

Wage Price Index forecasts

Prepared for the Australian
Energy Regulator

1 April 2021

[REDACTED]
Australian Energy Regulator
By email: [REDACTED]

Dear [REDACTED]

Report on wage price index forecasts

I enclose Deloitte Access Economics' report on the Wage Price Index (WPI) for Australia, Victoria, South Australia and the Australian Capital Territory prepared for the Australian Energy Regulator.

This report has been drafted on the basis of the forecasts that underpin the December 2020 quarter *Business Outlook* and *Investment Monitor* publications that rely on the September 2020 quarter Australian Bureau of Statistics (ABS) National Accounts and the December 2020 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

[REDACTED]
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Partner
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Glossary

AAWI	Average Annualised Wage Increase
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AWE	Average Weekly Earnings
AWOTE	Average Weekly Ordinary Time Earnings
CPI	Consumer Price Index
EBA	Enterprise Bargaining Agreement
GDP	Gross Domestic Product
GW	Gigawatt
GSP	Gross State Product
ICRC	Independent Competition and Regulatory Commission
LNG	Liquefied Natural Gas
MW	Megawatt
NEM	National Electricity Market
PV	Photovoltaics
RBA	Reserve Bank of Australia
REZ	Renewable Energy Zone
SFD	State Final Demand
WPI	Wage Price Index

Executive Summary

Australian wage growth improves in late 2020 but remains near record lows

The Wage Price Index (WPI) grew by 0.6% in the December quarter of 2020, to be 1.7% higher for the year. This represents the fastest quarterly growth rate since mid-2019, with much of this gain driven by the unwinding of temporary pay reductions for some workers and the impact of changes to award wages.

Many businesses introduced temporary wage cuts or freezes in response to the outbreak of COVID-19 in early 2020. In most cases wages have returned to previous levels, adding to WPI growth in the December quarter of 2020. The industry most affected by wage restorations was the professional, scientific and technical services industry, while New South Wales and Victoria were the states most affected.

The Fair Work Commission's (FWC) decision to stagger award wage rises has had a material impact on WPI growth in 2020. Increases to awards typically occur on 1 July and place upward pressure on WPI growth in the September quarter. In June 2020, the FWC announced a 1.75% increase in the minimum wage for approximately 25% of award recipients from 1 July 2020. This placed upward pressure on WPI growth in the September quarter, but to a smaller extent than in previous years (where all award recipients would typically see an increase). Approximately 40% of award recipients received the increase on 1 November 2020, placing upward pressure on WPI growth in the December quarter of 2020. The final 35% of award recipients received the increase on 1 February 2021 and this will add to WPI growth in the March quarter of 2021.

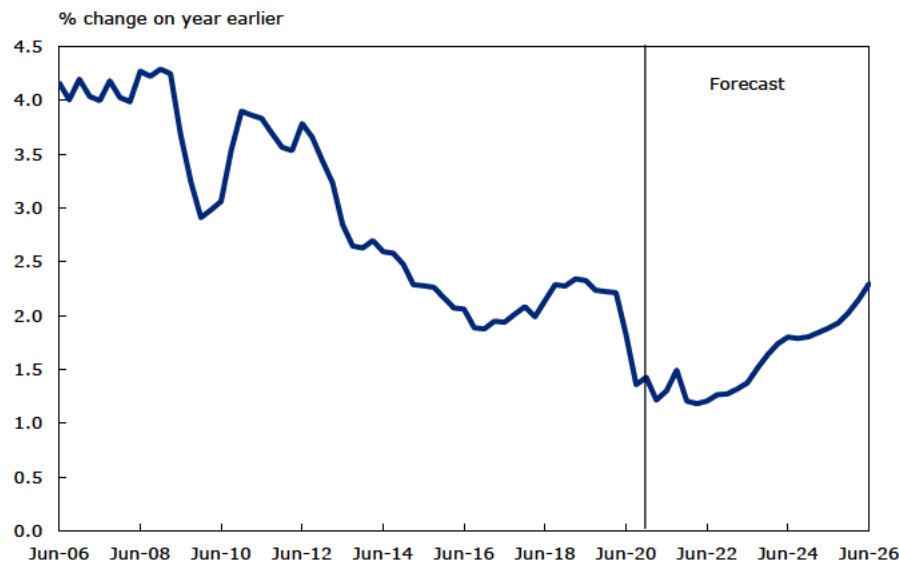
There are a number of structural and cyclical factors that may limit the pace of wage gains in the coming years. This includes high levels of household debt and increased uncertainty around the economic outlook; businesses remaining cautious about adding to their wage bill; fewer workers voluntarily 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.

Wage gains are forecast to remain modest in 2020-21 and 2021-22 at 1.3%, reflective of remaining spare capacity in the labour market. WPI growth is expected to pick-up from 2022-23, supported by government spending, an increase in Consumer Price Index (CPI) inflation, continued employment gains, and an increase in award wages and the minimum wage. The pace of wage gains is expected to accelerate over the medium term, growing by 1.7% in 2023-24 before reaching 2.1% in 2025-26.

Compared with the forecasts presented in Report 1 (provided by Deloitte Access Economics to the Australian Energy Regulator in August 2020), the forecasts presented in this report have stronger wage growth in the short term, but accelerate more gradually towards the end of the forecast period. This reflects the impact of the Victorian lockdown from July to October 2020, a faster recovery than anticipated, expectations for continued low inflation as well as higher global COVID-19 case numbers.

Compared with Report 1, wage growth has been revised lower by a cumulative 0.2 percentage points across the forecast period from 2020-21 to 2025-26.

