ECONOMIC CLIMATE *for* BARGAINING

December 2006 **Vol. 3, No. 5**

Frontline Summary

Global economic shifts mean unbalanced growth in Canada the slowing US economy and strong growth in Asia is resulting in greater balance in the world economy – and less balance in the Canadian economy.

Federal economic policies aren't helping
Federal economic policy, as implemented by the Bank of Canada and the federal government, is making the economy less balanced with their support for booming sectors and lack of support for hard-hit communities and industries.

Canada's economy slowing and diverging
Canada's economy has slowed considerably this year, especially in the manufacturing, residential construction and forestry sectors. Slower overall growth is expected to the middle of next year, followed by a moderate recovery, but the big risks are on the downside. There's little middle-ground: Alberta and other fuel-rich provinces are growing rapidly, while other provinces will grow at half the rate.

Forest communities on the chopping block
The forest industry, which is a source of livelihood for many small northern and remote communities, has been walloped by a number of economic forces. This is causing hardship for many communities that have few alternative sources of livelihood.

Federal fiscal update and economic plan
This section includes a brief summary on issues of relevance for CUPE members about the federal Conservatives' recently released fiscal update and economic plan.

Lower energy prices bring inflation down
Lower prices for fuel and gas have brought consumer inflation so far this year down to just above 2.1%, but there are large regional differences in inflation rates. This section also includes a short discussion on the two factors that have lately caused the greatest variations in inflation: energy prices and housing prices.

Employment recovers moderately in fall
After overall job losses in the summer, employment levels started to grow moderately in the fall. Most job creation this year has been in the private sector, with strong growth in natural resources, business services, finance and health care, while manufacturing has lost 70,000 jobs, mostly in Ontario and Quebec.

Canadian workers on the move
Canadians have been extremely mobile. In the past year, there has been a net flow of 57,000 people from other provinces and territories to Alberta. If this keeps up, it could represent the largest inter-provincial migration in Canada's history. But federal and provincial governments still complain of barriers to mobility and have instituted regressive policies that will serve to keep wages down – and undermine democracy.

Real wage gains achieved in 3rd quarter
Collective agreements continued to provide workers with real wage gains. Collective agreements are also increasingly including profit or gain sharing provisions. Survey point to further gains next year.

Coming next issue (March 2007):
- Provincial finances
- Women's wages and income inequalities
- Pension coverage

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Slowing US economy leads to greater balance in the global economy

and growing imbalances within Canada

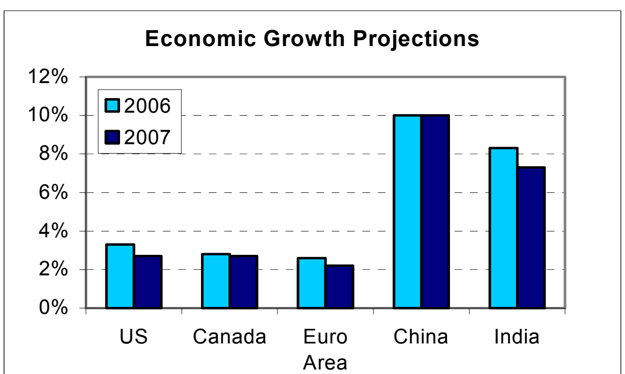
The global economy is undergoing profound structural changes that are affecting Canada's economy – and changing prospects for Canadian workers.

While the United States still has the largest economy in the world, the phenomenal economic growth of emerging superpowers, such as China and India, mean that the American economy is no longer the only country at the steering wheel. The political expansion of the European Union is also providing a growing regional counterbalance to the U.S.

Despite (and perhaps partly because of) President Bush's expansionist policies, global economic power has been gradually shifting away from the United States. These changing power shifts will become more apparent in the next few years, as the U.S. economy experiences a slowdown and economic growth in emerging countries remains strong.

Signs of a long-awaited economic slowdown in the United States are becoming more apparent. Investment in residential housing dropped by 17% (at annual rates) in the third quarter and lower housing starts and building permits point to further declines. House prices have also started to drop in some regions.

Overall economic growth is expected to slow to about 2.3% next year.



Source: IMF World Economic Outlook 2006, OECD Economic Outlook November 2006

The question is how much of a chill lower house prices will have on spending in other areas. Despite a drop in gas prices of over 27% since the summer, American consumers appear to be retrenching: overall retail sales dropped in both September and October.

The mid-term success of the Democrats should have some limited economic positive impacts, with their priorities focused on increases to the minimum wage, reduced subsidies to the oil industry, lower prices for drugs and the environment.

The slowing U.S. economy should only have a limited impact on the global economy, with China expected to grow by 9% next year and India by over 7%. But it is already having a big impact on parts of the Canadian economy.

Diverging growth in Canada

The decline in residential construction south of the border has caused increasing hardship in the Canadian forestry sector, which has battled low lumber prices, pine beetle infestation and softwood lumber trade obstruction by the United States. Pulp and paper producers are also facing challenges of falling structural demand for newsprint and increasing international competition in the fine paper sector. This has especially hurt a number of smaller and remote communities, which depend heavily on employment in the forest sector.
(See Forestry communities on the chopping block section)

Ontario and Quebec have already lost almost 300,000 jobs in manufacturing in the past four years. While there has been strong growth in service sector jobs, and especially in retail trade, these new jobs are generally lower paid and often less secure.

A more broad-based decline in the U.S. economy would especially hurt Ontario, Quebec and Manitoba, provinces with relatively larger manufacturing sectors and more strongly affected by the U.S. economy.

While most of Canada's energy is exported to the U.S., oil is a global commodity with prices set in the world market. Natural gas is more of a continental commodity, but tends to be more affected by changes in the weather than by the changes in the economic climate. *(See Influences on energy and housing prices)*

The U.S. slowdown has helped to bring oil prices down, but demand in Asia, where China is stockpiling oil, remains high. This, and continued high base metal prices, has helped to keep the value of the Canadian dollar high – and Canada's mineral industry and regions booming.

