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## TD Economics

### Data Release: Canadian productivity ticked up slightly in 2015Q4

- Canadian labour productivity rose slightly in Q4, up 0.1%, which comes after a 0.4% gain in the third quarter. Hours worked were flat (Q3: +0.4%), while business-level GDP rose 0.1%.
- The gain in productivity was the result of gains in the service sector (+0.4%), which was offset by a 0.6% decline among goods-producers. The decline in goods producing industries was not a result of manufacturing, where productivity was up 0.1%, but rather resulted from a sizeable decline in construction productivity (-1.9%).
- Labour costs in US dollar terms fell for a second quarter, down 1.2% in Q4, and have fallen more than 23% from their 2012 highs.
- For 2015 overall, productivity fell 0.2%, following gains of 2.5% and 1.3% in 2014 and 2013 respectively. The annual change was led by construction (-5.0%) and manufacturing (-0.9%), while service industry productivity gained 0.5% on the year.
- Unit labour costs rose 0.8% in Q4, following a 0.5% decline in the prior quarter, the result of compensation costs that far outpaced productivity gains. 2015 as a whole saw much the same story, as growth in hourly compensation net of productivity rose 1.4% - marking the fifth straight year in which pay growth outpaced productivity.

*Note that employment figures for February will be released next Friday, March 11<sup>th</sup>.*

### Key Implications

- While there was a somewhat positive story to end the year, 2015 as a whole saw the weakest productivity growth in three years as hours worked slightly outpaced output. However, this comes on the back of very strong productivity gains in prior years; the average gain since 2011 remains around 1% on an annual basis, in line with longer-term trends.
- On a relative basis, Canada has gained significant competitiveness in terms of unit labour costs (ULCs) on a U.S. dollar basis. Over the past two years, Canadian ULCs fell nearly 20% in U.S. dollar terms, outpacing our NAFTA partners (U.S. rose about 5.5%, while Mexico saw a decline of roughly 18%). This supports our view that exports are likely to be a significant source of growth in 2016 as our price-competitiveness has increased in the key U.S. market.
- More concerning on a long-term basis however, is the gap between compensation growth and changes in productivity. This sustained growth gap creates the risk of longer-term competitiveness pressures, particularly as the level of the loonie ticks slowly up over a long-term basis.

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