Chart i National WPI forecasts



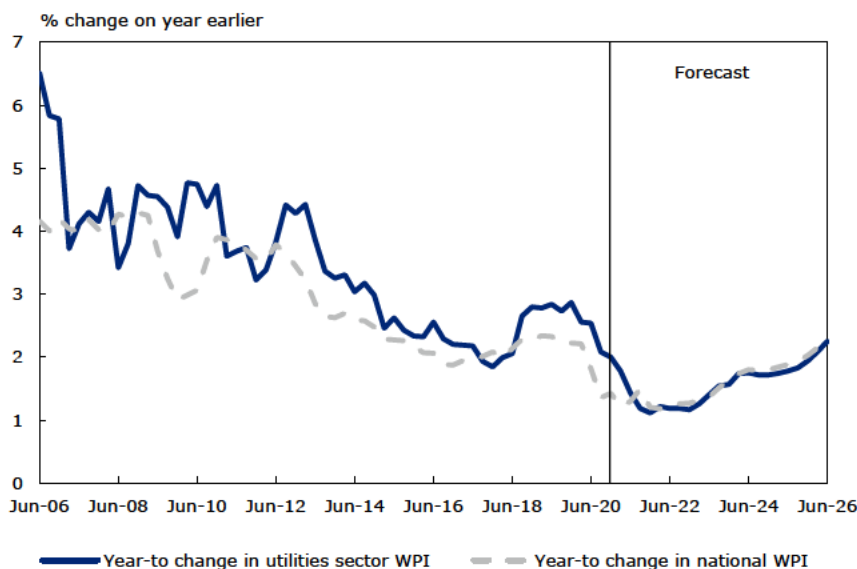
Note: % change on year earlier refers to output growth between a quarter and the same quarter a year earlier.
Source: ABS, Deloitte Access Economics.

Utilities wage growth to fall but remain above all industry wage growth through 2021

Utilities industry wages grew by 0.5% in the December quarter of 2020 to be 2.3% 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 late-2018.

Wage gains in the utilities industry have outperformed wages in the wider Australian economy for much of the past decade. The outperformance of wage gains in the utilities industry has not been driven by the outperformance of industry output growth. Utilities industry output growth has remained below growth in the wider economy from 2008-09 to 2019-20. Utilities industry output is forecast to marginally outperform the broader economy in 2020-21 as COVID-19 weighs more heavily on services industries. Utilities industry output is forecast to slightly underperform from 2021-22 to 2025-26.

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.

The strength of utilities wage gains has not been driven by an improvement in labour productivity. According to the ABS, utilities labour productivity (measured on a quality adjusted hours worked basis) fell by 3% in 2019-20 and remains more than two fifths below the peak in 2000-01. The recent outperformance of utilities wages may be due to strong gains in utilities employment since 2017-18, growth in output in industries such as mining and civil infrastructure construction (that compete with the utilities industry for labour), as well as factors that are difficult to observe such as changes in required skill levels.

Utilities industry wages have been negatively affected by COVID-19, but by less than industries most affected by restrictions such as the arts, tourism, retail and education. Utilities WPI is forecast to grow by 1.8% in 2020-21 before slowing to 1.2% in 2021-22 amid a fall in both utilities output and employment. Wage gains are forecast to accelerate from 2022-23, reaching 2.0% in 2025-26. 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.

Compared to the forecasts in Report 1, utilities wage growth has been revised up by a cumulative 0.4 percentage points across the forecast period from 2020-21 to 2025-26. This is largely due to the resilience of utilities WPI growth through 2020 and the faster than expected economic recovery.

Utilities wage growth across all states and territories weaker in 2020

Wage growth for the utilities industry in **Victoria** was 2.6% in 2020.

- The Victorian utilities industry WPI has steadily increased relative to the national utilities industry WPI over the past decade. This reflects the strength of the Victorian economy relative to other Australian states and territories, faster growth in the Victorian utilities industry compared to the national utilities industry, as well as robust conditions in the Victorian construction industry – which competes with the utilities industry for workers.
- Victorian utilities industry wage growth is expected to slow to 1.9% in 2020-21 as COVID-19 lockdowns and restrictions weigh heavily on output and employment in the Victorian economy. Utilities wages are forecast to grow by 0.9% in 2021-22 and to reach 1.9% in 2025-26.

Deloitte Access Economics estimates that the **South Australian** utilities WPI grew by 1.9% 2020.

- Utilities wage growth in South Australia has been lower than the national utilities industry for the past five years. Conditions in the South Australian utilities industry have been affected by the closure of automotive manufacturing and more challenging conditions for other manufacturers (which reduced industrial demand for electricity), the relatively rapid uptake of rooftop photovoltaics (PV) (which reduces demand for grid-supplied electricity), and low rates of population growth (which weighs on new electricity connections).
- South Australia utilities wage growth is forecast to moderate to 1.9% in 2020-21 amid the impact of COVID-19. Wage growth is forecast to reach a trough in 2021-22 of 0.8% due to weakness in the broader labour market before accelerating to 1.8% by 2025-26.

It is estimated that **Australian Capital Territory** utilities WPI grew by 2.0% in 2020.

- After declining for much of the past decade the utilities WPI in the Australian Capital Territory is expected to grow relative to national utilities WPI over the coming years. This is driven by forecasts for strong growth in Australian Capital Territory output and labour market conditions relative to Australia as a whole.
- Australian Capital Territory utilities wages are forecast to grow by 1.4% in 2020-21 before slowing to 1.1% in 2021-22. Wage growth is then expected to accelerate amid an acceleration in utilities sector output, reaching a gain of 2.3% in 2025-26.

Australia's economy to recover from COVID-19 recession in 2021

Gross Domestic Product (GDP) contracted by 2.4% in 2020 amid the impact of COVID-19. This represents the first recession in nearly 30 years. However, compared to many other countries, Australia has been relatively successful in controlling the spread of COVID-19. The introduction of strict lockdowns and low virus case numbers have enabled Australia's economy to reopen much sooner than many other countries.

Private consumption rebounded strongly in the second half of 2020 supported by a strengthening labour market, policy support and improving consumer confidence. 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 almost 50% in February 2021. According to the NAB Business Survey, business confidence remains well above its long-run average, while forward looking measures such as capacity utilisation and forward orders now remain around pre-COVID levels.

Australia's labour market has recovered strongly following weakness in early 2020. The number of people employed fell by 878,000 from February 2020 to May 2020, but has subsequently increased by 876,000 from May 2020 to February 2021. The unemployment rate has fallen to 5.8% in February 2021 from a peak of 7.5% in July 2020. The participation rate remains near its record high, and the underemployment rate continues to fall.

