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Labour price growth forecasts

Prepared for the Australian Energy Regulator

20 August 2024

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Access Economics

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Toby Holder
Assistant Director, Network Expenditure
Australian Energy Regulator
By email: [redacted]

20 August 2024

Dear Toby

Report on labour price growth forecasts

I enclose Deloitte Access Economics' report on labour price growth for the electricity, gas, water and waste services (utilities) industry to 2029-30 for Australia, New South Wales, Queensland and South Australia.

This report has been drafted based on the forecasts that underpin the June 2024 quarter Deloitte Access Economics *Business Outlook* publication that relies on the March 2024 quarter Australian Bureau of Statistics National Accounts (released in June 2024), the June 2024 quarter Consumer Price Index (released in July 2024), and the June 2024 quarter Wage Price Index (released in August 2024).

Yours sincerely

[redacted]

Cathryn Lee

Partner
Deloitte Access Economics Pty Ltd

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The Australian economy

Growth in the Australian economy has slowed sharply. Inflation and high interest rates have put pressure on households and many businesses, while ongoing supply constraints have weighed on dwelling investment.

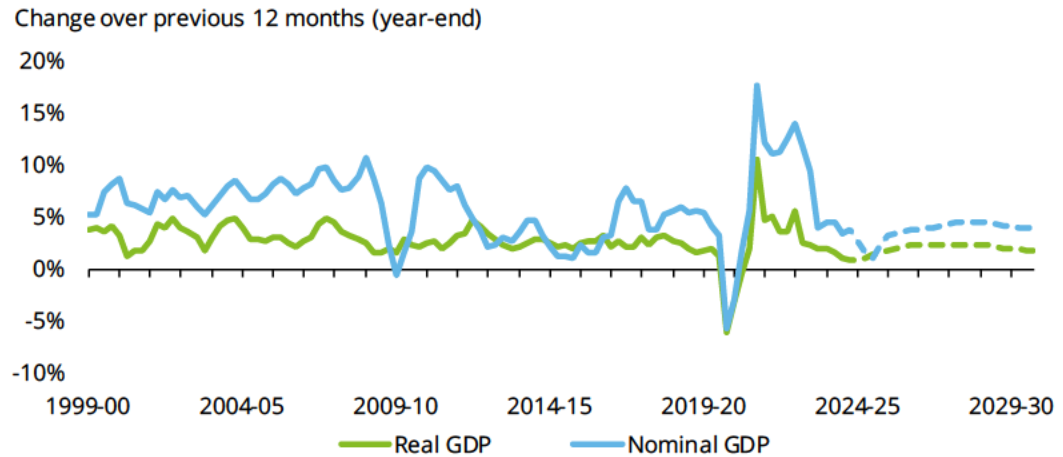
The Reserve Bank of Australia spent most of 2022 and 2023 raising interest rates to bring inflation down, while trying to do as little damage to the economy and the labour market as possible. The result is inflation that is forecast to return to the target range of 2-3% by early 2025, an unemployment rate that remains well below pre-pandemic rates, but an economy that is forecast to grow at its slowest rate, outside of the pandemic, since the early 1990s recession.

Cost-of-living pressures continue to weigh on household consumption. In per capita terms, household spending has fallen in each of the last five quarters. Revised data from the Australian Bureau of Statistics indicates households have been more willing to spend than previously estimated. If maintained, the greater propensity to spend could see income tax cuts and cost-of-living support from 1 July drive an even stronger recovery in spending in coming quarters – as would any potential interest rate cuts.

After an extended period of weakness, dwelling investment is forecast to rebound as capacity constraints in the sector fade and as supply catches up to strong underlying demand for housing.

Overall, growth in the Australian economy is forecast to slow to 1.2% in 2024-25 as consumption growth remains muted and as areas of earlier strength – such as business investment and population growth – contribute less notably. Growth in the economy is forecast to accelerate from 2025-26 to 2027-28 as consumption growth improves and as dwelling investment lifts.

Chart i: Real and nominal GDP growth



Note: Dashed lines indicate forecasts
Source: Australian Bureau of Statistics, Deloitte Access Economics.

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The Australian labour market

The Australian labour market has proved resilient over recent years but is now weakening amid macroeconomic headwinds. Labour underutilisation is rising, job vacancies are in decline, and the participation rate is off its peak. Despite this, employment growth has remained relatively robust as businesses generally respond to weaker demand by reducing hours rather than the number of employees.

Labour market conditions are anticipated to deteriorate further in 2024-25. Alongside slowing employment growth, the unemployment rate is expected to gradually increase to 4.5% by the end of 2024 and then remain at around that rate through the forecast period to 2029-30.

All industry wage growth

Nominal growth in the all industry Wage Price Index (WPI) is forecast to slow in 2024-25 amid the easing of labour market conditions – which has reduced worker bargaining power – as well as a slowdown in the pace of growth in award wages. The Fair Work Commission's Annual Wage Review awarded a lower award wage increase of 3.75% from 1 July 2024 compared to the 5.75% awarded from 1 July 2023. This will affect the pace of wage gains in 2024-25 for the approximately 21% of the workforce that are directly reliant on award wages.

Real wages are forecast to recover after declining by 5.3% from 2020-21 to 2023-24. Labour productivity growth (the main driver of real wage growth) is expected to be flat in 2024-25 before accelerating in 2025-26.

Chart ii: Employment growth, Australia

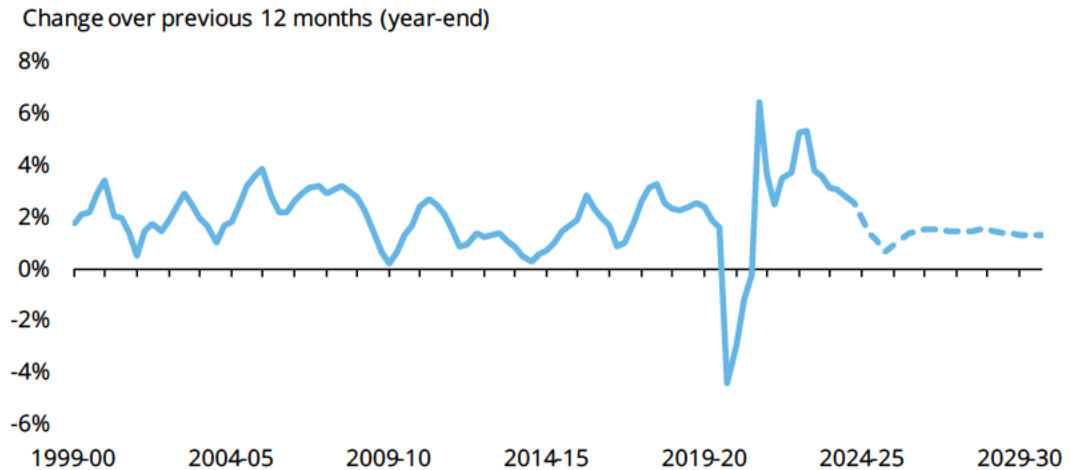
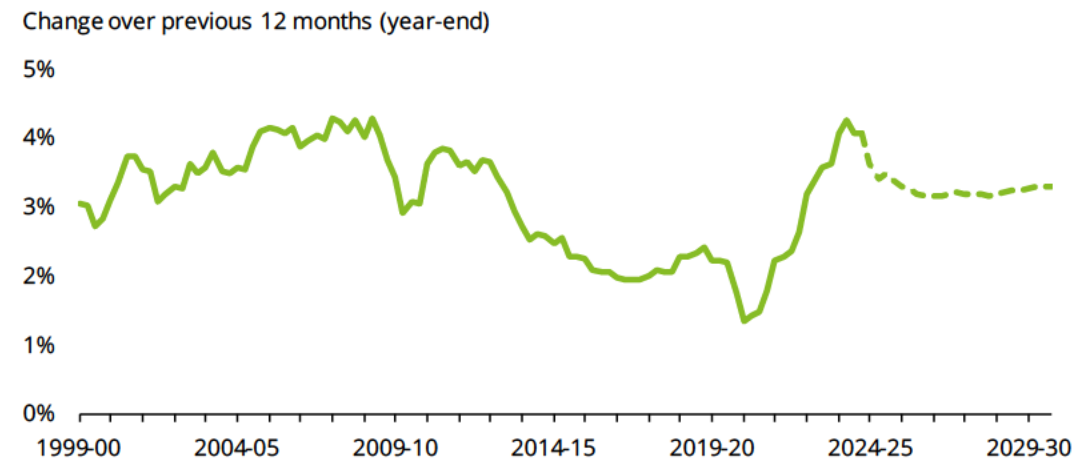


Chart iii: Nominal all industry WPI growth, Australia



Note: Forecasts for employment growth were finalised prior to the release of Labour Force data for July 2024 that is referenced in the text of the report.
Source: Australian Bureau of Statistics, Deloitte Access Economics.

Executive Summary

Australian utilities industry output and employment

Utilities industry output is forecast to grow at a slightly slower rate than the wider Australian economy. Demand for energy is projected to slow amid the effect of slower rates of population growth, continued gains in energy efficiency, and the increased uptake of consumer energy resources such as rooftop solar and battery storage. This is projected to offset the effect of the uptake of electric vehicles and demand from growing industries such as digital infrastructure.

Over the past fifteen years the utilities industry share of total employment has remained steady, with approximately 1.2% of Australian workers employed in the utilities industry during this period. While the transition to net zero is likely to boost activity in the industry, higher labour productivity growth is forecast to see employment growth lag output growth in the sector.

Australian utilities industry wage growth

Nominal growth in the utilities industry WPI was 4.1% in the 2023-24 financial year, the fastest annual growth since 2012-13. In real terms, however, the utilities industry WPI declined by 0.1% in 2023-24 as strong growth in nominal WPI was offset by faster growth in price inflation.

Nominal wage growth in utilities is forecast to increase by 4.1% in 2024-25, above the 3.5% growth forecast on average across all industries. The outperformance in utilities wages growth reflects that the utilities industry saw a lagged increase in wage growth following the pandemic compared to other industries, along with strong recent wage outcomes for the industry in some jurisdictions such as Queensland.

Overall, both nominal and real utilities industry wages are forecast to grow slightly faster than nominal and real all industry wages, respectively, over the forecast period. This is consistent with the trend observed prior to the pandemic.

Chart iv: Utilities industry share of national output and employment

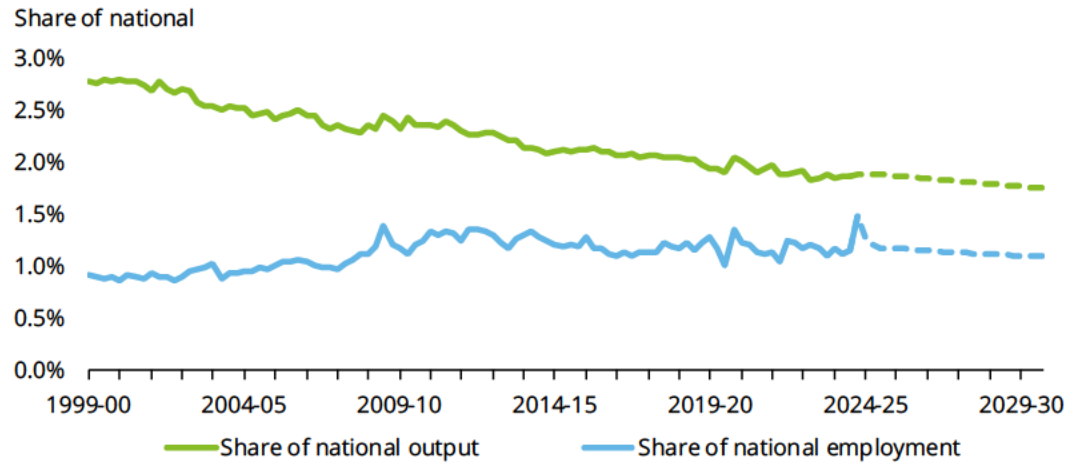
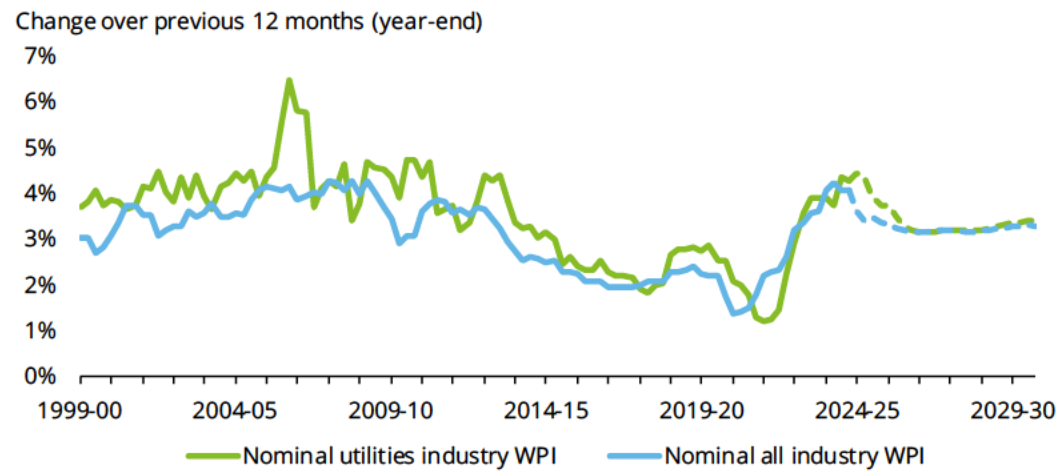


Chart v: Nominal utilities industry WPI growth, Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics.

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New South Wales

Nominal all industry wage growth in New South Wales is forecast to moderate in 2024-25 and 2025-26, consistent with softening labour market conditions. Thereafter, a relatively balanced labour market sees nominal wage growth broadly reflect a combination of labour productivity growth and an allowance for inflation. The resulting forecast profile closely matches the trend observed for national wage growth. The continued moderation in inflationary pressures will assist in producing real wage growth from 2024-25 to 2029-30.

Nominal wage growth in the utilities industry is expected to continue to accelerate in the near term, encouraged by strong growth in industries that traditionally compete with the utilities industry for labour. The combination of stronger nominal wage growth and decelerating inflation results in a forecast of solid real wage growth for the industry from 2025-26.

Queensland

Nominal all industry wage growth in Queensland is forecast to moderate in 2024-25 alongside a softening of the state's labour market. Queensland WPI growth is forecast to broadly match national WPI growth from 2024-25 as the relative outperformance of the Queensland economy and labour market narrows.

Nominal utilities industry wages in Queensland have accelerated sharply following an agreed pay deal for workers at state energy providers which took effect in the March quarter of 2024. That pay increase will keep the annual rate of wage growth elevated over the subsequent four quarters, with wage growth more in line with broader, all industry wage growth from 2025-26.

Chart vi: Growth in nominal utilities and all industry WPI, New South Wales

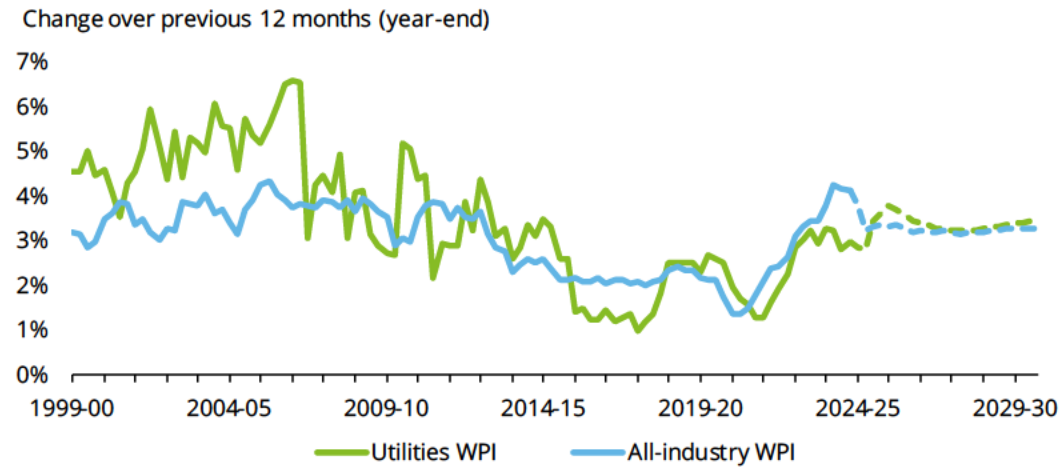
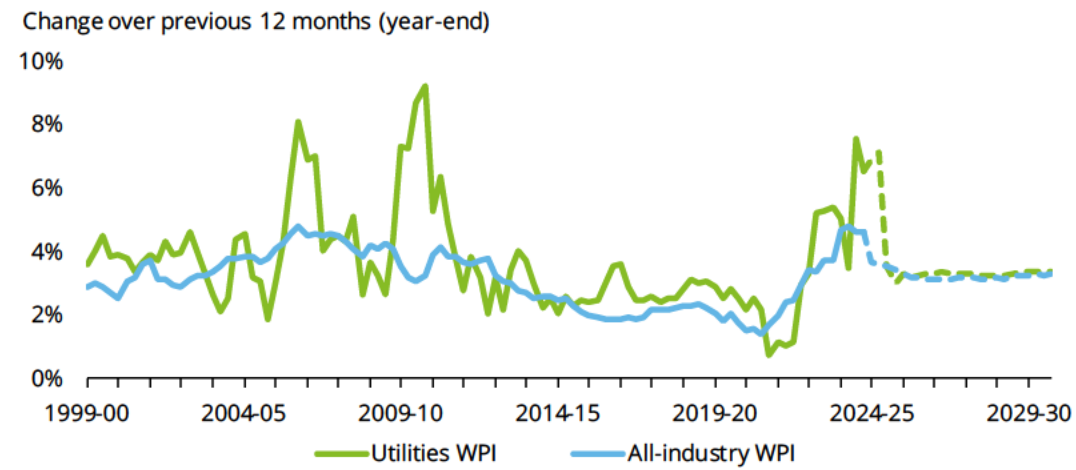


Chart vii: Growth in nominal utilities and all industry WPI, Queensland



Source: Australian Bureau of Statistics, Deloitte Access Economics.

