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Large Increase in the Canada-US ICT Investment Gap Hindering Productivity Growth

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The Centre for the Study of Living Standards (CSLS) today released the report “New Evidence on the Canada-US ICT Investment Gap, 1976-2014” prepared for Innovation, Science and Economic Development Canada.

Information and communications technology (ICT) investment, which includes expenditures on computer hardware, telecommunications equipment, and computer software and databases, is a key driver of productivity growth. But ICT investment per job has declined significantly in Canada in recent years, in both absolute and relative terms.

In 2008, nominal ICT investment per job in Canada, expressed in US dollars at purchasing power parity, was \$2,172, equivalent to 68.4 per cent of the US level. By 2014, ICT investment per job in this country had fallen to \$1,965, only 56.3 per cent of the US level. While ICT investment per job in the United States increased 10 per cent in the United States over the 2008-2014 period, it fell 10 per cent in Canada.

All three components of ICT investment experienced considerably larger falls, or smaller increases, in Canada. Computer hardware nominal investment per job fell 22 per cent in Canada, versus 8 per cent in the United States. The comparable figures for telecommunications equipment were -32 per cent and -2 per cent and for computer software and databases 9 per cent and 20 per cent.

On an industry basis, the steepest declines for Canadian ICT investment since 2008 were in information and communications and manufacturing, down 48 per cent and 43 per cent respectively in real terms.

One half of the gap in ICT investment per job between Canada and the United States in 2014 was accounted for by the information and communication industry. Professional, scientific and technical activities, and manufacturing and wholesale and retail trade accounted for almost all of the remaining gap.

One factor accounting for the lower ICT investment per worker in Canada is lower level of GDP per capita and hence investment. Other reasons put forward to explain the gap include the greater relative importance of small and medium- sized businesses (SMEs) in Canada (SMEs invest less in ICT than large firms), less recognition of the important role of ICT as a strategic tool for growth by Canadian firms, and concentration of cloud computing investment in the United States to serve the North American market.

The report is posted at <http://www.csls.ca/reports/csls2016-17.pdf>

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The Centre for the Study of Living Standards (CSLS) is a national, independent, Ottawa-based not-for-profit research organization. Its primary objective is to contribute to a better understanding of trends and determinants of productivity, living standards, and economic well-being in Canada through research.