

Explaining Falling Productivity through Higher Output Prices in Canada's Mining and Oil and Gas Industries

Ottawa, September 3, 2009 - The productivity performance of both the Canadian mining sector and the oil and gas sector has been dismal in recent years, finds the **Centre for the Study of Living Standards**, an Ottawa-based non-profit economic research organization which released two productivity studies focusing on these sectors.

In the mining sector, the CSLS finds that labour productivity, defined as output per hour worked, fell by 2.2 per cent per year between the 2000 cyclical peak and 2007, with capital productivity down 0.3 per cent per year and total factor productivity (TFP) off 1.1 per cent per year between 2000 and 2006.

In oil and gas extraction, labour productivity in oil and gas extraction fell 8.2 per cent per year between the 2000 cyclical peak and 2007, with capital productivity down 6.0 per cent per year over the same period and total factor productivity (TFP) off 6.7 per cent per year between 2000 and 2006.

Among the various hypotheses put forward to explain these trends, the most robust seems to be that higher output prices have suppressed productivity growth through two effects: increased exploitation of low-productivity marginal resource deposits, and business decisions based on profitability rather than productivity.

Despite the rapid decline in productivity in mining and in oil and gas extraction, it is not necessarily true that Canadians are worse off. In fact, increased output prices and employment shares in these sectors, combined with the high labour productivity levels of these two sectors, have resulted in positive contributions from that sector to Canada's aggregate labour productivity growth from 2000 to 2006.

This report does not recommend any industry-specific policies to improve productivity growth in mining and oil and gas above and beyond general public policies to improve productivity, such as support for investments in human capital, capital equipment, and innovation.

"Ironically, the poor productivity performance in mining and in oil and gas does not appear to be an indication of crisis, but rather an indication of the strength and vitality of two sectors on the technological frontier," states Dr. Sharpe.

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The **Centre for the Study of Living Standards** (CSLS) is a national, independent, not-for-profit research organization which began operations in August 1995. Its objectives are twofold. First, to contribute to a better understanding of trends and determinants of productivity, living standards, and economic well-being in Canada through research. Second, to contribute to public debate by developing and advocating specific policies to improve the standard of living of Canadians.

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