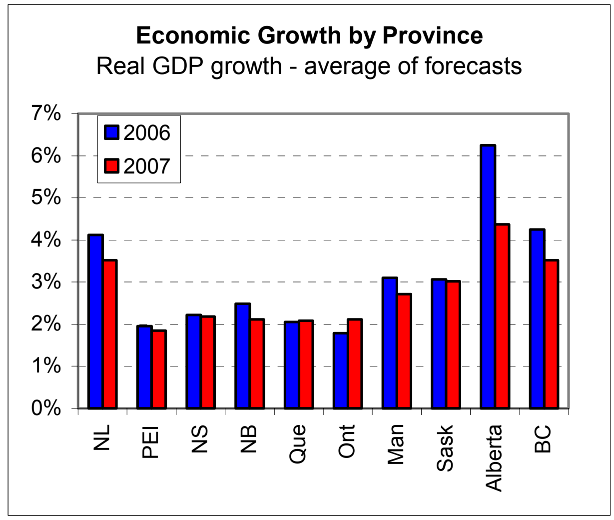
Federal economic policies aren't helping to balance growth in Canada

Lower demand in the U.S. certainly isn't the only factor slowing down the Canadian economy: the Bank of Canada has increased interest rates five times in the past year to reduce growth. This has worked to a greater degree than expected. The Bank of Canada recently revised its forecast of GDP growth for this year and the next. And they may have to do so again. The main factors slowing the Canadian economy this year have been a decline in housing construction and lower exports, caused partly by higher interest rates and a higher value of the Canadian dollar. *(See Economic Outlook)*

Canada's flexible exchange rate has traditionally acted as an "automatic stabilizer" for key sectors of our economy when the U.S. economy has gone into a slump. A drop in demand for our exports by the U.S. has led to a decline in the value of the Canadian dollar in relation to the U.S. dollar. This has made the cost of our exports lower for foreign buyers and subsequently increased demand for our manufacturing and other export industries. But, as the CIBC recently pointed out, with the Canadian dollar turning into a petrocurrency, that relationship may no longer hold[1]. The high value of our currency is worsening regional inequalities in Canada and not improving them.

The Bank of Canada could use lower interest rates to lower the value of the dollar to help manufacturing and forestry sectors and communities. But it has been unwilling to do so because of its obsession with trying to achieve low inflation – although it is questionable how well its policies help to control inflationary pressures, which are very regional in Canada.

The federal government can also use fiscal policy in both an active and passive manner to help balance economic growth. Unfortunately, the federal government's just released economic plan, *Advantage Canada,* suggests that they are not planning to do anything to address this unbalanced growth. In fact, the economic policies they advocate will make Canada's economic growth much more unbalanced in terms of sectors, regions, communities and people. *(See Federal fiscal update and Economic Plan)*



Tighter public spending controls will give the federal government even less flexibility to stabilize the economy through economic cycles. Canada's national system of equalization, other transfers and public spending programs still work to help balance economic growth between regions. But increasingly decentralized and unbalanced fiscal relations – with greater provincial influence and unequal fiscal capacity between provinces – is also making our economic growth more unbalanced.

The federal government hasn't done anything to specifically help the hard hit forestry and manufacturing industries or communities and families dependent on these sectors. Federal support is focused on helping the already booming oil and gas, mineral, finance and telecommunications industries with R&D support, deregulation, subsidies and tax preferences. Their plan says a lot about reducing the corporate tax rate on investment, which could help manufacturing, but in reality they are leaning on the provinces to do this. Support for the resource sector appears to be focused on increasing the exploitation and export our raw materials in greater quantities at a faster speed – and not on developing jobs that add value to our raw materials.

The economic plan puts a lot of emphasis on "strengthening the economic union" and "reducing barriers to labour mobility", but this is being done at the same time that they are eliminating national programs, cutting back on training and labour market programs and weakening the power of the federal government on social and labour issues.

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[1] Jeff Rubin, CIBC World Markets, "Has Canada Lost its Automatic Stabilizer?" October 10, 2006. http://research.cibcwm.com/economic_public/download/mioct06.pdf

Labour has been much more flexible and responsive to economic changes than our governments have been. In the past year, Alberta has gained a net total of 57,000 people through inter-provincial migration, accounting for about two-thirds of its total population growth. Economic growth in regions that are booming is generally more hampered by shortages of infrastructure and public services than by labour shortages. *(See Canadian workers on the move)*

Roads, schools, health care, and affordable housing are under such short supply or under strain in Fort McMurray and other parts of Alberta that the province's energy regulator has raised serious warnings and local communities have called for a delay in investments[2]. Inadequate investment in schools is a major problem in Alberta and, on any given night in Calgary, there are now more than 3,400 living on the streets or accessing shelters for the homeless[3].

[2] "Alberta mayor wants oil sands delay", David Ebner, Globe and Mail, 22 November 2006, p. B6; "Alberta must invest in oil sands area: board", David Ebner, Globe and Mail, 15 November 2006, p. B10.

[3] *See Homeless Awareness Calgary* at http://www.homelessawareness.ca/ and CUPE Alberta on crumbling schools http://www.cupealberta.ab.ca/03news/releases/20060407.htm.

Canadian Economic Outlook

Drop in home construction and exports slows down Canada's economy
Sluggish growth expected through to mid-2007

Canada's economic growth has slowed considerably, with an expansion of only 1.7% in the third quarter of this year, following an increase of 2% in the second quarter. Growth below about 3% – a combination of 1% growth in the labour force and 2% growth in productivity – is considered to be below potential and can lead to rising unemployment rates and slower wage growth.

Declining net exports was the main factor pulling down growth earlier in the year. In the 3rd quarter slow growth in government spending, a drop in housing construction and lower inventories caused the drag. At the same time, business investment and consumer spending picked up. Some of the factors that slowed the economy were transitional – such as the ending of the 2006 Census – but there were some signs of a broader slowdown in the last month of the quarter.

Weakness in the manufacturing and residential construction industries spread to other sectors including services, with an overall decline in the economy of 0.3% in September. Lower shipments, higher inventories and a decline in new orders point to continued weakness in the manufacturing industry in coming months.

Total labour income (which includes wages, salaries and other labour income) increased at half the rate of corporate profits in the second and third quarters of this year, continuing a diverging trend experienced over the past two years.

The Canadian economy is expected to grow at a sub-par rate of 2.5% in 2007, with slower growth in consumer spending business investment and government spending all contributing to the more sluggish growth.

The Bank of Canada is expected to cut interest rates later in the year. This, together with a drop in the Canadian dollar and recovery in the U.S. are expected to help boost growth in Canada to a trend rate of 3% in 2008.

Job creation is expected to slow down to an annual rate of 1.2% in 2007 and 2008, leading to a slight increase in the unemployment rate.

Most risks to the forecast are on the down side and would mean a longer slide and harder landing for the Canadian economy. The major risks involve a steeper fall in U.S. house prices leading to a full-blown recession south of the border and some consequent drops in Canadian house prices. This, and further declines in the U.S. dollar could drive Canada's dollar even higher and put even more of a dent in Canada's auto and exporting industries. Commodity prices for oil and gas and base metals are at historically high levels and could fall, which would hurt these industries – but could help lower the value of the dollar.

