

The situation is notably different in the parts sector. The salary gap between U.S. and Canadian production workers is similar 33.5% higher in the U.S. in 2002 (35% in 2001), but here it is mainly driven by much less value added generated in Canadian firms. The share of value added paid out in wages and benefits is comparable across the two countries. The fact that Canadian firms have much fewer salaried employees makes the difference in labour productivity—measured as value added per production worker—particularly stark; it was 60% higher in the U.S. in 2002.

A couple of caveats are required to put this comparison in perspective. First, a larger fraction of the parts sector output stays in Canada and the very low Canadian—U.S. dollar exchange rate in 2002 undervalues Canadian output in that year. Second, the mix within the parts sector is disadvantageous for Canada. A greater fraction of U.S. employment is in engine production which is highly capital intensive, which biases U.S. value added upward<sup>69</sup>. In addition, the Canadian engine sector was operating in 2002 at approximately 50% of its usual value added per worker. Third, the Canadian industry is reallocating its parts employment towards a number of sub-sectors with higher than average value added per worker: engine & engine parts and interiors, while maintaining a large employment share in a third high value added sector—transmissions (see statistics in Table 4.5).

Finally, in Table 5.2 we present a breakdown of total value added generated in the U.S. automotive industry in different years, as estimated and predicted by the Center for Automotive Research in Michigan<sup>70</sup>. The most important sub-sector throughout was parts and components. Increased cost pressure, due to import competition and purchasing plans of OEMs, depressed its share slightly in 2000 to 56.0%. Increased use of electronics is predicted to raise its share to 60.1% of total value

---

<sup>69</sup> Given that the two countries use a different breakdown of the NAICS industry classification below the “Parts and accessories manufacturing” (NAICS 3363) level, it is impossible to control for the mix of industries to make the value added comparison.

<sup>70</sup> Center for Automotive Research (2002), “Estimating the New Automotive Value Chain,” a study prepared for Accenture.