



## Wage-price spiral avoided... for now

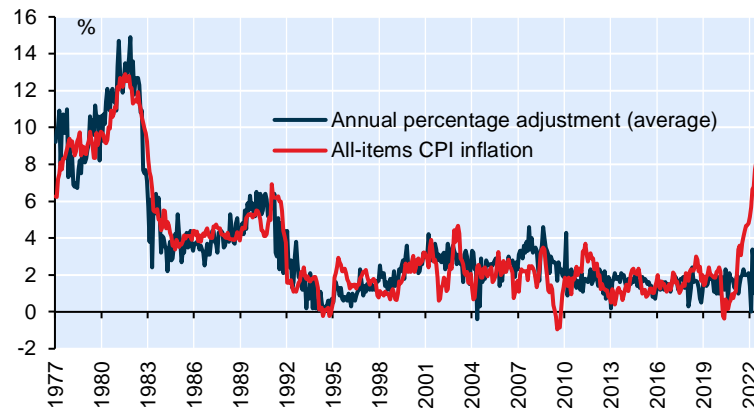
By Taylor Schleich & Warren Lovely

Inflation sucks. Ask any consumer, business or central banker. Nobody wants to see their cost of living/doing business violently increase. Unfortunately, that's the reality for most of the world and, based on the U.S. CPI report yesterday, getting relief on price pressures is proving hard to come by. The worry for central bankers, of course, is that high inflation becomes entrenched. Employees demand higher wages to compensate for higher costs of living; businesses raise prices to compensate for higher labour costs and the dreaded wage-price spiral sets in. You may have seen headlines last week regarding BC's largest public sector union (BCGEU) reaching an agreement with the province that will see employee pay rise by double digits (between 11.2% and 13.5%) over the next three years. You don't need to be a math whiz to see that the annual average is well above the Bank of Canada's mandated 2% inflation target. This development is hardly welcome news for monetary policymakers. Should this be used as the measuring stick for other collective bargaining agreements (there were roughly 5 million Canadians in a union and/or covered by a CBA in 2021), it could be a nascent sign of higher/stickier/stubbornly high wage growth, and ultimately, inflation.

But we try to avoid using anecdotal evidence to guide our outlook. Stepping back and looking at the broader picture, it's clear that higher inflation hadn't significantly affected Canadian union wage settlements, at least through July (the most recent data). Indeed, of the 19 'major' agreements signed through the first seven months of the year (covering 144K employees), the average annual wage adjustment was *less than* 2%. Hardly the stuff of central banking nightmares. But certainly, the longer inflation deviates from the previously ingrained low and stable level, the more pressure we'd expect to see on negotiated wage increases. As one would assume, the average wage adjustment has followed very closely to the rate of all-items inflation over the past five decades—including through the inflationary 1970s and 1980s. (Chart 1). In fact, you won't find a larger deviation between inflation and negotiated pay raises than you will right now (Chart 2). Will there be some catch-up in future negotiations, like we saw in the case of BCGEU? Probably. Workers would surely like to make back some of the *real* pay cut they've taken over the past year. For the Bank of Canada, it underscores the importance of quickly returning inflation back to its mandated target and means that in the near term, the BoC may tolerate (invite?) some employment weakness to the extent it opens up labour market slack and limits wage pressures. For now, the wage-price spiral has been avoided, and we do expect inflation to subside relatively quickly as we outline in our [Monthly Economic Monitor](#). Nonetheless, we imagine headlines like those of last week are presumably unsettling for a central bank already on edge, adding to risk that the BoC may have to move further into restrictive territory.

