



Labour Economic Monitor

February, 2007

Introduction: The Opportunity and the Challenge

After over a decade of almost uninterrupted growth, Alberta is now entering the fifth year of an economic boom. Despite the mismanagement of the Klein government, which ran the province without any real economic plan, despite the ludicrously royalty rates and the obsession with tax cutting, our economy continues to churn out jobs.

It's an unfortunate characteristic of many economic booms that they create a lot of wasted resources, and this one is no different. Our province isn't taking the opportunity to rebuild its infrastructure and public services, ruined by years of unnecessary budget cuts. We aren't putting aside money for future generations, because our government apparently doesn't trust itself to handle this flow of wealth. Instead, it's all being given away to corporations, most of whom promptly ship it out of the province. Thanks to inept management, Albertans are missing the opportunity of a lifetime.

But if the government insists on squandering this chance to ensure the province's future, that doesn't mean that Alberta workers have to follow suit. The current boom is laying the basis for real gains in bargaining, and it's up to us to win those gains.

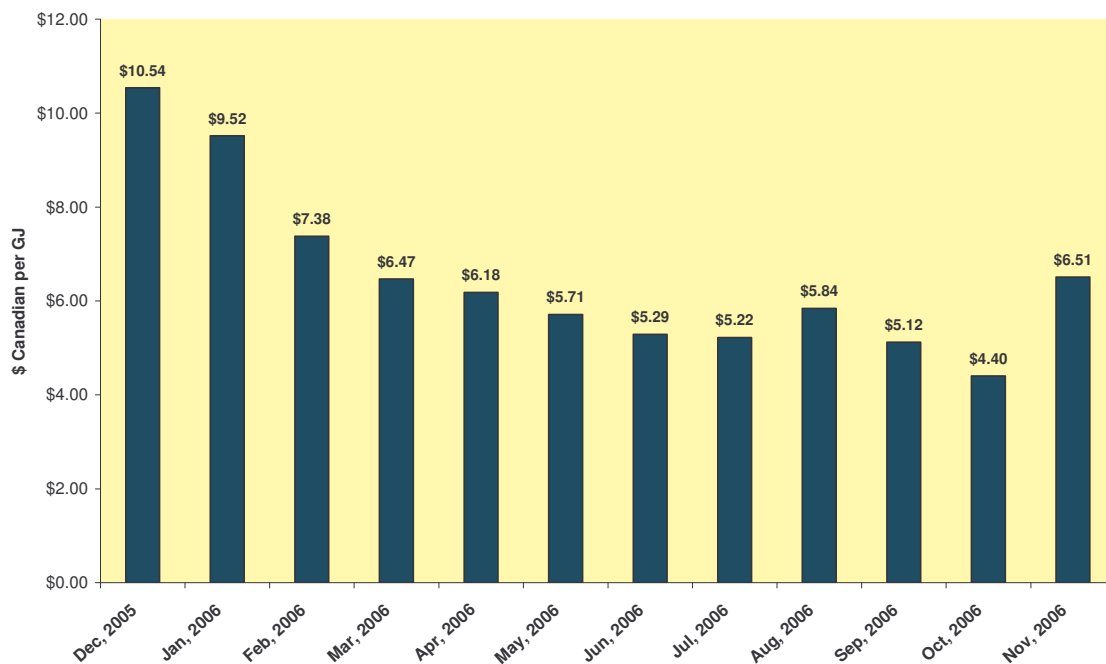
Note: In the conclusion of the last Labour Economic Monitor (October, 2006) we promised that in this issue we would try to examine the reasons why workers in our province have so far been unable to make major gains in real wages during this boom. Unfortunately time ran out, and that discussion will have to come in a future issue of the Monitor.

I. Energy Prices

Alberta is known to the rest of Canada as “oil country”, but that is a little bit of an oversimplification. From the point of view of government finances, for example, natural gas has brought in more money than crude oil has for some time now. Since our reserves of conventional crude are declining, this is unlikely to change in the foreseeable future, unless gas prices fall through the floor, or the ridiculous royalty regime for oil sands production is changed.

This being the case, soft international markets for natural gas have been a cause of real concern for the Alberta government over the last year. Budget 2006 forecast an average gas reference price of \$7.50/Gigajoule for the fiscal year April 2006 – March 2007. In fact, gas prices haven’t reached that level even once over the first eight months of the fiscal year.

