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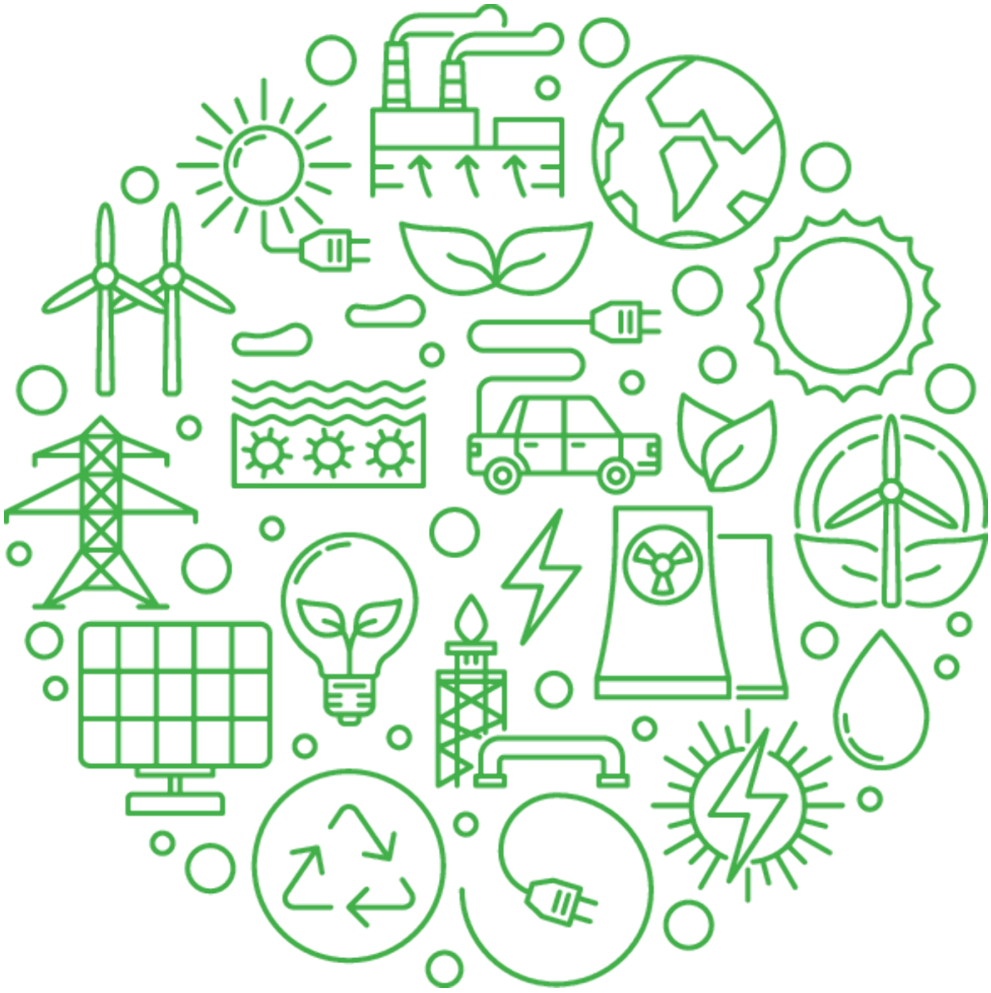

Wage Price Index forecasts

Prepared for the Australian Energy Regulator

23 June 2021

Deloitte Access Economics

Deloitte.

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George Huang, Toby Holder
Australian Energy Regulator
By email: george.huang@aer.gov.au; toby.holder@aer.gov.au

23 June 2021

Dear George and Toby

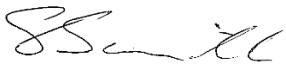
Report on wage price index forecasts

I enclose Deloitte Access Economics' report on the Wage Price Index (WPI) for Australia and Queensland prepared for the Australian Energy Regulator.

This report has been drafted on the basis of the forecasts that underpin the March 2021 quarter *Business Outlook* publication that relies on the December 2020 quarter Australian Bureau of Statistics National Accounts and the March 2021 WPI release.

The forecasts presented in this report have been prepared in an environment of heightened uncertainty as the consequences of the COVID-19 pandemic continue to reverberate profoundly through the global economy. The resulting impacts on supply and demand across the economy make it more difficult than usual to forecast key variables such as growth in wages.

Yours sincerely



Stephen Smith
Partner
Deloitte Access Economics Pty Ltd

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Glossary

AAWI	Average Annualised Wage Increase
ABS	Australian Bureau of Statistics
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AWE	Average Weekly Earnings
AWOTE	Average Weekly Ordinary Time Earnings
CAGR	Compound Annual Growth Rate
CPI	Consumer Price Index
EBA	Enterprise Bargaining Agreement
GDP	Gross Domestic Product
GSP	Gross State Product
LNG	Liquefied Natural Gas
MW	Megawatt
NEM	National Electricity Market
PV	Photovoltaics
RBA	Reserve Bank of Australia
WPI	Wage Price Index

Executive Summary

Australian wage growth improves from record lows as the labour market recovers from the impact of COVID-19

The Wage Price Index (WPI) grew by 0.6% in the March quarter of 2021, to be 1.5% higher for the year. Growth in the WPI reflects the faster-than-expected recovery in the Australian economy and the corresponding tightening of the labour market.

Improved business conditions have seen many employers revisit wage reviews that had been placed on hold following the outbreak of COVID-19. This has supported growth in wages for jobs paid by individual agreement in the March quarter of 2021. Wage growth in the March quarter of 2021 has also been supported by the Fair Work Commission's (FWC) phased implementation of the 2019-20 award increase.

Wage gains are forecast to remain modest in 2021-22 and 2022-23 amid significant spare capacity in the labour market. Despite strong growth in employment from May 2020, there are many people who want a job and cannot find one, as well as many others who have a job but would like to work more hours.

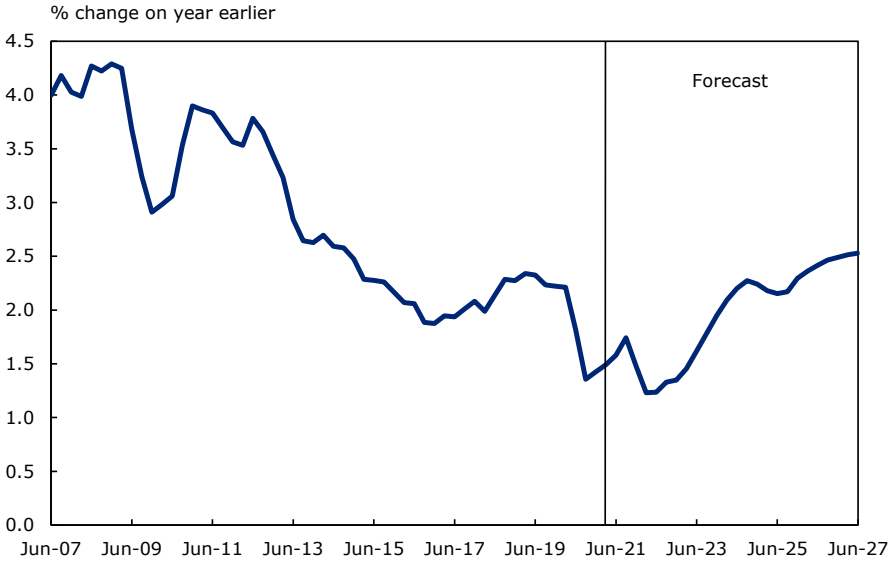
Evidence suggests that it will take an extended period of tightening in the labour market before wage growth accelerates to rates between 2-3%. The broadest measure of spare capacity in the labour market – the underutilisation rate – fell to 13.3% in April 2021. This is the lowest level since December 2019 and would typically be consistent with annual wage growth of approximately 2¾%. Wage outcomes are currently well below this level amid the impact of COVID-related wage measures (such as temporary wage cuts and wage freezes) and a degree of caution from employers. Deloitte Access Economics expects the relationship between underutilisation and wage growth to return gradually over the coming years.

Deloitte Access Economics forecasts nominal wage growth of 1.4% in 2021-22 and 2022-23. The pace of wage gains is then forecast to accelerate over the medium term, growing by 2.0% in 2023-24 before reaching 2.5% in 2026-27. This acceleration will be supported by a sustained lift in Consumer Price Index (CPI) inflation, continued employment gains absorbing spare capacity in the labour market and an increase in award and minimum wages.

There are a number of structural and cyclical factors that may limit the pace of wage gains in the coming years. This includes high levels of household debt and uncertainty around the economic outlook; businesses remaining cautious about adding to their wage bill; fewer workers voluntarily changing employer; trends that restrain workers' bargaining power (e.g. automation of work processes, an increase in contract work, and the internationalisation of services trade); and the concentration of returns to technological development among a small number of firms in a small number of industries.

Compared with the forecasts presented in Report 2 (provided to the AER in April 2021), the current forecasts have stronger wage growth in the short and long term. This reflects the faster than anticipated recovery in the Australian economy and labour market. Wage growth has been revised higher by a cumulative 1.4 percentage points across the period from 2020-21 to 2025-26.

Chart i National WPI forecasts



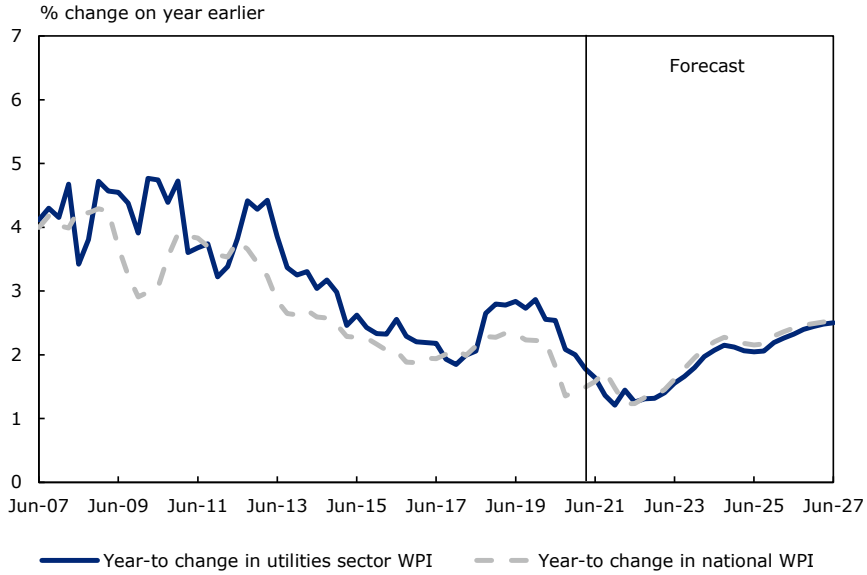
Note: % change on year earlier refers to output growth between a quarter and the same quarter a year earlier.
Source: ABS, Deloitte Access Economics.

Utilities wage growth to reach a trough in 2021-22 before recovering thereafter

Utilities industry wages grew by 0.1% in the March quarter of 2021 to be 2.1% higher for the year. Utilities industry wage gains have fallen from a high of 2.8% in late-2019 and are now at the lowest levels since mid-2018.

Despite the slowdown, wage gains in the utilities industry continue to outperform wages in the wider economy. The outperformance of wage gains in the utilities industry has not been driven by the outperformance of output growth or labour productivity in the utilities industry.

Chart ii National utilities industry WPI forecasts



Note: % change on year earlier refers to output growth between a quarter and the same quarter a year earlier.
Source: ABS, Deloitte Access Economics.

There are a number of potential explanations for the recent outperformance of utilities wages. These include strong gains in utilities employment since 2017-18 which has helped to absorb spare capacity in the utilities industry, the relatively modest impact of COVID-19 on the utilities industry,

an improvement in conditions in the mining and civil engineering industries (which compete with the utilities industry for labour), as well as potential changes to requisite skills in the utilities industry.

The utilities WPI is forecast to grow by 1.9% in 2020-21 before slowing to 1.3% in 2021-22 amid a fall in both utilities output and employment, as well as more modest growth in industries that compete with the utilities industry for labour. Wage gains are forecast to accelerate from 2022-23, reaching 2.5% in 2026-27.

Compared to the forecasts in Report 2, utilities wage growth has been revised up by a cumulative 1.1 percentage points across the forecast period from 2020-21 to 2025-26. This is largely due to the faster than expected recovery in the Australian economy and employment across all industries.

Queensland utilities wage growth forecast to accelerate but to remain below the average across all industries

Wages in the Queensland utilities industry grew by 2.4% in the year to March 2021. This is above the national average for the industry of 2.1% and the Queensland all industry average of 1.6%.

The Queensland utilities industry WPI is expected to gradually increase relative to the national WPI as the broader state economy recovers, boosting economic activity and wages. Wage growth in the Queensland utilities industry is forecast to reach a trough of 1.1% in 2021-22. Wage gains are then expected to accelerate from 2022-23, reaching 2.6% growth in 2026-27 as utilities industry output gradually recovers.

