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LABOUR COST ESCALATION: FORECASTS TO 2032

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EXECUTIVE SUMMARY

Oxford Economics Australia (OEA) was engaged by AusNet Transmission to provide price forecasts of labour relevant to Victoria's electricity transmission industry for the period 2025/26 (FY26) to 2031/32 (FY32). Forecasts for wage cost escalation will be used by AusNet to develop their operating and capital expenditure forecasts. These forecasts, in turn, will be included in AusNet's regulatory submission to the Australian Energy Regulator (AER) - with the regulatory period covering the five-year period from April 1 2027 to March 31 2032 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 late May 2026 and incorporate the latest data and macro-economic forecasts as at late May 2026.

Labour Cost Escalation

For **electricity network related labour**, Oxford Economics Australia forecasts that total wage costs for the Victorian and Australian Electricity, Gas, Water and Waste Services (EGWWS or 'Utilities') sector — expressed in Wage Price Index (WPI) terms — will average 3.8% per annum over the five-year period from FY28 to FY32 inclusive. In real (inflation-adjusted) terms, the Victoria EGWWS WPI is forecast to average 1.3% p.a. over the five years to FY32 (see Table 1.1 below).

Over the forecast period, the Australian and Victoria EGWWS WPI growth is expected to push above and remain higher than the All Industries WPI average, with the national 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 0.3% 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, largely due to strong demand and ongoing significant shortages for the skilled labour that the utilities sector requires, and also because of the following factors:

- strong union presence in the utilities sector will ensure outcomes for collective agreements, which cover 64% 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 (38%), and EBAs wage rises normally higher than individual agreements, this means higher overall wage rises in the EGWWS sector. EBAs are expected to average 4% over the FY28-32 period, around 1.5% higher than the official CPI forecast, which is similar to the past two decades. The recent kick-up in inflation should see sustained high EBAs negotiated in the near-term, but then see some easing in new EBAs over FY28 as inflation falls back. 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 4.5% and expected to remain around 4.3-4.7% over the next two years, before again tightening over the FY28 to FY30

period as the unemployment rate again falls below 4%. The recent rise in inflation will also result in a rise in both individual agreements and EBAs.

- demand for skilled labour will remain high and strengthen with the high levels of utilities investment from FY25 to FY30 (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 five years, to peak 30% higher in FY30 compared to FY25 levels, which in turn were 94% higher than FY21 levels. 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.
- In Victoria, utilities-related construction has surged by 55% over the four years to FY25. Utilities-related engineering construction in Victoria is forecast to increase another 30% from FY25 to FY31, as the state embarks on a major phase of electricity-related and water infrastructure construction. Within this, electricity-related construction is forecast to rise another 41% over the next five years, from \$6bn in FY25 to a forecast peak of \$7.6 bn in FY30, before easing back (all figures in constant 2023/24 prices). A cumulative \$46.6 bn of electricity-related construction will be undertaken over the next 7 years. Part of this will include the \$7.9bn (2025 prices) of work identified as part of the 2025 Victorian Transmission Plan (covering 2025-2040), some of the projects identified in AEMO's Integrated System Plan which is in the tens of billions over the next 25 years; plus other significant amounts of transmission-related capital works, which includes transmission connections to new renewables generation facilities, such as offshore wind farms. Also included in this large volume of work is asset replacement and augmentation, plus new connections to households. These increased levels of electricity construction will see wage pressures remain elevated in the Victorian EGWWS sector.
- 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
- 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.

Given service providers outsourced labour is mostly supplied by firms in the construction industry, we proxy AusNet **external labour cost escalation** by wages growth (as measured by the WPI) in the Victorian 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.

Table 1.1 EGWWS, Construction and All Industries Wage Price Index

(percent change, year average, Year Ended June)

Year-ended June	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Average 2028-32 (f)
Nominal Wage Changes	Actuals					Forecasts		Regulatory Determination Period					
Electricity, Gas, Water and Waste Services WPI - Victoria (a)	2.1	1.6	2.7	2.7	3.9	3.3	4.1	3.8	3.6	3.9	3.9	3.7	3.8
Electricity, Gas, Water and Waste Services WPI - Australia (b)	1.8	1.5	3.5	4.1	4.8	4.1	4.3	3.9	3.7	3.9	3.9	3.7	3.8
Construction WPI - Victoria (c)	1.0	3.2	3.5	4.1	3.9	4.4	4.0	3.6	3.7	3.9	3.7	3.4	3.6
Construction WPI - Australia (b)	1.3	2.6	3.7	4.1	3.4	3.2	3.9	3.6	3.8	4.0	3.7	3.4	3.7
All Industries WPI - Victoria	1.4	2.4	3.4	3.6	3.2	3.2	3.6	3.4	3.4	3.6	3.5	3.3	3.4
All Industries WPI - Australia (b)	1.5	2.4	3.5	4.1	3.4	3.3	3.7	3.5	3.4	3.6	3.5	3.3	3.5
Consumer Price Index (headline) (d)	1.6	4.5	7.0	4.2	2.4	3.9	3.4	2.4	2.5	2.5	2.5	2.5	2.5
Real Wage Changes (e)													
Electricity, Gas, Water and Waste Services WPI - Victoria (a)	0.5	-2.8	-4.4	-1.5	1.4	-0.7	0.6	1.4	1.1	1.4	1.4	1.2	1.3
Electricity, Gas, Water and Waste Services WPI - Australia (b)	0.2	-2.9	-3.5	-0.1	2.3	0.2	0.9	1.5	1.2	1.4	1.4	1.2	1.3
Construction WPI - Victoria (c)	-0.6	-1.2	-3.6	-0.1	1.4	0.5	0.6	1.2	1.2	1.4	1.2	0.9	1.2
Construction WPI - Australia (b)	-0.3	-1.9	-3.3	-0.1	0.9	-0.7	0.4	1.2	1.2	1.5	1.2	0.9	1.2
All Industries WPI - Victoria	-0.1	-2.1	-3.7	-0.6	0.8	-0.7	0.2	1.0	0.8	1.1	1.0	0.8	0.9
All Industries WPI - Australia (b)	-0.1	-2.1	-3.5	-0.1	0.9	-0.6	0.2	1.1	0.9	1.1	1.0	0.8	1.0

Source: ABS, RBA, Oxford Economics Australia

(a) Electricity, Gas, Water and Waste Services (EGWWS) Wage Price Index (WPI) for Victoria

(b) Australian sector wage forecasts provided for comparison

(c) Construction Sector Wage Price Index (WPI) for Victoria

(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) Real price changes are calculated by deducting the inflation rate from nominal price changes.

(f) Average Annual Growth Rate for 2027/28 to 2030/32 inclusive, ie for the revenue determination or regulatory period.

Our forecast is for the Australian and Victorian Construction WPI to average 3.7% and 3.6%, respectively, over the five years from FY28 to FY32 inclusive (AusNet regulatory period) – or 1.2% per annum on average in real (inflation adjusted) terms (see Table 1.1). Construction wages are forecast to increase by more than the national All Industries 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 FY26 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 construction activity to be 19% 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, utilities and mining-related construction.
- strong union presence in the construction sector will ensure outcomes for collective agreements, which cover 24% 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.

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. Given the falling construction and engineering-related VET completions and increasing retirements, this means that there is likely a serious undersupply of skilled labour to cater for increasing construction levels.

Victorian Construction WPI growth was well above the national average in FY25, at 3.9% (0.5% higher than the national average). Higher construction sector EBAs in the state (compared to the national average) helped drive this result. The EBA outcomes finalised over the past year – averaging 6.2% in the year to December 2025, compared to 5.5% for the national average for construction EBAs - will help maintain elevated wage growth of 4.4% in FY26 and 3.9% in FY27, above the national average. However, we then expect Victorian construction wages growth to ease back and slightly underperform the national average over FY29 to FY32, due to slower growth in construction activity, compared to the growth in Australian construction activity, and the state's higher unemployment rate.

1. INTRODUCTION

Oxford Economics Australia (OEA) was engaged by AusNet to provide price forecasts of labour relevant to Victoria's electricity transmission industry for the period 2025/26 (FY26) to 2031/32 (FY32). Forecasts for wage cost escalation will be used by the AusNet to develop their operating and capital expenditure forecasts. These forecasts, in turn, will be included in AusNet's regulatory submission to the Australian Energy Regulator (AER) - with the regulatory period covering the five-year period from April 1 2027 to March 31 2032 inclusive.

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 2024 and includes 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 March 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 late May 2026 and incorporate the latest data and macro-economic forecasts as at late May 2026.

Forecasts of the economic variables in this report were mostly sourced from Oxford Economics Australia reports, including the *Australian Macro Service, Long Term Forecasts: 2026 – 2040*, *Engineering Construction in Australia 2026-2409* and *Building in Australia 2026-2040*, 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 Victoria. 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's 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 Victoria 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 economic recovery stalls as Iran War compounds domestic inflation challenge

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 and FY25, with real Gross Domestic Product (GDP) rising just 1.4% and 1.3% respectively - the weakest pace in over 30 years outside the pandemic slump - and Gross National Expenditure (GNE) increasing 1.9% in both years, as high interest rates hit private consumption and pandemic-era savings dwindled, while business investment slowed sharply. Over FY24 and FY25, growth was buoyed by strong population growth and sustained public sector spending. However, growth accelerated over the second half of calendar 2025, with GDP growth through-the-year (y/y) picking up to 2.6% in the December quarter 2025. The 0.8% (q/q) increase in the December quarter was broad based, with housing and business investment showing strong growth through 2025.

