Centre for FutureWork

Comparing Wage Trends Across Labour Market Categories

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There are some signs of a modest acceleration in nominal wage growth in Canada, reflecting both relatively tight labour markets and the impact of accelerating inflation on the wage demands of Canadian workers. Average hourly wages paid across the labour market grew 3.9% in the 12 months ending in May (latest data). That is an increase from growth rates of 2.5% to 3% recorded in late 2021 and early in 2022.[1]

It should be noted that wages are still growing at only about half the pace of consumer prices, which grew 7.7% (according to the Consumer Price Index) over the same period. The gap between wage growth and price inflation has produced a decline in real wages for Canadian workers of more than 3.5% in the last year; that real wage loss will almost certainly increase further in the coming year. In fact, wages are still growing more slowly than they did before the COVID-19 pandemic struck: in the second half of 2019, average hourly wages grew 4.3% (when consumer price inflation was averaging only 2.0%). Since wage growth is weaker than price inflation, and the current uptick in wage growth lagged inflation by several months, it is clear that wage growth is a response to inflation – not its cause.

As workers in various industries and occupations grapple with the impacts of inflation on their real incomes, it is interesting to compare and contrast wage trends in various sectors of the labour market. These contrasting results reflect differential impacts of labour market conditions, occupational and industrial features, and institutional factors (such as minimum wage changes and collective bargaining).

The following table summarizes year-over-year changes in average hourly wages according to a range of sectoral, demographic, and structural factors.

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[1] Year-over-year wage growth comparisons are greatly complicated by the dramatic impact of the COVID-19 lockdowns on the composition of employment, experienced especially acutely in spring and summer of 2020. Low-wage workers were much more likely to lose their jobs during that period, which produced an apparent increase in the average wage for those still working (at peak, in April and May 2020, average wages were 10% higher than year-earlier levels). This was strictly due to the change in the composition of employment, not to wage increases for those workers. Then, when lockdowns eased, the recommencement of employment in low-wage service sectors (such as retail and hospitality) brought down the average wage. By late 2021, those compositional shifts had largely passed through the year-over-year comparisons, which could then be a more reliable measure of broad wage trends.

Wage Growth by Labour Market Category *12-month change to May 2022 (%)*			
	Change in Avg. Hourly Wages (%)		**Change in Avg. Hourly Wages (%)**
All Workers	**3.9%**		
Full-Time Part-time	4.3% 2.3%	Goods Industries Services Industries	3.8% 4.0%
Permanent Temporary	4.5% 0.8%	Top 3 Industries: Business Services Pro. & Tech. Finance	 11.4% 9.5% 7.1%
Male Female	4.2% 3.7%	Bottom 3 Industries: Info. & Culture Utilities Transportation	 -3.7% -1.1% -0.7%
15-24 25-54 Over 55	3.6% 4.5% 5.1%	Low-wage Industries[1] Mid-wage Industries[1] High-wage Industries[1]	7.1% 1.5% 3.6%
Hourly Wages Weekly Wages	3.9% 3.9%	Union Covered Non-Union Workers	2.1% 5.1%

Source: Author's calculations from Statistics Canada Tables 14-10-0063-01 and 14-10-0065-01.
1. Low-wage: agriculture, wholesale/retail trade, business services, accommodation, other services. Mid-wage: construction, manufacturing, transportation, education, health, information. High-wage: forestry, utilities, finance, professional/technical, public administration. Unweighted averages.

