Australian Government
Productivity Commission

Sluggish productivity – what's going on?

Danielle Wood, Chair

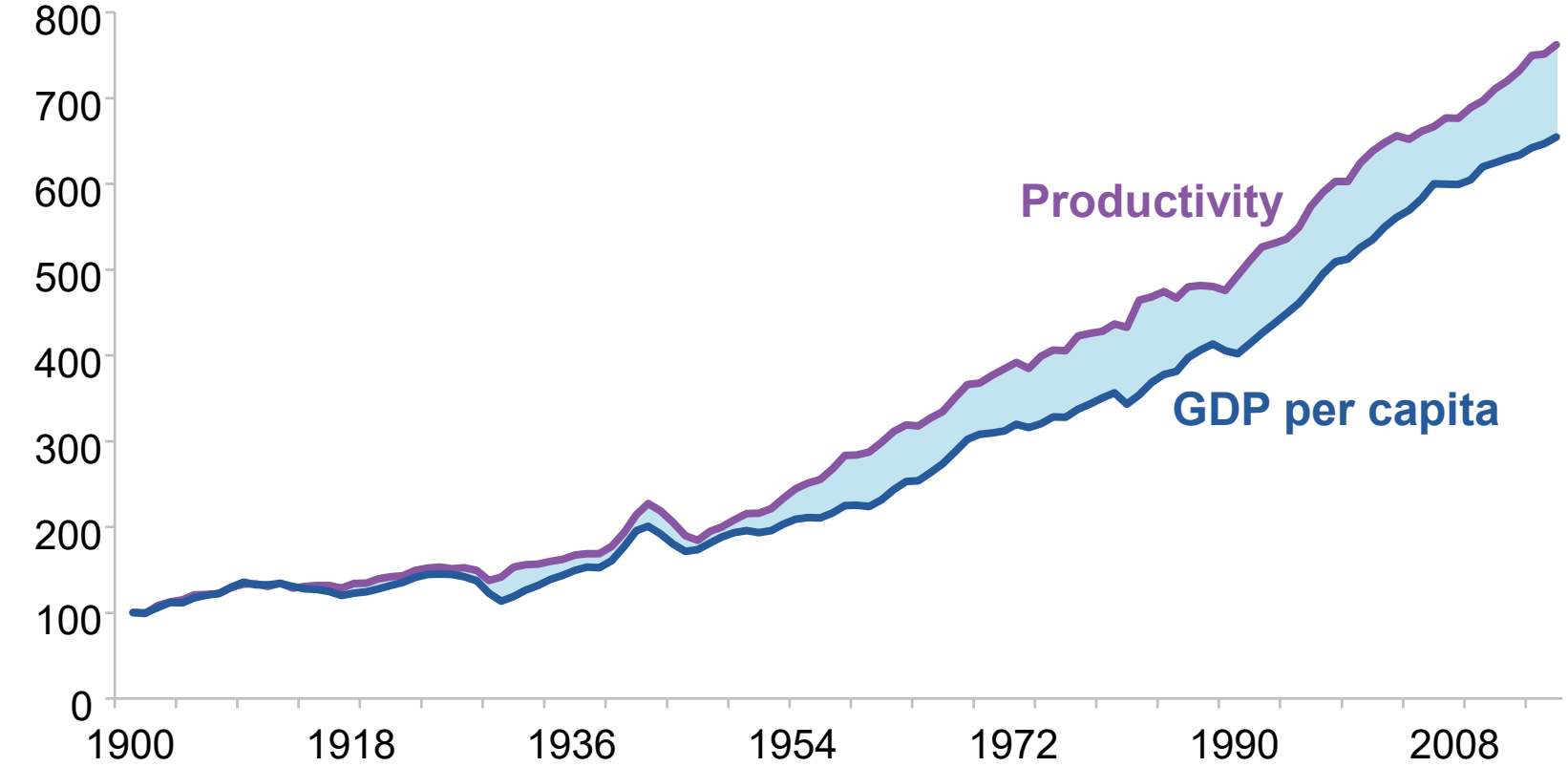
Melbourne Economic Forum
17 December 2024

What will we cover

1. **Unpacking the recent productivity numbers**
2. What are we recovering to?
3. Declining market dynamism – is competition the problem?
4. The policy response: the Competition Taskforce

Australians are better off due to rising productivity

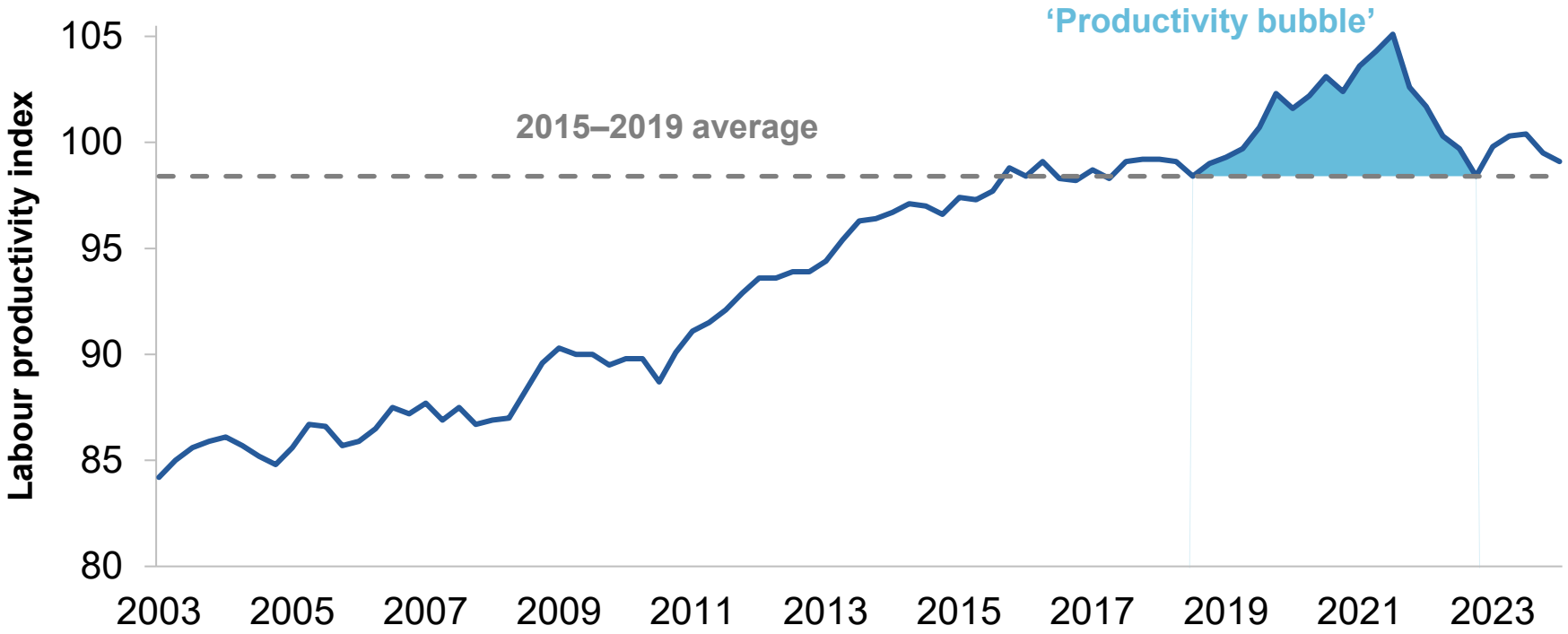
(index = 100 in 1901)



Source: Productivity Commission analysis.

