

South Australia Needs to Lift its Productivity Performance or Fall Further Behind the Rest of Australia: A Comparative Study

Research undertaken by:
The South Australian Centre for Economic Studies
University of Adelaide

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Executive Summary

Summary

The announcement by the Prime Minister for the Federal Treasurer to convene in August a roundtable of leaders from business, unions and civil society to shape the government's growth and productivity agenda is particularly important for South Australia.

The state's productivity growth per capita has been generally poor since 2010, in both absolute terms and in the context of very weak productivity outcomes nationally.

As noted by the SA Productivity Commission, this performance is contributing to South Australians having lower per capita incomes, and therefore living standards, than would be the case if SA productivity growth had matched even the weak national average growth.

SA's Gross Household Disposable Income per capita fell in 2023/24 to the lowest in Australia and is no higher in inflation adjusted terms than in the 2000s.

State-wide productivity growth per capita will be affected by several factors including changes in the output per hour at the individual, organisational and industry sector level; changes in the share of the economy in sectors with varying productivity levels; the hours worked in particular sectors; labour force participation etc.

This Report looks at the SA productivity performance in detail at the major industry sector level.

Overall, ABS data show SA as doing better than most other States since 2018/19 on the growth in each of the Labour Productivity, Capital Productivity and Multifactor Productivity measures.¹ This was after performing very poorly on each from 2009/10 to 2018/19.

However, most of this recent growth outperformance occurred in 2019/20 and 2021/22.

In most major industry sectors, using the ABS estimates of Gross Value Added², the level of output per hour worked in SA is generally below the national average.

Further, the least productive sectors are growing: the strongest growth in Hours Worked has been in those sectors with lower than average Gross Value Added per Hour Worked.

At the same time, the more productive sectors have not grown substantially: the share of hours worked in those sectors with above average Gross Value Added per Hour Worked has generally been flat to lower over the last 5 years.

These differences across the major industry sectors in the Gross Value Added per Hour Worked, in the shares in Hours Worked and the likely areas of growth in coming years in demand, and therefore Hours Worked, should provide important pointers to areas of focus for increasing productivity and, in turn, total and per capita incomes and the distribution, i.e. equity, of those gains.

If SA is to see sustainable and broadly spread growth in incomes sufficient to lift overall living standards and provide the tax and other resources to meet the needs of a population in poorer health and ageing faster than nationally, policy focus should be on lifting productivity in those sectors with the highest shares of employment.

Background

In this part, various indicators of the performance of the SA economy are reviewed, behind each productivity growth is an important driver, and the second section of the report reviews the productivity performance by sector in SA.

Household Income

A particular aspect of this poor performance over the last decade and a half is that South Australia now has the lowest Gross Household Disposable Income (GDHI) per head in Australia, as estimated by the Australian Bureau of Statistics for 2023/24. This is a measure of household incomes from sources including wages and salaries, social security benefits, superannuation and property income. It is calculated after tax and interest payable.

¹ Australian Bureau of Statistics (2023-24), [Estimates of Industry Multifactor Productivity](#), ABS Website, accessed 30 January 2025. Cat 5260.0.55.002

² Australian Bureau of Statistics (2023-24-financial-year), [Australian National Accounts: State Accounts](#), ABS Website, accessed 20 December 2024.

Table 1: Estimates of Gross Household Disposable Income, Capital City CPI adjusted to 2023/24, by State

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Source: ABS Australian National Accounts: State Accounts 2023/24 and ABS Consumer Price Index June Quarter. Accessed online.								
	New South Wales	Victoria	Queensland	South Australia	Western Australia	Tasmania	Northern Territory	Australian Capital Territory
1994/95	\$42,516	\$37,923	\$37,696	\$37,297	\$38,424	\$30,966	\$35,422	\$50,734
2009/10	\$56,358	\$53,479	\$55,035	\$52,260	\$61,206	\$47,912	\$64,333	\$88,343
2018/19	\$61,991	\$55,163	\$55,804	\$53,420	\$63,057	\$52,525	\$80,254	\$99,261
2019/20	\$63,731	\$56,617	\$57,299	\$54,426	\$63,855	\$53,657	\$79,203	\$102,563
2020/21	\$65,811	\$59,016	\$59,505	\$57,463	\$66,677	\$56,625	\$81,450	\$102,700
2021/22	\$66,529	\$59,679	\$60,443	\$58,338	\$68,352	\$57,495	\$83,130	\$100,593
2022/23	\$62,914	\$54,669	\$56,792	\$52,747	\$65,711	\$52,577	\$78,914	\$101,264
2023/24	\$61,837	\$52,705	\$56,474	\$51,593	\$63,814	\$53,499	\$78,082	\$100,826

On this measure SA's Gross Household Disposable Income per head is now \$1,906 or 3.5 per cent below Tasmania's. On a longer-term view and to adjust for inflation, Table 1 shows the ABS estimates of Gross Household Disposable Income adjusted for the CPI in each capital city with 2023/24 as the base year. In 1994/95 SA's GHDI per head adjusted for inflation was 20 per cent greater than Tasmania's but by 2009/10 the gap had reduced to 9.1 per cent.

South Australia's relative position has also been generally falling in recent years relative to NSW and Queensland and WA, although rising against Victoria, as shown in the Table 1.

Also of concern is that SA has not seen growth in real GDHI per head for well over a decade.

Most States showed falls on this measure in 2023/24 but their levels remained above those of 2009/10. Only SA (-1.3 per cent) and Victoria (-1.4 per cent) had real income per head on this measure in 2023/24 below the levels of 2009/10.

Household consumption

Stagnation in per capita Gross Household Disposable Income growth adjusted for inflation leads to weak growth in Household consumption per head.

The ABS estimates growth of 10.3 per cent in Household Consumption adjusted for inflation in SA from 2018/19 to 2023/24. This performance appears to be largely driven by population growth of 6.3 per cent and a substantial fall in how much South Australian households saved out of each dollar of disposable income.

Some decline in SA in the savings ratio (measured as Net Saving plus Consumption of Fixed Capital as a share of Gross Household Disposable Income) would have been expected from the COVID-19 years highs of around 20 per cent. However, in 2023/24 this ratio had fallen to 7.3 per cent, compared with the average of 13.3 per cent in the five years to 2018/19, and the lowest since these estimates started to be made in 1989/90.

In addition, a rising share of the population in paid employment with incomes on average growing faster than inflation will tend to result in faster real per capita income growth than if a rising share of the population is dependent on incomes, such as Social Security benefits, growing at around inflation. Or if a rising share of employment is in jobs paying an hourly rate below the current average.

Wages and Salaries

On ABS estimates, Pre-tax Compensation of Employees accounts for 54 per cent of Gross Household Income since 2008/09. It is the most important contributor.

In turn, its most important determinant is Wages and Salaries of Private Sector employees who hold an estimated 4 out of 5 employee jobs in the Private Sector. Pre-tax Wages and Salaries on average appear to have grown only marginally faster than Adelaide CPI inflation between 2008/09 and 2023/24.

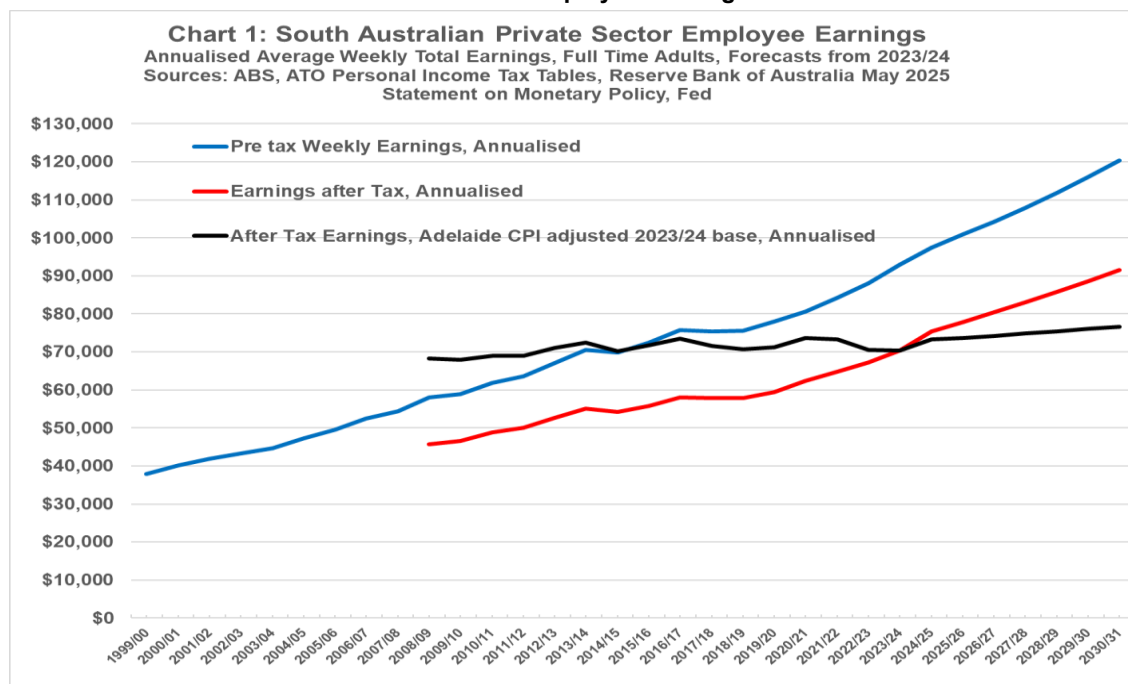
The ABS estimates show that Average Weekly Total Earnings for Full Time Private Sector employees between 2008/90 and 2023/24 grew by an average of 3.4 per cent, about 0.7 per cent per annum higher than the average annual growth in the Adelaide CPI.

Most of this real growth in pre-tax earnings was, however, likely absorbed by increased income tax as inflation pushed an increasing proportion of SA employee incomes into the higher tax rates.

Shown in Chart 1 below are the forecasts in blue and red respectively for nominal Pre and Post Tax annualised Weekly earnings for SA Private Sector Employees. These forecasts are derived from the national forecasts for annual wages and CPI growth provided in the RBA May 2025 Statement on Monetary Policy and the Federal Treasury's Pre-Election Economic and Fiscal Outlook released in April 2025.

The black line is the estimated after-tax income of a SA Private Sector Employee on Average Weekly Total Full Time Earnings, adjusted for the changes in the Adelaide Consumer Price Index. This has shown no trend growth in real terms since 2013/14. In 2023/24 the level was only marginally higher than in 2008/09.

Chart 1: South Australian Private Sector Employee Earnings



Notes: Pre and post-tax earnings are calculated for South Australia assuming SA wages and CPI grow in line with the national forecasts for average weekly earnings and CPI inflation included in the Reserve Bank of Australia's May 2025 Statement on Monetary Policy and the Federal Treasury's Pre-Election Economic and Fiscal Outlook April 2025. These forecasts broadly assume nationally a longer-term convergence of domestic inflation to the RBA's target range of 2.5% pa and nominal wages growth to 3.75% pa, along with underlying productivity growth of 1.2% pa.

After tax earnings get a boost in 2024/25 with the 1 July tax cuts with some further benefit from the tax cuts announced to apply from July 2026 and July 2027. Even with these relatively optimistic assumptions, particularly for productivity growth of 1.25 per cent per annum, real after-tax employee earnings on this measure grow at around 0.8 per cent per annum from 2024/25.