For much of the forecast period, utilities industry wage growth in Queensland is forecast to lag growth for wages in the broader state economy. This partly reflects the forecast for more modest growth in the utilities industry compared to the all industry average. It also reflects that wages growth in the broader economy is recovering a larger relative decline.

Australia's economy is 1.1% larger than it was prior to the outbreak of COVID-19

Gross Domestic Product (GDP) grew by 1.8% in the March quarter of 2021, with the Australian economy now 1.1% larger than it was prior to the outbreak of COVID-19. Through early 2021 the economy rebounded strongly as large parts of the country resumed normal economic activity. However, the May 2021 outbreak in Victoria is expected to weigh on conditions, while the relatively slow rollout of vaccines increases the risk of further outbreaks and may delay the mid-2022 reopening of Australia's international borders.

Growth in the economy is expected to be relatively broad based in 2021. Consumer spending, which drove much of the downturn, is driving the recovery. Household disposable incomes have also been supported by high rates of saving, while dwelling price growth has boosted household wealth. This combination has seen consumers adjust well to the tapering of fiscal support measures such as JobKeeper. Overall, private consumption is expected to grow by 0.8% in 2020-21 before accelerating to a gain of 3.2% in 2021-22.

Australia's labour market continues to recover strongly. The number of people employed fell by 857,000 from February 2020 to May 2020, but has subsequently increased by 903,000 from May 2020 to April 2021. This has seen the unemployment rate fall from a July 2020 peak of 7.4% to 5.5% in April 2021, while the participation rate remains above pre-COVID levels and rates of underemployment have fallen. The end of the JobKeeper payment on 28 March 2021 contributed to a modest decrease in employment in April 2021, but this is not expected to disrupt the broader recovery in Australia's labour market.

Economic activity is expected to be supported by the easing of earlier COVID-restrictions, the distribution of vaccines, high levels of government spending and continued growth in consumer and business confidence. Overall, real GDP is forecast to grow by 1.1% in 2020-21 before accelerating to a gain of 4.1% in 2021-22 and 3.4% in 2022-23.

Utilities output to fall despite gains across other industries

Utilities industry output fell by 2.8% over the year to March 2021. Activity fell in the electricity supply (-3.5%) and water supply and waste services (-2.6%) sub-industries, which together account for more than 95% of industry output. Elsewhere, output in the gas supply sub-industry grew by 4.3% over the year to March 2021.

Average operational demand in the National Electricity Market (NEM) fell by 3% in the March quarter of 2021, reaching its lowest first quarter average since 2002. This was driven by mild weather that reduced cooling demand by more than one third and record uptake of solar photovoltaics (PV) generation that contributed to large reductions in daytime demand.

COVID-19 has not materially impacted overall electricity demand, but has influenced consumption patterns. Demand from businesses and industrial users has deceased amid the impact of workplace restrictions, while residential demand has increased as people spent more time at home (working, schooling, unemployed, or underemployed).

The Australian Energy Market Operator's (AEMO) forecasts for energy consumption are relatively flat over the medium term, with higher demand from a growing Australian population and increased mining activity offset by increased use of distributed energy technologies, further increases in energy efficiency, as well as stronger growth in less energy-intensive industries.

Utilities industry output is expected to fall by 0.4% in 2020-21 compared to a 1.1% gain in the wider economy. This is largely due to the economic recovery leading to stronger growth in industries more adversely affected by COVID-19 restrictions. Utilities industry output is forecast to grow at a compound annual growth rate (CAGR) of 1.0% compared to a 2.6% CAGR in the wider economy.

Table i State WPI forecasts, all industries

Financial year changes in nominal WPI

	History	Forecast						
Annual % change	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
National	2.1	1.5	1.4	1.4	2.0	2.2	2.3	2.5
Queensland	1.9	1.5	1.2	1.6	2.3	2.4	2.5	2.6

Financial year changes in real WPI

	History	Forecast						
Annual % change	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
National	0.8	0.2	0.0	-0.2	-0.1	0.0	0.0	0.3
Queensland	0.8	0.0	-0.2	0.0	0.2	0.2	0.2	0.4

Year ending March changes in nominal WPI

	History		Forecast					
Annual % change	2020	2021	2022	2023	2024	2025	2026	2027
National	2.2	1.5	1.5	1.3	1.9	2.2	2.2	2.5

Year ending March changes in real WPI

	History		Forecast					
Annual % change	2020	2021	2022	2023	2024	2025	2026	2027
National	0.4	1.1	-0.3	-0.2	-0.2	0.0	0.0	0.2

Note: annual % change refers to the year-average change.
Source: ABS, Deloitte Access Economics.

Table ii Key variables, Australia

	History	Forecast						
Annual % change	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Output	-0.2	1.1	4.1	3.4	2.7	2.4	2.5	2.3
Consumer price index	1.3	1.3	1.4	1.6	2.1	2.3	2.3	2.2
Wage Price index	2.1	1.5	1.4	1.4	2.0	2.2	2.3	2.5
Ave. weekly earnings	3.6	1.2	0.1	0.9	1.8	1.9	1.6	1.4
Ave. weekly ordinary time earnings	3.9	1.5	0.4	1.7	2.6	2.8	2.2	2.1

Source: ABS, Deloitte Access Economics.

Table iii Economic variables, Australia

Annual % change (unless noted)	History 2019-20	Forecast 2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Consumption								
Private sector	-3.0	0.8	3.2	2.3	3.8	3.0	2.9	3.2
Public sector	6.5	5.2	1.4	-0.3	-0.9	1.3	1.5	1.6
Private sector investment								
Non-business housing	-8.1	-0.8	3.8	10.7	2.3	-0.1	0.7	-2.9
Non-business real estate	0.9	14.6	2.5	10.1	1.9	-0.5	0.3	-3.1
Non-residential building	3.8	-11.4	4.2	17.6	9.0	3.6	3.7	1.3
Engineering construction	-5.3	-2.2	8.1	15.6	1.0	3.1	3.2	0.8
Machinery and equipment	-5.3	1.6	12.8	3.4	1.8	4.1	5.0	2.5
IP and livestock	2.0	-0.3	22.7	19.6	16.0	11.4	10.1	7.0
Public investment								
General Government	4.6	21.0	16.3	-2.9	-3.0	-2.8	0.6	2.0
Public enterprises	-5.3	4.3	-2.5	-0.5	1.1	2.2	2.3	1.0
Domestic final demand	-1.0	2.3	4.4	3.2	2.7	2.5	2.8	2.4
Private sector	-3.2	0.4	4.6	4.8	4.1	3.2	3.2	2.6
Public sector	5.6	7.7	3.9	-0.8	-1.2	0.5	1.4	1.6
Gross national expenditure	-1.3	2.6	4.6	3.3	2.7	2.5	2.8	2.4
International trade								
Exports	-1.8	-7.0	10.4	7.8	5.9	4.1	3.6	3.4
Imports	-7.4	-1.2	14.1	7.8	6.3	4.5	4.9	3.8
Net (% additon to growth)	1.4	-2.6	0.0	0.1	-0.1	0.0	-0.3	0.0
Total output (GDP)	-0.2	1.1	4.1	3.4	2.7	2.4	2.5	2.3
Non farm output	0.0	0.8	4.0	3.4	2.7	2.5	2.5	2.3
Employment	0.2	1.0	2.0	1.4	1.5	1.7	1.7	1.6
Unemployment rate (%)	5.6	6.3	5.5	5.3	5.1	4.9	4.6	4.5

Source: ABS, Deloitte Access Economics. All variables (except for population, employment and unemployment) expressed in inflation-adjusted terms.

Table iv Wages and prices, Australia

Annual % change	History 2019-20	Forecast 2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Consumer price index (CPI)	1.3	1.3	1.4	1.6	2.1	2.3	2.3	2.2
Wage price index (WPI)								
Nominal	2.1	1.5	1.4	1.4	2.0	2.2	2.3	2.5
Real	0.8	0.2	0.0	-0.2	-0.1	0.0	0.0	0.3
Average weekly earnings (AWE)								
Nominal	3.6	1.2	0.1	0.9	1.8	1.9	1.6	1.4
Real	2.3	-0.1	-1.3	-0.8	-0.4	-0.4	-0.7	-0.8
Average weekly ordinary time earnings (AWOTE)								
Nominal	3.9	1.5	0.4	1.7	2.6	2.8	2.2	2.1
Real	2.5	0.2	-1.0	0.1	0.4	0.5	-0.1	-0.1
Unit labour costs								
Nominal	-0.3	-0.9	5.5	2.2	2.5	2.5	2.3	1.7
Real	-1.6	-2.1	4.0	0.5	0.4	0.3	0.0	-0.5

Source: ABS, Deloitte Access Economics.

Table v Industry wages, Australia

Financial year changes in nominal national industry sector WPI

	History	Forecast						
Annual % change	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
All industries	2.1	1.5	1.4	1.4	2.0	2.2	2.3	2.5
Utilities	2.7	1.9	1.3	1.4	1.9	2.1	2.2	2.5

Financial year changes in real national industry sector WPI

	History	Forecast						
Annual % change	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
All industries	0.8	0.2	0.0	-0.2	-0.1	0.0	0.0	0.3
Utilities	1.3	0.6	-0.1	-0.2	-0.3	-0.2	-0.1	0.2

Year ending March changes in nominal national industry sector WPI

	History		Forecast					
Annual % change	2020	2021	2022	2023	2024	2025	2026	2027
All industries	2.2	1.5	1.5	1.3	1.9	2.2	2.2	2.5
Utilities	2.7	2.1	1.4	1.3	1.7	2.1	2.1	2.4

Year ending March changes in real national industry sector WPI

	History		Forecast					
Annual % change	2020	2021	2022	2023	2024	2025	2026	2027
All industries	0.4	1.1	-0.3	-0.2	-0.2	0.0	0.0	0.2
Utilities	0.9	1.6	-0.4	-0.2	-0.3	-0.1	-0.1	0.2

Source: ABS, Deloitte Access Economics.

Table vi State utilities industry wages

Financial year changes in nominal utilities sector WPI

	History	Forecast						
Annual % change	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
National	2.7	1.9	1.3	1.4	1.9	2.1	2.2	2.5
Queensland	2.7	2.0	1.1	1.5	2.1	2.3	2.4	2.6

Financial year changes in real utilities sector Wage Prices

	History	Forecast						
Annual % change	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
National	1.3	0.6	-0.1	-0.2	-0.3	-0.2	-0.1	0.2
Queensland	1.5	0.4	-0.3	-0.1	0.0	0.0	0.1	0.4

Source: ABS, Deloitte Access Economics.

1 Background

The Australian Energy Regulator (AER) commissioned Deloitte Access Economics to provide forecasts for wage price growth for the electricity, gas, water and waste services (utilities) industry to 2026-27 for Australia and Queensland.

Specifically, the AER has requested:

- Annual Wage Price Index (WPI) forecasts for Australia and relevant states and territories.
- A brief analysis of the key influences on the forecast changes in the WPI, including:
    - An overview of the national and state economic outlook, including a discussion of the outlook for the utilities industry.
    - An analysis of the national and state outlook for wages for all industries and the utilities industry.
    - A discussion of the key drivers for wage growth including inflationary trends, productivity trends, Enterprise Bargaining data, and relevant cyclical factors.
- A description of the methodology and assumptions used to forecast WPI.
- An analysis of how the legislated changes to the superannuation guarantee will affect forecast labour price growth.

This is the third report in the current determination period and follows Report 2 that was delivered in April 2021. A detailed methodology description can be found in Report 1 that was delivered in August 2020.

2 Australia

2.1 Economic outlook

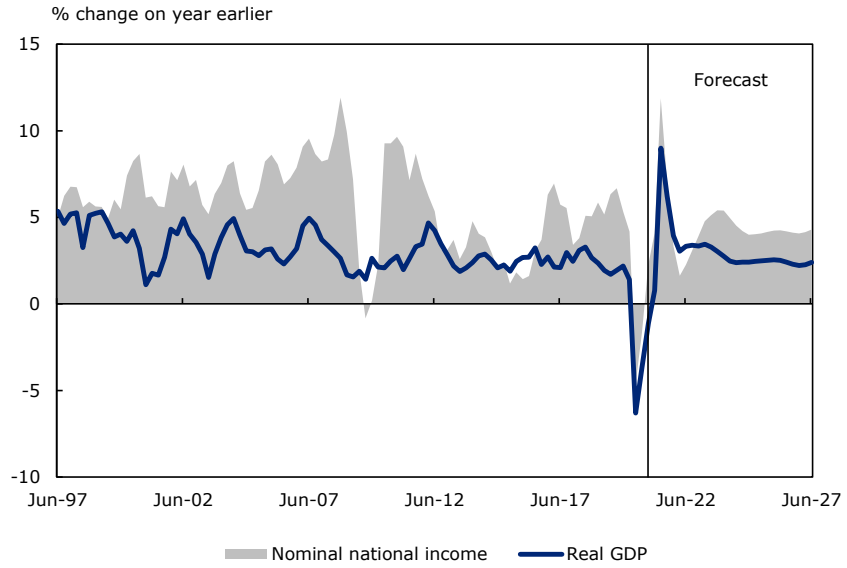
2.1.1 Overview

Gross Domestic Product (GDP) grew by 1.8% in the March quarter of 2021, with the Australian economy now 1.1% larger than it was prior to the outbreak of COVID-19. Through early 2021 the economy rebounded strongly as large parts of the country resumed normal economic activity. However, the May 2021 outbreak in Victoria is expected to weigh on conditions, while the relatively slow rollout of vaccines increases the risk of further outbreaks and may delay the mid-2022 reopening of Australia's international borders.

