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Labour price growth forecasts

Prepared for the Australian Energy Regulator

20 March 2025

Deloitte Access Economics

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

20 March 2025

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 follows Report 1, covering the same jurisdictions and forecast period, that was finalised in August 2024.

This report has been drafted based on the forecasts that underpin the December 2024 quarter Deloitte Access Economics *Business Outlook* publication that relies on the September 2024 quarter Australian Bureau of Statistics National Accounts (released in December 2024), the December 2024 quarter Consumer Price Index (released in January 2025), and the December 2024 quarter Wage Price Index (released in February 2025).

Yours sincerely

[redacted]

Cathryn Lee
Partner
Deloitte Access Economics Pty Ltd

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The Australian economy

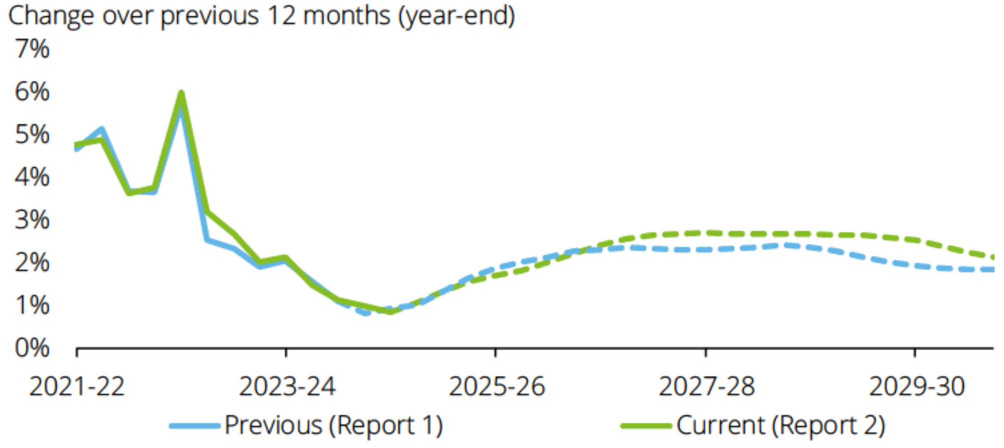
Growth in the Australian economy slowed over the past year. Persistent inflation has caused interest rates to remain higher than hoped, placing additional pressure on already stretched households and businesses. This is occurring at the same time as some areas of previous strength – such as net exports and population growth – are contributing less to economic growth.

The weakness in the economy has opened the door for the Reserve Bank to cut interest rates. In February 2025, the Reserve Bank cut interest rates from 4.35% to 4.10%. This marks the first easing of monetary policy in over four years, signalling a pivotal shift in Australia's economic landscape and suggesting that the economy has passed the bottom of the business cycle.

The Reserve Bank is increasingly confident that underlying inflation is moving sustainably towards the midpoint of the 2-3% target range. Though the recent strength of labour market data has raised the risk that employment conditions may be tighter than previously assumed. A tighter labour market, all else equal, places upward pressure on wages and prices.

Overall, growth in the Australian economy is forecast to accelerate in 2025-26 as higher incomes support household spending and public sector demand remains elevated. This is anticipated to offset the effect of weaker net exports – amid lower commodity prices and higher tariffs – and the slower pace of population growth. The easing of capacity constraints in the construction industry is expected to drive a recovery in dwelling investment and a further acceleration in the pace of overall economic growth in 2026-27. The rate of growth in the Australian economy is likely to peak towards the end of the decade before slowing gradually thereafter.

Chart i: Real GDP growth



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

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The Australian labour market

Recent data shows that the easing of the labour market that commenced in late 2022 has stalled. Australia's unemployment rate remains low, measures of capacity – such as the underemployment rate and the underutilisation rate – have either declined or remained flat, while leading indicators such as job vacancies do not point to much easing in the labour market over the near term.

Overall, labour market conditions are anticipated to remain tighter than previously expected but are expected to gradually moderate through the remainder of the 2025 calendar year. Employment growth in the market sector is likely to recover in-line with stronger economic activity, but this will be offset by an easing in non-market employment growth. The unemployment rate is forecast to return to 4.5% from 2025-26. Over the longer term, the slower pace of growth in the working age population is forecast to weigh on employment growth and participation rates.

All industry wage growth

Nominal wage growth in Australia has slowed from its peak in late 2023 but is expected to ease only slightly in the near term amid resilient labour market conditions. Public sector wage growth is forecast to rise as several large agreements come into effect, while the sustained economic recovery is anticipated to place upward pressure on private sector wages.

Compared to the forecast presented in Report 1, Deloitte Access Economics' forecast for wage growth in 2024-25 has been revised down to account for weaker-than-expected wage outcomes in late 2024. This occurred despite the strength of the labour market, suggesting that factors such as reduced job-switching and employees prioritising job security due to economic uncertainty are weighing on wage growth. Over the longer term, the pace of nominal wage gains has been revised slightly higher to reflect the improved outlook for growth in the economy.

Chart ii: Employment growth, Australia

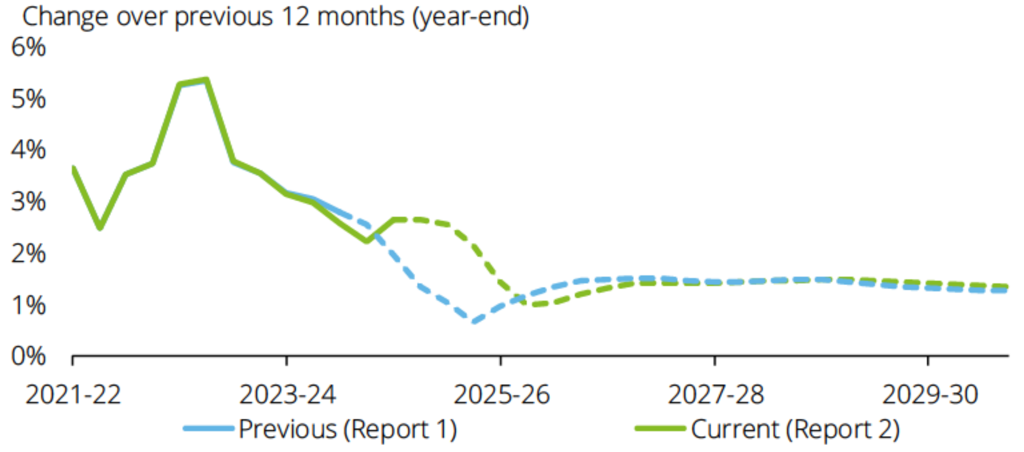
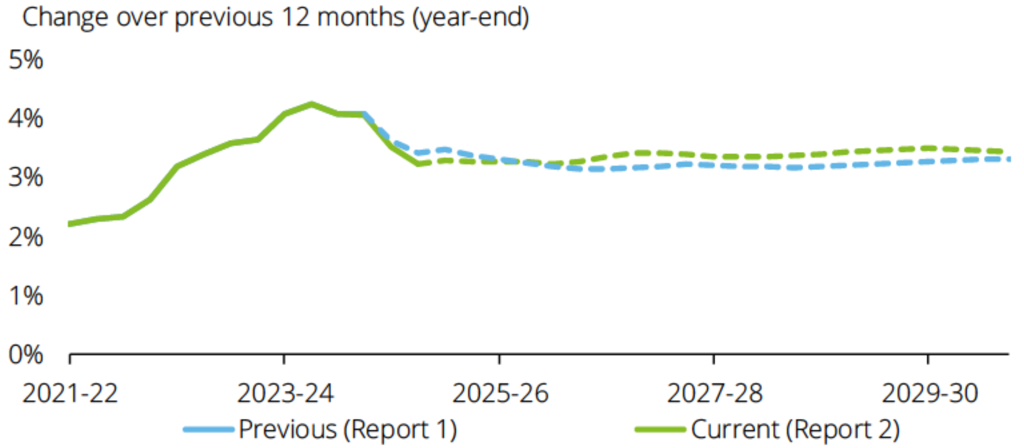


Chart iii: Nominal all industry WPI growth, Australia



Note: Forecasts for employment growth were finalised prior to the release of Labour Force data for January 2025 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 projected to grow at a slightly slower rate than the broader Australian economy. Forecasts for electricity consumption have been downgraded amid the lower than anticipated uptake of electric vehicles, weaker demand from businesses, and higher adoption of distributed energy assets such as household solar. Gas consumption is also expected to decline over the long term as households and businesses switch from gas to electricity amid the transition towards net zero carbon emissions.

Over the past twenty-five years, the utilities sector's share of national output has decreased, while its share of total employment has increased, partly reflecting a decline in labour productivity. Future employment growth is projected to be driven by the renewables and clean energy sub-industry.

Australian utilities industry wage growth

Nominal utilities industry wage growth was 4.7% in the year to December 2024, above the all industry figure of 3.2%. The outperformance of utilities industry wage growth largely reflects strength in recent enterprise agreements that have underpinned strong wage gains in jurisdictions such as Queensland.

In the near term, nominal and real utilities industry wage growth is expected to decelerate in line with gradually easing labour market conditions. However, this deceleration is expected to be relatively modest. Both nominal and real utilities industry wages are forecast to grow broadly in line with all industry wages over the longer term. This is consistent with the trend observed prior to the pandemic.

Nominal and real utilities wage growth in 2024-25 is higher than forecast in Report 1 reflecting stronger-than-expected wage outcomes in late 2024. The forecasts for nominal and real utilities wage growth are similar to Report 1 across the remainder of the forecast period.

Chart iv: Utilities industry share of national output and employment

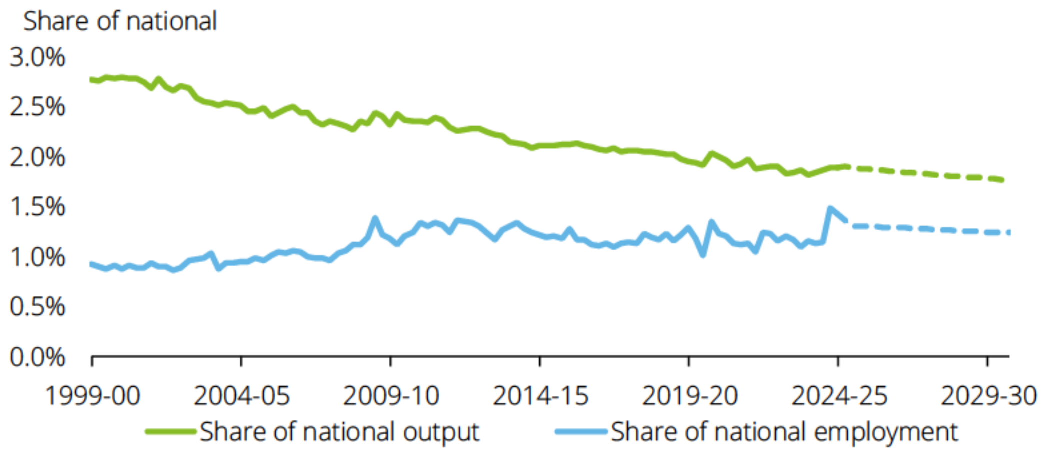
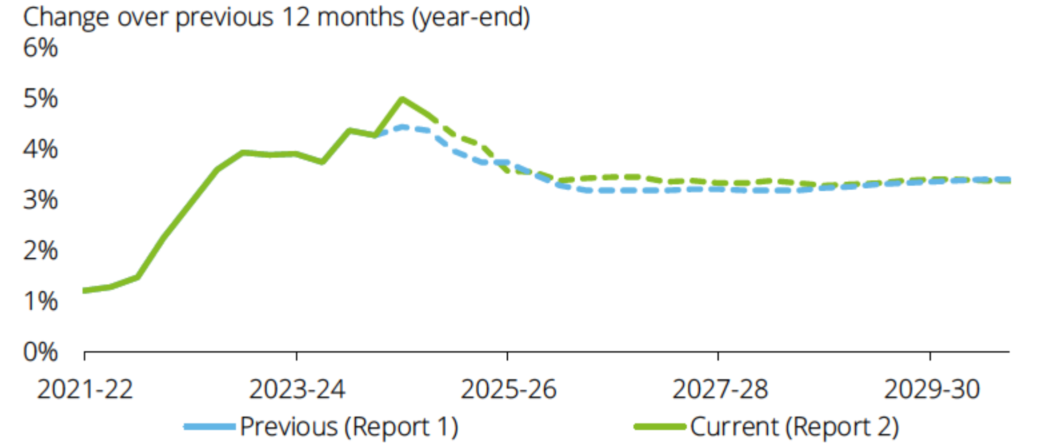


Chart v: Nominal utilities industry WPI growth, Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics

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New South Wales

Nominal utilities industry wage growth is expected to accelerate in the near term as conditions in the state's utilities industry labour market recover. The large wage increases in enterprise agreements in other jurisdictions are also likely to tether expectations for future negotiations in New South Wales over the near term.

Nominal wage growth 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 to 2025-26.

In the longer run, growth in real and nominal utilities industry wages is forecast to converge with national rates. This reflects the fact that New South Wales comprises a relatively large share of total industry activity.

Compared to Report 1, the differences in wage forecasts in 2024-25 largely reflect updated historical data. From 2025-26 onwards the nominal and real wage growth forecasts are broadly in line with forecasts in Report 1. This trend is mirrored across Queensland and South Australia.

Queensland

Queensland utilities industry wages increased at a significantly faster pace than national utilities industry wages in 2024. This reflects the high wage outcomes in recently negotiated enterprise agreements as well as strength in the state utilities industry labour market – where employment has grown rapidly.

Wages are forecast to grow at a more modest pace over the near term. Many of the measures that have added to the pace of wage growth in recent enterprise agreements are expected to be one-offs. Conditions in the state utilities industry labour market are also likely to cool, with recent data indicating that employment growth has already pulled back from earlier peaks.

