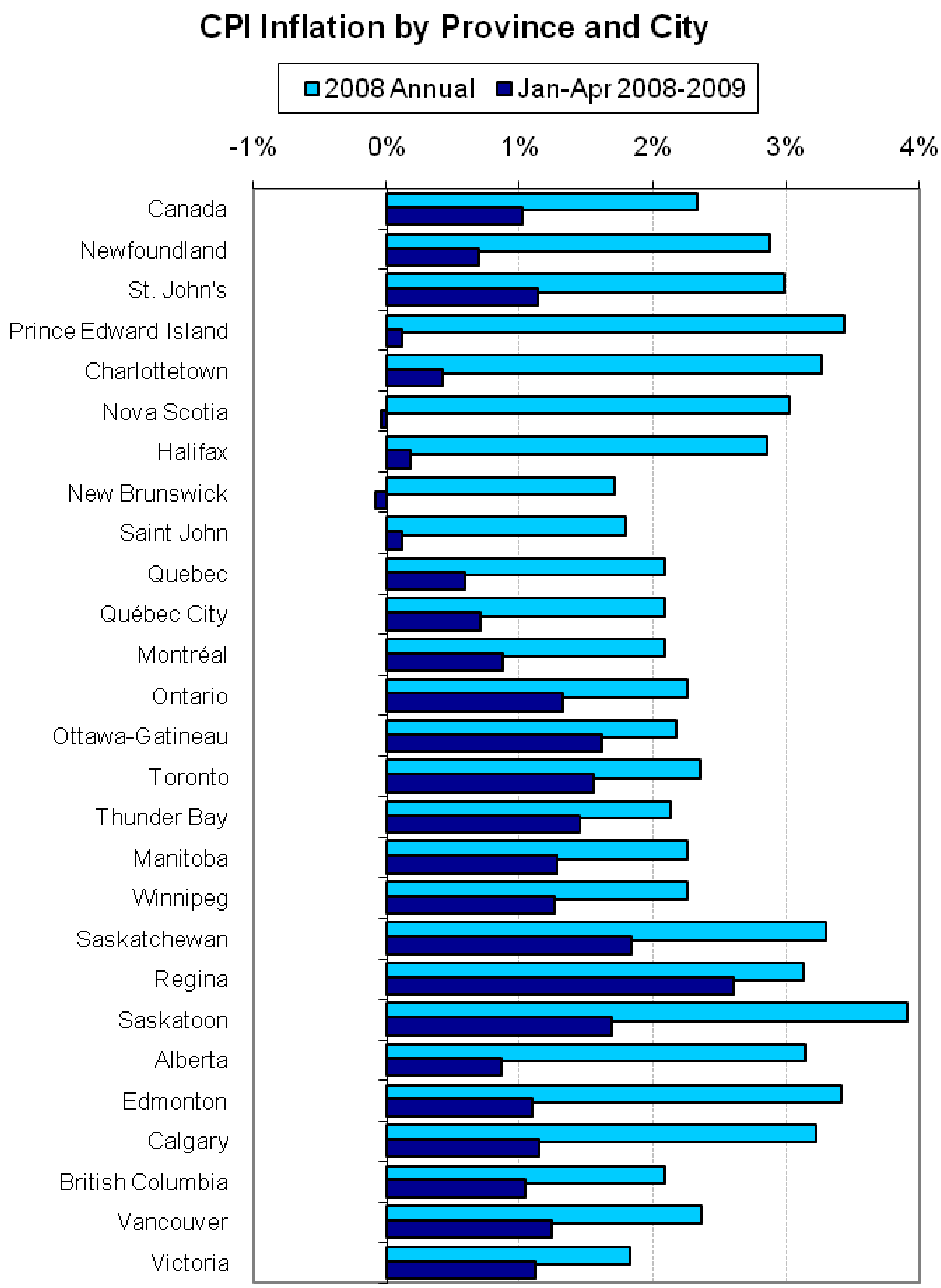
While prices have declined for some things such as houses and fuel, the cost of food has kept on increasing. Food prices were, on average 7.1% higher in April 2009 than they were a year earlier. This has especially hurt lower and middle income families who must spend much more of their monthly income on food.