While the recovery in the Australian economy is underway, COVID-19 has resulted in some ongoing damage to the Australian economy. Closed international borders mean the population level is lower than it would have otherwise been. By mid-2022, there will be approximately 600,000 fewer people living in Australia than forecast prior to the outbreak of COVID-19. There will have been less investment compared to pre-COVID forecasts as well as a loss in productivity (measured as output divided by employment) in some industries.

The economy is expected to return to the size it was in late 2019 by mid-2021. GDP is expected to grow by 1.2% in 2020-21 before accelerating to 3.3% in 2021-22 and 3.6% in 2022-23.

Utilities output to fall amid weak demand

Utilities industry output fell by 2.7% in 2020. Activity fell in the electricity supply (-3.2%) and water supply and waste services (-2.9%) sub-industries, which together account for more than 95% of industry output. Output in the gas supply sub-industry grew by 6.5% in 2020.

Average operational demand in the National Electricity Market (NEM) fell in December 2020 to its lowest level since 2001. This was driven by mild weather which reduced cooling requirements, continued growth in distributed PV capacity, and a seasonal drop in demand.

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

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

Utilities industry output is expected to grow by 1.7% in 2020-21 compared to a 1.2% gain in the wider economy. This is largely due to the utilities industry being less exposed to the negative impacts of COVID-19 than many other industries. Utilities industry output is expected to grow at rates below the all industry average from 2021-22 as the economic recovery leads to stronger growth in industries most adversely affected by COVID-19 restrictions.

Table i State WPI forecasts, all industries

Financial year changes in nominal WPI

Annual % change	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
National	2.1	1.3	1.3	1.3	1.7	1.8	2.1
Victoria	2.4	1.2	1.5	1.5	1.6	1.7	2.0
South Australia	2.3	1.5	1.0	1.2	1.6	1.8	1.9
Australian Capital Territory	2.3	1.3	1.2	1.6	2.0	2.1	2.4

Financial year changes in real WPI

Annual % change	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
National	0.8	0.2	0.3	-0.4	-0.5	-0.4	-0.1
Victoria	0.7	0.5	0.4	-0.2	-0.6	-0.5	-0.1
South Australia	0.5	0.4	0.0	-0.5	-0.5	-0.5	-0.3
Australian Capital Territory	1.1	-0.3	0.0	-0.1	-0.2	-0.2	0.2

Year ending March changes in nominal WPI

Annual % change	History		Forecast					
	2020	2021	2022	2023	2024	2025	2026	2027
National	2.2	1.5	1.3	1.3	1.6	1.8	2.0	2.5
Victoria	2.7	1.3	1.4	1.4	1.6	1.7	1.9	2.4

Year ending March changes in real WPI

Annual % change	History		Forecast					
	2020	2021	2022	2023	2024	2025	2026	2027
National	0.4	1.1	-0.1	-0.2	-0.5	-0.5	-0.2	0.4
Victoria	0.8	1.0	0.2	0.0	-0.5	-0.6	-0.2	0.3

Note: annual % change refers to the year-average change.

Source: ABS, Deloitte Access Economics.

Table ii Key variables, Australia

Annual % change	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Output	-0.2	1.2	3.3	3.6	3.1	2.3	2.3
Consumer price index	1.3	1.1	1.0	1.7	2.2	2.3	2.2
Wage Price index	2.1	1.3	1.3	1.3	1.7	1.8	2.1
Ave. weekly earnings	3.4	4.5	-0.9	0.5	1.4	1.5	1.4
Ave. weekly ordinary time earnings	3.6	4.2	-0.1	1.0	2.2	2.5	2.2

Source: ABS, Deloitte Access Economics.

Table iii Economic variables, Australia

Annual % change (unless noted)	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Consumption							
Private sector	-3.0	1.4	3.0	2.4	3.9	3.2	3.0
Public sector	6.5	5.0	1.7	-0.8	-1.1	1.1	1.4
Private sector investment							
Non-business housing	-8.2	-5.6	5.4	17.2	4.1	-0.8	0.0
Non-business real estate	0.9	7.4	5.3	16.0	3.7	-1.2	-0.6
Non-residential building	3.6	-22.9	2.6	30.0	12.1	2.1	1.4
Engineering construction	-5.4	0.3	8.0	8.6	2.3	1.6	0.9
Machinery and equipment	-5.3	2.2	8.1	1.3	8.4	3.8	2.8
IP and livestock	2.0	6.6	5.3	26.5	11.6	8.3	8.0
Public investment							
General Government	4.5	30.7	7.9	-2.9	-3.0	-2.8	0.6
Public enterprises	-5.4	14.3	4.3	1.8	3.2	1.9	1.7
Domestic final demand							
Private sector	-3.2	0.3	3.8	5.5	4.7	2.9	2.8
Public sector	5.6	9.5	3.0	-1.1	-1.2	0.4	1.3
Gross national expenditure							
	-1.3	2.9	3.9	3.7	3.2	2.3	2.4
International trade							
Exports	-1.8	-5.5	8.3	6.5	5.5	3.7	3.8
Imports	-7.4	1.6	11.8	7.4	5.9	3.5	4.1
Net (% additon to growth)	1.4	-2.8	-0.2	-0.2	0.0	0.2	-0.1
Total output (GDP)							
	-0.2	1.2	3.3	3.6	3.1	2.3	2.3
Non farm output							
	0.0	1.2	3.1	3.6	3.1	2.3	2.4
Employment							
	0.1	0.6	1.4	1.5	2.0	1.7	1.6
Unemployment rate (%)							
	5.6	6.7	6.4	6.0	5.4	5.1	5.0

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		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Consumer price index (CPI)							
	1.3	1.1	1.0	1.7	2.2	2.3	2.2
Wage price index (WPI)							
Nominal	2.1	1.3	1.3	1.3	1.7	1.8	2.1
Real	0.8	0.2	0.3	-0.4	-0.5	-0.4	-0.1
Average weekly eamings (AWE)							
Nominal	3.4	4.5	-0.9	0.5	1.4	1.5	1.4
Real	2.0	3.4	-1.9	-1.1	-0.8	-0.8	-0.7
Average weekly ordinary time earnings (AWOTE)							
Nominal	3.6	4.2	-0.1	1.0	2.2	2.5	2.2
Real	2.3	3.1	-1.1	-0.7	0.0	0.3	0.0
Unit labour costs							
Nominal	-0.2	-4.1	8.9	1.5	2.1	2.3	1.6
Real	-1.6	-5.1	7.9	-0.1	-0.1	0.0	-0.6

Source: ABS, Deloitte Access Economics.

