

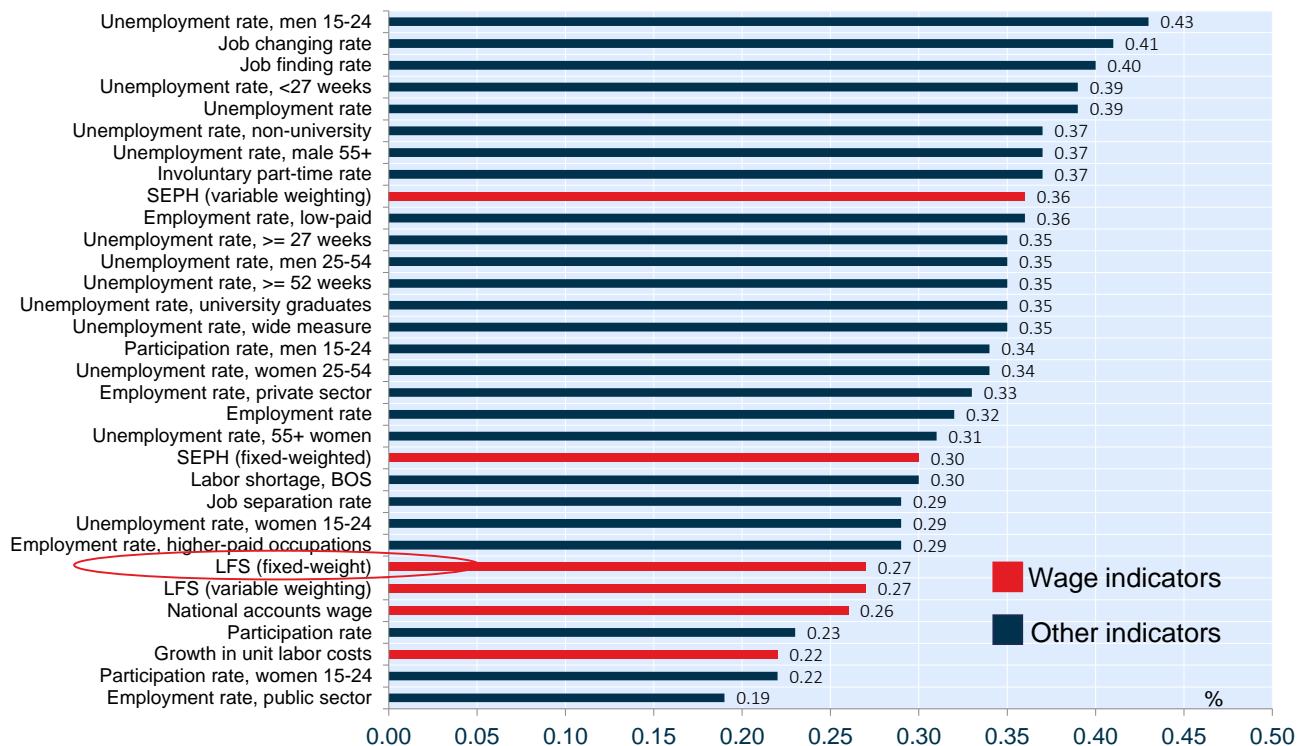
Canada Watch

By **Matthieu Arseneau** and **Alexandra Ducharme**

In a recent speech ([link](#)), Bank of Canada Governor Tiff Macklem emphasized a new measure of wages developed by the BoC that is evolving at a more moderate pace than those it usually tracks and which are produced by Statcan (see [link](#)). This new index, which uses data from the Labour Force Survey but fixes weights according to several characteristics, has evolved at an annualized pace of just 3.3% over the last six months, compared with 4.4% for the Statcan measure drawn from the same survey but which uses variable weights. We agree that a fixed-weight index has the merit of not taking into account the movement of workers towards better-paid, more productive jobs, which theoretically should not generate inflation in the economy. But what about empirically? As today's Hot chart shows, according to a central bank staff analytical note published last April ([link](#)), the fixed-weight wage measure ranks 26th out of 32 labor market indicators identified by the BoC as significant in explaining movements in core inflation. We also note that its impact on inflation is quite similar to that of the variable-weight measure (ranked 27th), and that other wage measures would have a greater impact on core inflation than this one. Why use such a low-ranking measure when the Governor could have simply presented the evolution of better-known indicators that have more impact on core inflation to telegraph his willingness to reduce the level of monetary policy restrictions? According to the same study, the unemployment rate is one of the labor market variables with the greatest impact on core inflation, particularly that of males aged 15 to 24. The latter has risen by 5 p.p. since its trough (vs +1.6 p.p. for the whole population), which has never been observed outside of recessionary periods. What's more, the job changing rate, the second most important variable influencing core inflation according to the Bank's study, is also back to a level only seen in recessionary periods, after peaking in 2022. In its next Monetary Policy Report, the Bank of Canada should explain more fully why it believes its internal measure of wage inflation is useful for guiding monetary policy. For further details, please see our just released Monthly Economic Monitor ([link](#)).

Canada: Why has the BoC set its sights on this new wage measure?

Impact of a one-standard-deviation increase in variable measures on CPI-Trim



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