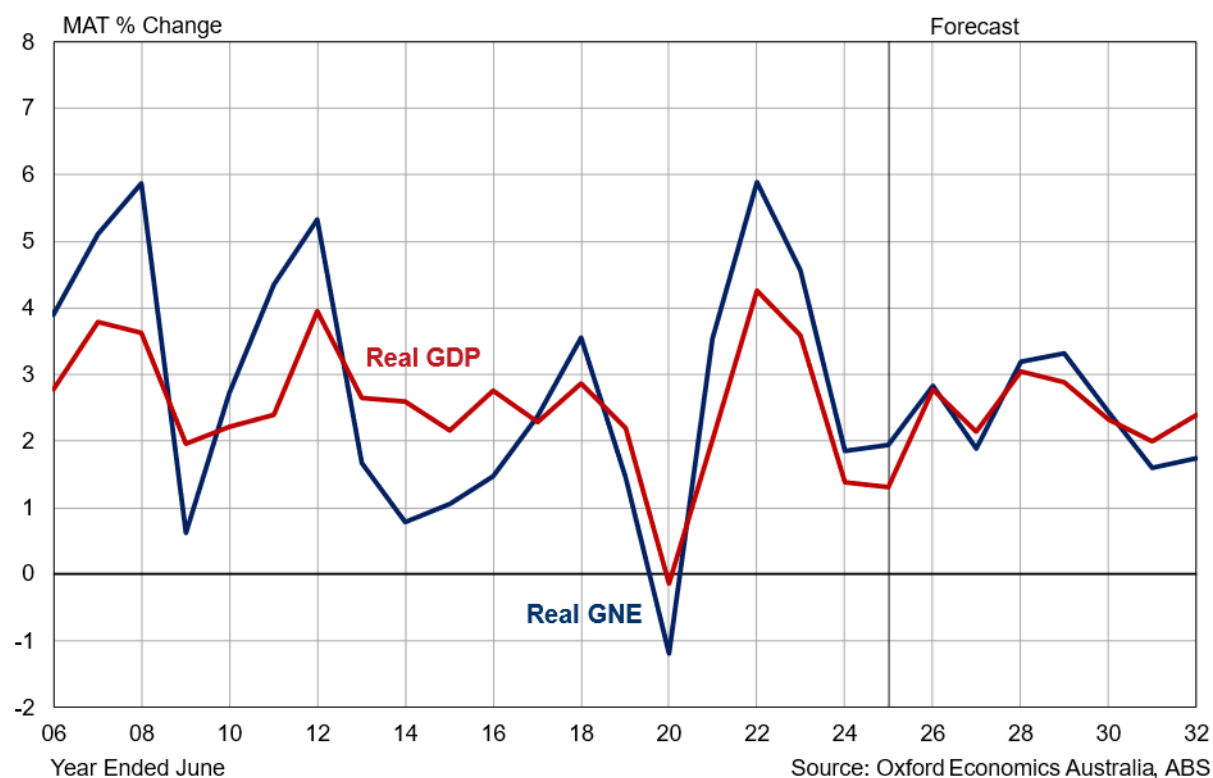
The outbreak of war in the Middle East has now effectively stalled the upswing. The Australian economy faces challenges at home and abroad. Business and household confidence have plummeted in response to the conflict and the prospect of more rate hikes. Inflation is surging as capacity constraints build, while the conflict in the Middle East exacerbates price pressures through higher energy, shipping, and transport costs. The economy is now set to expand 2.8% in FY26 (2025/26), before slowing to 2.1% in FY27, with the weakest growth expected over the June and September quarters 2026.

Higher inflation will erode household incomes and cap spending growth. Businesses will also be squeezed, wedged between higher input costs and weaker consumer demand, though the impact on investment is cushioned by a pipeline skewed toward long-term, conflict-insulated projects like data centres, utilities, mining projects and Olympic infrastructure. With the domestic economy running hot and capacity constraints building, the RBA delivered back-to-back hikes in February and March in response to the domestic inflation pressures, but then lifted rates again in May, citing rising inflationary expectations. Higher energy prices due to the closure of the Strait of Hormuz lifted petrol prices and raised production and transport costs across the economy. At the same time, disruptions to key fertiliser exports from the Middle East could push food prices higher. Our modelling suggests the conflict has already added around 0.3ppts to annual inflation in Q1. If prices stay above \$100 per barrel through Q2, they could add another 0.75ppts, lifting inflation to around 4.7% in Q2. Despite the challenges elsewhere, the labour market remains solid. Employment growth has averaged 0.2% m/m over the three months to March, keeping unemployment around 4.3%, but jumped to 4.5% in April.

Australia is particularly vulnerable to a global fuel shortage. More than 90% of our fuel needs are imported, predominantly from Asia, with crude oil sourced from the Middle East. Moreover, successive governments have let fuel reserves drop to around 30 days, a fraction of the 90-day International Energy Agency requirements. If the Strait of Hormuz remains closed, fuel shortages are a distinct

possibility. Asia – home to Australia's largest trading partners – is particularly vulnerable. The region sources 50%-60% of its crude oil from the Middle East and roughly a third of its liquified natural gas imports, leaving net energy importers like Japan, South Korea, New Zealand and China exposed. In early April, Oxford Economics lowered the world GDP growth forecast for calendar 2026 to 2.4%, down from 3% from the February projection.

Figure 2.1 Australia – Basic Economic Indicators



Detailed Growth Outlook over the short-to-medium term

Our inflation and growth forecasts are predicated on the conflict keeping the Strait of Hormuz closed until mid-June, although minor levels of tanker traffic have been reputed to have moved through the Strait over May and June. We then expect tanker and other shipping traffic to gradually recover to normality over the following six months. This results in the Brent oil price averaging over US\$100 per barrel in Q2 before falling to just under US\$80pb by the end of this year. Headline CPI inflation is expected to peak around 5% in the June quarter, before falling back as the oil price declines. However, if the conflict lingers/re-ignites, with a prolonged closure of the Strait of Hormuz that pushes oil prices above \$130 per barrel, the economy could have another 0.35ppts slashed off growth this calendar year.

The challenges for the economy will come through several channels. Higher inflation and the hikes in interest rates in the March quarter and May (and the threat of more hikes) will erode household incomes, while a sharper slowing in employment will all combine and see household spending slide to 0.9% in calendar 2026 and FY27 – well below the broader GDP forecast. Mortgage holders will drive

the bulk of the pullback, but the weakness will cut through most families. Even outright homeowners who don't face a ballooning mortgage repayment burden will be weighed down by weaker equity market returns.

Businesses will also be squeezed, wedged between higher input costs and weaker consumer demand. In most downturns, they bear the brunt of the pain, but this time is a little different. Much of the investment pipeline sits in sectors insulated from the conflict or tied to long-term returns – data centres, transmission and other energy upgrades, utilities, and the Brisbane 2032 Olympics; these will likely proceed regardless of global developments. Mining projects are also expected to remain resilient, spurred on by demand for critical minerals and high gold, copper, and now coal and gas prices. Projects with shorter payback periods or more discretionary spending will face greater headwinds, but these make up a smaller share of planned work. However, the long-term and non-discretionary investment projects will still be significantly impacted by the Middle East conflicts, due to much higher costs and possible longer lead times for critical materials and equipment.

Work on the Brisbane 2032 Olympics is starting, supporting broader non-residential building alongside investment in renewable generation, transmission upgrades, and storage. Health building is also in for a strong period over the next few years. The remaining investment pipeline is more vulnerable to overseas developments; however, given that businesses have been reluctant to invest recently, it accounts for a smaller share of current plans.

Higher rates have dampened our outlook on total dwelling starts, but strong demand fundamentals and policy support at the local, state, and national levels are structural tailwinds for the sector, despite increases in borrowing costs. Dwelling investment picked up through FY25 (+4.3%) after two years of small declines. It is expected to see further moderate growth in FY26 and FY27 before rebounding strongly from FY28, 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.

The labour market is expected to weaken over the next few months, with a number of sectors reliant on discretionary household spending (including tourism) expected to feel the brunt. Strong employment growth over FY24 (+2.7%) and FY25 (+2.2%) was supported by fast population growth and a record-high participation rate. 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 4.6% in FY27. An extended Middle East conflict could push it closer to 5%.

