Powerlink 2027-32 Revenue Proposal

Appendix 5.01
Oxford Economics Labour Cost Escalation Forecasts to FY2032 Report

OXFORD ECONOMICS AUSTRALIA

LABOUR COST ESCALATION FORECASTS TO 2031/32

FINAL REPORT FOR POWERLINK

OCTOBER 2025

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October 2025

The modelling and results presented here are based on information provided by third parties, upon which Oxford Economics 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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1. EXECUTIVE SUMMARY

Oxford Economics Australia (OEA) was engaged by Powerlink to provide price forecasts of labour that are relevant to the Queensland electricity transmission and distribution industry for the period 2027/28 (FY28) to 2031/32 (FY32) – which is Powerlink's next regulatory period. We will also include forecasts for 2025/26 and 2026/27. Forecasts for wage cost escalation will be used by Powerlink to develop their operating and capital expenditure forecasts. 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 early September 2025 and incorporated the latest data and macro-economic forecasts.

Labour Cost Escalation

For **electricity network related labour**, Oxford Economics Australia forecasts that total wage costs for the **Queensland Electricity, Gas, Water and Waste Services** (EGWWS or 'Utilities') sector — expressed in **Wage Price Index** (WPI) terms — will average 4.0% per annum over the five-year period from FY28 to FY32 inclusive, with the Australian EGWWS WPI averaging 3.8% over the same period. In real (inflation-adjusted) terms, the Queensland EGWWS WPI is forecast to average 1.5% p.a. over the five years to FY32 (see Table 1.1 below).

Over the forecast period, the Australian and Queensland EGWWS WPI growth is expected to remain higher than the All Industries WPI average, with the national All Industries WPI forecast to average 3.5% over the five years to FY32 and the Queensland All Industries WPI forecast to average 3.6%. This means that the Australian EGWWS WPI is expected to be 0.3% higher than the All Industries average, slightly lower than the 0.4% historical difference (for Australian averages) of the decade to FY21, with the Queensland margin 0.4% higher.

Utilities wages are forecast to increase by more than the national (All Industries) 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 industry' 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. Utilities wages are expected to ease over the FY26 and FY27 from the very high FY25 growth rates, as employee's roll onto new EBAs, which will be negotiated at lower rates given falling levels of inflation. However, as the overall labour market tightens and skilled labour shortages persist, we expect another pick-up in EBA agreements later this decade.
- 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 4.1% and expected to

remain around 4-4.4% 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 sustained increases in overall construction activity and high levels of utilities investment from FY25 to FY32 (and beyond), which are well above the levels of the past two decades. Oxford Economics Australia is forecasting Australian utilities-related engineering construction to see further solid increases over the next three years, before easing, after increasing 945 over the past four years. In Queensland, utilities-related construction has more than doubles over the past four years to FY25. It is expected to increase another 28% over the period from FY26 to FY32, as the state embarks on a major phase of electricity-related and water infrastructure construction. However, 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.
- 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 Electricity, Gas, Water and Waste Services and Construction Wage Price Index

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	5 yr Avg (e)
	Actuals					Forecasts		Next Regulatory Period					
NOMINAL PRICE CHANGES													
1. Internal Labour													
EGWWS WPI - Queensland (a)	**1.9**	**1.6**	**4.8**	**5.7**	**7.9**	**5.8**	**4.0**	**3.8**	**3.9**	**4.1**	**4.1**	**3.8**	**4.0**
EGWWS WPI - Australia (b)	1.8	1.5	3.5	4.1	4.8	4.2	3.8	3.6	3.7	3.9	3.9	3.7	3.8
2. External Labour Cost Escalation													
Construction WPI - Queensland (c)	**0.7**	**1.9**	**3.2**	**4.6**	**3.8**	**3.5**	**3.7**	**3.7**	**4.1**	**4.3**	**3.9**	**3.5**	**3.9**
Construction WPI - Australia (b)	1.3	2.6	3.7	4.1	3.4	3.4	3.4	3.5	3.8	4.0	3.7	3.4	3.7
All Industries WPI - Queensland	**1.6**	**2.5**	**3.6**	**4.7**	**3.7**	**3.6**	**3.5**	**3.5**	**3.7**	**3.9**	**3.7**	**3.5**	**3.6**
All Industries WPI - Australia (b)	1.5	2.4	3.5	4.1	3.4	3.4	3.3	3.3	3.5	3.7	3.5	3.3	3.5
Consumer Price Index (headline) (d)	1.6	4.4	7.0	4.2	2.4	3.0	2.8	2.5	2.5	2.5	2.5	2.5	2.5
REAL PRICE CHANGES (f)													
1. Internal Labour													
EGWWS WPI - Queensland (a)	**0.3**	**-2.9**	**-2.2**	**1.5**	**5.5**	**2.8**	**1.2**	**1.3**	**1.4**	**1.6**	**1.6**	**1.3**	**1.5**
EGWWS WPI - Australia (b)	0.2	-2.9	-3.5	-0.1	2.4	1.3	1.0	1.1	1.2	1.4	1.4	1.2	1.3
2. External Labour Cost Escalation													
Construction WPI - Queensland (c)	**-0.9**	**-2.5**	**-3.9**	**0.4**	**1.3**	**0.5**	**0.9**	**1.2**	**1.6**	**1.8**	**1.4**	**1.0**	**1.4**
Construction WPI - Australia (b)	-0.3	-1.8	-3.3	-0.2	0.9	0.4	0.7	1.0	1.3	1.5	1.2	0.9	1.2
All Industries WPI - Queensland	**-0.1**	**-2.0**	**-3.5**	**0.5**	**1.3**	**0.6**	**0.7**	**1.0**	**1.2**	**1.4**	**1.2**	**1.0**	**1.1**
All Industries WPI - Australia (b)	-0.1	-2.1	-3.6	-0.1	0.9	0.4	0.5	0.8	1.0	1.2	1.0	0.8	1.0

Sources: Oxford Economics Australia, ABS

(a) Electricity, Gas, Water and Waste Services (EGWWS) Wage Price Index (WPI) for Queensland.
(b) Australian sector wage forecasts provided for comparison.
(c) Construction Sector WPI for Queensland.
(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%).
(e) Average Annual Growth Rate for 2027/28 to 2031/32 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, OEA proxy **external labour cost escalation** by wages growth (as measured by the WPI) in the Queensland construction industry. Our forecast is for the **Queensland Construction WPI** to average 3.9% p.a. over the five-year period to FY32, or 1.4% each in real terms (see Table 1.1). The Australian Construction WPI is forecast to average 3.7% over the same period. While this is a marked improvement on the past six years, it is still well down on the 4.3% annual national average (nominal terms) of the decade to 2011/12.

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

- demand for labour will remain high and strengthen with the high levels of building and infrastructure investment from FY25 to FY32, which are well above the levels of the past two decades. Oxford Economics Australia is forecasting construction activity to see sustained increases over the next 5 years, with overall QLD construction activity to be 25% higher in FY30 compared to FY25 levels. Key drivers underpinning these increases include construction related to the Brisbane 2032 Olympics, strong increases in housing construction, major transport projects and utilities construction.
- strong union presence in the construction sector will ensure outcomes for collective agreements, which cover 22% of the workforce, remain well above the wage increases for the national 'All Industries' average, both in terms of collective agreements and overall wages growth. The Construction sector historically has had the highest EBA outcomes over the past three decades.
- Queensland's unemployment rate is expected to remain under the national average over the next seven years, which, coupled with stronger employment growth than the national average, will tend to add to labour demands in the state.

2. INTRODUCTION & LAYOUT

Oxford Economics Australia (OEA) was engaged by Powerlink to provide price forecasts of labour that are relevant to the Queensland electricity transmission and distribution industry for the period 2027/28 (FY28) to 2031/32 (FY32) – which is Powerlink's next regulatory period. We will also include forecasts for 2025/26 and 2026/27. Forecasts for wage cost escalation will be used by Powerlink to develop their operating and capital expenditure forecasts. 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 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 early September 2025 and includes the June quarter 2025 Consumer Price Index (CPI), Producer price Index (PPI) and Wage Price Index (WPI), RBA August 2025 'Statement of Monetary Policy' and the June quarter 2025 National Accounts data releases. Other inflation and interest rate data were sourced from the Reserve Bank of Australia. The forecasts in this report were finalised in early September 2025 and incorporate the latest data and macro-economic forecasts.

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 2025-2039,* 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 Queensland. 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 Queensland as measured by the WPI.

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

3. MACROECONOMIC AND CONSTRUCTION OUTLOOK

3.1 Australian Macroeconomic Forecasts

Australian economy has started to pick up, but Trump's tariffs mean a bumpy short-term.

Australia's economy had a strong recovery after the COVID-19 related slump in 2020, growing by 3.3% per year over the three years to FY23. However, growth slowed sharply in FY24, with real Gross Domestic Product (GDP) rising just 1.4% - the weakest pace in over 30 years outside the pandemic slump - and Gross National Expenditure (GNE) increasing 1.8%, as high interest rates hit private consumption and pandemic-era savings dwindled. Growth remained subdued in FY25, with GDP and GNE estimated to have increased by 1.3% and 1.8% respectively. Over the past two years, growth has been buoyed by strong population growth and sustained public sector spending.

The Australian economy picked up in the June 2025 quarter (Q2), with growth of 0.6% q/q (quarter-on-quarter), with growth through-the-year pushing up to 1.8% y/y. Growth mainly came from a pick-up in household spending, government consumption expenditure and housing construction, while exports bounced back after ex-tropical cyclone Alfred disrupted coal exports in the March quarter. Business investment fell back, while public sector investment fell again. A handful of massive state and territory infrastructure projects are beginning to wind down, leaving a void as we wait for new projects to kick off.

Household spending to improve. Household consumption rose 0.9% quarter-on-quarter in Q2, buoyed by end-of-financial-year discounting and a recovery from weather impacts in Q1. The fundamentals for spending growth in 2025 are sound, with lower interest rates, a tax cut, lower inflation and steady labour income growth underpinning a recovery over the near-term. Consumption growth is expected to lift from 1% in both FY24 and FY25 to 2.2% in FY26 and 2.6% in FY27.

