



Chamber of Commerce
and Industry WA

Supplementary Evidence – Productivity Trends

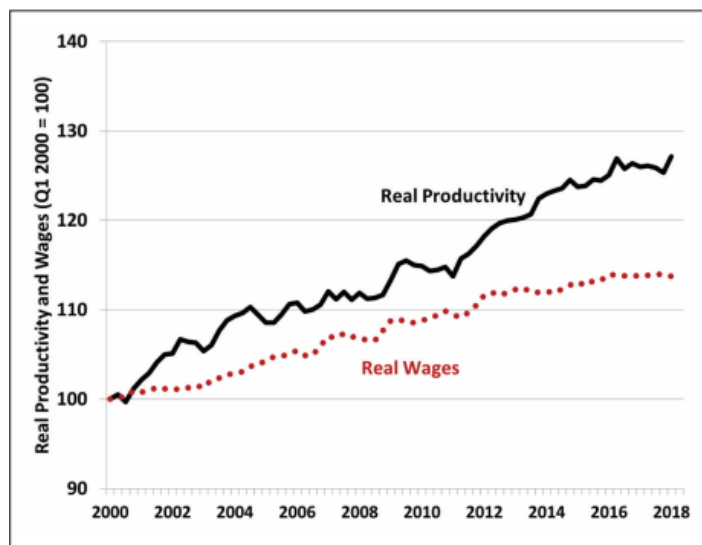
State Wage Case 2019

27/05/2019

Australian Productivity Trends

Summary

It was brought to the attention of the Commission, during verbal evidence provided by WACOSS, that productivity growth has exceeded real wages growth over a number of years. WACOSS displayed the following chart to supplement their position:



CCIWA notes that the above chart indicates real productivity growth has exceeded real wages growth since around 2001.

CCIWA also notes that the chart displays national productivity at an aggregate level and does not discern the components of productivity growth on a state or industry level.

With respect to the comments made by WACOSS, CCIWA wishes to provide the following information:

- Growth in productivity is the primary long run driver in per capita income growth at an individual level (Commonwealth Treasury, 2017). Labour productivity is comprised of two components, (1) business investment in capital (capital deepening) and (2) worker and management efficiency (multifactor productivity).
- Over the past ten years, labour productivity has grown in WA at 3.4% per year on average. This is volatile: labour productivity fell in WA by -1.23% in 2016-17 and grew by 1.2% in 2017-18.
- When differentiating the contribution of both components of labour productivity growth over this period, CCIWA finds that:
 - Business investment in capital (machinery and technology) has accounted for 60-80 per cent of the annual growth in labour productivity (2.0-2.7 percentage points of the annual growth in labour productivity). This is likely the result of increased capital investment during the period of strong growth in the mining and resources sectors.
 - Worker and management efficiency has accounted for 20-40% of labour productivity growth (0.7 – 1.4 percentage points of annual growth in labour productivity). Over the same ten-year period, wages grew at 1.9% per year on average in year-ended terms.
- CCIWA notes that approximately 66 per cent (318,777) of employees captured within the state system are employed by unincorporated (small and medium sized) entities. Many of these businesses operate in service industries, such as retail and accommodation and food services and rely on multifactor productivity growth to boost output (as they are relatively labour intensive).

Therefore, CCIWA recommends that the Commission consider worker and management efficiency (multifactor productivity) as a primary metric to measure productivity growth. CCIWA submits that over the ten years to 2017-18, multifactor productivity in WA has grown by less than wages on average per year.

Background

A Commonwealth Treasury study of Australian Productivity trends (2017) has outlined that labour productivity is essential for increasing living standards in Australia. The primary driver of individual income growth is price effects and labour productivity. As relative price effects are temporary (individuals and businesses adjust their behaviour, respond to prices and prices adjust) labour productivity is essential for higher incomes:

"Labour productivity growth is, and is expected to continue to be, the key determinant of growth in Australian living standards. In terms of the size of the economy, economic growth is determined by growth in labour utilisation and growth in labour productivity. At an individual level, the primary drivers of per capita income growth are fluctuations in the terms of trade and labour productivity growth.

Because the global mining sector responds to higher commodity prices by expanding capacity, the terms of trade are unlikely to provide sustained boosts to Australia's living standards. As such, labour productivity is likely to be the main driver of future growth in living standards."