We’ve been on a wild ride lately

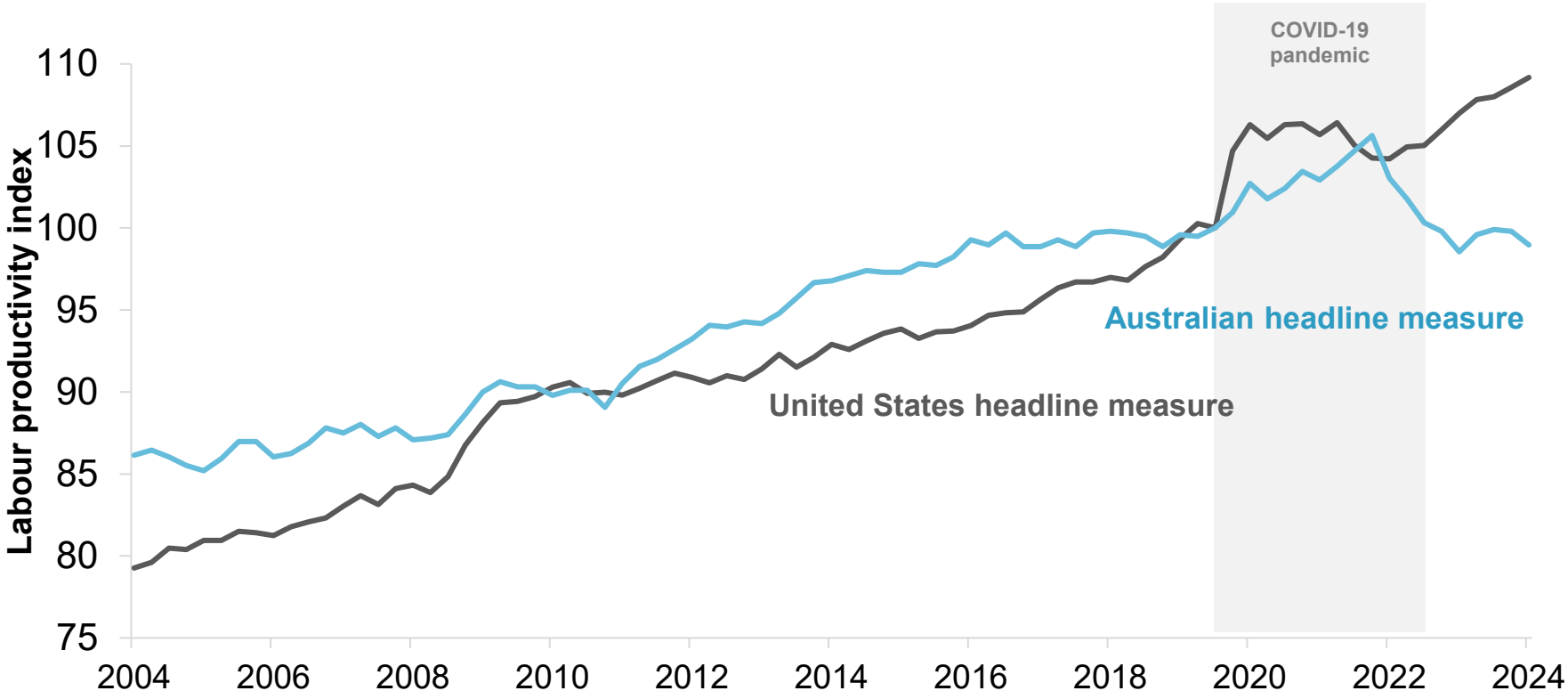
Labour productivity (index, 2023-24 = 100) between September 2003 and September 2024



Source: Productivity Commission estimates using ABS (2024, Australian National Accounts: National Income, Expenditure and Product, September 2024, Cat. No. 5206.0., Table 1.

Has the US cracked the code?

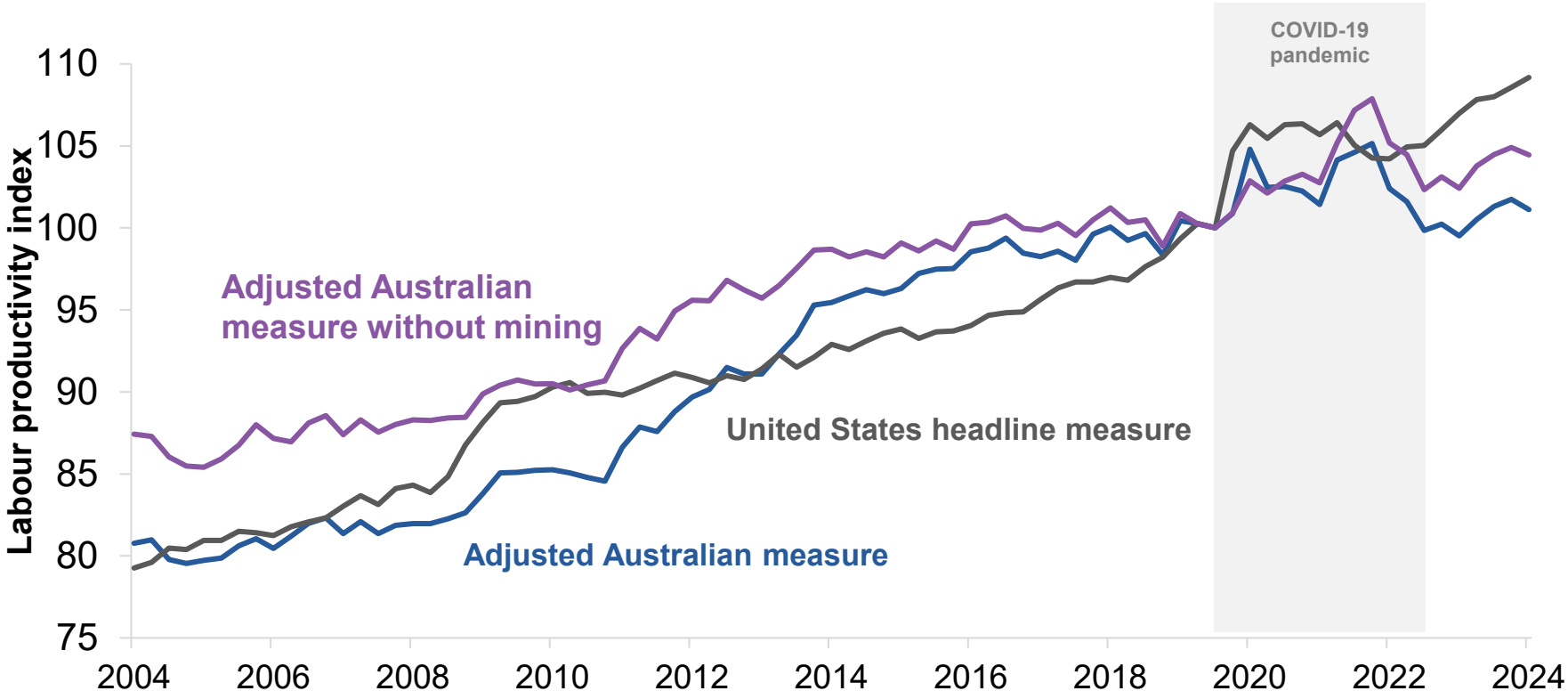
Quarterly real labour productivity (index, Dec 2019=100), June 2004 to June 2024



Note: The Australian headline measure is for the whole economy. The US headline measure is for the nonfarm business sector. Source: Productivity Commission analysis.

Maybe but need to compare apples with apples…

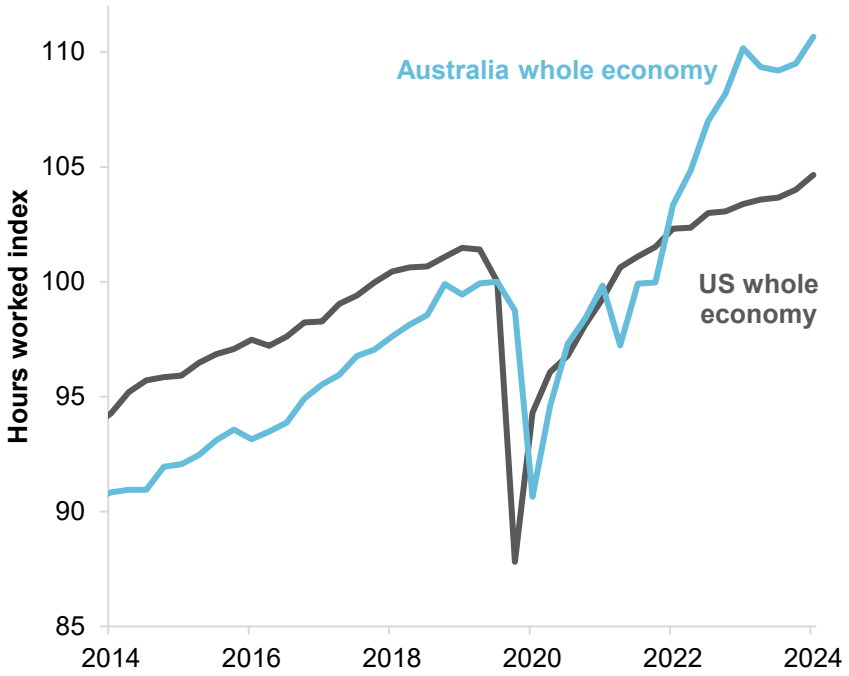
Quarterly real labour productivity (index, Dec 2019=100), June 2004 to June 2024