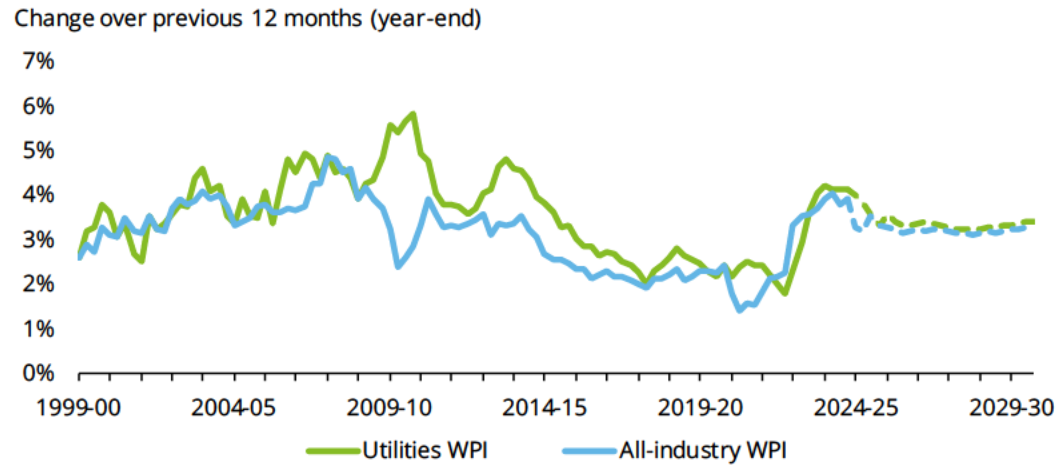
Executive Summary

South Australia

Nominal all industry wage growth in South Australia is forecast to moderate in 2024-25 as softer macroeconomic conditions weigh on wage gains. This slowdown is expected to be relatively modest, in part due to the strength of wage outcomes in EBAs signed in recent quarters. Nominal wage growth is forecast to reach a trough in 2025-26 before growing in line with national wages thereafter. Real all industry wages in South Australia are forecast to grow from 2024-25 onwards. The rate of growth is forecast to lag the national equivalent in 2024-25, but this is largely due to the size of the fall in South Australia in 2023-24.

Nominal utilities wage growth in South Australia is estimated to have peaked in 2023-24, with the slowdown in the broader economy and labour market expected to weigh on nominal wage gains in the utilities industry in the following years. Nominal utilities wages in South Australia are forecast to grow at a slower pace than Australian utilities wages in the near term – in part due to the faster unwinding of tightness in South Australia's labour market compared to the national labour market. Real wages in the utilities industry are forecast to return to growth in 2024-25 as price growth decelerates by more than wage growth.

Chart viii: Growth in nominal utilities and all industry WPI, South Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics.

Executive Summary

Table i: Summary of wage forecasts, year-average % growth

	2021-22	2022-23	History 2023-24	Forecast 2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
All industry WPI – nominal									
Australia	2.4%	3.5%	4.1%	3.5%	3.2%	3.2%	3.2%	3.2%	3.3%
New South Wales	2.4%	3.3%	4.1%	3.4%	3.3%	3.2%	3.2%	3.2%	3.3%
Queensland	2.5%	3.6%	4.7%	3.6%	3.2%	3.2%	3.2%	3.2%	3.3%
South Australia	2.1%	3.5%	3.9%	3.3%	3.2%	3.2%	3.2%	3.2%	3.3%
All industry WPI – real									
Australia	-2.0%	-3.4%	-0.1%	0.3%	0.7%	0.7%	0.7%	0.8%	1.0%
New South Wales	-1.5%	-3.5%	-0.2%	0.3%	0.8%	0.7%	0.6%	0.8%	1.0%
Queensland	-2.7%	-3.5%	0.6%	0.5%	0.6%	0.6%	0.6%	0.8%	1.0%
South Australia	-2.0%	-4.1%	-0.9%	0.1%	0.7%	0.7%	0.6%	0.7%	1.0%
Utilities WPI – nominal									
Australia	1.5%	3.6%	4.1%	4.1%	3.4%	3.2%	3.2%	3.3%	3.4%
New South Wales	1.8%	3.0%	3.1%	3.2%	3.6%	3.3%	3.2%	3.3%	3.4%
Queensland	1.6%	4.8%	5.7%	5.1%	3.3%	3.3%	3.3%	3.3%	3.4%
South Australia	2.1%	3.2%	4.1%	3.7%	3.4%	3.4%	3.3%	3.3%	3.4%
Utilities WPI – real									
Australia	-2.8%	-3.2%	-0.1%	1.0%	0.9%	0.7%	0.7%	0.8%	1.1%
New South Wales	-2.1%	-3.8%	-1.2%	0.1%	1.1%	0.8%	0.7%	0.9%	1.1%
Queensland	-3.6%	-2.4%	1.6%	2.0%	0.6%	0.8%	0.8%	0.9%	1.1%
South Australia	-2.0%	-4.4%	-0.7%	0.5%	0.8%	0.8%	0.7%	0.8%	1.1%

Source: Australian Bureau of Statistics, Deloitte Access Economics.

Executive Summary

Table ii: Summary of key macroeconomic indicators, year-average % growth (unless noted)

	History 2021-22	History 2022-23	Forecast 2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
All industry real output									
Australia	4.3%	3.1%	1.4%	1.2%	2.1%	2.3%	2.4%	2.2%	1.9%
New South Wales	2.6%	3.7%	1.6%	0.6%	2.1%	2.4%	2.5%	2.3%	2.0%
Queensland	5.5%	2.3%	1.7%	1.9%	2.2%	2.4%	2.5%	2.3%	2.0%
South Australia	5.6%	3.8%	2.0%	0.7%	1.7%	1.9%	1.9%	1.8%	1.5%
Total employment									
Australia	3.4%	4.5%	2.9%	1.3%	1.2%	1.5%	1.5%	1.4%	1.3%
New South Wales	0.7%	6.0%	2.6%	0.4%	1.2%	1.4%	1.4%	1.4%	1.3%
Queensland	5.0%	3.8%	3.2%	2.0%	1.4%	1.7%	1.6%	1.6%	1.3%
South Australia	4.2%	3.4%	1.8%	-1.3%	0.7%	1.1%	1.3%	1.1%	1.0%
Unemployment rate (average rate)									
Australia	4.3%	3.6%	3.9%	4.5%	4.6%	4.6%	4.6%	4.6%	4.6%
New South Wales	4.3%	3.3%	3.6%	4.3%	4.4%	4.4%	4.4%	4.4%	4.4%
Queensland	4.5%	3.6%	4.1%	4.5%	4.7%	4.7%	4.8%	4.8%	4.9%
South Australia	4.8%	4.0%	3.7%	4.3%	4.3%	4.2%	4.2%	4.1%	4.0%
Consumer Price Index inflation†									
Australia	4.4%	7.0%	4.2%	3.1%	2.6%	2.5%	2.5%	2.4%	2.3%
New South Wales	3.9%	7.1%	4.3%	3.1%	2.5%	2.5%	2.5%	2.4%	2.3%
Queensland	5.4%	7.3%	4.1%	3.0%	2.6%	2.5%	2.5%	2.4%	2.3%
South Australia	4.2%	7.9%	4.9%	3.2%	2.5%	2.5%	2.5%	2.4%	2.3%
All industry labour productivity									
Australia	0.9%	-1.3%	-1.5%	0.0%	0.8%	0.8%	0.9%	0.8%	0.6%
New South Wales	1.9%	-2.1%	-1.0%	0.1%	0.8%	1.0%	1.1%	0.9%	0.7%
Queensland	0.5%	-1.5%	-1.5%	-0.2%	0.8%	0.7%	0.8%	0.7%	0.6%
South Australia	1.3%	0.4%	0.1%	2.1%	1.0%	0.7%	0.6%	0.6%	0.4%

† Note: Consumer Price Index data for 2023-24 is an historical actual. Forecasts commence in 2024-25.
Source: Australian Bureau of Statistics, Deloitte Access Economics.

Introduction

Introduction

Background and purpose of engagement

The Australian Energy Regulator (AER) regulates electricity networks and gas pipelines in all jurisdictions in Australia except Western Australia. The AER's regulation of energy networks promotes efficient investment in, and efficient operation and use of, energy services for the interests of consumers.

The AER is required to conduct a review of regulatory proposals provided by various companies in accordance with its responsibilities under the National Electricity Rules (NER) and National Gas Rules (NGR). The AER makes revenue determinations for electricity Network Service Providers (NSPs) and access arrangement decisions for gas NSPs. As part of this role, the AER considers forecast operating and capital expenditure, of which expected labour price growth is an important element.

The AER commissioned Deloitte Access Economics to provide forecasts for wage price growth for the electricity, gas, water and waste services (utilities) industry to 2029-30 for Australia, New South Wales, Queensland and South Australia.

Data used in the report

The Australian Bureau of Statistics (ABS) publishes the Wage Price Index (WPI) nationally and for all state and territory jurisdictions. However, the WPI is not released for each industry by state. This is due to small sample sizes and reasons of confidentiality. Historical WPI data for the utilities industry was published for New South Wales, Victoria and Queensland in the latest release from the ABS. Historical WPI data for the South Australian utilities industry has been estimated for the purpose of this report.

This report has been drafted based on the forecasts that underpin the June 2024 quarter *Business Outlook* publication that relies on the March 2024 quarter ABS National Accounts, the June 2024 quarter ABS Consumer Price Index (CPI) and the June 2024 quarter ABS WPI release.

Structure of the report

The remainder of this report is structured as follows:

Chapter 1: Australia

- Chapter 1 discusses the outlook for national utilities industry wage growth. This chapter steps through the outlook for the Australian economy and labour market, before examining key trends in utilities industry output and employment, as well as growth in wages across the wider Australian economy.

Chapter 2: New South Wales

Chapter 3: Queensland

Chapter 4: South Australia

- Chapters 2-4 analyse the outlook for utilities industry wage growth in New South Wales, Queensland and South Australia respectively. These chapters step through the outlook for the state economy and labour market, growth in all industry wages, as well as utilities industry wages.

Appendix

- Appendix A: Modelling methodology
- Appendix B: Data sources
- Appendix C: The effect of changes to the superannuation guarantee on wage growth

1. Australia

The Australian economy (1/2)

Growth in the Australian economy has slowed sharply. Inflation and high interest rates have put pressure on households and many businesses, while ongoing supply constraints have weighed on dwelling investment.

The Reserve Bank of Australia (RBA) spent most of 2022 and 2023 raising interest rates to bring inflation down, while trying to do as little damage to the economy and the labour market as possible. The result is inflation that is forecast to return to the target range of 2-3% by early 2025, an unemployment rate that remains well below pre-pandemic rates, but an economy that is forecast to grow at its slowest rate, outside of the pandemic, since the early 1990s recession.

Cost-of-living pressures continue to weigh on household consumption. In per capita terms, household spending has fallen in each of the last five quarters. Revised data from the ABS indicates households have been more willing to spend than previously estimated. If maintained, the greater propensity to spend could see income tax cuts and cost-of-living support from 1 July drive an even stronger recovery in spending in coming quarters – as would any potential interest rate cuts.

The revised stage 3 tax cuts are adding $22 billion into the pockets of taxpayers (around $1,500 for someone on the average income), new Federal Government policy decisions (such as the $300 energy rebate) are adding a further $9.5 billion into the economy, and state governments have announced billions of dollars of new spending. Under pressure households are likely to spend a significant proportion of the additional money flowing their way from governments and real wage gains.

Chart 1.1: Components of GDP growth, average annual growth 2023-24 to 2029-30

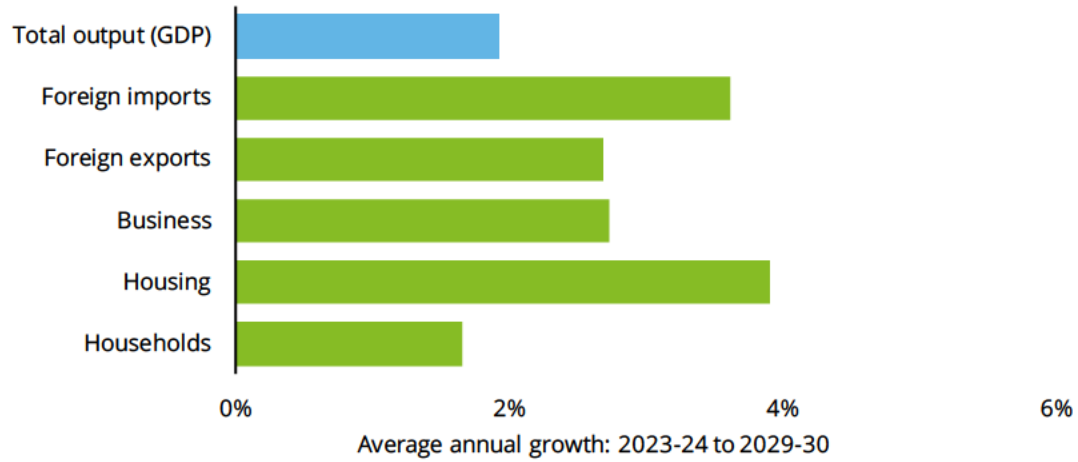
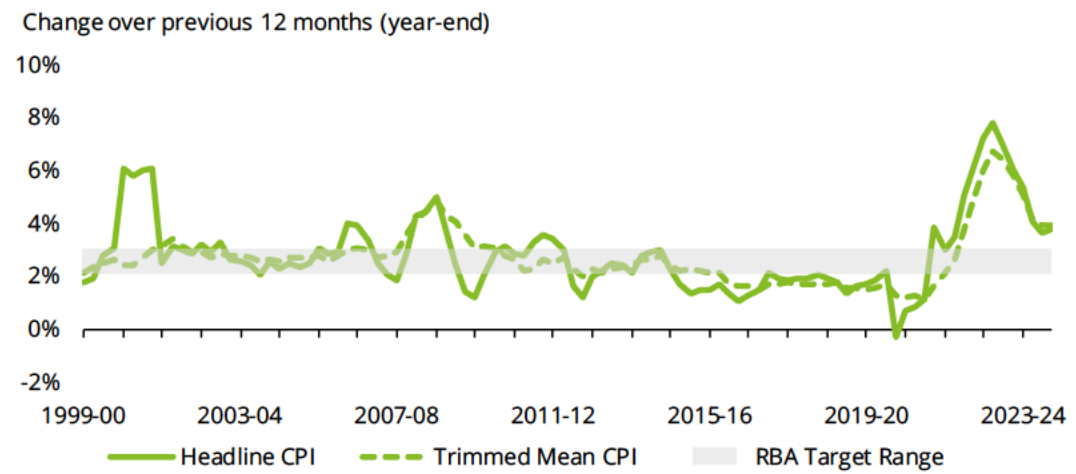


Chart 1.2: Historical CPI inflation, Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics.

The Australian economy (2/2)

Areas of earlier strength in the economy are expected to contribute less notably over the near future. That includes business investment and population growth. But, after an extended period of weak investment, dwelling investment is set to rebound from current lows as capacity constraints in the industry fade and as supply catches up to strong underlying demand for housing.

Business investment has outpaced overall economic growth since the onset of the COVID-19 pandemic, supported by renewable energy projects, data centres and other large infrastructure projects. Long run growth opportunities will continue to be the bright spots across the investment landscape, but underlying demand will need to improve considerably to unlock a broader-based recovery in investment.

The recent surge in Australia's population appears to have passed its peak. Strong population growth in 2022 and 2023 was driven by temporary migrants including international students, as well as Australians returning from overseas. Net overseas migration is estimated to have been around 415,000 people in 2023-24, before slowing to 250,000 people in the medium term. That slowdown is due to overseas departures returning to more normal levels and growth in temporary migrant inflows easing – in part due to the Federal Government's Migration Strategy.

Net exports are likely to drag on growth as the recovery in consumption and dwelling investment boost demand for imports. Meanwhile export growth is expected to lag imports until 2029-30 as the recovery in tourism exports runs its course and the government increases scrutiny of international student numbers.

Overall, growth in the Australian economy is forecast to slow to 1.2% in 2024-25 as consumption growth remains muted and as business investment fades. Growth in the economy is forecast to accelerate from 2025-26 to 2027-28 as consumption growth improves and as dwelling investment lifts.