Table v Industry wages, Australia

Financial year changes in nominal national industry sector WPI

Annual % change	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
All industries	2.1	1.3	1.3	1.3	1.7	1.8	2.1
Utilities	2.7	1.8	1.2	1.3	1.7	1.7	2.0

Financial year changes in real national industry sector WPI

Annual % change	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
All industries	0.8	0.2	0.3	-0.4	-0.5	-0.4	-0.1
Utilities	1.3	0.7	0.2	-0.4	-0.6	-0.5	-0.1

Year ending March changes in nominal national industry sector WPI

Annual % change	History		Forecast					
	2020	2021	2022	2023	2024	2025	2026	2027
All industries	2.2	1.5	1.3	1.3	1.6	1.8	2.0	2.5
Utilities	2.7	2.1	1.2	1.2	1.6	1.7	1.9	2.6

Year ending March changes in real national industry sector WPI

Annual % change	History		Forecast					
	2020	2021	2022	2023	2024	2025	2026	2027
All industries	0.4	1.1	-0.1	-0.2	-0.5	-0.5	-0.2	0.4
Utilities	0.9	1.7	-0.1	-0.3	-0.5	-0.6	-0.3	0.4

Source: ABS, Deloitte Access Economics.

Table vi State utilities industry nominal wages

Financial year changes in nominal utilities sector WPI

Annual % change	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
National	2.7	1.8	1.2	1.3	1.7	1.7	2.0
Victoria	3.2	1.9	0.9	1.3	1.6	1.6	1.9
South Australia*	2.3	1.9	0.8	1.2	1.6	1.7	1.8
Australian Capital Territory*	2.3	1.4	1.1	1.6	1.9	2.0	2.3

Year ending March changes in nominal utilities sector WPI

Annual % change	History		Forecast					
	2020	2021	2022	2023	2024	2025	2026	2027
National	2.7	2.1	1.2	1.2	1.6	1.7	1.9	2.6
Victoria	3.3	2.3	1.1	1.2	1.5	1.6	1.8	2.5

*Historical data estimated using Deloitte Access Economics' wage price model. Unavailable from the ABS.

Note: Victorian WPI growth in 2021-22 is equal to the forecast change in WPI from the average of the first six months of 2021 to the average WPI over the twelve months of 2021-22. This adjusted has been applied to account for the transition towards a new regulatory period commencing 1 July 2021.

Source: ABS, Deloitte Access Economics.

Table vii State utilities industry real wages

Financial year changes in real utilities sector WPI

Annual % change	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
National	1.3	0.7	0.2	-0.4	-0.6	-0.5	-0.1
Victoria	1.5	1.2	0.1	-0.4	-0.7	-0.7	-0.2
South Australia*	0.5	0.8	-0.2	-0.5	-0.6	-0.6	-0.4
Australian Capital Territory*	1.1	-0.2	-0.1	0.0	-0.3	-0.3	0.1

Year ending March changes in real utilities sector WPI

Annual % change	History		Forecast					
	2020	2021	2022	2023	2024	2025	2026	2027
National	0.9	1.7	-0.1	-0.3	-0.5	-0.6	-0.3	0.4
Victoria	1.3	2.0	-0.2	-0.2	-0.6	-0.7	-0.3	0.3

*Historical data estimated using Deloitte Access Economics' wage price model. Unavailable from the ABS.

Note: Victorian WPI growth in 2021-22 is equal to the forecast change in WPI from the average of the first six months of 2021 to the average WPI over the twelve months of 2021-22. This adjusted has been applied to account for the transition towards a new regulatory period commencing 1 July 2021.

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 2025-26 for the following jurisdictions:

- Australia
- Victoria
- South Australia
- The Australian Capital Territory.

Forecasts from 1 April 2022 to 30 March 2027 are also provided for Australia and Victoria.

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.

For the states and territories covered in this report, the Australian Bureau of Statistics (ABS) only releases WPI estimates in the utilities industry for Victoria. For those states and territories where the ABS does not release WPI estimates, Deloitte Access Economics uses a range of related data to estimate the utilities industry WPI.

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

2 Australia

2.1 Economic outlook

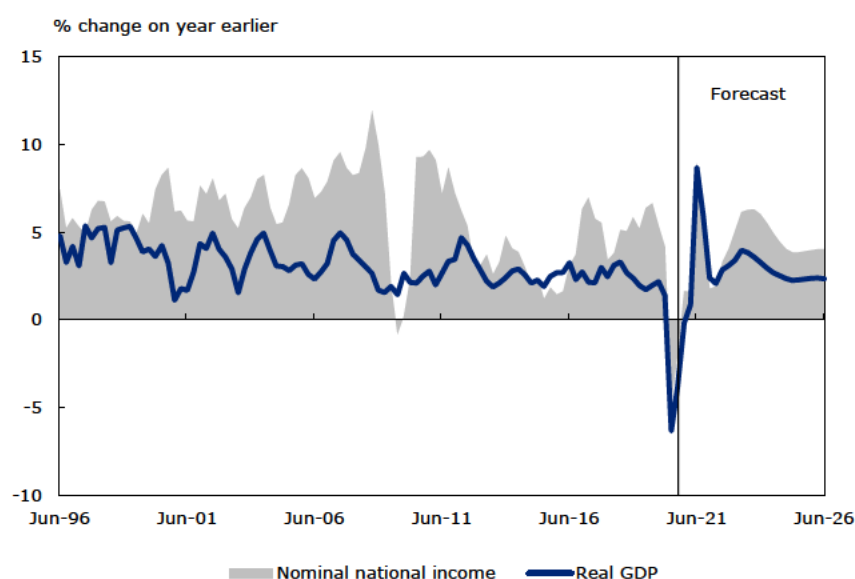
2.1.1 Overview

Gross Domestic Product (GDP) contracted by 2.4% in 2020 amid the impact of COVID-19. This represents the first recession in nearly 30 years and the largest recession since the Great Depression of the 1930s. However, compared to many other countries, Australia has been relatively successful in controlling the spread of COVID-19. The introduction of strict lockdowns and subsequent low virus case numbers have enabled Australia's economy to reopen much sooner than many other countries.

