# CEO pay dramatically outpaces worker pay

A recent study by the Canadian Centre for Policy Alternatives (CCPA) shows that the average income of Canada's top 100 CEOs hit $14.9 million in 2022, 246 times higher than the average worker's salary.

The dramatic rise in CEO pay is partly due to inflation. As inflation increased in 2021 and 2022, large companies took the opportunity to hike their prices by more than was necessary to cover their costs. This is referred to as "sellers' inflation." These price hikes not only fuelled further inflation, but also significantly boosted corporate profits, resulting in bigger CEO paychecks.

Critics argue the CCPA study compares apples to oranges, since CEOs are paid differently than regular workers. CEO compensation extends beyond salaries, with a significant portion coming from bonuses, stock transfers and stock options (a deal to buy company stock at a lower price in the future). Stock transfers alone made up more than 40% of the top 100 CEOs' pay in 2022.

But workers can also receive compensation beyond their salaries, like health benefits and pensions. In addition, employers contribute to government pension plans, employment insurance and workers' compensation plans on behalf of their employees. Looking at total compensation is therefore a good way to directly compare the pay of CEOs and average workers.

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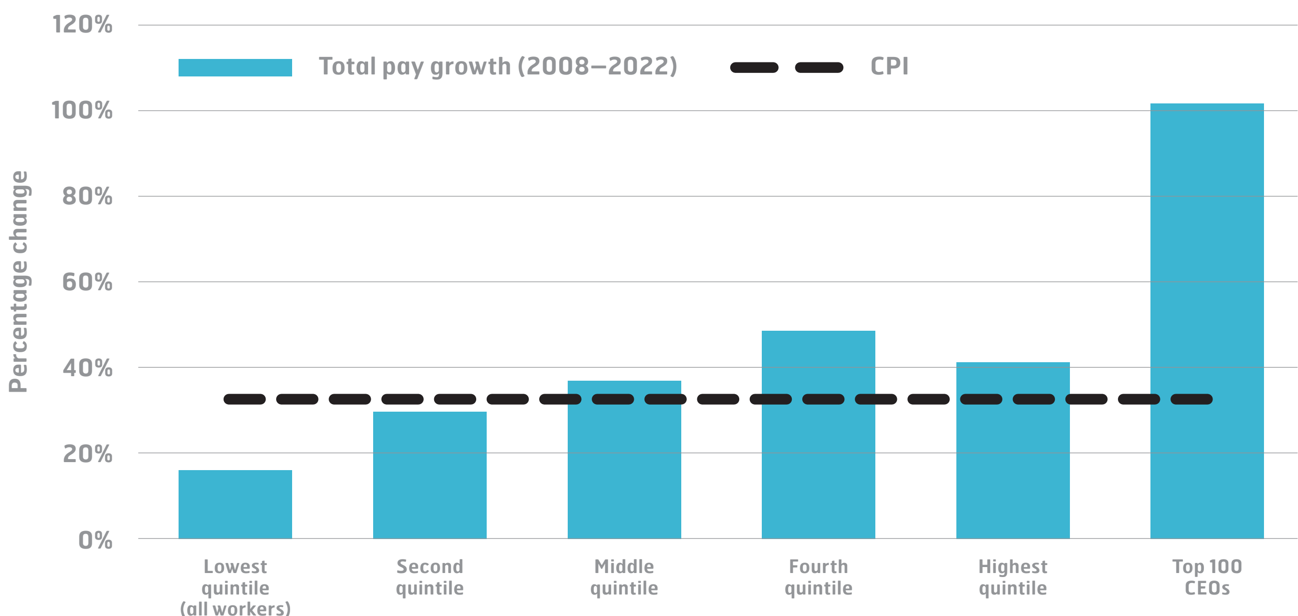
## Total CEO pay growth vs. total worker pay growth (2008–2022)




Sources: Statistics Canada, Table 36-10-0587-01 and CCPA, *CEO Pay in 2022*

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Statistics Canada tracks total compensation and provides a breakdown by income level. We can compare how much total CEO compensation has grown since 2008, when the CCPA first started tracking it, with how much total employee compensation has grown. Total compensation for the 100 best-paid CEOs increased from $7.4 million in 2008 to $14.9 million in 2022, an increase of just over 100%. On the other hand, the average worker's total compensation only increased 40% over that period, barely above the increase in inflation as measured by the Consumer Price Index (CPI).

