evoenergy

Appendix 3.8: Oxford Economics Labour cost escalation forecasts to 2030–31

Access Arrangement Information

ACT and Queanbeyan-Palerang gas network 2026–31

Submission to the Australian Energy Regulator

June 2025

OXFORD ECONOMICS AUSTRALIA

LABOUR COST ESCALATION: FORECASTS TO 2030/31

PREPARED BY OXFORD ECONOMICS AUSTRALIA FOR EVOENERGY (GAS)

FINAL REPORT

MARCH 2025

ABOUT OXFORD ECONOMICS AUSTRALIA

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March 2025

This report can be made public and published on the Australian Energy Regulator's website as part of Evoenergy's Revised Regulatory Proposal.

The modelling and results presented here are based on information provided by third parties, upon which Oxford Economics Australia has relied in producing its report and forecasts in good faith. Any subsequent revision or update of those data will affect the assessments and projections shown.

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EXECUTIVE SUMMARY

Oxford Economics Australia (OEA) was engaged by Evoenergy to provide price forecasts of labour relevant to the Australian Capital Territory's gas distribution industry for the period 2026/27 (FY27) to 2030/31 (FY31). Forecasts for wage cost escalation will be used by Evoenergy to develop their operating and capital expenditure forecasts. These forecasts, in turn, will be included in Evoenergy's Access Arrangement submission to the Australian Energy Regulator (AER) - with the regulatory period covering the five-year period from 2026/27 to 2030/31 (FY27 to FY31) inclusive.

Note that most of the references to historical data and forecasts of wages are in nominal terms unless specifically stated that the data/forecasts are in real (inflation-adjusted) terms. The forecasts in this report were finalised in mid-March 2025 and incorporate the latest data and macro-economic forecasts as at mid-March 2025.

For **gas network related labour**, Oxford Economics Australia forecasts that total wage costs for the ACT's Electricity, Gas, Water and Waste Services (EGWWS or 'Utilities') sector — expressed in Wage Price Index (WPI) terms — will average 3.6% per annum over the five-year period from FY27 to FY31 inclusive, slightly below the Australian EGWWS WPI average of 3.7% over the same period. In real (inflation-adjusted) terms, Australian Capital Territory (ACT) EGWWS WPI is forecast to average 1.1% p.a. over the five years to FY31 (see Table 1.1 below).

Over the forecast period, the Australian and ACT EGWWS WPI growth is expected to remain higher than the All Industries WPI average, with the national and ACT All Industries WPI forecast to average 3.5% over the five years to FY31. This means that the Australian EGWWS WPI is expected to be 0.2% higher than the All Industries average, which is slightly lower than the 0.4% historical difference of the decade to FY21.

Utilities wages are forecast to increase by more than the national average over the forecast period because of the following factors:

- the electricity, gas and water sector is a largely capital intensive industry whose employees have higher skill, productivity and commensurately higher wage levels than most other sectors
- strong union presence in the utilities sector will ensure outcomes for collective agreements, which cover 62% of the workforce, remain above the wage increases for the national 'All Industries' average. In addition, with the higher proportion of employees on EBAs, compared to the national average (35%), and EBAs wage rises normally higher than individual agreements, this means higher overall wage rises in the EGWWS sector.
- increases in individual agreements (or non-EBA wages) are expected to remain elevated as the labour market remains tight, with the unemployment rate now around 4% and expected to remain around 4-4.5% over the next two years, before again tightening over the FY28 to FY30 period as the unemployment rate again falls below 4%.
- demand for skilled labour will remain high and strengthen with the high levels of utilities investment from FY23 to FY31 (and beyond), which are well above the levels of the past two decades. Oxford Economics Australia is forecasting utilities-related engineering construction to see very strong increases over the next two years, before plateauing, to be 22% higher in FY31 compared to FY24 levels, which in turn were 57% higher than FY21 levels. A similar story exists in

the ACT, with sustained strong growth in utilities-related construction from FY27, along with sustained strong growth in gas pipeline construction over the next seven years.

- the overall national average tends to be dragged down by the lower wage and lower skilled sectors such as the Retail Trade, Wholesale Trade, Accommodation, Cafés and Restaurants, and, in some periods, also Manufacturing and Construction. These sectors tend to be highly cyclical, with weaker employment suffered during downturns impacting on wages growth in particular, such as occurred in the wake of the COVID-19 impacts. The EGWWS sector is not impacted in the same way due to its obligation to provide essential services and thus retain skilled labour.

Table 1.1 EGWWS, Construction and All Industries Wage Price Index

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	5 yr Avg (e)
	Actuals					Forecasts		Next Access Arrangement Period					
NOMINAL PRICE CHANGES													
1. Electricity Network-Related Labour													
EGWWS WPI - Australian Capital Territory (a)	**2.8**	**1.6**	**1.4**	**3.1**	**3.6**	**3.9**	**3.7**	**3.7**	**3.5**	**3.6**	**3.7**	**3.8**	**3.6**
EGWWS WPI - Australia (b)	2.7	1.8	1.5	3.5	4.1	4.6	3.9	3.7	3.5	3.7	3.9	3.8	3.7
2. Contractor Labour Cost Escalation													
Construction WPI - Australian Capital Territory (c)	**1.3**	**1.3**	**2.7**	**3.8**	**4.1**	**3.7**	**3.7**	**3.6**	**3.5**	**3.7**	**3.8**	**3.5**	**3.6**
Construction WPI - Australia (b)	1.5	1.3	2.6	3.7	4.1	3.6	3.6	3.5	3.5	3.8	4.0	3.7	3.7
3. All Industries Wages													
All Industries WPI - Australian Capital Territory	**2.3**	**1.4**	**2.5**	**3.4**	**3.9**	**3.6**	**3.5**	**3.4**	**3.4**	**3.4**	**3.5**	**3.6**	**3.5**
All Industries WPI - Australia (b)	2.1	1.5	2.4	3.5	4.1	3.4	3.4	3.3	3.3	3.5	3.7	3.6	3.5
Consumer Price Index (headline) (d)	1.3	1.6	4.4	7.0	4.2	2.6	3.4	2.7	2.5	2.5	2.5	2.5	2.6
REAL PRICE CHANGES (f)													
1. Electricity Network-Related Labour													
EGWWS WPI - Australian Capital Territory (a)	**1.4**	**0.0**	**-3.0**	**-4.0**	**-0.6**	**1.3**	**0.3**	**1.0**	**0.9**	**1.1**	**1.2**	**1.3**	**1.1**
EGWWS WPI - Australia (b)	1.3	0.2	-2.9	-3.5	-0.1	2.0	0.5	0.9	1.0	1.2	1.4	1.3	1.2
2. Contractor Labour Cost Escalation													
Construction WPI - Australian Capital Territory (c)	**-0.1**	**-0.3**	**-1.7**	**-3.2**	**-0.1**	**1.1**	**0.3**	**0.9**	**1.0**	**1.2**	**1.3**	**1.0**	**1.1**
Construction WPI - Australia (b)	0.2	-0.3	-1.8	-3.3	-0.2	1.0	0.2	0.8	1.0	1.3	1.5	1.2	1.1
3. All Industries Wages													
All Industries WPI - Australian Capital Territory	**0.9**	**-0.2**	**-2.0**	**-3.7**	**-0.3**	**1.1**	**0.1**	**0.7**	**0.8**	**0.9**	**1.0**	**1.1**	**0.9**
All Industries WPI - Australia (b)	0.8	-0.1	-2.1	-3.6	-0.1	0.8	0.0	0.6	0.8	1.0	1.2	1.1	0.9

Sources: BIS Oxford Economics, ABS

(a) Electricity, Gas, Water and Waste Services (EGWWS) Wage Price Index (WPI) for Australian Capital Territory.
(b) Australian sector wage forecasts provided for comparison.
(c) Construction Sector Wage Price Index (WPI) for Australian Capital Territory.
(d) Inflation forecasts are RBA forecasts for the next 2-3 years from latest 'Statement of Monetary Policy'. Beyond that, inflation forecasts are based on the mid-point of RBA inflation target (2.5%). This is the preferred methodology of the AER.
(e) Average Annual Growth Rate for 2026/27 to 2030/31 inclusive, ie for next regulatory period.
(f) Real price changes are calculated by deducting the inflation rate from nominal price changes.

Given service providers outsourced labour is mostly supplied by firms in the construction industry, we proxy Evoenergy's **external labour cost escalation** by wages growth (as measured by the WPI) in the ACT construction sector. Our research has shown that construction activity (ie work done in the sector) normally has a strong influence on construction wages, although changes in wages tend to lag construction (in work done terms) by around one year. Hence, our wage forecasts are based on Oxford Economics Australia forecasts of construction activity by state (which includes residential and non-residential building, plus engineering construction) as well as predicted movements in the construction wages at the national level.

Our forecast is for the Australian and ACT Construction WPI to average 3.7% and 3.6%, respectively, over the five years from FY27 to FY31 inclusive (Evoenergy's regulatory period) – or around 1.1% per annum on average in real (inflation adjusted) terms (see Table 1.1).

The Australian Construction WPI has seen three years of strengthening growth, rising from 1.3% in FY21 to 4.1% in FY24. FY24 has recorded the strongest year of growth since FY12. Construction wage growth is forecast to maintain it elevated level over the next two years as construction activity increases and activity levels surpasses the previous highs of FY18 and FY13. Underpinning higher wage growth will be worsening of the currently acute skills shortage as labour demand strengthens. Construction wages growth will then ease somewhat over FY26 to FY28 as growth in activity softens, but will then pick up again from FY29 as activity ramps up. Higher levels of residential and non-residential building will be key drivers, while engineering construction will be driven by higher utilities and mining investment and a plethora of publicly funded transport infrastructure projects (particularly in the eastern states of the nation).

ACT construction wage growth is estimated to have been slightly above the national Construction WPI average over the past three years, due to a combination of higher EBAs and stronger growth in construction activity. We expect these recent trends to continue over FY25 to FY27, before ACT construction WPI growth slips below the national average from FY29 as the growth in national construction activity outpaces ACT construction activity. Overall, the ACT Construction WPI averages 3.6% p.a. over the five years from FY27 to FY31 inclusive (Evoenergy's regulatory period), or 1.1% annually in real terms.

1. INTRODUCTION

Oxford Economics Australia was engaged was engaged by Evoenergy to provide price forecasts of labour that are relevant to Australian Capital Territory's gas transmission and distribution industry for the period 2024/25 to 2030/31 (FY25 to FY31). Forecasts for wages growth will be used by Evoenergy to develop their capital and operating and capital expenditure forecasts. The forecasts in this report were finalised in mid-March 2025.

The Australian Bureau of Statistics is the primary data source for the consumer price index, wages, employment, real gross value added and investment data, and for a range of other economic variables. The data used in the projections is the latest available as at mid-March 2025 and includes December quarter 2024 Consumer Price Index (CPI) and Producer price Index (PPI). The latest available Wage Price Index (WPI) and National Accounts data releases are the December quarter 2024 releases, while the latest Reserve Bank of Australia (RBA) 'Statement of Monetary Policy' is from February 2025. Other inflation and interest rate data were sourced from the Reserve Bank of Australia.

Forecasts of the economic variables in this report were mostly sourced from Oxford Economics Australia reports, including the *Australian Macro Service*, *Long Term Forecasts: 2025 – 2039*, *Engineering Construction in Australia 2025-2039* and *Building in Australia 2024-2038,* along with other unpublished forecasts and from Oxford Economics Australia internal research and modelling.

The previous Summary section presents an overview of the outlook for the labour input costs including numerical forecasts which are presented in the summary table.

Section 2 provides a macroeconomic and construction outlook for Australia and ACT. This section also has forecasts of key economic variables plus a discussion of the drivers and logic underpinning the projections, to provide context for the labour market outlook.

Section 3 discusses Oxford Economics Australia' national wage and CPI projections and discusses the use of the Reserve Bank of Australia forecasts of the CPI for the deflation of nominal wages. Forecasts of the All Industries WPI are also provided in chapter 3. Not that most of the references to historical data and forecasts of wages in Sections 3 and 4 are in nominal terms unless specifically stated that the data/forecasts are in real (inflation-adjusted) terms.

Sections 4 provides the forecasts and rationale of the wage projections for the Electricity, Gas, Water and Waste Services (EGWSS) and Construction for Australia and the ACT as measured by the WPI.

Appendices include an explanation of different wage measures and wage models.

2. MACROECONOMIC AND CONSTRUCTION OUTLOOK

2.1 AUSTRALIAN MACROECONOMIC OUTLOOK

Australian economy has slowed sharply, but will gradually recover over next two years

Real Gross Domestic Product (GDP) recovered well from the COVID-related slump in 2020, posting growth of 2.1% and 4.2% over FY21 and FY22 respectively, with Gross National Expenditure (GNE - domestic demand plus change in stocks) experiencing faster growth of 3.6% and 5.9% respectively in those years. Solid growth of 4.4% for GNE continued in FY23, with GDP growth slightly lower at 3.4%, due to another negative contribution from net exports.

Growth in the Australian economy slowed sharply over FY24, with GDP growth coming in at just 1.4% and GNE at 1.8%. This marked the slowest year of annual growth in GDP in over 30 years (excluding the COVID-related slump in FY20). Driving this sluggish figure was weak private consumption, as the high interest rate environment cut disposable incomes and the significant stock of savings built up over the pandemic period faded. Despite the economic headwinds brought about by tight monetary policy, a recession was avoided owing to strong population over FY23 and FY24, with public sector spending also contributing.

