



Innovation, Science and
Economic Development Canada

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Développement économique Canada

Canada

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Key Messages

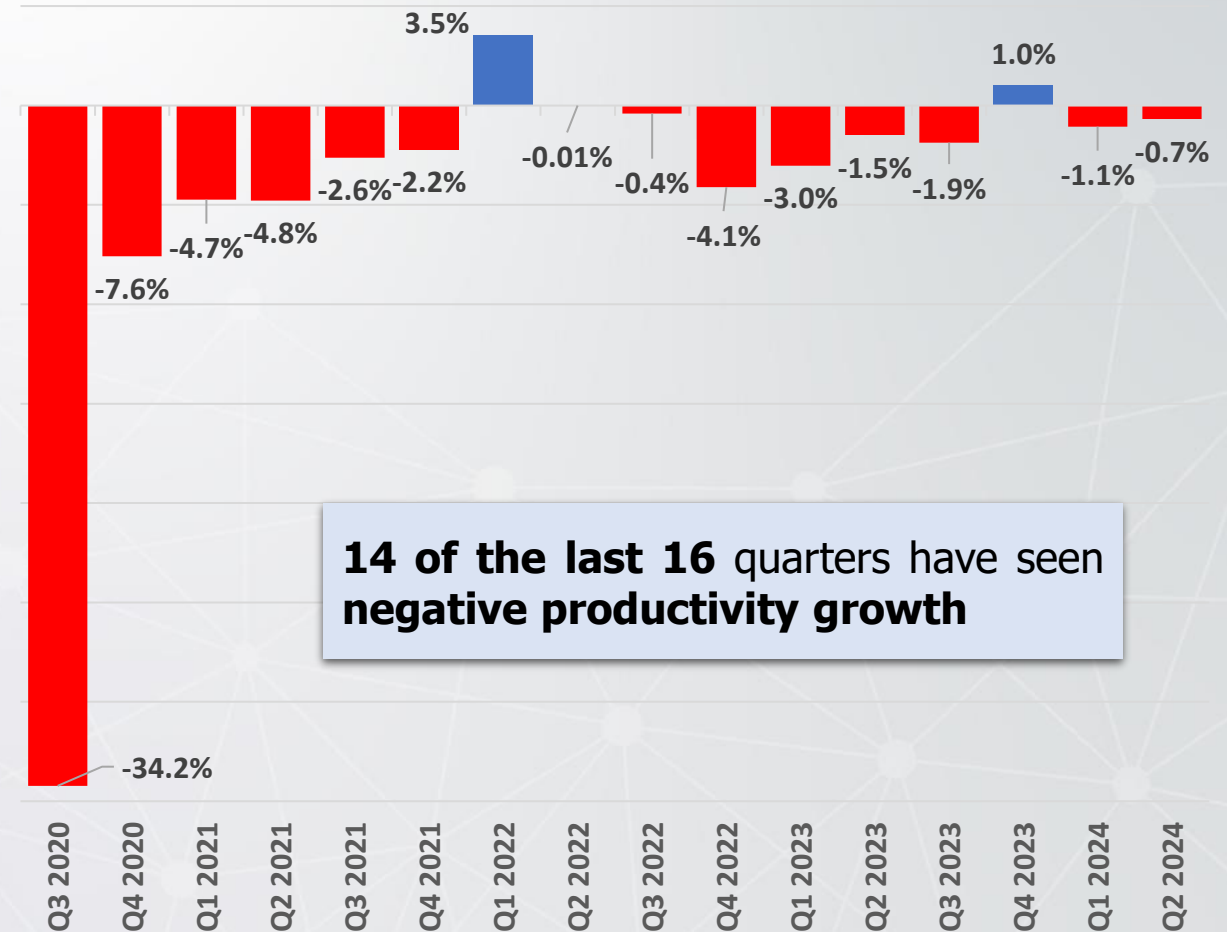
- **Productivity is essential for achieving sustainable economic growth and** raising living standards in Canada.
- **Usually observed, felt over the long term – Canadian economy facing steady decline in productivity growth.**
 - Other G7 countries have also experienced declines but Canada's pace has been more severe
- Employer demand in the labour market is **concentrated in low-skilled jobs** while workers with a at least a bachelor's degree struggle find jobs commiserate with their education level.
- **Improving managerial education levels and encouraging the adoption of high-performance work practices** could help encourage innovation and improve skills utilization.
- **Public policies can only go so far** in mobilizing growth. Leadership from the private sector will also be critical to boost Canada's productivity over the long-term.