We can compare how compensation changed for workers with different levels of income by breaking the data down into five categories of equal size called quintiles, sorted from the 20% of workers with the lowest income to the 20% of workers with the highest income. Total compensation for workers in the bottom two income quintiles increased by less than inflation between 2008 and 2022, while total compensation for workers in the top two quintiles increased by slightly more than inflation.

While workers, like CEOs, receive various forms of compensation, the sharp increase in CEO earnings stands in stark contrast to the modest improvements for average workers and the real pay erosion experienced by the lowest-income workers due to inflation. This disparity highlights a significant concern regarding the fairness of CEO pay.

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# When will Canada's high interest rates drop?

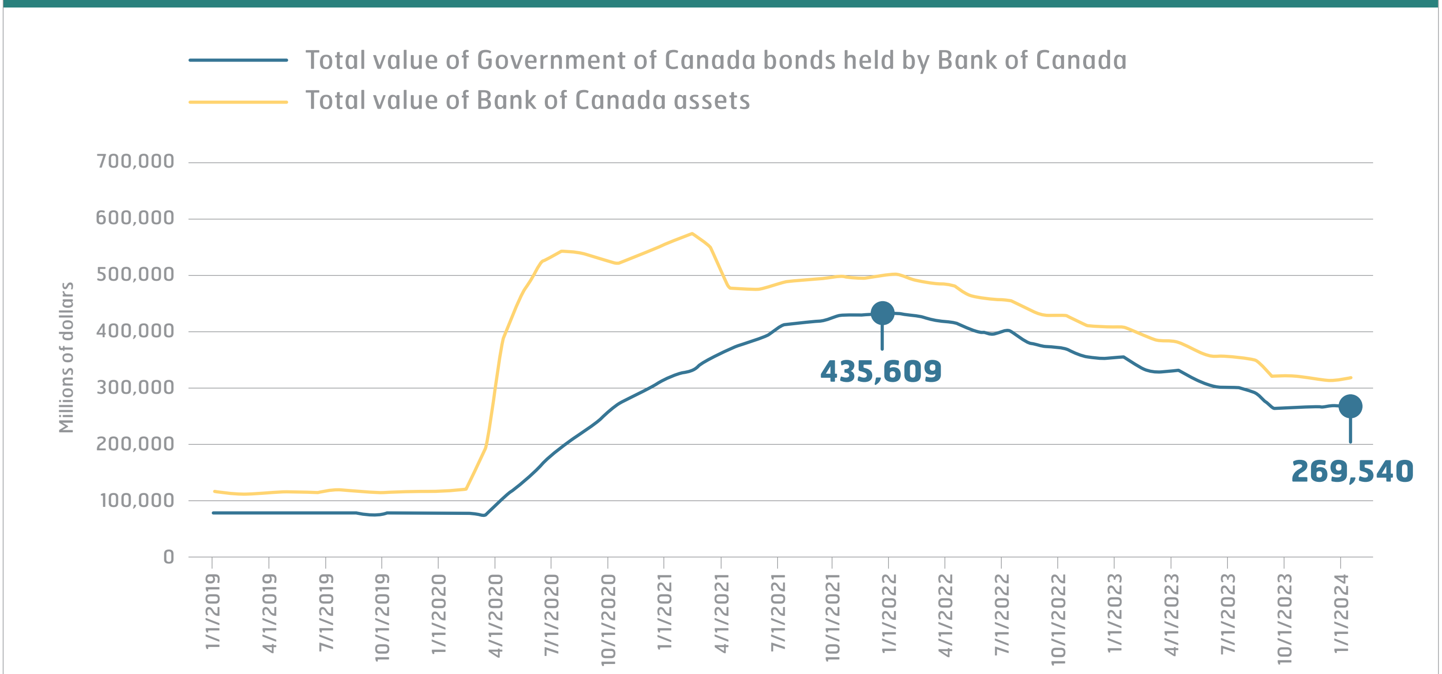
Families and businesses seeking relief from the pressures of high interest rates would love to know when the Bank of Canada is going to start lowering rates.