Alberta's economy is expected to lead the country in growth again next year, but with a more reasonable expansion of 4.4% in 2007. The other hydro-carbon-charged provinces of Newfoundland, Saskatchewan and B.C are expected to grow by 3% or more next year

Ontario's economy should improve from its last place 1.8% showing this year, but it is still expected to stay at the back of the pack with the other fuel-deprived provinces moving forward at about 2% in 2007.

There's little middle ground in the jobs outlook either. Employment growth is expected to slow down to 1% or less in every province but Alberta and B.C. where jobs are expected to increase by 2% or more. This means slightly lower unemployment rates in Alberta and B.C., but higher unemployment rates elsewhere in Canada

National and provincial and industry economic forecast tables

Canadian Economic Outlook			
Annual growth rates unless indicated	2006	2007	2008
Growth in the Economy			
Real GDP	2.8%	2.5%	3.0%
- Consumer Spending	3.9%	3.1%	2.9%
- Business Investment	8.6%	7.0%	6.6%
- Government Spending	3.7%	3.4%	3.4%
Labour Market			
Employment growth	1.8%	1.2%	1.2%
Unemployment rate	6.4%	6.5%	6.5%
Productivity growth	0.9%	1.4%	1.9%
Other			
Inflation - Consumer Price Index	2.1%	2.0%	2.1%
Corporate Profits before tax	5.3%	4.3%	4.0%
Real Personal Disposable Income	4.2%	2.6%	3.4%
Personal Savings Rate	1.5%	1.2%	1.5%
Interest Rates and Exchange Rate			
Short term 3 Month T-Bill	4.04%	4.11%	4.17%
Long term 10 Year Bond	4.27%	4.16%	4.83%
Exchange rate US$/C$	$ 88.07	$ 86.42	$ 87.65

Consensus average based on latest forecasts from seven different Canadian forecasters as of Dec 1, 2006

Provincial Economic Outlook								
% annual growth unless where noted	Real GDP		Employment		Unemployment Rate		Inflation	
	2006	2007	2006	2007	2006	2007	2006	2007
Canada	2.8	2.6	1.9	1.1	6.4	6.5	2.2	2.0
Newfoundland & Labrador	4.1	3.5	0.1	0.6	15.3	15.6	2.1	1.8
Prince Edward Island	2.0	1.9	0.8	0.5	11.0	11.2	2.8	1.9
Nova Scotia	2.2	2.2	- 0.3	0.5	8.3	8.6	2.3	1.9
New Brunswick	2.5	2.1	1.7	0.5	9.0	9.1	2.0	1.8
Quebec	2.1	2.1	1.3	0.8	8.2	8.5	1.8	1.8
Ontario	1.8	2.1	1.5	1.0	6.3	6.5	1.9	1.8
Manitoba	3.1	2.7	1.2	0.8	4.4	4.5	2.0	2.0
Saskatchewan	3.1	3.0	0.7	0.8	5.0	5.1	2.1	1.9
Alberta	6.3	4.4	4.2	2.4	3.6	3.5	4.0	3.3
British Columbia	4.3	3.5	3.0	1.9	4.7	4.6	1.9	2.0

Based on consensus forecasts from six different private sector forecasters
The Canadian average may differ from national forecasts because of different coverage.

Forest communities on the chopping block

While Canada's oil and gas and mineral industries are booming thanks to high world prices and extensive federal subsidies, it is another story for the forest sector.

Just last year, more than 50 mills announced closures or significant downsizing, with a job loss of almost 9,000. More than 46 mills have completely closed across Canada since 2003 leading to over 17,500 direct layoffs.

The forest sector has had to battle a range of forces, including: high energy costs (especially for the pulp and paper sector), a high Canadian dollar, declining newsprint demand, inadequate investment, a flooding of the market with pine beetle-killed lumber, a drop in U.S. housing construction, trade aggression by the U.S. and capitulation by the federal government, and increased competition from lower cost countries with cheaper labour and faster growing sources of fibre.

While all provinces have been affected, central Canada and the Maritimes have been hardest hit because of their greater dependence on pulp and paper products and on the United States market.

Mill closures have led to 6,400 direct layoffs in Ontario communities (7.5% of all direct forestry jobs), 5,200 in Quebec (4.6% of forestry jobs), 2,800 in British Columbia (3.5%) and 900 in New Brunswick (5.1% of forestry jobs).

The forest industry is especially crucial as a source of income for many smaller, northern, remote and often Aboriginal communities. By the government's count, there are 350 rural communities that are highly dependent on the forest industry in Canada.

According to Natural Resources Canada, forestry and related businesses are the main economic activity and source of earned income for 80 per cent of First Nations communities.

These communities generally have lower incomes and higher levels of unemployment and poverty than other communities. The communities also tend to be less diversified and so offer fewer alternative options for people who have been thrown out of work by a mill closure.

According to Statistics Canada, each direct job in the forest industry creates close to two other indirect jobs in other industries in different communities. When a mill closes, communities are left with an eroded tax base and often few prospects for comparative economic opportunities.

The situation is especially difficult in Northern Ontario, where provincial cutbacks and downloading forced municipalities to rely heavily on property taxes to provide municipal services. When forest sector jobs are lost, revenues decline and costs increase.

There is no single easy answer to the problems of the forest sector, but some of the elements of a solution involve: a lower dollar, support for R&D and increased investment in the sector to promote productivity improvements, lower electricity costs for forest industries, and increased transfers to communities that have been hard hit by the downturn. While some steps in this direction have been taken, there has been very little attention paid to the problems of forest-dependent communities at the federal level.

Federal Fiscal Update and Economic Plan

Federal Finance Minister Jim Flaherty released his mid-year economic and fiscal update in late November, which also included his government's economic plan, *Advantage Canada.* These documents provide a roadmap for the direction that the federal Conservatives are planning to take on the economy.

This provides a brief summary on issues of relevance to CUPE members and other public sector employees. More information is available at http://www.cupe.ca/economics/Conservatives_Econom

Federal surpluses expected to total $50 billion over the next six years, but tax cuts and debt payments would leave less than $3 billion a year to fund all new initiatives. CUPE's public spending priorities could be funded, but not with planned tax cuts and further reductions of the debt.

Program Spending planned to increase by 4% a year, below the nominal rate of economic growth and below the 6% average increase of the past five years. Growth could be even less if they bring in even further tax cuts.

