ECONOMIC CLIMATE *for* BARGAINING

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Frontline Summary

Economic Outlook Summary

Canada's economy is growing much faster than expected coming out of the recession.

Economic growth in the first quarter clipped by at an annual rate of 6%, higher than forecast and much higher than the 2.6% for 2010 projected in the federal budget. The higher growth rates are also being reflected in lower rates of unemployment and lower deficits.

Business continues to be a laggard. Despite deep cuts to business taxes and record profits, its investment in the economy continues to decline. This underlines the need to maintain stimulus and ensure household finances improve with increases to real wages and progressive taxation.

On average, private economic forecasts expect:

- Economic output (GDP) to increase by an average of 3.4% in 2010 and 3.0% in 2011.
- Unemployment to average 8.1% this year and 7.7% in 2011.
- Consumer price inflation to rise to an average 1.9% in 2010 and 2.2% in 2011.

The new Grecian formula: still toxic
In the wake of the financial crisis, there is growing alarmism about a public debt crisis rocking Greece and other countries in Europe. The concerns are being overblown—and for a purpose. They are being used to introduce long-planned cuts to public spending, structural reforms and increases to the retirement age. Canada may be far away and in much better fiscal shape, but governments here are still planning similar policies.

Job recovery uneven
The Canadian economy has created close to 300,000 jobs since last July, coming a long way to make up for the 415,000 jobs lost during the recession. But the jobs recovery is uneven. It will take much longer for unemployment rates to drop in larger province and most of the jobs created are quite different from the jobs that were lost.

The great HST tax shift
There's been a lot of heated debate about the new Harmonized Sales Taxes planned for Ontario and BC. Provincial governments haven't helped by being less than transparent. Fortunately, a new study conducted by Statistics Canada for the Ontario NDP details what the average impacts will be for different households.

Consumer prices on the rise again
Consumer prices are on the rise again across Canada. This has led to calls for the Bank of Canada to rapidly raise interest rates to choke off rising prices. This will do little to slow inflation because the main factors driving up inflation are higher energy prices and hikes in user fees and other regulated prices.

Wage adjustments: far from all frozen
Media reports suggest public sector wage increases are being flattened across the country as a result of the squeeze on public spending. This may be the situation with provincial employees in Ontario and BC, but the situation for workers across Canada varies significantly.

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.

* Please note that underlined words are hyperlinks available in the electronic version.

The new Grecian formula: still toxic

Our media has been full of stories about a new spectre that is haunting Europe. This time it's the menace of public debt. Greece is being painted as the poster child for a fiscal basket case. Next in line are the rest of the "PIIGS": Portugal, Italy, Ireland and Spain, but all countries are at play.

The money traders and financial markets took a run at Greek bonds early this year, forcing the cost of their public debt up and the value of the Euro down. In response to this, the European Union put together a fiscal rescue package that includes deep public sector spending cuts pay cuts, some tax increases and commitments to restructure its economy.

These developments in Europe may have limited direct effect on Canada, but the images presented and the policies spawned will have a wider impact.

High debts built up as a result of the financial crisis have made public sector workers, public services and the broader social welfare state vulnerable to attack all around the world.

As with most political issues, the real issues aren't simply black and white. The financial markets and money traders may have provoked a sovereign-debt "crisis", but politicians are building it up because they don't want to let a good crisis go to waste. This debt crisis is being used as an opportunity to advance changes that have been planned for years.

The first and easiest political targets for a recession-scarred public are the wages and benefits of public sector workers, as we've also seen in Canada. The longer term objective for most of these countries is to reduce rising costs of public health care and public pensions related to an aging society. Also on the agenda are measures to develop a more flexible economy and workforce through cuts to welfare and unemployment benefits.

Cutting back on pension benefits and health care costs have been top priorities of the International Monetary Fund (IMF), the Organization for Economic Development and Cooperation and Development (OECD) and industrialized countries for many years.

The main measures being implemented or considered include:

- Freezes and cuts to public sector wages and benefits.
- Increases to the retirement age and reductions in pension benefits.
- Cuts to social assistance and unemployment benefits.
- Increases to the "flexibility" of labour markets by reducing employment protections, decentralized bargaining, deregulation, privatization and competition policies for industry.
- Tight controls over public spending.

To their credit, Greece and a number of other countries are also hiking income, luxury and/or corporate taxes as well as taxes on the financial sector, but on the revenue side there is more emphasis on increasing sales taxes. There's also interest in introducing environmental and carbon taxes and reducing subsidies for petroleum.
Much of this is similar to the IMF's old structural adjustment policies, but in a new European formula.

It's notable that many of the same policies are being implemented by governments of both the left and right. What is also remarkable is that these changes are being made so soon after a financial and economic crisis caused in part by similar economic policies.

The main picture we've been presented in Canada is of fiscally irresponsible governments with overpaid public servants and underproductive workers.
The European news is more critical of the role of currency and bond traders. This is why the German government recently restricted speculative short-selling and is campaigning for new taxes on the financial industry.

It's true that the previous Conservative government in Greece created large fiscal deficits and then falsified their fiscal situation with the help of Goldman Sachs. But it is equally false that the country spends too much, that public servants are overpaid and Greek workers unproductive.

