

LABOUR ECONOMIC MONITOR



ALBERTA FEDERATION OF LABOUR
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Introduction: Another Perspective on the Labour Shortage

As the economic boom in Alberta reached its crest over the last two years, employers and the business media alerted the public to a new problem: the “labour shortage”. At first this was described as a shortage of skilled labour, especially in the construction and health care sectors. Very quickly, however, the “hospitality sector” was identified as another area of the economy starved for labour.

This added a new dimension to the crisis: people prepared to work flipping burgers or cleaning hotel rooms for low pay under appalling working conditions are the very foundation of this sector. If Albertans weren’t lining up to take these jobs, wages in this sector might have to increase, driving up the price of pizzas, burgers and other necessities of life.

The response of both the federal and provincial governments was swift: the import of large numbers of “temporary foreign workers” enabled employers to staff their operations while continuing to hold down wages. These workers are brought to our province for limited periods of time, after which they are forced to return to their homelands. They work here with little protection from labour standards legislation, with no union representation, and with the constant threat of deportation if they try to assert their rights (even by finding another, better job). Unlike previous generations of immigrants to Canada, these people have no opportunity to establish themselves and their families here, and no hope for any future in our country.

The government has rationalized this disgusting process by arguing that there simply aren’t enough Albertans available for work. That assertion is questionable.

In September the unemployment rate for aboriginal Albertans living off the reserve was 7.3%. This unacceptably high rate of unemployment wasn’t caused by an unwillingness to work: the labour force participation rate (the number of people of working age working or looking for work) for aboriginals was 70.7% in September, very close to the provincial average. It’s hard not to conclude that structural racism in the labour market is a major part of the problem. If employers in the province are having a hard time finding employees, maybe they aren’t looking in the right places.

Another area of underemployment in Alberta is women with preschool children. According to a Statistics Canada study released last year, Alberta has the second-lowest participation rate among provinces for women with children under the age of six years.¹ This is surprising in that, overall, our province has by far the highest participation rate in Canada. What, then, is causing the mothers of young children to break this pattern?

Part of the answer, according to the StatsCan study, lies in our province’s day care system. Since 1992 the number of supervised day care spaces in our province has actually fallen, by 7.2%. During that same period the population of the province grew by 22%.

¹ Thanks to Keith Wiley from UNA for drawing our attention to this study.

Only one other province (PEI) has experienced a decline in day care space, and in that case by just 0.6%.

Changes in the number of supervised day care spaces, 1992 to 2004

Jurisdiction	Percent Change
Nfld. and Labrador	37.9%
Prince Edward Island	-0.6%
Nova Scotia	17.9%
New Brunswick	66.1%
Quebec	310.4%
Ontario	42.0%
Manitoba	35.1%
Saskatchewan	23.2%
Alberta	-7.2%
British Columbia	86.9%
Canada	100.6%

