



Australian Government
Austrade



TOURISM
RESEARCH
AUSTRALIA

TOURISM PRODUCTIVITY¹

2007–08 TO 2012–13

LABOUR PRODUCTIVITY²
▲0.7%

CAPITAL PRODUCTIVITY³
▼1.9%

TOURISM MFP⁴
▼0.3%

“Productivity growthis an important determinant of long-term economic growth and real per capita income growth, which in turn are crucial (but not the only) determinants of living standards and wellbeing” Productivity Commission or ‘PC’, 2013

The tourism industry is vital to Australia’s economy, and in 2012–13, the industry contributed:

- 2.7% (\$39 billion) to Australia’s Gross Value Added (GVA) – higher than *Agriculture, forestry & fisheries* (2.4%)
- \$27 billion to Australia’s exports – more than any other services industry
- 544,000 employees (directly employed in tourism) to Australia’s labour force.

In a limited resources environment, productivity is important to ensure an industry’s long-term contribution to the economy.

This snapshot notes the changes in tourism productivity against that of the average of 16 market-sector industries⁵ in Australia—a metric used to benchmark productivity at the national level. These market sector industries include both tourism and non-tourism related industries.

MULTIFACTOR PRODUCTIVITY (MFP)

MFP is used as a more comprehensive productivity measure. The Australian Bureau of Statistics divides time series MFP into productivity cycles to help with interpreting measured productivity. The start and end points of the cycles show where the levels of capacity utilisation are likely to be comparable. Average productivity growth estimates between these points are likely to be more reliable than year-to-year changes (PC, 2013).

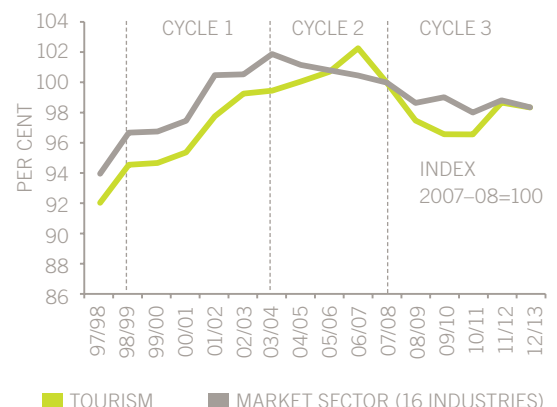
- During the productivity cycles, 1998–99 to 2003–04 (Cycle 1) and 2007–08 to 2012–13 (Cycle 3), growth in tourism MFP moved in line with the market sector (Table 1 & Figure 1).
- Growth in tourism MFP during 2003–04 to 2007–08 (Cycle 2) exceeded the market sector by 0.6 percentage points, with tourism MFP remaining relatively flat (up 0.1 per cent). Market sector MFP declined 0.5 per cent during this cycle.

TABLE 1

	CYCLE 1	CYCLE 2	CYCLE 3
Compound Annual Growth Rate (%)			
Tourism MFP	1.0	0.1	-0.3
Market sector MFP	1.1	-0.5	-0.3
Tourism labour productivity	2.0	1.6	0.7
Market sector labour productivity	2.4	1.1	1.8
Tourism capital productivity	-1.5	-2.6	-1.9
Market sector capital productivity	-0.9	-2.7	-3.1

FIGURE 1

MULTIFACTOR PRODUCTIVITY, TOURISM AND MARKET SECTOR AVERAGE, BY PRODUCTIVITY CYCLE





- MFP growth for both tourism and market sector for Cycle 1 (1.0 per cent) most likely reflects the tail-end effects of microeconomic reforms undertaken between mid-1980s to late 1990s.
- Mid-way through Cycle 3, tourism MFP provided an early sign of recovery by growing a solid 2.2 per cent in 2011–12.
- However, this recovery was short lived. Tourism MFP declined 0.3 per cent in 2012–13 compared to 2011–12, and weak output growth of the sector halted the recovery.

The declining MFP trend for both tourism and the market sector in Cycles 2 and 3 were largely driven by the effects of the Mining Boom and Global Financial Crisis.

The Mining Boom affected tourism on both supply and demand sides.