Public spending and compensation of public workers in Greece is in line with OECD averages. Public sector employment as a share of the economy is below OECD averages. Greek workers work an average of over 2,000 hours a year: far above the average and second only to Korea in the OECD.

The real problem in Greece may be wide scale avoidance of taxes and regressive taxation. Corporate tax rates in Greece are low while taxes on consumption and wages are relatively high. This has contributed to a large and growing shadow economy and a culture of tax avoidance.

It is estimated that more than 25% of the country's economy evades taxes they should be paying. As a result, government revenues account for 39% of the country's GDP, considerably less than the OECD average and also less than in Canada. If taxes on this underground economy were collected, Greece's situation would better than most in Europe.

The reason why Greece and these other countries have become so vulnerable is because much of their public debt is owed to foreigners. Having adopted the Euro, they have no independent monetary policy and so their problems are now shared with other European countries.

Greece's net public debt is equivalent to about 100% of its GDP. This pales in comparison to Japan, where the government's public debt is more than twice its GDP. The reason why Japan isn't under attack is because virtually all its debt is in bonds held by its own citizens and very little is owed abroad. Many of these European countries borrowed heavily abroad because the savings rates of their own citizens have been very low or negative.

Unfortunately the austerity measures being implemented will cause their economies to slow down and possibly contract, leading to lower revenues and possibly higher deficits. They realize these austerity measures will lead to slower economic growth, but they are convinced it will lead to a stronger economy and finances over the longer term.

Some of the lessons we can take from this Greek crisis are:

- Regressive tax systems that are seen as unfair and are poorly enforced can lead to wide-scale tax avoidance, lower revenues and growing deficits.
- It's not so much the level of public debt that's a problem, but who it is owed to. Countries become vulnerable if they borrow heavily abroad.
- Borrowing domestically requires that households save a decent portion of their income, which also means households need to have decent incomes.

Implications for Canada

Canada is a long way away from Greece, both in terms of geography and our fiscal situation. We are in by far the best fiscal situation of all major industrialized countries. Not only are Canada's public debt ratios low, but the federal government has little sovereign debt (although provinces such as Ontario borrow more heavily abroad).

Not only is our fiscal situation already better than other major countries, but it is rapidly improving. The deficit and debt projections included in recent budgets are already proving to be too pessimistic. The federal government's deficit for 2009-10 has already come in $7 billion lower than what was forecast in March. Federal deficits for the next three years are now also expected to be $5-$10 billion lower than what was projected. Most provinces are likely to see significant fiscal improvements as well.

This doesn't mean Canadians will be immune to further pressure to reduce public spending. Ongoing corporate tax cuts continue to erode public finances. The next major target for spending cuts will be provincial health spending and federal transfers for health care. This is being targeted for the period after the current agreements expire in 2013/14, but decisions will be made well before then.

Canada's real fiscal challenge is on the home front, with record rates of household debt. The solutions to this are higher wages, more progressive taxes and maintaining public services. The new repackaged Grecian formula is still toxic and won't solve these problems.

Canadian economic outlook: can the momentum continue?

Canada's economy is growing much faster than expected coming out of the recession. In the 1st quarter of 2010, GDP ripped forward at an annualized rate of 6%. This followed strong growth of 5% in the 4th quarter of 2009, both rates much faster than the 2.6% increase for 2010 projected in the federal budget.

What's driving the economy forward is shifting. Last year, government spending was in the driver's seat, responsible for pulling our economy out of the ditch. This year, it's been consumer spending, rebuilding inventories and investment in residential construction—up by 5.4%— that have done the most pulling. In contrast, growth in government spending slowed down to a 2% increase while business investment barely increased.

With interest rates rising and little increase in wages, households and housing can't and won't continue to take the lead. Business needs to do more than just sit on their fat pot of growing profits and get back to work by investing in the economy.

On the key indicators:

- **Economic Output.** Forecasters now expect growth of the Canadian economy to speed up, averaging 3.4% this year, following a drop of -2.6% in 2009. Next year it's expected to rise by 3.0%.
- **Unemployment.** Jobs are being created, but not as fast as the economy is expanding. The national unemployment rate is expected to average 8.1% this year and 7.7% in 2011.
- **Inflation.** The rate of consumer price inflation is accelerating thanks to higher energy prices, regulated prices and taxes. It's now expected to average 1.9% this year and 2.2% in 2011.

Canadian Economic Outlook- Average of Private Sector Forecasts

Annual growth rates unless indicated	**2008**	**2009**	**2010**	**2011**
	Actual		*Forecast*	
Growth in the Economy				
Real GDP	0.4%	-2.6%	3.4%	3.0%
- Consumer Spending	3.0%	0.2%	3.2%	2.9%
- Business Investment	0.2%	-17.4%	-1.4%	6.1%
- Government Spending	4.8%	4.5%	6.0%	1.2%
Labour Market				
Employment growth	1.5%	-1.6%	1.4%	1.8%
Unemployment rate	6.1%	8.3%	8.1%	7.7%
Productivity growth	-0.6%	0.7%	1.7%	1.4%
Inflation - Consumer Price Index	2.4%	0.3%	1.9%	2.2%
Corporate Profits before tax	5.7%	-33.4%	18.1%	12.6%
Real Personal Disposable Income	4.2%	1.4%	3.0%	2.2%
Personal Savings Rate	3.7%	4.7%	4.8%	4.9%
Housing Starts (000s)	212	149	190	181
Interest Rates and Exchange Rate				
Short-term 3 Month T-Bill	2.33%	0.33%	0.84%	2.77%
Long-term 10 Year Bond	3.61%	3.23%	3.78%	4.39%
Exchange rate C$ in U.S. cents	$ 93.81	$ 95.97	$ 99.63	$96.87

Averages based on latest forecasts from six different Canadian forecasters as of 28 May, 2010.