Chart 1.3: Population growth and the components of population change, Australia

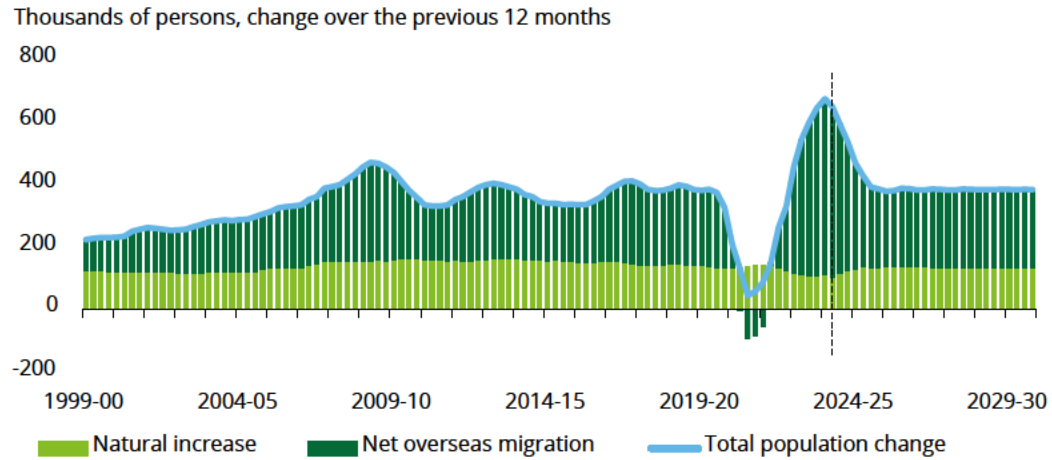
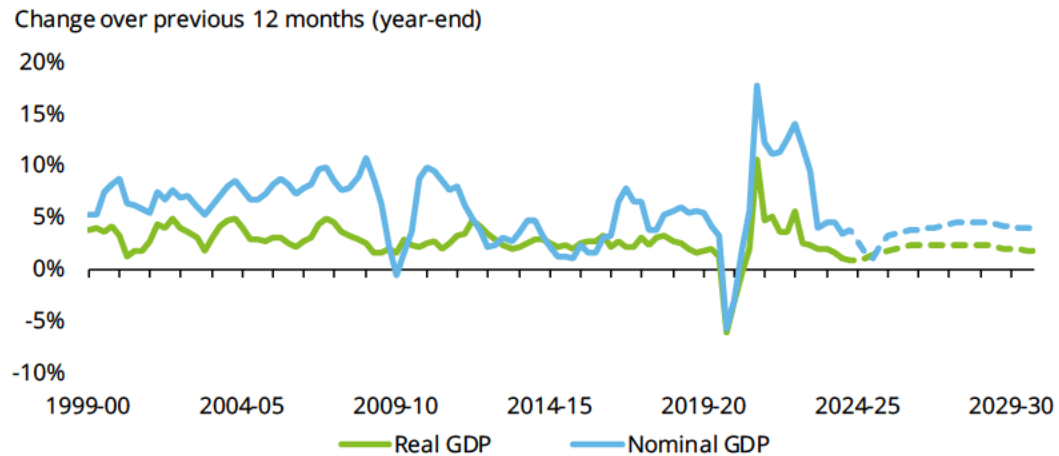


Chart 1.4: Real and nominal GDP growth



Note: Dashed lines indicate forecasts
Source: Australian Bureau of Statistics, Deloitte Access Economics.

The Australian labour market

The Australian labour market has proved resilient over recent years but is now weakening amid macroeconomic headwinds. Labour underutilisation is gradually rising, job vacancies are in decline, and the participation rate is off its peak. Despite this, employment growth has remained robust as businesses have generally responded to weaker demand by reducing hours rather than the number of employees.

Australia's unemployment rate, at 4.2% in July 2024 (seasonally adjusted), remains low in part because of strong employment growth in non-market sectors such as health and disability services which are less affected by subdued macroeconomic conditions relative to other sectors.

A significant proportion of the easing in labour market conditions over the past year has occurred through declining average hours worked and fewer job vacancies rather than through job losses. The number of job vacancies has decreased 26.0% from the peak in May 2022 to May 2024. Despite the fall in job vacancies, labour demand remains high by historical standards as hiring challenges remain across the economy.

Dynamism in the labour market is muted with the share of employed Australians switching jobs in early 2024 falling to its lowest rate since 2017. Higher rates of job switching are associated with faster rates of wage growth – including for those that stay in their jobs.

Looking ahead, labour market conditions are anticipated to deteriorate in 2024-25 alongside the expected slowdown in economic activity. The unemployment rate is forecast to increase to 4.5% by the end of 2024, reflecting the weakness of leading indicators of labour demand such as job vacancies. The unemployment rate is then expected to stabilise and remain at around this rate through to 2029-30. This is partly because the forecast moderation in economic activity is relatively modest, but also because of a continuation of the trend where businesses respond to weaker activity by reducing the number of hours offered to employees.

Chart 1.5: Employment growth, Australia

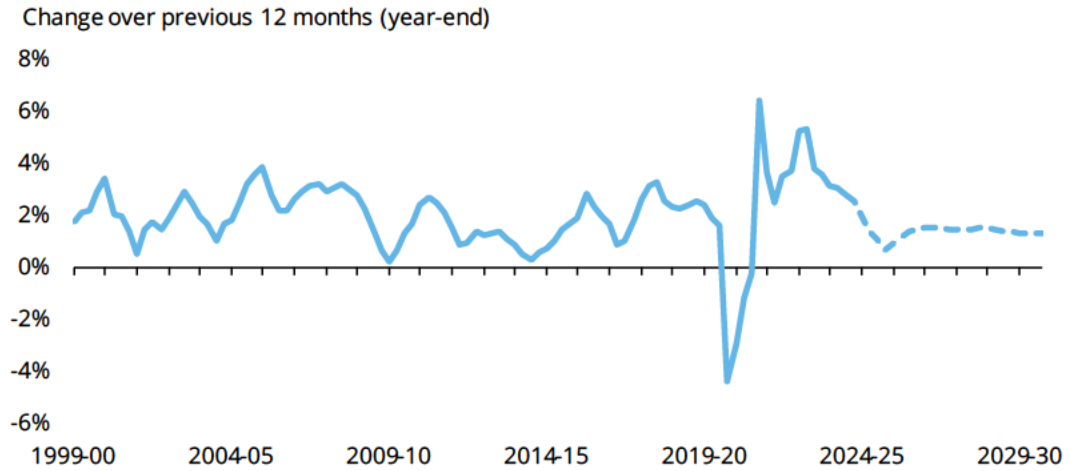
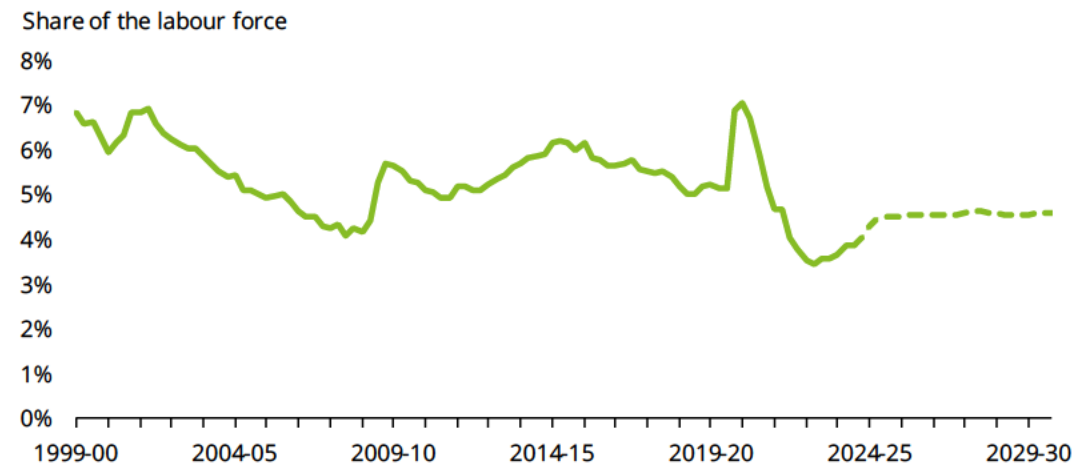


Chart 1.6: Unemployment rate, Australia



Note: Forecasts for employment growth and the unemployment rate were finalised prior to the release of Labour Force data for July 2024 that is referenced in the text throughout the report.
Source: Australian Bureau of Statistics, Deloitte Access Economics.

Australian all industry wages

Summary of key trends in historical WPI growth

Nominal all industry wage growth appears to have peaked in late 2023. The all industry WPI increased by 0.6% in June quarter 2024, the slowest quarterly growth in wages since the June quarter of 2022. Private sector wages grew at their slowest pace since the December quarter of 2021. The proportion of private sector jobs experiencing a wage change has fallen to the lowest share since mid-2019, while those jobs that did experience a wage change saw weaker rates of growth compared to previous quarters. Public sector wage growth accelerated alongside the timing of wage rises for Commonwealth public servants.

Outlook for nominal and real WPI growth

Nominal all industry wage growth is forecast to slow in 2024-25 amid the easing of labour market conditions – which has reduced worker bargaining power – as well as a slowdown in the pace of growth in award wages. The Fair Work Commission's (FWC) Annual Wage Review awarded a lower award wage increase of 3.75% from 1 July 2024 compared to the 5.75% awarded from 1 July 2023. This will affect the pace of wage gains in 2024-25 for the approximately 21% of the workforce that are directly reliant on award wages.

In the longer term, nominal growth in the WPI is forecast to reflect a combination of labour productivity growth and an allowance for inflation. Nominal growth in the WPI can exceed trend growth in productivity in the short term, for example to catch-up to a previous period of elevated price inflation, but this cannot continue indefinitely (as this would eventually place upward pressure on price inflation). The relationship between wages, productivity growth and inflation is expected to hold over the longer term. Nominal WPI growth is forecast to stabilise at an annual rate of 3.2% in 2025-26 and remain at a similar rate through to 2028-29.

Real wages are forecast to gradually recover after declining by 5.3% from 2020-21 to 2023-24. Labour productivity growth (the main driver of real wage growth) is expected to be flat in 2024-25 before accelerating in 2025-26.

Chart 1.7: Nominal all industry WPI growth, Australia

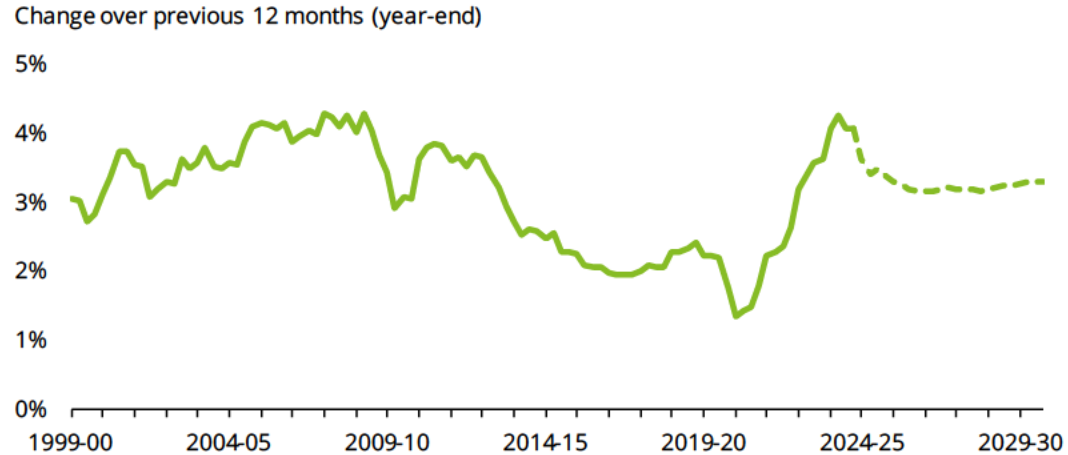
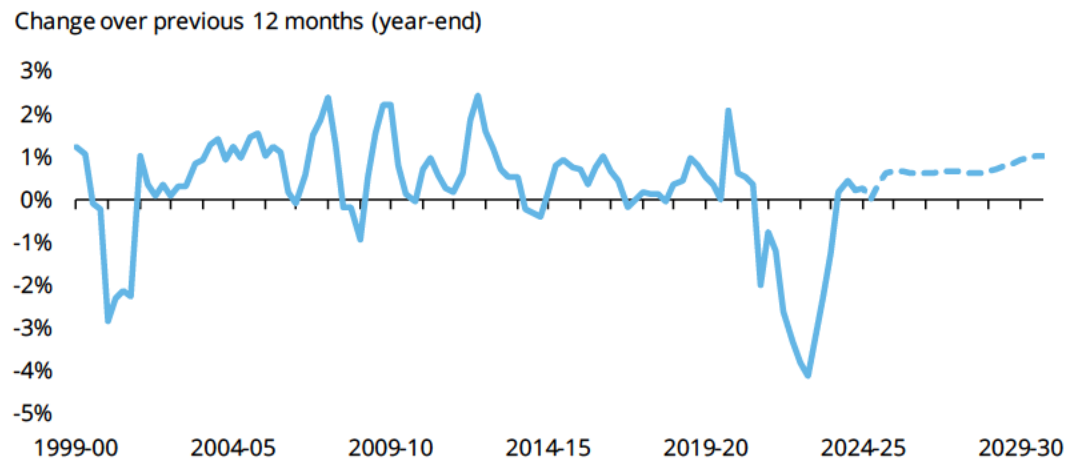


Chart 1.8: Real all industry WPI growth, Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics.

Australian utilities industry output and employment

Utilities industry output

Utilities industry output grew by 0.9% in the March quarter of 2024 as warmer than average weather conditions and robust population growth both increased household energy consumption.

Looking ahead, utilities industry output is forecast to grow at a slightly slower rate than the wider Australian economy. Demand for energy is projected to moderate amid the effect of slower rates of population growth, continued gains in energy efficiency, and the increased uptake of consumer energy resources such as rooftop solar and battery storage. This is projected to offset the effect of the uptake of electric vehicles and demand from growing industries such as digital infrastructure.

Utilities industry employment

Over the past fifteen years the utilities industry share of total employment has remained steady, with approximately 1.2% of Australian workers employed in the utilities industry during this period.

Employment in the renewables and clean energy sub-industry is expected to be the main driver of employment growth in the industry going forward. The transition to net zero will require substantial investment in generation capacity and transmission infrastructure. The Federal Government has committed $20 billion via the Rewiring the Nation program to modernise the electricity grid and deliver new and upgraded transmission infrastructure. This is likely to support the development of the almost 12-gigawatt worth of wind, large-scale solar, water and battery storage projects currently committed across Australia according to the Australian Energy Market Operator.

While the transition to net zero is likely to boost activity in the industry, higher labour productivity growth is forecast to see employment growth lag output growth in the industry.

Chart 1.9: Utilities industry output, Australia

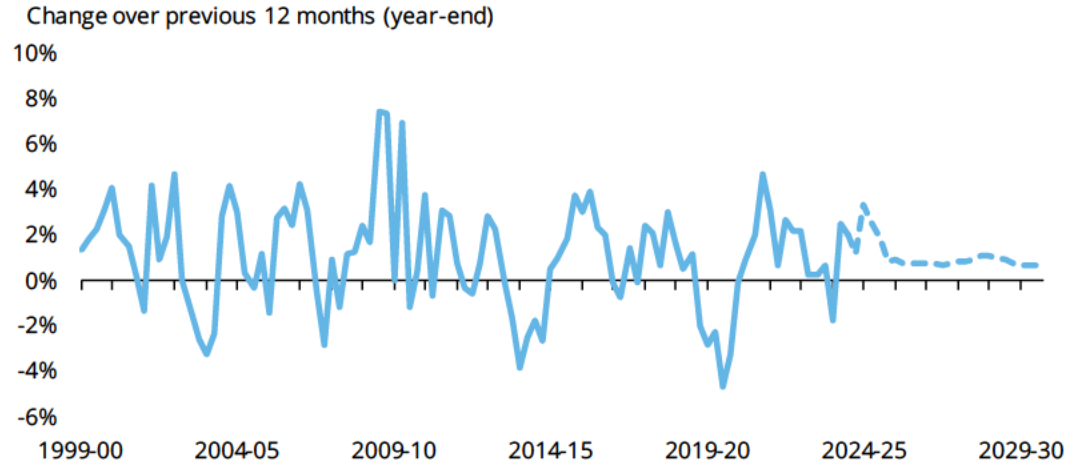
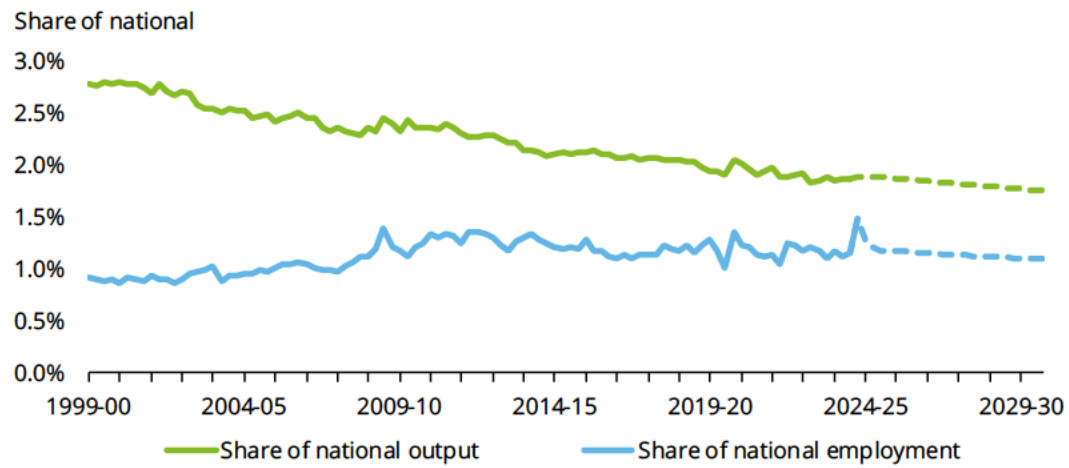


Chart 1.10: Utilities industry share of national output and employment



Source: Australian Bureau of Statistics, Deloitte Access Economics.

Australian utilities industry wages (1/2)

Utilities industry WPI

Nominal utilities industry wage growth was 4.1% in 2023-24, the fastest annual growth since 2012-13 and an increase from the trough observed during the pandemic in 2021-22.

Nominal utilities industry wage growth is forecast to increase by 4.1% in 2024-25, above the 3.5% growth forecast on average across all industries. The outperformance in utilities wages growth reflects that the utilities industry saw a lagged increase in wage growth following the pandemic compared to other industries, along with strong recent wage outcomes for the industry in some jurisdictions such as Queensland.

Real utilities industry wages declined by 0.1% in 2023-24 as strong growth in nominal wages was offset by faster growth in price inflation. Real wages are forecast to grow from 2024-25 as inflation eases and nominal wages continue to grow – albeit at slightly lower annual rates. This reflects a forecast return of utilities industry labour productivity growth from 2024-25.

Overall, both nominal and real utilities industry wages are forecast to grow slightly faster than all industry wages over the forecast period. This is consistent with the trend observed prior to the pandemic.

