Study: The impact of competition intensity on labour productivity growth in Canada

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Competitive pressures improve labour productivity growth in Canada

Canada's economy has struggled with weak productivity growth for more than two decades, constraining improvements in living standards and long-term economic growth. Understanding the sources of this slowdown has therefore become a central concern for policymakers. One factor that has attracted growing attention is competition, as it is widely viewed as an important driver of productivity. Competitive pressures shape firms' incentives to innovate, control costs, and adopt more efficient technologies, while also enabling the reallocation of resources from less productive to more productive firms across the economy.

A new study, "The Impact of Competition Intensity on Labour Productivity Growth in Canada," examines the relationship between competition and labour productivity growth in Canada using detailed microdata covering nearly all Canadian firms from 2000 to 2019. Competition is measured in three complementary ways: the Price-Cost Margin (PCM) for pricing power, the Boone Indicator for how profits respond to efficiency (costs), and the Herfindahl-Hirschman Index (HHI) for market concentration. The study then analyzes how labour productivity responds to competitive pressures both at the firm and industry levels.

The results show a consistent pattern: stronger competition is positively associated with labour productivity growth at both the firm and industry levels, with one exception. When competition is measured using the HHI, the industry-level relationship with labour productivity peaks at a moderate level of market concentration. A plausible explanation is that moderate concentration allows more productive firms to expand while less productive firms contract or exit, thereby boosting aggregate labour productivity growth.

The results also indicate that competition is more important for productivity leaders over the study period. Frontier firms, those in the top 10th percentile of the productivity distribution, experience slower labour productivity growth when competition weakens and respond more sharply when competition intensifies. Strong competitive pressure may push leading firms to continue innovating and investing, whereas weaker competition can result in stagnation among these frontier firms.

The study "The Impact of Competition Intensity on Labour Productivity Growth in Canada," part of the *Analytical Studies Branch Research Paper Series* (**11F0019M**), is now available.

For more information, or to enquire about the concepts, methods or data quality of this release, contact us (toll-free 1-800-263-1136; 514-283-8300; **infostats@statcan.gc.ca**) or Media Relations (**statcan.mediahotline-ligneinfomedias.statcan@statcan.gc.ca**).