The Australian Financial Review
Wednesday 14 March 2012 • www.afr.com

S.A.B.

Hard hit sectors boost productivity

Adrian Rollins
Economics correspondent

There are tentative signs that businesses bearing the brunt of the strong dollar and patchy demand are becoming more efficient.

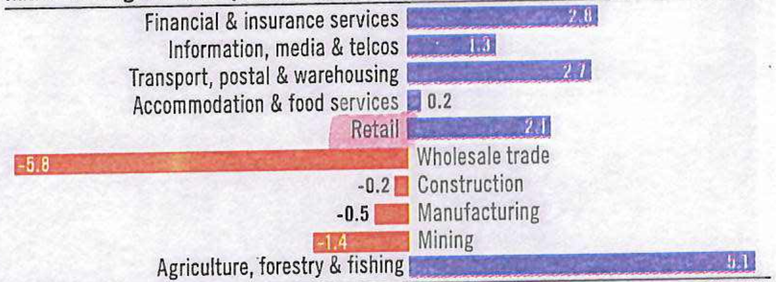
Labour productivity in the services sector climbed almost 1 per cent in three months ended December 31. Excluding mining and utilities, labour productivity rose 1.9 per cent nationwide last year, according to a report by consultants PwC.

The study found that workers in services including finance, retail, communications, transport and hospitality increased output by up to almost 6 per cent in the December quarter despite a drop in the number of hours their staff worked.

The improvement, combined with a seasonal 5.1 per cent increase in farm output, contributed to a solid boost to national productivity and helped offset a 1.4 per cent fall in the amount produced by workers in the resources sector and a 4.2 per cent drop in utilities output per worker.

Improving

National change in labour productivity by market sector* (% QoQ)



*December quarter 2011

SOURCE: PWC

PwC economics partner Jeremy Thorpe said the improvement was promising, though would need to be sustained to have much of an impact.

"We expected to see fewer hours worked in the services sector over the December quarter as this period coincides with traditional holiday periods," Mr Thorpe said. "However, the sector was able to maintain strong output figures despite the reduction in labour hours, leading to a positive labour productivity result."

Treasury and the Reserve Bank of Australia have warned there needs to a be a sharp improvement in productivity growth if living standards are to rise.

Merrill Lynch chief economist Saul Eslake, who extensively researched productivity in his job at think tank, the Grattan Institute, said that after expanding at a five-year rate of about 2 per cent a year in the first half of the 1990s, productivity growth accelerated to 3.2 per cent in the late 1990s and slowed in the late 2000s to 1.3 per cent.

Treasury secretary Martin Parkinson last week bemoaned "the sharp deterioration in multi-factor productivity – how clever we are at combining labour, capital, resources and ideas".

He said the enormous boost to national income from soaring commodity prices had supported living standards despite poor productivity growth, a situation that was unsustainable.

Mr Thorpe said the mining sector would eventually boost productivity as major projects entered production and added to national output. The effect would be tempered by skills shortages and the fact that high global prices were leading to the development of less-lucrative mines and resources.

He warned that "when the resources boom eventually runs its course, if we have not seen sustained productivity growth in non-resource industries, then we will be relying on smaller and less-productive industries to implausibly sustain our national standard of living".

Mr Eslake said there were "tentative" signs that many firms under pressure from the strong dollar, weak credit growth and other changes in the economy were working to increase their efficiency.

He said he was "as pessimistic as I have ever been" about the likelihood of governments introducing policies that would make the economy more efficient. The benefits of reforms in the late 1980s and early 1990s had worn off and there has been a "tidal wave" of regulations since, including onerous security measures and corporate governance requirements, he said.

Alan Stokes, page 59

Miners and families vent spleen at BHP

Long-term warming