Australian Government

Economic Reform Roundtable

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Productivity

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In the spirit of reconciliation, the Australian Government acknowledges the Traditional Custodians of country throughout Australia and their connections to land, sea and community. We pay our respect to their Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples.

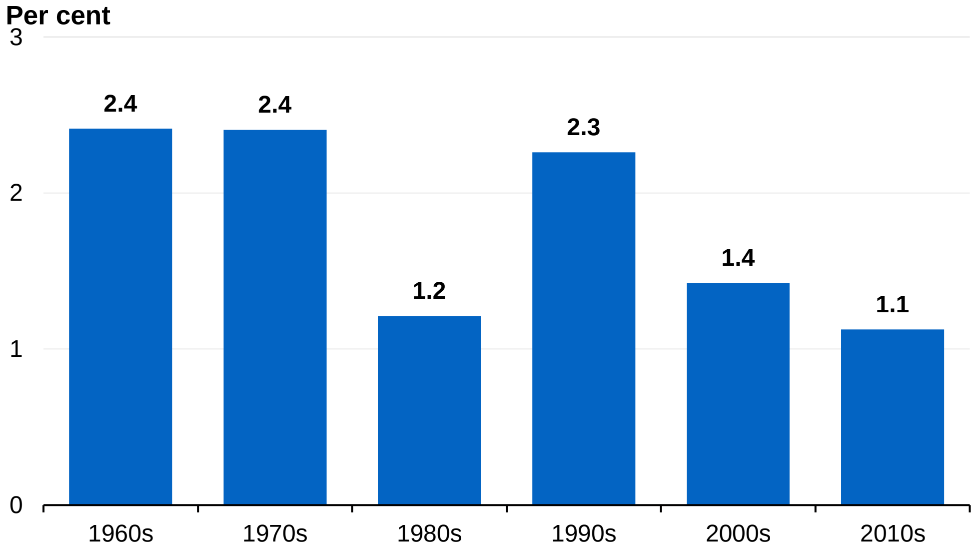
Productivity

Lifting productivity is critical to growth in real wages, incomes, jobs and overall living standards. It needs to be done in a sustainable and inclusive way to ensure all Australians can benefit.

Recent trends

- Lower growth in labour productivity has been a longstanding challenge for Australia. Australia's average productivity growth in the 2010s was at the lowest rate in 60 years (Chart 1).
  - Reflecting this slowdown, Treasury downgraded its long-run annual labour productivity growth assumption from 1.5 to 1.2 per cent in 2022.
  - Even small movements in productivity growth will have large impacts on wages and living standards over time. The 2023 Intergenerational Report found that a decline from 1.2 per cent to 0.9 per cent growth per year would reduce per capita real income by more than $10,000 per person in 40 years' time.

Chart 1: Average productivity growth by decade, 1960s–2010s

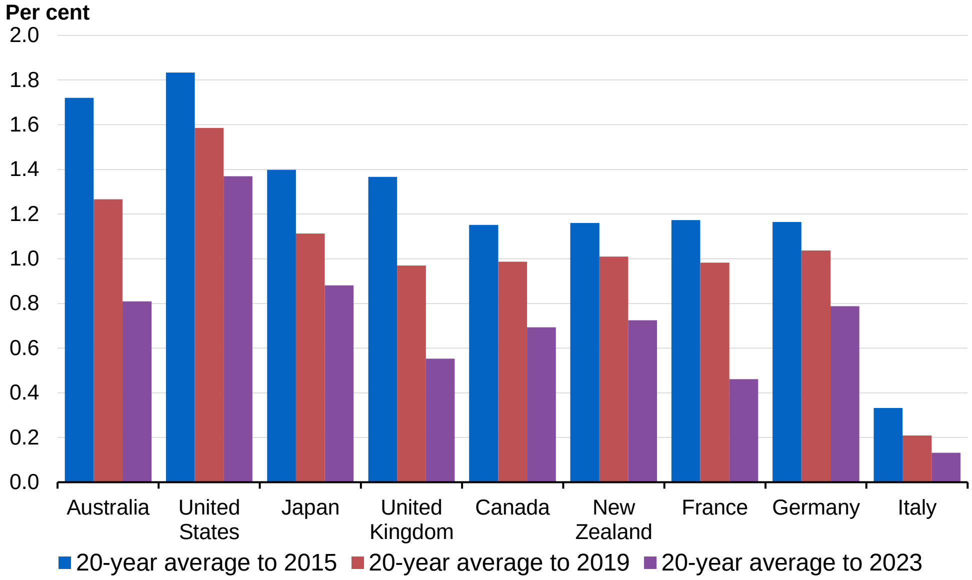


Source: Treasury estimates using ABS System of National Accounts 2023–24; Penn World Table 2023.