With most SA Private Sector Full Time employees facing an effective marginal tax rate of 32 per cent, including Medicare Levy, lower productivity growth than forecast would result in even lower real post tax earnings growth.

This is assuming no significant cuts in personal income tax rates. The latter seem unlikely in view of the projections in the Federal Government's 2023 Intergenerational Report for total Commonwealth Government spending to rise from 24.1 per cent of GDP in 2022/23 to 26.3 per cent in 2052/53 and the Federal Treasury's Pre-Election Economic and Fiscal Outlook April 2025 envisaging the Federal Budget being in Cash deficit at least to 2028/29.

Assessment of productivity performance – market sector

Looking first at the estimated productivity on an hours worked basis, the ABS recently released its **Experimental Estimates of State Multifactor Productivity** for each year from 1994/95 to 2023/24.

At a State level, these estimates relate to what is defined in aggregate as the Market Sector Industries. They exclude the Industry sectors of Public Administration and Safety; Education and Training; and Health Care and Social Assistance.

This is unfortunate as for each of South Australia and nationally these are now the biggest employment sectors; have been the fastest growing over the last decade; and are expected to continue to be the largest sources of employment growth for the next few decades.

These estimates are, however, the best and most comprehensive available.

These estimates indicate South Australia has gone through three broad phases of productivity change on an Hours Worked basis over the last three decades, as shown in Table 2. The actual Indices from which these changes are derived are shown in Charts 2–4.

In line with national trends, there was significant growth in Labour and Multifactor Productivity from 1994/95 to the peak in each around 2009/10. SA's performance broadly matched or bettered that of the larger States apart from Western Australia.

Table 2: Estimates of Productivity Change in Market Sector Industries, per cent pa, Hours Worked Basis, by State

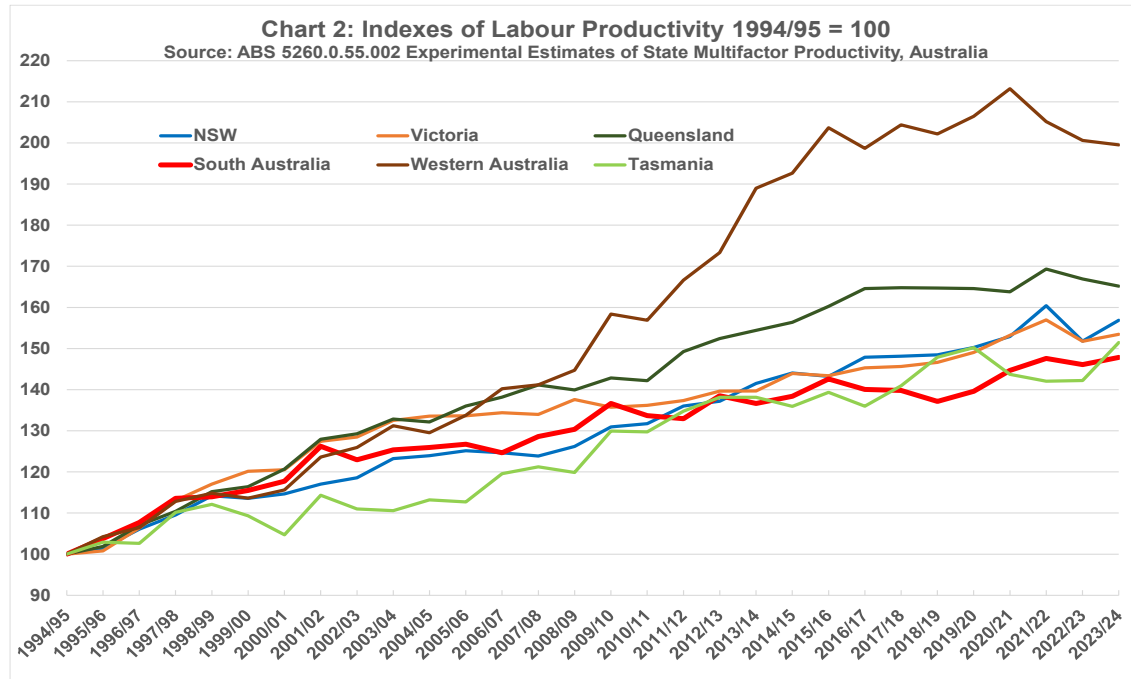
	New South Wales	Victoria	Queensland	South Australia	Western Australia	Tasmania	Northern Territory	Australian Capital Territory
Labour Productivity								
1994/95 to 2009/10	1.8%	2.1%	2.4%	2.1%	3.1%	1.8%	3.4%	2.6%
2009/10 to 2018/19	1.4%	0.9%	1.6%	0.0%	2.8%	1.4%	2.4%	2.0%
2018/19 to 2023/24	1.1%	0.9%	0.1%	1.5%	-0.3%	0.5%	3.1%	2.0%
Capital Productivity								
1994/95 to 2009/10	-1.0%	-1.2%	-1.4%	-0.7%	-0.6%	-0.9%	-0.3%	-3.5%
2009/10 to 2018/19	0.6%	0.3%	-1.6%	-1.5%	-2.3%	-0.3%	-2.9%	-0.1%
2018/19 to 2023/24	-0.1%	-0.8%	1.3%	1.2%	0.0%	0.4%	1.4%	1.2%
Multifactor Productivity								
1994/95 to 2009/10	0.7%	0.7%	0.8%	0.9%	1.2%	0.6%	1.2%	0.4%
2009/10 to 2018/19	1.1%	0.6%	0.3%	-0.6%	0.1%	0.6%	-0.3%	1.2%
2018/19 to 2023/24	0.6%	0.2%	0.6%	1.4%	0.0%	0.5%	2.1%	1.7%

Source: ABS 5260.0.55.002 Experimental Estimates of State Multifactor Productivity, Australia. Released 22 January 2025. Accessed online.

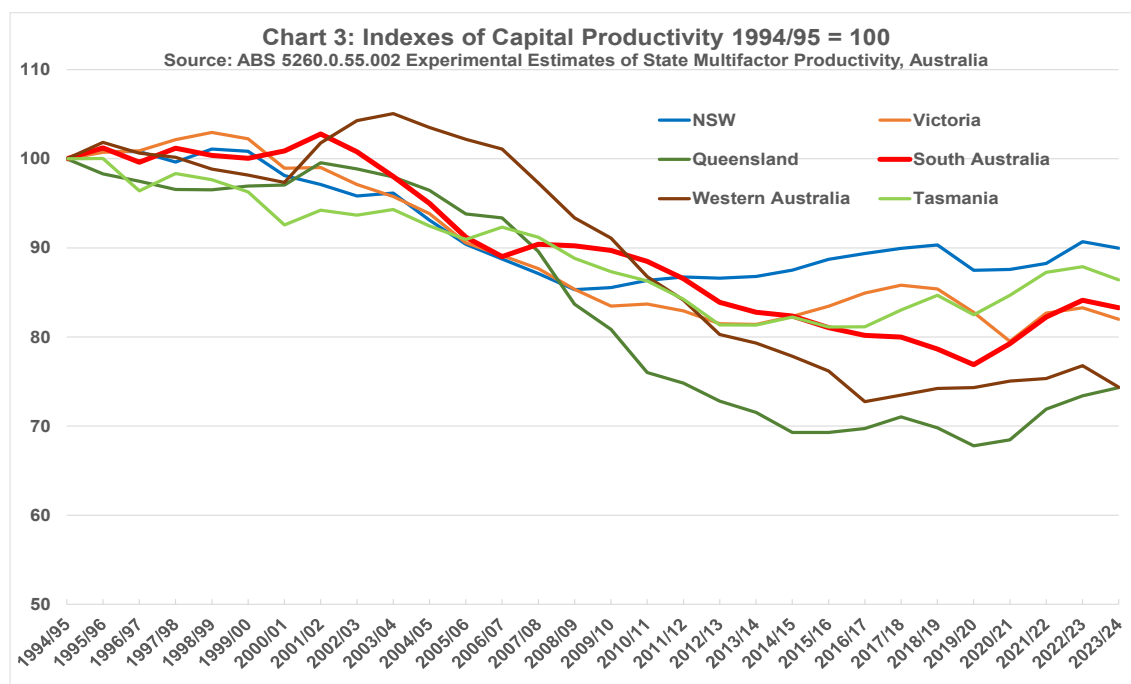
From 2009/10 to 2018/19, SA showed weak productivity performances across each measure. Labour productivity was essentially unchanged, while growing in each of the other States. Capital productivity fell, although by less than in Queensland, WA and the Northern Territory. Multifactor productivity on the hours worked basis fell while growing in each other State. By 2018/19 it was no higher than in 1997/98.

In contrast, SA productivity change in the Market Sector Industries has outperformed on each measure on average during the COVID 19 slump and subsequent recovery.

As shown in Charts 2–4, however, most of this outperformance is estimated to have occurred in 2019/20 to 2021/22, perhaps with the shutdown in international and interstate migration having a more severe labour supply impact on SA's relatively older and faster ageing workforce and so forcing more efficiencies.

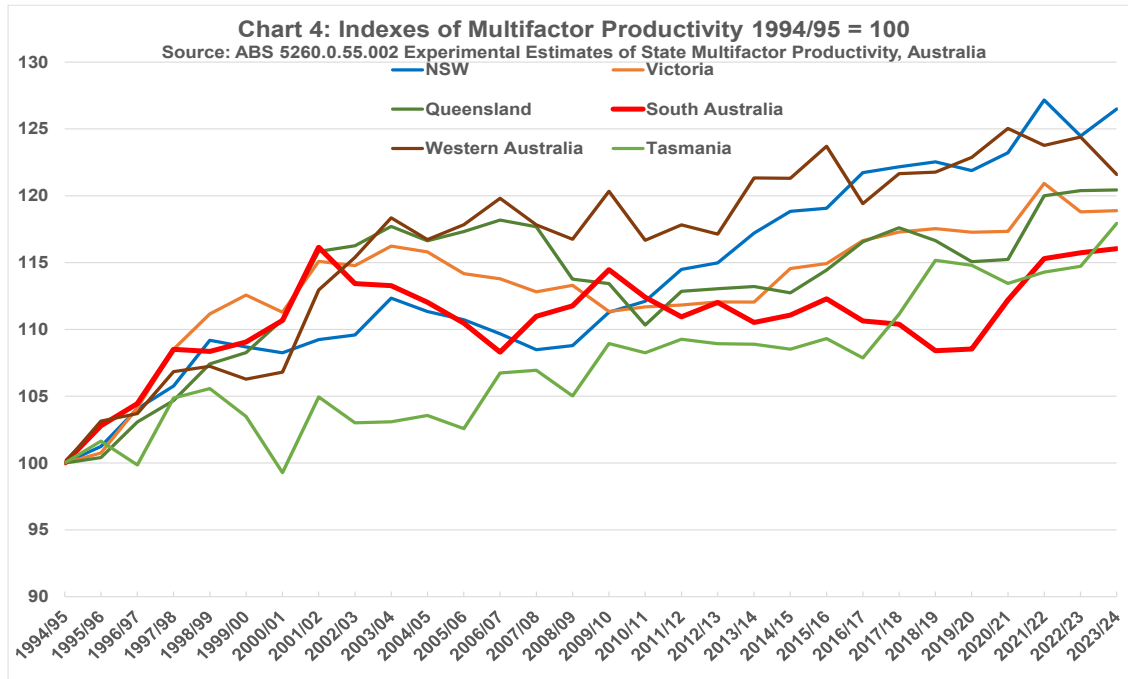


Even with that recent outperformance, however, South Australia's Labour productivity and Multifactor productivity gains have been weaker over the last two decades than the other States.