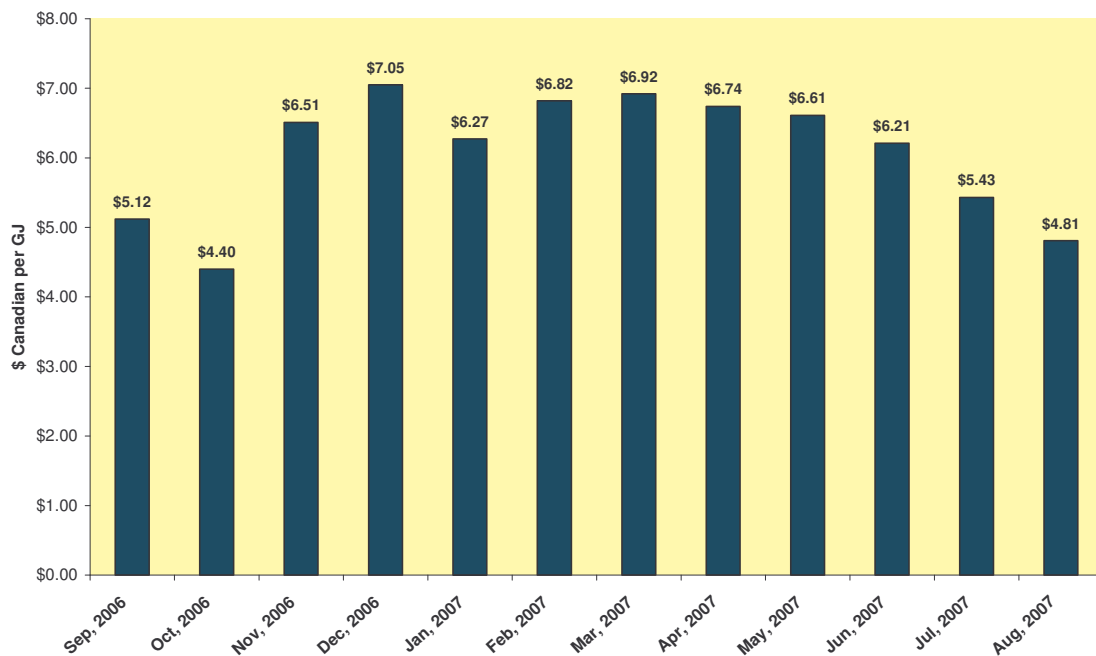
The provincial government’s hostility to properly regulated, affordable day care is a matter of record – day care is unpopular among the fundamentalist religious part of the Conservative party base. You’d think, however, that if the province is experiencing a drastic shortage of health care workers – a sector that has always relied heavily on the labour of women, that any measure that would make it easier for women with small children to work (if they so choose) would be a no-brainer. Apparently the Klein and Stelmach governments haven’t agreed.

Energy Prices

When you're wrong, you're wrong; and you might as well stand up and admit it (unless, of course, you can find a way to hide the evidence, a tactic that has served governments well over the years). In the August issue of *Labour Economic Monitor* we downplayed the fiscal impact of lower natural gas prices, noting that while prices were sluggish for the first three months of this fiscal year, "...we have to remember that the period March – May isn't a period of especially high demand for natural gas."

We were responding to warnings from the provincial government that declining gas prices posed a threat to government revenues. Indeed, the provincial government has always made a habit of downplaying energy revenue streams. When oil and gas prices are low, the government proclaims the need for Albertans to "tighten their belts." When prices are high, they warn of the "dangerous volatility" of energy prices. In each case, the priority is to lower the expectations of Albertans.

Monthly Natural Gas Reference Prices, Alberta



This time, however, the government's gloomy predictions have come true, at least in the short run. The price of natural gas has fallen steadily since March, reaching a low of \$4.81/Gj in August. For the first five months of fiscal year 2007/08, the average gas reference price was just \$5.96/GJ. The 2007 Alberta budget assumed an average natural gas price of \$6.75/GJ, so unless gas prices recover soon, the government could face a revenue shortfall of close to \$1 billion.

Albertans needn't panic, though. Oil prices, by contrast, are high and rising. The September price for benchmark West Texas Intermediate crude oil was just under \$80 per barrel, and in recent days spot market prices have edged toward \$90.

Monthly Oil Prices
(Benchmark West Texas Intermediate)



Since the budget assumed an average crude oil price of just \$58/bbl, if the current trend continues the government of Alberta will reap a revenue windfall that will more than make up for the underperformance of the natural gas sector. The result will be another massive budget surplus.

Obviously nobody can predict how energy markets will behave in the short run, but there are no signs of any trends that could be expected to bring about a significant downward trend in oil prices. In the longer run, of course, anything can happen. Both energy markets in particular and the Alberta economy in general depend crucially on the state of the US economy. That economy has, for several years now, been edging toward a state of crisis, with huge fiscal and trade deficits, and with the health of its currency dependent on the goodwill of the central banks of Japan and China. These latter hold huge amounts of US government debt, and if they ever tire of financing this debt, the consequences for the United States and for Canada will be extremely serious.