The latest national accounts showed that growth picked up to 0.6% q/q in Q4, with all the major expenditure components making a steady contribution. Growth in Q4 was generated from an even contribution across the public and private sectors, which represents a broadening of momentum after a high reliance on the public sector for much of the last year. The broadening out of economic momentum in the private sector is encouraging. Private activity appears as though it may be turning a corner, with household consumption picking up in per capita terms in Q4, and business investment also recording a strong quarter.

Fiscal support measures are helping households at present. Cost-of-living subsidies have left consumers with more money to spend on discretionary items. Moreover, public demand is keeping the labour market in a tight position, which continues to buoy the labour market and household incomes. We expect the degree of support from government spending will wane through 2025 (notwithstanding the potential for increased spending promises through the federal election campaign). Weathering the removal of this support and dealing with the ongoing capacity constraints it creates will be the main challenge for the economy in 2025/26.

Household spending to improve. Household consumption growth picked up to 0.4% q/q in Q4. Utilities rebates weighed on consumption (with rebates recognised as public expenditure), but strength in discretionary spending gave growth a solid lift, aided by a strong Black Friday sales period. Discounting and cost-of-living rebates are giving growth a transitory boost. Nevertheless, elevated interest rates and price inflation will keep spending growth weak in the near term. On the other hand, the July 2024 tax cuts, the tight labour market and above average wage growth will support household incomes, while slowing inflation over FY25 will help support real income and spending. But an encouraging outlook for real income growth gives us confidence that consumption growth will be

steady through 2025 and into 2026. Furthermore, with households appearing to have largely saved the tax cuts, the savings rate ticked up in further in Q4, further bolstering household balance sheets that are (on average) already in a strong position. We expect consumption growth of 2% in FY26 and 2.6% in FY27, up from 1% in FY24 and an expected 0.8% in FY25.

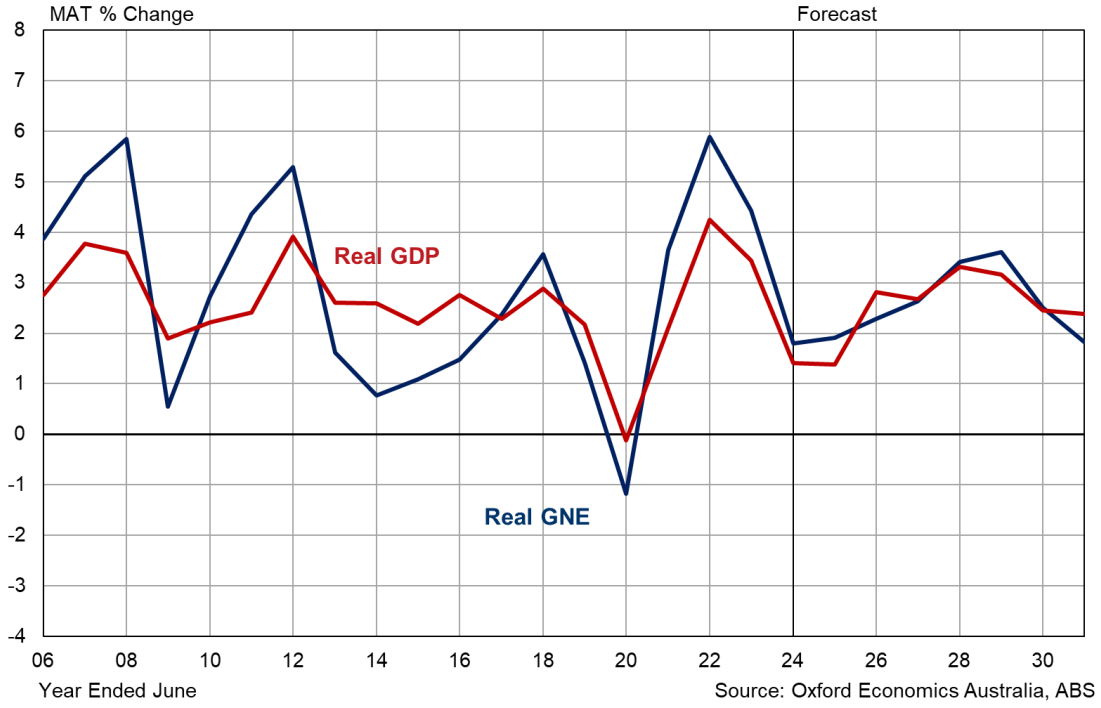
The investment outlook is modest. Investment components made a steady contribution to growth in Q4. Publicly funded transport projects continue to make a solid contribution to activity, although we think the peak in this activity has already passed. Nevertheless, public infrastructure spending is set to remain strong over the short-to-medium term as there is a large pipeline of transport and other projects to complete, which were brought forward as part of the COVID-19 response. With a significant size of the public transport pipeline yet to be completed, total public construction is set to continue to ramp up over the coming two years to peak in FY26 at $88.5bn (8.9% above FY24 levels). As the pipeline of transport projects ease from FY27, public investment is set to for modest declines. Private sector works on mining and electricity infrastructure construction (including renewables projects) added to growth in Q4. Private sector engineering construction will remain buoyant due to higher levels of electricity and telecommunications infrastructure and higher levels of mining investment, particularly oil and gas. Private sector non-residential building will be boosted by the development of new data centres, a pick-up in accommodation buildings, continued strength in warehouses and investment in the health sector. However, capacity constraints and lingering cost inflation will continue to weigh on the pipeline of new work.

Mining investment has picked up over the past three years. Although some commodity prices have eased – and may fall further if the fallout from Trump's tariff war worsens - prices for a number of commodities expected to remain at healthy levels over the medium term and with strong demand for renewable energy related minerals, we expect further investments to get underway and mining investment to continue to rise and remain strong well into the middle of the decade. Overall, new business investment increased 7.4% and 6% in FY23 in FY24 respectively, but it is forecast to increase only 2-5% over FY25 and FY26, with private engineering construction the key driver. Equipment, technology and intangibles investment are also expected to remain positive and contribute to overall investment. Growth in business investment is then expected to ease over FY27, before picking up from FY29 and strengthening over FY30. The continuing strength in business and public investment will not only drive near term demand but will increase the economy's productive capacity over the long run.

Dwelling investment was an exception to the broad growth story in Q4, with capacity constraints continuing to weigh on activity. Weaker alterations & additions work drove the fall in Q4, although new works also declined. Overall, dwelling investment will remain flat over FY25 and FY26, before picking up strongly from FY27.

The labour market continues to track strongly. Employment grew by a solid 2.7% in FY24, following an exceptional 4.5% in FY23. Faster population growth has facilitated strong jobs growth while the participation rate remains at record highs. The unemployment rate has drifted up from around 3.6% in mid-2023 to 4.1% in the September quarter 2024, where it has basically remained. However, job vacancies are still at high levels, suggesting healthy growth in employment in the near term, with employment growth expected to average 2.3% in FY25. This strength is the best insurance the economy has against a drastic collapse in growth.

Figure 2.1 Australia – Basic Economic Indicators



Meanwhile, population growth is projected to ease from 2.5% in FY2 and 2.3% in FY24 to 1.3% in FY25 and further to 1.2% in FY26 and FY27, which will act to restrain growth. Employment growth is also forecast to slow from an expected 2.3% in FY25 to around 1.2% FY26 and 1% in FY27. This will see the unemployment rate rise to around 4.3% by mid-2025, where it will remain (although with the usual monthly volatility) until early 2027. We anticipate a decline in the participation rate will restrain the upward drift in the unemployment rate, although under-employment will rise. However, the softening in labour market demand will see wage pressures slowly subside, aiding the easing in price inflation.

After rate hikes at 10 consecutive meetings, the RBA finally paused its hiking cycle in April 2023, but then added another 0.25% increase in May, June and November, the latter due to a higher-than-expected CPI outcome in the September 2023 quarter. The official cash rate then remained at 4.35% for five quarters. In response to the faster-than-expected decline in underlying inflation, the RBA cut rates to 4.1% in February 2025. Another one to two cuts are likely over 2025, with the timing (and number of cuts) dependent on a further easing in inflationary pressures.

Net exports detracted from GDP growth over FY24, for the fourth successive year. This is expected to continue over FY25, but we then expect exports to outpace imports over FY26 and FY27 and make a positive contribution to growth. Trade volumes will be a mixed bag. Resources export volumes have been flat over the past four years – and are expected to remain weak in FY25 - largely due to production problems and capacity constraints or shutdowns in oil, gas, coal, alumina and nickel. Resources exports are expected to pick up over the next 2-3 years as new capacity comes onstream. Rural exports will remain strong over FY25 and FY26, with bumper seasons in the eastern states boosting grain, other crops and meat exports. Manufacturing exports are expected to see a modest pick up over FY25 and FY26, largely due to the low Australian dollar boosting competitiveness, although modest (or potentially weak) global economic growth will constrain the recovery. Meanwhile, growth in merchandise import volumes will remain modest over FY25, FY26 and FY27, in line with

weak domestic demand. Services exports – including inbound tourism and education - remains positive, but growth will slow from here. The weak Australian dollar will boost inbound tourism and constrain outbound tourism.

Growth to strengthen from FY27

Australian domestic demand is forecast to slow from 2.4% in FY24 to 2% in FY25 and rise to 2.2% in FY26 and 2.6% in FY27. GDP growth forecast to remain at 1.4% in FY25, but then improve to 2.8% in FY26 and 2.7% in FY27. Net exports are expected to provide a positive contribution over the next two years, as tourism boost exports and there is a recovery in resources exports. Australian exporters now appear unlikely to win concessions on the Trump administration's suite of tariffs. However, we remain sanguine on the economy's ability to navigate higher trade barriers to the US. Although there will be some pockets of pain, Australia's direct trade exposure to the US is very small overall. Indirect effects via a slowdown in the Chinese economy are a bigger risk. But we think the impact on the nominal side of the economy (through the terms of trade and equity prices) will be larger than export volume and labour market effects.

Interest rate cuts are expected over 2025 and FY26 and into FY27, in response to the weakening in the economy and because we expect inflation to be comfortably back in the RBA target range of 2%-3%. The large rate cuts will precipitate a very strong rebound in dwelling construction – by mid-decade there will be a very large undersupply of housing, with pent-up demand waiting to be unleashed. The current undersupply is being exacerbated by high immigration and under-building. As consumers and businesses re-adjust to the 'normalcy' of higher interest rates – although at much lower levels than the 2000s and 2010s – investment and consumer spending will return to long term trend (or potential) rates of growth over the second half of the 2020s with an initial rebound in GDP growth over FY26-FY27 and strengthening to 3.3% in FY28, before subsequently easing back.

Over the longer term, potential growth will slow primarily due to a smaller contribution from labour force growth compared to recent history. Net overseas migration will fall back to a more normal level, and the contribution from natural increase (births minus deaths) will also moderate. The relatively large cohort of Australians aged 65+ moving into retirement will also place downward pressure on the labour force participation rate, although this will continue to be somewhat alleviated by relatively high net immigration.

Global Economic Outlook – solid near-term growth but increased uncertainty for medium term

Global conflicts and the election of Donald Trump as US president and the Republican's control of Congress potentially has huge ramifications for the global economy, with Trump's policy announcements – particularly with regard to the rapidly evolving tariffs situation - have adding to global uncertainty.

The impact of Trump's likely trade policies should be limited over 2025 due to the time taken for policies to take effect. The direct impact on global growth is likely limited in the near term, but masks major implication for trade and the composition for growth, and for financial markets. The other key implication of the election for the global outlook is higher interest rates. The Federal Reserve may be slower to return policy to neutral, reflecting looser fiscal policy, with spillovers to emerging market central banks. Still, we doubt the path for policy rates in other advanced economies will significantly change because of the US election outcome. Most major economies have already commenced their

cycle of monetary easing, including the US, UK, Canada, and New Zealand, due to the easing in inflation. In the absence of a major downside shock, we expect central banks to react cautiously in a bid to claw back some lost credibility amid lingering concerns about the strength of service sector inflation and still tight labour markets.

Overall, we expect the impact of US tariffs will drag down total exports from China and the other targeted economies over the medium term. However, the impact will be concentrated in specific sectors, pointing to significant consequences for affected industries such as autos, steel and aluminium, with pharmaceuticals the next mooted sector targeted for punitive tariffs. Notably, while the impact on bilateral trade with the US in the affected sectors may be large, the impact on their overall exports may be far more muted. Greater diversification and reorientation of trade flows could eventually offset some of the impacts of trading less with the US, though the extent to which this is achieved will depend on the country-level breadth of US tariffs. The impact on overall export volumes may be tempered by trade diversification and higher US demand thanks to much looser US fiscal policy. Beyond the short term, the election may accelerate the longer-term trend toward regionalisation of trade and a greater focus on protectionism and industrial policy around the world. The large structural shifts are not easily discernible in terms of their impacts on GDP in a given year, but nonetheless could be quite significant over the long run.