Overall, GNE is forecast to increase 2.8% in FY26 and slow to 1.9% in FY27. Imports will follow the slowdown in domestic demand. Strong investment spending has boosted imports and will continue to do so, but consumer and some intermediate imports (including petroleum) will weaken sharply, with overseas travel by households expected to be particularly impacted by higher travel costs, uncertainty and income effects. Exports recovered strongly over the past year from the weak FY25, but will slow over the next year as global demand pulls back, the higher dollar affects some exports and as inbound tourism is impacted, although exports will be buoyed by demand for gas, coal and rural products. But with imports expected to slow faster than exports, there will be a positive external contribution in FY27, which will boost GDP above domestic demand to 2.1%.

GDP growth is expected to improve to 3% in FY28 and 2.9% in FY29, supported by rising household spending, a solid recovery in dwelling investment, sustained strength in business investment and stronger exports (due to new mining capacity coming onstream and a bounce back in inbound tourism). Global GDP growth is expected to recover over calendar 2027 and 2028 to 3%, before gradually slowing to 2.6% by 2030. Partially offsetting these positives will be much slower government expenditure over FY27 to 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 re-tighten policy settings, which will see growth slow over FY30 and FY31.

The cuts to US interest rates since September 2025 (with more expected) and the recent lift in rates by the RBA has seen the Australian dollar appreciate from US\$0.63 in the March quarter 2025 to around US\$0.72 recently. With the Reserve Bank of Australia likely to hold or increase rates – and maintain higher rates than the US – it is likely that the A\$ will continue to strengthen against the US\$ over the next few years, to around US\$0.75 by 2030, before easing.

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.

2.2 VICTORIA MACROECONOMIC OUTLOOK

After outperforming the national economy in 6 years to 2019 inclusive, Victoria experienced a larger-than-average fall in output through the coronavirus downturn, due to the more severe experience of the pandemic which severely restricted activity over 2020 and 2021. The successful vaccination rollout and covid restriction and disruptions easing significantly then led to a strong rebound in economic activity, with State Final Demand (SFD) increasing 7.3% in FY22 and 4.6% in FY23. However, FY24 and FY25 saw marked a slowdown in growth to 1.7% over both years, as tight monetary policy impacted household demand and business investment. Meanwhile, Gross State Product (GSP) slowed from 3.6% in FY23 to 1.4% and 1.1% in FY24 and FY25 respectively.

SFD growth has experienced a strong recovery over the second half of 2025, and despite a slowdown over the first half of 2026, SFD and GSP are expected to increase 2.9% and 2.6% respectively in FY26, due to a pick-up in household spending and business investment. Public investment is now peaking and is expected to experience a moderate decline over FY27 to FY29 as major projects are finished. SFD and GSP growth are expected to slow sharply over FY27 to 1.2% and 1.5% respectively, as household and government spending weaken. Housing and business investment are expected to be the mainstays of growth in FY27. Over FY28 and FY29, dwelling and business investment are forecast to strengthen appreciably, in turn driving strong employment growth and household spending.

Employment growth in the state has remained above the national average over the past two years. However, the faster increases in state's labour force participation rate and labour force (the latter reinforced by faster population growth) has seen the state unemployment rate push above the national average, with the average of 4.4% in FY25 just over 0.3% higher than the national average.

We expect these labour market patterns to continue and see Victoria's unemployment rate remain around 0.1% above the national average over the forecast period. While the stronger employment and population growth will boost consumer demand, the higher unemployment rate will put downward pressure on wages, relative to the national average.

Fig 2.2 Victorian Key Economic Indicators

Year Ended June								Forecast						
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Victoria														
Total Construction Activity(*)	4.5	1.8	-4.5	4.2	5.2	0.9	0.1	0.5	2.8	2.2	1.8	2.7	-0.9	-2.7
State Final Demand	3.4	-0.8	-0.4	7.3	4.6	1.7	1.7	2.9	1.2	2.9	3.5	2.8	1.9	1.8
Gross State Product (GSP)	3.1	-0.3	-0.3	6.8	3.6	1.4	1.1	2.6	1.5	2.9	3.0	2.5	2.1	2.3
Employment Growth (Year Avg)	3.0	0.9	-1.9	3.7	4.1	3.3	2.4	1.1	0.8	1.9	2.5	2.0	1.0	1.0
Australia														
Total Construction Activity(*)	-8.8	-3.8	-0.4	2.0	6.4	5.7	3.1	3.0	5.7	4.4	2.6	1.7	-1.0	-2.2
Australian Domestic Demand	1.7	-0.8	2.8	5.5	4.5	2.3	2.1	2.9	1.9	3.0	3.3	2.5	1.7	1.7
Gross Domestic Product (GDP)	2.2	-0.1	2.0	4.3	3.6	1.4	1.3	2.8	2.1	3.0	2.9	2.3	2.0	2.4
Employment Growth (Year Avg)	2.4	0.3	0.4	3.4	4.5	2.7	2.2	1.2	0.8	1.7	2.2	1.8	0.9	1.0

Source: Oxford Economics Australia and ABS

* Total construction work done in constant 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.

In the long run we still expect the state to again outperform the national average, but by less than was evident pre-COVID - Victoria's economy had been partially driven by rapid expansions in higher education and tourism, and growth in these two drivers will remain subdued over the medium-to-long term. Offsetting this will be the return of relatively stronger population growth, with Victoria's population growth expected to outpace the national average from by around 0.2% p.a. over the FY26 to FY32 period. This will provide an added boost to consumer, housing and infrastructure demand over the medium-to-long run.

3. WAGES AND INFLATION OUTLOOK

3.1 CONSUMER PRICE INDEX OUTLOOK

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 May 2026 'Statement on Monetary Policy' (SoMP) forecast the headline CPI rate to be 4.8% (y/y) in the June quarter 2026, giving a year average of 2.4% for FY26. With oil prices to decline and some inflationary pressures expected to be curbed by higher interest rates, the RBA then forecasts 4% in the December quarter 2026, before easing to 2.4% in the June quarter 2027 – giving a year average CPI rate of 3.4% for FY27. The RBA's CPI forecast for December 2027 is 2.4% and 2.5% for the June quarter 2027, then the year average CPI for FY28 of 2.4%. Beyond the RBA's forecast from the SoMP, we assume the CPI averages 2.5% over the medium-to-long term.

Inflation rising due to capacity constraints, market concentration and the Middle East Conflict

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 supply disruption 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. 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, while a sharp fall in fuel prices also helped drive inflation lower. This resulted in headline CPI inflation averaging 2.4% in FY25. However, the ending of the subsidies, stronger demand and a lack of competition in some sectors then saw headline CPI rise to 3.6% (y/y) in the December quarter 2025 and further to 4.1% in the March quarter 2026, with fuel a key contributor in the March quarter.

Australia faced an inflation challenge well before the Middle East conflict kicked off. Capacity constraints are building in the economy as firms and the public sector fight for workers and resources. Meanwhile, prices of tradable goods and services – those with prices that are largely determined overseas – have added an extra 0.3ppts to annual inflation over the nine months to December 2025, due to the lagged effect of the depreciation of the A\$ from late 2024 to mid-2025. Add in the effects of higher energy, transport, and fertiliser costs from the closure of the Strait of Hormuz, and Australia's inflation outlook is considerably bleaker. The materials and CPI forecasts in this report and the accompanying spreadsheets are based on a forecast of Brent oil prices averaging over \$100 per barrel in the June quarter 2026 and only slowly declining to US\$70/brl in 2028. At this stage, it is

unlikely that the pre-crisis price of US\$63/bbl (December quarter 2025) will be attained for a number of years.

Higher oil prices not only lift petrol and diesel prices but also raise production and transport costs across the economy. At the same time, disruptions to key fertiliser exports from the Middle East could push food prices higher. We now expect underlying inflation to hit 3.8% in Q2, stay above 3% for the first half of 2027, and only return to the RBA's 2%-3% target band in the second half of 2027. Headline CPI inflation is forecast to peak at close to 5% in Q2 and slowly ease through FY27. Headline CPI will fall faster than the underlying measure over FY27 and FY28, due to falling fuel prices.

Overall, OEA forecasts the national headline CPI inflation to average 4% in both FY26 and FY27, before falling back to 2.4% in FY28 as fuel and other prices decline. Stronger economic growth is then expected to see a pick-up in inflation to 2.6% in FY29 and 2.9% in FY30, before easing back over FY31 and FY32 as the economy slows. Our forecasts are slightly higher than the official forecasts of the RBA.

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

Headline CPI inflation is expected to sit 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.

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 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%.

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

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. FY24 saw the highest wage gains in 15 years (since the mining boom of the late 2010s), due to the lagged effect of very high inflation over FY23 and FY24 and a tight labour market (see chart 4.1). The easing in inflation and the labour market tightness then saw the WPI drop back to 3.4% in FY25.

We expect wage growth to average 3.3% in FY26 but then increase sharply over FY27 to 3.7% due to the jump in inflation. We then expect wages growth to ease back to 3.5% and 3.4% over FY28 and FY29, with persistent inflationary pressures and the unemployment rate remaining below pre-COVID levels preventing any further easing in wage pressures. However, over FY30 the WPI is expected to re-accelerate following the strengthening of the economy over FY28 and FY29, and as 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 3.6% in FY30, before easing as the economy slows. Over the seven-year period from FY26 to FY32, the real rate of increase is forecast to average 0.6% p.a. (see table 1.1), in line with the 0.6% average of the decade to FY20 inclusive.

