FOI 3933
Document 1

Productivity

KEY MESSAGE

- We know Australians are paying the price for a wasted decade under the former government, it will take time to turn around Australia's longstanding weakness in productivity growth.
- The Albanese Government is absolutely focused on turning around the poor productivity trajectory we inherited.
- That's why our Budget and economic plan are committed to a range of productivity-enhancing investments – with reforms like cheaper child care, investing in skills, and repairing the broken energy market.

KEY FACTS AND FIGURES

- Over the past 30 years, productivity growth served as the most important source of real income growth.
- Productivity growth has slowed in Australia and other advanced economies, leading countries to adopt a more prudent labour productivity growth assumption.
  - In the October 2022 Budget, Treasury lowered its assumption from 1.5 per cent (then around the 30-year average) to 1.2 per cent (then around the 20-year average). Similarly, the New Zealand Treasury also revised its assumption to 1 per cent in 2024 (based on a 30-year moving average).
  - Annual productivity growth averaged 1.1 per cent between June 2013 and June 2022.
- Productivity was flat (0.0 per cent change) in the 2023-24 financial year, with a 1.4 per cent growth in GDP being matched by a 1.4 per cent growth in hours worked.
  - Market sector productivity increased by 1.1 per cent over the period.
- The Government is working to enhance productivity through the five-pillar productivity agenda. Competition reforms will also lift dynamism, productivity and wages.

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BACKGROUND

- Productivity refers to labour productivity, which is measured as output (GDP) divided by units of labour used to produce such output (hours worked).
- Productivity fell by -0.1 per cent in the December quarter, leading to a -1.2 per cent drop through-the-year. Quarterly movements in productivity can be volatile, and subject to revisions.
  - This decline was broad-based, with declines in both market and non-market sectors.
- The Productivity Commission (PC) assesses that the productivity 'bubble', created by the temporary closure of labour intensive lower productivity industries, has burst. Productivity growth has returned to the trend leading up to the pandemic.
- Australia's slowdown in productivity growth is consistent with that experienced in most other advanced economies, except the US (see Table 2). This suggests that some global factors are contributing.
  - As in other countries, declining economic dynamism and competition has weighed on firms' incentives to adopt technologies, and for resources to flow to more productive firms.
  - The PC attributes the recent divergence in labour productivity growth between Australia and the US to Australia's broader measurement approach to productivity, cyclical changes in the labour market, and emergency policies introduced during the COVID-19 pandemic.
- Domestic policy can have significant impacts on lifting productivity by:
  - Removing barriers to investment, innovation, dynamism and competition.
  - Creating stronger linkages with global frontier firms through trade and investment.
  - Ensuring that workers and managers have appropriate skills.
- Businesses can play a role by investing in capital and their workers, innovating, and embracing new technology and ideas.

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Policy Commitments under the Government's five-pillar productivity agenda

<u>Creating a more dynamic and resilient economy</u>

- In November 2024, Commonwealth, state and territory treasurers reached a landmark agreement to revitalise **National Competition Policy**, including a $900 million **National Productivity Fund** for payments to states and territories to implement productivity enhancing reforms such as streamlining planning and zoning and removing barriers to modern construction methods.
- The Government is implementing the biggest **reforms to Australia's merger laws** in 50 years, which will enhance competition and productivity by targeting anti-competitive mergers more efficiently and effectively while expediting pro-competitive ones.
- The Government has **abolished 457 nuisance tariffs**, streamlining approximately $8.5 billion in annual imports and reducing the compliance burden for Australian businesses.

<u>Building a skilled and adaptable workforce</u>

- Through the new **National Skills Agreement**, the Government is investing up to $12.6 billion across 5 years and working with the states and territories to strengthen the vocational education and training sector.
- The Government is taking further steps to implement recommendations of the **Universities Accord** to increase the tertiary education attainment rate in our workforce by establishing a new university funding and governance model for the tertiary education sector.

<u>Harnessing data and digital technology</u>

- The Government is investing up to $3 billion to **expand full-fibre NBN access** to an additional 622,000 premises – including 334,000 in rural and regional communities.
- The Government is funding the **National Artificial Intelligence Centre**, and developing policy and regulatory frameworks, to ensure Australia can harness the benefits of artificial intelligence in a safe and responsible way.

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Delivering quality care more efficiently

- The Government's **aged care reform package** will help ensure the viability and quality of aged care and support for older Australians.
- The Government is undertaking reforms which are expected to contribute to the sustainability of the **NDIS**.

Investing in cheaper, cleaner energy and the net zero transformation

- The Government is investing through a **Future Made in Australia agenda** to maximise the economic and industrial benefits of the move to net zero, including renewable hydrogen and refining and processing of critical minerals.
- The **Capacity Investment Scheme** will deploy 9 GW of clean dispatchable capacity and 23 GW of renewable generation capacity nationally by 2030.

Table 1: Labour productivity growth (whole economy)

	Period	Annual growth (%)
Labour productivity growth (GDP per hour worked)	2017-18	0.3
	2018-19	0.1
	2019-20	1.6
	2020-21	1.9
	2021-22	1.5
	2022-23	-3.7
	2023-24	0.0
Nominal unit labour costs	2017-18	1.9
	2018-19	2.7
	2019-20	0.4
	2020-21	0.3
	2021-22	7.7
	2022-23	6.1
	2023-24	6.1

Source: Australian System of National Accounts: 2023-24 financial year (released 25 October 2024). Figures derived from Tables 1 and 72

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Table 2: Labour productivity growth (2023) – G7, Australia and New Zealand

Labour productivity growth (%)		
	20-year average to 2023	**10-year average to 2023**
Australia	**0.6**	**0.2**
Canada	0.8	0.7
France	0.5	0.2
Germany	0.8	0.8
Italy	0.1	0.1
Japan	0.9	0.8
New Zealand	0.6	0.4
United Kingdom	0.6	0.6
United States	1.4	1.3

Source: OECD GDP output per hour worked

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