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Canada shares a border with the largest economy in the world. The ability of U.S. businesses to allocate resources to new technologies and new production processes has raised the living standards of U.S. citizens over time. Given the longstanding and deeply integrated economic relationship between Canada and the United States, knowledge of how Canada's economic performance compares with that of its southern neighbour can provide valuable insights into potential changes in relative living standards between the two countries.

Measuring economic performance

There are many ways to measure economic performance. Here, three common aggregate measures are considered: labour productivity, real gross domestic product (GDP) per capita and real gross national income (GNI) per capita.

Labour productivity is a highly monitored economic indicator, since improvements in productivity are traditionally viewed as the primary driver of higher living standards. Labour productivity measures how efficiently an economy transforms labour into the outputs consumers and businesses want. As productivity rises, more goods and services can be produced with the same amount of work. Productivity growth translates, via competition, into slower increases in consumer prices, resulting in improvements in purchasing power (Baldwin & Gu, 2009). Without productivity growth, real wages and living standards can stagnate.

Real GDP per capita measures the average income generated per person from domestic production. Changes in per capita GDP depend on productivity growth, changes in the amount of capital used in production, changes in hours worked and changes in the size of the population over time.

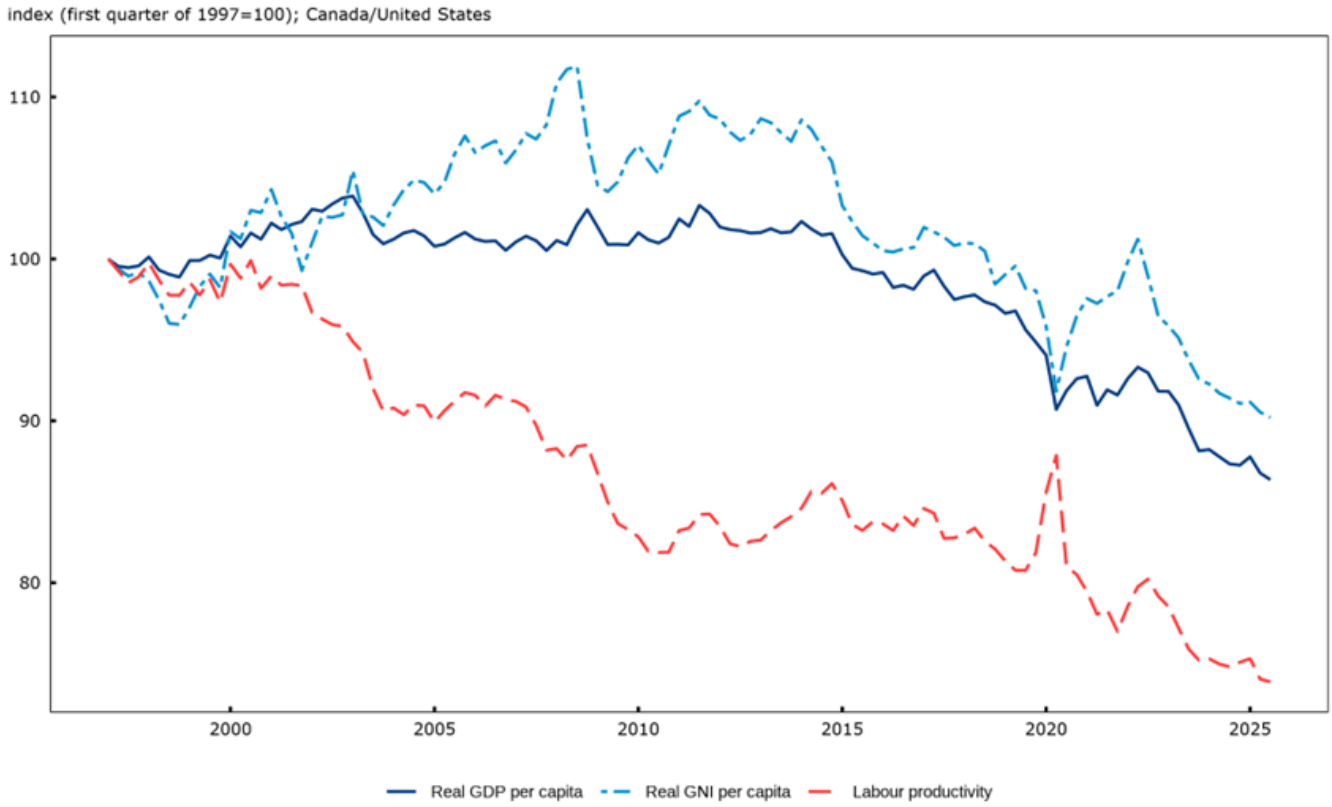
A complementary measure to real GDP per capita is real GNI per capita. Rather than focusing on the average volume of output produced, real GNI per capita provides information on the volume of goods and services that can be purchased, on a per-person basis, with the income earned through production.

Growth in real GNI per capita is driven in part by real GDP growth, but it also depends on the impact of trading gains, primarily changes in the relative price of exports to imports. Estimates of real GNI also incorporate an adjustment for international income flows, such as the profits from foreign investments or income returned to the home country by foreign workers. Real GNI per capita thus provides a composite measure of the purchasing power of the income earned by Canadians.