Growth in the economy is expected to be relatively broad based in 2021. Consumer spending, which drove much of the downturn, is driving the recovery. Household disposable incomes have also been supported by high rates of saving, while dwelling price growth has boosted household wealth. This combination has seen consumers adjust well to the tapering of fiscal support measures such as JobKeeper.

According to the ANZ Roy-Morgan survey, consumer confidence has returned to pre-COVID levels and the proportion of respondents expecting positive economic conditions over the next 12 months has increased from a low of 4% in March 2020 to over 50% in April 2021. Private consumption is expected to grow by 0.8% in 2020-21 before accelerating to 3.2% in 2021-22.

Chart 2.1 Australian production and national income growth

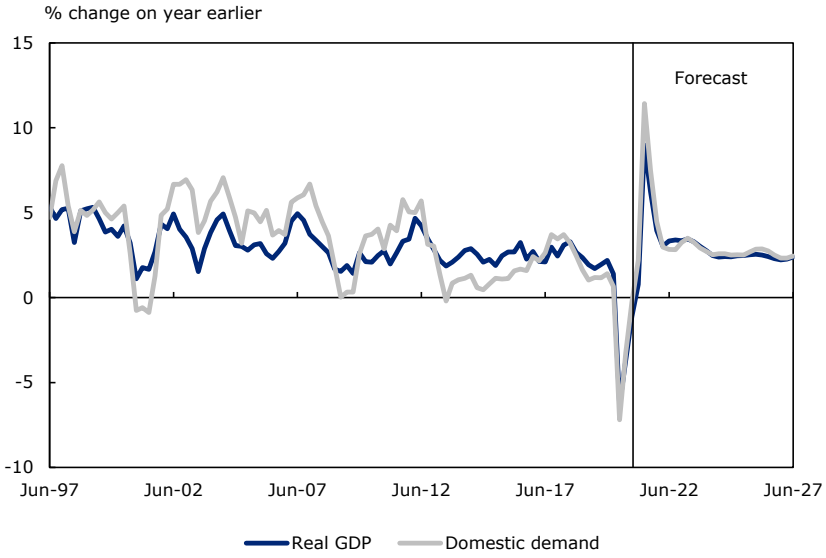


Note: % change on year earlier refers to output growth between a quarter and the same quarter a year earlier.
Source: ABS, Deloitte Access Economics.

Australia's labour market continues to recover strongly. The number of people employed fell by 857,000 from February 2020 to May 2020, but has subsequently increased by 903,000 from May 2020 to April 2021. This has seen the unemployment rate fall from a July 2020 peak of 7.4% to 5.5% in April 2021, while the participation rate remains above pre-COVID levels and rates of underemployment have fallen. The end of the JobKeeper payment on 28 March 2021 contributed to a modest decrease in employment in April 2021, but this is not expected to disrupt the broader recovery in Australia's labour market. The unemployment rate is forecast to fall gradually over the forecast period, reaching 4.5% in 2026-27.

High levels of public spending will support domestic demand in 2021 (see Chart 2.2). The 2021-22 Commonwealth Budget announced an additional $68 billion in government spending over the four years to 2024-25, while the quarter-of-a-trillion-dollar infrastructure investment pipeline was boosted by $15 billion in new investment.

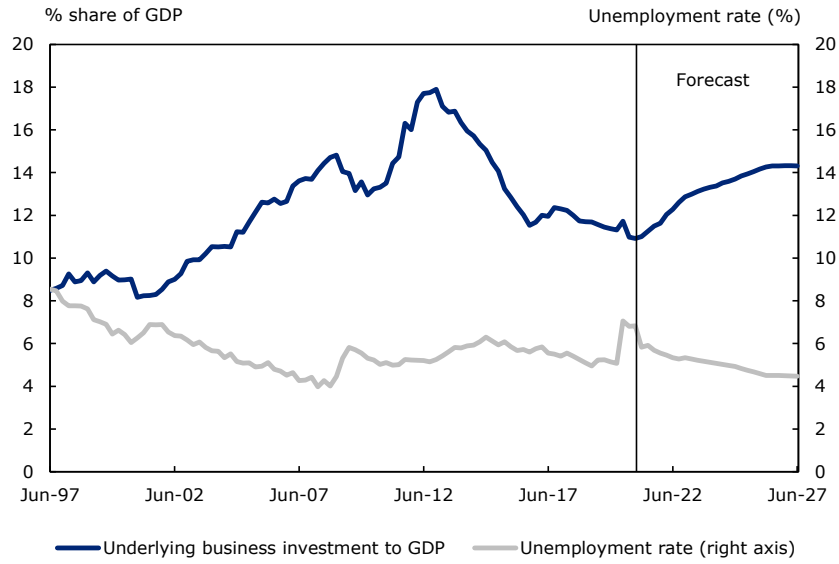
Chart 2.2 Domestic demand and GDP



Note: % change on year earlier refers to output growth between a quarter and the same quarter a year earlier.
Source: ABS, Deloitte Access Economics.

Business investment fell by 7.4% from the December quarter of 2019 to a trough in the September quarter of 2020 as many businesses responded to the outbreak of COVID-19 by delaying or cancelling planned spending. But the recovery in the Australian economy has seen measures of business confidence reach record highs in April 2021, while indicators such as capacity utilisation and hiring intentions suggest that conditions will remain strong in the near term. As a result, business investment grew by 2.0% in the December quarter of 2020 and 4.0% in the March quarter of 2021 to now be only 1.9% below pre-COVID levels. And further gains are forecast as the economy recovers and businesses utilise Australian Government tax incentives that were extended in the 2021-22 Budget. Business investment is forecast to grow by 11.8% in 2021-22 and 12.4% in 2022-23.

Chart 2.3 Business investment as a share of GDP and the unemployment rate



Source: ABS, Deloitte Access Economics.

Key risks to the outlook include potential mutations of COVID-19, delays or other issues with the vaccine rollout and the timing of the reopening of international borders. While the outlook is subject to a high level of uncertainty, the Australian economy is well placed to recover strongly in 2021 and 2022.

Economic activity is expected to be supported by the easing of earlier COVID-restrictions, the distribution of vaccines, high levels of government spending and continued growth in consumer and business confidence. Overall, real GDP is forecast to grow by 1.1% in 2020-21 before accelerating to a gain of 4.1% in 2021-22 and 3.4% in 2022-23.

2.1.2 Utilities

The 'utilities' industry is the broad term applying to the electricity, gas, water and waste services industry, which is Division D of the Australian and New Zealand Standard Industrial Classification (ANZSIC). The industry covers activity in the provision of electricity, gas through mains systems, water, drainage and sewage services.

Utilities industry output fell by 2.8% over the year to March 2021. Activity fell in the electricity supply (-3.5%) and water supply and waste services (-2.6%) sub-industries, which together account for more than 95% of industry output. Elsewhere, output in the gas supply sub-industry grew by 4.3% over the year to March 2021.

Average operational demand in the National Electricity Market (NEM) fell by 3% in the March quarter of 2021, reaching its lowest first quarter average since 2002. This was driven by mild weather that reduced cooling demand by more than one third and record uptake of solar photovoltaics (PV) generation that contributed to large reductions in daytime demand.

COVID-19 has not materially impacted overall electricity demand, but has influenced consumption patterns. Demand from businesses and industrial users has deceased amid the impact of workplace restrictions, while residential demand has increased as people spent more time at home (working, schooling, unemployed, or underemployed).

The Australian Energy Market Operator's (AEMO) forecasts for energy consumption are relatively flat over the medium term.[1] Higher demand from a growing Australian population and increased mining activity is expected to be offset by an increasing share of households and businesses adopting distributed energy technologies (such as rooftop PV, battery storage and other small-scale generation resources), further increases in energy efficiency, as well as stronger growth in less energy-intensive industries compared to more energy-intensive industries such as manufacturing.

Average wholesale electricity prices fell by more than on fifth in each NEM jurisdiction in the March quarter of 2021. Victoria recorded its lowest quarterly average price since March 2012, negative daytime prices were observed in South Australia, while there was less price volatility compared to previous years.

The electricity industry faces a number of negative risks over the medium term:

- The transition from a centralised fossil fuel-led generation mix to a more decentralised and varied generation mix may produce costs for businesses and consumers in the NEM.
- Continued uncertainty around energy policy settings means greater risk for private investors.
- Greater uptake of distributed energy resources such as rooftop PV and battery storage systems will weigh on NEM electricity demand.

[1] Australian Energy Market Operator, *2020 Electricity Statement of Opportunities* (16 September 2020) <https://aemo.com.au/-/media/files/electricity/nem/planning_and_forecasting/nem_esoo/2020/2020-electricity-statement-of-opportunities.pdf?la=en&hash=85DC43733822F2B03B23518229C6F1B2>.

- Further pressure on the manufacturing industry may see additional industrial electricity users choose to close local operations and move offshore.

There are also a number of upside risks that may support growth:

- An acceleration in the uptake of electric vehicles will increase NEM electricity demand. According to AEMO this will depend on government policies, electric vehicle costs relative to non-electric vehicles, other transport alternatives (e.g. public transport), commercial demand, access to charging infrastructure and the availability of car models in Australia.
- There is also the potential for higher demand from the business sector. This includes demand from traditional manufacturing, mining (particularly the gas and coal sub-industries), desalination plants and other services-based businesses (such as the transport industry).

Total gas demand increased by 1% from March 2020 to March 2021. Growth in Queensland liquified natural gas (LNG) exports more than offset reduced demand for gas powered electricity generation in the NEM. There was also a modest gain in demand from other industrial, commercial and residential gas customers.

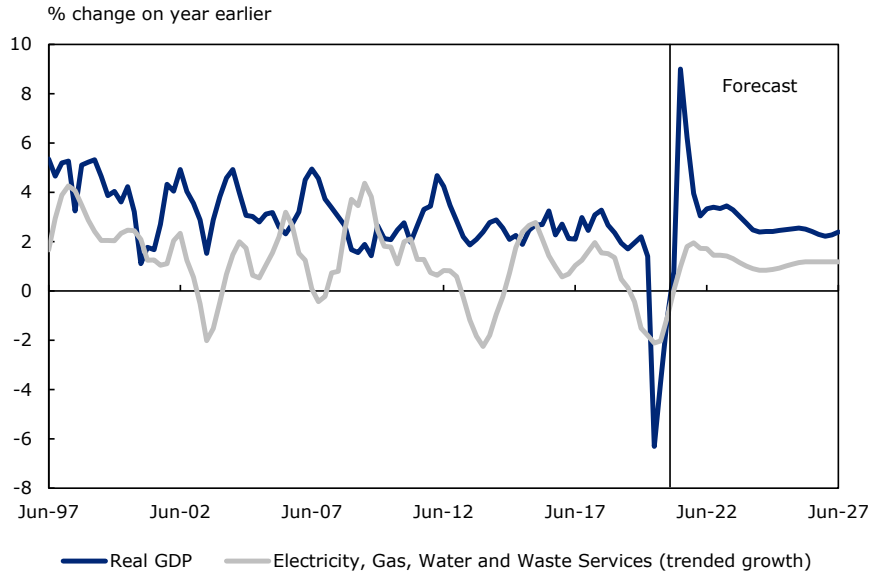
Quarterly average gas prices increased in all NEM regions in March 2021, expect Victoria. The increase in prices reflects the impact of higher international gas prices and relatively strong demand from Asia.

According to the AEMO 2021 Gas Statement of Opportunities, the supply of gas from existing and committed developments is expected to meet demand from eastern and south-eastern Australia until 2026.[2] This improved outlook is due to Australia Industrial Energy's commitment to the Port Kembla Gas Terminal in New South Wales.

Utilities industry output experienced a smaller COVID-related contraction during 2020 compared to the wider economy (see Chart 2.4). This was due to modest falls in utilities industry demand compared to demand in other industries. Utilities industry output is expected to fall by 0.4% in 2020-21 compared to a 1.1% gain in the wider economy. This is driven by forecasts for stronger growth in several industries more adversely affected by COVID-19 restrictions (such as retail trade) and continued robust gains in other industries (such as health care and public administration). Utilities industry output is forecast to grow at a compound annual growth rate (CAGR) of 1.0% compared to a 2.6% CAGR in the wider economy.

