



# New Zealand's productivity story – what do we know, what are we guessing at?

29 October 2013

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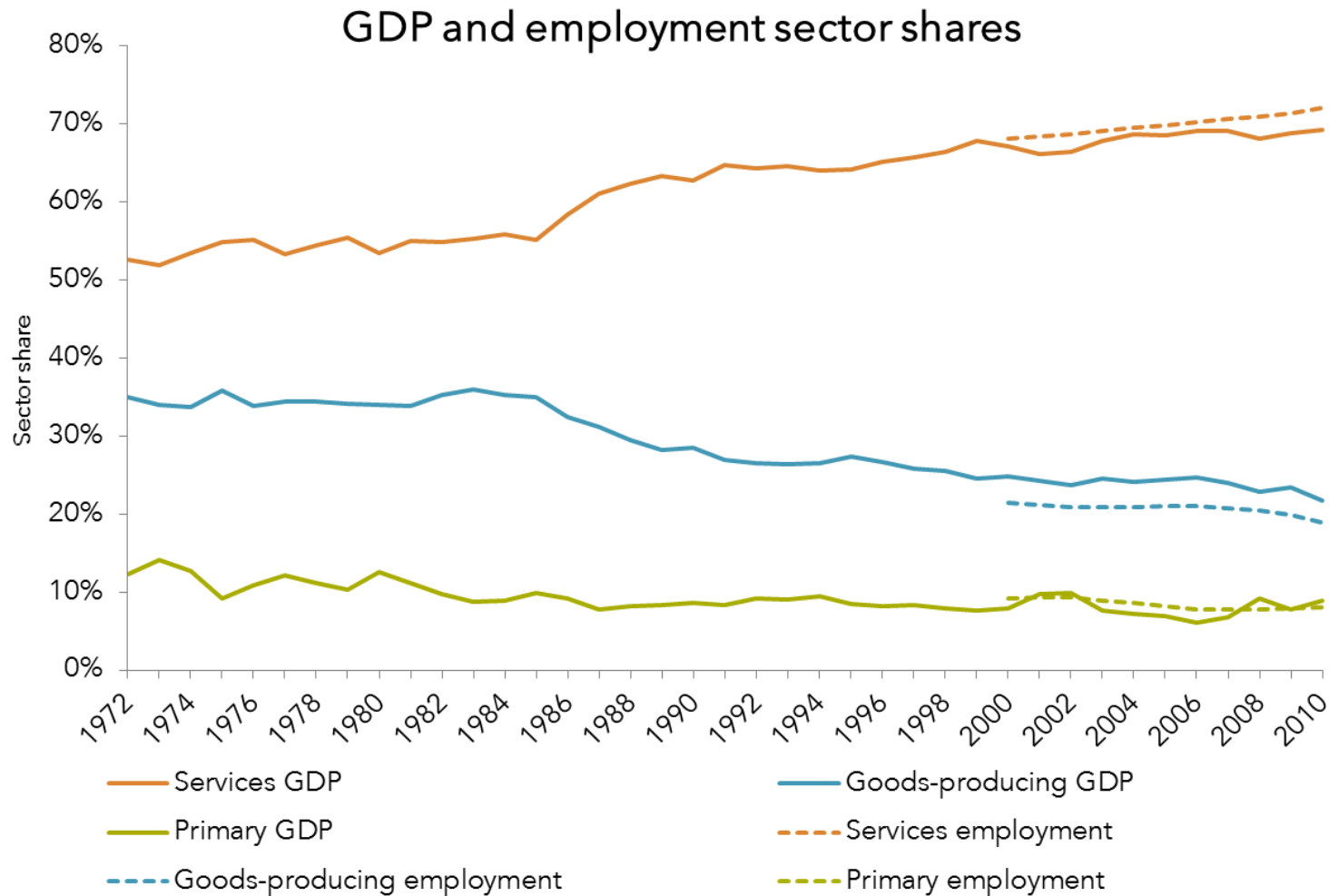
Chair and Director – Economics and Research

# Outline

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1. Historical context and the New Zealand Productivity Commission
2. Aggregate and industry productivity
3. International comparisons
4. The productivity distribution – why so wide?
5. Causes of New Zealand's poor productivity

# The rise of the services sector



# The Productivity Commission

## Our organisation

- independent Crown entity
- three Commissioners
- ~15 staff, plus contractors

## Our work

- 2 inquiries per year
- topics chosen by Government
- in-depth analysis taking ~12 months
- public engagement/consultation
- real-world, practical policy advice to government

Continued...

# Inquiry topics to date

## In progress

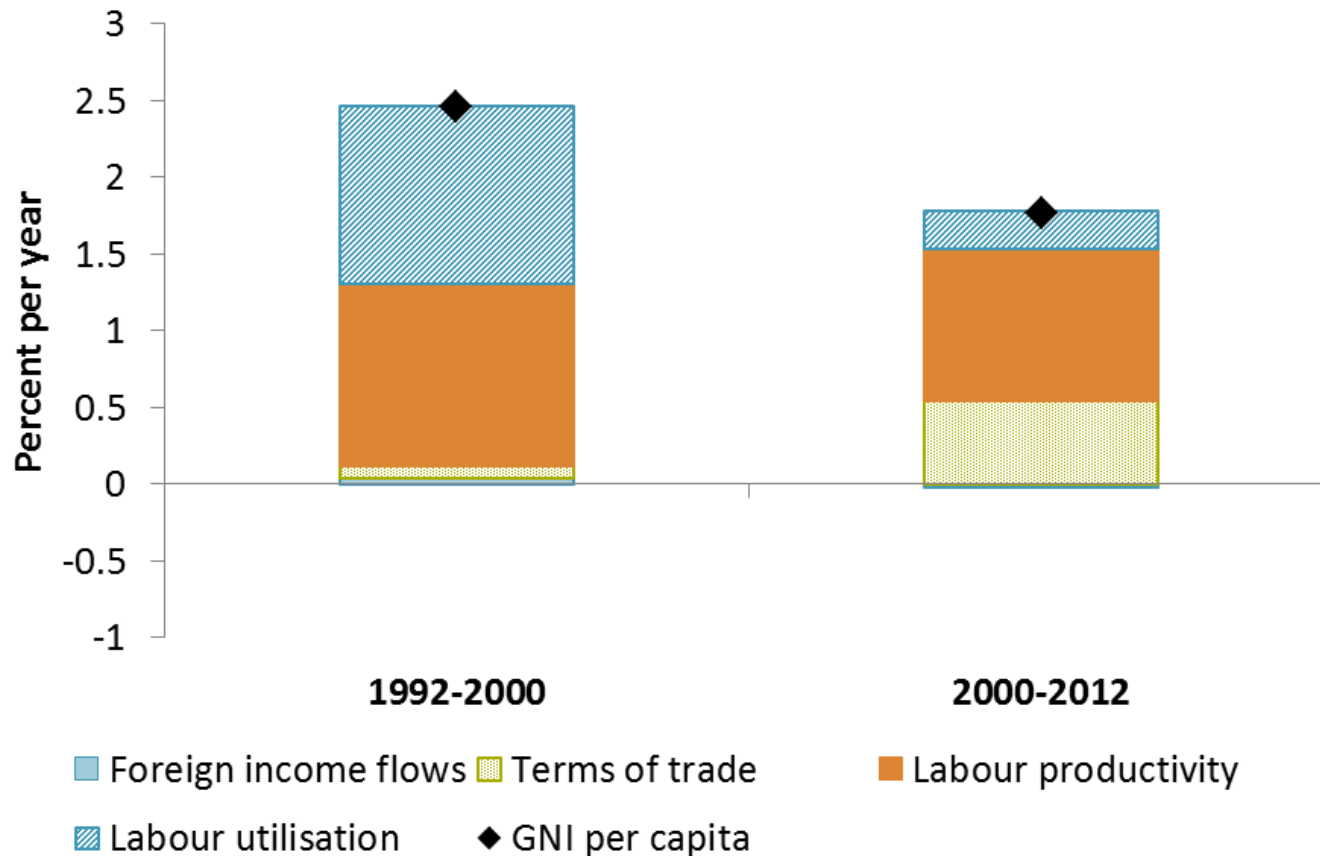
- Services sector
- Regulatory design and operation

## Completed

- Local government regulatory performance
- Strengthening trans-Tasman economic relations
- International freight transport costs
- Housing affordability

# Source of NZ's income growth

Productivity is key to income growth: Labour productivity has accounted for 55% of NZ's income growth since the early-1990s.

