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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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Over a sufficiently long period, both surveys tend to give a rather similar picture of wage growth. However, there are periods of great discrepancy, and this is currently the case. Indeed, while the LFS reports that hourly wage growth is collapsing, the SEPH tells us the opposite (graph 2).

**GRAPH 2**
The survey administered to businesses sends a different message than the one administered to households

Without being spectacular, annual growth of hourly wages according to this survey does not stand too far from 2%, which is slightly higher than inflation. Note that according to this survey as well, hourly wage growth experienced a period of significant weakness. But this was more a 2015 story.

At a disaggregated level, there are sometimes surprising differences between the two surveys. For example, in professional, scientific and technical services, hourly wages are up 4.5%, according to SEPH, as of March, compared to a drop of 3.1% according to the LFS. This is a sector that has been hit hard by the oil price shock. The decline in investment and exploration activity led companies in the sector to require less workforce in terms of engineers, geologists, chemists and other experts. In 2016, employment fell by 0.9%, following six years of expansion. The sector is nevertheless on the mend, as it stands, and job creation is recovering. Some anecdotal evidence even points to difficulties experienced by Alberta producers in attracting new workers. These circumstances militate much more in favour of the wage rebound indicated by the SEPH than the persistent contraction evoked by the LFS.

A similar finding can be made in finance, insurance and real estate services: SEPH shows annual growth of around 5% versus a 0.2% drop in the LFS (graph 3). Yet, this same latter survey shows that, far from weakening, employment is accelerating in this sector: with year-over-year growth of above 5%.

Differences in survey methods make it possible to judge the quality of the data. In particular, the LFS generally contacts households that are part of its sample by telephone. Although each member of a household is included in the survey, interviewers interact with the household member who is deemed to be well informed about the employment situation of all other members. This “proxy” response method accounts for 65% of the information collected by the LFS. While allowing Statistics Canada to save costs and time compared to the alternative of contacting each member of the household directly, proxy response involves the risk that information is reported inaccurately.
For the SEPH, Statistics Canada obtains data on gross monthly payrolls from administrative information that all companies must provide to the Canada Revenue Agency. The survey complements this information with a form sent to a sample of 15,000 companies and which collects monthly data on total hours worked. From these elements of information are derived estimates of average weekly and hourly earnings. Already, these estimates may be presumed to be closer to the reality than ones from the LFS.

But there is another interesting aspect in SEPH, in that it also compiles data on aggregate hourly wages, with an adjustment made to account for changes in the sectoral composition of employment. For instance, if employment in low-wage sectors increases as a percentage of total employment, all other things being equal, the average wage for the overall economy will tend to decline. Estimates of fixed-weight hourly wages eliminate this composition change effect by assuming a constant sectoral distribution of employment over time. According to this definition, annual hourly wage growth was measured at 2.4% as of March (graph 5). Moreover, it can be determined that the decline in the unadjusted (variable-weighted) measure in 2015 was largely a compositional effect. Recall that many displaced workers in the oil sector have had to accept lower wages in other industries, as they coped with recessionary conditions in affected areas.

GRAPH 5
When compositional effects are taken into account, growth in hourly wages is even less alarming

<table>
<thead>
<tr>
<th>Annual variation in %</th>
<th>Fixed-weight</th>
<th>Variable-weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>5.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2011</td>
<td>4.5</td>
<td>0.5</td>
</tr>
<tr>
<td>2012</td>
<td>4.0</td>
<td>1.0</td>
</tr>
<tr>
<td>2013</td>
<td>3.5</td>
<td>1.5</td>
</tr>
<tr>
<td>2014</td>
<td>3.0</td>
<td>2.0</td>
</tr>
<tr>
<td>2015</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>2016</td>
<td>2.0</td>
<td>3.0</td>
</tr>
<tr>
<td>2017</td>
<td>1.5</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Sources: Statistics Canada and Desjardins, Economic Studies

The National Accounts’ Perspective

The relevance of the SEPH data can be further appreciated by remembering that they form the main basis for household compensation estimates in the national accounts. Statistics Canada supplements this information with additional sources of data to account for self-employed workers and for the agricultural sector, which, recall, are not covered by SEPH. LFS data collected from households are used as well, but so are other available indicators, depending on their relevance. For example, high-frequency data on real estate commissions are used to estimate the earnings of some self-employed individuals in the finance and insurance sector on a quarterly basis. Giving a much more comprehensive picture of household income for both payroll employees and the self-employed, and also incorporating rent income, the national accounts are unquestionably the ultimate reference when it comes to earnings at the economy-wide level. By combining these sources of income, it can be seen that in the first quarter of 2017, they were up by a decent 3.1% annually (graph 6).