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

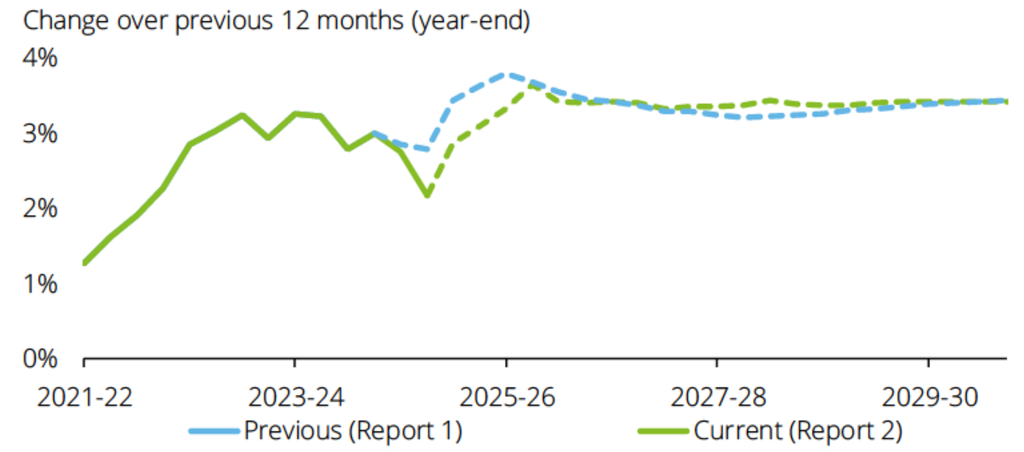
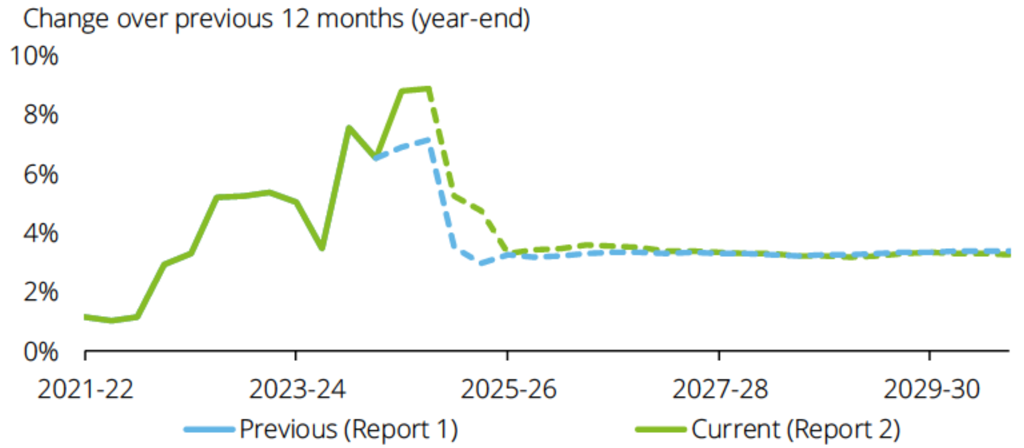


Chart vii: Growth in nominal utilities WPI, Queensland



Source: Australian Bureau of Statistics, Deloitte Access Economics

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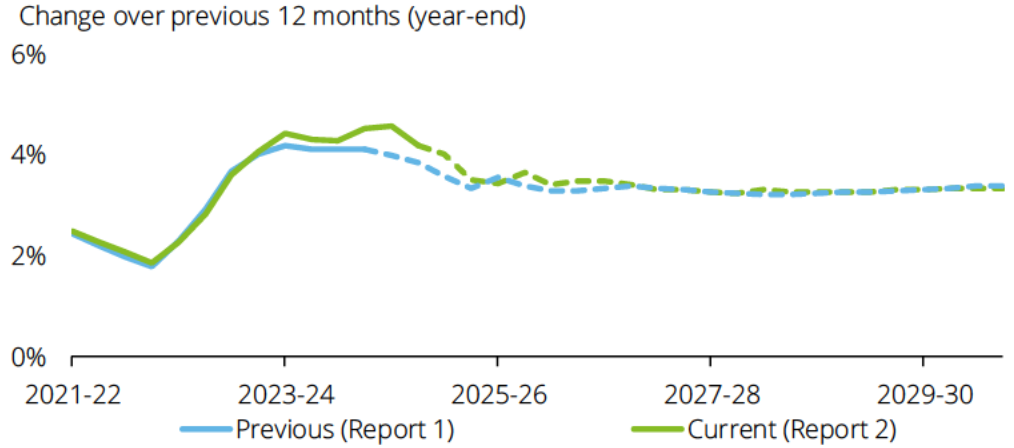
South Australia

Growth in South Australian utilities industry wages has slowed from a peak in late 2024. This is in-line with a step down in wage growth in the broader state economy amid an easing in labour market conditions.

Looser labour market conditions are expected to contribute to a further deceleration in utilities industry wage growth in 2024-25. However, the forecast slowdown is likely to be relatively modest, with near-term gains supported by the strength of recent enterprise agreements. South Australian utilities wages growth is forecast to return to be broadly in line with forecast growth at the national level in the longer term.

Chart viii: Growth in nominal utilities WPI, South Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics

Executive Summary

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

	History 2023-24	Forecast 2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
All industry WPI – nominal							
Australia	4.1%	3.3%	3.2%	3.3%	3.3%	3.3%	3.4%
New South Wales	4.1%	3.2%	3.3%	3.3%	3.3%	3.3%	3.4%
Queensland	4.7%	3.6%	3.2%	3.3%	3.2%	3.3%	3.4%
South Australia	3.9%	3.2%	3.2%	3.3%	3.2%	3.3%	3.3%
All industry WPI – real							
Australia	-0.1%	0.9%	0.4%	0.7%	0.7%	0.9%	1.0%
New South Wales	-0.2%	0.8%	0.4%	0.6%	0.7%	0.8%	1.0%
Queensland	0.6%	2.0%	0.3%	0.9%	0.6%	0.7%	1.0%
South Australia	-0.9%	0.5%	0.4%	0.5%	0.7%	0.8%	1.0%
Utilities WPI – nominal							
Australia	4.1%	4.5%	3.5%	3.4%	3.3%	3.3%	3.4%
New South Wales	3.1%	2.7%	3.5%	3.4%	3.4%	3.4%	3.4%
Queensland	5.7%	6.9%	3.5%	3.5%	3.3%	3.2%	3.3%
South Australia	4.4%	4.1%	3.5%	3.4%	3.3%	3.3%	3.4%
Utilities WPI – real							
Australia	-0.1%	2.1%	0.6%	0.8%	0.8%	0.9%	1.1%
New South Wales	-1.2%	0.3%	0.6%	0.7%	0.8%	0.9%	1.1%
Queensland	1.6%	5.2%	0.6%	1.1%	0.7%	0.6%	0.9%
South Australia	-0.5%	1.4%	0.7%	0.7%	0.8%	0.7%	1.0%

Source: Australian Bureau of Statistics, Deloitte Access Economics

Executive Summary

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

	History 2023-24	Forecast 2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
All industry real output							
Australia	1.4%	1.2%	1.9%	2.6%	2.7%	2.6%	2.3%
New South Wales	1.2%	0.8%	1.8%	2.7%	2.9%	2.8%	2.4%
Queensland	2.1%	2.5%	1.8%	2.5%	2.7%	2.8%	2.5%
South Australia	1.2%	1.6%	1.6%	2.3%	2.4%	2.3%	2.0%
Total employment							
Australia	2.7%	2.5%	1.2%	1.4%	1.4%	1.5%	1.4%
New South Wales	2.2%	1.7%	1.3%	1.4%	1.4%	1.5%	1.3%
Queensland	3.1%	3.1%	1.3%	1.5%	1.5%	1.6%	1.5%
South Australia	1.8%	0.6%	0.8%	1.2%	1.5%	1.5%	1.4%
Unemployment rate (average rate)							
Australia	3.9%	4.2%	4.5%	4.5%	4.5%	4.5%	4.5%
New South Wales	3.6%	4.1%	4.3%	4.3%	4.3%	4.2%	4.2%
Queensland	4.1%	4.2%	4.5%	4.5%	4.6%	4.7%	4.7%
South Australia	3.7%	4.0%	4.6%	4.6%	4.6%	4.5%	4.5%
Consumer Price Index inflation							
Australia	4.2%	2.4%	2.8%	2.5%	2.5%	2.4%	2.3%
New South Wales	4.3%	2.4%	2.8%	2.6%	2.5%	2.5%	2.3%
Queensland	4.1%	1.6%	2.9%	2.3%	2.6%	2.6%	2.4%
South Australia	4.9%	2.6%	2.8%	2.7%	2.5%	2.5%	2.3%
All industry labour productivity							
Australia	-1.3%	-1.3%	0.8%	1.2%	1.2%	1.2%	0.9%
New South Wales	-1.0%	-0.9%	0.5%	1.3%	1.4%	1.3%	1.1%
Queensland	-1.0%	-0.6%	0.5%	1.1%	1.2%	1.2%	1.0%
South Australia	-0.5%	1.1%	0.8%	1.1%	0.9%	0.8%	0.6%

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. Report 1, covering the same jurisdictions and forecast period, was finalised in August 2024.

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 ABS release. Historical WPI data for the South Australian utilities industry has been estimated for this report.

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

Definitions

In this Report the short term refers to the forecast period ranging from 1 to 2 years (2024-25 and 2025-26), the medium term refers to the period from 3 to 4 years (2026-27 and 2027-28), and the long term refers to the period beyond 4 years (2028-29 and 2029-30).

Structure of the report

The remainder of this report is structured as follows:

<u>Chapter 1: Australia</u>

- 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.

<u>Chapter 2: New South Wales</u>

<u>Chapter 3: Queensland</u>

<u>Chapter 4: South Australia</u>

- 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.

Appendices outlining the modelling methodology; the scope and coverage of data sources, as well as the effect of changes to the superannuation guarantee are included in Report 1. Report 1 are available on the AER's website.

1. Australia

The Australian economy (1/2)

Growth in the Australian economy has slowed over the past year. Persistent inflation has caused interest rates to remain higher than hoped, placing additional pressure on already stretched households and businesses. This is occurring at the same time as some areas of previous strength – such as net exports and population growth – are contributing less to economic growth.

The weakness in the economy has opened the door for the Reserve Bank of Australia (RBA) to cut interest rates. In February 2025, the RBA cut interest rates from 4.35% to 4.10%. This marks the first easing of monetary policy in over four years, signalling a pivotal shift in Australia's economic landscape and suggesting that the economy has passed the bottom of the business cycle. The RBA is increasingly confident that underlying inflation is moving sustainably towards the midpoint of the 2-3% target range.

Despite the encouraging inflation trend, the RBA Board cautioned that risks remain. Recent labour market data suggests that employment conditions may be tighter than previously assumed. A tighter labour market, all else equal, places upward pressure on wages and prices. Deloitte Access Economics anticipates further cuts to the cash rate by 50 basis points through the 2025 calendar year and an additional 75 basis points in 2026.

The anticipated impact of lower interest rates on household incomes is expected to drive the forecast recovery in the Australian economy in 2025. By the end of the rate cutting cycle, a household taking out an average sized mortgage and a variable mortgage rate would be around $10,000 better off in today's dollars. Households will also benefit from modest real wage gains, government spending and the likely extension of cost-of-living rebates.

Chart 1.1: Components of GDP growth, average annual growth 2024-25 to 2029-30

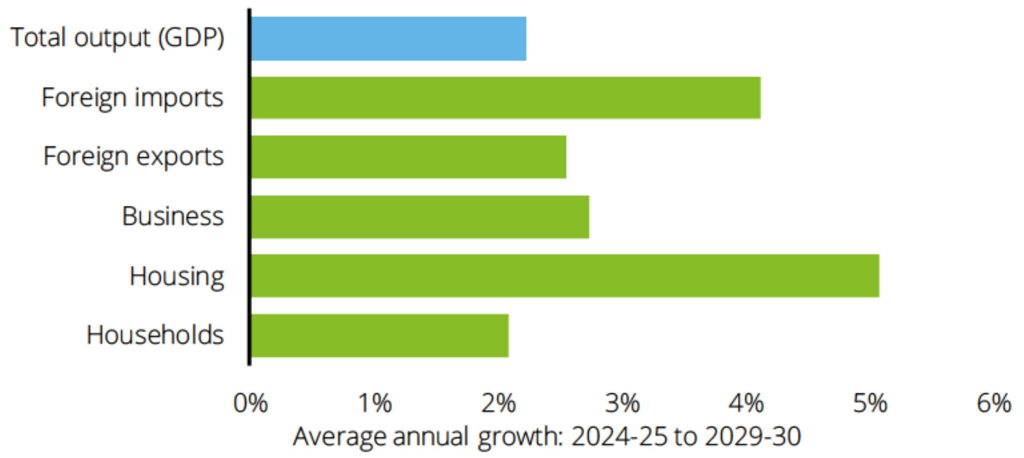
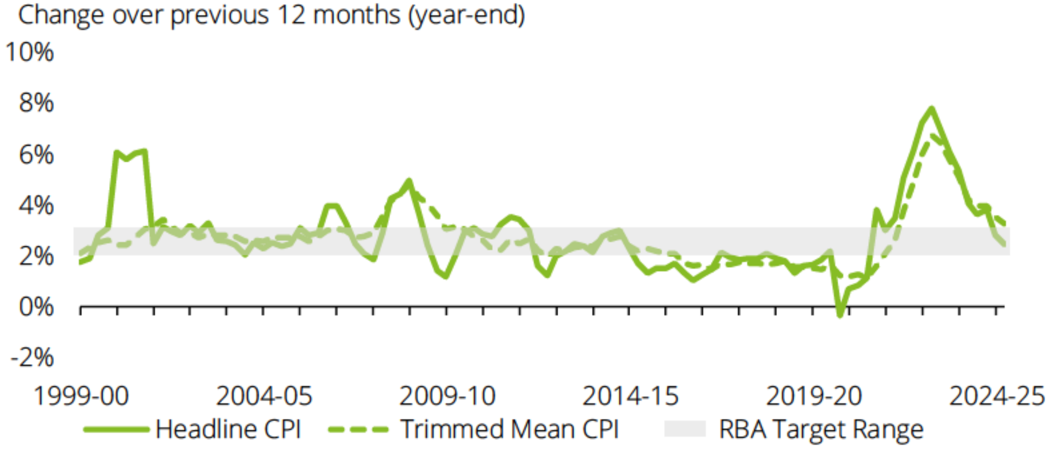


Chart 1.2: Historical CPI inflation, Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics

The Australian economy (2/2)

Growth in household consumption is forecast to accelerate in the near term, but it may take until later this decade until spending – adjusted for inflation and population growth – returns to pre-pandemic levels.