Labour productivity measures the productivity of labour in producing additional outputs from the same number of inputs. Labour productivity can increase because:

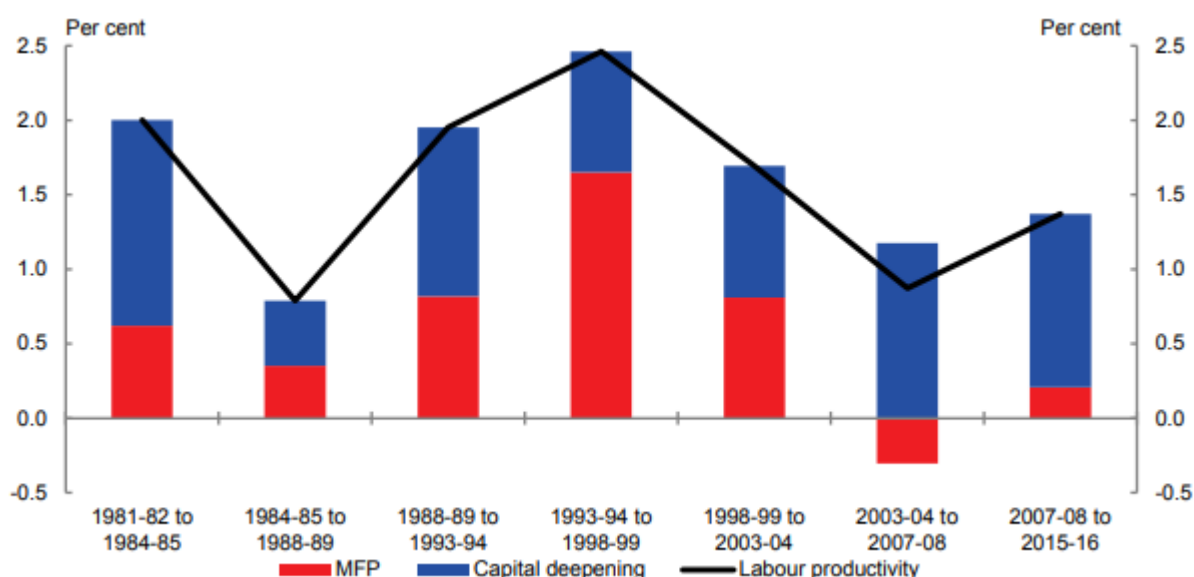
- Workers and management together become more efficient at completing tasks. For example, workers find ways to do things more efficiently or there are changes in management practices that lead to efficiency gains. This is measured by multifactor productivity.
- Businesses invest in new machinery or technology, increasing the amount of capital per worker, and helping each worker to become more efficient. This is referred to as capital deepening.¹

National Productivity Data

The Commonwealth Treasury has charted national changes in productivity, revealing that from 2007-08 to 2015-16:

- Labour productivity grew at 1.4 per cent per year on average. When analysing the components of productivity, they found:
 - Capital deepening contributed 1.2 percentage points on average of the annual growth in labour productivity. This has led to more output per worker as each worker has more efficient machines, technology and assets to make more goods or services.
 - Multifactor productivity (or worker and management efficiency) contributed 0.2 percentage points to annual growth in labour productivity on average.

Figure 1: Labour productivity and growth decomposition



Note: Commonwealth Treasury state that: "the time periods on the x-axis are productivity cycles as calculated by the ABS. Productivity growth cycle peaks are determined by comparing the annual MFP estimates with their corresponding long-term trend estimates. The peak deviations between these two series are the primary indicators of a growth cycle peak, although general economic conditions at the time are also considered".

Source: Commonwealth Treasury, (2017) page 4. ABS cat. no. 5260.0.55.002 and Treasury calculations.

