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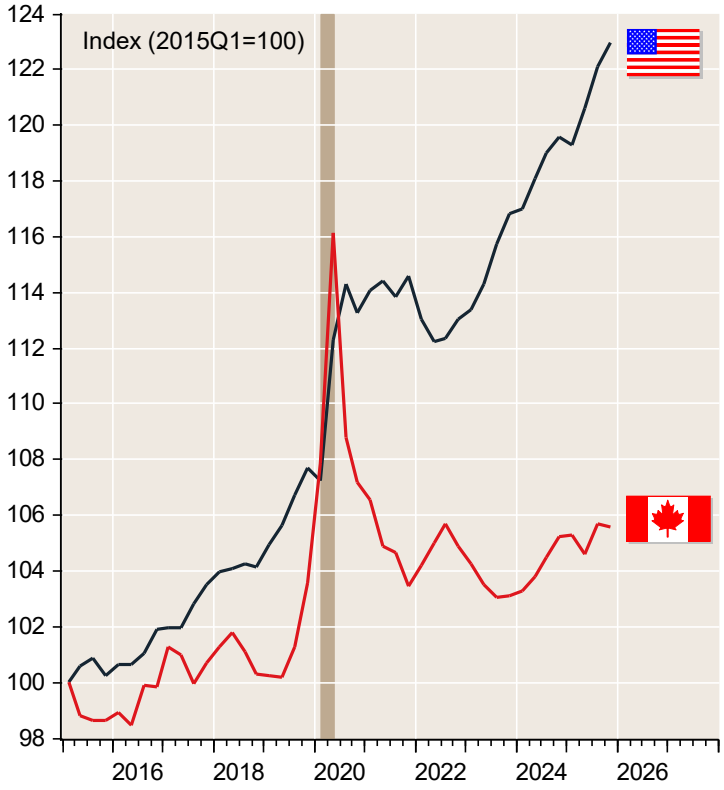
Canada Watch

By Alexandra Ducharme

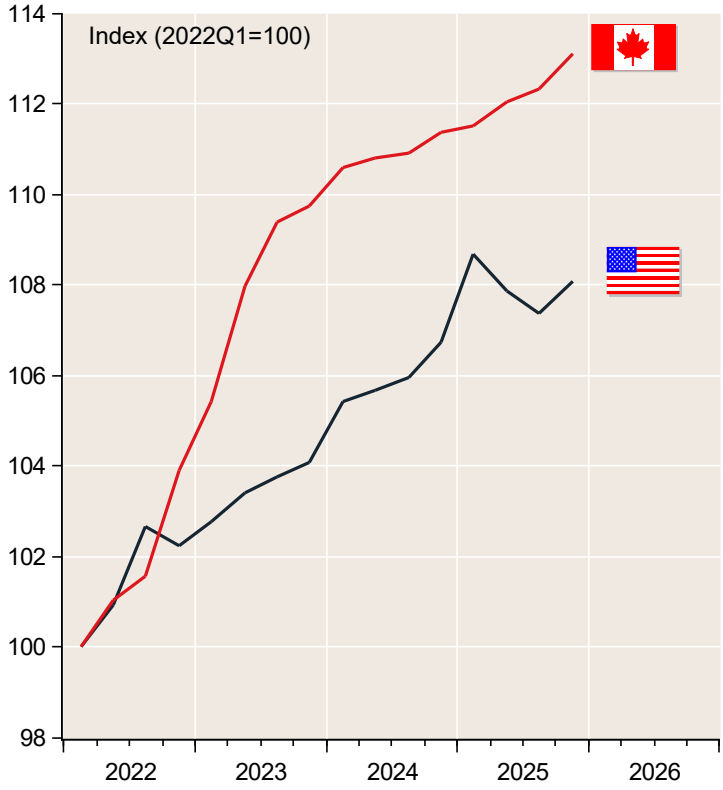
With Statistics Canada publishing its labour productivity estimates yesterday and the Bureau of Labor Statistics releasing the U.S. figures this morning, we now have an updated North American comparison on relative efficiency and cost pressures in the business sector. The conclusion that prevailed for the past few quarters is still resounding: the United States continues to generate stronger gains in output per hour, while Canada struggles to regain momentum. That divergence matters not only for headline productivity, but for the trajectory of unit labour costs. When productivity growth is robust, wage increases can be absorbed without a commensurate rise in costs per unit of output. In the U.S., firmer efficiency gains have acted as a buffer against compensation pressures, limiting the accumulation of unit labour costs. In Canada, weaker productivity performance means that wage growth translates more directly into higher costs. As today's *Hot Chart* shows, a widening productivity gap between the United States and Canada since 2022 has pushed unit labour costs up 13% in Canada versus 8% in the United States—about 60% faster north of the border. As we've argued on many occasions (including **here** and **here**), the structural driver behind this divergence is capital deepening. American firms have sustained a stronger pace of capital formation, raising the capital available per worker and enhancing labour efficiency. Canada's comparatively subdued investment cycle has constrained that process, leaving output per hour largely stagnant and firms more exposed to wage-driven cost increases.

Canada: Competitiveness eroded by growing productivity gap

Output per hours worked*



Unit labour costs*



*Business sector
NBC Economics and Strategy (data via Statistics Canada and Refinitiv)

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Subscribe to our publications:
NBC.EconomicsStrategy@nbc.ca

To contact us:
514-879-2529

Stéfane Marion
Chief Economist and Strategist
stefane.marion@nbc.ca

Matthieu Arseneau
Deputy Chief Economist
matthieu.arseneau@nbc.ca

Jocelyn Paquet
Senior Economist
jocelyn.paquet@nbc.ca

Kyle Dahms
Senior Economist
kyle.dahms@nbc.ca

Alexandra Ducharme
Senior Economist
alexandra.ducharme@nbc.ca

Daren King, CFA
Senior Economist
daren.king@nbc.ca

Warren Lovely
Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich
Rates Strategist
taylor.Schleich@nbc.ca

Ethan Currie
Strategist
ethan.currie@nbc.ca

Angelo Katsoras
Geopolitical Analyst
angelo.katsoras@nbc.ca

Nathalie Girard
Senior Coordinator
n.girard@nbc.ca

Giuseppe Saltarelli
Desktop Publisher
giuseppe.saltarelli@nbc.ca