

a. Non-market sector labour productivity is estimated by the PC using gross-value added and hours worked from the three non‑market sector industries (public administration and safety, education and training, and health care and social assistance).

Source: PC estimates based on ABS (2025a, 2025b).

**Update from Alex RobsonDeputy Chair, Productivity Commission**

Update from Alex Robson, Deputy Chair, Productivity Commission

### ‘No flash in the pan’: Productivity problem a long-term challenge

Australia's productivity continued to stagnate in the December quarter, suggesting that our productivity problem may be part of a long-term trend.

The Productivity Commission's latest quarterly productivity bulletin shows labour productivity declined by 0.1% in the December quarter and by 1.2% over the year.

‘The COVID pandemic was a massive global economic shock. The pandemic and the policy response to it drove a sharp rise – and then a crash – in measured productivity. Now that the dust has settled, we're back to the stagnant productivity we saw in the period between 2015 to 2019 leading up to the pandemic.’

‘The data makes it clear that our productivity problem is not a flash in the plan – this is a long-term, structural challenge that requires dedicated attention from government and industry.’

A new article, authored by Jeremy Kamil, takes a closer look at the drivers of the COVID ‘productivity bubble’. The PC will expand further upon this work in a detailed research paper to be released in the future.

‘Ultimately the COVID productivity bubble was just that: a bubble. We saw a sharp rise in productivity driven by the lockdowns which was then wiped out as lockdowns ended and hours worked reached record highs,’ said Dr Robson.

‘There are lessons to be learned from these fluctuations, but they aren't likely to have a meaningful long-term effect on productivity.’

‘The real issue is that Australia's labour productivity has not significantly improved in over 10 years. With global policy uncertainty again on the rise, addressing productivity directly via targeted reforms will be the best way to sustainably boost Australians’ living standards,’ said Dr Robson.

‘To that end, the PC is undertaking a program of five inquiries, each focusing on a different pillar related to productivity. We will identify the highest priority reforms under each of the five pillars which will improve Australia’s long-run productivity growth.’

Productivity: There and back again

**By Jeremy Kamil, Inquiry Manager**

It is no secret that Australia is in the midst some of its worst labour productivity growth on record. But *why* has labour productivity growth been so poor? While it’s tempting to get lost in short‑term fluctuations and the effects of the COVID‑19 pandemic, we need to look longer‑term to find the real causes and solutions to our productivity challenge.

### Pop went the bubble

Australia has just come out of a significant short-term rise and decline in labour productivity – the latest data shows that labour productivity declined by over 6% between March 2022 and June 2023 before flatlining. This is concerning. After all, if such a rapid decline were to persist, there would be serious consequences for the wellbeing and prosperity of all Australians.

The short-term trends are important because they help us assess the state of productivity right now. And understanding the reasons for these changes in productivity informs policy. But panicking about the short‑term – without understanding the full context – won’t help us resolve our productivity problems. And it’s important to understand the context surrounding this decline – namely, the unexpected ways that the pandemic first appears to have boosted and then wreaked havoc on labour productivity.

To start with, we need to be clear that these declines unravelled very rapid growth in labour productivity at the onset of the pandemic – the ‘productivity bubble’ (figure 1).

Figure 1 – Labour productivity might have plummeted, but it did so from a record high

Labour productivity index, June 2020 = 100



Source: PC calculations of ABS (2025).

PC research to be released in the future looks at some of the factors that drove productivity during the COVID years and the message is clear: don’t get too carried away with short-term patterns, we need to look across the pandemic period and beyond. The COVID-19 pandemic brought some peculiarities, many of which are unlikely to persist. There may even be some upside to future productivity growth, as the capital available per worker catches up to historical levels and workers learn and develop skills in their new jobs.

But we should not get too comfortable either: the grey dotted line in figure 1 shows that simply, labour productivity has hardly improved at all in over 10 years. And even before that, it was slowing down.This long-term trend is what should concern policymakers most.

### Labour productivity changed dramatically during COVID

Before getting to longer term issues, let’s first examine the short-run chaos wrought by COVID. Loss of life, short- and long-term illness, lockdowns, falls in employment rates, supply chain disruptions, and changes to what people demanded and consumed all had implications for labour productivity.

The initial rise in productivity (*phase 1* in figure 1) – from December 2019 to December 2020 – can be explained almost entirely by the lockdowns during the COVID-19 pandemic. The industries most affected by lockdowns (such as accommodation and food services or arts and recreation services) tended to also have the lowest levels of labour productivity. As these industries closed, the composition of employment shifted to more productive industries, so overall measured labour productivity increased.

The continued rise in labour productivity between December 2020 and March 2022 (*phase 2* in figure 1*)* was more reflective of real labour productivity increases. Lockdowns unwound, economic activity returned and the labour market slowly recovered. As output grew faster than employment in this period, labour productivity continued to rise.

But between March 2022 and June 2023 (*phase 3* in figure 1), almost all of those productivity gains disappeared. The labour productivity declines predominantly reflected Australia’s unprecedented growth in hours worked and a strong post-COVID labour market.

#### A strong labour market was good for employment, but bad for productivity

The strong post‑COVID economic recovery during phase 3 fuelled record lows in unemployment and record highs in hours worked. And while high employment is undoubtedly a good thing, the growth in hours worked brought with it some downsides to labour productivity. There are two primary reasons for this.