Our latest forecasts have global GDP growth remaining at 2.8% in FY25 (as it was in FY23 and FY24), before easing to 2.6% in FY26. US GDP growth is forecast to weaken from 3.1% in FY24 to 2.4% in FY25 and to 2% in FY26. China's GDP growth is forecast to ease from 5.1% in FY24 to 4.9% in FY25, with growth slowing to 4.3% and 4.2% respectively in FY26 and FY27, with growth gradually easing thereafter. Meanwhile, the Eurozone region picks up to around 1.1% over FY25 and FY26, and further to around 1.5% over FY27 and FY28.

While the immediate outlook is optimistic, the weight of decreased trade and easing fiscal stimulus in China will drive down global economic growth over the medium to long term. Notably, while tax cuts and other policy stimulus will boost US and, in turn, global growth in FY25 and into FY26, there will be limited spillovers to the Australian economy. More meaningful impacts are expected to emerge in FY27 and FY28, when the US fiscal policy boost will wane, and the dampening impacts of higher tariffs and lower net migration into the US take over. We expect US GDP will slow to an average of 1.9% in the latter years of the decade. This will materially slow global GDP growth and pose a headwind to Australian exports. However, the slowdown in US growth and imposition of tariffs will have an outsized impact on the Chinese economy due to weaker US import demand for Chinese goods. This channel will in turn weigh on Australian growth.

For Australia, the largest impact of the proposed US tariffs will come from reduced demand from China. That is, a slowdown in GDP from China as a result of reduced trade with the US may have flow on effects to demand for Australian exports. This is likely to place key commodities including iron ore, coal and alumina at greater risk of a reduction in trade volumes. But it is important to emphasise that we see these impacts as being small in magnitude; we expect the Australian economy will be just 0.1% smaller in 2029 because of the change in the US administration.

High US interest rates, the current strong US economy and the strength of the near term US economic outlook has resulted in a relatively high US dollar over the past three years, with a further strengthening evident over recent months. This has seen the Australian dollar weaken from US$0.67 in

the September quarter 2024 to below US$0.63 recently. With the Reserve Bank of Australia likely to cut rates at a faster or similar pace as the US Fed cuts rates, it is likely that the A$ will continue to remain weak against the US$ for at least the next year and possibly longer.

Over the long term, we expect global growth will gradually slow over the long term as resident population growth eases. Australia's trading partner growth (weighted by exports) is forecast to grow at a faster pace over the next 5-20 years (between 0.5 to 1% higher than the global average), due to the high weights of China, East Asia and India (all of which are expected to outpace the average pace of global growth) in Australia's export mix.

2.2 AUSTRALIAN CAPITAL TERRITORY MACROECONOMIC OUTLOOK

Home to the vast majority of the Australian Public Service, the Australian Capital Territory's economy is based around service delivery and public administration. Government expenditure dominates the economy of the ACT, unlike the other states (except the Northern Territory). In 2023/24, government recurrent spending and public investment constituted 58% of State Final Demand (SFD) – compared to the more usual figure of around 28% for other states. Many other sectors are indirectly tied to the public sector, such as professional services, which has seen large increases in output (GVA - Gross Value Added) and employment over recent years, although this may have been partly linked to the NDIS rollout. Over the past decade, there has also been an apparent increase in the Territory's 'self-sufficiency', as evidenced by the faster growth in Gross State Product (GSP) output compared to SFD. The territory enjoys a structurally higher participation rate than the rest of the country, a lower unemployment rate and higher average household incomes.

Fig 2.2 Australian Capital Territory – Key Economic Indicators

						Forecast						
Year Ended June	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Australian Capital Territory												
Total Construction Activity(*)	-4.8	-6.2	1.7	-0.5	1.6	-6.3	18.9	21.2	6.5	-3.3	-4.6	-4.6
State Final Demand	2.8	5.4	3.0	2.1	1.9	3.6	3.2	4.2	3.7	2.1	2.1	2.1
Gross State Product (GSP)	**3.9**	**4.0**	**2.7**	**4.7**	**4.0**	**3.5**	**3.3**	**3.6**	**3.4**	**2.0**	**2.0**	**2.3**
Employment Growth (Year Average)	3.4	3.0	-0.6	5.8	1.9	2.2	1.6	1.9	1.6	1.7	1.6	1.6
Australia												
Total Construction Activity(*)	-3.7	-0.6	1.7	6.3	5.8	2.4	2.6	11.9	2.1	4.0	1.9	-0.2
Australian Domestic Demand	-0.8	2.9	5.5	4.3	2.4	2.0	2.2	2.6	3.3	3.5	2.6	1.9
Gross Domestic Product (GDP)	-0.1	2.1	4.2	3.4	1.4	1.4	2.8	2.7	3.3	3.2	2.4	2.3
Employment Growth (Year Average)	0.3	0.4	3.3	4.5	2.7	2.3	1.2	1.1	1.9	2.3	1.8	1.1

Source: Oxford Economics Australia and ABS

* Total construction work done in constant (real) prices as per the ABS Building Activity and Engineering Construction Activity
Total construction is the sum of new dwelling building (includes alterations and additions activity greater than $10,000), new non-building activity and new engineering construction.

The election of the Federal Labor government has presented some upside to employment growth in the Australian Public Service, although the magnitude is limited due to the government's focus on the task of budget repair. Moreover, this impetus to employment growth in the territory is somewhat offset by the government's determination to reduce the government's reliance on external consultants.

After growing at around 2% over FY23 and FY24, state final demand (SFD) in the ACT has accelerated over the past year, with SFD increasing by 3.6% (y/y) over the year to the December quarter 2024 (i.e. December quarter 2024 compared to December quarter 2023), making it the fastest growing of the states/territories over the past year, in terms of SFD. The key driver of growth in FY25 will be government consumption expenditure (GCE), which is forecast to increase by 5.7%. Meanwhile, household consumption expenditure (which accounts for just over 31% of SFD) is expected to rise an anaemic 0.4%. Non-dwelling building has been another key contributor to growth in FY25, with further strong growth expected in FY26. Conversely, dwelling investment is weak due to oversupply and high interest rates. Household spending is expected to exhibit a modest recovery in FY26, but with GCE growth forecast to slow to 1.7%, overall SFD is expected to ease back to 3.2% in FY26. Meanwhile, gross state product (GSP) is forecast to remain strong at 3.5% in both FY25 and FY26.

The labour market remains very tight, averaging 3.3% over the past twelve months, including a remarkable 2.6% in February 2025 – although we expect this will be reversed next month. We expect employment growth to actually strengthen over FY26 and FY27, keeping the unemployment rate well below the national average. The very tight labour market is exacerbating local wage pressures. In the long run, the territory should experience a relatively robust labour market. Employment growth will continue to be underpinned by population growth and a high participation rate.

In FY27, SFD is forecast to rise to 4.2%, driven by healthy growth in household spending and GCE, with significant contributions from business and public investment and strong growth in dwelling investment. Strong growth in public investment is forecast continue over FY26 and FY27, as another round of public non-dwelling building projects, increased road construction and the second stage of the Light Rail project get underway, while public electricity construction will get a temporary boost in FY25 from the transmission lines for Snowy II. Business investment is forecast to exhibit solid growth over FY25 to FY27, largely driven by increases in non-dwelling building – particularly offices, accommodation and retail buildings - and later by equipment purchases. Private engineering construction will show steady growth from FY26, mainly in the areas of subdivisions, electricity and telecommunications infrastructure. Dwelling investment is set to strengthen appreciably over FY28 and FY29.

Over FY25 to FY27, we expect the ACT economy to display its usual counter-cyclical behaviour, with growth in the ACT outpacing the national average in each of FY25, FY26 and FY27, defying the national slowdown in FY25. Healthy growth in SFD and GSP is then projected for FY28, FY29 and FY30, although these metrics are expected to lag the equivalent national averages.

Higher population growth – compared to the national average – will tend to underpin economic growth, with population growth slowing from 1.7% in FY24 to 1.2% in FY25, before slowly picking up from FY26 and averaging of 1.4% over the following six years to FY31, 0.2% above the national average. Employment growth will continue to be underpinned by population growth. Nevertheless, the desire to reduce the large government debt and pay for increased defence spending will see the Commonwealth government limit its spending increases, impacting GCE, which will keep overall growth somewhat restrained.

3. WAGES AND INFLATION OUTLOOK

3.1 CONSUMER PRICE INDEX OUTLOOK

Price inflation to ease back to RBA target over the next year as supply pressures ease

Consumer price inflation was subdued for the five years to the March quarter 2020, with annual (through-the-year or y/y) headline CPI inflation ranging between 1.0% and 2.2%; averaging 1.7%. Meanwhile, underlying (or core) inflation fell below the Reserve Bank's target 2-3% band in March 2016 and stayed there. Despite considerable volatility in prices due to COVID-19, the CPI remained under 2% over FY20 and FY21. However, over 2021 and 2022 a series of factors resulted in CPI inflation climbing, with headline CPI peaking at 7.8% and core inflation peaking at 6.4% in the December quarter 2022. These factors included severe supply chain shortages and delays, the zero-Covid policy pursued by China, the outbreak of war in Ukraine (and associated sanctions), floods in eastern Australia leading to substantial rises in some food prices; and the decline in the Australian dollar over 2022 and into 2023, further pushing up imported prices. Added to this was evidence of rising demand inflation via widening profit margins, as local businesses took advantage of stronger economic conditions.

Another important component of procyclical inflation since mid-2021 was the cost of constructing a new dwelling (which constitutes 8.5% of the CPI 'basket'). Cost inflation in the construction sector has been escalating since late 2020, due to both the surge in construction work generated by the HomeBuilder subsidy, and materials and labour shortages caused by this additional demand and exacerbated by supply bottlenecks and workplace restrictions. The house purchase component increased 20.7% y/y over the year to September 2022, before easing over the past two years to 4.8% y/y in the September quarter 2024 and then to 2.9% in the December 2024 quarter.

Overall, headline CPI inflation averaged 7% in FY23 and 4.2% in FY24. In July 2024, the government enacted a number of measures, including temporary electricity bill relief and rental subsidies, plus a sharp fall in fuel prices. This resulted in a low September and December quarter CPI outcomes of just 0.2% in each quarter, pushing the annual (through-the-year or y/y) growth from 3.8% in the June 2024 quarter to 2.4% in the December quarter.

With most of the above supply-side pressures to ease further and oil and other commodity prices to weaken over FY25, we expect their absence will help subdue headline inflation materially over the coming year. Demand-driven inflation has also appeared to have weakened, largely due to higher interest rates. Nevertheless, the tight labour market - with the unemployment rate currently around 4% and expected to stay around 4.1-4.4% for the next year - will continue to contribute to wage pressures, although overall wages have now peaked.

However, some structural factors will add to inflation over the short-to-medium term, such as household energy costs, rising higher rental and elevated food inflation. Rents constitute around 6% of the CPI, electricity and gas 2.9%, while food accounts for over 10% of CPI basket (or over 17% if you include meals out and takeaway food). Rental price growth rose to 4% (y/y) in the December quarter 2022 and lifted to 7.6% in the September quarter 2023 and has only slowly subsided to 6.4% in the December quarter 2024. Given the extreme tightness in rental markets currently, the CPI measure of

rents is expected to remain quite high over the next 2-3 years as existing rental contracts roll over to new, much higher rents and new supply fails to keep with strong housing demand. Another factor driving inflation over the next 1-2 years will be further sharp increases in electricity and gas prices. It is worth noting that both rent and energy price rises in the September and December quarters were constrained by temporary government subsidies, which will then see headline CPI inflation jump in the September quarter 2025, when these temporary measures finish.

Food inflation had averaged around 2.8% p.a. over the 25 years to 2014 but were very weak over the five years to FY19 (averaging only 1.1% p.a.), which was a key factor which muted prices over those years. This was due to intense competition between the major supermarkets and falling or weak global agricultural prices. The supermarkets cannot keep cutting prices (and either their own margins or suppliers' margins), while world agricultural prices will remain elevated over the medium term, now the previous global oversupply has dissipated. So while food inflation has fallen back from the 10% rises of 2022 to 3.4% y/y in the latest quarter, food prices are unlikely to track back to the sub-2% of the 2015-2019 period.

Underlying and headline CPI inflation are expected to remain somewhat elevated over FY25 to FY26 as the supply and demand pressures slowly abate, the labour market remains tight, and wage growth remains relatively high. Although global inflationary pressures will ease further over the next year, they will remain elevated, contributing to higher manufacturing costs and prices over the near term. The sharp decline in the exchange rate from around US$0.72 in the first half of 2022 to US$0.63 recently will also add to inflationary pressures in the near term. Conversely, we expect the A$ to appreciate over the medium-term, which will provide some offsetting pressures.

Overall, OEA forecasts headline CPI inflation to be 2.6% in FY25 and 3.4% in FY26. The softer growth in the economy over FY24 to FY27 will see price and wage pressures weaken, with the CPI to ease back to around 2.6% in FY27, before picking up from FY29 and averaging 2.7% over the latter years of the 2020s (see figure 4.1). Our forecasts, on average, are similar to the February RBA forecasts over FY25 to FY26 (see section 4.1.1 below).

