

26 July 2013

Unlocking neglected truths about service industries

The Productivity Commission has released an interim report on the performance of New Zealand's service industries. The report, now out for consultation, addresses the nature and role of services in the New Zealand economy.

"Put simply, services matter, because the sector is such a large proportion of the New Zealand economy, with service industries accounting for around 70% of GDP", says Commission Chair Murray Sherwin.

"Services are deeply enmeshed in every aspect of our economy, including primary and manufacturing output. Even small improvements in the productivity of services industries will show up in the performance of the economy overall and – by comparing internationally – we know we can do better.

"It is time for a mental shift. We have a strong understanding of our primary and manufacturing industries, and reasonably solid data to work with in those sectors. We need a better understanding of the myriad ways that services add value to our economy, our employment and our incomes" says Mr Sherwin.

"The services sector effectively contributes more than half the value of the country's exports. This occurs primarily through their embodiment in exported goods. Such services range from transport and warehousing through to finance and insurance. Embodied services are integral to the success of our primary and manufacturing industries, in both domestic and international markets.

"The productivity challenges for services industries are similar to those for other sectors of the economy. They include achieving scale, specialisation and tradability within the context of New Zealand's small size and distance from international markets. Having the right regulatory settings is important to help service industries tackle such challenges.

"By fostering competition and innovation we can develop smarter services. In turn, smarter service inputs can improve the quality, variety and sophistication of the goods we produce. And we're not just talking about service contributions to goods – we can also increase our international trade in services themselves."

The Commission is seeking feedback on its analysis to date, including on what two topics the Commission should focus for more in-depth investigation during the second phase of the inquiry.

The two topics would come from the following three:

- Improving occupational licensing in the services sector
- Stimulating services competition
- Addressing barriers to the successful application of information and communications technologies (ICTs) to service industries

Occupational licensing: Services transactions are often complex, prompting extensive regulation of many service industries. Improvements to occupational licensing and consumer protection could lower the costs of services transactions and remove barriers to greater competition. Examples of regulated service occupations include lawyers, pharmacists, and real estate agents. Licensing can play an important role in helping ensure service quality, such as through the level of training required to perform a service. However, if such restrictions are over-used or mis-used, they can act as a barrier to other suppliers entering the market, thereby reducing choice and competition for consumers.

Services competition: Stimulating greater competition in New Zealand service markets is an important way to achieve productivity gains. One mechanism is to improve consumers' access to information about the choice and quality of services on the market. Online tools can help to empower consumers by making it

easier to compare services and switch providers. The government may have a role in improving the transparency and simplicity of service markets.

Information and communications technologies: ICTs are an important avenue for boosting productivity in the services sector. The provision of many services is limited by the need for the provider to interact directly with customers, but ICT can make it easier to supply services at a distance. For example, online accounting tools and online banking. The Commission is interested in the role and scope of government in removing barriers to, and otherwise supporting, better use of ICT in the services sector.

Inquiry Timeline:

23 Aug	Closing date for submissions on 1st Interim Report
Late Aug	Topics announced for the next stage of the inquiry
Jan 2014	Release of the 2nd Interim Report
28 Apr 2014	Final Report provided to referring Ministers

Facts about the services sector

- The New Zealand economy is largely services based.
- The services sector accounts for over 70% of GDP and the services share of total employment is nearly 75%. Market services – the focus of this inquiry – account for nearly 50% of GDP.
- The services sector and the primary and goods-producing sectors are highly interconnected and interdependent.
- The services sector effectively contributes more than half the country’s exports, primarily through embodiment in exported goods. The competitiveness of New Zealand’s goods exports depends critically on the performance of the services sector.
- Services feature extensively as inputs to the production of other goods and services. More services are purchased by firms, as inputs to their production, than by households.

About the New Zealand Productivity Commission

The Commission – an independent Crown entity – was established in April 2011 and completes in-depth inquiry reports on topics selected by the Government, carries out productivity-related research, and promotes understanding of productivity issues.

For further information, please contact:

Anne Rose

anne.rose@productivity.govt.nz

T: 04 903 5160

M: 029 770 8697

Web: www.productivity.govt.nz