Chart 1.11: Nominal utilities industry WPI growth, Australia

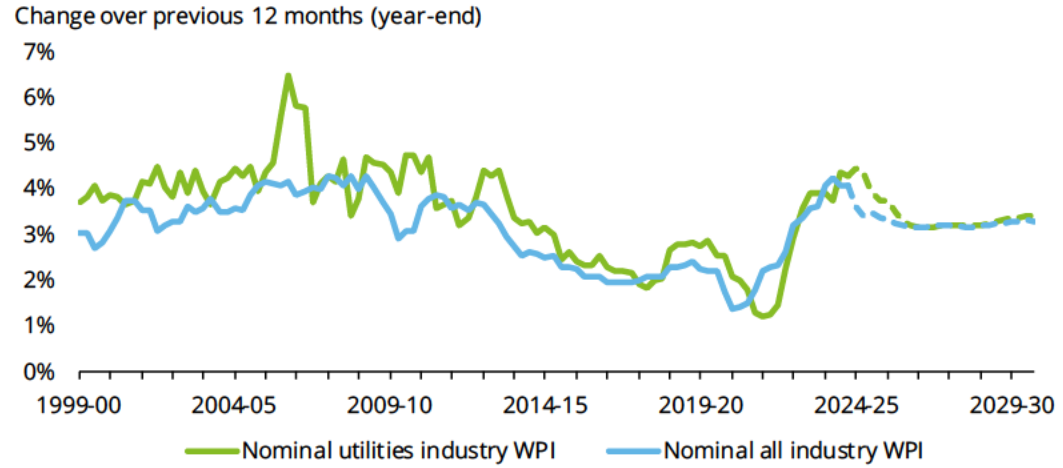
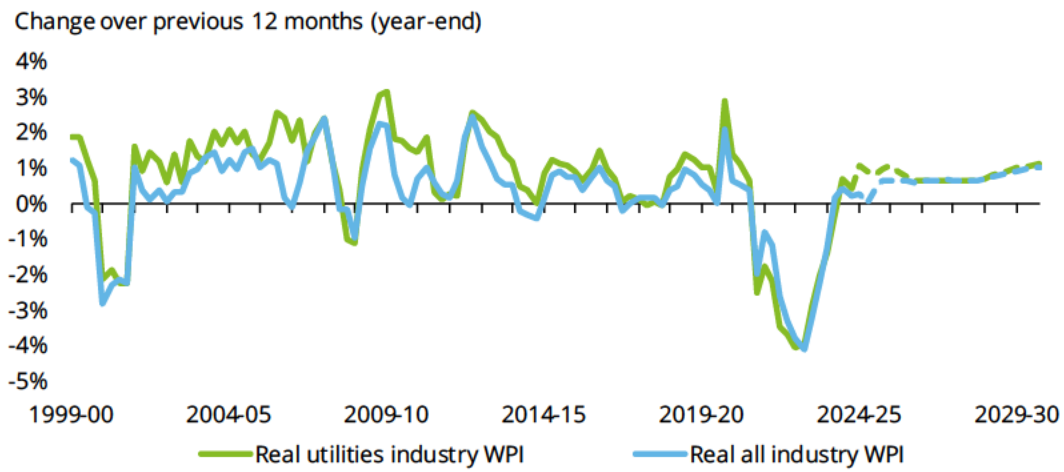


Chart 1.12: Real utilities industry WPI growth, Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics.

Australian utilities industry wages (2/2)

Other wage growth measures

The utilities industry has a higher share of employees on Enterprise Bargaining Agreements (EBAs) (57% in 2023 according to the ABS) compared to the all industry average (34%).

This indicates that EBAs play an important role in understanding changes in the rate of wage growth in the utilities industry. The average annualised wage increase (AAWI) for current EBAs in the utilities industry is at its highest rate since early 2013 and above the AAWI across the wider economy.

Data on EBA wage growth is available from the Department of Employment and Workplace Relations (DEWR) for a subset (approximately 50%) of all workers covered by these agreements. DEWR data only covers EBAs that are federally registered, EBAs that are active (some EBAs continue to apply after expiry unless renegotiated or rescinded by the FWC), and does not include EBAs where the wage increase cannot be quantified (for example, where wages are linked to future FWC decisions or CPI inflation outcomes).

The AAWI for all current EBAs was 3.6% in the March quarter of 2024, below the 4.0% increase in the utilities industry WPI . However, the AAWI for EBAs lodged in the quarter was 4.8% - the third fastest AAWI of any industry. Faster rates of growth in price inflation have added upward pressure to wage proposals during EBA negotiations.

Trends in EBAs are considered in the development of the WPI forecasts presented in this report but are not used as a direct input. This is because the EBA data includes non-wage costs such as superannuation and the effect of changes in the composition of the workforce (that are not included in the WPI), EBA data from DEWR is only available for a subset of employees covered by EBAs, and the average duration of EBAs is shorter than the forecast period in this report.

Chart 1.13: Measures of utilities industry wage growth, Australia

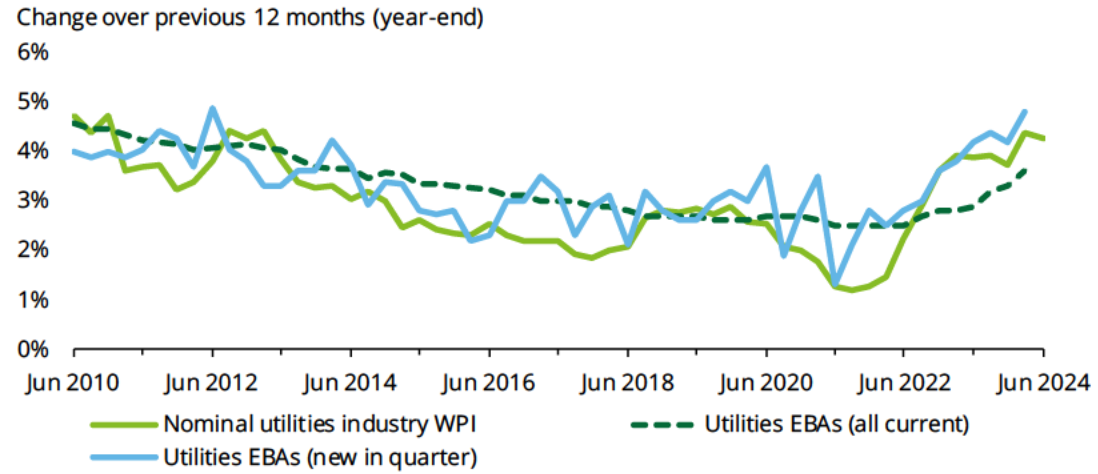
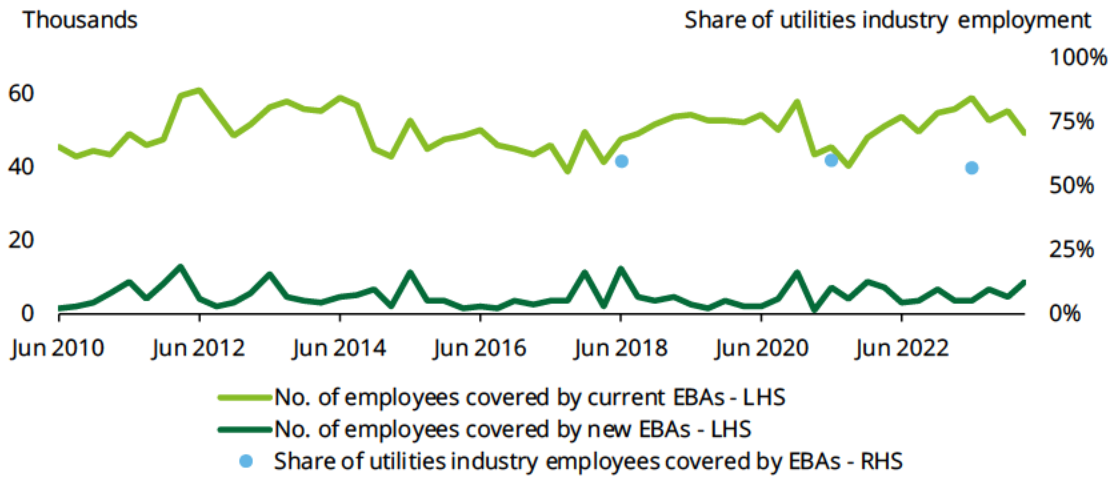


Chart 1.14: Proportion of utilities industry employees covered by all current EBAs and EBAs approved in the quarter, Australia



Source: Department of Employment and Workplace Relations, Australian Bureau of Statistics, Deloitte Access Economics.

2. New South Wales

The New South Wales economy

High interest rates have weighed heavily on household consumption in New South Wales given the state's relatively large share of Australia's housing debt. In the near term, inflation is set to moderate, but this is happening at the same time as previous drivers of strong growth in the New South Wales economy – such as elevated population growth and net exports – are forecast to contribute less notably.

New South Wales has experienced the slowest increase in household consumption of any state or territory since the RBA began raising interest rates in the June quarter of 2022. The state has the highest median property price of any Australian jurisdiction, meaning that the earlier tightening of monetary policy has an outsized negative effect on the New South Wales economy.

Household budgets will receive support from an acceleration in the pace of real wage gains and elevated government spending that will drive a modest recovery in household consumption through 2024-25. In the longer term, growth in household consumption is forecast to accelerate alongside the easing of current pressures that are weighing on household budgets. Household consumption in New South Wales is forecast to grow at a similar rate to household consumption across the wider Australian economy from 2027-28 onwards.

New South Wales, and Sydney in particular, continues to experience an acute shortage of housing. Real housing construction activity is not forecast to return to pre-pandemic levels until 2025-26, but is forecast to grow at an elevated rate thereafter as governments incentivise housing construction and rising property prices attract additional private dwelling investment.

The combination of subdued household demand and the decline in exports is projected to see the New South Wales economy grow slower than the Australian economy in 2024-25. As prices moderate and household demand recovers, growth in the New South Wales economy is forecast to recover.

Chart 2.1: Components of GSP growth, New South Wales, average annual growth 2023-24 to 2029-30

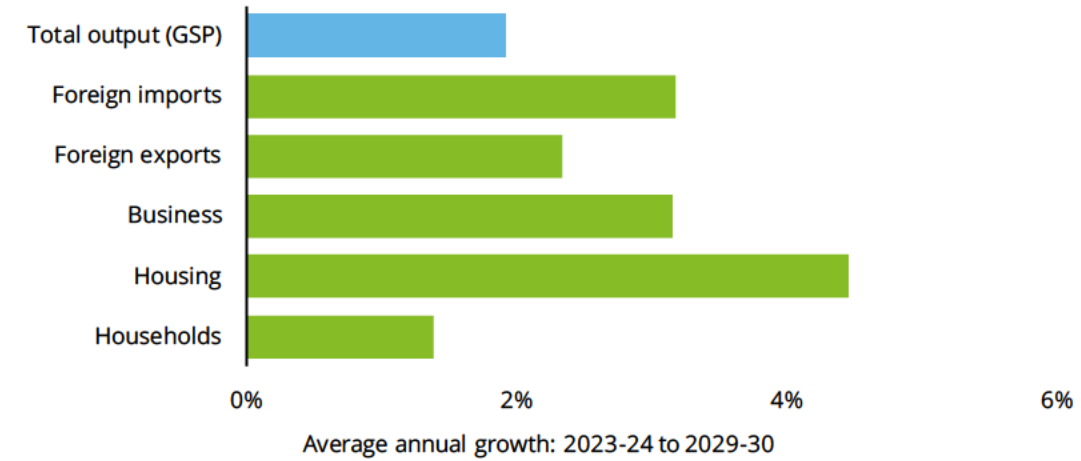
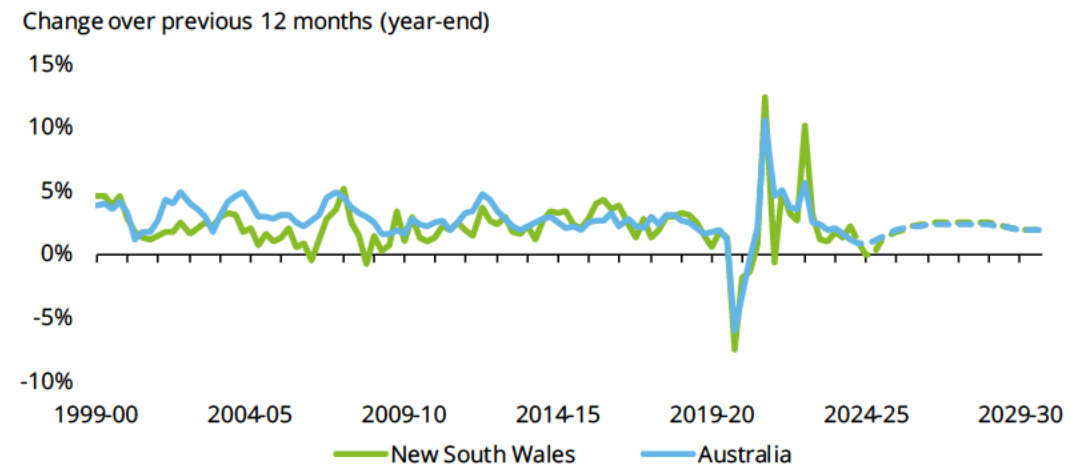


Chart 2.2: Growth in economic output, New South Wales and Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics.

The New South Wales labour market

The New South Wales labour market remains relatively tight, but a weaker economy is expected to drive slower employment growth and an increase in the unemployment rate in the near term.

The number of people unemployed in New South Wales has increased since mid-2023 as international migration has boosted the supply of labour and economic conditions moderate. Much like at the national level, a significant proportion of the loosening of labour market conditions to-date has occurred via hours worked and hiring intentions. Job advertisements have fallen from their peak (down 21.4% in the year to June 2024), growth in the number of hours worked has slowed sharply, while the underemployment rate – a measure of spare capacity – is trending upwards.

In line with national trends, New South Wales employment growth is forecast to moderate in the near term alongside a moderation in economic activity. Employment growth is forecast to lag growth in the labour supply, causing the unemployment rate to rise to a peak of 4.4% in late 2025. The forecast rate of unemployment is low compared to historical standards – in part reflecting the relatively modest economic downturn and some of the labour market loosening continuing to occur via reductions in the number of hours worked rather than reductions in employment. The unemployment rate is then forecast to stabilise and remain at around that rate across the forecast period to 2029-30.

Chart 2.3: Employment growth, New South Wales and Australia

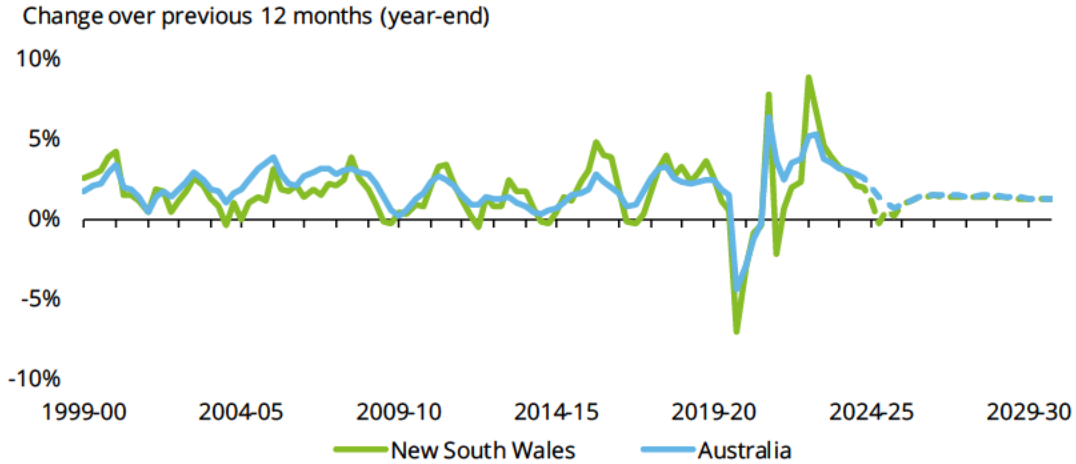
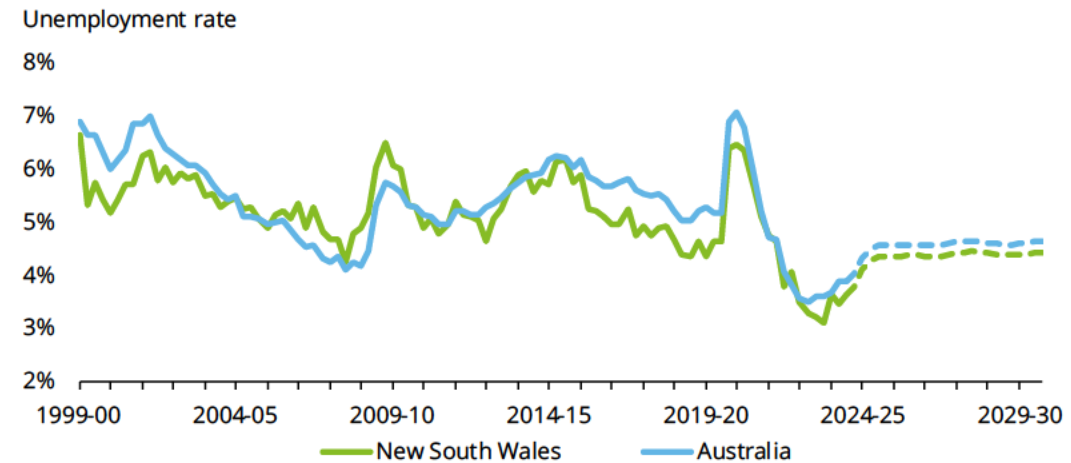


Chart 2.4: Unemployment rate, New South Wales and Australia



Note: Forecasts for employment growth and the unemployment rate were finalised prior to the release of Labour Force data for July 2024 that is referenced in the text throughout the report.
Source: Australian Bureau of Statistics, Deloitte Access Economics.

New South Wales all industry wages

Summary of key trends in historical WPI growth

Wages in New South Wales have historically grown in line with national wages. This is because the New South Wales economy and labour market account for a significant share of the Australian economy and labour market. Nominal all industry wage growth in New South Wales slowed in early 2024 amid the recent increase in spare capacity in the state's labour market.

Real all industry wages have fallen on a year-average basis since late 2021 amid persistent high inflation. The pace of falls has slowed sharply in recent quarters as nominal wage growth has accelerated and price growth has decelerated.