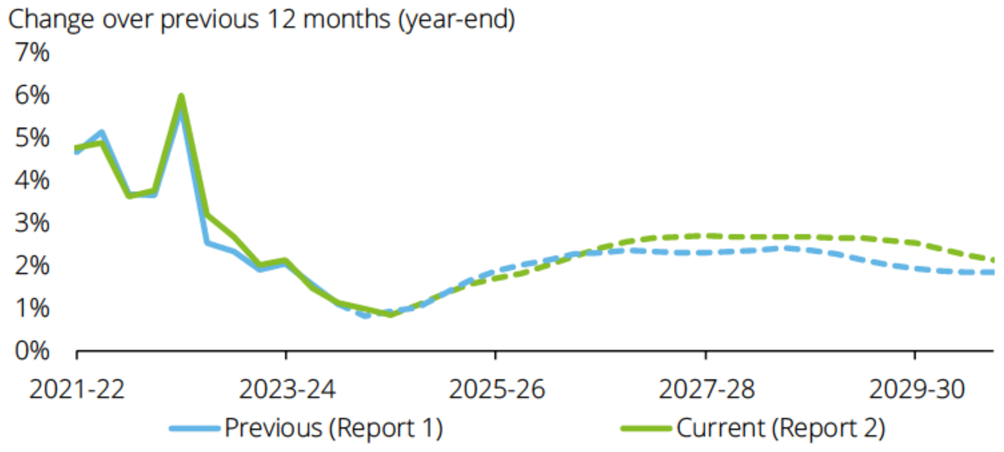
Dwelling investment is poised to be a key driver of growth as the supply of housing catches up with demand. However, limited capacity in the construction industry is likely to constrain the pace of the recovery.

The outlook for business investment has deteriorated. The slowdown in the Australian economy has hit business revenues at the same time as operating costs continue to increase. This is chipping away at profits, with many businesses responding by implementing cost-cutting measures. Against this backdrop, many businesses will find it prudent to shore up their balance sheets and wait for greater certainty around the broader macroeconomic environment before investing. Despite this, the longer-run outlook for investment remains supported by Australia's transition towards net zero emissions, while technology trends are promoting investment in generative AI, software, as well as physical infrastructure such as data centres.

Overall, growth in the Australian economy is forecast to accelerate in 2025-26 as higher incomes support household spending and public sector demand remains elevated. This is anticipated to offset the effect of weaker net exports – amid lower commodity prices and higher tariffs – and the slower pace of population growth. The recovery in dwelling investment will drive a further acceleration in the pace of economic growth in 2026-27. The rate of growth in the Australian economy is likely to peak towards the end of the decade before slowing gradually thereafter.

Compared to Report 1, Deloitte Access Economics' forecasts for economic growth have been revised lower in the near term to reflect the persistence of existing price pressures and capacity constraints. However, the longer-term outlook has been revised higher amid faster forecast growth in labour productivity.

Chart 1.3: Real GDP growth



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

The Australian labour market

Recent data shows that the easing of the labour market that commenced in late 2022 has stalled. Australia's unemployment rate, at 4.1% in January 2025 (seasonally adjusted), remains low given the recent period of subdued economic growth. Other measures of capacity in the labour market – such as the underemployment rate and the underutilisation rate – have either declined or remained flat through to early 2025.

Employment growth was robust in 2024 and this has continued into early 2025. Monthly job gains are averaging well above pre-pandemic levels, with almost 500,000 more Australians having a job in January 2025 compared to a year earlier. This has pushed the employment to population ratio and the participation rate – the share of the working age population employed or seeking employment – to record highs in early 2025.

Leading indicators such as job vacancies do not point to much easing in the labour market over the near term. For example, the job vacancy rate is elevated compared to pre-pandemic averages and increased slightly in late 2024.

Much of the recent strength in employment growth has been underpinned by the non-market sector (health care, education, and public admin). However, the market and non-market sectors draw from the same pool of workers. This has likely contributed to the improvement in market sector employment from mid-2024.

Overall, labour market conditions are anticipated to remain tighter than previously expected but will gradually moderate through the remainder of the 2025 calendar year. Employment growth in the market sector is likely to recover in-line with stronger economic activity, but this will be offset by an easing in non-market employment growth. As a result, the unemployment rate is forecast to return to 4.5% from 2025-26. Over the longer term, the slower pace of growth in the working age population is forecast to weigh on the pace of employment growth and participation rates.

Chart 1.4: Employment growth, Australia

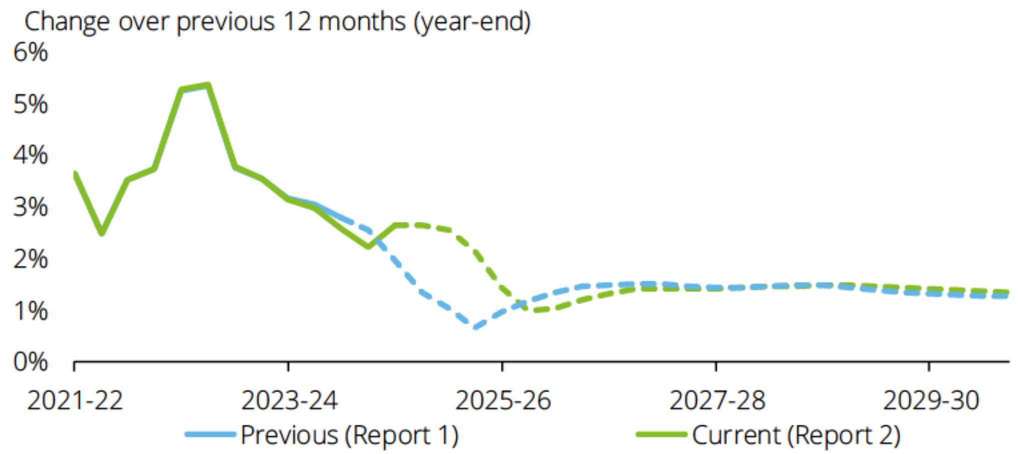
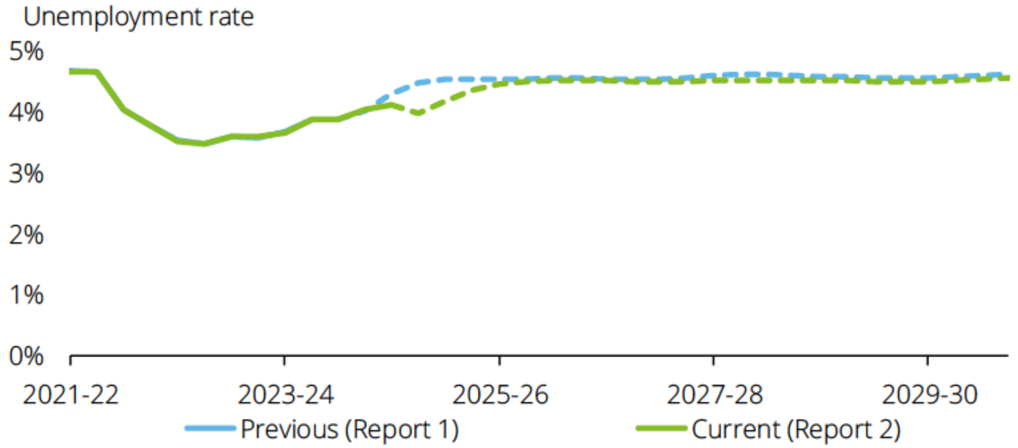


Chart 1.5: Unemployment rate, Australia



Note: Forecasts for employment growth and the unemployment rate were finalised prior to the release of Labour Force data for January 2025 that is referenced in the text throughout the report.
Source: Australian Bureau of Statistics, Deloitte Access Economics

Australian all industry wages

Nominal wage growth in Australia has slowed from its peak in late 2023 as the labour market rebalances and there are fewer instances of catch-up wage increases to account for earlier wage freezes and caps. The contribution that jobs covered by enterprise agreements made to wage growth has almost halved, while jobs covered by individual agreement – which more closely reflect prevailing labour market conditions – contributed less compared to the December quarters in 2023 and 2022.

Nominal wage growth is expected to ease only slightly in the near term as labour market conditions remain stronger than previously expected. Public sector wage growth is forecast to rise in the near term as several large agreements come into effect, while administered decisions for large awards are expected to add about ¼ percentage points to annual wage growth over the next two years. At the same time, the sustained economic recovery is anticipated to support growth in wages. Looking further ahead, the increasing retirement among baby boomers will restrain growth in the number of potential workers, handing employees back some bargaining power in wage negotiations.

Compared to Report 1, the forecast for wage growth in 2024-25 has been revised lower to account for weaker-than-expected wage outcomes in late 2024. This occurred despite the resilience of the labour market, suggesting that factors such as reduced job-switching and employees prioritising job security due to economic uncertainty are weighing on wage growth. For example, the share of jobs that saw a wage change has slipped to levels last seen prior to the pandemic in 2019. Additionally, while businesses remain cautious regarding the economic outlook and will likely continue tightly controlling costs. Over the longer term, the pace of nominal wage gains has been revised slightly higher to reflect the stronger outlook for economic growth.

Real wage gains are forecast to accelerate in 2024-25 as inflation moderates by more than nominal wage growth. Over the medium term, an acceleration in the pace of labour productivity growth is anticipated to underpin faster increases in real wages.

Chart 1.6: Nominal all industry WPI growth, Australia

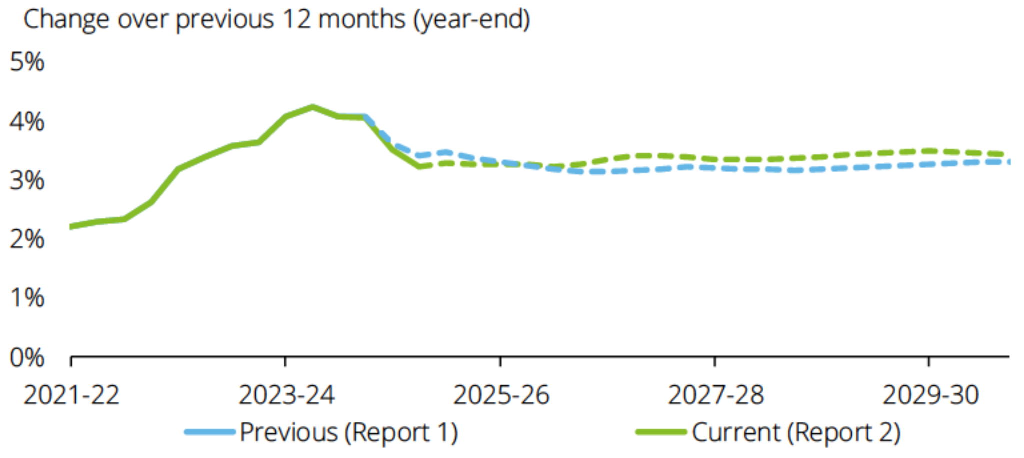
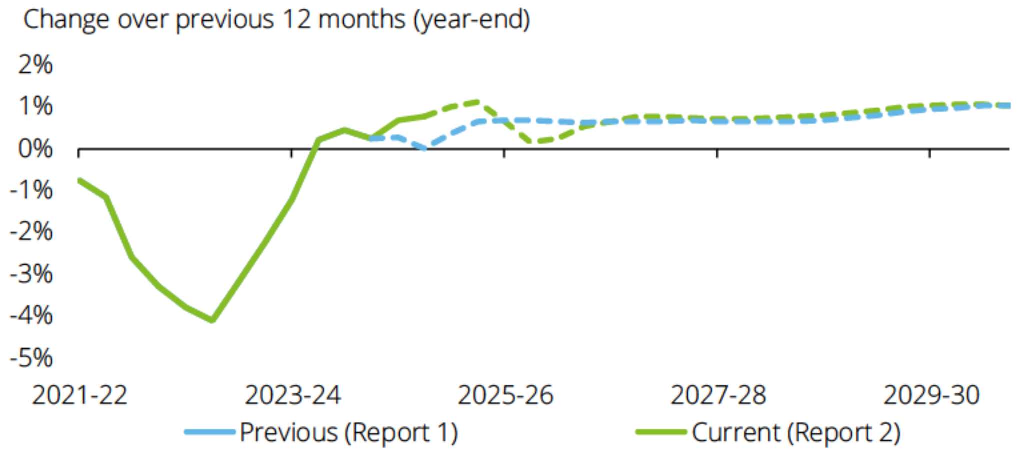


Chart 1.7: Real all industry WPI growth, Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics

Australian utilities industry output and employment

Utilities industry output

Utilities industry output increased by 4.3% in 2024 – faster than growth in overall economic activity. This was largely driven by temporary factors such as weather conditions in some states and territories which raised household energy consumption.

Looking ahead, utilities industry output is projected to grow at a slightly slower rate than the broader Australian economy. According to the 2024 Electricity Statement of Opportunities published by the Australian Energy Market Operator (AEMO), electricity consumption is forecast to grow at a slower pace over the next two decades compared to the equivalent forecasts prepared in 2023. This is due to the lower than anticipated uptake of electric vehicles, weaker demand from businesses and higher adoption of distributed energy assets such as household solar. AEMO projects gas consumption to decline over the next two decades as households and businesses switch from gas to electricity amid the transition towards net zero carbon emissions.

Utilities industry employment

Over the past twenty-five years, the utilities sector's share of national output has decreased, while its share of total employment has increased, partly reflecting a decline in labour productivity. Looking ahead, utilities industry labour productivity is forecast to grow, but the pace of growth will continue to remain below productivity growth in the wider economy. As a result, employment in the utilities industry is forecast to grow at a faster pace than output.