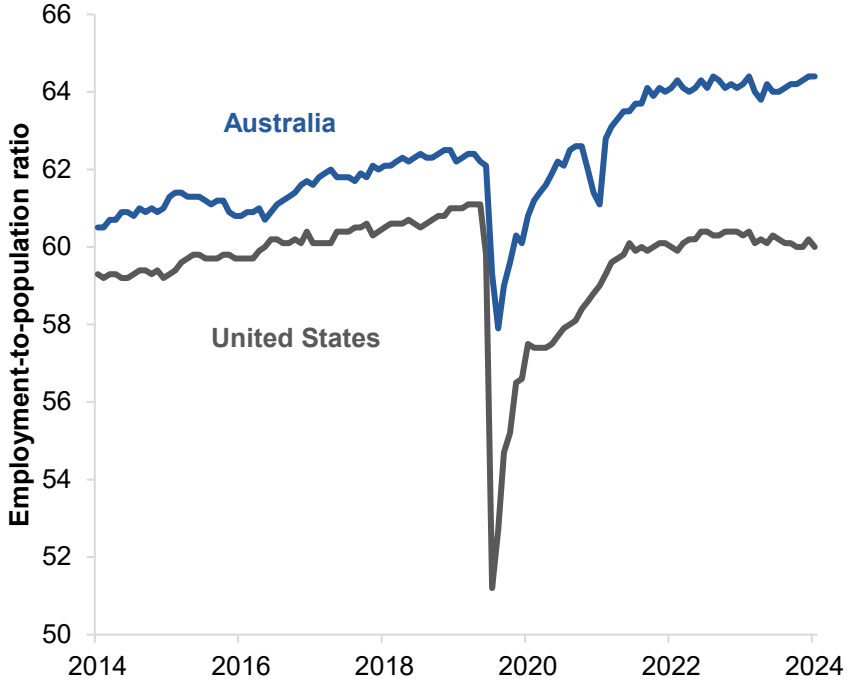


Note: The adjusted Australian measure is for all market sector industries except agriculture, forestry and fishing. Source: Productivity Commission analysis.

Also, different labour markets likely playing a role

Hours worked (LHS, index = Dec 2019), and employment to population ratio (RHS)

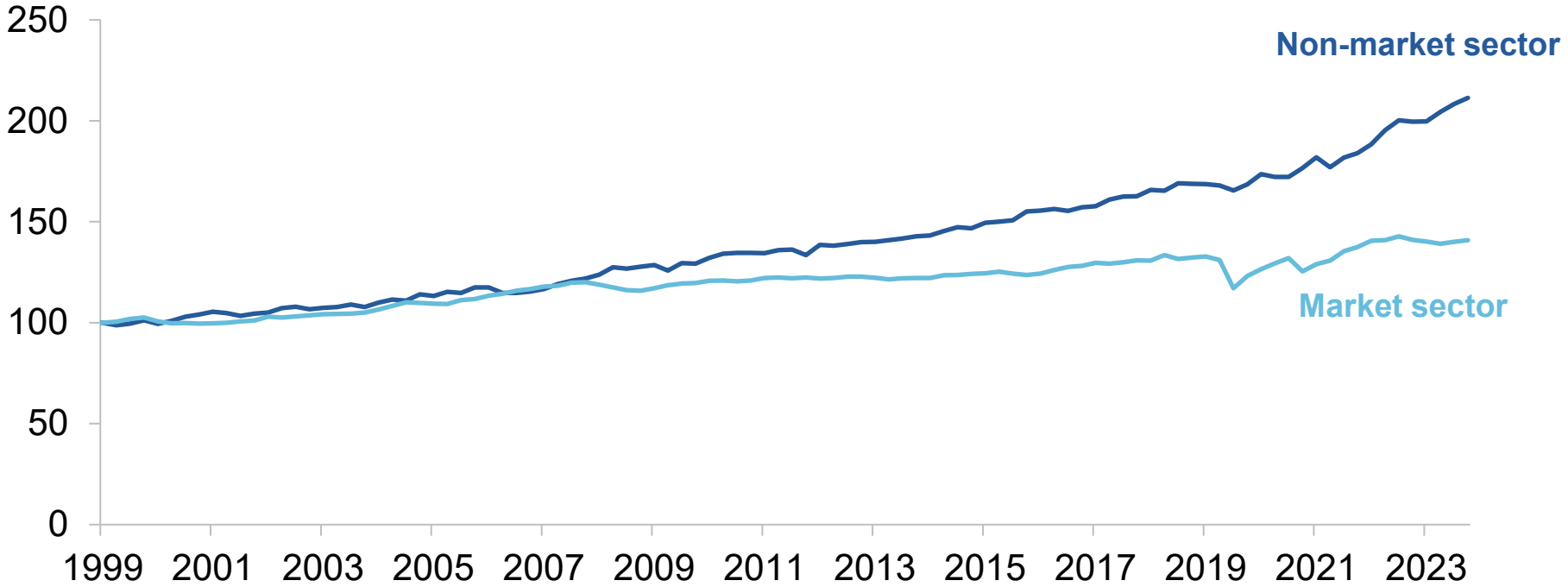




Source: Productivity Commission analysis.

Much of Australian job growth has been in non-market sector

Change in hours worked (index = Dec 1999, quarterly)



Source: Productivity Commission estimates based on ABS 2024, *Labour Account Australia,* September.

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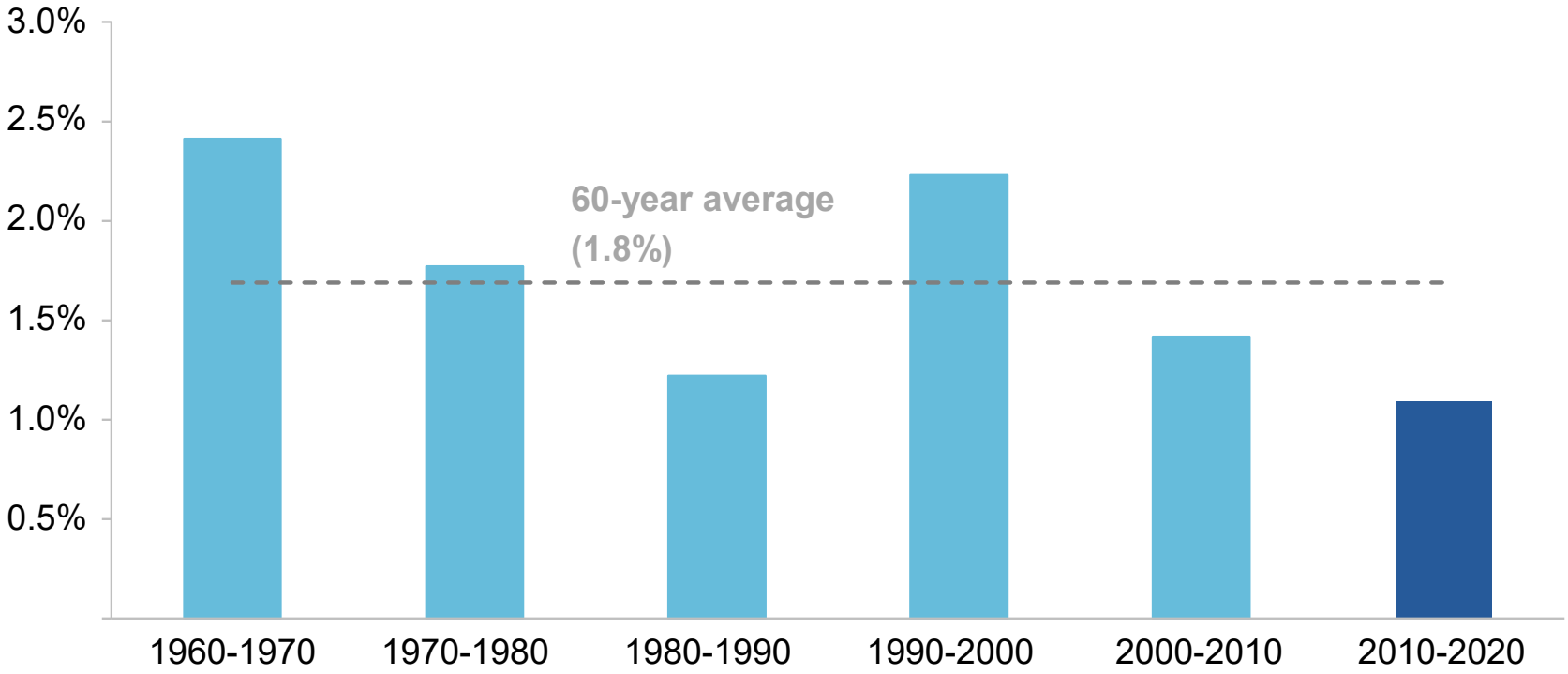
But Australia's productivity growth pre-COVID was slowest in 60 years

