

The Stylized Factors About Slower Productivity Growth in Canada

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Productivity growth in the Canadian economy has been considerably slower in the post-2000 period than in the pre-2000 period, with important implications for the growth in the living standards of Canadians. Output per hour in the business sector advanced at a 1.0 per cent average annual rate from 2000 to 2017 compared to 1.6 per cent from 1980 to 2000. The objective of this paper is to highlight the stylized factors of this important development. The paper first examines trends in both labour productivity and total factor productivity (TFP) at the aggregate, sectoral/industry, and provincial levels in the pre- and post-2000 periods. It then calculates the sectoral/industry and provincial contributions to aggregate productivity growth in the two periods and between periods, identifying the sources of the slowdown. Growth accounting estimates of the contribution of TFP, capital intensity and human capital to the slowdown are also presented. The paper then reviews and assesses major demand-side and supply-side explanations of slower productivity growth, including a slower pace of technological change, weak investment, secular stagnation, lack of business dynamics, and re-allocation of resources to below average productivity sectors. The paper then concluding with a brief discussion of the policy implications of the findings.