Canada’s wage growth weak despite strong job creation

By Rachelle Younglai
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Canada’s unemployment rate will likely have to ease even further before paycheques make any real gains.

The country’s jobless rate fell to 6.3 per cent in July, its lowest level in nearly a decade, and job creation is the strongest since before the global financial crisis.

But wage growth remains astonishingly weak. The average hourly wage increased a mere 1.3 per cent to $25.79 over July of last year, according to Statistics Canada’s monthly labour-force survey released on Friday, marking the 12th consecutive period of sluggish wage growth.

“We would have expected stronger wage growth. It is somewhat surprising that it is so weak,” said Josh Nye, economist with Royal Bank of Canada.

The last time the national jobless rate was this low was in October, 2008, before the Great Recession. At that time, the average hourly wage was increasing by 4 per cent, thanks in part to the commodities boom.

In recent years, when the unemployment rate neared 6 per cent, this had been considered full employment, or the point at which the jobless rate falls to the lowest level possible without causing inflationary problems.

So why is wage growth around 1 per cent when job creation has been on a roll and the unemployment rate is near 6 per cent? One reason could be that the unemployment rate associated with full employment has to sink lower.

“Just based on the fact that the unemployment rate is so low, and yet we are still adding jobs at a pretty fast clip and wage growth remains low, that is some evidence that that rate has drifted lower,” Mr. Nye said. “I don’t think we are resigning ourselves to the fact that wage growth is going to be around 1 per cent.”

When the national jobless rate fell below 7 per cent in 2005, wages were growing around 3 per cent. When the jobless rate hit a record low of 5.8 per cent in October, 2007, earnings were increasing at a pace of 4 per cent.

“It is believable that we still have a ways to go before we get to full employment,” said Benjamin Reitzes, macrostrategist with Bank of Montreal.

Canada’s economy added 11,000 jobs in July, the eighth consecutive month of employment gains. Over the year, the country has gained 387,600 jobs, the bulk of which are full-time positions – that marks the strongest level of job creation since 2007 and before the country was hit by the financial crisis and global economic downturn.

Canada’s central bank does not ascribe a jobless rate for full employment. But some private-sector banks suggest full employment is when the national jobless rate hits between 6 per cent and 6.5 per cent.

BMO’s chief economist Douglas Porter said it is quite possible that the so-called full-employment jobless rate has declined below 6 per cent. But he said it was too early to conclude from last month’s weak earnings data. “Wages follow jobless-rate trends with a delay of about a year,” he said.

On top of this, Alberta and Ontario are on track to hike their minimum hourly wage to $15 an hour, which will drive up overall wages.

“The message to workers is: Be patient. Next year should be better,” said Avery Shenfeld, chief economist with Canadian Imperial Bank of Commerce.

There are other reasons average wage growth has been stuck below 2 per cent for 12 consecutive periods. The oil collapse and lack of demand for energy workers has contributed to declining wages in the natural-resources sector and in other parts of Alberta's economy.

Although Alberta's jobless rate is improving over all (7.8 per cent in July compared with a high of 9 per cent last year), the employment gain is coming from lower-paid sectors. The average hourly rate in the province was up 0.7 per cent over July of last year.

On the flip side, one regional economy that has been booming – Quebec – has experienced robust wage increases. Its jobless rate hit a record low of 5.8 per cent last month, as employment grew in high-paid areas such as engineering. The province's average hourly wage increased 3.3 per cent over July of last year.