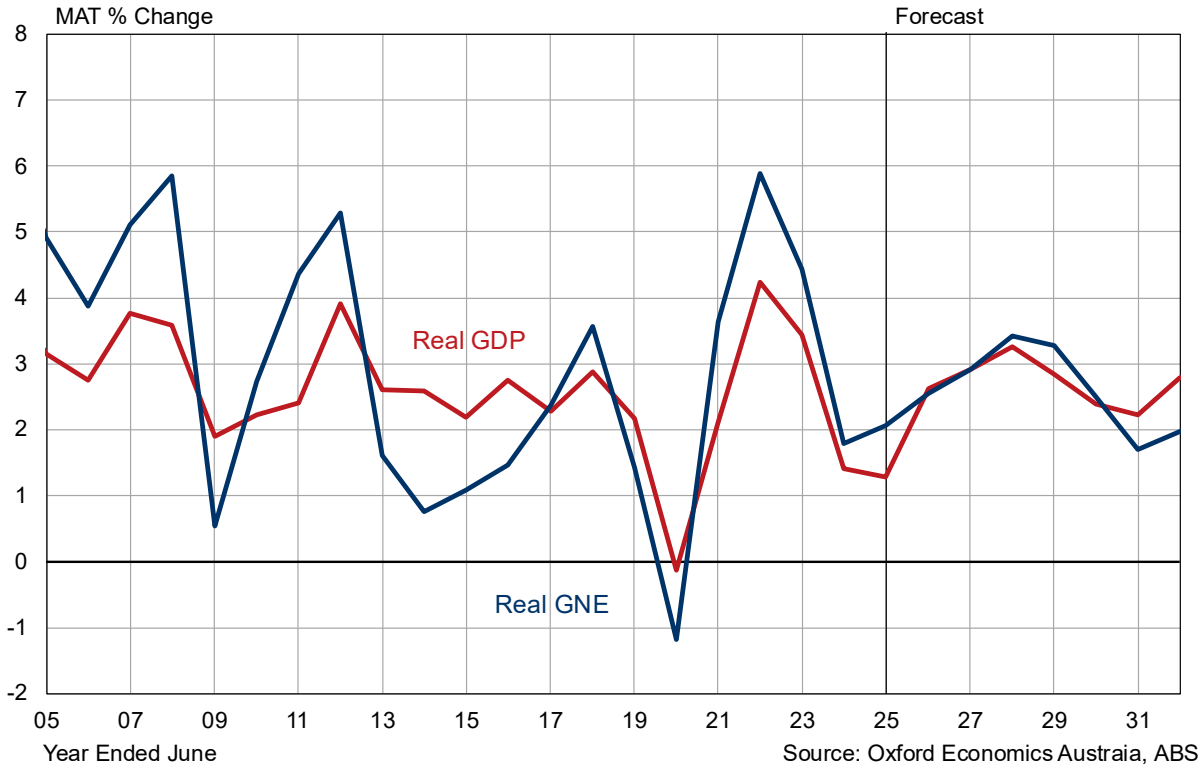
The near-term investment outlook is modest. Business investment has struggled to gain momentum in recent years. Outside of utilities, data storage, and public-funded infrastructure, the pipeline of work is sparse. The uncertainty generated overseas has weakened the outlook. We expect major construction projects with a long payback period to be largely unaffected by this short-term volatility. But business decisions around machinery and equipment spending are likely to be deferred until the global outlook becomes clearer. A large pipeline of infrastructure projects, accelerated during the COVID-19 response, will keep public construction strong, with public spending expected to peak in FY26 before easing from FY27.

New business investment grew by 7.4% in FY23 and 6% in FY24, but slowed to an 0.9% in FY25. It is forecast to pick up to around 4.4% and then 5% growth over FY26 and FY27, led by private engineering construction and ongoing investment in equipment, technology, and intangibles. Private sector engineering construction is expected to stay buoyant, driven by electricity, telecommunications, and mining (particularly oil and gas). Mining investment fell back in FY25, following 5 years of solid increases (cumulative 32% rise since FY19), but is expected to bounce back strongly over the next two

years, before plateauing to the end of the decade - supported by sustained demand for critical minerals and the replacement of depleting mines and oil and gas fields. Non-residential building activity will be underpinned by data centres, accommodation, warehouses, and healthcare projects. However, capacity constraints will continue to weigh on the pipeline of new work. Business investment growth is expected to ease through FY28 but strengthen again by FY30, helping to expand the economy's long-term productive capacity.

Dwelling investment picked up through FY25 (+3.3%) after two years of small declines. It is expected to see further modest growth in FY26 before rebounding strongly from FY27, driven by lower interest rates, high levels of pent-up demand and undersupply and lower cost pressures. However, skilled labour and some materials capacity constraints will continue to hinder overall growth.

Figure 3.1 Australia – Basic Economic Indicators



Labour market healthy, inflation easing and more rate cuts coming. The labour market remains healthy, with employment growing 2.3% in FY25, after a strong 2.7% gain in FY24, supported by fast population growth and a record-high participation rate. Although the unemployment rate has edged up to around 4.1% recently, high job vacancies point to continued solid employment growth near term. However, as population growth eases and labour demand softens, employment growth is forecast to slow over the next two years, pushing unemployment slightly higher to around 4.3% by late-2025 and remaining around 4.1-4.4% through to early 2027. This gradual cooling will help ease wage pressures, contributing to the broader moderation in inflation.

Inflation is already easing sharply. Headline CPI fell from 7% in FY23 to 4.2% in FY24 and 2.4% in FY25, helped by temporary government relief measures, falling fuel prices, and weaker demand. Inflation is expected to remain relatively contained through FY28 before gradually picking up again into the early 2030s. The fall in underlying inflation – back to the RBA's 2-3% band since the March quarter 2025 - has seen three rate cuts (of 0.25% each) in 2025. More rate cuts are likely over 2025 and into 2026, with the timing (and number of cuts) dependent on a further easing in inflationary pressures and the RBA perceptions of the likely economic impacts from the trade war.

'Liberation Day' tariff hikes are a headwind but won't derail the Australian Economy. The initial US 'Liberation Day' tariffs, announced by President Trump in April, and subsequent tariff announcements and bilateral trade 'deals', pose a headwind but are unlikely to derail Australia's economy. Australia faces a 10% tariff despite minimal barriers to US imports, and efforts to win exemptions appear unlikely. However, direct exposure is limited - less than 4% of Australian goods exports go to the US - with meat and pharmaceuticals most affected (though many pharmaceutical exports are temporarily exempt). Australia's competitiveness has improved relative to economies facing higher tariffs but will weaken against US domestic producers. Impacts on nominal indicators like terms of trade and equity prices are expected to be more significant than on export volumes or jobs. Key exports like beef and aluminium are likely to be minimally affected (as US beef production is at multi-year lows and only 5% of aluminium exports are destined for the US market), while steel could see a larger hit given the US market accounts for a third of Australia's steel exports.

The greater risk lies in the broader global fallout: we estimate that global GDP could be 1.3% lower by late 2027 compared to our previous forecasts (developed prior to 'Liberation Day'), with downside risks elevated due to sudden and disruptive tariff implementation. A major slowdown in China remains the biggest indirect threat to Australia. Domestically, the Albanese government has ruled out retaliatory tariffs, leaving inflation risks relatively unchanged for now, though ongoing uncertainty may push the RBA toward earlier interest rate cuts.

Meanwhile, Australia's trade balance will stay weak in the near term. Net exports detracted from growth for the fifth consecutive year in FY25. However, a turnaround is likely by FY26–27 as exports outpace imports. Resources exports have been flat due to production issues but should recover as new capacity comes online. Rural exports are set to remain buoyant, while manufacturing exports will benefit from a weaker Australian dollar, despite soft global demand. Merchandise imports will remain subdued, while services exports, particularly tourism and education, will grow more slowly, helped by the low dollar boosting inbound tourism, although caps on international students will crimp education exports. Commodities will likely be more insulated, with miners benefiting from their low-cost status. Australia is an incredibly efficient producer of commodities, meaning weaker global demand will trickle down to Aussie miners more slowly than in the world's less-efficient producers. In the near-term, policymakers in China are also ramping up support for the ailing economy, leaning on tried-and-true measures including infrastructure investment. This will bolster demand for Australian commodities, such as iron ore and coal.

Increased uncertainty for the global economic outlook as trade war looms. The global economic outlook has weakened, with growth forecast to ease from 2.8% in 2024 to 2.6% in 2025 and 2.4% in 2026. Uncertainty is rising sharply due to the volatile US tariff policy under President Trump. Frequent tariff announcements and reversals are heightening global instability, dampening investment, and

raising the risk of a US recession. The US economy faces four major shocks -rising uncertainty, real income declines, supply chain disruptions, and falling stock markets impacting financial wealth - with spillovers causing a broader global demand shock. Despite these risks, the US is still forecast to avoid a deep recession, with US GDP growth slowing from 2.8% in 2024 to 1.7% in 2025 before a pickup to 2% in 2026 – although there are significant downside risks to the near-term forecasts.

Higher tariffs may prolong inflation – US inflation is forecast to rise above 3% y/y by year-end from 2.5% in Q2 - delaying interest rate cuts and triggering stagflation risks. Globally, US tariffs will hurt Chinese and targeted economies' exports, but diversification may limit the overall damage. Longer term, the shift toward regionalisation and protectionism will reshape global trade patterns.

China's growth is projected to slow from 5% in 2024 to 4.7% in 2025 and 4% in 2026 and 2027, with modest direct hits to exports, cushioned somewhat by diversification efforts since 2018. The Eurozone will gradually strengthen, helped by faster rate cuts and a small lift from defence spending, though gains will be modest. Most major economies are easing monetary policy cautiously as inflation declines, but service sector inflation and tight labour markets remain concerns.

For Australia, the main impact of US tariffs will come indirectly via weaker Chinese demand, posing some risk to key commodity exports like iron ore and coal, although the effects are currently expected to be relatively minor. The Australian dollar has weakened, initially falling below US$0.63 in the March quarter but recovering to around US$0.65 now. It is likely to stay subdued as the RBA cuts rates alongside or faster than the US Fed. Over the longer term, global growth will gradually slow as population growth eases, but Australia's major trading partners—China, East Asia, and India—will continue to grow faster than the global average, supporting Australia's export outlook.

Australian recession unlikely near-term, with modest growth expected over next 2 years, strengthening from FY28

Australia is unlikely to enter a recession in the near term, with modest growth expected over the next two years before strengthening from FY28. Domestic demand has slowed from 2.4% in FY24 to 2.1% in FY25, but is forecast to lift to 2.6% in FY26 and 2.9% in FY27. GDP growth eased to 1.3% in FY25 but is expected to improve to 2.6% in FY26 and 2.9% in FY27, supported by stronger exports.