Canada's Productivity Challenge

- Canada's overall 1.8% decrease in labour productivity in 2023 was the **worst in the OECD**.
- Recent poor performance has **erased all productivity growth** since 2017.
 - Labour productivity in Q2 2024 is **6% below** what it would have been if labour productivity growth maintained its 2010-2019 trend.
- Over 2019-2023, several key sectors have seen significant drops in labour productivity:
 - Construction** (-10%)
 - Transportation and warehousing** (-9.7%), most notably in **air transportation** (-34.1%) and **ground transit** (-22.2%)
 - Energy sector** (-3.2%)
- The OECD also predicts that **Canada's per capita GDP growth will rank last among OECD economies** over the next 40 years

Figure: Quarterly labour productivity growth in Canada (annualized)



Source: Statistics Canada Table 36-10-0206-01



Four elements contribute to stronger productivity

1. Skills and work practices

Improving worker and managerial skills, organizational practices, and job design to **better utilize the workforce.**

2. Innovation

Through R&D, **develop new products or processes** that can increase output with fewer inputs

**Increased
Productivity**

3. Capital Deepening

Improving the **quality of tangible and intangible capital** to improve the efficiency of workers.

4. Business environment for growth

Increased competition and **lowered barriers to trade** between jurisdictions can boost productivity