First, the capital stock was simply unable to keep up with the growth in hours worked. It is likely that firms couldn’t acquire capital like equipment and infrastructure fast enough to support all of this increase in labour. Firms may also have delayed new capital purchases until they could determine whether increases in demand were permanent or temporary. This meant that workers did not have the tools they needed to increase their output in these additional working hours – pulling down productivity.

Second, some of this growth in hours worked came from younger and less experienced people joining the workforce. This brought down the average quality of the workforce – at least temporarily – as new workers require time to learn and match the output of their more experienced colleagues.

It is unlikely that these labour market changes will lead to permanent changes in productivity – the capital to labour ratio should rise as firms’ respond to the labour market changes, and the workforce quality should rise as workers gain experience in their new jobs. This may even suggest some potential upside for the productivity outlook.

#### Policy choices matter too

The Australian Government made the policy choice to support firms and workers in staying attached to specific jobs (for example, through the JobKeeper scheme). This limited worker mobility, firm entry and exit, and the potential for a more dynamic economy. While this may not have led to a *decline* in productivity, it may have prevented the type of productivity enhancing movements of firms and people observed the US.[[1]](#footnote-2) (For example, Harris and Sinclar (2023) argue that in the US, laid‑off workers found new jobs at more productive firms while Dao and Platzer (2024) observed that the relatively high rates of US labour churn after the COVID-19 pandemic potentially assisted productivity growth.) Conversely, the Australian response prevented the significant decrease in employment rates observed in the US, where almost one in ten people lost their job during the pandemic.

Government funding and subsidies towards the care economy (such as the NDIS and childcare subsidy) have supported growth in these sectors. While not strictly related to the pandemic (the care economy as a share of total hours worked was expanding for several years before the pandemic) funding to these sectors has grown as Australia emerged from the pandemic While a deliberate policy choice to underwrite social services in Australia, these sectors typically have below-average (measured) labour productivity so as they grow, average labour productivity falls.[[2]](#footnote-3)

### Back at the beginning

After the bubble, labour productivity has landed back where it was in the five years leading up to the pandemic. While this quarter’s data shows more short-term fluctuations, we appear to be reverting to the 2015 to 2019 average (figure 1). Even taking into account the potential for revisions, it looks like labour productivity seems stubbornly stuck at the level it was 10 years ago.

To be sure, many things in the economy have changed.

For a start, our labour market is flourishing. Hours worked are close to record highs, and vacancies are down.

Second, we are earning more. But that is because we are working harder, not smarter. We work more than we did ten years ago – both per person, and in terms of the total number of people working – to make that extra money.

Working harder just to make ends meet is not anyone’s idea of prosperity.

The short-term changes during the pandemic were drastic. But a lot of that was a response to the unique circumstances brought about by a global pandemic.

The *real* problem with labour productivity is that we don’t seem to have improved labour productivity in over 10 years. And this should be the focus for policymakers.

To this end, the PC made a number of recommendations in our *Advancing Prosperity* report organised into five key themes. Those themes align with the series of five inquiries we are currently undertaking, aimed at recommending targeted reforms within key areas for productivity growth.

* **Creating a more dynamic and resilient economy** by fostering entrepreneurship and innovation, a productive business environment and ongoing competition between businesses to lower prices, boost wages, and improve products and services.
* **Building a skilled and adaptable workforce** through supporting Australians to engage in work and learning throughout their life, making sure our education system (from schools to skills and higher education) is producing productive, highly capable graduates, and enabling employers to access and use the best talent locally and internationally.
* **Harnessing data and digital technology** by enhance our use of data and digital technology across the economy to boost productivity growth, accelerate innovation and improve government services.
* **Delivering quality care more efficiently** by ensuring a more sustainable and productive care and support sector that delivers better outcomes and high-quality services in areas such as health, aged care, community services, veteran’s services, services for people with disability, and early education and care.
* **Investing in cheaper, cleaner energy and the net zero transformation**, considering how we can achieve net zero, enable Australia to take advantage of clean energy opportunities and prepare for climate change risks.

References

ABS 2025a, *Australian National Accounts: National Income, Expenditure and Product, December 2024*, https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/dec-2024 (accessed 5 March 2025).

—— 2025b, *Labour Account Australia*, https://www.abs.gov.au/statistics/labour/labour-accounts/labour-account-australia/latest-release (accessed 7 March 2025).

Dao, MC and Platzer, J 2024, *Post-pandemic productivity dynamics in the United States*, International Monetary Fund.

Harris, B and Sinclair, T 2023, *The U.S. economic recovery in international context*, U.S. Department of the Treasury, https://home.treasury.gov/news/featured-stories/the-us-economic-recovery-in-international-context-2023 (accessed 18 November 2024).

PC 2024a, *Leveraging digital technology in healthcare*, Research paper, 7 May, Productivity Commission, Canberra.

—— 2024b, *Quarterly productivity bulletin – December 2024*, PC Productivity Insights, Productivity Commission, Canberra.

|  |
| --- |
| © Commonwealth of Australia 2025An appropriate reference for this publication is: Productivity Commission 2025, *Quarterly productivity bulletin* *–* *March 2025*,PC productivity insights, Canberra.Publication enquiries: phone 03 9653 2244 | email publications@pc.gov.au[**www.pc.gov.au**](https://www.pc.gov.au) |

1. The PC’s December productivity bulletin provided some insights into the productivity growth the US have enjoyed since the COVID‑19 pandemic (PC 2024b). [↑](#footnote-ref-2)
2. While these sectors tend to have below-average labour productivity, a lot of work is being done on how we might increase productivity in the care economy (for example, see PC 2024a). [↑](#footnote-ref-3)