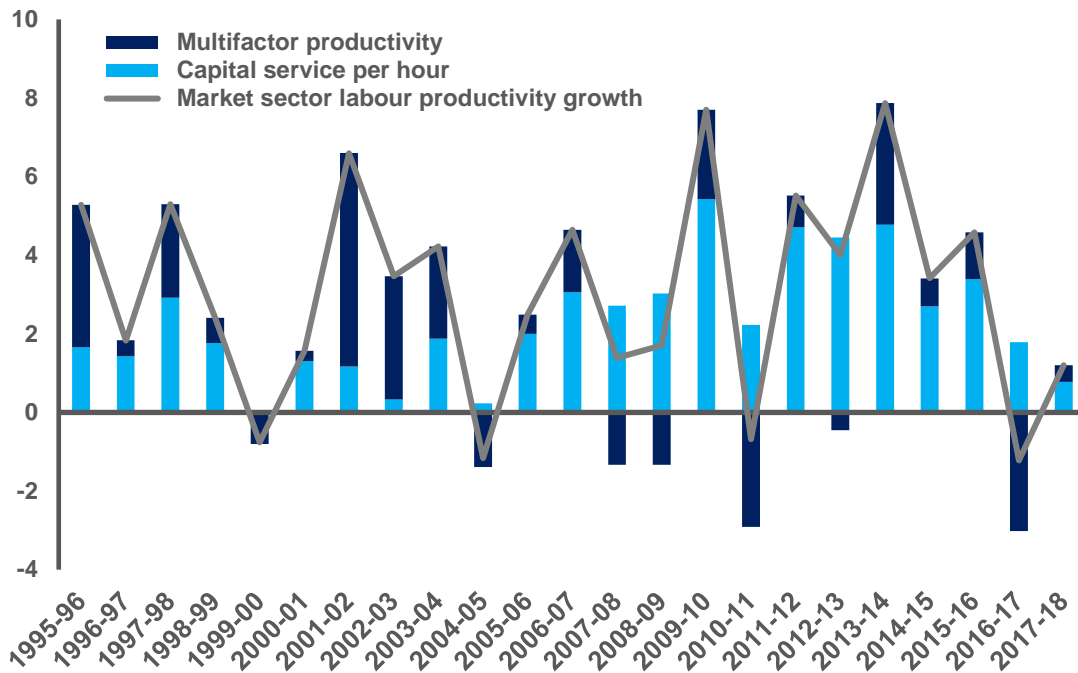
¹ For further information, refer to: https://treasury.gov.au/sites/default/files/2019-03/p2017-t213722-Roundup_Productivity_trends_and_structural_change.pdf, Page 3.

Western Australia Productivity Data

The ABS has now released experimental data on productivity at a State basis. The latest data shows that over the past 10 years in WA:

- Labour productivity has grown at around 3.4 per cent on average. When analysing the components of productivity, the data showed:
 - Capital has accounted for 60-80 per cent of labour productivity growth (2.0-2.7 percentage points).²
 - Multifactor productivity has accounted for 20-40 per cent of labour productivity growth (0.7-1.4 percentage points).³

Figure 2: Labour productivity growth decomposition, Western Australia, per cent



Productivity and Industry Growth (National)

The ABS has also released data on contributions to growth in productivity, which measures the contribution of capital, hours worked and multifactor productivity to output growth at a national level.

This shows that at a national level, in retail trade, from 2009-10 to 2016-17:

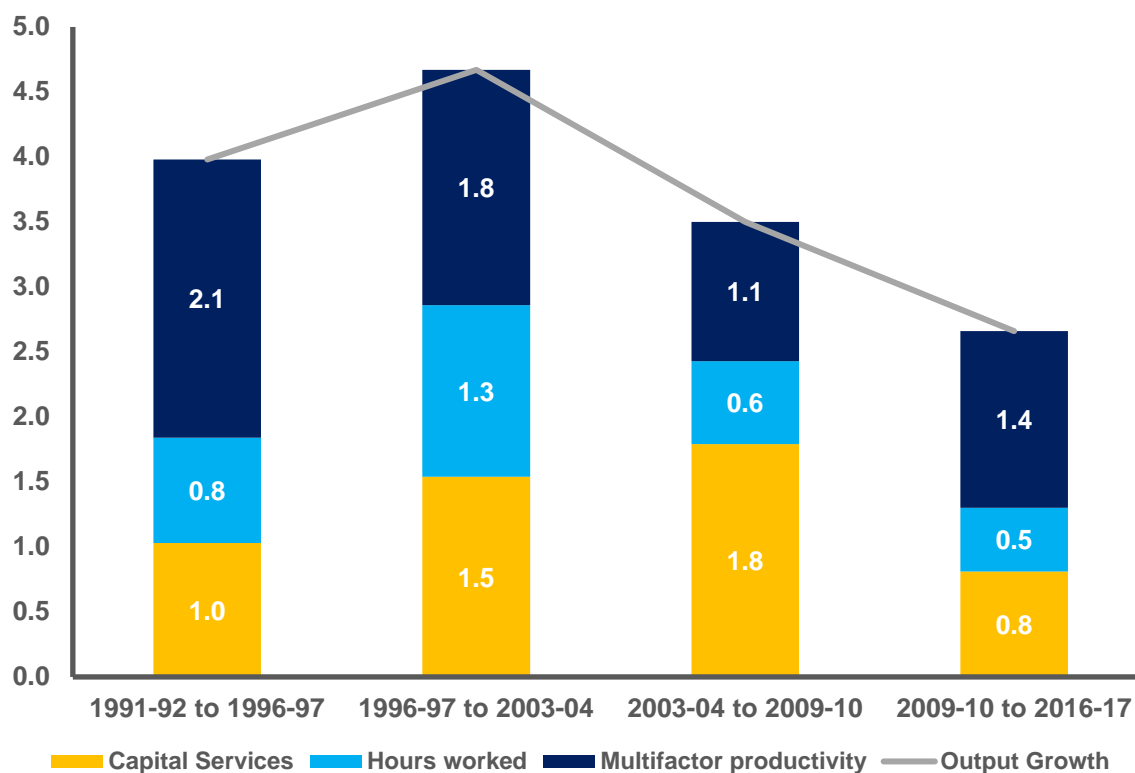
- Total output of retail trade grew by 2.66 per cent per year on average. When analysing the components of productivity, the data showed:
 - Capital contributed 0.81 percentage points to this growth.
 - Hours worked contributed 0.49 percentage points.
 - Multifactor productivity contributed 1.36 percentage points to growth.

