

## The Economy, Labour Market, Inflation and Wages in 2006 and Prospects for 2007

*Trends* presents current economic and labour market data in Canada to give PSAC members and staff an overview of the current state of the Canadian economy. In this edition, we describe the Canadian economic trends for the first six months (1<sup>st</sup> and 2<sup>nd</sup> quarter) of 2006, and we present some projections for 2007.

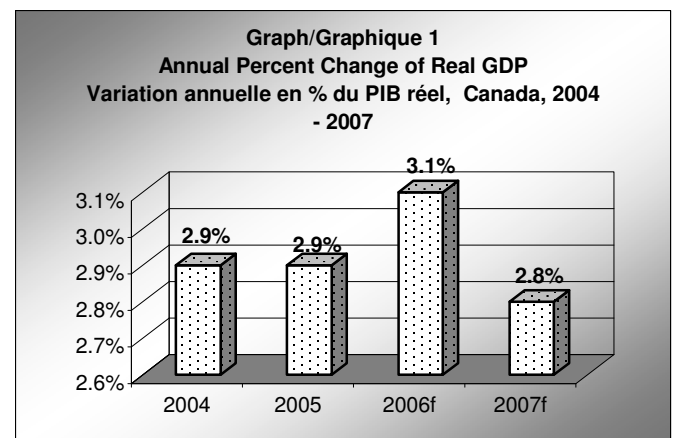
### ***Economic Growth*** ***How has the Canadian economy performed?***

Rather sluggish economic growth can have major repercussions on our economic and financial security. Economic growth not only creates and preserves jobs but it also affects government revenues and our standard of living.

When the economy grows at a rate close to its potential long-term growth rate as it has in recent years, it is then said to be performing well in general. This ordinarily produces more income for Canadians and for their governments.

In the first two quarters of 2006, the real Gross Domestic Product (GDP), that is the value of all goods and services produced in a year within Canada's borders, grew by 3.6% and 2.0% respectively, following a 2.6% gain in the 4th quarter of 2005. The decrease in the second quarter represents a sharp decline in the rate of growth. The drop can be explained by reduced consumer spending and business investment in plant and equipment as well as a cooling in the housing market (Statistics Canada, August 31, 2006).

Despite the recent reduction in the growth, major Canadian financial institutions are still predicting that the Canadian economy will grow at the rate of 3.1% in 2006 and 2.8% in 2007 (Graph 1). Their predictions are slightly higher (+0.1%) than what they predicted about six months ago.



Source: The Daily, Statistics Canada and most recent forecasts of major Canadian Banks (including the National Bank, the CIBC, the Bank of Nova Scotia, the Toronto Dominion, Caisses Populaires and the Bank of Montreal as of late August 2006).

### ***Job creation***

The growth of the Canadian economy generally has a positive impact on the labour market. It is acknowledged that when employment levels rise and unemployment rates decline, jobs are being created. Under those circumstances, people have a better chance of finding employment.

### ***Is the Canadian economy creating jobs?***

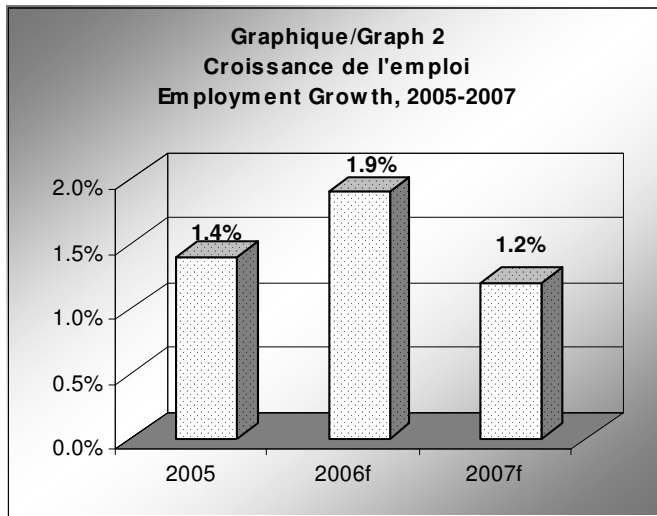
There were 210,000 jobs created in Canada between December 2005 and July 2006. This leaves overall growth so far this year at 1.3%, up from the 0.9% gain observed over the first seven months of 2005.

