

Firming up productivity in Australia

Productivity growth in Australia has slowed against a backdrop of a global slowdown

Chart 1: Labour Productivity growth (hours basis)

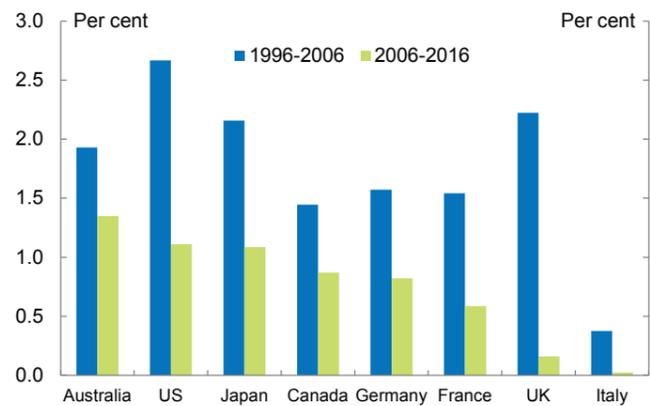
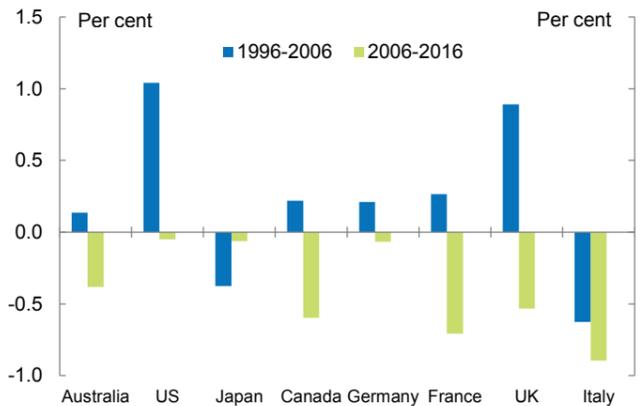


Chart 2: Multi Factor Productivity (MFP) growth



Reviving productivity growth will require policies that target MFP as well as capital deepening

Chart 3: Non-mining labor productivity growth decomposition — Australia

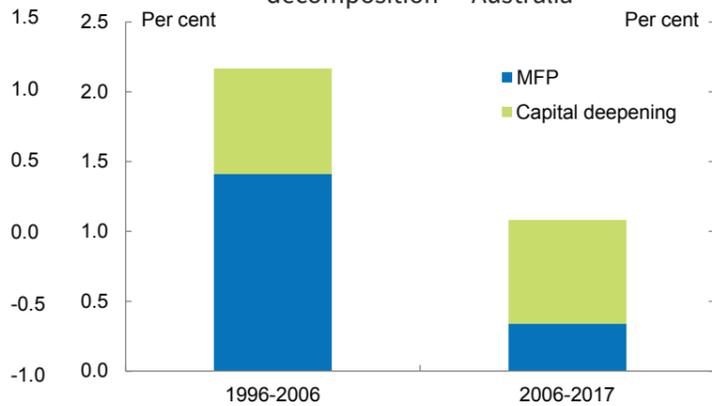
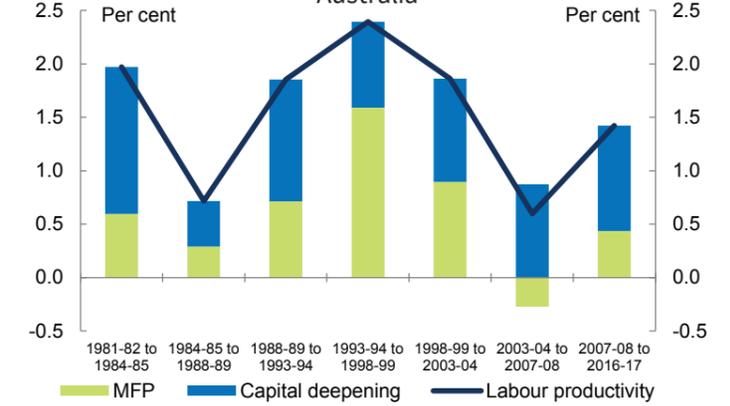


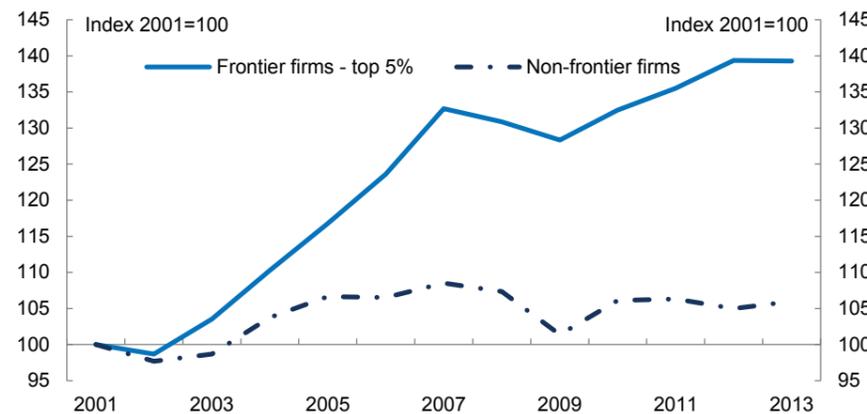
Chart 4: Components of Labour Productivity Growth — Australia



International evidence highlight some key micro dimensions underpinning the MFP slowdown...

