



Falling Productivity in the Paper Industry Explains the Very Weak Productivity Performance in Canada's Forest Products Sector

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Productivity growth in the Canadian forest products sector has been poor since 2000, finds the **Centre for the Study of Living Standards**, an Ottawa-based non-profit economic research organization which today released a study of the productivity performance of the sector. The report is available at the CSLS web site under [Research Reports](#).

The forest products sector in Canada has faced hard times since 2000. Between 2000 and 2007, the sector's real output decreased by 1.34 per cent per year and total profits across the sector fell precipitously. The long-run decline of the sector as an employer of Canadian workers and a contributor to Canada's GDP continued. In response to this crisis, firms in the forest products sector have made efforts to lower costs through improvements in productivity. These efforts have not proved successful for the sector as a whole. Annual growth in labour productivity in the forest products sector averaged 0.38 per cent over the 2000-2007 period, even lower than the economy-wide average of 0.98 per cent.

This sub-par productivity performance is entirely attributable to the paper manufacturing subsector, where growth of labour and multifactor productivity sharply declined after 2000. Labour productivity in this industry declined by 1.93 per cent per year over the 2000-2007 period, a dramatic reversal from its annual growth rate of 3.55 per cent in the 1990s. The other two subsectors within the forest products sector – forestry and logging and wood product manufacturing – performed better. Forestry and logging, in particular, had strong growth in labour, capital, and multifactor productivity. However, much of this improvement came from cuts in inputs that exceeded cuts in real output. Given that the three subsectors exhibited different productivity trends over the period, each subsector requires its own set of explanations.

Investment in research and development, education and training, and new machinery and equipment is key to improving productivity in the forest products sector. And improving productivity is the only sustainable way to ensure the long-term viability of the sector. At the same time, investment in Canada's forest products sector will only occur if the likely return is higher than elsewhere in the world economy. The federal and provincial governments must assist the sector in adjusting to the changing global environment while softening the adverse affects of such adjustment on communities and individuals.

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. Further information/interviews: Andrew Sharpe, 613-233-8891, andrew.sharpe@csls.ca