Monthly Natural Gas Reference Prices, Alberta

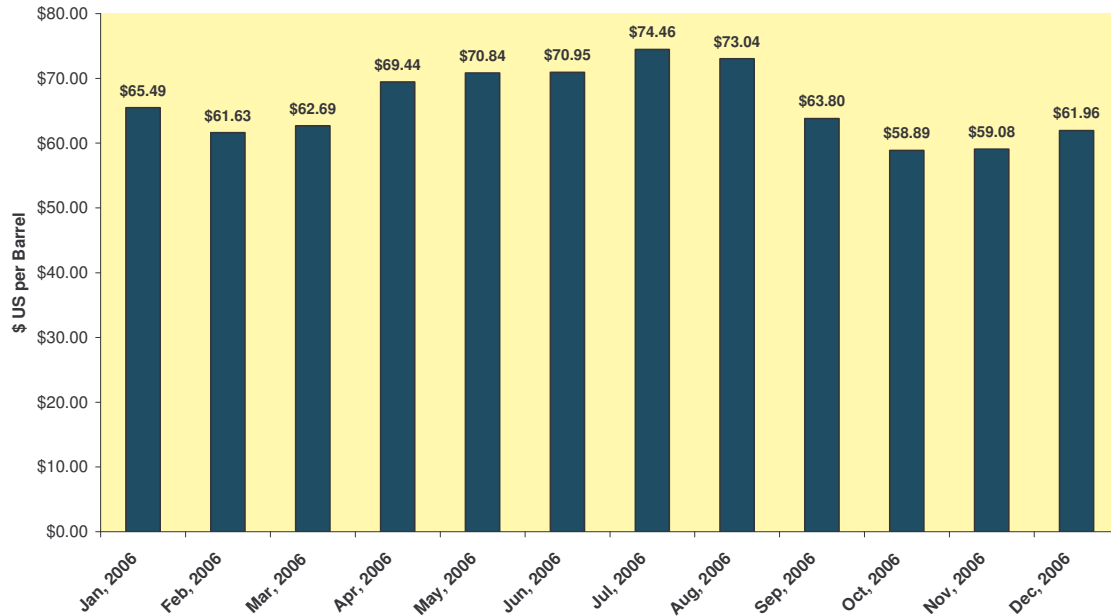


During that period the reference price has, in fact, averaged about \$5.50/GJ, which represents a total shortfall in government revenues in the neighborhood of \$2 billion. While this hasn’t received much public attention, it provided a nasty shock for a government which has always deliberately underestimated energy revenues.

This shortfall doesn’t pose any serious problem for government finances, however, because oil prices have consistently been higher than predicted. The Budget forecast a price for benchmark West Texas Intermediate crude oil of \$50 US per barrel. In fact, the

price has averaged about \$62 per barrel over the same period. This should boost provincial energy revenues by about \$1.5 billion (Cdn).

Monthly Oil Prices
(Benchmark West Texas Intermediate)



