KPMG

Wage Price Index Forecasts

Report 3 – Australian Energy Regulator

18 August 2023

Acknowledgement of country

KPMG acknowledges Aboriginal and Torres Strait Islander peoples as the First Peoples of Australia. We pay our respects to Elders past, present, and future as the Traditional Custodians of the land, water and skies of where we work.

At KPMG, our future is one where all Australians are united by a shared, honest, and complete understanding of our past, present, and future. We are committed to making this future a reality. Our story celebrates and acknowledges that the cultures, histories, rights, and voices of Aboriginal and Torres Strait Islander People are heard, understood, respected, and celebrated.

Australia's First Peoples continue to hold distinctive cultural, spiritual, physical and economical relationships with their land, water and skies. We take our obligations to the land and environments in which we operate seriously.

Guided by our purpose to 'Inspire Confidence. Empower Change', we are committed to placing truth-telling, self-determination and cultural safety at the centre of our approach. Driven by our commitment to achieving this, KPMG has implemented mandatory cultural awareness training for all staff as well as our Indigenous Peoples Policy. This sincere and sustained commitment has led to our 2021-2025 Reconciliation Action Plan being acknowledged by Reconciliation Australia as 'Elevate' – our third RAP to receive this highest level of recognition. We continually push ourselves to be more courageous in our actions particularly in advocating for the Uluru Statement from the Heart.

We look forward to making our contribution towards a new future for Aboriginal and Torres Strait Islander peoples so that they can chart a strong future for themselves, their families and communities. We believe we can achieve much more together than we can apart.

Disclaimers

Inherent Limitations

This report has been prepared as outlined with the Australian Energy Regulator in the Scope Section of the engagement letter dated 28 April 2023. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

No warranty of completeness, accuracy or reliability is given in relation to the historical data, analysis or forecasts presented in the text, charts and tables.

KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

Third Party Release

This report is solely for the purpose set out in the Scope Section and for the Australian Energy Regulator's information, and is not to be used for any purpose not contemplated in the engagement letter or to be distributed to any third party without KPMG's prior written consent.

This report has been prepared at the request of the Australian Energy Regulator in accordance with the terms of KPMGs engagement letter dated 28 April 2023. Other than our responsibility to the Australian Energy Regulator, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.

Introduction

Background

In accordance with its responsibilities under the NER and the NGR, the AER must make revenue determinations for NSPs and access arrangement decisions for gas NSPs. The AER assesses proposed forecast operational and capital expenditure from providers over a regulatory period with the price of labour being a component and assesses the reasonableness of the proposals based on independent forecasts.

Objectives

The goal of this report is to provide the AER with an understanding of the factors which influence wage growth in the *Utilities* industry. In particular, the AER is interested in understanding:

- The key drivers of *Utilities* industry wage growth including inflationary, productivity and enterprise bargaining trends and other cyclical factors.
- How superannuation guarantees impacts wage growth and how recent changes to the superannuation guarantee set out in Minerals Resource Rent Tax Repeal and Other Measures Bill 2014 (Cth), Schedule 6— Superannuation Guarantee impact wages growth.

Purpose

This report is a continuation of previous reports from August 2022 and March 2023 covering labour price growth forecasts. As such, the purpose of this report to update wage growth forecasts for Australia and New South Wales and provide forecasts for states not previously covered including Tasmania, Northern Territory and the Australian Capital Territory.

Scope

KPMG's scope of work for this project is:

- Provide annual forecasts through to FY 2029 for:
  - National *All-Groups* CPI
  - National *All-Industry* WPI
  - National *Utilities* WPI
  - State *All-Industry* and *Utilities* WPIs for:
    - New South Wales
    - Tasmania
    - Northern Territory
    - Australian Capital Territory
- Discuss the key drivers of wage growth and discuss the economic outlook for Australia and the relevant states for this report.

Contents

Glossary

AAWI	Average Annual Wage Increase	NGR	National Gas Rules
ACT	Australian Capital Territory	NSP	National Service Providers
ABS	Australian Bureau of Statistics	q/q	Quarter-on-quarter
AER	Australian Energy Regulator	RBA	Reserve Bank of Australia
CPI	Consumer Price Index	WPI	Wage Price Index
EBA	Enterprise Bargaining Agreement	y/y	Year-on-year
FY	Fiscal Year		
GDP	Gross Domestic Product		
GVA	Gross Value Added		
NAB	National Australia Bank		
NER	National Energy Rules		

Executive Summary

Macroeconomic backdrop

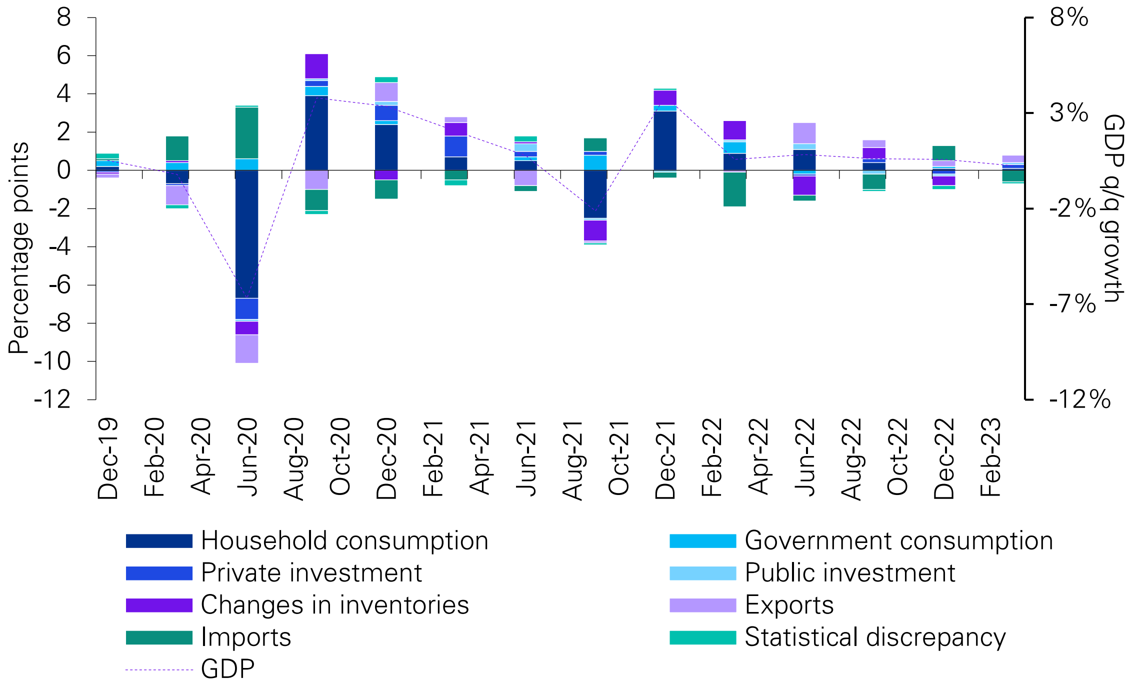
The Australian economy was strong at the end of 2022. However, the first quarter of 2023 saw a significant slowdown in output growth due to the impact of higher interest rates and inflation. Chart EX1 shows that GDP grew 0.2% in the March quarter of 2023 - domestic demand made a positive contribution (+0.6%), net exports detracted (-0.2%) and inventories remained flat. Since our previous forecast, a substantial shift in domestic policy settings has led to a reassessment of Australia's short-term economic forecasts. This revised outlook is slightly more pessimistic as we have shifted from projecting a marginally positive to a marginally negative growth profile for the remainder of 2023 and into 2024. A prolonged downturn in housing investment and a deceleration in business investment weigh on growth over the second half of 2023 and into 2024.

The RBA, in line with other central banks in developed economies experiencing high inflation, has been increasing policy rates. The RBA remains hawkish, driven by several factors including:

- headline CPI decreasing 5.5% in June 2023, down from 5.9% y/y in May due to declining automotive fuel prices and easing global upstream pressures. However, core inflation only fell 0.1% y/y over the same period as services and rent inflation remained strong.
- continuation of the expansion in the labour market, with 254,000 workers added between the end of 2022 and June 2023 and with the unemployment rate remaining at a historic low of 3.5%; and.
- concerns that with stagnant productivity growth, continued rapid wage growth will drive up unit labour costs and kick off a wage price spiral.

KPMG's central forecast is for two further increases in cash rates in the second half of 2023. While inflation is expected to have peaked in late 2022 and has trended lower since, we expect inflation to be persistent and remain outside of the RBA's target range for some time.

Chart EX1: Quarterly GDP growth by component



Source: ABS, KPMG

Executive Summary

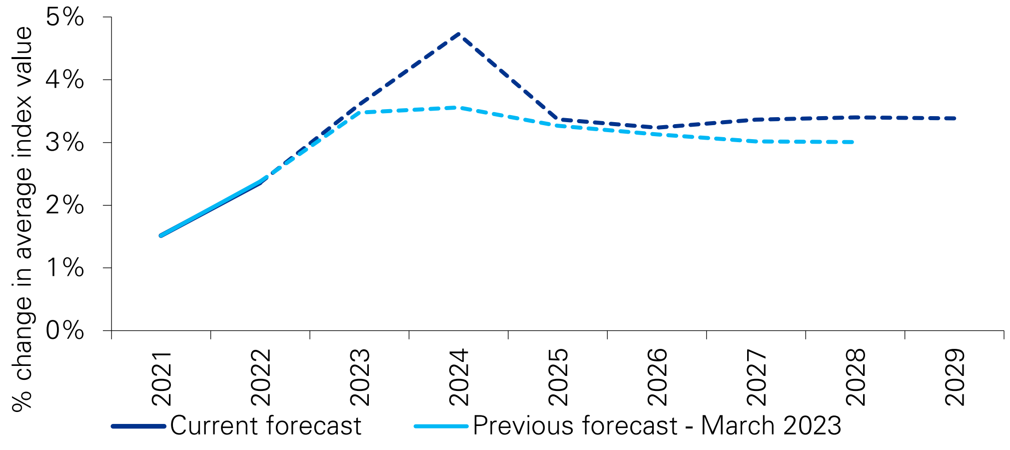
Labour market conditions

As the labour market remains tight, growth in the seasonally-adjusted WPI has rebounded, registering an increase of 0.8% in the March quarter of 2023 and 3.7% annually. This marks the highest annual wage growth since September 2012, driven by both the private and public sectors. Private sector wage growth accelerated from 3.6% to 3.8% over the quarter, while public sector wage growth also picked up from 2.5% to 3.0%, partly due to higher public sector wage caps.

As shown in Chart EX2 we anticipate growth in the *All-Industry* WPI to peak in the first half of 2024 before reverting back towards its long-run equilibrium value of around 3.4%. Our long-term wage growth assumptions are optimistic, underpinned by a reversion back to labour productivity growth of approximately 0.9% per annum. This productivity growth is relatively high compared to recent experience. The fiscal challenges confronting state and federal governments are likely to focus attention on developing and implementing policy reforms that aim to unlock productivity gains. The private sector is also expected to come under pressure to innovate and make investments that boost productivity as global competitive pressure intensify.

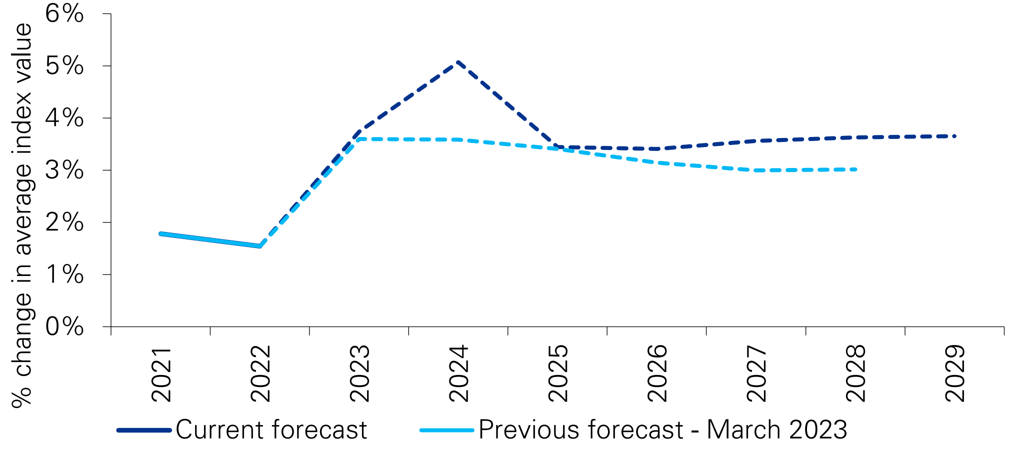
Wages in the *Utilities* industry are expected to rise strongly over the next year or so, outperforming the national average over the medium-term as shown in Chart EX3. This is partly due to high demand for skilled labour and price-setting behaviour of firms. In the longer-term, the pace of wage growth is expected to converge to around 3.6% per annum, higher than the National *All-Industry* WPI and above the previous long-run forecast of 3% per annum. This difference is largely due to two factors: first, our expectation of a subtle but important change, in the behaviour of the RBA where we assume they will be more inclined to cut interest rates if inflation falls below the middle of their range; and second, an expectation that productivity growth will be faster in the second half of this decade.

Chart EX2: National All-Industry WPI forecast, (average annual FY change)



Source: ABS, KPMG

Chart EX3: National Utilities WPI forecast, (average annual FY change)



Source: ABS, KPMG

Executive Summary

New South Wales

State final demand in NSW grew by 0.4% between Q4 2022 and Q1 2023, falling short of the national average of 0.6%. All components of domestic demand made a positive contribution to growth. In Q1 2023 Sydney's headline inflation rate climbed to 6.6% through the year to Q2 2023, exceeding the national average of 6%. The Housing component recorded the highest rate of annual inflation at 9.7%, primarily driven by increasing rents.

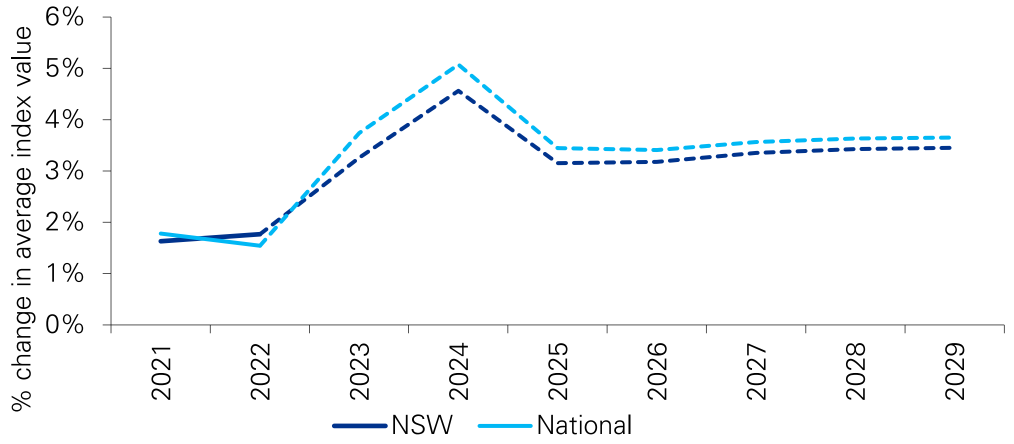
In line with the revisions to our forecasts for growth in the National *Utilities* WPI, the forecast for *Utilities* industry wage growth in NSW has been revised up in both the near-term and long-term. Growth in NSW *Utilities* industry wages is expected to peak at 4.6% in FY24 (chart EX4), driven by the residual strength in the labour market and the 'catch-up' effect from EBA resets, which continue to exert upward pressure.

Tasmania

In Q1 2023 state final demand in Tasmania fell by 0.2%, primarily due to a decrease in private (-4%) and public (-2.5%) investment. In contrast, household expenditure increased by 0.5%, fuelled by spending on vehicle operations, food, and transport services, which more than offset the reductions in clothing, footwear, and vehicle purchases.