Outlook for nominal and real WPI growth

Nominal all industry wage growth in New South Wales is forecast to moderate in 2024-25 and 2025-26, consistent with softening labour market conditions and trends observed in leading indicators such as EBAs and awards. For example, the NSW Government announced a 10.5% pay rise over three years for more than 400,000 public sector employees in the state. This includes a 3.5% wage rise in 2024-25 and 3.0% wage rises in both 2025-26 and 2026-27 – lower than the 4.1% wage growth in 2023-24. The slower pace of award wage gains in 2024-25 compared to 2023-24 – affecting approximately one quarter of employees in New South Wales – will also weigh on overall wage gains in the state.

Thereafter, a relatively balanced labour market sees nominal wage growth broadly reflect a combination of labour productivity growth and an allowance for inflation. The resulting profile closely matches the trend observed for national wage growth.

Real all industry wages are forecast to grow in 2024-25 before the pace of gains accelerates in 2025-26. This trend aligns with the easing of inflationary pressures over this period. In the longer term, real wage growth is forecast to accelerate gradually, supported by continued growth in labour productivity.

Chart 2.5: Nominal all industry WPI growth, New South Wales and Australia

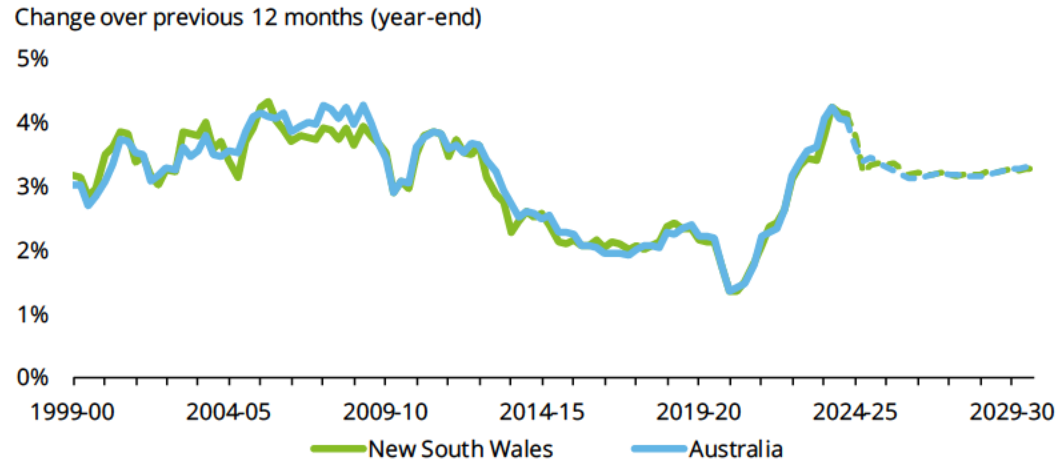
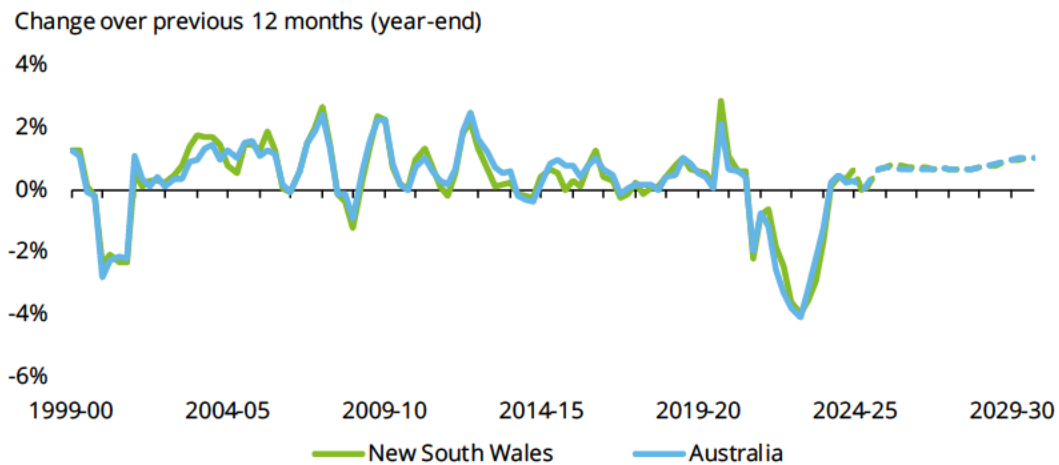


Chart 2.6: Real all industry WPI growth, New South Wales and Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics.

New South Wales utilities industry wages (1/2)

New South Wales utilities industry WPI

New South Wales employs the second largest number of utilities industry employees of any state, second only to Victoria. The New South Wales utilities industry is supported by state government policies and investment, though most utilities industry employees in New South Wales are employed within the private sector.

Nominal wage growth in the New South Wales utilities industry is forecast to peak in 2025-26, later than the forecast peak in national utilities industry wage growth. This is largely driven by the timing of earlier wage gains, with New South Wales experiencing a degree of catch-up in wage growth through 2024-25 and 2025-26. Nominal utilities wage growth in New South Wales is forecast to grow at a similar pace to national wages from 2026-27 onwards.

Wages within the New South Wales utilities industry grew at a slower rate than wages across the wider state economy in 2023-24. The narrowing of the gap between the pace of national and New South Wales utilities industry wage growth from 2024-25 is driven by two factors. Firstly, New South Wales utilities industry employment is forecast to fall by less than the national equivalent in 2024-25 and grow by more in 2025-26. Secondly, the state's robust construction pipeline is adding to competition for workers with similar skills to those demanded by the utilities industry.

Real utilities industry wages in New South Wales are forecast to recover from earlier falls as price growth moderates by more than wages growth. Real utilities industry wages in New South Wales are then forecast to grow at a similar rate as the national utilities industry from 2025-26 onwards.

Chart 2.7: Nominal utilities industry WPI growth, New South Wales and Australia

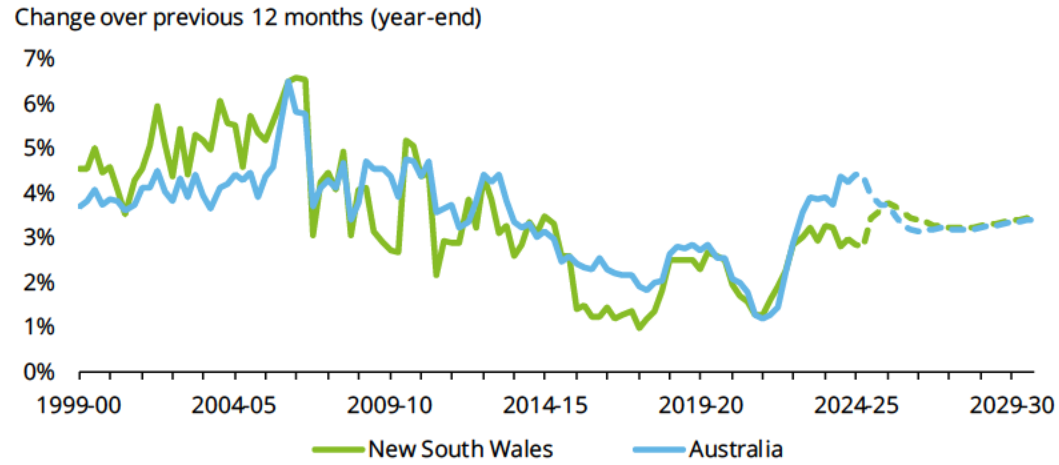
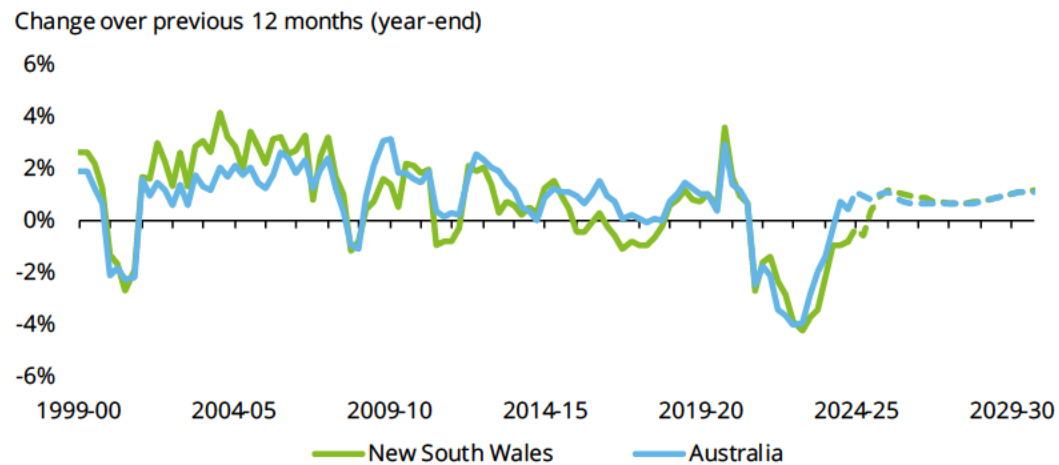


Chart 2.8: Real utilities industry WPI growth, New South Wales and Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics.

New South Wales utilities industry wages (2/2)

Other wage growth measures

According to the ABS, a total of 56% of utilities industry employees are covered by EBAs in New South Wales, above the 26% share across all industries in the state.

The AAWI for all current EBAs in the utilities industry was 3.6% over the year to the March quarter of 2024, in line with the New South Wales all industry AAWI and the Australian utilities industry AAWI.

The AAWI for new EBAs in March 2024 was 4.1%. This is the second slowest AAWI among states and territories where data is published. Despite this, the AAWI for new EBAs is above the AAWI for all current EBAs. And it is possible that EBAs currently being negotiated will include some degree of catch-up for the earlier period of elevated growth in CPI inflation.

Chart 2.9: Measures of utilities industry wage growth, New South Wales

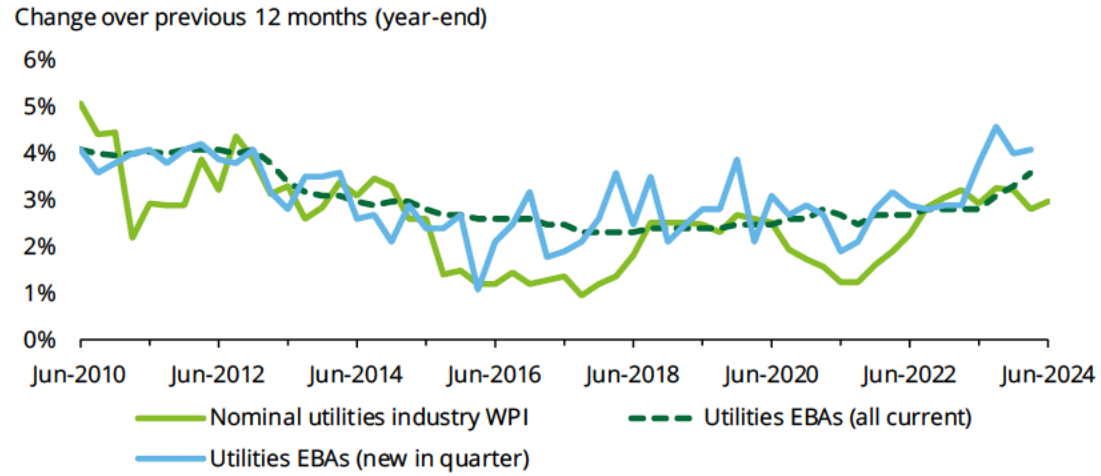
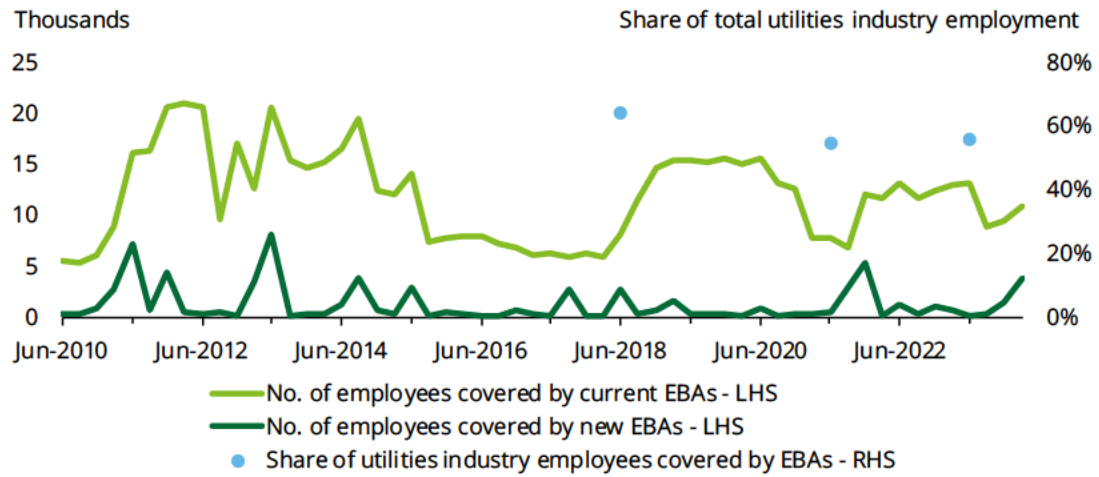


Chart 2.10: Proportion of all utilities industry employees covered by all current EBAs and EBAs approved in the quarter, New South Wales



Source: Department of Employment and Workplace Relations, Australian Bureau of Statistics, Deloitte Access Economics.

3. Queensland

The Queensland economy

Growth in the Queensland economy has slowed as households have absorbed the effect of higher interest rates and cost-of-living pressures. Despite this, Queensland's economy is forecast to remain stronger than most other states. Near-term economic growth in Queensland is expected to be supported by healthy population growth, a rebound in household consumption and an uptick in commodity export volumes.

Household consumption grew at a faster quarterly rate in Queensland compared to Australia in early 2024 and is forecast to accelerate in 2024-25 as Queensland benefits from strong population growth and elevated state government spending directed at households. This includes a $1,000 rebate on electricity bills, 50 cent public transport fares, lower government charges, as well as other rebates and concessions.

Strong population growth in Queensland has increased pressure on housing supply in an already imbalanced residential market. The outlook for housing supply is anticipated to improve from 2025-26. Dwelling investment is forecast to grow at double-digit rates as the post-pandemic backlog of construction work clears and dwelling approvals increase from current lows.

An increase in goods export volumes is forecast to add to the Queensland economy in the near term. Coal export volumes are projected to grow strongly in 2024-25 as earlier weather-related disruptions ease. Agricultural export volumes are also expected to increase as China removed the remaining restrictions on imports of Australian beef in early 2024.

The Queensland economy is forecast to grow at a marginally faster rate than the Australian economy through to 2029-30. This is largely due to the strength of population growth in the state.

Chart 3.1: Components of GSP growth, Queensland, average annual growth 2023-24 to 2029-30

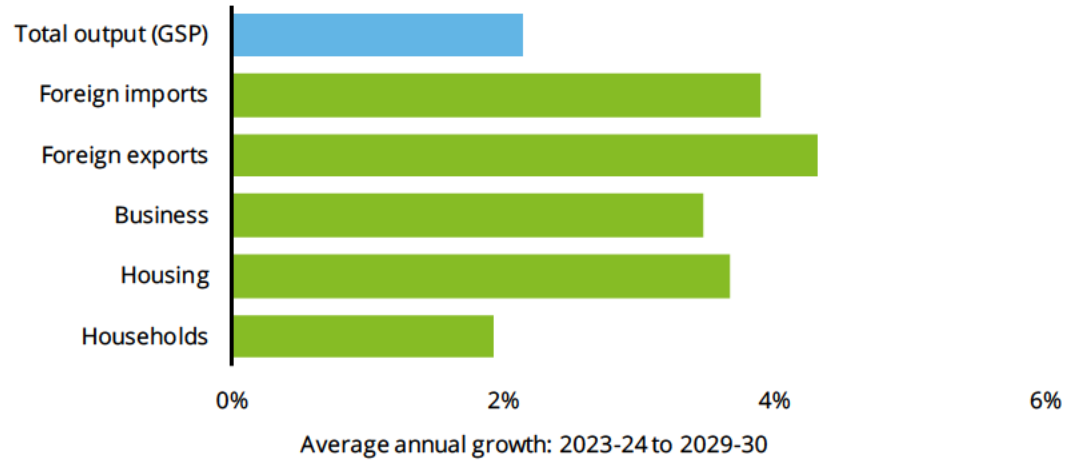
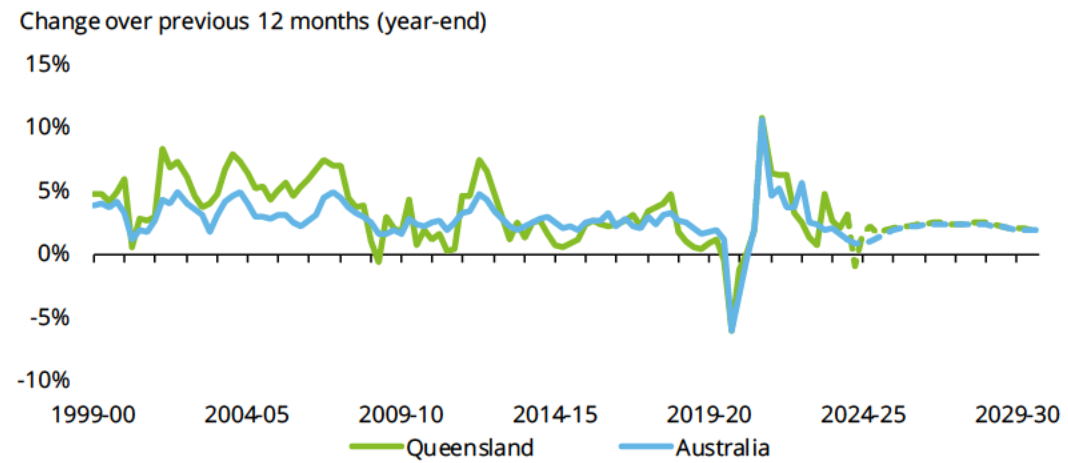


Chart 3.2: Growth in economic output, Queensland and Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics.

