



TD Economics

Special Report

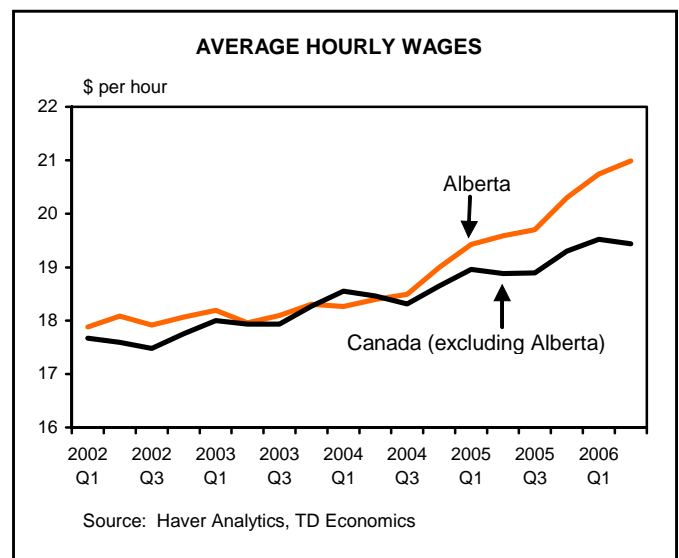
October 3, 2006

ALBERTA'S RISING WAGES: A TIDE THAT LIFTS ALL BOATS

Alberta's red-hot job market has grabbed the spotlight in recent years. Average hourly wages in the province have posted the greatest increase in the country, rising by a cumulative 17.4 per cent since the beginning of 2002 through the second quarter of 2006, eclipsing the 10 per cent rise in the rest of Canada. Seeing as Alberta's resource sector, primarily energy, has acted as a rainmaker to the provincial economy, the perception is that the strong wage growth observed in Alberta has also been driven by the resource sector. Since inflation is also rising substantially in the province – since the start of the year headline CPI is averaging about 4 per cent on a year-over-year basis – the concern is that if the wage gains are concentrated in the resource sector, other workers in the non-resource sectors, particularly those in the lower-paying industries, could be left behind. Surprisingly, that has not been the case. In fact, the greatest wage gains have occurred in the non-resource sector, which has led to a narrowing of the wage gap between the higher paying and lower-paying industries. The ultra-tight conditions in Alberta's job market (highlighted by the record low unemployment rate of near 3 per cent) have forced firms in the non-resource industries to raise wages substantially higher, in order to retain workers and compete with the higher wages already paid in the resource sector. Indeed, it appears that with respect to wages, the strength in Alberta's resource sector has been a tide that has lifted all boats.

Average hourly wages in Alberta top the nation

Blessed with being Canada's fastest growing province and a primary beneficiary of the strong global demand for oil and gas – to a lesser extent metals – Alberta has expe-



rienced the greatest labour shortages and the highest wage growth recorded in the country. High energy prices, leading to hefty profits, have underwritten Alberta's robust business investment activity. This has played a large part in tapping out the regional labour market, resulting in an all-time low unemployment rate of 3.1 per cent in February and averaging 3.5 per cent for the year. Even with an influx of migrants from neighboring British Columbia and Saskatchewan, and to a lesser extent the rest of Canada, there have been labour shortages. The situation has become so severe that many firms have had to offer wages far above the national average, or scale back their operations or risk shutting down because of a lack of employees.

To put the province's wage growth into context, average hourly wages across Canada excluding Alberta ad-

AVERAGE HOURLY WAGES			
Province	2002Q1	2006Q2	% Change
CANADA	\$17.69	\$19.62	10.9
Alberta	\$17.88	\$20.99	17.4
Ontario	\$18.64	\$20.56	10.3
British Columbia	\$18.51	\$19.72	6.5
Quebec	\$16.99	\$18.82	10.8
Saskatchewan	\$15.83	\$17.86	12.8
Manitoba	\$15.59	\$17.45	11.9
Newfoundland & Labrador	\$15.01	\$16.61	10.7
Nova Scotia	\$14.82	\$16.50	11.3
New Brunswick	\$14.57	\$15.93	9.3
PEI	\$14.02	\$15.33	9.3

Source: Haver Analytics, TD Economics

vanced by a cumulative 10 per cent since the start of 2002. In the same period, Alberta's average hourly wage has gone up by a whopping cumulative 17.4 per cent. In fact, Alberta's average hourly wage has risen from the third highest in the nation in the first quarter of 2002 to the highest at \$20.99 in the second quarter of 2006. This is a considerable feat considering it took place over such a short period of time. The statistics may even understate the degree to which workers have benefited from the commodity boom. Given the extent of the labour shortages, it's likely that many workers are putting in a significant amount of overtime – a fact that will not be reflected in the hourly wage.