Future employment growth is anticipated to be driven by the renewables and clean energy sub-industry. According to the Clean Energy Regulator, a record amount of new renewable energy capacity was added to the grid in 2024. Further increases are expected in coming years as Australia strives to reduce emissions to 43% below 2005 levels by 2030. This is a positive for employment as renewable energy projects typically generate more jobs compared to equivalent non-renewable projects.

Chart 1.8: Utilities industry output, Australia

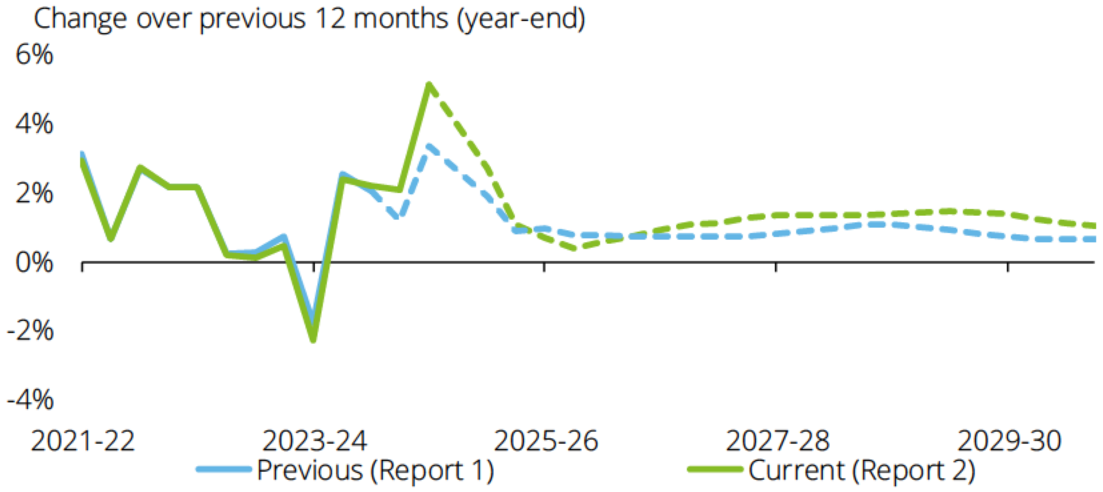
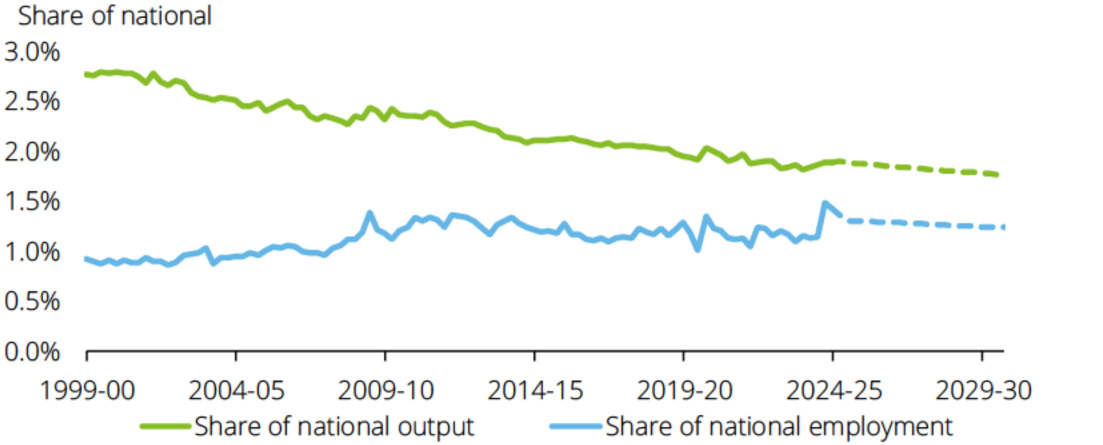


Chart 1.9: Utilities industry share of national output and employment



Source: Australian Bureau of Statistics, Deloitte Access Economics

Australian utilities industry wages (1/2)

Utilities industry WPI

Nominal utilities industry wage growth was 4.7% in the year to December 2024, above the all industry figure of 3.2%. The outperformance of utilities industry wage growth largely reflects strength in recent Enterprise Bargaining Agreement (EBA) outcomes that have underpinned strong wage gains in jurisdictions such as Queensland.

In the near term, nominal and real utilities industry wage growth is expected to decelerate in line with gradually easing labour market conditions. However, this slowdown will be relatively modest.

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

Nominal utilities wage growth in 2024-25 is higher than forecast in Report 1 reflecting stronger-than-expected wage outcomes in late 2024. Real utilities industry wage growth is also higher in 2024-25 amid faster nominal wage gains and lower forecast inflation compared to Report 1. Nominal and real utilities wage growth is similar to Report 1 across the remainder of the forecast period.

Chart 1.10: Nominal utilities industry WPI growth, Australia

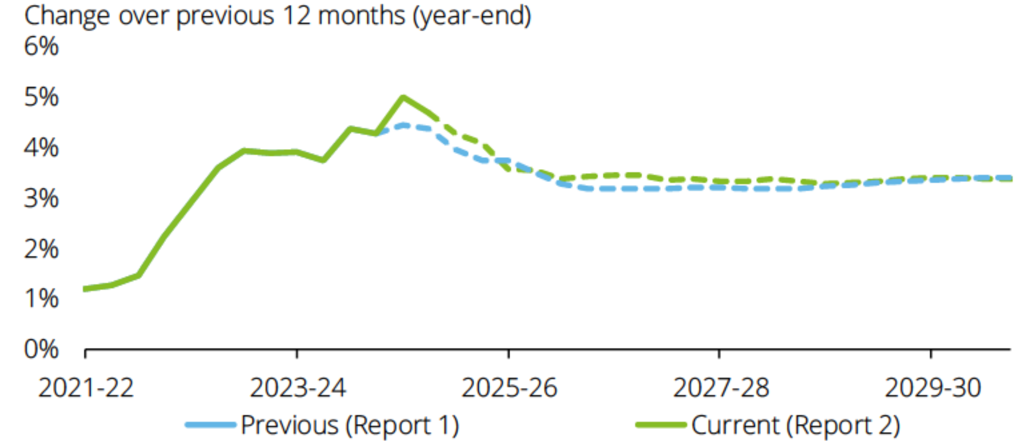
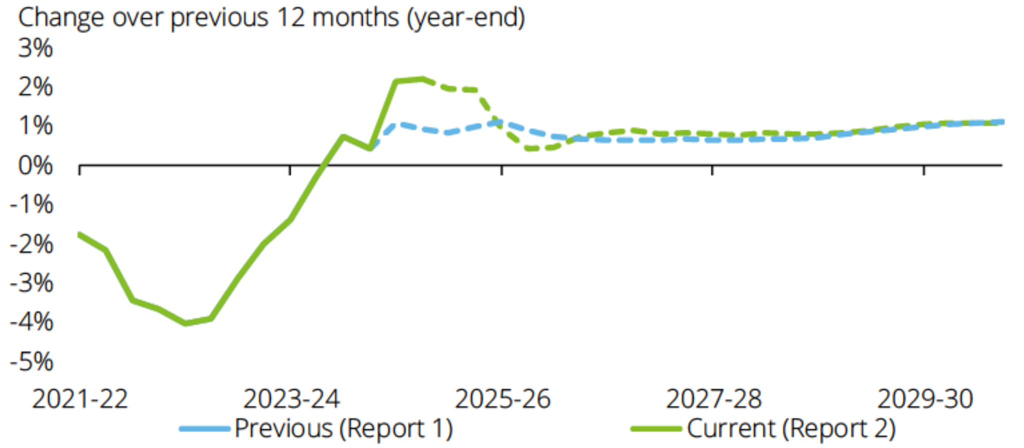


Chart 1.11: Real utilities industry WPI growth, Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics

Australian utilities industry wages (2/2)

Other wage growth measures

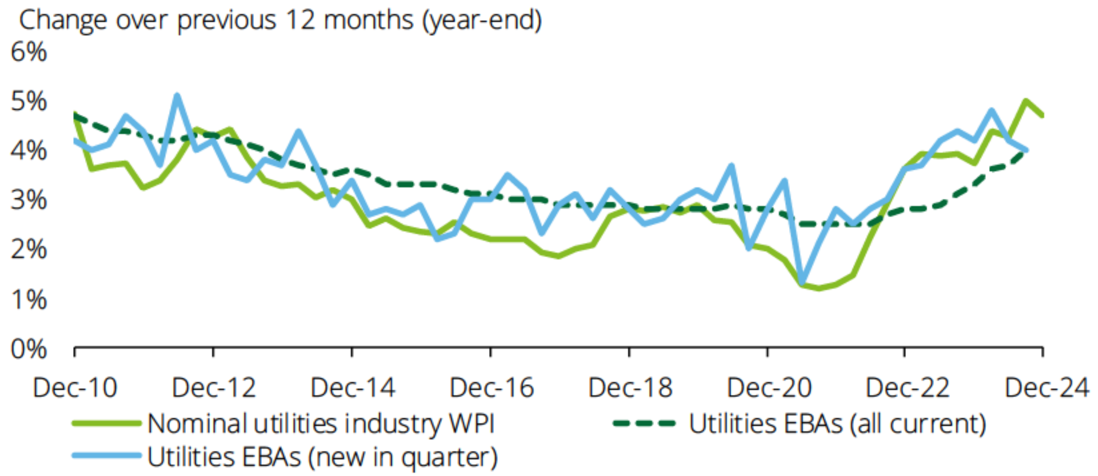
Data on EBA wage growth is available from the Department of Employment and Workplace Relations (DEWR) for a subset (approximately 50%) of all workers covered by these agreements. DEWR data only covers EBAs that are federally registered, EBAs that are active (some EBAs continue to apply after expiry unless renegotiated or rescinded by the Fair Work Commission (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 utilities industry has almost double the share of employees on EBAs compared to the all industry average. This indicates that EBAs play an important role in understanding changes in wage growth rates within the utilities sector. The average annualised wage increase (AAWI) for current EBAs in the utilities industry, at 4.0% in the September quarter of 2024, is the highest rate since early 2013 and above the AAWI across the wider economy.

However, the AAWI for new EBAs has begun to slow from a peak in the March quarter of 2024. The AAWI for current EBA's recorded in September 2024 may represent the peak.

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 1.12: Measures of utilities industry wage growth, Australia



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

2. New South Wales

The New South Wales economy

The New South Wales economy is poised for modest growth in 2025-26 as lower interest rates support households and businesses, while dwelling investment recovers from earlier falls.

Dwelling investment has weighed on the New South Wales economy since 2022-23. Approvals to construct new homes are trending downward, hovering at levels approximately 10% below the pre-pandemic average. Yet dwelling investment is expected to increase as capacity constraints in the construction industry gradually ease. Growth in household consumption is forecast to accelerate as lower interest rates, real wage gains and spending by governments all add to household budgets. Cuts to interest rates are likely to have a proportionally large effect in New South Wales given the state's high house prices compared to the national average.

Public sector spending will remain a key driver of growth. Approximately $120 billion worth of infrastructure projects are due to be delivered over the four years to 2027-28. This will support business investment, as these projects are delivered by the private sector, as well as add to productivity in the state over the longer term.

Overall, growth in the New South Wales economy is forecast to grow at a similar pace to the national average through to 2029-30. Near-term growth will be supported by faster growth in household consumption and business investment, while medium term growth will be underpinned by the ramp-up of dwelling investment – offsetting the effect of negative net exports. Over the long term, the slower pace of population growth – amid the ageing population – is projected to weigh on the pace of economic growth.

The near-term recovery in the New South Wales economy is projected to be slightly slower than forecast in Report 1. This is largely due to the persistence of capacity constraints that are weighing on dwelling investment, as well as a weaker outlook for net exports. Over the long term, like Australia, forecast economic growth has been revised higher amid faster growth in labour productivity.

Chart 2.1: Components of real GSP growth, New South Wales, average annual growth 2024-25 to 2029-30

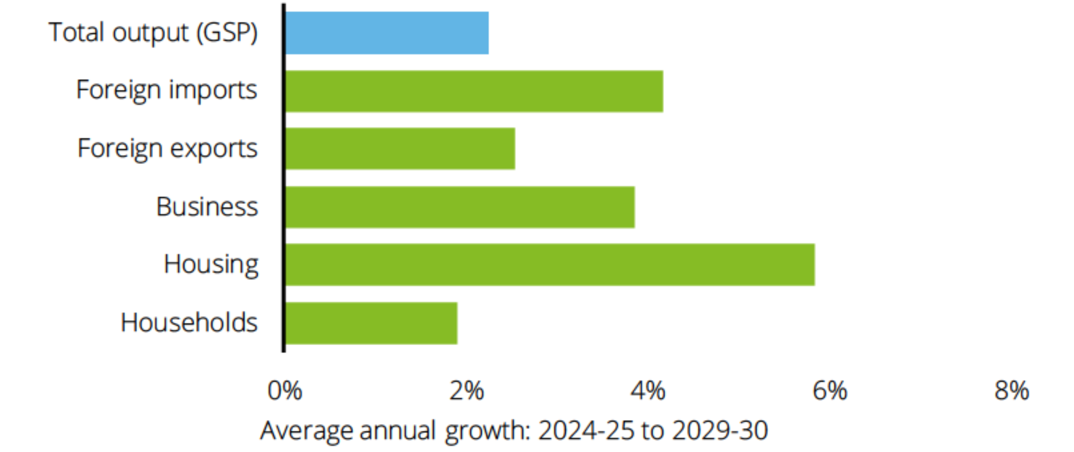
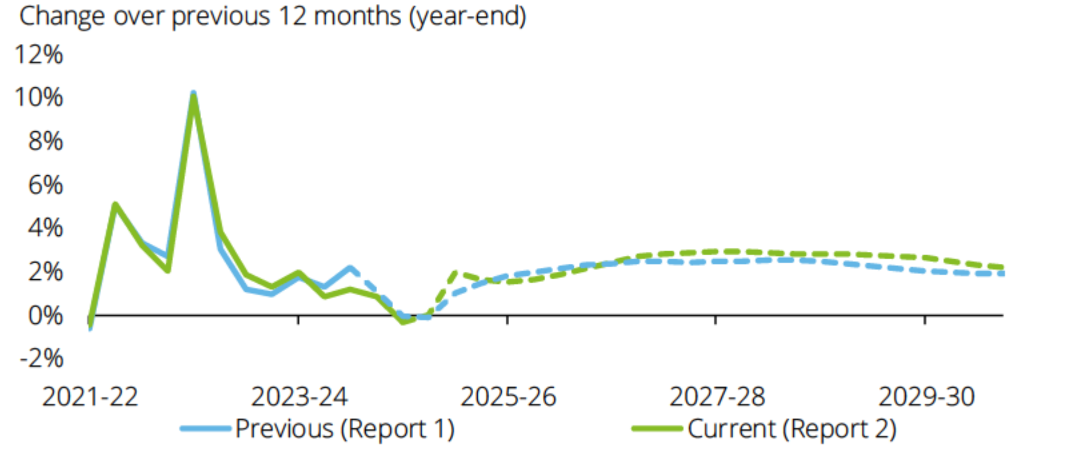


Chart 2.2: Growth in real economic output, New South Wales



Source: Australian Bureau of Statistics, Deloitte Access Economics

The New South Wales labour market

The New South Wales labour market remains relatively strong. The unemployment rate is largely unchanged over the year. A reduction in the average number of hours worked and muted productivity growth has prompted many businesses to increase headcount to meet demand. This has been supported by fast population growth and higher labour force participation – which have both added to the labour supply in the state.