GRAPH 6
National accounts suggest that income growth is recovering

Beyond Wages

Discriminating in favour of SEPH and national account statistics, the strong performance portrayed by consumer spending is a bit better explained. While it cannot be denied that the level of indebtedness of Canadian households is relatively high, consumer credit growth has slowed considerably since the crisis (graph 7 on page 4), leaving most of the responsibility for high indebtedness to mortgage credit expansion.

Rather than the sometimes advertised notion of profligate credit use, households benefit from non-wage support to help finance their spending. Indeed, although earned income is the main factor influencing the disposable income of Canadian households, changes in fiscal policy may also have an impact. For example, last year, the boost in Childcare benefits and the tax cut targeting the middle class did not go unnoticed: the reduction in net transfers to governments in 2016 facilitated an acceleration in disposable income growth. Other measures announced by some provincial governments may further be beneficial this year. For example, in Quebec, the retroactive elimination of the health tax means higher-than-usual tax refunds for many taxpayers. In British Columbia, to compensate for increasingly difficult housing
affordability, enhanced property tax credits were announced. Without necessarily lowering income taxes, Ontario has rolled out relief measures aimed at addressing high electricity costs, which should help households. Overall, the recent decline in net transfers to governments as a share of total household income (graph 8) is likely to continue to support consumer spending over a short-term horizon.

A Situation That Remains Problematic
While it is important to consider the overall income perspective, wage developments are a critical issue, not only in Canada but around the world. In the eyes of many, this variable has the upper hand over the unemployment rate at present, when it comes to indicators that best reflect the state of surplus capacity in the labour market. In the United States, where the unemployment rate has recently hit a cyclical low, hourly wages are up only 2.5% per year. During the last cycle, when U.S. unemployment had reached a low of 4.4% (same level as at present), hourly wages were not far from 3.5%. The more moderate wage trend is partly behind the Federal Reserve’s gradual approach to monetary policy normalization.

In the United Kingdom, wage developments are closely monitored by the Bank of England, and the unemployment rate is also continuing to decline. Nevertheless, officials recently confessed being surprised by the weakness of wage growth. In Japan, the unemployment rate reached 2.8% in March, the lowest level since 1994, while the ratio of available jobs to the number of applicants is at its highest level since 1990. Regardless, real wage growth remains virtually inexistent. The case of Germany is not much better: it’s official unemployment rate of 5.7% is the lowest since the Reunification. In the first quarter, hourly wages were up a tepid 0.7% year-over-year.

In the Canadian case, the good news is that in all likelihood, hourly wages are not collapsing, unlike what the LFS suggests. After all, if this were the case, it would be difficult to imagine solidifying household sentiment towards the labour market, as is currently the case (graph 9).

But the experience of many developed countries suggests that even with a healthy labour market, modest wage growth might linger for some time. One reason is that in many industries, especially the goods-producing ones, labour markets have become globalized. From this point of view, low wages at the national level are partly the result of the massive labour market surplus capacity that still exists globally, with production able to move faster than ever to countries where labour costs are cheaper. Workers in these industries thus find themselves devoid of arguments to claim generous wage increases. Other factors that play a similar role are sluggish labour productivity growth and low inflation. The latter has the effect of a vicious circle: it limits wage pressures, and hence the increases in labour costs that firms would try to pass on to consumers through price increases (i.e. by generating inflation).

6 According to neo-classical economic theory, assuming competitive markets, marginal labour income will be equivalent to its marginal productivity at the equilibrium state.
Finally, let us note that low wage growth has its share of harmful consequences. It has the effect of making debt reduction, or access to property, more difficult. In some cases it may be a disincentive to education. It brakes saving and undermines future pension income. Furthermore, when wages are tepid, a central bank will tend to apprehend the effect of interest shocks on the income available to households after the payment of interest charges. This is especially the case in economies where debt is elevated. This creates a vicious circle whereby accommodative monetary conditions are maintained for longer periods, incentivizing indebtedness and inflating the value of the assets this debt is used to finance. Ultimately, the economy is made even more vulnerable to an interest rate shock, which causes the central bank to become even more hesitant. In a forthcoming Economic Viewpoint, we will analyze in more detail the consequences of low wages.

Jimmy Jean, CFA, Senior Economist