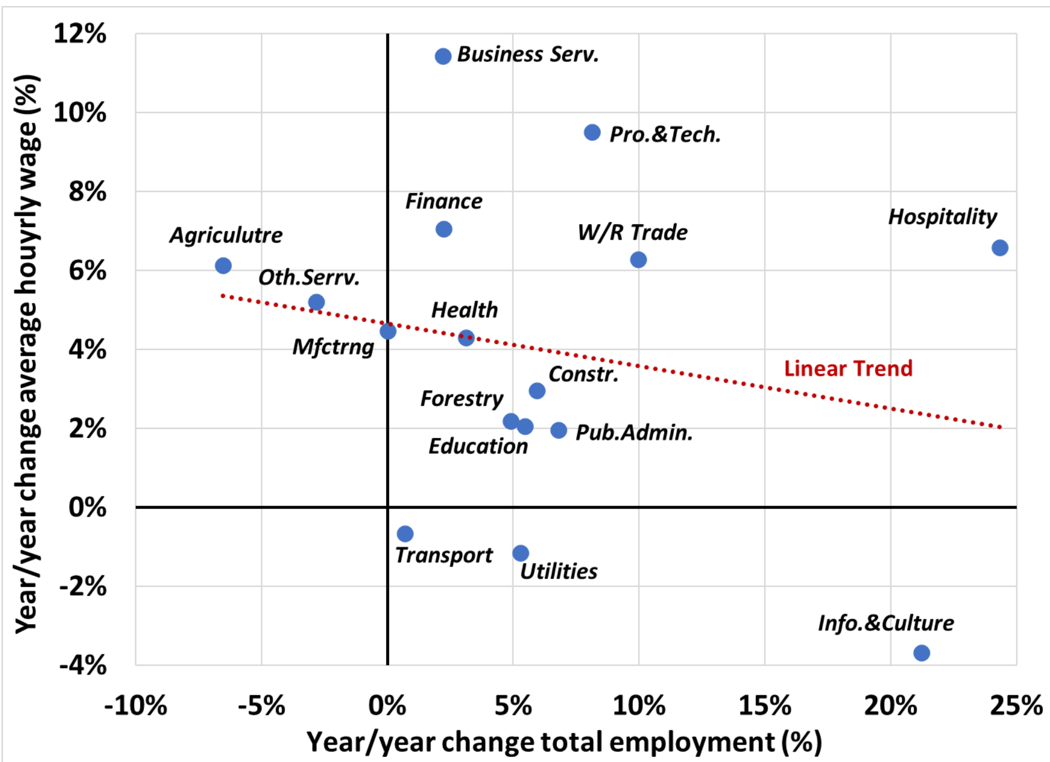
The differential pattern of wage growth across categories is complex, and reflects a combination of equalizing and disequalizing effects. There is a clear difference between wage gains offered to workers in more secure jobs, compared to those in more precarious positions: hourly wage growth has been almost twice as fast for full-time (4.3%) than for part-time (2.3%) workers, and over five times as fast for permanent workers (4.5%) versus those in temporary positions (who received hardly any wage increases at all, just 0.8%).

Men received slightly stronger wage gains (4.2%), on average, than women (3.7%). This likely reflects men's greater concentration in those more secure (full-time and permanent) jobs. It does not reflect an industrial composition effect: wage growth in goods-producing industries (where men account for a majority of employment) was actually slightly slower (3.8%) than in services-producing industries (4.0%) where most women work.

There is also a clear correlation between wage growth and age. Young workers (under 25) experienced the weakest hourly wage growth, at just 2.6% in the year. Core-age workers (between 25 and 54) saw their wages grow by 4.5%. Older workers (55 and over) received wage increases of 5.1%. The concentration of young workers in temporary and part-time roles, which received weaker wage increases, is a key factor in this difference.

Inter-industry comparisons of wage growth are also complicated, reflecting a mixture of equalizing and disequalizing effects. The sectors with the fastest wage growth are all private services sectors: business, building, and other support services; professional and technical services; and finance. The three slowest-growth sectors (each of which experienced a decline in average nominal wages over the last year) included information and cultural services;[2] utilities; and transportation.

Sectoral Correlation Between Employment Growth and Wage Growth



Source: Author's calculations from Statistics Canada Tables 14-10-0063-01 and 14-10-0355-01. 12-month change to May 2022.