Role of the Federal Government Introducing a narrowly focused expenditure management system to review all program spending and ensure it meets their priorities and view of the role of the federal government. This means no new national social programs or in areas of provincial responsibility, and further cuts to existing programs in these areas.

Taxes: despite all the leaks, nothing substantially new for middle income earners, but more tax cuts for corporations and more tax cuts to benefit high income earners. The Budget 2007 will include a *Working Income Tax Benefit* for low-income workers that has been promised since last year. The GST tax cut is planned for January 2011 and would cost $6.4 billion a year. The federal government is also leaning heavily on the provinces to convert their retail sales taxes into GST-style value-added taxes. This could involve a large transfer of the tax burden directly to consumers.

Transfers to provinces: Many commitments to "restoring the fiscal balance". This will likely focus on the Equalization program and it will probably be in line with the proposals made by the federal Expert Panel on this issue. *(See Economic Climate for Bargaining September 2006)* http://www.cupe.ca/economics/a45119ebde5061 for summary). Newfoundland could receive lower transfers, depending on the formula chosen. There is also a commitment to introduce long-term predictable funding for post-secondary education and training, but this may not involve additional funds.

Municipal Transfers: The EFU shows that the Conservatives plan to extend by two years, but not increase, the $2 billion in gas tax transfers to municipalities.

Infrastructure Funding and P3s: The Conservatives are aggressively pushing public-private partnerships on provinces, municipalities and territories by attaching conditions to their infrastructure funding and setting up a federal office to promote P3s. They plan to package infrastructure funding (including for highways, public transit, wastewater and small scale projects) into a program envelope and require that P3 options be considered for all larger projects. The Federation of Canadian Municipalities has already expressed their concerns about this condition.

Post-Secondary Education: This area will probably figure prominently in the 2007 Budget. There is another commitment to provide stable and predictable funding for post-secondary education, but no indication is given whether there will be more or less funding. Could involve a voucher system, greater R&D funding and moves to commercialize university research.

Economic Union, Labour Mobility, Regulations: Heavy emphasis on increasing labour market mobility, reducing "barriers to labour mobility", "strengthening the economic union" through TILMA, rationalizing and streamlining regulations and environmental assessments. Also signalling aggressive pursuit of bilateral and regional international trade agreements and treaties.

Little attention paid to health, women, aboriginal Canadians, other equity groups, child care or social services or to the needs of manufacturing and forest sectors or communities. The document included reiteration of their approach on the environment, which involves tougher standards on pollutants, but what will probably be a more flexible approach for industry. However, pre-election political calculus will probably lead to a stronger emphasis on the environment and perhaps progress on First Nations issues.

Lower energy prices bring inflation down

Consumer prices increase in Alberta at twice the national rate

Lower energy prices have helped to push down Canada's consumer price inflation, but the average cost of living so far this year is still 2.1% higher than it was for the same period last year.

In October, consumers paid an average of 14% less for gasoline, 16% less for natural gas and 15% less for heating oil than they did in October 2005. Lower prices for computer and home entertainment equipment, which are adjusted for quality and only purchased occasionally, have also helped to keep the price index down.

However, average electricity and municipal water prices are still almost 7% higher than they were a year ago. The cost of local and commuter transportation (public transit and taxis) was up by 4.6%.

Recent increases in the cost of living are largely due to higher housing prices and higher mortgage costs. The national new housing price index was 12% higher in September than a year ago, with the price of resale houses up by 9.3%.

While the rate of house price increases has moderated in many cities, the price of new homes is up by almost 60% in Calgary and 40% in Edmonton compared to a year ago. Resale house prices are up by almost as much in these cities. Resale house prices increases in Vancouver continue to outpace the price of new homes by a wide margin.

Mortgage costs increased by an average of 4% after the Bank of Canada hiked interest rates five times in the past year. Higher prices for insurance and property taxes also pushed up the cost of living.

Despite the higher value of the Canadian dollar, which should lower the cost of imported goods, the cost of fresh fruit and vegetables is considerably higher than it was a year ago.

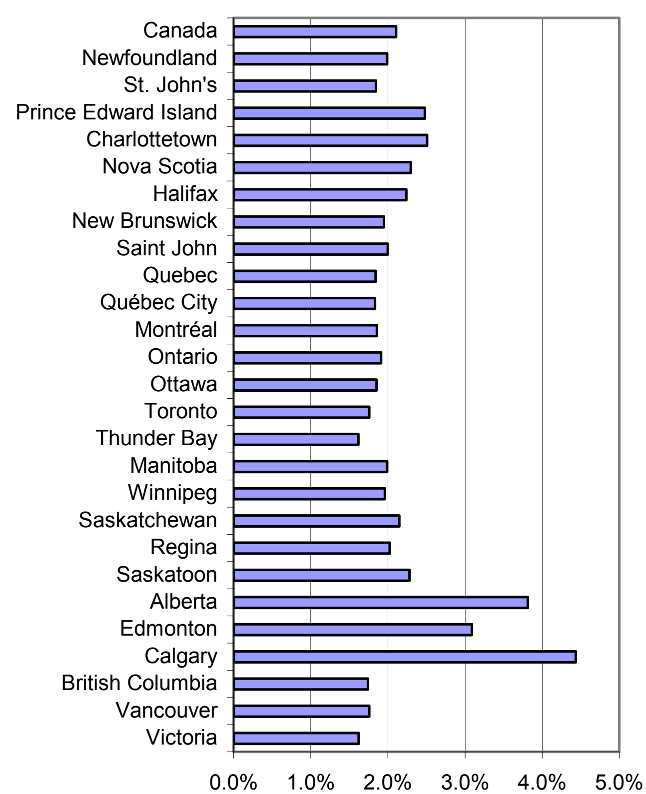
The "core consumer price index" was 2.3% higher in October, compared to a year ago. This index is designed to measure underlying inflationary pressures and excludes consumer goods and services with the most volatile prices, including energy, fruits and vegetables.

Prince Edward Island, Nova Scotia, Saskatchewan and Alberta have all experienced higher increases in the cost of living than the national average so far this year, while the rate of CPI inflation has averaged slightly less than 2% so far this year in New Brunswick, Québec, Ontario and British Columbia.

Alberta's inflation is running at almost twice the national rate on a year-to-date average, while it was over three times the national rate in October 2006, compared to October 2005.

Forecasters now expect that consumer prices across Canada will increase by an average of 2% in 2007. In every province, except Alberta, prices are expected to increase by 2% or less, while prices in Alberta are expected to increase by an average of about 3.3%.

