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STRONG B.C. JOB MARKET LEADS TO SIGNIFICANT WAGE GAINS IN 2018

HIGHLIGHTS

- In 2018, the average hourly wage in B.C. rose by just over 4%, the strongest increase in a decade. Wage growth in B.C. was well ahead of the Canadian benchmark and was the strongest of any province. B.C.'s average hourly wage rate was lower than the Canada-wide average, but last year's gain meant that the gap essentially closed.
- Amid near-record low unemployment rates, tight labour market conditions fuelled wage growth. The 11% increase in the provincial minimum wage implemented in June 2018 was also a factor in the strong wage growth.
- When averaged over five year periods, B.C.'s average hourly wage has consistently outpaced inflation over the past two decades, resulting in small real wage gains.
- Younger workers enjoyed the largest average hourly increase, reflecting the rise in the minimum wage. Workers 55 years and over also saw comparatively solid wage growth in 2018.
- Stronger wage growth was broadly-based, with most industries recording a gain in 2018 well above typical wage increases.
- The upswing in wage growth already appears to be moderating; quarterly data show that by the end of 2018 annual growth in B.C.'s average wage had reverted to around 1%.

The average hourly wage in B.C. increased by more than 4% in 2018, the strongest gain in a decade and one of the biggest increases on record. Several factors contributed to the bump in wages. Most importantly, a few years of brisk job growth pushed the province's unemployment rate to near-record lows, resulting in tight labour market conditions across much of the economy. In an environment where employers are having greater difficulty attracting and retaining employees, upward wage pressures emerged. In addition to a tight labour market, a sizable hike in B.C.'s minimum wage also juiced

wage growth. The wage growth was strongest for the 15-24-year age cohort, which has a greater share of workers earning at or very near the minimum wage. An uptick in inflation last year and high costs for both purchasing and renting homes also added to overall wage pressures.

CONTEXT AND OVERVIEW

The average hourly wage in B.C. across all-industries rose 4.1% to \$26.77 in 2018. This increase was well ahead of the 2.9% Canada-wide gain and nearly twice the pace typically seen in B.C.

Having wages grow more quickly in B.C. is unusual: typically, average wage growth in B.C. is lower than or occasionally in line with the national benchmark. Robust wage growth speaks to comparatively tight labour market conditions in the province. The gap between B.C.'s average industrial wage and the national benchmark is now mostly closed. In 2018, B.C.'s average wage was just 15 cents below Canada's, whereas as recently as 2016 it was 46 cents lower.

For B.C., last year saw the biggest jump in the average wage in a decade. B.C. led the country in wage

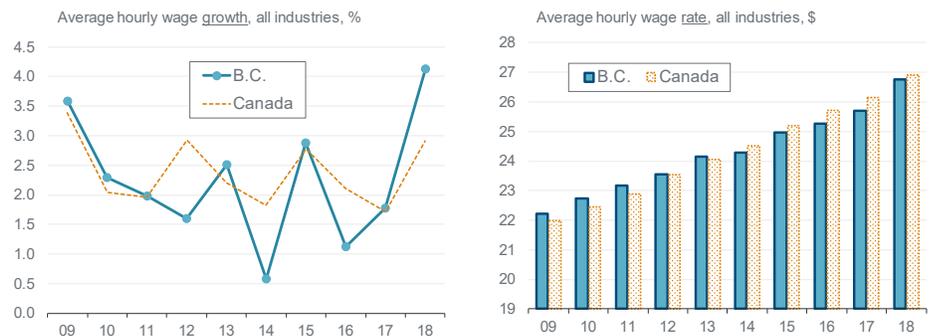
increases in 2018. Ontario, where the average hourly wage climbed by 3.5% last year, ranked second.

Wage growth in the province is to some extent cyclical. During the run-up to the 2010 Olympics when the unemployment rate fell to a record low and the economy was expanding at around twice its usual pace, wage growth peaked at 4.5% (this was in 2008). After that, the impact of the global financial crisis and recession dragged our economy down. The jobless rate rose, and wage growth slowed to a 1.5-2.0% range. Similarly, following a few years of above-trend economic growth, fuelled in large part by a real estate boom, the provincial economy peaked in 2017 – and the jobless rate fell to near-record lows. Wage growth also perked up in 2018, albeit with a somewhat choppy pattern than in the preceding years.

