



# Economic, Labour Market and Wage Trends in 2002

## Take Two!

The objective of this publication is to make economic information accessible to the staff and to members of the Public Service Alliance of Canada. For example, having a good idea of the recent evolution of prices and salaries is very useful when formulating wage demands and re-negotiating collective agreements. In this second issue, we present, once again, the main economic and social indicators that we plan to publish up to four times a year. We also review recent annual trends in these indicators.

## The Canadian Economy since year 2000

### How did the Canadian economy perform during the last three years?

#### Our Indicator: Real Gross Domestic Product

Economists use numerous methods to measure the general health of the economy. The most common indicator is the real Gross Domestic Product or real GDP. The Gross Domestic Product (GDP) is the value of all goods and services produced in a year within Canada's borders. The terminology "real" means that the evolution of prices (or inflation) has been taken into account.

#### How to read it?

When real GDP is growing near its long-term potential growth rate, then the economy is generally in good shape. This could mean more money for Canadians and for their governments. A negative rate of change in GDP is typically bad news. When the economy produces less than it did in the previous year, it usually means higher unemployment and a lower standard of living for the population. But GDP is a limited measure insofar as it does not take activities "outside the market" into account, — for example, the value of unpaid work performed "at home" or by volunteer workers.

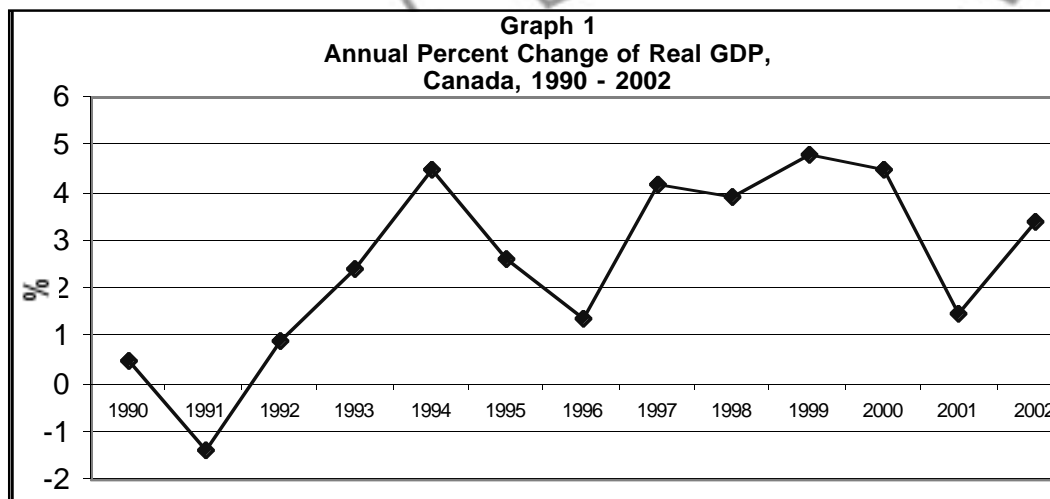
## Recent trends

The year 2000 was a year of strong economic growth. Real Gross Domestic Product (GDP), the value of all goods and services produced within Canada's borders, increased by 4.5%, the second best performance of real GDP since the economic expansion of the 1980s. 2001 was slightly more difficult, particularly in the last quarter. Following the economic slowdown in the United States, troubles in the financial markets and the terrorist attacks of September 11, 2001, some feared that Canada might fall into recession<sup>1</sup>. But Canada's economy did not dip into recession during that period and even resumed its expansion after September 2001.

real GDP advanced 0.3% in October and 0.1% in November and December 2002 over the preceding month. As of December, the Canadian economy had been growing for 8 consecutive months and for 14 out of the 15 months since September 11, 2001. There was zero growth in March of that year. Canada's economic growth is now the strongest among the G7 countries, with an annualized GDP growth rate of 3.4% in 2002.

A number of economists and financial institutions forecast that Canada will continue its economic expansion at a sustained rate in 2003-2004. Growth is expected to continue at between 3%<sup>3</sup> and 4% of those years.

