Wage growth vs. inflation

In 2021, base wage increases in Canadian collective agreements were well below inflation for all provinces, falling short by an average of 1.5 percentage points. The gap was smallest in British Columbia, where the average wage settlement increased by 2.2 per cent compared with an annual Consumer Price Index increase of 2.8 per cent. The majority of provinces saw inflation increase close to 2 percentage points above wage growth for the year.

This large gap comes from much higher than expected inflation in 2021, as supply chain disruptions lasted longer than expected and many corporations took advantage of pent-up demand to hike prices. Current forecasts are estimating inflation in most provinces to be around 3 per cent for 2022 as well.

continued on page 2

Wage growth and inflation in 2021

	Canadian average	Federal	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC
Inflation average 2021*	3.4	--	3.7	5.1	4.1	3.8	3.8	3.5	3.3	2.6	3.2	2.8
Average base wage increase in major settlements, 2021	1.9	2.2	2.0	1.9	1.8	1.8	2.0	1.3	1.1	1.1	1.3	2.2
Gap:	1.5		1.7	3.2	2.3	2.0	1.8	2.2	2.2	1.5	1.9	0.6
Inflation forecast 2022**	3.3	--	3.3	4.1	3.4	3.6	3.4	3.2	3.5	3.3	3.3	2.9

Wage Settlements from Labour Canada. 2021 wage settlements include data from January to December

*Statistics Canada. Table 18-10-0005-01 Consumer Price Index, annual average
**Based on the latest forecasts by RBC from December 2021
Source for forecast: https://royal-bank-of-canada-2124.docs.contently.com/v/provinces-enter-advanced-stages-of-recovery-in-2022-pdf

continued from page 1

This graph illustrates how a gap between wages and inflation can grow over time. It shows the actual value of the Consumer Price Index from January 2017 to January 2022, alongside two hypothetical wage settlements. It compares a settlement that increases wages by 2 per cent each January with one that increases wages by 1.5 per cent. In the example where wages increase by 2 per cent each January, you can see that while wages fall behind inflation as the months go by, they come close to catching up when the wage increase kicks in at the beginning of the next year. In the example where wages are increased by 1.5 per cent, an amount lower than average inflation throughout this period, workers' wages fall behind inflation by 2019, and face a significant gap by January 2022.

For many workers, wages aren't keeping up with inflation. CUPE provides its members with a tool to measure inflation and to check if their wages are keeping up with changing prices in their region. Find it at **cupe.ca/cpi-calculator**.

Keeping up with inflation: comparing wage settlements

Source for all-items CPI: Statistics Canada. Table 18-10-0004-01 Consumer Price Index, monthly, not seasonally adjusted

How do rising interest rates affect workers?

Inflation in January 2022 reached a high of over 5 per cent. This is putting pressure on the Bank of Canada to increase interest rates.

Most economists think inflation is caused by too much money in the economy. Central banks try to solve this problem by raising interest rates. Raising interest rates makes borrowing money more expensive and increases returns on savings. This causes consumers and businesses to delay spending and to borrow less. As a result, there is less money moving around in the economy and inflation decreases.

However, the inflation we're seeing today is not being fueled by an excess of money. It is the result of supply chain disruptions and pandemic uncertainty. For workers, this situation will only compound the negative effects of increased interest rates.

There are several ways rising interest rates may affect CUPE members.

To begin, higher interest rates tend to lower consumer spending and business investments, leading to a reduction in hiring and an increase in unemployment.

The heightened cost of borrowing will also have a direct impact on workers' personal finances.

Interest rates have been low since the financial crisis in 2008, enabling families in Canada to take on significant levels of personal debt. Before 2008, the average household in Canada owed $1.49 for every dollar of income. By the end of 2021, this had risen to $1.79. Making borrowing more expensive will make it very difficult for workers to refinance this debt or to qualify for a mortgage.

