

Canadian Productivity & Manufacturing: Mission Possible

We saw a pair of very encouraging reports spill out of Statistics Canada today which, together, suggest that Canada's recovery is deepening and taking on a healthier glow. Labour productivity posted its fastest quarterly gain since the late 1990s in Q4, rising a consensus-smashing 1.4% (or 5.5% a.r.). That doesn't quite erase the dreadful performance of the past 3+ years, which had seen productivity essentially stagnate. Still, it left output per hour up 1.1% y/y, precisely in line with its 25-year average. With compensation cooling to a 2.1% y/y pace, this cut the growth in unit labour costs to an eight-year low of 1.0% y/y in Q4 (and they were flat from Q3). Unit labour costs are one gauge of underlying inflation pressure. Overall, better productivity and subdued costs could suggest to the Bank of Canada that the economy has a higher speed limit than previously believed in this recovery.

Meantime, the factory sector continues to recover from last year's devastating hit. Manufacturing sales were much stronger than expected in January at up 2.4% (and +2.2% in real terms), with the breadth of the growth even more impressive (17 of 21 industries were up). This was the seventh gain in eight months, and pushed sales 10% above the depressed levels of a year ago. New orders also nudged higher by 0.2% and are now up 19.3% y/y. At the same time, inventories were cut again, trimming the inventory-sales ratio to 1.33, effectively back to where it stood in Sep/Oct 2008, or pre-recession levels. The robust manufacturing gains in January point to a solid monthly GDP result, hinting at upside risk to our call of 3.7% growth for all of Q1.

		(% change)			(avg. ann. : % change)		
		09Q4	09Q3	09Q2	2007	2006	2005
Labour Productivity	(q/q)	1.4	-0.1	-0.2			
	(y/y)	1.1	-0.4	-0.2	0.5	1.1	2.4
Unit Labour Costs	(q/q)	0.0	-0.1	0.3			
	(y/y)	1.0	2.7	3.6	3.1	3.9	2.4
Hourly Compensation	(q/q)	1.4	-0.3	0.2			
	(y/y)	2.1	2.2	3.5	3.6	5.1	4.9
Hours Worked	(q/q)	0.0	0.3	-1.2			
	(y/y)	-3.3	-4.6	-5.1	1.8	1.6	0.7

The Bottom Line: Manufacturing and weak productivity have been two areas of vulnerability commonly cited in Canada's recovery; both reported very good news today. Any questions?

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