

Economic climate for bargaining

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This report provides an overview of economic developments and wage settlements related to public sector collective bargaining in Canada. The focus of this issue is on an economic outlook for the coming year.

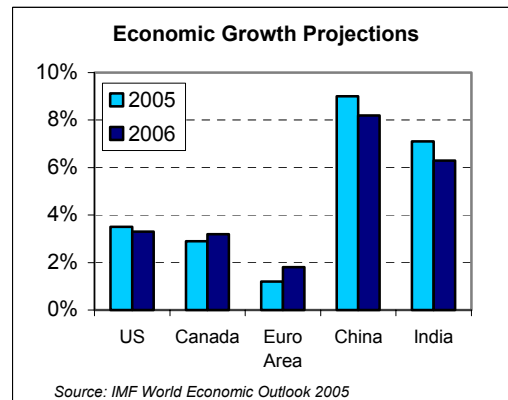
Global Economy Outlook

The world economy has maintained surprising strength over the past year. Despite – or perhaps helped by – a number of natural disasters, continued wars and conflicts, large increases in fuel prices, and massive deficits in the United States, world economic output still increased by over 4% in 2005.

But economic growth has been uneven and unbalanced. China's economy has grown by over 9% for a number of years, with India's economy close behind at 8% growth. The economic output of high income countries increased by 2.5% last year, led largely by the United States and Canada, with growth of 3.6% and 2.9% respectively. In contrast, the economies of the Euro area averaged growth of only 1.3%.

Two big factors have both fuelled economic growth and created imbalances in the world economy: rising world fuel prices and unsustainable deficits in the United States.

Higher fuel prices have resulted in stark disparities in economic growth between countries and regions. The United States has continued to generate massive deficits, thanks largely to tax cuts and increased spending on defence and security, and on an expansion of Medicare. High deficits have been matched by declining household savings rates and increased consumer spending. While this has generated economic growth in East Asia, it has also resulted in record U.S. current



account trade deficits, financed largely by the same East Asian countries.

This situation in the U.S. is ultimately unsustainable. The question is whether the U.S. economy will come in for a soft or a hard landing. The trigger for either could be oil prices, housing prices or investors' sentiments towards the U.S.

The most likely scenario is for rising interest rates to cause a slowdown in the U.S. housing market, leading to a broader slowdown in consumer spending and economic growth later in the year. This will inevitably also cause a slowdown in Canada.

These developments are neither academic nor speculative for Canada. We have become increasingly dependent on exports to the United States for growth. Meanwhile the Bank of Canada has stated it is increasing interest rates, not because of concerns about inflation, but because it wants the flexibility to reduce interest rates if the U.S. economy falters.

Canadian Economy Outlook

The Canadian economy is forecast to grow by an average of 3% this year before slowing down to an average 2.6% growth in 2007.

Consumer spending, business investment and government spending will drive strong growth in the first half of this year. This is expected to yield to slower growth later in the year due to higher interest rates and a slowdown in the U.S.

Business investment is expected to increase by almost 8% this year, following an increase of 8.5% in 2005. Consumer spending will likely slow down later in the year, while government spending is expected to increase.

Interest Rates and Exchange Rate

The Bank of Canada is expected to increase its key interest rate by a total of at least 50 basis points in the first half of 2006. This will send short-term rates to about 3.75% to 4.00%. While longer-term interest rates are not expected to increase by as much, the higher costs of borrowing will lead banks to cut back on lending, particularly for real estate. This will add to a slowdown in the economy later in the year.

Lower oil and gas and commodity prices could pull down the Canadian dollar this year, but it may also be outmatched by a falling U.S. dollar.

The higher Canadian dollar makes our

Canadian Economic Outlook			
<i>Annual growth rates unless indicated</i>			
	2005	2006	2007
<i>Growth in the Economy</i>			
Real GDP	2.9%	3.1%	2.6%
- Consumer Spending	4.0%	2.7%	2.5%
- Business Investment	8.5%	7.8%	4.2%
- Government Spending	3.0%	3.8%	3.6%
<i>Labour Market</i>			
Employment growth	1.4%	1.4%	1.0%
Unemployment rate	6.7%	6.6%	6.7%
Productivity growth	1.8%	1.5%	1.5%
Inflation - Consumer Price Index	2.3%	2.2%	2.0%
Corporate Profits before tax	11.9%	9.0%	4.9%
Real Personal Disposable Income	2.2%	3.4%	2.5%
Personal Savings Rate	-0.2%	0.6%	0.7%
Housing Starts (000s)	221	193	185
<i>Interest Rates and Exchange Rate</i>			
Short term 3-Month T-Bill	2.69%	3.99%	4.05%
Long term 10-Year Bond	4.08%	4.66%	4.29%
Exchange rate US\$/C\$	\$ 82.6	\$ 87.1	\$ 84.5
<i>Consensus average based on recent forecasts from six different Canadian forecasters.</i>			

exports more expensive on the world market and makes imports cheaper. It is adding to pain in the manufacturing sector, especially auto and forest products industries, which are suffering from higher energy costs and a slowdown in U.S. demand.