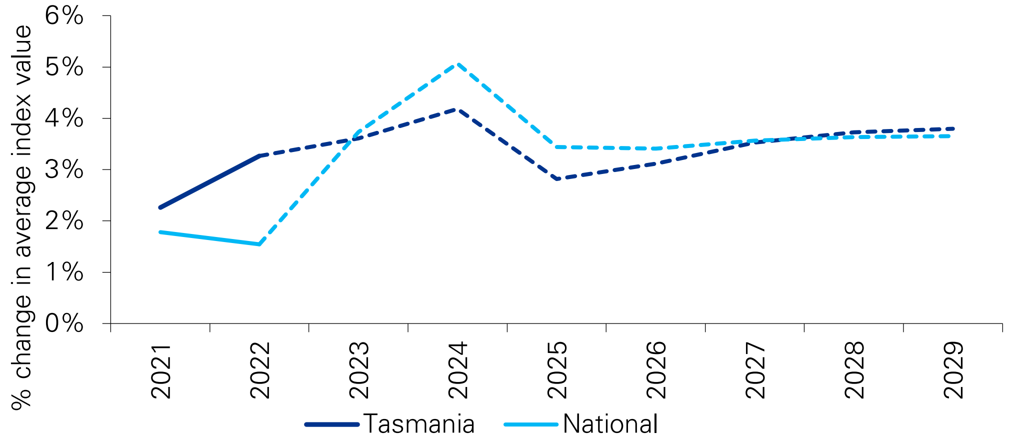
Chart EX5 shows that the estimated Tasmanian *Utilities* WPI grew faster than the National WPI in FY21 and FY22. Over the short-to-medium-term the Tasmanian *Utilities* WPI is expected to grow slower than the National WPI. A significant portion of *Utilities* industry employees have fixed pay negotiation periods under an EBA, which keeps wage growth subdued. The *Utilities* WPI growth is expected to peak at 4.2% in FY24, almost 1 ppt below the national average in the same year (5.1%).

Chart EX4: NSW Utilities WPI forecast, (average annual FY change)



Source: ABS, KPMG

Chart EX5: Tasmania Utilities WPI forecast, (average annual FY change)



Source: ABS, KPMG

Executive Summary

Northern Territory

State final demand in Northern Territory fell by 0.4% between Q4 2022 and Q1 2023, primarily due to decreased housing consumption (-0.7%) and private investment (-4.8%). Households reduced spending on vehicle operations (-2.8%), food (-1.1%), and discretionary items such as recreation and culture (-2.8%). Darwin's annual headline inflation of 5.3% was the second softest across capital cities after Perth in Q2 2023, albeit remaining at a high level relative to historical standards. Annual housing inflation of 4.1% was notably lower than the national average of 8.1%. Chart EX6 shows that the estimated Northern Territory *Utilities* WPI grew faster than the National *Utilities* WPI in FY21 and FY22, and this trend is expected to change in FY23 as wages in the Northern Territory *Utilities* industry revert back towards the national average.

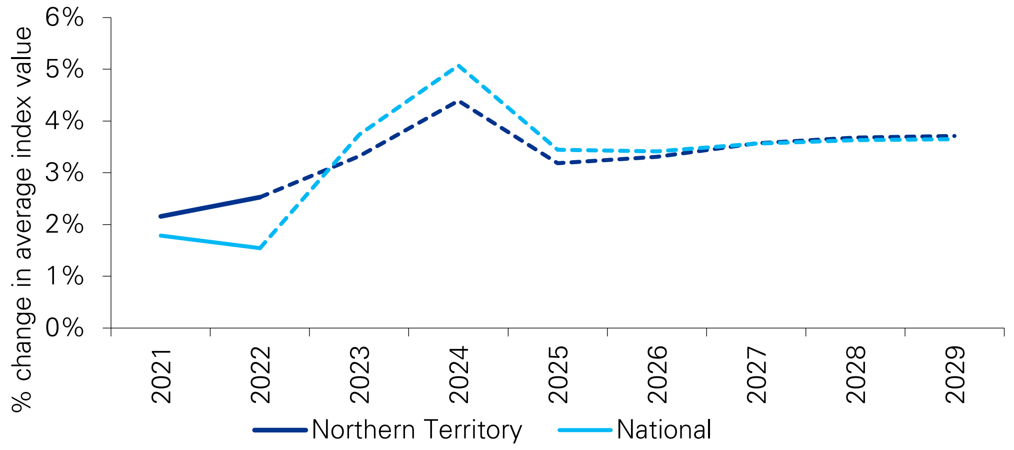
Australian Capital Territory

State final demand for the ACT grew by 0.5% between Q4 2022 and Q1 2023, slightly below the national average of 0.6%. This growth was driven by increased household and general government consumption, as well as public investment. The ACT's seasonally-adjusted unemployment rate saw the largest increase across all states and territories, rising by 0.8 ppt from 3.1% in May to 3.9% in June. The increase in the unemployment rate suggests that labour market tightness in the ACT is easing. Chart EX7 shows that the estimated ACT *Utilities* WPI grew faster than the national average in FY21 and FY22, which is similar to the outcome for the Northern Territory. Growth in the *Utilities* WPI is expected to peak in FY24 at 4.6%, about 50 basis points below the national average of 5.1%.

Key themes

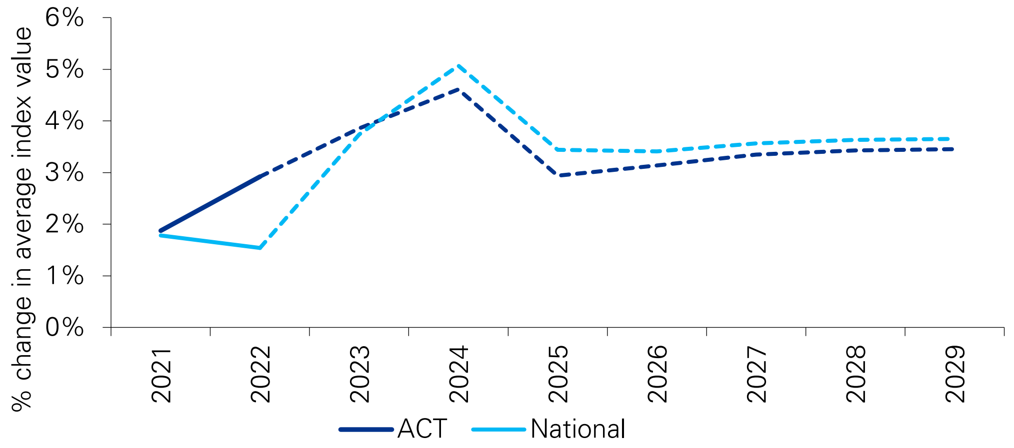
Wage growth across the nation is the fastest it has been for over a decade. The *Utilities* industry has been particularly impacted by skills shortages. EBAs in the sector approved in the last 6-months have AAWIs above 3.5%, the highest sustained AAWI in the last 7-years. Wage growth is expected to remain strong over the next 12-months as workers push to restore their real wages in the context of tight labour market conditions. KPMG's longer term projections have real wages growing strongly relative to recent history. Underpinning this projection is a strong pipeline of energy sector investments and a broad based recovery in productivity.

Chart EX6: Northern Territory Utilities WPI forecast, (average annual FY change)



Source: ABS, KPMG

Chart EX7: ACT Utilities WPI forecast, (average annual FY change)



Source: ABS, KPMG

National Outlook

Overview

Since the release of the March 2023 report, KPMG has revised down its short-term forecasts for Australia. Our outlook reflects economic stagnation, with a mix of flat and marginally negative growth and rising unemployment, largely driven by expected slowdowns in housing and business investment towards the end of 2023 and into 2024. This outlook is summarised by in our GDP projection presented in Chart 1.

High inflation and the consequent increase in interest rates have taken a toll on consumer spending. Quarterly real consumption growth slowed to 0.2% in March 2023, the weakest quarterly growth since the Q3 2021 lockdown period. Since the previous report, the household savings ratio has returned to its pre-pandemic levels and inflation and interest rates have remain elevated, which weigh on the outlook for household consumption for the remainder of 2023.

Real investment increased 2.2% q/q in March 2023, driven by private businesses (3.5%) and the government (3%). Purchases of machinery and equipment saw a 6% increase q/q after recent declines and non-dwelling construction investment saw an increase of 2.4% q/q as materials supply continue to improve. Infrastructure Partnerships Australia project that spending on major infrastructure projects will rise through 2023 with a peak in quarterly expenditure occurring in Q4 2023 at $20 billion and remaining elevated until the end of 2025. However, the progress and delivery of projects is expected to be affected by labour and material shortages. These factors are likely to hinder the growth of public investment in 2023.

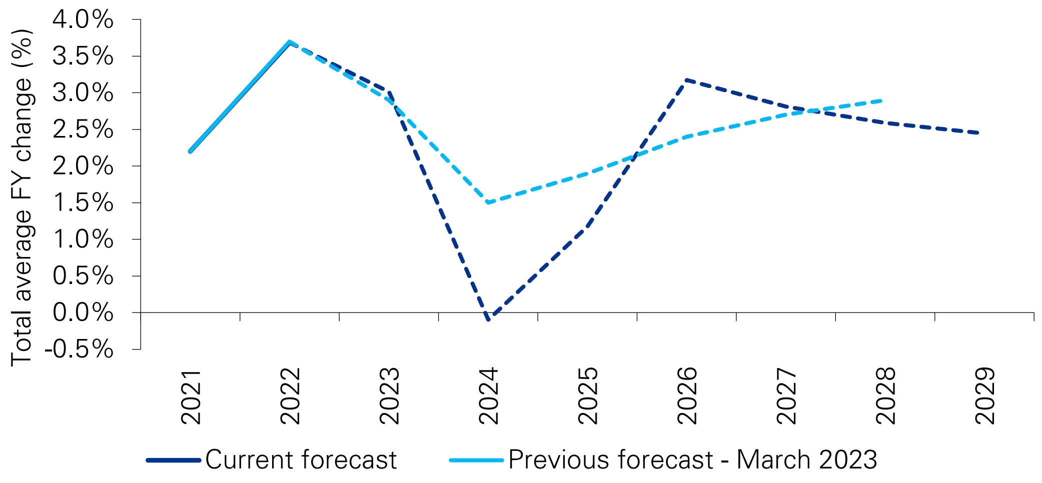
NAB surveys show business confidence fell to pessimistic levels in May 2023 with a sharp decline in forward orders (i.e. purchases of inventory not in stock). If forward orders continue to remain at low levels, then business conditions could deteriorate materially, weighing on economic growth.

The May 2023–24 Federal Budget announced a small surplus of $4 billion, marking a first budget surplus in 15 years. The sustained high prices in commodities have played a significant role in boosting company income tax. Prices of commodities such as iron ore, metallurgical coal, and thermal coal have all surpassed the forecasts assumed in the budget.

Going forward, the Treasury expects the budget will return to deficit in FY24, largely driven by the structural deficit from an aging population and expected easing of commodity prices. In the near-term, revenue will be supported by strong labour and wage growth. However, there is more uncertainty around revenues from corporate tax, given the expected decline in commodity prices. Over the medium-term, there is increasing uncertainty about personal income tax collections as the unemployment rate rises from its current level.

As shown in Chart 1, KPMG expects a modest rebound in GDP growth in FY25, as household consumption and business investment recover. From FY27 onwards, we expect GDP growth will return to its long-run trend of around 2.5% per year. An important assumption underpinning our longer-term forecasts is that productivity growth will increase to around 0.8% per annum, underpinned by government policies designed to unlock productivity gains.

Chart 1: GDP forecast for Australia



Source: ABS, KPMG

Overview

Inflation dynamics are being driven by a divergence between goods inflation and services inflation. Goods inflation has steadily declined, as supply chain disruptions that emerged during the pandemic have now largely been resolved and global shipping costs have normalised. *Automotive fuel* declined 3.6% y/y, the first annual fall since the March 2021 quarter. *Utilities* CPI y/y growth was 13.8% in June 2023, slightly lower than the 14.9% recorded in March, which was the largest annual price increase since 2013. Key drivers of this increase included:

- Annual wholesale gas price growth of 26%, the largest annual increase on record being passed onto consumers. This is partially explained by high global demand and Australia exporting a majority of its natural gas production.
- Retail electricity prices increasing 13.4% over the year to June 2023, reflecting:
    - Queensland, Western Australian and Tasmanian governments unwinding their rebate programs; and.
    - the delayed pass-through of higher wholesale electricity prices that peaked in 2022 Q2.

The AER's Default Market Offer (DMO) decision, which came into effect in July 2023, is anticipated to put upward pressure on retail prices, with DMO prices generally increasing 15% to 29%. Offsetting this to some degree will be the Energy Bill Relief Fund introduced by the government to subsidise energy bills for households and small businesses. Overall, we expect retail energy prices to continue increasing over the second half of 2023 but at a slower rate as lower wholesale prices gradually flow through to retail prices.

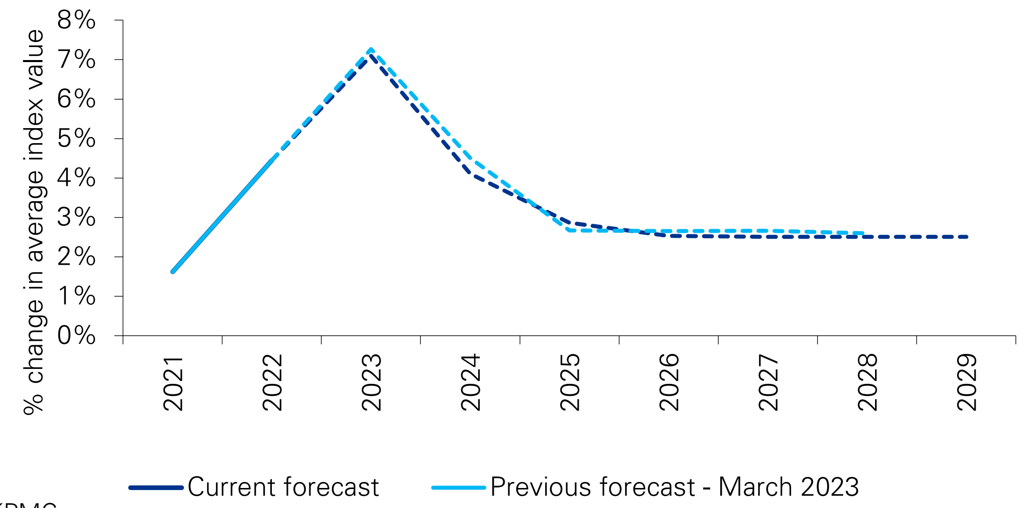
Services inflation recorded its largest annual rise since 2001, driven by higher prices for holiday travel, medical services, rents and restaurant meals. High wage growth is a key contributor to these price increases, with insurance and financial services recording the highest y/y price growth since September 2008.

The RBA, in line with other central banks experiencing high inflation, have been increasing policy rates. The RBA remains hawkish, driven by several factors including:

- the labour market continuing its expansion, adding an additional 254,000 additional workers from the end of 2022 to June 2023, with the unemployment rate remaining at a historic low of 3.5%; and.
- concerns that with stagnant productivity growth, continued rapid wage growth will drive up unit labour costs and kick off a wage price spiral.

KPMG expects headline inflation to continue to decline through the remainder of 2023 as global upstream cost pressures ease and contractionary monetary policy takes the heat out of the economy, putting downward pressure on inflation (Chart 2). While the headline CPI in June came in under the RBA's forecast, core inflation has been higher than expected and displayed a considerable degree of persistence. We have inflation trending back inside the RBA's target range over the course of 2025. The risk to this outlook is that inflation will remain elevated for longer if contracts and agreements with indexation mechanisms reflect recent inflation outcomes. This would bake in inflation above the target range for longer, requiring the RBA to raise interest rates further.