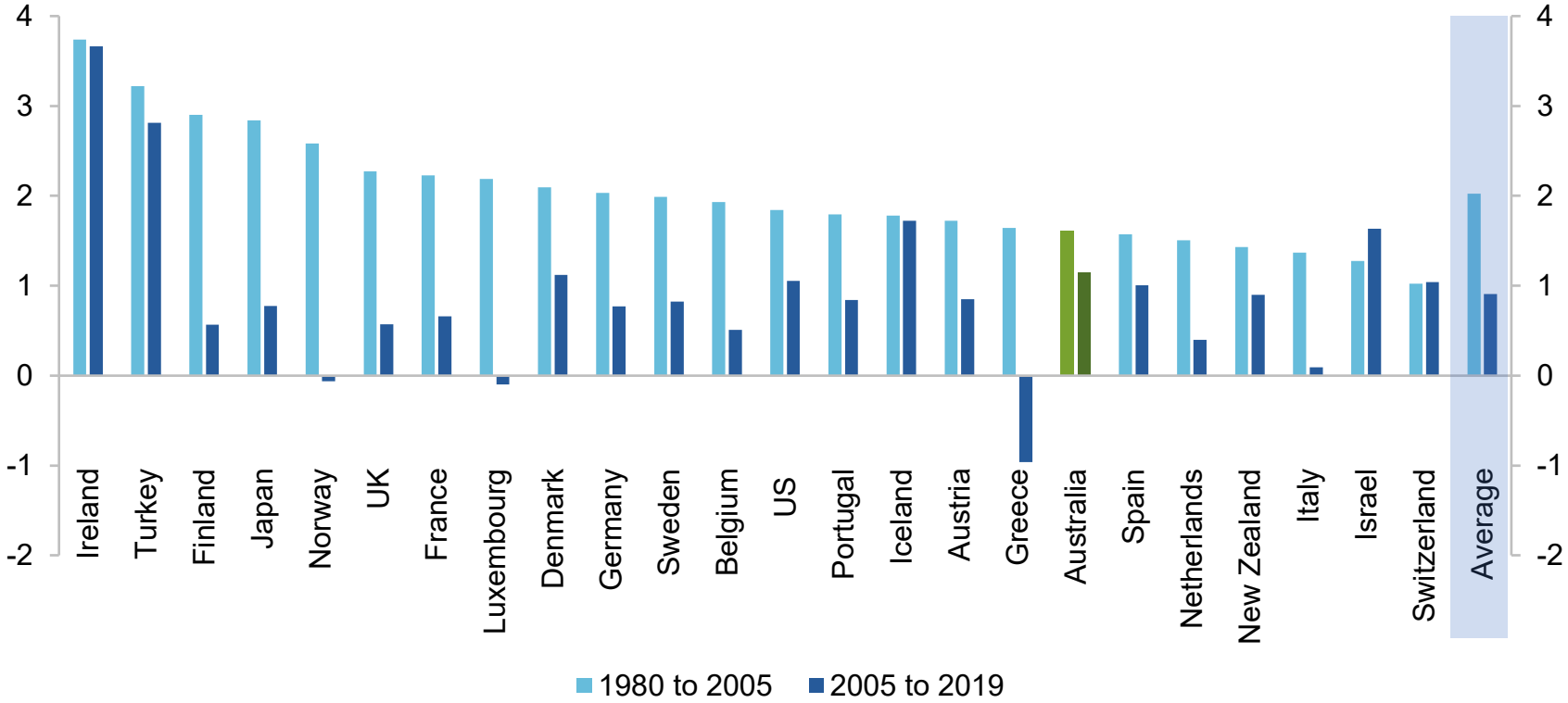
Average labour productivity by 10- and 60-year periods



Note: Labour productivity calculated as GDP per hour worked. GDP data sourced from the ABS between 1959-60 and 2021-22. Hours worked data from Penn World Tables for between 1959-60 and 1973-74 and from the ABS between 1974-75 and 2021-22. Source: Productivity Commission estimates using ABS (Australian System of National Accounts, 2020-21, Cat. no. 5204.0., table 1); Feenstra, Inklaar and Timmer (2015).

Reflecting weaker productivity growth globally

Labour productivity growth in OECD countries, %



Note: Includes only the 24 longest standing OECD countries. For some countries, the average growth rate between 1980 and 2005 could not be calculated due to missing data for the 1980s. Countries where the average growth rate was calculated for a narrow window were: Austria (1995 to 2005), Greece (1983 to 2005) and Israel (1981 to 2005). Source: OECD 2022.

Why did productivity slow?

- **Shift to less capital-intensive industries**
  – the march of the services sector

- **Reduced boost from technological change**

- **Sluggish investment**

- **Reduction in economic dynamism**

- **Lack of policy reform**

- **Smaller gains from education** / human capital accumulation

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The economy is less dynamic

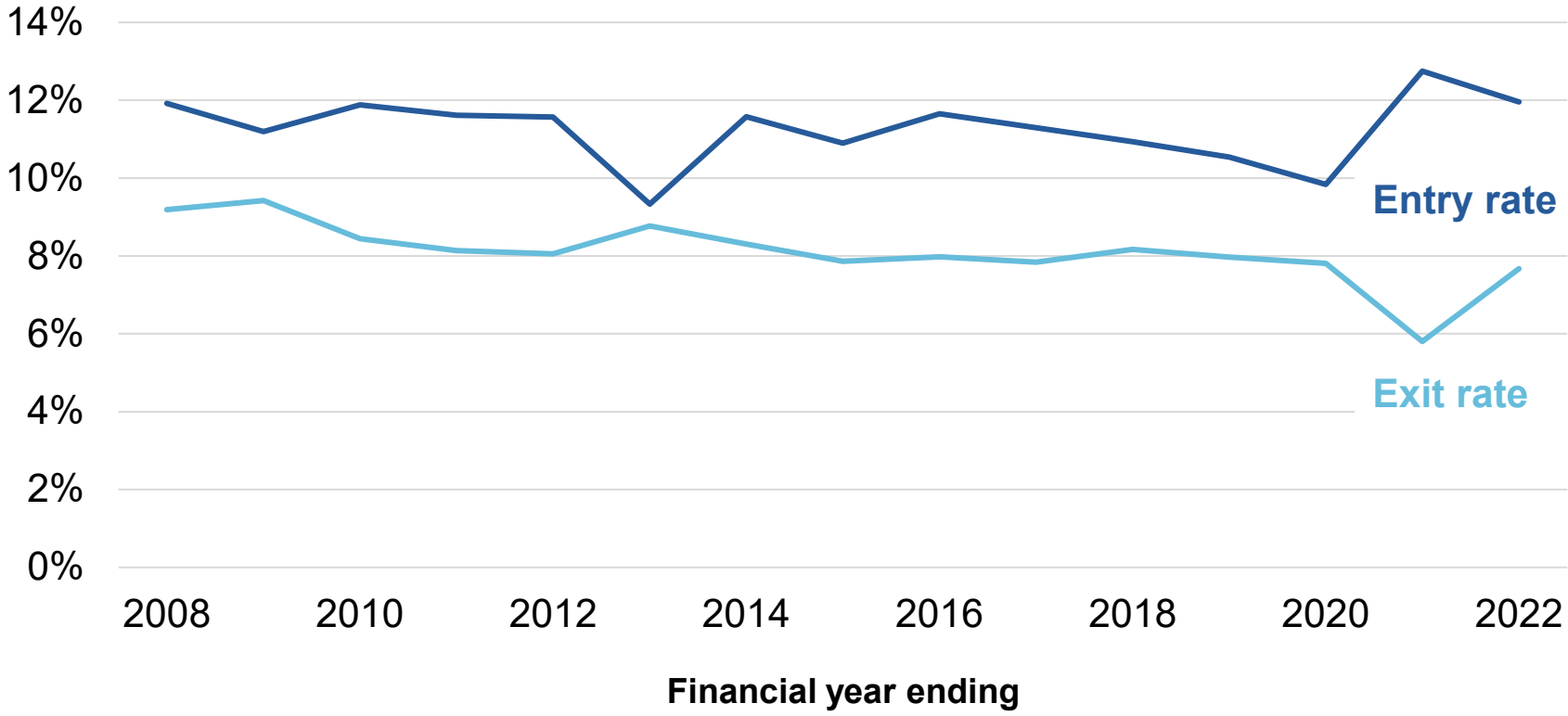
Dynamism refers to innovation, adaptation, and growth within an economy... Dynamism reflects the ability to generate new business opportunities, efficiently allocate resources and adapt to changing circumstances.