Consistent with the cyclical pattern, when averaged over five years wage growth in B.C. has been quite stable. Breaking the past two decades into four periods, wage growth averaged just above 2% in each of the five-year periods. More specifically, the average hourly wage grew at an average annual pace of 2.1% over 1998-2003. In the subsequent two five-year periods, wage growth averaged 2.4% and then eased back to an average pace of 2.1% annually for the 2013 to 2018 period.

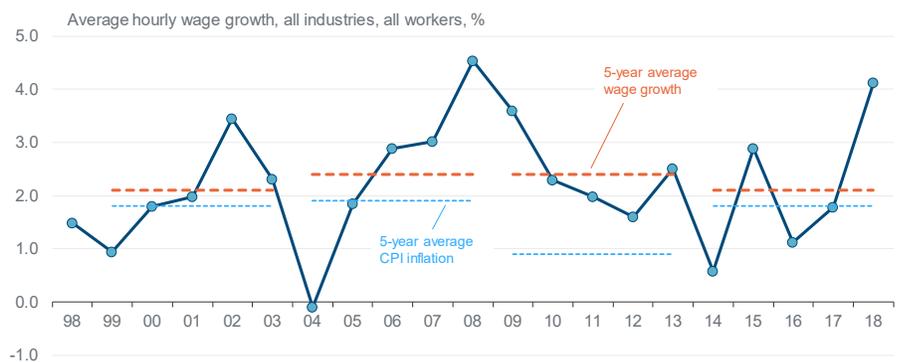
The impact of inflation needs to be factored into this discussion. All the preceding figures have been based on nominal wage increases – that is, wage growth without taking inflation into account. Looking at the five-year averages for both wage increases and inflation shows

FIGURE 1: **B.C. WORKERS BENEFIT FROM STRONG WAGE GROWTH IN 2018**



Source: Statistics Canada, Table 14-10-0064-01.

FIGURE 2: **B.C. WAGE GROWTH JUMPS IN 2018**



Source: Statistics Canada, Labour Force Survey and Consumer Price Index.

that wage growth has consistently outpaced inflation in the past two decades – a finding that may surprise some readers. On average, workers in B.C. have seen small real wage gains in the past twenty years. However, during the 2008 to 2013 period CPI inflation averaged less than 1%, meaning that workers in B.C. enjoyed greater real wage growth, averaging close to 1.5% annually during this period.

YOUNG AGE COHORT SEES BIGGEST INCREASE

Recent wage gains differ across age cohorts. Consider three cohorts that can be described as younger workers, core working aged workers, and workers over the age of 55. In 2018 the younger group – workers aged 15 to 24 years – saw a 7.4% jump in the average hourly wage, the biggest gain among the three age cohorts. For this young cohort, it was also the largest increase in at least two

FIGURE 3: **SOLID WAGE GROWTH FOR YOUNGER WORKERS**



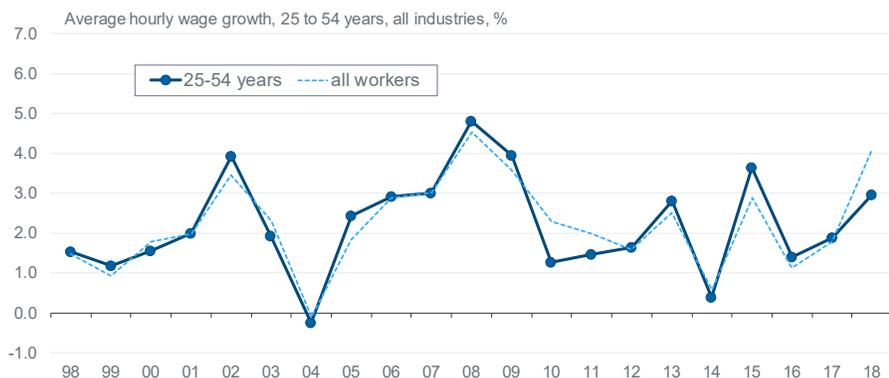
Source: Statistics Canada, Labour Force Survey.