Chart 2: CPI forecast for Australia



Source: KPMG

Labour Market

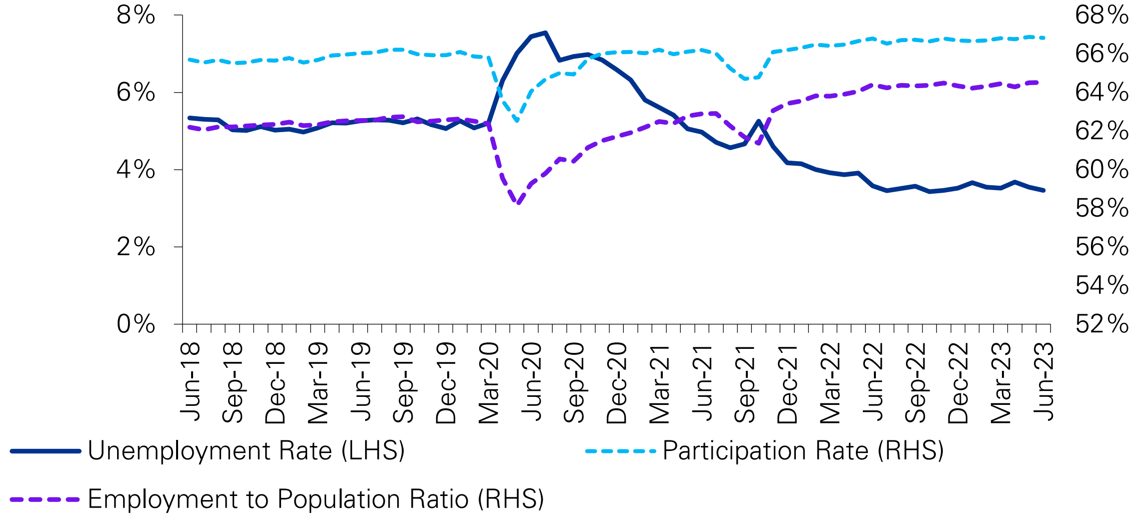
The labour market remained tight in May and June 2023, with the unemployment rate holding at 3.5%. The balance between labour demand and supply has improved following the strongest overseas migration in six years in 2022. However, the labour market remains robust, as monthly employment increased by approximately 35,000 on average over the past three months. Chart 3 shows the strong employment figures were accompanied by 65% of the total population, employed. However, labour supply slightly edged lower with the participation dropping by 0.1% to 66.8%.

The labour market is expected to gradually weaken over the course of the year as:

- Leading labour market indicators, such as the SEEK Employment Report's Job Ads Index declining 22% y/y terms as of June 2023, suggesting a labour demand pressure is easing;
- job vacancy data released by the ABS show a continued decline in job vacancies from the peak in May 2022, with seasonally-adjusted vacancies down 10% to May 2023. In the current environment of historically low unemployment, this indicates firms are finding it easier to source labour to fill positions and;
- the elevated immigration rate will continue to help address some of the tightness in the labour market.

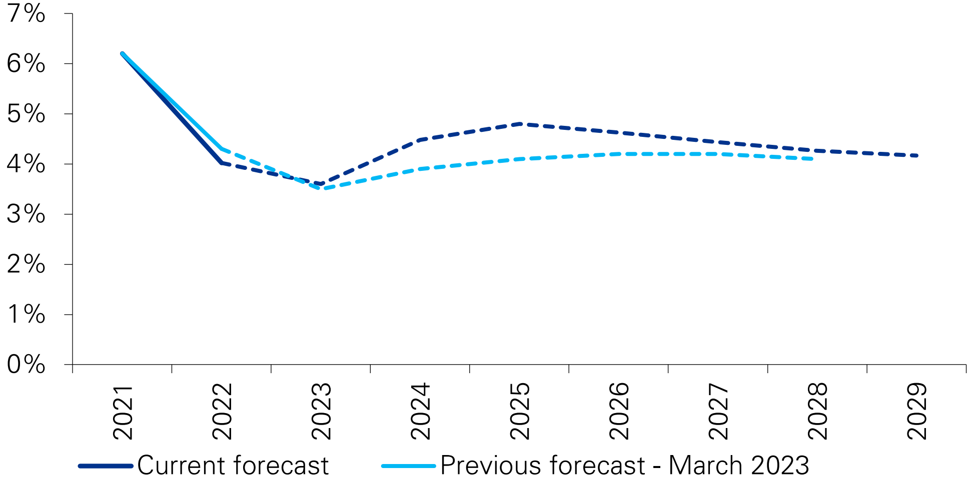
Chart 4 shows our expectations for the national unemployment rate. We expect the unemployment rate to rise gradually over 2023 and 2024 as slowing housing investment business investment weigh on productivity growth. The unemployment rate is expected to peak around the middle of 2025 at 5%.

Chart 3: Labour market conditions



Source: ABS

Chart 4: Unemployment rate forecast for Australia



Source: ABS, KPMG

National Wages

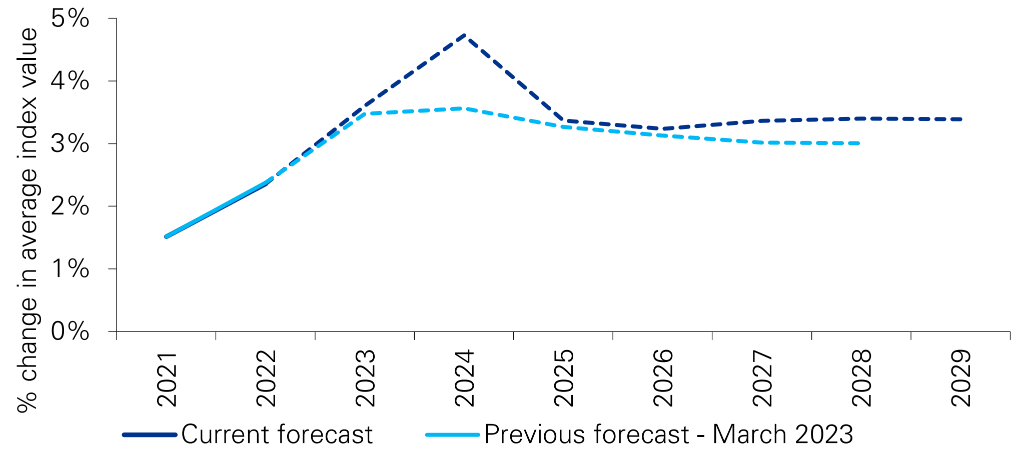
The national *All-industry* WPI y/y growth rate gained significant momentum during the latter half of 2022 and this has continued in 2023 (Chart 5), propelled by a combination of a tight labour market and elevated inflation expectations. The seasonally-adjusted WPI grew by 0.8% in the March quarter 2023 to be up 3.7% on an annual basis. The annual growth rate in March 2023 was the highest on record since September 2012, and was driven by both the private and public sectors. Over the near-term, we expect wage growth to remain above trend, supported by:

- The labour market being tighter than the historical average;
- the flow-on impacts of the 5.75% increase in the national minimum wage (effective from July 2023) and;
- new EBAs that are being signed with multi-year wage increases significantly higher than in prior agreements. The RBA has stated they are closely monitoring pay conditions and the price-setting behaviour of firms and will take action to prevent a wage price spiral.

On average the *All-Industry* WPI has outpaced inflation by 0.5 ppt annually over the decade before the pandemic. This gain in real wages is modest by historical standards, reflecting the slow growth in labour productivity over this period. Since mid-2021 real wage growth has been negative as CPI inflation has outstripped nominal wages growth (Chart 6) and labour productivity stalling in FY22.

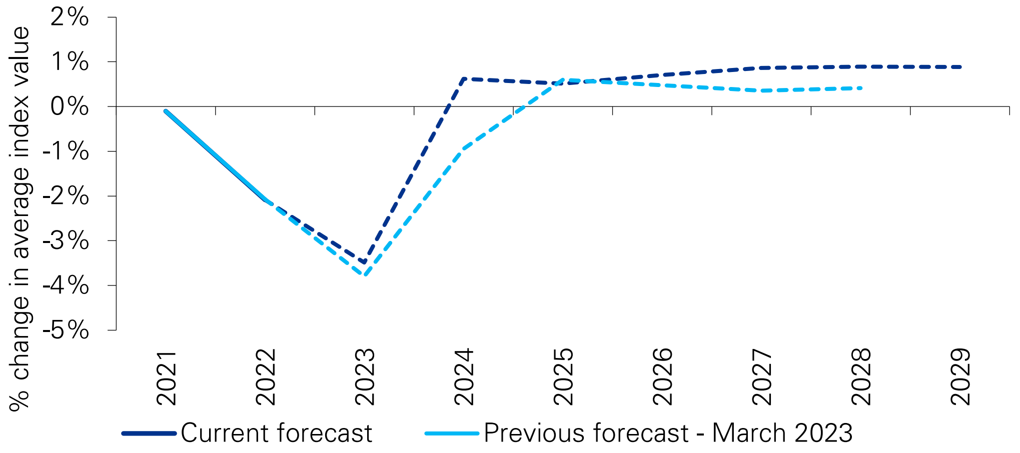
Chart 5 shows that over the forecast period we expect growth in the *All-Industry* WPI to peak in the first half of 2024 before reverting back towards long-run equilibrium growth of around 3.4%. Our longer-term assumptions for wage growth are optimistic, underpinned by a reversion back to labour productivity growth of about 0.9% per annum. Productivity growth of 0.9% per annum is high relative to recent experience. Our assumption is that state and federal governments will need to engage with policy reforms that help unlock productivity gains. Such reforms, combined with the recent boost to business investment and infrastructure spending brought forward in the context of the COVID, have the potential to accelerate productivity growth.

Chart 5: National All-Industry WPI forecast, (average annual FY change)



Source: ABS, KPMG

Chart 6: Real National All-Industry WPI forecast, (average annual FY change)



Source: ABS, KPMG

Utilities Overview

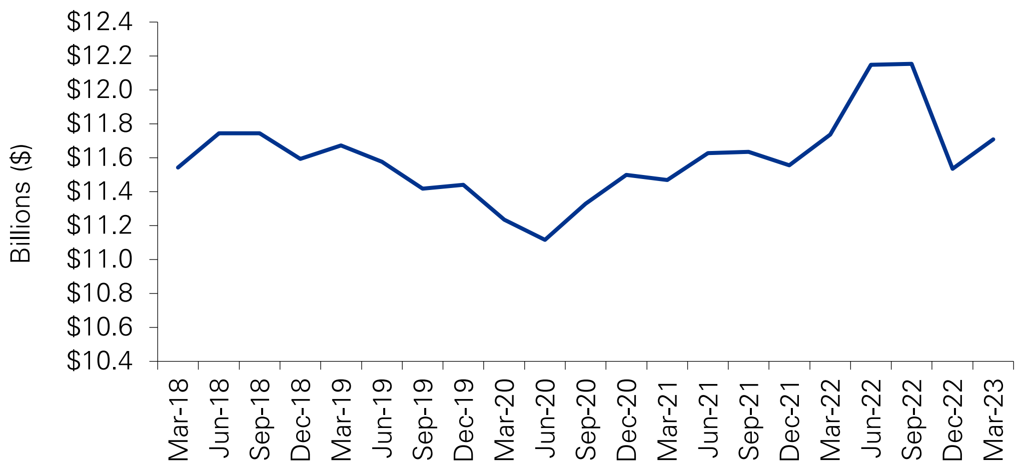
Chart 7 shows the *Utilities* sector's quarterly GVA, which rose by $173 million (1.5%) from Q4 2022 to Q1 2023, driven by a 2.5% increase in electricity supply with consumption rising in line with hotter weather conditions and a 0.8% increase in water supply and waste services, which was partly offset by a 2% decline in gas supply due to easing demand.

Utilities investment is reflected in Chart 8 which shows the national infrastructure pipeline for the energy, water and sewerage sectors is forecast to increase by 13.2% from $5.3 billion in Q1 2023 to $6 billion in Q2. This is driven by an increase in the pipeline for both energy and waste and sewerage. In the second half of 2023 the pipeline eases back to $5.1 billion and $5.3 billion in Q3 and Q4 respectively.

During Q1 2023, the Edenvale solar farm (Queensland) and the Hazelwood battery (Victoria) entered the NEM. Without any generator withdrawals, this increased the capacity of the system. However, when the remaining three units of Liddell coal station close in April as scheduled, considerable dispatchable capacity will be removed from the NEM, tightening the supply-demand balance. The majority of committed investments in dispatchable capacity for the remainder of 2023 are in batteries, which are scheduled to come online in tranches in Q2 and Q4 2024.

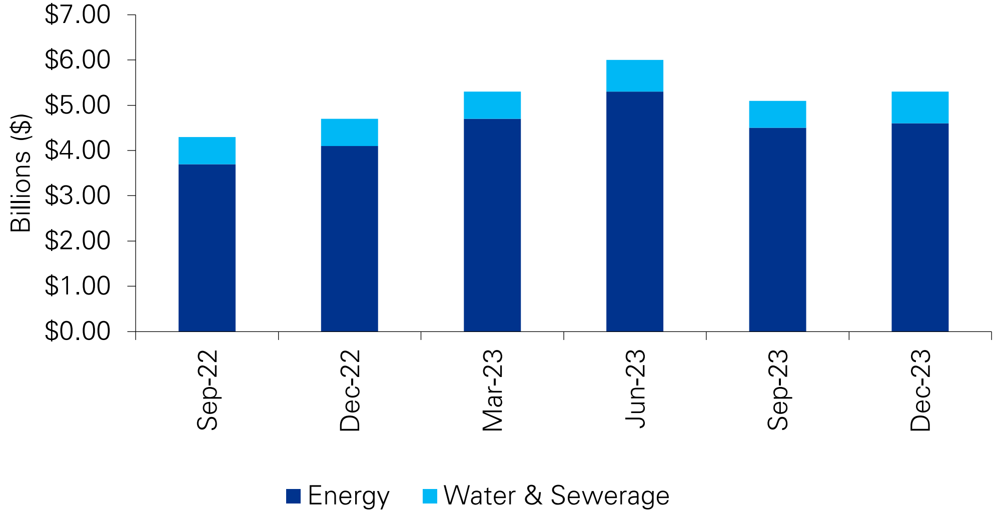
Electricity demands in Q1 2023 jumped from record lows in Q4 2022 to levels similar to Q1 2022. Despite a rise in demand, average wholesale electricity prices in Q1 2023 fell from the preceding quarter across most regions, ranging from $64/MWh (Victoria) to $114/MWh (Queensland). This was attributed to the increased supply of low-priced capacity offered to the market, in particular by black coal, gas, and solar generators. Wholesale gas market spot prices also decreased in Q1 2023 across most regions, due to a range of factors including relatively low gas generation, an easing of international price pressures, and greater gas availability as a result of outages on the QCLNG export train.