The unemployment rate is predicted to rise from 4.5% now to 4.7% by late 2026, where it will remain until early 2027. 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 still 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 (12% of the full-time workforce), collective agreements (38% of the workforce) and those who have their pay set by individual arrangements (50%). 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 increases given over June 2022 to June 2025 (affecting the 2022/23 to 2025/26 financial years) were much

Figure 3.1 Australia: Wages and Prices

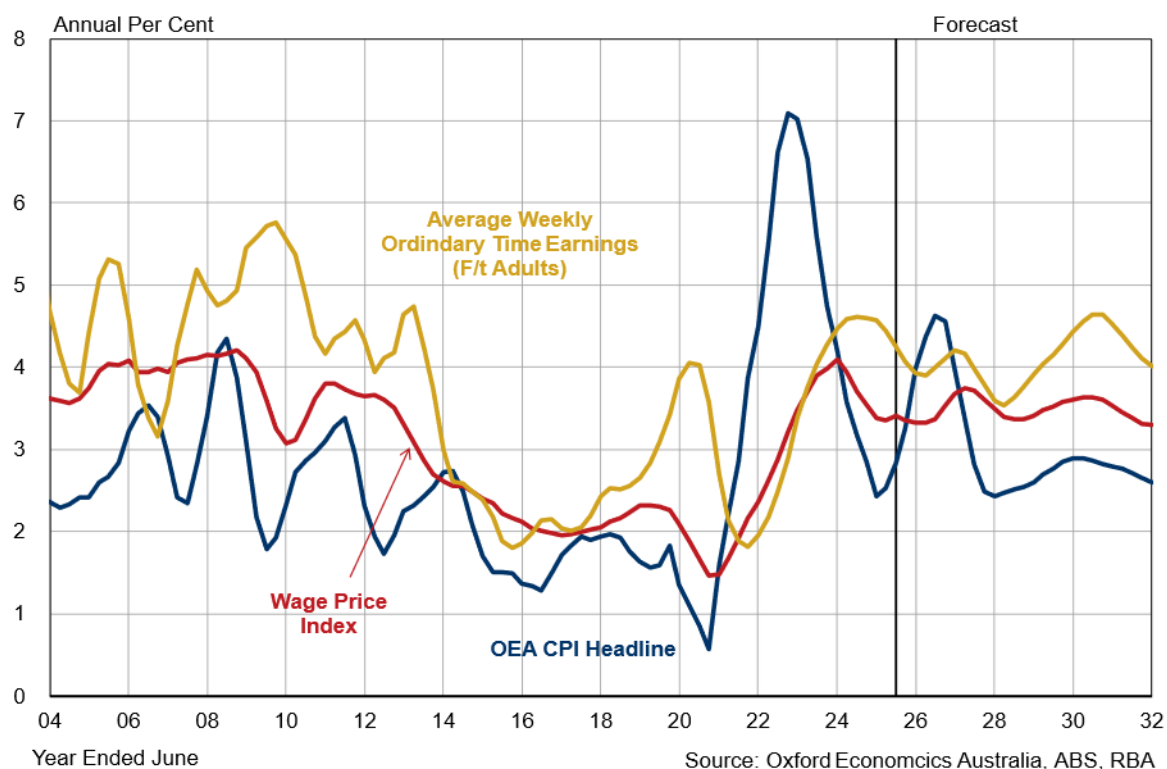
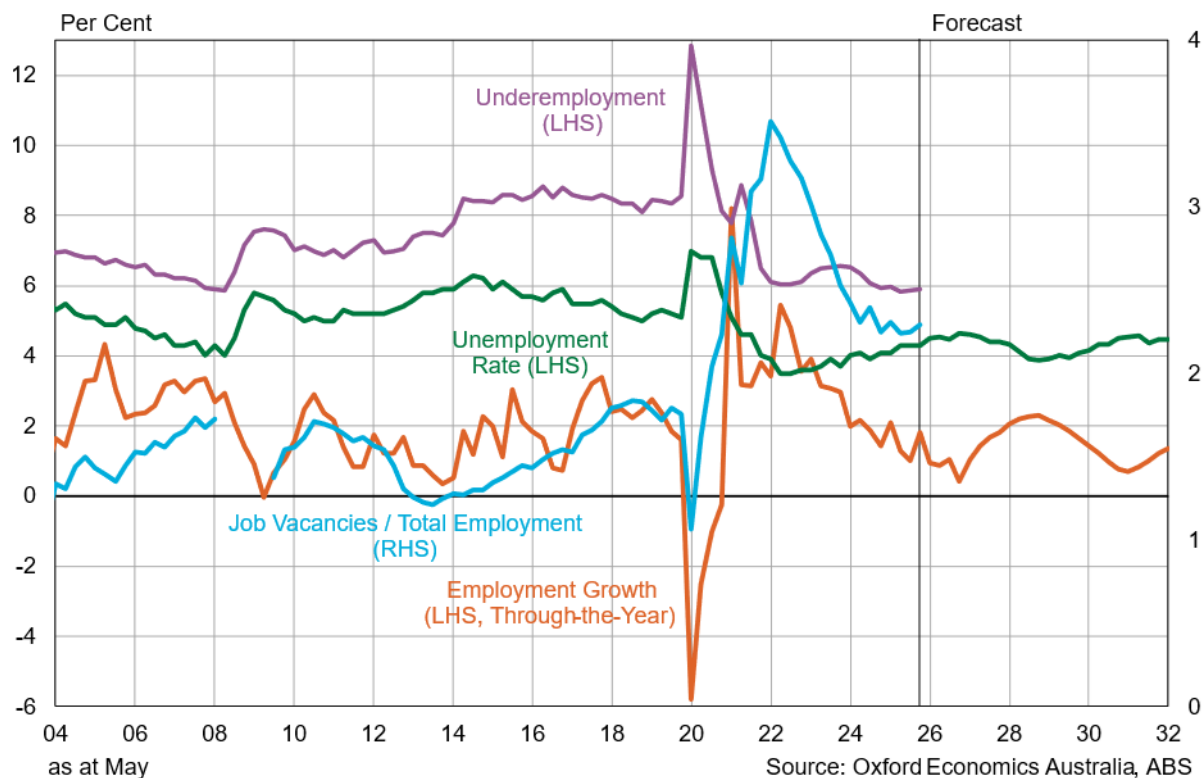


Figure 3.2 Australia: Employment and Unemployment

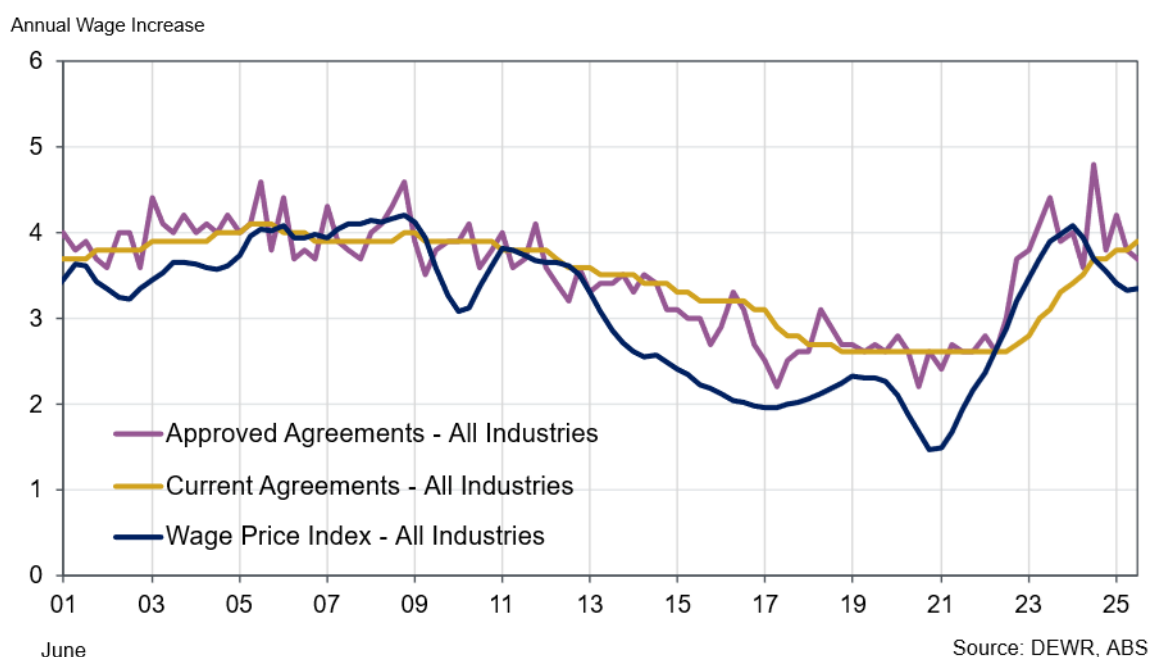


higher than previous years – driven by higher CPI inflation and a more supportive Federal government. All minimum wage and award increases have been well above the recent CPI outcomes. The recent NMW decision announced in early June 2026 for the 2026/27 financial year, saw the FWC give 6% to workers on the minimum wage and 4.75% to workers on awards.