Employment growth is forecast to slow in the near term as macroeconomic activity remains subdued and net overseas migration trends down. Employment growth is projected to fall behind the increase in the labour force, placing upward pressure on the unemployment rate in the near term. However, some indicators suggest that labour market conditions are not loosening as much as previously expected. Both the underutilisation rate and the underemployment rate have decreased somewhat, while there has also been little movement in the youth unemployment rate – a gauge of cyclical unemployment.

Given these trends, the projected increase in the unemployment rate is expected to be modest, reaching a peak of 4.3% in late 2025. The forecast unemployment rate is low compared to historical standards – with some of the labour market loosening continuing to occur through reductions in working hours rather than overall employment. The unemployment rate is then forecast to stabilise and remain at around 4.2%, below the national average, across the forecast period to 2029-30.

The New South Wales labour market is anticipated to remain tighter than expected in Report 1, with a lower unemployment rate than previously forecast.

Chart 2.3: Employment growth, New South Wales

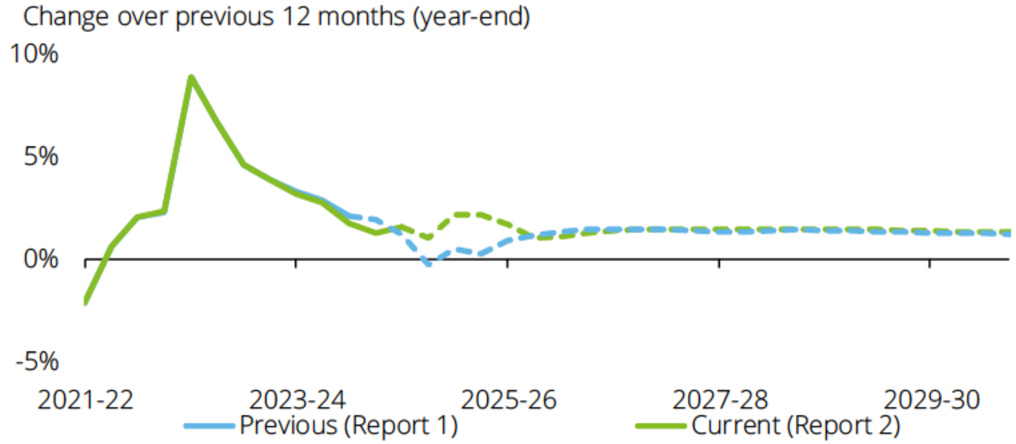
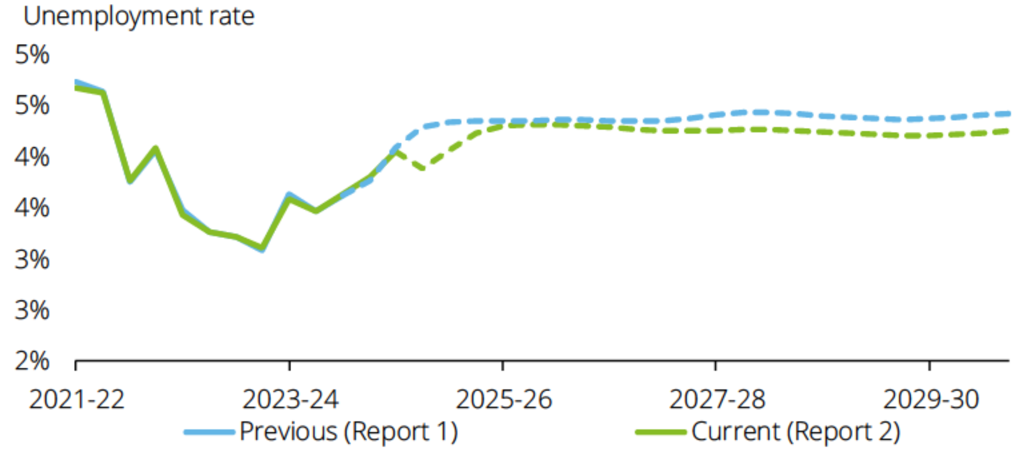


Chart 2.4: Unemployment rate, New South Wales



Note: Forecasts for employment growth and the unemployment rate were finalised prior to the release of Labour Force data for January 2025 that is referenced in the text throughout the report.
Source: Australian Bureau of Statistics, Deloitte Access Economics

New South Wales all industry wages

Wages in New South Wales have historically grown in line with national wages. This is because the state accounts for approximately one third of the Australia's economic output and workforce. Wage growth in New South Wales has moderated from the peak of 4.3% in the year to December 2023 to 2.9% in the year to December 2024 as spare capacity in the state's labour market has increased.

While growth has kept pace with national trends particularly in the private sector, the public sector lags the national average. Yet several agreements have recently come into effect that will place upward pressure on wage growth. This includes the 11.4% (compounded over three years) increase to wages for nearly one quarter of the New South Wales government's workforce. Separately, the state government is currently negotiating potentially large wage increases for train drivers and psychiatrists.

The recovery in the state's economy will support a broader acceleration in wage gains. Though the expectation for a slower recovery in the New South Wales economy relative to the national economy will affect relative wage gains somewhat. Over the longer term, New South Wales nominal and real wages are forecast to grow at similar rates to national.

The revisions to the outlook for national all industry wages from Report 1, discussed on page 18, are mirrored for New South Wales. That is, the forecast for 2024-25 has been revised lower to account for historical actuals, while longer term growth rates have been adjusted marginally higher to account for faster growth in output in the state's economy.

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

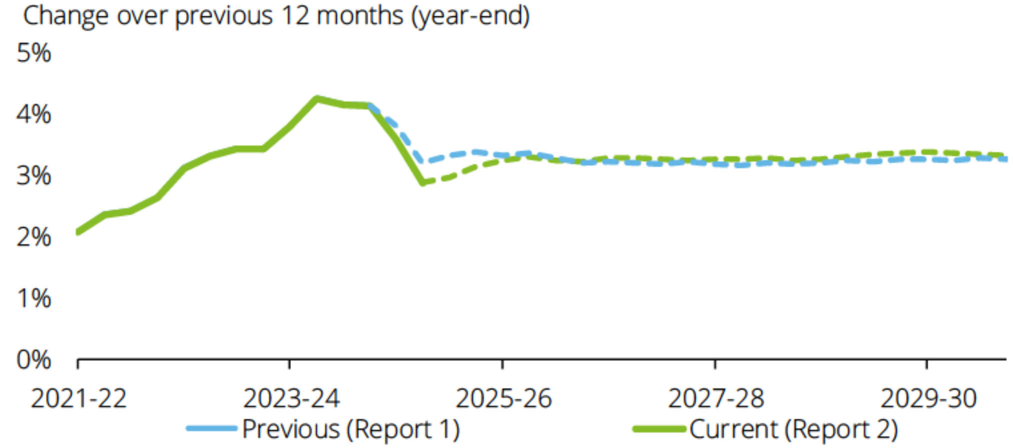
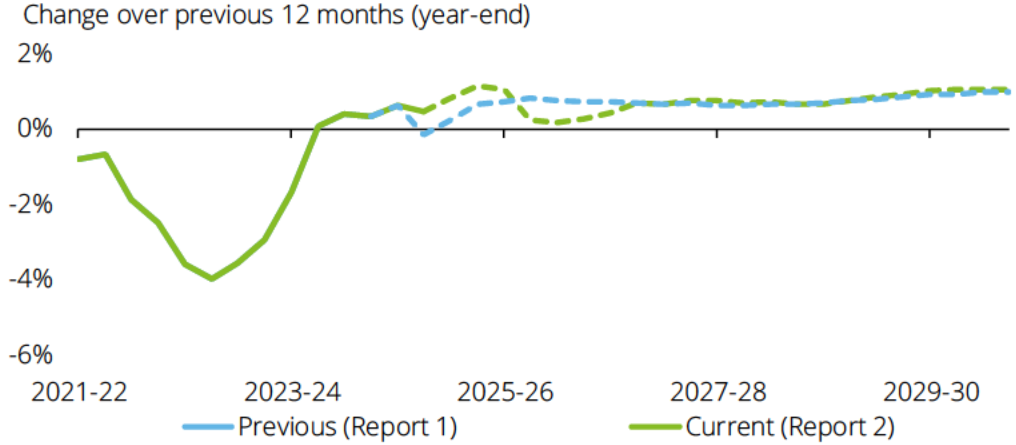


Chart 2.6: Real all industry WPI growth, New South Wales



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 nominal utilities industry wage growth has lagged national industry wage growth. This mostly reflects stronger enterprise agreement outcomes in other jurisdictions (with the recent uptick in the AAWI in New South Wales covering few workers) as well as stronger growth in utilities industry employment in states other than New South Wales.

Nominal utilities industry wage growth is expected to accelerate in the near term as conditions in the state's utilities industry labour market recover. The large wage increases in enterprise agreements in other jurisdictions are also likely to tether expectations for newly negotiated EBAs in New South Wales over the near term.

Nominal wage growth 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 to 2025-26.

Across the longer run, growth in real and nominal utilities industry wages is forecast to converge with national rates. This reflects the fact that New South Wales comprises a relatively large share of total industry activity.

Compared to Report 1, forecast nominal utilities wage growth is lower in 2024-25, amid weaker-than-expected wage outcomes in late 2024. Real utilities industry wages growth is forecast to be slightly higher than Report 1 in 2024-25, largely due to slower forecast inflation in the state. Nominal and real wage growth is broadly in line with forecasts in Report 1 from 2025-26 onwards.

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

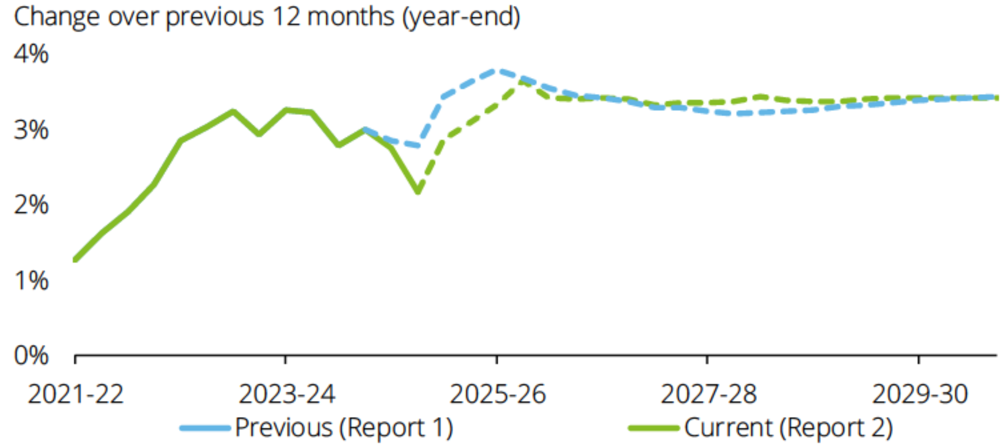
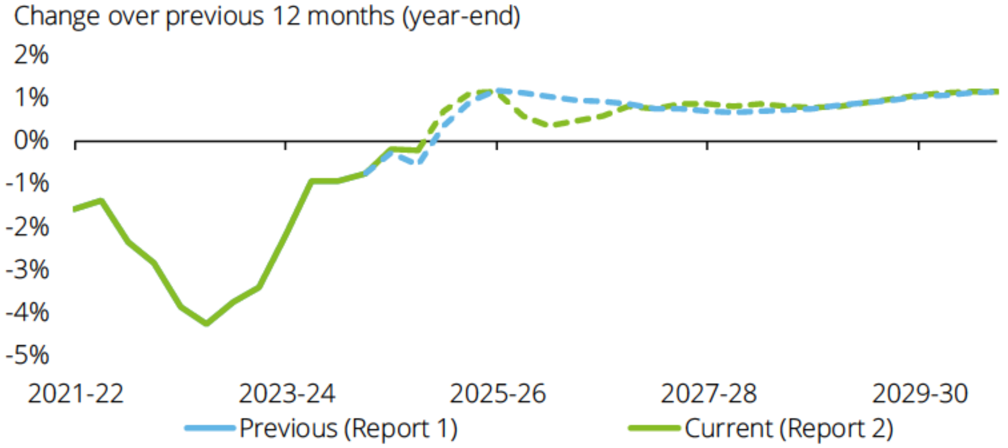


Chart 2.8: Real utilities industry WPI growth, New South Wales



Source: Australian Bureau of Statistics, Deloitte Access Economics.