In fact, conservative estimates show that inflation for lower income families over the past year has been much higher than for higher income families. Inflation for lower income households is double the average, while it works out to practically zero for the highest income group.

More detailed calculations would very likely show an even more unequal impact by income group because the cost of basics such as potatoes, rice and other staples have increased at double-digit rates.

Booming and then falling house prices have been a big part of the regional differences in prices, but they have affected the cost of living of different households in very different ways.

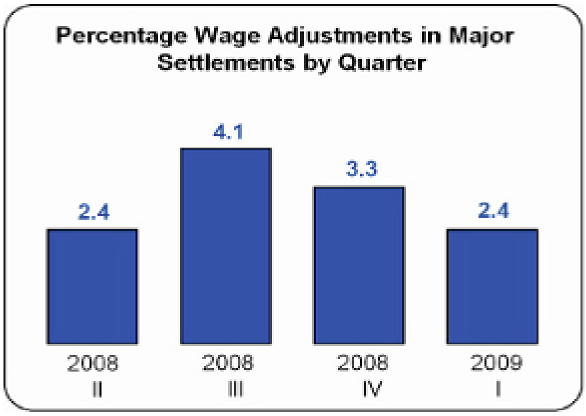
Young families or those who have moved have especially felt the impact of higher house prices. A whole demographic generation that was caught on the wrong side of the boom could remain house poor for decades. This will affect their real cost of living for many years without being adequately reflected in the inflation rate, or in their wages and salaries that shadow the inflation rate.



Data from Statscan Cat# 326-0001

Union wage increases continuing to provide gains

Wage increases negotiated in major settlements are tumbling together with the economy, but they continued to outpace inflation in the first quarter of this year.



While the ongoing negotiations of autoworkers grabbed media headlines, another 93 major settlements representing over 300,000 workers were signed during the first quarter of this year providing average annual base wage increases of 2.4% a year over the life of their contracts.

This average wage increase was double the average 1.2% increase in consumer prices recorded during the first three months of this year.

For the first time in years, average private sector wage adjustments at 2.8% were higher than the 2.4% average for public sector workers. However, the number of workers covered by private sector contracts signed during this quarter was relatively small and only represented 5% of the total. Once the large auto sector contracts are included then private sector wage increases will no doubt drop considerably.

Almost half of the workers covered by agreements settled during the first quarter were under federal public sector agreements where the federal government legislated wage increases that work out to an average of 1.8% a year.

Close to 60% of public sector workers covered received increases in the 1% to 1.9% range; 14% gained between 2% and 2.9%; 16% gained between 3% and 3.9%; and 11% of workers gained over 4% base wage increases.

Increases by region and sector

By province the largest average increases were achieved by workers in Newfoundland and Labrador (5%) and in Alberta (4.4%), while those in Québec (1.6%) and those under federal jurisdiction (1.8%) received the lowest (see table on right side).

By industry sector, the highest average increases went to workers in utilities (4.1%) and those in education, health and social services (3.5%).

Workers from a range of sectors and regions were able to achieve decent wage increases. These include:

- University of Ottawa part-time profs (5.3%/3 years)
- ATCO Gas Edmonton and Calgary (5.1%/2 years)
- EMC Emergency Care Nova Scotia (5.1%/3 years)
- Gov't of Newfoundland and Labrador (5%/4 years)
- Calgary Board of Education (5%/1 year)

At the lower end were agreements with:

- CBC multi-province with Communication Workers of America (0.6% average over 5 years)
- Ville de Québec (1.5%/4 years)
- Société de transport de Montréal (1.6%/5 years)
- Government of Canada and agencies (1.7%/4 years)
- Government of Ontario OPSEU (1.9%/4 years)

Other Wage Trends

The base wage increases negotiated in settlements are normally the most relevant comparison for bargaining purposes. At the same time, an increasing number of collective agreements in Alberta are tying their wage adjustments to changes in average weekly earnings for the province, reported through Statistics Canada's monthly payroll survey.

Recent trends in this measure of wages are similar to overall wage adjustments achieved through collective bargaining. At the national level, average weekly earnings increased by 2.4% in March 2009 compared to a year earlier. The highest increases on a provincial basis were also achieved in Newfoundland and Labrador at +6.4% and in Alberta at 5.6% in March 2009 compared to a year before.