The higher Canadian dollar makes the cost of imported capital machinery less expensive in Canada, which is spurring higher rates of investment and productivity. But this also means that companies substitute capital for labour, which means slower job growth.

Banks and economic forecasters expect employment growth to average 1.4% this year, similar to job growth in 2005. The unemployment rate is expected to average close to the 6.7% average of last year. Slower job growth later in the year and in early 2007 is expected to lead to an increase in unemployment.

Prices and Inflation

Consumer prices are expected to increase by an average of 2.2% this year, following an increase of 2.3% in 2005.

Energy price increases have been the main cause of higher inflation, with gasoline prices up by 9%, natural gas up by 19% and fuel oil up by 18% from a year ago in November. Electricity rates haven't increased as much, but they are set to increase substantially this year in many parts of the country.

"Core CPI" (excluding more volatile prices such as energy and fruit and vegetables) only increased by an average of 1.6% last year, well within the Bank of Canada's target range. It is expected to increase slightly to an average of 2% this year.

Despite higher energy prices and a tighter labour market, inflation remains low in Canada. There is very little broad inflationary pressure evident right now,

Inflation, Housing and Working Families

Inflation is a measure of the rise in price levels and, as such, changes in the cost of living. Inflation is most often measured through changes in the national and regional consumer price indexes. But everyone, depending on their circumstances and expenditure patterns, experiences inflation and changes in the cost of living differently.

People at different income levels and at different stages of their lives (young working families, seniors, etc.) with different types of expenses will face different rates of inflation. The cost of many basic public services, such as public transport and education, have increased much faster than the overall consumer price index, which means that those who depend more on these services face a higher inflation rate¹.

The largest expense for families is the cost of shelter and housing, which accounts for more than 25% of average expenditures. But most consumer price indexes do not deal adequately with the cost of housing because it is both a consumption and capital expense. The Canadian CPI includes a number of housing components and uses the new housing price index as a proxy for replacement costs. This index excludes the cost of land and has increased at half the rate of the average price of all homes sold. With recent high housing price increases and the high share of shelter in total expenses, this suggests that the CPI has underestimated the increase in the cost of living, particularly for younger working families.

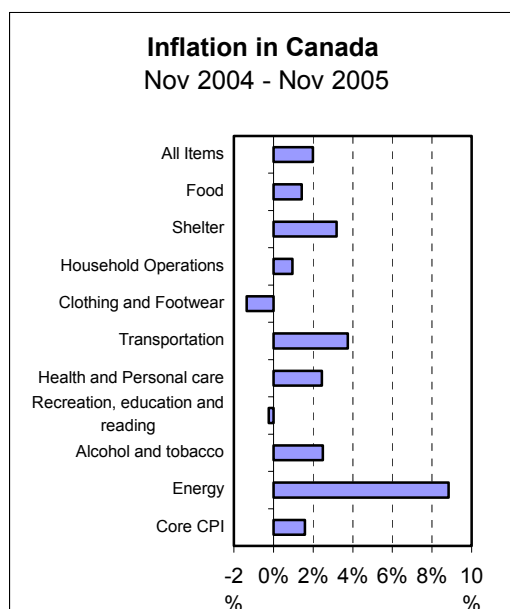
References:

Statistics Canada: *Consumer Price Index, Consumer Price Index Reference Paper, New Housing Price Index.*
Canadian Real Estate Association, *MLS Statistics.*

no matter what cautionary statements the Bank of Canada may issue.

Many companies have been able to absorb higher energy costs because of their large profit levels. Public sector employers don't necessarily have the same cushion and may create demands at the bargaining table or reduce the "pot" of money available for employee wages and benefits.

Lower-cost consumer goods, productivity improvements and low interest rates have also helped to keep inflation low – as has slow wage growth.



Corporate Profits

Corporate profits in Canada have continued to soar, hitting new records quarter after quarter. In the third quarter of 2005, corporations made record profits of \$55 billion, up 2.9% from the second quarter and up 14% from the third quarter of 2004ⁱ.

The record profits are being made mostly in the energy sector, while mining companies have also benefited from higher prices. Retailers and wholesalers also enjoyed increased

profits last year thanks to high sales. Manufacturing sector profits declined slightly in 2005, but should still amount to over \$40 billion for the year. While banks and other financial institutions have also experienced a slight decline in their profits over the last year, their profits are still close to all-time highs.