Provincial economies: getting back on track

All provinces will bounce back from the recession this year, with Newfoundland, Ontario, Saskatchewan and British Columbia out front. The economies of these provinces are all expected to grow at faster rates than the national average of 3.4% with Alberta close behind at 3.3%

In most cases, it's because each of these provinces have more ground to make up, as they had borne the brunt of the recession. For BC, it's a boost from the Olympics that has enhanced its economic performance.

Next year, economic growth is expected to decelerate on both coasts and in central Canada with a cooling housing market and the lingering effects of a higher dollar curbing net exports.

Employment growth will continue to lag economic growth as employers increase hours for existing workers. Still, unemployment rates should start to decline over the course of this year in all provinces, slower this year and faster next.

People in the Atlantic region have faced more rapid increases in their cost of living, as they are more affected by higher fuel costs. Increases in sales taxes and the shift to the HST will boost inflation rates in Ontario, BC, Quebec and Nova Scotia over the next two-years.

The table below presents an average of the recent publicly-available forecasts of main economic indicators at the provincial level, calculated from 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 forecasters.

Provincial Economic Outlook

% annual growth except where noted

	Real GDP		Employment		Unemployment Rate		Inflation	
	2010	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**
Canada	3.4	3.1	1.3	1.7	8.2	7.7	1.9	2.0
Newfoundland & Labrador	4.1	2.9	2.1	1.4	14.9	14.4	2.3	2.0
Prince Edward Island	2.3	2.4	3.0	1.1	11.0	10.5	2.5	1.6
Nova Scotia	2.3	2.3	0.6	1.3	9.0	8.7	2.2	1.9
New Brunswick	2.5	2.6	0.6	1.3	8.8	8.4	2.4	1.8
Quebec	3.1	2.8	1.3	1.4	8.1	7.8	1.9	1.8
Ontario	3.6	2.9	1.3	1.8	8.9	8.3	2.2	2.1
Manitoba	2.8	3.1	1.4	1.7	5.2	4.9	1.6	2.0
Saskatchewan	3.7	3.8	1.5	2.1	4.9	4.6	1.7	2.4
Alberta	3.3	3.9	0.7	2.4	7.0	6.6	1.7	2.3
British Columbia	3.7	3.4	1.8	1.8	7.5	6.9	1.7	2.1

Based on the average forecasts from four different bank forecasters as of 28 May 2010.
National averages may differ from those reported in the Canadian outlook table because they are from a smaller group.

Job recovery uneven: *new jobs generally lower paid*

The Canadian economy created almost 300,000 jobs in the nine months since employment bottomed out in July 2009.

That leaves us still 100,000 short of job levels when the recession began in October 2008. Close to 1.5 million people remain unemployed, 300,000 more than at the start of the recession.

The number of unemployed and the unemployment rate (at 8.1% in April 2010) are about 30% higher. Still, Canada has fared far better than the U.S. where the unemployment rate remains close to 10%.

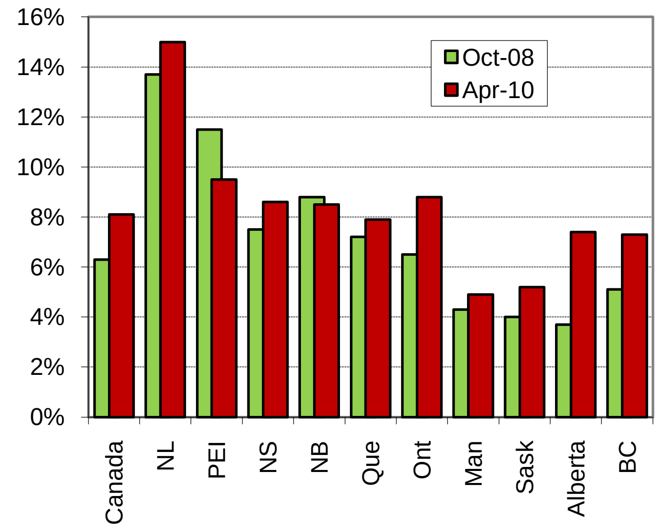
The recession caused job losses in all provinces, but some were hit much harder than others. Unemployment rates in P.E.I. and New Brunswick are already below what they were at the start of this recession. Meanwhile, rates in Ontario, Alberta and BC remain far higher than they were. Together, these three provinces account for 80% of the increase in unemployment.

The types of jobs being created are mostly quite different from those that were lost. 415,000 jobs were lost in the first nine months of the recession. Over three quarters of these jobs were lost in the goods sector, with over half (215,000) of the jobs from manufacturing. The much larger services sector only lost 51,000 jobs.