Although only 12% 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 38% of the full-time workforce – run for an average of 2-3 years.

Fig 3.3 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, then remaining high over the following four quarters, with an average of 4% over the past two years to December 2025 (latest

data) – see figure 3.3. We expect continued high agreements to be negotiated over coming quarters, given the recent lift in CPI inflation and the relatively tight labour market.

Of the other 50% 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. In the near term, the recent jump in inflation will see workers bargain for a higher wage in FY27.

Forecasts for All industries wages are detailed in Table 4.1 and the Summary table in the Executive Summary. The Australian All Industries WPI slowed to 3.4% in FY25 from 4.1% in FY24, with a further easing expected in FY26 to 3.3%. However, the recent lift in inflation is expected to see the All Industries WPI lift to 3.7% in FY27, driven by a lift in the minimum wage and awards to around 5% (with some flow-on to individual arrangements wages), as wages set under individual arrangements increase due to the lift in the CPI and as enterprise agreements are sustained at around 3.9%. Wages growth is then expected to fall back to 3.5% and 3.4% in FY28 and FY29 as inflation falls back to around 2.5% (and in the wake of higher unemployment in FY27). However, over FY30, the WPI is expected to rise to 3.6% as the economy strengthens, the unemployment rate declines, the labour market tightens (particularly for skilled labour) and CPI inflation begins to pick up. Subsequently, the WPI is expected to fall back to 3.3% by FY32 as the economy slows early next decade.

Over the five-year period from FY28 to FY32, the All Industries WPI is forecast to average 3.5%, with the real rate of increase forecast to average 1.0% p.a., which will be above the 0.6% average of the decade to FY20 inclusive. 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.

The **Victorian All Industries WPI** has seen lower growth over the past three years, compared to the national average (see table 1.1 in the Executive Summary), largely due to a higher unemployment rate and weaker growth in state final demand compared to the national averages. Victoria's All Industries WPI is expected to continue to track slightly below the national All Industries WPI over the forecast period, as the unemployment rate remains above the national average, although the state's economic and employment growth will largely match or outpace the national averages from FY29 (see figure 2.2).

4. INDUSTRY WAGE FORECASTS – UTILITIES AND CONSTRUCTION: AUSTRALIA & VICTORIA

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 Victoria is used as a proxy for all of AusNet electricity network related labour costs. 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 the AusNet 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 the AusNet 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 the AusNet 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.

4.2 NATIONAL & VICTORIAN 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 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 (except for FY18 and FY22), increasing by an average of 2.8% over the past decade from FY15 to FY25 inclusive, 0.3% higher than the 2.5% national average. In FY24 the EGWWS WPI matched the All Industries WPI of 4.1%, largely because of some large one-off 'catch-ups' in wages for some low paid sectors such as aged-care and child-care pushed up the All Industries average. The Australian EGWWS WPI rose 4.8%

in FY25, or 2.3% in real terms, the fastest level of growth since 2006 and 2007, and well above the All industries WPI of 3.4%.

Over FY26 and FY27, we forecast the Australian EGWWS WPI to ease back from its recent peak to 4.1% and 4.3% respectively, with FY27 boosted by the recent jump in inflation. The EGWWS WPI is then forecast to grow at an average annual rate of 3.8% over the five years from FY28 to the year ended June 2032 inclusive, 0.3 percentage points above the average for the All Industries WPI in those five years. Driving this will be relatively high EBAs negotiated in an environment of elevated inflation and a very tight labour market, particularly for the types of skilled labour that dominate in the sector.

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	-1.4	88.7	4.1	0.9	87.6	5.2	2.0
2007	1 054	3.6	0.7	1,152	3.7	0.8	92.2	3.9	1.0	91.8	4.8	1.9
2008	1 106	4.9	1.5	1,183	2.7	-0.7	96.1	4.1	0.7	95.7	4.2	0.8
2009	1 166	5.5	2.4	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	0.7	104.4	4.3	2.0
2011	1 283	4.2	1.1	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	1.1	117.3	4.2	2.0
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	1.2
2020	1 676	3.9	2.5	1,896	2.9	1.6	133.7	2.1	0.7	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	-3.5	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	2,344	5.7	3.3	154.6	3.4	0.9	163.7	4.8	2.3
Forecasts												
2026	2 060	3.9	0.0	2 501	6.7	2.8	159.7	3.3	-0.6	170.5	4.1	0.2
2027	2 147	4.2	0.8	2 621	4.8	1.3	165.6	3.7	0.2	177.8	4.3	0.9
2028	2 224	3.6	1.2	2 723	3.9	1.5	171.4	3.5	1.1	184.8	3.9	1.5
2029	2 311	3.9	1.4	2 834	4.1	1.5	177.2	3.4	0.9	191.6	3.7	1.2
2030	2 413	4.4	1.9	2 965	4.6	2.1	183.6	3.6	1.1	199.1	3.9	1.4
2031	2 523	4.5	2.0	3 105	4.7	2.2	190.1	3.5	1.0	206.9	3.9	1.4
2032	2 621	3.9	1.4	3 238	4.3	1.8	196.4	3.3	0.8	214.5	3.7	1.2
Compound Annual Growth Rates (3)												
2001-2011	4.8		1.9	4.8		2.0	3.7		0.9	4.4		1.5
2011-2021	3.0		1.1	2.7		0.9	2.4		0.5	2.8		0.9
2025-2032	4.1		1.2	4.7		1.9	3.5		0.6	3.9		1.1
2027-2032	4.1		1.6	4.3		1.8	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 at mid-month of quarter)

(2) Wage Price Index, excluding bonuses and overtime

(3) CAGR (Compound Annual Growth Rates) for 2027-2032 represents the average growth of 2027/28 to 2031/32 inclusive

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 and again since 2022 - 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 4.3, 4.6 and 4.8).

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 4.3% per annum over the five years to FY32, 0.5% 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).

As at May 2025, 64.3% of full-time non-managerial employees in the EGWWS industry have their wages set by collective agreements, considerably higher than the national average of 38%. 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

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

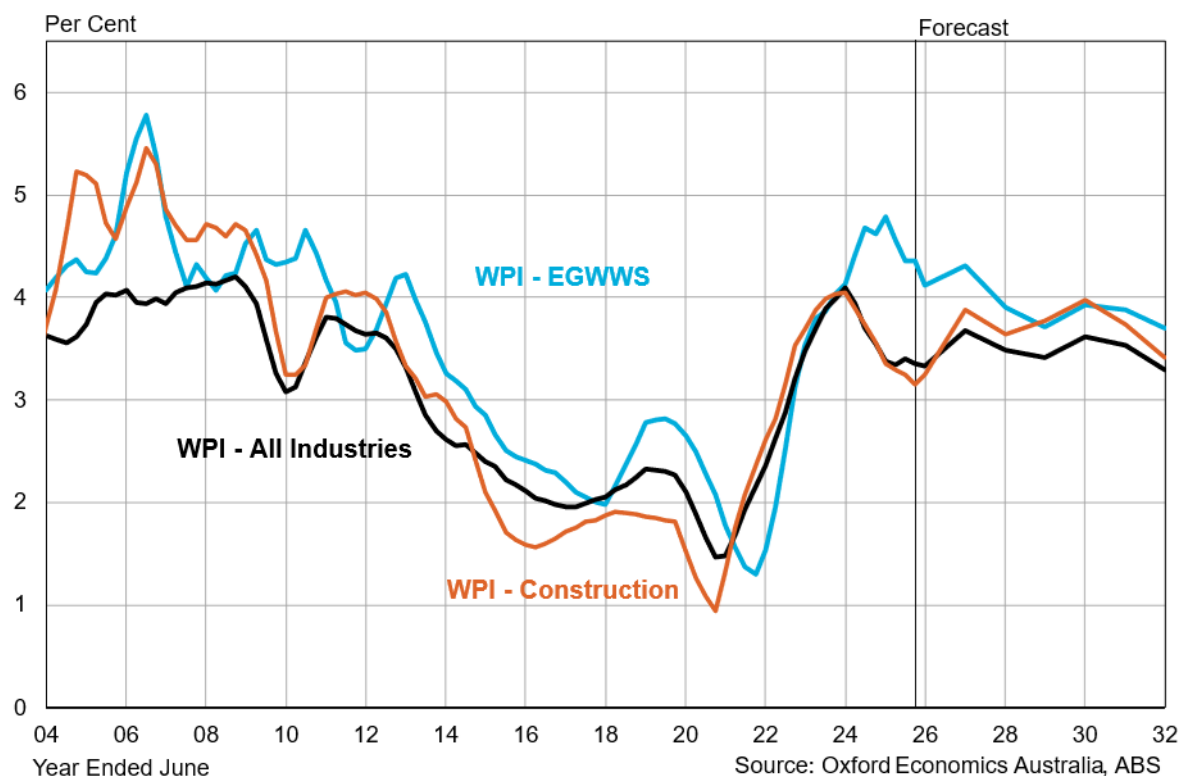
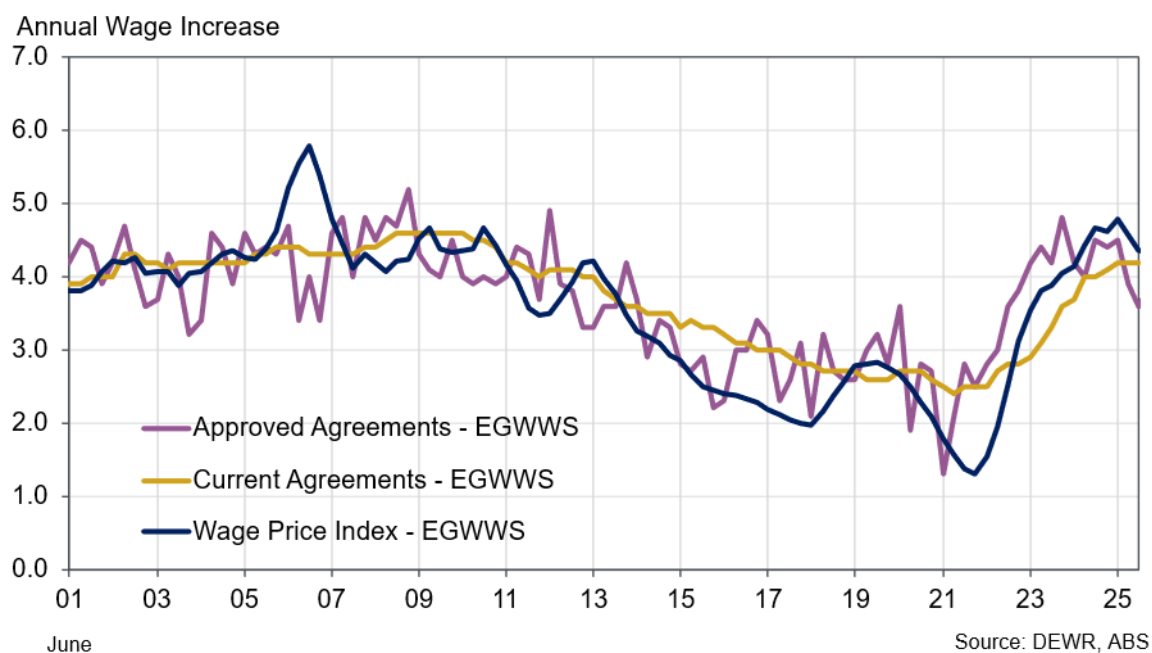