2002 was relatively good. According to Statistics Canada's most recent data<sup>2</sup>,



Source : Statistics Canada, no. 15-001-XBP.

<sup>1</sup> Recession: To be in a recession, the country must have experienced two consecutive quarters of declining real GDP growth.

<sup>2</sup> As of February 28, 2003.

<sup>3</sup> Bank of Montreal: 3.7 % in 2003, 4 % in 2004. Conference Board: 3.2 % in 2003.

# Jobs and Unemployment Rate

## How Many Jobs Did the Canadian Economy Create in 2002?

Our indicators: the level of employment and the monthly unemployment rate

There is not a month when the statistics on the labour market do not make news. Several statistics are regularly reported, including the level of employment and the very popular unemployment rate. The unemployment rate is the percentage of the labour force that actively seeks work but is unable to find work at a given time. Dis-

couraged workers—persons who are not seeking work because they believe the prospects of finding it are extremely poor—are not counted as unemployed or as part of the labour force. The unemployment rate also does not reflect workers who are "underemployed," i.e. working part-time when they would rather be working full-time.

### How to read it?

When the level of employment increases and the unemployment rate decreases, it generally means that the economy and the labour market are doing well. This means more job opportunities for Canadians. Conversely, if the level of employment decreases and the unemployment rate increases, the economy is not creating employment, which is a bad sign. Sometimes, the level of employment and the unemployment rate evolve differently from the examples above. For instance, it is possible that, on certain months, the level of employment in the country progresses and the unemployment rate stays the same or even increases. This can often mean that discouraged workers, seeing the improvement of the conditions, have decided to look for a job, which has the consequence of increasing the number of Canadians looking for employment and thereby increasing the unemployment rate.

### Recent trends

For the labour market, 2002 was another year that defied expectations. Between December 2001 and December 2002, employment jumped 560,000 (+3.7%). More than 60% of the new jobs were full-time (+337,000) (see table 1).

Job growth was faster among women than among men (+4.2% vs +3.4% for men), as employment for adult women jumped 244,000. Youth employment expanded by 104,000 (+4.5%) in 2002 in part because of the greater availability of part-time jobs. Overall, part-time work increased by a considerable 223,000 (+8.1%). Between December 2001 and December 2002, federal government employment increased 19,000 (+7.0%). Adult women enjoyed the lion's share of the increase in federal government employment (+17,000).

At the end of the year, the participation rate, defined as the percentage of the working age population active on the labour market, hit 67.5%, tying the high of January 1990. What is more, at the end of the year, the proportion of the working age-population employed was 62.4%, the highest on record. Finally, the unemployment rate fell half a point to 7.5%. Had it not been for a large jump in labour market participation, the rate would have dropped more.

These data demonstrate that the labour market was very strong in 2002 and that more Canadians joined the workforce in 2002. But a good proportion of these jobs (40%) were part-time.

<sup>4</sup>Statistics Canada, *Labour Force Survey, January 2003*.

Table 1  
Employment and Unemployment Rate, 2000 - 2002

	2000	2001	2002	Dec.-01	Dec.-02	Dec.toDec.
Employed ('000)	14 910	15 077	15 412	15 090	15 650	15 517
Full-time	12 206	12 345	12 528	12 337	12 674	12 592
Part-time	2 702	2 732	2 884	2 753	2 976	2 924
Men	8 049	8 110	8 262	8 089	8 360	8 320
Women	6 860	6 967	7 150	7 001	7 290	7 197
15-24	2 289	2 314	2 367	2 300	2 405	2 377
25+	12 621	12 763	13 045	12 790	13 245	13 140
Public Sector Employees	2 792	2 822	2 908	2 834	2 953	2 961
Private Sector Employees	9 696	9 646	13 158	9 975	10 318	10 183
Unemployment Rate (%)	6.8	7.2	7.7	8.0	7.5	7.7
Men	6.9	7.5	8.1	8.6	8.0	-0.5
Women	6.7	6.8	7.1	7.3	7.0	-0.6
15-25	12.6	12.8	13.6	14.0	13.3	-0.3
25+	5.7	6.1	6.5	6.9	6.4	-0.5



Source: Statistics Canada  
Canadian Economic Observer  
no. 11-010-XPB January 2003

## Price and Inflation

By how much have the prices of goods and services increased in 2002 ?