Since employment started growing again last July, almost three quarters of the jobs added have been in services. Employment in services has not only fully recovered, but is now 162,000 higher than October 2008.

Employment in the broader public sector areas of education, health and social services are all above pre-recession levels, as it is in most other service sector industries. The major exceptions are transportation and warehousing, where employment is down 10%, public administration with almost 2% fewer jobs.

Unemployment Rates in Canada
October 2008 - April 2010



In contrast, overall employment in the goods sector was 285,000 lower in April than it was at the start of the recession. Many of the jobs lost in construction have been regained thanks to a booming housing sector, but employment in manufacturing has continued to decline.

A recent Statistics Canada analysis of the impacts of layoffs after previous economic downturns found that wage losses were often substantial for those who found new jobs after being laid off.

Some found jobs that paid more, but the number of those with wage losses outnumbered those with wage gains by more than three to two. For those who made less, the average wage loss was more than 20%. More than 20% of laid-off workers who found new work no longer had a pension plan.

It is still early days for this recovery, but a similar pattern seems to be playing out: average earnings for the type of new jobs being created are about 10% lower than for the type of jobs that were lost.

Jobs Impact of the Recession

Employment and Labour Force Changes for the Latest Month,
and since October 2008, start of the recession

All figures in thousands except where indicated as %

					Change from		% change
Labour Force	**Oct-08**	**Mar-09**	**Apr-10**		**Mar-09**	**Oct-08**	**from Oct-08**
Labour force	18,346	18,478	18,570		92.0	224.0	1.2%
Employment	17,195	16,963	17,072		108.7	-122.8	-0.7%
Full-time	14,004	13,725	13,768		43.8	-235.8	-1.7%
Part-time	3,190.5	3,239	3,304		64.8	113.0	3.5%
Unemployment	1,151.5	1,515	1,498		-16.8	346.8	30.1%
Unemployment rate (%)	6.3%	8.2%	8.1%		-0.1%	1.8%	
Participation rate (%)	67.8%	67.0%	67.2%		0.2%	-0.6%	
Employment							
Women 25 +	6,854	6,913	6,927		14.0	72.5	1.1%
Men 25 +	7,740	7,636	7,707		71.8	-32.8	-0.4%
Youth	2,601	2,415	2,438		23.1	-162.4	-6.2%
Public sector	3,462	3,476	3,474		-1.8	11.8	0.3%
Private sector	11,082	10,793	10,901		108.5	-180.4	-1.6%
Self-employed	2,651	2,695	2,697		2.0	45.7	1.7%
Employment by Industry							
Goods							
Agriculture	326	306	297		-9.6	-29.3	-9.0%
Forestry, fishing, mining, oil and gas	339	335	338		2.7	-1.0	-0.3%
Utilities	149	146	151		5.2	2.6	1.7%
Construction	1,251	1,196	1,220		24.4	-30.2	-2.4%
Manufacturing	1,975	1,768	1,747		-20.6	-227.4	-11.5%
Services							
Trade	2,677	2,658	2,689		31.6	12.4	0.5%
Transportation and warehousing	871	782	778		-4.9	-93.1	-10.7%
Finance, insurance, real estate and leasing	1,071	1,098	1,109		10.5	37.6	3.5%
Professional, scientific and technical services	1,204	1,259	1,269		9.9	64.6	5.4%
Business, building and other support services	670	643	674		31.3	4.0	0.6%
Educational services	1,208	1,236	1,230		-6.1	21.7	1.8%
Health care and social assistance	1,922	2,011	2,012		0.7	89.4	4.7%
Information, culture and recreation	749	766	785		19.5	36.2	4.8%
Accommodation and food services	1,066	1,092	1,079		-13.6	13.3	1.2%
Other services	766	731	760		29.0	-6.2	-0.8%
Public administration	953	937	936		-1.3	-17.4	-1.8%

The great HST tax shift: *middle income families to be worse off*

The Harmonized Sales Taxes (HST) set to come into effect in Ontario and British Columbia on July 1st 2010 will increase the cost of living for residents of those provinces, but the big question is "By how much?" Fortunately, we now have some answers to that question for Ontario.

The HST plans have led to much controversy in the two provinces. The provincial governments haven't helped by being less than transparent about how much these changes will cost average families.

In both provinces, the HST rate will be set at a combination of the GST and existing sales tax rates: 13% in Ontario and 12% in BC. For most goods, the tax rate won't increase; however, because the GST applies more broadly than provincial sales taxes, consumers will have to pay higher taxes on a broad range of goods and services.

In British Columbia, the major new areas covered are: restaurant and take-out food, various financial services, telephone and cable, a wide range of recreation, personal and professional services, taxis and new housing.

In Ontario, the major new areas covered by the HST will be energy and fuel for home and transport, various financial services, internet access fees, a wide range of recreational, personal and professional services, taxis, new homes over $400,000 and air, rail and commercial bus tickets.

Because the HST is a "value-added" tax like the GST businesses will get input tax credits for the sales tax they pay. This means businesses will receive a large tax break, with most incurring no overall sales tax expenses. Some of these tax savings should be passed on to consumers through lower prices, but it isn't clear how much this will happen: it all depends on the particular business. Some savings will no doubt be passed on, but already two major retailers—Tim Horton's and the LCBO—have announced that they'll be pocketing the tax savings for themselves.