The Queensland labour market

Queensland's labour market has seen historically strong conditions over 2021-22 and 2022-23. Employment growth is forecast to moderate as the slowdown in the wider economy weighs on the state's labour market.

The slowdown in labour demand through to mid-2024 has been more modest in Queensland than the wider Australian economy. The unemployment rate in Queensland remains below pre-pandemic rates, job vacancies fell by less in the past year, and employment growth remains elevated.

Employment growth is forecast to slow as economic activity moderates and labour market conditions normalise, growing broadly in line with underlying population growth. Looking ahead, Queensland employment growth is forecast to grow at a slightly faster pace than the national equivalent through the forecast period to 2029-30.

The unemployment rate is forecast to increase from 4.3% in July 2024 to 4.6% by December 2024 as the weaker economic outlook flows through to additional spare capacity in the labour market. The unemployment rate is then expected to stabilise and gradually increase across the forecast period as growth in employment lags growth in the labour supply.

Chart 3.3: Employment growth, Queensland and Australia

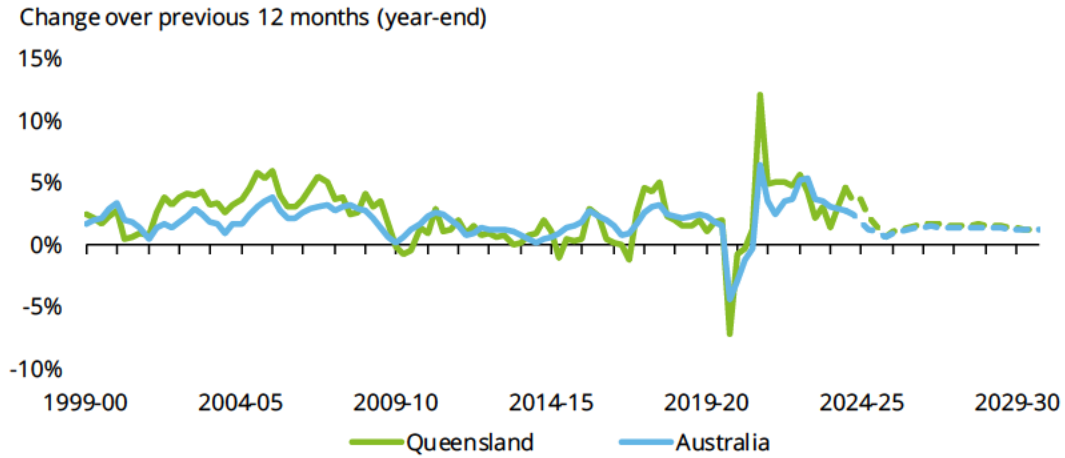
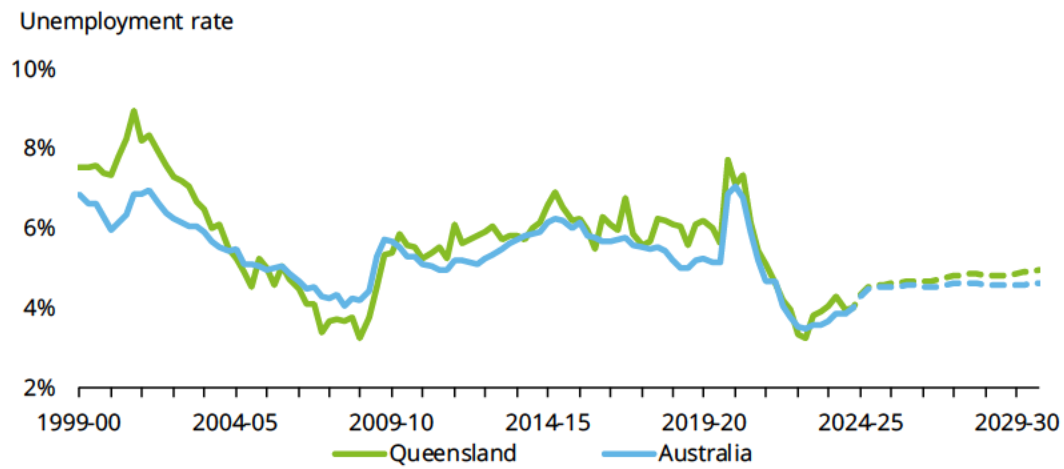


Chart 3.4: Unemployment rate, Queensland and Australia



Note: Forecasts for employment growth and the unemployment rate were finalised prior to the release of Labour Force data for July 2024 that is referenced in the text throughout the report.
Source: Australian Bureau of Statistics, Deloitte Access Economics.

Queensland all industry wages

Summary of key trends in historical WPI growth

Queensland wage growth has accelerated from record lows during the pandemic to a peak in late 2023. More recently, the slowdown in the wider economy has started to flow through to labour demand and the pace of wage growth.

All industry wage growth in Queensland has been faster than in Australia since December 2021. The difference between Queensland and national WPI growth widened towards the end of 2023. This was partly due to the strength of wage gains in the Queensland utilities, construction, hospitality and health care industries.

Real all industry wage growth has fallen on a year-average basis in Queensland since mid-2021 as price growth has outpaced wage growth. This trend has unwound and real wages in Queensland increased in 2023-24 – ahead of the forecast return of real wage gains in the Australian economy.

Outlook for nominal and real WPI growth

Nominal all industry wage growth in Queensland is forecast to moderate in 2024-25 alongside a softening of conditions in the state's labour market. Nominal wage growth in Queensland is forecast to average 3.2% annually from 2024-25 to 2029-30 – in line with forecast growth in nominal Australian wages. In the near term, growth will be supported by the strength of recent EBAs in industries such as utilities, construction, transport and education.

Real wage growth is forecast to accelerate from 2024-25 as inflation moderates. Real wages are forecast to grow at a similar pace to Australian real wages from 2025-26, reflecting similar labour productivity growth profiles for Queensland and Australia.

Chart 3.5: Nominal all industry WPI growth, Queensland and Australia

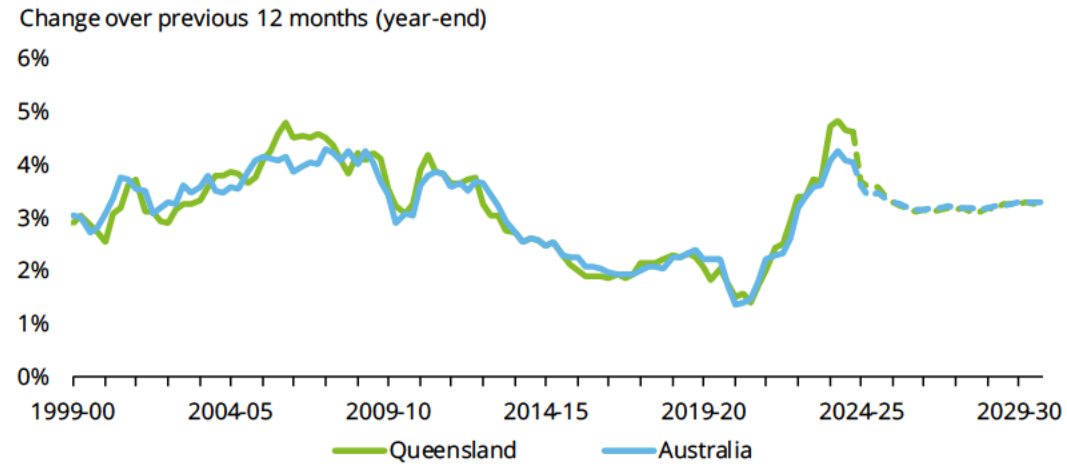
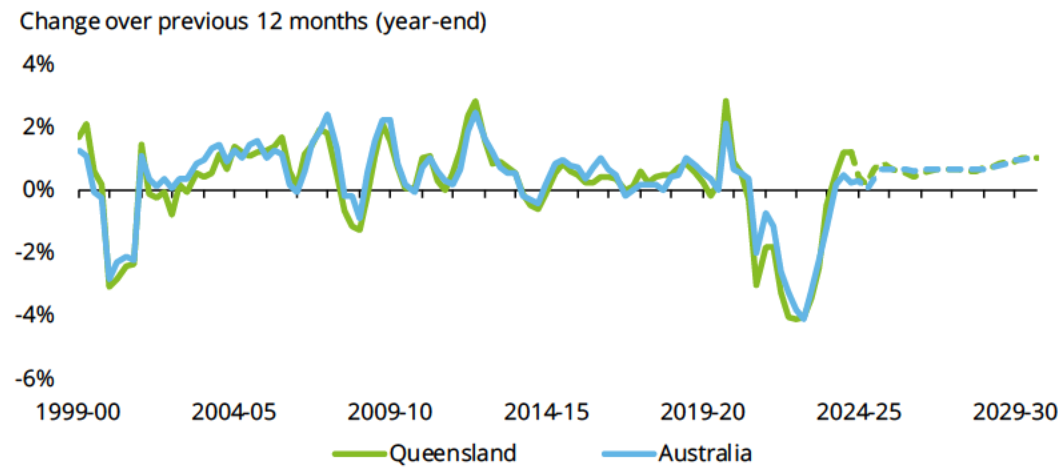


Chart 3.6: Real all industry WPI growth, Queensland and Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics.

Queensland utilities industry wages (1/2)

Queensland utilities industry WPI

Queensland's utilities industry output has increased as a share of national utilities output over the past four decades as relatively strong population growth has added to demand for energy in the state. The future of Queensland's utilities industry will be supported by the development of renewable energy generation capacity in the state.

Wages in the Queensland utilities industry increased at a significantly faster pace than national utilities industry wages in 2023-24. The recent lift in utilities wage growth in Queensland likely reflects a degree of catch-up in wage growth following weak gains in 2021-22, as well as the strength of the AAWI in recently negotiated EBAs. An agreed pay deal for workers at state energy providers, which took effect in the March quarter of 2024, will keep the annual rate of wage growth elevated in the near term.

Wage growth is forecast to moderate in line with broader all industry wage growth from 2025-26. This reflects the slowdown in nominal WPI growth across the wider Queensland economy amid the easing of tightness in the labour market.

Queensland utilities industry wage growth is forecast to be faster than national utilities industry wages in 2024-25 before this outperformance narrows. Queensland utilities industry wages are expected to rise at a slightly faster pace than the Queensland all industry average from 2026-27 to 2029-30, in line with the pre-pandemic trend.

Real utilities industry wages in Queensland rose strongly in 2023-24 as an acceleration in nominal wage growth occurred alongside a deceleration in price growth. A further acceleration in real utilities industry wage growth is forecast in 2024-25 before the pace of real wage gains slows from 2025-26.

Chart 3.7: Nominal utilities industry WPI growth, Queensland and Australia

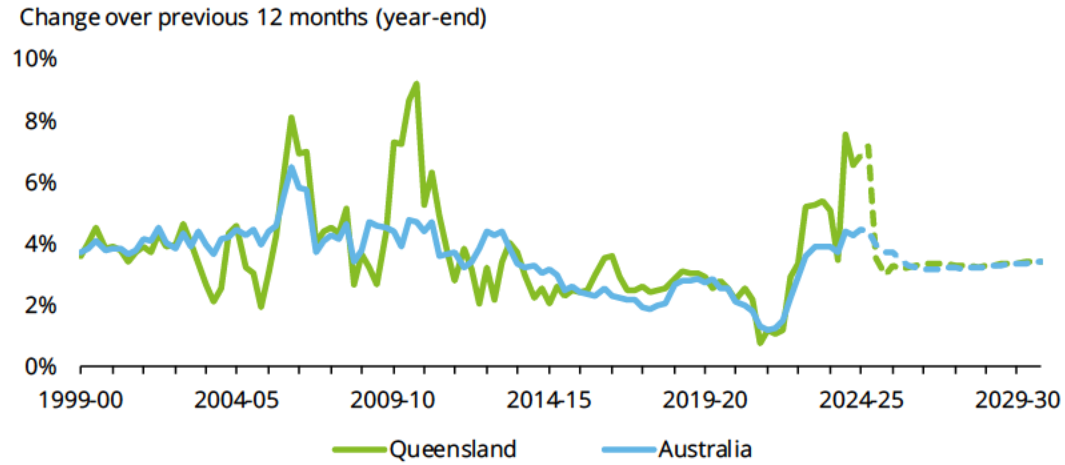
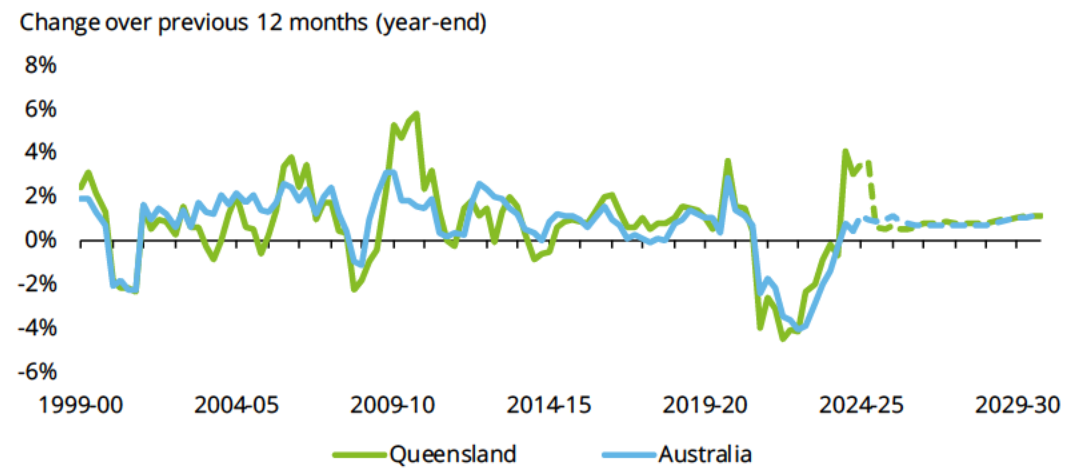


Chart 3.8: Real utilities industry WPI growth, Queensland and Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics.

Queensland utilities industry wages (2/2)

Other wage growth measures

According to the ABS, a total of 62% of utilities industry employees are covered by EBAs in Queensland, above the 38% share across all industries in the state.

The AAWI of current utilities industry EBAs in the state has steadily risen from a low in late 2019 and is now at the highest rate seen since September 2011.

In the March quarter of 2024, there were four new utilities EBAs approved in Queensland, covering 100 employees. While these new agreements covered a relatively small number of additional employees, the AAWI of these agreements was 4.7%, 0.7 percentage points higher than the AAWI of all current utilities EBAs in Queensland.

There are examples of EBAs signed in the state within the past year with much higher AAWIs that are not included in the DEWR data. For example, the Electrical Trades Union, Energy Queensland and Powerlink recently agreed in-principle to an 8.6% CPI inflation adjustment – in addition to a 4.5% wage increase – to account for the effect of past inflation on real wages for the affected workers. EBAs such as these typically run for a few years and are therefore expected to add to wage growth in the utilities industry in the near term.

Chart 3.9: Measures of utilities industry wage growth, Queensland

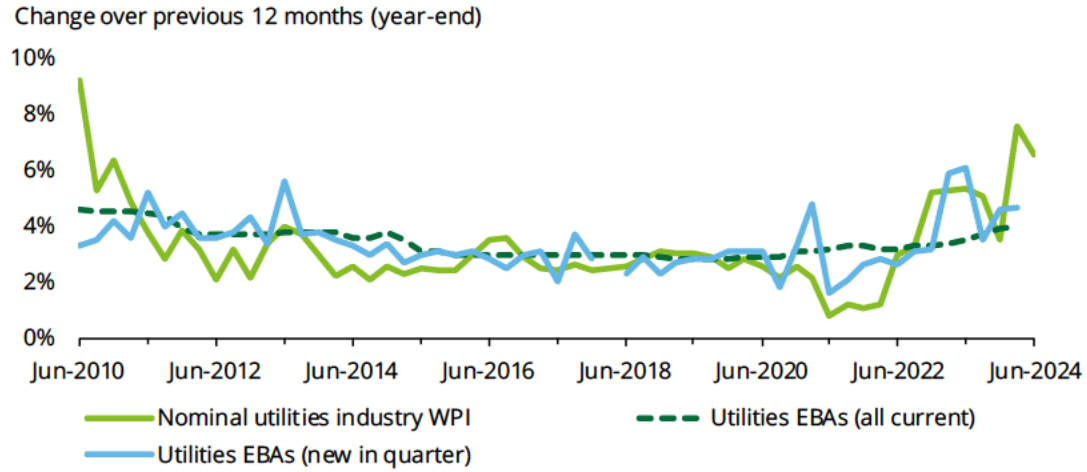
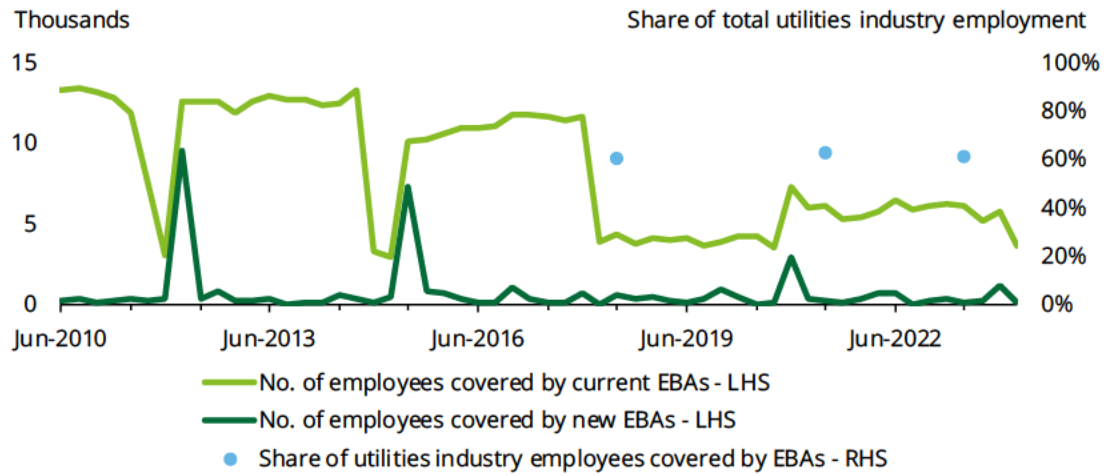


Chart 3.10: Proportion of utilities industry employees covered by all current EBAs and EBAs approved in the quarter, Queensland



Source: Department of Employment and Workplace Relations, Australian Bureau of Statistics, Deloitte Access Economics.