Chart 7: Utilities - Gross Value Added (GVA)



Source: ABS

Chart 8: Utilities industry infrastructure pipeline



Source: Infrastructure Partnerships Australia

Utilities Labour Market

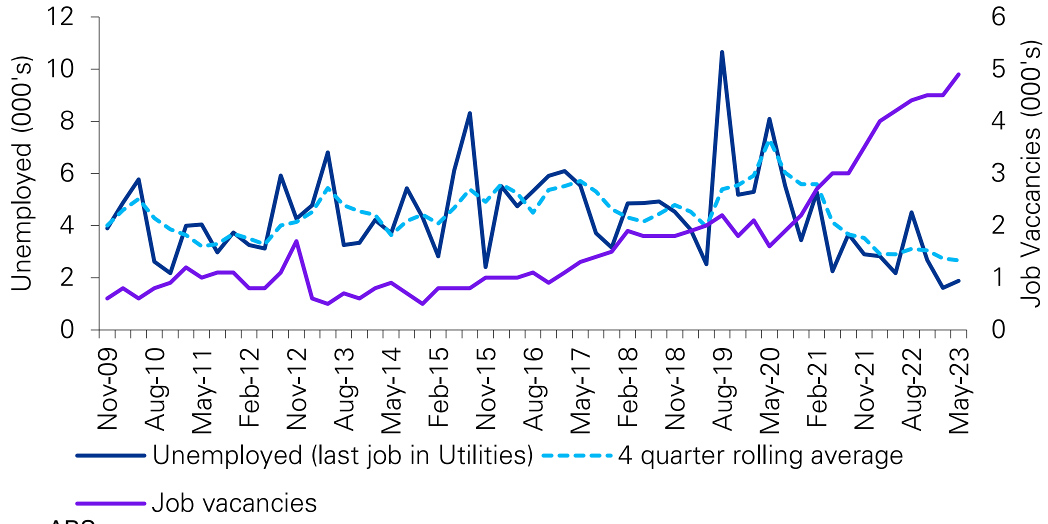
Chart 9 shows that *Utilities* job vacancies increased over the year from May 2022 by 16.7%. There has been a clear upward trend since May 2020, indicating strong growth in labour demand by the sector. The number of unemployed persons whose last job was in *Utilities* has trended down since late 2019. Chart 10 shows the number of vacancies per unemployed person in the *Utilities* sector experienced a steep climb from only 2.1 in February 2020, immediately before COVID, to 4.9 in May 2023, highlighting the increased tightness in the *Utilities* sector.

The Utilities sector is expected see an increase in labour demand as the power industry expands and decarbonises. Demand for electricity transmission and distribution workers is expected to rise, whereas greater demand for rooftop solar and batteries will disperse the electricity generation network. The coal-fired power sector is expected to experience a reduction in jobs due to scheduled shutdowns of coal-fired power stations.

The gas industry labour force is also anticipated to change with the energy transition, driven by the growth of hydrogen and biomethane, the expansion of electrification, and the shift by households to PV systems for production and consumption of energy.

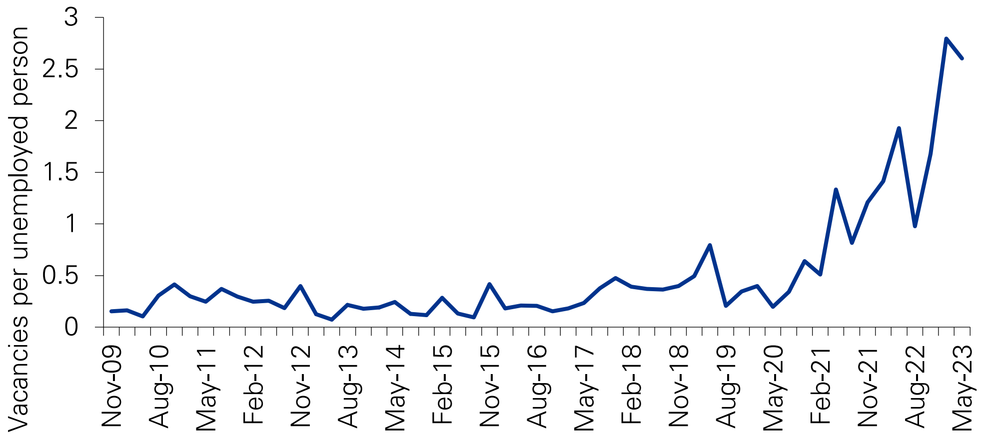
Workforce requirements in the water and waste industry are likely to be relatively stable over the next five years as the industry requires additional capability in recycling, processing, and digital water metering installations. The industry is faced with ongoing challenges of filling skilled jobs such as waste collection drivers, landfill and specialist waste facility operators and trained asbestos removalists.

Chart 9: Unemployed persons and job vacancies in Utilities



Source: ABS

Chart 10: Vacancies per unemployed person



Source: ABS

Utilities EBAs

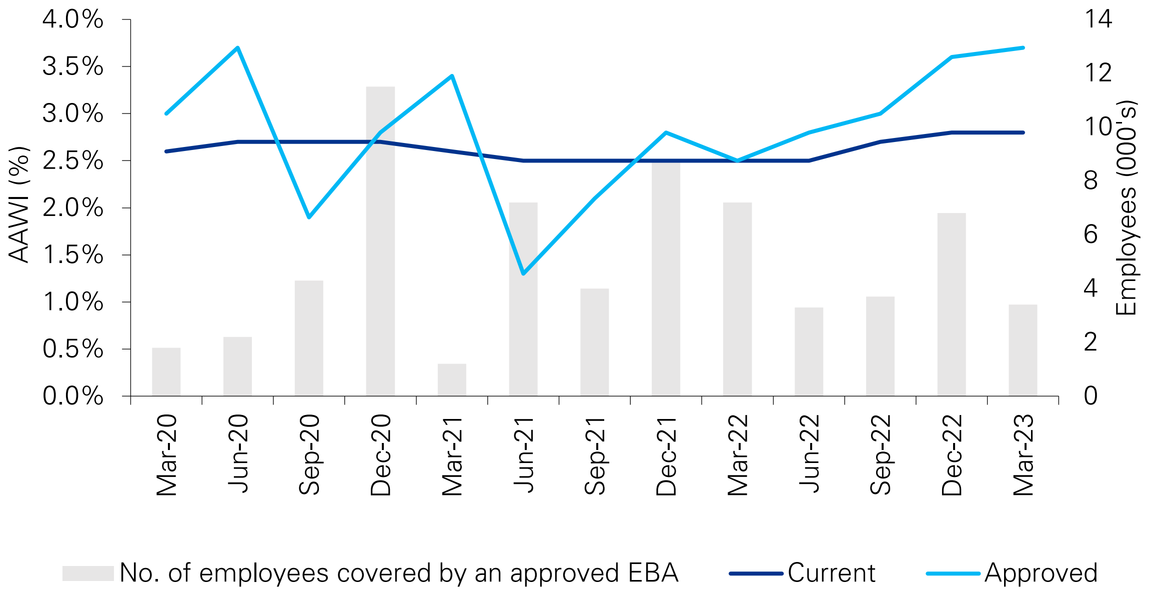
For the *Utilities* sector, there were 355 EBAs current as of March 2023, with an AAWI of 2.8%, up from 2.5% as of March 2022 shown in Chart 11. In terms of growth, average weekly total cash earnings of employees on individual agreements increased at a compounded annual growth rate of 3.9% from May 2018 to May 2021, exceeding growth of the weighted-average earnings of those on awards and collective agreements, as well as the average AAWI of current EBAs over the same period.

Since Q1 2022, the signing of new EBAs (which is an indicator of future wage growth) show there has been a widening gap in the AAWIs of newly approved and pre-existing agreements, with the new EBAs struck at higher rates of wage growth. In Q1 2022, 36 new EBAs were approved at an AAWI of 2.5% similar to 333 pre-existing EBAs. A year later in Q1 2023, 35 new EBAs were approved at an AAWI of 3.7% as opposed to 355 current EBAs at an AAWI of 2.8%.

Going forward, for the remainder of FY23, 65 EBAs will expire, with a weighted-average AAWI of 2.2%, and in FY24, 118 EBAs will expire, with a weighted-average AAWI of 2.8%. With the current high inflation environment, coupled with difficulty in filling a range of vacancies, these agreements are likely to be re-negotiated at a higher rate, which will flow through to a further rise in the AAWI.

A search of recently signed EBAs within the *Utilities* industry did find evidence of "CPI Safety Nets" being implemented which have the potential to increase wages higher over the short-medium-term.

Chart 11: Current and approved Utilities industry EBAs



Source: Department of Employment and Workplace Relations

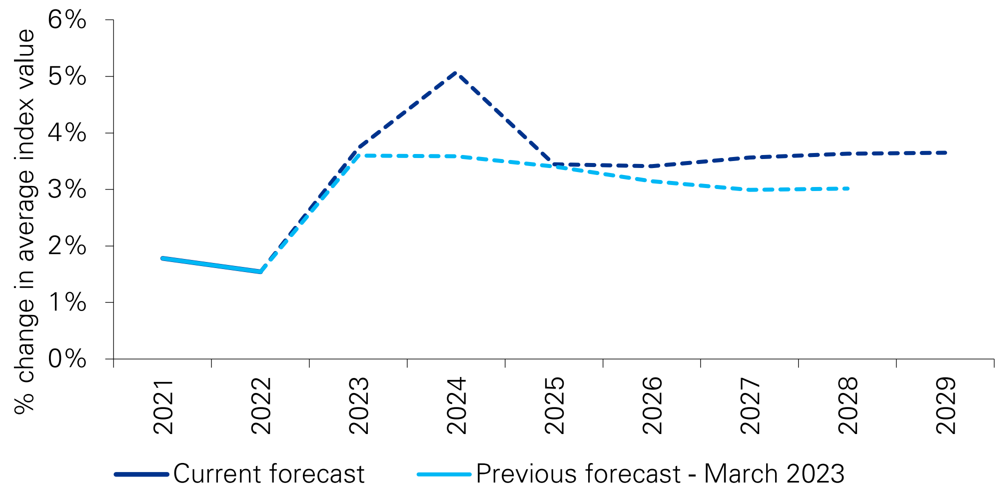
Utilities Wages

After outperforming the national average in the period prior to the COVID pandemic, wages in the *Utilities* industry have underperformed since the middle of 2021. However, due to the skills shortage affecting key sectors of the economy, *Utilities* industry wages have been on an upward trend in the post-pandemic period. This may partly reflect stretched profit margins and the impact of efforts to attract workers to the *Utilities* sector, especially foreign workers.

Wages in the *Utilities* industry are expected to rise strongly over the next year or so and outperform the national average over the medium-term. In part, this reflects the high demand for skilled labour and the price-setting behaviour of firms. Although the *Utilities* WPI has lagged the national average from Q2 2021 to Q3 2022, it has outpaced the national average since Q4 2022. The gap widened further in Q1 2023 as the *Utilities* WPI growth accelerated to 3.9% from 3.6% in Q4 2022. In contrast, the growth rate of National *Utilities* WPI inched up by a lesser amount from 3.4% in Q4 2022 to 3.6% in Q1 2023.

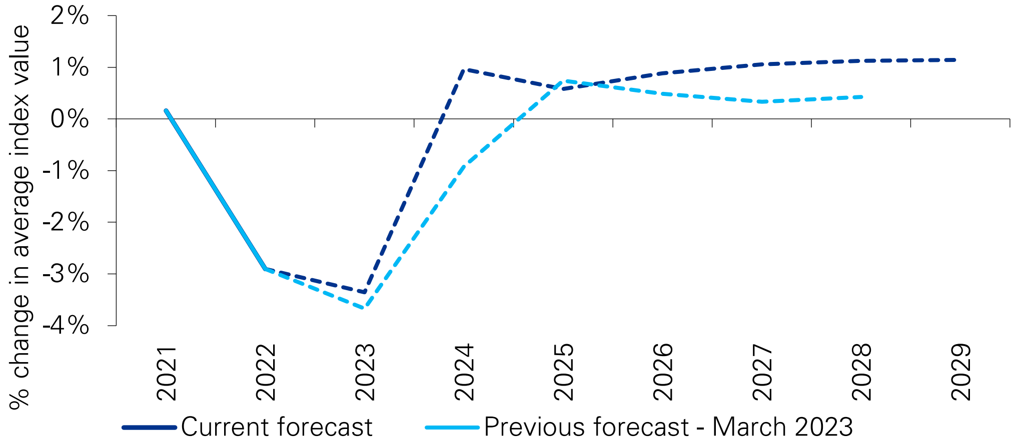
In the long-term, the pace of wage growth is expected to converge to around 3.6% pa, higher than the National *All-Industry* WPI as shown in Chart 12. This is higher than the previous long-run growth rate forecast of 3%. There are two reasons for this difference: first, our expectation is that going forward the RBA will be more inclined to cut interest rates if inflation falls below the middle of their range; and secondly, we expect policy reforms that unlock productivity gains will be implemented.

Chart 12: National Utilities WPI forecast, (average annual FY change)



Source: ABS, KPMG

Chart 13: Real National Utilities WPI forecast, (average annual FY change)



Source: ABS, KPMG

National Forecast Tables

Nominal wage forecasts, % average change from previous financial year

	2022	2023	2024	2025	2026	2027	2028	2029
National *All-Industry* WPI	2.4%	3.6%	4.7%	3.4%	3.2%	3.4%	3.4%	3.4%
National *Utilties* WPI	1.5%	3.7%	5.1%	3.4%	3.4%	3.6%	3.6%	3.7%
CPI	4.4%	7.1%	4.1%	2.9%	2.5%	2.5%	2.5%	2.5%
GDP	3.7%	3.0%	-0.1%	1.2%	3.2%	2.8%	2.6%	2.4%
Unemployment rate	4.0%	3.6%	4.5%	4.8%	4.6%	4.4%	4.3%	4.2%

All% change series defined as change in annual sum (GDP) or average (employment and CPI) over the previous year

Source: ABS, KPMG

Real wage forecasts, % average change from previous financial year

	2022	2023	2024	2025	2026	2027	2028	2029
National *All-Industry* WPI	-2.1%	-3.5%	0.6%	0.5%	0.7%	0.9%	0.9%	0.9%
National *Utilties* WPI	-2.9%	-3.4%	1.0%	0.6%	0.9%	1.1%	1.1%	1.1%

Source: ABS, KPMG

New South Wales's Outlook

New South Wales Overview

State final demand in NSW advanced 0.4% in seasonally-adjusted terms from Q4 2022 to Q1 2023, below the national average of 0.6%. Growth was supported by increases in consumption by households and the government, as well as public and private investment. The increase in household consumption was driven by increased spending on food and transport services, which was partly offset by a decline in some discretionary categories.

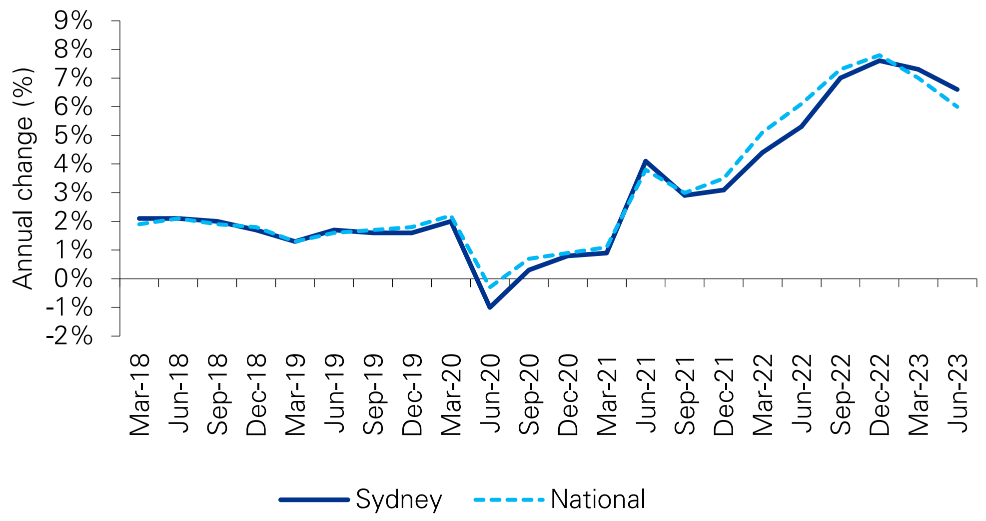
Chart 14 shows Sydney's headline inflation rate rose 6.6% through the year to Q2 2023, exceeding the national average of 6%. Among the capital cities this was the second largest annual increase behind Adelaide. Housing recorded the largest annual inflation of 9.7%, with the largest driver being rents.