Our Indicator: Consumer Price Index (CPI)

The Consumer Price Index (CPI) is a widely used indicator of inflation (or deflation) and indicates the changing purchasing power of money in Canada. It is determined by calculating, on a monthly basis, the cost of a fixed "basket" of commodities purchased by a typical Canadian consumer during a given month. The basket contains products from various categories, including shelter, food, entertainment, fuel and transportation.

### How to read it?

Since the contents of the basket remain constant in terms of quantity and quality, the changes in the index reflect price changes. When the CPI increases, it means that it is now more expensive than the previous period to buy the same products and services. When the CPI decreases, it means that it is now less expensive than the previous period to buy the same products and services. When the CPI percentage growth rate increases, it means that inflation accelerates. If the CPI percentage stays the same from one month to the next, inflation is stable, even though prices are still increasing.

If the rate is negative, this means prices are going down, then we say that there is deflation.

In labour relations, the variation of the CPI in percentage is often used to guide the workers in their wage demands and/or to estimate changes in their purchasing power. When the negotiated wage increases are lower than the percentage increase of the CPI, it could mean a decrease in the purchasing power of the employees. This is why labour contracts of many Canadian workers include cost-of-living adjustment (COLA) clauses that link wage increases to movements in the CPI.

## Recent trends

Consumers paid 3.9 % more in December 2002 than they did in December 2001 for the goods and services included in the Consumer Price Index (CPI). This increase followed a 4.3 % rise in November 2002 from November 2001, which consti-

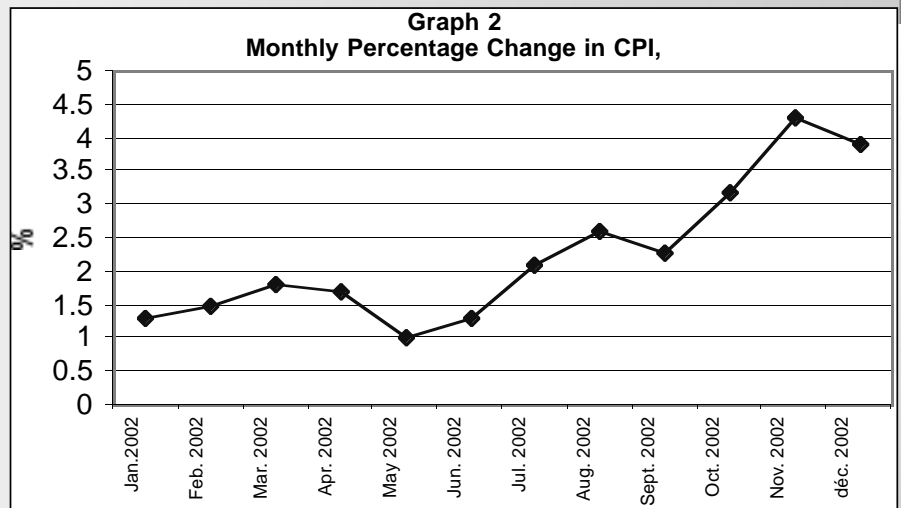
tuted the largest increase in years. The average annualized increase in prices for the last six months ending in December 2002 was 3.1%, and 3.8 % for the last three months of the year. This is a substantial change when compared to the 1% increase of CPI in May 2002.