Corporate profits are on track to hit well over \$200 billion in 2005. They are expected to reach over 15% of total GDP, the highest ratio they have been in over 30 years and far above their historical average of 10%. The federal Department of Finance, private sector forecasters, and the Bank of Canada now all expect that the corporate profit share of GDP and returns to capital (or profit rates) will be permanently higher, while returns to labour will be lower.ⁱⁱ

The profits of federal, provincial and local government business enterprises (GBEs) are not included in the above figures, but they have also been benefiting from higher profits for the past few years. Federal GBEs had after-tax profits of \$6.3 billion in 2004 and would have been considerably higher if the Atomic Energy of Canada had not written off costs for decommissioning nuclear facilities during the year.

Provincial and territorial GBEs generated after-tax profits of \$13.3 billion in 2003, with almost all the profits coming from lotteries, liquor enterprises and hydro enterprises. Local GBEs recorded after-tax profits of \$0.8 billion in 2003, largely from electric utilities, transit companies, gas companies and phone companies. Public transit companies received subsidies of \$1.8 billion in 2003, which allowed them to generate a combined \$95 million profitⁱⁱⁱ.

High corporate profits and tax cuts propelled the Toronto Stock Exchange S&P/TSX composite index to an all-time high in early January. The index advanced by 22% in 2005, with energy stocks up by 60% last year and metals

and mining shares up by 45%. Market watchers are predicting that the TSX will close this year from zero to 17% higher than at the start.

The stock price increases and recent interest rate hikes could make a big difference for the valuation of pension funds. The decline in long-term interest rates and stock market declines in 2000-2002 helped to contribute to recent alarmism about the viability of defined benefit pension funds. But the booming stock market and expected interest rate hikes should alleviate these concerns.

Industry Sector Outlook

Canada's industries are expected to maintain disparate rates of growth as

they have over the past year.

In *agriculture*, a slowdown in crop production is expected to be offset by strong growth in livestock production, following the re-opening of the U.S. border to Canadian cattle exports and the removal of anti-dumping duties on Canadian pork.

Forestry production is expected to decline again next year, despite a lowering of the U.S. countervailing duties on Canadian softwood. Continued shift from paper to electronic media and a slowdown in house construction will take a bite out of this industry.

Oil and gas exploration, production and especially oil and gas services should experience strong growth this year again. *Mining* has benefited from high prices and should register strong growth this year. More than 55,000 new jobs have been added in *construction* during the past year thanks to rapid growth in new home construction and renovations. The pace of new home construction will probably slow down this year, but this will be counter-balanced by

Industry Sector Outlook		Forecast % growth in real GDP	
	Job Growth Dec 2004 - 2005	2005	2006
All Industries	232,500	2.8	3.0
<i>Goods</i>	- 4,400	2.5	2.8
Primary	37,900	2.2	2.8
Manufacturing	-100,400	2.8	3.2
Construction	56,600	3.1	2.7
Utilities	1,400	3.3	2.7
<i>Services</i>	236,900	3.1	3.2
Trade	88,000	5.9	4.0
Transport	11,500	3.7	3.6
Finance, Insurance & Real Estate	20,500	2.6	2.7
Professional Services	48,200	1.9	3.9
Business & Admin Services	31,800	3.1	3.5
Accommodation & Food	-6,200	1.5	2.3
Education	89,100	2.6	2.5
Health & Social Assistance	-26,100	2.0	2.5
Public Administration	-1,400	2.3	2.2
<i>Public Sector</i>	52,500	2.2	2.4
<i>Consensus average based on forecasts by four different private sector forecasters. Employment figures from the Labour Force Survey.</i>			

expansion in non-residential construction (especially in the oil, gas and pipeline industries).

Growth in the *utilities* sector is expected to be moderate overall, but affected by differing regional economic conditions.

Manufacturing has experienced mixed results over the past year with continued growth in GDP, but a loss of over 100,000 jobs. This sector will continue to show diverging rates of growth and probably further job loss. The output of the auto sector and the forest products industry will probably be flat or decline this year, both threatened by the high Canadian dollar and declining demand in the U.S. However, the aerospace, business machinery, and electronic equipment industries will probably benefit from solid growth this year.

Wholesale and retail trade has added 88,000 jobs during the past year. Retail trade growth will be affected by overall consumer spending. This will probably moderate later in the year, particularly for bigger ticket items affected by interest rates. Wholesale trade is expected to expand with higher business investment and an energetic natural resources sector.

Transportation services are being buoyed by increased international trade and general economic growth. This sector, and particularly the airlines segment, is vulnerable to high fuel prices and factors affecting tourism-related travel.

The *finance, insurance and real estate* industry will see a slowdown in real estate activity, but some growth on the insurance and finance side.

