

September 5, 2014

## CANADA

### Productivity posts its greatest increase in over 15 years Employment underperformed in August

#### HIGHLIGHTS

- Labour productivity rose 1.8% in the second quarter, its strongest advance since winter 1998.
- The labour market came in below expectations for August, losing 11,000 jobs.
- Those most affected by August's job losses were young people (15 to 24 years old) and people aged 55 and over. 18,300 jobs were added for workers aged 25 to 54.
- The unemployment rate remained unchanged at 7.0%.

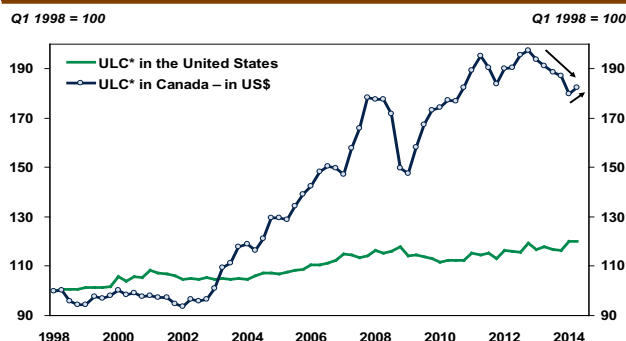
#### COMMENTS

Given how volatile the labour force survey is, it is not surprising to see that 11,000 jobs were lost in August after the 41,700 created in July. This puts the 6-month average (which gives a clearer picture of the trend) at 10,200 jobs per month, similar to where it was in July. In other words, the overall picture of the labour market has changed very little.

In fact, the most interesting news published today comes from labour productivity. The second quarter's increase is due to fairly robust gains in business sector output (+1.0%) and a reduction in the total number of hours worked (-0.8%).

This good result for productivity, however, is a missed opportunity to improve business competitiveness, as workers' earnings also rose considerably in the second quarter (+2.0%), offsetting the benefits of improved productivity. Unit labour costs therefore increased again over the quarter (+0.3%). If we factor in the loonie's fluctuations, Canada's unit labour costs expressed in U.S. dollars show growth of 1.4% in the second quarter. Meanwhile, unit labour costs were flat in the United States. This gap points to deteriorating competitiveness for Canadian businesses, reversing the more favourable trend seen since the start of 2013. This is disappointing, as a lot of hopes are pinned

#### Canadian businesses' competitiveness eroded last spring



\* Unit labour costs.  
Sources: Statistics Canada, Bureau of Labor Statistics and Desjardins, Economic Studies

on an acceleration by exports to support Canada's economic growth.

**Implications:** Lower employment, and especially the deteriorating competitiveness of Canadian businesses, are a harsh return to reality after the encouraging economic results published over the last few days. This shows that many uncertainties persist, along with risks to Canada's economic outlook. Prudence is still in order, especially with regard to monetary policy, which argues for the status quo for key interest rates to last for several months to come.

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