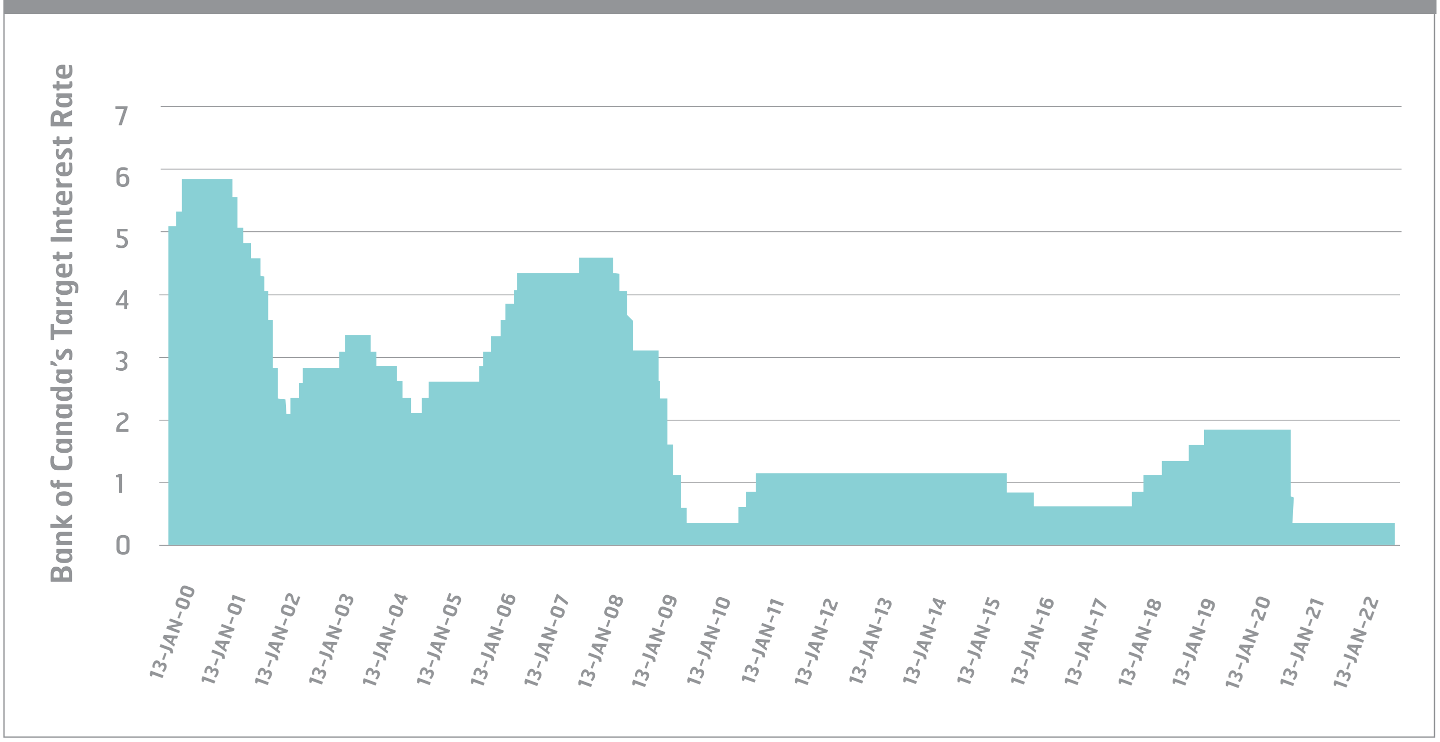
We are also facing major labour market shifts due to COVID-19, automation, and responses to climate change, among other factors. While workers who have lost jobs or careers from these shifts may need to invest in education or training, rising interest rates will make student loans more costly and less accessible.

Finally, when interest rates rise, governments often become worried about spending. This happens for two reasons. First, higher interest rates make it more expensive to borrow money. Second, governments know that the central bank might think increased government spending could cause the economy to grow too fast – prompting the bank to increase interest rates even more to reverse the effect.

Even though government revenues tend to rise along with inflation, this will not necessarily translate into increased spending on public services or higher wages for public sector workers. In fact, several provincial governments are continuing to bargain with restrictive mandates and warn of cuts to public services, even after COVID-19 has illustrated the dangers of austerity and underfunding.

If the Bank of Canada increases rates to quiet fears of runaway inflation instead of as a response to data showing an excess of money in the economy, all these impacts will be intensified. Moderate increases in interest rates through 2017 and 2018 were fairly well-tolerated by workers because of a healthier economic context. The same is not true for 2022.