It has to be noted these estimates do not show the actual level of output per hour worked. The levels are discussed later and in the context of individual industry sectors.

However, the rates of change across various time periods suggest South Australia is going to need a sustained step up in Labour Force productivity growth over the performance of the last two decades if there is to be any substantial real growth on average in after-tax employee earnings.



Some gains in this average could come from factors such as an increase in average hours worked, which are below the national average, and a shift in the share of the workforce to higher than average labour productivity industry sectors. However, potential gains from these changes would appear to be limited compared, as discussed below, to a more general lift in labour force productivity.

The absence of that lift would also suggest overall per capita household disposable incomes, i.e. including those not employed, would likely continue to remain amongst the lowest in Australia.

Productivity Measures at the Industry level

Statewide estimates of productivity on an hours worked basis are valuable but often the most interesting issues are at the industry sector level, particularly for business and policy makers.

For example, which sectors show the highest levels of productivity and why? Which sectors are showing the major changes in year to year and trend measures of productivity are why? How are these changes impacting on real incomes, i.e. wages, profits, interest rates and rents?

How are these changes impacting the demand and supply of labour, capital and other resources, including the creation of new ideas and intellectual property and their use? What are the implications for statewide living standards, including the ability to meet the needs of a growing number and proportion of the SA population that will be post-employment, i.e. retired.

How will South Australia fare in its national and international standing if its Gross State Product per capita and Household Disposable Income per capita remain the lowest amongst the Australian States?

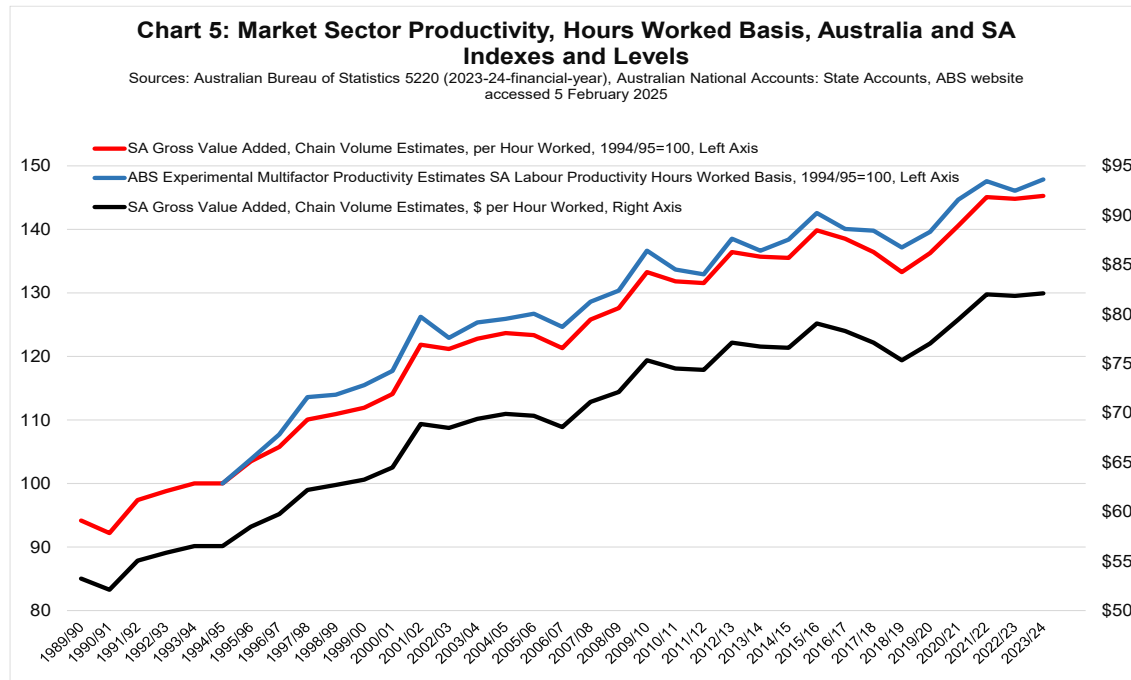
The ABS does not release its estimates of the levels of productivity for each industry sector at a State level.

As a proxy we have used the ABS estimates of Gross Value Added (GVA) volumes, (i.e. inflation adjusted) for each industry sector and its estimates of Hours Worked for each industry sector.³

We believe this is a reasonable approach as the changes in the index of estimates of the GVA volumes per Hour Worked for the Market Sector Industries in aggregate are broadly in line with the growth in the indexes of labour force productivity provided by the ABS *Experimental Estimates of State Multifactor Productivity*.

³ Australian Bureau of Statistics (2023-24-financial-year), [Australian National Accounts: State Accounts](#), ABS Website, accessed 3 February 2025. Australian Bureau of Statistics (September 2024), [Labour Force, Australia, Detailed](#), ABS Website, accessed 15 December 2025.

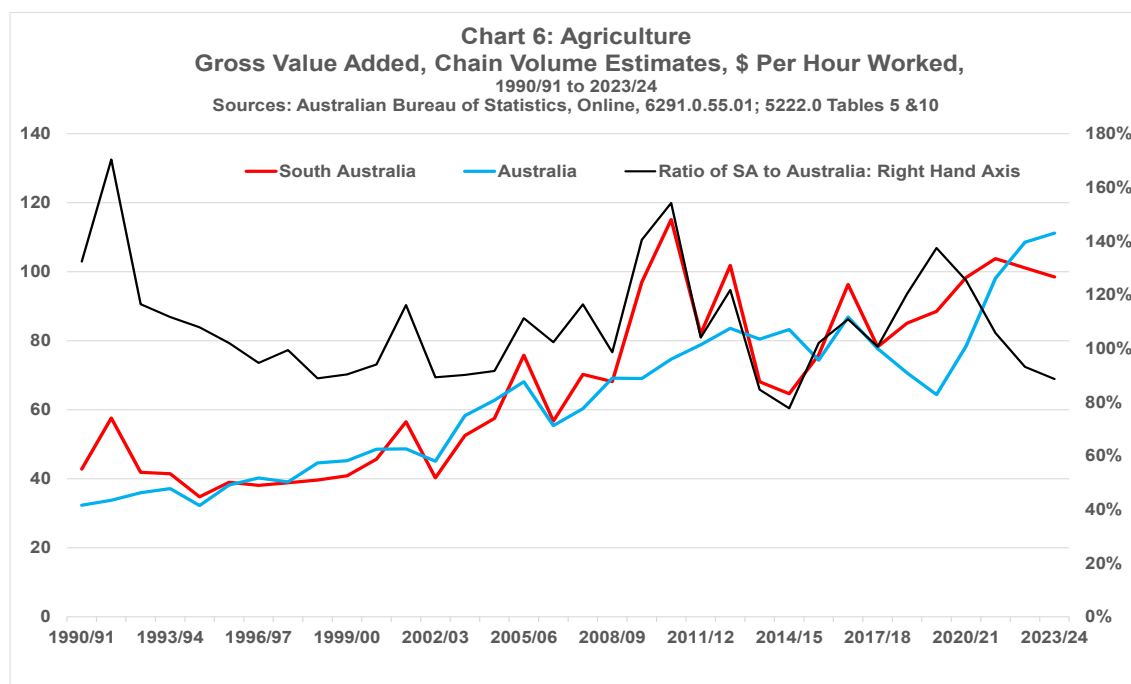
The comparison at the aggregate level is shown in Chart 5, along with the ABS estimates of the chain volume measure of GVA chain volume (GVA_CV) on an hours' worked basis.



In most Industry Sectors, SA's GVA_CV_PHW is lower than the national average and has fallen relative to the national levels over the last decade. This suggests SA's recent poor productivity performance overall reflects at least in part the performance in individual sectors rather than principally a shift towards sectors with lower GVA_CV_PHW.

Goods Production

For **Agriculture** (Chart 6), GVA_CV_PHW in SA is broadly about the same level or higher than for Australia. Each had shown growth over the two decades since 1993/94 but largely tracked sideways for most of the 2010s until 2021/22.



In **Mining** (Chart 7), GVA_GVA_CV_PHW in SA has been consistently lower than nationally with each tracking lower since the mid-1990s. Real output in SA peaked in 2000/01 and did not reach that level again until 2008/09. Real output again lifted to a new peak in 2013/14 but then fell and in 2023/24 was still 11 per cent below that peak.

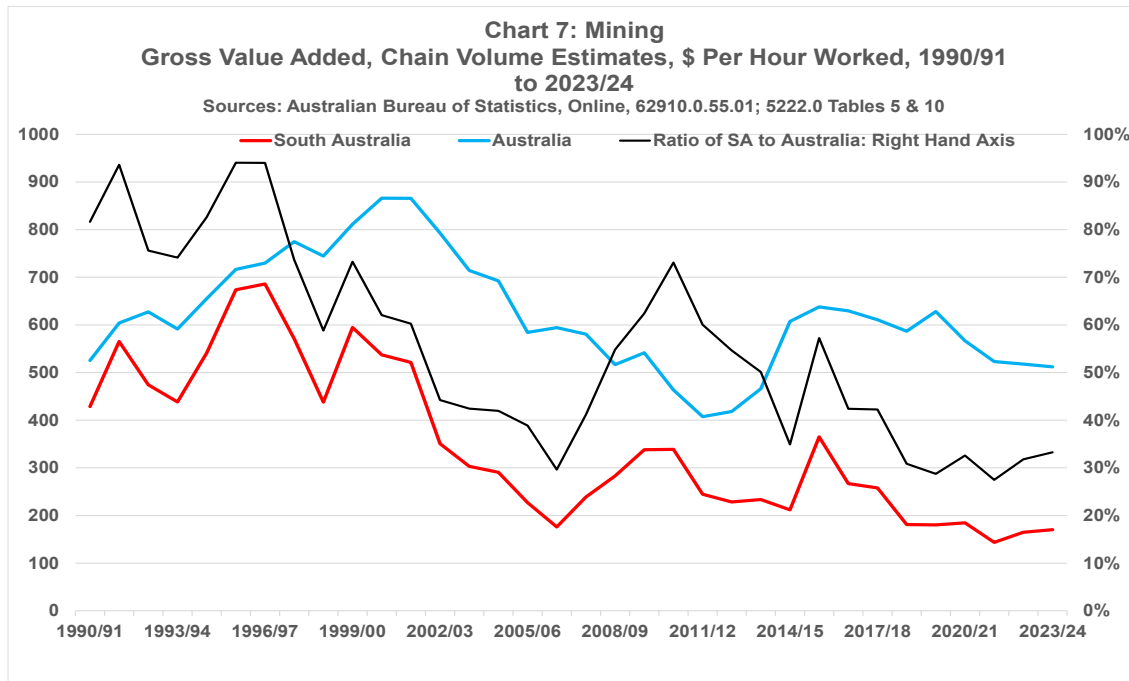
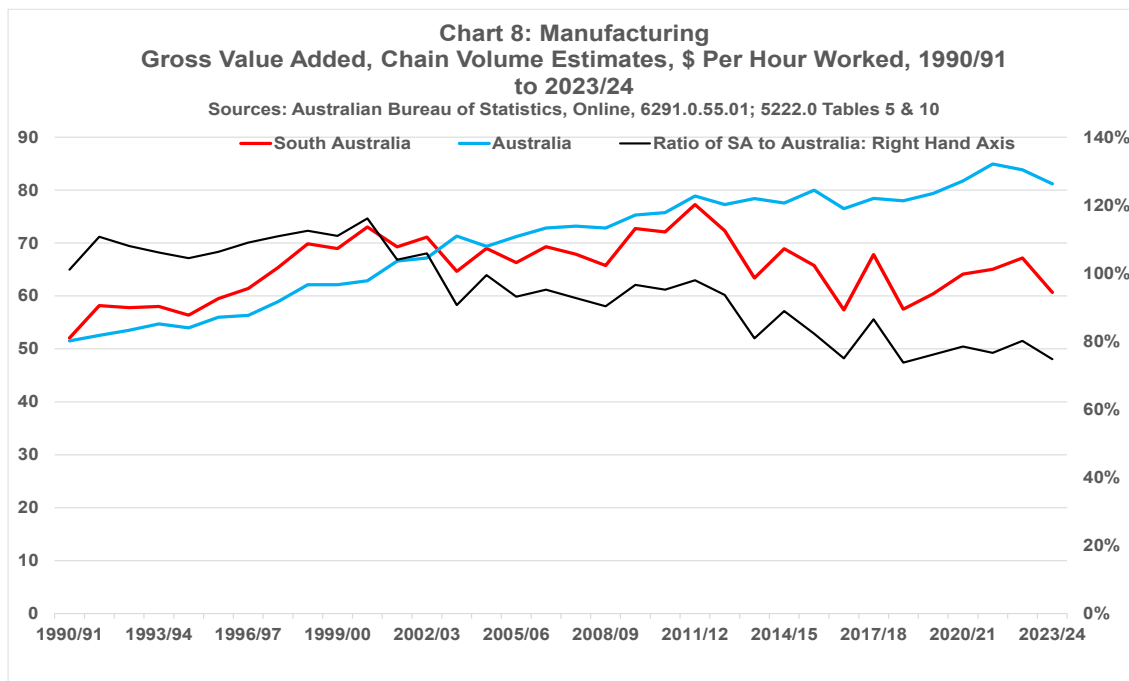