So, Alberta is booming and wages are soaring, but whose wages have benefited the most? You might expect it to be those employed in the natural resources industries. Surprisingly, that has not been the case.

Rainmakers have seen the slowest pace of wage growth

Alberta's industries can be divided into three categories: rainmakers, direct beneficiaries and indirect beneficiaries. Given the significant impact the commodities' trade has had on Alberta's economy, we felt the moniker "rainmaker" would best represent the natural resources sector. Direct beneficiaries are industries which are either likely to support or advise the rainmakers, such as transportation and warehousing, or are likely to benefit from the additional income rainmakers inject into the provincial economy, such as financial services, real estate and insurance. Indirect beneficiaries are industries that you would not necessarily expect to benefit directly from the commodity boon, though they may benefit indirectly. Examples would be the public sector, while it is not tied into

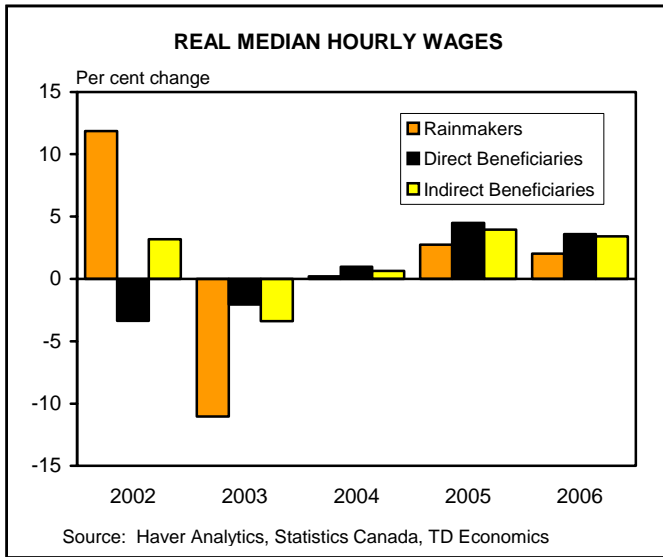
the commodities trade, the increased tax revenue collected by the province may translate into raises for government workers.

Historically, wages in the rainmaker industries tended to be the highest, followed by the direct beneficiaries and then the indirect beneficiaries. This ranking remains unchanged. In the second quarter of 2006 wages in the rainmaker sector were the highest at \$25.50, followed by the direct beneficiaries at \$19.97 and the indirect beneficiaries at \$16.59. However, interestingly enough, this gap has narrowed. While wages in the rainmaker sector advanced by a cumulative 5 per cent over the last five years in current dollars; it wasn't at the fastest pace across the three groups. In fact, it was the slowest. Wages in the indirect beneficiary industries advanced by 20 per cent and those in the direct group rose by 16 per cent over the same period. This trend is certainly counter-intuitive, especially in the indirect beneficiaries sector. Why would the sector that has no ties to the commodity boom see the fastest pace of wage growth and the rainmaker sector see only modest wage gains?

It's a classic case of demand outstripping supply. Since rainmakers offer the most competitive level of wages, they would have little problem attracting or retaining workers. Indeed, this gives rainmaker firms little reason to raise wages. All else equal, people gravitate towards a higher pay and those already in the sector aren't likely to move to a lower paying industry. You can see this effect in the employment data. Employment in the rainmaker sector has gone up by a massive 40 per cent over the last five years, while employment in direct and indirect industries has gone up 13 per cent and 10 per cent, respectively. It's pretty clear that the lower paying industries are struggling to find workers and have had to increase wages at a more

ALBERTA EMPLOYMENT AND WAGE GROWTH			
	Wages		Employment
	Median*	Growth since 2002	Growth since 2002
Rainmakers	\$25.50	4.7%	39.4%
Direct Beneficiaries	\$19.97	16.3%	12.9%
Indirect Beneficiaries	\$16.59	20.1%	10.2%

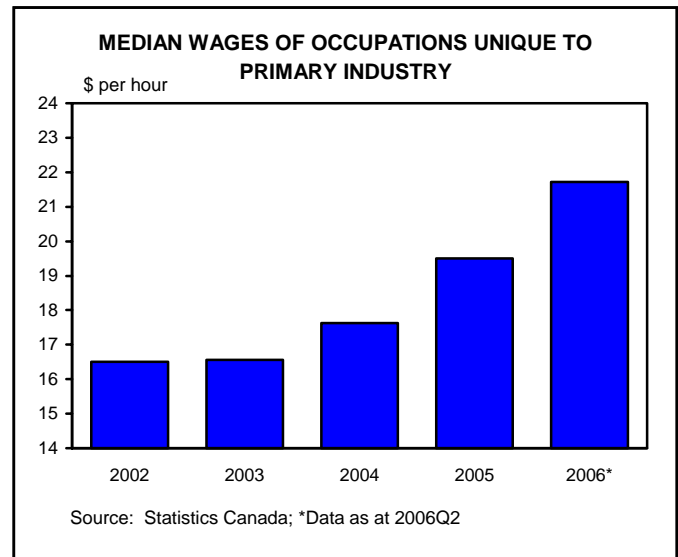
*Source: Statistics Canada, TD Economics; *as at 2006Q2