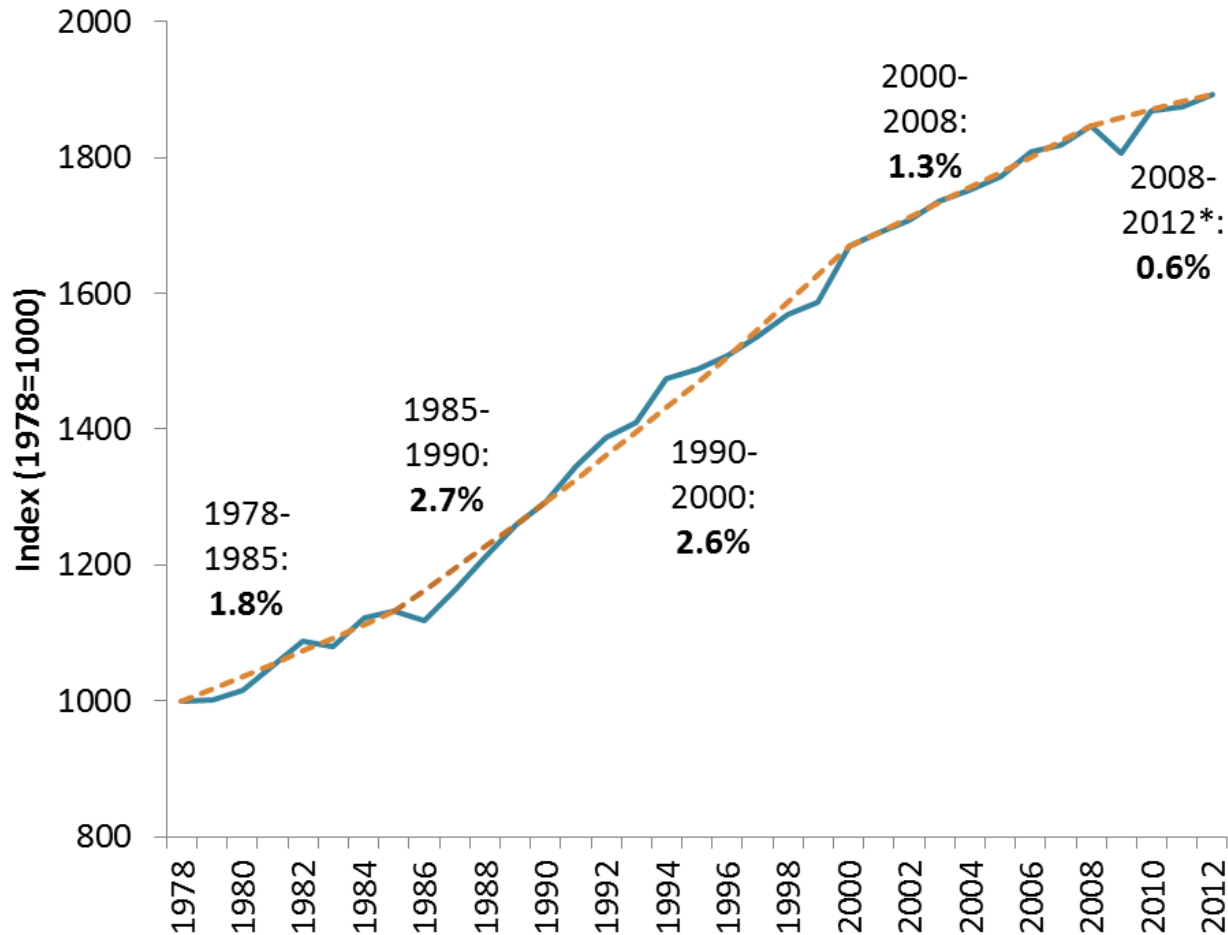


Source: SNZ; authors' calculations

# Aggregate (measured sector) productivity performance



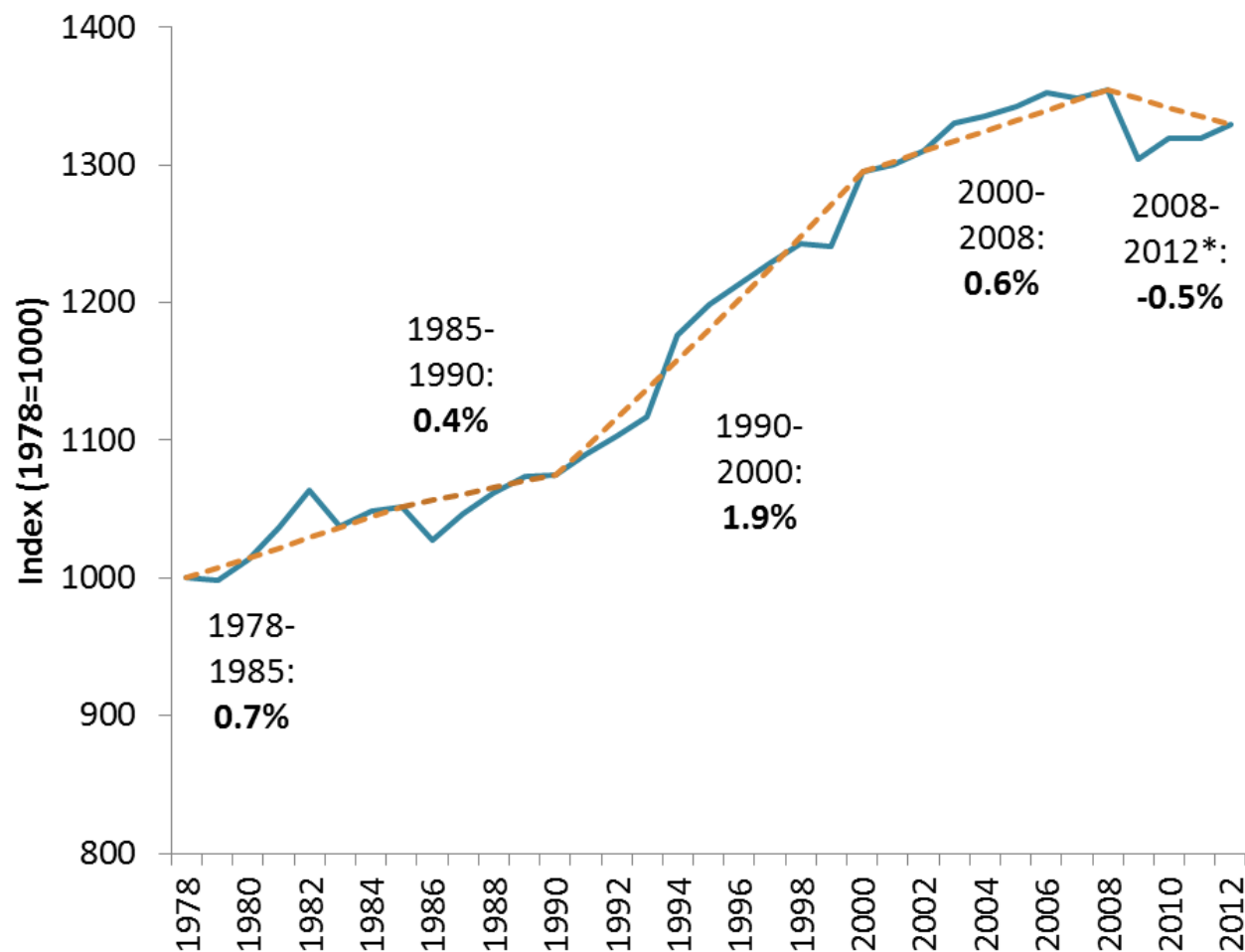
# Labour productivity growth



Labour productivity growth strong in late-1980s and 1990s, but weaker in 2000s.

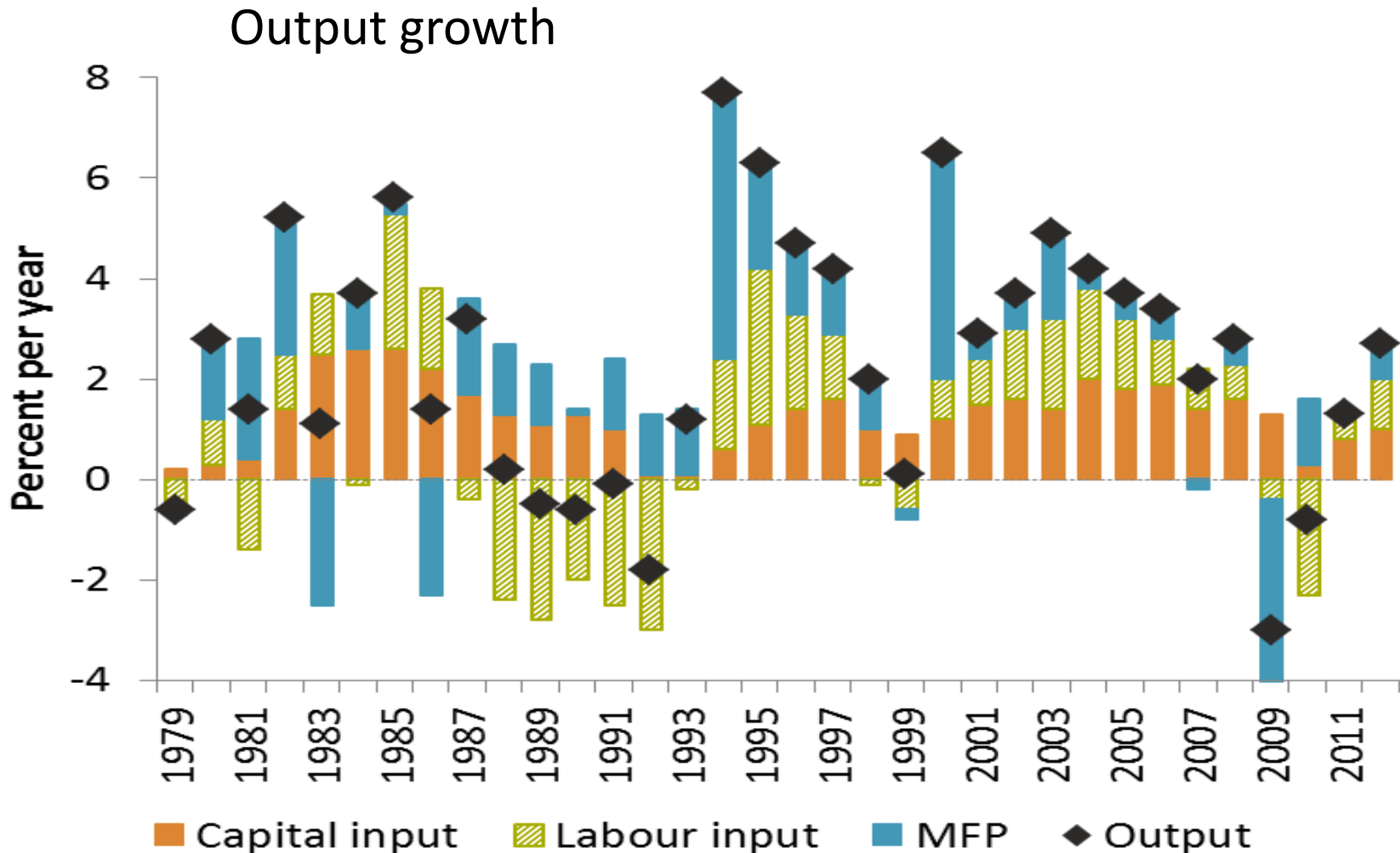


# Multi-factor productivity growth



MFP growth strong in 1990s compared with other periods, but has weakened in 2000s.