<sup>5</sup>Statistics Canada,  
*Consumer Price Index, December 2002.*

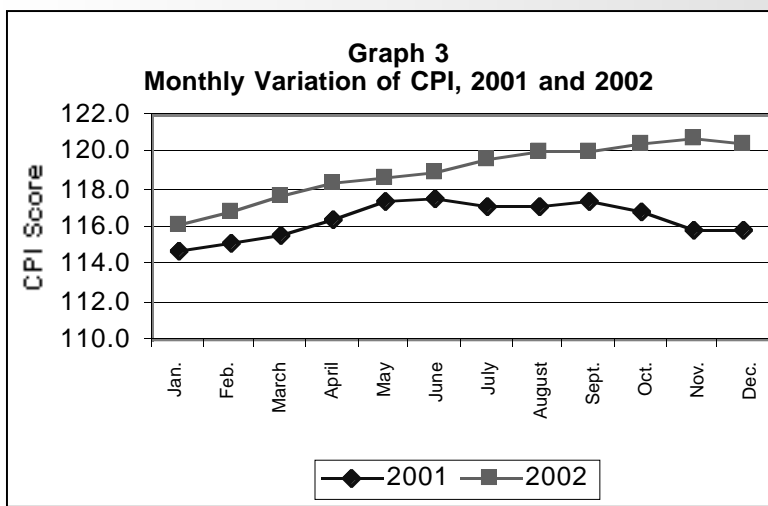
As we can see in graph 2, the percentage change of the CPI increased steadily in 2002, from less than 2 % during the first six months of the year to more than 3 % (and even 4 %) at the end of the year. Why such a change?

An explanation of this fluctuation is related to what economists call a "base effect" of the CPI. As outlined earlier, the 12-month percentage change of CPI is calculated by comparing the current month's index with the index for the same month in the previous year. In other words, what happened this fall is linked to what happened

last fall. Remember, the CPI notably decreased following the terrorist attacks of September 11, 2001. It created a downward slope after September 2001 which we can see in the graph 3. So when Statistics Canada measures the increase between last year and this year, they measure the distance between the graph from September to December 2001 and the graph from September to December 2002. The finding is that the gap during this period is wider than that of the beginning of the year. Prices went up at the end of 2002, but the percentage rate that measures the increase is even larger due to the decrease in the CPI at the end of 2002.



Source: *The daily and Canadian Economic Observer, no 11-210, Statistics Canada*



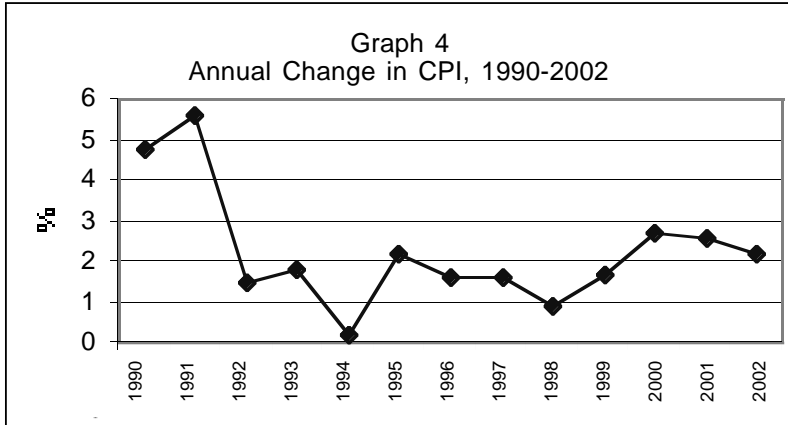
Source: *The daily and Canadian Economic Observer, no 11-210, Statistics Canada*

The base effect largely explains the sizeable increases observed in the 12-month percentage change in the CPI in the past three months. Even if the CPI had remained stable from September 2002 to December 2002, the 12-month increase would have gone from 2.3 % in September to 3.6 % in December simply because the index used as the base for the comparison declined sharply.

When we compare annual inflation rates instead of monthly variation, we can see that the actual annual rise in

prices for 2002, according to the annual variation of CPI, was 2.2 % (Graph 4). But the trend is upward. Inflation should remain above 3% at least for the first three months of 2003 as a result of a basic effect that has been present since the fall of 2001. In addition, major banks and economic institutions also anticipate a 2 % to 3 % rise in the prices of

goods and services in 2003 and 2004. However, those rates may quickly vary upward in the event of faster economic recovery in the United States and Europe, for example, or if energy prices rise as a result of war or other factors.



