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Why New Zealand industries lag behind Australia

Low investment in capital and inefficient use of both capital and labour contribute to the productivity shortfall in New Zealand industries compared to their Australian counterparts.

The New Zealand Productivity Commission has published a working paper by UK-based economist Geoff Mason that analyses productivity performance at an industry level across the two trans-Tasman economies.

"Average labour productivity in New Zealand has been losing ground to Australia since the 1970s, and is now almost a third lower than in our trans-Tasman neighbour" said Paul Conway, Director of Economics & Research at the Commission. "This is important because differences in labour productivity – average output per hour worked – have a big impact on cross-country differences in living standards."

The report also looked at the amount of capital (eg machinery, computers and other assets) available per hour worked and skill levels to estimate multi-factor productivity (how efficiently labour and capital are used). Across the 24 industries analysed, multi-factor productivity levels in New Zealand are about 22% lower than in Australia, a smaller gap than found for labour productivity but still a very significant difference.

The majority of New Zealand industries under-perform from a productivity perspective compared to the same industries in Australia, including mining, agriculture, most branches of manufacturing, construction, retail and wholesale trade and financial and insurance services. However, New Zealand has areas of relatively strong performance in food and drink manufacturing, utilities (electricity, gas and water supply) and arts and recreation services.

In 2009, capital invested per hour worked across total market industries in New Zealand was almost 40% below the Australian level. Australia is also 3% ahead in terms of skills – measured here using data on workforce qualifications and relative pay levels – but this gap is much narrower than that found for capital per hour worked and multi-factor productivity.

Some of the productivity gap at the overall economy level is because Australia employs more people in industries with higher value added per hour worked, such as mining, utilities (electricity, gas and water) and financial services. New Zealand employs more people in comparatively low value added industries such as agriculture and food and drink manufacturing. These differences have grown sharply since the late 1990s, due to changes in the New Zealand industrial base.

However, the majority of the gap is due to productivity differences in the same industry across the two countries. The report provides useful information on the specific industry areas in which New Zealand underperforms from a productivity perspective and makes an important contribution to work on the ultimate causes of New Zealand's poor productivity performance.

Concern over low productivity in service-based industries has led to the Commission's inquiry into ways to boost the performance of the services sector. The second interim report of the inquiry will be released at the end of January 2014.

Geoff Mason is a Principal Research Fellow at the UK National Institute of Economic and Social Research and a Visiting Professor at the Institute of Education, University of London.

"Investigating New Zealand-Australia productivity differences: New comparisons at industry level", New Zealand Productivity Commission Working Paper 2013/02, available from www.productivity.govt.nz.

The working paper was supported by four agencies of the Productivity Hub - the Productivity Commission, the Treasury, the Ministry of Business, Innovation and Employment and Statistics New Zealand.

About the New Zealand Productivity Commission

The Commission—an independent Crown Entity—completes in-depth inquiry reports on topics selected by the Government, carries out productivity-related research, and promotes understanding of productivity issues.

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