

## THE STAGE LOOKS SET FOR STRONGER CANADIAN WAGE GROWTH IN 2019

January 30, 2019

The puzzle of disappointing wage growth in Canada amid robust job gains and well-publicized labour shortages has pre-occupied economy-watchers. A disappointing pullback in average hourly earnings growth to 2.0% year-over-year in the fourth quarter of 2018 in Statistics Canada’s closely-watched labour force survey – despite the jobless rate at lows not seen in decades – reignited some of the hand-wringing. But a deeper dive suggests there are reasons to think stronger wage growth may yet be in the cards for 2019. Canadian workers appear to be increasingly taking advantage of the bargaining power that typically accompanies tight labour markets, when employers have a tough time filling positions. More workers are quitting jobs voluntarily to look for new, ostensibly higher-paying, positions. And, though oil-producing regions have lagged behind, some other measures of wage growth point to an acceleration.

### Churn is on the upturn.

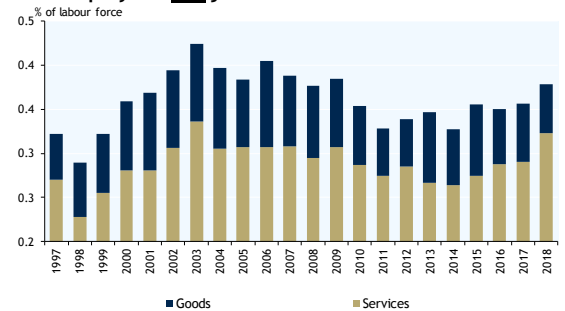
One of the explanations for disappointing wage growth in recent years is that job “churn”—workers changing jobs—has been low. Those moves are typically thought to be a key driver of wage growth, as opposed to getting a pay raise in a current job. But they had been happening less frequently since the 2008/2009 recession. One explanation is demographics. Simply put, as more Canadians approach retirement age, many are less likely to take the risk of switching jobs. (For a more on labour shortages and why fewer workers are looking for greener pastures, read RBC Economics’ [2019 look-ahead report](#).)

Controlling for population aging effects tells a different story. While publicly-available Canadian labour force data don’t enable us to track workers that move directly from one job to another, they do let us see the number of people who opt to quit their job to look for another because they were “dissatisfied.” That proxy for voluntary job churn has been edging higher, and for 25-54 year-olds the rate was close to pre-recession levels in 2018. And those who changed jobs appeared to be getting higher wages. Wage growth for new hires in 2018 was 7% based on data in the LFS. That was well above the average for all workers, and above the 5% increase in wages businesses reported offering for job vacancies during the first three quarters of 2018.

### The LFS isn’t the only guide to what’s happening with wages.

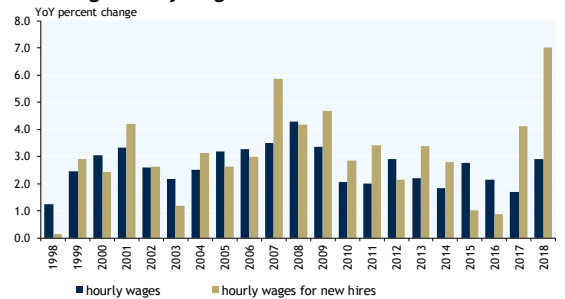
The notoriously volatile LFS did show a deceleration in wage growth at the end of last year—but other wage measures strengthened. Statistics Canada’s Survey of Payroll Employment and Hours has been running closer to 3% above year-ago levels in recent months (November is the latest month of data available.) While the SEPH isn’t as timely as the LFS—and doesn’t attract the same headlines—it’s based on business payroll submissions and so is typically viewed as a more reliable source of income estimates.

Unemployed: left job because 'dissatisfied'



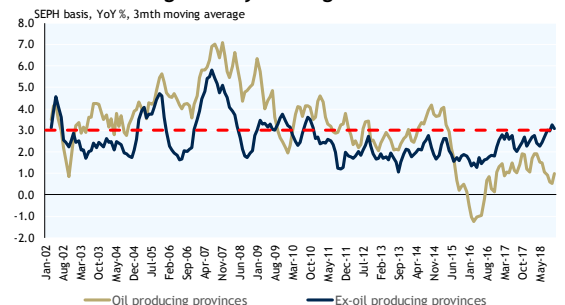
Source: Statistics Canada, RBC Economics Research

Average Hourly Wage Growth



Source: Statistics Canada (Labour Force Survey), RBC Economics Research

Canada Average Hourly Earnings



Source: Statistics Canada, RBC Economics Research



## Some credit goes to minimum-wage hikes.

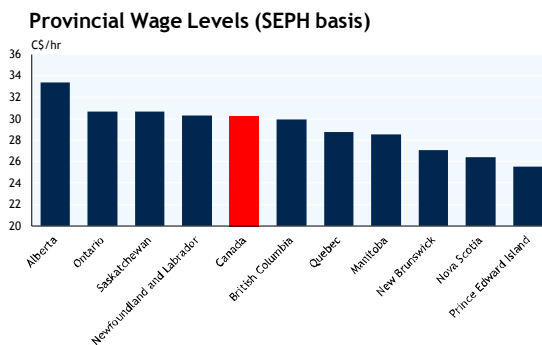
Legislated minimum-wage hikes have clearly been part of any wage growth over the last year. A big 20% hike to Ontario's minimum wage to \$14 an hour in January 2018, for example, pushed the share of workers in the province earning less than \$14 down from 19% in 2017 to just 5%. Minimum wages also rose significantly in British Columbia, Alberta, and Quebec later in the year. But given tight labour markets, wages would likely have increased anyway, with workers ostensibly in a much stronger bargaining position. The Canadian unemployment rate fell to 5.6% at the end of 2018 even as lower oil prices raised fear of another round of retrenchment in Canada's energy sector and markets fretted about slowing global growth.

## Canada's oil patch hasn't benefitted as much.

Wage-growth trends are less rosy in Canada's oil-producing regions, with Alberta bearing the brunt of the recent pullback in oil prices. Albertans can find some solace in that fact that, after outperforming on wage growth for several years, their province still had the highest average hourly wage rate among the provinces last year. But the provincial unemployment rate remains above the national average at 6.4% in December.

## The economy is slowing, but we still see some wage growth.

Stronger wage growth ultimately will depend on how well the economy performs. While we don't see an outright economic downturn emerging this year, the Canadian economy does look to be at a relatively mature point in the economic cycle. The unemployment rate is already at historic lows, so there is simply less room for it to move lower. That means slower economic growth. However, labour markets already look very tight and wages tend to lag the economic cycle. So even the pace of growth we expect—GDP increasing slightly less than 2% annually—should be enough to prompt some further acceleration in wage growth. Downside risks remain but we are counting on higher wages in Canada to offset some of the negative impact on household purchasing power from higher interest rates, which have already resulted in debt payments eating up a larger share of household disposable incomes.



Source: Statistics Canada, RBC Economics Research