FIGURE 4: **WORKERS AGED 55+ RECORD STRONGER WAGE GROWTH**



Source: Statistics Canada, Labour Force Survey.

FIGURE 5: **WAGE GROWTH MORE MODERATE FOR WORKERS AGED 25-54**



Source: Statistics Canada, Labour Force Survey.

decades and brought the average wage up to \$16.35 per hour. Because many young people, especially those just entering the workforce, earn at or near the minimum wage, the government-mandated 11% hike in the statutory minimum wage was a significant factor lifting the average hourly wage for this age group. The minimum wage was further increased to \$12.65/hr on June 1, 2018. Tighter labour market conditions, however, were also a factor pushing wages higher for younger workers. The unemployment rate for younger workers has declined steadily from more than 14% in 2011 to 8.1% in 2018.

Older workers also benefited from a sizable wage increase in 2018. But for people over the age of 55 years, the average hourly wage advanced by a more modest 5%. The average hourly wage for this older age cohort was \$28.84 in 2018, the highest of the three age groups. Over the past two years the 55 plus age cohort has seen wage growth that exceeded the all-worker average, but these back-to-back gains were preceded by several years of notably subdued increases.

For workers aged 25 to 54 years, average hourly wage growth has followed a similar pattern as the overall wage increase. But in 2018, the average wage increase for this group was somewhat lower than the all-worker increase, likely reflecting the influence of the higher minimum wage on the other two age cohorts.

WHAT INDUSTRIES HAD THE BIGGEST WAGE GAINS?

Stronger wage growth was broadly-based last year, with most industrial segments posting an increase above

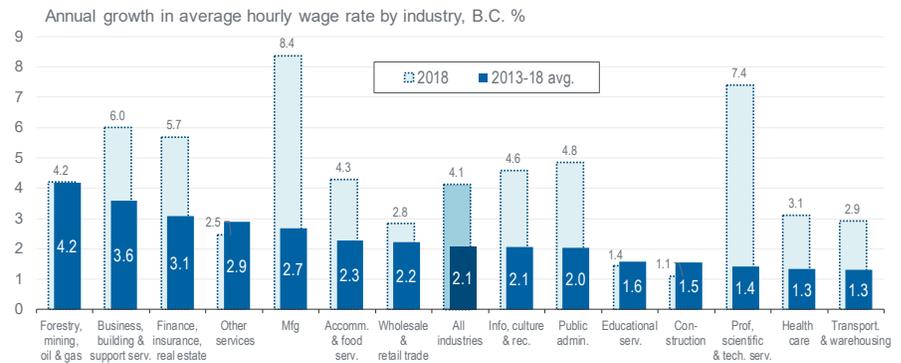
their five-year average growth rate. Across all service industries the average hourly wage grew by 4.1% last year. The increase across all goods-producing industries was 4.5%. Upward wage pressure was widespread, with all but three industries seeing bigger wage jumps.

Across specific industries, the fastest wage growth last year was in the Manufacturing sector, where the average worker benefited from an 8.4% increase in the hourly wage. The Professional, Scientific and Technology Services industry recorded the second largest wage increase in 2018 (7.4%). The Finance, Insurance and Real Estate segment also registered comparatively buoyant wage gains, as did the Business, Building and Support Services sector.