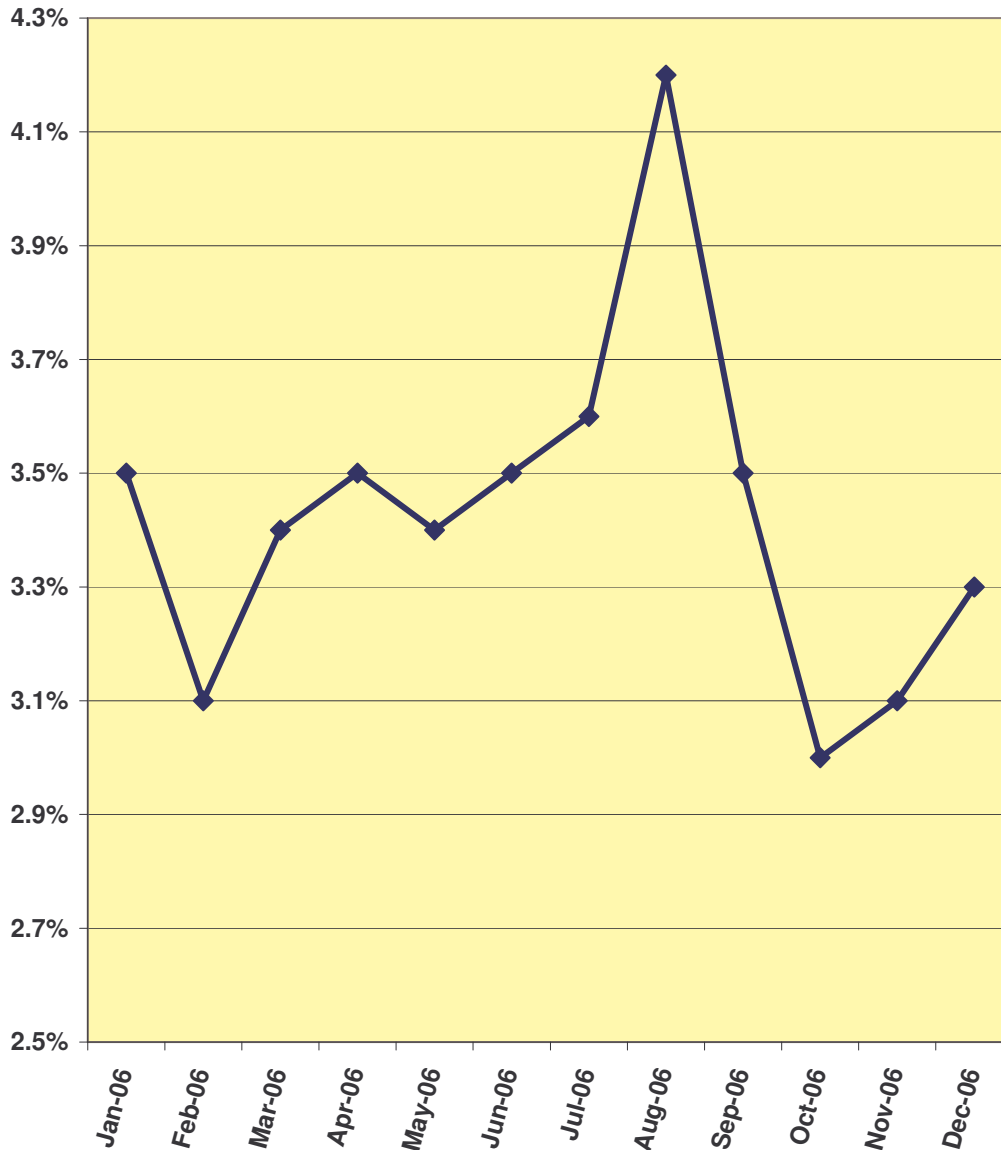
So if the respective shortfalls and surpluses of gas and oil prices net out to a total of about \$500 million less than the government predicted, this is hardly a financial catastrophe, especially since the construction-driven boom in the economy means that tax revenues should be well above their predicted level.

In addition, the longer term picture for energy prices remains very positive. Barring a major recession in the US, there is no reason not to