Figure 4.2 EBAs – Approved vs Current Agreements – Electricity, Gas, Water & Waste Services Sector, Australia



Industries average. Over the outlook period, we expect collective agreements in the EGWWS sector to achieve average increases of 4%. 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 1.5% above the 'official' CPI over FY28-32, which is similar to 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 4.1% (AAWI terms) in 2025 – an outcome not seen in over 15 years. We expect the next rounds of EBAs negotiated in the sector to remain elevated around recent levels of 3.9% and 3.6% (September and December quarter 2025 – latest data), due to several factors:

- CPI inflation will remain relatively high (averaging around 4% in FY26 and FY27),
- the demand for skilled labour remains strong, and
- the recent very high enterprise agreement outcomes in the construction sector (between 5%-5.9% over the past five quarters) will influence negotiations in the EGWWS sector, as some skills can be transferable.

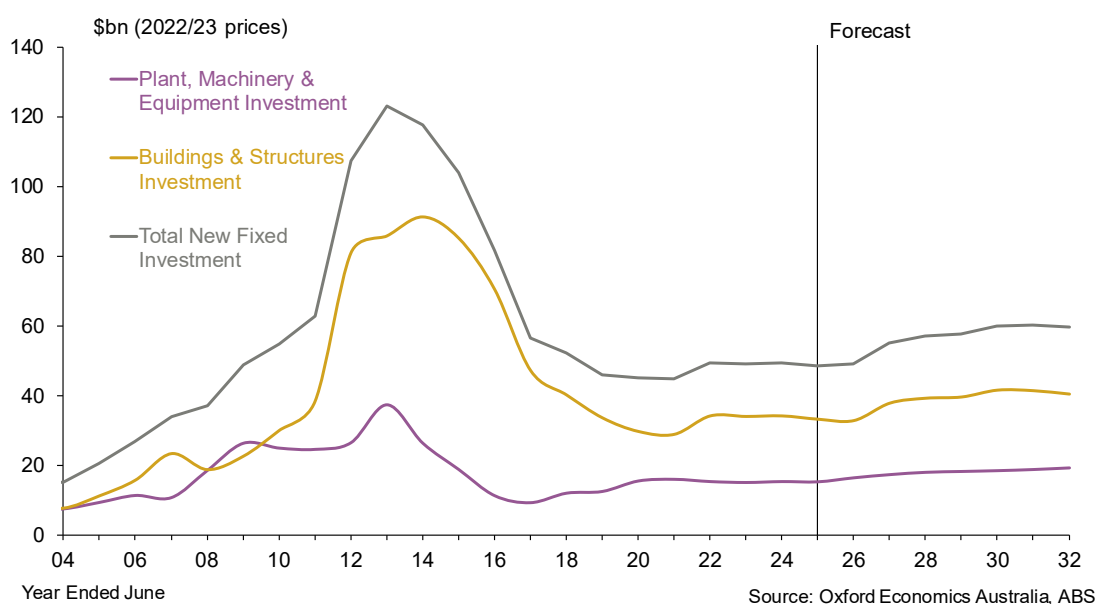
Wage increases under Individual agreements and EBAs to remain elevated due to tight labour supply, strong labour demand due a large capital works program in the utilities sector, and strong demand for skilled labour from the Mining and Construction sectors.

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 4.5 and 4.6 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 4.3%-4.7%, despite a pronounced slowing in employment growth. We expect population and labour force growth to largely match employment growth, with small declines in the participation rate keeping the unemployment rate in check, 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 add to wage pressures in the utilities sector.

Mining investment has picked up significantly since the FY2019-21 trough and is forecast to see modest increases over FY26 and FY27, followed by strong increases over the late 2020s (see Figure 4.3). Meanwhile, there is similar strong growth coming through 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 4.8).

Figure 4.3 Australia – Mining Investment

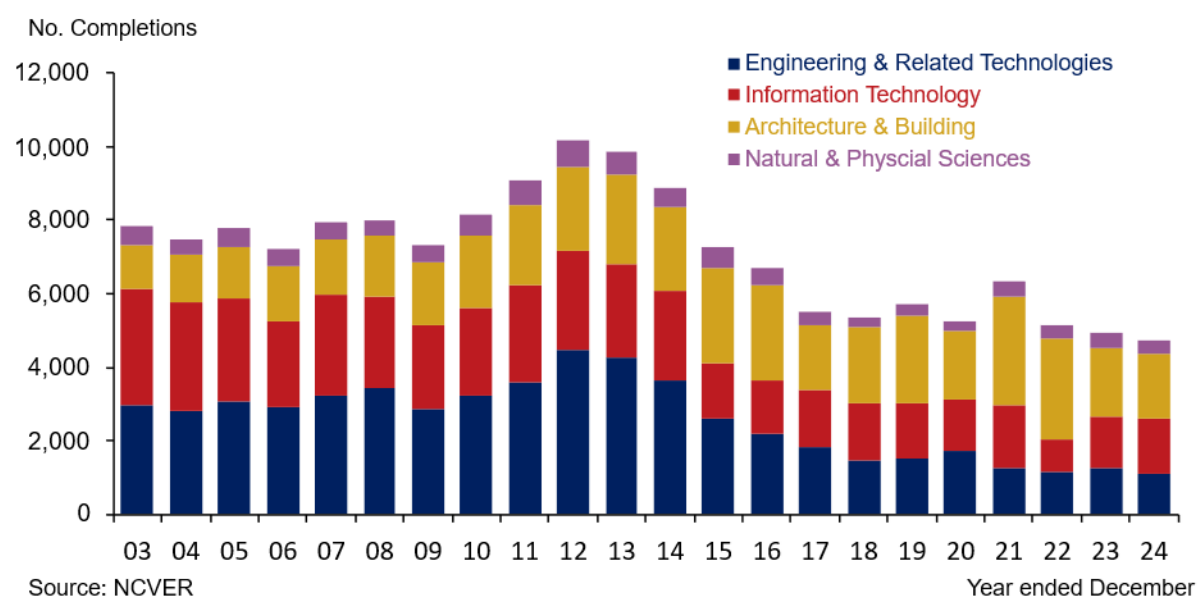


With regard to utilities investment (including electricity, water and sewerage construction), Oxford Economics Australia is forecasting further solid increases over the next 5 years, with utilities-related engineering construction projected to rise another 30% to FY30 from FY25 levels, following the 94% increase over the four years to FY25 (see chart 4.5). Levels are then expected to ease back early next decade, particularly as Snowy II is completed. Most relevant to the electricity industry - electricity-related construction is forecast to rise another 41% over the next five years, from \$27.5bn in FY25 to a forecast peak of \$38.8 bn in FY30, before easing back (all figures in constant

2023/24 prices). 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.