Several factors reduce the risk of recession: Australia faces lower US tariffs than competitors, strong population growth, the government has fiscal capacity for stimulus, and the RBA has room to aggressively cut rates. A weaker Australian dollar would also enhance competitiveness, boosting tradeable sectors and international tourism. Meanwhile, strong construction activity, driven by infrastructure projects, mining investment, and a severe housing undersupply, will provide further support.

Interest rate cuts are expected through 2025 and FY26, helped by inflation returning to the RBA's 2–3% target range. Lower rates will trigger a strong rebound in dwelling construction, addressing pent-up housing demand. As consumers and businesses adjust to a new normal of higher, but manageable, interest rates, investment and consumption are expected to return to trend growth. GDP growth is forecast to strengthen to 3.3% by FY28 before easing back in FY29. However, the forecast strengthening of the economy and the tightening of the labour market late this decade is expected to see the RBA and government tighten policy settings, which will see growth slow over FY30 and FY31.

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.

3.2 Outlook for the Queensland Economy

Queensland's Gross State Product (GSP) eased from 2.8% in FY23, to 2.1% in FY24 and an estimated 2.2% in FY25, while State Final Demand (SFD) slowed to 2.5% in FY25, from around 3% in both FY23 and FY24. A healthy pick-up in SFD growth is expected over the next three years, to 3.2%, 3.6% and 3.8% over FY26 to FY28 – well above national growth in domestic demand (see figure 3.2). the acceleration in growth will be underpinned by strong public investment, which is forecast to surge over FY26 and FY27 and see further moderate increases over the following three years. Private dwelling and non-dwelling building activity will also see sustained increases, while strong growth in private engineering construction activity will be driven by roads and subdivisions, electricity infrastructure (mainly renewables) and mining. GSP growth is also projected to strengthen over the next three years, peaking in FY28 at 3.5%, before easing back to 2.7% in FY30.

Fig 3.2 Queensland– Key Economic Indicators

								Forecast						
Year Ended June	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Queensland														
Total Construction Activity(*)	-9.3	-4.2	0.0	4.4	4.1	7.9	3.8	8.3	7.3	3.6	1.9	1.9	-0.3	-2.3
State Final Demand	0.9	0.2	5.1	4.9	2.9	3.0	2.5	3.2	3.6	3.8	3.5	2.9	2.0	2.0
Gross State Product (GSP)**	**0.9**	**-0.9**	**2.8**	**5.5**	**2.8**	**2.1**	**2.2**	**3.1**	**3.3**	**3.5**	**3.0**	**2.7**	**2.2**	**2.4**
Employment Growth (Year Avg)	1.7	0.1	2.4	5.0	3.8	3.0	3.1	1.6	1.4	2.2	2.7	2.1	1.4	1.5
Australia														
Total Construction Activity(*)	-8.9	-3.8	-0.4	2.0	6.4	5.7	3.2	4.1	4.5	2.5	1.9	1.2	-0.6	-1.5
Australian Domestic Demand	1.6	-0.8	2.9	5.5	4.3	2.4	2.1	2.6	2.9	3.3	3.2	2.6	1.8	2.0
Gross Domestic Product (GDP)	2.2	-0.1	2.1	4.2	3.4	1.4	1.3	2.6	2.9	3.3	2.8	2.4	2.2	2.8
Employment Growth (Year Avg)	2.4	0.3	0.4	3.4	4.5	2.7	2.3	1.2	1.0	1.8	2.3	1.8	1.1	1.2

Source: BIS Oxford Economics and ABS

* Total construction work done in constant 2017/18 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.

** GSP is an estimate in FY2025

Queensland's construction outlook is on a trajectory of sustained growth over the second half of the decade. Infrastructure works related to the 2032 Brisbane Olympic Games and the $62bn Queensland Energy and Jobs Plan will further support activity during this period. In addition, fundamental drivers of demand in the state economy will outpace national averages over the next decade, including Queensland's population growth. Overall, growth in QLD construction activity is forecast to average 3% p.a. over the next 7 years to reach over $73bn in FY32 – a 21% rise from FY25 levels.

Strong construction activity will underpin employment growth in the state, which will drive higher household spending. Queensland currently enjoys some of the lowest public debt in the country as a share of GSP, which will help sustain solid public investment in infrastructure and services. The state unemployment rate has recently dipped below the national average, and we expect the state's

unemployment rate to be sustained at close to (or just below) the national average, given strong economic and employment growth – thus adding to wage pressures.

Queensland's long term economic activity will be underpinned by strong population growth. Population growth is forecasts to ease from 2.2% in FY24 and 1.7% in FY25, to 1.6% in FY26 and then grow at 1.5% over the following three years – at an average of 0.3% above the national average. The state's population growth will then ease down to 1.3% by FY32, but it will still be 0.2% above national population growth. Lifestyle preferences and better affordability compared to other capital cities like Sydney and Melbourne should continue to support robust growth in the Sunshine Coast and Gold Coast regions. Total population for Queensland is expected to reach approximately 6.27 million persons by June 2032 – 11% higher than the current level.

4. WAGES AND INFLATION OUTLOOK

4.1 Consumer Price Index Outlook

Price inflation eases back to RBA target 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 (trimmed mean) peaking at 6.8% 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 goods and services prices. Added to this was evidence of rising demand inflation via widening profit margins, as local businesses took advantage of stronger economic conditions and their market power.

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 had 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 due to COVID-19. The house purchase component increased 20.7% y/y over the year to September 2022, before gradually decelerating over the past three years to 0.7% in the June 2025 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. At the same time, most of the above supply-side pressures eased further and oil and other commodity prices weakened over FY25, which helped subdue headline inflation, although the decline in the exchange rate over the past two years may have muted some of the effects. Demand-driven inflation also weakened, largely due to higher interest rates. The June 2025 quarter outcome of 0.7% q/q saw the headline rate remain ease to 2.1% y/y from 2.4% in the previous two quarters, but more importantly, saw the core inflation rate further fall to 2.7% - with the March and June quarter outcomes the first time the core rate has been back in the RBA target band since December 2021.

The Q2 CPI continued recent themes in the inflation outlook. Ongoing uncertainty in the global trading system is weighing on demand more so than production at this stage. Coupled with modest growth in domestic demand, this makes for a benign goods inflation outlook this year, notwithstanding some ongoing strength in food price inflation. Domestic price pressures continue to ease, with rent and insurance inflation coming off the boil, allowing services inflation to ease considerably. Headline inflation will spike in the September 2025 quarter when the impact of the first round of rebates washes through. But as ever, the RBA will be more focussed on core inflation, which is on an encouraging trend.

However, some structural factors will add to inflation over the short-to-medium term, such as household energy costs, high 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 lifted to 7.6% in the September quarter 2023 and has since only slowly subsided to 4.5% in the March quarter 2025. 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 above-average increases in electricity and gas prices. It is worth noting that both rent and energy price rises in the September and December quarters 2024 were constrained by temporary government subsidies, which will then see headline CPI inflation jump in the September quarter 2025 and March quarter 2026, 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% y/y in the latest quarter, food prices are unlikely to track back to the sub-2% of the 2015-2019 period.

OEA forecasts the national headline CPI inflation to average 3.1% in FY26 and 2.7% in FY27, easing further to 2.5% in FY28, due to softer growth in the economy and weakening wage pressures, with a modest appreciation of the A$ over the medium-term also muting price pressures from imports. Our forecasts, on average, are similar to the August 2025 RBA forecasts over FY25 to FY28 over FY25 to FY28 (see section 4.1.1 below).

CPI inflation projected to average close to 2.7% over the medium-to-long term

Headline CPI inflation is expected to sit at - or just 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 1.5% to 2% per annum contributing around 0.6% 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 2.1% to headline inflation. This annual growth 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.

4.1.1 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 August 2025 'Statement on Monetary Policy' (SoMP) forecast the headline CPI rate to be 3.0% in the December quarter 2025 and 3.1% in the June quarter 2026 - giving a year average of 3.1% for FY26. The RBA's CPI forecast for December 2026 is 2.9% and 2.6% in the June quarter 2027 – giving a year average CPI for FY27 of 2.7%. the December 2027 projection is 2.5%. Beyond the RBA's forecast from the SoMP, we assume the average of the RBA target band, i.e. 2.5% over the medium-to-long term.

4.2 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 to 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%.

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 has now peaked, with the All Industries WPI falling back to 3.4% in FY25. We expect wages growth to gradually ease back further over FY26 and 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 was very strong over the three years to FY24 inclusive, 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 cessation of international migration to Australia from March 2020 saw population growth plummet to just 0.2% in the year to June 2021. Growth in the labour force over recent years has been facilitated by a marked increase in the labour force participation rate to record levels, with the return of high

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 participation rate to record levels. Moreover, there is now little scope to raise the participation rate further and, with the underemployment rate at historical lows and job vacancies well above pre-COVID levels, wage pressures will remain elevated.

Gradual declines in the participation rate and continued skills shortages will play a role in sustaining a low unemployment rate over the near to long term

Although OEA's economic growth (GDP) forecasts are for further weak growth over 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 4.1% now to 4.3% by late-2025 where it will remain until mid-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.

Current trends in the various wage setting environments support elevated wage growth

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 for the 2022/23 financial year was much higher than previous years – with the FWC awarding a 5.2% increase to workers on the minimum wage, although workers on award rates only received a 4.6% increase (minimum $40/week increase for award rates below $870/week). 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 5.75% for workers on awards. This underpinned the lift in wages growth in FY24. For the 2024/25 financial year, the minimum wage increased by 3.75%. The most recent 2025 NMW decision, for the 2025/26 financial year, will see the minimum wage increase by 3.5%.