NSW Treasurer Daniel Mookhey announced the 2023-24 State Budget will be handed down in September, advising the NSW Government faced $7 billion in pressures for unfunded programs. The Minns Government has abolished stamp duty on first home buyer property purchases up to $800k, will make $500 available for energy bill relief to around 1.6 million eligible households from the end of July, and will introduce a $60 weekly cap on tolls.

NSW public sector workers will get a 4% pay rise and 0.5 ppt superannuation increase in FY24 as the state attempts to resolve its essential worker recruitment and retention crisis, which is estimated to impact the NSW Budget by $618 million for FY24. NSW public sector union has accepted this increase for more than 80,000 public servants.

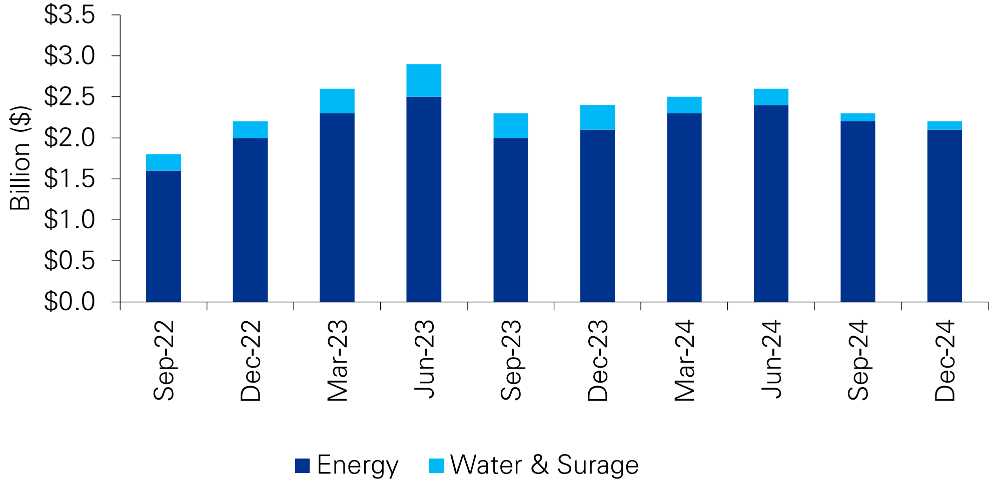
Chart 15 shows that the investment pipeline for the NSW *Utilities* is projected to taper off into FY24 from its peak in Q2 2023. However, investment still remains strong with AEMO Services, announcing the first tranche of renewable energy projects ($2.5 billion of investment), including two solar farms, a wind farm, and a long-duration battery that add 1.4 gigawatts of renewable energy generation capacity to the system.

Chart 14: Sydney's inflation rate



Source: ABS

Chart 15: Utilities infrastructure investment in NSW



Source: Infrastructure Partnerships Australia

New South Wales Labour Market

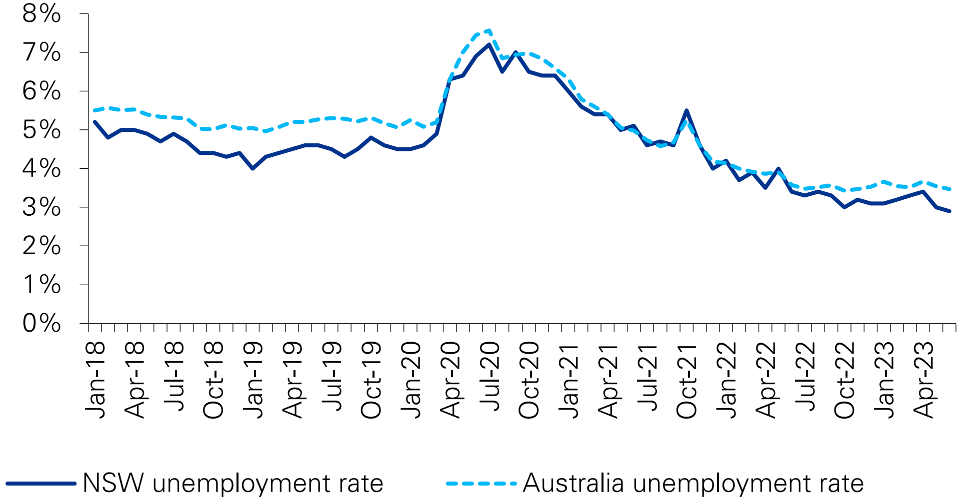
The NSW labour market has remained extremely tight despite the impacts of the interest rate increases. As of June 2023, in seasonally-adjusted terms, there were nearly 4.4 million employed persons in the state, constituting 64.2% of the working-age population. Chart 16 shows that the seasonally-adjusted unemployment rate dropped to a record low of 2.9% in June 2023, making NSW the state with the lowest unemployment rate in Australia. This result was driven by a strong uptick in employment of 0.4% over the month, while the labour force participation rate remained unchanged.

Labour demand in the state is being absorbed by increased hours worked, which grew at a faster rate (3%) than employment in Q1. The underemployment rate in Q1 was 2 ppt lower than the national average. The SEEK Employment Report's Job Ads Index, a leading indicator showing labour demand, has been trending down from its peak in mid-2022, and in June 2023 remained 12.9% above the level seen in February 2020. The strong employment growth has been supported by the surge in net migration, which has helped accommodate the strong demand for labour.

Chart 17 shows the number of recently unemployed persons from the *Utilities* industry in NSW. The March and June quarters of 2023 were the first time in history that there have been consecutive quarters recording no recently unemployed *Utilities* workers. This will put further pressure on *Utilities* wages going forward as the market for skilled workers remains tight.

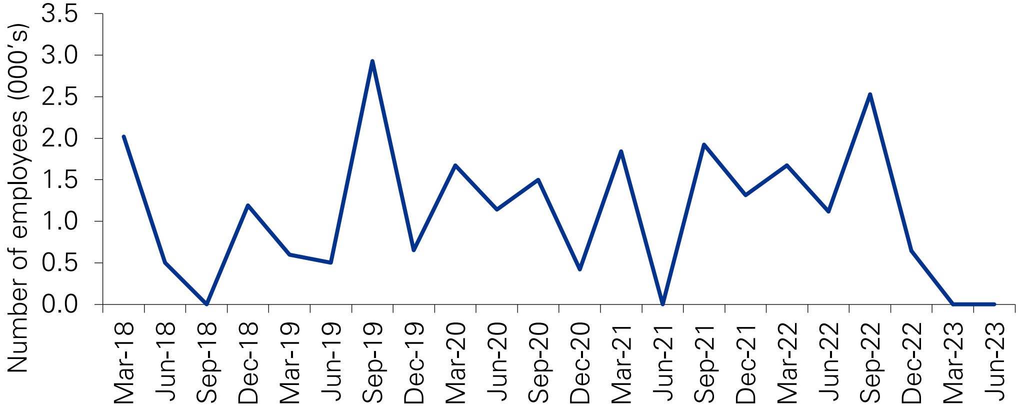
There were 178,400 employees on current EBAs during Q1 2023, down by 5.6% from Q1 2022. The number of current EBAs also inched down by 0.4% from 2,035 in Q1 2022 to 2,026 in Q1 2023. The AAWI of newly signed EBAs has exceeded that of pre-existing EBAs since Q1 2022. As of Q1 2023, 155 new EBAs were approved at an AAWI of 3.8%, compared to 3% in current EBAs.

Chart 16: NSW unemployment rate



Source: ABS

Chart 17: Number of employees recently unemployed in the Utilities industry - NSW



Source: ABS

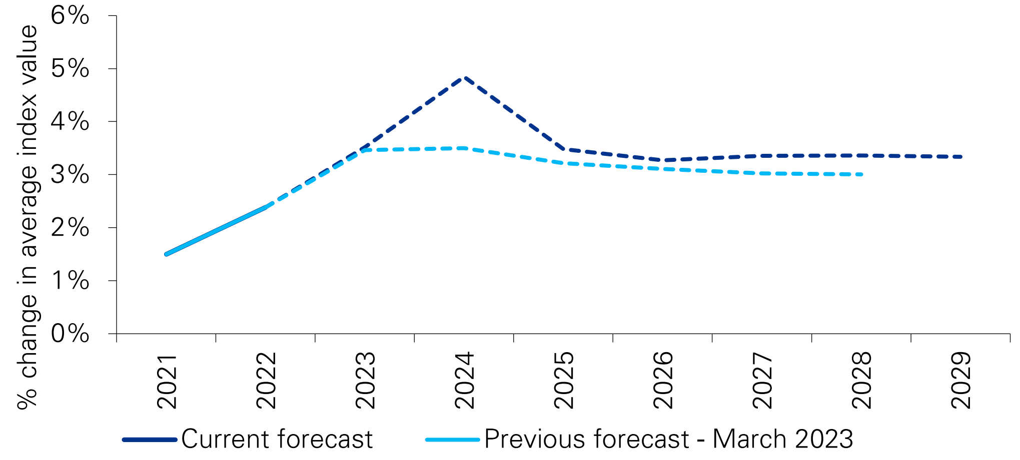
New South Wales All-industry WPI

In line with the state's absolute size, the New South Wales *All-Industry* WPI is a significant driver of the National *All-Industry* WPI, and therefore changes in each quarter are typically very similar across the two series.

Chart 18 shows that we have revised our previous forecasts upwards, with the NSW *All-Industry* WPI to expected to peak in FY24 at 4.9%, in line with the national average. The labour market has remained tighter and inflation more persistent than we previously expected, both of which result in stronger wage growth in the short-to-medium-term. Chart 19 shows that growth in the NSW real *All-Industry* WPI is not expected to be positive until FY24. This is earlier than our previous forecasts reflecting the upward revision to wage growth.

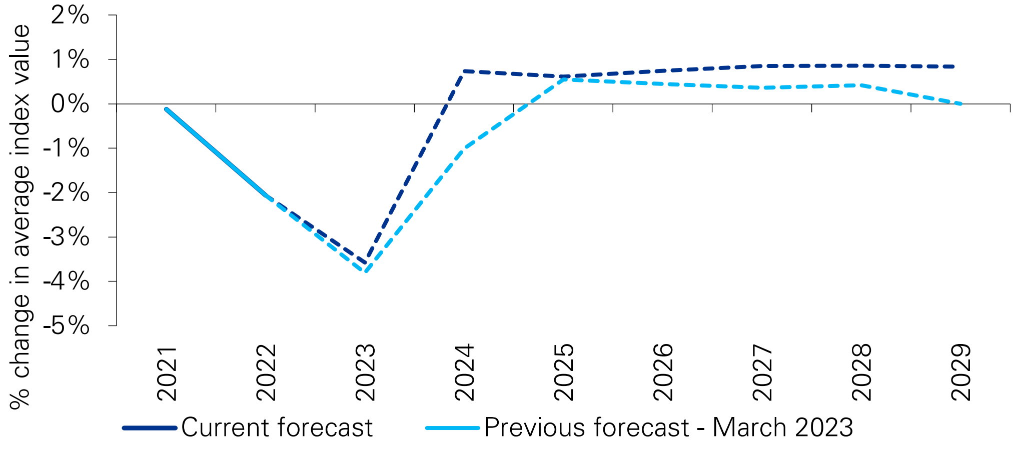
The NSW economy is subject to the same drivers and headwinds outlined for the national economy; the tight labour market is expected to ease in FY24 as the impact of high interest rates take full effect. Over the long-term, wage growth is anchored by increases to inflation and productivity.

Chart 18: NSW All-Industry WPI forecast, (average annual FY change)



Source: ABS, KPMG

Chart 19: Real NSW All-Industry WPI forecast, (average annual FY change)



Source: ABS, KPMG

New South Wales Utilities WPI

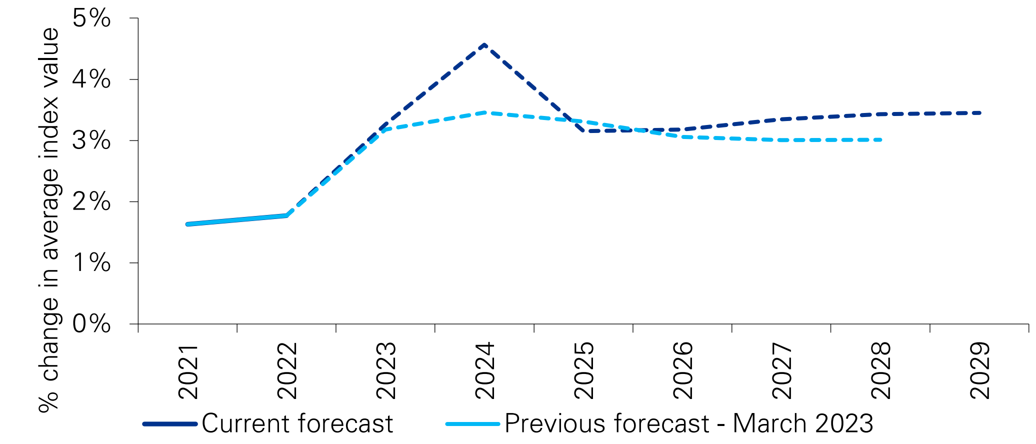
In Q1 2023, around 700 employees in the NSW *Utilities* sector entered into 12 new EBAs with an AAWI of 2.9% for an average duration of 2 years. This was a slight increase from the AAWI of 2.8% embedded in the 82 current EBAs, covering 13,100 employees, for an average duration of 2.3 years.

In NSW, the *Utilities* industry wage growth of 1.8% fell behind the *All-Industry* wage growth of 2.4% in FY22. Given that a significant portion of the *Utilities* industry employees are on an EBA with fixed periods for pay negotiation, it was not surprising that wage growth was slower than in other industries that use individual contracts and that are more responsive to market conditions. This underperformance in wage growth is expected to continue into FY24.

Similar to the NSW *All-Industry* WPI growth, the *Utilities* industry is expected to experience higher wage growth than was forecast in the previous report over the short-to-medium-term, as shown in Chart 20. Wage growth is predicted to peak in FY24 at 4.6% as residual strength in the state labour market and 'catch-up' from EBA resets maintain upward pressure.

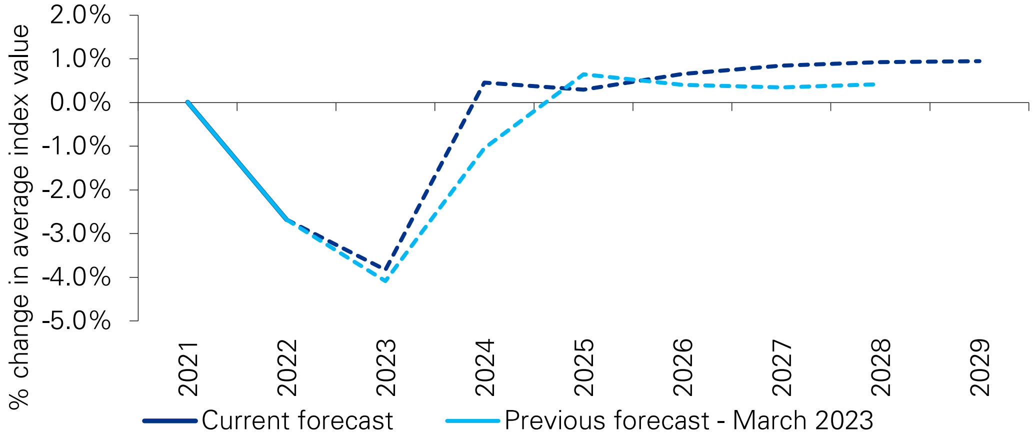
Despite growing nominal wages, with inflation expected to remain elevated, KPMG expects a decline in real wages of 3.8% as inflationary pressures continue to outpace wage growth until FY24 when we start seeing positive growth in real *Utilities* wages (Chart 21). Compared to the previous forecasts, this upward revision implies that nominal wage growth will catch up with inflation sooner.

