

# Labour Economic Monitor

## Alberta Federation of Labour

### Summer 2006

#### Introduction: Boomtown Daze?

Ya gotta love Alberta in the middle of an energy boom! When oil prices pass \$30 a barrel, the entire province starts to feel a little bit giddy. At \$40 a barrel the provincial legislature calls a special session and votes to name hydrocarbons the provincial flower. At \$65 a barrel, we take leave of our collective senses. Throughout the ages, human societies have worshipped many different deities, but here in Alberta we prefer to offer our prayers to the gods of the energy markets.

When we're all caught up in the excitement of boom times, though, it's awfully easy to ignore the details of the economy. Who's benefiting from the boom, and how much? Who's losing out? What are the danger signs, if any?

The following report is intended to give trade unionists reliable, current information on the provincial economy. The data is drawn from government sources, including Statistics Canada, the Government of Alberta, and the US Government (Energy Information Administration). Our current plans are to update it four times a year. The AFL hopes that this information will be of assistance to unions in the province. From time to time we will focus on issues of special interest to unions, such as income and earnings trends.

We welcome your suggestions and comments. If there is other information you would like to see included in *The Monitor*, we will try to include it. If you have any questions regarding the sources for the data presented, we will be happy to provide detailed citations.

#### I. Economic Growth and Energy Prices

So how strong is Alberta's economy right now? Well, booming might be a bit of an understatement. According to the latest StatsCan figures, the province's nominal Gross Domestic Product grew last year by a whopping 15%!<sup>1</sup> That's an astounding rate of growth, one that brings with it inflationary pressures and other economic stressors.

It's all, of course, based on energy prices, and a number of forces on the international scene are keeping oil prices<sup>2</sup> at record levels. The overheated Chinese economy (growing just as fast, and just as unsustainably, as Alberta's) is creating strong demand. On the supply side, the US-led fiasco in the Middle East, the hurricane threat to U.S. Gulf coast refineries, and attacks on offshore oil rigs in Nigeria are creating uncertainty.

## Crude Oil Prices

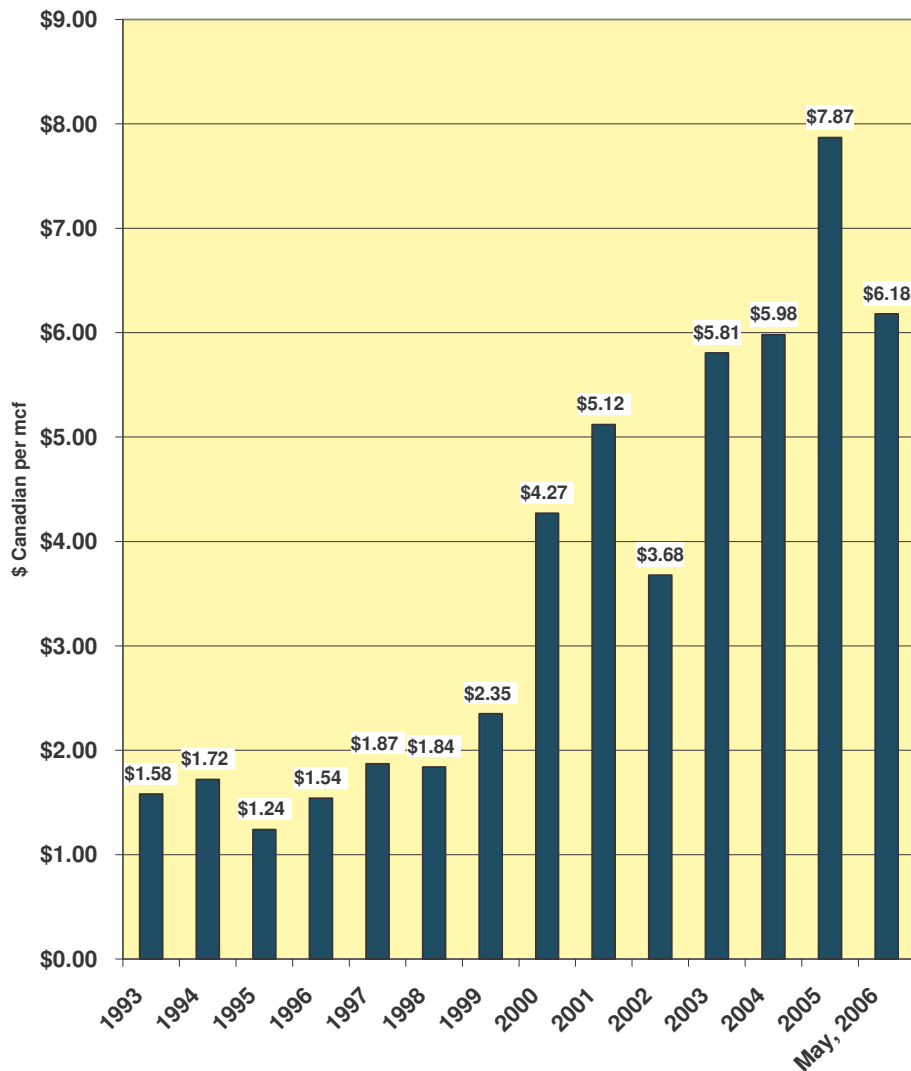
(West Texas Intermediate Benchmark)  
(Average Monthly Spot Price)