New South Wales utilities industry wages (2/2)

Other wage growth measures

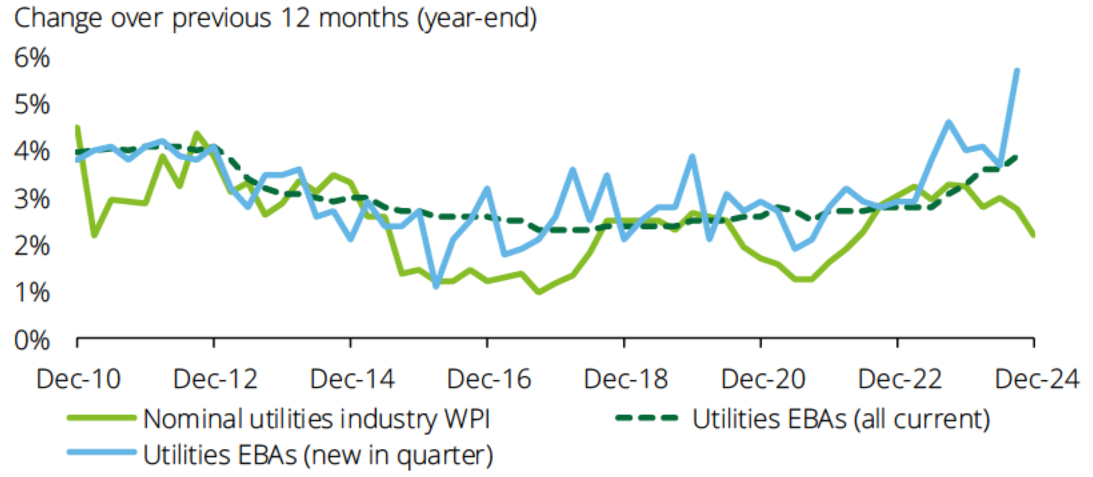
According to the ABS, a total of 56% of utilities industry employees are covered by EBAs in New South Wales, above the 26% share across all industries in the state.

In the September quarter of 2024, the AAWI for new utilities industry EBA was 5.7%. However, this included only four agreements covering 100 employees. Nonetheless, the AAWI for all current EBAs – covering 6,800 employees – accelerated in the September quarter of 2024.

The divergence in wage gains as measured by the WPI and the AAWI for all current EBAs over the past year likely reflects the limited coverage of EBAs. Both the AAWI and WPI capture only increases to the base rate of pay and exclude allowances, bonus payments and other non-wage benefits.

Despite this, it is likely that the AAWI for utilities industry EBAs is placing upward pressure on wages as measured by the WPI.

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



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

3. Queensland

The Queensland economy

Queensland, like the rest of Australia, has faced economic headwinds as households and businesses absorbed the effects of higher interest rates and elevated inflation. Despite these challenges, Queensland's economy is anticipated to be one of the few states to experience an acceleration in growth in 2024-25, driven by rising household consumption, international exports, and recovering dwelling investment.

Household consumption is being supported by strong population growth, with significant net inflows of migrants from overseas and interstate. Government spending directed at households is also helping to support consumption.

While public demand will remain a key driver of growth, public finances in Queensland are stretched. The state's significant debt levels have led to a credit rating downgrade, implying higher borrowing costs moving forward. This will likely constrain the extent to which public demand can grow over time.

Strong population growth has also amplified pressure on the supply of housing in an already tight residential market. Dwelling investment is forecast to grow robustly as the post-pandemic backlog of construction work clears and dwelling approvals rise, reaching the highest level in more than three years in trend terms.

An increase in goods export volumes – particularly coal, liquified natural gas, metals and beef – is anticipated to add to economic growth in 2024-25. This strength is expected to fade somewhat in the coming years as commodity prices moderate. The Queensland economy is also more exposed to a downturn in the Chinese economy, compared to states such as New South Wales.

The Queensland economy is forecast to grow at a marginally faster rate than the Australian economy through to 2029-30 – underpinned by strong population growth. Gains in 2024-25 are anticipated to be higher when compared to Report 1 – largely due to the resilience of dwelling investment and strong-than expected net exports. Though these trends are projected to unwind in 2025-26.

Chart 3.1: Components of real GSP growth, Queensland, average annual growth 2024-25 to 2029-30

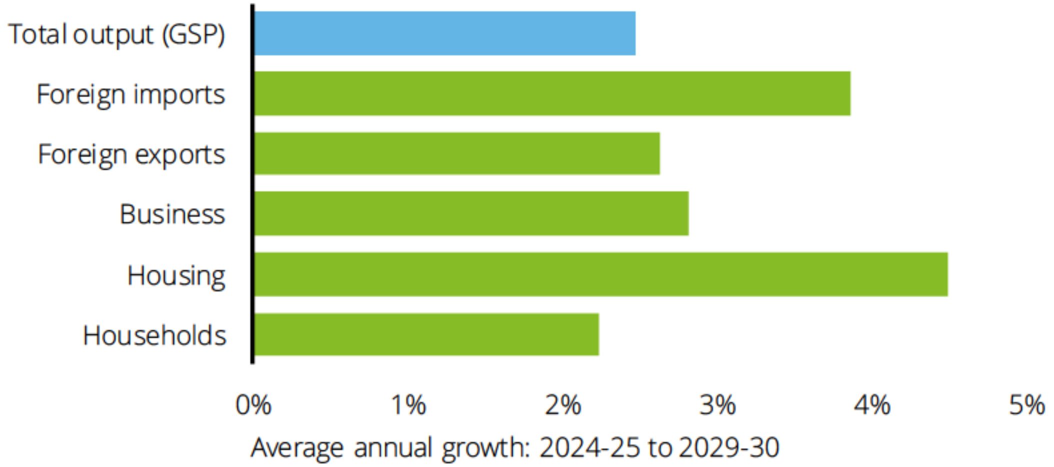
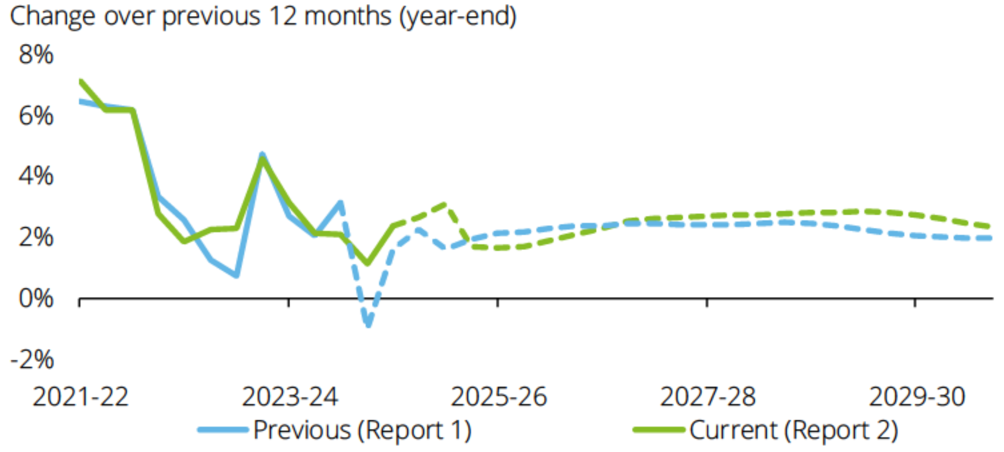


Chart 3.2: Growth in real economic output, Queensland



Source: Australian Bureau of Statistics, Deloitte Access Economics

The Queensland labour market

Queensland's labour market has been resilient in the face of muted economic activity, bolstered by strong population growth. Employment growth is forecast to moderate as the slowdown in the wider economy affects the state's labour market. However, over the forecast period, Queensland is anticipated to exhibit the strongest average annual employment growth among all states and territories.

The easing of labour market conditions has been more modest in Queensland compared to the broader Australian economy. The unemployment rate remains well below pre-pandemic levels and employment growth continues to be robust. The number of job vacancies – a measure of tightness in the labour market – increased in late 2024. The rise was more than three times faster in Queensland than across the rest of Australia.

Looking ahead, a faster rate of forecast population growth in Queensland compared to Australia is expected to add to the available pool of workers in the state, absorbing some spare capacity add placing modest upward pressure on the unemployment rate over time. Though Deloitte Access Economics expects the Queensland labour market to remain tighter for longer when compared to Report 1. This is reflected in a lower forecast for the state's unemployment rate over the medium to long term.

Chart 3.3: Employment growth, Queensland

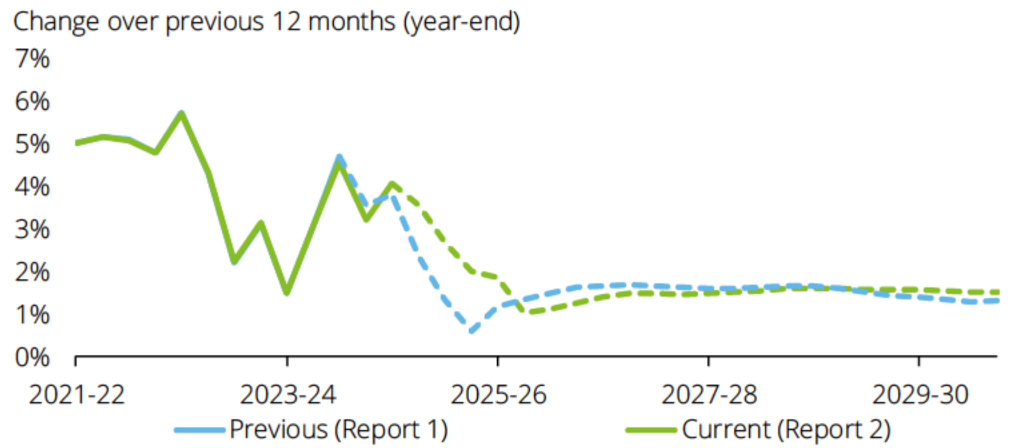
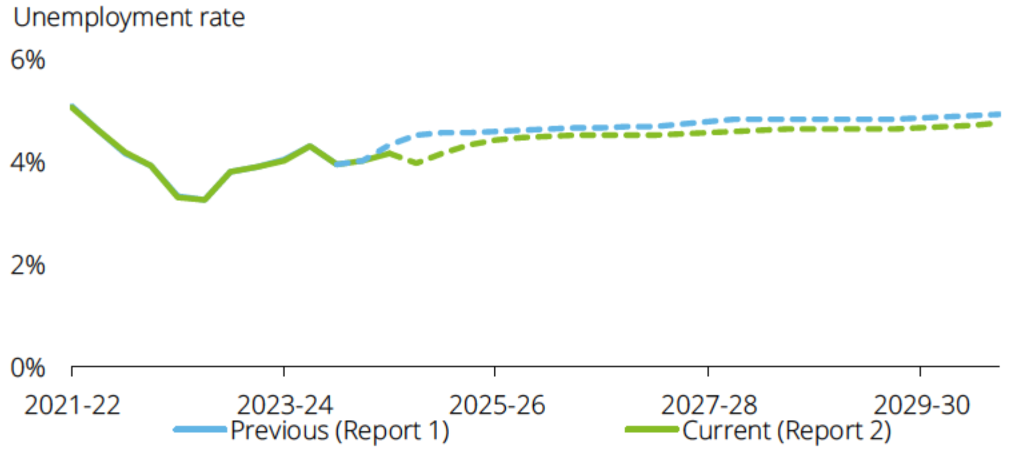


Chart 3.4: Unemployment rate, Queensland



Note: Forecasts for employment growth and the unemployment rate were finalised prior to the release of Labour Force data for January 2025 that is referenced in the text throughout the report.
Source: Australian Bureau of Statistics, Deloitte Access Economics

Queensland all industry wages

Wage growth in Queensland has moderated from the peak of 4.8% in the year to December 2023 to 3.7% in the year to December 2024 as capacity in the state's labour market has gradually eased and inflation has cooled. However, across this period, wage growth in the state has stayed above gains across Australia. This has been largely driven by the public sector, with private sector wage gains otherwise in-line with the national equivalent.

Looking ahead, wage growth is expected to be supported by the renegotiation of expiring enterprise agreements covering police officers, teachers and nurses. A degree of tightness in the state's labour market will limit the moderation in private sector wage gains.

Over the longer term, Queensland nominal wages are forecast to grow at similar rates to national. The outlook is largely in-line with Report 1, with the stronger economic outlook flowing through to a modest upward revision to wage growth across the longer term.

Real wages are projected to grow at a similar rate to Australia across most of the forecast period. However, growth in Queensland real wages is higher in 2024-25 due to the faster pace of nominal wage growth and the slower pace of inflation – with large electricity rebates and lower public transport fares affecting measured headline CPI inflation used to deflate nominal wage gains.

Real wage growth is expected to decelerate in 2025-26 as inflation rebounds following the end of the state electricity bill rebates. However, from 2026-27, real wages are projected to grow at a similar rate to Australia.