CPI inflation projected to average close to 2.5% over the medium-to-long term

Headline CPI inflation is expected to sit at or above the mid-point of the RBA's 2-3% target band in the long run based on the following:

- Tradeables inflation, which currently constitutes around one-third of the CPI basket, is forecast to increase by an average of around 1% to 2% per annum contributing around 0.5% to annual inflation. Limited movements in the A$, steady (but subdued) increases in global manufacturing costs and some commodity price increases underpin this projection.
- Non-tradeables inflation comprises the remaining two-thirds of the basket, but this proportion is increasing due to the move toward services and higher price inflation (than tradeables). It is assumed to increase by around 2.5-3% per annum, contributing around 2% to headline inflation. This is weaker than the 3.7% average achieved from 2001 to 2015 when relatively high wage inflation, lower than average productivity growth to 2009 and also large rises in utilities prices pushed non-tradeables inflation to well outside of the RBA's 2 to 3% target range. We expect higher wages growth in the longer term and lower long-term productivity will also contribute to the maintenance of relatively high non-tradeables inflation.

3.1.1 RBA CPI Forecasts are Used to Calculate Real Wages

To calculate real wage and other cost increases, we deflate nominal price growth by deducting expected inflation. For the inflation forecasts, we use the methodology preferred by the Australian Energy Regulator (AER). This methodology involves using the official near-term CPI forecasts from the Reserve Bank of Australia (RBA) and a longer-term average based on the 2.5% mid-point of the RBA's inflation target band (i.e. 2 to 3%).

The RBA's February 2025 'Statement on Monetary Policy' forecast the headline CPI rate to be 2.4% (y/y) in the June quarter 2025 - giving a year average of 2.6% for FY25. With the energy and rental subsidies finishing in mid-2025, the RBA forecasts headline inflation jumps to back up to 3.7% for the December quarter 2025, before easing to 3.2% in the June quarter 2026 – giving a year average CPI rate of 3.4% for FY26. The RBA's CPI forecast for December 2026 is 2.8% and 2.7% for the June quarter 2027, then the year average CPI for FY27 of 2.7%. Beyond the RBA's forecast from the SoMP, we assume the CPI averages 2.5% over the medium-to-long term.

3.2 NATIONAL WAGES

The key determinants of nominal wages growth are consumer price inflation, productivity, the relative tightness of the labour market (i.e. the demand for labour compared to the supply of labour), and compositional (structural) changes in the labour market following the end of the mining investment boom around 2013. The low wage growth of the 2014-21 period was both a product of and key contributor of low underlying inflation. Low wages helped keep business costs down and thus mute upward price pressures, while a significant section of pay deals are set in line with CPI inflation – especially for employees on awards. The unemployment rate and underemployment rate are key indicators of the amount of slack in the labour market. The unemployment rate was just above 5% over the two years to the March quarter 2020, before the COVID impacts. Historically this rate was seen as close to the NAIRU, (the Non-Accelerating Inflationary Rate of Unemployment or the 'natural rate of unemployment'), but our latest research suggests that the natural rate has lowered in recent years, possibly to around 4%[1].

Wage growth will remain elevated as labour market remains tight

Following the covid-inspired slump in wages in FY20 and FY21, wages growth picked up over FY22, with the All Industries wage price index (WPI) increasing to 2.4% in FY22 (from 1.5% in FY21). A further acceleration in wages growth occurred over FY23 and FY24 – to 3.5% and 4.1% respectively. The pace of growth in FY24 was the fastest rate of growth since the mining boom years of the late 2010s (see chart 4.1 and table 5.1). Wages growth appears to have now peaked and we expect wages growth to gradually ease back over FY25 to FY27, before stabilising and then re-accelerating over FY29 to FY30.

A key element adding to wage pressures over FY22 to FY24 was the rapid tightening in the national labour market. Employment growth has been very strong over the past three years, with the unemployment rate averaging 3.6% in FY23 and 3.9% in FY24 and labour force participation rates at record levels. A key to the outcomes over FY22 was little growth in the pool of available labour. The

[1] A 4% NAIRU is within the RBA's the lower bound estimate as of 2019. See the RBA's Assistant Governor Luci Ellis' 2019 speech "Watching the Invisibles".

cessation of international migration to Australia from March 2020 saw population growth plummet to just 0.2% in the year to June 2021, while the working age population (above 15 years old) increased by only 50,000 (+0.2%) over 2020/21 and 206,000 in 2021/22, compared to over 330,000 persons in FY19 and in the year to March 2020. Growth in the labour force has been facilitated by a marked increase in the labour force participation rate to record levels, with the return of immigration adding to employment growth. However, immigration and the growth in the working population will slow markedly from here, as the government acts to stem the high numbers of arrivals. Furthermore, there is now little scope to raise the participation rate further and, with the underemployment rate near historical lows and job vacancies still well above pre-COVID levels, wage pressures will remain elevated in the near-term.

Although OEA's economic growth (GDP) forecasts are for further weak growth over FY25 and FY26, we still expect the labour market to remain tight, with labour demand still relatively strong and the unemployment rate only drifting up slowly from 4% now to 4.3% by late-2025 where it will remain until late 2026. Job ads are still very high – well above pre-Covid levels, suggesting further jobs growth, although slowing from here. Furthermore, we expect that the rise in the unemployment rate will be kept in check by falls in the participation rate from current record levels, as employment growth slows. This is likely to occur amongst those currently in the workforce with a 'loose attachment' to the workforce, such as older workers who stayed in the workforce due to strong labour demand. As demand eases, a significant proportion of workers are likely to drop out of the workforce (and hence the labour force statistics) and possibly retire.

Skill shortages, which have already emerged, are expected to remain acute in many parts of the economy, although there has been recent evidence of shortages of unskilled labour beginning to ease. The tight labour market will see wage pressures remain elevated. Wages have been slower to pick up compared to the inflation rate, due to lags in the transmission of wage increases, particularly in the enterprise bargaining segment, where the duration of agreements runs for 2-3 years.

In the short-term, our wage forecasting methodology involves an analysis of the expected future wage movements in the three main methods of setting pay – for those reliant on awards (13% of the full-time workforce), collective agreements (35% of the workforce) and those who have their pay set by individual arrangements (52%). In terms of those workers on awards who have their pay determined by the Fair Work Commission (FWC) in the annual National Minimum Wage (NMW) case, the increase given in June 2022 and June 2023 for the 2022/23 and 2023/24 financial years were much higher than previous years. In June 2022 the FWC awarded a 5.2% increase to workers on the minimum wage, with workers on award rates receiving a 4.6% increase. A key element of this decision was the very high CPI inflation rate of 5.1% in the March quarter 2022 (which was then the latest available quarter). The June 2023 NMW decision (for the 2023/24 financial year) was even higher, driven by CPI inflation of 7% in the March quarter 2023. The Commission awarded an 8.6% in the minimum wage and an increase of

Figure 3.1 Australia: Wages and Prices

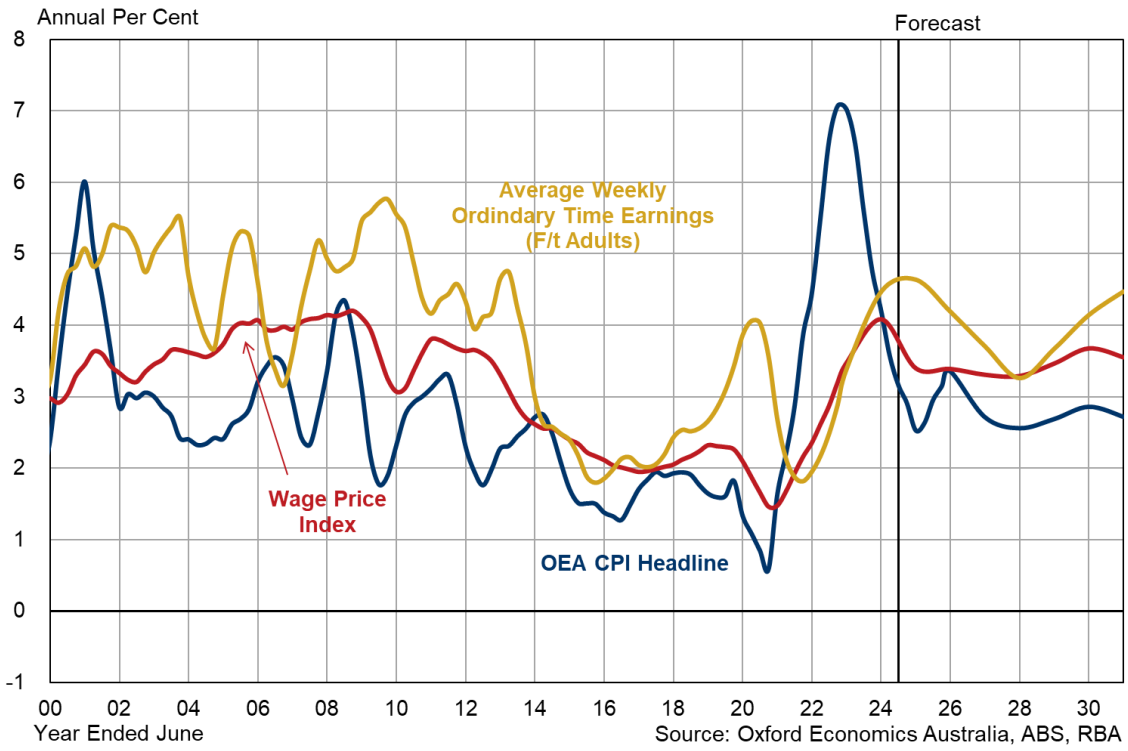
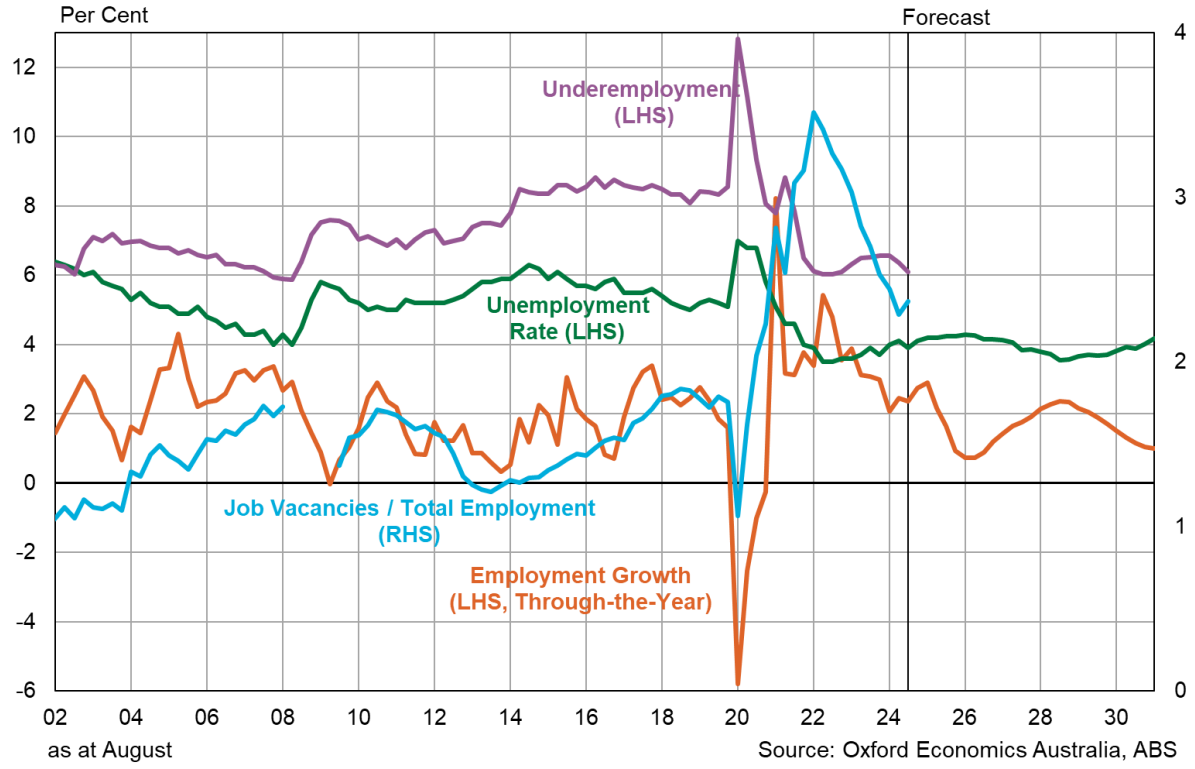


Figure 3.2 Australia: Employment and Unemployment



5.75% for workers on awards. These increases underpinned a lift in overall wages growth in FY23 and FY24.

In June 2024, the FWC awarded a 3.75% increase for the 2024/25 financial year. Although only 13% of full-time workers (a much higher proportion for part-time workers) rely on the annual increase in the minimum and award wage as their primary wage-payment mechanism, a significant proportion of workers are also indirectly influenced by the NMW increase, as it usually flows onto industry awards, with the Fair Work Commission estimating its decisions will affect more than 2.7 million workers (around 20% of the workforce). Accordingly, these FWC decisions will also influence the strength of wage increases given to those who receive their wages via 'individual arrangements' pay setting arrangements, as a significant proportion of wage increases given under individual arrangements are based on awards. Recent inflation outcomes, inflationary expectations and the tightness of the labour market are also key influences in the setting of wage increases under individual arrangements.