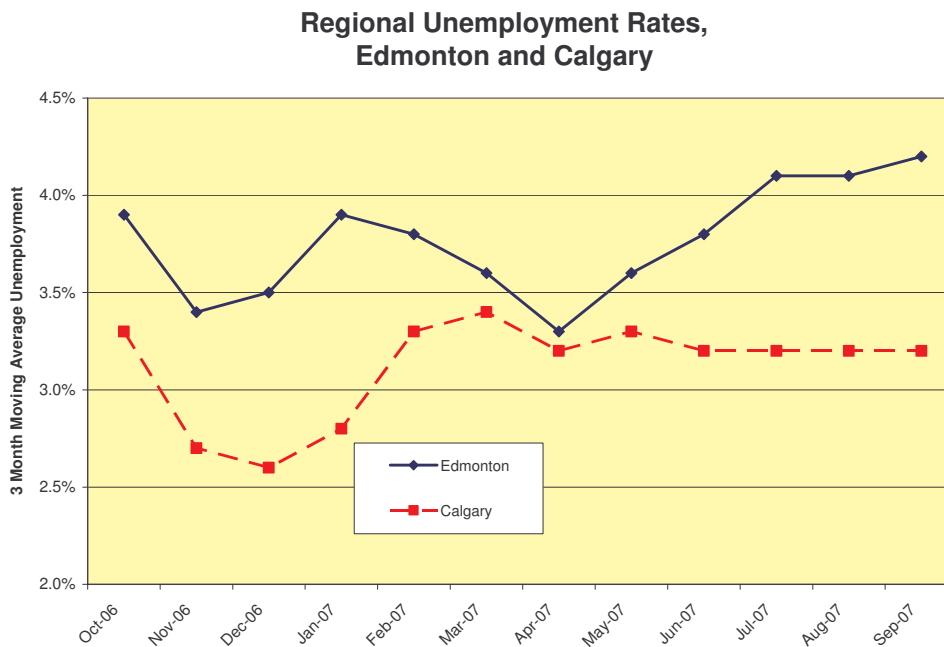
Unemployment

Labour markets in Alberta remain extremely tight. In September, the rest of Canada enjoyed a seasonally adjusted unemployment rate of 5.9%, the lowest in many years. In

Alberta during the same period, the rate was just 3.6%. Unemployment in Alberta hasn't risen above 5% since February of 2004.



Edmonton's unemployment rate is higher than Calgary's, and has risen over the last five months (from 3.3% in April to 4.2% in September).

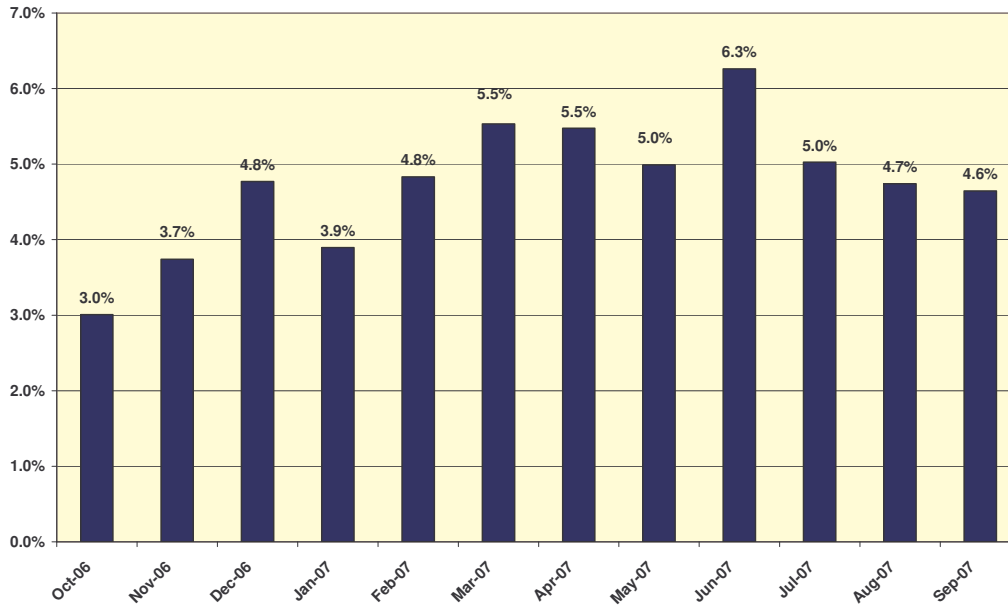


This increase is modest, however, and all current indications are that labour markets throughout the province will remain tight for the foreseeable future.

