AGRICULTURE

Throughout the early 1970's, Canadian farmers held a significant cost advantage relative to U.S. producers on a pre-exchange-rate-adjusted basis. This was principally due to the fact that unit material costs in Canada, which historically accounted for over 75 per cent of total expenditures, were anywhere from 15 to 30 per cent below U.S costs . While both countries experienced substantial increases in unit material costs from 1972 to 1974, the increase in U.S. expenditures over the three-year period was higher: 65 per cent versus 52 per cent in Canada. This left Canadian material costs 28 per cent below U.S. levels in 1974.

This advantage began to diminish in the mid-1970's, however, and in 1981 domestic material costs had jumped 25 per cent above U.S. levels. In 1984, Canadian costs increased by 6 per cent, while similar U.S. costs fell by almost 22 per cent. This left Canadian material costs 67 per cent higher than U.S. levels at the end of the period.

Canadian unit labour costs, which accounted for approximately 10 to 12 per cent of total expenditures in each year, were higher and grew more rapidly than similar U.S. costs over the period. The average annual growth rate[7] was 8.4 per cent in Canada compared to 7 per cent in the U.S., leaving domestic costs 36 per cent above U.S. costs by 1984. Labour productivity in Canada was very low compared to the U.S., fluctuating between 42 to 52 per cent of U.S. levels over the period.

U.S. unit interest payments grew at a phenomenal rate after 1976, accounting for 18 per cent of total U.S. costs in 1984. In 1982, the last year of available Canadian interest-rate data, Canadian unit payments were 65 per cent below U.S. levels. However, this factor only accounted for 3.6 per cent of total Canadian costs in that year.

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7 To avoid having an endpoint outlier skew the calculation of average annual growth, the calculation was based on a Least Squares regression against a monotonically increasing series called TIME.