It is important to note that wage growth usually lags changes in the labour market, inflation and economic conditions, because of the inherent lags in wage setting mechanisms. Although wage increases related to the NMW and relevant awards are set each July, many of the enterprise agreements – covering 35% of the full-time workforce – run for an average of 2-3 years. These agreements averaged 2.6% over the five years to December 2021, having been set in an environment of low inflation and a much less tight labour market. However, as these previous (low wage increases) agreements expire, we expect the next round of agreements to be materially higher, due to previous and current high CPI inflation and because of widespread skilled labour shortages (with the unemployment rate expected to be below 4.4%). The latest DEWR (Department of Employment and Workplace Relations) data shows that agreements recently approved have lifted from 2.6% (average annualised wage increases – AAWI) in the September 2022 quarter to 4.4% in the December 2023 quarter, easing to 4.0% for the June quarter 2024 (and averaging 4.1% for FY24). We expect similar high agreements to be negotiated over coming quarters. Of the other 52% of workers on individual agreements, those of who are on awards will receive an annual pay increase via the FWC increase, while others may receive an annual salary increase, but there are a significant proportion on fixed contracts running over a few years. The bottom line is that the next round of wage rises negotiated by workers will continue to be relatively high.

Forecasts for All industries wages are detailed in Table 4.1 and the Summary table in the Executive Summary. The Australian All industries WPI is forecast to increase to ease to 3.4% in FY25 and FY26, and remain subdued over the subsequent 2 years as the economy cools and the unemployment rate remains above 4%. Stronger wage growth is then expected over FY29 and FY30 as stronger economic and employment growth returns from 2028, and the unemployment rate falls back below 4%. Overall, using RBA CPI forecasts, real (inflation-adjusted) WPI growth for the Australian All Industries WPI is forecast to rise 0.8% in FY25 as WPI growth finally outpaces high CPI inflation – after higher CPI inflation delivered real wage declines over FY22 to FY24. In FY26, the jump back in the CPI (as the temporary energy and rental subsidies expire) will undermine real WPI growth to zero. Thereafter, there will be positive growth in real wages from FY27 to FY31. Over the five-year period from FY27 to FY31, the real rate of increase is forecast to average 0.9% p.a., which will be above the 0.6% average of the decade to FY20 inclusive.

The **Australian Capital Territory All Industries WPI** is expected to outpace the national All Industries WPI by 0.1%-0.2% over FY25 to FY28, before slipping below the national average over the following three years, but overall largely track the national All Industries WPI over the forecast period, with minor year-by-year differences related to the relative strength of the respective state economic growth and labour markets. In nominal terms, over the five year period from FY27 to FY31, the ACT All Industries WPI is forecast to average 3.5%, or 0.9% in real terms.

4. INDUSTRY WAGE FORECASTS – UTILITIES & CONSTRUCTION: AUSTRALIA & ACT

4.1 CHOICE OF THE WAGE PRICE INDEX AS THE MEASURE OF LABOUR COSTS

The WPI for the EGWWS (Electricity, Gas, Water & Waste Services or 'Utilities') sector in ACT is used as a proxy for all of Evoenergy's gas network related labour costs. Network labour costs includes all internal labour (i.e. all head office staff including professional and admin employees plus field employees) as well as any external labour hired to provide field services such as 'asset management' services. Businesses providing these field services are usually classified to the utilities sector. Hence, including their labour costs as part of Evoenergy's opex 'network' labour and escalating it with the WPI for the state utilities sector will be consistent with the AER's framework. That being said, some of Evoenergy's internal staff may be involved in project delivery such as replacement and/or augmentation capital projects. Their labour cost can be included in the capex calculations. OEA chose to use the Wage Price Index (WPI) as the key measure of growth in ACT internal labour costs for the forecasts of Electricity, Gas, Water and Waste Services. The key motivations for this are:

(a) Greater data availability: the EGWWS WPI is available at the national level and for the key states (NSW, Victoria and Queensland), both on quarterly and annual basis. Average Weekly Earnings (AWE) and Average Weekly Ordinary Time (AWOTE) are not available by industry by state, and at the national level are only published every 6 months; and

(b) The Australian Energy Regulator (AER) prefers the WPI as it has less volatility than AWOTE and is a better measure of underlying trends.

Note that in terms of overall wage costs for FY25 and FY26 only, the full 0.5% for the Superannuation Guarantee increases each year should be added to the forecast WPI increases each year for internal wages and also external wages, to arrive at the total percentage increase in labour costs. This is in line with advice from Deloitte Access Economics (DAE) to the AER in their Superannuation Guarantee paper, that "…taking into account the uncertainty regarding how individual NSPs will respond to changes in the minimum superannuation guarantee, it is recommended that the full 0.5 percentage point annual increase to the superannuation guarantee be added to forecast WPI growth" (page 5 of DAE impact of *Changes to the Superannuation Guarantee on Forecast Labour Price Growth,* July 2020).

4.2 NATIONAL & ACT EGWWS WPI FORECASTS

Utilities wage growth is forecast to continue to outpace the national 'all industries' average over the forecast period.

The national (Australia-wide) EGWWS WPI growth has consistently been above the national (All Industries) average since the index's inception in 1997 and averaged 0.6% higher over the past two decades (see Table 4.1 and Fig 4.1). Over the two decades to 2020/21, the average growth in the real (inflation-adjusted) WPI was 1.2%. Since the collapse in wages growth following the end of the mining

boom, the EGWWS WPI has continued to outpace the All Industries average, increasing by an average of 2.5% over the past decade from FY14 to FY23 inclusive, 0.2% higher than the 2.3% national average. The Australian EGWWS WPI rose 4.1% in FY24, or -0.1% in real terms.

We forecast the Australian EGWWS WPI to grow at a rate of 4.6% in FY25 and 3.9% in FY26, representing a real increase of 2.0% in FY25 and 0.5% in FY26. The WPI is then forecast to grow at an average annual rate of 3.7% over the five years between FY27 to FY31, 0.2 percentage points above the same average for the All Industries WPI.

Table 4.1 Total Australia (All Industries) and Electricity, Gas, Water and Waste Services Average Weekly Ordinary Time Earnings and Wage Price Index (Year Average Growth)

Year Ended June	Average Weekly Ordinary Time Earnings (1)						Wage Price Index (2)					
	All Industries			Electricity, Gas, Water and Waste Services			All Industries			Electricity, Gas, Water and Waste Services		
	Nominal $/week	%CH	Real AWOTE %CH	Nominal $/week	%CH	Real AWOTE %CH	Nominal Index	%CH	Real WPI %CH	Nominal Index	%CH	Real WPI %CH
2005	973	4.4	2.0	1,091	3.2	0.8	85.3	3.7	1.3	83.3	4.3	1.8
2006	1 018	4.6	1.4	1,111	1.9	-1.3	88.7	4.1	0.9	87.6	5.2	2.0
2007	1 054	3.6	0.6	1,152	3.7	0.7	92.2	3.9	1.0	91.8	4.8	1.8
2008	1 106	4.9	1.6	1,183	2.7	-0.7	96.1	4.1	0.8	95.7	4.2	0.8
2009	1 166	5.5	2.3	1,255	6.1	3.0	100.0	4.1	1.0	100.0	4.5	1.4
2010	1 231	5.6	3.2	1,351	7.6	5.3	103.1	3.1	0.8	104.4	4.3	2.0
2011	1 283	4.2	1.0	1,474	9.1	6.0	107.0	3.8	0.7	108.7	4.2	1.1
2012	1 338	4.3	2.0	1,510	2.5	0.1	110.9	3.6	1.3	112.5	3.5	1.2
2013	1 400	4.6	2.4	1,602	6.1	3.9	114.6	3.3	1.0	117.3	4.2	1.9
2014	1 442	3.0	0.3	1,635	2.0	-0.7	117.6	2.6	-0.1	121.1	3.2	0.4
2015	1 477	2.4	0.7	1,646	0.7	-1.0	120.4	2.4	0.7	124.5	2.8	1.1
2016	1 504	1.9	0.5	1,704	3.5	2.2	123.0	2.1	0.7	127.5	2.4	1.0
2017	1 535	2.0	0.3	1,777	4.3	2.6	125.4	2.0	0.2	130.3	2.2	0.5
2018	1 572	2.4	0.5	1,818	2.3	0.4	127.9	2.1	0.1	132.9	2.0	0.0
2019	1 614	2.7	1.0	1,842	1.3	-0.3	130.9	2.3	0.7	136.6	2.8	1.1
2020	1 676	3.9	2.5	1,896	2.9	1.6	133.7	2.1	0.8	140.2	2.7	1.3
2021	1 721	2.7	1.1	1,927	1.6	0.0	135.6	1.5	-0.1	142.7	1.8	0.2
2022	1 755	1.9	-2.5	1,979	2.7	-1.7	138.8	2.4	-2.1	144.9	1.5	-2.9
2023	1 814	3.4	-3.6	2,109	6.6	-0.5	143.7	3.5	-3.6	150.1	3.5	-3.5
2024	1 895	4.5	0.3	2,217	5.1	0.9	149.5	4.1	-0.1	156.3	4.1	-0.1
Forecasts												
2025	1 981	4.5	2.0	2,352	6.1	3.5	154.6	3.4	0.8	163.4	4.6	2.0
2026	2 062	4.1	0.7	2 458	4.5	1.1	159.9	3.4	0.0	169.7	3.9	0.5
2027	2 139	3.7	1.0	2 554	3.9	1.2	165.2	3.3	0.6	176.0	3.7	0.9
2028	2 208	3.3	0.7	2 644	3.5	1.0	170.6	3.3	0.8	182.1	3.5	1.0
2029	2 289	3.7	1.2	2 746	3.9	1.4	176.5	3.5	1.0	188.8	3.7	1.2
2030	2 384	4.1	1.6	2 866	4.4	1.9	183.0	3.7	1.2	196.2	3.9	1.4
2031	2 491	4.5	2.0	2 990	4.3	1.8	189.5	3.6	1.1	203.7	3.8	1.3
Compound Annual Growth Rates (3)												
2001-2010	4.8		2.0	4.4		1.5	3.7		0.9	4.4		1.6
2010-2020	3.1		1.1	3.4		1.4	2.6		0.6	3.0		1.0
2024-2031	4.0		1.3	4.4		1.7	3.4		0.8	3.9		1.2
2027-2031	3.8		1.3	4.0		1.4	3.5		0.9	3.7		1.2

Source: Oxford Economics Australia, ABS

(1) Earnings per person for full-time adults. Data is year ended May (available only at mid-month of quarter)

(2) Wage Price Index, exludes over time and bonuses

(3) CAGR (Compound Annual Growth Rates) for 2027-2031 is the average annual growth for 2026/27 to 2030/31 inclusive i.e. next Revenue Determination period.

Wages growth in the EGWWS sector is invariably higher than the total Australian national (All Industries) average.

During the COVID-19 crisis, the EGWWS sector fared much better than just about all other sectors, along with the Education, Health & Social Assistance and Finance and Insurance sectors, in terms of wage increases over FY20 and FY21. However, in FY22, annual growth in the EGWWS WPI (1.5%) slipped below the All Industries average (2.4%) for only the second time in the past two decades. However, this proved to be a short-lived aberration, with the EGWWS WPI rebounding strongly over FY23 to match the national average of 3.5%. In FY24 the EGWWS WPI matched the All Industries WPI, largely because of some large one-off 'catch-ups' in wages for some low paid sectors such aged-care and child care. From FY25, we again expect the EGWWS WPI to outpace the All Industries WPI over the forecast period. Driving this will be much higher EBAs negotiated in an environment of very high inflation and a very tight labour market, particularly for the types of skilled labour that dominate in the sector.

To a large extent, higher relative wages growth has been underpinned by a strong capital works program in the utilities sector over the past two decades (and particularly up to 2013 - resulting in robust employment growth over the same period), strong competition from the mining and construction workers for similarly skilled labour and the powerful influence of unions in the utilities sector. This is set to continue over the next decade (also see Figures 4.5, 4.6 and 4.7).

In addition, the electricity, gas and water sector is a largely capital intensive industry whose employees have higher skill, productivity and commensurately higher wage levels than most other sectors. Further, the overall national average tends to be dragged down by the lower wage and lower skilled sectors such as the Retail Trade, Wholesale Trade, Accommodation, Cafés and Restaurants, and, in some periods, also Manufacturing and Construction. These sectors tend to be highly cyclical, with weaker employment suffered during downturns (such as the COVID-19 inspired downturn) impacting on wages growth in those sectors. The EGWWS sector is not impacted in the same way due to its obligation to provide essential services and thus greater need to retain skilled labour.

Strong Union presence in the utilities industry and higher collective agreements outcomes pushes utilities wages above the All Industries average.

Trade unions are typically able to negotiate higher-than-average wage outcomes for their members through collective bargaining, resulting in stronger wage growth than the all-industry average. Across the EGWWS sector, there are a number of utilities unions such as the Communications, Electrical and Plumbing Union (CEPU) and Australian Services Union (ASU), which have a history of achieving high wage outcomes for the sector. Other unions active in the sector include the Australian Workers Union (AWU).

As at May 2023, 61.6% of full-time non-managerial employees in the EGWWS industry have their wages set by collective agreements, considerably higher than the national average of 35%. Over the 10 years to 2016, previous BIS Shrapnel research found that a higher proportion of workers on collective agreements was associated with higher wage growth, with a correlation coefficient of +0.6(see Figure 4.2). As we expect that the EGWWS industry will continue to have higher levels of unionisation than the national average, we expect that unions in the EGWWS industry will continue to be able to negotiate for higher wages for a substantial proportion of EGWWS employees, resulting in EGWWS wages growing faster than the national average.