It might be tempting to assume that the sectors with fastest wage growth were also experiencing rapid growth in output and employment. However, this is not the case. Professional and technical services are a fast-growing sector, with employment rising 8% over

[2] Information and cultural services employment was hit especially long and hard by COVID lockdowns due to health restrictions on events and activities; the decline in average wages over the past year in this sector may partially reflect some lingering composition effects similar to those described above, as displaced (and often lower-wage) workers finally came back into the workforce in the latter half of 2021.

the year to May 2022, and genuine shortages of specialized skills have likely played a role in that sector's relatively strong wage growth. But the business services and finance sectors are not experiencing rapid growth in employment: in fact, job-creation in those sectors over the year to May was much slower (around 2%) than in the overall economy (where total employment grew 6% in that period).

Indeed, as illustrated in the figure above, there is no positive correlation visible between employment growth and wage growth across the 16 sectors tracked by Statistics Canada at the 2-digit level of disaggregation. To the contrary, the linear trend across the 16 sectors (illustrated by the red line) is counter-intuitively negative (that is, industries with faster employment growth typically have weaker wage growth).[3] Some industries with above-average employment growth (like public administration) experienced relatively weak wage growth. Some sectors with slow employment growth experienced stronger wage growth (such as manufacturing, which experienced no change in employment over the year yet recorded 4.5% wage growth). This casts doubt on the notion that wage trends are driven by immediate supply-and-demand conditions (such as the labour shortages reported in some sectors and occupations).

Industries which offer the lowest wages have generally experienced stronger average wage growth in the last year, and this imparts an equalizing dimension to recent wage trends (modestly narrowing the gaps between low-wage and high-wage industries). The 5 lowest-paid industries in Statistics Canada's categorization (agriculture, wholesale and retail trade, business and building services, accommodation, and other services) recorded an unweighted average growth in wages of over 7% in the 12 months ending in May 2022. In contrast, the 5 highest-paid industries (forestry, utilities, finance, professional and technical services, and public administration) experienced wage growth slightly below the overall average (3.6%). Industries paying mid-range wages experienced the weakest wage growth of all: just 1.5% on average across construction, manufacturing, transportation, education, health care, and information and cultural services.

The faster wage increases recorded in low-wage industries partly reflect recent increases in minimum wages in several provinces. Five provinces increased their respective minimum wages by more than 5% in the 12-month period covered by the analysis above, including: New Brunswick, Newfoundland & Labrador, Ontario, Quebec, and PEI.[4] New Brunswick had the largest increase, raising its minimum wage by 8.5%. Only Alberta did not increase its minimum wage at all. The federal government also introduced a new minimum wage for federally-

[3] That linear trend is not statistically significant, and should not be ascribed any causal meaning.
[4] See 'Minimum Wage Database,' Services Canada, for details of minimum wage changes by jurisdiction: http://srv116.services.gc.ca/dimt-wid/sm-mw/menu.aspx.

regulated industries,[5] initially set at $15.00 per hour at end-2021, and then raised to $15.55 in April. Since more workers in low-wage industries are directly and indirectly[6] affected by the minimum wage, higher minimum wages clearly account for some of the relatively fast wage growth experienced in those sectors.

There is also evidence that the COVID-19 pandemic, and the rapid changes in labour markets observed after re-opening (including inter-occupational shifts and a lower overall unemployment rate), spurred many workers to change careers. While overall employment quickly regained and then exceeded its pre-pandemic levels, some relatively lower-wage industries (such as hospitality and retail) still have not recouped pandemic job losses. This is partly because former workers took advantage of job openings in other, better paid sectors, and are unwilling to return to their old jobs at previous pay levels. The recruitment and retention challenges faced by these lower-wage employers, therefore, has also likely reinforced wage growth in those sectors.

In one industry, it is clear employers are responding to labour supply challenges by increasing normal hours of work, in addition to raising hourly wages. In the hospitality sector (including accommodation and food service establishments), average hours of work have increased over the past year: by 1.5 hours per week (or over 5%) compared to May 2021. Thanks to this increase in hours, average weekly earnings in hospitality grew twice as fast (by over 12% in the 12 months to May 2022) as average hourly earnings (6.6%). This indicates that employers in that sector are attempting to recruit and retain workers with longer (and hopefully more reliable) shifts, in addition to increasing average hourly wages. However, both hourly wages and weekly hours remain lower in the hospitality sector than in any other industry.[7] Hospitality employers still have a long way to go to improve the attractiveness of jobs in their industry.