Comparing Canada and the United States

Assessments of Canada's economic performance relative to the United States over the last three decades depend on the measure used. Since 1997, labour productivity growth in Canada has not kept pace with labour productivity growth in the United States. As a result, Canada's relative labour productivity has fallen further behind. The red line in Chart 1 illustrates the declining trend in Canada's relative productivity, which has fallen 26% since the late 1990s.

Chart 1
Economic performance of Canada relative to the United States



Sources: Statistics Canada, tables 17-10-0009-01, 36-10-0206-01, 36-10-0105-01, United States Bureau of Economic Analysis & United States Bureau of Labor Statistics.

Trends in real GDP per capita provide a different view, but ultimately also show a decline in Canada's economic performance, fuelled by the deterioration of Canada's relative per capita output following the oil price shock in the mid-2010s.[1] From 1997 to 2015, Canadian real GDP per capita grew at the same pace as in the United States, with quarterly annualized growth averaging 1.53% for Canada and 1.52% for the United States (Table 1). Per capita growth in Canada during much of this period relied more on increases in hours worked, which were relatively stronger in Canada up to the 2008 recession. As a result, while Canada's labour productivity declined relative to the United States from the late 1990s to 2015, real GDP per capita kept pace.

1. Dating the inflection point for when economic measures begin to show consistent relative declines rather than divergent results is challenging. This report uses the midpoint of the first quarter of 2015 as the inflection point because all three measures have similar trends after that date. An analysis of commodity data or labour data may suggest changes around the 2008 recession, while a formal statistical analysis of the inflection point based on time series regression analysis could identify a different quarter in the mid-2010s period, or even series-specific inflection points.

However, after 2015, GDP growth in Canada was slower than in the United States, while population growth in Canada accelerated. The dark blue line in Chart 1 illustrates the steady deterioration of Canada's relative per capita output since the oil price shock in the mid-2010s. As a result, Canada's relative per capita output in the third quarter of 2025 was 14% below levels observed in early 1997.

The growth in real GNI per capita is influenced not just by productivity and production (real GDP), but also by changes in relative prices, principally stemming from changes in the terms of trade, along with the remuneration of income from foreign investment and from working abroad. From 1997 to 2015, real GNI per capita in Canada grew at a faster pace than real GNI per capita in the United States, despite lower productivity growth in Canada and about the same growth in real GDP per capita. The increase in Canada's relative GNI during this earlier period—represented by the light blue line in Chart 1—was driven by higher commodity prices that supported improvements in Canada's terms of trade. Effectively, Canada was able to buy more imports (e.g., computers, industrial machines) for each export (e.g., barrel of oil) it sold on international markets. The same commodity price movements held back real GNI per capita growth in the United States over that period, since the United States was a net importer of many commodities, particularly oil.

After the 2008 recession, when oil prices declined from US$133.88 to US$39.09,[2] relative real GNI per capita declined sharply. While there was some recovery after the recession during the rise in commodity prices from 2010 to 2014, the general tendency was negative after that. After the oil price shock in 2015, commodity prices no longer provided support for growth in Canada's real GNI per capita when measured against GNI growth in the United States. As a result, Canada's relative GNI per capita began to trend lower and, by the third quarter of 2025, it was 10% below the levels observed in the late 1990s.

Table 1
Quarterly annualized growth rates

	1997 Q1 - 2025 Q3	1997 Q1 - 2015 Q1	2015 Q1 - 2025 Q3
		percent	
Labour productivity			
Canada	1.22	1.46	0.80
US	2.22	2.38	1.96
Real GDP per capita			
Canada	1.27	1.53	0.82
US	1.72	1.52	2.07
Real GNI per capita			
Canada	1.63	1.87	1.22
US	1.80	1.59	2.17

Sources: Statistics Canada, tables 17-10-0009-01, 36-10-0206-01, 36-10-0105-01, United States Bureau of Economic Analysis & United States Bureau of Labor Statistics.

2. West Texas Intermediate crude oil monthly spot price (U.S. Energy Information Administration).

The overall situation

Regardless of the measure selected, Canada's economic performance has not kept pace with the United States in recent years. A relative dependence on small firms (Gu & Lesica, 2025), less investment in information and communications technology (Gu & Willox, 2023), and less intangible investment (Allen et al., 2025) have all contributed to this relative decline.

Considering the importance of productivity growth to long-term improvements in living standards, the relative decline in productivity growth is the principal reason why Canada is falling behind, regardless of how economic performance is measured.

However, since the commodity boom ended, features of the Canadian economy that had been offsetting the relative decline in productivity (relatively faster growth in hours worked and beneficial terms of trade changes) stopped doing so. Canada is no longer translating population growth into increases in hours worked at the same pace that it had previously, nor is it benefiting from favourable movements in commodity prices. As a result, relative real GDP per capita and relative real GNI per capita are now echoing the relative decline in labour productivity. This implies that economic growth in the United States has been outpacing economic growth in Canada in recent years. The U.S. economy performed well following the COVID-19 pandemic, and if this recent trend continues, improvements in Canada's living standards will be slower than in the United States.

Authors

Carter McCormack and Ryan Macdonald are with the Economic and Social Analysis and Modelling Division, Analytical Studies and Modelling Branch, at Statistics Canada.

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