



Productivity: A Crisis Now Firmly on our Doorstep



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In business and economic circles, more has been written about productivity in the past two years than on nearly any other topic, with the Bank of Canada's deputy governor recently saying: "You know those signs that say, 'In an emergency, break the glass?' Well, it's time to break the glass."

It's a remarkable but true and timely message. We are witnessing Canada's long, slow decline. On productivity growth and many other measures of well-being and competitiveness, Canada is coming up short among its global peers.

Why does productivity matter? Because the more Canadian firms innovate, the more

they spend on upskilling their people and on adopting new technology, the more profitable they are and the more they can increase the size of paycheques for workers.

So what is going on in Canada? According to the OECD, business investment in Canada from 2015 to 2023 ranked 44 out of the 47 most advanced economies. And last year the C.D. Howe Institute reported that for every dollar an American business spends on training, technology and capital - the essential ingredients for innovation - a Canadian company invests 58 cents.

We are also taxing and regulating away investment capital. Canada has a huge competitive advantage in natural resources, with energy and minerals in both abundance and high demand. But visiting leaders from Germany, Greece, Japan and Poland have recently received a cold shoulder from

Ottawa at the suggestion that Canada supply them with much-needed energy.

Small wonder that private sector job creation has been weak while the size of government has ballooned.

We need governments willing to harness our talent, ambition and resources to grow our economy. Where's construction in this mix? About 20 per cent of construction workers are expected to retire over the next five years, so innovation and labour productivity are front and centre for contractors.

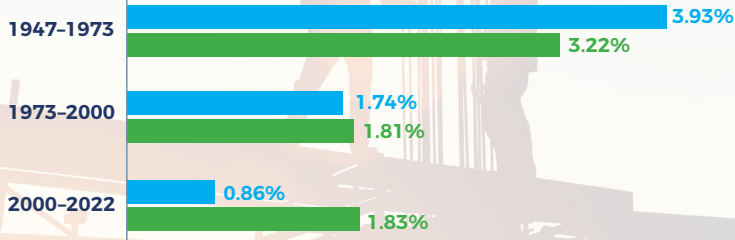
Today, technology is changing the way we design and build buildings and more construction is happening offsite than ever. Construction unfairly gets a bad wrap when it comes to innovation - but that's changing fast and at a time when the pressures to build more housing and infrastructure have never been greater.

Falling Behind on Labour Productivity Growth

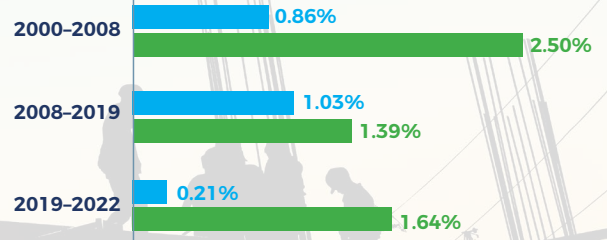
Up until 2000, Canada achieved productivity growth rates above or roughly comparable to those in the U.S., but we've been consistently falling behind since then.

Growth in Business Sector Output per Hour (compound average annual rates of growth)

Long-Term Comparison



Recent Period Comparison



Canada United States

Source: "Finances of the Nation: The Canadian Productivity Landscape - An Overview"; Sharpe and Sargent; *Canadian Tax Journal* 2023

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Productivity is the Key to Raising Living Standards

While productivity can seem abstract, it makes a very tangible difference to our living standards. The benefits of improved productivity are many. But as key international comparators show, Canada is losing out badly on them in contrast to our peers and competitors.

A Productivity Primer



Say a construction worker starts out being able to frame a single unit of an apartment building in one day. Then with better on-site equipment and digital project planning and management, she becomes able to frame 1.5 units in a single day. Her productivity has increased by 50%.



That creates big benefits for the worker, her employer and the broader economy:

- Higher earnings/incomes
- More cost-efficient production
- Improved competitiveness
- Scarce labour goes further



Which translates into a stronger economy and rising living standards.

In the time a U.S. worker produces \$1 of GDP...

... A Canadian worker produces

... An Italian worker produces

... A British worker produces

... A French worker produces

... A Danish worker produces

\$1.00

79¢

81¢

85¢

95¢

\$1.13

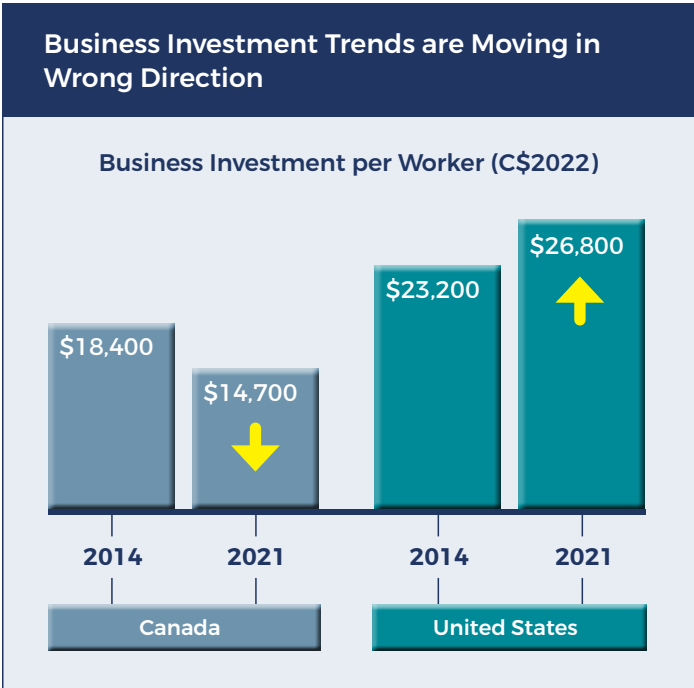


Canada's rank for overall labour productivity among OECD¹ countries:

29th of 38

What's Holding Us Back?