Working Future

The Australian Government's
White Paper on Jobs and Opportunities

Business ‘churn’ slow for employing firms pre-covid

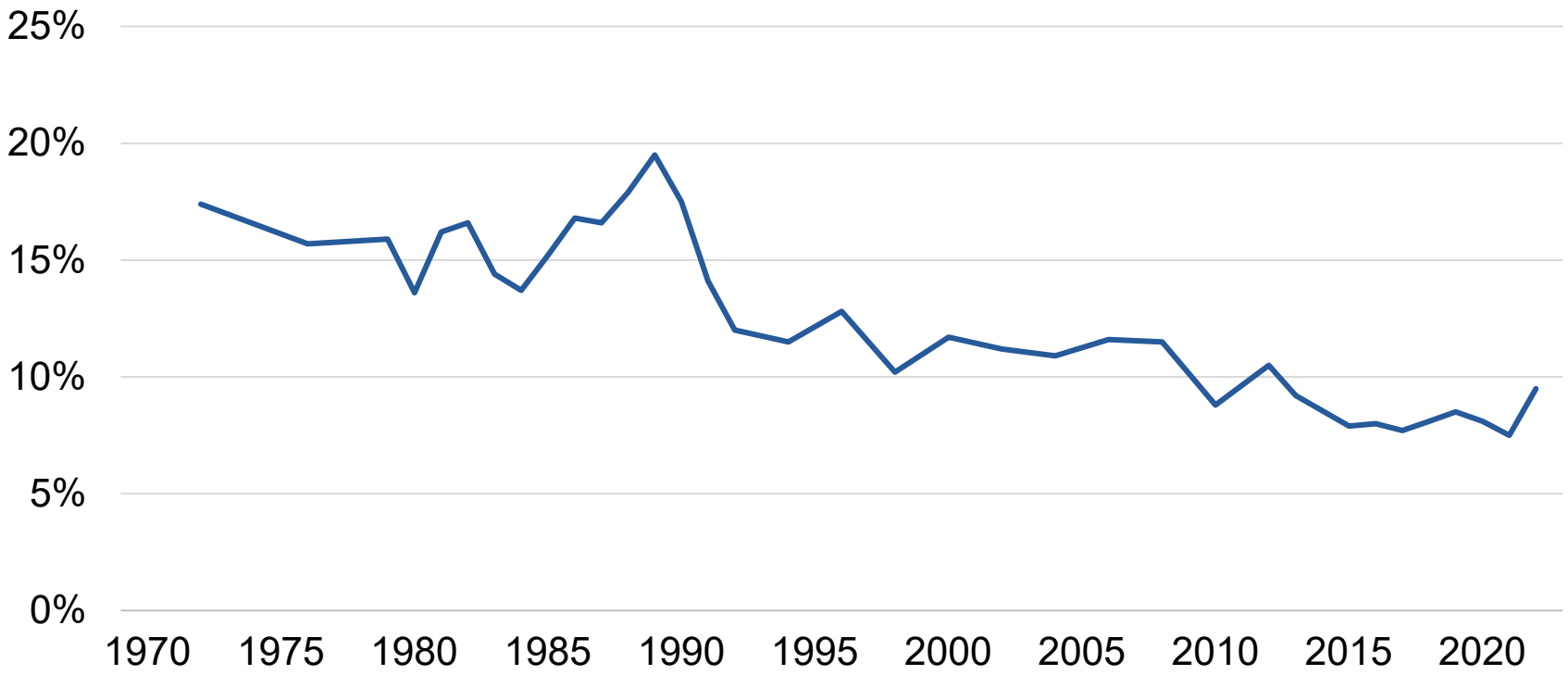
Firm entry and exit rates, employing businesses



Note: Entry and exit rates are expressed as a percentage of the number of businesses operating at the beginning of the period. Source: ABS, *Counts of Businesses, Including Entries and Exits,* various issues, cat no. 8165.0.

Labour mobility is falling

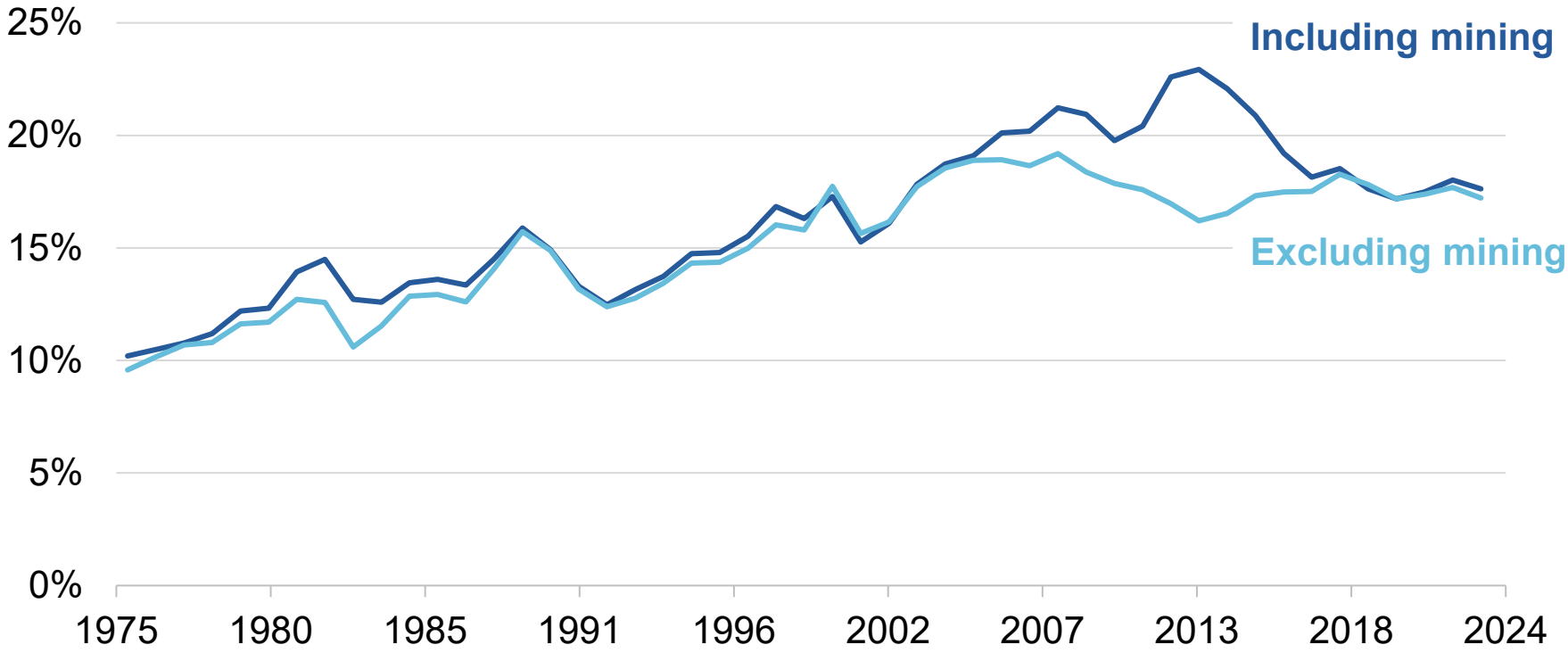
Share of employees who changed employers in the past twelve months



Note: Data collection is not uniform between 1980 and 2021; some points are interpolated. Source: Productivity Commission 2023, *5-year Productivity Inquiry: A More Productive Labour Market*, Inquiry report vol. 7, Figure 1.3.

Non-mining investment has been stagnant

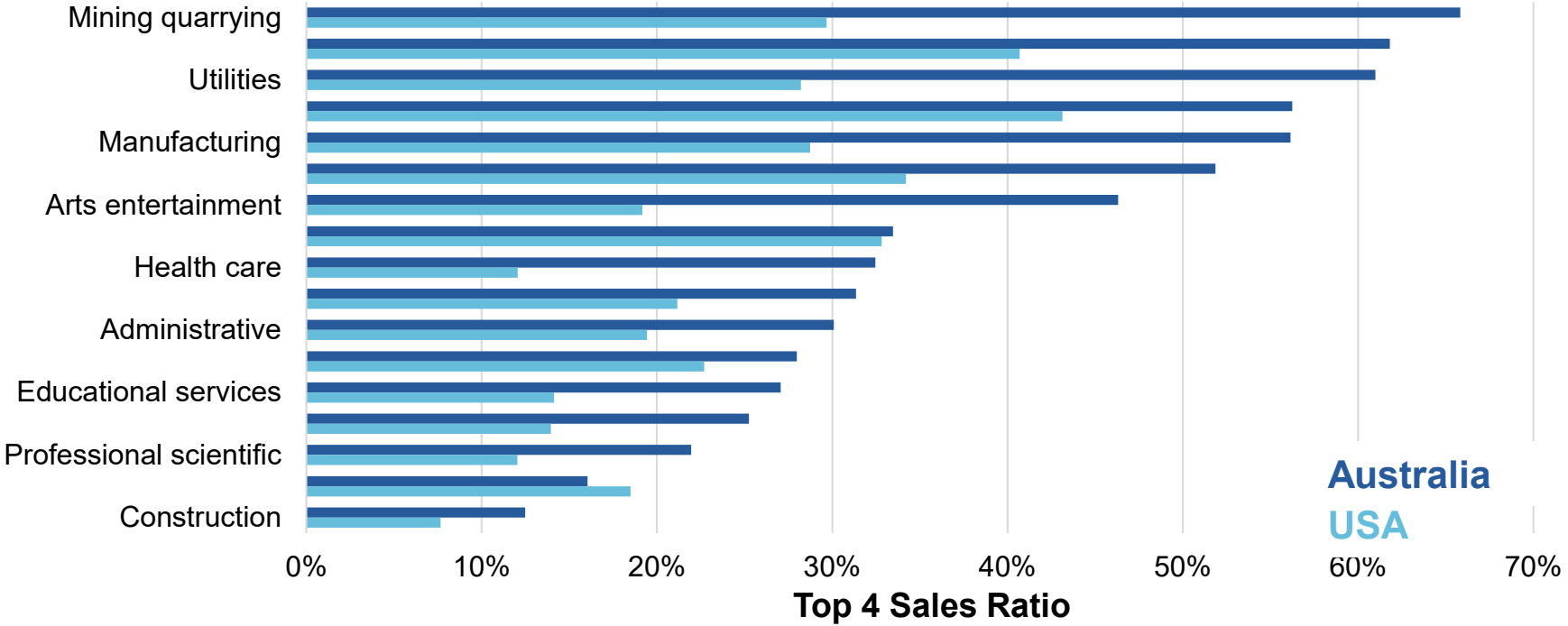
Private investment-to-output ratio, with and without mining, chain volume measures



Note: Non-mining measure excludes mining value add to GDP. Source: Productivity Commission 2024, *Why are Investment Hurdle Rates so High? Risk or Market Power?,* staff working paper, Canberra, Figure 1.