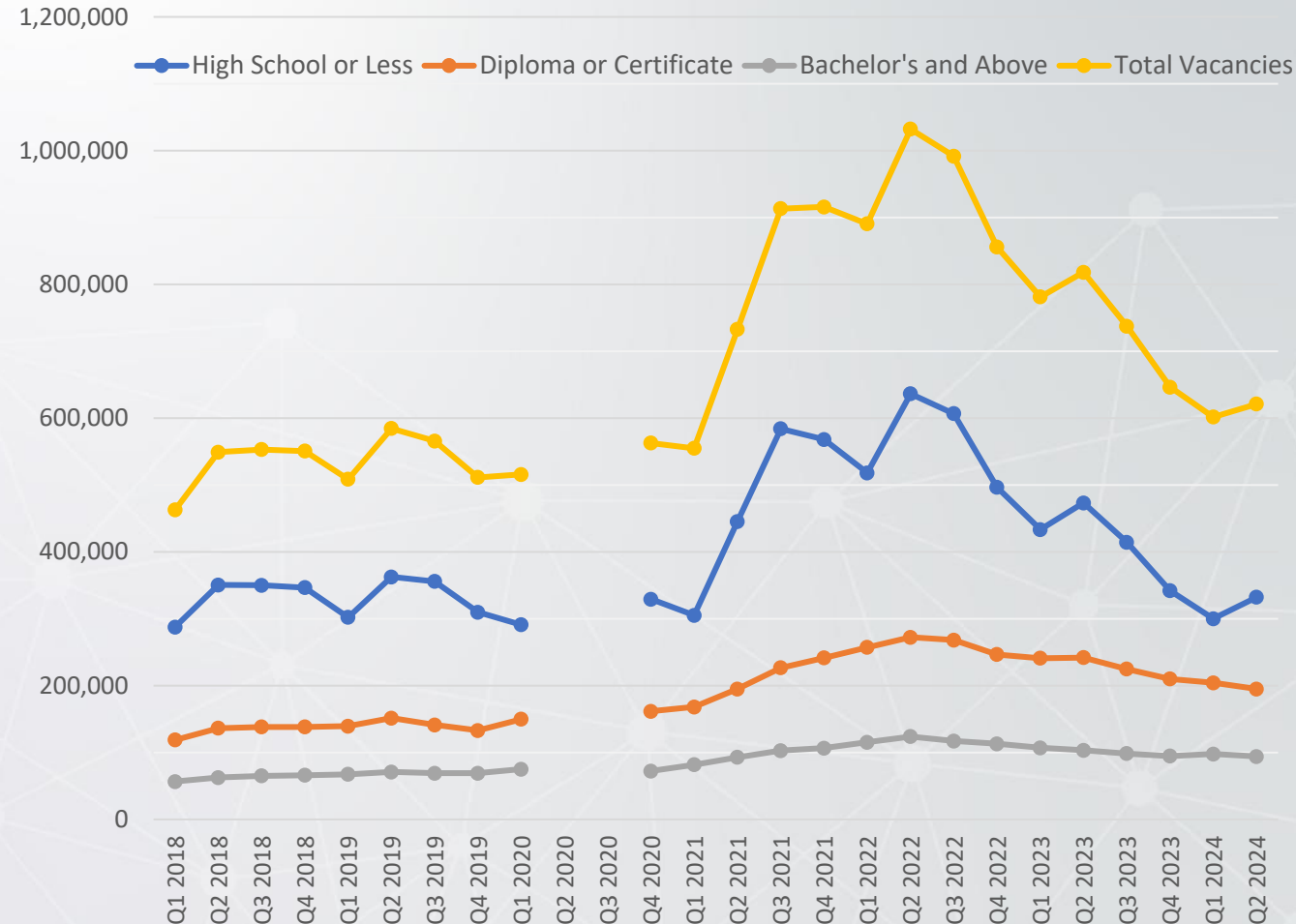


Which skills are in demand in the labour market?

- In the two years before the pandemic, **Canada averaged 535,000 job vacancies.**
- By Q2 2022, the total number of vacancies topped 1 million jobs – this was the post pandemic peak.
- This high demand has been **driven by demand for low-skilled workers** (see Figure)
 - As of Q2 2024 (latest), 54% of the job vacancies required high school education or less.
- Many firms are likely relying on low skilled labour as a means of maintaining their business.

Skills

Figure: Quarterly job vacancies by educational requirements



Source: Statistics Canada Table 14-10-0443-01

Note: the Job Vacancy and Wage Survey did not run in Q2-Q3 2020 due to the pandemic.



Where are the mismatches?

Unemployed-to-vacancy ratios high for university educated

There is a qualification mismatch between the supply and demand of labour (see Figure). In Q2 2024, the unemployed-to-vacancy ratio in Canada was 2.2. It was **lowest for those without a high school education (1.3)**, and **highest for those with at least a bachelor's degree (3.9)**.