The unemployment rate is still hovering around record lows. It declined from 6.5% in December 2005 to 6.4% in July 2006. Further, the participation rate and the employment rates are also nudging record levels, which reflect the optimism of Canadians in the job market.

	Dec-04	Dec-05	Jul-06
Labour force (000)	17260	17430	17642
Employment (000)	16040	16295	16505
Full-time employment (000)	13071	13358	13518
Part-time employment (000)	2969	2936	2986
Unemployment (000)	1220	1135	1137
Unemployment rate (%)	7.1	6.5	6.4
Participation rate (%)	67.4	67.1	67.3

Source: The Daily and the Canadian Economic Observer, August 2006, Statistics Canada

Canadian financial institutions predict that job creation will remain high for the rest of the year, but they expect slower job growth in 2007. They predict that the number of jobs will rise by a total of 1.9% in 2006 and 1.2% in 2007. This is higher than what they were predicting about six months ago.



Source: The Daily, August 2006, the Canadian Economic Observer, no. 11-210, Statistics Canada and forecasts by the major financial institutions, early August 2006.

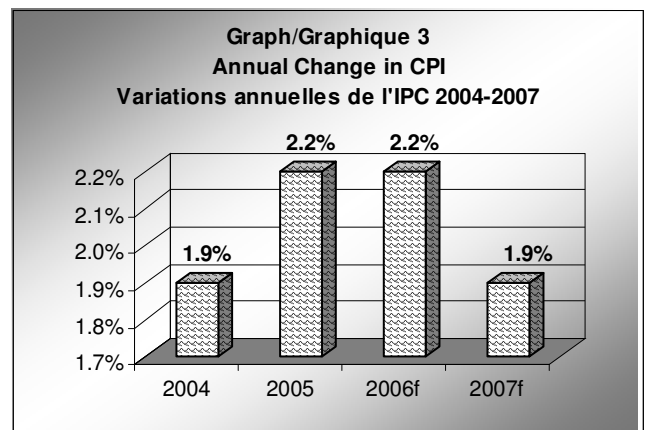
## Prices and inflation

Price hikes affect us every day. When prices rise and our wages hold steady, we must spend more today than before to acquire the same goods and services. Under such circumstances, we lose purchasing power. In order to maintain or increase our purchasing power, wage increases must match or exceed price increases.

### How much have prices risen since the start of the year?

In the first six months of 2006, the price of a standard consumer basket increased by 2.5% when compared to the prices paid in the first six months of 2005. Again, this increase is exceeding projections made earlier this year (around 2.0%).

According to projections by private sector economists made in the summer of 2006, prices for goods and services in Canada should decrease during the last part of the year and rise by a total of around 2.2% in 2006. They also project an increase in price of goods and services of about 1.9% in 2007, in part because of reduction in energy prices.

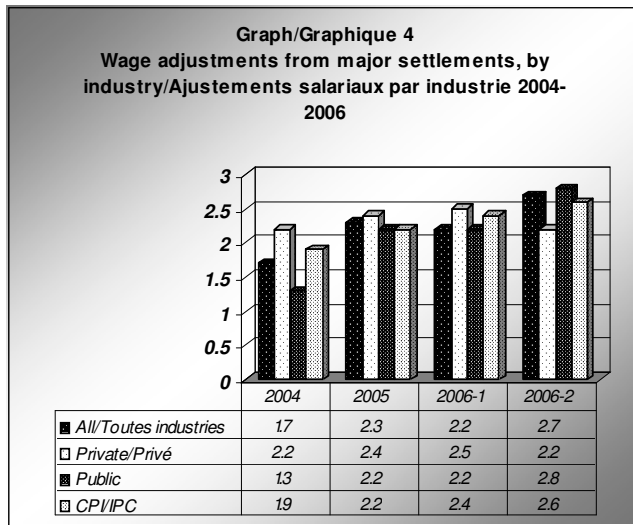


Source : The Daily, August 2006. The Canadian Economic Observer, no. 11-210, Statistics Canada and forecasts by the major Canadian financial institutions, August 2006.