This indicates that multifactor productivity (worker efficiency) contributed the most to growth in retail output on average at the national level.

² Except in 2010-11 and 2016-17 when large falls in multifactor productivity drove productivity into negative territory and in 2008-09 and 2012-13 when capital accounted for more than 100 per cent of productivity growth.

³ Multifactor productivity growth has been very erratic.

Figure 3: Contributions to retail trade output growth, Australia, per cent



Note: ABS displays the data in this format to show the compound annual percentage change between Multifactor productivity growth cycle peaks⁴.

CCIWA notes that:

- This industry analysis above shows changes in the contributions to growth of two industries at a national level; and
- in WA, over the past five years, average per year gross operating profit in retail trade has been flat (0.9%) and in accommodation and food services in WA has been negative (-1.3%).

Further Information

Australian Bureau of Statistics, 2018, *Estimates of Industry Multifactor Productivity, 2017-18*, 'Table 32. Productivity measures - Market sector industries aggregate - Western Australia', time series spreadsheet, cat. no. 5260.0.55.002, URL: <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5260.0.55.0022017-18?OpenDocument>.

Australian Bureau of Statistics, 2018, *Estimates of Industry Multifactor Productivity, 2017-18*, 'Table 26. Productivity Growth Cycles – Market sector industries', time series spreadsheet, cat. no. 5260.0.55.002. URL: <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5260.0.55.0022017-18?OpenDocument>.

Campbell, S. and Wither, H., (2017). *Australian productivity trends and the effect of structural change*. Commonwealth Treasury. Economic Roundup. URL: https://treasury.gov.au/sites/default/files/2019-03/p2017-t213722-Roundup_Productivity_trends_and_structural_change.pdf.

⁴ ABS Cat. 5626.0, Table 26

Equal Remuneration Principle

During the hearing of 22 May 2019, the Chief Commissioner raised concerns regarding the operation of paragraphs 7 – 10 of the proposed equal remuneration principle contained in the Minister for Commerce's original submissions. The Chief Commissioner stated, following the reading of the relevant paragraphs of the principle, "*Given that the context of all of those things is that it is equal remuneration for work of equal or comparable value and the equal appears to be equal with male... It's all about gender.*"

CCIWA notes that numerous meetings were held between UnionsWA, the Minister's office and CCIWA in 2018, chaired by the Commission where there was debate surrounding the gender and male comparator issues which resulted in agreement between the parties to the wording that has been proposed in the Minister's submissions. CCIWA confirms its support for the principle included in the Minister's submissions.

CCIWA acknowledges that agreement between the parties does not automatically mean that the principle is automatically adopted and that the Commission in Court needs to be satisfied that the wording of the principle is appropriate. Therefore, CCIWA respectfully suggests that a way forward to address the concerns raised by the Chief Commissioner is for the Commission in Court session to draft suggested amendments to the principle that address the concerns for the parties' consideration.