The largest declines in activity have been in consumer spending – which accounts for around one half of the Australian economy. Consumer spending fell sharply in the first half of 2020 due to the impact of lockdowns and other containment measures, as well as weakness in consumer confidence. The largest declines in spending occurred in segments that were directly affected by restrictions such as discretionary retail, accommodation, cafes and restaurants.

Private consumption rebounded strongly in the second half of 2020 supported by a strengthening labour market, policy support and improving consumer confidence. Overall, private consumption is expected to grow by 1.4% in 2020-21 before accelerating to 3.0% in 2021-22.

Chart 2.1 Australian production and national income growth

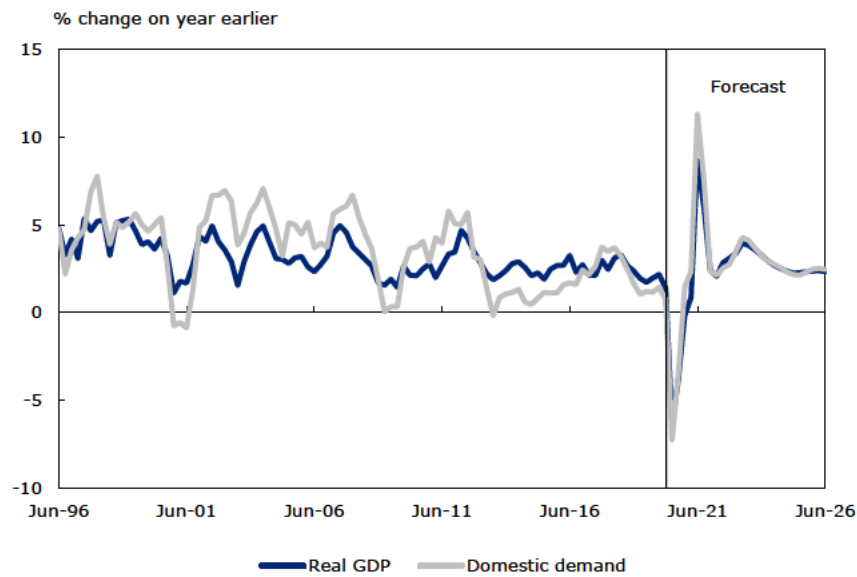


Note: % change on year earlier refers to output growth between a quarter and the same quarter a year earlier.
Source: ABS, Deloitte Access Economics.

Australia's labour market has recovered strongly following weakness in early 2020. The number of people employed fell by 878,000 from February 2020 to May 2020, but has subsequently increased by 876,000 from May 2020 to February 2021. The unemployment rate has fallen to 5.8% in February 2021 from a peak of 7.5% in July 2020, the participation rate remains near its record high, and the underemployment rate continues to fall.

COVID-19 is expected to have a similar impact on both Australia's economy and domestic demand (see Chart 2.2). The eventual recovery in demand will underpin the improvement in the Australian economy. Strong gains in both consumer and business confidence suggest that demand will grow strongly in 2021.

Chart 2.2 Domestic demand and GDP

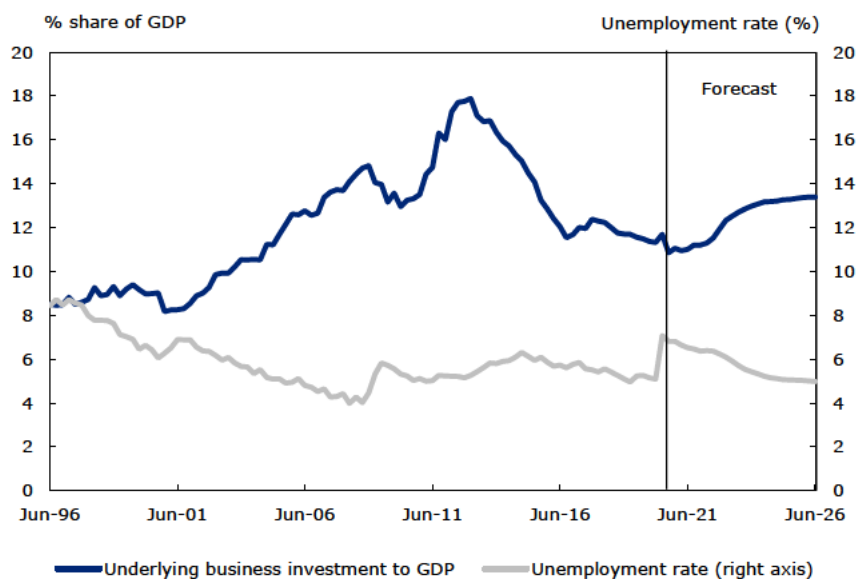


Note: % change on year earlier refers to output growth between a quarter and the same quarter a year earlier.
 Source: ABS, Deloitte Access Economics.

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 almost 50% in February 2021. According to the NAB Business Survey, business confidence remains well above its long-run average, while forward looking measures such as capacity utilisation and forward orders now remain around pre-COVID levels.

While the recovery in the Australian economy is underway, there will be lingering challenges. The key challenge will be a lack of demand for both labour and capital. That results in both higher unemployment (less demand for labour) and weaker business investment (less demand for capital).

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



Source: ABS, Deloitte Access Economics.