# NZ's long-run growth dynamics

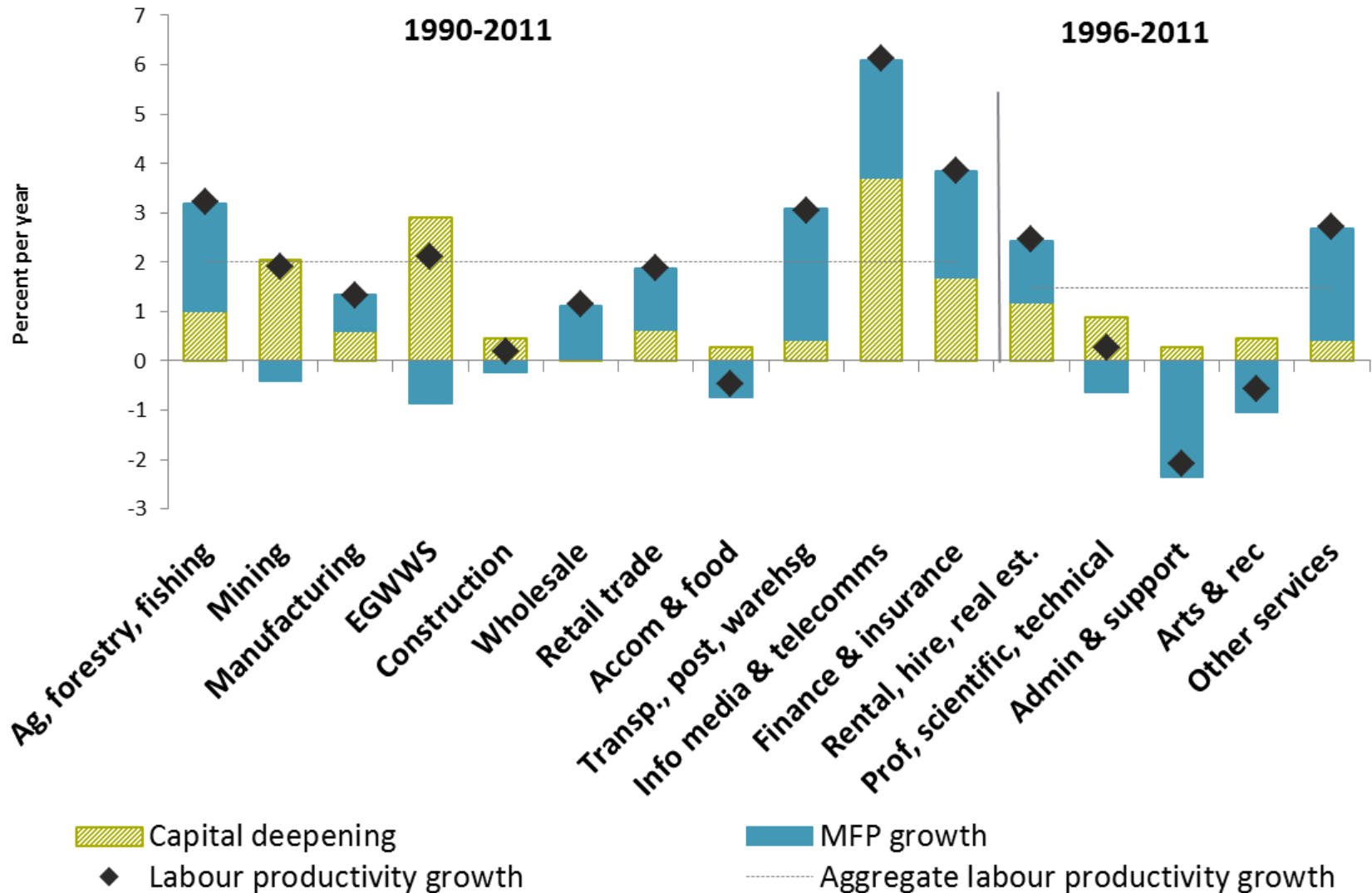


# New Zealand's productivity growth by industry

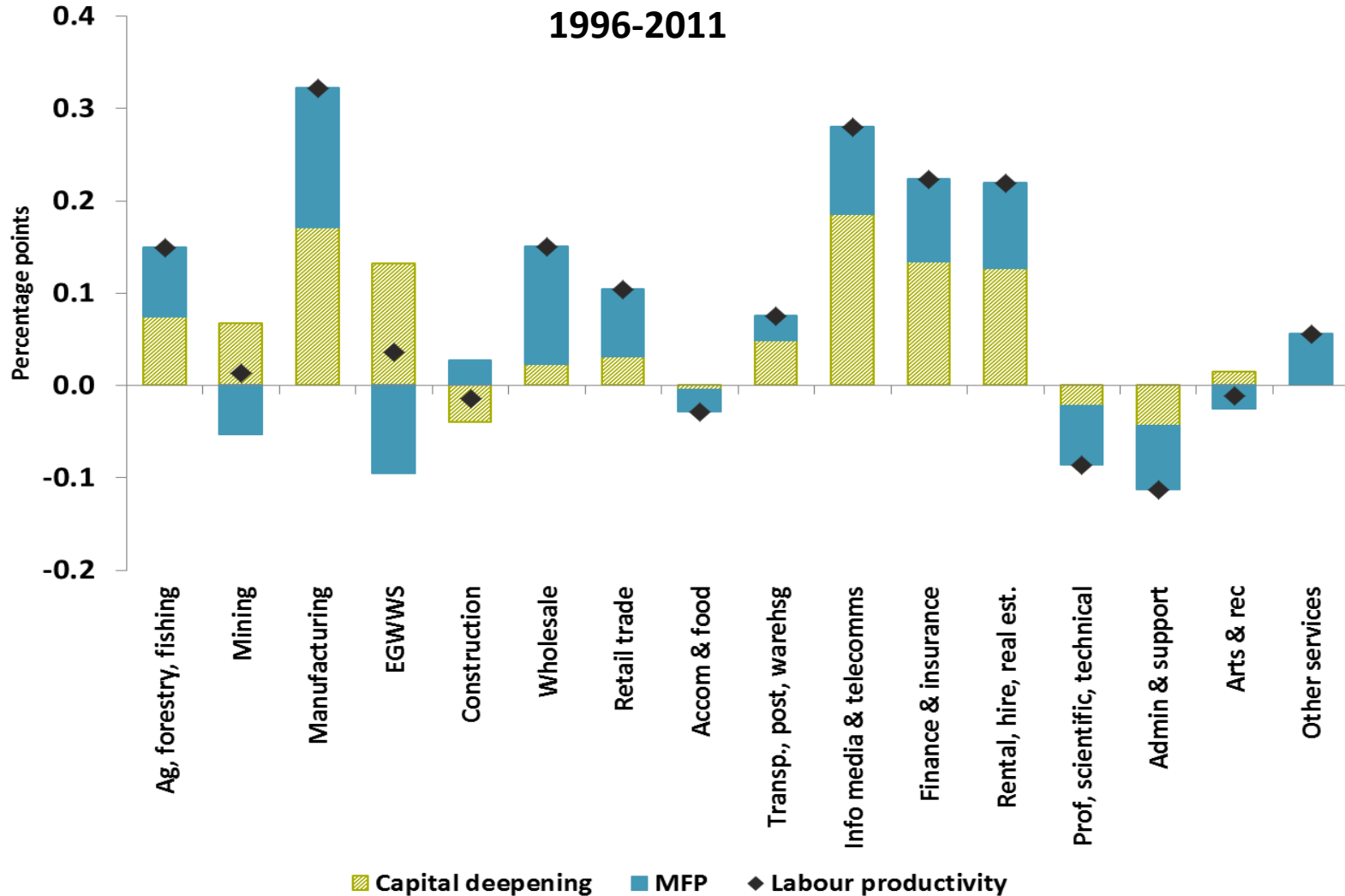




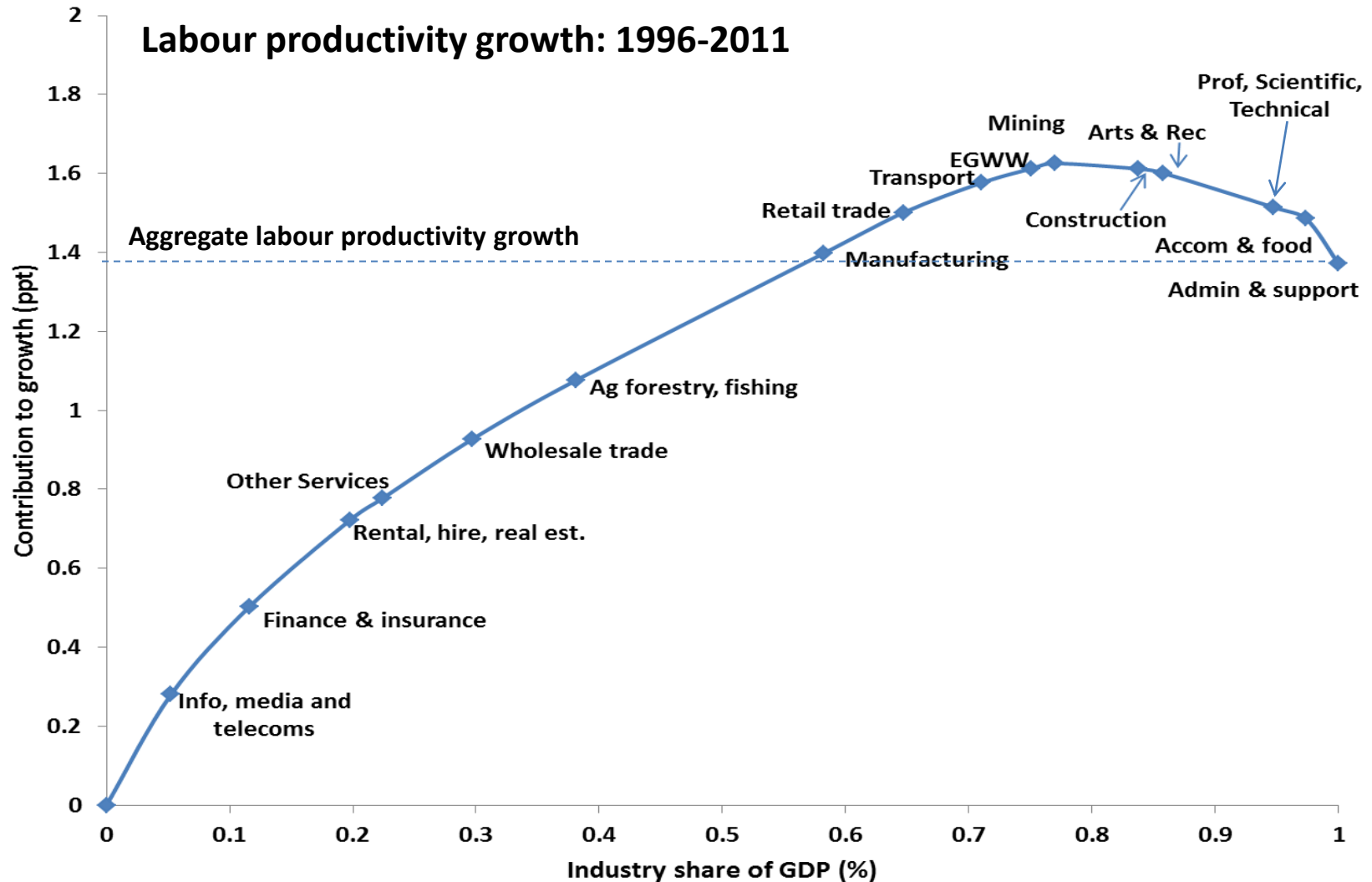
# Productivity growth by industry



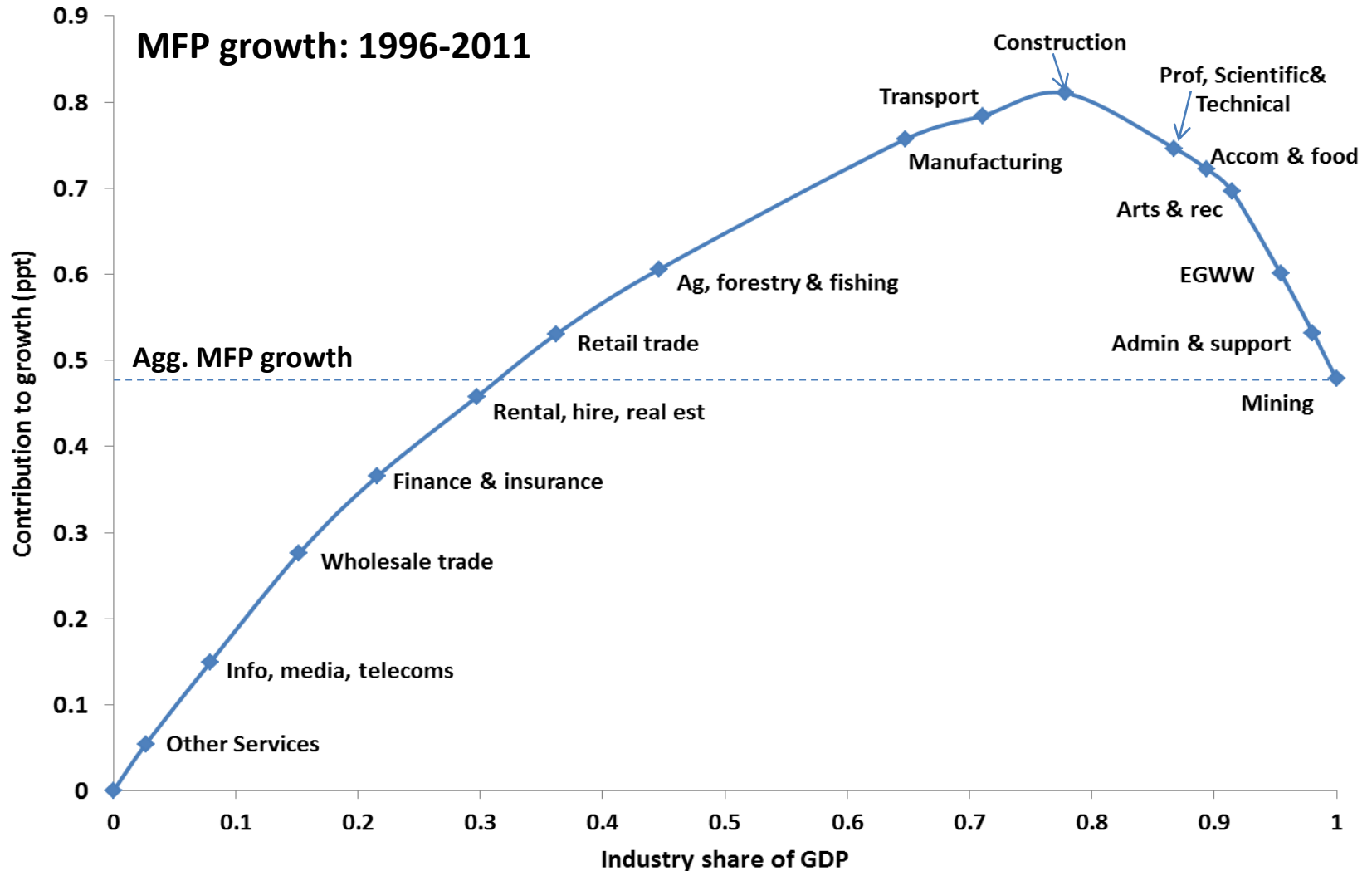
# Industry contributions to aggregate growth