With little growth in tourism over the past year, the *accommodation and food* industry has suffered job loss and slow growth over the past year. Growth may pick up a bit, but it will still be sub-par and is liable to international tourism related factors.

After facing slow growth for a few years, *professional, business, administrative and waste management services* had relatively stronger growth last year with the growth in the economy. Employment and economic growth in these industries are strongly affected by outsourcing, contracting-out and privatization.

Overall employment in *health and social services* declined during the past year, but this reflects job loss for social services while employment has increased in health care. Total spending on health care has increased by more than 7% in each of the past two years and, with long-term commitments, will continue to grow at this pace this year. Increased spending and demand for health services should support further job and economic growth. Increased funding for child care could also generate job growth in social services.

Employment in *educational services* expanded by 89,000 last year, with virtually all the job growth in primary and secondary education, mostly in Ontario and Québec. Higher enrolment and increased spending for post-secondary education could spur further job growth.

After a job loss of over 10% during the 1990s, employment in direct *public administration* increased by about 6% from 2000 to 2004. Federal government employment increased by 9% during this period, with local government employment up by 7% and provincial government employment up by only 2.6% from 2000 to 2004.

During the past year, there appears to have been continued stronger job growth at the local government level with little growth at the provincial and federal levels^{iv}. Employment and growth in direct public administration will be dependent on the fiscal position and political direction of the different governments.

Employment in universities and colleges increased by over 10% from 2000 to 2004, but there appears to have been little job growth in this area over the past year.

Employment in local government business enterprises increased by 10% from 2000 to 2004 and continued to increase at a fast rate again last year. At the same time, employment in federal and provincial government business enterprises has continued to decline from 2000.

Regional Outlook

Economic growth at the provincial level in 2006 is expected to follow a similar pattern to last year: continued and stronger economic and employment growth in western and oil rich provinces^v.

Newfoundland and Labrador suffered a slowdown and job loss last year due to a drop in oil production and the completion of major construction projects. Economic growth should rebound this year with the start-up of production at Voisey's Bay and the White Rose offshore oil project. The

provincial government is benefiting from higher federal transfers and oil royalties and increased spending by 6% in the last budget.

Prince Edward Island's economy picked up in 2005 with a boost from a number of major construction projects, some improvement in tourism, and better results in agriculture and food processing. However, provincial budget restraint meant a cut in civil service jobs. Employment growth is expected to be slower this year with less construction activity.

Nova Scotia's economy has also benefited from a number of major construction projects. However, employment growth has been slow with job loss in the manufacturing and tourism industries. Increased provincial government spending and federal transfers have helped to support job growth in health care, social assistance and other services. Economic and employment growth should be stronger this year.

Employment and economic growth in *New Brunswick* was modest in 2005 with a weakened paper and wood

Provincial Outlook

% annual growth unless where noted

	Real GDP		Employment		Unemployment Rate		Inflation Rate	
	2005	2006	2005*	2006	2005*	2006	2005	2006
Canada	2.9	3.1	1.4	1.4	6.7	6.7	2.3	2.0
Newfoundland & Labrador	1.8	5.4	- 0.3	1.1	15.2	15.0	2.6	1.9
Prince Edward Island	2.1	2.0	1.6	1.0	10.9	11.0	3.1	2.1
Nova Scotia	2.2	2.6	0.4	1.1	8.4	8.3	2.8	2.1
New Brunswick	2.4	2.5	0.1	0.9	9.7	9.6	2.4	2.0
Quebec	2.4	2.5	1.0	1.2	8.2	8.1	2.3	1.8
Ontario	2.5	2.5	1.3	1.3	6.6	6.5	2.2	2.0
Manitoba	2.8	2.9	0.7	0.8	4.8	4.7	2.6	2.1
Saskatchewan	3.0	2.5	0.7	0.7	5.1	5.1	2.4	1.8
Alberta	4.5	5.2	1.6	2.0	3.9	3.7	2.0	2.3
British Columbia	3.7	3.9	3.4	2.4	5.8	5.5	2.0	2.3

** Actuals; other figures are based on consensus forecasts from four private sector forecasters*

products industry and little growth in government spending. Increased federal transfers, and new investment projects (refurbishment of Point Lepreau, construction of the Canaport liquid gas terminal, and pulp and paper mill upgrades) should translate into higher job and economic growth this year.

Québec has also suffered from a decline in the forest and wood products industry and in manufacturing. While residential housing construction is slowing, non-residential construction is starting to pick up. Provincial government spending has barely increased over the past year, as the government has implemented \$1 billion in tax cuts. Consequently, the strongest area of employment growth over the past year has been in retail sales and trade. Employment has also grown in agriculture, construction and educational services. The coming year will probably see slower growth in the trade sector. The Charest government's Bill 142 legislated a wage freeze for half a million public sector workers until April 2006, followed by annual increases of only 2% a year until 2010.