expect gas prices to rise (and they rose significantly in November, the last month for which data is available) and oil prices to remain steady or even increase.

II. Unemployment

Alberta's superheated economy continues to generate jobs, and the tight labour market of the last year still remains. While December unemployment in the rest of Canada sat at 6.1%, Alberta's rate was just over half that at 3.3%.

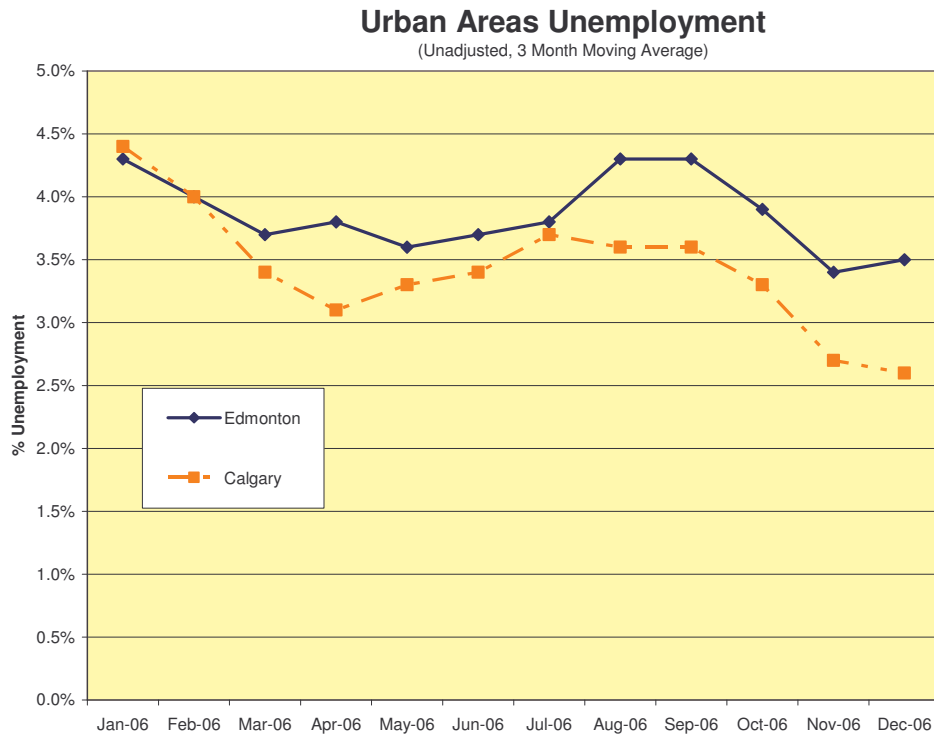
Alberta Unemployment Rate
(Seasonally Adjusted)