Despite a slowdown in price increases compared to 2022, core measures of inflation, including the Consumer Price Index (CPI), remain above the Bank of Canada's target range of 1-3%.

Since July 12, 2023, the Bank of Canada has kept rates steady at 5% to combat persistent inflation. It has also engaged in quantitative tightening since April 2022, around the same time they started increasing interest rates.

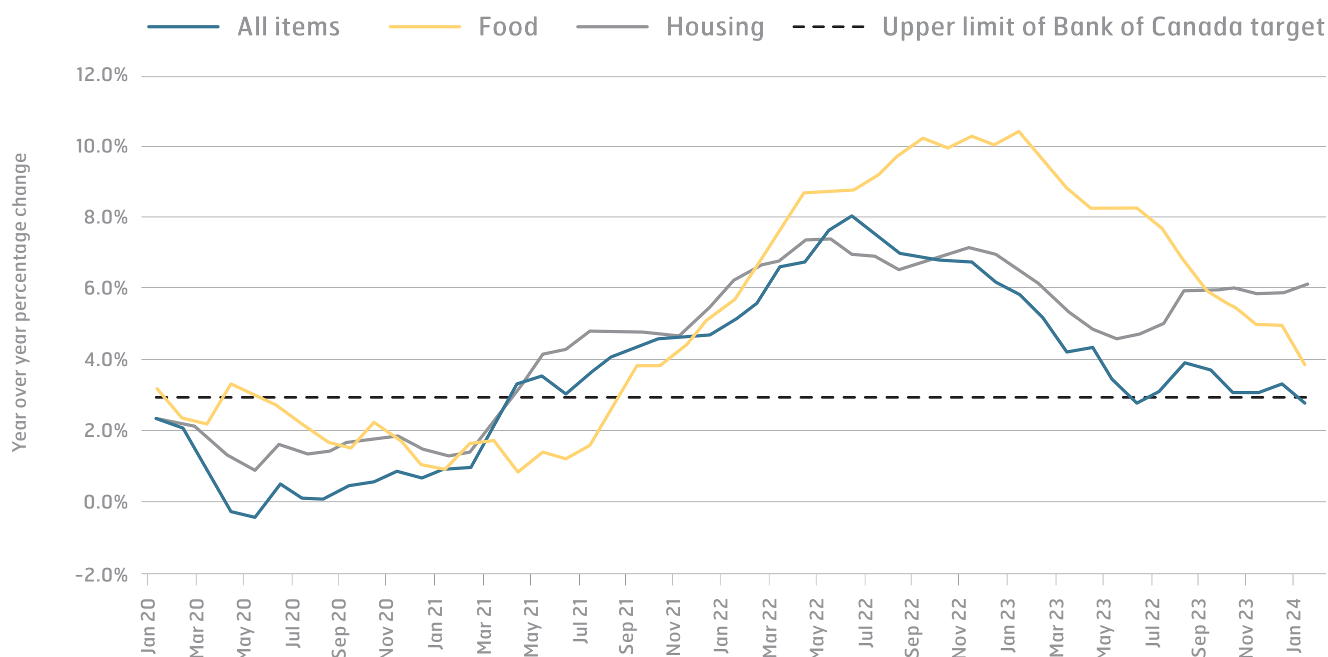
Quantitative tightening involves selling off bonds or not renewing them when they mature. This increases the supply of bonds on the market and decreases the supply of money. Overall, quantitative tightening makes borrowing more expensive because it becomes harder for governments and businesses to sell their debt and they must pay higher interest rates to sell new bonds. It also reduces the amount of money that banks have available to lend. The hope is that this will help control inflation by reducing spending and investment, in the same way that high interest rates are supposed to control inflation by reducing spending and

## Bank of Canada assets (2019–2024)




Source: Bank of Canada

## Price increases still above Bank of Canada's inflation target




Source: Statistics Canada Table 18-10-0004-01

investment. In the last two years, the Bank of Canada has reduced the amount of federal bonds it holds by about $165 billion, or 38% of their federal bond holdings.