Figure 4.1 Wage Price Index - Australia All Industries and Electricity, Gas, Water & Waste Services

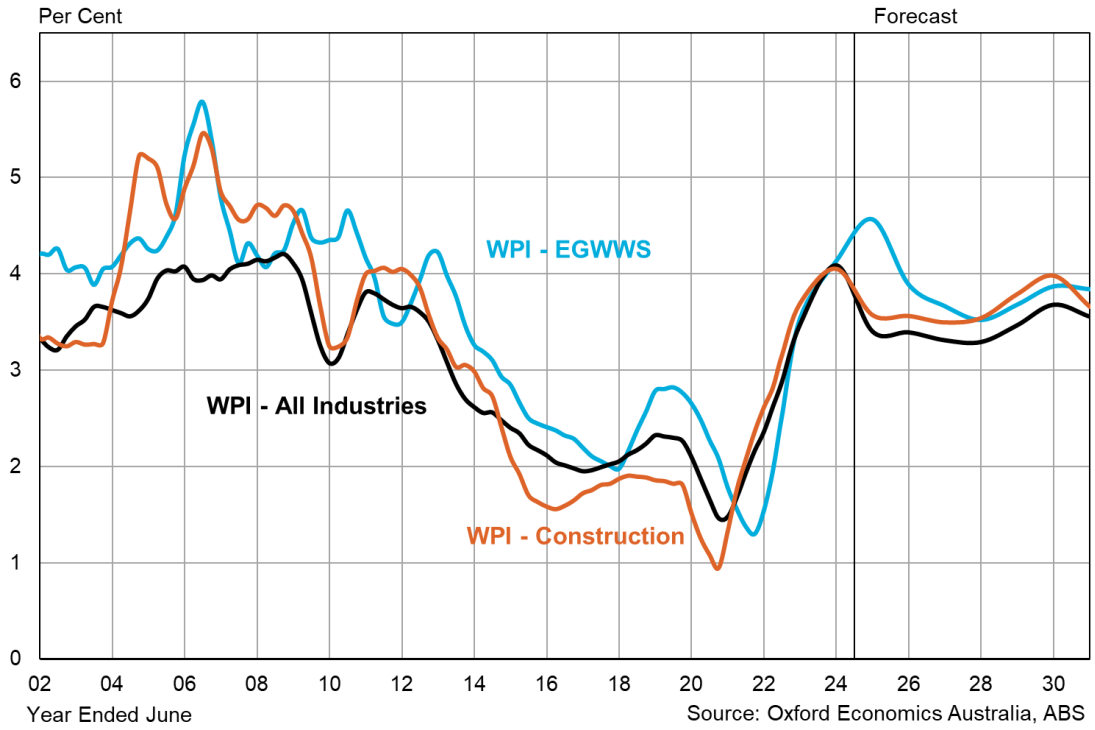
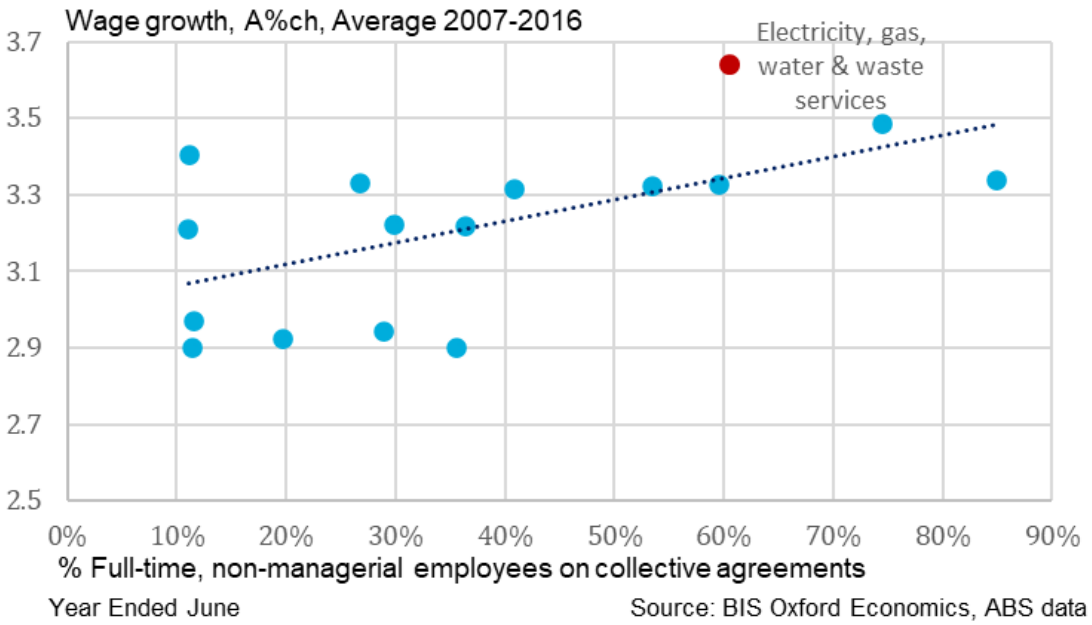


Figure 4.2 Average wage growth and unionisation rates by industry, 2007-2016



Collective bargaining dominates the pay setting arrangements in the utilities sector, while the relative absence of workers relying on (often) low-increase awards (set in the National Wage Case) means the overall average level of total utilities wages (in A$ terms) will generally be higher than the All

Industries average. Over the outlook period, we expect collective agreements in the EGWWS sector to achieve average increases of 3.8%.

Oxford Economics Australia analysis shows collective agreements in the EGWWS sector were on average around 1.5% higher than CPI inflation over the 15 years to FY14 (excluding the effects of GST introduction in 2000/01). In the six years to FY20, collective agreements were on average 1.4% above the CPI. Given the strength of unions in the sector and a still strong demand for skilled labour, collective agreements are forecast to remain around 1.2% above the 'official' CPI over FY25-31, although this is lower than previous periods.

As well as increases in CPI, increases in collective agreements under enterprise bargaining are also influenced by a combination of inflationary expectations, the recent profitability of relevant enterprises, current business conditions and the short-term economic outlook, and, as mentioned, by the industrial relations 'strength' of relevant unions. Because the average duration of agreements runs for two-to-three years, Oxford Economics Australia bases its near-term forecasts of Enterprise Bargaining Agreement (EBA) wages on the strength of recent agreements, which have been formalised or lodged (i.e., an agreement has been reached or approved) over recent quarters.

EBA outcomes were relatively weak over FY21 and remained subdued in FY22 (averaging 2.5%), compared to the 5 years to FY20, when EBAs averaged around 2.9%. However, EBAs have picked up appreciably over the past six quarters, with approved EBAs averaging 4.4% (AAWI terms) in FY24 – an outcome not seen in over 15 years. We expect the next rounds of EBAs negotiated in the sector to remain elevated around current levels of 4%, due to several factors:

- CPI inflation will remain high (averaging 7% in FY23, 4.2% in FY24, 2.4% in FY25, 3.1% in FY26),
- the demand for skilled labour remains strong, and
- the recent very high enterprise agreement outcomes in the construction sector will influence negotiations in the EGWWS sector, as some skills can be transferable.

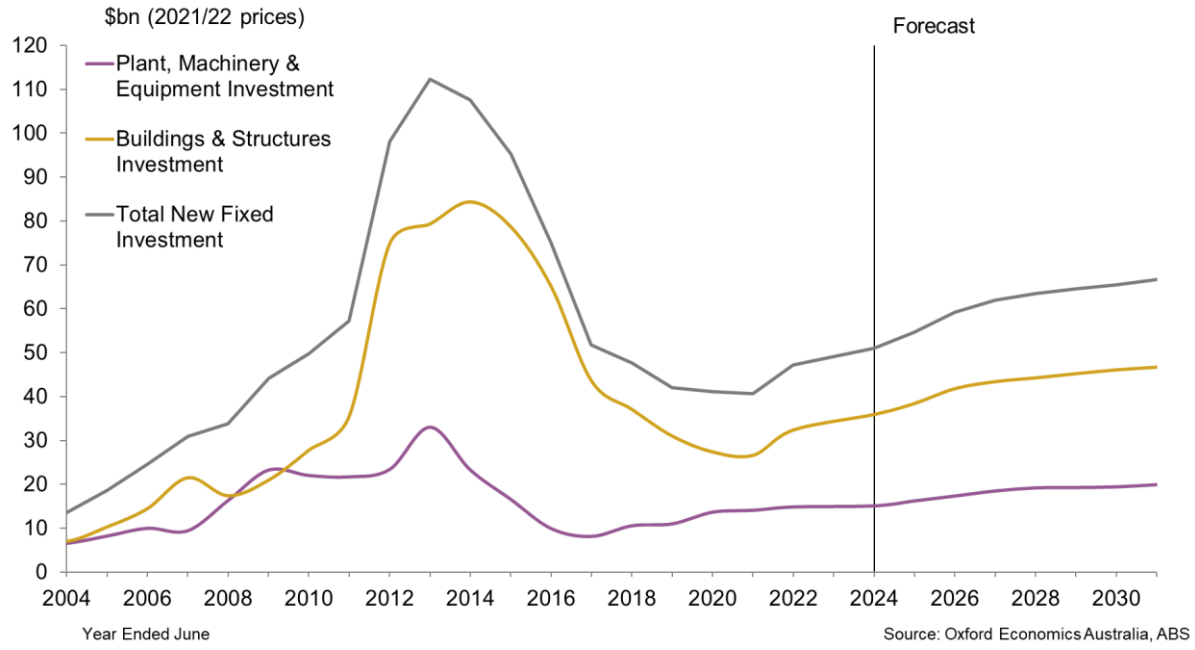
Wage increases under Individual agreements and EBAs are strengthening due to tight supply and strong demand for skilled labour for Utilities-related investment and from the Mining and Construction sectors.

Increases in individual agreements (or non-EBA wages) are primarily influenced by the strength of the labour market (especially the demand-supply balance of skilled labour), inflationary expectations, the recent profitability of relevant enterprises (which influences bonuses and incentives, etc.), current business conditions and the short-term economic outlook. Demand for labour (and hence wages) in the utilities sector are also significantly influenced by investment in the sector, particularly engineering construction, which has been the key driver of employment growth in the sector over the past two decades. Figures 4.5 and 4.6 illustrate this relationship, and shows employment has a much stronger relationship with utilities engineering construction rather than utilities output.

The overall labour market is expected remain tight over the next 2 years, with the unemployment rate to remain around 4%, despite a slowing in employment growth from 4.5% in FY23 and 2.7% in FY24 to 2.3% in FY25 and 1.2% in FY26. We expect population and labour force growth to largely match employment growth, with small declines in the participation rate keeping the unemployment rate low, as workers with a 'loose attachment' to the workforce drop out as labour demand eases (some to fully retire). Hence, we expect to see the continuation of critical skilled labour shortages and competition

for scarce labour - particularly from the mining and construction sectors - which will push up wage demands in the utilities sector. Mining investment is now picking up and is forecast to see steady increases over the next 6 years to the end of the decade (see Figure 4.3). Meanwhile, there is similar strong growth coming through in in the Construction sector (see Fig 4.8), with solid increases in overall construction activity over FY23 to FY25, leading to strong labour demand in that sector, particularly as activity has surpassed the 2018 levels – excluding oil and gas, where a significant proportion of the 'work done' measure includes large imported components, assembled on-site.

Figure 4.3 Australia – Mining Investment

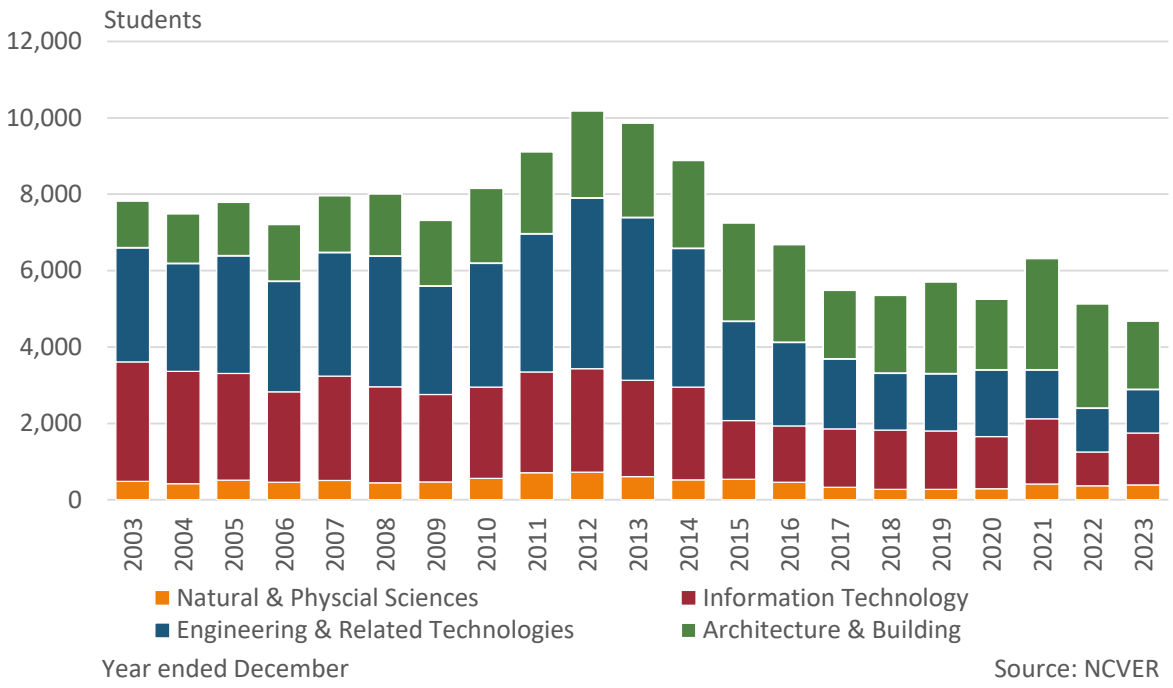


With regard to utilities investment, Oxford Economics Australia is forecasting further strong increases over the next 2 years, with utilities-related engineering construction projected to be over 22% higher in FY31 compared to FY24 levels, following the 57% increase over the past three years (see charts 4.5 and 4.6). A similar story exists in the ACT, with sustained strong growth in utilities-related construction from FY27, along with sustained strong growth in gas pipeline construction over the next seven years. Furthermore, given the need for much greater amounts of transmission and distribution investment, let alone renewables generation, these projections could be considered conservative – there is a significant upside risk to the quantum of electricity-related investment required and therefore to the levels of skilled labour required.