Overall employment in Alberta grew by 5.6% over the last year, with the strongest growth in the goods-producing sector (12.5%). Growth in the service sector was slower,

but still very strong. Employment in Public Administration, for example, fell from 74,700 in November to 71,800 in December, which is probably due to a seasonal fluctuation. The December figure still, however, represented about 6% employment growth in this sector over the previous year.

The largest job markets, in the urban areas of greater Edmonton and Calgary, also remain strong overall. The December unemployment rates for Calgary and Edmonton were 2.6% and 3.5% respectively.

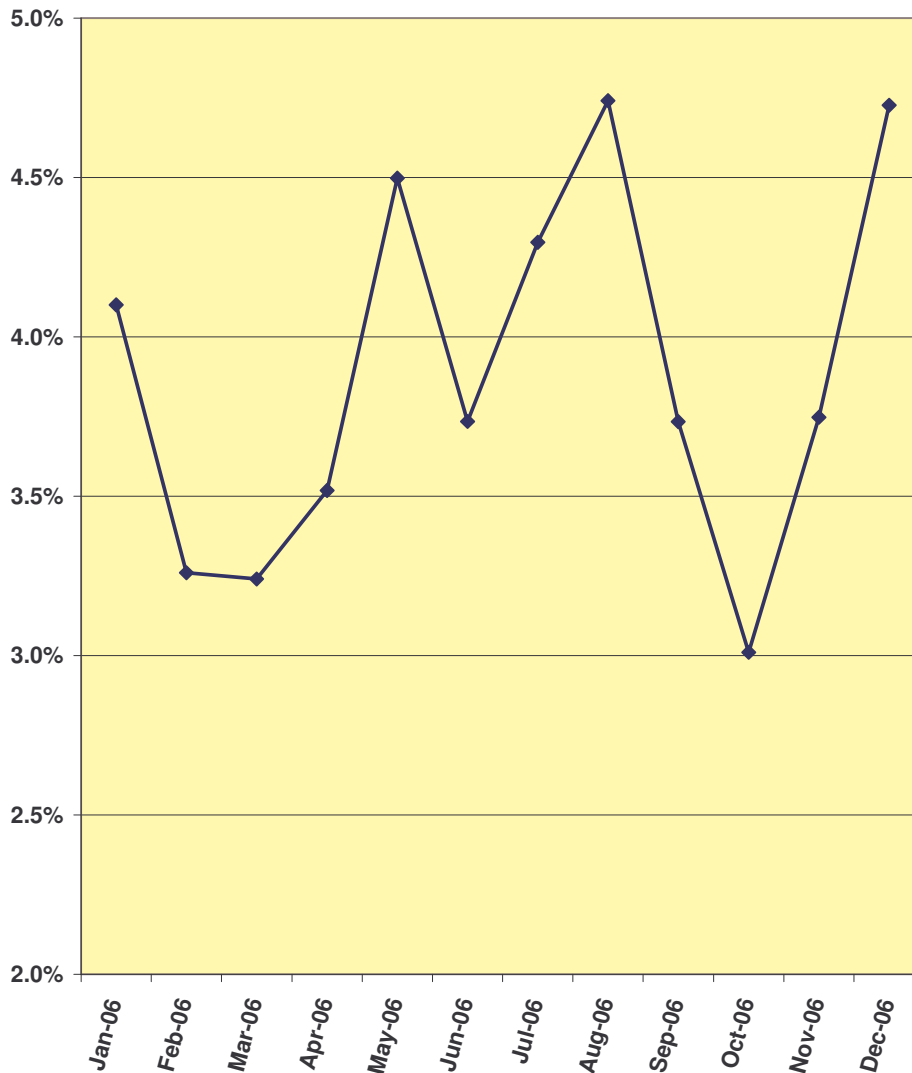


The above trends provide real leverage for unions in collective bargaining, since labour market forces are putting upward pressure on all wages. The amount of leverage depends, of course, on the specific industries and job skills in question.

III. Inflation

Strong economic growth and tight labour markets are a recipe for inflation, and in December Alberta's Consumer Price Index was 4.7% higher than the year previous. This continues the trend of the last decade, in which Alberta's rate of inflation has been consistently higher than the national average.

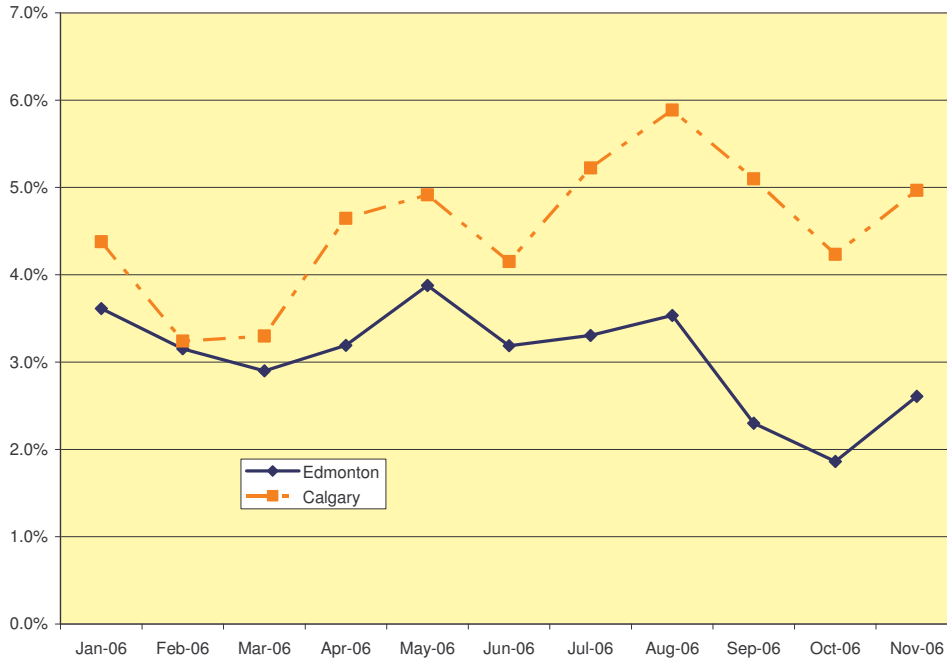
Annual Inflation Rate, Alberta



While the official annual figures haven't yet been released, a quick calculation based on monthly inflation suggests that the overall inflation rate for Alberta in 2006 will be about 3.9%. This means that despite the strong labour market, workers in Alberta will face a challenge in trying to make gains in real (after-inflation) wages

Interestingly, there is significant spread in inflation rates across the province, with Edmonton showing markedly lower rates than Calgary.