The trend in natural gas prices<sup>3</sup> has not been as steady as that for crude oil. In fact, gas prices have been falling since the New Year, and people close to the provincial government are getting antsy: this year's provincial budget assumed an average gas price for 2006/2007 of \$7.50 per gigajoule – the actual May Reference Price was just \$6.18/GJ. It's just possible that, for the first time in years, the Government of Alberta may have overestimated one part of energy revenues in the budget.

In reality, this doesn't mean much. Monthly gas prices are quite volatile, and show large seasonal fluctuations. If there's a hot summer in the US, and the air conditioning units are running full-blast for the next couple of months, the average gas price for the year could be well above the budget forecast.

## Natural Gas Prices



Even if gas prices don't climb back above \$7.50/GJ this year, it's hardly a disaster. Current prices are still well above historical levels, and if gas prices undershoot by a modest amount, it won't be a fiscal disaster for the province. Symbolically, however, it would be a big blow for a provincial government that has placed far too much emphasis on making "conservative" estimates for energy revenues.

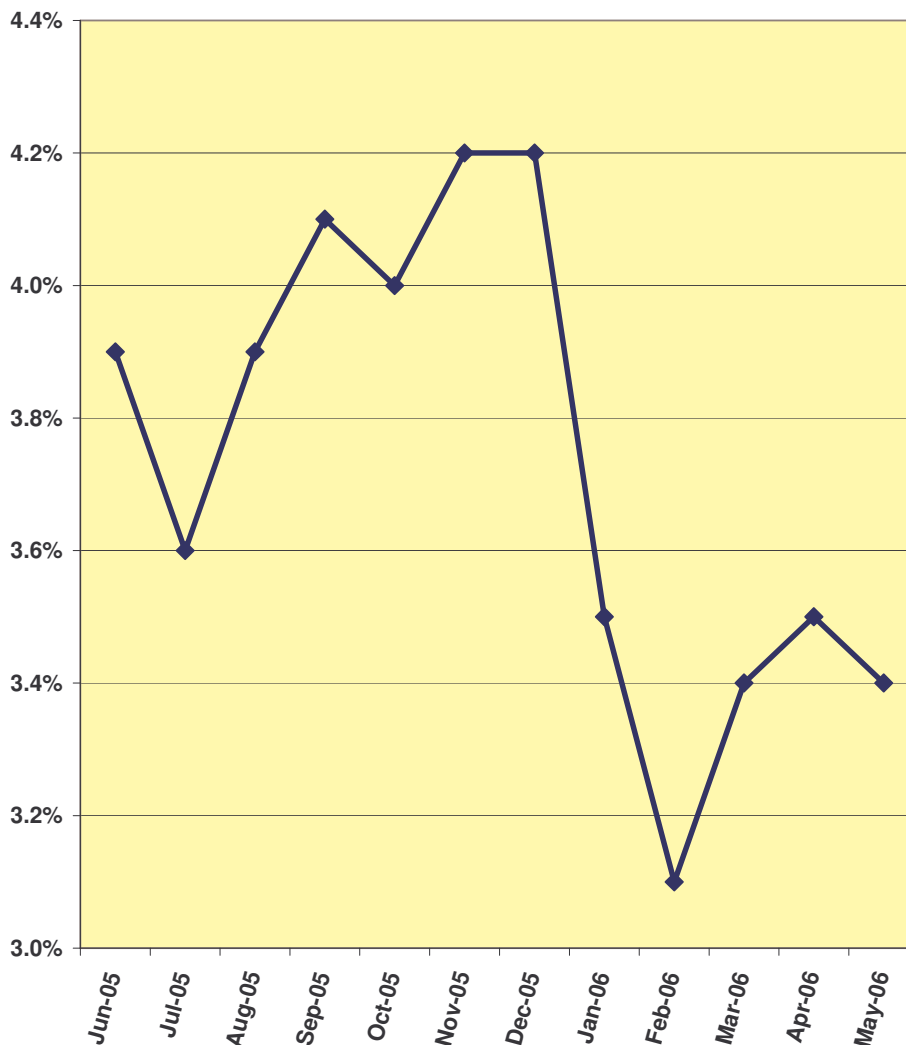
A much more serious problem is that Alberta's conventional energy reserves are probably past their peak. Conventional crude oil production has been falling for several years now, and natural gas production has leveled off. This may be why the government is so interested in developing coal bed methane, despite its very high environmental costs. Many would argue that a province in the middle of a drought cycle shouldn't be experimenting with resource extraction technologies that threaten to pollute ground water. For the last fifty-five years, however, governments in Alberta have had only one