Employers are already reporting an increasing shortage of technicians and trade workers – such as lineworkers, electricians, fitters – 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. Ultimately, this means that the skill shortages will persist for the next few years.

Figure 4.4 Australia, number of completions, VET, 2003-2024



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 few years.

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

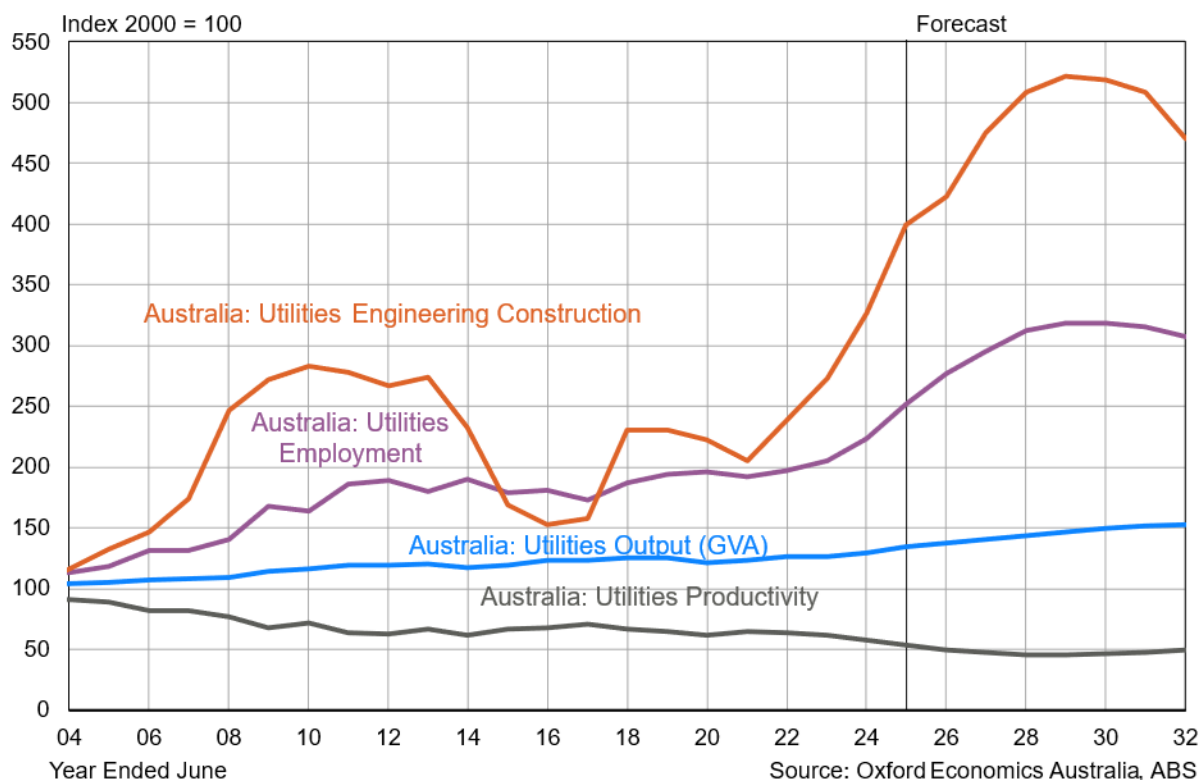
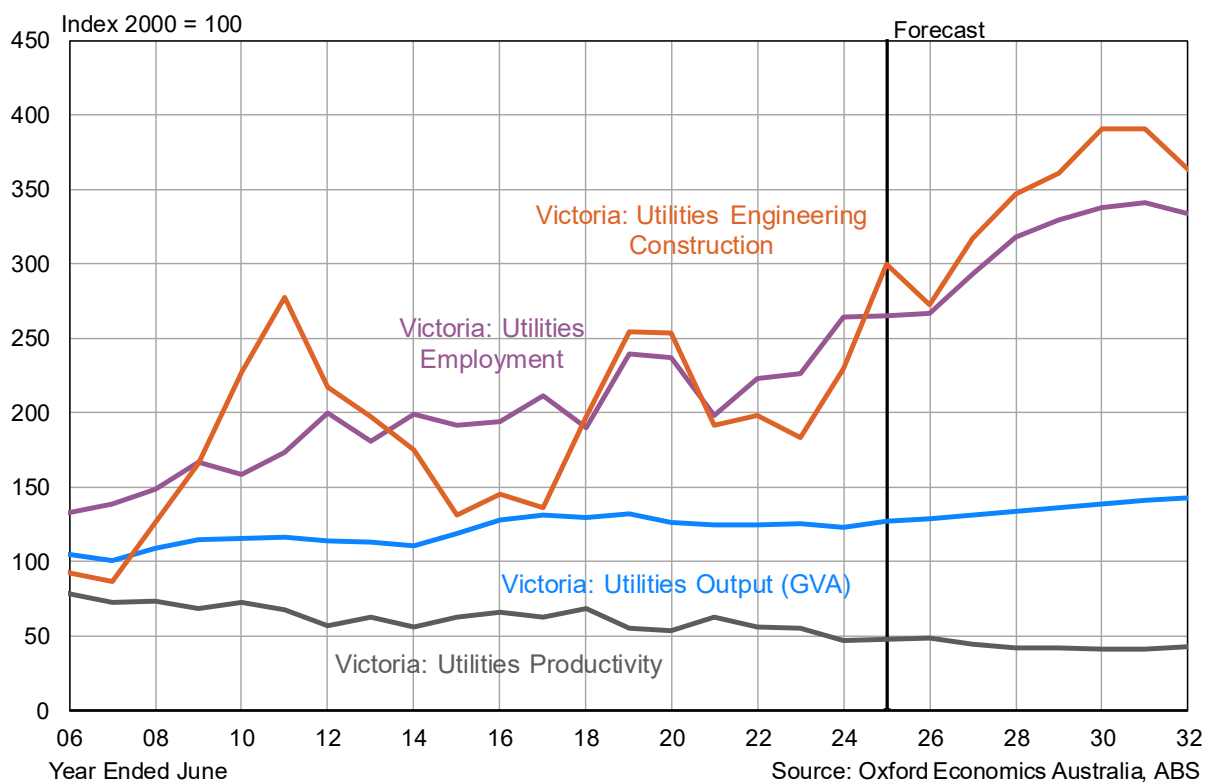


Figure 4.6 Victoria – Utilities Employment, Output, Investment & Productivity



4.2.1 Outlook for Utilities Wages Growth in Victoria

Wages growth in the Victorian utilities sector has been below the national average for the past three years, but over the forecast period they are expected to move in line with the national utilities sector average over the upcoming regulatory period (see Table 1.1). In the near-term, the Victorian EGWWS WPI is expected to be somewhat lower than the national EGWWS WPI in FY26 (3.3% compared to 4.1% nationally) given weaker EBAs in Victoria than the national EBA average over the past 2-3 years. However, the gap has narrowed recently, following some relatively high EBAs approved in the September 2025 and December 2025 quarters, which will help lift the 'current operating' level of EBAs over the coming 2-3 years toward the national average, with the Victorian EGWWS WPI expected to jump to 4.1% in FY27. Subsequently, strong increases in utilities engineering construction in Victoria will see Victorian utilities WPI growth keep pace with the national EGWWS average over the forecast period.

Utilities-related engineering construction in Victoria is forecast to increase 30% from FY25 to FY31, before easing (see Figure 4.6). Within this, electricity-related construction is forecast to be expected to rise another 41% over the next five years, from \$6bn in FY25 to a forecast peak of \$7.6 bn in FY30, before easing back (all figures in constant 2023/24 prices). A cumulative \$46.6 bn of electricity-related construction will be undertaken over the next 7 years. Part of this will include the \$7.9bn (2025 prices) of work identified as part of the 2025 Victorian Transmission Plan (covering 2025-2040), some of the projects identified in AEMO's Integrated System Plan which is in the tens of billions over the next 25 years; plus other significant amounts of transmission-related capital works, which includes transmission connections to new renewables generation facilities, such as offshore wind farms. Also included in this large volume of work is asset replacement and augmentation, plus new connections to households. These increased levels of electricity construction will see wage pressures remain elevated in the Victorian EGWWS sector. Overall, Victoria's EGWWS WPI is forecast to average 3.8% over the five year regulatory period from FY28 to FY32, or 1.3% in real terms.