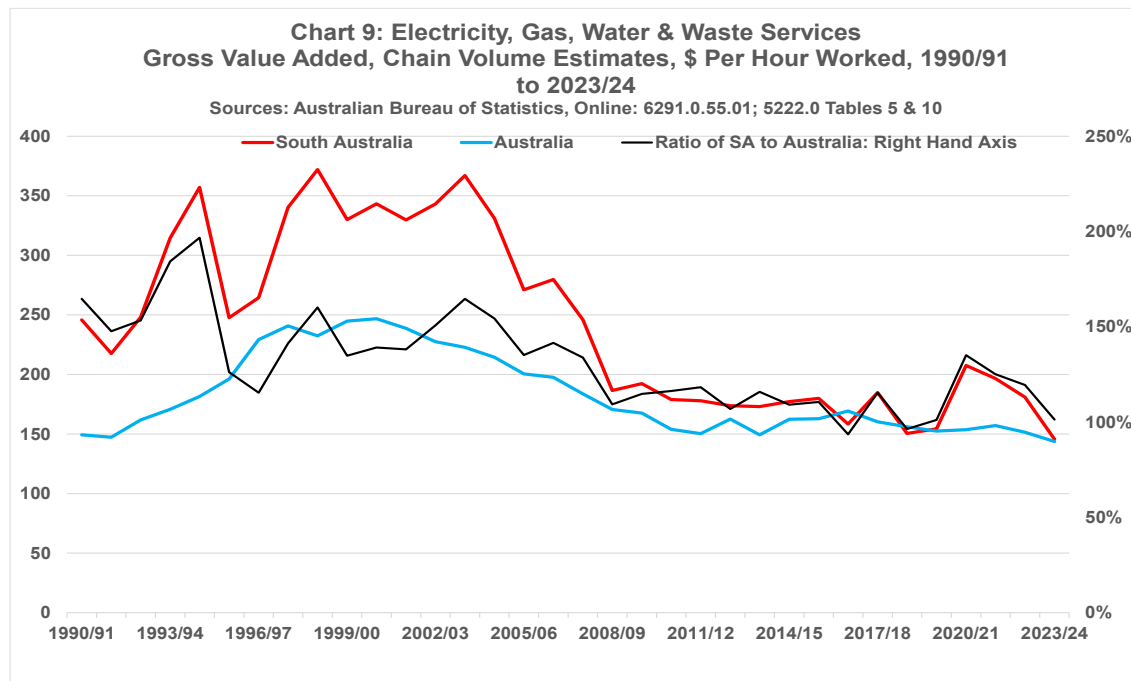
Chart 8 shows SA **Manufacturing** GVA_CV_PHW was above the national average for most of the 1990s but declined to the national average as SA output peaked around 2002/03. SA GVA_CV_PHW broadly tracked the national measure until 2011/12 as Hours Worked declined in line with output, the latter particularly driven lower as the automotive sector contracted. In 2011/12 output was 14 per cent lower than in 2002/03.



Since 2011/12, while GVA_CV_PHW nationally has move sideways to higher, SA's has tracked lower as Hours Worked have fallen more slowly than Output which in 2023/24 was 31 per cent lower than in 2011/12. As a result, the ratio of SA GVA_CV_PHW to Australia has slipped from being above the national average to around 20 per cent below.

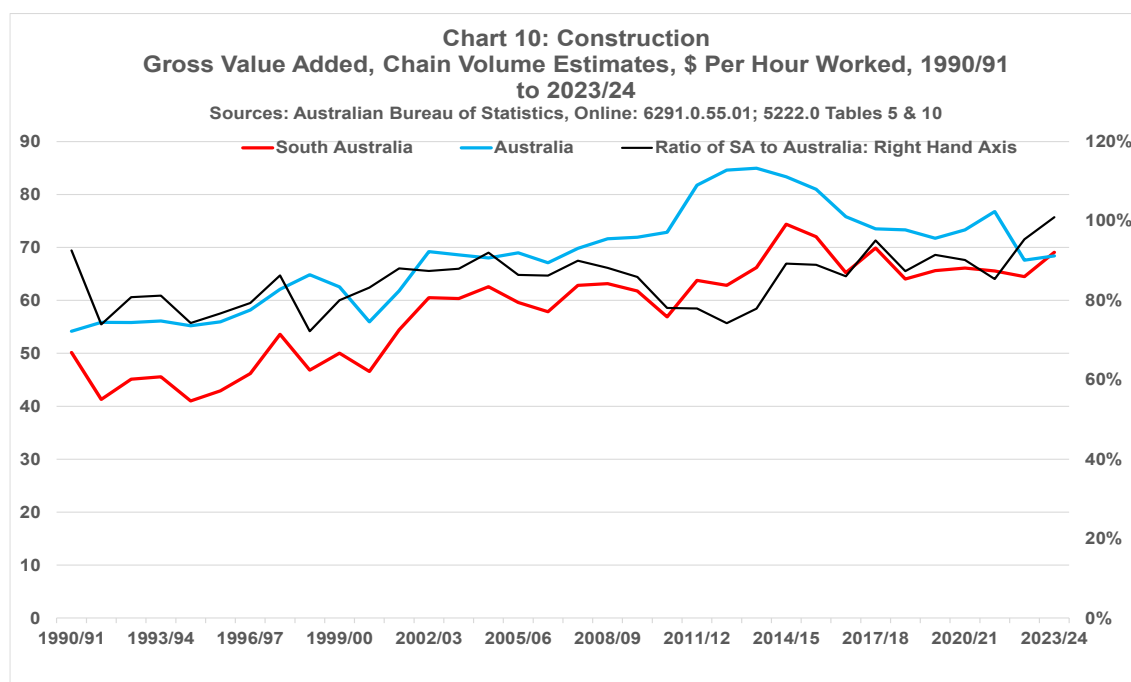
Services Industries – Infrastructure

In **Electricity, Gas, Water and Waste Services** (Chart 9), GVA_CV_PHW for SA has broadly tracked the national average lower since the late 2000s after being well above the national average for the 1990s and early 2000s.



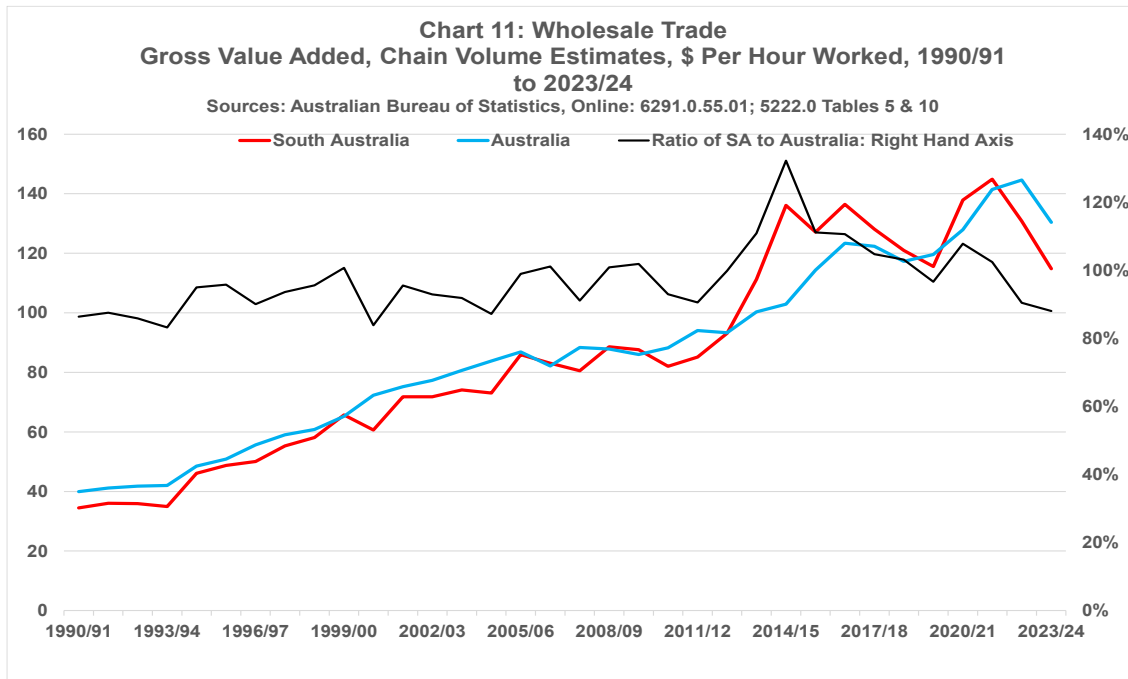
The fall in the late 2000s reflected the estimated volume of output falling by some 10 per cent between the early 2000s and 2008/09 but employment almost doubling. Estimated output declined further to 2013/14 and while having risen to the early 2020s, in 2023/24 output was still about 6 per cent below 2008/09 levels. However, average employment in the three years to 2023/24 is about 26 per cent higher than in the three years to 2008/09.

Construction (Chart 10) GVA_CV_PHW in SA has generally been below the national average although over the last decade the relativity has improved. This is as the national average has declined to mid-2000s levels as hours worked lifted faster than output. SA has broadly seen hours worked rising in line with the higher output.



