

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Treasury Portfolio
Supplementary Budget Estimates 1 - 2 November 2006

Question: sbt 31
Topic: Productivity
Hansard Page: Written

Senator EVANS asked:

The Reserve Bank Governor Glenn Stevens said recently that the 0 per cent growth in productivity since 2003 could be explained by one of two things:

- Either growth over the past few years has been higher than the published data suggest and productivity has not slowed by as thought;
- Or the labour market data are out of line — perhaps due to lags, or sampling effects — and will sooner or later come back into line.

- (1) Do you agree with the Reserve Bank Governor's analysis of the situation?
- (2) Why has productivity growth been zero since the end of 2003?
- (3) Where is Australia on the productivity cycle? Has the productivity cycle itself shifted downwards?
- (4) What's the outlook for productivity? Should we expect productivity growth to pick up?
- (5) In answer to a question on notice at an earlier estimates hearing Treasury suggested that Work Choices may lead to lower productivity in the short term as less-productive workers entered the labour market. Is there any evidence of that happening so far?

Answer:

1. Treasury agrees with the assessment that there is something of a conundrum in the recent productivity data, although the 2006 December quarter national accounts showed that seasonally adjusted market sector productivity rose by 1.4 per cent.
2. Productivity has grown since 2002-2003. Total productivity (GDP per hour worked) rose by 3.6 per cent between 2002-03 and 2005-06. Productivity in the market sector, which is more readily measured, grew by 5.1 per cent between 2002-03 and 2005-06. More recently, seasonally adjusted market sector productivity rose by 1.4 per cent in the December quarter 2006, reflecting strong GDP growth and stable hours worked. Growth in market sector productivity through the year to the December quarter 2006 was 1.6 per cent. In

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trend terms, market sector productivity increased by 0.8 per cent through the year to the December quarter 2006.

3. The Australian Bureau of Statistics measures 'productivity growth cycles' by comparing multifactor productivity (MFP) estimates with their long-term trend. It is too early in the current cycle (which began in 2004-05) to tell whether there has been any significant change in productivity growth in the current cycle relative to other cycles.
4. The Mid-Year Economic and Fiscal Outlook 2006-07 indicates that productivity growth is expected to strengthen over the forecast period.
5. It is too early to expect to see any evidence of the impact of Work Choices on productivity at this stage.