Australian markets generally more concentrated than their US counterparts

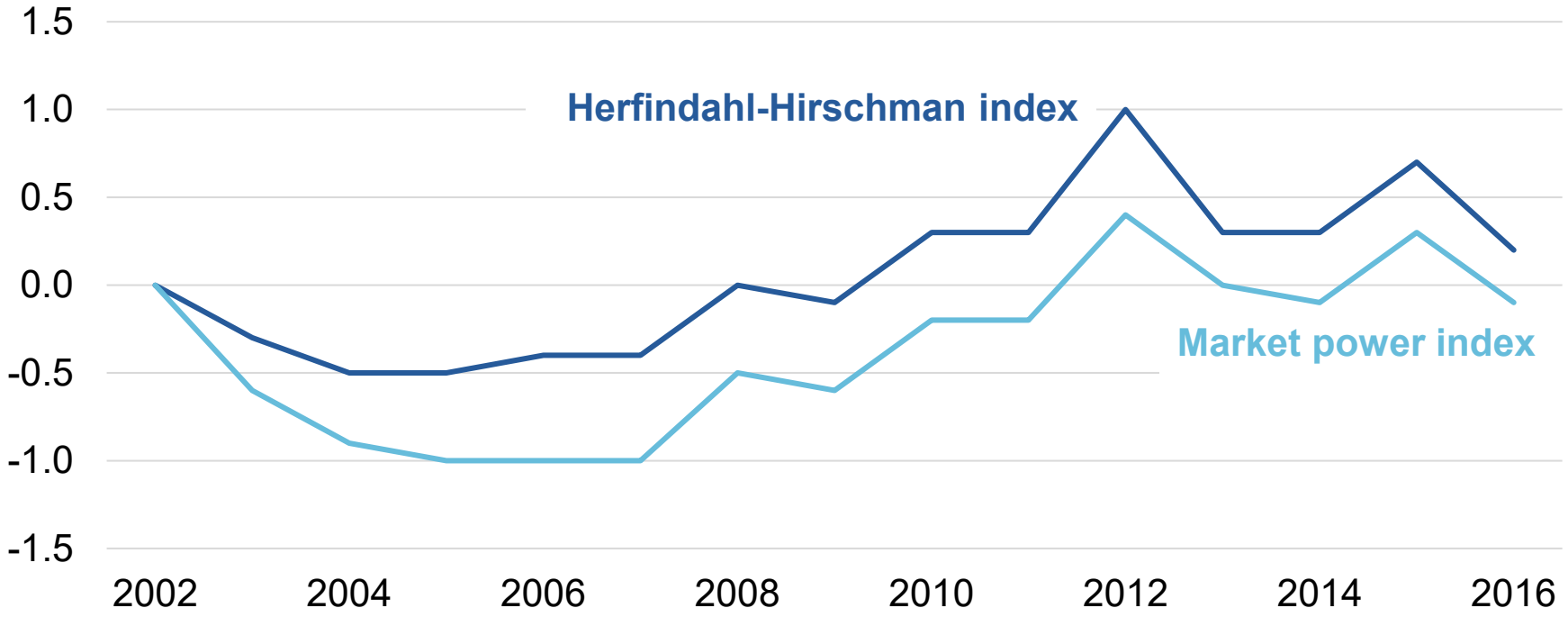
Mean concentration across industry groups, 2017



Note: Australian industry group at the ANZSIC 3-Digit level, USA industry groups at NAICS 4-Digit level. Industry concentration is calculated as the share of sales captured by the top four largest firms in each industry. Studies that use an employment measure of market concentration find less concentration in Australian labour markets compared to the USA. Source: Andrews, D., Dwyer, E. & Triggs, A. 2023, *The State of Competition in Australia*, e61, Research Note no. 9, Figure 1. See also Hambur, J. 2023, *Did Labour Market Concentration Lower Wages Growth Pre-COVID?* RBA Research Discussion Paper 2023-02.

Industry concentration is higher than in 2000s

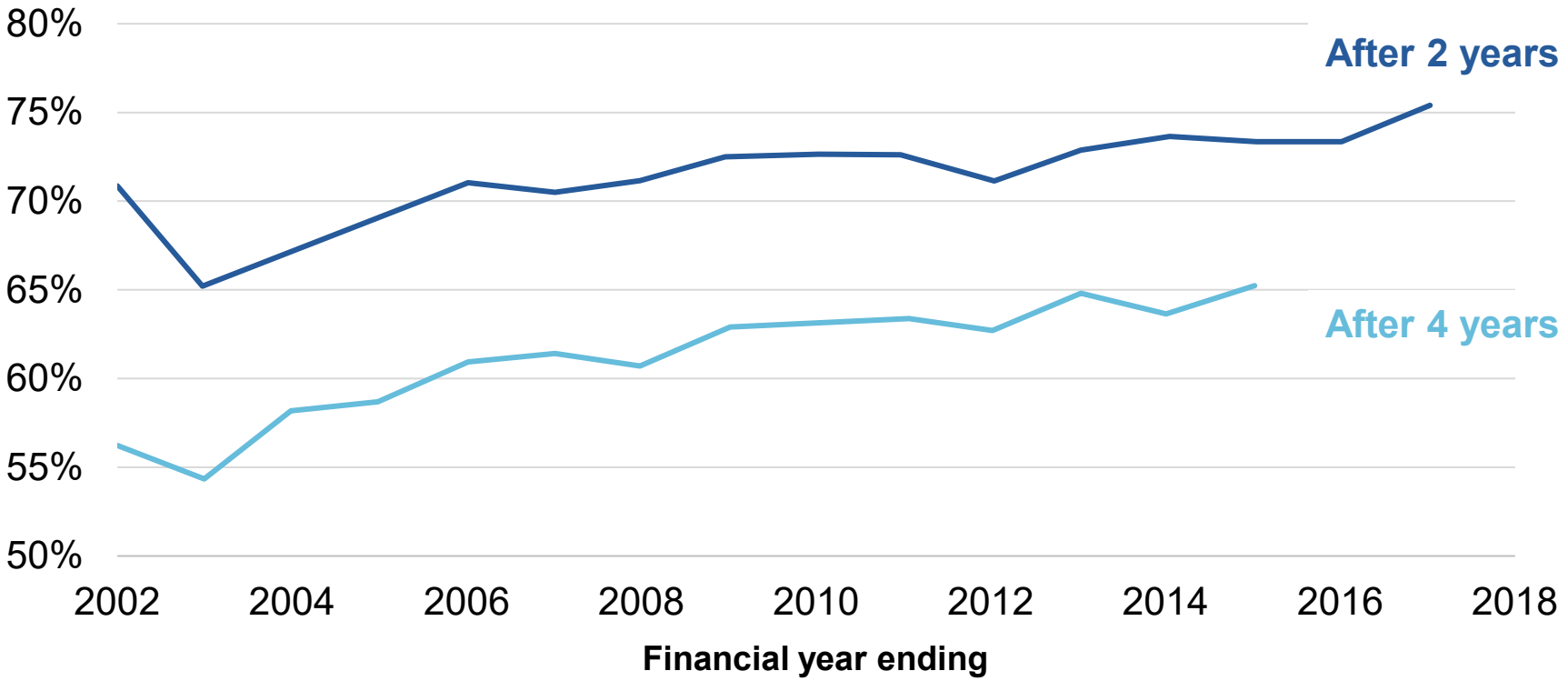
Change in Herfindahl-Hirschman Index (HHI) and market power indices, 2002 = 0



Note: The Herfindahl-Hirschman Index (HHI) is a measure of the concentration of economic activity. The market power index is the principal component of the HHI and the log of firm population. Source: Productivity Commission 2023, *5-year Productivity Inquiry: A Competitive, Dynamic and Sustainable Future*, Inquiry report vol. 3, Figure 1.1. Adapted from Bakhtiari, S. 2019, *Trends in the Market Concentration of Australian Industries,* Research Paper 8/2019, September, Department of Industry, Innovation and Science.