The major benefit of the HST should be that it will lower the cost of capital equipment, which should lead to more investment and more jobs. This should happen to some degree, but there are questions whether it will provide as large a boost as proponents claim. Major cuts in corporate taxes have so far failed to boost business investment.

Public sector organizations—such as schools, hospitals, municipalities, universities and colleges, and non-profit organizations—will face higher costs. Both provinces will provide a rebate to these organizations for a portion of the HST they pay.

In Ontario, municipalities, universities and colleges will be able to claim a 78% rebate on the HST they pay. School boards can claim 93%, hospitals 87% and charities and non-profits 82%.

In British Columbia, the province is promising a 75% rebate for municipalities, universities and colleges, 87% for school boards, and 58% for hospitals, charities and non-profits.

As part of their tax reform packages, both provinces are providing tax credits and limited income tax cuts in an attempt to compensate families for some of the additional costs as well as a one-time transition payment. The Ontario government also included additional cuts to corporate income tax rates as part of their tax reform package.

But an unanswered question has been whether these measures are enough to fully compensate families for the higher costs of living.

Fortunately, the Ontario NDP recently commissioned Statistics Canada to estimate what impact the HST will have on families of different income levels and how much they will benefit from the compensating sales and property tax credits and personal income tax cuts.

The study used figures provided by the provincial and federal governments in its assumptions. The Ontario government hasn't raised any fundamental criticisms about the accuracy of these numbers, so it can be assumed they are reasonable estimates.

Statistics Canada performed two different sets of calculations using their Social Policy Simulation Database and Model. One set assumes businesses pass on savings to consumers by lowering their prices; the other assumes that businesses keep these savings to themselves.

The bottom line is that the average family in Ontario will pay an estimated $638 to $792 more in sales taxes yearly as a result of the HST.[1] The ongoing sales and property tax credits and the income tax cut will provide an average $322 annually per family.

This means an average family will experience a net loss of $316 to $470 per year as a result of these changes, not including the one-time transition payments.

The results by family income group are illustrated and detailed in the table below.

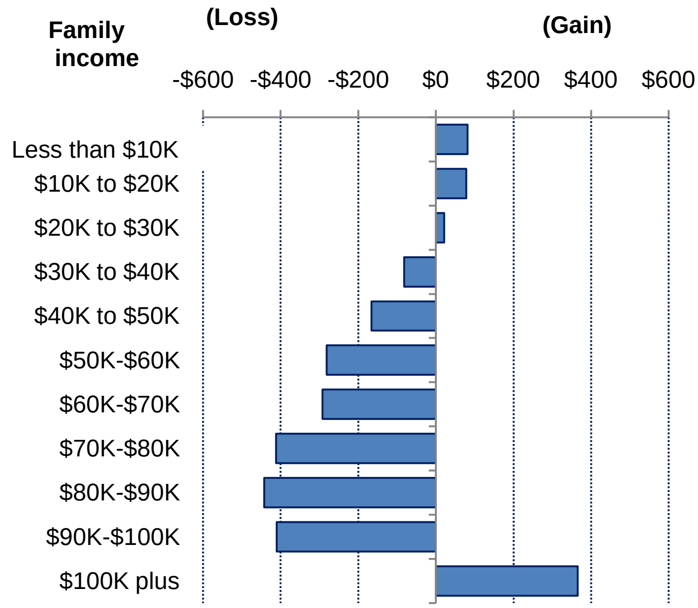
The analysis by Statscan doesn't include the impact of corporate tax cuts, which are part of Ontario's tax reform package. The benefits of corporate tax cuts should eventually flow through to the owners and shareholders of these companies and/or to employees and consumers.

The table below includes these flow-through impacts, assuming that half of the benefits of the corporate income tax cuts flow through to Ontario residents through increases in investment income[2]. While all income groups receive some investment income, higher income families benefit disproportionately more.

These figures illustrate the overall impact of Ontario's HST tax reform package:

- Low income families with incomes below $20,000 will on average be slightly better off as a result of the tax credits and income tax cuts.
- Middle income families with incomes between $30,000 and $100,000 will on average be worse off by an average of $200 to $800 a year, with higher sales taxes exceeding the benefits of tax credits and tax cuts.
- Higher income families who receive significant investment income are likely to be better off as a result of the flow through benefits of corporate income tax cuts.

Overall Impact of Ontario HST Tax Reform
Annual average by Family Income Group



Includes impact of shift to HST, sales and property tax credits, income tax cuts and flow-through impact of corporate tax cuts, but not one-time transition payments.

Impacts will of course be different depending on each family's sources of income and spending patterns, but these calculations provide estimates of the average impacts by income group. The impacts of the corporate tax cuts will vary a lot more than is indicated in this table because many families don't receive any direct investment income while other families receive large amounts.

The average net loss for those in the middle family income range of $40,000 to $90,000 is approximately 0.5% of their income. This is not a massive amount, but it adds up to more pressure for families whose wages aren't keeping up with the cost of living.

[1] Figures are for the 2011 year, and range depending on whether businesses pass on their savings through lower prices.

[2] These impacts were calculated using data on investment income for Ontario reported by the Canada Revenue Agency and by Statistics Canada.