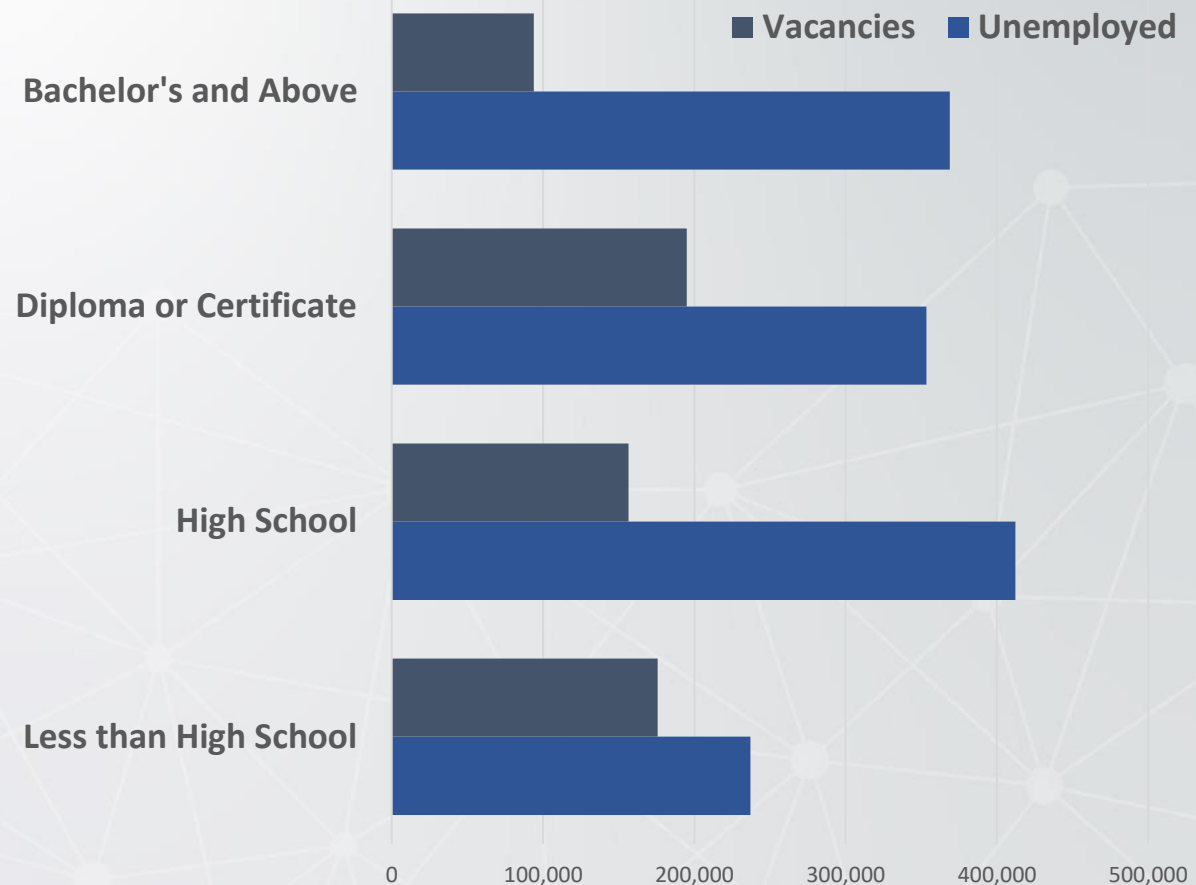
Skills mismatch rates high compared to OECD average

In 2019, **38.2% of Canadians were mismatched** in their job – of these **22.7% of Canadians held jobs they were underqualified for**.

Canada 18th in OECD for university education

Canada ranks 18th of 36 OECD countries among those aged 25-64 with a bachelor degree or better (33%). However, more than **half of employed bachelor's degree holders were overqualified**.

Figure: Vacancies and Unemployed (15+) by educational level, Q2 2024



Source: Statistics Canada Tables 14-10-0019-01, 14-10-0443-01



Soft skills widely in demand in Canada

- In 2021, **more than half (56.1%)** of employers reported that their overall workforce **lacked sufficient skills** to perform their job at the required level.
- While deficiencies job-specific skills were the most commonly reported source of issues, **a lack of softer skills** like customer service and teamwork were also commonly cited.
- According to online job post data, **soft skills make up the top 5 most commonly required skills** for jobs in Canada.



Top 5 Skills Employees Lack

The top 5 most common skills employers report their employees lack are:

1. Technical, practical or job specific skills
2. Problem solving skills
3. Customer service
4. Critical thinking
5. Teamwork



Top 5 Skills in Demand in 2024

The demand for skills in Canada is tracked using online job postings. The top 5 most mentioned are:

1. Teamwork
2. Communication skills
3. Customer service
4. Organizational skills
5. Interpersonal skills



Management practices are also key for productivity



Canadian managers less educated than US counterparts

In 2021, **47% of Canadian managers held a university degree**, compared with **60% of US managers** (see figure).