4. South Australia

The South Australian economy

Growth in the South Australian economy is estimated to have slowed in 2023-24 as higher interest rates and elevated price inflation weighed on household consumption and private investment. Economic growth is set to continue to slow in South Australia in 2024-25 as a weak outlook for net exports and population growth offsets a recovery in household spending.

Household consumption is forecast to accelerate modestly in 2024-25 as real wage gains offset the effect of weaker growth in total employment. As per-household spending behaviour recovers from the high inflation period, the main constraint on total consumption growth in South Australia remains population growth. South Australia has seen an increase in net outflows of population from the state in recent quarters, suggesting that the state is returning to a pre-pandemic structural challenge in retaining people.

South Australian export volumes have been strong in recent history as crop production volumes were high and service exports were supported by the post-pandemic recovery in tourism and education. Looking forward, growth in export volumes is forecast to slow as agricultural production moderates and the catch-up in international tourist and student arrivals ends.

Slow population growth and a decline in net international exports are forecast to drive the South Australian economy to grow at a slower pace compared to the Australian economy through to 2029-30.

Chart 4.1: Components of GSP growth, South Australia, average annual growth 2023-24 to 2029-30

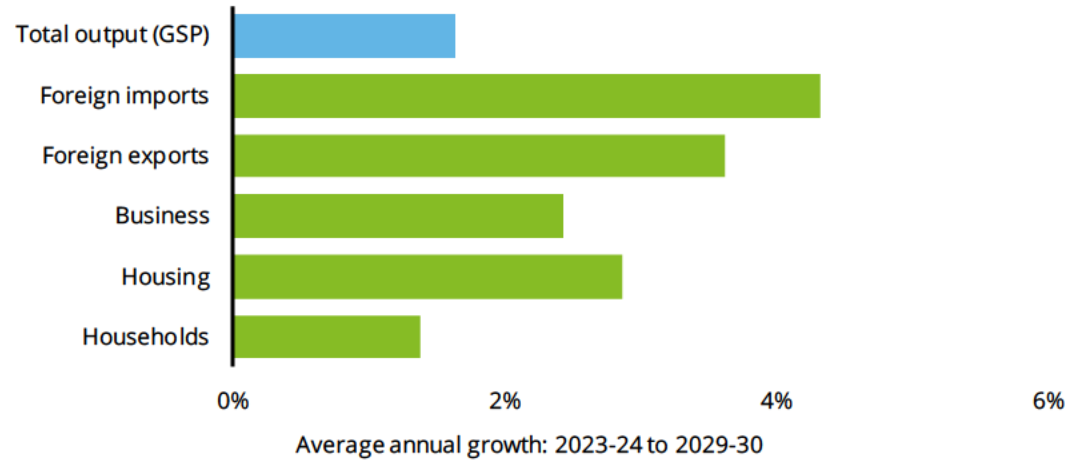
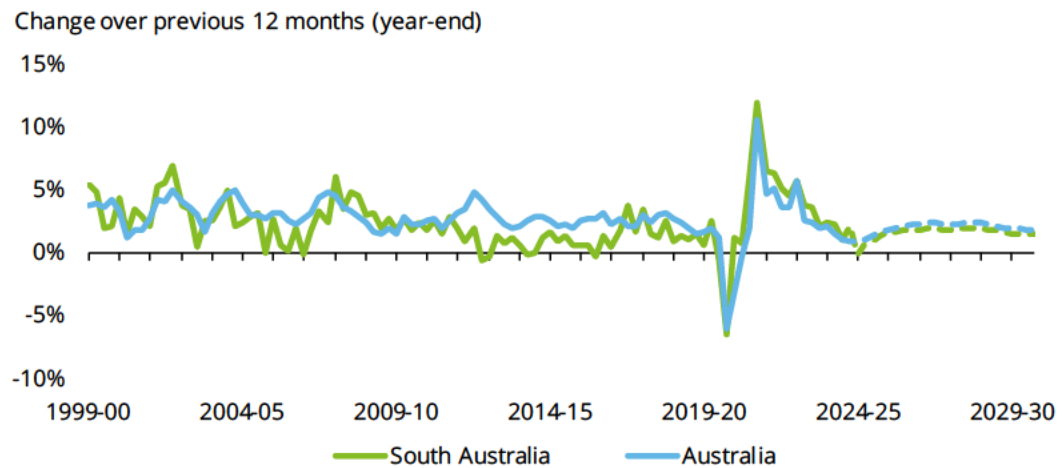


Chart 4.2: Growth in economic output, South Australia and Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics.

The South Australian labour market

South Australian labour market conditions are expected to moderate through 2024-25 amid the softer outlook for growth in the state's economy and population.

The South Australian unemployment rate rose in July 2024 as an increase in the participation rate offset continued growth in the number of people employed. South Australia has the second lowest participation rate of any state or territory (behind Tasmania) and that rate is below the peak observed in early 2023 (while the Australian participation rate has increased over this period). There are indications that there is more spare capacity in the South Australian labour market than the headline unemployment rate would otherwise suggest. For example, the underemployment rate in South Australia was 7.2% in July 2024, compared to the Australian figure of 6.3%.

The low participation rate and high underemployment reflect long standing structural issues in the state's economy that have re-asserted themselves following the pandemic. This includes the large numbers of working age South Australians that migrate to other states for employment opportunities. This trend is likely to continue with South Australian employment forecast to grow below the equivalent Australian figure.

Meanwhile, the unemployment rate is forecast to be slightly below the national average out to 2029-30, despite weaker employment growth. That reflects a lower rate of labour force participation in South Australia.

Chart 4.3: Employment growth, South Australia and Australia

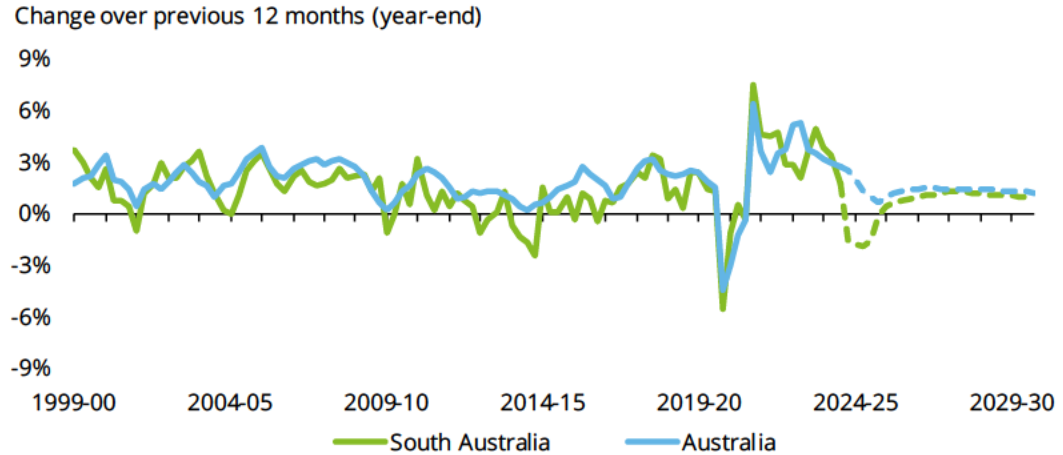
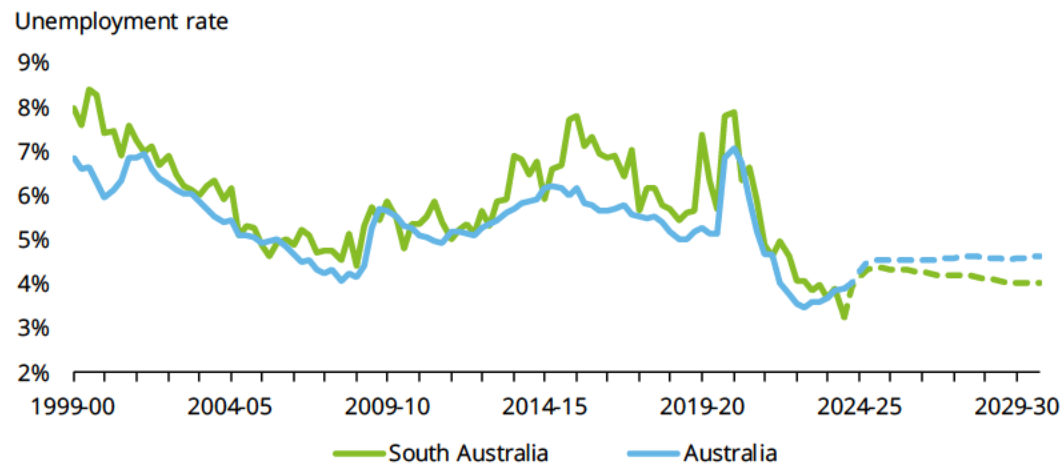


Chart 4.4: Unemployment rate, South Australia and Australia



Note: Forecasts for employment growth and the unemployment rate were finalised prior to the release of Labour Force data for July 2024 that is referenced in the text throughout the report.
Source: Australian Bureau of Statistics, Deloitte Access Economics.

South Australian all industry wages

Summary of key trends in historical WPI growth

While South Australia is a smaller share of the national economy compared to New South Wales and Queensland, wage growth has broadly followed trends in the national economy over time.

Nominal all industry wage growth in South Australia slowed in early 2024 after rebounding strongly from the lows recorded during the pandemic. The recent slowdown in wage growth has been led by the private sector as economic conditions have softened. At the same time, public sector wage growth has increased as EBAs have been renegotiated.

Real all industry wages have fallen on a year-average basis in South Australia since late 2021. The state has seen some of the highest inflation of any state through much of 2023 with real wage declines being steeper than the national average as a result.

Outlook for nominal and real WPI growth

Nominal all industry wage growth in South Australia is forecast to moderate in 2024-25 as softer macroeconomic conditions weigh on wage gains. But this slowdown is expected to be relatively modest. That is partly because nominal wages grew at a slower pace compared to Australian wages in 2023-24, and is also due to the strength of the AAWI in EBAs signed in recent quarters. Nominal wage growth in South Australia is forecast to slow in 2024-25 and 2025-26 before growing in line with national wages thereafter.

Real all industry wages in South Australia are forecast to grow from 2024-25 onwards. The rate of growth is forecast to lag the national equivalent in 2024-25, but this is largely due to the size of the fall in South Australia in 2023-24 (0.9% compared to a 0.1% fall in Australian real wages). Labour productivity growth is forecast to increase at a faster rate in South Australia in 2024-25 compared to the national equivalent, largely due to a forecast fall in South Australian employment.

Chart 4.5: Nominal all industry WPI growth, South Australia and Australia

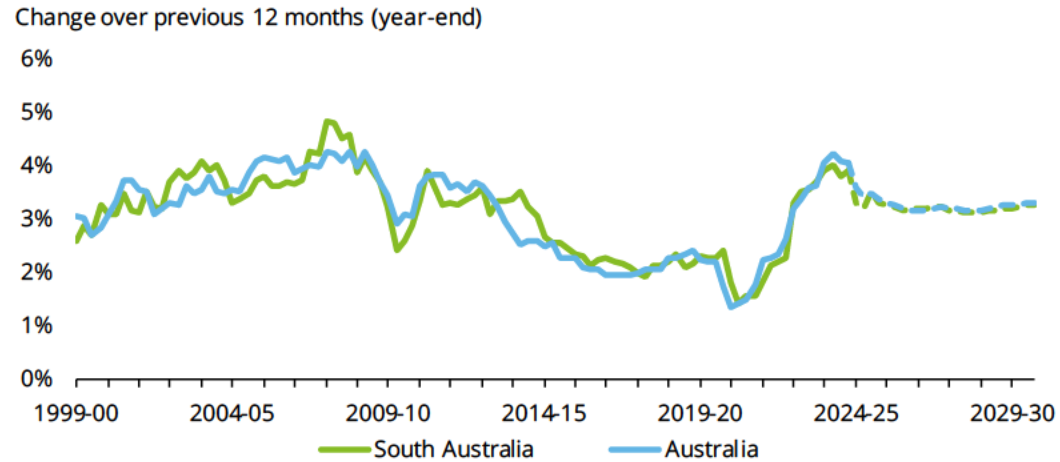
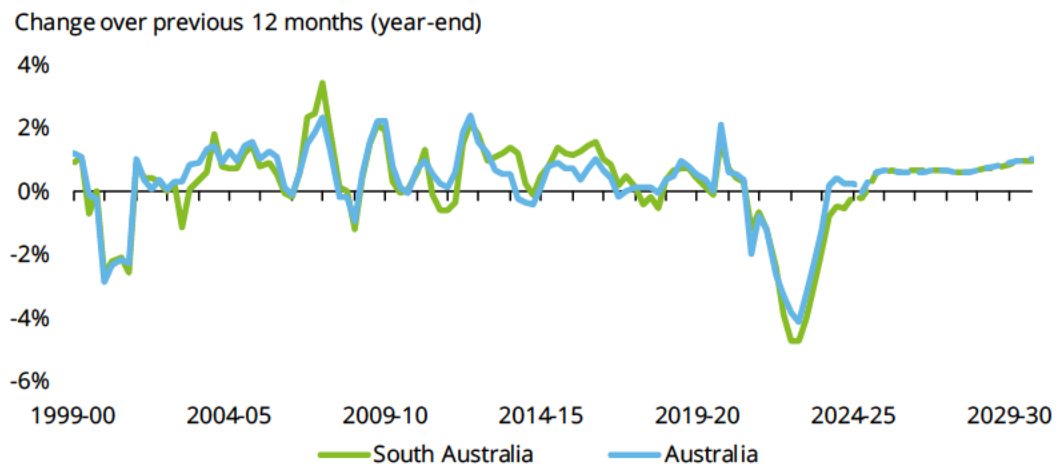


Chart 4.6: Real all industry WPI growth, South Australia and Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics.

South Australian utilities industry wages (1/2)

South Australian utilities industry WPI

South Australia represents a relatively small share of the national utilities industry, with less than 10% of the national utilities workforce employed in the state. South Australia has a relatively large renewable energy industry which has shifted the structure of the state's energy industry.

Nominal utilities wage growth in South Australia has accelerated from the lows seen in 2022-23. Utilities wage growth is estimated to have peaked in 2023-24, with the slowdown in the broader economy and labour market expected to weigh on nominal wage gains in the utilities industry in 2024-25 and 2025-26. The forecast slowdown in wage growth is likely to be relatively modest, with near-term gains supported by the strength of recent EBA outcomes.

Utilities wages in South Australia are forecast to grow at a slower pace than utilities wages across Australia in 2024-25. This is partly due to the faster unwinding of tightness in South Australia's labour market when compared to the national labour market. South Australian utilities wages are forecast to return to grow in line with the rates seen across the Australian utilities industry from 2025-26 onwards.

Real wages in the South Australian utilities industry fell in both 2022-23 and 2023-24 – and by more than the declines in real Australian utilities wages. Real wages in the utilities industry in South Australia are forecast to grow in 2024-25 as price growth decelerates by more than wages growth. Real wages are forecast to continue to increase across the forecast period to 2029-30.

Chart 4.7: Nominal utilities industry WPI growth, South Australia and Australia

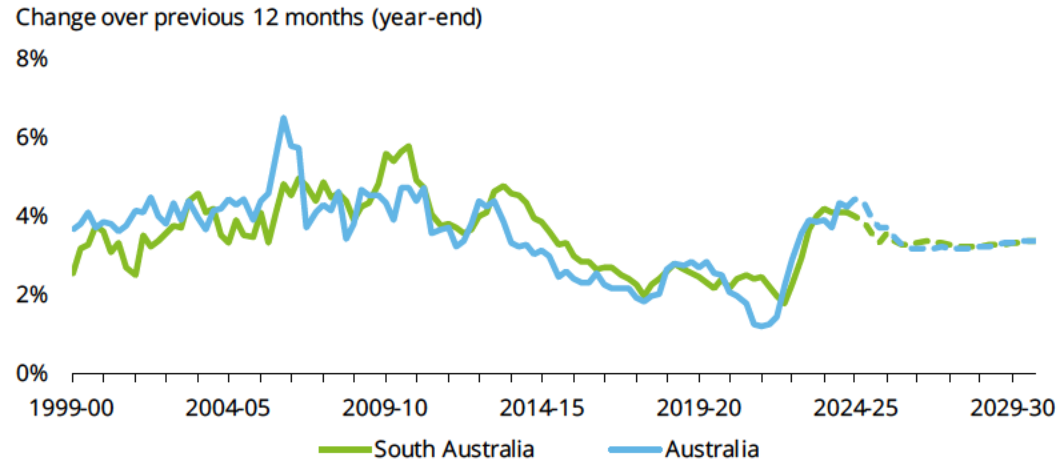
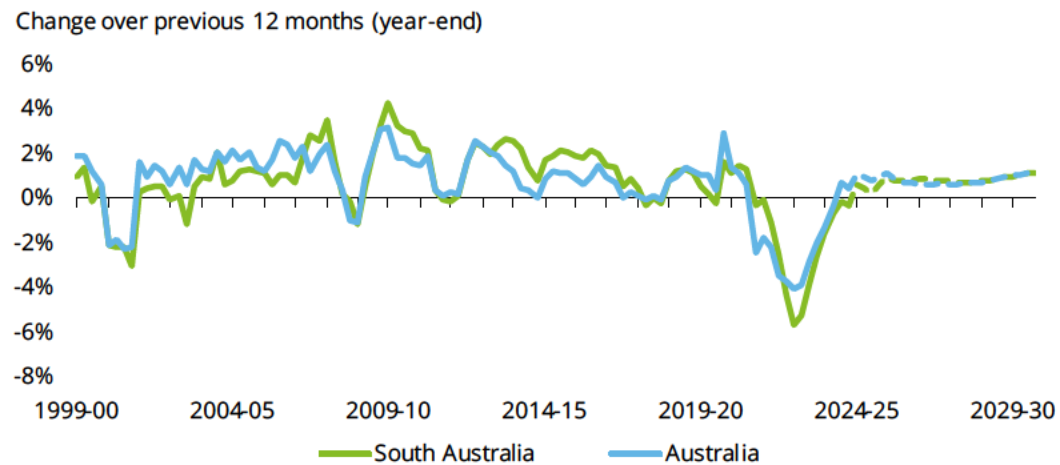


Chart 4.8: Real utilities industry WPI growth, South Australia and Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics.

