

ECONOMIC NEWS

Canada: Productivity Increased In Q2 But Don't Get Excited

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HIGHLIGHTS

- ▶ Labour productivity of Canadian businesses advanced by 0.2% q/q in Q2 2022, for the first increase in real output per hour worked since the lockdowns in Q2 2020.
- ▶ In the second quarter of 2022, productivity was 1.3% below its level in Q4 2019, the last quarter before the start of the COVID-19 pandemic.
- ▶ Real GDP of businesses grew by 0.9% in the second quarter, similar to the advance in Q1. Both goods- and services-producing sectors recorded gains.
- ▶ The increase in hours worked in the business sector slowed to 0.7% in Q2 2022, albeit the fourth consecutive quarterly move higher. Despite this slowdown, hours worked came in 1.7% above their Q4 2019 level.
- ▶ Unit labour cost – the cost of labour per unit of output – of Canadian businesses grew 2.0% in Q2 2022, slowing from the 2.8% pace in the first quarter of the year.
- ▶ The still-solid growth in unit labour costs in Q2 2022 reflected the sustained gains in compensation per hour worked of 2.2%, offset very slightly by the modest 0.2% advance in labour productivity.

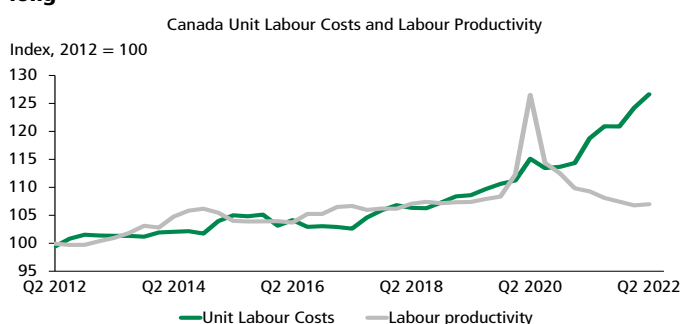
COMMENTS

While the growth in Q2 labour productivity wasn't much to write home about, it's good to see that the Canadian economy posted its first quarterly advance in output per hour worked in two years. And given this reflected a positive move in real GDP which outpaced a still-robust gain in hours worked, it highlights that second quarter was relatively strong from an output and labour perspective.

But one quarter doesn't make a trend. Indeed, looking at the monthly data for business activity and hours worked, Q3 looks as though it may give back the second quarter's positive move in

GRAPH

Labour productivity increased but not by much and likely not for long



Sources : Statistics Canada and Desjardins, Economic Studies

labour productivity. Wages also look to have accelerated into Q3, suggesting unit labour cost could continue its merciless advance in the third quarter.

IMPLICATIONS

The ongoing rise in unit labour cost reflects the fact that productivity growth in Canada is still too weak to offset persistent wage pressures. However, sustained forceful action by the Bank of Canada is expected to tamp down wage growth and bring inflation back to the Bank's 2% target over the outlook (see our recent [Economic and Financial Outlook](#)). This includes an anticipated 75bps hike at next week's meeting, and further tightening as needed thereafter.