Many factors are holding back productivity growth in Canada. Relatively weak business investment, particularly in research and development, is one – largely caused by high taxation and other government policies that sometimes seem designed to discourage investment and innovation. The result: productivity growth is sluggish and job creation is concentrated within government.



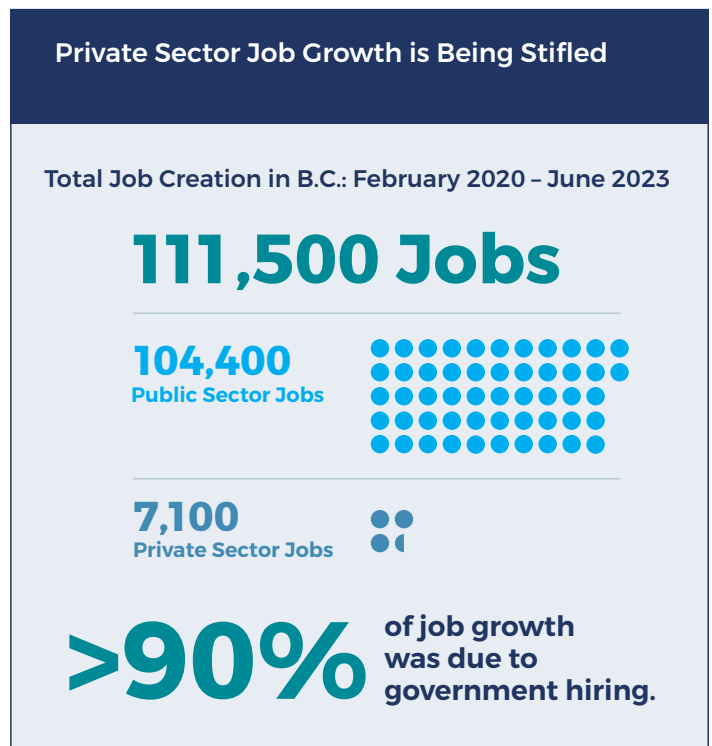
Source: Fraser Institute; "Comparing Business Investment Per Worker in Canada and the United States"; 2023



Source: IT and Innovation Foundation; "Comparing Canadian and U.S. R&D Leaders in Advanced Sectors"; September 2023



Source: Vancouver Board of Trade; "Counting the Costs: Assessing Economic Challenges for Business in B.C."; May 2023



Source: Fraser Institute; "Public and Private Sector Job Growth in the Provinces During the COVID-19 Era"; September 2023

Productivity Improvement in Construction

Construction industry leaders are focused on productivity improvement in our sector. Greater reliance on pre-fabrication and modular construction is one highly promising strategy - through which offsite assembly allows for more work to be automated and industrialized. And the sector is also continuing on a path of increased digitization and other forms of “Contech” or advanced construction technologies.

Modular techniques can speed up homebuilding by **20-50%** and reduce costs by **20-30%**.

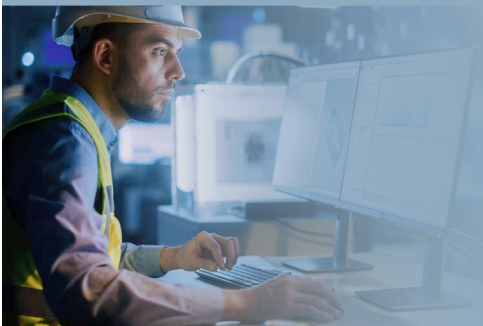


In 2020, Singapore committed \$120M from its Public Sector **Construction Productivity Fund** to support off-site manufacturing and on-site assembly, targeting 70% adoption by 2025.



The “Ten Degrees” towers in South London, UK, were delivered in just 26 months and at **38 and 44 stories** were at least temporarily the world’s tallest modular development.

Sources: “Making Modular Construction Fit”, McKinsey, 2023; “Streamlining the Delivery of Rental Housing Through Pre-Approved Plans and Off-Site Construction”, Metro Vancouver, 2023; and trade press sources



Global Contech Investments Q1 2024:
US\$672 Million
↑ 20% from Q1 2023
 “Enhanced Productivity” was biggest focus area

Source: Cemex Ventures analysis: April 10, 2024

“Productivity isn’t everything, but in the long run it is almost everything. A country’s ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.”

– Economist and Nobel Laureate Paul Krugman

The BC CONSTRUCTION MONITOR is an ICBA publication providing ahead-of-the-curve information and statistics on the B.C. construction industry and issues relevant to it.



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