CPI Inflation by Province and City
Year to Date Annual Increase



% increase Jan-Oct 2005 - 2006
Source: Statistics Canada Table 326-0001

Influences on energy and housing prices

The overall rate of consumer price inflation in the coming months will probably continue to be most strongly influenced by changes in energy and housing prices.

Natural gas prices are based on a North American market and are most strongly affected by the weather: both the heat and cold driving demand for energy in summer and winter and, more recently, by the prospect of hurricanes wiping out supplies in the Gulf of Mexico. Prices spiked last year immediately after hurricane Katrina, but since then have trended down. But forecasts are now calling for colder weather and pushing prices up.

Crude oil is much more of a global commodity and is strongly affected by geopolitical factors, conflicts, production decisions, inventory levels and speculation – on top of underlying demand, supply, the seasons and weather factors. These factors feed into the pricing decisions by oil companies to determine the price we pay for gasoline and oil products. Heating oil prices are also strongly affected by the weather.

The cost of oil future contracts, which give an indication of future price trends, has dropped by about 25% since it reached a record high this past summer. But new concerns about production cuts, further violence in Iraq, colder weather and stockpiling by China has started to push the price of oil up again.

Electricity prices are affected by a range of factors and particularly by the extent of provincial regulations, power sources and demand. Electricity rates in Ontario were hiked up by about 8% in May but were reduced by an average of 5.8% in November. Residential electricity prices in Québec are expected to increase by about 2.8% next year.

The major factors affecting house prices over the longer term are demographics (population growth, age, family size and formation), labour market conditions, incomes, interest rates – and location, of course. Price gains have also been higher in larger cities, which have grown faster than rural areas and have rising prices for land. In the short term, house prices are also affected by speculation, construction market conditions and the relative cost of rent. While there is considerable variation through booms and busts, house prices are expected to increase by about 4% a year over the long-term, or 2% in real terms after inflation[4].

The real estate industry expects that the prices of resale houses will increase by an average of 6% in 2007 across Canada, about half the rate of price increase in 2006. Rising incomes, high employment, solid consumer confidence and lower interest rates are expected to move prices higher, according to the real estate association[5]. Average house prices in Alberta, B.C., Saskatchewan and Manitoba are expected to increase by 8% or higher, while they are expected to increase by 4% or less in provinces to the east of Manitoba. With declining sales across Canada, these price increases may be optimistic.

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[4] TD Economics *Long-term Outlook for Canadian Home Prices*, September 14, 2006. http://www.td.com/economics/special/ca0906_home_prices.pdf

[5] Canadian Real Estate Association *MLS Forecast* October 4, 2006. http://www.crea.ca/public/news_stats/pdfs/CREAForecastOctober06.pdf

Employment growth recovers moderately in fall

Oil and gas boom fuels growth in resource-endowed region
Manufacturing and forestry losses keep growth slow in Central Canada and Maritimes
Slower job growth expected in 2007

Employment increased at a moderate pace in the fall and has risen at an annual rate of about 2% since August. Job growth in the fall follows a summer of overall losses after a torrid pace of job creation in the spring.

As more people joined the labour force, the unemployment rate nudged up to 6.3% in November, lower than in the summer, but up from the 32-year low of 6.1% achieved in May.

Employment has increased by 283,000 so far this year and, if it grows at the same pace, will exceed 300,000 net new jobs for the year.

At the same time, there are still over 1 million Canadians without jobs and looking for work. The labour force survey does not include coverage of First Nations reservations, where unemployment rates are considerably higher.

New job creation is expected to be slower next year. Total employment is expected to increase by an average of about 1.2% or a bit less than 200,000, with the strongest growth again in Alberta and B.C.

Despite slower job growth and slightly higher unemployment expected in 2007, many job markets will remain relatively tight, which should continue to allow further real wage gains. (*See "Wage surveys project solid gains in 2007").*

The oil and gas boom is boosting wage levels across Alberta. Increasing job opportunities in the resource sector and labour market tightness appear to be leading to greater wage convergence as occupations with lower wages benefit from proportionately greater increases[6].

High share of new jobs are in private sector

Over 90% of the new jobs created this year have been in the private sector, with a net increase of only 25,000 in the public sector. The number of employees in the private sector has increased at a rate of 3.1% this year, almost four times the 0.8% pace of job growth in the public sector.

Increasing employment in the private sector has also soaked up some of the self-employed, whose numbers have dropped by almost 70,000 this year.

Strong growth in full-time jobs employment of adult women

Although November's job figures showed an increase in part-time employment, over 85% of the new jobs created this year have been full-time.

Almost two thirds of the new jobs created this year have been among adult women, again with a very high proportion of them full-time. Increasing labour force participation and strong job growth brought the unemployment rate for adult women down to an average of 5% in the past three months, compared to an average of 5.4% for adult men and 11.8% for youth (aged 15-24).

However, the part-time employment rate of adult women at 21% still remains much higher than the 6.6% part-time rate for men. Over 40% of youth work in part-time jobs.

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[6] Steve Chan, *Alberta's rising wages: A tide that lifts all boats*; TD Economics October 3, 2006.

Labour Force Developments by Industry

Job growth strongest in natural resources, business services, finance and health care. Little growth in education, public administration, utilities and information, culture and recreation; continued losses in manufacturing.

The fastest rate of job growth by far has been in the natural resources sector, with employment levels up 11.8% (+36,000) since last December, largely in oil and gas, mining and related services. Virtually all these new jobs were created in Alberta and B.C.

Other industries that have had strong growth include:

- Business, building and other support services, with employment up by 6.9% (+46,000) so far this year. This sector includes jobs for a range of different employers specializing in providing: cleaning, landscaping, security, business administration, travel, employment agencies and waste management services. Most of the job creation this year has been in employment services and business services and it reflects an increase in contracting-out services.

- Finance, insurance, real estate and leasing has had job growth of 6.1% so far this year

- Health care and social assistance has had job growth of 5% (+86,000) this year. Despite its slightly slower rate of growth, there have been more jobs created in this sector than any other because it is one of our largest employers: over 1 in 10 Canadian workers is employed in this sector.

- The construction industry has also experienced solid growth, with jobs increasing by 3.3% (+34,000) since last December. This has been buoyed especially by the industry in Alberta.

- Employment in educational services has started to decline in recent months and is only up 1.2% (+13,000) since last December.

- Public administration employment declined by 8,000 in November, and is now slightly below what it was last December.

