



# **INFLATIONARY SHOCKS, REAL WAGES AND INCOME DISTRIBUTION IN CANADA: ARE WE FACING A WAGE- PRICE SPIRAL?**

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CENTRE FOR THE STUDY OF LIVING STANDARDS

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## THREE KEY QUESTIONS FOR TODAY

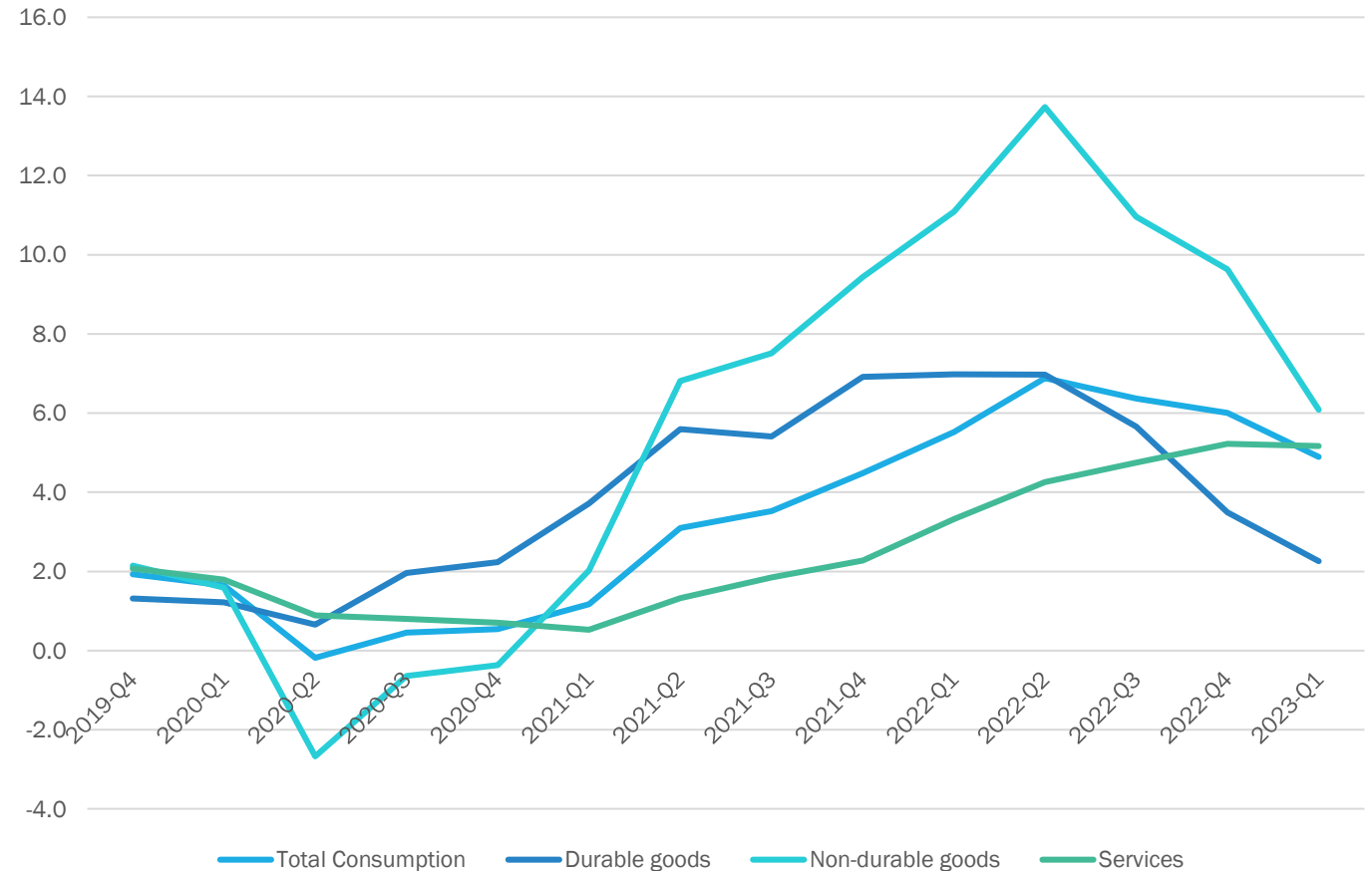
- Is there a wage-price spiral? Are wage increases leading to accelerating inflation?
- Is the current state of the labour market consistent with inflation coming back down to 2 per cent?
- Who is benefitting and who is losing from higher inflation?