Chart 3.5: Nominal all industry WPI growth, Queensland

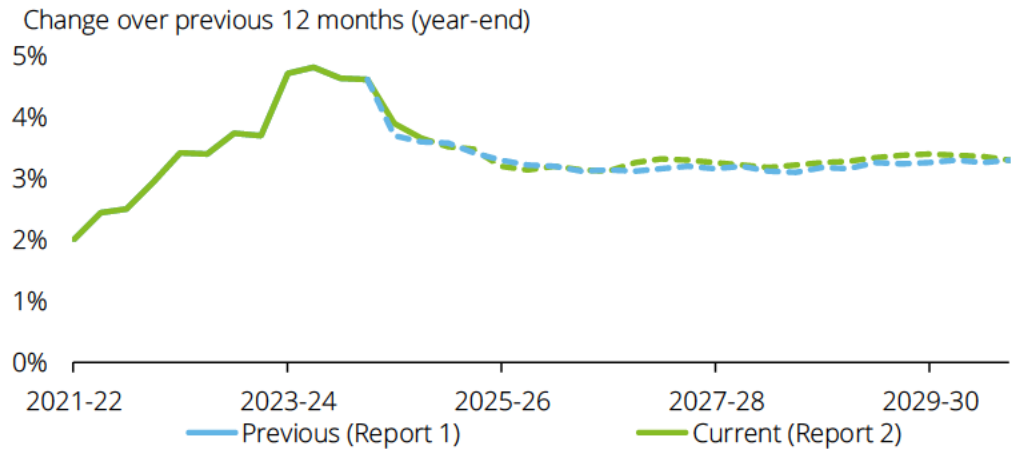
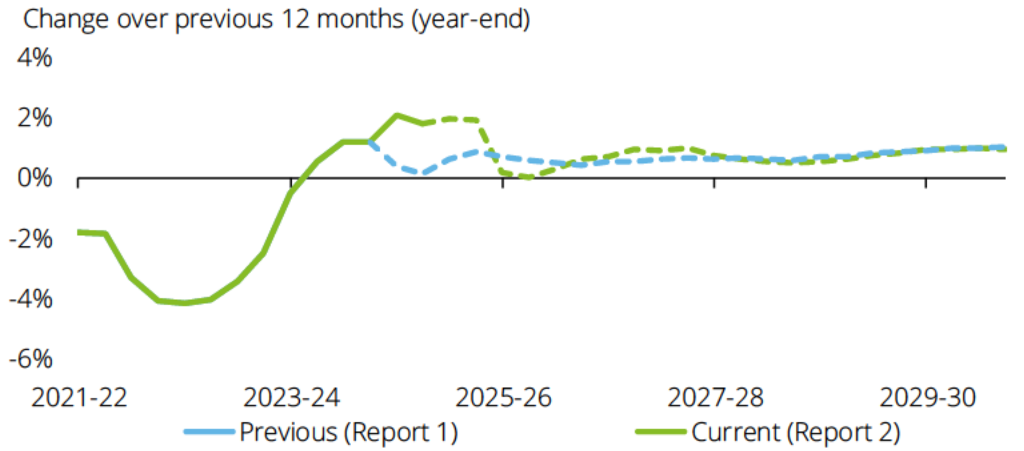


Chart 3.6: Real all industry WPI growth, Queensland



Source: Australian Bureau of Statistics, Deloitte Access Economics

Queensland utilities industry wages (1/2)

Queensland utilities industry WPI

Queensland utilities industry wages increased at a significantly faster pace than national utilities industry wages in 2024. This reflects the high wage outcomes in recently negotiated EBAs – which included adjustments to account for past price inflation – as well as strength in the state utilities industry. According to the ABS, employment in the Queensland utilities industry grew by more than 50% in the year to November 2024 – twice as fast as the increase in national industry employment.

Wages are forecast to grow at a more modest pace over the near term. Many of the measures that have added to the pace of wage growth in recent enterprise agreements are expected to be one-offs. Conditions in the state utilities industry labour market are also likely to cool, with recent data indicating that employment growth has already pulled back from earlier peaks.

Nominal utilities industry wages are forecast to be higher in 2024-25 than anticipated in Report 1 due to stronger than expected wage increases in late 2024. Combined with lower forecast inflation in 2024-25 this has also resulted in upward revisions to forecasts for real wage growth. From 2025-26 onwards there is little change in real and nominal forecasts compared to Report 1.

Chart 3.7: Nominal utilities industry WPI growth, Queensland

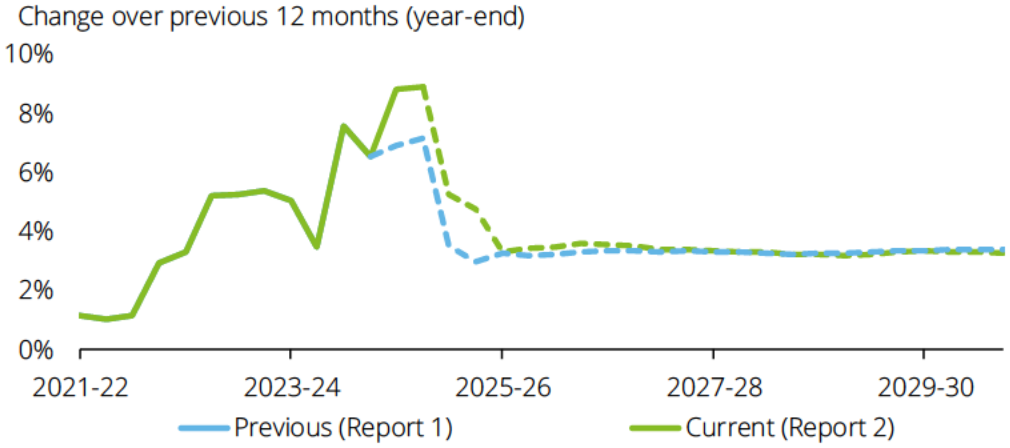
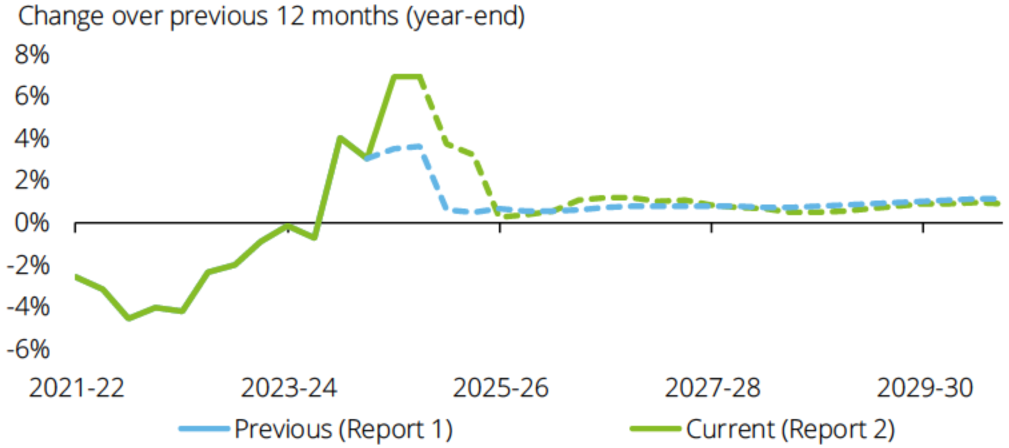


Chart 3.8: Real utilities industry WPI growth, Queensland



Source: Australian Bureau of Statistics, Deloitte Access Economics

Queensland utilities industry wages (2/2)

Other wage growth measures

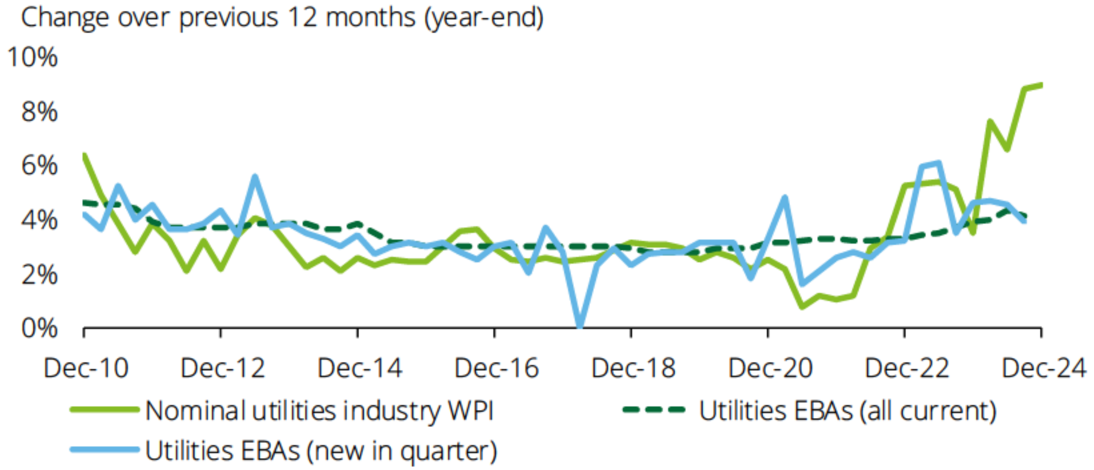
According to the ABS, a total of 62% of utilities industry employees are covered by EBAs in Queensland, above the 38% share across all industries in the state.

The AAWI of current utilities industry EBAs has started to decline from the peak recorded in June 2024. However, the AAWI for all current utilities industry EBAs remains slightly above the national equivalent.

In the September quarter of 2024, there were six new utilities EBAs approved in Queensland, covering 2,300 employees. The AAWI of these agreements was 3.9%, 0.2 percentage points lower than the AAWI of all current utilities EBAs in Queensland, indicating there will be a continued downward trend in the AAWI of all current utilities EBAs in Queensland.

Wages negotiated by award or individual agreement are currently experiencing faster growth than the subset of EBAs covered by the DEWR data. It is possible that recent EBAs are providing employees with greater non-base wage entitlements. These types of entitlements would not appear in the AAWI as measured by the DEWR data but could potentially be provided in-lieu of improvements to base wages for those covered by EBAs.

Chart 3.9: Measures of utilities industry wage growth, 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 forecast to improve in 2024-25 as stronger investment and net exports offset sluggish household consumption. Growth in the South Australian economy is expected to fall behind the national average from 2025-26.

Inflationary pressures in South Australia have remained more persistent than in most other jurisdictions over the last two years, extending the cost-of-living pressures for households. Relief is now reaching households, helping to restore consumer confidence.

Household consumption growth remained negative in late 2024, but monthly retail sales data has pointed to an improvement ahead. Similarly, business investment has lifted amid a large increase in spending on machinery and equipment – in part due to the purchase of assets required to deliver the state's infrastructure pipeline.

South Australian export volumes have been strong in recent years, driven by high crop production volumes and services exports following the post-pandemic recovery in tourism and education. Looking ahead, lower commodity prices and tariffs are expected to weigh on exports. Additionally, agricultural output has struggled in recent months due to unfavourable growing conditions, including frosts and drought.

Over the longer term, the South Australian economy is forecast to grow at a slower pace compared to the Australian economy, driven by more modest rates of population growth.

Compared to Report 1, the outlook for South Australia is stronger in the near term amid the resilience of private investment and net exports, yet this is likely to fade in 2025-26. The longer-run outlook has been revised higher amid faster forecast rates of labour productivity.

Chart 4.1: Components of real GSP growth, South Australia, average annual growth 2024-25 to 2029-30

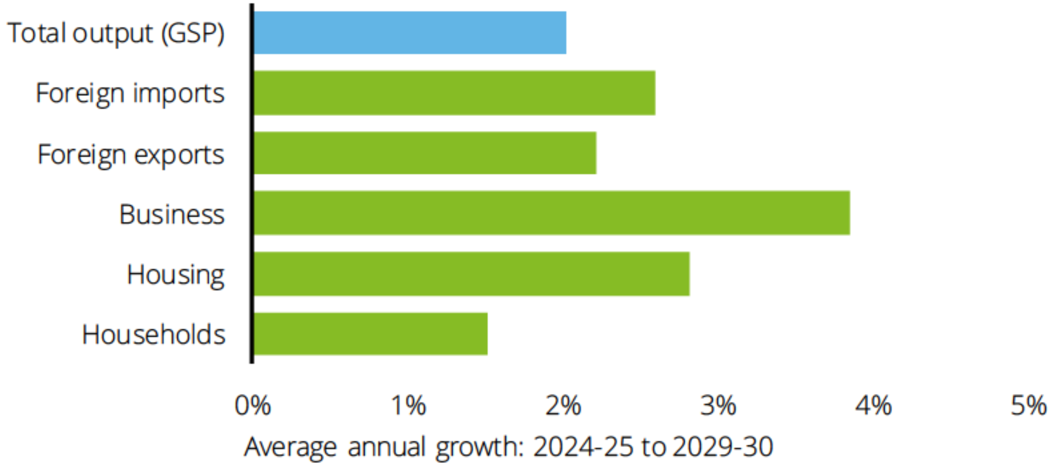
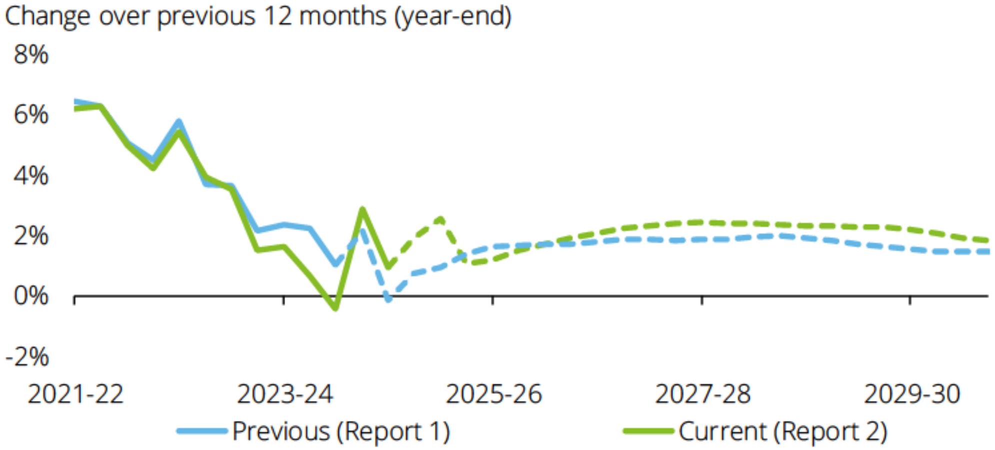


Chart 4.2: Growth in real economic output, South Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics

The South Australian labour market

The South Australian labour market has begun to loosen, with the unemployment rate rising from earlier record lows. Further moderation is expected through the remainder of 2024-25 and 2025-26 as slower population growth weighs on job creation at the same time as growth in the economy remains flat.

South Australia has the second lowest participation rate of any state or territory (behind Tasmania), remaining below its peak observed in early 2023 (while the Australian participation rate has increased over this period). The low participation rate and high underemployment rate reflect long standing structural issues in the state's economy that have resurfaced following the pandemic.

While South Australian employment is projected to grow at a slower pace than the national average in the near term, it is expected to align with the national average from 2027-28 through to 2028-29. This is anticipated to see the South Australian unemployment rate converge with the national rate by the end of the forecast period.