On average, families with incomes of less than $20,000 will have a net gain as will those with incomes of more than $100,000 as long as they gain enough benefits from the corporate tax cuts.

The overall impacts would be more positive if the tax reform provided increased revenues for the province that could fund public services, which provide significant benefits for all households[3].

However, this tax reform is expected to result in an *overall loss of revenues* for the Ontario government. Given rising deficit concerns, this loss of revenue is likely to result in cuts to public services, having a further negative impact on Ontario families.

Similar detailed analysis has not yet been completed for British Columbia. While families with annual incomes of less than $20,000 or $30,000 may end up better off as a result of the new BC HST credit, it appears virtually all families with incomes above that level will be worse off as a result of their HST package as well.

Overall Impact of Ontario's HST and Tax Reform

(all figures in 2011 dollars except where noted)

Family income level (thousands)	Increase in sales taxes from shift to HST	Sales and property tax credit benefits	Personal income tax benefits	Net impacts	Corporate tax cut benefit	Overall impact
Less than $10K	-119	193	3	77	4	$81
$10K to $20K	-233	287	16	70	8	$78
$20K to $30K	-369	302	67	-1	22	$21
$30K to $40K	-501	258	128	-115	33	-$82
$40K to $50K	-587	166	204	-217	51	-$166
$50K-$60K	-701	119	241	-341	59	-$282
$60K-$70K	-706	30	303	-373	80	-$292
$70K-$80K	-846	9	313	-524	112	-$412
$80K-$90K	-918	2	344	-572	129	-$443
$90K-$100K	-939	0	341	-597	187	-$411
$100K plus	-1392	1	296	-1096	1461	$365
Average all families	-638	151	171	-315	155	-160

Calculations performed by Statistics Canada for the Ontario NDP available at http://www.unfairtaxgrab.ca/images/NDP_HST_study.pdf with the exception of the distributional impact of the corporate tax cuts, which were calculated by CUPE using Statistics Canada and Revenue Canada data with assumptions as noted.

3 See Hugh Mackenzie and Richard Shillington, *Canada's Quiet Bargain*, Canadian Centre for Policy Alternatives, 2009.

Consumer prices on the rise again with hikes in user fees and regulated prices

Consumer prices are on the rise again after leveling out with an average increase of just 0.3% last year. In the first four months of 2010, the national consumer price index (CPI) increased by an average of 1.8% compared to the same period in 2009.

On a regional basis the same trends have persisted. Households in Atlantic Canada have experienced rates of inflation of 2.5% or higher as a result of the region's higher dependence on fuel. In Ontario and Quebec, inflation has averaged close to 2% while in Western provinces the average inflation rate to date in 2010 has been below 1.5%

South of the border it is a different story. In the U.S., there is growing concern about *deflation.* Added to this, the rising loonie should be making imported goods cheaper in Canada, while the falling U.S. dollar should be making imported goods in that country more expensive.

A number of bank economists expressed surprise that Canada's inflation rate—and particularly our core inflation rate—has rebounded so strongly while there's still considerable slack and unemployment in the economy.

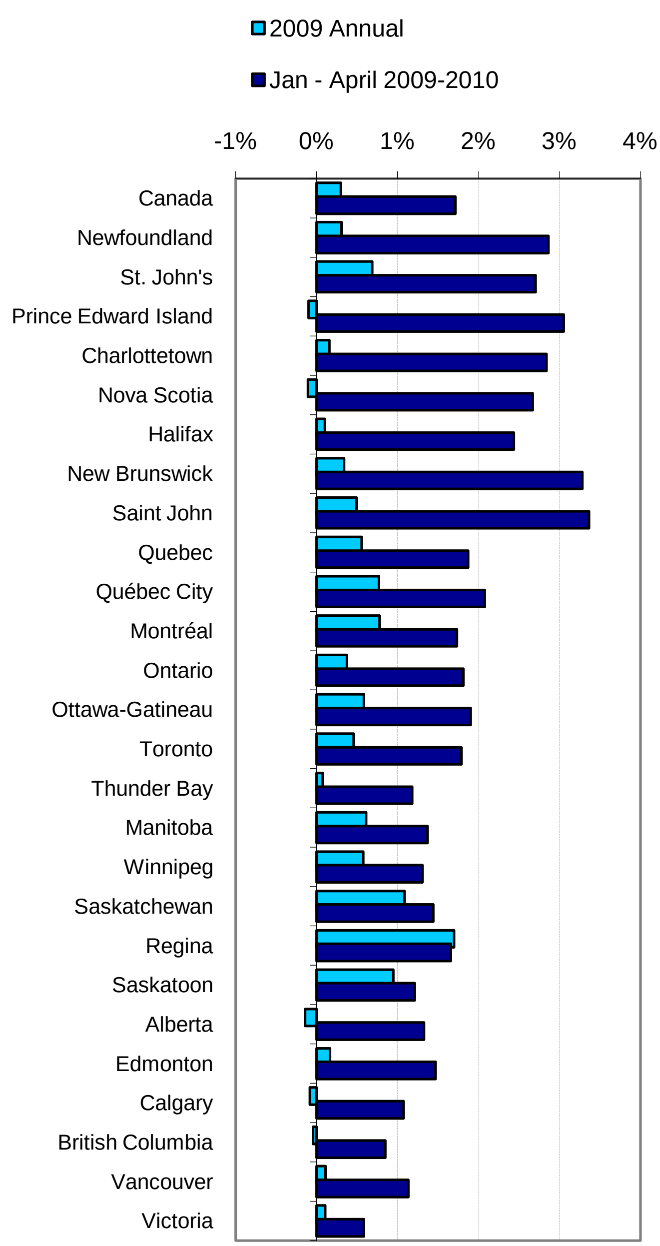
Higher rates of core inflation are leading to calls for the Bank of Canada to rapidly hike its interest rates to choke off rising prices. But there's little mystery to Canada's stubbornly rising core inflation rate—and ratcheting up interest rates will do little to reduce it.

