

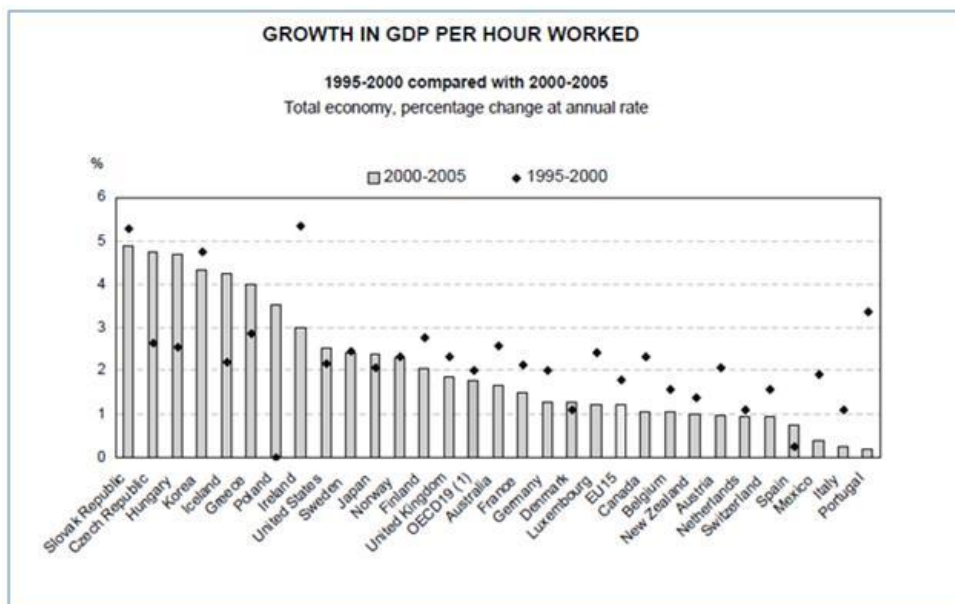
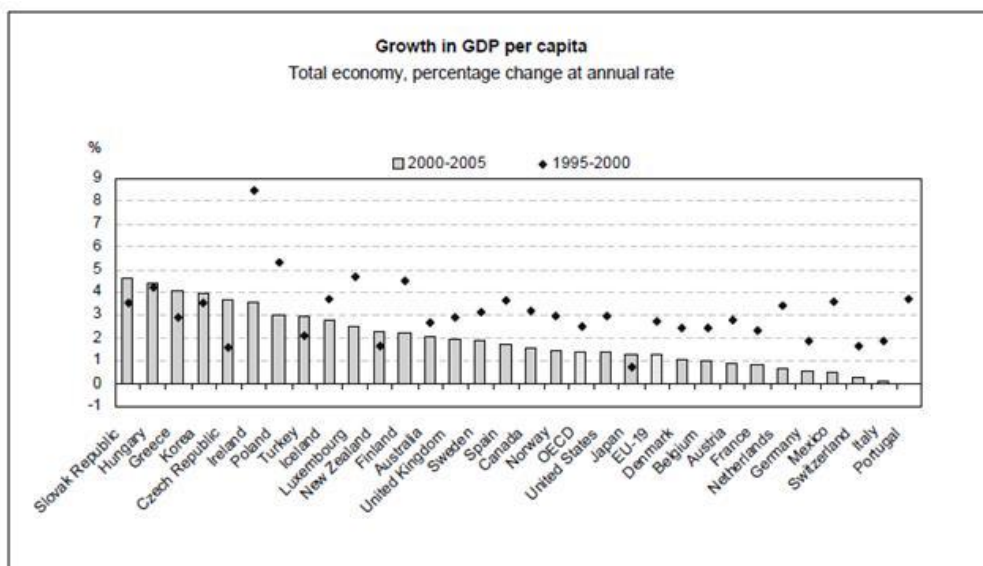


## MEActive – March 2010

### CEO Comment: Poor Productivity Result Spells Out Problems

The latest productivity figures released by Statistics New Zealand have shown that labour productivity has decreased 1.5 percent in 2009. This continues a trend of appalling productivity growth over the past decade. From 1990 to 1999 labour productivity growth averaged 2.45 percent, which while not spectacular, at least showed some progress. Between 2000 and 2009 labour productivity growth slowed to an average of 1.3 percent, so while Gross Domestic Product (GDP) was continuing to grow, the output per worker has been very stagnant.