[2] Australian Energy Market Operator, *2021 Gas Statement of Opportunities* (29 March 2021) <https://aemo.com.au/-/media/files/gas/national_planning_and_forecasting/gsoo/2021/2021-gas-statement-of-opportunities.pdf?la=en>.

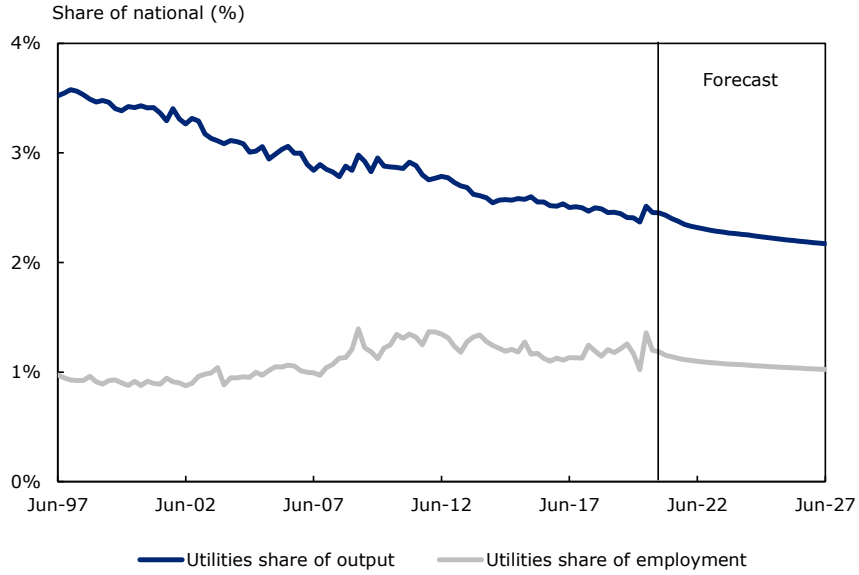
Chart 2.4 Utilities industry output and GDP



Note: % change on year earlier refers to output growth between a quarter and the same quarter a year earlier.
Source: ABS, Deloitte Access Economics.

From 2020-21 to 2026-27, growth in utilities industry output is forecast to remain weaker than growth in the Australian economy (see Chart 2.4). As a result, the utilities industry is forecast to fall gradually as a share of national output and employment over time (see Chart 2.5).

Chart 2.5 Utilities share of national output and employment



Source: ABS, Deloitte Access Economics.

2.2 The outlook for wages

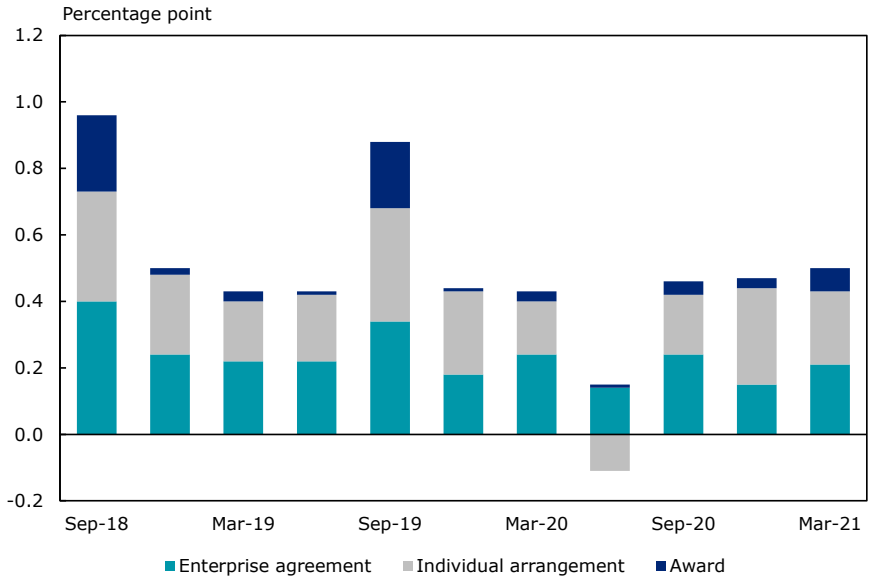
2.2.1 All industries

The WPI grew by 0.6% in the March quarter of 2021, to be 1.5% higher for the year. Growth in the WPI reflects the faster-than-expected recovery in the Australian economy and the corresponding tightening of the labour market.

Improved business conditions have seen many employers revisit wage reviews that had been placed on hold following the outbreak of COVID-19. This has supported growth in wages for jobs paid by individual agreement in the March quarter of 2021.

Wage growth in the March quarter of 2021 has also been supported by the Fair Work Commission's (FWC) phased implementation of the 2019-20 award increase (see Chart 2.6). Increases to awards typically occur on 1 July and place upward pressure on WPI growth in the September quarter. But following the impact of COVID-19 the scheduled 1.75% increase to minimum wages was applied to awards in three stages. The final group of employees – those in the accommodation and food services, arts and recreation, aviation, retail and tourism industries – received the increase on 1 February 2020, adding approximately 0.07 percentage points to WPI growth in the March quarter of 2021.

Chart 2.6 Contributions to WPI growth, by method of setting pay



Source: ABS.

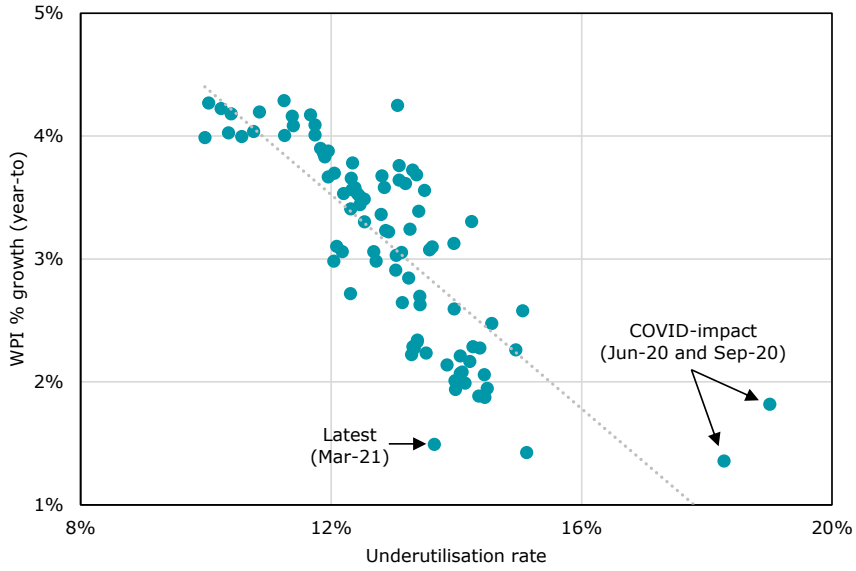
The WPI for the public sector increased by 0.4% in March 2021, below the 0.6% increase in the private sector WPI. Annual growth in public sector wage growth has slowed to its lowest level in the history of the WPI series (which began in September 1997). Public sector wage growth is expected to accelerate through 2021 as some wage freezes unwind, but to remain at a lower rate than in previous years amid the impact of wage cap policies.

According to the Reserve Bank of Australia (RBA), many private sector firms that have wage freezes in place intend to unwind them in coming months. There are also fewer firms planning to implement wage freezes compared to previous quarters. This will place upward pressure on private sector wages in 2021.

However, wage gains are forecast to remain modest in 2021-22 and 2022-23 amid significant spare capacity in the labour market. Despite strong growth in employment from May 2020, there are many people who want a job and cannot find one as well as many others who have a job but would like to work more hours.

Evidence suggests that it will take an extended period of tightening in the labour market before wage growth accelerates to rates between 2-3%. The broadest measure of spare capacity in the labour market – the underutilisation rate – fell to 13.3% in April 2021. This is the lowest level since December 2019 and would typically be consistent with annual wage growth of approximately 2¾%. Wage outcomes are currently well below this level amid the impact of COVID-related wage measures (such as temporary wage cuts and wage freezes) and a degree of caution from employers. Deloitte Access Economics expects the relationship between underutilisation and wage growth to return gradually over the coming years.

Chart 2.7 WPI and the underutilisation rate (Sep-98 to Mar-21)



Source: ABS.

WPI growth is expected to lift from 2022-23, supported by a number of key drivers:

- Spending from governments to support aggregate demand
- A sustained lift in consumer and business confidence
- An increase in Consumer Price Index (CPI) inflation
- An increase in award wages and the minimum wage
- Continued employment gains absorbing spare capacity in the labour market
- The increasing retirement among baby boomers will restrain growth in the number of potential workers in the long term, handing employees back some bargaining power in wage negotiations.

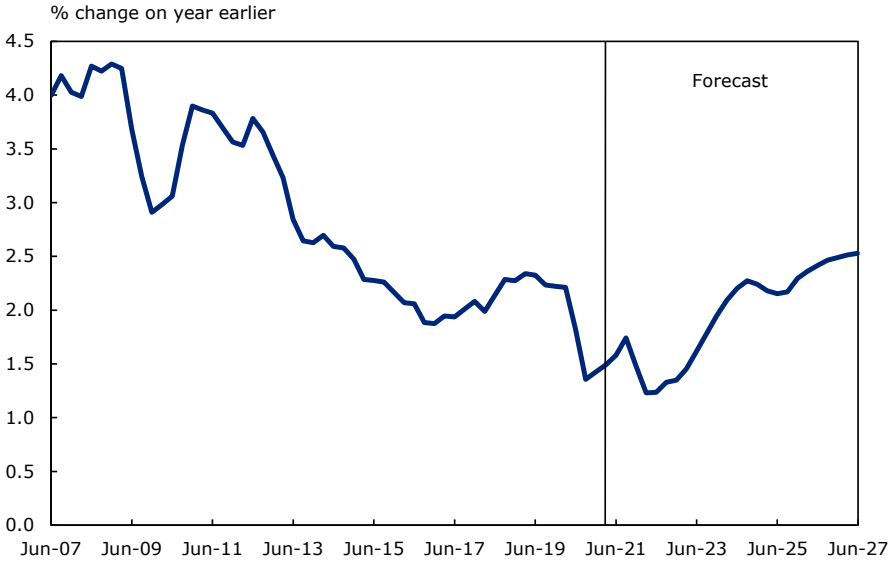
However, there are a number of structural and cyclical factors that may limit the pace of wage gains in the coming years:

- High levels of household debt and uncertainty around the economic outlook may prompt employees to prioritise job security rather than wage increases. Employees may have also lowered their wage growth expectations following an extended phase of slow wage gains.
- Many employers have responded to the 2020 recession by tightly controlling costs. Even as the economy recovers it is possible that employers remain cautious about adding to their wage bill amid concerns over the economic outlook.
- Analysis conducted by the RBA found that workers are now less likely to voluntarily change jobs compared to the mid-2000s. Wage growth is typically lower for workers who do not change employer.
- Trends such as automation of work processes, an increase in contract work, and competitive pressures from the internationalisation of services trade have all combined to restrain workers' bargaining power. It is possible that these trends are making workers feel less secure about their future employment and less likely to push for larger pay rises.
- The returns to technological developments, which are increasingly focused on intangible capital goods such as software and IT, tend to be highly concentrated in a few firms across a small number of industries. Firms that are unable to innovate and take advantage of new technologies are often choosing to control costs as a way of remaining competitive. This cost-control approach can sit at odds with paying higher wages to employees.

Looking ahead, Deloitte Access Economics forecasts nominal wage growth of 1.4% in 2021-22 and 2022-23. The pace of wage gains is then forecast to accelerate over the medium term, growing by 2.0% in 2023-24 before reaching 2.5% in 2026-27.

Compared with the forecasts presented in Report 2, the current forecasts have stronger wage growth in the short and long term. This reflects the faster than anticipated recovery in the Australian economy and labour market. Wage growth has been revised higher by a cumulative 1.4 percentage points across the period from 2020-21 to 2025-26.[3]

Chart 2.8 National WPI forecasts

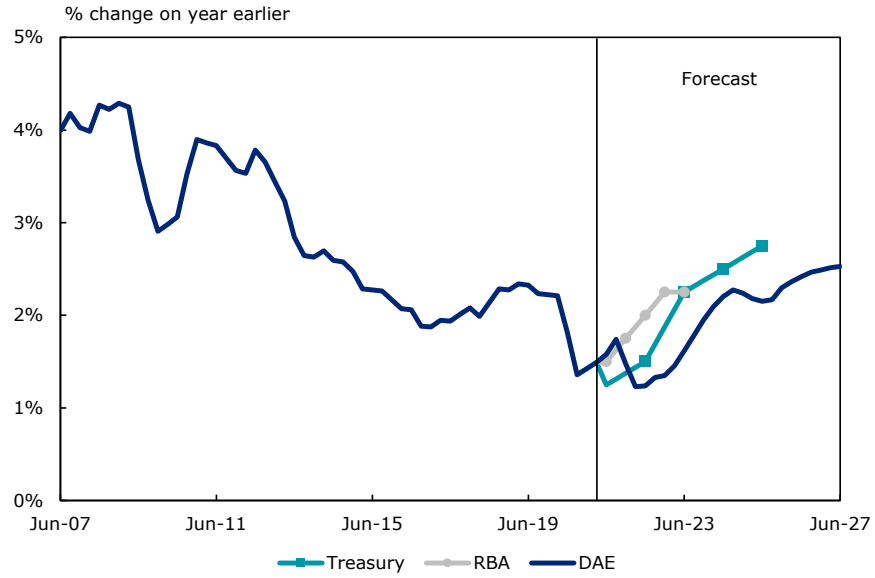


Note: % change on year earlier refers to output growth between a quarter and the same quarter a year earlier.
Source: ABS, Deloitte Access Economics.