Business investment is estimated to have fallen by 4.8% in 2020 and is currently the weakest part of the economy. Business confidence fell and risk aversion increased during the pandemic. For many businesses, the cost of mortgages or rent, together with low revenue, means that there is a risk of foreclosure and bankruptcy, particularly as government assistance is rolled back. Business investment is expected to gradually recover, supported by Australian Government tax incentives announced in the most recent budget and improving business profits. Business investment in Australia is expected to fall by 3.1% in 2020-21 before recovering to grow by 6.4% in 2021-22.

While the Australian economy is expected to return to pre-COVID rates of growth, COVID-19 has resulted in some ongoing damage to the Australian economy:

- Closed international borders mean the population level is lower than it otherwise would have been. By mid-2022, there will be approximately 600,000 fewer people living in Australia than forecast prior to the outbreak of COVID-19.
- There will have been less investment compared to pre-COVID forecasts. That means fewer computers, trucks, factories and other capital equipment, while relationships with suppliers will have been stretched (and in some cases severed).
- A loss in productivity (measured as output divided by employment) in some industries as physical distancing and other changes will have led to consumers wanting a different mix of industries globally and in Australia.

The Australian economy is expected to return to the size it was in late 2019 by mid-2021. Economies can grow faster following recessions as there are unemployed people who can be employed again, there are empty shops and offices that can be filled, and there are businesses that can start to work at their full capacity again. Overall, real GDP is expected to grow by 1.2% in 2020-21 before accelerating to a gain of 3.3% in 2021-22 and 3.6% 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 2.7% in 2020. Activity fell in the electricity supply (-3.2%) and water supply and waste services (-2.9%) sub-industries, which together account for more than 95% of industry output. Elsewhere, output in the gas supply sub-industry grew by 6.5% in 2020.

Average operational demand in the National Electricity Market (NEM) fell in December 2020 to its lowest level since 2001. This was driven by mild weather which reduced cooling requirements, continued growth in distributed photovoltaic (PV) capacity (with a record 3 GW added nationally in 2020), and a seasonal drop in demand.

COVID-19 has not materially impacted overall electricity demand, but has materially impacted consumption patterns. Demand from businesses and industrial users has decreased amid the impact of workplace restrictions, while residential demand has increased as more people were 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

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>.

less energy-intensive industries compared to more energy-intensive industries such as manufacturing.

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.
- 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).

Wholesale electricity prices have varied sharply by state in recent quarters. Prices continued to decrease in Victoria and South Australia with low demand and increased wind and solar output, while prices increased in New South Wales and Queensland with low coal-fired generation and constraints on imports from other NEM regions.

Total gas demand increased by 2% from December 2019 to December 2020. Queensland LNG exports grew strongly from mid-2020 amid high demand from Asia. This more than offset a 29% decline in NEM gas powered electricity generation from December 2019 to December 2020. Gas powered generation demand has fallen to its lowest level since 2005, with declines in all states except Queensland.

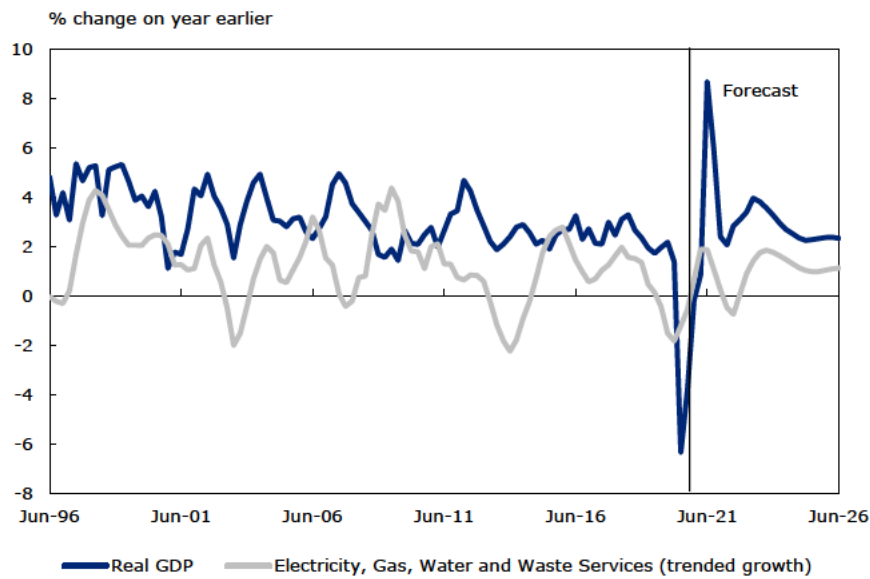
Quarterly average gas prices increased in all NEM regions in December 2020, ending a run of declines stretching back to early 2019. This has been driven by increased oil prices as well as increased Queensland LNG exports. Gas prices are highest in Queensland and lowest in Victoria, driven by relatively high and low gas demand respectively.

According to the AEMO 2020 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 2023.² Gas supply restrictions and curtailment of gas powered electricity generation may be necessary from 2024 in the absence of new gas developments, LNG import terminals, or upgrades to pipeline infrastructure.

Utilities industry output is expected to grow by 1.7% in 2020-21 compared to a 1.2% gain in the wider economy. This is largely due to the utilities industry being less exposed to the negative impacts of COVID-19 than many other industries. Utilities industry output is expected to grow at rates below the all industry average from 2021-22 as the economic recovery leads to stronger growth in industries more adversely affected by COVID-19 restrictions.

² Australian Energy Market Operator, *2020 Gas Statement of Opportunities* (27 March 2020) <https://aemo.com.au/-/media/files/gas/national_planning_and_forecasting/gsoo/2020/2020-gas-statement-of-opportunities.pdf?la=en>.