Employers are already reporting an increasing shortage of technicians and trade workers, and employees with STEM skills. These are essential workers in the utilities sector. A key problem is that the TAFE (technical and further education) systems across the country have simply not been training enough workers. OEA research shows this is compounded by new graduates in the trades stream, in particular, not increasing fast enough to replace retiring workers, with new graduate numbers in some trades actually falling (see Figure 4.4). Despite government announcements that they are moving to address the TAFE system, it is unlikely that these issues will be addressed within the next 5 years. Added to this is that skilled immigration only fully returned in the first half of 2022, after being

suspended since early 2020. Although now resumed, the backlog of skilled labour shortages will be slow to fill, meaning that the skill shortages will persist for at least the next 2 years.

Figure 4.4 Australia, number of completions, diploma or higher, VET, 2003-2023



With strong competition for similarly skilled labour from the mining and construction industries, firms in the utilities sector will need to raise wages to attract and retain workers. In other words, the mobility of workers between the EGWWS, mining and construction industries means that demand for workers in those industries will influence employment, the unemployment rate and hence spare capacity in the EGWWS labour market. Businesses will find they must 'meet the market' on remuneration in order to attract and retain staff and we expect wages under both individual arrangements and collective agreements to show further strong increases over the next two years.

Figure 4.5 Australia – Utilities Employment, Output, Investment & Productivity

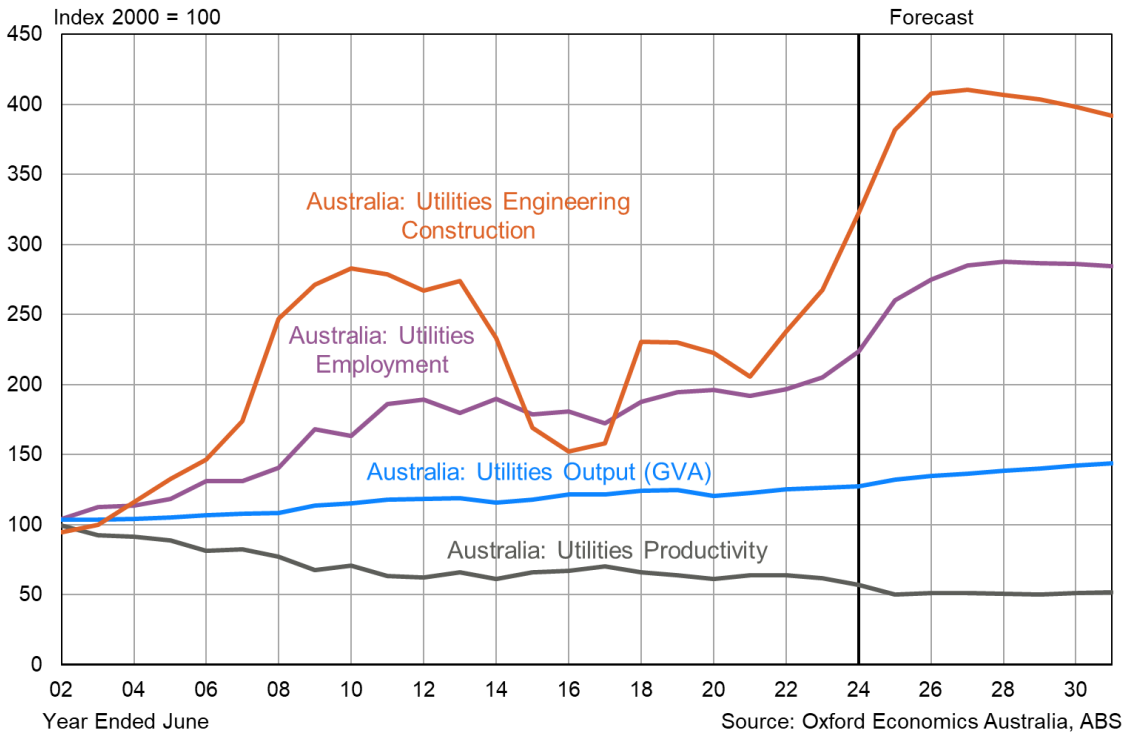


Figure 4.6 ACT – Utilities Employment, Output, Investment & Productivity

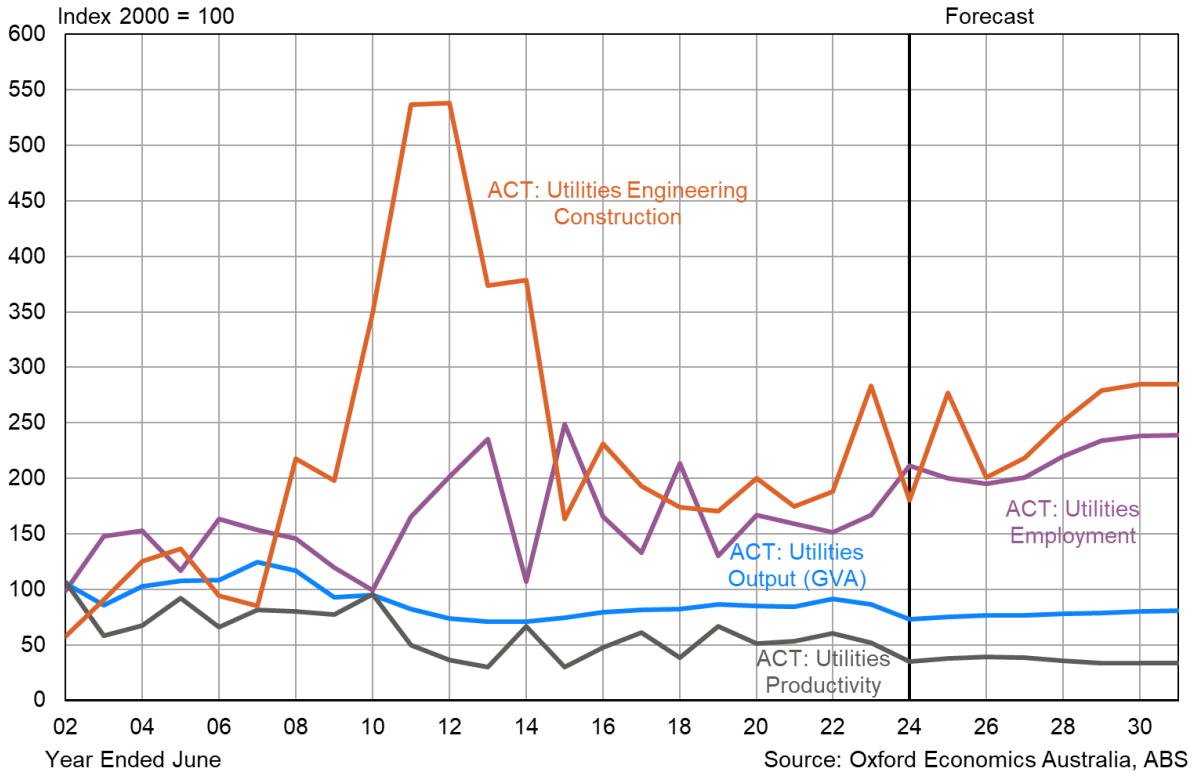
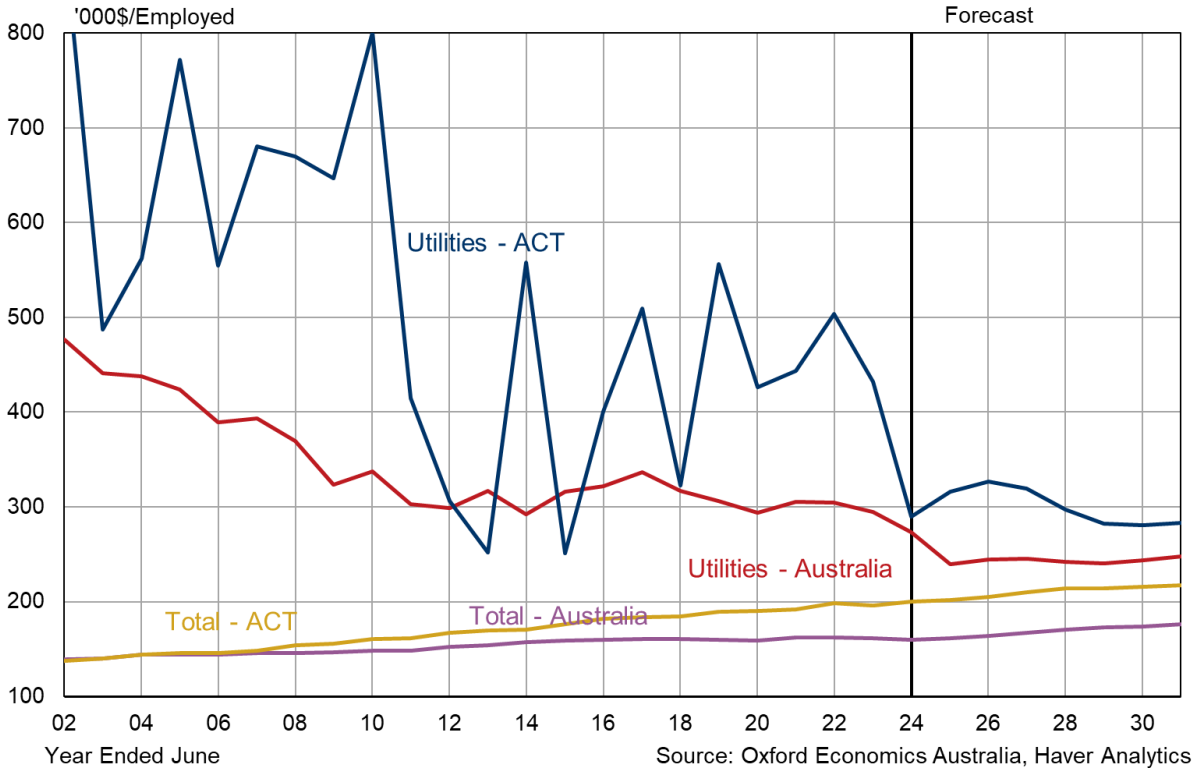


Figure 4.7 Utilities Productivity in Australia and ACT



4.2.1 Outlook for Utilities Wages Growth in ACT

The ABS does not provide WPI data for the Utilities sector in ACT, providing state utilities data only for NSW, Victoria and Queensland (the latter since early 2019). These three states collectively account for around 77% of total Australian utilities employment, with South Australia accounting for 7% and Western Australia 11%. Historical data and forecasts of WPI for the EGWWS sector in the ACT are therefore based on national EGWWS WPI forecasts, as well as movements in the 'unknown residual' for the utilities WPI and differences in outcomes in collective bargaining in the ACT compared to the national average for the utilities sector.

ACT EGWWS WPI growth is estimated to have lifted to 3.1% in FY23 and 3.6% in FY24, with lower EBA outcomes (compared to the national average) contributing to weaker WPI growth compared to the national average (see table 1.1 in the Executive Summary). With recent EBAs being approved at a lower rate than the national average, we expect ACT EGWWS WPI to track lower than the national average over FY25 and FY26. However, the next round of EBAs negotiated in the utilities sector in the ACT are likely to be somewhat higher than the deals negotiated in 2022 and 2023, and be closer to deals negotiated in the utilities sector in other states – in effect, there will be some 'catch-up' in EBAs in the territory. Accordingly, wages in the ACT utilities sector are expected to move in line with – but remain slightly lower than - the national utilities sector average through most of the regulatory period. This is due to relatively weaker growth in utilities construction in the ACT, compared to other states.

4.3 NATIONAL & ACT CONSTRUCTION WPI FORECASTS

Given that service providers' outsourced labour is mostly supplied by firms in the construction industry, we proxy Evoenergy's external labour cost escalation by wages growth (as measured by the WPI) in the ACT construction sector. Our research has shown that construction activity (ie work done in the sector) normally has a strong influence on construction wages, although changes in wages tend to lag construction (in work done terms) by around one year. Hence, our wage forecasts are based on Oxford Economics Australia forecasts of construction activity by state (which includes residential and non-residential building, plus engineering construction) as well as predicted movements in the construction wages at the national level.