Ontario's economy has performed a bit better than expected in the face of higher oil prices, the high Canadian dollar and weakness in the auto industry. The province's manufacturing industry lost 45,000 during 2005 and more layoffs are planned at Ford and GM over the next few years. The forest products industry has also taken a hit, although federal and provincial aid packages were recently announced. Despite these losses, overall employment increased by over 75,000 during 2005, with 53,000 jobs added in educational services, 25,000 in construction, 24,000 in business, building and other support services, and 20,000 extra jobs in agriculture. This year will probably see slower growth in home construction. Significant

investments are required to replace power generating capacity and in the municipal water sector, but the bulk of this will come in later years.

Manufacturing will continue to face challenges in the coming year. The province plans for program spending to increase by 6.4% in 2005-06, followed by a 3% increase in 2006-07^{vi}.

Education was given a boost with over 1,000 new teachers hired in September and a significant increase in funding for post-secondary education. The province's plans to create *Local Health Integration Networks* (LHINs) is causing disruption and uncertainty and could pave the way for more corporatization and private delivery of health care.

Manitoba's economy recorded relatively stable growth in 2005 with modest employment growth but a drop in the unemployment rate. Residential construction and trade has led to some job growth. The accommodation and food industry has also been a bright spot, no doubt stimulated by increased convention activity. Agriculture is expected to rebound this year, with the elimination of U.S. duties on hogs and the ending of the ban on Canadian cattle. Residential construction will probably slow down, but non-residential construction may show an improvement with hydro and other construction projects being planned. Manitoba's program spending is slated to increase by 3.2% in 2005-06 with a focus on increased funding to municipalities, water, transit and health care.

Saskatchewan has experienced solid employment and economic growth. While the economy will probably record an expansion of 3% last year, growth appears to have tapered off with job loss later in the year. Investment has declined, particularly in residential construction. Manufacturing, potash mining and gas production have increased, although agriculture has had

a mixed year. While crop production is up, the quality and prices are down. The livestock sector is expected to improve this year, although the fate of crop production lies with the weather. Major investments in potash and uranium mining should increase production in this area. The closure of the Prince Albert pulp and paper mill this year will lead to a loss of 690 direct jobs. The province was only going to increase program spending by 1.3% in 2005-06, but higher than anticipated resource revenues have helped to fund an 11% increase in program spending. Increased spending has gone to energy rate relief, agricultural insurance, health care, research, and northern roads^{vii}.

Alberta's rapid growth is expected to continue this year at a rate of close to 5% and unemployment below 4%. Housing starts, manufacturing shipments and retail sales have all increased at double-digit rates. But the supercharged economy is creating problems with labour shortages and a need for more infrastructure investment. Inflation has remained relatively low partly because of natural gas rebates issued by the government.

The provincial government had planned for program spending to increase by 6% in 2005-06, with large increases slated for post-secondary education and infrastructure. The Second Quarter Update has pushed that up to a 12% increase with more spending emergency and disaster assistance, infrastructure investment and natural gas rebates.

British Columbia has also benefited from resource-fuelled growth with GDP growth estimated at about 3.7% in 2005 and strong job

growth in construction, transportation, trade and educational services, although there has been some slowdown in the forest products industry. Provincial government spending is set to increase by 4% to 7% in 2005-06, depending on how much of a \$1 billion allocation for public sector compensation agreements is actually spent in this fiscal year. Collective agreements for about 90% of the province's public sector employees are up for renewal in the next six months. The province has recently said that it will allocate an extra \$5.7 billion for compensation increases through to 2009-10^{viii}. The compensation bill for provincial public servants will total \$17.2 billion in 2005-06. Although negotiations are just starting, this spells a more positive negotiating attitude for the province.

Fiscal Situation

Most governments in Canada are in a healthy fiscal situation, with surpluses and/or improving balances.

With the federal election currently underway, the fate of many federal spending programs, including child care

Fiscal Balances

*\$ millions, after special account transfers
based on latest fiscal statements*

	2004/5	2005/6
Canada	1,630	4,600
Newfoundland & Labrador	- 489	2
Prince Edward Island	- 40	-22
Nova Scotia	165	70
New Brunswick	242	99
Québec*	- 664	-
Ontario**	- 1,555	- 2,369
Manitoba	406	3
Saskatchewan	383	135
Alberta***	5,175	5,894
British Columbia	2,575	1,635

* Québec's AG says it is -\$2,100 for 2004/5

** includes a \$1 billion reserve for 2005-6

*** net revenues

and transfers for municipal infrastructure are uncertain. More details about the different party platforms can be found at <http://cupe.ca/2006election/>.