Chart 20: NSW Utilities WPI forecast, (average annual FY change)



Source: ABS, KPMG

Chart 21: Real NSW Utilities WPI forecast, (average annual FY change)



Source: ABS, KPMG

Tasmania’s Outlook

Tasmania Overview

State Final Demand in Tasmania declined marginally by 0.2% in seasonally-adjusted terms from Q4 2022 to Q1 2023 due to a reduction in private (-4%) and public (-2.5%) investment. Household expenditure rose by 0.5%, driven by spending on operation of vehicles, food, and transport services, offsetting the decreases in clothing and footwear and purchase of vehicles.

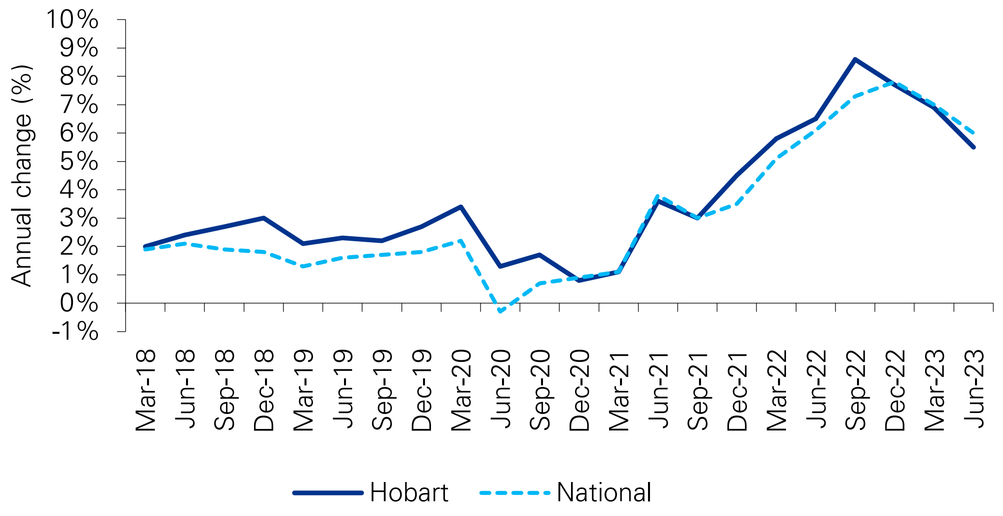
Chart 22 shows Hobart's headline inflation rate rose 5.5% through the year to Q2 2023, below the national average of 6% and with prices increasing through the year across expenditure groups. Electricity prices rose 13% through the year in Q1 2023 after a rise of only 3.8% in the previous quarter. In addition, Aurora Energy was approved to charge residential and small businesses customers an extra 9.51% on average from July 2023. Therefore, we expect electricity price inflation to continue rising over the coming months.

The 2023-24 State Budget was handed down in May, with a $298 million deficit instead of an expected $19 million surplus predicted for FY24 in the 2022-23 Budget. To support Tasmanians with cost of living pressures, the government announced that it will provide $347 million in FY24 to support concessions in a range of essential services, including water, electricity, and local council rates..

As outlined in the 2023-24 Budget, the state government is planning to invest $3.75 million over two years in their Renewable Energy Plan to progress the development of new renewable energy projects, the implementation of Renewable Energy Zones in the state, and the continued development of Project Marinus and the Battery of the Nation projects. The Tasmanian Government will also continue to deliver on their Tasmanian Renewable Hydrogen Action Plan with $900k over three years to progress the development of the Tasmanian Green Hydrogen Hub at Bell Bay.

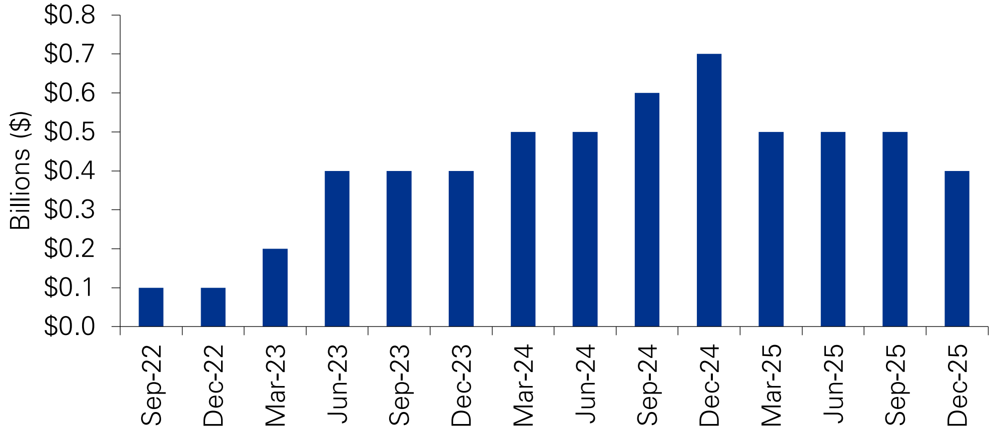
Chart 23 shows planned energy investment in Tasmania is set to increase significantly towards the end of 2024.

Chart 22: Hobart's inflation rate



Source: ABS

Chart 23: Planned Energy Investment in Tasmania



Source: Infrastructure Partnerships Australia

Tasmania All-industry WPI

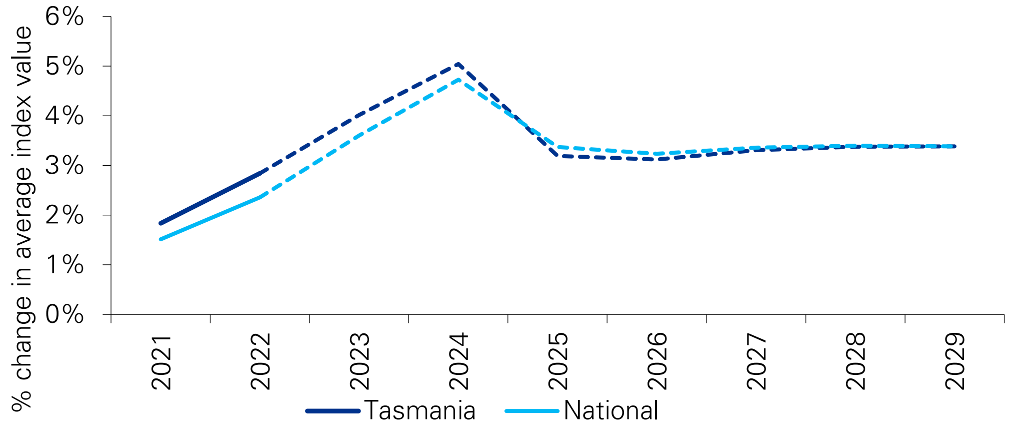
As of June 2023 there were 290,400 employed persons in Tasmania, representing 60.2% of the working-age population. The state's seasonally-adjusted unemployment rate has remained steady within the 3.5% - 4.2% range over the past six months. The unemployment rate in June 2023 was on par with the national average at 3.5%, down by 0.7 ppt from May. The underemployment rate has also been lower than historical standards.

The SEEK Employment Report's Job Ads Index has reversed its downward trend since late 2022, while the number of applications per ad has remained quite low relative to the trend seen in 2019. This coincides with the Tasmanian working-age population growing at a slower pace than in the pre-COVID period and relative to the national average. Tasmania's labour force participation rate has not been as strong as other states and territories. Taken together, this indicates a degree of softness in labour supply. The relaxation in permanent residency rules in other regions relative to Tasmania may have made it more difficult for employers to fill vacancies in the state. Nonetheless, over the near to medium-term, weaker final demand will place a downward pressure on labour demand, while softer population growth than before COVID can contribute to tightening labour supply.

There were 23,600 employees on current EBAs during Q1 2023, up marginally by 0.9% from Q1 2022. The number of current EBAs went up by 5.2% from 267 in Q1 2022 to 281 in Q1 2023. The AAWI of newly signed EBAs has exceeded that of pre-existing EBAs since Q2 2022. As of Q1 2023, 26 new EBAs were approved at an AAWI of 4% as compared to 3% in the current EBAs.

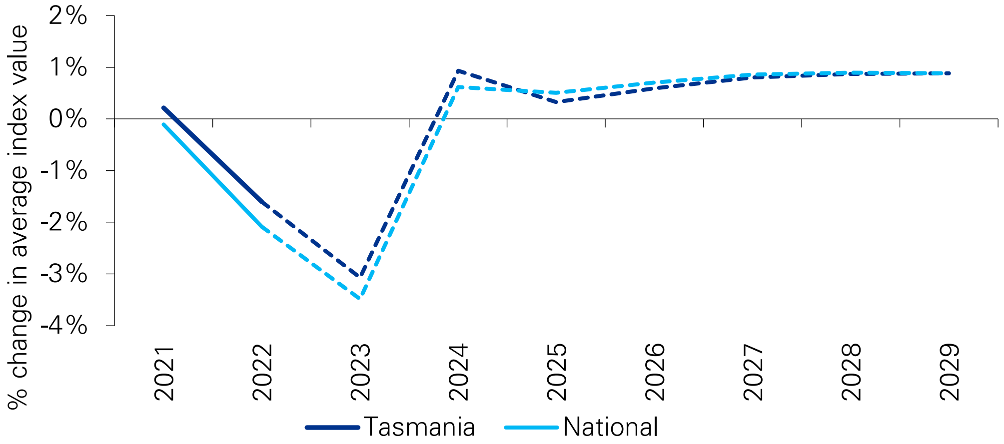
Chart 24 shows that Tasmania's wage growth of 2.8% in FY22 was stronger than the national average of 2.4%. As labour market tightness has not shown strong signs of easing, KPMG forecasts Tasmania *All-Industry* WPI growth to continue growing faster that the national average in the medium-term, peaking at 5% in FY24. Similar to NSW, Tasmania's real wage growth is anticipated to have been negative in FY23, down by 3.1%, before returning to positive territory in FY24 (Chart 25).

Chart 24: Tasmania All-Industry WPI forecast, (average annual FY change)



Source: ABS, KPMG

Chart 25: Real Tasmania All-Industry WPI forecast, (average annual FY change)



Source: ABS, KPMG

Tasmania Utilities WPI

In Q1 2023 a new EBA was approved for the Tasmanian *Utilities* industry with an AAWI of 3% for a duration of 3 years, as opposed to the AAWI of 3.5% embedded in the 10 current EBAs that have an average duration of 3.1 years, covering 2,300 employees. The AAWI of current EBAs in Tasmania in Q1 2023 was 0.7 ppt higher than the national-average AAWI of 2.8%, while the AAWI of new EBAs (3%) in Tasmania during the quarter was 0.7% lower than the national average of 3.7%.

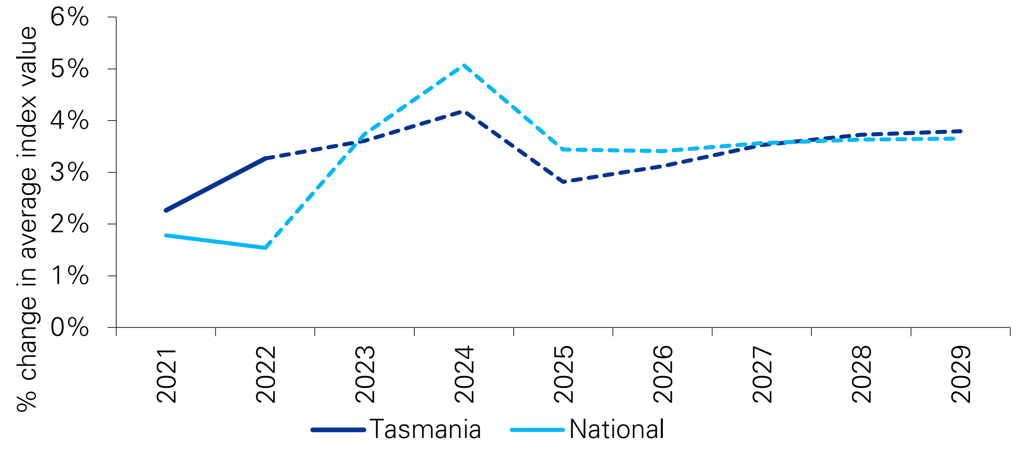
We estimate that the Tasmanian *Utilities* WPI* grew at a stronger pace than the national average in FY21 and FY22 (Chart 26). Over the medium-term, growth in the Tasmanian *Utilities* WPI is expected to fall behind the national average as the new *Utilities* EBAs in the state are reset at a lower AAWI than the national average.

The scope for wage growth in the state's *Utilities* industry is expected to be reduced given its already high base relative to the national average. A significant portion of *Utilities* industry employees have fixed pay negotiation periods under an EBA, which keeps wage growth subdued. The *Utilities* WPI growth is expected to peak at 4.2% in FY24, almost 1 ppt below the national average in the same year (5.1%).

Over the forecast period growth in nominal wages is expected to be modest relative to the national average. Chart 27 shows that the real wage growth in the *Utilities* industry is expected to be lower in Tasmania than the national average in the short-to-medium-term. In the long-term, wage growth rates are expected to converge.

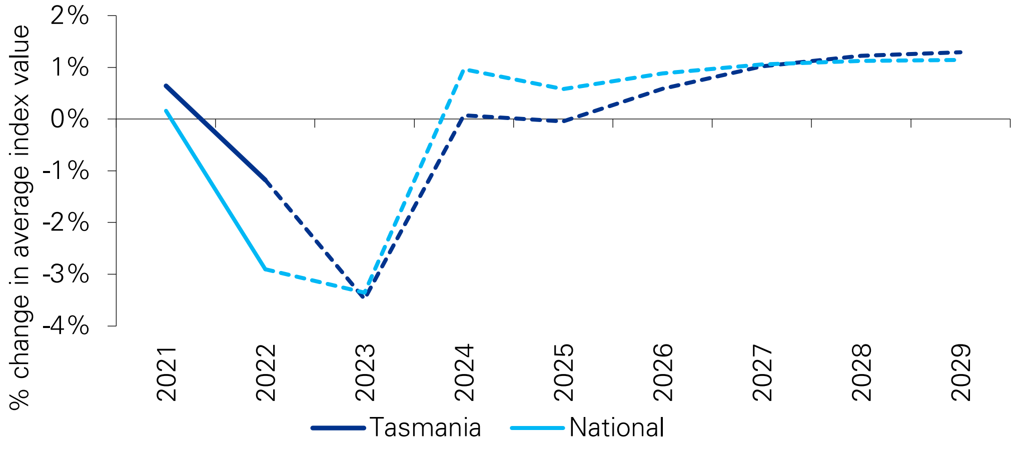
*See Appendix 1 for the *Utilities* WPI estimation

Chart 26: Tasmania Utilities WPI forecast, (average annual FY change)



Source: ABS, KPMG

Chart 27: Real Tasmania Utilities WPI forecast, (average annual FY change)



Source: ABS, KPMG

Northern Territory's Outlook

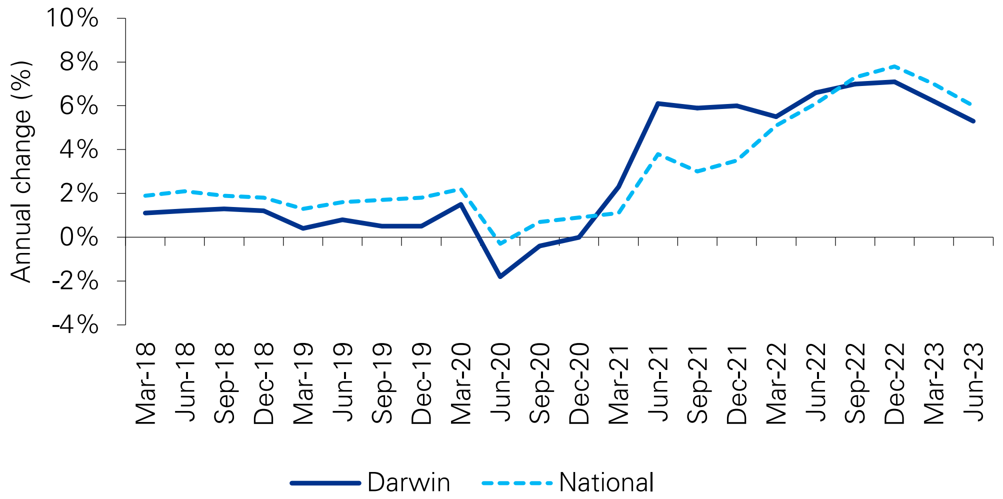
Northern Territory Overview

Final demand in the Northern Territory fell by 0.4% in seasonally-adjusted terms from Q4 2022 to Q1 2023, the largest quarterly fall across states and territories. This was driven by a reduction in housing consumption (-0.7%) and private investment (-4.8%). Households cut back spending on operations of vehicles (-2.8%), food (-1.1%), and discretionary items including recreation and culture (-2.8%), furnishings and household equipment (-2.3%) and hotels, cafes and restaurants (-0.8%).