- This challenge is not unique to Australia, with labour productivity over the past decade slowing in most major advanced economies (Chart 2). A number of countries, including the United States, Canada and New Zealand have also downgraded productivity growth assumptions in official forecasts.

- Australia's productivity slowdown has been broad based. Productivity growth in the market sector, excluding mining, has slowed over time. This has been compounded by weaker productivity growth in the non-market sector and mining industry in more recent years.

Chart 2: 20-year average productivity growth rates across advanced economies



Source: Treasury estimates using OECD GDP per hour worked index, 1995–2023.

- Productivity growth accelerated temporarily during the COVID-19 pandemic before reversing. Productivity returned back to levels observed in 2019 as employment and consumption trends normalised and the labour market recovered strongly.
  - During this recovery, strong capital growth still did not keep pace with growth in hours worked, resulting in a decline in the capital to labour ratio which has weighed on recent productivity growth.
  - Treasury and the Reserve Bank of Australia (RBA) are monitoring the implications of recent trends for long run productivity assumptions, after accounting for volatility associated with the COVID-19 recovery. The unique dynamics that resulted in the COVID-19 'productivity bubble' complicate assessments of how slow productivity growth during this period should be incorporated in long-term averages.

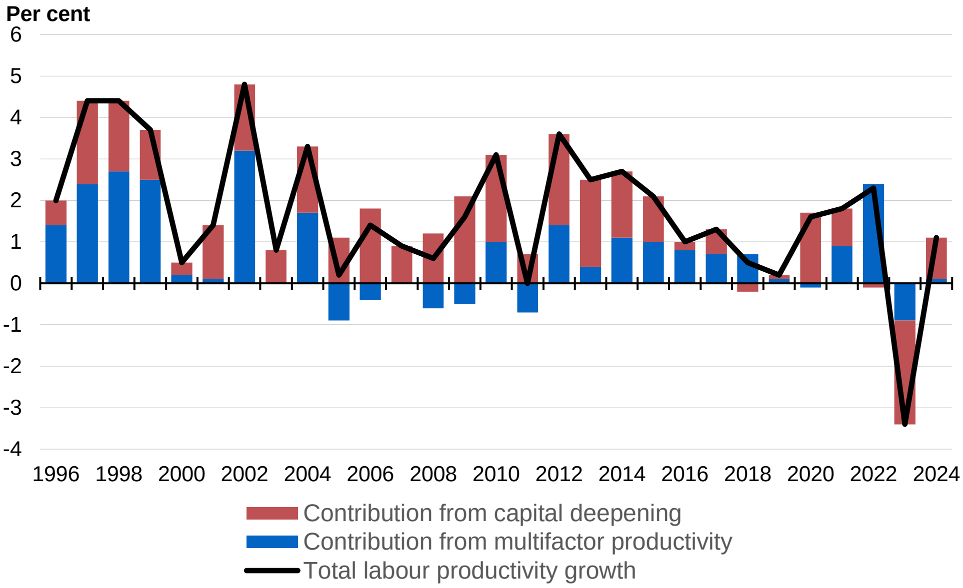
Structural challenges

- Like many comparable countries shown in Chart 2, Australia faces structural challenges when it comes to productivity. These include trends in capital deepening, competition and dynamism, skills development and matching in the labour market, and our changing industry composition.
- These challenges are longstanding and global in nature, but require local attention and sustained effort to address.

Capital deepening

- Capital deepening, which refers to growth in the capital stock per worker, has been responsible for almost half of Australia's productivity growth since Federation.
  - As a share of GDP, business investment is lower now than it was in the early 2000s and the decline has been larger among more productive firms, indicating that capital has also been allocated less productively (Hambur & Andrews, 2023).
  - The level of business investment in Australia is now at a 12–year high and has grown strongly in recent years. However, this has not been enough to keep pace with strong employment growth in recent years, which has resulted in some capital shallowing across the economy, particularly in 2022–23 as pandemic effects unwound (Chart 3).