Source: *The daily and Canadian Economic Observer*, no 11-210, Statistics Canada

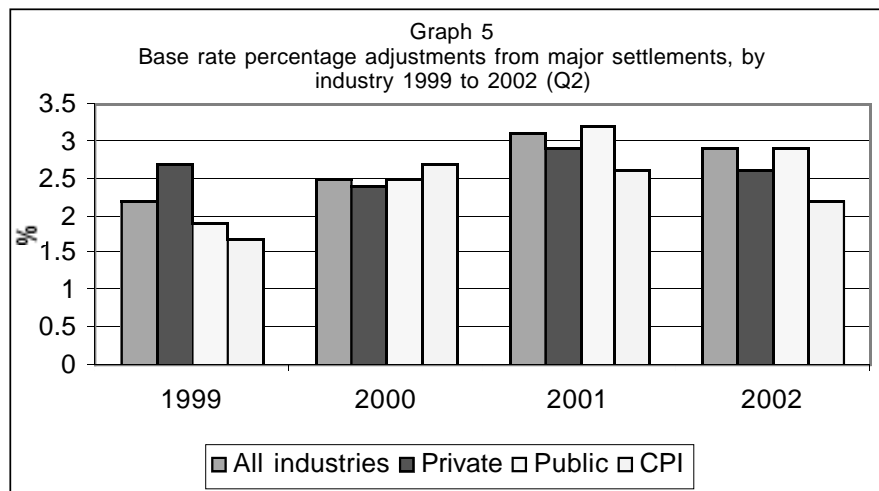
If we try to simplify all this, we can say that it now costs more and more, every month, to buy the products and the services included in the basket of fixed consumption calculated within the framework of the CPI. If the wage adjustment you obtained for the year 2002 exceeds the variation of the CPI in 2002 (2.2%), then it is very likely that you improved your purchasing power.

## Wages

What have been the pay increases negotiated in recent settlements in Canada?

Our Indicator: Wage Settlements in major bargaining units.

On a monthly basis, the Workplace Information Directorate of HRDC publishes the average increases in the rates of the basic pay as a result of the agreements reached in the preceding month, quarter and year. This is what we present here. More details are available in the Wage Settlements Bulletin published every month.



Source : HRDC and Canadian Economic Observer, February 2003, Statistics Canada, no.11-101-XPB

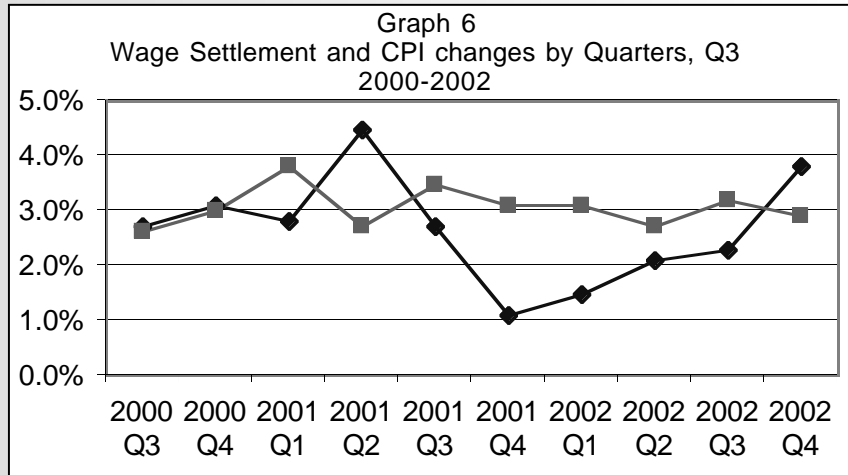
## Recent trends

Major collective bargaining settlements reached in the last quarter<sup>7</sup> of 2002 provided base-rate wage increases averaging 3.2% annually over the contract-term. This is up from the 2.8% and 2.6% for the second and third quarters of 2002.