In most other sectors, and across the broader labour market, there has been little change in working hours over the past year. As a result, year-over-year growth in average weekly earnings in the overall economy almost exactly equals the growth in hourly wages (both at 3.9%).

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[5] Previously, minimum wages in federally-regulated industries equaled the provincial minimum wage in whatever province a federally-regulated employee worked in.

[6] Evidence suggests that workers who earn slightly above the minimum wage, tend to receive wage increases when the minimum wage is lifted in order to preserve wage relativities that are important for recruitment and retention purposes (a relationship sometimes called the 'trickle-up' effect).

[7] Hourly wages in hospitality as of May 2022 averaged just $18.15, more than 40% lower than the economy-wide average. Weekly hours of work (28.5) were 20% lower than the economy-wide average. This puts oft-heard complaints about labour shortages in the hospitality sector into context. As of April 2022, the hospitality sector was reporting over 150,000 job vacancies, representing 12% of the industry's total employment – a vacancy rate twice as high as the economy-wide average, and twice as high as sectors with specialized skills shortages (such as health care and professional & technical services). With poor wages and short hours, it is not surprising that turnover and vacancies are so high. (Source: Statistics Canada Table 14-10-0372-01.)

One final sectoral wage comparison is worthy of note: two sectors with relatively weak wage growth over the past year are education and public administration. Average wage growth in both sectors was just 2% – barely half of the economy-wide average. In both cases, severe restrictions on pay imposed by governments in many jurisdictions[8] largely explain the slow growth of wages. Health care is the other major public sector employer; in that case, however, acute staffing shortages have forced health agencies to raise wages somewhat faster (by 4.3% on average over the year), although many health care workers have also been affected by government pay caps.

Another interesting comparison is between wage increases earned by workers covered by a union contract,[9] and those for non-union workers. The level of wages paid in union workplaces is higher than for non-union workers, by about 14%. However, wage increases for non-union workers have been stronger over the past year (5.1%) than for union-covered workers (2.1%). This might seem counter-intuitive, but clear structural reasons explain that difference. First, most union contracts are established for three years (some even longer), so wage adjustments specified in those contracts will respond only with considerable lags to changes in the inflation rate and other economic conditions. Workers in those workplaces generally must wait until their contracts expire, before they can advance demands for faster wage growth – backed up by the collective power of union bargaining. Secondly, about half of union members in Canada work in the broader public sector, and as noted above public sector wages in most cases have been strictly constrained by government pay restrictions. This has disproportionately restrained wage growth for union members. As existing union contracts expire over coming years, and as governments face renewed pressure to relax these restrictive pay policies, we can expect union members will mobilize actively for catch-up wage increases to restore the real purchasing power of their incomes.

Many union contracts in past decades featured cost-of-living provisions (often called COLA clauses) which automatically adjusted wages each quarter or year for changes in consumer prices. Most employers succeeded in eliminating those provisions during the lower-inflation decades of the 1990s and 2000s, and COLA clauses are now rare. Unfortunately, the experience of recent months has been a painful reminder for union members about why COLA provisions are extremely valuable during times of rising inflation.

In summary, it is clear that discussions about wages in Canada – whether individually between a worker and their employer, or collectively at a union bargaining table – have been fundamentally disrupted by the recent acceleration in inflation. That is on top of other tectonic

[8] In Ontario, for example, provincial government and broader public sector workers have had their pay increases capped at just 1% per year since 2019.

[9] Statistics Canada reports wages for workers covered by a collective bargaining agreement, regardless of whether they are a member of the relevant union.

changes, such as the aftershocks of the pandemic and a historically low unemployment rate. Despite rising prices and apparent labour shortages in some industries, wage growth has been slow to respond: year-over-year wage growth has increased only modestly, and is presently offsetting only half of current growth in consumer prices. Wage growth shows complex and at times surprising differentials across industries and labour market categories. The analysis provided here reflects the latest data as of May 2022; further observation and analysis will be necessary to see how these trends evolve in coming months.