Chart 3: Decomposition of annual productivity growth



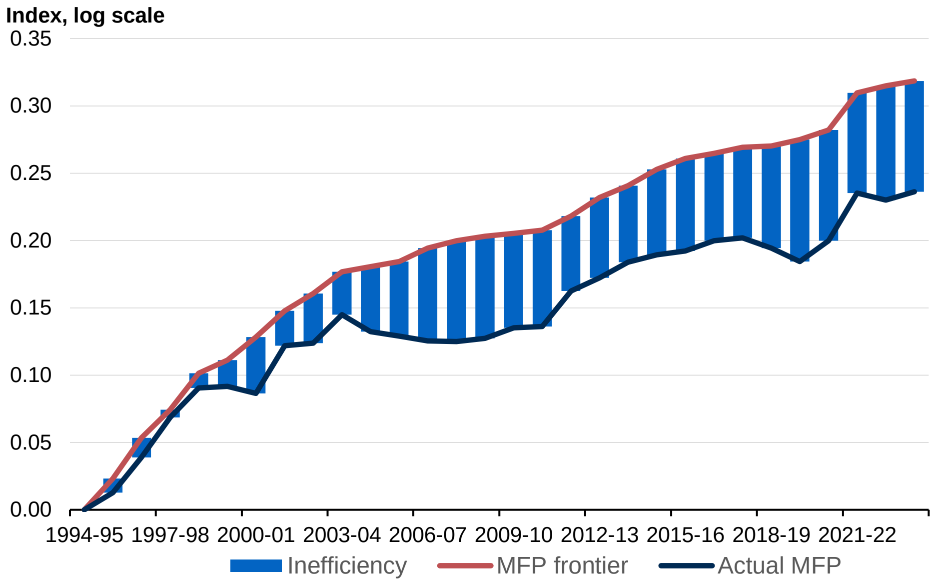
Source: Treasury estimates using ABS System of National Accounts 2023–24.
Note: Contribution from capital deepening is a Treasury estimate based on ABS data.

- The long-term transition towards a more services-based economy explains some of this change, and is expected to continue as consumption of services increases alongside income per capita and an ageing population.
- However, several other forces have also contributed to slowing business investment.
  - There may have been fewer innovative projects to invest in, due to global trends in technology development or a lack of adoption of new technologies by Australian firms. The share of Australian job ads referencing emerging technologies increased from 4% to 7% between 2012 to 2020, but there remains a sizeable gap in technology adoption between Australia and the United States (Treasury, 2022a).
  - There is also evidence that investors increased their assessment of the risk premium of investing in Australia by around 2 percentage points following the Global Financial Crisis, requiring a high hurdle rate. There are a range of potential reasons for this, including uncertainty about climate change (Evans et al, 2024).

Competition and dynamism

- Competition and dynamism play a critical role ensuring resources are used efficiently, enabling the most productive industries and firms to grow, and improving workers' access to the latest technologies and effective management practices.
- Many measures of dynamism have been falling in Australia since at least the early 2000s.
  - Since the Global Financial Crisis, firm entry and exit rates have been lower than they were in previous decades (Ellis, 2021).
  - There is evidence of increasing industry concentration and firm mark-ups. In 2018–19, the largest four firms in each industry made up around 43 per cent of total industry sales on average, compared to around 40 per cent in 2002–03 (Treasury, 2022b). Firm mark-ups have also increased by around five per cent on average since the mid–2000s (Hambur, 2021).
  - Additionally, there has been persistent growth in government regulation over time, which may have contributed to a decline in Australia's ranking amongst advanced economies in terms of ease of doing business (World Bank, 2020).
- Less competition has also contributed to a widening productivity gap between Australian firms and the global productivity frontier. The gap in productivity between Australia's frontier firms and the rest of the economy also widened in the early 2000s, and has persisted since that time (Andrews et al, 2022).
- One way of assessing the impact of these factors is to consider what productivity could be given available technology and knowledge compared to what is observed (Chart 4). Since the early 2000s, this gap has widened alongside declining dynamism. Growth in the productivity frontier has also slowed, consistent with slower diffusion of technology.

Chart 4: Decomposition of multifactor productivity – market sector excluding mining



Source: Productivity Commission estimates based on ABS (Australian System of National Accounts, 2023–24; Estimates of Industry Multifactor Productivity, 2023–24), published in PC's Annual Productivity Bulletin 2025.

- Treasury and RBA research has found that lifting competition back to a level similar to the early 2000s could lift GDP by 1 to 3 per cent, or $2,000–$6,000 per household (Treasury, 2024a).