4.3 NATIONAL & VICTORIAN CONSTRUCTION WPI FORECASTS

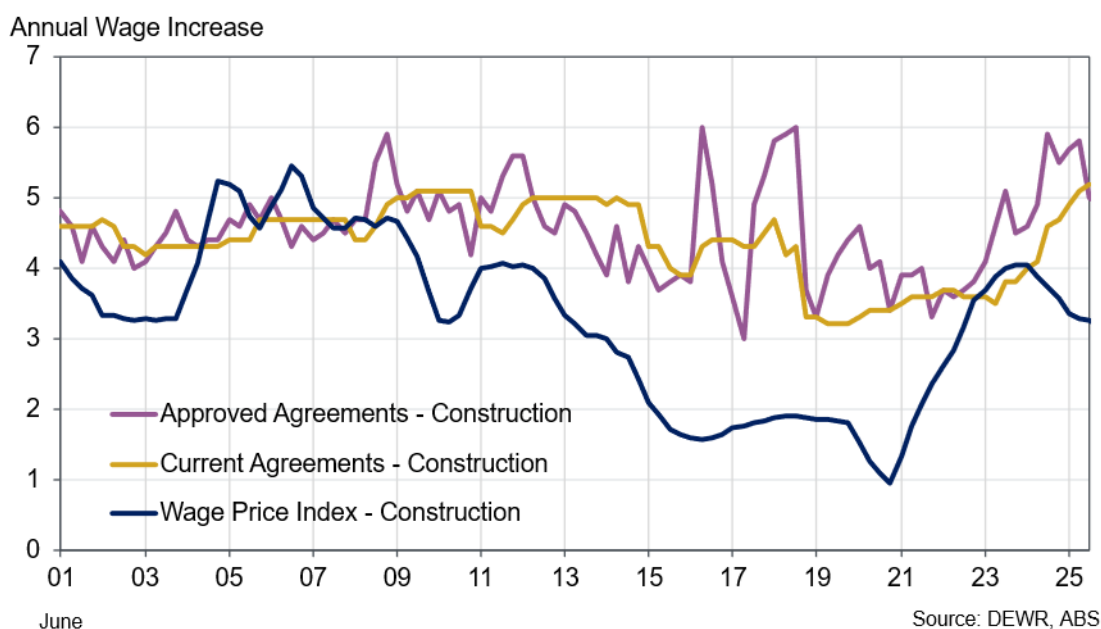
Given that service providers' outsourced labour is mostly supplied by firms in the construction industry, we proxy AusNet external labour cost escalation by wages growth (as measured by the WPI) in the Victorian construction sector. Our research has shown that construction activity (i.e. work done in 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 FY28 to FY32 inclusive (AusNet regulatory period) – or 1.2% per annum on average in real (inflation adjusted) terms. While this is a marked improvement on the past twelve years (2.4% nationally), it is still well down on the 4.3% annual national average (nominal terms) of the decade to 2011/12. 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 then eased to 3.4% in FY25, despite further modest increases in

construction activity and reported ongoing skills shortages. It is important to note that in FY23, FY24 and FY25, overall construction activity levels surpassed the previous highs of FY13 and FY18 (see figure 4.8). 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 ease further to 3.2% in FY26, but then jump to 3.9% in FY27 due to the recent increases in inflation and strong labour demand. The easing in wages growth over FY25 and FY26 is somewhat surprising, and indicates that the measured rate of growth of wages growth in the individual agreements sector – which dominates wage-setting in the Construction sector (comprising 68% of wage agreements) – is fairly low, estimated to be only around 2% over both years. Meanwhile, very high EBAs (which account for 24% of wage-setting) negotiated in the construction sector recently (average of 5.5% over the year to December 2025) will contribute to elevated WPI outcomes over the next couple of years.

Figure 4.7 EBAs – Approved vs Current Agreements – Construction Sector, Australia



We expect construction wages growth to ease back to 3.6% in FY28 and then 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). WPI growth then falls back to 3.4% by FY32 as activity suffers a modest decline (see figure 4.9).

Victorian Construction WPI growth was well above the national average in FY25, at 3.9% (0.5% higher than the national average). Higher construction sector EBAs in the state (compared to the national average) helped drive this result. The EBA outcomes struck over the past year – averaging 6.2% in the year to December 2025, compared to 5.5% for the national average for construction EBAs

- will help maintain elevated wage growth of 4.4% in FY26 and 3.9% in FY27, above the national average. However, we then expect Victorian construction wages growth to ease back and slightly underperform the national average over FY29 to FY32, due to weaker growth in construction activity, compared to the growth in Australian construction activity (see figures 4.8 and 4.9), and the state's higher unemployment rate. Victorian Construction WPI growth is forecast to average 3.6%, or 1.2% in real terms, over FY28-32 (see Table 1.1).

Figure 4.8 Australian Construction Outlook

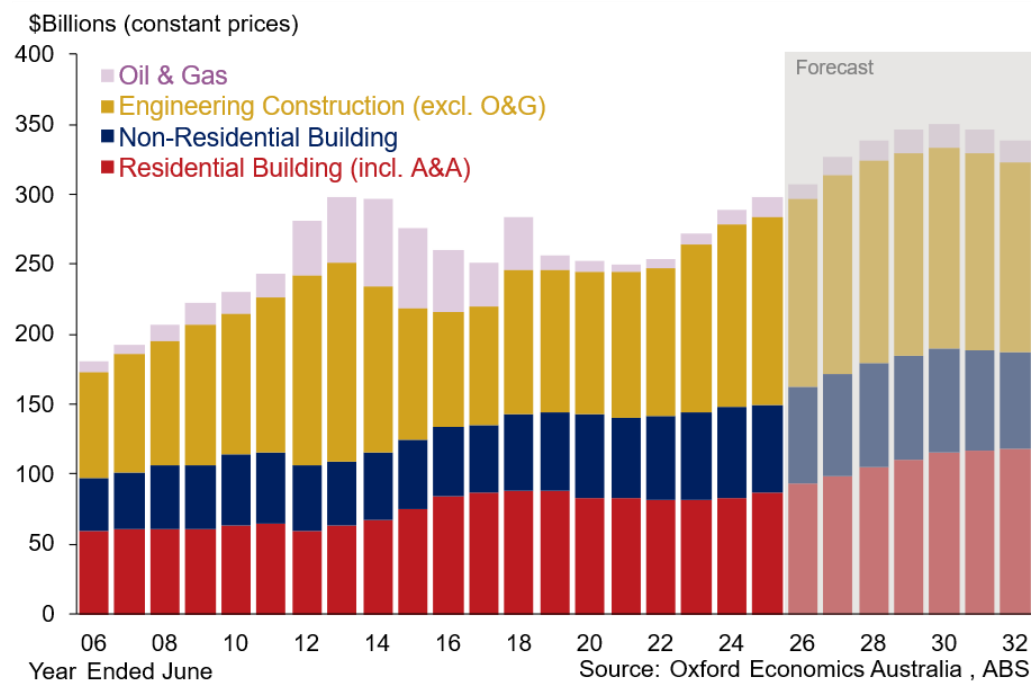
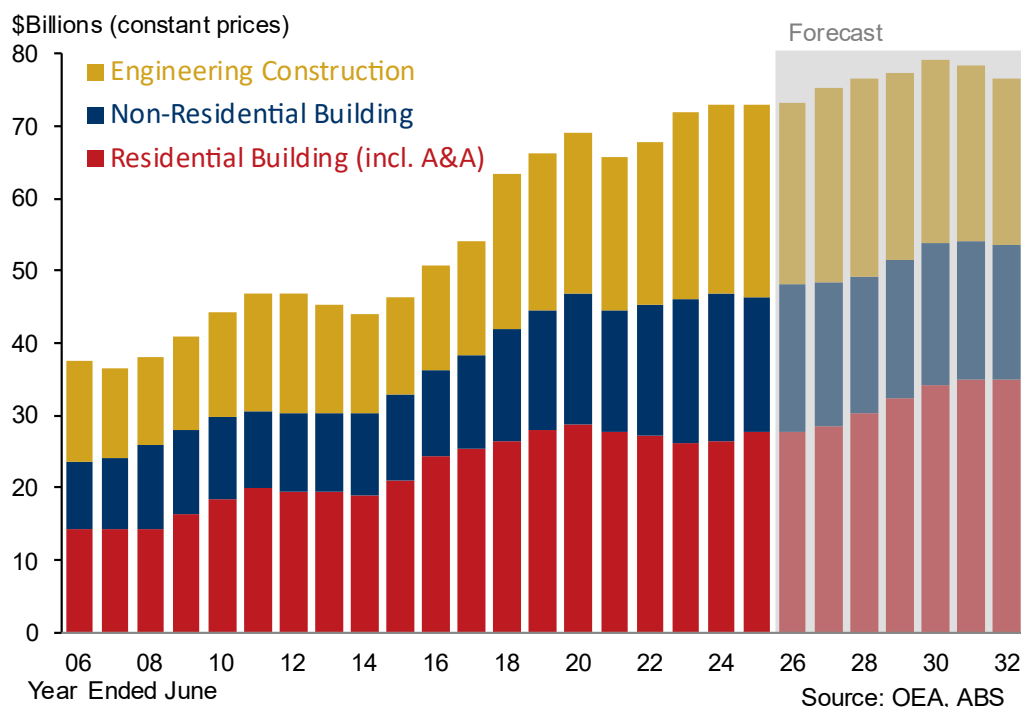


Figure 4.9 Victorian Construction outlook



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's 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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