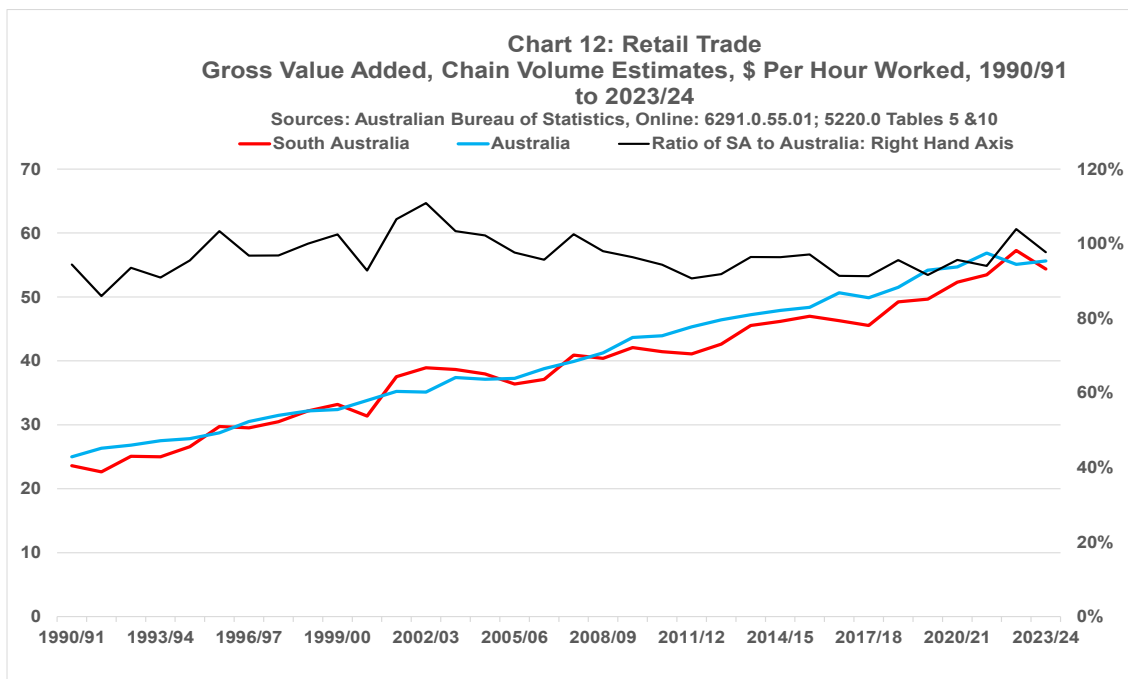
Wholesale Trade, Retail Trade and Accommodation and Food Services

In each of **Wholesale Trade** (Chart 11) and **Retail Trade** (Chart 12), SA's GVA_CV_PHW has broadly tracked the national averages over the last 30 years for each of the levels and growth rates.



Hours worked in these sectors are almost a microcosm of SA industrial sector changes over the last two decades.

In 2004/05, likely for the first time since at least the mid-1900s, hours worked in these two sectors collectively exceeded those in Manufacturing which peaked in 2003/04. Their share of hours worked at around 14.4 per cent was then the largest in SA and well ahead of Health Care and Social Assistance at a share of 10 per cent.



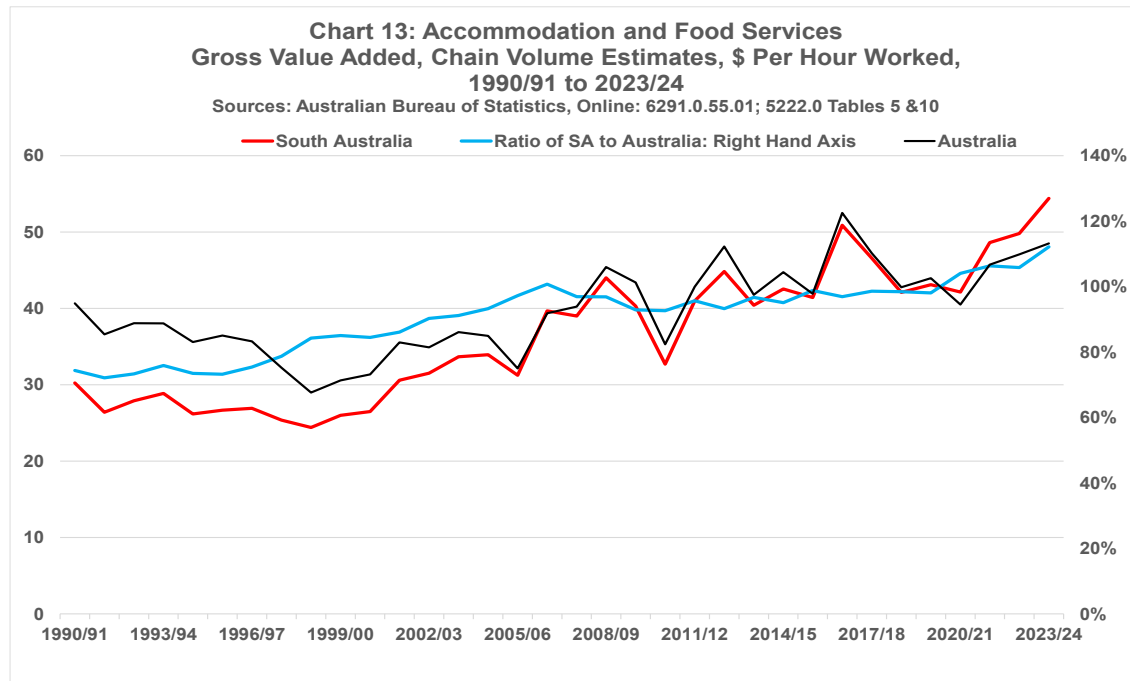
By 2020/21 with the ongoing decline in Manufacturing hours worked and despite the impact of COVID-19 on Retail employment, more hours were worked in Retail Trade alone with a share of 8.8 per cent of total hours worked in SA.

However, the growth in Wholesale Trade and Retail Trade collectively had been well outpaced by the increased Hours worked in Health Care and Social Assistance, even allowing for the impact of COVID-19 on each sector.

In 2020/21 the collective share of the two trade sectors had declined to 11.8 per cent, compared with the 13.8 per cent share of Health Care and Social Assistance.

The decline in GVA_CV_PHW in each trade sector in 2023/24 has been a result of a post COVID-19 recovery in employment running well ahead of the lift in value added.

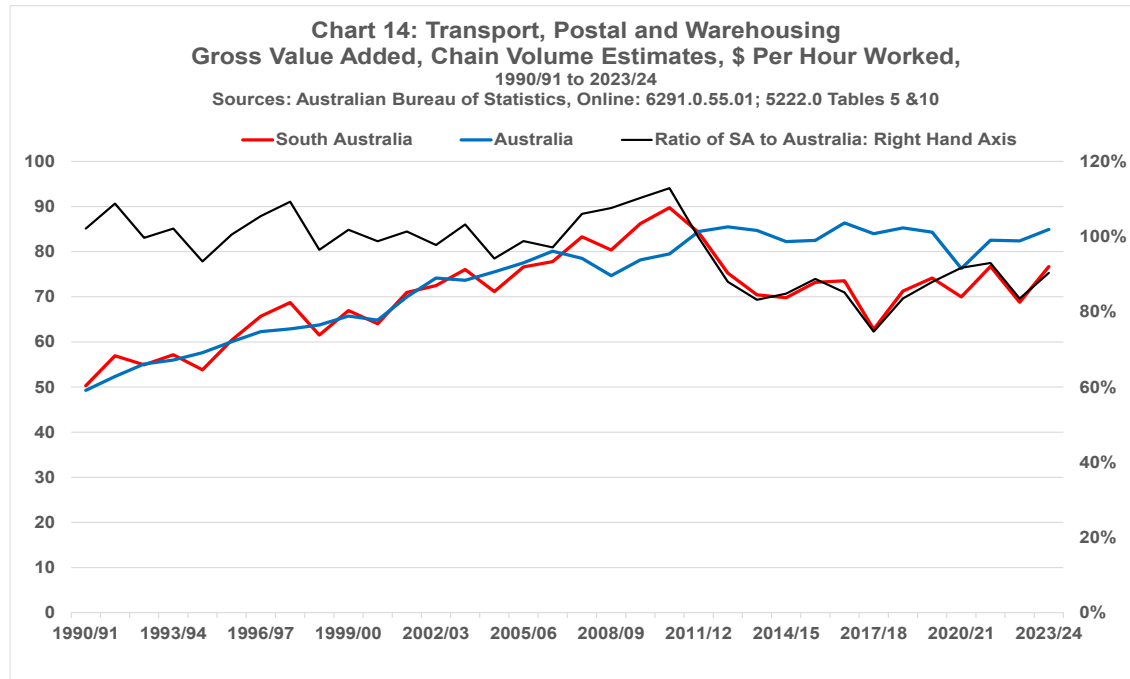
In **Accommodation and Food Services**, (Chart 13) over the last decade and a half SA's GVA_CV_PHW has broadly moved higher in both the level and relative to the national average.



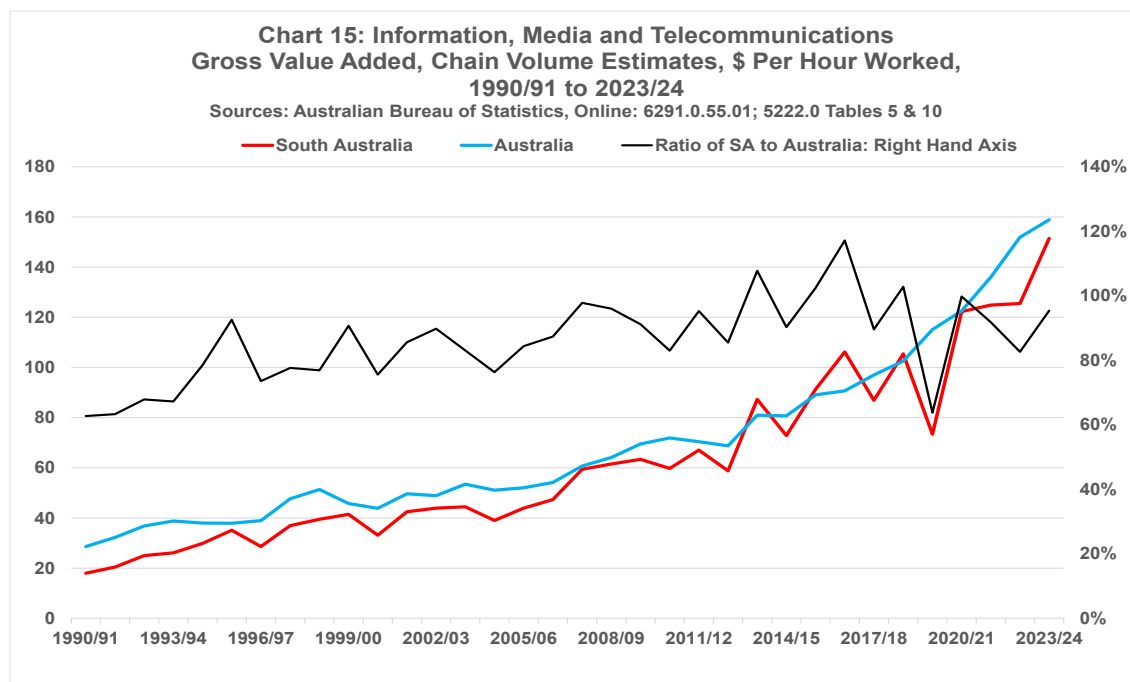
Output, up 10 per cent on pre-COVID levels and 24 per cent higher over the decade, has grown faster than hours worked. From being below the national average for much of the 2000s, SA's GVA_CV_PHW has for the last three years exceeded it.