By way of benchmarking, Deloitte Access Economics forecasts (March 2021 last WPI actual) a more gradual acceleration in the pace of wage growth over the short term compared to the latest forecasts released by the RBA in its May 2021 *Statement of Monetary Policy* (December 2020 last WPI actual) and the Commonwealth Treasury forecasts published in the *2021-22 Budget* released in May 2021 (December 2020 last WPI actual).

[3] AER Report 2 provided WPI forecasts for the period from 2020-21 to 2025-26.

Chart 2.9 Comparison of national WPI forecasts by forecaster



Note: Markers indicate provided forecast, remaining data points have been imputed. Series are 'year-to' not 'year-average' growth rates.
Source: Commonwealth Treasury Budget 2021-22, Deloitte Access Economics, RBA May 2021 Statement of Monetary Policy.

Table 2.1 National wage forecasts

Financial year nominal wages forecasts

	History	Forecast						
Annual % change	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**
Wage price index	2.1	1.5	1.4	1.4	2.0	2.2	2.3	2.5
Average weekly earnings	3.6	1.2	0.1	0.9	1.8	1.9	1.6	1.4
Ordinary time earnings	3.9	1.5	0.4	1.7	2.6	2.8	2.2	2.1
Unit labour costs	-0.3	-0.9	5.5	2.2	2.5	2.5	2.3	1.7

Financial year real wages forecasts

	History	Forecast						
Annual % change	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**
Wage price index	0.8	0.2	0.0	-0.2	-0.1	0.0	0.0	0.3
Average weekly earnings	2.3	-0.1	-1.3	-0.8	-0.4	-0.4	-0.7	-0.8
Ordinary time earnings	2.5	0.2	-1.0	0.1	0.4	0.5	-0.1	-0.1
Unit labour costs	-1.6	-2.1	4.0	0.5	0.4	0.3	0.0	-0.5

Year ending March nominal wages forecasts

	History	Forecast						
Annual % change	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Wage Price Index	2.2	1.5	1.5	1.3	1.9	2.2	2.2	2.5
Average weekly earnings	2.9	2.8	-0.1	0.5	1.6	1.9	1.7	1.4
Ordinary time earnings	3.4	3.0	-0.2	1.6	2.3	2.9	2.3	2.2
Unit labour costs	2.8	-5.4	7.5	2.2	2.4	2.6	2.3	1.9

Year ending March real wages forecasts

	History	Forecast						
Annual % change	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Wage Price Index	0.4	1.1	-0.3	-0.2	-0.2	0.0	0.0	0.2
Average weekly earnings	1.1	2.4	-1.9	-1.0	-0.4	-0.3	-0.6	-0.8
Ordinary time earnings	1.6	2.5	-2.0	0.0	0.3	0.6	0.0	-0.1
Unit labour costs	0.9	-5.9	5.6	0.7	0.4	0.3	0.0	-0.3

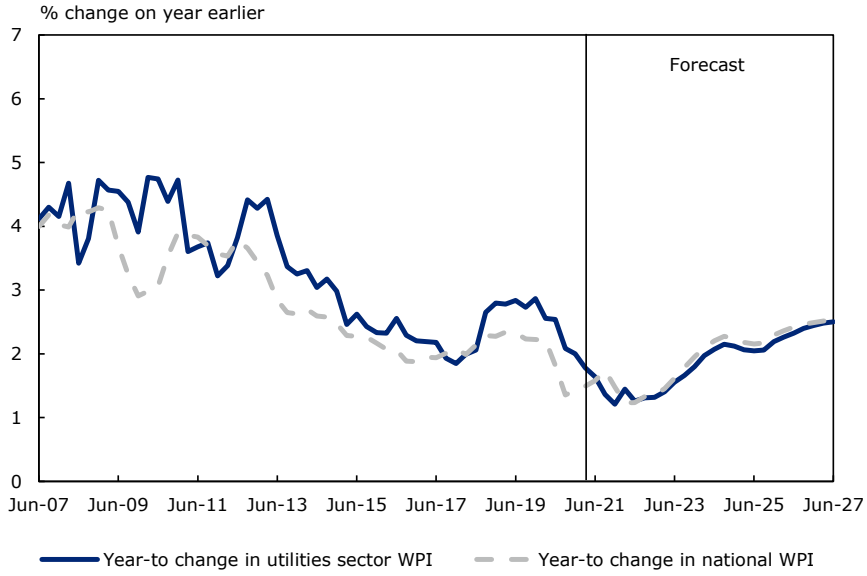
Source: ABS, Deloitte Access Economics.

2.2.2 Utilities industry wages

Utilities industry wages grew by 0.1% in the March quarter of 2021 to be 2.1% higher for the year. Wage gains have fallen from a high of 2.8% in late-2019 and are now at the lowest levels since mid-2018.

Private sector utilities wages have slowed from a peak of 3.1% in late-2019 to 2.2% over the year to March 2021, while public sector wages have slowed form a gain of 2.5% to 2.0% over the same period. Despite the slowdown, wage gains in the utilities industry continue to outperform wages in the wider economy (see Chart 2.10).

Chart 2.10 National utilities industry Wage Price Index forecasts



Note: % change on year earlier refers to output growth between a quarter and the same quarter a year earlier.
Source: ABS, Deloitte Access Economics.

The outperformance of wage gains in the utilities industry has not been driven by the outperformance of output growth in the utilities industry, with utilities industry output remaining below growth in the wider economy from 2009-10. The strength of utilities wage gains has also not been driven by an improvement in labour productivity (which makes workers more valuable to businesses). According to the ABS, labour productivity (measured on a quality-adjusted hours worked basis) has fallen at a CAGR of 1.6% from 2009-10 to 2019-20.

There are a number of potential explanations for the recent outperformance of utilities wages:

- Utilities industry wages have been negatively affected by COVID-19, but the impact has been less significant than for industries most affected by restrictions such as the arts, tourism, retail and education.
- Utilities employment grew by 1.3% in 2019-20, above the 0.2% gain for all industries. Utilities employment growth has outperformed all industry employment growth since 2017-18, absorbing spare capacity in the utilities industry and placing upward pressure on wage gains.
- Conditions in the mining industry have improved in recent years. Growth in output has increased from a low of 1.2% in 2016-17 to 4.9% in 2019-20. The mining industry traditionally competes with utilities for labour, meaning that strength in the mining industry is likely to add upward pressure to utilities wages.
- Record levels of infrastructure investment have seen activity shift away from housing construction towards civil infrastructure construction. It is possible that there is a greater degree of substitutability between the skills required for civil construction and those used

in the utilities industry, compared with housing construction and the utilities industry. This would add upward pressure to wage gains in the utilities industry.

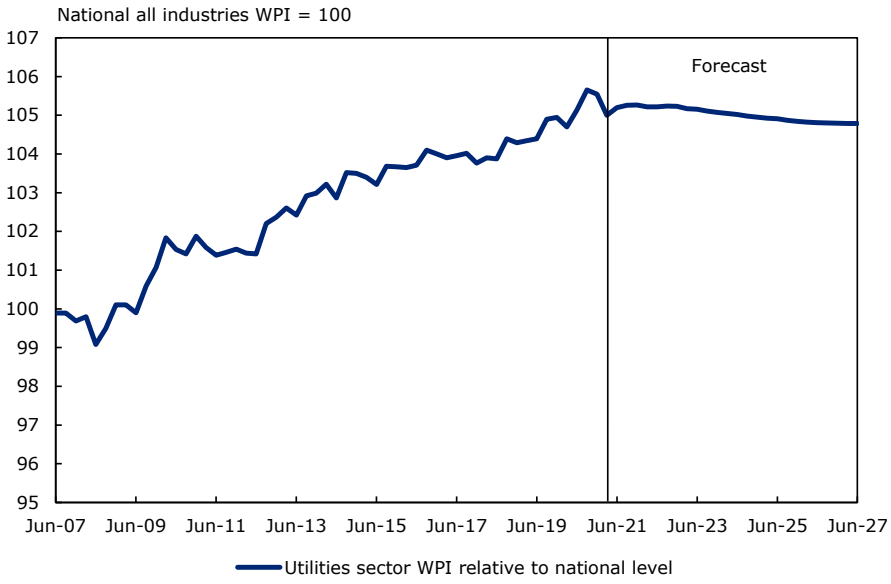
- The outperformance of wage gains in the utilities industry relative to the wider economy may reflect factors that are difficult to observe. For example, it is possible that wages have increased because requisite skills have lifted, but – if so – then better skilled workers have yet to boost industry output.

It is likely that the impact of these factors will fade over the coming years. Utilities industry employment is forecast to fall from 2020-21 to 2024-25, mining industry activity is forecast to fall in 2020-21 and grow at modest rates from 2022-23, while growth in construction output and employment is forecast to slow from 2023-24. All else equal, this will place downward pressure on the pace of utilities wage gains relative to the pace of wage gains across all industries.

The utilities WPI is forecast to grow by 1.9% in 2020-21 before slowing to 1.3% in 2021-22 amid a fall in both utilities output and employment. Wage gains are forecast to accelerate from 2022-23, reaching 2.5% in 2026-27.

Utilities wages are forecast to grow at a slower rate than wages across the wider Australian economy over the medium-term. This reflects the fact that utilities output is forecast to grow at a slower rate than the all industry average, while conditions in competitor industries will limit upward pressure on utilities wages. This is expected to outweigh the impact of unobserved changes in skills requirements in the long term.

Chart 2.11 Utilities Wage Price Index relative to National Wage Price Index



Source: ABS, Deloitte Access Economics.

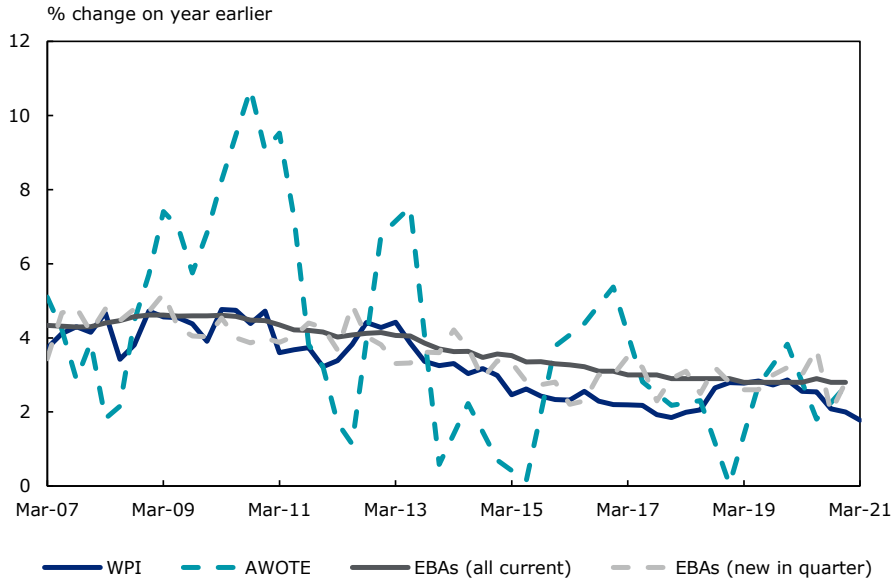
Forecasts for utilities WPI growth have been revised slightly higher from 2020-21 to 2025-26 compared to the forecasts in Report 2. Utilities wage growth has been revised up by a cumulative 1.1 percentage points across the forecast period from 2020-21 to 2025-26. This is largely due to the faster than expected recovery in the Australian economy and employment across all industries.

2.2.2.2 Comparison with results from other wage growth measures

Chart 2.12 shows that, despite volatility in Average Weekly Ordinary Time Earnings (AWOTE), the downward trend in utilities WPI from 2006 to 2018 and from 2020 has been mirrored by several other wage growth measures that are produced on a regular basis.

These include Enterprise Bargaining Agreements (EBAs) sourced from the *Trends in Federal Enterprise Bargaining* publication produced by the Attorney-General's Department.