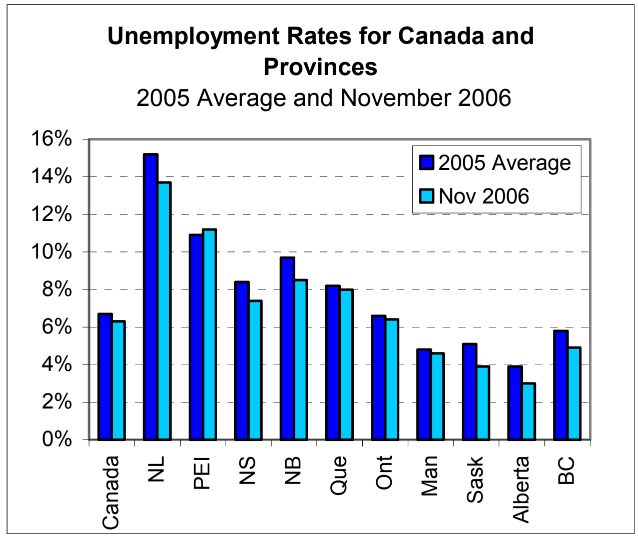
- Employment in utilities has been relatively flat this year, but saw an estimated job loss (-2.8% 3,000) in November.

- The information, culture and recreation sector has also experienced some recent weakness, bringing employment down 14,000 since last December.

- Job losses in manufacturing have continued to mount, with 70,000 jobs lost so far this year – although there was a very small gain in November. This industry has lost over 300,000 jobs since August 2002, almost all Ontario and Quebec.

Labour Force Development by Province

Boom in oil and gas sectors fuel regional growth and spill over to rising employment in other sectors.



Job growth has been by far the strongest in Alberta: employment is up 112,000 (+6.2%) so far this year, accounting for 40% of the total increase.

Other hydrocarbon-charged provinces have also had strong job growth: Saskatchewan's employment was up 20,000 (+4.2%), Newfoundland up 8,000 (+3.9%), and B.C. up 41,000 (+1.9%). These provinces also benefited from significant declines in their unemployment rates.

Job growth in other provinces has been generally much slower. New Brunswick has suffered from an overall job loss this year due largely to troubles in the forest industry.

Despite the slower job growth, unemployment rates in a number of provinces have declined because population and labour force growth has been slow and, in some cases, negative.

Newfoundland, Nova Scotia and New Brunswick have all experienced a drop in their populations and/or labour force levels since the start of the year. Population levels in Saskatchewan have also continued to drop. The population and labour force decline is especially pronounced among youth in all these provinces who appear to be migrating in droves to Alberta and to a less extent B.C. *(See "Canadian workers" on the move)*

- *Newfoundland's* employment growth has been strongest in the natural resources sector, with this sector adding extra 4,500 jobs so far this year. This growth has spilled over to higher employment in construction, business services, health care, education and information and culture industries and moderate growth in public administration.

- *Prince Edward Island* has had no overall job growth, but has seen some shifts from manufacturing to natural resources and from other services to trade.

- *Nova Scotia* has had slow employment growth of only 0.6% this year, but a decline in the participation rate has led to a drop in the unemployment rate. The strongest employment growth has been in construction, business services, and utilities. Employment in health care, education and information, recreation and culture has also increased, while jobs in public administration, natural resources and manufacturing have dropped since the start of the year.

- *New Brunswick* has suffered from job loss and rising unemployment this year, almost entirely because of a drop in natural resources, agriculture, utilities and the tourism-related accommodation and food sector and trade sectors. Employment in the province's manufacturing, construction and the finance, insurance and real sectors has risen. In the broader public sector, the labour force numbers show an increase of jobs in health care and social assistance, but a decline in education and public administration since the start of the year.

- *Quebec* has had a net overall increase of 27,000 jobs this year, equivalent to an increase of 0.7%. But underneath the total number, there have been significant losses in the export-related manufacturing (-24,000), natural resources (-6,000) and the tourism-related trade sector (-6,000). Construction, finance and real estate, professional and business services have all experienced job growth. Employment has also dropped in utilities by 5,000 and by 3,000 in public administration. Health care and social assistant has added an estimated 11,000 jobs.

- *Ontario*'s workforce has increased by 1.1% or 71,000 so far in 2006. An estimated 19,000 added in November, partly reversed the previous two months of jobs losses. This overall growth also betrays large sectoral shifts in employment. Manufacturing employment in the province is down by 63,000 while employment in educational services is down by an estimated 18,000 since the start of this year. The greatest job growth has been in trade (+50,000), health care and social assistance (+38,000), other services (+21,000) and finance, insurance and real estate (+20,000). Many more women have joined the labour force while the participation rate of men has dropped almost 90% of the net new jobs have been with women.

- *Manitoba* has experienced slow job growth this year, with employment rising by only 0.6% or 4,000 jobs. This involved job losses of 3,000 in agriculture, 2,000 in utilities, and 4,000 in accommodation and food services. Employment has been boosted with a reported 10,000 extra jobs in health care and social assistance, 3,000 extra jobs in educational services, 6,000 more jobs in trade and 3,000 more in manufacturing.

- *Saskatchewan's* strong job growth has been concentrated in natural resources, construction, trade, accommodation and food services. Employment in each of these industries has increased by 9% or more since the start of this year. Health care and social assistance has added about 2,000 jobs, while employment in educational services is up by 1,000.

- *Alberta* has experienced job growth in almost every sector of the economy, with double-digit rates of growth in natural resources (+19,000), utilities (+3,000), construction (+19,000), and manufacturing (+18,000). This has also spilled over to more than 10% increases in employment in educational services (+14,000), public administration (+9,000), accommodation and food services (+12,000) and the information, culture and recreation sector (+7,000). Employment in health care and social assistance has increased by an estimated 5% or 9,000.

- *British Columbia's* economy has added an additional 41,000 jobs (+1.9%) this year. The strongest job growth has been in the natural resource sector (+16,000), business services (+20,000) and finance, insurance and real estate (+18,000). Employment in health care and social assistance has increased by a reported +11,000 and in educational services by a reported +13,000. Employment levels in public administration have been relatively flat. The province experienced job losses in the tourism-related trade, accommodation and food, transport and culture and recreation sectors.

Canadian Workers on the Move

Canadians appear to be migrating to Alberta in greater numbers than ever before.