Figure 4.1 Australia: Wages and Prices

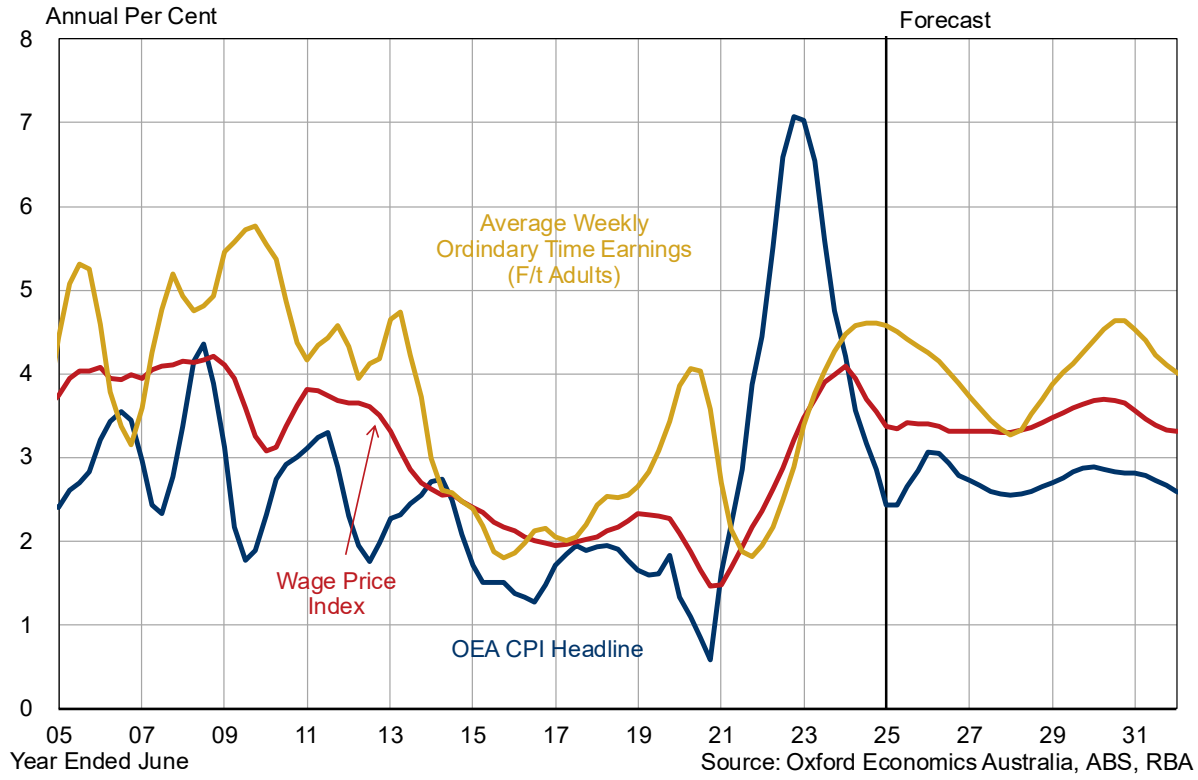
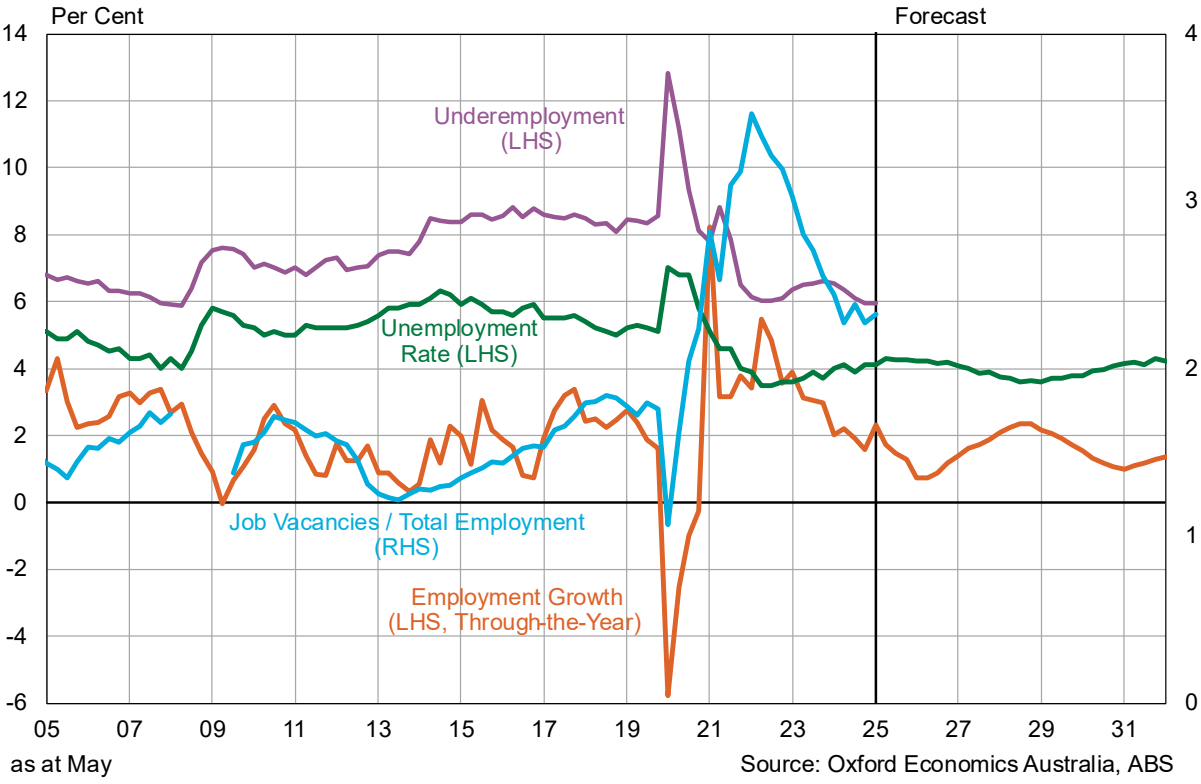


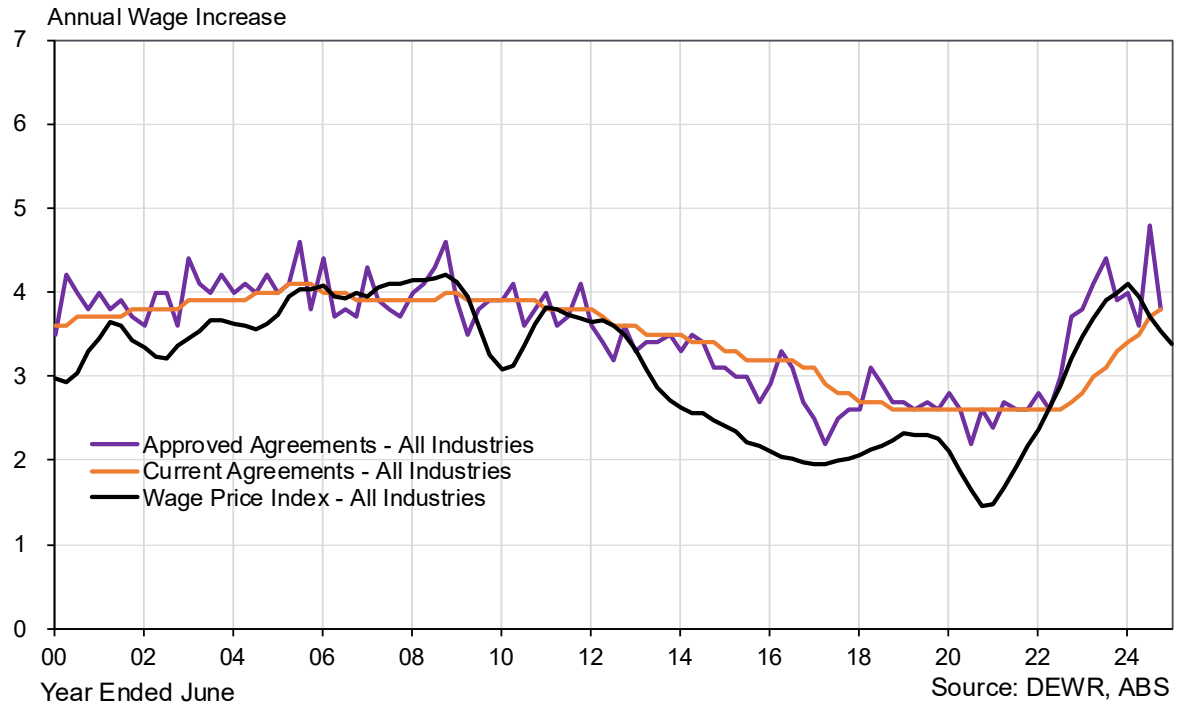
Figure 4.2 Australia: Employment and Unemployment



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, the next round of agreements have been materially higher, due to ongoing high CPI inflation and because of widespread skilled labour shortages (with the unemployment rate below 4%).

Figure 4.3 EBAs – Approved vs Current Agreements – All industries, Australia



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 a very high 4.8% in the December 2024 quarter and 3.8% in the March 2025 quarter (latest available DEWR data), with an average of 4.1% over the past two years (June 2023 – March 2025) – see figure 4.3. We expect continued 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 recent and current rounds of wage rises negotiated by workers will continue to be higher than pre-2023.

Forecasts for All industries wages are detailed in Table 5.1 and the Summary table in the Executive Summary. The Australian All Industries WPI slowed to 3.4% in FY25, from 4.1% in FY24. As the economy cools and the unemployment rate rises, All Industries wages are expected to remain around current levels at 3.3% over FY27 and FY28. However, from FY29 the WPI is expected to re-accelerate as the economy strengthens, the unemployment rate declines, the labour market tightens (particularly for skilled labour) and CPI inflation begins to pick up. The All Industries WPI is forecast to rise and peak at 3.7% in FY30, before easing back to 3.3% by FY32 as the economy slows. All Industries wage growth will still sit well above the 2.2% averaged over the back half of the 2010's. This will be due to the fact that labour market conditions will be tighter and inflation higher compared to this pre-covid period. Over the five-year period from FY28 to FY32, the real rate of increase is forecast to average 1.0% p.a., which will be above the 0.6% average of the decade to FY20 inclusive.

The **Queensland All Industries WPI** has seen higher growth over the past five years, compared to the national average (see table 1.1 in the Executive Summary), largely due to stronger economic growth, higher labour demand and recently to a lower unemployment rate, compared to the national averages. Queensland's All Industries WPI is expected to continue to track above the national All Industries WPI over the forecast period, as the unemployment rate remains below the national average, and as the state's economic and employment growth is expected to largely outpace the national averages (see figure 2.2). Overall, Queensland's All Industries WPI is forecast to average 3.6% over the period FY28 to FY32, or 1.1% in real terms.

5. INDUSTRY WAGE FORECASTS – UTILITIES & CONSTRUCTION: AUSTRALIA & QUEENSLAND

5.1 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 New South Wales is used as a proxy for all of Powerlink electricity 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 Powerlink's opex and capex 'network' labour and escalating it with the WPI for the state utilities sector will be consistent with the AER's framework.