Our forecast is for the Australian Construction WPI to average 3.7% over the five years from FY27 to FY31 inclusive (Evoenergy's regulatory period) – or 1.1% per annum on average in real (inflation adjusted) terms. ACT Construction wages are forecast to average 3.6%, or 1.1% in real terms (see Table 1.1). While this is a marked improvement on the past five years, it is still well down on the 4.3% annual national average (nominal terms) of the decade to FY12.

The Australian Construction WPI growth recovered over FY22 to 2.6% followed by 3.7% in FY23 and 4.1% in FY24 (in year average terms). This compares to the meagre 1.6% annual average over FY16 to FY21. Construction wages are forecast to remain elevated in FY25 as construction activity increases and activity levels surpass the previous highs of FY18 and FY13 (in 2024 - see figure 4.8) and serious skills shortages worsen, underpinning higher wages due to strong labour demand. Construction wages growth then eases over FY26 to FY28 as activity cools, but then picks up again from FY29 as activity again steps up a notch. Higher levels of residential and non-residential building will be key drivers, while engineering construction will be driven by higher utilities and mining investment and a plethora of publicly funded transport infrastructure projects (particularly in the eastern states of the nation).

Note that, similar to the EGWWS WPI in the ACT, the ABS does not provide WPI data for the Construction sector in the ACT, providing state construction WPI data only for NSW, Victoria, Queensland, South Australia and Western Australia. These three states collectively account for over 96% of total Australian construction employment. Historical data and forecasts of WPI for the construction sector in the ACT is therefore based on national construction WPI forecasts, as well as movements in the 'unknown residual' for the WPI and differences in outcomes in collective bargaining in the ACT compared to the national average for the construction sector.

ACT construction wage growth is estimated to have been slightly above the national Construction WPI average over the past three years, due to a combination of higher EBAs and stronger growth in construction activity. We expect these recent trends to continue over FY25 to FY27, before ACT construction WPI growth slips below the national average from FY29 as the growth in national construction activity outpaces ACT construction activity. Overall, the ACT Construction WPI averages 3.6% p.a. over the FY27 to FY31 period, or 1.1% annually in real terms.

Fig 4.8 Construction Outlook - Australia

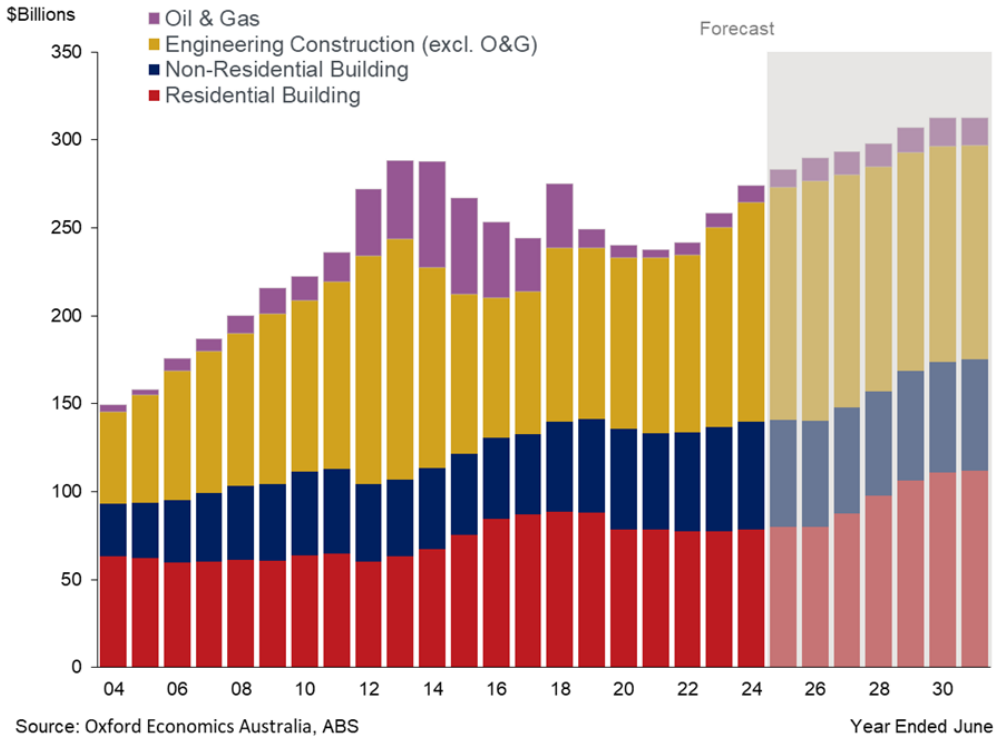
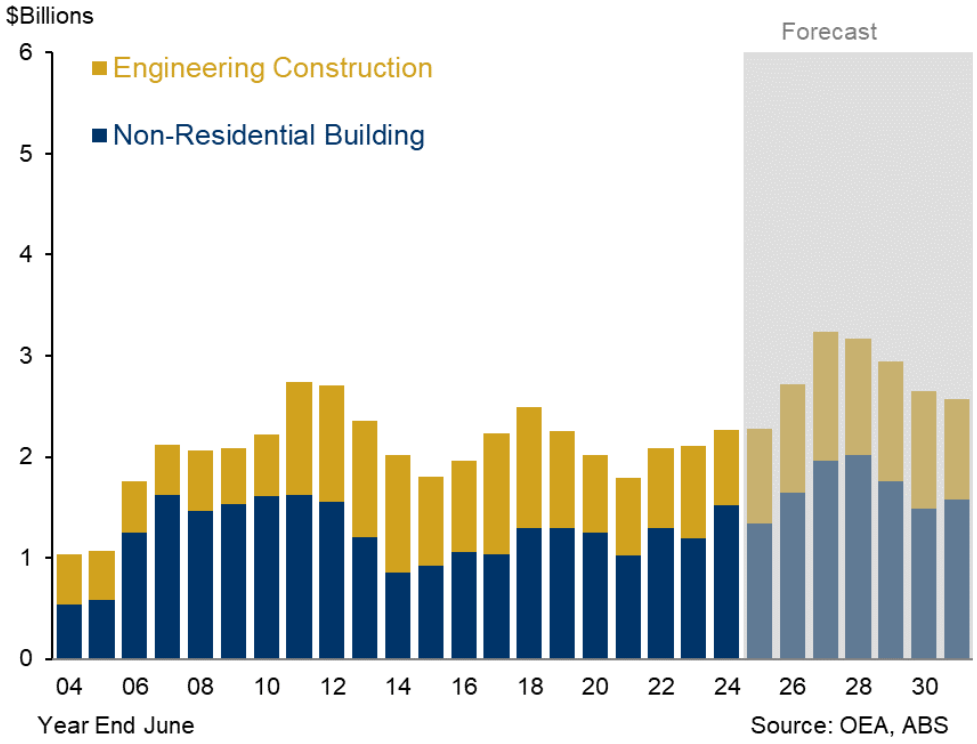


Fig 4.9 Construction Outlook – Australian Capital Territory



APPENDIX 1: A NOTE ON DIFFERENT WAGE MEASURES & WAGE MODELS

Several different measures of wages growth are referred to in this report, each differing slightly both in terms of their construction and appropriateness for measuring different aspects of labour costs. The following provides a brief summary of the main measures, what they are used for and why.

The main wage measures are:

- Average Weekly Ordinary Time Earnings (AWOTE) — earnings gained from working the standard number of hours per week. It includes agreed base rates of pay, over-award payments, penalty rates and other allowances, commissions and retainers; bonuses and incentive payments (including profit share schemes), leave pay and salary payments made to directors. AWOTE excludes overtime payments, termination payments and other payments not related to the reference period. The AWOTE measures used in this report refer to full-time adult AWOTE and are sourced from the Australian Bureau of Statistics (ABS) catalogue number 6302.0, with Oxford Economics Australia forecasts.

- Average Weekly Earnings (AWE) — represents average total gross earnings (before tax) of all employees (including full-time and part-time workers). They include weekly ordinary time earnings plus over-time payments.

- The Wage Price Index (WPI) — a CPI-style measure of changes in wage and salary costs based on a weighted combination of a surveyed 'basket' of jobs. The WPI used in this report excludes bonuses. The WPI also excludes the effect of changes in the quality or quantity of work performed and most importantly, the compositional effects of shifts within the labour market, such as shifts between sectors and within firms. The WPI figures quoted in this report are sourced from ABS catalogue number 6345.0, with Oxford Economics Australia forecasts.

Each measure provides a slightly different gauge of labour costs. However, the main distinction between average earnings measures and the wage price index relate to the influence of compositional shifts in employment. The compositional effects include changes in the distribution of occupations within the same industry and across industries, and the distribution of employment between industries. For example, a large fall in the number of lower paid employees, or in employment in an industry with lower average wages, will increase average weekly earnings (all else being equal). While this is a true reflection of the average cost of labour to businesses, it is not necessarily the best measure of ongoing wage inflation (i.e. trends in wage-setting behaviour in the labour market). Another compositional problem with using the 'all persons' AWOTE is variations in the proportion of male and female employees (particularly as average female AWOTE is lower than average male AWOTE). However, in practice, the data shows only minor differences in the AWOTE growth rates between male and females (or males and all persons) — between -0.2 and +0.2 per cent — since the 1980s or basically since the equal pay legislation was enacted through the 1970s.

The wage price index was specifically designed to get around these compositional problems. It uses a weighted average of wage inflation across a range of closely specified jobs. As it measures the collective variations in wage rates made to the current occupants of the same set of specified jobs, the WPI reflects pure price changes, and does not measure variations in quality or quantity of work performed. However, like the CPI (Consumer Price Index), the weights are fixed in a base year, so that the further away from that base and the more the composition of the labour market changes over time, the more 'out of date' the measure becomes.

Importantly, the WPI does not reflect changes in the skill levels of employees within industries or for the overall workforce and will therefore understate (or overstate) wage inflation if the overall skill levels increase (or decrease). The wage price index is also likely to understate true wage inflationary pressures as it does not capture situations where promotions are given in order to achieve a higher salary for a given individual, often to retain them in a tight labour market. Average weekly earnings would be boosted by employers promoting employees (with an associated wage increase) but promoting employees to a higher occupation category would not necessarily show up in the wage price index. However, the employer's total wages bill (and unit labour costs) would be higher.

Oxford Economics Australia Wage Growth Model

Oxford Economics Australia' model of wage determination in the short-to-medium term is based on the analysis of expected future wage movements in the three main methods of setting pay, as each discrete pay setting method has its own influences and drivers. The main pay setting categories and their key determinants are:

• Employees under awards have their pay determined by Fair Work Australia in the annual National Wage case. When determining pay increases, Fair Work Australia aim to maintain the standard of living of those employed on awards by providing a safety net of fair minimum wages. Hence, they focus on the overall performance of the domestic economy, taking into account productivity, business competitiveness, inflation and employment growth. This means that increases in the Federal Minimum Wage are usually based on recent CPI growth along with Fair Work Australia's view on short term future conditions for the Australian economy. From 1 July 2022, the minimum wage was increased by 5.2%. This followed rises of 2.5%, 1.3%, 3.5% and 3.5% respectively in previous years. At the All Industries level, 13% of all non-managerial full-time employees (data excludes those in agriculture, forestry and fishing) have their pay rises determined by this method, but only 1.5% of Electricity, Gas, Water & Waste Services' (EGWWS) employees.

• For employees under collective agreements (representing 35% of all employees; 61.5% of EGWWS), their pay is determined through enterprise bargaining, and wage increases are influenced through a combination of recent CPI, inflationary expectations, profitability levels of relevant enterprises, business conditions, and the short-term economic outlook. Workers' unions can also play a significant part in negotiations, especially unions with a good position in industrial relations through strong membership. With the average duration of these agreements currently two to three years, Oxford Economics Australia use the most recent agreements formalised in recent quarters as a basis for our near-term forecasts. Beyond that, collective agreements are based on our expectations of economic conditions.

• The remaining 52% of employees (or 34.5% of EGWWS employees) have their pay set by individual arrangements, whether it be individual contracts or some other form of salary agreement, which may include incentive-based schemes. Similar to the minimum wage and collective agreements, inflation and inflationary expectations have a strong influence on agreements, as well as the strength of the labour market. Individual arrangements are skewed towards more skilled workers, so the balance between demand and supply in skilled labour can be an important influence.

Note that wage increases under 'individual arrangements' are calculated by deduction. Data from DEEWR (Department of Education, Employment and Workforce Relations) are used for wage increases under collective agreements.

The limitation of this methodology is that because individual arrangements are calculated as a residual, all of the compositional effects in terms of AWOTE (ie from more or less lower-paid workers being employed in the relevant year) plus all (or most) of the bonuses and incentives from those under award or collective agreements end up in the individual arrangements residual, which distorts the pay increases in this segment. However, the methodology works well for the WPI, particularly at the All Industries level, although some compositional problems occur at the sectoral level, particularly for sectors with a relatively small employment base (such as electricity, gas, water and waste services).

The 'bottom-up' approach to wage forecasting is complemented by a more formalised 'top-down' macroeconomic modelling framework – to ensure an overall macroeconomic consistency with output, employment, productivity and price variables. The wage price index is a function of the following explanatory variables:

- CPI
- unemployment rate
- labour productivity (GDP/employment)
- lagged wage (WPI) growth (to capture 'sticky' nature of wage determination in the short term).

The top-down macroeconomic modelling methodology becomes more relevant beyond the next 2-3 years.

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