

Changes in the Terms of Trade and Canada's Productivity Performance

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Abstract

Using new data from Statistics Canada, the paper shows that the productivity performance of the business sector of the Canadian economy has been reasonably satisfactory over the past 46 years. In particular, traditional gross income Total Factor Productivity (TFP) growth averaged 1.14 percentage points per year over the period 1961-2006 and when a net income framework was used, TFP growth averaged 1.26 percentage points per year. The focus of the study is on the real income generated by the business sector of the Canadian economy. Two concepts of income are used: a gross concept that includes depreciation as a part of income and a more appropriate net concept where depreciation is excluded from income. In both the gross and net income frameworks, the growth of quality adjusted labour input growth was the main driver of growth in real income followed by TFP growth, followed by growth in capital input and then by falling real import prices. However, in recent years, the contribution of falling real import prices turned out to be more than twice as important as capital deepening. The study encountered many data problems which should be addressed in future work on Canadian business sector productivity performance.

Journal of Economic Literature Classification Numbers

C43, C67, C82, D24, E22, E43.

Keywords

Total factor productivity, real income, terms of trade effects, measurement of capital, measurement of inventory change, user costs, real interest rates.

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