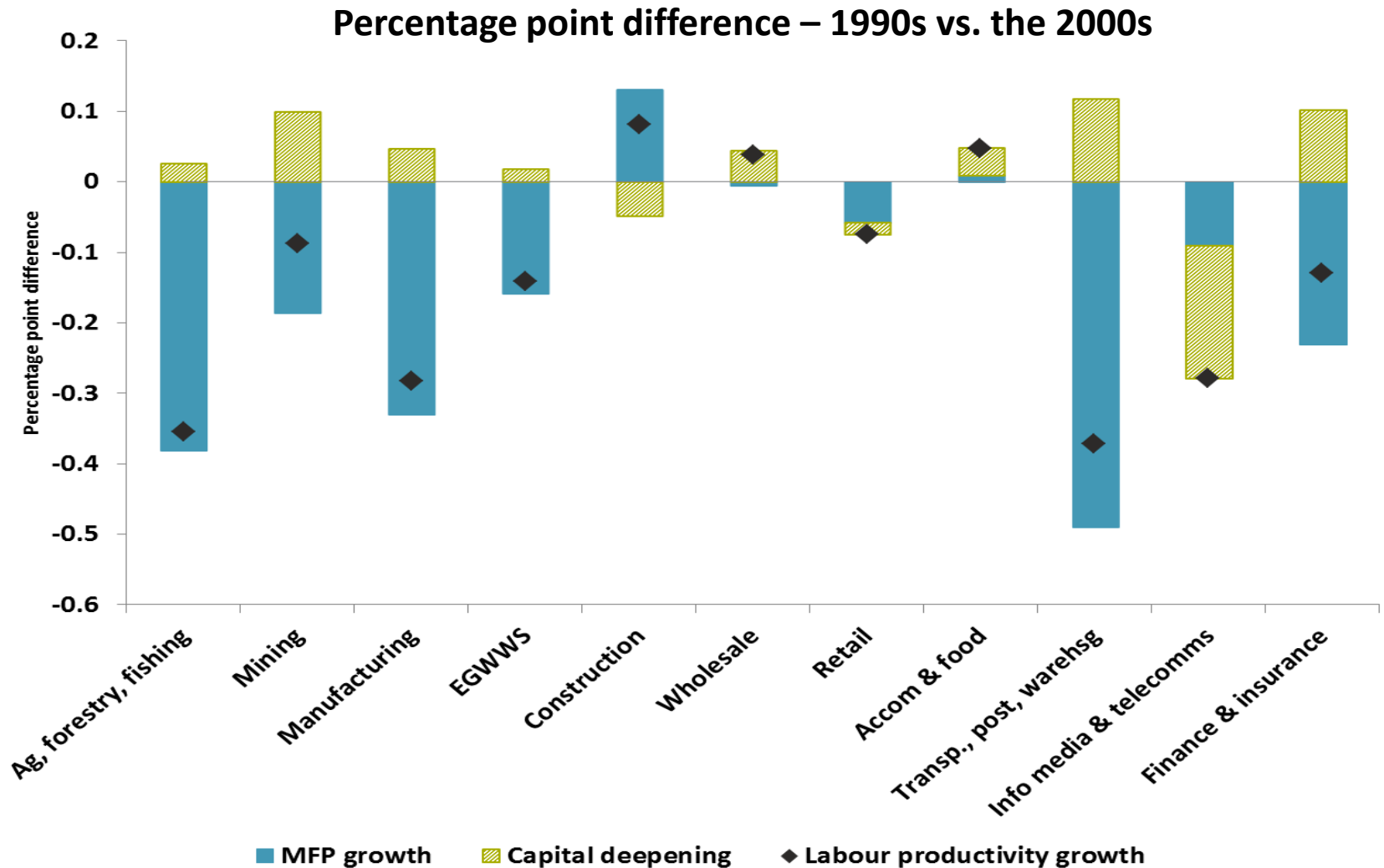
# Industry contributions by GDP share



# Industry contributions vs. GDP share



# Industry contributions to the 2000s slowdown





# Summary of industry results

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**Outperformed:** Information, media & telecoms; Finance & insurance

**ICT-intensive industries:** some have performed well, but NZ's overall ICT story is unclear

**Underperformed:** Construction; some Service industries (including Professional, scientific & technical)

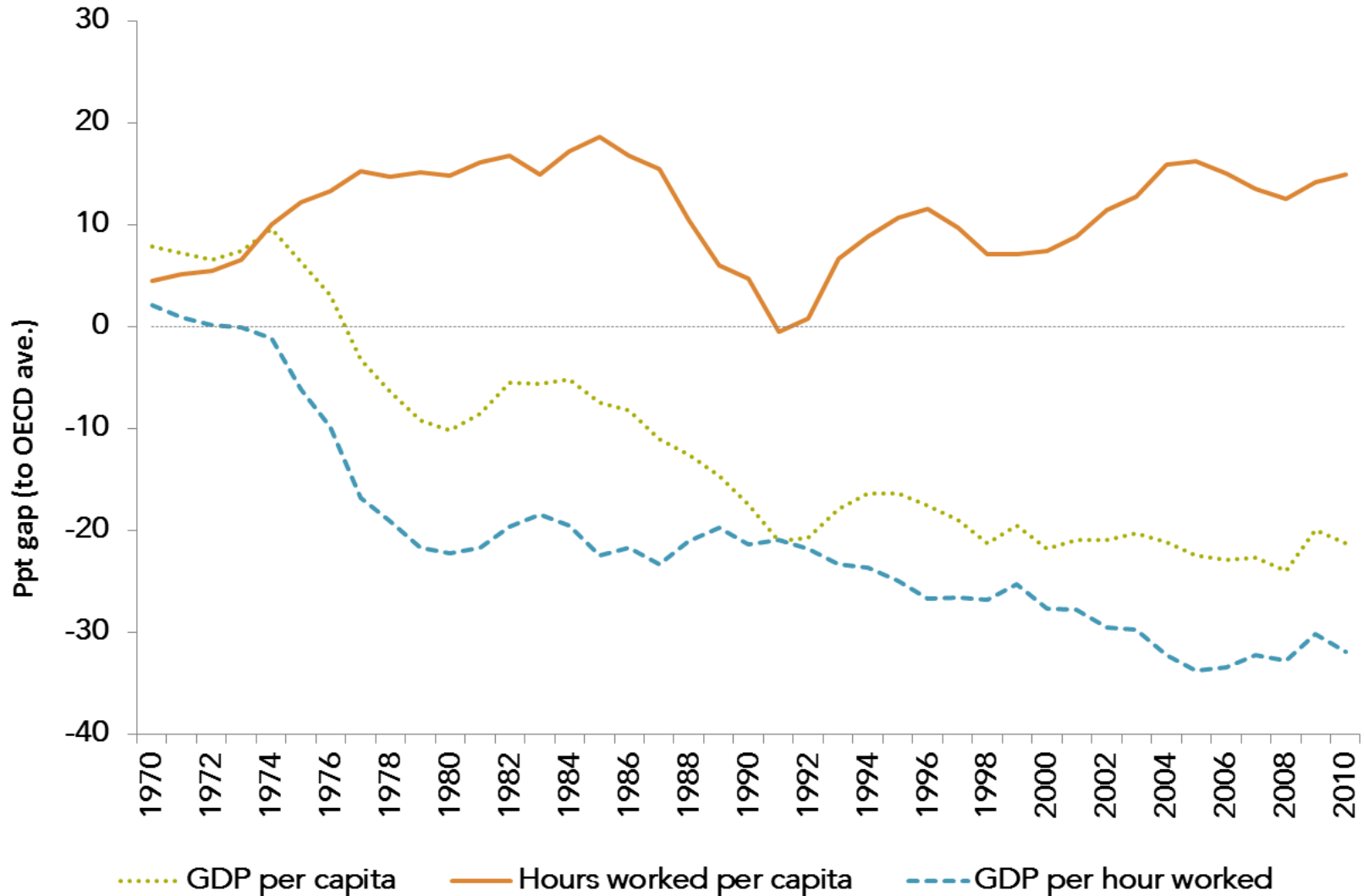
**Weaker MFP growth in the 2000s:** cause broad-based, but particularly Agriculture; Transport; Manufacturing