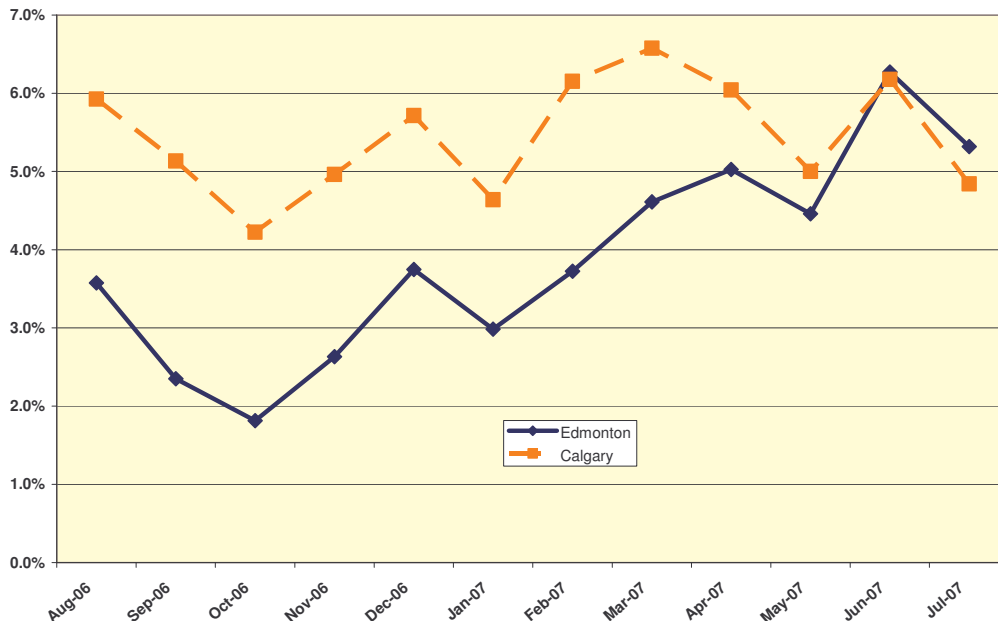
Inflation

Inflation remains the biggest single concern for workers and their unions in Alberta. After spiking at 6.3% in June, the provincial rate subsided and stabilized between 4 and 5%. Nonetheless, inflation in Alberta has averaged 5.0% over the first nine months of 2007, rapidly eroding any wage gains made by workers in this province.

Annual Inflation Rate, Alberta



Annual Inflation Rates, Edmonton and Calgary



Until recently Calgary has had higher inflation than Edmonton, but that changed in the last two months reported (June and July), when the rate for the latter jumped above 5%.

There are several factors that may help to moderate inflation in the coming months:

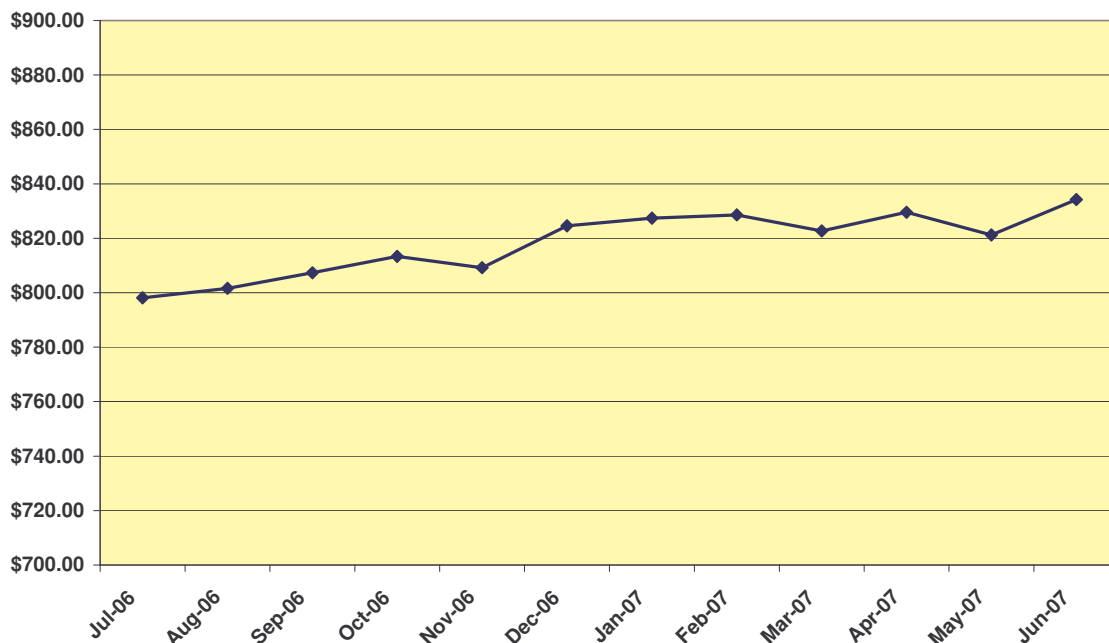
1. The price of gasoline has dropped by about 10% since the summer.
2. Some slack has appeared in housing markets, especially the superheated markets of Edmonton and Fort McMurray .
3. The rapid rise of the Canadian dollar should begin to bring the price of imported consumer goods down over the next few months.

