Wage growth declines again despite robust labour market

By Rachelle Younglai
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Despite signs suggesting Canada's labour market is robust, wage growth continued to slow last month.

Canada added more than 11,000 new jobs in October, the unemployment rate reverted to a multiyear low of 5.8 per cent and businesses have repeatedly said they cannot find staff.

And yet, wage growth declined for the fifth consecutive period, according to Statistics Canada's Labour Force Survey (LFS) released on Friday.

The country's average hourly rate for permanent employees increased by 1.9 per cent to $27.75 from October of last year. That was weaker than September's year-over-year wage growth of 2.2 per cent.

The decline is occurring over a period of fairly healthy job creation and as the major labour markets of Ontario and British Columbia hiked their minimum wage.

"It is a bit of a conundrum," said Craig Alexander, chief economist with Deloitte Canada. "This is not one monthly number. This has been a trend since May." In May, average hourly earnings increased by 3.9 per cent. In June, growth was 3.5 per cent, July was 3 per cent and August was 2.6 per cent.

Although the LFS is often derided for its inconsistencies and volatility, Mr. Alexander said that after five consecutive months, "something real is taking place."

A number of factors could be holding wages down, such as increased competition from technology and other countries. Also, there could be more people available to work, including retirement-age baby boomers who remain in the work force.

"One possibility is that the labour market is not as tight as the low unemployment rate suggests," Mr. Alexander said. Baby boomers "that are leaving the labour force are a pool of workers that can be attracted back in if there was an adequate market demand for them," he said.

Although the Bank of Canada places very little weight on the LFS's earnings data, the central bank's own wage measurement is also close to 2 per cent.

Called wage-common, the Bank of Canada's measurement has remained at 2.3 per cent for the first half of this year and most of last year. That is below the 3-per-cent level that the central bank has said was historically consistent with a tight labour market.

"That is still disappointing relative to where we should be at this point in the cycle," said Josh Nye, economist with Royal Bank of Canada. "It's certainly true that we haven't seen the pick up in wages that we would be looking for given how low unemployment is and how strong the job market is."

Wage-common is calculated quarterly from the LFS, employer payrolls and two economic reports. The LFS is a tiny component.

The slowdown occurred even as Ontario's average hourly rate expanded by 3 per cent from a year ago. The province is the country's largest labour market.

Other provinces recorded weak wage growth. British Columbia, one of the country's strongest regional economies, was up 1.6 per cent from October of last year. Alberta, which also hiked the minimum wage, was up by 1.8 per cent and Quebec grew by 0.3 per cent.

The weakness has tamped down expectations that the Bank of Canada would raise its benchmark interest rate later this year. “The softness in the wage data in October points to January as the most likely month for the next rate increase,” Bank of America said in a research note.

Over all, the economy gained 11,200 net new jobs last month, with full-time positions offsetting part-time losses. Over the year, employment increased by 206,000 positions, or 1.1 per cent, with the majority of the new jobs full time.