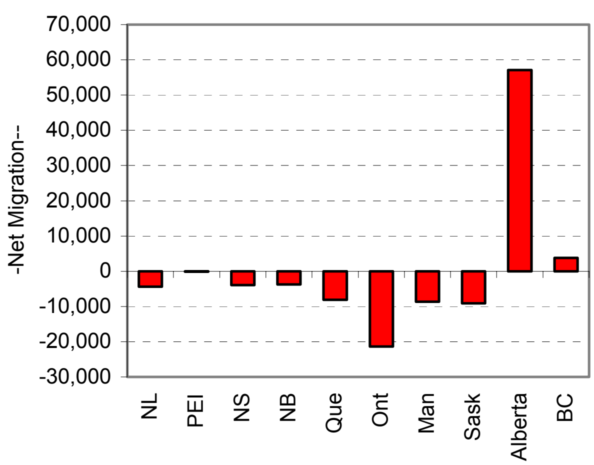
At the same time, political concern is focused on the issue of labour mobility and on reducing barriers to labour mobility.

Over the year from July 2005 to June 2006, Alberta's population increased by more than 57,000 as a result of inter-provincial migration.[7]

Inter-provincial migration also added almost 4,000 to British Columbia's population during the same period. All other provinces experienced a net outflow of people as a result of inter-provincial migration.

There has been much anecdotal discussion about the migration of people from Atlantic Canada and the Maritimes to Alberta. Certainly this movement has been large in relative terms: Newfoundland and Labrador lost an estimated 4,400 through inter-provincial migration in the year, equal to 0.85% of the provinces population. Nova Scotia lost 3,900 (0.42% of population) and New Brunswick lost 3,800 (0.50%)

Canadians on the Move
Net Interprovincial Migration
July 2005 to June 2006



Source: Statscan: Quarterly Demographic Estimates

However, the largest out-migrations came from Central Canada and the Prairie provinces: Quebec lost over 8,000 (0.1% of population), Ontario lost over 21,000 (0.17%), Manitoba lost 8,500 (0.73%) and Saskatchewan lost over 9,000 (0.92% of its population). Even the booming Northwest Territories lost over 1,300 people (3.1% of its population) through inter-provincial migration to the greener fields of Alberta.

Not all of these people moved directly (or indirectly) to Alberta or B.C. But if they moved to other provinces, they were displaced by other people who moved West.

Inter-provincial migration added 1.7% to Alberta's population in just one year and accounted for almost 60% of its total population growth. If the high rate of migration is maintained, this could represent the largest ever migration of people to one province in Canada's history.

Given Alberta's very low unemployment rate of 3%, it appears that most of these people who moved got jobs quite rapidly. An unemployment rate below 3% is hard to achieve as there will always be some level of "frictional" and seasonally unemployment.

No doubt more people could move from regions with higher levels of unemployment, but it is likely that they are constrained by a broad range of "barriers to labour mobility" – such as ties to families, communities, schools, cost of moving and selling their homes – and not particularly by the difficulty of obtaining suitable jobs out West. High house prices, rapid price increases and a dire shortage of affordable housing in Alberta no doubt also play a role, as well as a concern that the boom could go bust.

Trade, Investment and Labour Mobility Agreement

In April, after no public consultation, Alberta and British Columbia signed a *Trade, Investment and Labour Mobility Agreement (TILMA)* that is being pitched as a model for other provinces by Premiers and by the federal government. The ostensible reason for the agreement was to increase labour mobility and reduce barriers and increase access for business to opportunities in each province.

However, the TILMA agreement is very sweeping and does more to restrict local and provincial

[7] Statistics Canada Quarterly Demographic Statistics http://www.statcan.ca/english/freepub/91-002-XIE/2006002/t329_en.htm

governments than it does to reduce any legitimate barriers to trade or mobility[8]. The agreement includes the following provisions:

- Very extensive deregulation. The agreement states that there should be "No obstacles" to trade, investment or labour mobility. "Parties shall not establish new standards or regulations that operate to restrict or impair trade, investment or labour mobility" and the provinces will recognize each other's standards and regulations. While there are some exceptions, each province must clear a high hurdle to prove that any regulations or standards would not be any more of a barrier to trade than is necessary.

- Recognizes only certain government objectives as legitimate and excludes others such as conservation, preservation of land, quality of life measures in communities, support for small business.

- Allows persons and governments to sue governments for up to $5 million compensation for regulations or standards that impair and restrict trade.

- Goes far beyond NAFTA by allowing corporations very broad scope to sue for any matter under the agreement.

With a strong push from business lobby groups, a number of other Premiers are also looking closely at the agreement and appear ready to introduce similar agreements.

In practical terms, the agreement effectively erases the border between provinces and severely restricts the ability of provinces, municipalities and board to enact regulations or standards in the legitimate interests of their residents.

In addition, the federal Conservative federal government is intent on weakening federal government involvement in any area of "provincial jurisdiction".

Canada's decentralized form of federalism is often promoted as a flexible form of government that allows different provinces to experiment with different programs and regulations. Successful programs and regulations, such as Saskatchewan's Medicare and Quebec's child care program, can be adopted and implemented by other provinces or by the federal government. The (TILMA) agreements, together with that says it will prevent the federal government from taking leadership on any social programs or other areas of provincial jurisdiction, will make it exceedingly difficult to improve regulations and standards without very wide agreement.

Increasing use of global temps

The federal government has taken aggressive steps to address Canada's supposed labour shortage by allowing businesses to import workers under the temporary foreign workers program much more easily. This includes:

- exploding the list of what are supposed to be highly-skilled occupations for which temporary workers can be fast-tracked to 170 categories in Alberta and over 110 groups in B.C.. This exempt list in Alberta now includes waiters, cashiers, bakers, cleaners, cooks, caregivers
- creating special units to help employers hire temporary foreign workers and a quick guide for employers
- reducing requirements and speeding up processing of foreign workers

Temporary foreign workers have fewer rights in Canada, generally have little knowledge of their rights, are often treated as disposable workers, sometimes paid less than minimum wage and have been threatened with layoffs (and consequently deportation) if they voted for a strike. This has allowed some employers to lay off workers who refuse to accept wage rollbacks and, in general, pushed wages down in many occupations.

The federal government has also streamlined and simplified the application process for business and skilled immigrants.

There were 100,000 temporary foreign workers in Canada in 2005 and that number is expected to be much higher this year. The federal government's economic plan advocates greater use of this and of the provincial nominee program for foreign workers. While it says that they may examine ways to make it easier for temporary foreign workers to stay in Canada, this is just a vague promise.

At the same time, the ability of human rights refugees to come to Canada has been restricted and cuts have been made to literacy programs, training and labour market programs for Canadians and immigrants.