Many of the familiar culprits continue to drive the cost of living higher: rising prices for fuel, houses and insurance premiums. What's concerning is they are now being joined by hikes in many user fees, taxes, and regulated prices, such as for electricity, property taxes, water, postal and telephone services, urban transit, education and health care services.

Higher interest rates will no doubt lead to lower housing prices, but they won't do much to contain prices in these other areas. Instead of reducing these prices, higher rates will instead increase costs for these organizations and agencies that are already hiking their fares.

There may be good reason to deflate Canada's housing bubble, but let's not pretend that it will have a major impact on the consumer price index. House prices directly account for less than 4% of the weight of the CPI and even then it only uses the price of new homes.

CPI Inflation by Province and City



Data from Statscan Cat # 326-0001

Inflation Outlook

We're going to see a significant boost to inflation this year and next as a result of the Harmonized Sales Taxes (HST) planned for both Ontario and BC. The introduction of the HST is expected to increase inflation by 0.7 percentage points in Ontario and BC, but it will be spread over two years. The increase in the HST in Québec will add about 0.6 percentage points to inflation in both 2011 and 2012. These tax increases will add about 0.5 percentage points to inflation at a national level. This increase in inflation may be tempered by drop in-house prices but not by much: we should be looking at higher inflation going forward.

On average, forecasters are now expecting the national consumer price inflation rate to average 1.9% in 2010 and 2.2% in 2011. This represents a range of 1.7% to 2.1% in 2010 and a range of 1.9% to 2.5% in 2011.

At a provincial level, inflation is expected to rise the most in Atlantic Canada and Ontario, increasing by an average of over 2%, and by slightly less in the rest of the country, consistent with inflationary trends so far this year *(See Provincial Outlook on page 4).*

In 2011, inflationary momentum is expected to shift to the west, with CPI increases averaging 2% or higher for all provinces from Ontario to BC, but more subdued price increases in eastern Canada.

These increases in the rate of inflation are happening while a renewed debate is taking place about what the ideal rate of inflation for Canada should be.

Since 1991, the federal government and the Bank of Canada have had formal agreements to aim for a national inflation rate of 2% a year. The current agreement runs until the end of 2011. Canadians now have fairly strong expectations for inflation at this rate over the longer term.

However, now there's some discussion about adopting a lower inflation target—of 1% a year for instance—or targeting a price level rather than an inflation rate, or using different measures of inflation.

To add to the uncertainty, the International Monetary Fund (IMF) also recently urged countries to adopt higher inflation targets of about 4% a year. The rationale is that countries would be under less pressure to increase interest rates to keep inflation low now, and would have more latitude to reduce rates in the future without fear of causing deflation.

Any changes to the inflation target would result in significant adjustment costs. Even though this discussion is taking place, given continuing economic uncertainty and no public concerns with the present policy, there's a strong probability that the 2% inflation target will remain.

What's more likely is they'll make more technical changes to the way they calculate the inflation rate. These changes—such as moving to a "chain-linked" index would probably reduce the official calculated inflation rate. On the surface things will appear the same to the public, but such changes would save governments and employers large and growing amounts of money from transfers or wages linked to the rate of inflation, as well as delivering higher tax revenues. Meanwhile transfers and wages tied to the inflation rate would very slowly deteriorate.

Wage adjustments: far from all frozen

Recent media reports suggest public sector wage increases are being flattened as a result of the squeeze on public spending.

Certainly there are the well-known two year public sector wage freezes being budgeted by the BC and Ontario provincial governments—and there may be more to come as other employers play copy-cat.

But across the country, the situation is quite different.

In Alberta, just next door to BC, school board workers are benefitting from one-year wage increases of 6% as a result of the government tying wage increases to the change in Alberta's average weekly earnings (AWE). This adjustment will drop down to 2.9% in the next 12 month period, but it's still far from the floor and well above recent rates of inflation.

Across the country in Newfoundland, public sector workers are still inking four-year deals with average annual wage increases of 5%.

Elsewhere in the country most unionized workers continue to achieve average wage increases in the 2-3% range, in line with expectations for inflation.

Wage increases for major collective agreements settled in the first quarter of this year averaged 2.2% for the public sector and 1.8% for the private sector for an overall average of 2.1%.

Other wage surveys have shown similar increases.

- Statistics Canada's *Labour Force Survey* reported that hourly wages in the first quarter of this year increased at an average rate of 2.1%, with an average increase of 2.5% for unionized workers.
- Average hourly earnings reported by the payroll survey for the first two months of this year were up by 1.2% with increases in public administration averaging 2.1%

These types of wage increase are similar to the 2.3% average increases that public sector employers surveyed by the Conference Board were budgeting for their unionized workers for 2010.