# New Zealand's productivity performance compared

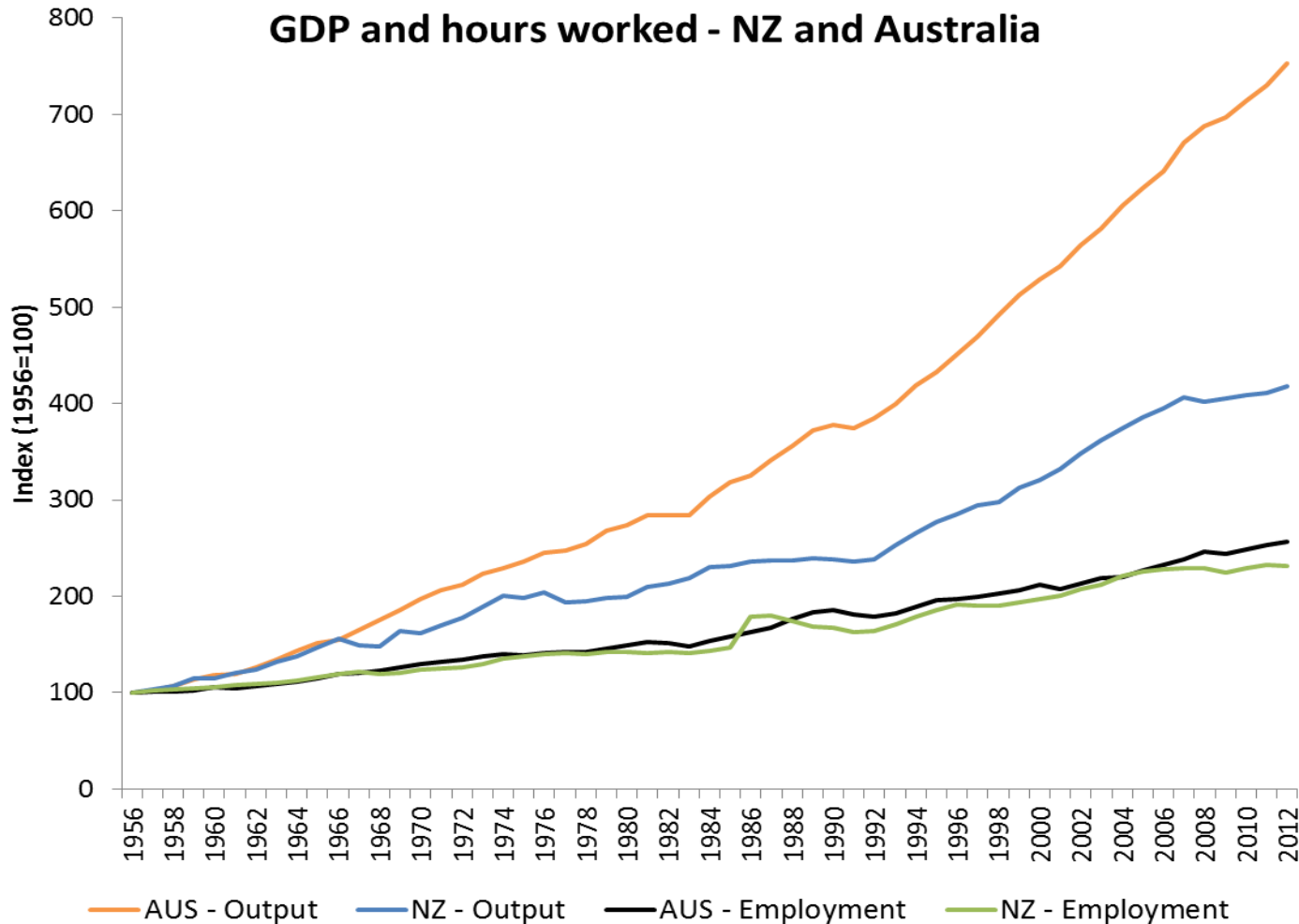




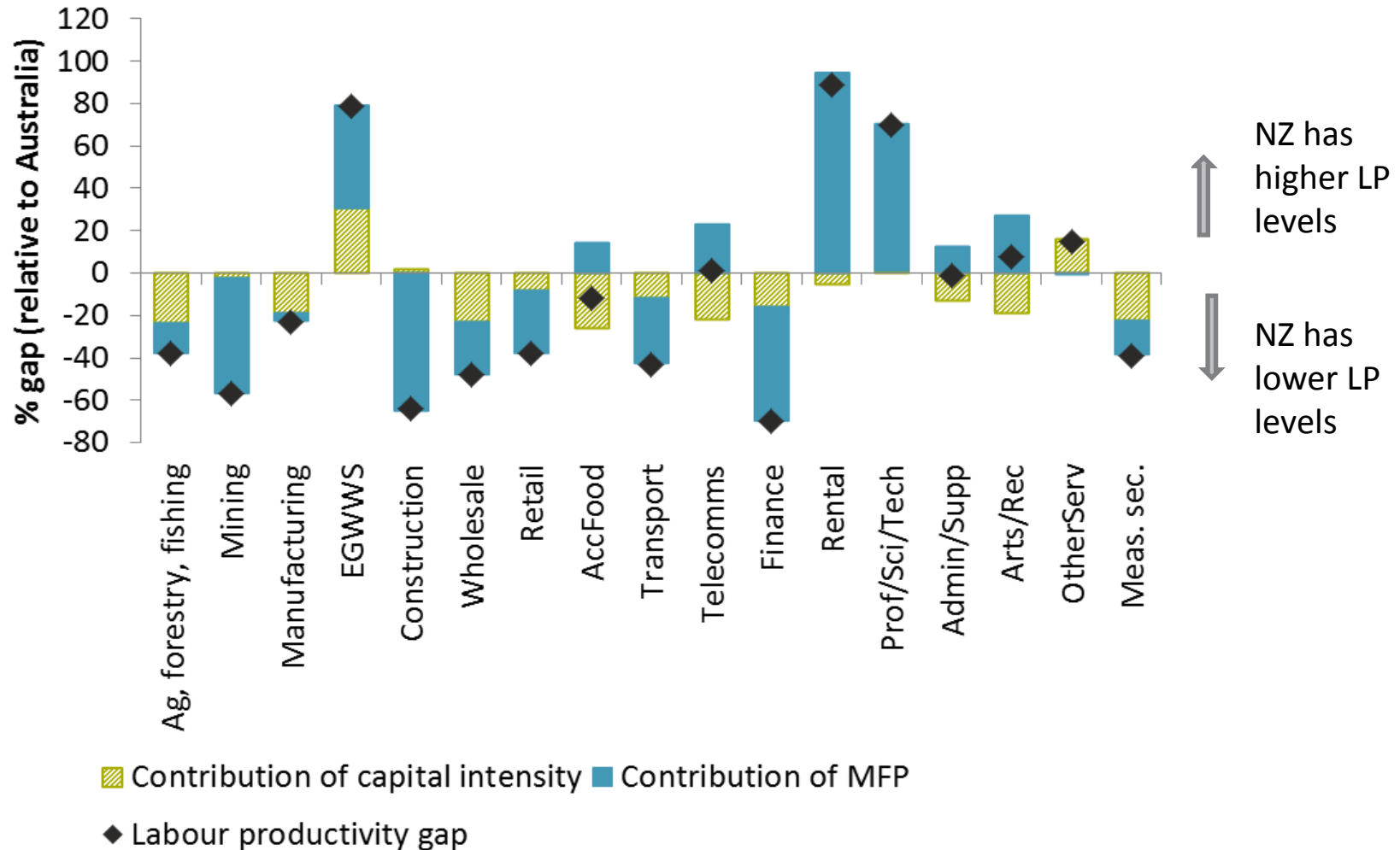
# Employment grows, productivity slows



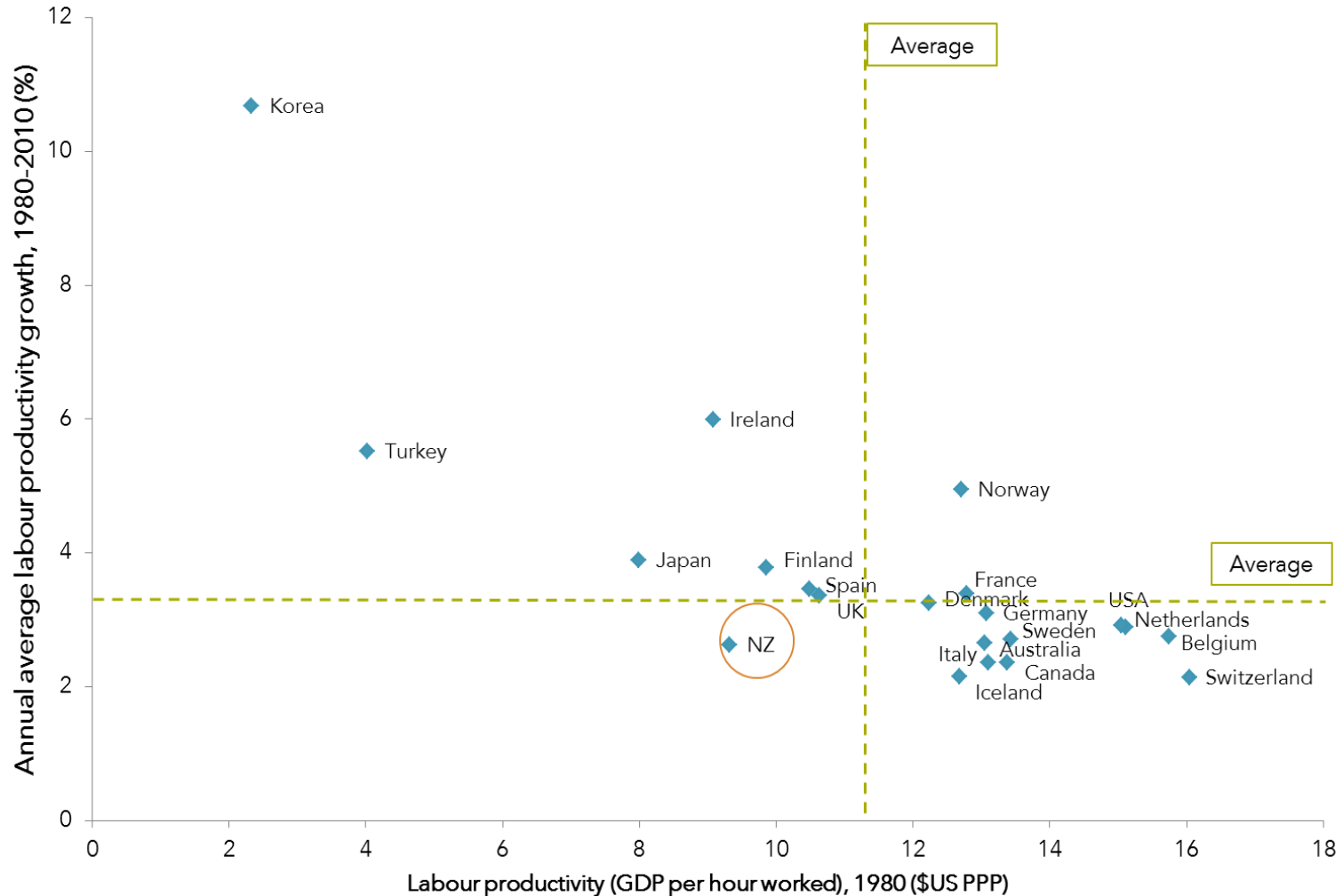
# Same labour increase, more output in AUS



# Labour productivity levels, Australia vs. NZ



# No evidence of productivity catch up

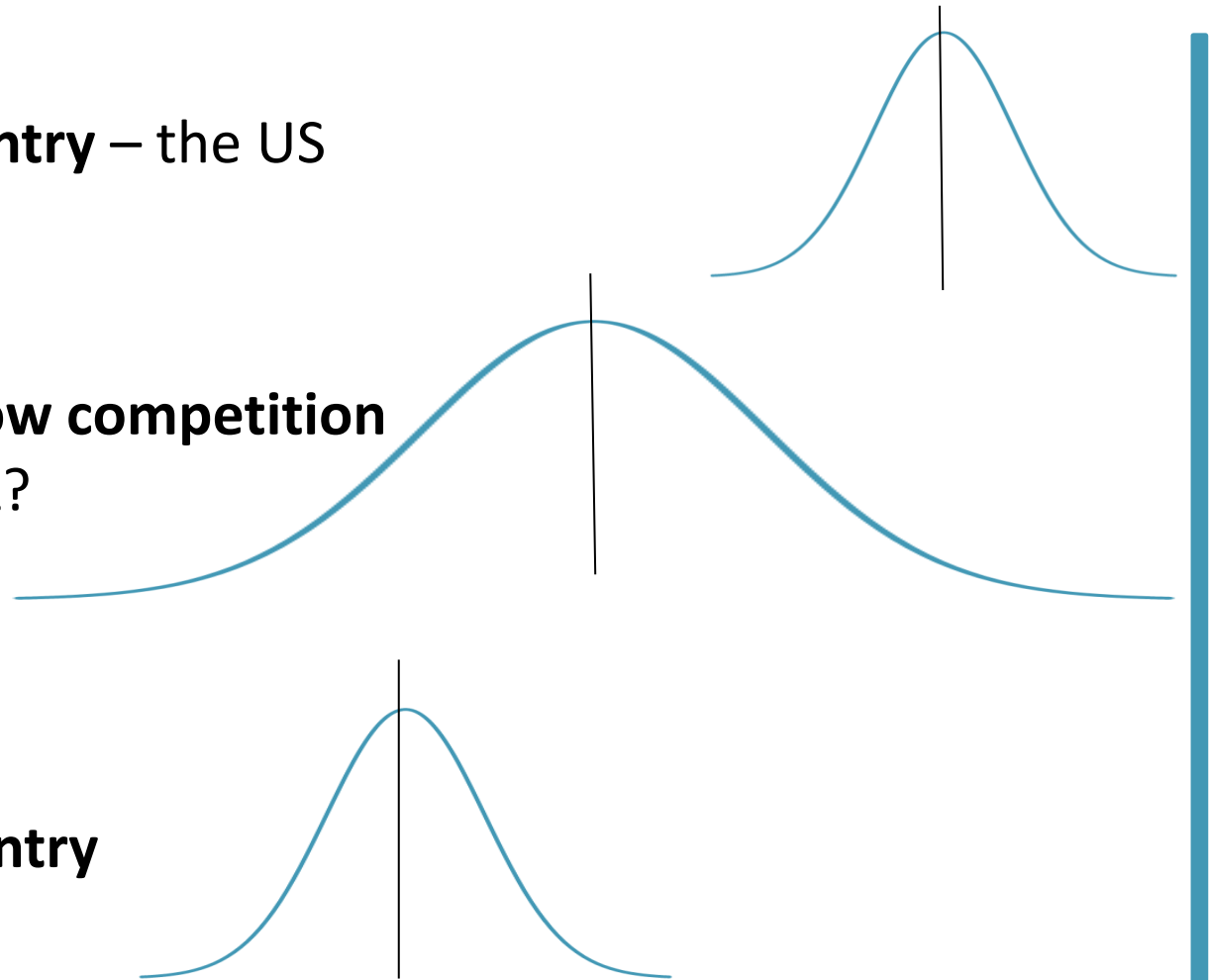


# Distance to which frontier?

Frontier country – the US

Advanced/low competition  
country – NZ?