Employment and Labour Force

Canada's unemployment rate increased slightly to 6.5% in December, up from the over 30-year low of 6.4% reached in November. The unemployment rate dropped through most of last year from a 7% rate in December 2004 and averaged 6.7% for the year.

Total employment increased by 233,000 (+1.4%) during the past 12 months, with virtually full-time jobs increasing by 262,500 and the number of part-time jobs dropping by 30,000.

Public sector employment has increased by 52,500 while private sector employment has increased by 92,300. 88,000 of the new jobs created over the past year have been self-employed and there has been an increase of 65,000 in the number of people in temporary jobs.

The number of women with full-time jobs has increased by 124,300 (+2.5%) over the past 12 months, while the number in part-time jobs has dropped by 50,800 (-3.6%). Full-time employment among men has increased by 102,100 (+1.5%), with part-time employment increasing by 29,300 (+6.5%)

The services sector has added 236,900 (+1.4%) jobs over the past year, led by 89,100 (+8.4%) additional jobs in education. Most of these were in primary and secondary education. Employment in health care and social assistance is down by 26,100 from December 2004 because of a decline in the number of people working in social assistance and nursing homes. Employment in the health care facilities is higher than a year ago.

Overall public sector employment increased by 52,500 (+1.7%), with the job gains in the broader public sector

offset by a loss of 1,400 (-0.2%) jobs in public administration.

Employment in construction increased by 56,600 (+5.7%) compared to twelve months earlier. The number of people working in wholesale and retail trade continued to increase, with a total of 88,000 (+3.5%) additional jobs since December 2004.

Employment growth in the information, culture and recreation industry is up by 15,600. Employment growth in utilities has been slow over the past year, with only 1,400 new jobs added during the year.

Manufacturing has suffered by far the greatest job losses, with 100,400 (-4.4%) fewer jobs than last year.

Employment growth in the twelve months has been especially strong in B.C. (+79,700), Alberta (+32,600), Ontario (+75,800) and Québec (+51,400). Newfoundland and Labrador lost an estimated 4,900 jobs while employment in Saskatchewan declined by 7,400. Employment levels in PEI, Nova Scotia and Manitoba at the end of last year were close to what they had been in December 2004.

Despite the strong job growth, there are still over 1 million people unemployed in Canada. Newfoundland and Labrador and PEI still have unemployment rates above 10%. The national unemployment rate for youth is 11.8% compared to 5.4% for adult men and 5.5% for adult women.

Unemployment Rates by Province December 2004 – December 2005 Seasonally Adjusted

	<i>Average for 2005</i>	Dec 2004	Nov 2005	Dec 2005	<i>Change from Dec 2004</i>	<i>Change from Nov 2005</i>
Canada	6.7	7.0	6.4	6.5	-0.5	0.1
Newfoundland and Labrador	15.2	14.4	15.0	15.5	1.1	0.5
Prince Edward Island	10.9	10.4	10.6	10.9	0.5	0.3
Nova Scotia	8.4	8.9	8.2	8.5	-0.4	0.3
New Brunswick	9.7	9.4	9.5	9.6	0.2	0.1
Québec	8.2	8.6	8.0	8.2	-0.4	0.2
Notario	6.6	6.8	6.1	6.2	-0.6	0.1
Manitota	4.8	5.0	4.2	4.2	-0.8	0.0
Saskatchewan	5.1	5.3	5.2	5.3	0.0	0.1
Alberta	3.9	4.4	4.1	4.1	-0.3	0.0
British Columbia	5.8	6.2	4.9	5.1	-1.1	0.2

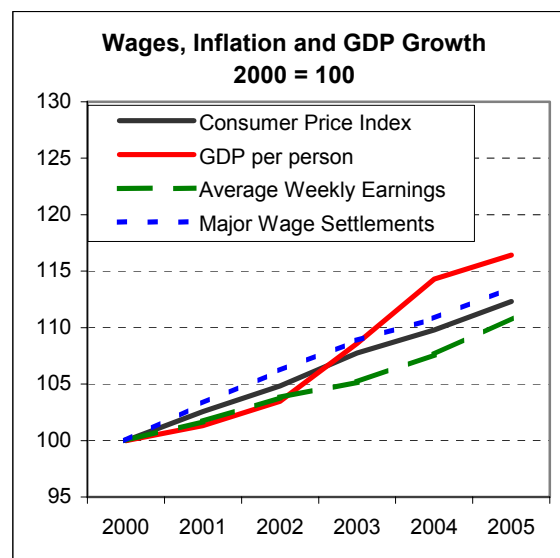
Source: Statistics Canada, Labour Force Survey, December 2005 released January 6, 2006
<http://www.statcan.ca/english/Subjects/Labour/LFS/lfs-en.htm>

Wage Growth

Real wage growth in the last four years has been much lower than in previous periods of economic growth. As the attached graph shows, major wage settlements have just kept pace a bit above inflation, but average weekly earnings have lagged behind inflation and behind GDP growth per person.