Transport, Postal and Warehousing and Information, Media and Telecommunications

For **Transport, Postal and Warehousing** (Chart 14), SA's GVA_CV_PHW has gone from being broadly around the strongly rising national level for the two decades to 2009/10, each almost doubling from 1990/91 to 2010/11, to taking a step down in both its level and relativity. This has reflected the volatility in output levels which in SA lifted around 90 per cent from 1990/91 to 2010/11, then fell 12 per cent to 2012/13. There was no trend recovery until 2021/22 but by 2023/24 output was up 10 per cent on pre-COVID levels but still 3 per cent below the 2010/11 peak.

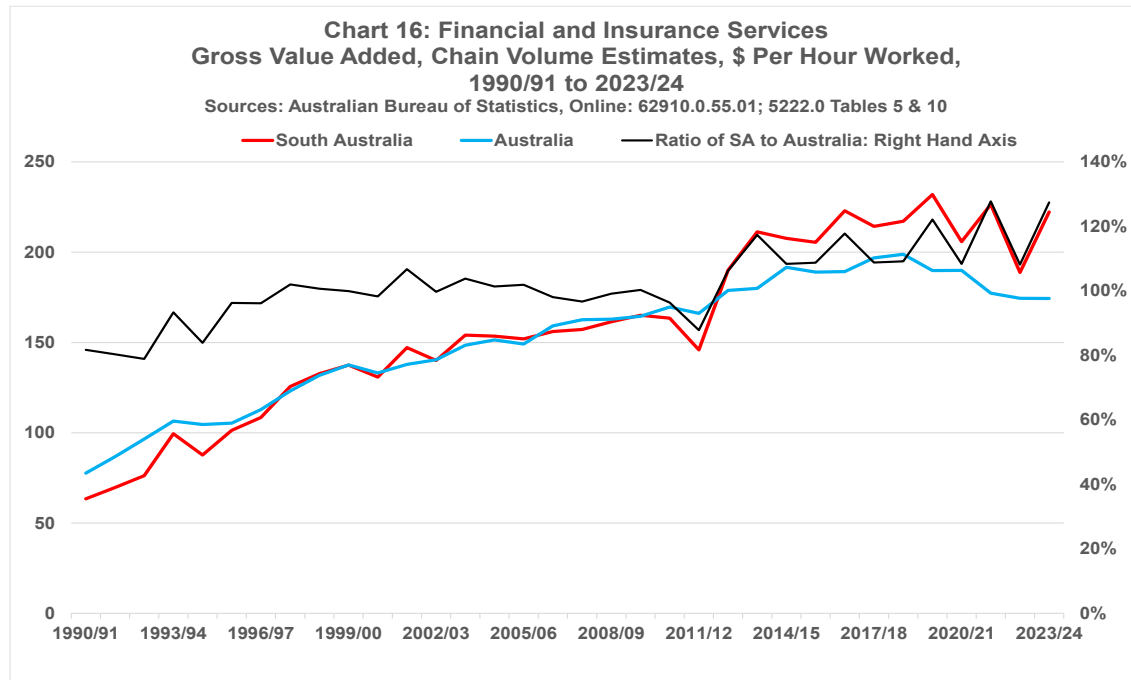


SA's GVA_CV_PHW in **Information, Media and Telecommunications** (Chart 15) has broadly risen strongly in line with the national averages, apart from the dip during COVID. SA Output grew 60 per cent from 2012/13 to 2023/24, well outpacing the growth in hours worked.



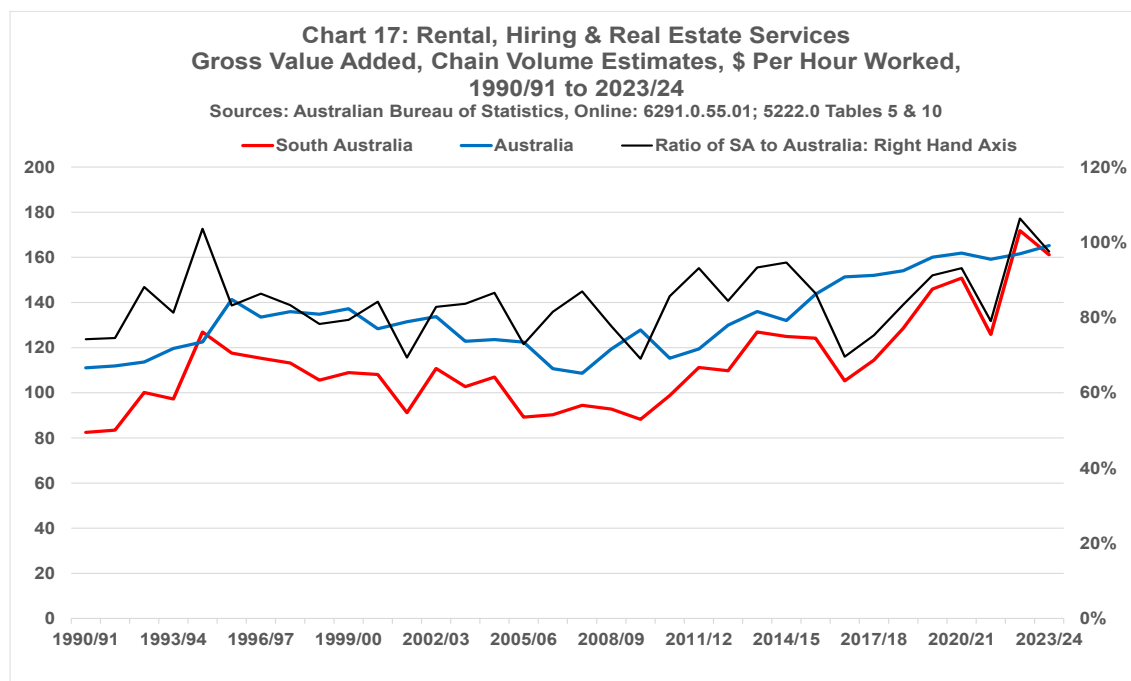
Financial and Insurance Services and Rental, Hiring and Real Estate Services

Financial and Insurance Services (Chart 16) is another sector where SA's GVA_CV_PHW growth has broadly matched the national levels and growth over an extended period in a growth sector.



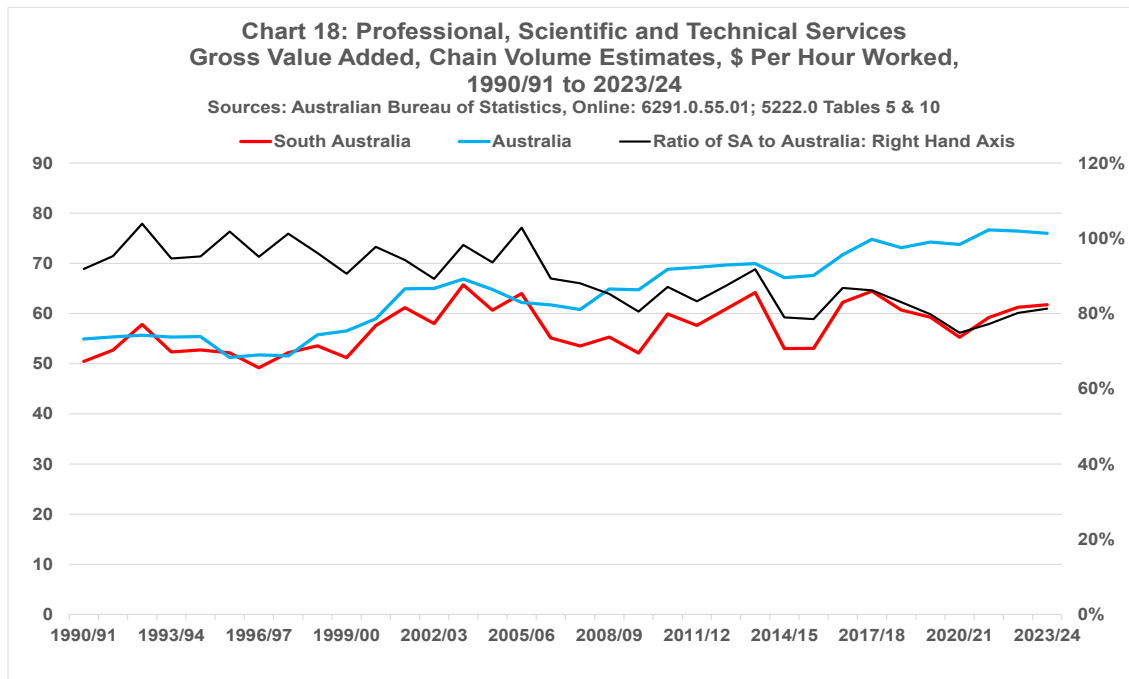
In SA the volume of output in 2023/24 is up 17 per cent on 2018/19 and 26 per cent higher than in 2013/14. Importantly, while output growth slowed in 2022/23 and 2023/24, SA's GVA_CV_PHW has broadly held up compared with the decline nationally.

SA's GVA_CV_PHW in **Rental, Hiring and Real Estate Services** (Chart 17) broadly tracked the national average lower through the 1990s and 2000s but over the last several years has trended higher faster to now be at or above the national average. This has been in an environment of output growth, with the volume of output in 2023/24 up 17 per cent on 2018/19 and 28 per cent on 2013/14.



Professional, Scientific and Technical Services and Administrative and Support Services

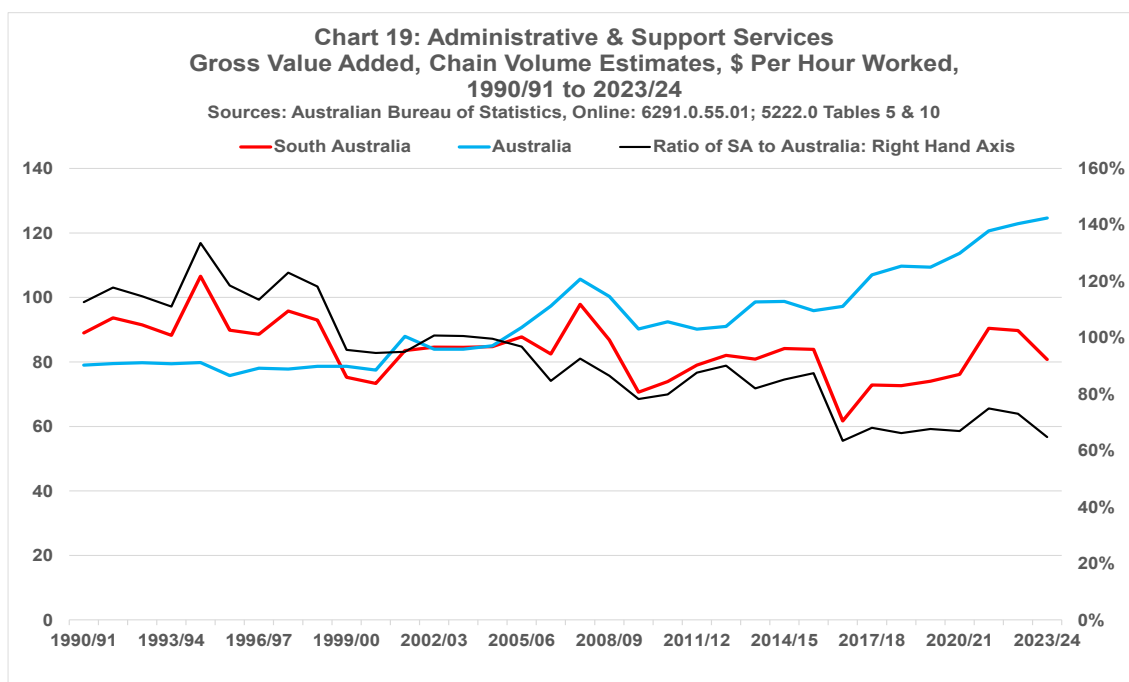
Professional, Scientific and Technical Services (Chart 18) GVA_CV_PHW in SA was rising and around the national average until the mid-2000s. Since then, it has broadly shown no growth, despite the estimated volume of output rising almost 80 per cent to 2023/24.