Lagging country



Firm productivity

The technology frontier

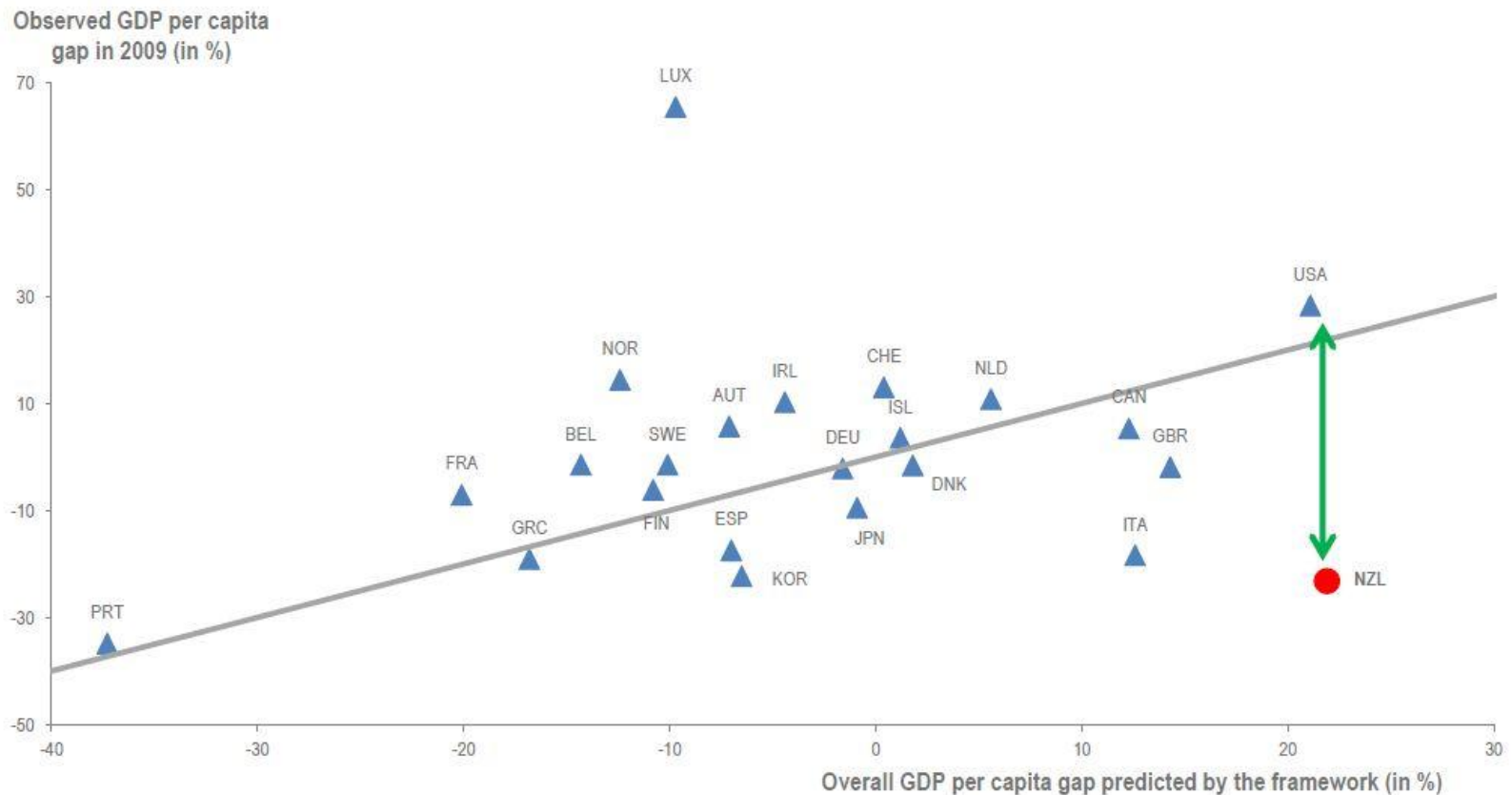
# Productivity at the micro level





# NZ income should be higher (based on comparative policy settings)

Observed gap in GDP/capita relative to OECD average versus the gap predicted from various structural policies, 2009



# Why a poor productivity performance?

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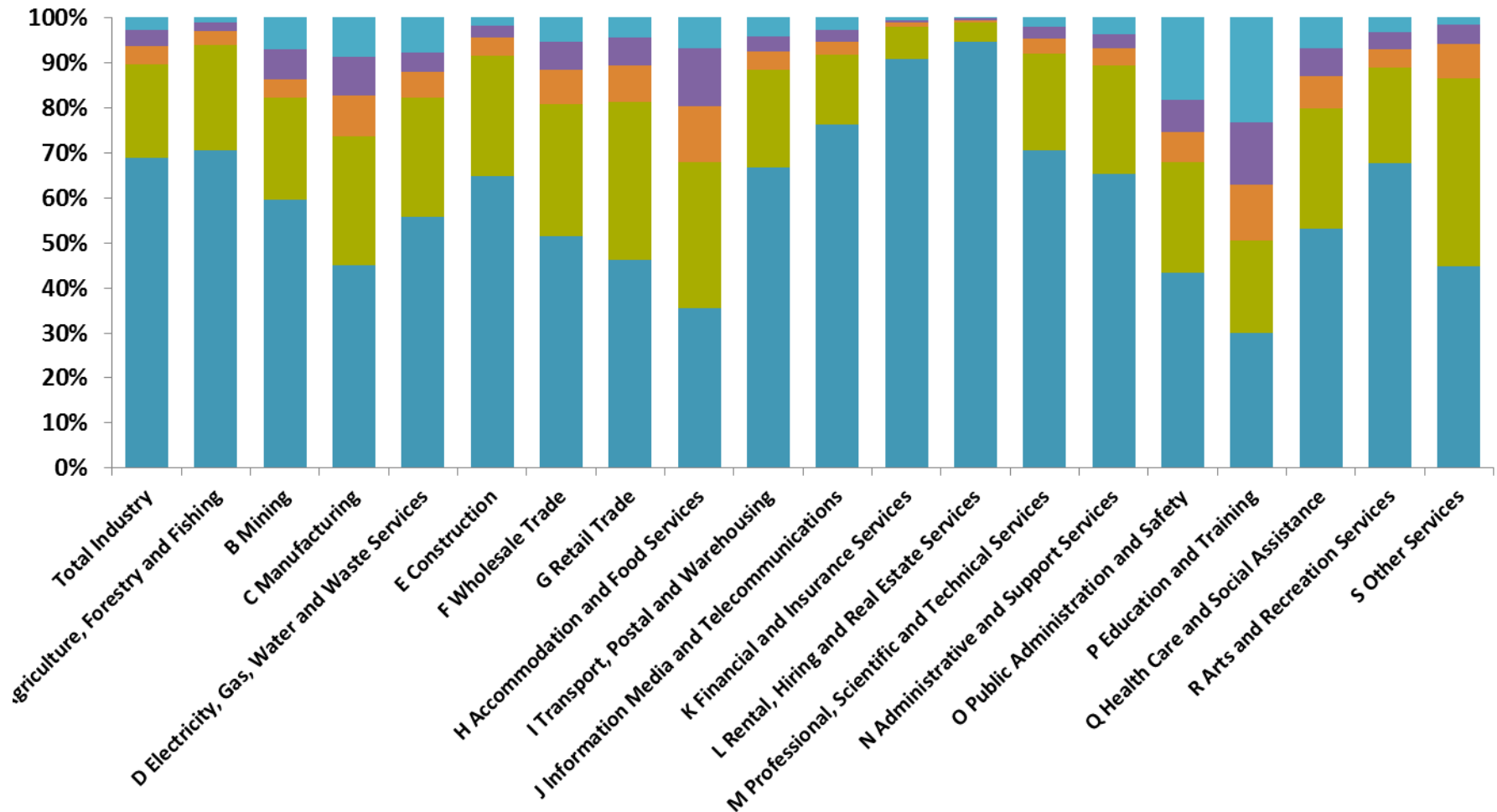
- Why doesn't technology diffuse into or within New Zealand?
  - Economic geography?
  - Trade?
  - Regulation?
  - Services?
  - The macro picture?



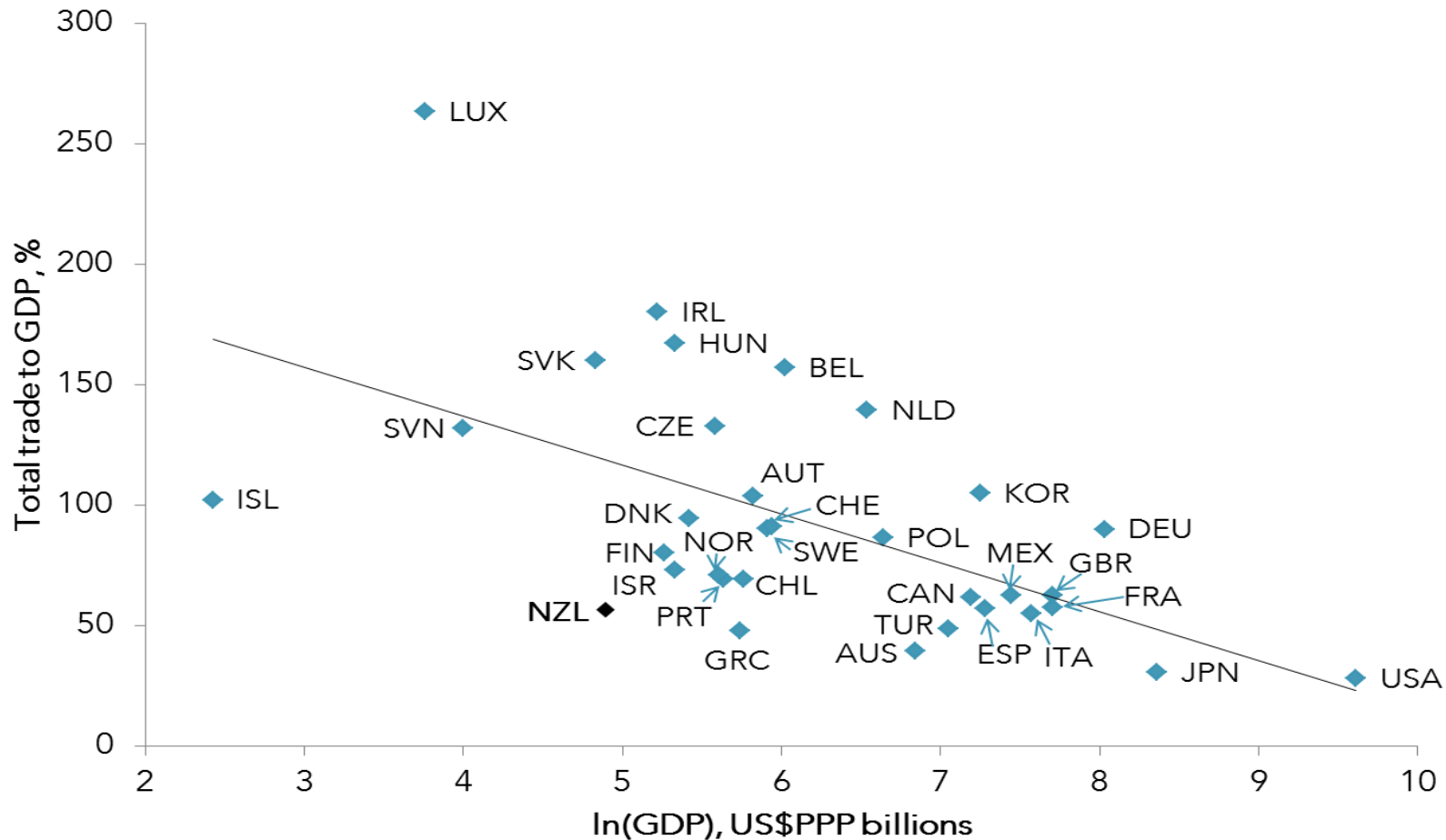
Small relatively closed markets  
implying a serious lack of  
competition and scale?