And big firms increasingly stay big

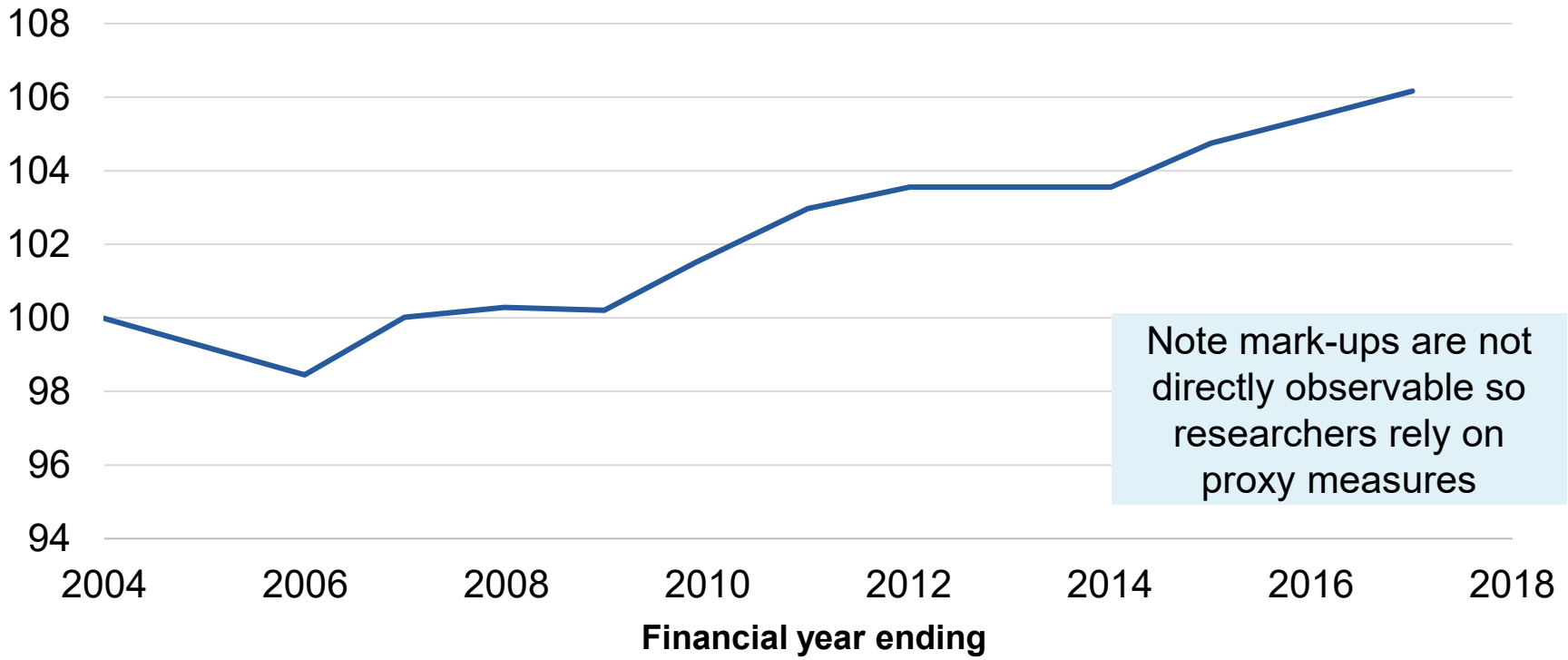
Share of top four firms that were still in the top four after 2 and 4 years



Source: Treasury 2022, *Competition in Australia and its Impact on Productivity Growth*, Treasury Round Up, October, Figure 2.

Mark-ups appear to be trending upwards

Average estimated firm-level mark-ups, index 2004 = 1



Note: Based on estimates by Hambur 2011, *Product Market Power and its Implications for the Australian Economy*, Treasury Working Paper. The level of firm mark-up is equal to the ratio of the firm's price per unit and cost per unit. As these quantities are not observable, researchers rely on revenue data as a proxy for price and must assume a perfectly variable cost input (either labour or materials) to estimate marginal cost. The adequacy of these measures is subject to ongoing debate.
Source: Treasury 2022, *Competition in Australia and its Impact on Productivity Growth*, Treasury Round Up, October, Figure 3.

Further research is needed

The way we measure market competition is imperfect:

- national aggregates not same as antitrust markets and mask a diversity of shifts at an industry and local level

And still a range of empirical gaps:

- Lack of causative analysis between competition and dynamism
- Industry-level studies that look at localised markets are likely to have more detail on competition dynamics – this work is developing in the US
- In Australia, further work is required to assess extent of anti-competitive behaviour among small firms
- Further work needed to understand impacts on consumers

But we don't get perfect evidence in policy - enough to suggest that looking at competition policy would be worthwhile

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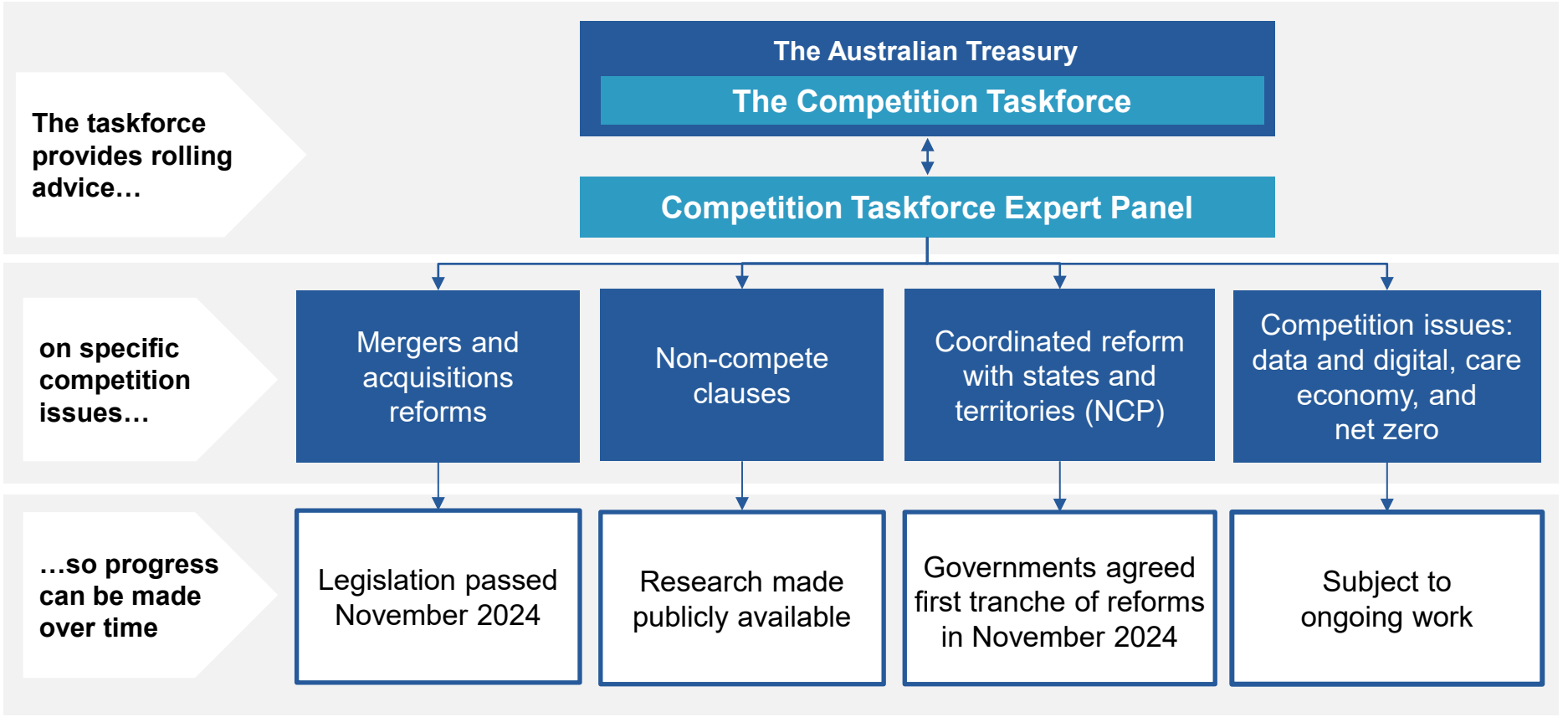
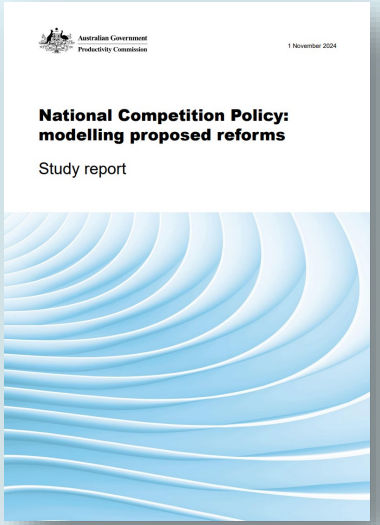
Aus Govt responded with the Competition Taskforce