Managerial education fosters innovation and growth

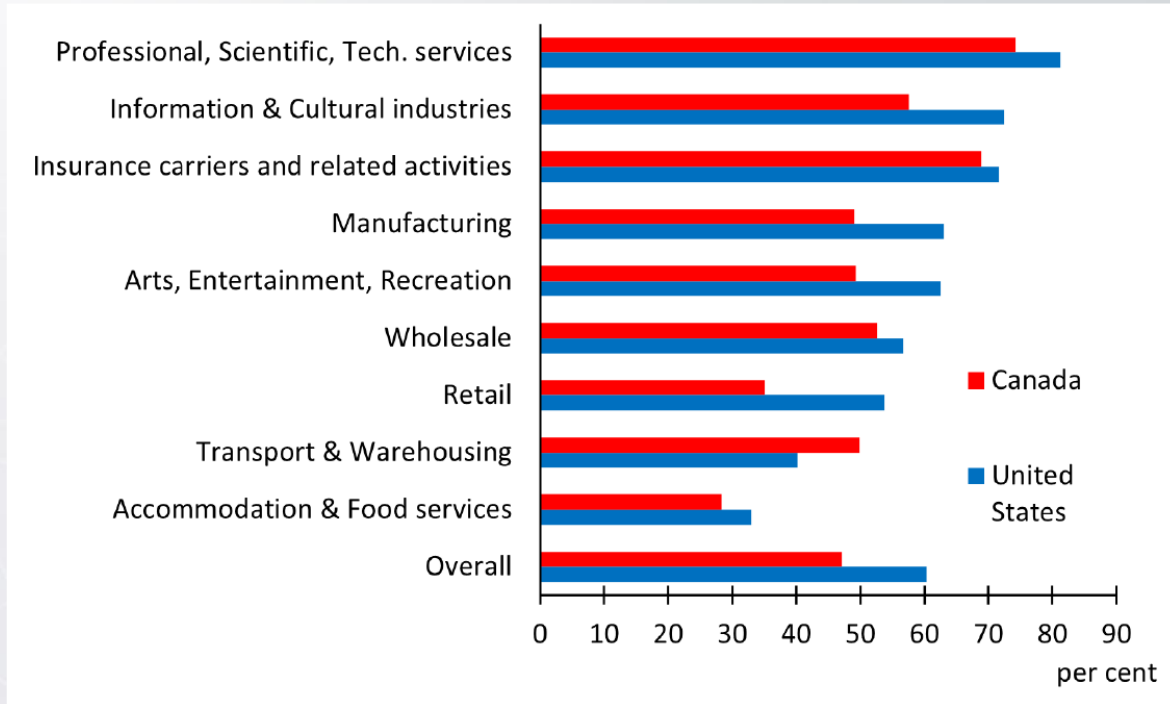
Managerial education can help innovation by **disseminating best practices**, increasing the **ability to adapt to and manage change**, and **integrate new technologies** in the workplace.



Education gaps are widespread across industries

Gaps are widespread across industries, especially in historically **innovation-heavy sectors** like Manufacturing, Information & Cultural industries, as well as Professional, Scientific, and Technical services.

Figure: Share of university-educated managers in selected industries and overall, 2021, Canada and US



Source: Rosell, Dowsett, and Paterson (2023)



Potential to improve skill use through High Performance Workplace Practices



High-performance work practices (HPWP)

HPWPs are bundles of activities that include both aspects of work organization and management practices, including job redesign, employee participation, autonomy, job rotation, skills audit, multi-skilling, and knowledge transfer.