Chart 4.3: Employment growth, South Australia

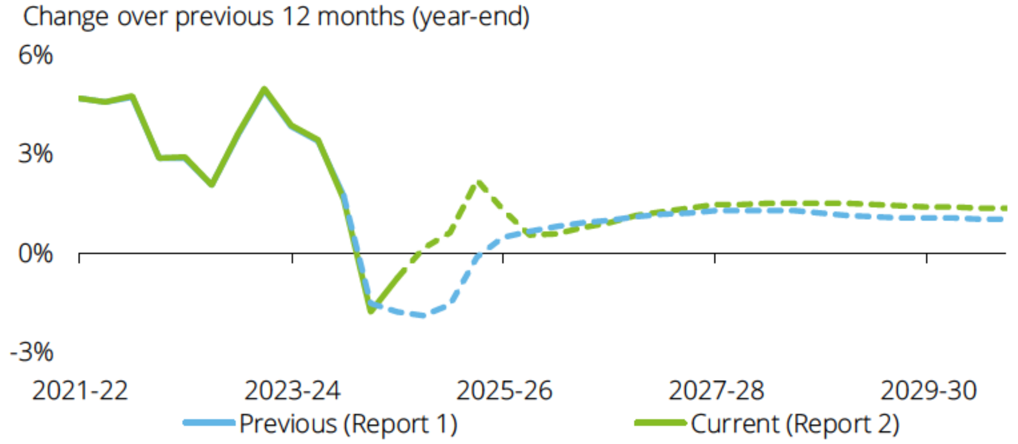
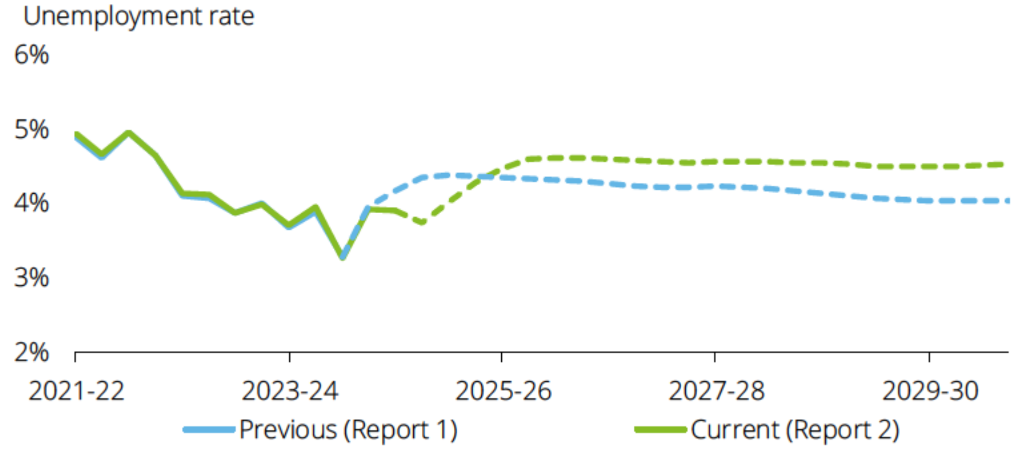


Chart 4.4: Unemployment rate, South Australia



Note: Forecasts for employment growth and the unemployment rate were finalised prior to the release of Labour Force data for January 2025 that is referenced in the text throughout the report.
Source: Australian Bureau of Statistics, Deloitte Access Economics

South Australian all industry wages

Although South Australia accounts for a smaller labour market share of the Australian economy compared to other states, trends in wage growth have largely mirrored those at the national level.

South Australian wage growth has cooled from its 2023 peak, settling at 3.1% in the year to December 2024. While overall wage growth aligns with national trends, the public sector leads at 3.2% (compared to 2.9% for the Australian public sector) and the private sector lags at 3.0% (compared to 3.4% for the Australian private sector).

Wage growth is forecast to slow only marginally in the near term. The state's economy is expected to increase at a similar pace in 2024-25 and 2025-26, while weaker forecast population growth is constraining the supply of workers. This is likely to mean a degree of tightness remains in the labour market that will, all else equal, place upward pressure on wages.

Real all industry wage growth is forecast to recover in the near term, reaching annual growth rate of 1.0% by the end of the forecast period, in line with the national average. Labour productivity is forecast to grow at a slower pace compared to the national average, yet real wage growth is expected to follow a similar trend to Australia's forecast. While growth in real wages is driven predominantly by labour productivity growth, short term fluctuations can arise such as relative bargaining power and economic shocks, leading to deviations in the relationship.

The pace of nominal and real wage gains is largely in-line with Report 1 over the medium and longer term.

Chart 4.5: Nominal all industry WPI growth, South Australia

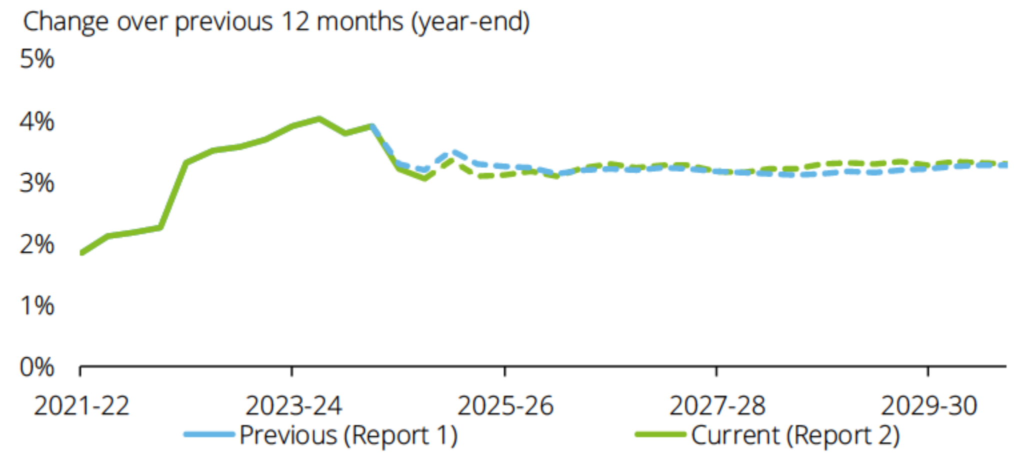
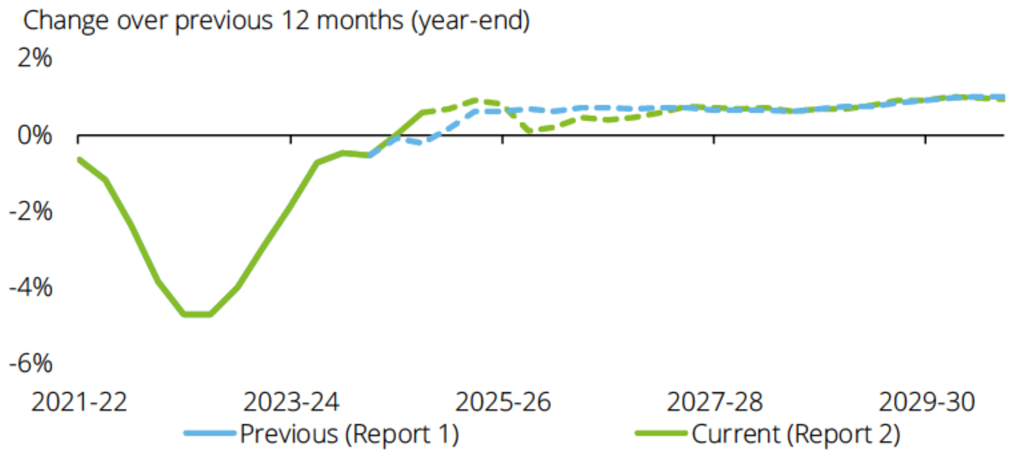


Chart 4.6: Real all industry WPI growth, South Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics

South Australian utilities industry wages (1/2)

South Australian utilities industry WPI

South Australian utilities industry wages grew by 4.2% in the year to December 2024. This marks a deceleration in the pace of wage growth from the previous quarter. This is in-line with a step down in WPI growth in the broader state economy amid an easing in labour market conditions.

Softening labour market conditions are expected to contribute to a further deceleration in utilities industry WPI growth in 2024-25. However, the forecast slowdown is likely to be relatively modest, with near-term gains supported by the strength of recent EBA outcomes. South Australian utilities wages are forecast to return to grow broadly in line with the rates seen in the Australian utilities industry across the longer term.

Nominal wage growth forecasts in 2024-25 are slightly higher relative to Report 1 reflecting updated historical data. Historical WPI data for South Australia is not published by the ABS and is therefore estimated using published WPI actuals and employment data. Revisions to employment data by the ABS and amendments to WPI estimates across other states and industries (which affect the utilities industry estimates presented here as data is normalised across states and industries) are driving the differences in historical WPI estimates between Report 1 and Report 2.

The changes to the outlook for nominal WPI growth have flowed through to real WPI growth. From 2025-26 onwards there is little difference in nominal and real WPI growth compared to Report 1.

Chart 4.7: Nominal utilities industry WPI growth, South Australia

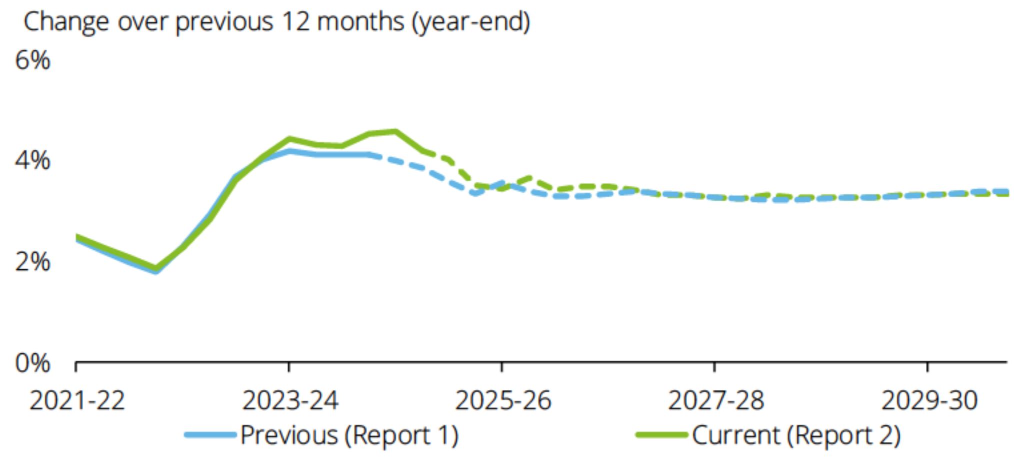
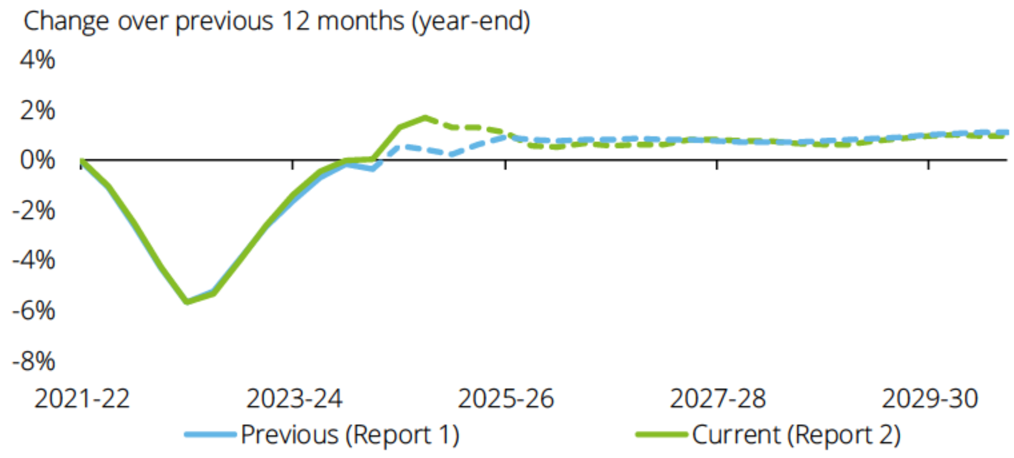


Chart 4.8: Real utilities industry WPI growth, South Australia



Source: Australian Bureau of Statistics, Deloitte Access Economics

South Australian utilities industry wages (2/2)

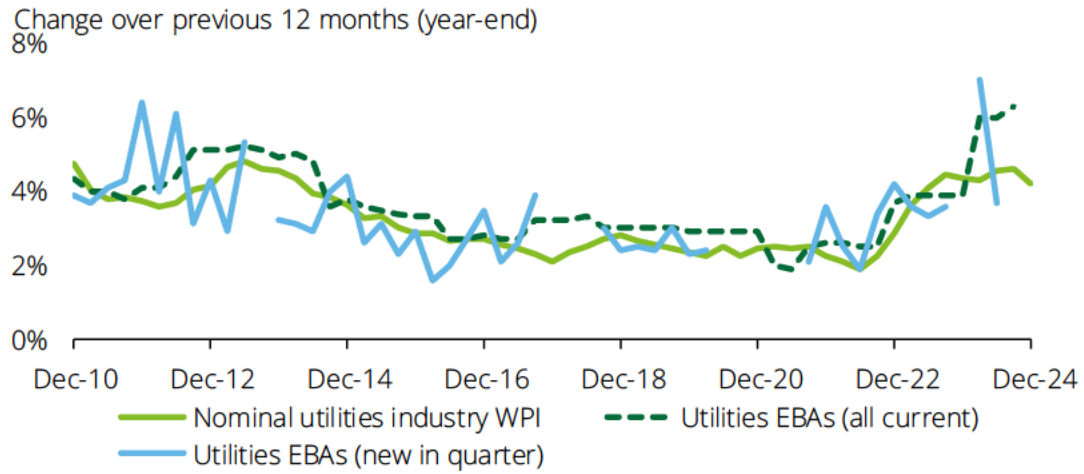
Other wage growth measures

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.

The AAWI of current utilities industry EBAs in the state reached 6.3% in the September quarter of 2024. This is higher than the AAWI across all industries in South Australia as well as estimates of growth in utilities industry WPI in South Australia. The current trend in EBAs is expected to place upward pressure on the WPI in the near term.

There were no new agreements lodged in the September quarter of 2024.

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



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

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