Economists expect the Bank of Canada will stop quantitative tightening before they lower interest rates, although there are no guarantees. The pace of quantitative tightening slowed near the end of 2023, but the Bank of Canada announced plans in January to continue it until at least mid-2024.

It may also take longer than expected for price increases to stabilize. The Bank of Canada would like to keep price increases in the range of 1–3%. We measure price increases through CPI, which tracks the average price change for a representative basket of goods and services. The Bank of Canada looks at different components and tries to isolate volatile changes to understand trends.

One factor driving CPI growth is the increase in housing costs. Rising mortgage rates and rental costs accounted for about half of overall CPI growth throughout most of 2023, a trend likely to continue through 2024. Even though the spike in housing costs is a direct result of higher interest rates, it's also what's delaying the decision to lower interest rates. Although this seems counterintuitive, the Bank of Canada may be worried that if they make borrowing money cheaper too quickly, prices for other things might start to climb, too. The Bank of Canada is likely to be cautious and to look for slow and steady price growth across broad areas of the economy before lowering rates.

Given these complex factors, there is too much uncertainty for economists to predict when the Bank of Canada will lower rates.

# Job growth not keeping up with population growth

Employment rose slightly in January, after remaining mostly stable during the final three months of 2023. Although this increase is encouraging, new jobs have not kept pace with the growth in the number of workers aged 15 and up. Over the past year, while 345,000 new jobs were added, the working-age population expanded by one million.

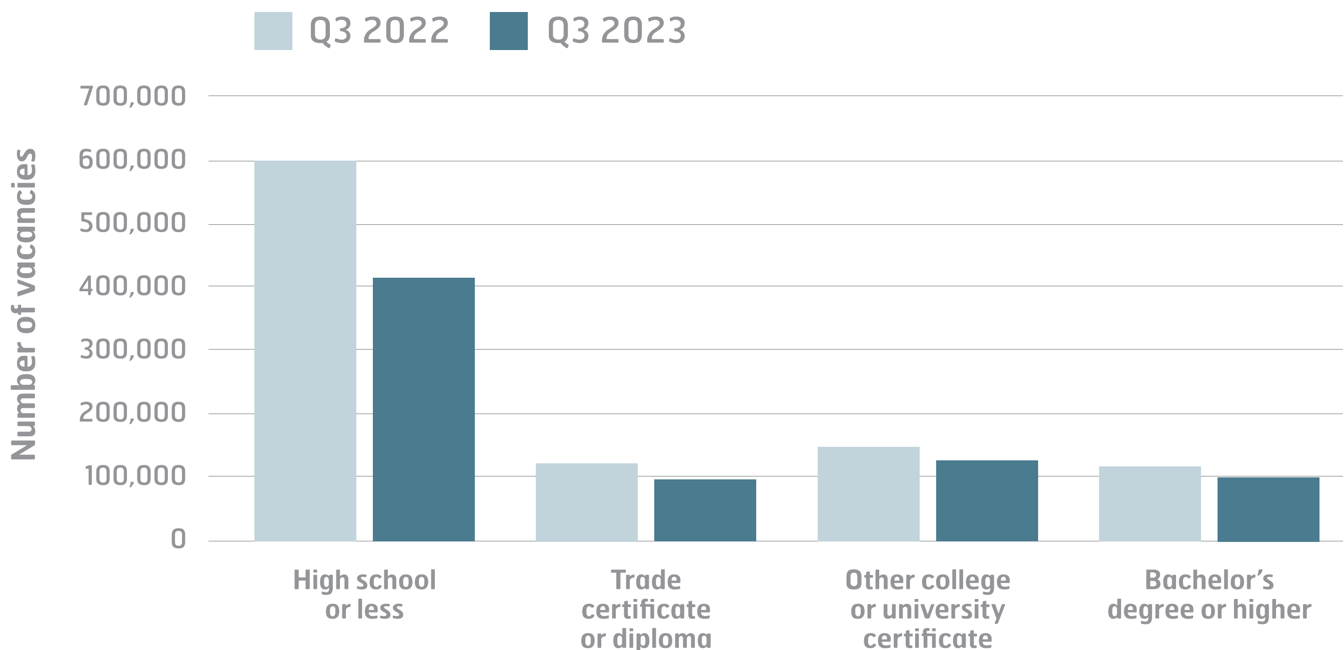
Despite the surge in the working-age population, there has only been moderate growth in unemployment. This is because the majority of those who didn't find a job over the past year are no longer counted as part of the labour force.