UTILITIES AND RESOURCE SECTORS HAVE THE HIGHEST AVERAGE HOURLY WAGE

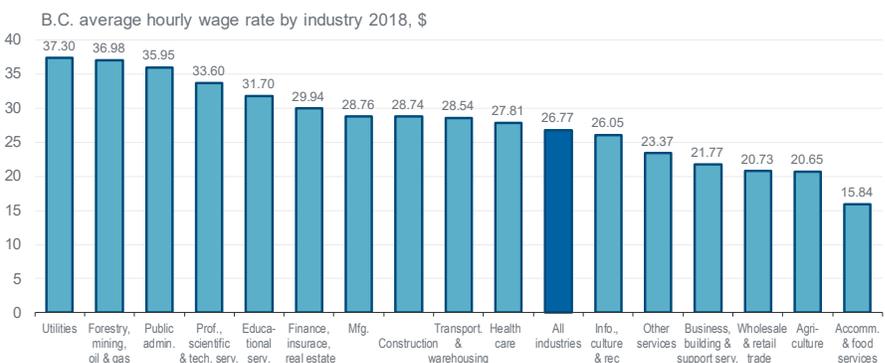
The broad Utilities industry, which comprises electric power generation, the distribution of natural gas and water supply and water treatment operations, has the highest average wage in the province at \$37.30/hr. The second highest wage is found in the Forest, Mining and Oil and Gas sector. Being among the most productive sectors in the provincial economy, the extraction of natural resources has long been among the highest paying industries. People working in Public Administration command the third highest average wage in the province. Professional services, which includes legal and accounting services, also boasts a relatively high average hourly wage rate.

FIGURE 6: AVERAGE WAGE GROWTH BY INDUSTRY



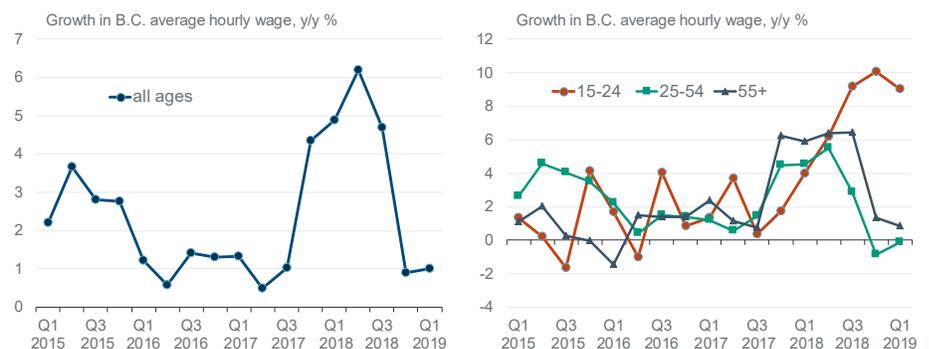
Source: Statistics Canada, Table 14-10-0064-01.

FIGURE 7: AVERAGE WAGE BY INDUSTRY



Source: Statistics Canada, Table 14-10-0064-01.

FIGURE 8: MOST RECENT DATA SHOW WAGE GROWTH HAS MODERATED



Source: Statistics Canada, Labour Force Survey.

At the other end of the pay-scale, Food and Accommodation has the lowest average hourly wage of any industry. The average wage in the Agriculture sector is also comparatively low, as it is in the Retail/Wholesale Trade sector.

WAGE GROWTH ALREADY MODERATING

Higher frequency data suggests that wage growth in the province has already eased from the robust pace seen last year. Looking at quarterly data shows that wage growth peaked in the second quarter of 2018. It moderated in the third quarter and by the final quarter of 2018 it had retreated to around 1% annually.

The breakout by age groups shows that the 15-24-year cohort is still enjoying fairly strong wage growth, reflecting the ongoing impact of the higher minimum wage.

CONCLUDING THOUGHTS

A couple of interesting findings emerge from this high-level overview of trends in average hourly wages in B.C. One is that real wages – that

is wages after inflation – have risen consistently over the past two decades. Apart from the period just after the 2008 global financial crisis when inflation was dampened by the very slow economic recovery, however, the real annual wage gains were meagre. Also noteworthy is that average wage growth in B.C. has been remarkably stable when averaged over five-year periods. The recent hikes in the provincial minimum wage are also evident in the higher average hourly wage of younger workers and, to a lesser extent, workers over the age of 55. Finally, even amid a tight labour market, it appears that a slowing overall B.C. economy is already showing up in the form of moderating wage growth.

AUTHORED BY

Ken Peacock
**Chief Economist
and Vice President**