- On the supply side, mining consumed production resources such as labour and investment, which drove up domestic production costs such as wages.
- On the demand side, increased mining export demand induced a strong appreciation of the Australian dollar, which made inbound tourism more expensive and increased the appeal of outbound travel for Australians.

The Global Financial Crisis mainly affected the tourism sector on the demand side through income effect.

LABOUR AND CAPITAL PRODUCTIVITY

Both labour and capital productivity are measures where output is related to a single input; as such, they are often referred to as partial productivity measures. They are useful for comparing the input requirements for similar products or across industries.

- Tourism labour productivity increased throughout all three cycles, albeit at a decreasing rate (Figure 2).
- In contrast, capital productivity declined for both tourism and the market sector throughout all cycles; however, the decline in capital productivity for tourism was arrested in Cycle 3 (improving by 0.7 percentage points, Table 1 & Figure 3).
- Growth in capital inputs for the tourism sector far exceeded the growth rates of both tourism output and labour input, subsequently resulting in the continuous decline in capital productivity and making tourism more capital intensive.

Although labour productivity improved over time, labour reform is very important for tourism given it makes up around 60 per cent of the industry's total cost.

Policies need to provide flexibility to the labour market so that businesses can respond to changing conditions easily and quickly in order to enhance labour productivity further.

FIGURE 2
LABOUR PRODUCTIVITY

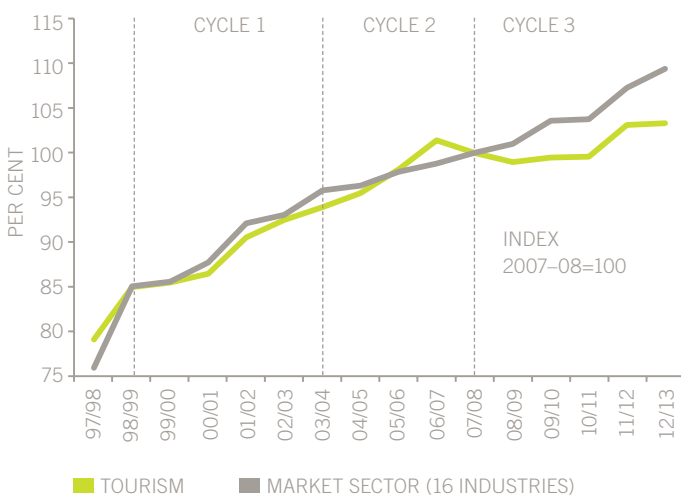
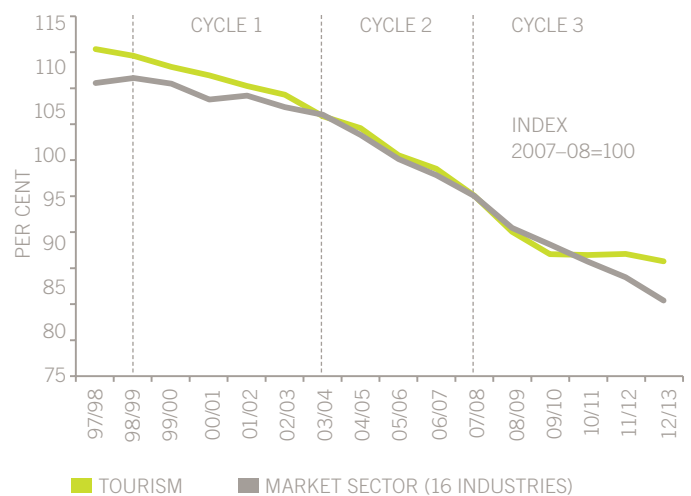


FIGURE 3
CAPITAL PRODUCTIVITY



1 Productivity: a measure of the amount of output that can be produced for a given level of inputs
 2 Labour productivity: output per unit of labour (usually hours worked)
 3 Capital productivity: output per unit of capital
 4 Multifactor productivity (MFP): output per unit of combined inputs of capital and labour. For the purposes of this report, MFP is considered the most comprehensive and reliable method of measuring productivity.

5 Market sector industries are those where the exchange of goods and services generally takes place in markets at observable prices (PC, 2013).
 6 Table and figures derived by TRA from ABS data
 7 This snapshot is taken from the full report *Tourism Productivity Update 2014*, available at www.tra.gov.au