Chart 2.12 Measures of utilities industry wage growth



Note: % change on year earlier refers to output growth between a quarter and the same quarter a year earlier.
Source: ABS, Attorney-General's Department

The AWOTE series fluctuates considerably and is consequently limited in its use in forecasting wage growth. In the latest Average Weekly Earnings (AWE) publication released in November 2020, the Australian Bureau of Statistics (ABS) indicated that *"The purpose of the survey is to measure the level of average gross weekly earnings associated with employees. While AWE is not designed to produce movement in earnings data, the frequency of collection supports a time series of these level estimates."* Data on the average level of earnings is useful for comparing what an individual earns relative to the average. It is therefore used in the Deloitte Access Economics wage price model as an indicator only.

The utilities EBA data provides a good partial indicator of the future trend growth in the utilities WPI measure. Deloitte Access Economics considers EBA data in forecasting WPI, but it is not the primary driver.

As at the December quarter of 2020, there were 364 EBAs active in the utilities industry, covering some 58,200 employees – approximately 39% of total utilities industry employees. Wages in 'all current EBAs' grew at 2.8% for the utilities industry in the December quarter of 2020, in line with growth experienced a year earlier. The average annualised wage increase (AAWI) in the utilities industry was above the 2.6% gain across all industries.

A total of 28 EBAs (covering 14,900 employees) with an AAWI of 2.9% are due to expire in the March quarter of 2021. This is expected to place downward pressure on the AAWI for all current EBAs.

A total of 31 new EBAs, covering 11,500 employees, were lodged in the December quarter of 2020. The AAWI for new EBAs in the December quarter of 2020 was 2.8%, above the 2.0% AAWI seen in the September quarter of 2020, but below the 3.2% AAWI in December quarter of 2019.

2.2.3 Labour productivity

Labour productivity measures the number of units of output an individual employee can produce in a given time period. The more units of output each worker can produce, the fewer workers are required to create a given level of industry output.

In this report, Deloitte Access Economics provides estimates of labour productivity at the national, state and industry level. There are three different values that are utilised to calculate productivity measures used in this report:

1. 'National' productivity = Gross Domestic Product / employed persons in Australia
2. 'State' productivity = Gross State Product / employed persons in that state
3. 'Industry' productivity = Gross Value Added / employed persons in that industry in Australia

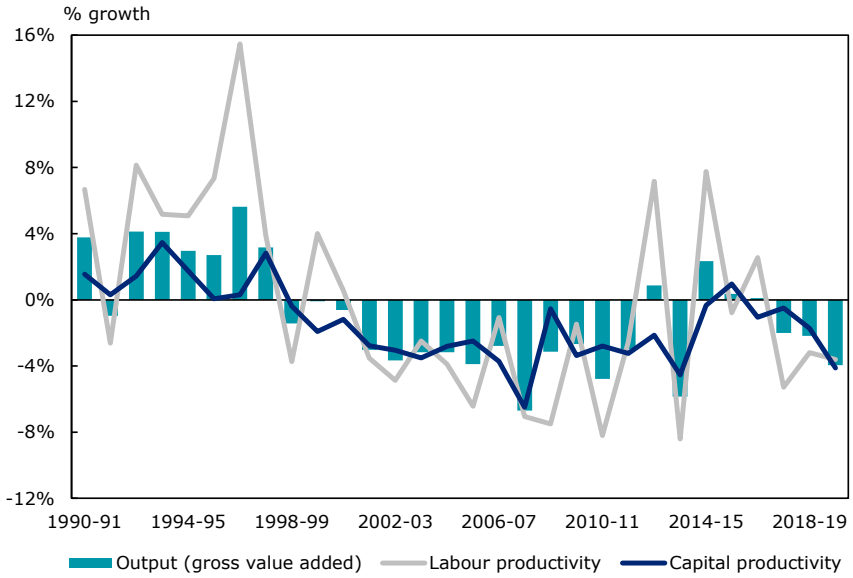
A detailed methodology discussion can be found in Report 1 provided to the AER in August 2020.

Historical estimates of labour productivity may differ from those presented in Report 1 as the ABS has changed the reference year for chain volume measures in the December 2020 National Accounts (to 2018-19 from 2017-18).

Australian labour productivity fell in 2019-20 as COVID-19 restrictions weighed heavily on output; employment was supported by programs such as JobKeeper; and factors such as work-from-home arrangements and increased use of digital resources led to temporary adjustment costs for employees.[4]

Labour productivity in the utilities industry has largely grown at a slower rate than productivity across the wider economy over the last two decades. Growth in utilities industry labour productivity fell by a CAGR of 2.7% from 1999-00 to 2019-20, weighing on overall output in the utilities industry (see Chart 2.13). Analysis from the Productivity Commission found that falling productivity growth was due to an increase in the ratio of peak to average electricity demand (which lowered rates of capacity utilisation), investment in capital assets (which temporarily increased inputs prior to growth in output), undergrounding electricity cabling (which raised costs and quality of service but not the volume of output) and a policy shift in favour of cleaner energy generation (which were initially higher-cost forms of generation).

Chart 2.13 Measures of utilities industry productivity



Source: ABS, Deloitte Access Economics

According to the ABS, industry productivity trends have been especially difficult to interpret in recent years. *"This is because productivity measures include a number of drivers including technical change, scale and cyclical effects which are difficult to separately identify. The COVID-19 pandemic has compounded this issue, as it has had varying impacts on productivity estimates for*

[4] The introduction of JobKeeper from 30 March 2020 to 28 March 2021 contributed to an increase in the number of employees working zero hours and a subsequent increase in alternative measures of productivity such as output per hour worked. Output per employee remains Deloitte Access Economics' preferred measure of productivity.

2019-20. Care should be taken when interpreting year-to-year productivity growth for the market sector and by industry."[5]

Labour productivity in the utilities industry is forecast to grow by 0.1% in 2020-21, in-line with the all industry growth rate. Utilities labour productivity is forecast to grow by 2.1% in 2021-22 and 2.0% in 2022-23 as the industry output recovers from the effects of COVID-19. Utilities industry labour productivity is expected to closely track productivity in the wider economy over the medium term.

Table 2.2 Australian labour productivity forecasts

Financial year changes in labour productivity forecasts

	History	Forecast						
Annual % change	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**
All industries	-0.4	0.1	2.0	2.0	1.1	0.8	0.8	0.7
Utilities	-0.4	0.1	2.1	2.0	1.1	0.8	0.8	0.7

Year ending March changes in labour productivity forecasts

	History		Forecast					
Annual % change	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
All industries	-0.5	-0.5	1.9	2.1	1.3	0.8	0.8	0.6
Utilities	-0.5	-0.6	2.0	2.1	1.3	0.8	0.8	0.7

Source: ABS, Deloitte Access Economics.

[5] Australian Bureau of Statistics, *Estimates of Industry Multifactor Productivity, 2019-20*, cat. No. 5260.0.002 (30 November 2020).

2.2.4 Summary results

Table 2.3 National industry wage forecasts

Financial year changes in nominal national industry sector WPI

	History	Forecast						
Annual % change	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
All industries	2.1	1.5	1.4	1.4	2.0	2.2	2.3	2.5
Utilities	2.7	1.9	1.3	1.4	1.9	2.1	2.2	2.5

Financial year changes in real national industry sector WPI

	History	Forecast						
Annual % change	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
All industries	0.8	0.2	0.0	-0.2	-0.1	0.0	0.0	0.3
Utilities	1.3	0.6	-0.1	-0.2	-0.3	-0.2	-0.1	0.2

Financial year changes in labour productivity forecasts

	History	Forecast						
Annual % change	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
All industries	-0.4	0.1	2.0	2.0	1.1	0.8	0.8	0.7
Utilities	-0.4	0.1	2.1	2.0	1.1	0.8	0.8	0.7

Year ending March changes in nominal national industry sector WPI

	History		Forecast					
Annual % change	2020	2021	2022	2023	2024	2025	2026	2027
All industries	2.2	1.5	1.5	1.3	1.9	2.2	2.2	2.5
Utilities	2.7	2.1	1.4	1.3	1.7	2.1	2.1	2.4

Year ending March changes in real national industry sector WPI

	History		Forecast					
Annual % change	2020	2021	2022	2023	2024	2025	2026	2027
All industries	0.4	1.1	-0.3	-0.2	-0.2	0.0	0.0	0.2
Utilities	0.9	1.6	-0.4	-0.2	-0.3	-0.1	-0.1	0.2

Year ending March changes in labour productivity forecasts

	History		Forecast					
Annual % change	2020	2021	2022	2023	2024	2025	2026	2027
All industries	-0.5	-0.5	1.9	2.1	1.3	0.8	0.8	0.6
Utilities	-0.5	-0.6	2.0	2.1	1.3	0.8	0.8	0.7

Source: ABS, Deloitte Access Economics.

3 Queensland

3.1 Economic outlook

3.1.1 Overview

Queensland State Final Demand grew by 0.4% in the March quarter of 2021 and is now 2.7% above pre-COVID levels. Recent growth has been supported by increased dwelling investment and public investment in road and rail infrastructure projects. The improvement in economic conditions has come despite two short lockdowns in January and March to contain the spread of COVID-19.

The state's labour market continues to strengthen. The number of people employed has increased from a low in May 2020 to April 2021 and is now 1.8% above the pre-COVID peak in February 2020. Queensland's unemployment rate has fallen from a July 2020 peak of 8.7% to 6.1% in April, but remains above the national figure of 5.5%.

One reason for the higher unemployment rate is that Queensland's relatively large tourism industry continues to be adversely affected by international border restrictions. The Federal Government has announced a $1.2 billion tourism support package where discounted flights are offered to several Queensland locations. This comes in addition to the State Government's announcement of $100 and $200 vouchers for tourism experiences and accommodation in Brisbane and the Whitsundays. While this support will help the industry, a sustained recovery is unlikely until international tourists return to Australia.

Private consumption fell by 0.6% over the year to March 2021, with declines in transport and entertainment and recreation spending outweighing gains elsewhere. Consumption is expected to recover in 2021 supported by high levels of household savings. Private consumption is forecast to grow by 5.2% in 2020-21 before slowing to a gain of 0.7% in 2021-22.

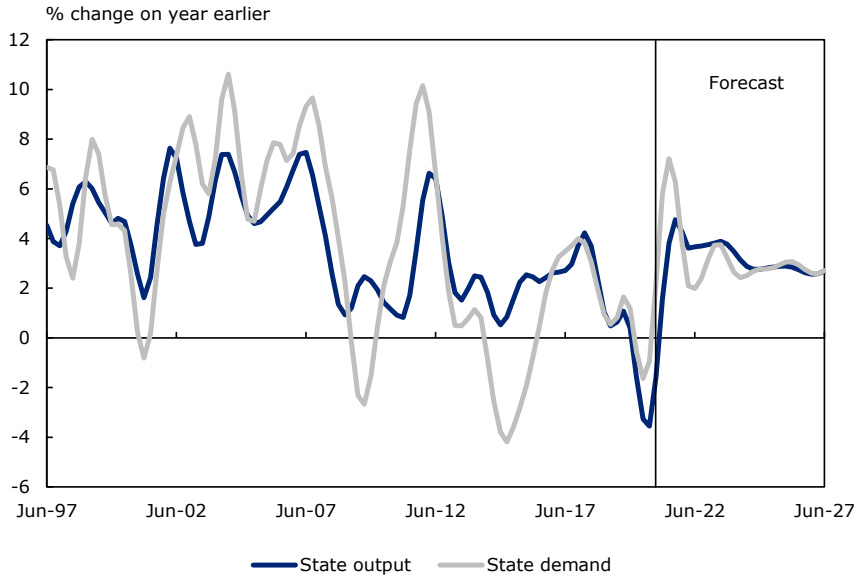
Dwelling investment grew by 2.9% over the year to March 2021, ending a run of declines stretching back to mid-2017. This has been partly driven by strong growth in dwelling values. According to CoreLogic, Brisbane dwelling values have grown by 10.6% over the year to May 2021 and values have increased by 14.6% across the rest of Queensland. There have also been 26,300 HomeBuilder applications in Queensland, helping to drive the number of dwelling approvals to its highest level since late 2018. Dwelling investment is forecast to grow by 6.4% in 2021-22 before accelerating to a gain of 16.0% in 2022-23.

Higher commodity prices are supporting a recovery in Queensland goods exports – particularly gas, copper and beef. Coal prices have also increased yet shipments are subdued amid Chinese restrictions on Australian exports. Looking ahead, commodity prices are expected to remain elevated amid the recovery in global industrial activity and robust Chinese demand. Adding to this, Queensland coal production is set to increase from October 2021 following the commencement of operations at the Carmichael coal mine.

The biggest risks to the economic outlook continue to be the speed of the vaccine rollout and potential outbreaks of the virus. While Queensland has contained the spread of COVID-19 to date, the risk of further lockdowns remains until a large share of the population is vaccinated.