Monthly Inflation Rates, Edmonton and Calgary

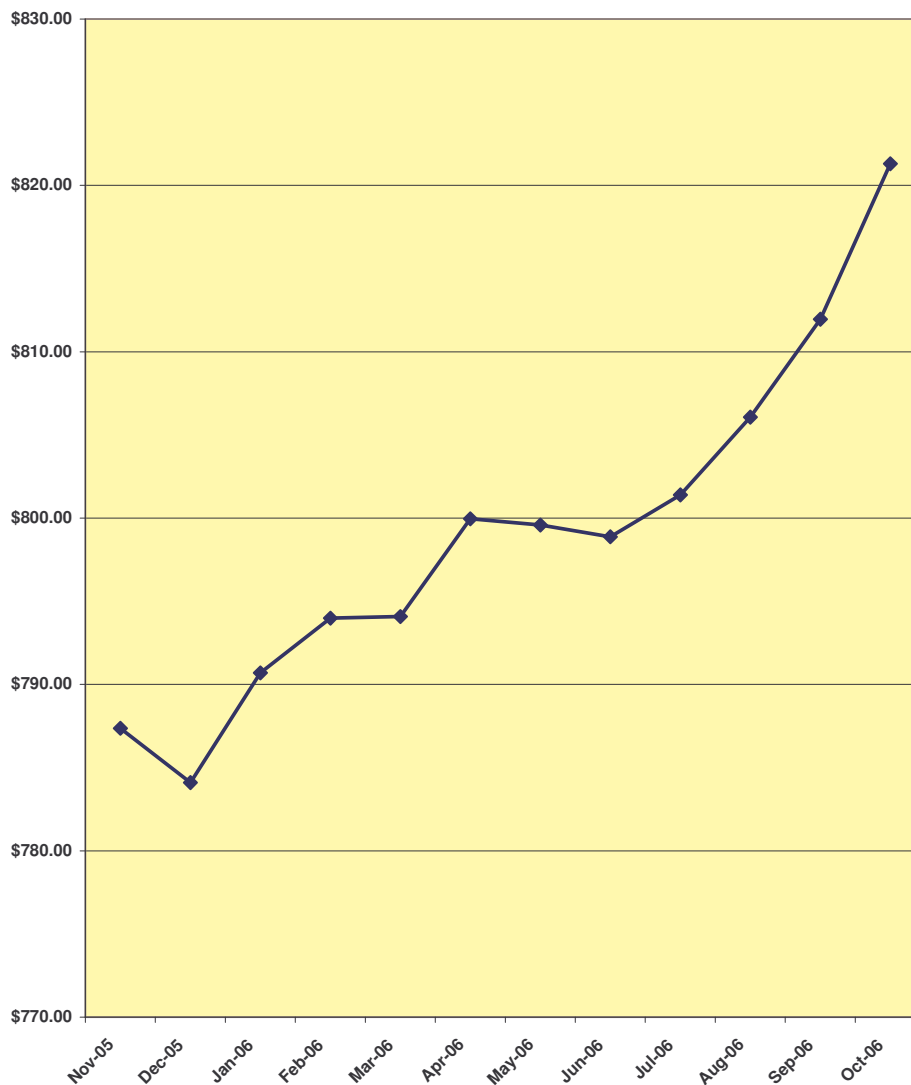


With the housing market in Edmonton heating up, this will probably close significantly over the next year or so. Right now, however, an inflation rate of roughly 3% in Edmonton over the first eleven months of the year means that a salary increase of 3.5% would yield a small gain in real wages. In Calgary, with inflation of about 4.5% over the same period, the same wage increase would mean a drop in real wages. Clearly unions engaged in province-wide bargaining will face some real challenges.

IV. Wages

Media reports suggest that wages in Alberta are surging upward, and at first glance they seem to be right: average weekly earnings in the province are on a very definite upward trend.

Alberta Average Weekly Earnings



In the twelve month period from November 2005 through October 2006, average weekly earnings were 4.7% higher than over the same period a year earlier. So far, so good. Much of this increase, however, was eaten up by Alberta's high inflation over the same period. In addition, two other factors suggest that we should treat this number with caution.

First, the average weekly earnings figure doesn't accurately reflect basic wages, because it includes overtime earnings. According to recent StatsCan data, we Albertans work longer hours than other Canadians. That's hardly surprising: if there's a shortage of labour, those who are employed will be encouraged or coerced into working longer hours. That will result in higher take-home pay, without necessarily reflecting any positive change in hourly wages.