recipe for economic development – dig the resources out of the ground and sell them to the Americans. (To be fair, the Lougheed government did make some ineffective gestures at economic diversification).

## II. Unemployment<sup>4</sup>

Hot economies mean tight labour markets, and Alberta's economy is cooking. This isn't news to Albertans – we are bombarded daily with news of labour shortages in the province. Apparently we are to believe that when minimum wage employers can't find people who want to work at unpleasant jobs for miserable wages, it's a crisis.

**Alberta Unemployment**



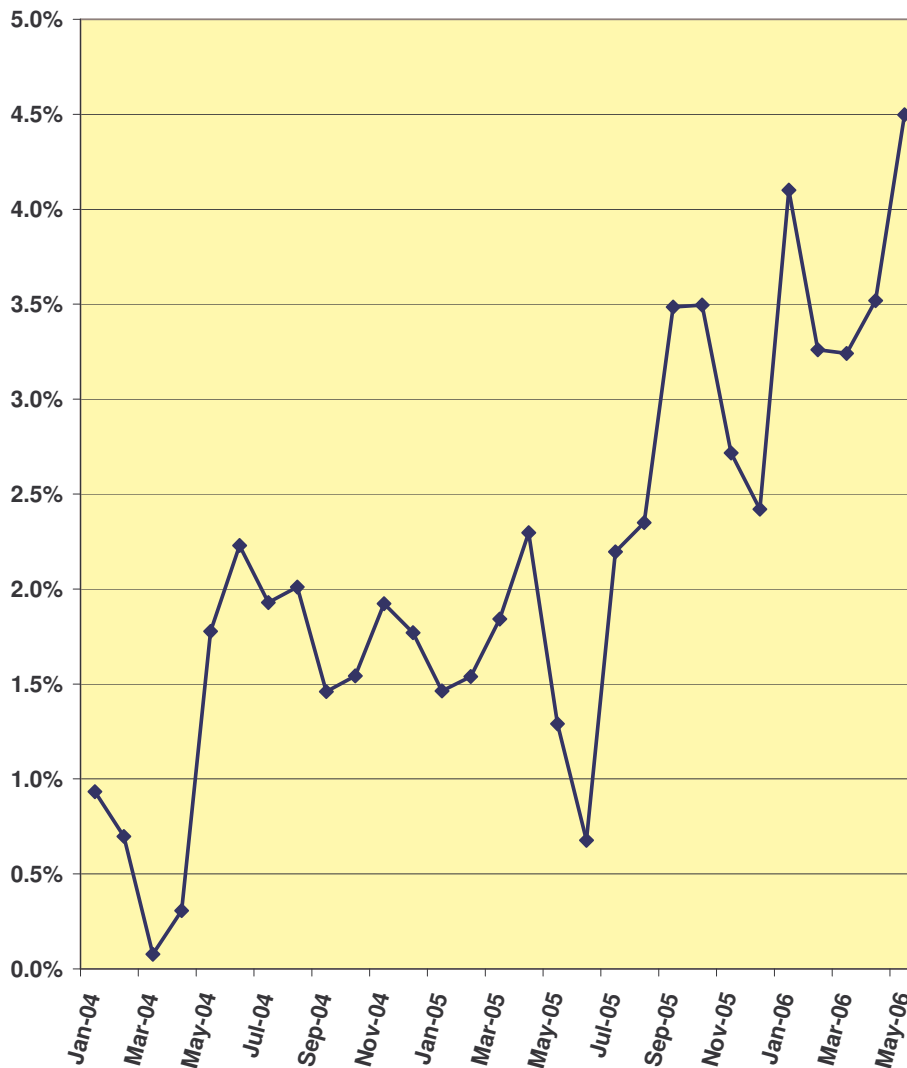
Oddly enough, when labour markets are slack and unemployment is high, it's workers who are expected to respond by moving, by retraining themselves, or by accepting non-