## Negotiated Wages in Canada

### How much have recently negotiated wages risen?

During 2005, major ratified collective agreements produced wage increases of 2.3%. This was up when compared to the 1.7% negotiated in 2004. Since the beginning of 2006, the major collective agreements ratified provide average base salary increases of 2.5% and 2.2% in the private sector and 2.2% and 2.8% in the public sector for the first and second quarter of 2006 respectively. Overall, wage increases are going upward in all industries, with increases of 2.2% and 2.7% in the first two quarters of 2006.



Source: Workplace Information Directorate, August 2006.

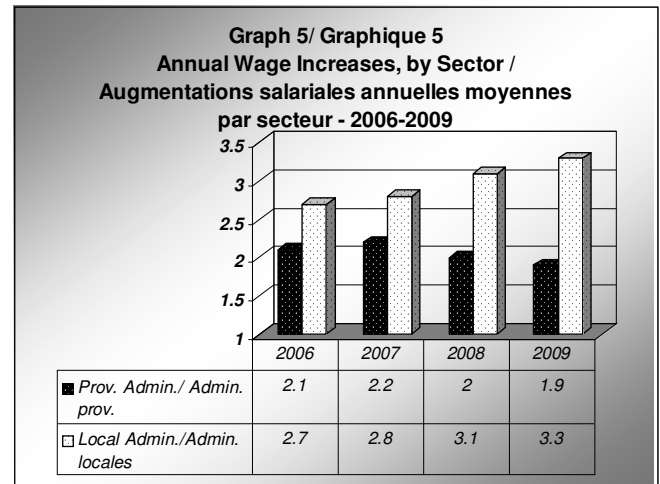
Morneau-Sobeco predicts that wages are going to increase at a faster rate in 2007 than they did in the last 5 years. In their latest annual projections, based on a survey of about 350 firms with about one million employees, wages should go up by 3.4% in 2007 (CyberPresse, August 31, 2006).

### Other interesting facts

In its last section, this publication looks at a special topic related to economic and social trends. This time, we share information

obtained from the Workplace Information Directorate (WID) at HRSD about wage settlement trends of provincial and municipal employees for 2006, 2007, 2008 and 2009.

According to WID, the collective agreements signed covering at least 210,000 employees working for provincial administrations (excluding health and education sectors) provide annual wage increases of 2.1% and 2.2% in 2006 and 2007 respectively.



Source: Workplace Information Directorate, special request, September 2006.

Wages negotiated in local administrations are above provincial averages. For the 88 collective agreements covering 163,000 employees in local administrations available to WID, wages are moving up by 2.7% in 2006. And for the 47 collective agreements covering 95,000 employees in that same sector, wages will be moving up by 2.8% in 2007.

On the long term, collective agreements already signed as of mid-2006 provide wage increases of about 2.0% on average for employees in provincial administrations, and above 3.0% for employees in local administrations in 2008 and 2009.

Please note that these figures represent only a partial snapshot of what is going on as of September 2006, and they will change constantly as new collective agreements get signed in an evolving economy.

## Glossary

### Economic growth and Real Gross Domestic Product :

Economists use numerous methods to measure the strength of the economy. The most common indicator and the one receiving the most media attention 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 term "real" means that the evolution of prices (or inflation) has been taken into account.

