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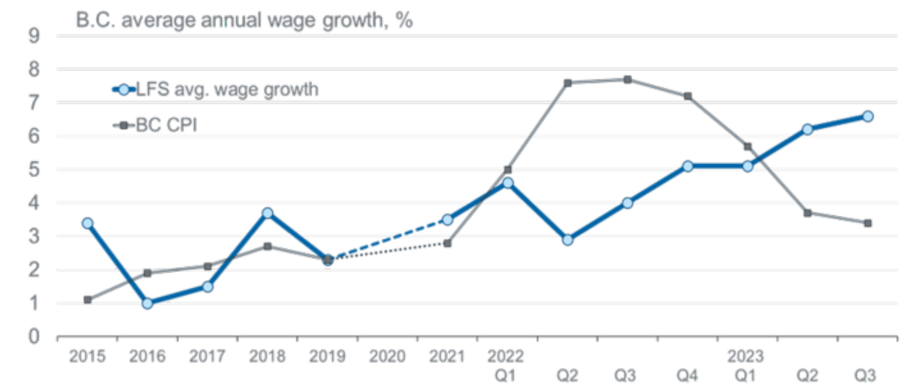
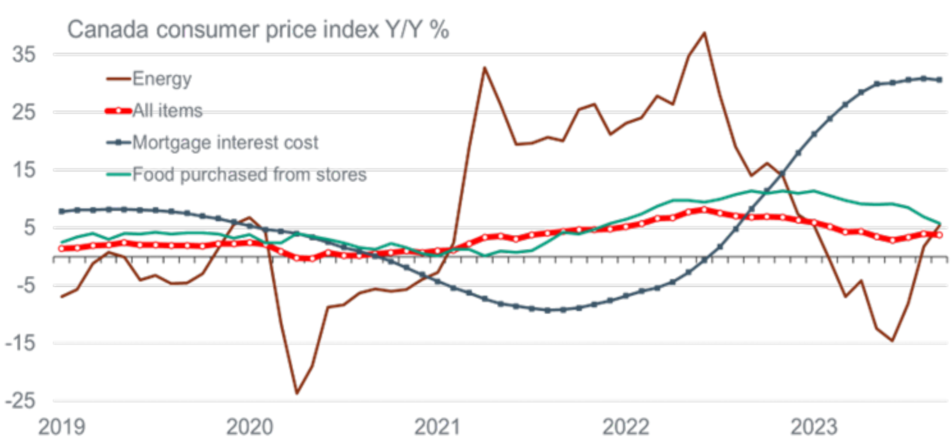
B.C. INFLATION AND WAGE GROWTH

B.C.'s headline inflation rate averaged 3.5% in the third quarter of this year. This pace is down from the 7 to 8% annual increase in consumer prices seen through much of 2022. But even with supply chains normalizing and energy prices falling, inflation is likely to be persistent. The Bank of Canada indicated recently in its Monetary Policy Report that it believes Canada's inflation rate will remain above the Bank's 2% target into 2025.

The retreat in energy prices is one of the main reasons the headline inflation has declined. But more recently energy prices have risen and are once again adding to inflationary pressures. A bigger reason that inflation will likely prove to be persistent is because, unsurprisingly, mortgage servicing costs have surged. The mortgage interest cost component of the CPI is up by more than 25% Y/Y and adding significantly to headline inflation.

Against this backdrop of sharply higher prices and living costs, the all-industry average wage in B.C. has climbed steadily over the past couple of years. Annual average wage growth in B.C. is now running at 6% Y/Y (with similar Y/Y increases nationally). Stronger wage growth is good for workers who are now realizing real wage gains. But higher wages also mean businesses will invariably need to raise prices to cover rising wage and other input costs.





The Bank of Canada will be watching wage growth closely. In the absence of productivity growth, average annual wage growth will also have to retreat to around 2% to convince the Bank that inflationary pressures have subsided.