Hourly and weekly wage levels are also surveyed and reported through Statistics Canada's *Labour Force Survey*. However, these figures are less reliable because they are self-reported estimates, rather than actual payroll figures, and because the *Labour Force Survey* also has a much smaller survey sample size.

Key current and upcoming CUPE negotiations include City of Toronto, City of Windsor, Air Canada, B.C. paramedics, Nova Scotia Health, and Saskatchewan Health.

Some Recent Major CUPE Settlements

Employer	Average Increase
Ville de Québec	1.5
Vidéotron Québec	3.0
Carleton University	3.0
University of Toronto	3.2
Niagara Region Home for Seniors	2.6
Manitoba Regional Health	2.9
Capital Care Edmonton	5.0
Calgary Board of Education	5.0

Average Wage Settlements Major Collective Bargaining by Year							
	2006	**2007**	***2008***	***2008Q2***	***2008Q3***	***2008Q4***	***2009Q1***
All Average	2.5	3.3	3.3	*2.4*	*4.1*	*3.3*	*2.4*
Public Sector	2.6	3.4	3.6	*3.1*	*4.5*	*3.4*	*2.4*
Private Sector	2.2	3.2	2.6	*1.7*	*3.0*	*3.0*	*2.8*
CPI Inflation:	*2.0*	*2.2*	*2.3*	*2.4*	*3.4*	*1.9*	*1.2*

Average Wage Settlements by Province – Major Agreements												
	NL	**PEI**	**NS**	**NB**	**QC**	**ON**	**MB**	**SK**	**AB**	**BC**	**Multi Prov**	**Federal**
2006	1.7	2.7	3.2	3.0	2.0	2.5	2.6	2.1	3.4	2.5	3.8	2.3
2007	1.6	2.8	3.0	2.5	3.2	3.0	3.0	4.1	4.9	3.0	4.0	2.9
2008	*5.0*	*3.0*	*3.4*	*2.7*	*2.4*	*2.5*	*3.5*	*5.2*	*4.8*	*2.7*	-	*2.9*
CPI 2008	*2.9*	*3.4*	*3.0*	*1.7*	*2.1*	*2.3*	*2.3*	*3.3*	*3.1*	*2.1*	-	*2.5*
2008Q3	-	*3.0*	*4.7*	*3.7*	*2.8*	*2.9*	*3.4*	*6.2*	*5.3*	*2.6*		*3.3*
2008Q4	*5.0*	-	-	*3.7*	*2.5*	*3.0*	*1.8*	*3.5*	*5.0*	*2.5*		*2.7*
2009Q1	*5.0*	*3.6*	*3.0*	-	*1.6*	*2.5*	*2.8*	-	*4.4*	-		*1.8*

Average Wage Settlements by Industry – Major Agreements						
Industry	**2006**	**2007**	**2008**	***2008Q2***	***2008Q3***	***2008Q4***
Primary	4.7	4.3	*3.4*	-	*3.2*	*2.5*
Utilities	3.8	2.2	*2.1*	*3.5*	-	*4.1*
Construction	3.3	5.8	-	*4.7*	-	-
Manufacturing	2.5	1.5	*1.1*	*3.1*	*1.8*	*2.9*
Wholesale and Retail	2.4	2.9	*1.7*	*2.5*	*3.4*	*1.9*
Transportation	2.7	3.1	*2.9*	*3.2*	*2.9*	*1.8*
Information & Culture	3.0	2.0	*2.1*	*1.6*	*2.0*	*1.9*
Finance & Professional Services	3.5	2.8	*2.9*	-	*2.9*	*1.7*
Education, Health, Social Services	3.5	3.9	*3.8*	*4.7*	*3.5*	*3.5*
Entertainment and Hospitality	3.3	1.9	*1.2*	*2.3*	*3.2*	*2.5*
Public Administration	3.5	2.7	*3.3*	*3.0*	*3.4*	*2.0*

Source: Human Resources and Skills Development Canada, Major Wage Settlements, [latest information as of June 1, 2009] http://www.hrsdc.gc.ca/en/lp/wid/adj/01wage_adj.shtml, Consumer Price Index (Statistics Canada 326-0001).

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