Economic News

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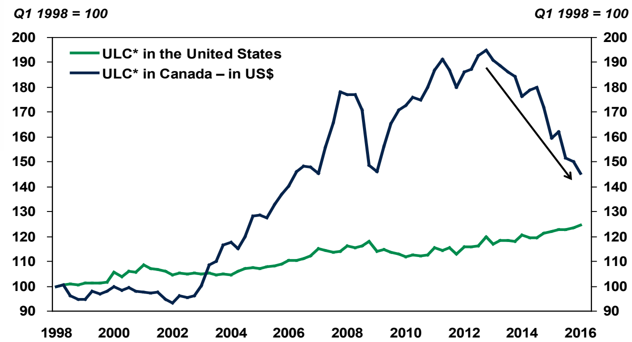
CANADA

Stronger productivity and a drop by the loonie give business competitiveness a boost

HIGHLIGHTS

- Canadian worker productivity rose 0.4% in the first quarter, in line with expectations.
- Business sector production rose more quickly (+0.6%) than growth by hours worked (+0.2%), accounting for the gain.
- Since worker compensation increased only 0.1%, the productivity gain triggered a 0.3% drop in unit labour costs.
- Although the loonie has risen recently, its average value in relation to the U.S. dollar tumbled 2.9% between the fourth quarter of 2015 and the first quarter of 2016.
- The depreciation means that Canadian businesses' unit labour costs expressed in U.S. dollars are down 3.2% over the period, attesting to another improvement in business competitiveness.

Canadian business competitiveness improves further



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

COMMENTS

Once again, exchange rate movements were critical in improving business competitiveness in the first quarter of 2016. For Canadian businesses, unit labour costs expressed in U.S. dollars are down 25.4% since the end of 2012. However, if we exclude the benefits of the loonie's depreciation, unit labour costs went up 3.4% over the period instead.

The loonie has regained some altitude since the start of the year. Valued at US$0.773 at the time of writing, the Canadian dollar is not far from the target established for the end of 2016 (US$0.770). It is therefore unlikely that exchange rate fluctuations will be able to boost Canadian business competitiveness as much in the coming quarters. To compensate, businesses would have to substantially improve their productivity gains, which seems hard to do based on the results of recent years.

Implications: Although the improvement to Canadian business competitiveness could lose some steam in the coming quarters, the combined gains since the end of 2012 are substantial and will help keep Canadian exports trending up in the quarters to come.

In the meantime, we still have to get through the second quarter, which should see a substantial, temporary drop in exports, particularly as a result of the impact of Alberta's forest fires on oil production. Also, April's results for real international merchandise trade show a negative carryover for exports in the second quarter.

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Note to readers: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.