standard and poorly-paid jobs. A labour shortage, on the other hand, calls for government intervention. Heaven forbid that employers might actually have to raise wages and improve working conditions to attract and retain employees.

Nonetheless, the unemployment rate in Alberta was just 3.5%<sup>5</sup> in June, and some further good news is that demand for labour is strong enough to begin breaking down some of the institutional racism that pervades the province's labour markets. The unemployment rate for Alberta's off-reserve aboriginal population was 6.2 % in June – much higher than the provincial average, but down from 9% in May, 2005.

### III. Inflation & Interest Rates<sup>6</sup>

**Alberta Monthly Year-Over-Year Inflation Rate**



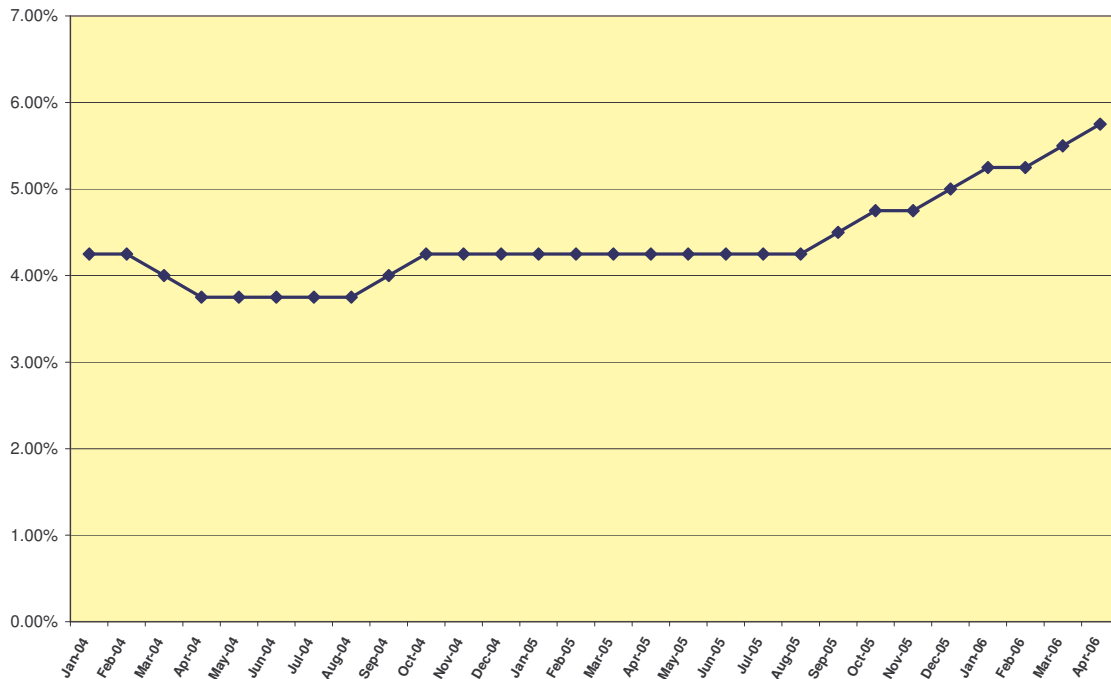
With the province's economy growing so rapidly, it's hardly surprising that inflation is also on the rise. Alberta has had higher inflation than the rest of Canada for much of the last decade – which has contributed to real wage stagnation. The Consumer Price Index for Alberta increased 4.5% between May 2005 and May 2006. For Canada as a whole, costs jumped by 2.8%.