OEA chose to use the Wage Price Index (WPI) as the key measure of growth in Powerlinks 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.

In terms of overall wage costs, **the full 0.5% for the Superannuation Guarantee increases each year should be added to the forecast WPI increases in FY25 and FY26** 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).

5.2 National & Queensland EGWWS WPI Forecasts

Utilities wage growth is forecast to continue to outpace the national 'all industries' average over the forecast period, as it invariably does.

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 5.1 and Fig 5.1). 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 again 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 pushed up the All Industries average. The EGWWS WPI then leapt to 4.8% in FY25 (or 2.4% in real terms), well above the All industries WPI of 3.4%.

Table 5.1 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
2025	1 982	4.6	2.1	2,353	6.1	3.7	154.6	3.4	0.9	163.7	4.8	2.4
Forecasts												
2026	2 066	4.3	1.3	2 461	4.6	1.6	159.8	3.4	0.4	170.7	4.2	1.3
2027	2 144	3.7	1.0	2 558	3.9	1.2	165.1	3.3	0.5	177.1	3.8	1.0
2028	2 214	3.3	0.8	2 648	3.5	1.0	170.6	3.3	0.8	183.4	3.6	1.1
2029	2 300	3.9	1.4	2 754	4.0	1.5	176.5	3.5	1.0	190.2	3.7	1.2
2030	2 401	4.4	1.9	2 880	4.6	2.1	183.0	3.7	1.2	197.6	3.9	1.4
2031	2 510	4.5	2.0	3 010	4.5	2.0	189.5	3.6	1.1	205.3	3.9	1.4
2032	2 610	4.0	1.5	3 141	4.4	1.9	195.8	3.3	0.8	213.0	3.7	1.2
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
2025-2032	4.0		1.4	4.2		1.6	3.4		0.8	3.8		1.2
2027-2032	4.0		1.5	4.2		1.7	3.5		1.0	3.8		1.3

Source: BIS Oxford Economics, ABS

(1) Earnings per person for full-time adults. Data is year ended May (available only in November and May).

(2) Ordinary time hours excluding bonuses.

(3) CAGR (Compound Annual Growth Rates) for 2027-2032 is the average annual growth for 2027/28 to 2031/32 inclusive i.e. next regulatory period.

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 2.8% over the past decade from 2014/15 to 2024/25 inclusive, 0.3% higher than the 2.5% national average.

We forecast the Australian EGWWS WPI to ease from the FY25 peak to 4.2% in FY26 and to 3.8% in FY27. The WPI is then forecast to grow at an average annual rate of 3.8% over the five years from FY28 to FY32, 0.3 percentage points above the average for the All Industries WPI. Driving this will be much higher EBAs negotiated in an environment of relatively high inflation and a 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 (see Figures 5.3, 5.4, 5.6 and 5.10).

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 recent 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.

Oxford Economics Australia regards the WPI to be a measure of the *underlying* wages growth in the utilities sector for total Australia. In terms of total wage costs — expressed in Average Weekly Ordinary Time Earnings (AWOTE) — Oxford Economics Australia expects EGWWS AWOTE to average 4.2% per annum over the five years to FY32, 0.4% higher than the EGWWS WPI. Our AWOTE forecasts are higher due to compositional effects. Apprentices, trainees and numbers of new staff have increased markedly over recent years, across the electricity, gas and water sector generally. Given slower growth in employment numbers over the next decade, it is likely that there will be overall upskilling of the existing workforce, which will see a commensurate movement by much of the workforce into higher grades (i.e. on higher pay), resulting in higher earnings per employee.

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).

Figure 5.1 Wage Price Index - Australia All Industries, Electricity, Gas, Water & Waste Services, and Construction

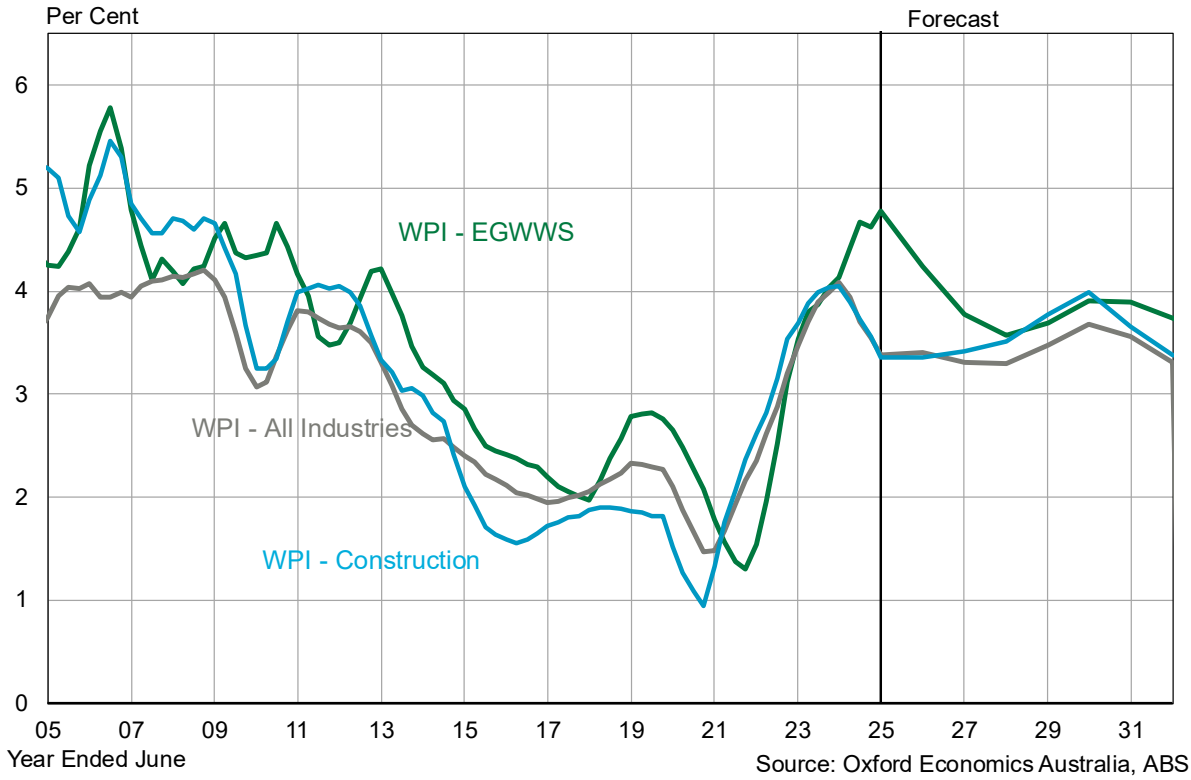
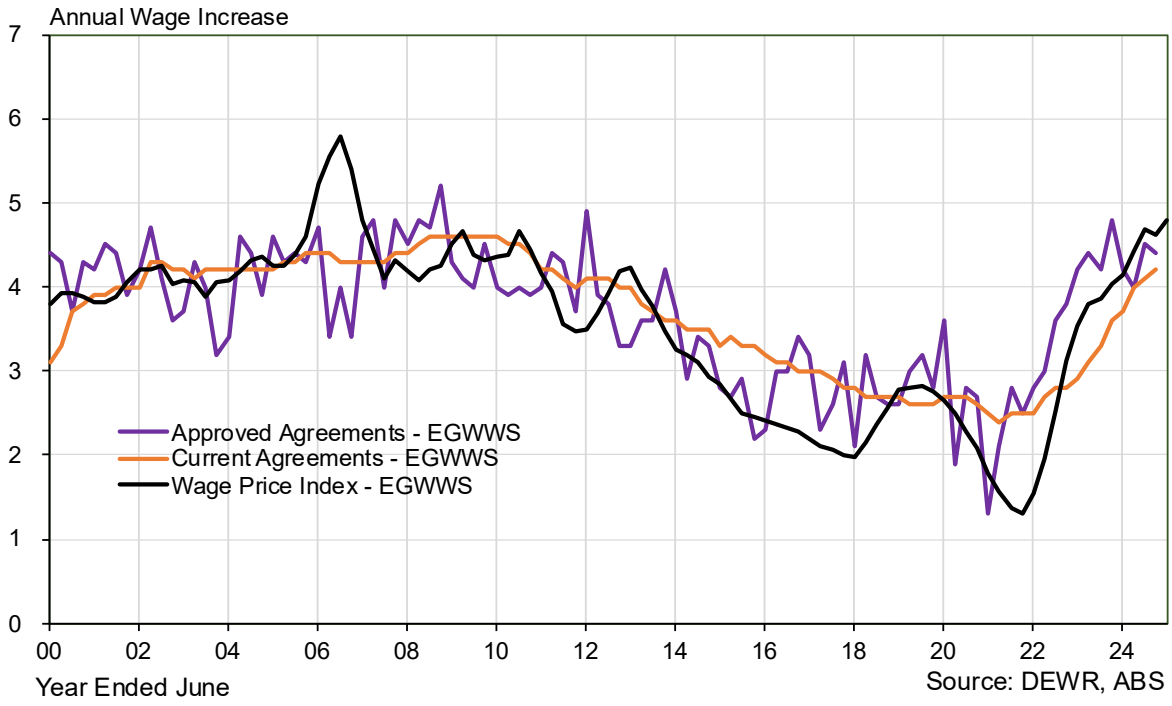


Figure 5.2 EBAs – Approved vs Current Agreements – Electricity, Gas, Water & Waste Services Sector, Australia



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. 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.

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 annual increases of 3.8%.

OEA analysis shows collective agreements in the EGWWS sector were on average around 1.5% higher than CPI inflation over the 15 years to FY2014 (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 FY26-31, 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 three years, with approved EBAs averaging 4.4% (AAWI terms) in calendar 2024 – 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 4-4.5%, due to several factors:

- CPI inflation will remain relatively high (averaging 4.2% in FY24, 2.4% in FY25, 3.1% in FY26, 2.7% in FY27),
- There is still an element of catch-up from the low EBA outcomes of 2022 and 2023, which were swamped by very high inflation, which then delivered real wage losses
- the demand for skilled labour remains strong, and
- the recent very high enterprise agreement outcomes in the construction sector (5.8% and 5.5% in the December 2024 and March 2025 quarters) will influence negotiations in the EGWWS sector, as some skills can be transferable.