# New Zealand firms are tiny

Total employees: 0 1 to 5 6 to 9 10 to 19 20+

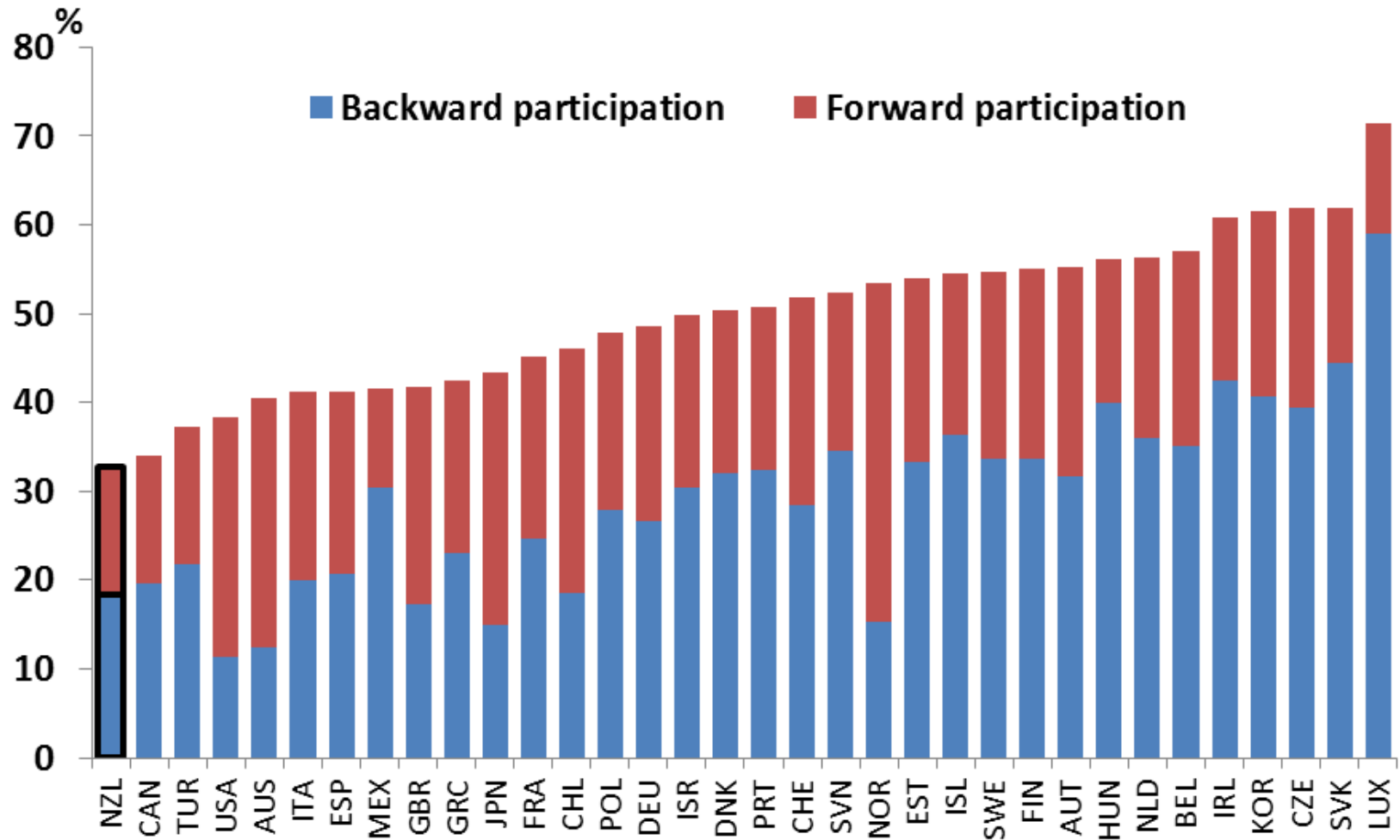


# New Zealand doesn't trade much...



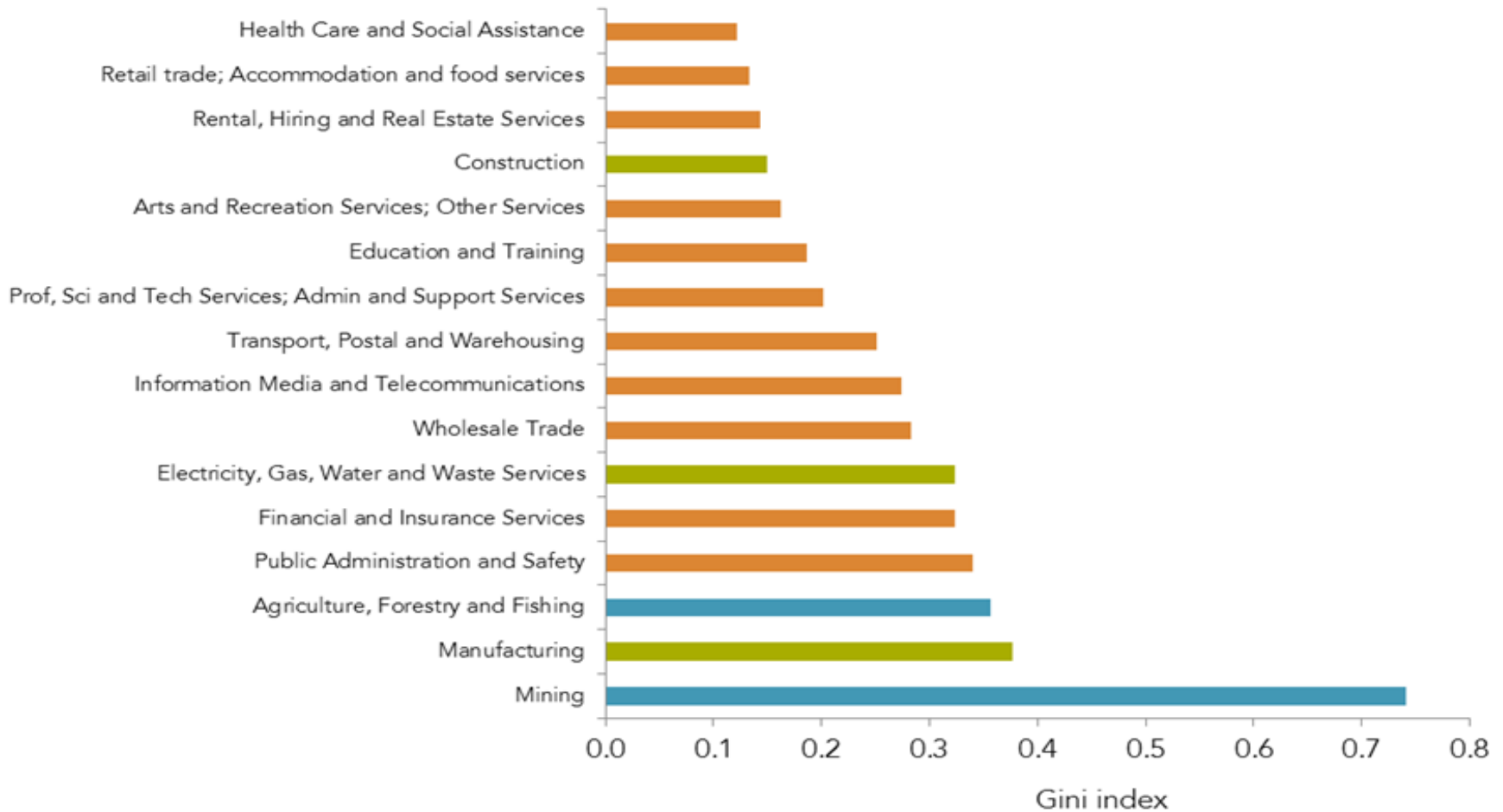
*“...any successful economic development strategy must ultimately raise the share of international trade in GDP”* Harrison and Rodriguez-Clare (Handbook of Development Economics)

