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Falling manufacturing employment share in the 2000s reflects falling output, not above-average productivity gains

The relative importance of the manufacturing sector in the Canadian economy, as measured by the sector's share of total employment, has fallen considerably over the past half-century, from 19.1 per cent in 1976 to 9.7 per cent in 2014.

The Centre for the Study of Living Standards (CSLS) today released two studies by CSLS economist Evan Capeluck that address the factors behind this development. One study is entitled "The Evolution of Manufacturing Employment in Canada: The Role of Outsourcing" and the other "Explanations of the Decline in Manufacturing Employment in Canada." Links to the two reports are below.

Using input-output tables, the first study finds that outsourcing accounts for a small but significant part of the decline in the manufacturing employment share over the 1976-2008 period in Canada.

The second study finds that above average labour productivity growth explains most of the decline in the manufacturing employment share before 2000, while falling output explains most of the decline after 2000.

Output per hour in manufacturing grew at a 2.9 per cent average annual rate in the 1976-2000 period, well above the business sector average of 1.6 per cent. In contrast, in the 2000-2013 period, labour productivity growth in manufacturing averaged 1.0 per cent per, almost identical to that of the business sector (0.9 per cent).

Manufacturing output collapsed in Canada after 2000. After advancing at a 3.3 per cent average annual rate in the 1976-2000 period, output in manufacturing fell 1.1 per cent per year between 2000 and 2013. The level of output in the sector in 2013 was 87 per cent of that of 2000. It is very difficult for a sector in decline to sustain strong productivity growth.

The report concludes that the fall in real output growth after 2000 reflects the manufacturing sector's poor export performance which in turn is related to several factors, including: a loss in cost competitiveness linked to an appreciation of the Canadian dollar; increased competition in the U.S. import market; and a slowdown in domestic demand growth in the United States.

The studies are found at:

<http://www.csls.ca/reports/csls2015-17.pdf>

<http://www.csls.ca/reports/csls2015-18.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.

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