Wage increases under Individual agreements and EBAs have strengthened due to tight supply and strong demand for skilled labour 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 5.6 and 5.7 illustrate this relationship, and shows employment has a much stronger relationship with utilities engineering construction rather than utilities output. Furthermore, employment levels are expected to remain relatively stable – and actually increase - due to the need to maintain a skilled workforce to ensure reliability (particularly given more natural disasters due to Climate Change) and also to undertake capital works to cater for population and economic growth and for capital replacement or enhancement.

The overall labour market is expected remain relatively tight over the next 2 years, with the unemployment rate to remain around 4-4.4%%, despite a slowing in employment growth from 2.7% in FY24 and 2.3% in FY25 to 1.3% in FY26 and 1% in FY27. 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 has picked up significantly since the FY2019 trough and – after the small decline in FY25 - is forecast to see strong increases over FY26 and FY27, before plateauing to the end of the forecast period (see Figure 5.3). Meanwhile, there is similar strong growth coming through in in the Construction sector, with solid increases across all segments of the overall construction sector (residential building, non-residential building and civil engineering & infrastructure construction) over the next two years and more modest growth thereafter, leading to strong labour demand in that sector, particularly since overall activity has now surpassed the 2018 and 2013 levels – excluding oil and gas, where a significant proportion of the 'work done' measure is large imported components, assembled on-site (see figure 5.10).

With regard to utilities investment (including electricity, water and sewerage construction), Oxford Economics Australia is forecasting further solid increases over the next 3 years, with utilities-related engineering construction projected to rise another 14% from FY25 levels, following the 94% increase over the past four years (see chart 5.6). Levels are then expected to ease back, particularly as Snowy II is completed. Most relevant to the electricity distribution industry – electricity construction activity has doubled over the past four years to an estimated $26.2 billion in FY25, and is forecast to peak at $29.4 bn in FY28, before easing back to $27bn billion by FY32. However, 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.

Figure 5.3 Australia – Mining Investment

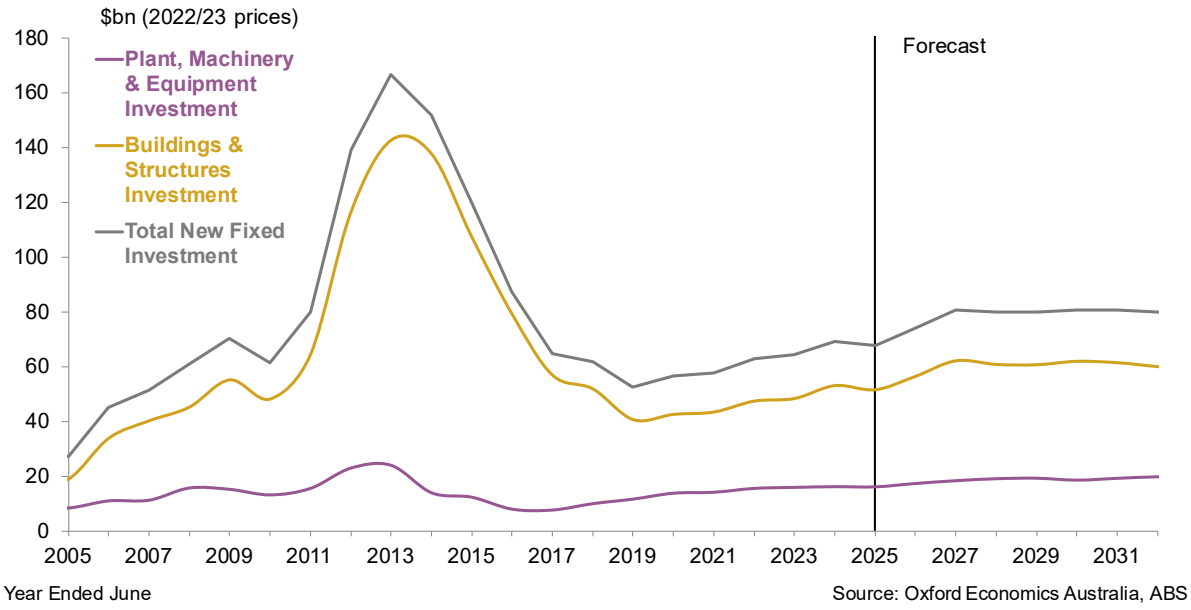
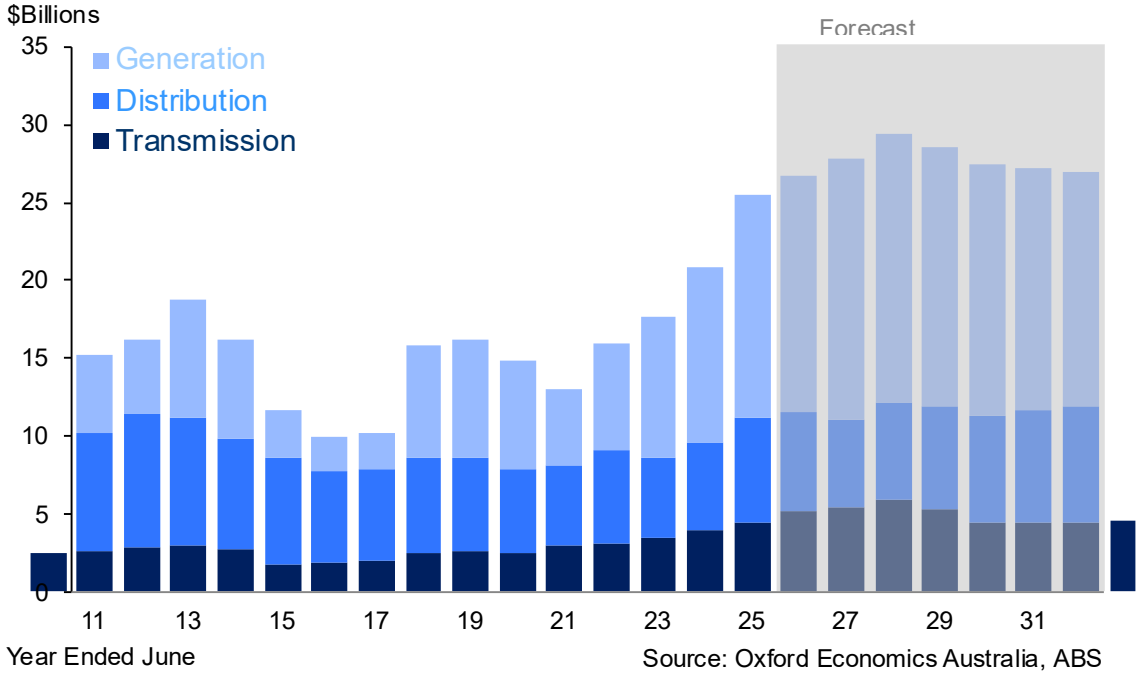


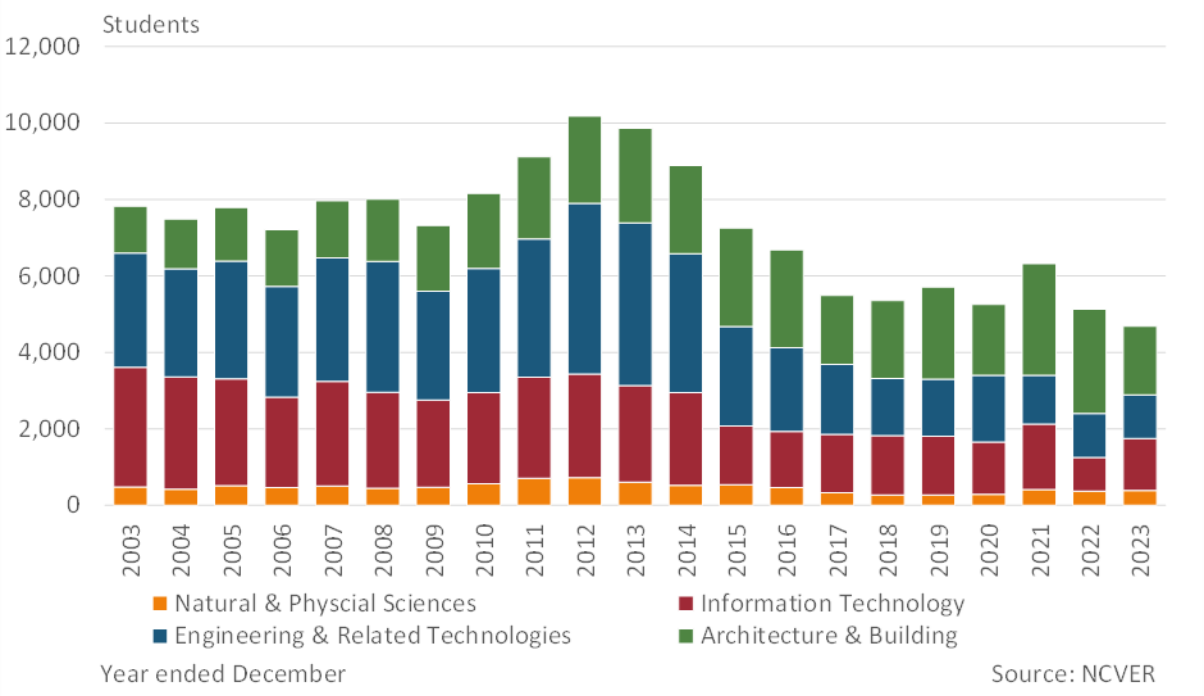
Figure 5.4 Electricity Construction Outlook - Australia



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 5.5). 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. Ultimately, this means that the skill shortages will persist for the next few years.

Figure 5.5 Australia, number of completions, 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.

EGWWS sector has high levels of productivity, compared to the national average, which underpins higher wages.

The EGWWS sector has one of the highest levels of sectoral productivity – as measured by real Gross Value Added (GVA) per employed person – among the 18 industry sectors, with only Mining and Finance & Insurance Services having higher productivity. Utilities' productivity is more than double the national average according to ABS data for Australia and well above the average for Queensland (see Figure 5.8). High productivity levels and commensurate skill levels are the key reasons why wage levels are much higher in the utilities sector than most other industries (in terms of average weekly earnings measures – see Table 5.1). However, over the past two decades, the growth in productivity in the sector has *not* been a driver of higher wages growth in the utilities sector.