### Jobs and the unemployment rate :

There is not a month that goes by where the statistics on the labour market do not make news. Several statistics are regularly reported, including the level of employment in our economy and the unemployment rate. The latter is the percentage of the labour force that is actively seeking work at a given time but is unable to find work. Discouraged workers – individuals 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 take into account workers who are "underemployed", i.e., working part time when they would rather be working full time or have a temporary job when they would prefer a permanent job.

### Inflation and the Consumer Price Index (CPI)

The Consumer Price Index is a widely used indicator of inflation and indicates the changing purchasing power of Canadians. 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.

### Wage settlements and negotiated wage settlements :

Several times a year, the Workplace Information Directorate of HRSC publishes the average basic pay increases as a result of agreements reached over a given period.

If you have any comments or suggestions, please contact Sylvain Schetagne in the PSAC Negotiations Section in Ottawa.  
Sources: The Daily, Statistics Canada, August 2006, Statistics Canada, Industry Canada, Provincial Forecast made by Major Canadian Banks, August 2006 and Wage Settlements Bulletin, HRSDC, August 2006.

## Appendix A The Economy, Labour Market, Inflation and Wages in 2006 and Prospects for 2007 in PSAC Regions

While useful, national data does not tell the whole story. Regions are different, and their economies perform differently. As a result, we present current economic and labour market trends in the regions to give PSAC members and staff the information that they need. We will describe how the economy performed in the PSAC Region in 2006 and present few projections for 2007.

### ***How has the economy in the Regions performed?***

#### *Atlantic*

The economy in the Atlantic region should continue to grow in 2006, reflecting its upward trend of recent years. However, despite this, it will come in under the Canadian average of 3.1%, excluding in NF/L (5.8%) where exploitation of natural resources boosts the size of the economy.

#### *Quebec, NCR and Ontario*

In Quebec, NCR and Ontario, the economy is expected to grow between 2.2% and 2.4% in 2006 and 2007. Again, this is under the Canadian average in part because of slow down in manufacturing and exportations.

#### *Prairies, B.C. North*

The economy in the Prairies, especially in Alberta, is booming. Expected growth rates are at 3% and above, up to 5.7% in Alberta. Increases in price of natural resources partially explain this fast growth.

B.C. is also growing at a faster rate than the rest of Canada. Investments for the 2010 winter Olympic partially explain this growth.

Retails are still going up in most of the

territories. This is a sign that the economy is also growing in the northern territories.

Canadian financial institutions predict a similar pattern of economic growth in 2007, with a strong growth in Western Canada, but an overall reduce rate of growth for all regions.

### ***Is the economy creating jobs in the regions?***

#### *Atlantic*

Between July 2005 and July 2006, the Atlantic provinces lost 2,000 jobs. The number of jobs is down or stable in all Atlantic provinces, except in New Brunswick (+6,000).

#### *Quebec, NCR and Ontario*

The level of employment is up in Central Canada. Between July 2005 and July 2006, Quebec and Ontario created 166,000 jobs. The unemployment rate decreased by 0.2 percentage points during that period.

#### *Prairies, B.C. and North*

Employment is booming in the Prairies, especially in Alberta and B.C. The unemployment rate is at 4.7% for all the western provinces in July 2006, and at 3.6% in Alberta. There is labour shortage in many sectors.

Canadian financial institutions predict that job creation will decrease by the end of 2007.

## **How much have prices risen since the start of the year?**

### *Atlantic*

For all of 2005, consumers in the Atlantic Provinces paid, on average, between 2.4% and 3.2% more than in 2004 for goods and services in the CPI basket. Between July 2005 and July 2006, prices moved up significantly and spiked even more sharply in P.E.I. and Nova Scotia (3.8% and 3.0%). Inflation is forecasted to be around 2% in all provinces in the Atlantic in 2007.

### *Quebec, NCR and Ontario*

Inflation in Quebec and Ontario was at 2.1% and 1.9% respectively. Major Financial Institutions project a deceleration of inflation in 2007, with inflation rate at, on average, 1.7% in Quebec and 1.9% in Ontario.