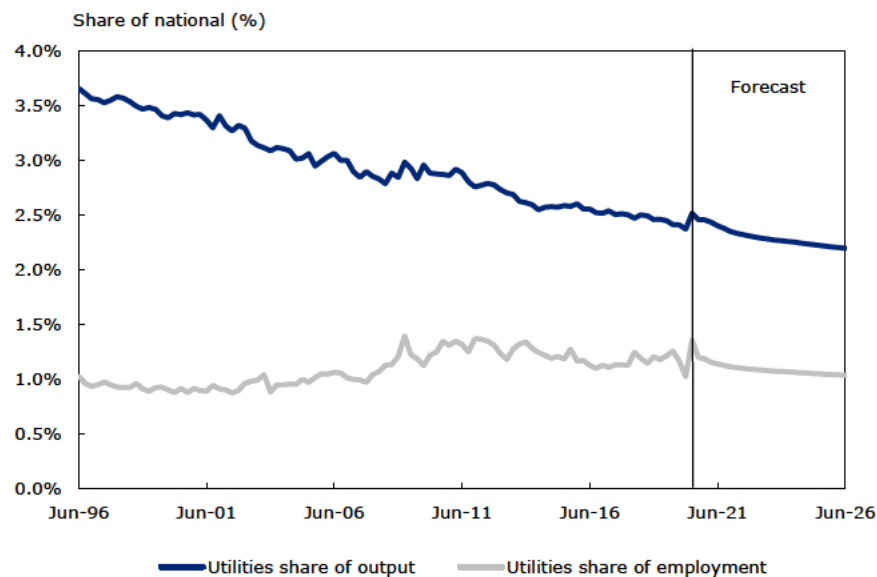
Chart 2.4 Utilities industry output and GDP



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

The utilities industry is forecast to grow as share of national output and employment in 2020 as other industries experience relatively large downturns in activity. From 2021-22 to 2025-26, 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 Wage Price Index (WPI) grew by 0.6% in the December quarter of 2020, to be 1.7% higher for the year. This represents the fastest quarterly growth rate since mid-2019, with much of this gain driven by the unwinding of temporary pay reductions for some workers and the impact of changes to award wages.

Many businesses sought to manage costs by introducing temporary wage cuts or freezes in response to the outbreak of COVID-19 in early 2020. In most cases wages have returned to previous levels, placing upward pressure on WPI growth in the December quarter of 2020. The industry most affected by wage restorations was the professional, scientific and technical services industry (which saw growth of 1.2% in December 2020), while New South Wales and Victoria were the states most affected.

The WPI for the public sector increased by 0.3% in December 2020, below the 0.7% increase in the private sector WPI. Public sector wage growth is expected to accelerate through 2021 as some wage freezes and wage cap reductions are unwound.

The FWC's decision to stagger award wage rises has had a material impact on WPI growth in 2020. Increases to awards typically occur on 1 July and place upward pressure on WPI growth in the September quarter. In June 2020, the FWC announced a 1.75% increase in the minimum wage for approximately 25% of award recipients from 1 July 2020. This placed upward pressure on WPI growth in the September quarter, but to a smaller extent than in previous years (where all award recipients would typically see an increase). Approximately 40% of award recipients received the increase on 1 November 2020, placing upward pressure on WPI growth in the December quarter of 2020. The final 35% of award recipients received the increase on 1 February 2021 and this will add to WPI growth in the March quarter of 2021.

Wage gains are forecast to remain modest in 2020-21 and 2021-22 reflective of spare capacity in the labour market. WPI growth is expected to accelerate 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 increased 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 Reserve Bank of Australia (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.

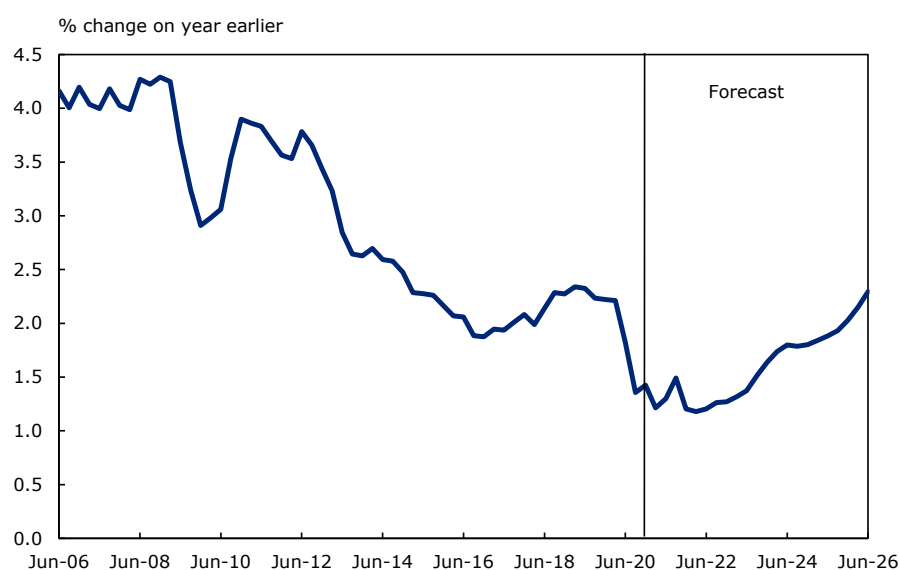
- Trends such as automation of work processes, an increase in contract work, and competitive pressures from the internationalisation of services trade have all combined to restrain workers’ bargaining power. It is possible that these trends are making workers feel less secure about their future employment 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 to fall to 1.3% in 2020-21 remain at that rate through to 2022-23. The pace of wage gains is then expected to accelerate over the medium term, growing by 1.7% in 2023-24 before reaching 2.1% in 2025-26.

Compared with the forecasts presented in Report 1, the current forecasts have stronger wage growth in the short term, but accelerate more gradually towards the end of the forecast period. This reflects the impact of the Victorian lockdown from July 2020 to October 2020, a faster recovery than anticipated, expectations for continued low inflation as well as higher global COVID-19 case numbers.

Wage growth has been revised lower by a cumulative 0.2 percentage points across the forecast period from 2020-21 to 2025-26.

