Data Release: Canada’s productivity edges down in Q4 after two quarters of growth

- Labour productivity growth edged down 0.1% in the fourth quarter after increasing in Q3. Productivity was essentially flat because the 0.6% increase in output of the business sector was entirely due to the growth in hours worked (+0.6%).
- Productivity data can be quite choppy from quarter to quarter, so looking at 2014 as a whole, productivity advanced 2.5% – the best performance since 2005. This stands in contrast to the United States which posted a far more modest gain in productivity (+0.6%). Statistics Canada pointed out that Canada and the U.S. posted roughly similar rates of real business output growth, but Canada had much slower growth in hours worked.
- Hourly compensation also fell 0.1% in Q4. As a result, unit labour costs in Canada were roughly unchanged. Unit labour costs (ULCs) are often used to compare competitiveness between countries. The 4% depreciation in the Canadian dollar means that Canadian ULCs fell in US dollar terms. ULCs are also used as a gauge of inflation pressures in an economy, and the slowdown in cost growth in 2014 (+0.9%) versus 2013 (+1.3%) mirrors the modest inflationary pressures in Canada's economy.

Key Implications

- The fourth quarter productivity data underscore how the depreciation of the Canadian dollar has helped lower Canadian ULCs relative to the United States. Canadian ULCs in U.S. dollar terms have fallen for two consecutive years now, whereas they have continued to rise in the United states. This has helped to improve the weak competitiveness in Canada after the recession. More specifically, the competitiveness of Canada’s manufacturing sector is often compared to the U.S., and a stronger Canadian dollar in the early days of the recovery led manufacturing labour costs in Canada to dramatically outstrip the U.S.. The depreciation of the Canadian dollar over the past two years has helped to erase the differential in manufacturing labour cost competitiveness between the two countries.
- While it is encouraging to see the improvement in Canada's productivity in 2014, these gains are likely to slow in 2015 as the collapse in oil prices weighs on GDP growth. That said, the improvement in Canada’s competitiveness since 2012 vis a vis the United States, particularly in manufacturing, should help the performance of non-energy export sectors in 2015. That should in turn assist the broader economy to weather the blow from the collapse in oil prices.

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