

Canada: Productivity (Q3/10) Fizzles.

Working harder but not much smarter.

Productivity in the third quarter was largely a bust. No surprise in that. Market median had been looking for a further contraction in productivity of -0.1%q/q following last months -0.6%q/q (revised up from the original report of -0.8%). At +0.1%q/q, the incremental rise in productivity is of little comfort.

Facts.

For the third quarter, business sector output rose by a disappointing 0.1% q/q (0.3%q/q ann.), while at the same time hours worked were unchanged over the course of the quarter (the 40K part time jobs created in Q3/10 were offset by a loss of 22K full-time positions). Pretty cut and dried.

The causes of poor productivity growth in Canada are less so. There exist a multitude of factors as to why productivity in Canada has lagged its peers, particularly with regard to the US which is the metric that is oft used as the benchmark against which Canada is to be measured. To throw out a few - the geography of the country is daunting, the existence of oligopolies, dual language packaging, increasingly challenging resource deposits, life style choices, a social policy that seeks to provide a level of standard in service across a vast country with a small demographic, and comparably less developed capital markets than are found in the US (market capital tends to be better at financing innovation than bank capital) to name but a few.

Implications.

With an aging demographic (baby boomers begin retiring in 2011), Canada needs to work smarter, not harder, if it is expected to maintain a first world standard of living. From a policy standpoint, the BoC has noted that a strong Canadian dollar and poor productivity rates are threatening to dampen the expected recovery in net trade which will adversely affect the Canadian economic recovery and overall growth profile. Canadian exporters can fend off a a strong Canadian dollar and protect export margins so long as there is a corresponding pick up in productivity.

Bottom Line.

While Canada avoided much of the nastiness of the banking and financial crisis, at the end of the day, as a generator of real economic wealth - productivity - Canada has lagged the US by a fairly wide margin. It is important to realize that real wealth creation, per capita income, is achieved through the conduit of productivity growth. There are real physical limits to the number of hours one is capable of working, how low the unemployment rate can fall or how high the participation rate reach. Yet innovation knows no bounds. If Canada, with a growing dependency ratio as its population of baby boomers begin to retire, is to maintain its status as a first world economy, it is essential that the country expand productivity growth.

Disclosure appendix

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