

Canadian companies must meet challenges with investment, innovation

Investing in new machinery and implementing innovative solutions will be critical for Canadian companies to achieve success as the economy slowly improves, according to a recent report from TD Economics.

“An economic recovery has taken hold in Canada, but the pace of economic growth will remain subdued. That means businesses will continue to face a fiercely competitive and challenging environment.

“Exporters will struggle with a strong Canadian dollar and only gradually improving U.S. demand. Domestic companies will face more competition from foreign imports from countries with lower labour costs and/or weaker currencies. And, domestic demand will likely prove moderate in 2010 and 2011,” the report warns.

Against this bleak backdrop, TD Economics stresses that Canadian businesses must consider every possible option to boost efficiency, constrain costs and improve margins.

“Additional investment in machinery and equipment, particularly the deployment of new innovations, could prove a key ingredient for success. The good news is that a host of factors make now a good time to make such investments. Borrowing costs are low, credit is accessible, profit growth will gradually recover and the strong Canadian dollar is making it cheaper for firms to purchase imported equipment.

“Greater investment in new capital would reap benefits for both individual companies and the economy as a whole. Indeed, additional investment could help to address Canada’s abysmal productivity performance in recent years, which is one of the country’s most pressing problems,” according to TD Economics.

Continues the report, “Canada severely lags our international peers in productivity and this gap is a major hindrance when competing in export markets, since the most productive producers are most able to win market share and grow their business.

“As of 2008, Canada’s business-sector productivity had fallen to 72% of the U.S. business sector output per hour. During the past decade, slumping productivity growth rates in the manufacturing and resource sectors were the largest contributors to this growing overall productivity gap. Moreover, productivity of the Canadian manufacturing industry grew much slower during the last decade than did that of U.S. manufacturing.”

Obviously, even though the recovery is underway that doesn’t mean that Canadian manufacturers aren’t still facing the same challenges that were there prior to the downturn.