substantial rate to maintain their operations. On the whole, this is why you have seen wages rising faster in the non-rainmaker sectors. Fortunately for many of these firms, the additional income that has been flowing into the provincial economy still makes it profitable to pay their workers higher wages.

Jobs unique to the primary sector reap the greatest benefit

However, you may wonder how the rainmakers sector has seen the slowest pace of wage growth when the anecdotal evidence suggests otherwise. Keep in mind, that while wages may have advanced by about 5 per cent in the rainmaker sector since 2002, it doesn't necessarily mean everyone in that sector has seen their wages rise by that amount. There would be differences across jobs within the sector. You would expect workers in occupations unique to the primary industry, such as oil sand workers and miners, to have seen tremendous wage gains. In fact, when you look at wages at the occupation level, it's clear that these workers have indeed been one of the biggest beneficiaries of the commodity boom. Wages for oil sand workers and miners have skyrocketed since the start of the boom, up by a massive 42 per cent or \$6.80 an hour – the most of any major occupation group and vastly outpacing the rainmaker industry average. It should be noted that while average hourly wages is an appropriate



and accurate means to measure worker gains, it has drawbacks. Performance incentives, such as bonuses and special payments may not be reflected.

Bottom Line

On the whole, it appears that the recent commodity boom which resulted in record-high corporate profits has also bolstered wages in Alberta. It's not unexpected that wages of jobs unique to the primary sector – oil sand workers and miners – have skyrocketed. Yet, surprisingly, on aggregate, the rainmaker industry in Alberta has seen the slowest pace of wage growth. In fact, it's wages in the other sectors that have advanced the fastest. The relatively high wages in the rainmaker industries and their insatiable appetite for workers has literally "sucked" up all the slack in the labour force and begun to draw workers away from other sectors – which on average are lower-paying. As a result, the non-rainmaker industries have had to drastically boost wages to retain workers or else shut down or curb production. Going forward, assuming there continues to be no significant slack in Alberta's labour force and corporate profits and hiring remains strong in the rainmaker sector, we should see a continued narrowing of wages between the rainmakers and the other areas. Indeed, the strength in the Albertan labour market is a tide that lifts all boats.

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INDICATORS - From 2002Q1 through to 2006Q2							
TD Classification	Sectors (NAICS)	Median Wage (2006Q2)	Cumulative Wage Change (%)	Cumulative Wage Change (\$)	Employment - 2006Q2 (000s)	Employment Change (%)	Employment Change (000s)
Rainmakers	Forestry, Fishing, Mining & Gas	\$25.50	4.7	\$1.15	141.0	46.6	39.8
Direct Beneficiaries	Construction	\$20.33	13.4	\$2.40	168.1	19.8	31.4
	Manufacturing	\$20.06	11.8	\$2.12	136.7	-4.7	-6.8
	Transportation & Warehousing	\$20.09	18.7	\$3.16	107.9	12.1	10.5
	Finance, Insurance, real estate and leasing (FIRE)	\$18.33	21.2	\$3.21	97.1	18.0	17.3
	Professional, scientific & technical services	\$22.72	16.5	\$3.22	141.3	14.0	19.4
	Business, building, and other support services	\$14.57	35.0	\$3.78	58.4	19.4	9.2
	Accommodation and food services	\$10.00	25.0	\$2.00	111.7	-4.1	-3.7
Indirect Beneficiaries	Agriculture	\$14.35	25.7	\$2.93	56.9	-2.6	-0.6
	Utilities	\$29.99	30.1	\$6.93	16.3	-11.4	1.1
	Trade	\$13.00	14.6	\$1.65	283.9	12.4	23.8
	Educational Services	\$22.87	18.5	\$3.57	126.0	13.7	17.8
	Health care and social assistance	\$18.64	24.0	\$3.61	181.3	17.4	29.6
	Information, culture and recreation	\$15.64	0.2	\$0.03	65.0	-3.5	-2.6
	Other Services	\$15.46	15.3	\$2.05	88.2	4.7	8.0
	Public Administration	\$24.55	18.2	\$3.79	83.6	31.1	20.4

Source: Statistics Canada, TD Economics