Interest rates have been low for over a decade



Source: Statistics Canada. Table 10-10-0139-01

Rising prices pad corporate profits

Workers seeking wage increases often get blamed for inflation, but right now people are asking questions about the role of corporate profits in rising prices.

Some large multinational corporations have been very open with their investors that price increases are resulting in higher revenue. In 2021, multinational Proctor & Gamble said that they needed to raise prices to offset increased costs and uncertainty. But in January 2022, they reported to shareholders that their revenue in the last three months of 2021 actually had been up 6 per cent from the year before. This news prompted their stock price to go up, leading to even more profit for senior executives and shareholders.

How can companies get away with higher than necessary price increases during a global pandemic? And why do they feel comfortable drawing attention to their skyrocketing profits?

The past 20 years have seen a huge amount of consolidation in many sectors of the economy, globally and within Canada. Fewer and fewer companies control more and more of the market. For example, most baby diapers sold in North America are made by only two corporations – Proctor & Gamble and Kimberly Clark.

According to economic theory, the threat of competition from other companies is what keeps prices low. This means that when two or three big companies corner the market, we often see prices rise faster than costs. Canada's economy is especially vulnerable to this trend because, when evaluating potential mergers, our competition laws prioritize the efficiency gains possible with larger companies.

When people have few alternatives for goods, companies don't worry about seeming too greedy when celebrating rising prices and profits. There is also evidence that openly discussing rising prices and profits can lead to increases in executive compensation.

A recent report from the Canadian Centre for Policy Alternatives showed that bonuses like stock options continue to drive executive pay, accounting for 82 per cent of total compensation for the top 100 Canadian CEOs in 2020. As such, executives' total earnings depend heavily on stock price. And it's clear that companies that draw attention to higher prices and higher profits, as Proctor & Gamble did last year, have been rewarded with higher stock prices.

Pandemic profiteering isn't the only thing driving current inflation, but it seems to be a factor in Canada as well as the US. Research from Canadians for Tax Fairness revealed that 50 of Canada's largest companies made record profits in 2020. Big pandemic winners in Canada included finance and insurance companies, Dollarama, the convenience store chain Couche-Tard, and five Real Estate Investment Trusts (REITs), among others.

So, when someone tries to blame workers for the rising cost of living, just point out how corporate profits, shareholder dividends, and executive compensation have continued to climb throughout the pandemic. Pandemic profiteering is yet more proof that wealth does not trickle down. We need to fight for fair wages and fair corporate taxation.

ECONOMIC BRIEFS

COVID-19 and labour market outcomes for recent immigrants

Recessions tend to disproportionately impact marginalized workers, including recent immigrants. New research from Statistics Canada shows that this has also been true of the COVID-19 recession.

Researchers looked at labour market outcomes during the pandemic for people aged 20 to 44 who had immigrated to Canada within the past five years. They found that the economic fallout was highest for women who had recently immigrated. By May 2020, the unemployment rate for recent immigrant women was 22 per cent, compared to 14 per cent for men who had recently immigrated and 12 per cent for Canadian-born women. This is partly because the recently immigrated women tended to be employed in low-wage service sector jobs and were less likely to have the protection of a union.

Although the unemployment gap between recent immigrant women and other workers had largely disappeared a year into the pandemic, previous recessions suggest there may still be long-term negative impacts for workers who experienced long-duration unemployment, including lower wages in the future and an increased risk of unemployment.

Census data sheds light on population growth

The first release of data from the most recent census tells us a lot about which municipalities are growing and which are not.

Overall, Canada's population increased by five per cent between 2016 and 2021. The fastest growing municipalities are located near major urban centres.

The new census data will help municipalities meet their communities' needs when planning emergency services, schools, hospitals, and other infrastructure requirements.

Future census releases will flesh out additional socio-demographic information that is important for municipal planning, including statistics on age, language, housing, race, and economic inequality.

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

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

All content written by Angella MacEwen unless otherwise indicated. Edited by Colleen Butler.

Proofing by Manon Lajoie and Valérie Ménard. Layout by Sarah Walker.

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

CUPE Canadian Union of Public Employees