# INFLATION: DO WE NEED TO WORRY?

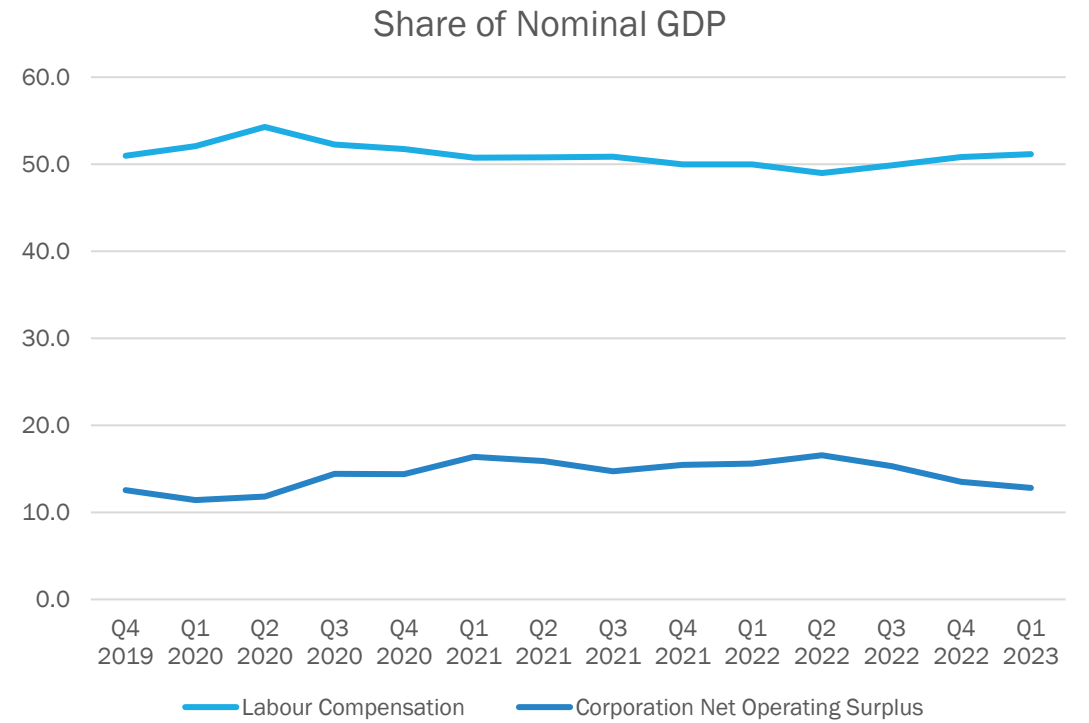
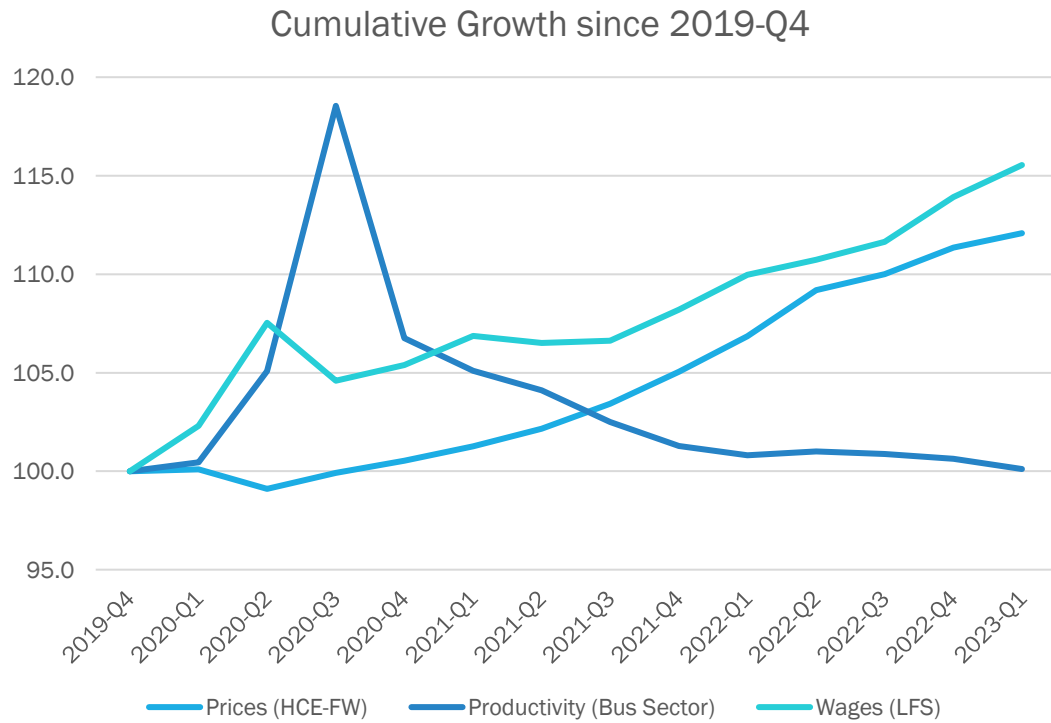
Inflation is coming down—except in services