We have to be a little bit cautious about how we interpret monthly inflation figures. The inflation rate for May, for example, is reached by comparing the Consumer Price Index for May, 2006 with that for May, 2005. But the CPI can jump around a bit from month to month. We can get a more accurate picture of inflation trends if we compare six-month or one-year averages. Over the 12 month period ending in May, 2006 the monthly Consumer Price Index for Alberta increased by an average of 3.0%, that of Canada by 2.3%.

What the monthly inflation figures do show, however, is that the inflationary pressures that have built up over the last few years are starting to take effect. You can't have energy prices increasing threefold over a five year period without inflation resulting.

The Bank of Canada, which has adopted inflation control as its main task, has set inflation targets of 1 – 3%. That means whenever the nation rate of inflation gets close to 3%, the Bank starts raising interest rates.<sup>7</sup> Since interest rates in Canada don't have a lot of impact on world energy prices, which are the root cause of our inflation, we can expect inflation and higher interest rates to remain a reality in the near future, barring a major market crash.

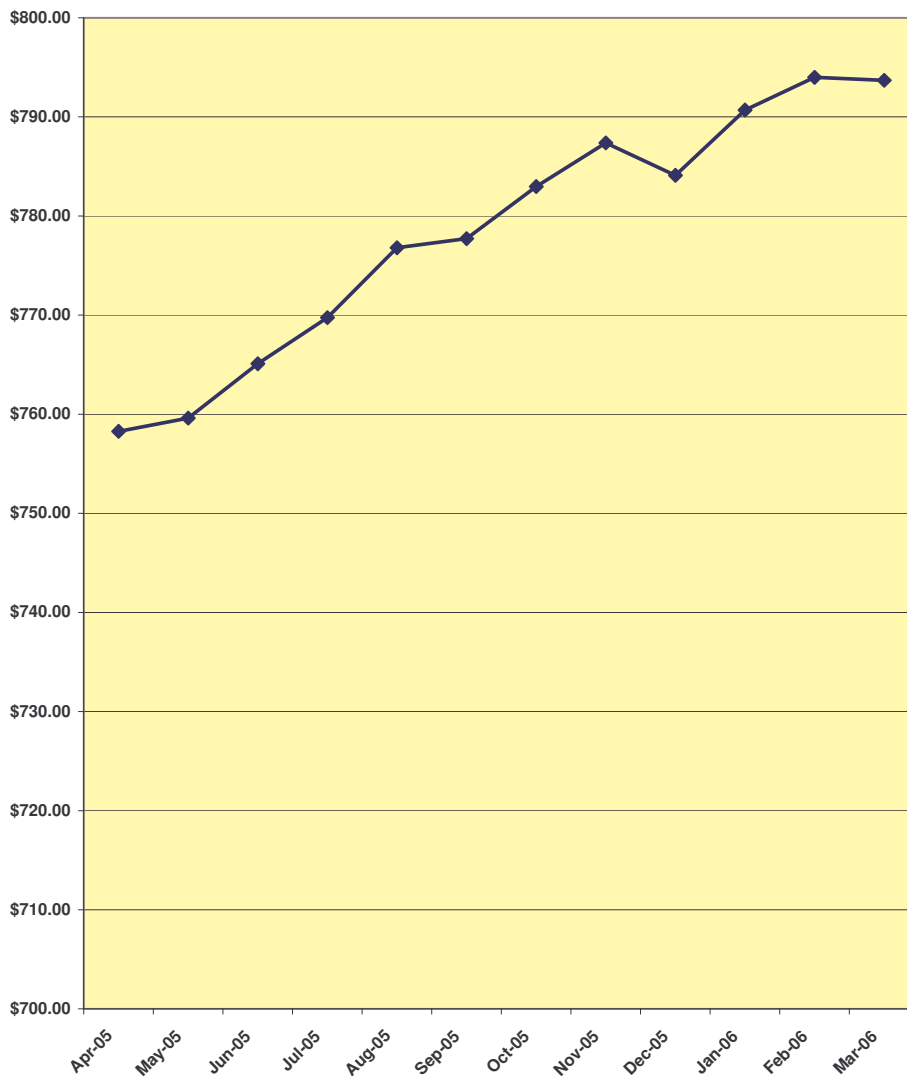
Interest Rates (Prime), Canada



#### IV. Wages<sup>8</sup>

Labour markets work just like other markets – by supply and demand. High rates of GDP growth mean that the demand for labour is strong. Low unemployment rates mean that labour is relatively scarce, and this is confirmed by media reports of labour shortages. When the demand for something exceeds supply, the cost of that item should increase. Is that what’s happening with wages, the cost of labour?

**Alberta Average Weekly Earnings**



There are a number of ways economists try to measure wage levels and trends. Perhaps the simplest is Average Weekly Earnings. After a stagnant period in 2002 and 2003, these earnings began to rise in 2004, and have shown fairly steady growth since then. For the

first quarter of 2006, these average weekly earnings in Alberta were about 4.9% higher than in the same period of the previous year.

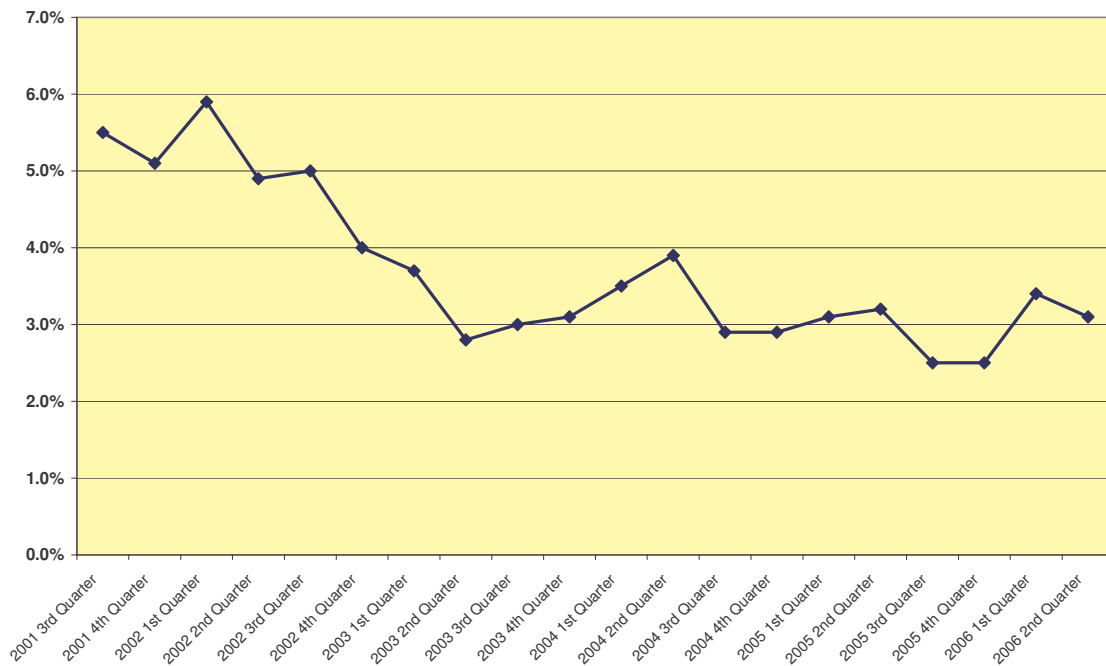
Wage growth of just under five percent doesn't sound too bad, but consider: during that same period inflation in Alberta averaged 3.5%. That means real (after-inflation) weekly earnings rose by only about 1.4%; a relatively minor increase, especially when we consider the context.