This is in contrast to the national average of the GVA_CV_PHW which has grown around 20 per cent. As a consequence, the ratio of SA's GVA_CV_PHW to the national average has fallen from around 94 per cent in the early 2000s to the current 80 per cent.

This is of particular importance to SA's overall level and growth of productivity and incomes and their relativities to the national outcomes. This is because this sector has been, and is likely to remain, one of the major areas of employment growth for SA. Its employment in 2023/24 is almost double that of the mid-2000s, its share of total employment has risen to 7.3 per cent and it contributed 15 per cent of the total employment growth from 2018/19 to 2023/24.

There has been a similar outcome for **Administrative and Support Services** (Chart 19) where SA's GVA_CV_PHW was at or above the national average to the mid-2000s.

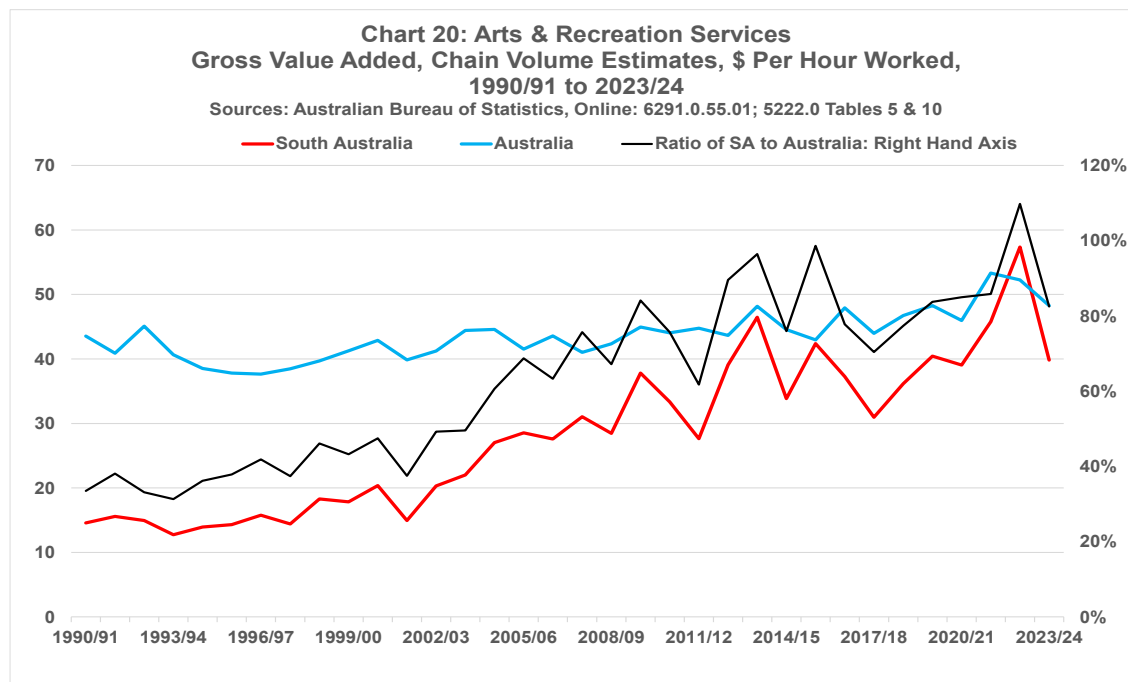


Since then, it has broadly tracked sideways while the national average has risen by almost 50 per cent. This has seen SA's ratio to the national average decline to around 60 per cent.

While there has been some growth in SA's GVA_CV_PHW since the mid-2010s as output has grown, the level has just moved back to mid-2000s levels and the national measure of GVA_CV_PHW has lifted faster.

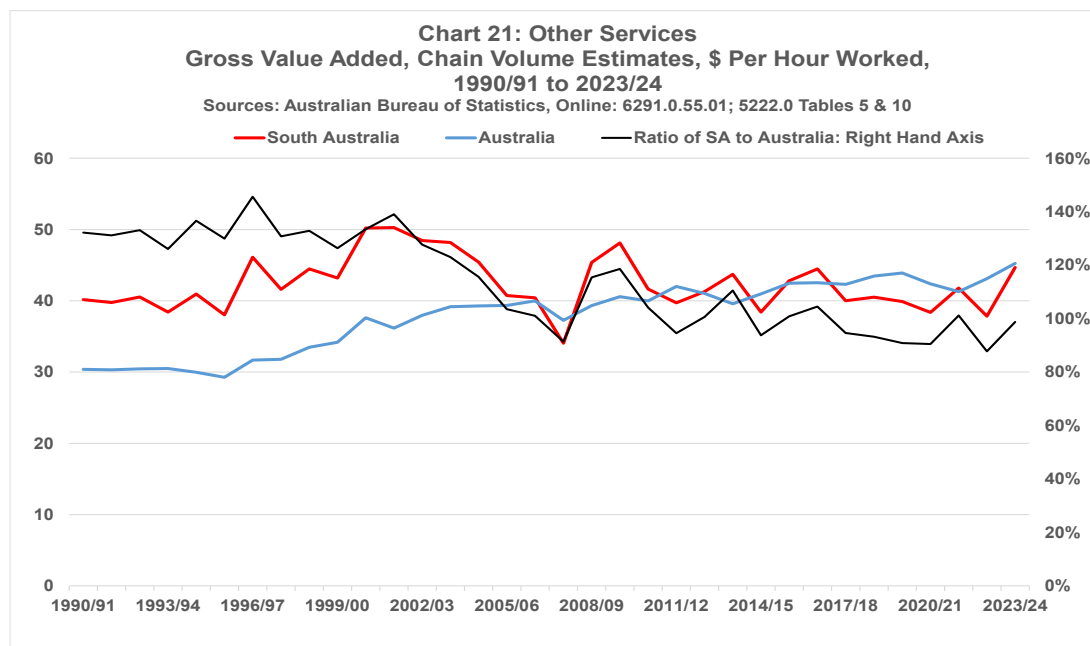
Art and Recreation Services and Other Services

The **Art and Recreation Services** (Chart 20) sector in SA has shown broad, albeit volatile, growth in GVA_CV_PHW since the early 2000s from a low level to be now at or around the national average which has grown very slowly.



The growth in SA since 2017/18 has reflected an almost 40 per cent lift in the estimated volume of output but much slower hours worked growth. Output in 2023/24 is up 330 per cent since the early 2000s but employment has lifted a much slower 60 per cent to be about 1.7 per cent of total employment.

The **Other Services** (Chart 21) sector in SA has shown no trend growth in GVA_CV_PHW over the last thirty years. As a result, while SA had a higher GVA_CV_PHW than nationally through to the mid-2000s, this has declined to under 100 per cent of national GVA_CV_PHW as the latter has risen, albeit slowly.



Non- Market Sector Productivity

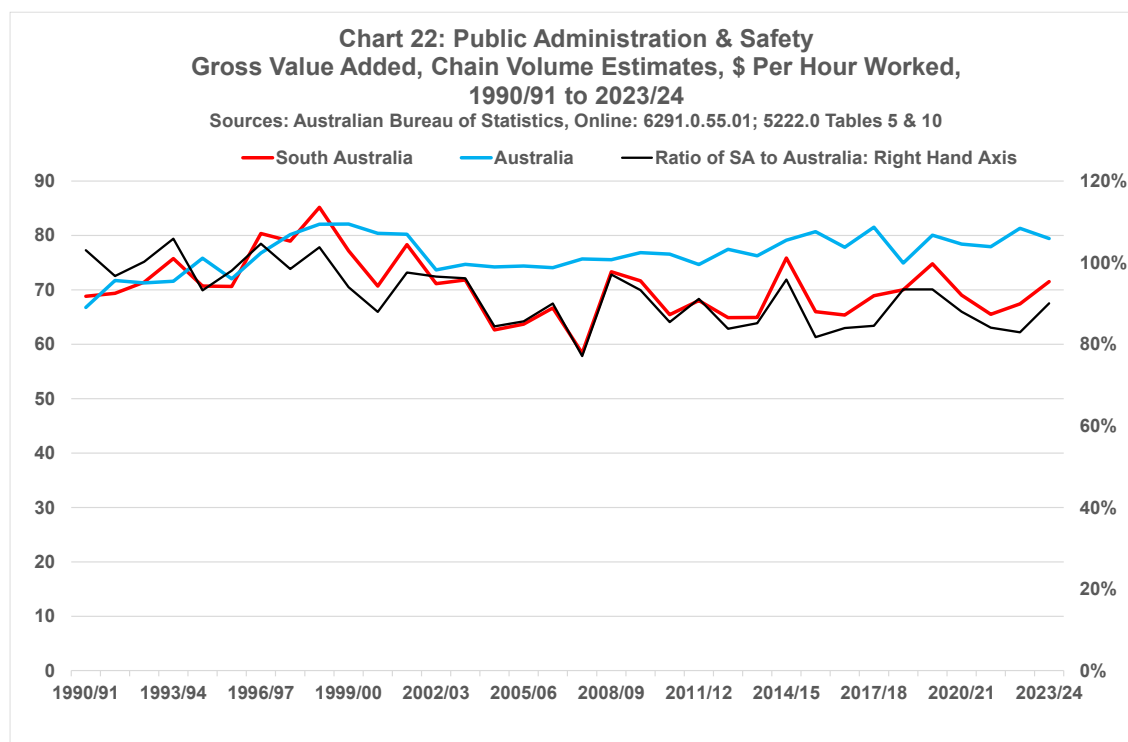
In its *Experimental Estimates of State Multifactor Productivity* the analysis excludes sectors the ABS defines as Non-Market. This includes Public Administration and Security; Education and Training; and Health and Social Assistance.

In the context of overall South Australian productivity performance, and in turn absolute and comparative living standards, the performance of these sectors is important, however.