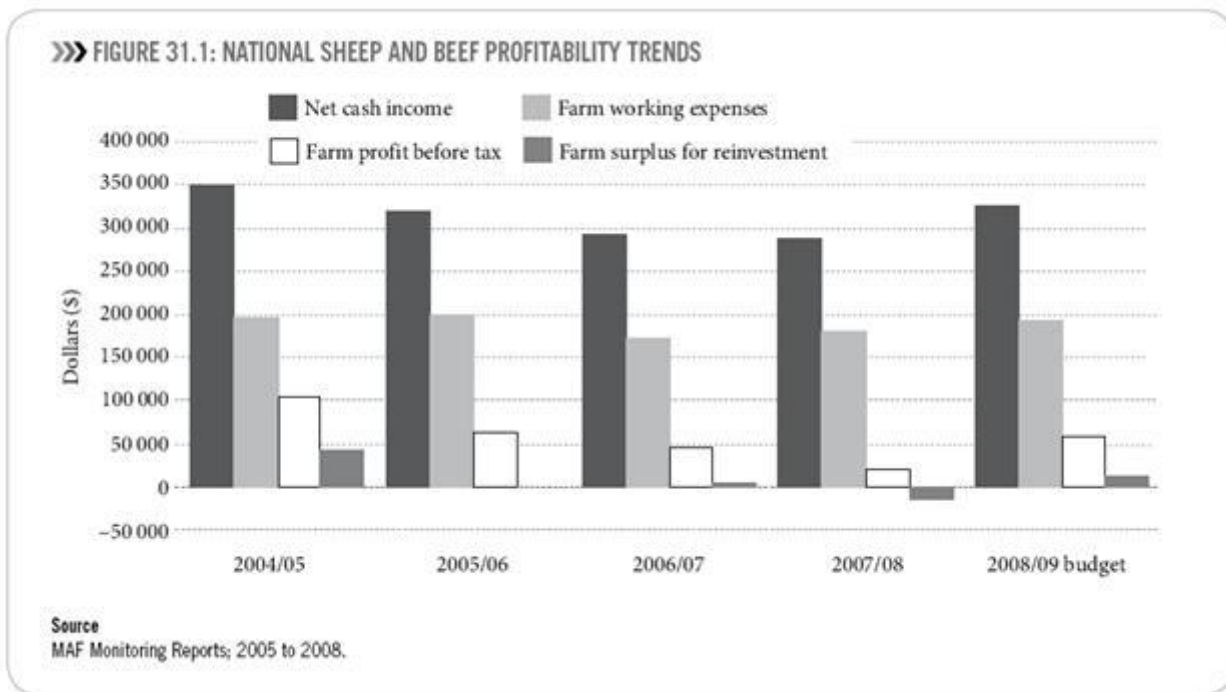
The following two graphs from the OECD show that while New Zealand bucked the OECD trend by growing its GDP faster after 2000 than before 2000, the growth rate per hour worked was much lower.



New Zealand Manufacturers and Exporters Association

The productivity problem essentially stems from fundamental flaws in the policy framework that reinforce the distortions in the overall shape of our economy. A tax system that incentivises asset investment over activity encourages a focus on assets and capital gains rather than revenue, jobs and cash flow. The naivety of the post-industrial fantasy is becoming increasingly apparent; policies that discourage investment in plant, products and people, and ruin returns to exporters (via interest rate driven exchange rates) threaten our economic viability.

The problems exist throughout the productive sector, and a look at sheep and beef farms or even farming in general over the past few years offers an insight into why productivity levels are worsening – it is impossible to invest in development if you can't make any money.



Small margins leave little capital to be reinvested and persistent low margins remove the will to invest. This has been the plight of the tradeable sector over the past decade.

The Government's response to this systemic problem is setting up a productivity commission, but this will only be effective if there is a will to carry out changes. More advice is unnecessary when existing advice is being ignored. If the political leadership remain unwilling to make necessary changes then the advice procured is irrelevant.

Productive firms such as General Cables will continue to move offshore while detrimental conditions persist.