In Alberta, the context is this: we are at the very peak of a boom economy. Remember that GDP (the total wealth created in the province) rose by about 15% last year. By comparison the growth in wages was modest, especially coming after a decade of total stagnation in real wages.

## V. Wage Settlements<sup>9</sup>

For the last year-and-a-half, overall wage settlement rates in Alberta have been relatively stable at about 3%. In recent months, this means they have barely been keeping up with inflation. As we saw in the last section, average weekly wages rose by just under 5% in the first quarter of 2006. Does this also mean that unionized workers are faring worse than non-union workers?

**Collective Bargaining Wage Settlement Rates**



The answer is “no” for a number of reasons. In the first place, union contracts are negotiated to “lock in” wages over the life of the agreement. This means that they may not respond quickly to short-run variations in labour market conditions, but that they tend to do better over the medium and long run. In 2002 and 2003, for example, when average



weekly wages in Alberta were completely stagnant, averaging an annual increase of about 1.8%, unionized settlements were more than twice as high, at 4.1%. Over the last five years, union wage settlements have averaged 3.7%, much higher than the provincial average wage increase of 2.8%.

When interpreting the chart above and the more detailed breakdowns below, it's also important to remember that the most recent settlement averages may not be very reliable. As we all know, a collective agreement may take a long time to negotiate, and until all or most of the agreements applying to a certain period have been reported, we can't be sure of the real settlement trend. In some of the following tables, where the number of agreements negotiated or the number of employees covered is relatively small, the settlement rate reported may not be very significant.

### Wage Settlements by Sector/Industry

|      | Private Sector |           |               | Public Sector |           |               |
|------|----------------|-----------|---------------|---------------|-----------|---------------|
|      | # Contracts    | # Workers | Avg. Increase | # Contracts   | # Workers | Avg. Increase |
| 2003 | 165            | 24,882    | 2.3%          | 158           | 47,712    | 3.6%          |
| 2004 | 167            | 35,431    | 3.2%          | 166           | 61,050    | 3.5%          |
| 2005 | 97             | 19,198    | 3.1%          | 96            | 22,399    | 2.9%          |
| 2006 | 5              | 936       | 2.6%          | 14            | 4,608     | 3.3%          |

|      | Construction |           |               | Manufacturing |           |               |
|------|--------------|-----------|---------------|---------------|-----------|---------------|
|      | # Contracts  | # Workers | Avg. Increase | # Contracts   | # Workers | Avg. Increase |
| 2003 | 46           | 5,920     | 2.3%          | 58            | 5,686     | 3.2%          |
| 2004 | 38           | 24,019    | 3.2%          | 65            | 6,191     | 2.8%          |
| 2005 | 19           | 9,346     | 3.3%          | 27            | 4,776     | 3.0%          |
| 2006 | 0            | 0         | 0.0%          | 5             | 936       | 2.6%          |

|      | Mining & Oil & Gas Extraction |           |               | Utilities   |           |               |
|------|-------------------------------|-----------|---------------|-------------|-----------|---------------|
|      | # Contracts                   | # Workers | Avg. Increase | # Contracts | # Workers | Avg. Increase |
| 2003 | 1                             | 156       | 4.1%          | 9           | 3,187     | 3.4%          |
| 2004 | 6                             | 2,482     | 3.3%          | 11          | 4,330     | 3.9%          |
| 2005 | 11                            | 1,295     | 3.6%          | 2           | 712       | 4.4%          |
| 2006 | 0                             | 0         | 0.0%          | 0           | 0         | 0.0%          |