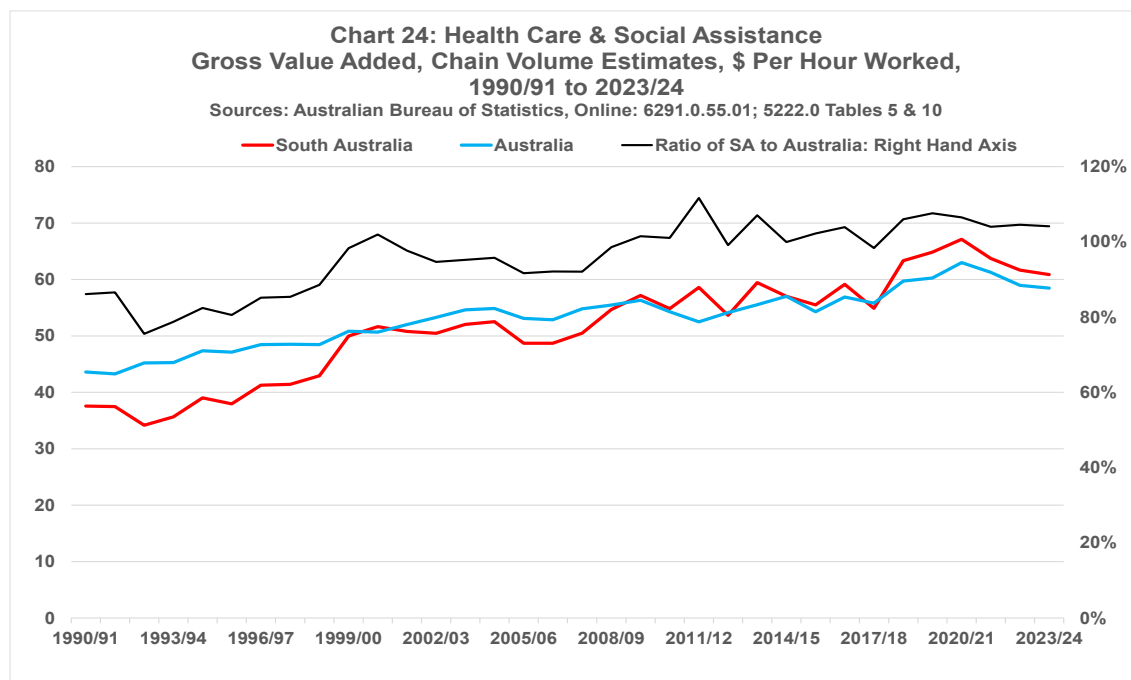
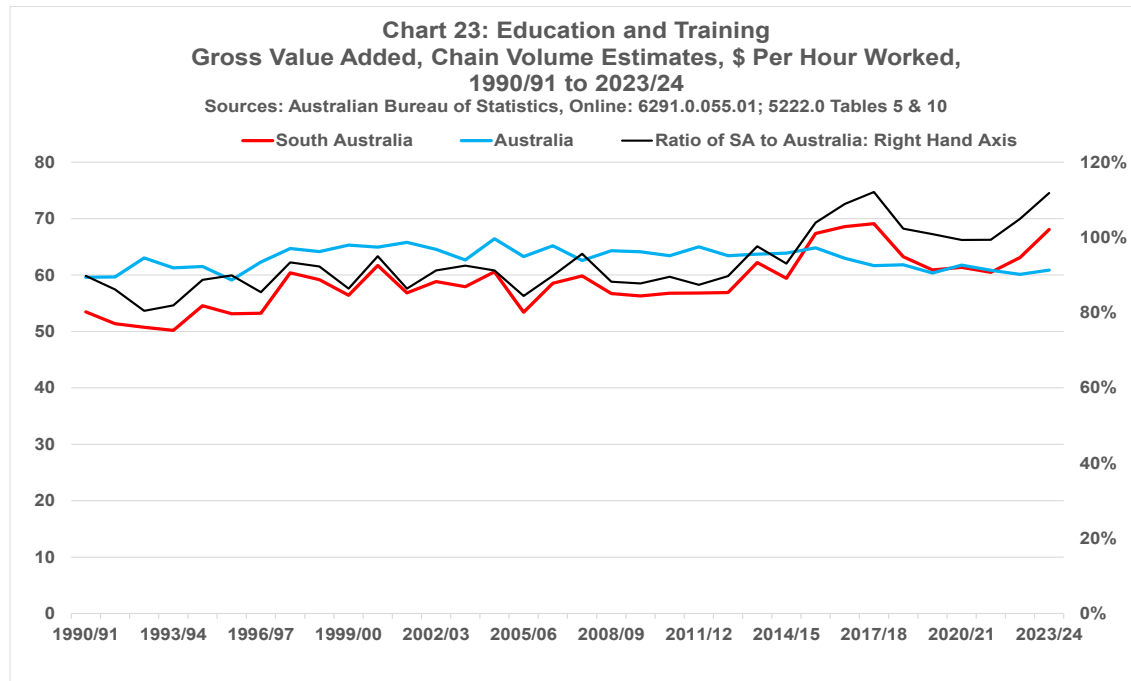
Their collective share of SA's Gross Value Added in volume terms has lifted from around 21 per cent in 2003/04 to 26 per cent in 2023/24. Their share of hours worked has increased faster, from 23 per cent in 2003/04 to almost 31 per cent in 2023/24.

A consequence of, or perhaps a reason for, the faster growth in hours worked than GVA has been a decline in the ratio of GVA volumes per hour worked in the Non-Market Sector to that in the Market Sector. The ratio has declined from 85.0 per cent in 2003/04 to 80.4 per cent in 2013/14 to 79.2 per cent in 2023/24, although the latter has lifted from immediate post COVID levels.

As can be seen in Charts 22 to 24, there has generally been little trend growth in GVA volumes per hour worked since the mid-2000s. In each sector this is broadly in line with the national trends. Education and Training has shown a lift in the ratio of SA GVA volumes per hour worked to the national level over the past decade, but this appears to be at least partly due to a decline in the national level.

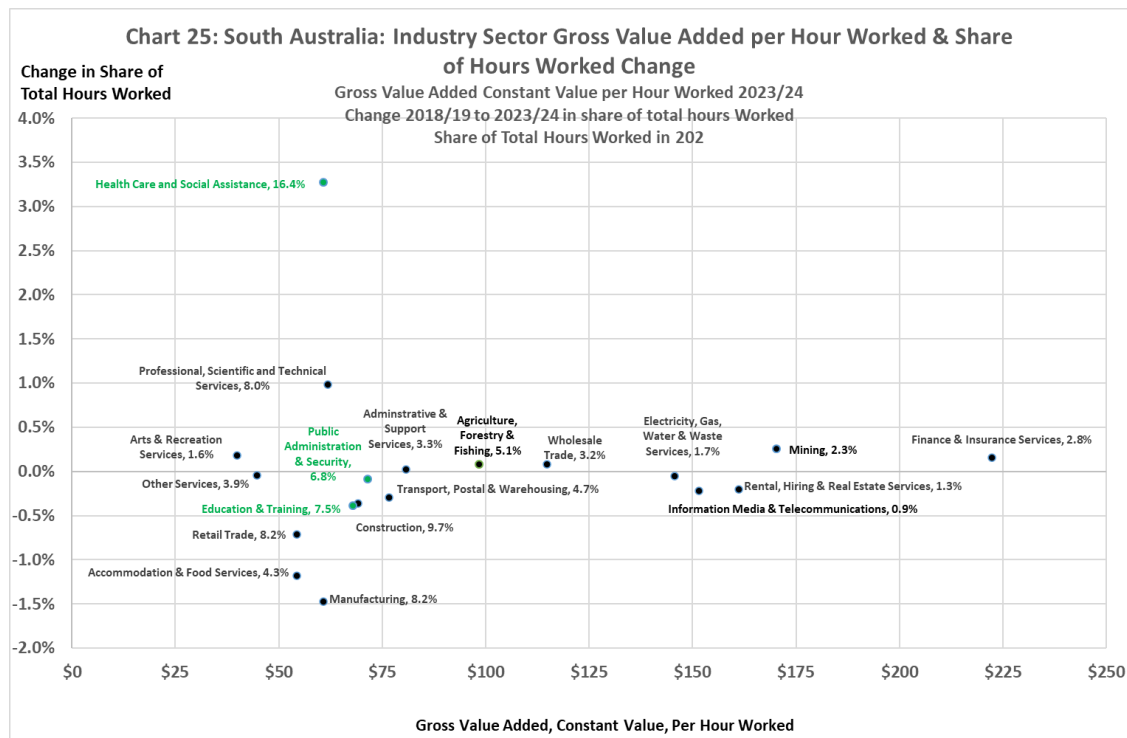


Health Care and Social Assistance GVA volumes per hour worked lifted in SA and nationally during COVID but have then declined closer to the levels of the mid-2010s. In SA this has been a result of the sharp lift post COVID in employment (13.5 per cent from 2021/22) and hours worked (+21.7 per cent) with a slower lift of 10.3 per cent in GVA volumes.



Box: Productivity and Growth by Sector

Chart 25 shows the level of productivity (gross value added per hour worked in constant 2023/24 values) plotted against the change in the share of total hours worked from 2018/19 to 2023/24. Expanding sectors lie above the line. More productive sectors are located further to the right. Non-market sectors are shown in green.



In some of the major employment growth areas such as **Professional, Scientific and Technical Services** and **Administrative and Support Services**, productivity on this measure has fallen in each from being above their respective national averages in the 2000s to now well below. In **Mining** and **Electricity, Gas, Water and Waste Services** which had very high productivity in the 2000s, productivity has declined.

In some sectors such as **Agriculture, Wholesale Trade, Retail Trade, Information Media and Telecommunications** and **Financial Services and Insurance**, SA's productivity has grown at a pace sufficient to maintain or increase its position relative to the national averages. However, their respective shares of hours worked in SA have generally declined. In Manufacturing, productivity has been flat to lower since the late 1990s when it was above the national average and the share of Hours Worked has declined substantially.

Generally, the growth in hours worked and employment in the Market Sector Industries has been strongest in those sectors where productivity has been below the national averages and often flat to declining.

In the Non-Market Sectors of **Public Administration and Security, Education and Training** and **Health and Social Assistance**, output per hour worked has been largely unchanged since the mid-2000s and below the average for the Market Sector Industries while their respective shares of total hours worked and employment have grown strongly. This is in line with the national trends.

Conclusion

South Australia is grappling with persistent economic challenges that have led to below average productivity growth and stagnant household incomes. Since 2010, the state's productivity growth per capita has generally lagged behind both its own historical performance and the national average.

As a result, South Australia's Gross Household Disposable Income per capita is now the lowest in Australia, and in real terms, it has not improved since the 2000s. This decline is closely linked to the state's underperformance in key sectors: output per hour worked in most major industries is below the national average and often growing more slowly or even declining. Sectors where productivity has held up or improved, like Agriculture and Financial Services, now represent a smaller share of total hours worked, while employment growth has been concentrated in lower-productivity sectors.

The expansion of non-market sectors — such as Public Administration, Education, and Health — has further diluted average productivity, as these areas have seen little to no growth in output per hour worked despite their increasing share of total employment. This mirrors national trends but is more acute in South Australia due to its already low productivity base.

The consequences for household incomes are clear: real wage growth has been minimal, and most of the modest gains have been eroded by bracket creep, leaving after-tax earnings flat for over a decade.

Recent increases in household consumption have been driven by population growth and a sharp drop in the household savings ratio, rather than real income gains. This pattern is unsustainable, as further reductions in savings cannot indefinitely support spending.

Looking forward, the outlook remains challenging. Even under optimistic scenarios for wage and productivity growth, real after-tax earnings are expected to rise by less than 1 per cent per year. Improvements in household incomes and living standards are ultimately dependent on productivity growth.

The state's ability to reverse this trend depends on lifting productivity across all sectors, especially in high-employment and high-value added per hour worked industries.

Increasing productivity in the current high employment sectors such as Health Care and Social Assistance and Professional, Scientific and Technical Services, which are each expected to continue to be high growth sectors, would potentially provide direct income benefits to the widest range of employers and employees. At the same time, lifting productivity in the high- value added industries, particularly those with current relatively low employment shares but strong growth prospects, would assist SA to be more competitive nationally and internationally in future growth sectors. This should help to retain and attract young mobile workers and stimulate business creation.

Without significant reform and a shift in economic structure, South Australia is likely to remain at the bottom of national rankings for household income, with far-reaching consequences for its economic resilience and the wellbeing of its people. The urgency for action is clear if the state is to secure a more prosperous future.