**Chart 1: Wage settlements and inflation moved in lockstep...**

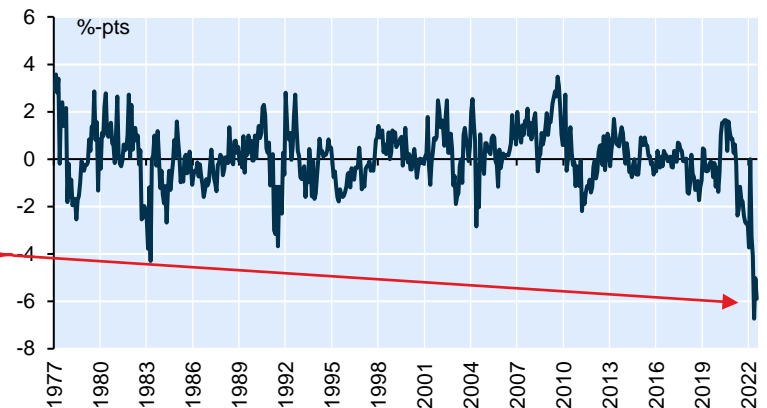
Average annual percentage wage adjustment and CPI inflation since 1977



Source: NBF, StatCan | Note: Includes 'major' settlements only (covering 500+ workers)

**Chart 2: ... until this recent inflationary surge**

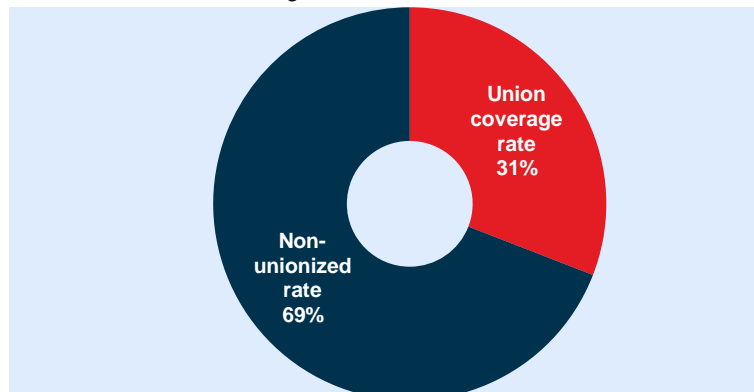
Average annual percentage wage adjustment less CPI inflation since 1977



Source: NBF, StatCan | Note: Includes 'major' settlements only (covering 500+ workers)

**Chart 3: Unionized workers a decent share of labour market**

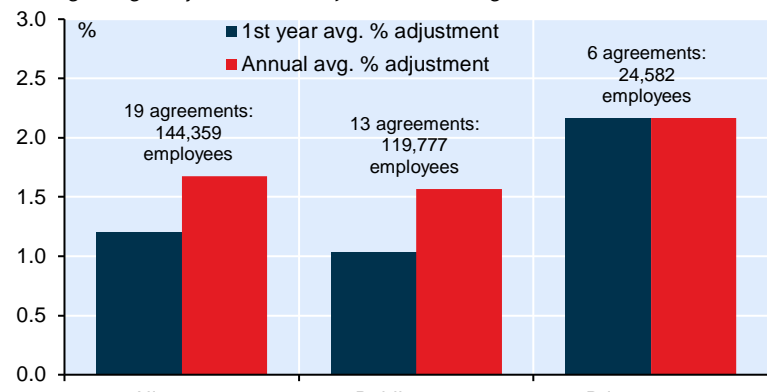
Union and non-union coverage rates in Canada: 2021



Source: NBF, StatCan | Note: Union coverage rate reflects employees who are members of a union and/or covered by a collective agreement as a percentage of all employees.

**Chart 4: Breaking down 'major' 2022 wage settlements**

Average wage adjustments: first year and over agreement duration



Source: NBF, StatCan | Note: Includes 'major' settlements only (covering 500+ workers)