Governments agreed to revitalise National Competition Policy

- In December 2023 Commonwealth, state, and territory governments agreed to revitalise National Competition Policy
- In November 2024 governments agreed on the first tranche of reforms
- Reforms aim to improve dynamism and labour mobility, improve human services, get to net zero, and unlock data and digital technologies



The benefits of NCP could be large

Total benefits of reforms
Expected boost to GDP of up to **$26-45 billion**, or **1.0 to 1.7% of GDP**, over the long run

The benefits will be felt in many different parts of the economy

Households	Inflation	Govt revenue	Net zero targets	Human services
				
Permanent increase to GDP worth **$3,000 to $5,000** per household in the long run	Estimated overall **reduction in CPI** of **-0.7 to -1.5%** in the long run	Increase in net revenue of **$5.7 to $9.2 billion** for the Aus Government, and **$2.4 billion** for states and territories overall	Various reforms are likely to **help Australia meet net zero targets**	Various reforms would **improve access** and **consumer choice** in human services

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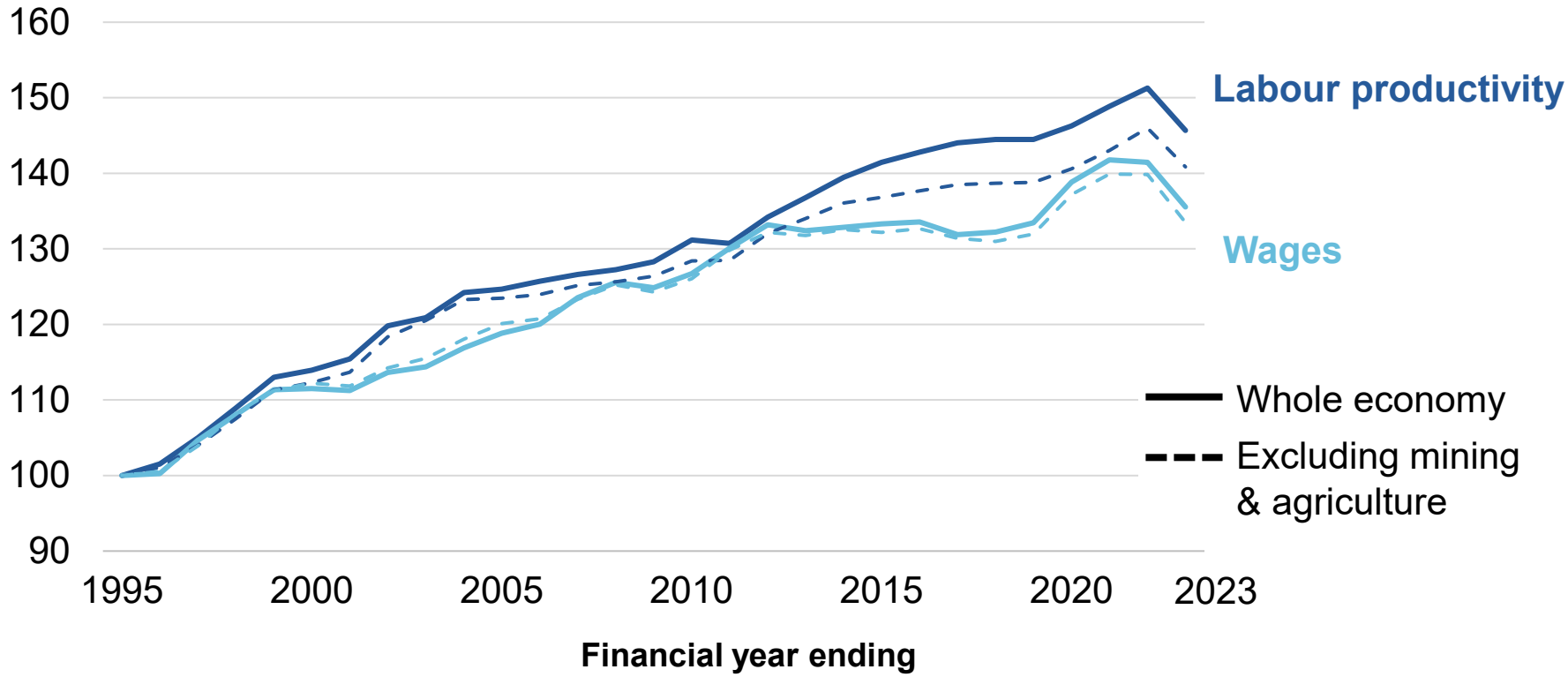
Some recent decoupling of wages and productivity

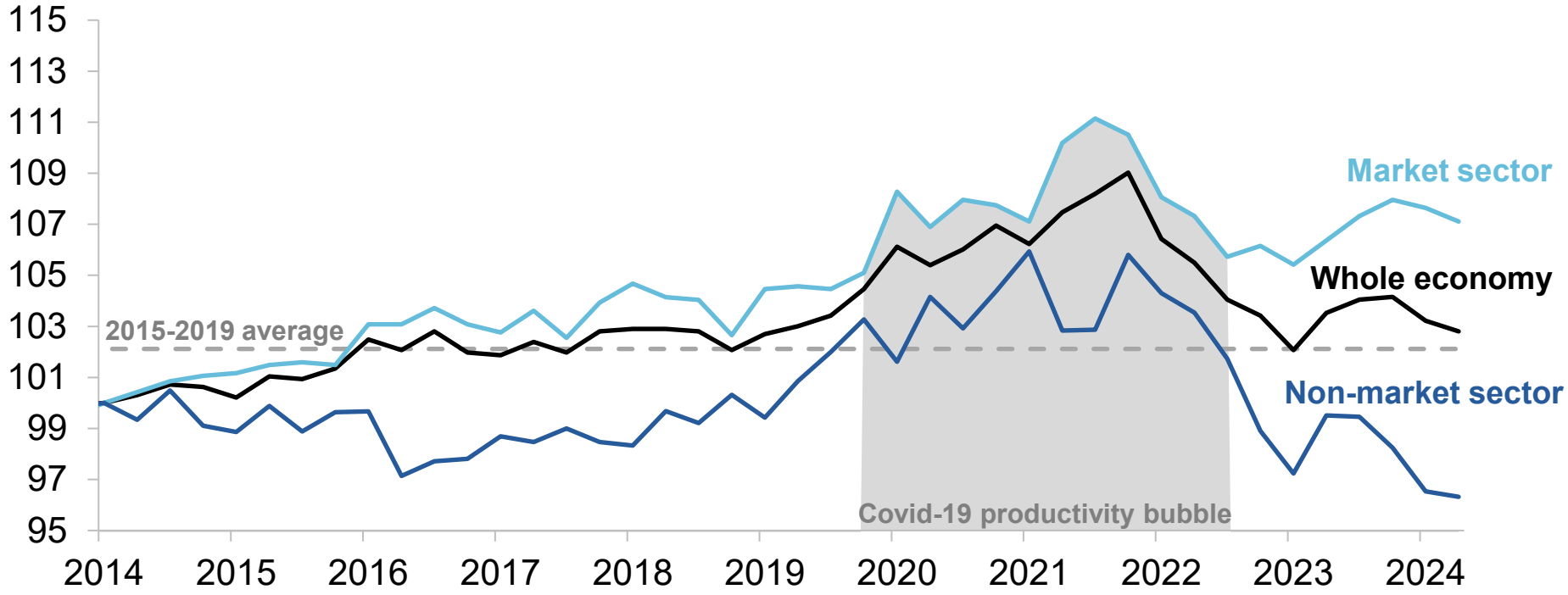
Consumer wages and labour productivity, index, 1994-95 = 100, 1994-95 to 2022-23



Note: Industries excluded are mining and quarrying, and agriculture, forestry and fishing. See source for methodology. Source: Productivity Commission 2024, *Annual Productivity Bulletin 2024*, PC Productivity Insights, annual report series, Figure 4; Productivity Commission analysis.

The non-market sector drags on productivity growth

Labour productivity (index, 2014=100), March 2014 to September 2014



Source: Productivity Commission estimates using ABS (2023, Australian National Accounts: National Income, Expenditure and Product, December 2023, Cat. No. 5206.0., Table 1.