



PRODUCTIVITY STATISTICS

Statistics New Zealand released official productivity figures for New Zealand on 16 March 2010 for the year to March 2009¹.

Labour productivity fell by 1.5% over the year to March 2009

Labour productivity typically falls during a recession as output falls by more than hours worked. This is due to the labour market lagging GDP and because during a recession firms often hold on to workers, even when demand falls, instead of laying them off. With demand weak, some of these workers are likely to be engaged in tasks which do not have a direct effect on current output (eg deferred maintenance).

Capital investment continued to rise

Encouragingly, capital investment rose by 3.3% over the year to March 2009, driven by strong investment in IT-related assets. However, firms were unable to fully utilise the increased level of capital given weak demand in the economy and capital productivity fell. Over the longer term, the rise in capital is a positive sign for increased labour productivity growth.

Labour productivity was weak over the recent growth cycle

It is preferable to examine productivity growth over an economic cycle as annual data usually just reflects the degree to which firms are making use of their resources rather than increased efficiency or technology improvements. The latest complete cycle (2000-2006) saw annual labour productivity growth of 1.3%, down from 3.1% over the 1997-2000 cycle. Over the whole 1978-2009 period, labour productivity growth has averaged 1.9% per annum.

Average skill levels have risen

The data shows a rise in average skill levels has contributed 0.2% per annum to labour productivity growth over the past decade. However, strong employment growth and record high labour force participation over the past decade has dampened the growth in average skill levels, and hence labour productivity growth, as additional workers drawn into the labour force tend to be lower skilled.

Labour productivity in Australia also fell

Labour productivity in Australia fell by 0.3% in the year to June 2009, less than the fall in New Zealand over the year to March 2009. Australia has weathered the global downturn better than most other countries. They recorded only one quarter of declining economic activity compared to New Zealand's recession which lasted five quarters. Over the entire 1978-2009 period labour productivity growth in Australia and New Zealand has been similar, despite stronger output growth in Australia. It is important to note however, that the *level* of labour productivity (ie GDP per hour worked) in New Zealand remains below that of Australia.

Labour productivity to rebound strongly

Relatively strong labour productivity growth is expected over the next few years as the economy recovers and capital and labour are more fully utilised. The recession may have also allowed firms to reorganise their production process to take full advantage of the heavy investment in plant and machinery seen over the most recent expansion.

¹ Productivity figures cover the measured sector, which comprises around 74% of the economy and excludes those service industries in which productivity is hard to measure (property, government administration & defence, education, and health & community). To allow comparison with Australia, a different definition of the measured sector is used (which excludes business services and personal & other community services).