On the other hand, it is unlikely that inflation will return to the levels of three years ago, when it averaged between 1 and 2%.

Wages

Average weekly earnings in Alberta increased in the latter half of 2006, but have remained stagnant for most of the first half of 2007. Overall, weekly earnings so far this year are on average about 4.6% higher than a year ago, slightly less than the rate of inflation.

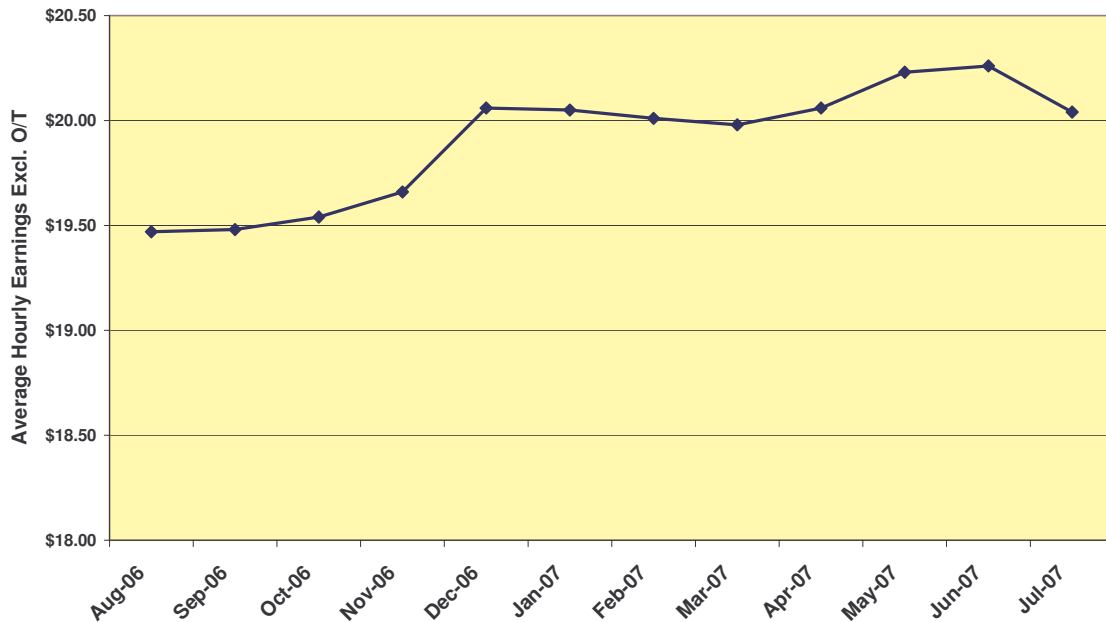
Alberta Average Weekly Earnings



The same picture holds true for average hourly wages. In the latter half of 2006 these rose sharply, but for the first seven months of this year they moved hardly at all. Still, for the

first five months of 2007 average hourly wages (excluding overtime) in Alberta were up 5.5% over the same period the previous year, slightly higher than the inflation rate of 5.1% during the same seven months. If the pattern holds, workers in this province will finally start to make some gains in real (after-inflation) earnings.