### *Prairies, B.C. and North*

Alberta saw its prices moving up rapidly in July 2006 by 4.3%, while prices went up by 2.5% in Manitoba, 2.4% in Saskatchewan and 2.0% in B.C. Forecasters set inflation at

about 1.8% in the Prairies and BC, with the exception of Alberta, where prices are expected to increase by 2.3% in 2007.

In the North, the prices went up by 1.9% in Yukon, and by 1.3% in the N.W.T. Data on inflation in Nunavut are still not available.

## **How much have recently negotiated wages risen?**

Major collective bargaining agreements signed in the Atlantic provinces in the second quarter of 2006 have produced average annual wage increases for the duration of collective agreements ranging from 1.2% in New-Brunswick to 3.1% in Nova Scotia. In Central Canada, wages were negotiated with increases set at 1.6% in Quebec and 2.9% in Ontario.

As a result of high economic growth and high inflation, wage increases negotiated in Western Canada were higher than elsewhere. Collective agreements signed in Alberta contain wage increase of 3.4% on average, 3.1% in Manitoba and 2.7% in B.C. There were no major collective agreements signed in Saskatchewan in the second quarter of 2006.

Economic Regional Trends 2005-2007													
	Type**	Date	NF/L	P.E.I.	N.S	N.B	Quebec	Ontario	Man.	Sask.	Alberta	B.C.	Canada
<b>Economic Growth</b>	Forecast	2005	2.9%	2.0%	1.4%	1.3%	2.3%	2.6%	2.8%	3.1%	4.8%	3.7%	2.9%
	Forecast	2006 f	5.8%	2.1%	2.3%	2.5%	2.2%	2.4%	3.0%	3.2%	5.7%	3.9%	3.1%
	Forecast	2007 f	2.1%	1.9%	2.3%	2.3%	2.2%	2.3%	2.8%	2.8%	4.6%	3.4%	2.8%
<b>Employment Growth</b>	Real	2005	0.0%	1.5%	0.2%	0.0%	1.0%	1.3%	0.5%	0.8%	1.5%	3.2%	1.4%
	Real	2006-07	-1.8%	-0.3%	-1.0%	1.7%	1.3%	1.8%	0.8%	1.4%	4.6%	3.1%	2.0%
	Forecast	2007	0.6%	0.9%	0.9%	0.7%	0.9%	1.1%	1.0%	0.7%	2.0%	1.8%	1.2%
<b>Unemployment Rate</b>	Real	2005	15.2%	10.8%	8.4%	9.7%	8.3%	6.6%	4.8%	5.1%	3.9%	5.9%	6.8%
	Real	2006-07	14.6%	11.2%	8.3%	8.9%	8.1%	6.5%	4.7%	4.7%	3.6%	4.7%	6.4%
<b>Consumer Price Index</b>	Real	2005	2.6%	3.2%	2.8%	2.4%	2.3%	2.2%	2.7%	2.2%	2.1%	2.0%	2.2%
	Real	2006-07	2.4%	3.2%	3.0%	2.0%	2.1%	1.9%	2.5%	2.6%	4.3%	2.0%	2.4%
	Forecast	2007f	1.8%	2.2%	2.1%	1.9%	1.7%	1.9%	1.9%	1.8%	2.3%	1.7%	1.9%
<b>Wage Increases*</b>	Real	2005	2.1%	2.5%	3.2%	3.0%	1.6%	2.7%	2.9%	1.9%	3.0%	0.5%	2.3%
	Real	2006-Q2	2.0%	2.8%	3.1%	1.2%	1.6%	2.9%	3.1%	-	3.4%	2.7%	2.7%

Sources: Statistics Canada (The Daily and Economic Data published on the web),

\* Wage Increases by provincial jurisdictions.

\*\* Forecasts from 4 Major Banks in Canada, made in Summer 2006