Major collective bargaining settlements reached in the year 2002 provided base rate adjustment averaging 2.8 % over the contract-term. These adjustments were above average than in contracts they replaced (2.3 %). Furthermore, since the year 2000, public sector increases have been slightly higher than those in the private sector. Wage adjustments in the public sector averaged 2.9 % in 2002, compared to 2.6 % in the private sector. (Graph 5).

Lastly, it may be seen from a comparison of wage settlement trends and quarterly changes

in the CPI (Graph 6) that average wage increases have generally been nearly one percentage point higher than the inflation rate. If



Source : HRDC and Canadian Economic Observer February 2003, Statistics Canada

the trend continues in view of the economy's good performance, average increases in 2003-2004 will be even or higher than the CPI.

<sup>6</sup> Workplace Information Directorate, HRDC Canada.  
<sup>7</sup> This is for October, November and December 2002.

## Other interesting facts and figures



The last section of this publication is dedicated to different economic and social data which will be presented, in rotation, during the year. In this issue, we analyze the history of budgetary projections made by the Minister of Finance and what, in reality, took place.



# The Federal Government's Fiscal Flexibility: Myth and Reality

Virtually every year, the federal government brings down a budget (or economic review) which outlines the state of Canada's public finances and how the government intends to use its resources in the coming years. For nearly six years now, the Minister of Finance has announced a balanced budget. In doing so, he often suggests that he is using all available resources and that he has no further fiscal flexibility if he wants to maintain a zero deficit.

However, as can be seen in Table 2, the promises of a balanced budget and suggestions that all fiscal flexibility have been fully used have not been entirely true. In fact, the government has maintained considerable flexibility since 1997. When it anticipated balanced budgets, it in fact achieved budget surpluses. The \$8.2 billion surplus in 1991-1992 was the fifth consecutive surplus posted by the federal government, following those of \$2.8 billion in 1997-1998, \$3.1 billion in 1998-1999, \$13.1 billion in 1999-2000 and \$20.2 billion in 2000-2001. It has managed to achieve this kind of flexibility by basing its decisions on conservative economic projections.

Table 2  
Federal Government Budget Balances  
(billions of dollars)

Year	Predicted Surplus/ Deficit, including Contingency and Economic Reserve	Actual Surplus/ Deficit	Difference
1996-1997	(24.3)	(8.9)	15.4
1997-1998	(17.0)	2.8	19.8
1998-1999	3.0	3.1	0.1
1999-2000	3.0	13.1	10.1
2000-2001	4.0	20.2	16.2
2001-2002	1.5	8.2	6.7
2002-2003	3.0	9+	6.0
2003-2004	4.0	+	?
2004-2005	5.0	+	?
Average:			10.6

Source: Federal Department of Finance Budget, February 18th, 2003.

## What can we expect in the coming years?

The federal government expects to be in a balanced budget or budget surplus position for 2002-2003 and each of the following fiscal years. Once again, it will do so by using rather conservative projections. What is more, it is setting aside a \$3 billion reserve for contingencies, in addition to further reserves for economic contingencies of \$1 billion and \$2 billion for 2003-2004 and 2004-2005, thus increasing its fiscal flexibility to \$4 billion and \$5 billion a year. In other words, although it has announced balanced budgets for 2004 and 2005, it already has flexibility of \$4 billion and \$5 billion for the next two fiscal years.

As announced in the budget speech, the government intends to achieve this performance mainly through public service cutbacks of \$1 billion a year over the next five years. If we wanted to play the demagogue and simplify what is currently happening, we could say that, ultimately, the savings achieved through the service cuts announced in the budget on February 18 will be used solely to constitute a second reserve for economic contingencies. And the cost of that reserve will be borne, to a large extent, by the public and PSAC members.

We hope that this information has been useful. For any comments or suggestions, please communicate with Sylvain Schetagne or Kate Rogers, in the negotiations section of P.S.A.C. in Ottawa.

Website: psac-afpc.com



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