For Statistics Canada to consider someone part of the labour force, they either have to have a job or be looking for one. When there aren't many opportunities in the labour market, people will often stop looking for work and engage in other activities like taking care of family or going back to school.

This dynamic is evident in the latest data. Although our working-age population grew by one million over the past year, only half that number were added to the labour market. This means 500,000 more working-age adults are not being counted as part of the labour force this January as compared to last January. Students made up one third of this number. Retirees accounted for another 25%, with the rest being caregivers, volunteers and those unable to work due to illness or disability.

As unemployment has increased, the number of job vacancies has fallen. The most recent data for job vacancies is from the third quarter of 2023. At that time, there were 1.7 unemployed individuals for every job vacancy, with the most significant decrease in available jobs seen in positions requiring a high school diploma or less.

The rise in unemployment was more evenly distributed across education levels. Those with a high school diploma or less, those with some post-secondary education and those with a university degree all experienced similar increases in unemployment.




Source: Statistics Canada Table 14-10-0328-01

# Are labour shortages real?

Distinguishing between real labour shortages and employers who just want cheaper workers can be challenging. One sign of a true labour shortage is when the wages offered for vacant positions rise, with employers being forced to offer more money to attract and keep qualified workers.

Looking at the relationship between job vacancies and wages can give us insight into labour market trends. The job vacancy rate is the number of job vacancies divided by the total labour demand (the number of employed workers plus the number of vacant positions). This chart compares the job vacancy rate of several industries with the change in wages offered for those vacant positions. In a true labour shortage, industries with higher vacancy rates would offer higher wage increases, forming a diagonal line on the chart. Instead, what we see is closer to a circle, indicating no clear relationship between the number of job vacancies and wages.

With increasing overall unemployment and decreasing vacancies, it's clear that there is not a generalized labour shortage. In industries with high job vacancy rates and below average wage increases, it is likely that there are other dynamics either suppressing wages or inflating vacancies.

For example, in the third quarter of 2023, Canadian hospitals had a job vacancy rate of 7. This means that 7% of hospital jobs across the country were vacant. The fact that wages have not risen in response to this high and persistent job vacancy rate could be attributed to provincial government austerity and unwillingness to improve wages.

On the other hand, there are different dynamics at play in the accommodation and food services industry. The job vacancy rate for accommodation and food services was 6.7 in the third quarter of 2023, but wages only increased by 4% compared to the previous year. The high number of job vacancies in this sector could be due to employers who rely on part-time workers and anticipate high employee turnover.

While a general labour shortage may not exist, specific occupations and regions could still be experiencing shortages. To address this, both employers and governments should improve training access and credential recognition for internationally trained workers or those with work experience from outside of Canada.

## No clear relationship between job vacancies and increases in wages offered (Q3 2022–Q3 2023)

Source: Statistics Canada Table 14-10-0326-01