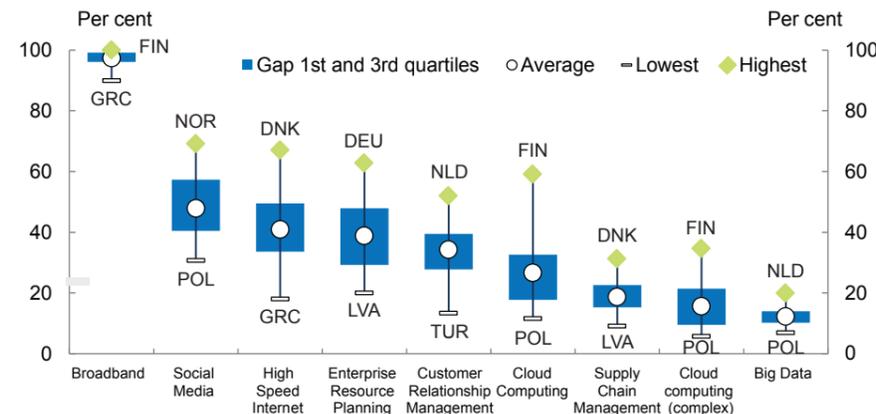
Technological progress is solid but not diffusing widely

Chart 5: Firm level labour productivity; average across 24 countries



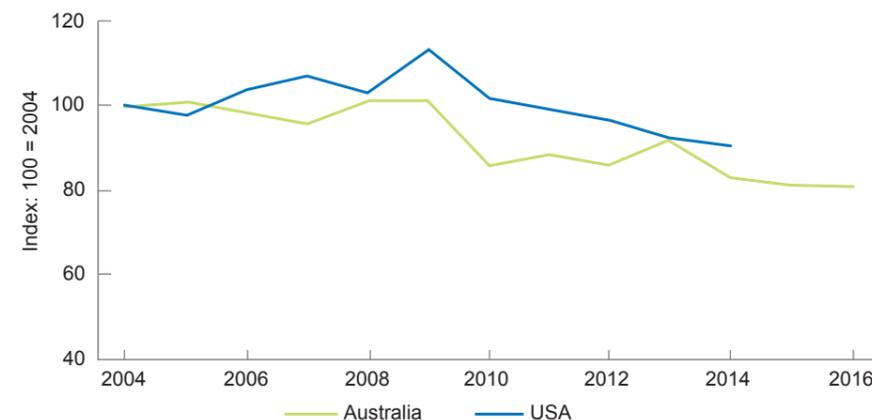
... with many firms yet to adopt key digital technologies

Chart 6: Digital diffusion rates across European firms



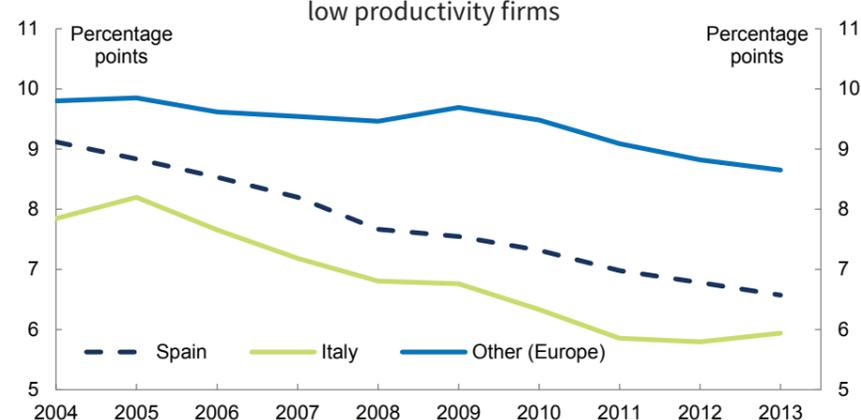
Declining firm entry has reduced the indirect pressure on incumbents to adopt...

Chart 7: Firm entry rates



... as has the declining propensity of productive firms to expand and less productive firms to contract or exit (reallocation)

Chart 8: Percentage point difference in capital stock growth of high and low productivity firms



These outcomes raise questions about the contestability of markets and the future of productivity but micro-level evidence for Australia is scarce. Firm-level analysis is essential to build the Australian productivity narrative.

Raising productivity growth is essential to sustain further improvements in living standards, given headwinds from population ageing and the decline in Australia's terms of trade. But underlying productivity growth has slowed in Australia and other OECD countries over recent decades, raising key questions about the nature of the slowdown and the scope for public policy reforms to revive productivity growth.

Sources:

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5. Andrews, D, Criscuolo, C and Gal, P 2016, *The Best versus the Rest: The Global Productivity Slowdown, Divergence across Firms and the Role of Public Policy*, OECD Productivity Working Papers, No. 5, OECD Publishing, Paris, <http://dx.doi.org/10.1787/63629cc9-en>.
6. OECD 2018 *ICT Access and Usage by Businesses (database)*, viewed April 2018, <http://oe.cd/bus>
7. Bakhtiari, S 2017, *Entrepreneurship Dynamics in Australia: Lessons from Micro-Data*.
8. McGowan, M A, Andrews D, and Millot, V 2017, *The Walking Dead? Zombie firms and productivity performance in OECD countries*, OECD Working Paper.