Figure 5.6 Australia – Utilities Employment, Output, Investment & Productivity

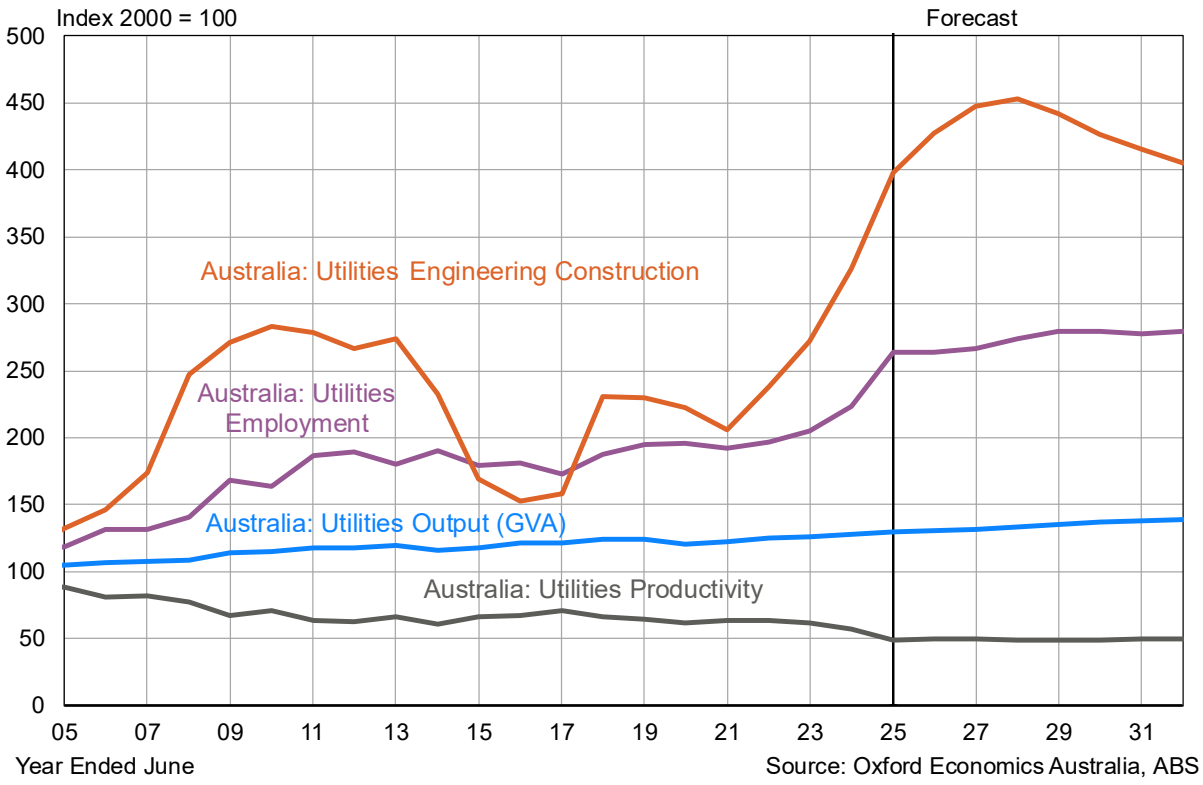


Figure 5.7 Queensland – Utilities Employment, Output, Investment & Productivity

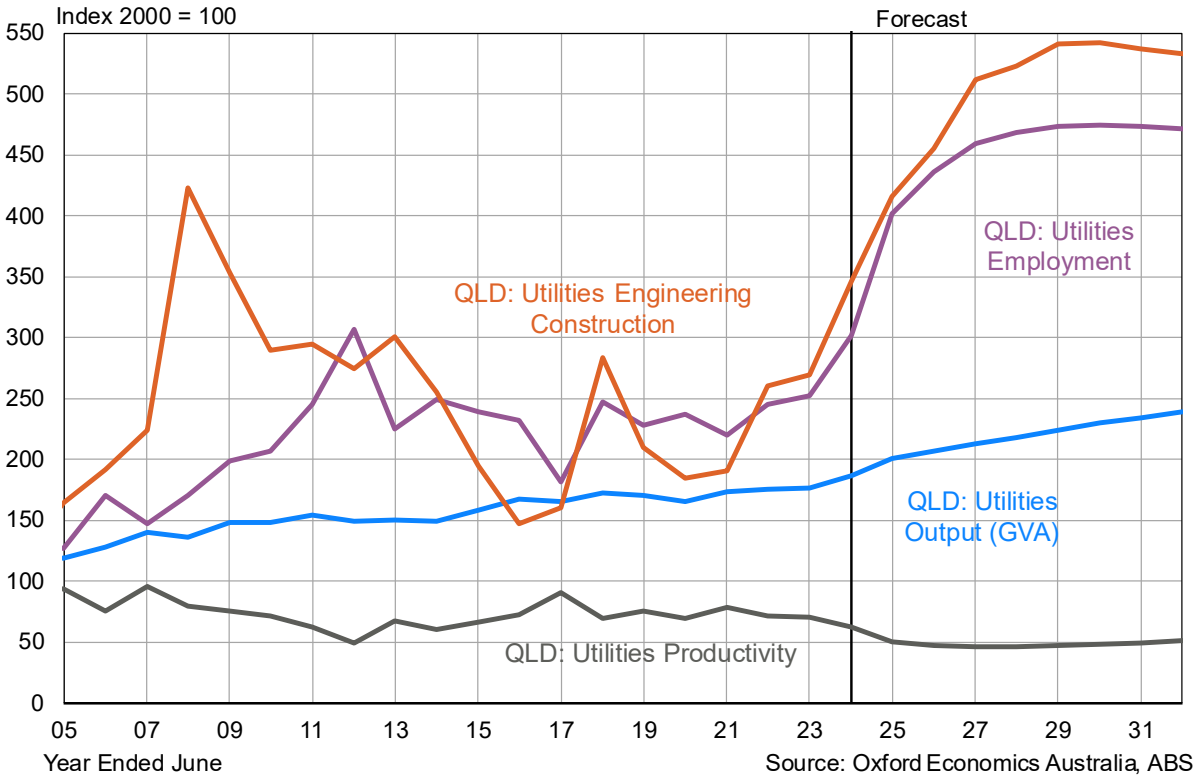
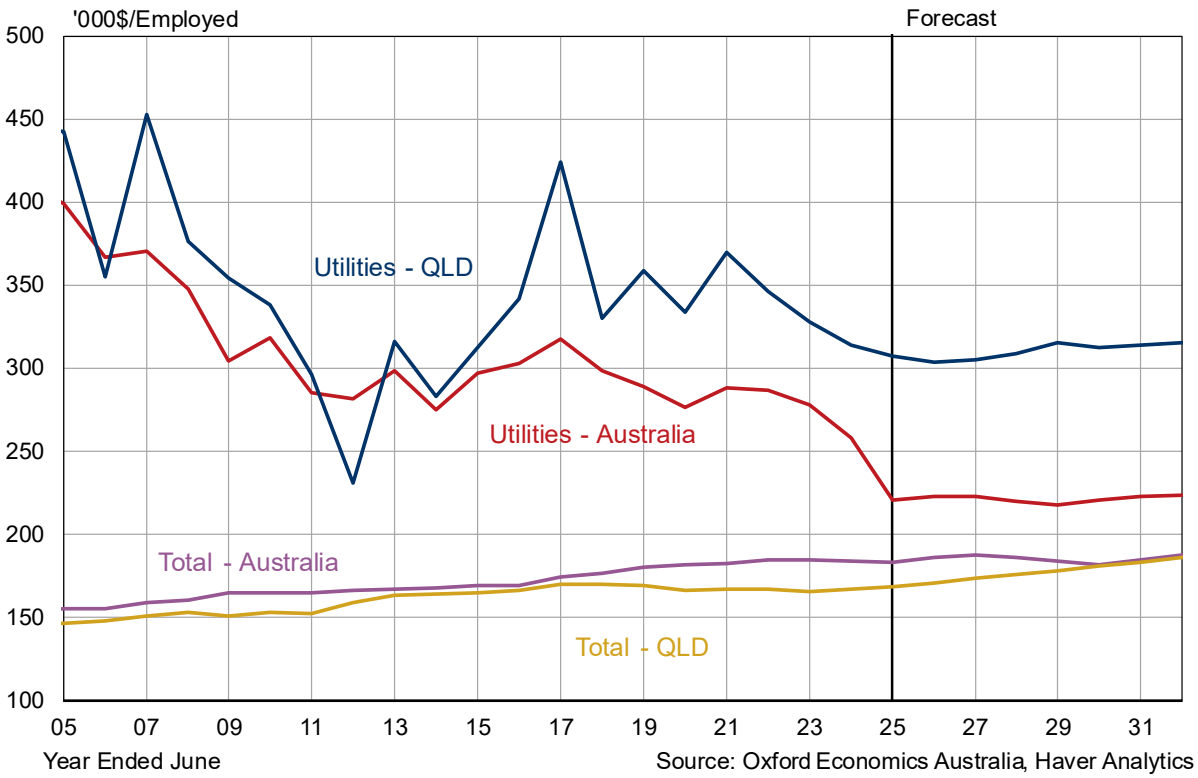


Figure 5.8 Utilities Productivity in Australia and Queensland



5.2.1 Outlook for Utilities Wages Growth in Queensland

Wages in the Queensland utilities sector have been well above the Australian average EGWWS WPI over the past three years, with the large Queensland outcomes actually driving up the national average (see Table 1.1), given the relatively benign increases in NSW and Victoria – the next two largest states in terms of utilities employment after Queensland (which accounts for 27% of national EGWWS employment). In FY25, the Queensland EGWWS WPI jumped to 7.9%, 3.1% above the national EGWWS average, and well above the prevailing EBA outcomes reported by the DEWR, suggesting very high increases in the individual arrangements segment and a significant degree of catch-up for high CPI inflation of FY22 to FY24. In the near-term, we forecast that the Queensland utilities WPI will fall back from the record FY25 result to 5.8% in FY26 and to 4% in FY27 – with these forecast measures both above the nationals average, but with the gap between the Queensland and national average narrowing, given that recent EBAs approved in the sector are close to the national average.

Thereafter, the state's utilities wages growth is expected to move in line with the national utilities sector average from FY27 to FY32, but remain 0.2% above the national average due to a stronger outlook for utilities-related construction (and overall construction) in Queensland and a tighter labour market. Utilities-related construction in Queensland is projected to increase another 28% over the next seven years to FY32, after more than doubling over the past four years (see figure 5.7). As well as significant increases in electricity-related construction, there is also a major phase of water-related

construction to be undertaken over the next decade. The construction related to the Brisbane 2032 Olympics will also add to wage pressures.