There has been little restraint for corporate executives, who have helped themselves to double-digit – and sometimes triple-digit – increases in their compensation for a number of years. Total compensation for CEOs more than doubled in 2004, according to a Globe and Mail survey^{ix}. Most of the increase in compensation for CEOs has been in the form of stock options, the gain which is taxed at half the rate as normal wages and salaries.

But with lower unemployment rates, higher profits and government in a good fiscal state, workers are now obtaining more significant real wage increases.



Wage Settlements in 2005

Wage settlements for bargaining units of more than 500 workers averaged 2.5% last year to the end of October 2005, at similar rates for both public and private sectors. This is higher than the 1.8% average for 2004. The value of wage settlements increased during the year and averaged 2.8% in the third quarter, with an average of 2.9% for the public sector.

Public sector wage adjustments recovered to an average increase of 2.9% in the third quarter of 2005 up considerably from 2004 when wage reductions and freezes in the B.C. health care sector had a significant impact.

Wage adjustments show considerable variation by province. Wage adjustment increases are higher this year in Newfoundland and Labrador, Manitoba,

Saskatchewan and B.C. Wage adjustments are lower or at the same rate as last year in other provinces.

The average in B.C. for the first three quarters of this year was only 0.5%, but this only reflects agreements representing 66,500 employees. Wage adjustments averaged -1.6% in B.C. last year. As noted above, the B.C. government recently announced that it is prepared to use half of its projected surplus over the next five years to fund compensation increases for public sector workers.

Employees in public administration obtained average wage settlements of 2.7% in the first nine months of last year while employees in the education, health and social services sector obtained average wage adjustments of 2.4%.

Average Wage Settlements Major Collective Bargaining by Year and Quarter

	2004	2005 to Q3	2005 Q1	2005 Q2	2005 Q3
All	1.8	2.5	2.6	2.6	2.8
Public Sector	1.4	2.5	2.6	2.6	2.9
Private Sector	2.2	2.5	2.4	2.6	2.7

Source: Human Resources and Skills Development Canada, Major Wage Settlements by Quarter, Percentage Wage Adjustment, [latest information as of January 10, 2006], <http://www.hrsdc.gc.ca/en/lp/wid/mws/index.shtml>

Average Wage Settlements by Province 2004, January – October 2005

	Nfld-Lab	PEI	NS	NB	QC	Ont	Man	Sask	Alta	BC	Multi-Prov	Federal Juris
2004	1.0	2.4	3.7	4.1	2.6	3.0	2.6	1.0	3.1	-1.6	2.8	1.6
2005 (Jan.-Oct)	2.6	2.4	3.2	3.0	2.3	2.7	2.9	1.7	2.9	0.5	3.3	2.6

Source: Human Resources and Skills Development Canada, Average Annual Wage Adjustments Yearly Tables, [latest information as of January 10, 2006], http://www.hrsdc.gc.ca/en/lp/wid/aawa/quarterly_index.shtml

Average Wage Settlements by Industry January – October 2005

Industry	No. of Agreements	No. of Employees	% wage adjustment
Primary	5	4,260	2.0
Utilities	8	12,380	2.4
Construction	5	9,650	2.4
Manufacturing	34	70,070	2.6
Wholesale and Retail	9	31,710	2.0
Transportation	18	39,810	2.9
Information & Culture	15	34,400	2.5
Finance & Professional Services	8	12,770	2.3
Education, Health Soc. Services	172	424,000	2.4
Entertain/Hospitality Industry	5	2,830	2.4
Public Administration	54	243,130	2.7

Source: Human Resources and Skills Development Canada, Major Wage Settlements by Quarter, [latest information as of January 10, 2006] http://www.hrsdc.gc.ca/en/lp/wid/mws/quarter/quarter_industry.shtml

Private Sector Wage Forecasts

Every year, different human resources and consulting firms survey employers on their plans for wage increase and employee compensation plans for the coming year. These surveys point to average salary increases of 3% to 3.5% this year. The surveys were almost all conducted in the summer and may be slightly out of date.

Morneau Sobeco's survey found that employers plan for an average 3.2% increase, with increases ranging from 2.6% in the paper and wood product manufacturing industry to 4.6% in the mining, oil and gas industry. Promotional increases and special adjustments, which are provided by 54% of employers, are expected to add another 1% to the payroll. According to their survey, the top 3 issues for 2006 are health care costs, disability management and benefit plan design^x.

Hay Group found that the average salary increase for all sectors is expected to be 3.3% with an average increase of 3.1% for employers in the broader public sector. Executives are expected to gain a higher increase than

lower paid employees. Their survey found that bonuses are becoming more prevalent, particularly for executives^{xi}.