With public sector wage freezes still being implemented in BC and Ontario, and difficult negotiations continuing in Quebec, this trend is unlikely to continue. Lower wage increases in these regions can be expected to pull down overall national averages.

With the economy on the mend, unemployment falling and public revenues growing, there's no reason for other employers to follow their example. In fact, wide-scale imitation could easily derail the recovery with household finances becoming more strained.

Canada is in by far the best fiscal shape of all the G8 major industrialized countries. Federal and provincial governments are expected to rapidly reduce their deficits as long as economic growth continues.

In CUPE's major sectors, first quarter settlements provided wage increases for workers in:

- Public administration averaging 2.8%.
- Education, health and social services averaging 2.1% despite the BC wage freeze.
- Utilities averaging 2.9%.
- Transportation averaging 3.7% (thanks in part to a Calgary bus driver settlement at 4.6%).

The uncertain and bargaining environment is also leading to considerably shorter contracts and to delayed and protracted bargaining in many instances.

Average contract duration was only 27 months in the 1st quarter, down from 38 months for their previous contracts. CUPE began this year with slightly more than half of its collective agreements open, up from less than a third in more typical years.

Recent Major CUPE Agreements

Employer	Average Increase
City of Brampton	2.5
Nova Scotia Assoc of Health Orgs	1.9
New Brunswick Nursing Homes	2.5
Cape Breton School Board	2.7
Edmonton School District	6.0
Calgary Board of Education	6.0
BC Health Employers Association (HEU)	0.0
Université du Québec à Trois Rivières	2.2
City of Red Deer	3.7
Ville de Montréal – crossing guards	1.6

Major Collective Bargaining Average Wage Settlements by Year and Quarter						
	2008	***2009***	***2009Q2***	***2009Q3***	***2009Q4***	***2010Q1***
All Average	3.2	*2.4*	*2.7*	*1.9*	*2.1*	*2.1*
Public Sector	3.5	*2.5*	*2.8*	*2.2*	*2.3*	*2.2*
Private Sector	2.5	*1.8*	*1.9*	*1.6*	*1.6*	*1.8*
CPI Inflation:	***2.3***	***0.3***	***0.1***	***-0.9***	***0.8***	***1.7***

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*	*4.0*	*3.7*	*2.4*	*2.6*	*3.4*	*5.1*	*4.8*	*2.7*	*-*	*2.9*
2009	*5.0*	*3.6*	*2.9*	*6.0*	*2.2*	*2.4*	*2.8*	*5.0*	*4.5*	*2.8*	*3.0*	*1.6*
2009Q2	*5.0*	*-*	*-*	*-*	*2.8*	*2.5*	*3.2*	*-*	*4.5*	*2.8*	*-*	*1.6*
2009Q3	*-*	*-*	*3.4*	*6.0*	*-*	*2.2*	*-*	*4.8*	*4.5*	*2.9*	*3.0*	*0.8*
2009Q4	*-*	*-*	*2.3*	*-*	*2.1*	*1.9*	*2.4*	*-*	*4.2*	*2.5*	*0.0*	*1.8*
2010Q1	*1.1*	*-*	*2.1*	*2.6*	*2.0*	*1.9*	*3.3*	*-*	*5.6*	*0.2*	*-*	*1.7*
2010CPIQ1	***3.0***	***3.3***	***2.7***	***3.4***	***1.9***	***1.7***	***1.5***	***1.2***	***1.2***	***0.8***		***1.7***

Average Wage Settlements by Industry – Major Agreements						
Industry	**2008**	***2009***	***2009Q2***	***2009Q3***	***2009Q4***	***2010Q1***
Primary	*4.3*	*2.5*	*-*	*-*	*-*	*0.8*
Utilities	*2.3*	*3.0*	*3.0*	*3.0*	*2.4*	*2.9*
Construction	*5.4*	*3.7*	*3.7*	*4.2*	*2.5*	*1.9*
Manufacturing	*1.1*	*1.6*	*1.8*	*1.2*	*1.2*	*1.1*
Wholesale and Retail	*2.8*	*1.8*	*2.0*	*1.9*	*1.7*	*1.9*
Transportation	*3.1*	*1.1*	*1.7*	*0.3*	*2.1*	*3.7*
Information & Culture	*2.0*	*2.1*	*2.2*	*3.1*	*1.9*	*0.0*
Finance and Professional Services	*2.8*	*2.6*	*2.8*	*2.9*	*2.2*	*-*
Education, Health, Social Services	*3.8*	*3.0*	*2.9*	*2.7*	*2.4*	*2.1*
Entertainment and Hospitality	*1.9*	*2.0*	*1.5*	*1.9*	*-*	*2.4*
Public Administration	*2.8*	*2.1*	*2.4*	*2.0*	*2.3*	*2.8*

Source: Human Resources and Skills Development Canada, Major Wage Settlements, [latest information as of May 25, 2010] http://www.hrsdc.gc.ca/eng/labour/labour_relations/info_analysis/index.shtml , Consumer Price Index (Statistics Canada 326-0001).

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