Canadian programs geared to the worker, not the firm

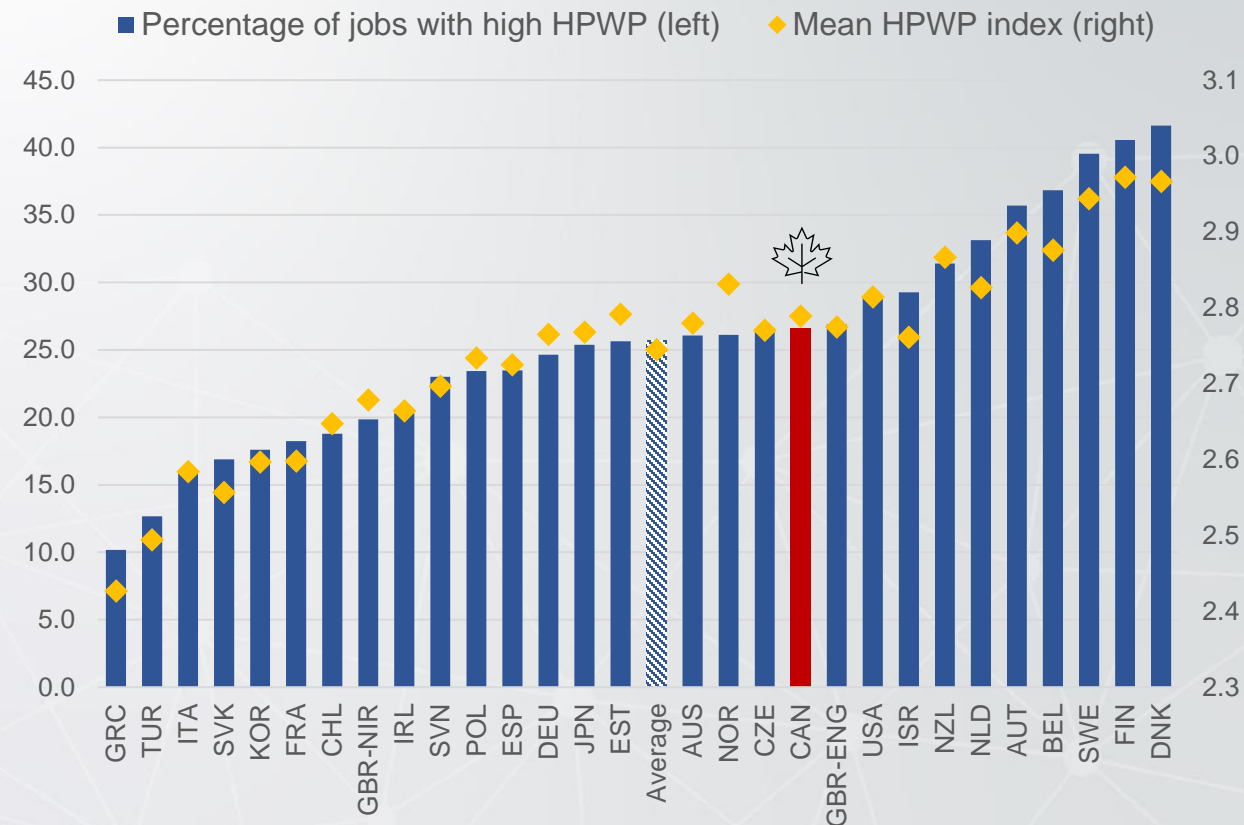
Canada has a robust suite of policies aimed at re-skilling and upskilling workers, but unlike France and the UK, it lacks programs directed to improve the uptake of HPWP by firms. As a result, only 28% of Canadian firms use HPWPs, with greater uptake rates among micro- and large-sized firms.



Adoption of HPWPs enhances skills utilization

OECD studies indicate that firms that adopt efficient work practices report improved skills utilization, and consequently, productivity gains and better employee retention.

Figure: Prevalence of High Performance Workplace Practices



Source: OECD/ILO (2017), Better Use of Skills in the Workplace: Why It Matters for Productivity and Local Jobs



Overall Takeaways

- Canada, like the rest of the world, has been grappling with weak productivity growth for decades.
- Canada was among the best productivity performers in the G7 from 2008-2019. Following the pandemic, there has been a pronounced downshift in labour productivity –this downshift is prevalent across all industries.
- While skills are a great equalizer for economic growth and inclusion, the extent to which they are put to good use by employers is critical.
- Greater productivity outcomes can be achieved by working closer with firms to look at how they deploy skills in the workplace and promote workforce innovation and technological adaptation.