Deloitte Access Economics forecasts Queensland economic output to increase by 0.5% in 2020-21 before accelerating to 3.9% in 2021-22 as the recovery from COVID-19 gathers pace. Output growth is then expected to moderate, reaching 2.6% by 2026-27 as the economy returns to a longer run trend. The Queensland economy is forecast to grow at a faster rate than the Australian economy from 2022-23 reflecting the impact of faster rates of population growth.

Chart 3.1 Queensland output and state final demand



Note: % change on year earlier refers to output growth between a quarter and the same quarter a year earlier.
Source: ABS, Deloitte Access Economics.

Table 3.1 Queensland economic forecasts

	History	Forecast						
Annual % change (unless noted)	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**
Consumption								
Private sector	-1.5	5.2	0.8	1.2	3.1	2.9	2.9	3.3
Public sector	6.4	2.9	2.7	0.4	-0.5	1.7	2.0	2.0
Private sector investment								
Dwelling investment	-7.1	2.8	6.4	16.0	3.0	1.1	1.6	-2.3
Non-residential building	-8.5	-6.5	6.0	22.0	7.9	5.4	5.0	1.9
Engineering construction	-12.8	-5.6	9.1	18.8	3.0	3.7	3.9	1.5
Machinery and equipment	-4.1	-3.1	10.9	7.8	5.1	6.2	6.3	3.5
IP and livestock	3.0	-1.9	20.8	18.7	14.2	11.7	9.6	7.5
Public investment								
General Government	7.2	20.6	16.2	-2.8	-3.6	-3.3	0.6	2.1
Public enterprises	6.6	0.7	0.1	2.4	3.1	3.5	3.2	1.7
Real final demand	-0.2	4.4	3.1	3.3	2.6	2.8	3.0	2.6
Private sector	-2.5	3.9	2.4	4.6	4.0	3.5	3.4	2.9
Public sector	6.5	5.7	5.0	-0.2	-0.9	0.8	1.8	2.0
Gross State output	-1.1	0.5	3.9	3.8	3.3	2.8	2.8	2.6
Employment	0.0	2.0	1.7	1.9	1.9	2.0	2.1	1.9
Unemployment rate (%)	6.5	6.9	6.4	6.0	5.8	5.5	5.1	5.0

Note: All variables (except for jobs and unemployment) expressed in inflation adjusted terms.
Source: ABS, Deloitte Access Economics.

3.1.1 Utilities

Queensland NEM electricity demand fell in the March quarter of 2021 due to mild weather conditions and increased distributed solar PV output. The lower electricity demand across the NEM contributed to lower wholesale electricity prices. However, price falls were generally greater in other states, with Victorian prices falling below Queensland for the first time since 2014, leading to increased interstate supply from Victoria to Queensland.

Unplanned outages across Queensland's coal generating utilities, combined with increased solar PV output led to falls in coal fired electricity output. Meanwhile, hydroelectric generation in Queensland increased due to heavy rainfall in Far Northern Queensland.

Queensland gas powered electricity generation fell in the March quarter of 2021, driven by low NEM spot prices and increasing wholesale gas prices. Strong Asian demand for Queensland LNG helped to lift gas prices domestically.

In late May 2021 an explosion and fire at the Callide coal-fired power station near Gladstone caused widespread blackouts. The $200 million estimated repair cost has raised questions about the future viability of the plant and whether it would be closed early.[6] With one of the generating units expected to be offline for up to a year it could result in the greater use of gas-powered power to assist in filling shortfalls in the east coast electricity grid.[7]

Queensland has invested heavily in renewable energy generation in recent years, with around 20% of electricity used in the state being produced from renewable energy sources.[8] Further increases are expected, with the Queensland Government aiming to reach 50% renewable energy by 2030.

To further this transition the Queensland Government has established a $500 million Renewable Energy Fund to invest in commercially viable renewable energy projects.[9] An additional $145 million has been invested to launch three renewable energy zones in the state.[10] These zones are expected to include strategic network investments to streamline the development of renewable energy projects. In total, investors have lodged expressions of interest for 192 projects totalling 60,000 megawatts (MW) of energy across solar, wind and biomass projects.

To help maintain grid stability as the share of variable renewable energy generation increases, the Queensland Government is planning to connect the state's largest battery to the transmission network. The Wandoan South Battery Energy Storage System will have a capacity of 100MW with another 150MW battery planned by the state-owned energy company Stanwell.[11]

AEMO has forecast that NEM electricity demand in Queensland will increase modestly as the economy recovers from COVID-19 and use by households and businesses outpaces improvements in energy efficiency. Over the longer term, growth in NEM electricity demand will be driven by the uptake of electric vehicles and the eventual saturation of distributed PV and investments in energy efficiency.

AEMO has forecast that maximum gas demand in the state is forecast to decline through to 2026, due to reductions in industrial consumption. Demand is then expected to remain relatively stable out to 2040. AEMO noted that changing consumption patterns as industrial users decarbonise and alternate supply sources are developed (e.g. hydrogen) could lead to relatively larger declines for gas demand.[12]

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3.2 Outlook for wages

3.2.1 All industries

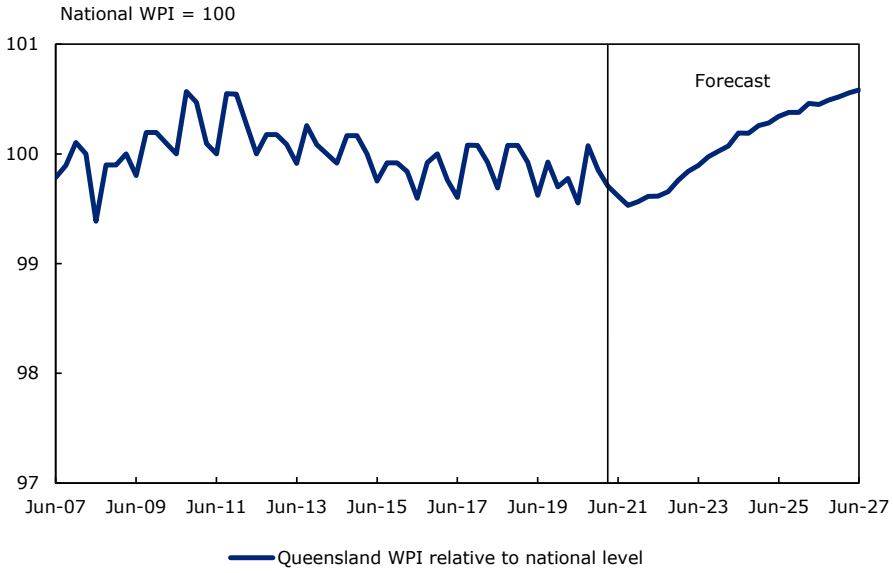
The Queensland WPI grew by 1.6% over the year to March 2021, above growth in the Australian WPI of 1.5%. Compared to pre-COVID levels, wage growth is significantly slower at both the state and national level as border closures and social distancing restrictions weighed heavily on economic activity, consumer and business confidence as well as labour market conditions. Employers responded by introducing a series of temporary wage measures – such as wage freezes and the deferral of wage increases – that added downward pressure on WPI growth through 2020.

The WPI grew by 0.4% in the March quarter of 2021, below the 0.6% growth in the Australian WPI. Wage growth was supported by the implementation of award increases as well as the unwinding of earlier COVID-related wage restrictions for many employees on individual agreements. The pace of wage growth is expected to increase amid the easing of restrictions and subsequent recovery in economic activity, but wage gains will be constrained by significant spare capacity in the labour market.

Public sector wages in Queensland grew by 0.1% in the March quarter of 2021, compared to a 0.5% gain in private sector wages. This reflects the impact of public sector pay freezes implemented in 2020. However public sector wage growth should increase in the second half of 2021 as public servants in the state receive a deferred pay increase in July 2021.

In the short term, Queensland wage growth is forecast to remain below national wage growth (Chart 3.2). This reflects the slower rate of economic growth in Queensland compared to the national average. Over the medium term, Queensland wages are forecast to grow to be above the national average as international borders reopen and the Queensland economy benefits from stronger interstate migration.

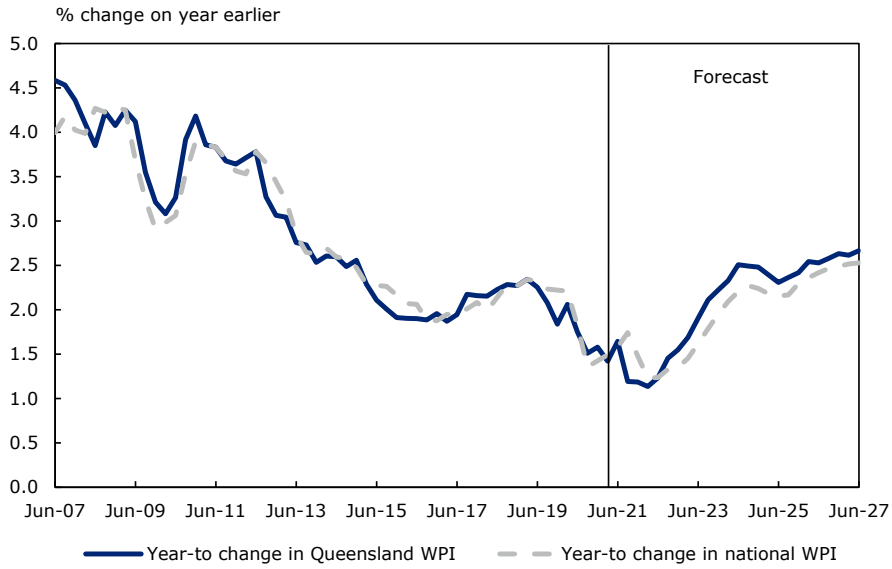
Chart 3.2 Queensland WPI relative to national WPI



Source: ABS, Deloitte Access Economics.

Wage growth in Queensland is forecast to moderate from 1.5% in 2020-21 to 1.2% in 2021-22 as spare capacity in the labour market restrains wage growth. The recovery in wage growth is expected to be gradual. Wage growth is forecast to accelerate to 1.6% in 2022-23 before reaching 2.6% in 2026-27.

Chart 3.3 Queensland general WPI growth

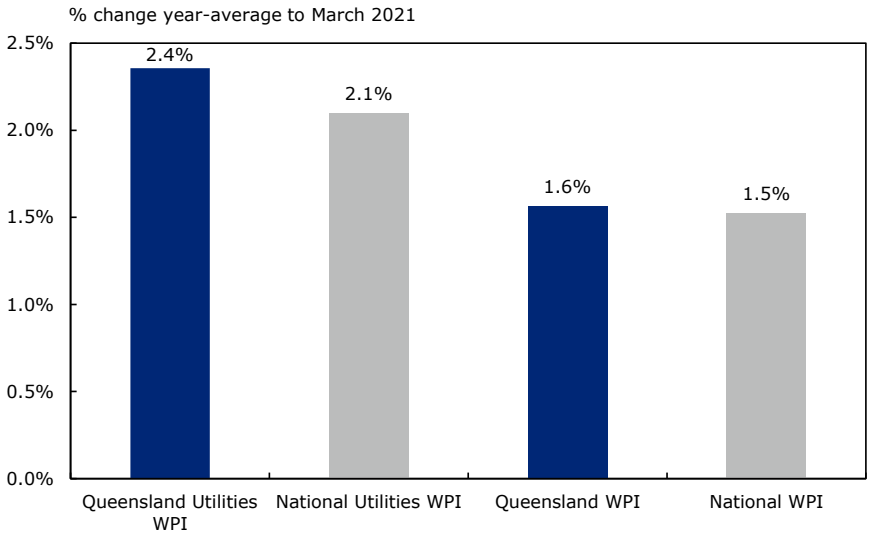


Note: % change on year earlier refers to output growth between a quarter and the same quarter a year earlier.
Source: ABS, Deloitte Access Economics.

3.2.2 Utilities industry wages

Wages in the Queensland utilities industry grew by 2.4% in the year to March 2021 (Chart 3.4). This is above the national average for the utilities industry of 2.1% and remains above the Queensland all industry average of 1.6%. Overall, the utilities industry output has been less affected by COVID-19 than output across most other industries, supporting faster wage growth compared to the all industry average.