Human capital

- Around one third of labour productivity growth and 40 per cent of multifactor productivity growth in the market sector over the past three decades was driven by improvements in the workforce’s human capital (RBA, 2025).
- However, around one in five adult Australians have low literacy or numeracy skills, and the most common barrier to work for job seekers accessing employment services through Workforce Australia is now an education level below year 12 attainment (Treasury, 2023).
- Analysis of comparable OECD countries suggests increasing the skills of workers in median-productivity firms up to the skills of workers in firms on the productivity frontier could close the productivity gap between these firms by 19 per cent (Criscuolo et al, 2021).
- There is also scope to improve the quality of labour market matching to ensure businesses can access the skills that they need. For example, measures of the efficiency with which workers are matched to jobs declined over the 2010s, though partially recovered after the COVID-19 pandemic (Treasury, 2024b).

Industry composition of our economy

- Australia’s services and non-market sectors are anticipated to continue growing, as Australians become wealthier and older on average. This poses a headwind to measured productivity growth because the measured level and rates of productivity growth in these parts of the economy are typically lower.
  - The reallocation of labour towards the services sector over the past three decades detracted around 0.14 percentage points from annual productivity growth over that period. This accounts for around half the 2022 downgrade in Treasury’s long-run annual labour productivity growth assumption.
  - Similar RBA analysis has also found that the growth of the non-market sector which is occurring as Australia’s population ages has subtracted 0.3 percentage points from productivity growth per year from 2017–18 to 2023–24, twice the impact from this source in the preceding decade (Plumb, 2025).
  - Some of the decline in non-market sector productivity can be attributed to standard productivity measures not adequately capturing improvements in the quality of services provided.
    - For example, after adjusting for the quality of care and health outcomes achieved, multifactor productivity of the health care delivered for certain common health conditions grew by 3 per cent annually between 2011–12 and 2017–18 (PC, 2024). This was around triple the average rate of multifactor productivity growth measured in the market sector over this period.

Work done or underway

- Addressing Australia's longstanding productivity challenge requires sustained effort across governments at all levels, industry and the broader community. The potential benefits are significant.
  - For example, the Hilmer Review and National Competition Policy reforms of the 1990s, which included over 1,800 changes to laws and regulations, boosted Australia's GDP by 2.5 per cent (PC, 2005).
- In its first term, the Government established a 5 pillar productivity agenda and responded to about two thirds of the directives in the Productivity Commission's 2023 5-year review, including delivering on significant reforms across each of the pillars. This work has included:

Creating a dynamic and resilient economy

- Improving regulation of mergers to enhance competition and streamlining approvals processes, including reforms to the foreign investment regime.
- Improving dynamism and competition across the Australian economy through a 10-year National Competition Policy reform agenda, supported by a $900 million National Productivity Fund. Initial reforms include improving commercial planning and zoning processes, reforms to support uptake of modern methods of construction, greater adoption of international and overseas standards, and work on a national screening check for workers in the care and support economy.
- Cutting around 500 nuisance tariffs.
- Reforming the payment system to support innovation, investment and resilience, and working with industry to support and pilot digital asset technologies, including by exploring the benefits of tokenised asset markets.

Building a skilled and adaptable workforce

- Strengthening Australia's human capital through key initiatives including the National Skills Agreement, the Universities Accord response and Free TAFE, each enhancing the capabilities of our workforce.
- Better attracting skilled talent from overseas through the Migration Strategy reforms.

Harnessing data and digital technology

- Harnessing data and digital technology, including investments in digital ID and enabling infrastructure such as the NBN, ongoing efforts to harmonise legacy and emerging communications platforms, and initiatives to expand the digital workforce.
- Investing in new technology and capabilities that will underpin future innovation including signature investments in quantum computing.
- Supporting the adoption of AI through analysis of the application of existing laws to AI and the implementation of AI Adopt Centres.

Delivering quality care more efficiently

- Reforms to the National Disability Insurance Scheme (NDIS) have it on track to reach the growth target of 8 per cent a year. Aged care reforms will save around $11 billion over the next 11 years, while delivering much better care and choice.
- Investing in a sustainable care workforce and better access to primary health care.

Investing in cheaper, cleaner energy and the net zero transformation

- Unlocking over $70 billion in private sector investment in renewable generation and storage through the Capacity Investment Scheme, supported by over $20 billion in financing through Rewiring the Nation.
- Reviewing the National Electricity Market and the gas market to ensure they remain fit for purpose as the energy market transforms.

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