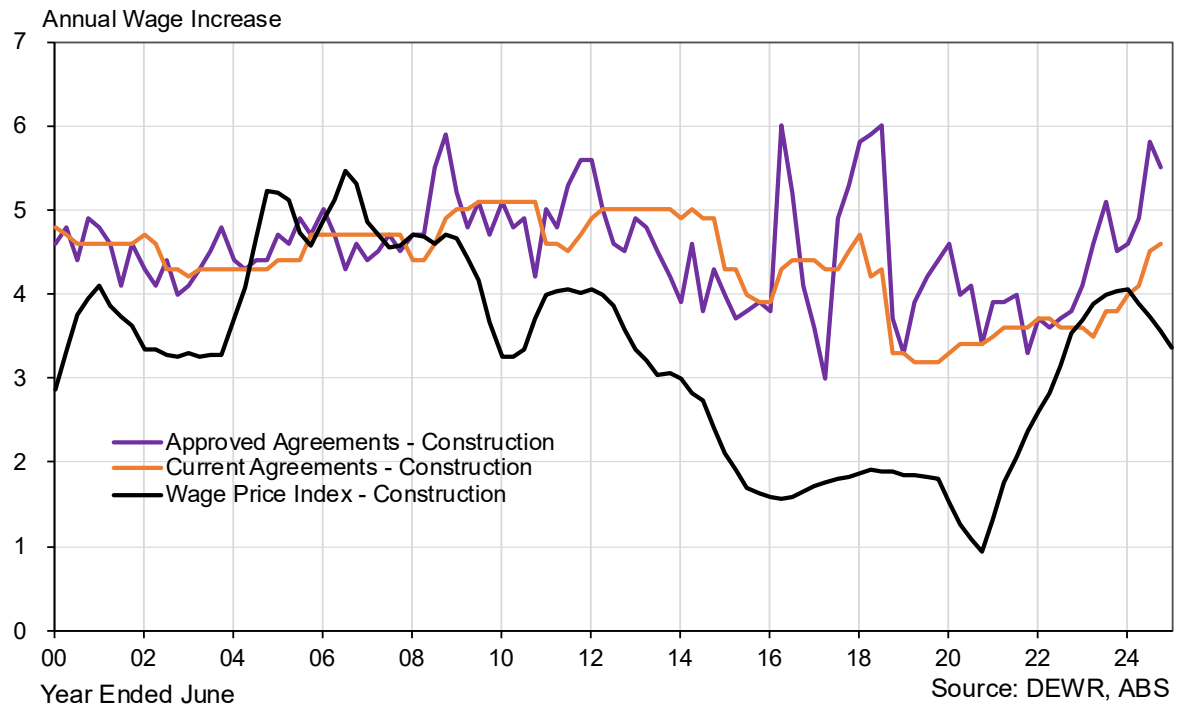
Overall, Queensland's EGWWS WPI growth is forecast to average 4.0% over the period from FY28 to FY32 (Powerlink's next regulatory period) – or 1.5% in real terms.

5.3 Construction Wages

Given that service providers' outsourced labour is mostly supplied by firms in the construction industry, we proxy Powerlink's external labour cost escalation by wages growth (as measured by the WPI) in the NSW 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 Queensland Construction WPI to average 3.7% and 3.9% respectively over the five years from FY28 to FY32 inclusive. While this is a marked improvement on the past eleven years (2.3% nationally), it is still well down on the 4.3% annual national average (nominal terms) of the decade to 2011/12. In real terms the average increase over FY28 to FY32 is 1.4% for the Queensland construction sector and 1.2% for the Australian construction sector.

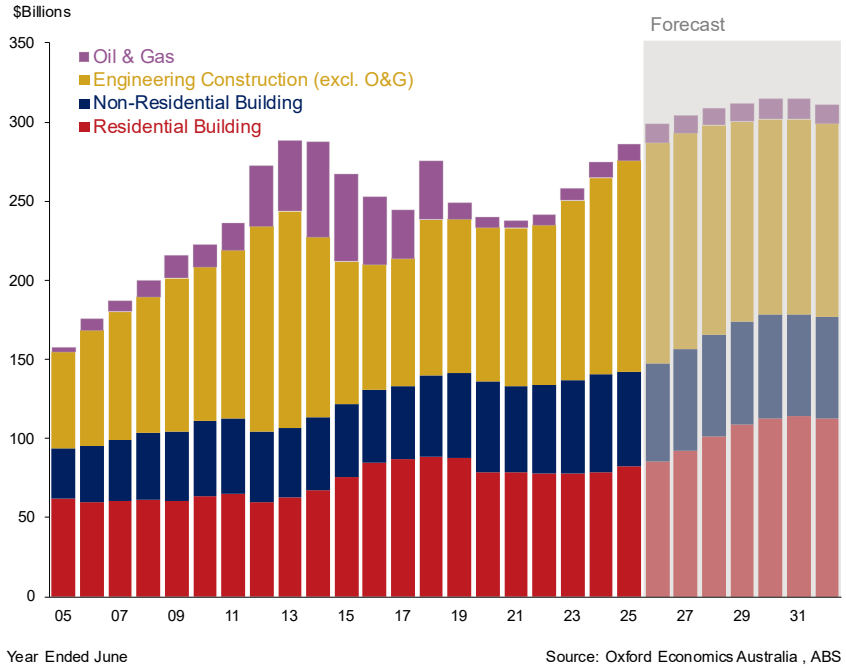
Figure 5.9 EBAs – Approved vs Current Agreements – Construction Sector, Australia



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 growth eased but remained elevated in FY25 (3.4%) as construction activity increased and serious skills shortages persisted, underpinning higher wages due to strong labour demand. It is important to note that in FY24 and FY25, overall construction activity levels surpassed the previous highs of FY13 and FY18, excluding oil and gas construction (see figure 4.9). Given the falling VET completions and increasing retirements, this means that there is likely a serious undersupply of skilled labour to cater for increasing construction levels.

Construction WPI growth is forecast to stabilise at around 3.4% over FY26 to FY28 as lower inflation continues to lead to lower wages growth in the individual agreements sector – which dominates wage-setting in the Construction sector (comprising 70% of wage agreements). Meanwhile, very high EBAs in the construction sector recently (average of 5.2% over the year to March 2025) will contribute to elevated WPI outcomes over the next couple of years. We expect construction wages growth to pick up again from FY29 and peak at 4% in FY30 as activity continues to increase, leading to higher demand for skilled labour and higher wage pressures. 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 sustained high (but easing) levels of publicly funded transport infrastructure activity (particularly in the eastern states of the nation).

Figure 4.10 Construction Outlook - Australia



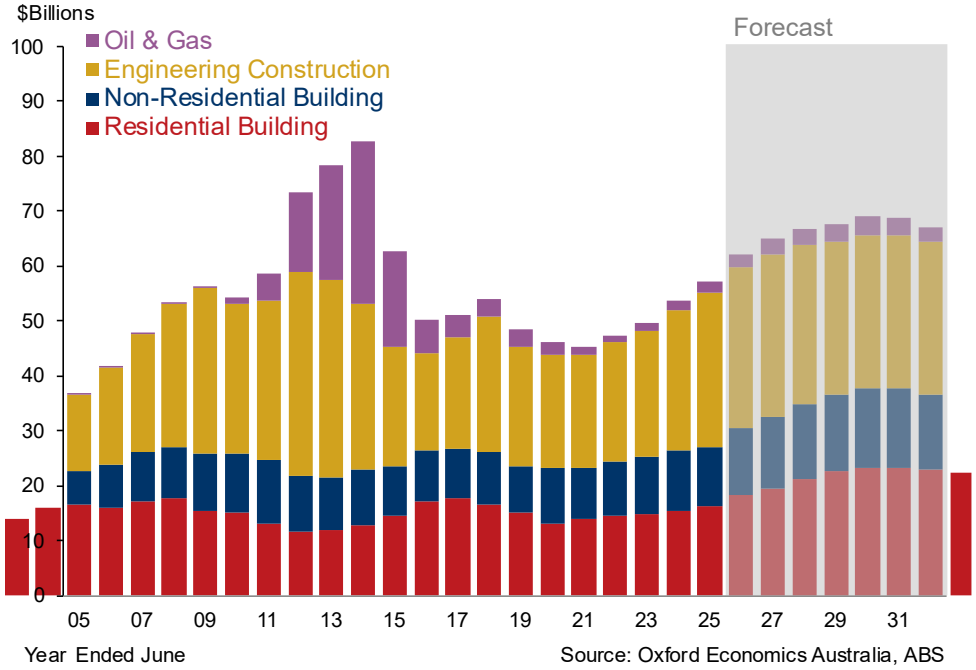
Queensland Construction WPI growth has been above the national construction WPI average over the past two years. Higher construction sector EBAs in the state and stronger growth in construction activity (compared to the national average) helped drive this result. These two factors are expected to keep Queensland construction WPI growth above the national average in the near-term. Over the

FY28 to FY32 period, stronger construction activity compared to the growth in Australian construction activity is expected to be the key driver of higher construction wages growth, with the state's lower unemployment rate also playing a key role.

Queensland's construction outlook is on a trajectory of sustained growth over the second half of the decade. Infrastructure works related to the 2032 Brisbane Olympic Games and the $62bn Queensland Energy and Jobs Plan will further support activity during this period. In addition, fundamental drivers of demand in the state economy will outpace national averages over the next decade, including Queensland's population growth. Overall, growth in QLD construction activity is forecast to average 3% p.a. over the next 7 years to reach over $73bn in FY32 – a 21% rise from FY25 levels.

Both residential and non-residential building activity are set to increase over the coming years. Heightened population growth will exacerbate the existing undersupply of dwellings and boost investment in residential dwellings, whilst solid public investment in health and Olympics related infrastructure will help support non-residential activity. Engineering construction activity has seen four years of solid growth to FY25 inclusive (averaging 7.4% p.a.) since and is expected to continue rising over the next two years on the back of transport infrastructure works, before tapering off. Engineering activity will then plateau at around $33bn over FY27-FY30 as major rail, road and mining projects reach completion.

Figure 4.11 Construction Outlook – Queensland



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 BIS Oxford Economics 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 BIS Oxford Economics 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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