Chart 3.4 Comparative WPI annual growth rates, year to March 2021



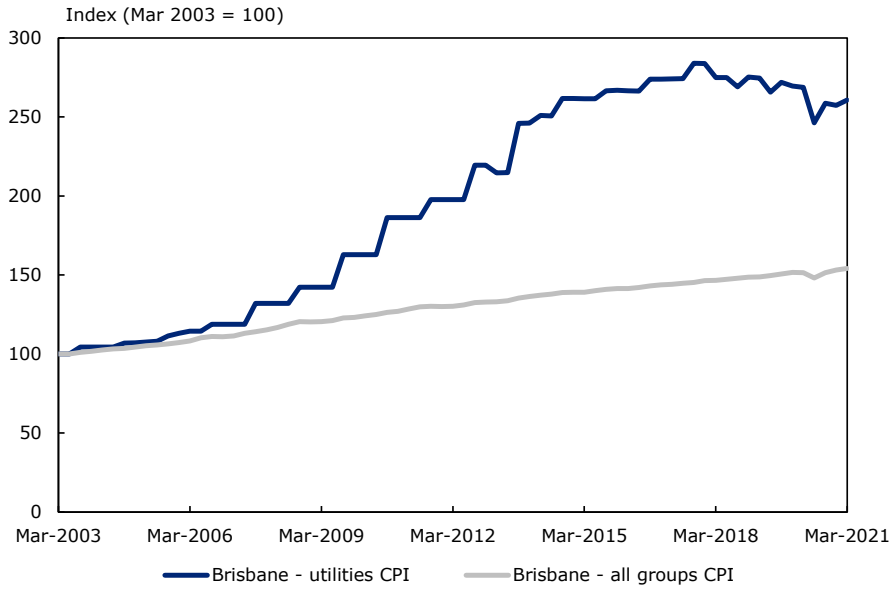
Source: ABS, Deloitte Access Economics.

Utilities prices in Brisbane increased broadly in line with the overall CPI until 2007. Over the next decade utilities CPI rose 8.3% per annum compared to 2.5% for the broader CPI group (see Chart 3.5). Since then utilities prices have fallen by 0.9% per annum while CPI has increased by 0.4% per annum. The growth of rooftop solar PV generation and improvements in energy efficiency have

reduced demand for grid-supplied electricity and continued growth in renewable energy capacity has increased supply. The combination of these factors has weighed on electricity price growth.

In the year to March 2021, the utilities CPI fell by 0.5% compared to a 0.1% increase across all groups. However, the utilities CPI remains well above the all groups CPI following the large increase between 2007 and 2017. Looking ahead, the Australian Energy Market Commission expects annual residential electricity bills to decline by 14.2% from 2019-20 to 2022-23, largely driven by reductions in wholesale and distribution costs.[13]

Chart 3.5 Brisbane utility prices



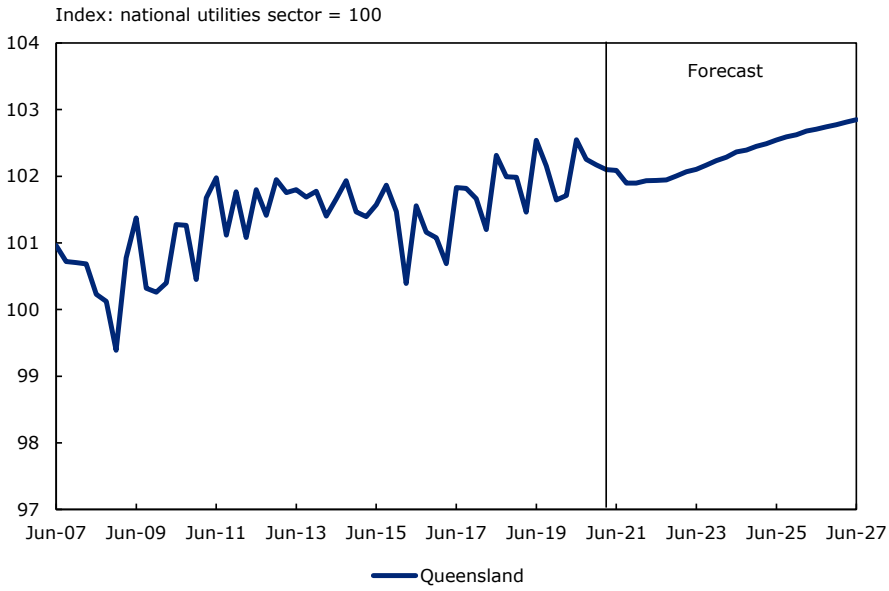
Source: ABS

The Queensland utilities industry WPI has generally increased relative to the national utilities industry WPI over the past decade (Chart 3.6). This reflects the strength of the Queensland economy relative to other Australian states and territories. This is particularly true for periods of high or increasing commodity prices, around 2009 to 2011 and 2016 to present. As the Queensland economy has a large mining industry, high or increasing commodity prices will tend to boost economic activity in the state more than the Australian economy. Higher levels of economic activity have also supported conditions in other Queensland industries which compete with the utilities industry for workers, including the construction industry.

Looking ahead, the Queensland utilities industry WPI is expected to gradually increase relative to the national level as the broader state economy recovers, boosting economic activity and wages.

[13] Australian Energy Market Commission, *Residential Electricity Price Trends 2020* (26 February 2021) <https://www.aemc.gov.au/sites/default/files/2020-12/2020%20Residential%20Electricity%20Price%20Trends%20report%20-%2015122020.pdf>.

Chart 3.6 Queensland utilities WPI relative to national utilities WPI

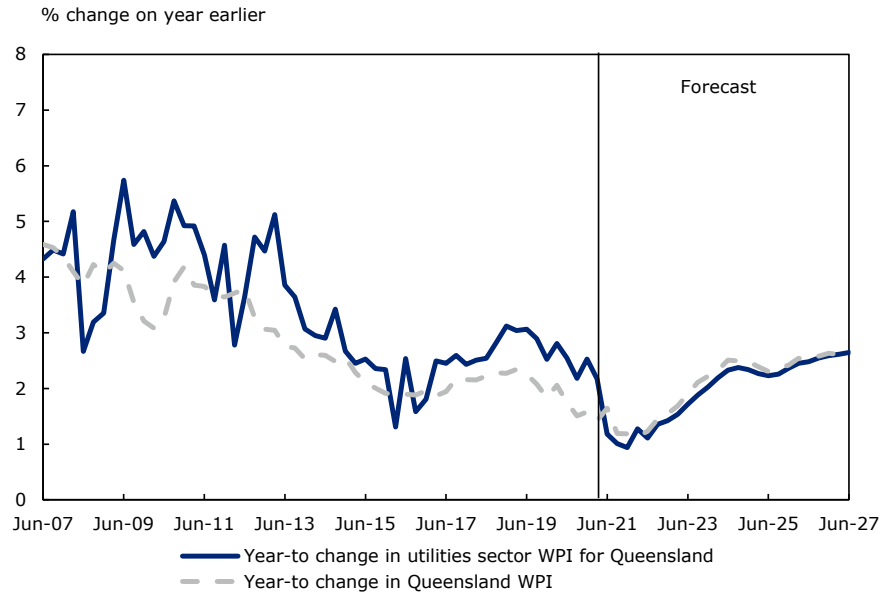


Source: ABS, Deloitte Access Economics.

Wage growth in the Queensland utilities industry is forecast to reach a trough of 1.1% in 2021-22. Wage gains are then expected to accelerate from 2022-23, reaching 2.6% growth in 2026-27 as utilities industry output gradually recovers.

From 2021-22 through to 2025-26, utilities industry wage growth in Queensland is forecast to lag growth for wages in the broader state economy. This partly reflects the forecast for more modest growth in the utilities industry compared to the all industry average. It also reflects the smaller decline for utilities industry wages in 2019-20 and 2020-21 compared to the overall state economy, as wages growth in the broader economy recovers from a larger decline.

Chart 3.7 Queensland utilities general WPI growth



Note: % change on year earlier refers to output growth between a quarter and the same quarter a year earlier.

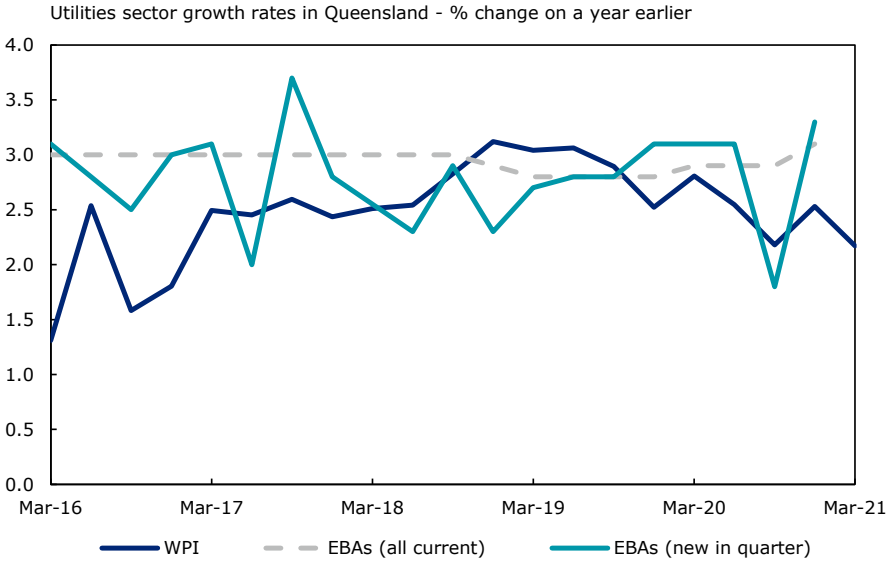
Source: ABS, Deloitte Access Economics.

3.2.2.2 Comparison with EBA outcomes

There were 69 current EBAs in the utilities industry in the December quarter of 2020, covering around 7,300 employees, with an AAWI of 3.1%. Chart 3.8 shows the utilities industry WPI and the outcomes in state EBAs for the industry. The chart shows:

- The AAWI for current and new EBAs in the December quarter of 2020 both increased relative to the September quarter of 2020. The AAWI for new EBAs increased from 1.8% in September to 3.3% in December, with new agreements covering a total of 2,900 employees. The AAWI for current EBA increased from 2.9% to 3.1%.
- WPI growth peaked at 3.1% in the December quarter of 2018 before falling to reach 2.2% in the March quarter of 2021. Over this time the AAWI for new and current EBAs has not exhibited a similar downward trend.

Chart 3.8 Comparative measures of wage growth in the Queensland utilities industry



Note: % change on year earlier refers to output growth between a quarter and the same quarter a year earlier.
Source: ABS, Attorney-General's Department

3.2.3 Labour productivity

Queensland utilities and all industry labour productivity fell by more than the equivalent Australian labour productivity measures in 2019-20. This reflects the proportionally larger impact of COVID-19 border closures on the Queensland economy compared to the Australian economy.

Queensland labour productivity growth is forecast to remain below the national average in 2020-21 as the Queensland economy lags growth in the national economy. Queensland utilities industry labour productivity is forecast to fall by 0.4% in 2020-21 as employment increases relative to output.

The improved economic growth forecast in Queensland in 2021-22 should boost both output and employment. Queensland utilities and all industry labour productivity is forecast to grow by 2.1% in 2021-22 as the Queensland economy recovers from the impact of COVID-19, before moderating thereafter. By 2026-27, Queensland labour productivity growth is forecast to grow in-line with Australian productivity growth and Queensland utilities labour productivity is forecast to grow in-line with Queensland all industry labour productivity growth.

Table 3.2 Queensland and national labour productivity forecasts

Financial year changes in Queensland labour productivity forecasts								
	History	Forecast						
Annual % change	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Queensland - All industries	-1.1	-1.5	2.1	1.9	1.3	0.8	0.8	0.7
Queensland - Utilities	-0.7	-0.4	2.1	2.0	1.2	0.8	0.8	0.7
National - All industries	-0.4	0.1	2.0	2.0	1.1	0.8	0.8	0.7
National - Utilities	-0.4	0.1	2.1	2.0	1.1	0.8	0.8	0.7

Source: ABS, Deloitte Access Economics.

Note: Productivity forecasts at the state level should be interpreted with care. Quarterly State Final Demand data is used to estimate quarterly GSP, which may not fully capture the impact of interstate trade. This can lead to some volatile movements in the first forecast year for state productivity.

3.2.4 Summary results

Table 3.3 Queensland and national wage forecasts

Financial year changes in Queensland and national nominal WPI								
	History	Forecast						
Annual % change	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Queensland - All industries	1.9	1.5	1.2	1.6	2.3	2.4	2.5	2.6
Queensland - Utilities	2.7	2.0	1.1	1.5	2.1	2.3	2.4	2.6
National - All industries	2.1	1.5	1.4	1.4	2.0	2.2	2.3	2.5
National - Utilities	2.7	1.9	1.3	1.4	1.9	2.1	2.2	2.5

Financial year changes in Queensland and national real WPI								
	History	Forecast						
Annual % change	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Queensland - All industries	0.8	0.0	-0.2	0.0	0.2	0.2	0.2	0.4
Queensland - Utilities	1.5	0.4	-0.3	-0.1	0.0	0.0	0.1	0.4
National - All industries	0.8	0.2	0.0	-0.2	-0.1	0.0	0.0	0.3
National - Utilities	1.3	0.6	-0.1	-0.2	-0.3	-0.2	-0.1	0.2

Source: ABS, Deloitte Access Economics.

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