The survey by *Mercer Human Resources* points to average salary increases of 3.4% this year thanks to the stronger economy. They found that more than a quarter of employers are planning to add employees and very few employers expect to implement cost-cutting measures. Their survey suggests that employees in B.C. and Alberta can expect to see the highest increase at 3.5%; 3.4% for employees in Manitoba, Saskatchewan and the Greater Vancouver area; 3.3% for Ontario, Québec and the Maritimes. Salary increases in the oil and gas sector are expected to average 4.6% and, once again, executives can expect higher increases than clerical and hourly staff.

Watson Wyatt reports that employers expect to increase salaries by 3.3% in 2006. Salary increases are expected to range from 2.9% in the utilities/communication industry to 3.6% in the professional/business sector. Public sector employers are planning for 3% increases according to their survey^{xii}.

Hewitt Associates expects salaries to increase by an average of 3.4% this year. They found that salary increases are expected to range from 2.8% for workers in manufacturing firms to 5.1% for executives in the oil and gas industry. Only one company out of the 349 surveyed expects to freeze salaries this year. They said that since salary increases tend to be related to the CPI, there is little upward movement to them. "Instead employers are using variable pay as part of their overall strategy for attracting and retaining employees..." Some of the measures increasingly used to attract and retain employees include incentives, performance awards, special recognition awards, signing bonuses and flexible working arrangements.

Selected Recent Settlements - October 2005

Employer	Occupations	Number of Employees	Average Annual Increase	Duration in Months	Expiry Date
<u>Information and Culture</u>					
CBC Canada Wide	Broadcast and television	5,500	2.5	60.0	03-Mar-09
<u>Education, Health and Social Services</u>					
BC Public Schools Association; BC Teachers' Federation	Elementary and secondary teachers	42,000	0.0	24.0	30-Jun-06
Conseils scolaires catholiques de langue française: various in Ontario	Elementary and secondary teachers	2,910	3.1	24.0	31-Aug-08
NB Association of Nursing Homes (CUPE)	Health service and office	2800	3.0	48.0	15-Oct-08
Peel District School Board Mississauga, Ontario	Occasional teachers	700	2.6	48.0	31-Aug-08
Saskatchewan Association of Health Organizations; Health Sciences Association of Saskatchewan	Health and social care professional and technical	2,700	2.0	36.0	31-Mar-07
Sisters of Charity of Ottawa (CUPE)	Health service and trade	860	2.8	24.0	31-Mar-07
Upper Canada District School Board, Brockville, Ontario	Occasional teachers	600	2.9	48.0	31-Aug-08
<u>Public Administration</u>					
City of Gatineau	Inside employees	680	1.8	72.0	31-Dec-07
City of Laval	Recreational	800	2.3	36.0	31-Dec-07
City of Ottawa (CUPE)	Recreational	2,440	3.0	36.0	31-Dec-06

Source: Human Resources and Skills Development Canada, Major Settlements Reached in October 2005. [latest information as of January 10, 2006], <http://www.hrsdc.gc.ca/en/lp/wid/mws/Listmonth.shtml>

- i Quarterly Financial Statistics for Enterprises.
<http://www.statcan.ca/Daily/English/051124/d051124a.htm>
- ii <http://www.statcan.ca/Daily/English/051124/d051124a.htm> EFU, page 32, 83. RBC Canada-
U.S. Economic Forecasts January 2006.
- iii Government business enterprises: Finances.
<http://www.statcan.ca/Daily/English/051220/d051220d.htm>
- iv More detailed data for public sector employment is only available from a different survey and is
not consistent with the Labour Force Survey data. <http://www40.statcan.ca/l01/cst01/govt54a.htm>
- v Much of the material in this section is based on material from the Bank of Montreal's *Provincial
Outlook*, TD Economics' *Regional Economic Outlook* and the Conference Board of Canada
Provincial Outlook, as well as material published by various provinces.
- vi Ontario Economic Outlook and Fiscal Review 2005.
<http://www.fin.gov.on.ca/english/economy/ecoutlook/statement05/>
- vii Saskatchewan 2005-06 Mid-Year Report <http://www.gov.sk.ca/finance/>
- viii http://www2.news.gov.bc.ca/news_releases_2005-2009/2005FIN0023-001112.htm
- ix "Executive Compensation", Globe and Mail May 4, 2005.
- x <http://www.morneausobeco.ca/private/getpdf.asp?docId=753>
- xi <http://www.haygroup.ca/pdf/2006%20Compensation%20Planning%20Bulletin.pdf>
- xii <http://www.watsonwyatt.com/canada-english/news/press.asp?ID=15120>

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