**Average Hourly Earnings, Hourly Paid Employees
Alberta**



If, however, hourly wages remain in the neighborhood of \$20/hr, inflation will soon eliminate any gains made in the past year.

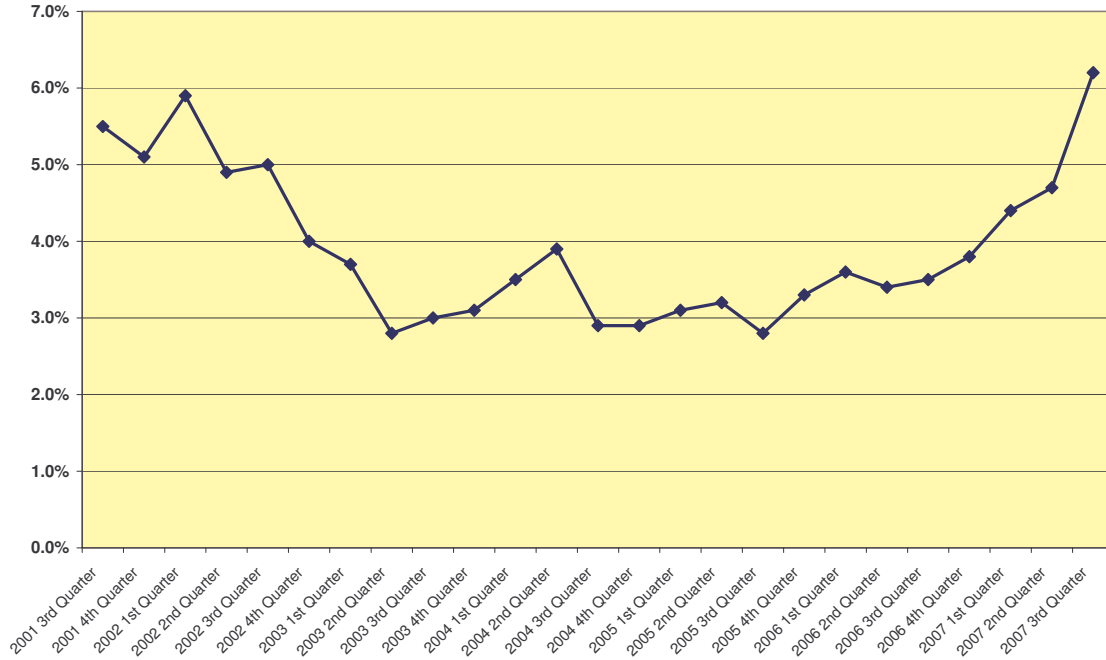
Wage Settlements

After bottoming out in the middle of 2005, collective bargaining settlement rates have been rising fairly steadily over the last two years, and in the third quarter of 2007, the weighted average settlement (the average settlement adjusted to reflect the duration of the agreement and the number of workers covered) actually rose to 6.2%. This impressive figure should be viewed with caution, however: it reflects only 27 agreements covering just 4,600 employees.

Over the entire year to date, the overall weighted average settlement figure is 5.0%. So far in 2007 the private sector is achieving slightly higher results (5.7%) than the public sector (3.9%). When looking at these trends, however, it's always important to bear in mind that all the results aren't in yet. There may well be important agreements covering these periods that haven't been concluded yet, or that haven't been registered with the Labour Relations Board. When these results are in, the final figures for 2007 may change. For example, AUPE recently concluded an agreement for all the members of the "General Services" (direct employees of the Gov't. of Alberta). This agreement does not

appear to be reflected in the recent settlement data. Nor does the most recent settlement reached by the United Nurses of Alberta.

Collective Bargaining Wage Settlement Rates



More detailed information on settlement trends by sector is available on request from the AFL.

Conclusion

Through the last several years of strong economic growth, the Government of Alberta and employers have succeed in resisting the strong labour market forces pushing for higher wages in the province. There is some preliminary evidence that workers in Alberta are starting to achieve significant wage increases, but inflation remains a real threat.

If inflation moderates, and if nominal wages continue their present trend, we may see significant gains in real, after-inflation wages. It's about time.