Darwin's headline annual inflation of 5.3% was the second softest across capital cities after Perth in Q2 2023, albeit remaining at a high level relative to historical standards (Chart 28). Annual housing inflation of 4.1% was notably lower than the national average of 8.1%. Rental demand has softened and new listings have increased in 2023, putting downward pressure on rental inflation.

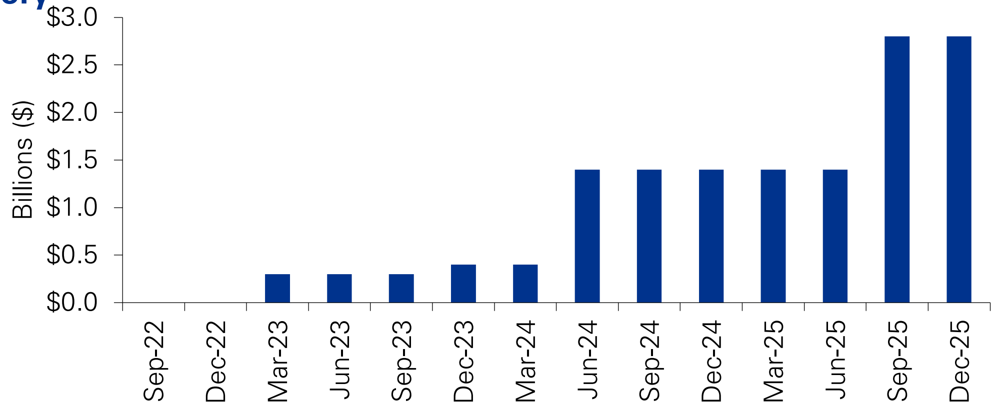
The Northern Territory Government is estimated to have spent $9.5 billion in FY23, with healthcare being the largest component. The government is expecting a $1.1 billion deficit in FY23-24 and a $574 million deficit in FY24-25. Cost of living was the key theme of the 2023-24 budget, with the existing subsidy of household electricity bills expanded by $71.7 million. Among other initiatives and capital commitments, $2 million across the budget cycle was approved in the 2023-24 budget for various projects including small-scale renewables and energy storage. Chart 29 shows a strong pipeline of energy investment coming to the region as the territory aims to achieve 50% renewables by 2030.

Chart 28: Darwins's inflation rate



Source: ABS

Chart 29: Planned Energy Investment in the Northern Territory



Source: Infrastructure Partnerships Australia

Northern Territory Labour Market

As at June 2023 there were 137,800 employed persons in the Northern Territory, representing 70.2% of the working-age population. The territory's seasonally-adjusted unemployment rate has been on the decline since early-2023. The unemployment rate in June 2023 was 3.3%, up 0.2 ppt from May. The underemployment rate has trended downwards since around mid-2022, with current levels consistent with those in 2018.

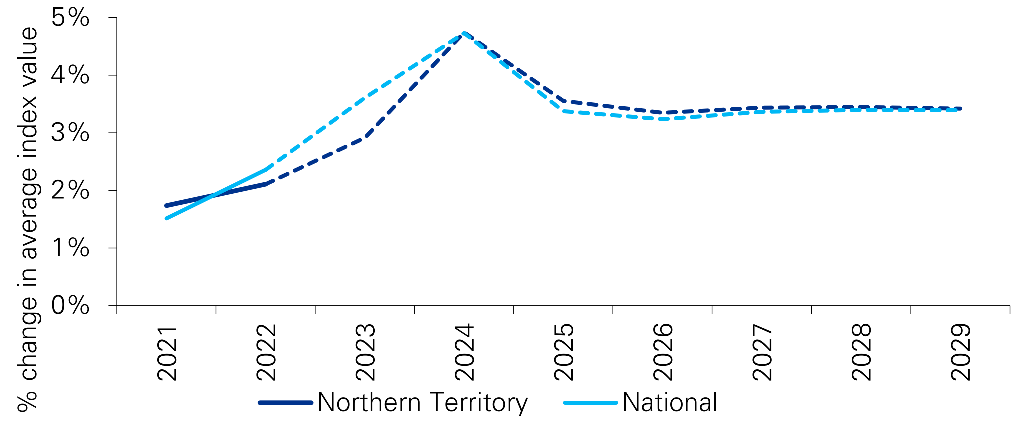
The SEEK Employment Report shows job ads in the Northern Territory have stabilised in recent months after a fall from its peak in May 2022. However, the Job Ads Index as at June 2023 remained 57.2% above the level in February 2020, the month before COVID broke out. This shows labour demand is still very strong in the region. Labour supply increased from mid-2022 to April 2023, as evidenced by the seasonally-adjusted participation rate rising from 71.6% in June 2022 to 75.9% in April 2023 and by the applications per ad index going up by 68.3% over the same period.

There were 13,400 employees on current EBAs during Q1 2023, up by 12.6% from Q1 2022. The number of current EBAs went down by 5.1% from 118 in Q1 2022 to 112 in Q1 2023. The AAWI of newly signed EBAs has exceeded that of pre-existing EBAs since Q2 2022. However, the gap has remained smaller than that of NSW and Tasmania. As at Q1 2023, 7 new EBAs were approved at an AAWI of 3.1% as opposed to 2.6% embedded in the current EBAs.

Chart 30 shows wage growth in the Northern Territory in FY22 was weaker than the national average (2.1% for the Northern Territory versus 2.4% for the nation). The Northern Territory *All-Industry* WPI is forecast to be 2.9%, below the national average in FY23, before increasing to its peak of 4.7% in FY24, when a tight labour market is expected to move the regions wage growth closer to that of the national average.

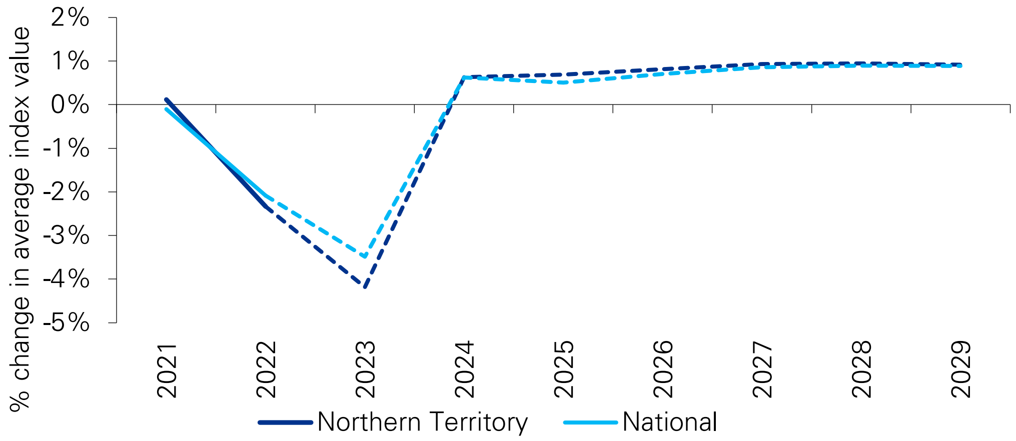
Similar to NSW and Tasmania, real wage growth in the Northern Territory is anticipated to be negative in FY23, before returning to positive in FY24 (Chart 31).

Chart 30: Northern Territory All-Industry WPI forecast, (average annual FY change)



Source: ABS, KPMG

Chart 31: Real Northern Territory All-Industry WPI forecast, (average annual FY change)



Source: ABS, KPMG

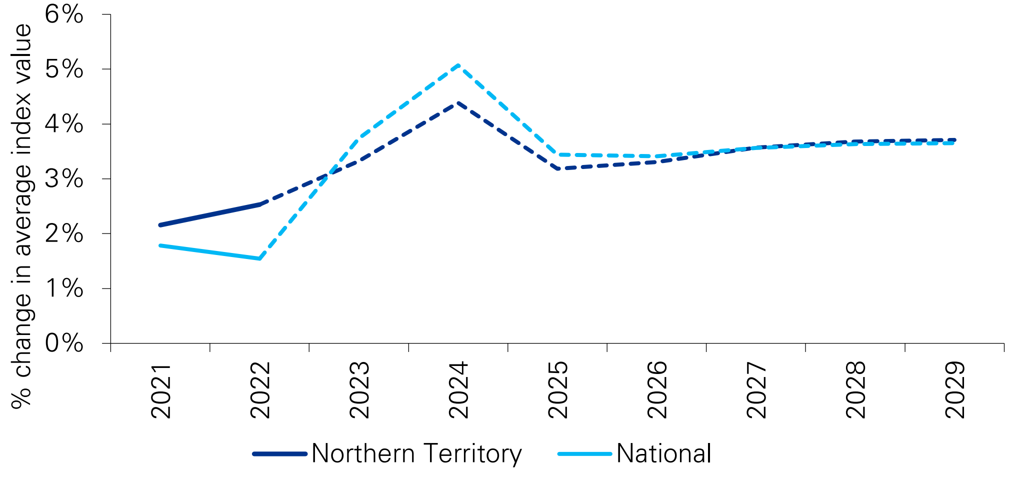
Northern Territory Utilities WPI

In Q1 2023, there were no new EBAs approved for the Northern Territory *Utilities* industry. The 4 current EBAs, covering about 100 employees and with an average duration of 2.8 years, has an AAWI of 2.9%, 0.1 ppt higher than the national average AAWI of 2.8%.

The Northern Territory *Utilities* WPI is estimated* to have grown at a stronger pace than the national average in FY21 and FY22. In the medium-term, growth in the region's *Utilities* WPI is expected to fall behind it national counterpart. This is partly due to the observed weakness in the number of new EBAs approved for the industry relative to the other states and territories (Chart 32).

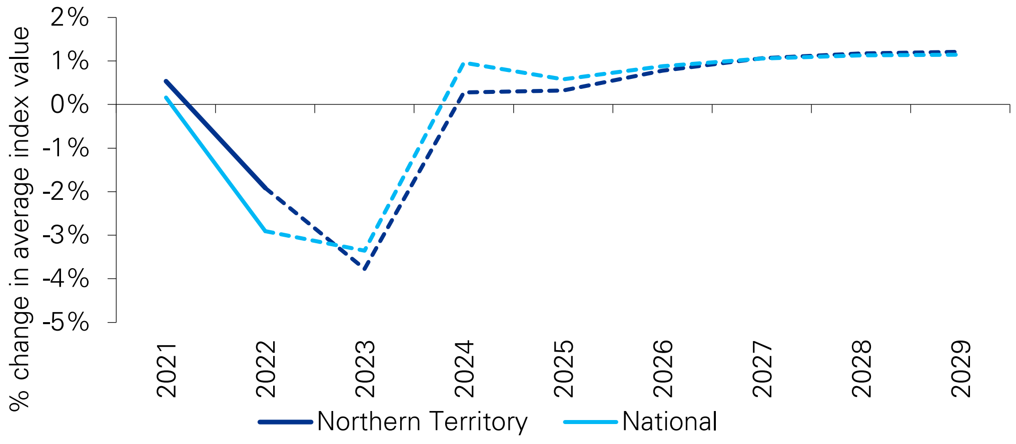
With more modest nominal wage growth than the national average over the forecast period, Chart 33 shows real wage growth in the *Utilities* industry is expected to fall in FY23 (-3.8% versus -3.4% for the nation) before returning to positive from FY24.

Chart 32: Northern Territory Utilities WPI forecast, (average annual FY change)



Source: ABS, KPMG

Chart 33: Real Northern Territory Utilities WPI forecast, (average annual FY change)



Source: ABS, KPMG

*See Appendix 1 for the *Utilities* WPI estimation

Australian Capital Territory's Outlook

ACT Overview

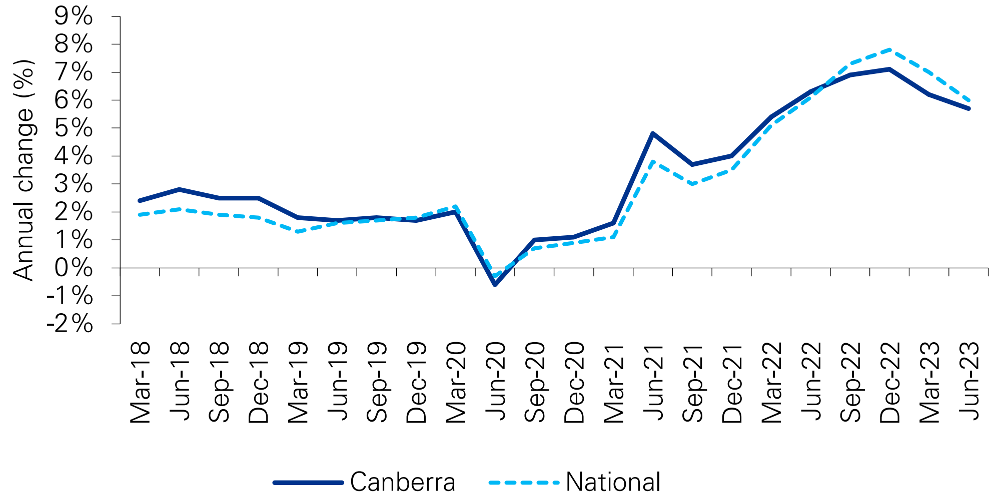
State Final Demand in the ACT increased by 0.5% in seasonally-adjusted terms from Q4 2022 to Q1 2023, slightly below the national average of 0.6%, driven by increases in household consumption and government spending as well as public investment.

Apart from spending increases in non-discretionary categories including food (1.7%) and health (2.2%), household expenditure on discretionary categories continued to hold up, including hotels, cafes and restaurants (4%) and purchases of vehicles (5.7%). The ACT has a high concentration of public servants, whose wages are set to rise in FY24 and who may have been less impacted by the economic slowdown.

Canberra’s headline annual inflation rose 5.7% over the year to Q2 2023 as shown in Chart 34. Housing inflation in Canberra was lower than the national average, but education inflation was notably higher (9.1% y/y in Canberra vs 5.2% y/y nationally), with steep increases across all levels of education in Q2 2023.