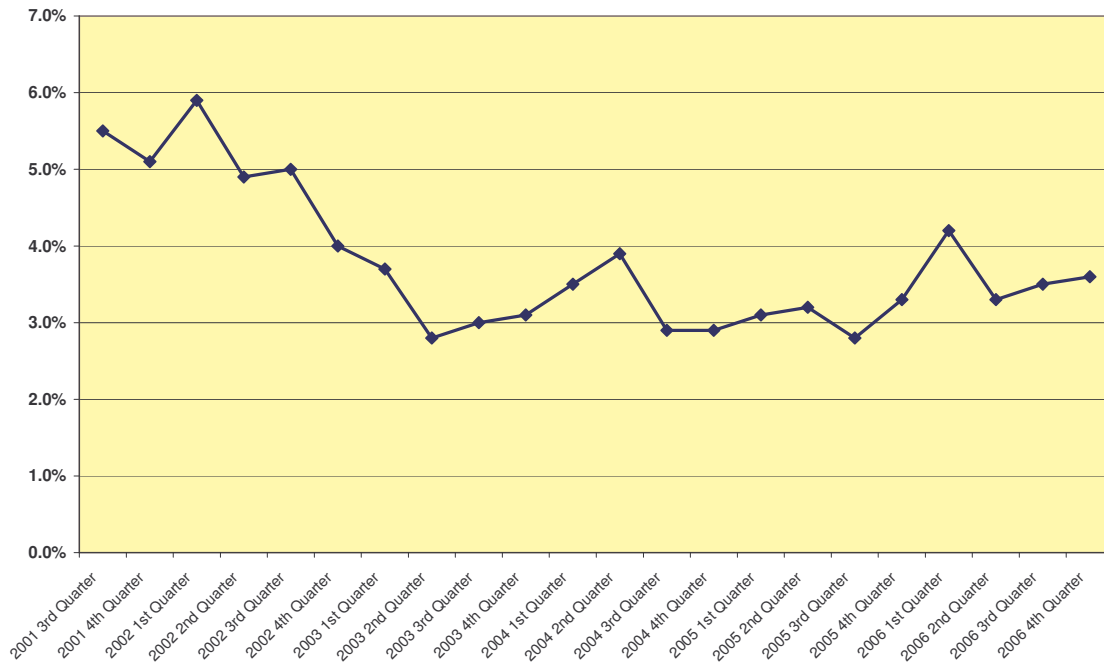
Second, average weekly earnings reflect the pay of all employees, including higher paid managers, professionals, and even CEOs. This can distort our picture of what working Albertans are earning, since an increasing gap between the wages of workers and executives can actually appear as an increase in average wages. In other words, increasing inequality can look like increasing wages.

For example, during the same twelve month period that weekly earnings increased by 4.7%, average hourly earnings in the province rose by just 3.6%. Since these figures, too, include overtime earnings, it's likely that actual hourly wages increased by less than the rate of inflation. That's not supposed to happen in the middle of the biggest boom in the province's history.

V. Settlements

As we all know, established patterns of settlement have a strong effect on the deals we are able to negotiate for our members. In the fourth quarter of 2006, overall settlements in the province of Alberta averaged 3.6%, which is also the average rate for all of 2006. This figure is preliminary, since as we all know, negotiations can drag on well past the expiry of an agreement, and settlements that will apply to this period may still be coming.

Collective Bargaining Wage Settlement Rates



Looking at the sectoral summaries, there are no major changes from our last issue in October, but settlement reports continue to trickle in from 2005 and 2006. The first settlements from the construction sector are reported, for example, but they don't cover large bargaining units, and may not have much impact on other negotiations. Still, it's encouraging to see wage increases of over 5% starting to appear.

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	35,663	3.1%	166	60,818	3.5%
2005	112	21,799	3.1%	121	39,021	3.1%
2006	57	7,656	3.4%	65	17,201	3.7%

	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%	29	4,969	3.0%
2006	4	167	5.8%	32	3,199	3.2%

	Mining & Oil & Gas Extraction			Utilities		
	# Contracts	# Workers	Avg. Increase	# Contracts	# Workers	Avg. Increase
2003	1	150	3.6%	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	1	150	3.7%	2	92	3.0%

	Retail Trade			Education		
	# 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	411	2.4%	46	15,460	2.8%
2006	1	35	3.5%	18	9,172	3.8%

	Health Care & Social Services			Public Administration		
	# 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	37	9,533	3.0%	20	3,863	3.7%
2006	22	1,947	3.8%	20	6,439	3.7%

Conclusion

The overall picture of Alberta's economy hasn't changed a great deal since the last issue of *Labour Economic Monitor* in October of 2006. It is worrying to see that the trend to higher inflation persists and is, in fact, growing.

It all adds up to a very interesting time to be in negotiations. On the one hand, our members' expectations will be high, thanks to the booming economy and high inflation. On the other, unions actually have some real leverage, thanks to the tight labour market. We can expect a year of very tough bargaining.