## Economics and Strategy

### Montreal Office

514-879-2529

**Stéfane Marion**

*Chief Economist and Strategist*

stefane.marion@nbc.ca

**Kyle Dahms**

*Economist*

kyle.dahms@nbc.ca

**Alexandra Ducharme**

*Economist*

alexandra.ducharme@nbc.ca

**Matthieu Arseneau**

*Deputy Chief Economist*

matthieu.arseneau@nbc.ca

**Daren King**

*Economist*

daren.king@nbc.ca

**Angelo Katsoras**

*Geopolitical Analyst*

angelo.katsoras@nbc.ca

**Jocelyn Paquet**

*Economist*

jocelyn.paquet@nbc.ca

### Toronto Office

416-869-8598

**Warren Lovely**

*Chief Rates and Public Sector Strategist*

warren.lovely@nbc.ca

**Taylor Schleich**

*Rates Strategist*

taylor.schleich@nbc.ca

### General

This Report was prepared by National Bank Financial, Inc. (NBF), (a Canadian investment dealer, member of IIROC), an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete and may be subject to change without notice. The information is current as of the date of this document. Neither the author nor NBF assumes any obligation to update the information or advise on further developments relating to the topics or securities discussed. The opinions expressed are based upon the author(s) analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein, and nothing in this Report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this Report. The Report alone is not intended to form the basis for an investment decision, or to replace any due diligence or analytical work required by you in making an investment decision.

This Report is for distribution only under such circumstances as may be permitted by applicable law. This Report is not directed at you if NBF or any affiliate distributing this Report is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that NBF is permitted to provide this Report to you under relevant legislation and regulations.

National Bank of Canada Financial Markets is a trade name used by National Bank Financial and National Bank of Canada Financial Inc.

### Canadian Residents

NBF or its affiliates may engage in any trading strategies described herein for their own account or on a discretionary basis on behalf of certain clients and as market conditions change, may amend or change investment strategy including full and complete divestment. The trading interests of NBF and its affiliates may also be contrary to any opinions expressed in this Report.

NBF or its affiliates often act as financial advisor, agent or underwriter for certain issuers mentioned herein and may receive remuneration for its services. As well NBF and its affiliates and/or their officers, directors, representatives, associates, may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. NBF and its affiliates may make a market in securities mentioned in this Report. This Report may not be independent of the proprietary interests of NBF and its affiliates.

This Report is not considered a research product under Canadian law and regulation, and consequently is not governed by Canadian rules applicable to the publication and distribution of research Reports, including relevant restrictions or disclosures required to be included in research Reports.

### UK Residents

This Report is a marketing document. This Report has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. In respect of the distribution of this Report to UK residents, NBF has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). This Report is for information purposes only and does not constitute a personal recommendation, or investment, legal or tax advice. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this Report, or may act or have acted as investment and/or commercial banker with respect hereto. The value of investments, and the income derived from them, can go down as well as up and you may not get back the amount invested. Past performance is not a guide to future performance. If an investment is denominated in a foreign currency, rates of exchange may have an adverse effect on the value of the investment. Investments which are illiquid may be difficult to sell or realise; it may also be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain transactions, including those involving futures, swaps, and other derivatives, give rise to substantial risk and are not suitable for all investors. The investments contained in this Report are not available to retail customers and this Report is not for distribution to retail clients (within the meaning of the rules of the Financial Conduct Authority). Persons who are retail clients should not act or rely upon the information in this Report. This Report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. NBF is authorised and regulated by the Financial Conduct Authority and has its registered office at 70 St. Mary Axe, London, EC3A 8BE.

NBF is not authorised by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

### U.S. Residents

With respect to the distribution of this report in the United States of America, National Bank of Canada Financial Inc. ("NBCFI") which is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC), an affiliate of NBF, accepts responsibility for its contents, subject to any terms set out above. To make further inquiry related to this report, or to effect any transaction, United States residents should contact their NBCFI registered representative.

This report is not a research report and is intended for Major U.S. Institutional Investors only.

This report is not subject to U.S. independence and disclosure standards applicable to research reports.

### HK Residents

With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA") which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (dealing in securities) and Type 3 (leveraged foreign exchange trading) regulated activities, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to, those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong ("SFO")). If you are in any doubt as to your status you should consult a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates' businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including National Bank of Canada and National Bank Financial Inc, is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.

### Copyright

This Report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of NBF.