

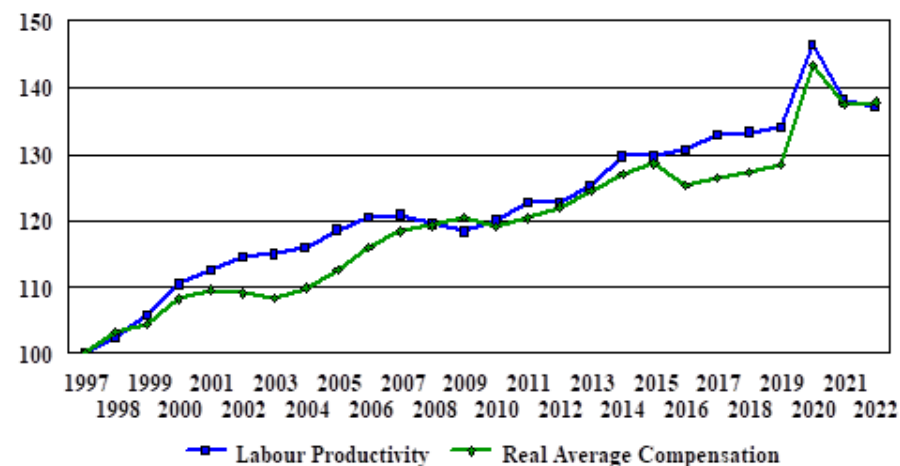
PRODUCTIVITY AND LABOUR INCOMES

“Productivity isn't everything, but, in the long run, it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.” - Paul Krugman

Influential commentators, such as [Coyne](#), [Cross](#), [Speers and Taylor](#), have recently drawn attention to Canada's “growth crisis”, as our growth rate has not only lagged behind the US but also the average for OECD countries. See [Haun](#). Canada's productivity problem is responsible for our lack luster growth. While Krugman's words ring true for policy wonks, some Canadians have a jaundiced view of public policies to promote productivity, which they think mean working harder or more layoffs as companies replace workers with robots or AI software. The linkage between labour productivity and the wages and salaries of Canadian workers needs to be clearly communicated if Canadian workers are to support a productivity agenda as a core public policy.

The [Center for the Study of Living Standards](#) (CSLS) has for many years provided a forum for the analysis of productivity trends and its linkage with the wages and salaries that Canadian workers receive. While the CSIS's detailed analysis is extremely important for understanding these trends, the linkage between labour productivity and the average standard of living of Canadian workers is clearly demonstrated by recent Statistics Canada data. The figure shows indices of labour productivity (output per hour) in the Canadian business sector and real (inflation adjusted) compensation per hour paid to Canadian workers from 1997 to 2022.

Between 1997 and 2022, both real (inflation adjusted) output per hour and real labour compensation per hour increased by almost exactly the same amount, 37 percent and 38 percent respectively.



Source: Statistics Canada Tables 36-10-0480-01 and 18-10-0005-01

These data clearly demonstrate the importance of labour productivity growth for improvements in the average standard of living for Canadian workers. The figure also demonstrates that the two series did not always move in lock step. Real hourly compensation grew more slowly than labour productivity from 1997 to 2003, then grew at a faster rate than productivity until it caught up in 2015 before lagging behind to 2019. The sharp increase in both average productivity and average compensation in 2020 was due to the business disruptions during the pandemic, with the workers in the lower productivity service sectors disproportionately affected, which raised average productivity and compensation per hour worked.

When they are released, Statistics Canada data for 2023 will indicate how productivity and compensation have been affected by the shocks from higher interest rates and the population surge.