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8 *See* Ellen Gould *Summary of TILMA Impacts,* October 2006. http://www.canadians.org/trade/publications/BC_AB_Trade_Gould06.html

Further real wage gains achieved in 3rd Quarter

Collective agreements continued to provide workers with real wage gains in 2006. Average base-rate wage adjustments for large collective bargaining units of 500 or more increased by 2.6% in the 3rd quarter of 2006, slightly down from the 2.7% average achieved in the 2nd quarter.

These wage gains, outpaced the average 2.1% rate of inflation registered so far this year. The base-rate wage adjustments underestimate total compensation gains because they do not account for increasing use of signing bonuses, profit sharing, fiscal dividend promises and specific labour market adjustments. The wage reports (for large collective agreements of 500 or more) are calculated as the annual averages over the life of each agreement, often including previous years. Analysis of CUPE settlements suggests that average wage increases for the 2007 will be higher than in 2006, particularly in Alberta, B.C. and Ontario (although settlements in Ontario's education sector are being squeezed by provincial budget cuts.)

Public sector employees gained average increases of 2.7% in the third quarter compared to average increases of 2.5% for large private sector agreements.

The largest wage gains in the 3rd quarter were the 3.5% average achieved in Alberta, followed by average increases of 3.3% in Nova Scotia. Quebec agreements had the lowest average at 1.7%.

The largest increase on an industry basis in the 3rd quarter continued to be in construction, with 3.5% base wage increases. Employees in public administration gained average increases of 2.8% while employees in education, health and social service and in the utilities industry achieved gains averaging 2.6%.

Settlements in the trade and manufacturing sectors have averaged 2% or lower so far this year, lagging behind the inflation rate.

The industry with the lowest increase in the 3rd quarter was information and culture, where the agreement with TELUS provided an annual average increase of 0.5%. However, this agreement included a new profit-sharing plan that will provide an annual bonus with a maximum of 3% of wages for 2007, 4% for 2008 and 5% for 2009.

CUPE's agreement with Hydro Quebec also included a profit-sharing plan with up to 4.5% of annual base wages to be made as a lump sum payment and a lump sum payment for late implementation of a new salary scale. CUPE Local 998 agreement with Manitoba Hydro provided average annual increases of 2.5%.

Local 1190's agreement with the Government of New Brunswick provide annual average increases of 2.5%, but also include special adjustments of 1% for all employees; while Local 1253's agreement includes ongoing skills enhancement and maintenance and trades adjustments.

Major CUPE negotiations include current bargaining with the City of Vancouver, Ottawa Hospital, and Government of New Brunswick.

Wage surveys project solid gains in 2007

Employer wage surveys released in the summer predicted base wage increases averaging about 3.5% in 2007. These surveys suggested slightly lower increases in the broader public sector with an average compensation increase of 3.3%.

Within the broader public sector, higher compensation increases are expected at the CEO and executive levels and also for trade occupations, with increases of about 3% anticipated for clerical and other occupations.

The Conference Board's recently-released Compensation Planning Outlook for 2007 projects slightly higher average wage increases for the private sector next year. According to this report:

- Wages across Canada are projected to increase by an average of 3.9% in 2007.
- Alberta is expected to lead with average increases of 5.1%, followed by British Columbia with average increases of 4%. Saskatchewan, Manitoba and Quebec are projected to have average increases of about 3.8%, while Ontario's increases are expected to average 3.5%, followed by 3.1% increases in the Atlantic region.
- The highest increases are anticipated in the oil and gas industry, with hikes averaging 5.5%. Above average increases are also expected in transportation, utilities and education and health.
- Government and high tech sectors are expected to gain increases close to the national average of 3.9%. Wages in the construction industry, which is expected to suffer from a contraction, are projected to increase by 3%.
- Broader public sector employers are projecting average increases of 2.9% for their unionized employees.

Employers report increasing recruitment and retention problems: 74% of employers reported problems recruiting and retaining employees with specific skills, up from 49% in 2004. Voluntary turnover rates are also significantly higher than two years ago.

Major Collective Bargaining Settlements in 2006

Average Wage Settlements Major Collective Bargaining by Year

	2004	2005	2006 First Quarter	2006 Second Quarter	2006 Third Quarter
All	1.8	2.3	2.2	2.7	2.6
Public Sector	1.4	2.2	2.2	2.8	2.7
Private Sector	2.2	2.4	2.5	2.2	2.5

Source: Human Resources and Skills Development Canada, Major Wage Settlements by Quarter, Percentage Wage Adjustment, [latest information as of Dec 1, 2006], http://www.hrsdc.gc.ca/en/lp/wid/mws/index.shtml

Average Wage Settlements by Province

	Nfld-Lab	PEI	NS	NB	QC	Ont	Man	Sask	Alta	BC	Multi Prov	Federal Juris
2005	2.1	2.5	3.2	3.0	1.6	2.7	2.9	1.9	3.0	0.5	4.1	2.6
2006 First Quarter	1.5	-	-	3.8	2.1	2.7	2.4	2.1	3.1	1.6	3.3	2.3
2006 Second Quarter	2.0	2.8	3.1	1.2	1.6	2.9	3.1	-	3.4	2.7	4.1	2.6
2006 Third Quarter	-	2.9	3.3	3.0	1.7	2.9	2.6	-	3.5	2.8	-	2.3

Source: Human Resources and Skills Development Canada, Average Annual Wage Adjustments Yearly Tables, [latest information as of Dec 1, 2006], http://www.hrsdc.gc.ca/en/lp/wid/aawa/quarterly_index.shtml

Average Wage Settlements by Industry

Industry	2005	2006 First Quarter	2006 Second Quarter	2006 Third Quarter
Primary	2.1	1.5	2.7	-
Utilities	2.6	2.6	1.7	2.6
Construction	2.5	-	3.7	3.5
Manufacturing	2.5	2.1	1.8	2.4
Wholesale and Retail	1.9	1.7	2.1	-
Transportation	2.9	2.2	2.8	2.0
Information & Culture	2.4	3.3	2.4	0.5
Finance & Professional Services	2.3	2.5	2.5	2.5
Education, Health Soc. Services	2.1	2.1	2.8	2.6
Entertainment/Hospitality Industry	1.9	2.7	3.1	2.9
Public Administration	2.4	2.7	3.0	2.8

Source: Human Resources and Skills Development Canada, Major Wage Settlements by Quarter, [latest information as of Dec 1, 2006] http://www.hrsdc.gc.ca/en/lp/wid/mws/quarter/quarter_industry.shtml

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