|      | <b>Retail Trade</b> |           |               | <b>Education</b> |           |               |
|------|---------------------|-----------|---------------|------------------|-----------|---------------|
|      | # Contracts         | # Workers | Avg. Increase | # Contracts      | # Workers | Avg. Increase |
| 2003 | 10                  | 8,501     | 1.3%          | 52               | 11,894    | 3.4%          |
| 2004 | 1                   | 37        | 1.7%          | 62               | 28,613    | 2.5%          |
| 2005 | 8                   | 393       | 2.3%          | 45               | 15,830    | 2.8%          |
| 2006 | 0                   | 0         | 0.0%          | 5                | 3,946     | 3.1%          |

|      | <b>Health Care &amp; Social Services</b> |           |               | <b>Public Administration</b> |           |               |
|------|--|-----------|---------------|------------------------------|-----------|---------------|
|      | # Contracts                              | # Workers | Avg. Increase | # Contracts                  | # Workers | Avg. Increase |
| 2003 | 62                                       | 17,657    | 3.9%          | 28                           | 9,095     | 3.4%          |
| 2004 | 59                                       | 24,146    | 4.6%          | 28                           | 3,285     | 3.5%          |
| 2005 | 27                                       | 3,400     | 3.0%          | 18                           | 2,571     | 3.0%          |
| 2006 | 6  | 402       | 4.1%          | 2                            | 223       | 3.9%          |

## VI. Conclusion

What does the above information tell us? Well, we already knew that Alberta was booming, but it's clear that workers in the province aren't getting their share.

Further: if we look closely, it starts to seem as though what we have isn't really an oil boom, it's a construction boom. With reserves of conventional oil and gas at or past their peak, the province is more dependent than ever on the oil sands. The \$20 billion currently being invested in tarsands-related projects is the real driver of current growth in Alberta.

In the long run, of course, this poses a problem. Under the current ludicrous royalty regime, Alberta gets very little of the economic benefit of oil production from the tarsands. At a time when energy resources are becoming ever more valuable, the Government of Alberta seems determined to give away our last major asset for pennies on the dollar. (Actually, since the royalty rate in question is 1%, you could say exactly one penny on the dollar!)

At some point in the not-too-distant future the construction phase will be over, and our conventional oil and gas reserves will be dwindling rapidly. At that point we will be asking ourselves: "what happened to the boom"? Since the actual operation of tarsand extraction and processing creates only modest economic spinoffs, and since we won't be getting meaningful royalty revenues, the benefits to the provincial economy will be minimal.

Everyone remembers the bumper sticker from the early 1990s: "Please God, let there be another oil boom, I promise not to piss it all away this time." Well, she did, and we are!

<sup>1</sup> Statistics Canada, *Canadian Economic Observer, Statistical Summary*, June 2006, p. 56.

---

<sup>2</sup> Oil prices are from the U.S. Energy Information Administration web site:

<http://tonto.eia.doe.gov/dnav/pet/hist/rclc1M.htm>.

<sup>3</sup> Natural gas prices are from the Alberta Energy web site:

<http://www.energy.gov.ab.ca/xdata/gas/refprice/monthlyref.asp>.

<sup>4</sup> Alberta Human Resources and Employment, *Alberta Labour Force Statistics*, June 2006:

[http://www3.gov.ab.ca/hre/lfstats/lfstats\\_0606.asp](http://www3.gov.ab.ca/hre/lfstats/lfstats_0606.asp).

<sup>5</sup> Ibid

<sup>6</sup> Current data from Statistics Canada, *The Consumer Price Index*, June 2006,

<http://www.statcan.ca/english/Subjects/Cpi/cpi-en.htm>. Historical data from previous issues.

<sup>7</sup> Alberta Economic Development, *Monthly Economic Review*, June 2006, p. 21.

<sup>8</sup> Ibid, p.19.

<sup>9</sup> Data are from Alberta Human Resources and Employment, *Settlements for Collective Bargaining Agreements*, June 2006. [http://www3.gov.ab.ca/hre/mediationservices/pdf/settlements\\_062006.pdf](http://www3.gov.ab.ca/hre/mediationservices/pdf/settlements_062006.pdf)