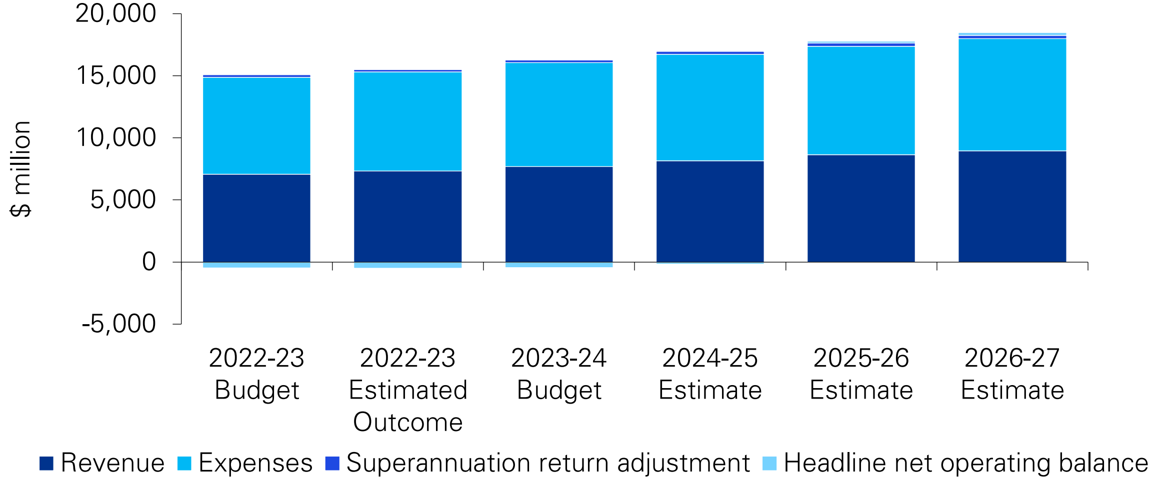
The ACT 2023-24 Budget was handed down in June 2023, with an estimated deficit of $442.7 million for FY23-24. Chart 35 shows that the ACT budget is expected to improve over the coming years with a surplus of $141.9 million projected for 2025-26. A notable item in this budget includes over $133 million new funding for climate action, encompassing $85.1 million to commence a whole-of-government gas-to-electric asset replacement program; $80 million to extend the Sustainable Household Scheme; delivering the Big Canberra Battery project at Williamsdale to improve the reliability of electricity supply and increase the uptake of renewable energy; $7 million over 2023-24 and 2024-25 to continue core activities to support emissions reductions, living infrastructure targets and energy affordability; and some other initiatives.

Chart 34: Canberra's inflation rate



Source: ABS

Chart 35: ACT general government budget outlook



Source: ACT Government

ACT Labour Market

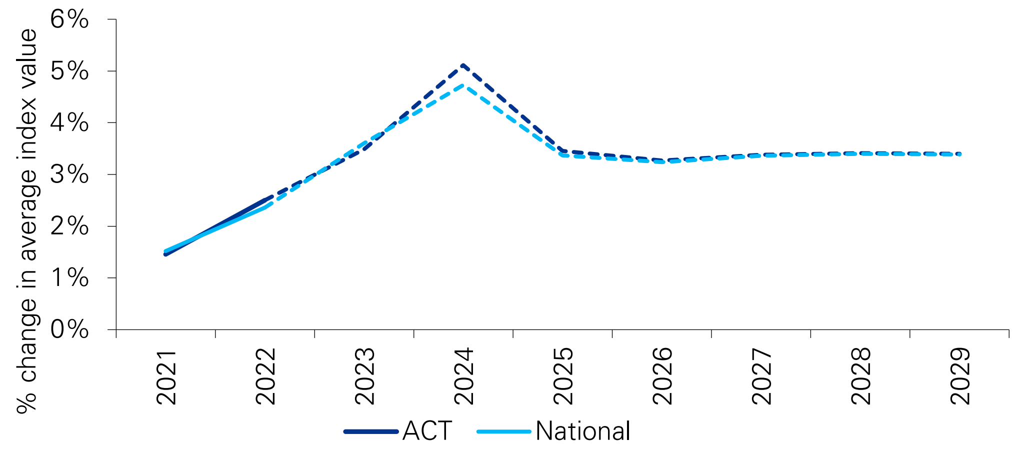
As of June 2023 there were 264,200 employed persons in the ACT, representing 70.3% of working-age population. The ACT's seasonally-adjusted unemployment rate saw the largest increase across all states and territories, up by 0.8 ppt from 3.1% in May to 3.9% in June – a level that suggests labour market pressure is easing. The underemployment rate was 5% of labour force, remaining below the pre-COVID trend of around 6%.

The SEEK Employment Report showed the Job Ads Index in the ACT peaked in May 2022 and has trended down to the pre-COVID levels. The number of applications per ad has also increased since May 2022, reversing its previous downward trend. These indicators show suggest that labour shortages are easing in the ACT.

There were 7,600 employees on current EBAs during Q1 2023, significantly down by 81.6% from Q1 2022. The number of current EBAs went down slightly by 5.7% from 122 in Q1 2022 to 115 in Q1 2023. The AAWI of newly signed EBAs has fluctuated, but in general has exceeded that of pre-existing EBAs, with the largest gap observed in Q3 2022 when the AAWI of 11 new EBAs was 4.4% as opposed to 2.8% embedded in the 125 current EBAs. As of Q1 2023, 12 new EBAs were approved at an AAWI of 3.7% as opposed to 2.9% of the current EBAs.

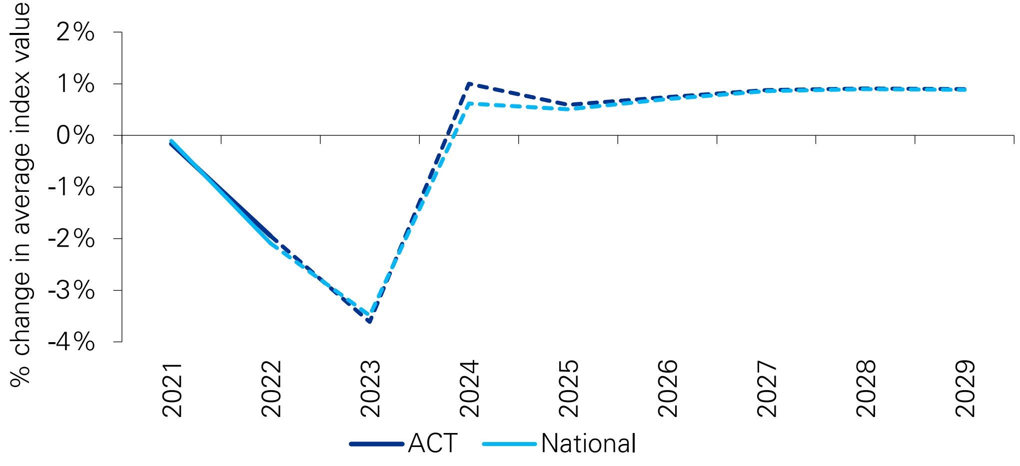
Chart 36 shows that the ACT's 2.5% wage growth in FY22 was slightly above the national average. The ACT *All-Industry* WPI is expected to grow by 3.5% in FY23 before accelerating to its peak of 5.1% in FY24 as public sector wages rise. Chart 37 shows that real wage growth in the ACT is anticipated to be negative during FY23, down by 3.5%, before returning to positive territory in FY24.

Chart 36: ACT All-Industry WPI forecast, (average annual FY change)



Source: ABS, KPMG

Chart 37: Real ACT All-Industry WPI forecast, (average annual FY change)



Source: ABS, KPMG

ACT Utilities WPI

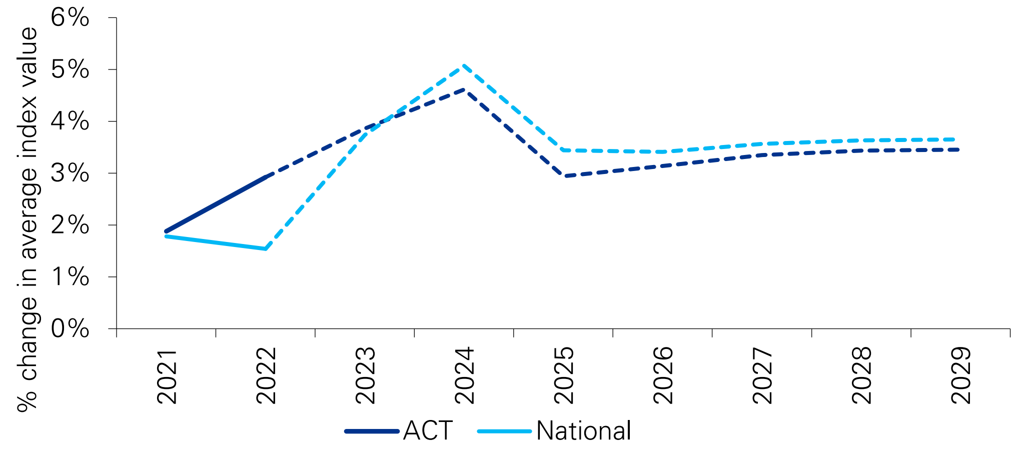
In Q1 2023, there was a single new EBA approved for the ACT *Utilities* industry with an AAWI of 3% for a duration of 2.2 years, as opposed to the AAWI of 2.2% in the 5 current EBAs with an average duration of 2.8 years, covering about 700 employees. The AAWI of current EBAs in the ACT in Q1 2023 was 0.6 ppt lower than the national-average AAWI of 2.8%.

The ACT *Utilities* WPI is estimated* to have grown at a stronger pace than the national average in FY21 and FY22, and is anticipated to grow faster in FY23 (Chart 38). Over the remainder of the forecast period, growth in the ACT *Utilities* WPI is expected to fall behind its national counterpart as *Utilities* employees in some other states and territories renew their employments agreements at higher rates relative to the ACT. Wage growth in the *Utilities* WPI is expected to peak in FY24 at 4.6%, about 50 basis points below the national average of 5.1%.

Chart 39 shows that real wages in the ACT *Utilities* industry are expected to fall by less in FY23 (-3.2% versus -3.4% for the national average) before returning positive from FY24 onwards.

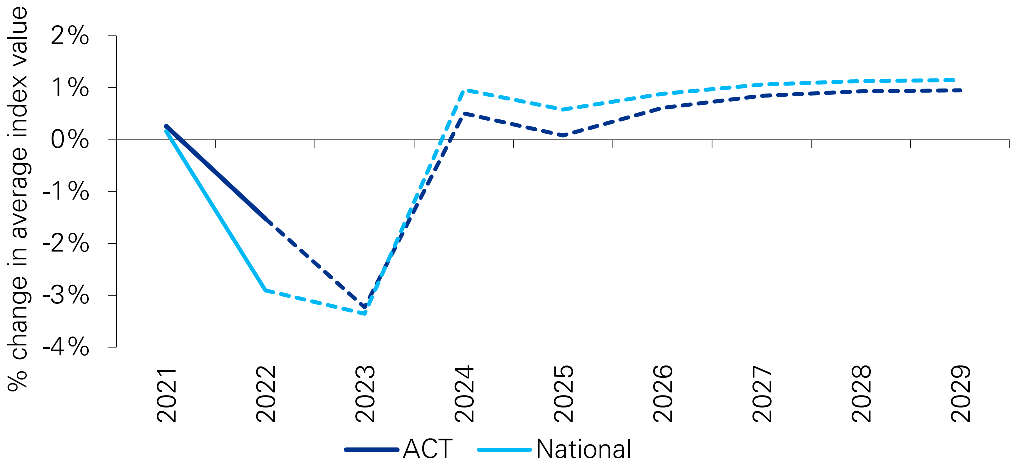
*See Appendix 1 for the *Utilities* WPI estimation

Chart 38: ACT Utilities WPI forecast, (average annual FY change)



Source: ABS, KPMG

Chart 39: Real ACT Utilities WPI forecast, (average annual FY change)



Source: ABS, KPMG

State Forecast Tables

Nominal wage forecasts, % average change from previous financial year

	2022	2023	2024	2025	2026	2027	2028	2029
NSW *All-Industry* WPI	2.4%	3.5%	4.8%	3.5%	3.3%	3.4%	3.4%	3.3%
NSW *Utilties* WPI	1.8%	3.3%	4.6%	3.2%	3.2%	3.3%	3.4%	3.5%
Tasmania *All-Industry* WPI	2.8%	4.0%	5.0%	3.2%	3.1%	3.3%	3.4%	3.4%
Tasmania *Utilties* WPI	3.3%	3.6%	4.2%	2.8%	3.1%	3.5%	3.7%	3.8%
Northern Territory *All-Industry* WPI	2.1%	2.9%	4.7%	3.5%	3.3%	3.4%	3.4%	3.4%
Northern Territory *Utilties* WPI	2.5%	3.3%	4.4%	3.2%	3.3%	3.6%	3.7%	3.7%
ACT *All-Industry* WPI	2.5%	3.5%	5.1%	3.5%	3.3%	3.4%	3.4%	3.4%
ACT *Utilties* WPI	2.9%	3.9%	4.6%	2.9%	3.1%	3.4%	3.4%	3.5%

Source: ABS, KPMG

Real wage forecasts, % average change from previous financial year

	2022	2023	2024	2025	2026	2027	2028	2029
NSW *All-Industry* WPI	-2.1%	-3.6%	0.7%	0.6%	0.7%	0.9%	0.9%	0.8%
NSW *Utilties* WPI	-2.7%	-3.8%	0.5%	0.3%	0.7%	0.8%	0.9%	0.9%
Tasmania *All-Industry* WPI	-1.6%	-3.1%	0.9%	0.3%	0.6%	0.8%	0.9%	0.9%
Tasmania *Utilties* WPI	-1.2%	-3.5%	0.1%	0.0%	0.6%	1.0%	1.2%	1.3%
Northern Territory *All-Industry* WPI	-2.3%	-4.2%	0.6%	0.7%	0.8%	0.9%	0.9%	0.9%
Northern Territory *Utilties* WPI	-1.9%	-3.8%	0.3%	0.3%	0.8%	1.1%	1.2%	1.2%
ACT *All-Industry* WPI	-1.9%	-3.6%	1.0%	0.6%	0.7%	0.9%	0.9%	0.9%
ACT *Utilties* WPI	-1.5%	-3.2%	0.5%	0.1%	0.6%	0.8%	0.9%	1.0%

Source: ABS, KPMG

Appendices

Appendix 1: WPI Assumptions

WPI definition

WPI, as currently defined by the ABS, is a measure of changes in the price of labour in the Australian labour market, similarly to calculating the CPI. The WPI follows price changes in a fixed "basket" of jobs and the ABS strips out productivity growth (as a result of changes in the mix of the workforce and roles undertaken), labour inputs and compositional changes. Furthermore, the WPI does not include mandated superannuation contributions as it is a non-wage cost, similar to the payroll tax, public holiday compensation, and other worker's compensation.

Seasonal adjustment of state WPIs

The National *All-Industry* WPI used for forecasting includes a seasonal adjustment by the ABS to account for public holidays, events or other seasonal influences which occur systematically over the course of a calendar year and influence the WPI from quarter to quarter.

Sources of WPI data

The ABS publishes the WPI nationally and for all state and territory jurisdictions at the aggregated industry level. WPI data is available for all-industries nationally. However, the WPI is not released for each industry for all states due to small sample sizes and confidentiality reasons. In the case of the *Utilities* sector, the ABS releases state indices for New South Wales, Victoria and Queensland. KPMG has therefore created the series for Tasmania, Northern Territory and ACT using the state's all-industries WPI series, EBAs in the respective states for the *Utilities* sector, the implied 'other states' *Utilities* WPI series and other labour market indicators such as employment. Therefore, there is no guarantee that the estimated *Utilities* industry WPI for the respective states matches what the ABS data would report if it were made available to the public.

In this report, estimating the three state's and territory's WPI included variables such as:

- National *All-Industry* WPI growth;
- Overall national *Utilities* wage growth;
- Other states *Utilities* and *All-Industry* wage growth;
- Industry EBAs in the states and;
- Labour Force statistics in the states.

This approach is consistent with the September 2022 estimate for the South Australia *Utilities* WPI.

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