South Australian utilities industry wages (2/2)

Other wage growth measures

According to the ABS, a total of 73% of utilities industry employees are covered by EBAs in South Australia, above the 40% share across all industries in the state.

Wages in current EBAs within the South Australian utilities industry have an AAWI of 6.0% - the fastest AAWI of any state or territory. This is also significantly higher than the AAWI of 3.9% across all industries in South Australia.

The AAWI of new agreements lodged in the March quarter of 2024 was 7.0%, an increase of 3.1 percentage points relative to the AAWI of agreements from the previous quarter. This is expected to support growth in the utilities industry WPI in the coming years.

Chart 4.9: Measures of utilities industry wage growth, South Australia

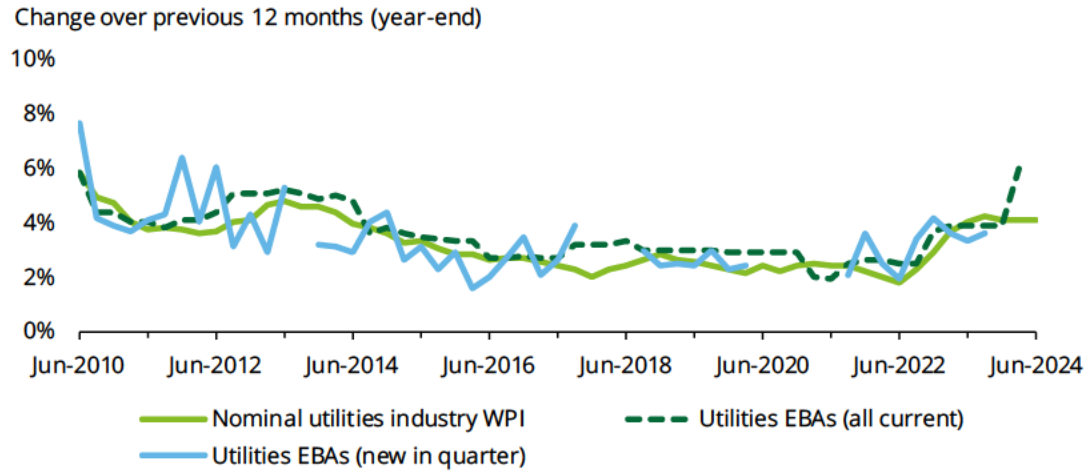
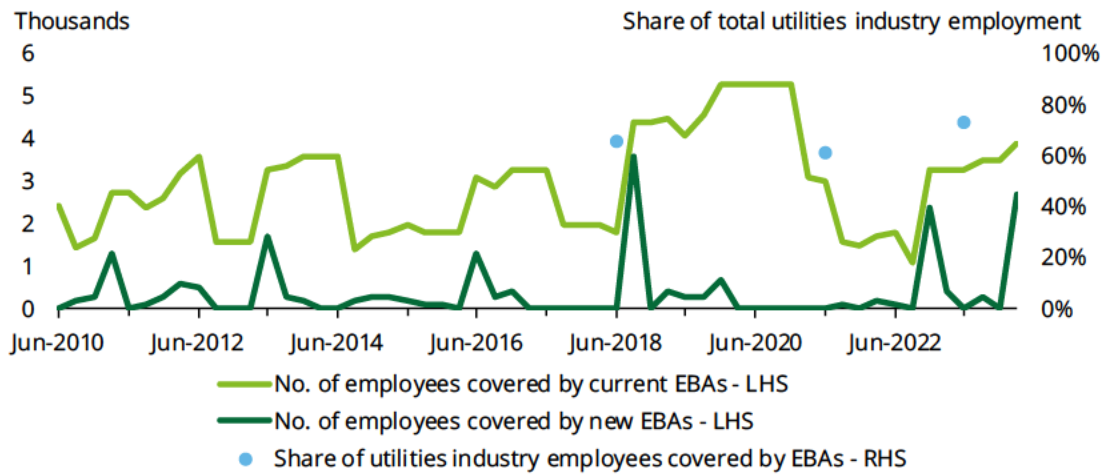


Chart 4.10: Proportion of utilities industry employees covered by all current EBAs and EBAs approved in the quarter, South Australia



Source: Department of Employment and Workplace Relations, Australian Bureau of Statistics, Deloitte Access Economics.

Appendices

Appendix A: Modelling methodology (1/2)

Deloitte Access Economics' forecasting of state-industry WPIs involves estimation of the deviations between industry and state-specific wage measures and the broadest measures of wages in the Australian economy. The Deloitte Access Economics Macroeconomic (DAEM) Model sets the outlook for national and state WPIs. The remainder of the modelling determines how industry WPIs and state-industry WPIs are expected to move relative to the all industry national and state WPI measures.

The Australian all industry WPI serves as an anchor to overall wage rates in the economy, in part because it provides a measure of the wage rises that other employees are receiving, making it a common starting point for negotiations.

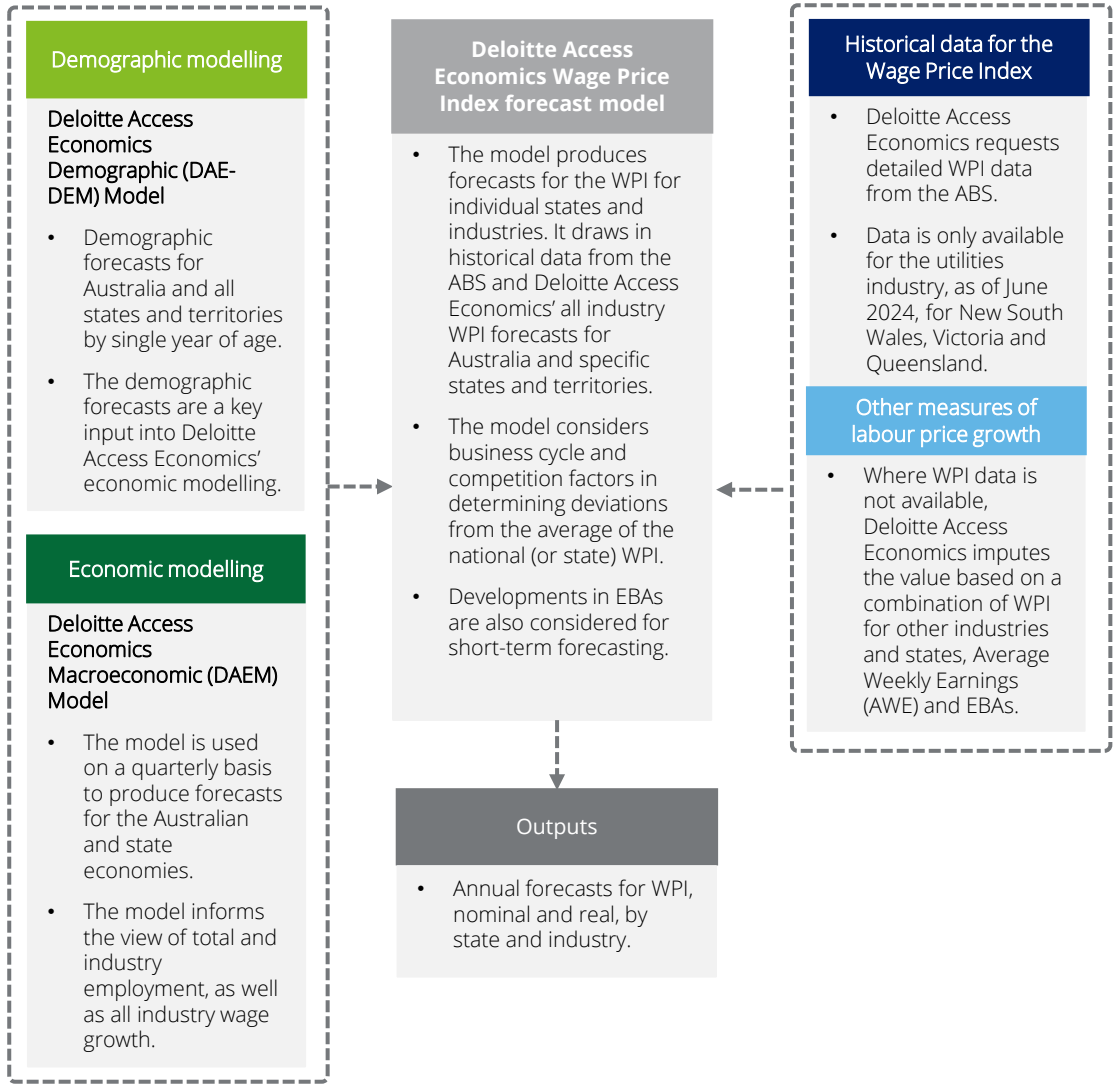
From the national index, the model adds in deviations from the average. Two key factors drive these wage differentials:

- Business cycle factors: Deviations in industry (or state) performance from the national average. Faster growing industries and states will tend to see faster growth in wages and vice versa.
- Competition (relative wage) factors: Depending on the nature of the industry, workers will have skills that are relatively more or less transferable to other industries where wages may be rising faster than in their own. This will tend to limit the ability of wage rates to diverge. For example, if wage rates in mining rise higher, companies in the construction industry will be forced to pay higher wages to keep their staff. Similar factors operate across states.

In addition to these two 'mechanical' factors, there is often the need to use judgement to determine movements in wages – particularly when other data is volatile and when factors not relevant to wage determination are having effects on broader output and employment measures.

Deloitte Access Economics also accounts for developments in EBAs in the short-term forecasts if they appear likely to have a material impact.

Figure A.1: Modelling approach summary



Appendix A: Modelling methodology (2/2)

Macroeconomic Modelling

Deloitte Access Economics' Demographic (DAE-DEM) Model is a detailed forecasting tool that projects the future path of Australia's population. It is a cohort component model, producing estimates by individual year of age by males and females. The population forecasts produced by the DAE-DEM Model are a key input into forecasts for the wider Australian economy.

The DAEM Model is a macro-econometric model of the Australian economy. It is made up of numerous accounting identities and behavioural equations which describe the aggregate actions of households, businesses, government and international entities.

The model is best described as a small open economy model in which all foreign (world) prices and interest rates are taken as given (that is, they are exogenous to the model).

The model covers all elements of the economy including production, the labour market and demographics, imports and exports, financial markets, prices and wages. Three components of the model are described in more detail in Figure A.2.

Industry modelling

Industry output is determined through the forecasts of industry final demand. Industry final demand can be thought of as the total value of goods and services that are produced by a specific industry. For example, if commodity exports increase in response to international demand this will generate an increase in mining output. Similarly, if dwelling investment increases in response to low interest rates, this will generate an increase in construction output.

Industry employment is linked to output through productivity growth assumptions, based on recent evidence and trends.

Figure A.2: Key components of the Deloitte Access Economics Macroeconomic Model

Domestic production	Domestic production is divided between household (housing rental services, modelled as a fixed proportion of the housing capital stock), general government (the sum of general government services and gross operating services), and business sector production (all other non-farm production).
Labour market	The size of the labour force is forecast using inputs from the DAE-DEM Model - an in-house population forecasting model. Business sector employment is driven by a standard labour demand function that relies on labour productivity growth, real wages, and business sector output growth.
Prices and wages	The DAEM Model includes several measures of prices, wages, and price deflators. Price and wage inflation in the DAEM Model are governed by the behavioural equations of the business sector output gap, real exchange rate, import prices, monetary policy reaction function and average quarterly earnings.

Appendix B: Data sources

The Wage Price Index

The WPI is published by the ABS on a quarterly basis and measures the change in the price of labour unaffected by changes in the quality or quantity of work performed. For example, changes in the following characteristics are not reflected in the WPI:

- Changes in the nature of work performed (e.g. different tasks or responsibilities)
- Changes in the quantity of work performed (e.g. the number of hours worked)
- Changes in the characteristics of the employee (e.g. age, experience, time in role, etc.)
- Changes in the composition of the labour market (e.g. movement of workers from one industry to another).

The WPI figures quoted in this report exclude the effect of penalty payments and allowances which fluctuate, bonus payments, as well as non-wage and salary payments such as superannuation.

Historical data

The ABS publishes the WPI nationally and for all state and territory jurisdictions. However, the WPI is not released for each industry by state. This is due to small sample sizes and reasons of confidentiality. Historical WPI data for the utilities industry was published for New South Wales, Victoria and Queensland in the latest release from the ABS.

Where WPI data is not available, Deloitte Access Economics imputes the value based on a combination of:

- WPI for the national utilities industry; and for relevant states, as well as relative movements in those industries with the states that do not have an official estimated WPI
- AWE for the industry in question from the ABS
- Data on EBAs from the Department of Employment and Workplace Relations
- Employment by state and industry.

In all cases where WPI data are not published, the estimated results are normalised to ensure that the totals for the states are consistent with the levels of the industry components. Deloitte Access Economics cannot guarantee that the estimated utilities industry WPI matches unpublished ABS data.

Appendix C: The effect of changes to the superannuation guarantee on wage growth

Superannuation guarantee and wage growth

The superannuation guarantee (SG) refers to the minimum percentage of each eligible employee's earnings an employer is required to pay into a superannuation fund or retirement savings account. The rate has been progressively increased by 0.5 percentage points per year from 9.5% in July 2020, to 11.5% in July 2024, and is scheduled to increase to 12% from 1 July 2025.

Unlike other broader measures of labour costs, the WPI does not directly include non-wage costs such as superannuation. The WPI measures changes in the 'true' wage and salary costs of employment, abstracting from changes in the composition of the labour market that can have a distorting effect on other wage measures. The WPI does not include non-wage costs such as superannuation, payroll tax, public holidays and workers' compensation.

Deloitte Access Economics has previously examined the impact of changes to the SG on forecast labour price growth for the AER. The academic literature suggests that the economic incidence of increases in the SG (who ultimately bears the cost of higher contributions) may differ from the statutory incidence (who is required to pay the higher contributions). It is likely that a proportion of the costs associated with increases to the minimum SG will be passed from employers to employees via slower wage price growth than would otherwise be the case.

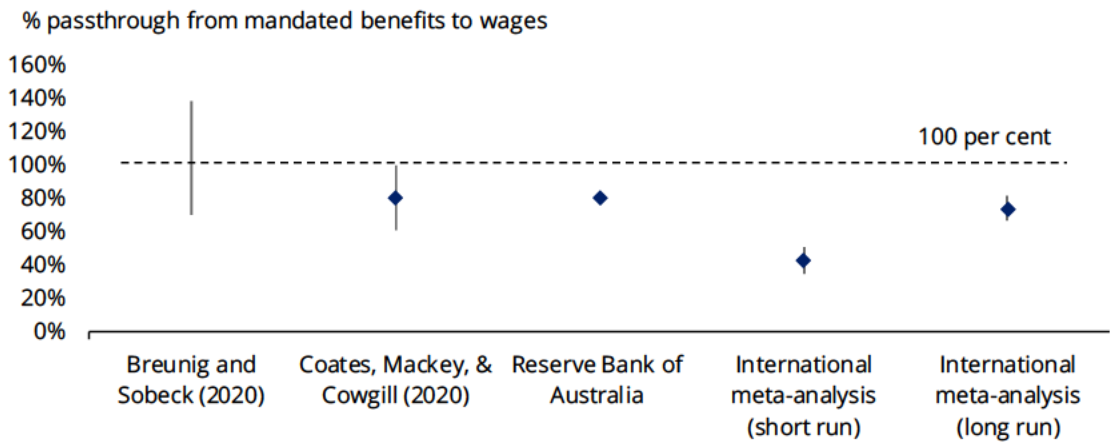
The economic incidence of increases in the SG depends on both the value employees place on compulsory contributions and the responsiveness of employees to changes in wages. Employees may place different values on equivalent increases in superannuation and wages. The more employees value superannuation contributions, the more they will bear the cost of increases to the minimum SG in the form of lower wages.

The academic literature highlights that employees tend to bear most – but not necessarily all – of the burden of compulsory payments by employers.

The degree to which costs are passed through to employees varies according to the study and type of benefit examined. Australian evidence points to a high degree of passthrough of increases in the SG to lower wage growth over time with RBA and Grattan Institute analysis indicating around 80% of the increase in superannuation shows up as slower wages growth. International evidence also shows that the incidence can vary across time with the passthrough below 50% in the short run (defined as the year of the policy change) before increasing to almost 75% in the long run (several years after the policy change).

Deloitte Access Economics' WPI forecasts account for the negative effect of increases to the minimum superannuation guarantee rate on WPI growth that is expected to occur over time.

Chart C.1: Estimates of passthrough to wages from the SG and mandated benefits



Source: Breunig & Sobeck (2020), Coates, Mackey, & Cowgill (2020), House of Representatives Standing Committee on Economics, Melguizo & González-Páramo, (2013).
Note: Breunig & Sobeck show the lowest and highest estimated passthrough from different SG rate changes. RBA shows the estimate based on testimony to House of Representatives Standing Committee on Economics. All others show point estimates and 95% confidence intervals. International meta-analysis refers to a regression analysis of 52 international empirical papers by Melguizo & González-Páramo that examine the economic incidence of labour taxes and social security contributions.

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