A Primer on Unit Labor Costs from

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http://www.statcan.gc.ca/pub/15-206-x/2006002/4054836-eng.htm

Productivity is at the heart of, but does not guarantee...

…Competitiveness

Improved productivity performance helps a company lower its production costs, sell more products at a lower price, and enhance its relative ability to compete. Hence, productivity is seen as a way of improving a firm's competitiveness. But a company's competitiveness does not just depend on its productivity; it also depends on the relationship between productivity and the prices of the resources used.

Both of these factors are combined in a separate but related statistic called the unit production cost, which is defined as the ratio of the price of resources used in production divided by multifactor productivity. This statistic is commonly used to measure competitiveness.

The most commonly used measure of competitiveness is unit labour costs—a partial measure of the impact of higher labour costs on a firm's competitiveness. This measure is defined as:

$$\textit{Unit labour cost} = \frac{\textit{Hourly compensation}}{\textit{Labour productivity}}$$

Unit labour costs will increase when hourly compensation (or compensation per hour worked) grows faster than labour productivity.[4] If increases in labour productivity keep up with increases in the average wage rate, there is less upward cost pressure on a firm from its labour inputs. The competitiveness of a business sector is often judged on the basis of whether its unit costs are less than or equal to its competitors' unit costs.[5]

Cost-based competitiveness of Canadian industry relative to other countries is determined by two factors: unit production costs and the exchange rate. For example, an improvement in an industry's competitive position relative to the United States can result from various sources:

- a decrease in unit labour costs in Canada (due to faster productivity growth or slower wage growth);
- an increase in unit labour costs in the United States;
- a decrease in the value of the Canadian dollar against the U.S. dollar.