# ... or participate in global value chains



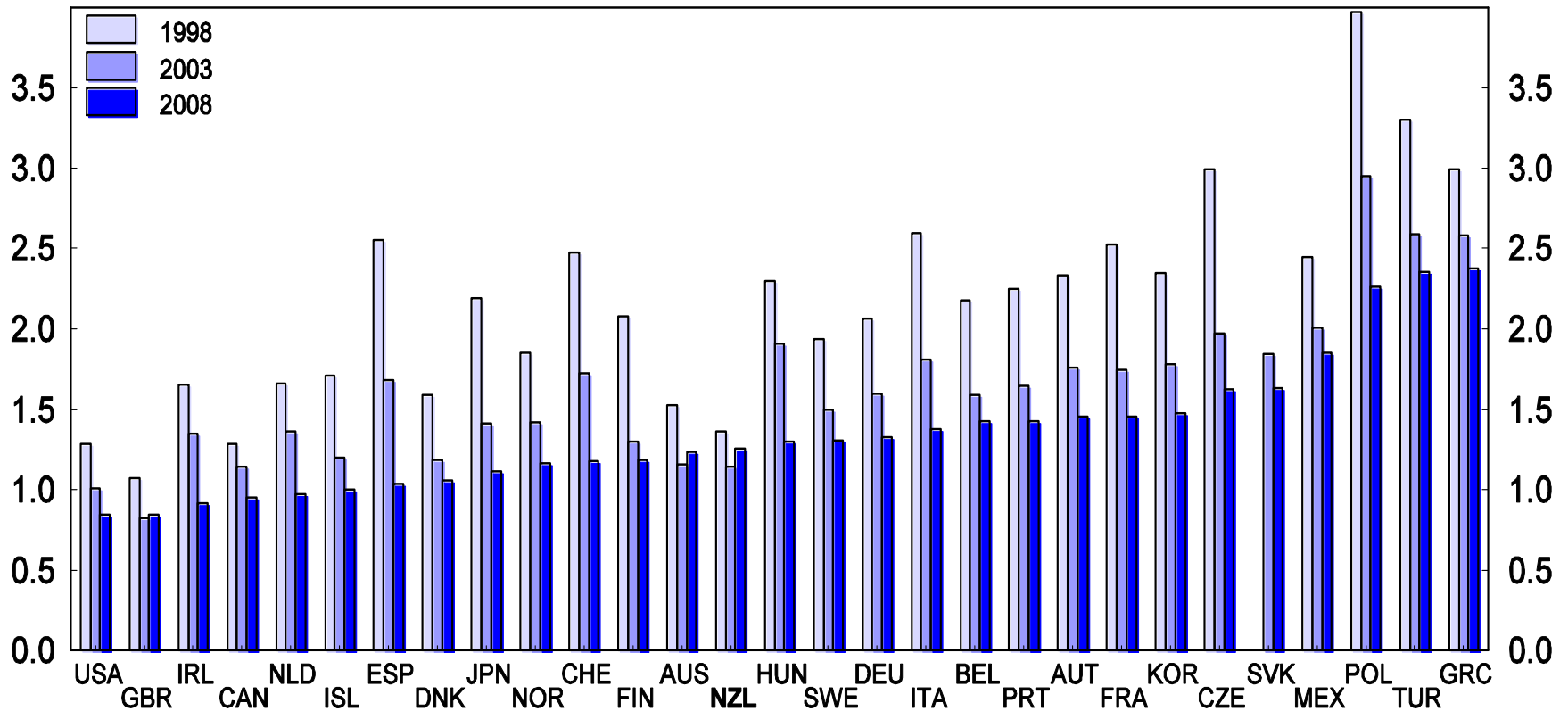
# Local markets are small

Domestic tradability index by 1-digit industry

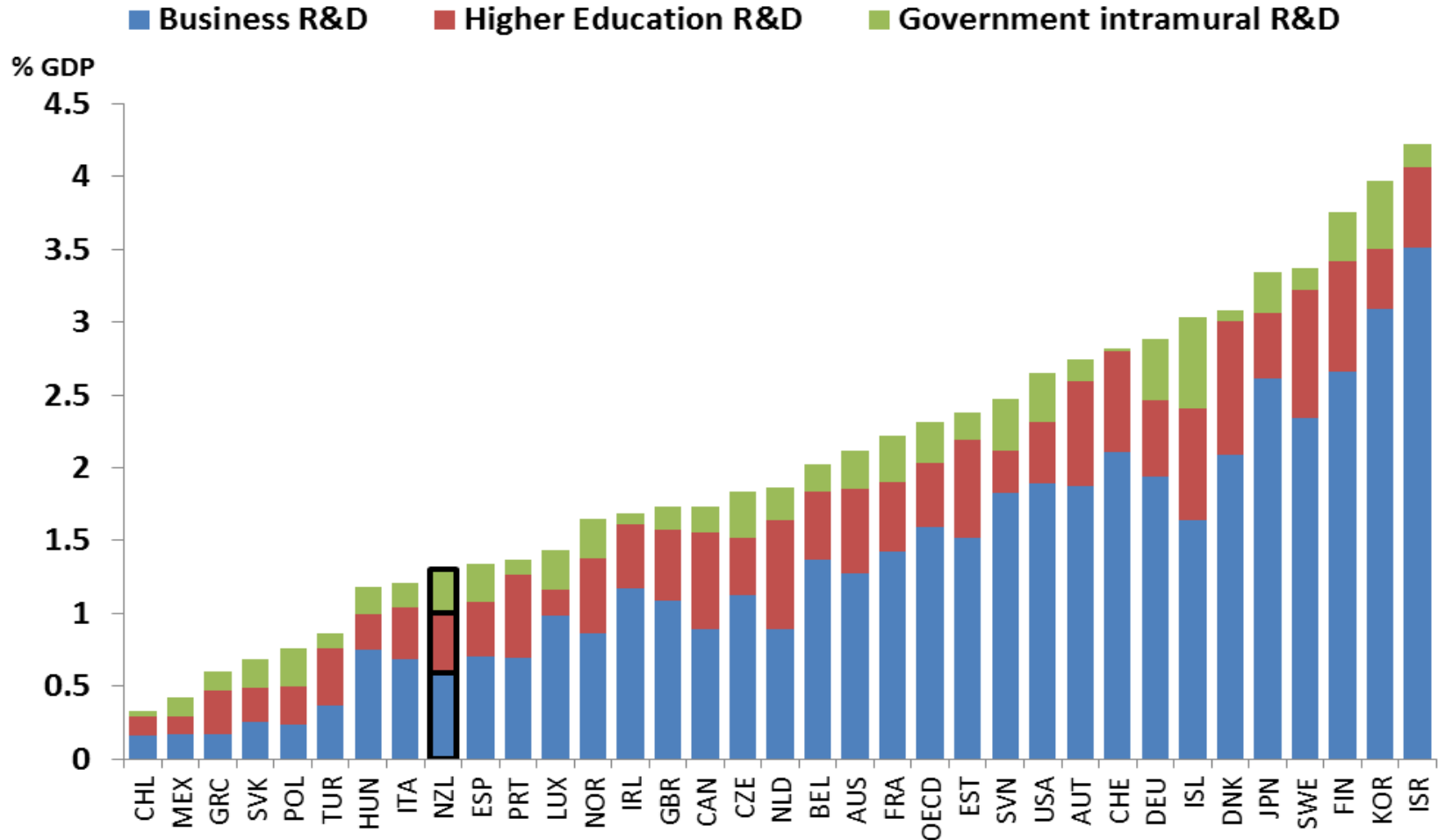


# NZ's regulatory advantage has eroded

Economy-wide PMR, 1998-2008



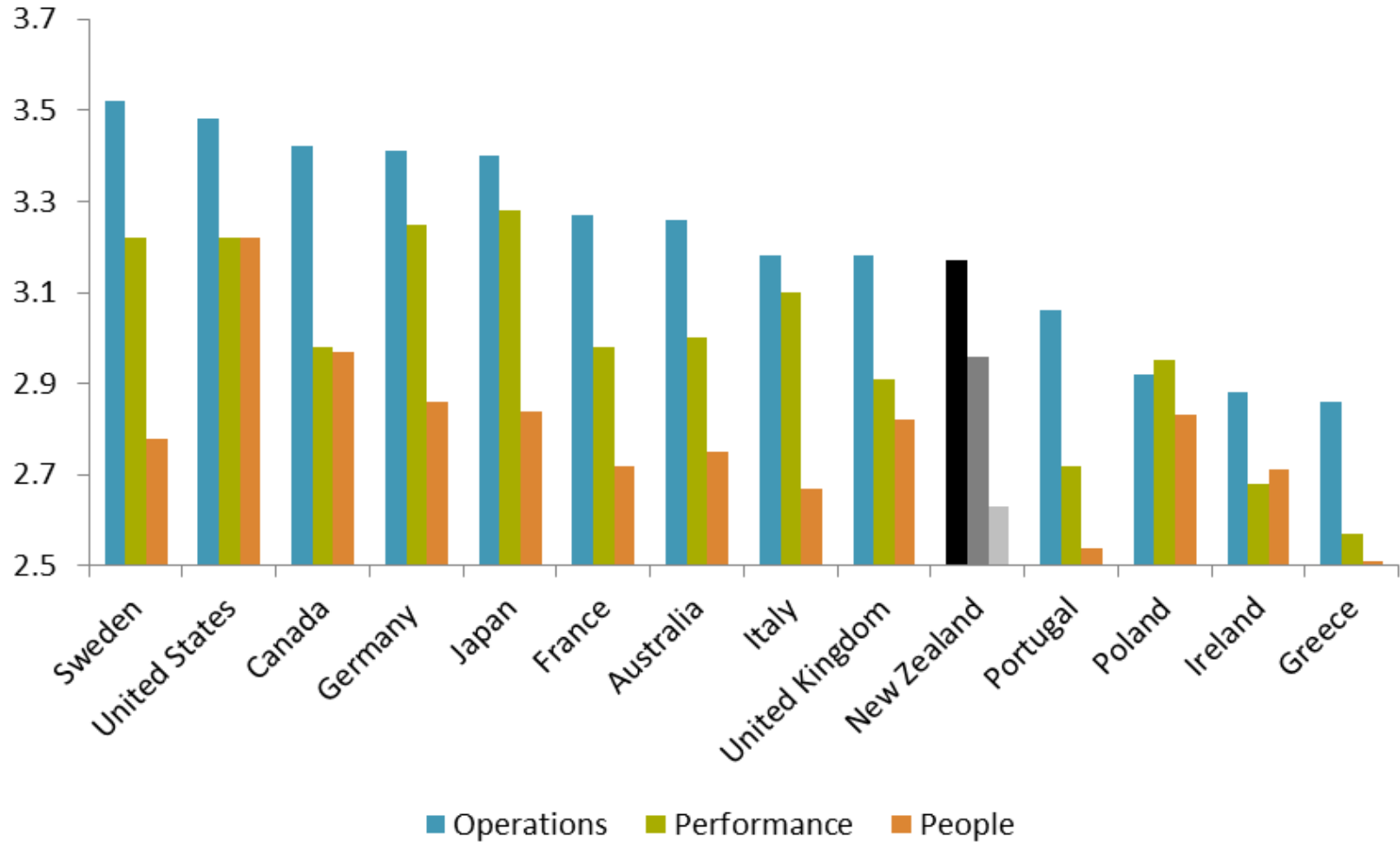
# R&D is low





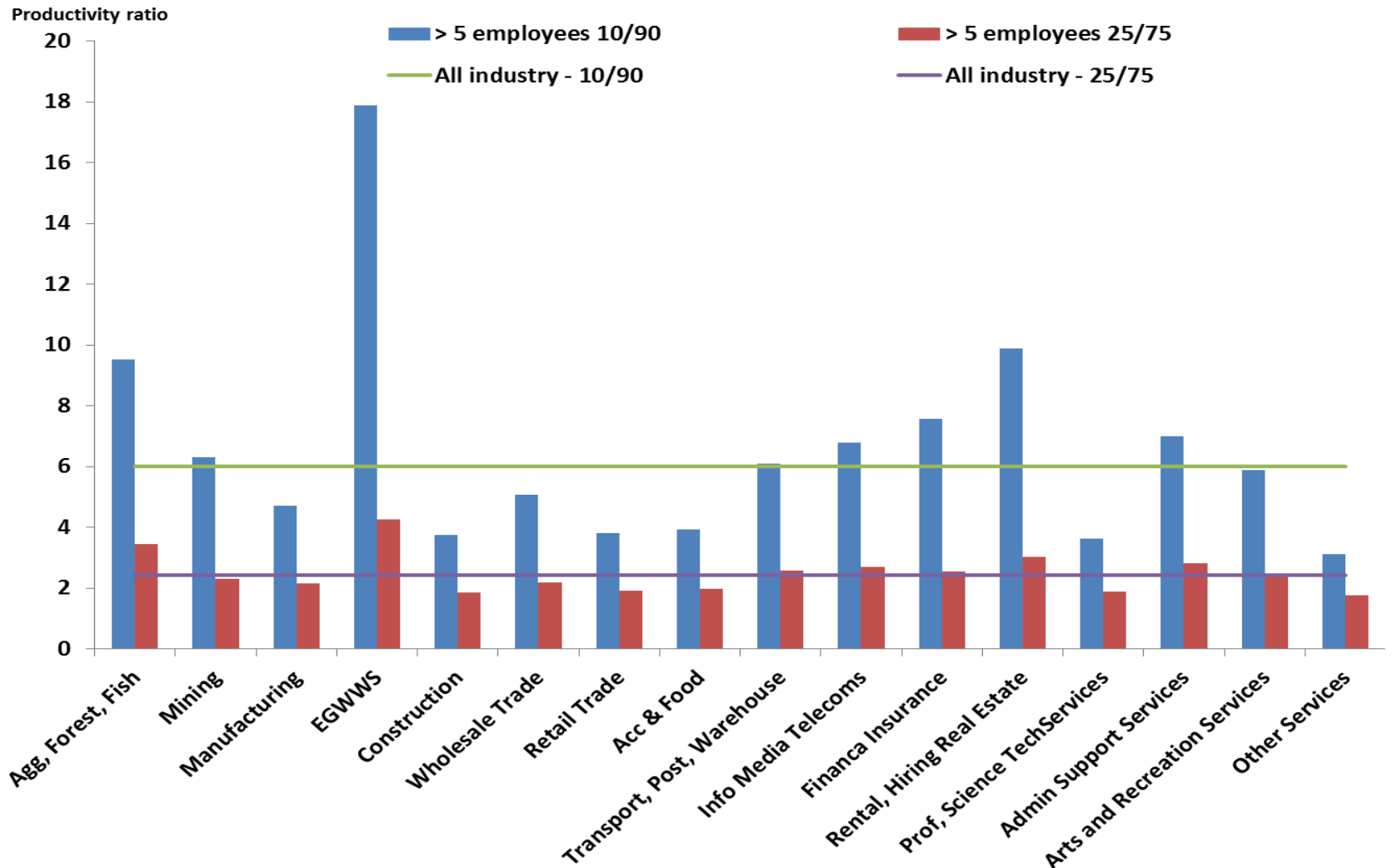


# Management quality is below average





# The LP distribution – firms >5 employees



# Thank you

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Questions, comments, suggestion most welcome:

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