- This matters because services prices are driven by wages
- Services >50 % of HFCE

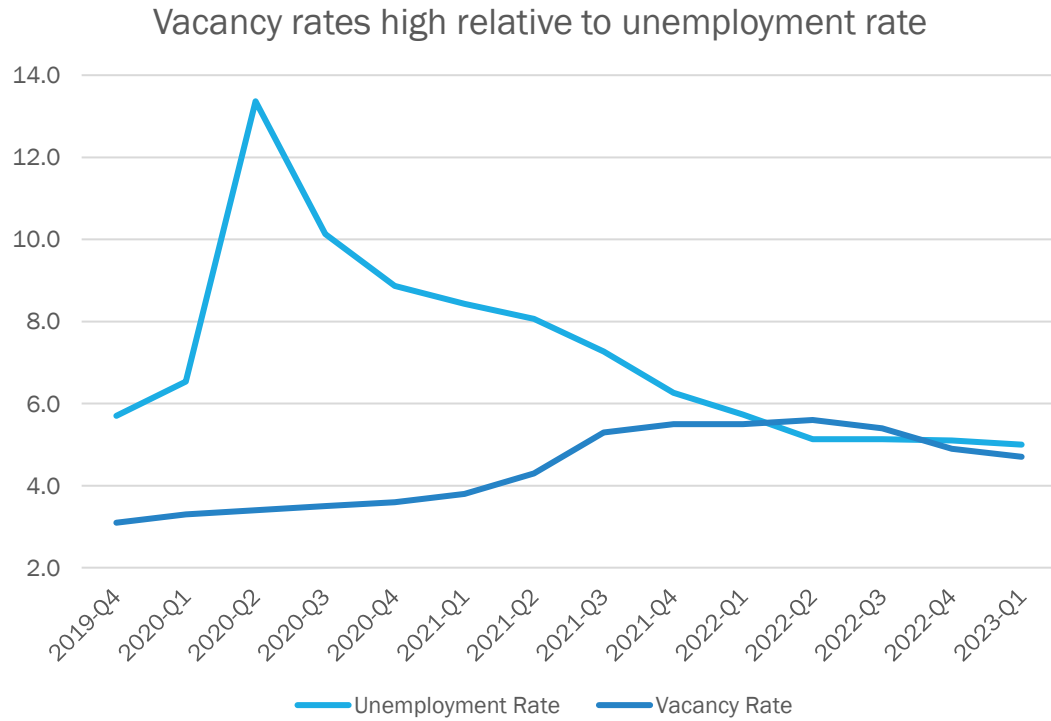
GDP Fixed Weight Implicit Price Indices - % change rel. to 4 qtrs ago



# LABOUR HAS BEEN HOLDING ITS OWN



# LABOUR MARKET LOOKING TIGHT—ESPECIALLY FROM THE DEMAND SIDE





## **BOTTOM LINE ON AGGREGATE PICTURE**

- Inflation does not look like it is spiralling out of control
- But neither does it look like coming down quickly
- Pace of wage rises coupled with slow productivity growth consistent with core inflation staying high
- Labour market looks tighter than 2019, the last time inflation was stable.

# POSITIVE INFLATIONARY SHOCK: CUI BONO?

## Winners

- Anyone whose income or benefits is indexed to CPI
  - CPP/OAS/DB pensioners
  - Minimum wage recipients (ex. AB)
- Anyone who has income is closely tied to profits
- Governments
  - Revenue is nominal
  - Many expenditures not indexed
- Resource sector

## Losers

- Social Assistance Recipients (except QC, NB)
- Bondholders
- Anyone whose wages are rigid
  - Unionised workers, particularly government employees

## UNIONISED WORKERS FALLING BEHIND

Gap opened up during COVID,  
has widened with the inflationary  
shock

Will unions close that gap for  
their members?

- Answer may be different in  
private sector compared to  
public sector

Average Wages (LFS) - 2019-Q4=100







## TWO KEY QUESTIONS FOR ANOTHER DAY

- Should we be targeting 2 per cent?
- Should we target the price level?