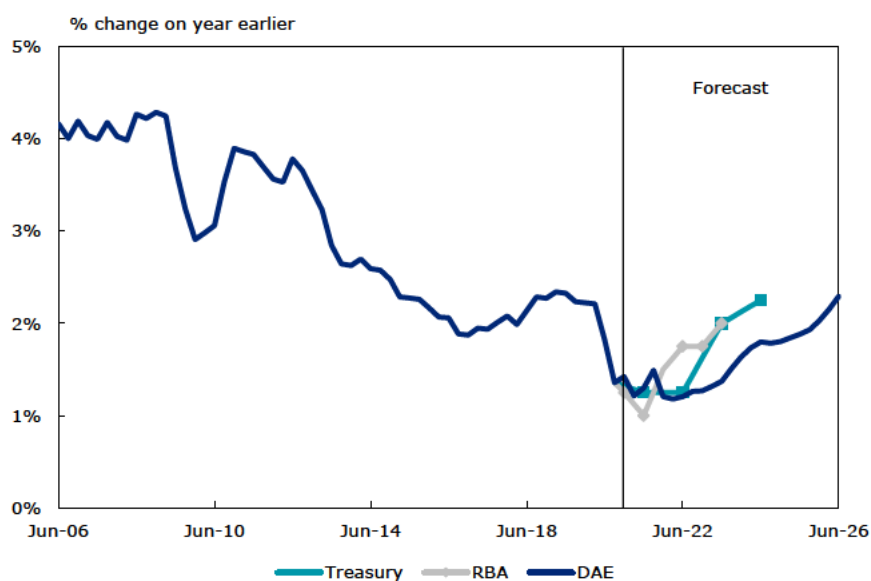
Chart 2.6 National WPI forecasts



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 (December 2020 last WPI actual) a more modest slowdown in wage growth compared to the latest forecasts released by the RBA in its February 2021 *Statement of Monetary Policy* (September 2020 last WPI actual), but a more gradual acceleration in the pace of wage growth over the medium term. Deloitte Access Economics forecasts a similar rate of wage growth over the short term compared to the Commonwealth Treasury forecasts encompassed in the *2020-21 Mid-Year Economic and Fiscal Outlook* released in December 2020 (September 2020 last WPI actual), and a more gradual acceleration in the pace of wage growth over the medium term.

Chart 2.7 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 Mid-Year Economic and Fiscal Outlook 2020-21, Deloitte Access Economics, RBA February 2021 Statement of Monetary Policy.

Table 2.1 National wage forecasts

Financial year nominal wages forecasts

Annual % change	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Wage price index	2.1	1.3	1.3	1.3	1.7	1.8	2.1
Average weekly earnings	3.4	4.5	-0.9	0.5	1.4	1.5	1.4
Ordinary time earnings	3.6	4.2	-0.1	1.0	2.2	2.5	2.2
Unit labour costs	-0.2	-4.1	8.9	1.5	2.1	2.3	1.6

Financial year real wages forecasts

Annual % change	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Wage price index	0.8	0.2	0.3	-0.4	-0.5	-0.4	-0.1
Average weekly earnings	2.0	3.4	-1.9	-1.1	-0.8	-0.8	-0.7
Ordinary time earnings	2.3	3.1	-1.1	-0.7	0.0	0.3	0.0
Unit labour costs	-1.6	-5.1	7.9	-0.1	-0.1	0.0	-0.6

Year ending March nominal wages forecasts

Annual % change	History Forecast							
	2020	2021	2022	2023	2024	2025	2026	2027
Wage Price Index	2.2	1.5	1.3	1.3	1.6	1.8	2.0	2.5
Average weekly earnings	2.6	5.6	-0.5	0.2	1.3	1.5	1.4	1.5
Ordinary time earnings	3.2	5.2	-0.1	1.0	1.8	2.6	2.2	2.3
Unit labour costs	2.8	-8.5	11.1	1.8	1.9	2.2	1.7	1.8

Year ending March real wages forecasts

Annual % change	History Forecast							
	2020	2021	2022	2023	2024	2025	2026	2027
Wage Price Index	0.4	1.1	-0.1	-0.2	-0.5	-0.5	-0.2	0.4
Average weekly earnings	0.8	5.2	-1.8	-1.3	-0.8	-0.8	-0.7	-0.7
Ordinary time earnings	1.3	4.8	-1.4	-0.5	-0.3	0.3	0.1	0.1
Unit labour costs	1.0	-8.9	9.6	0.3	-0.2	-0.1	-0.4	-0.4

Source: ABS, Deloitte Access Economics.

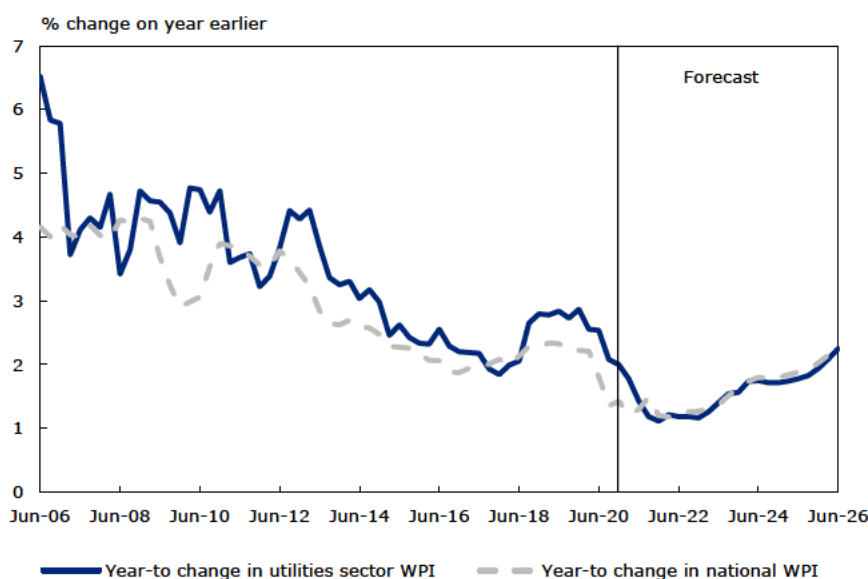
2.2.2 Utilities industry wages

Utilities industry wages grew by 0.5% in the December quarter of 2020 to be 2.3% 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 late-2018.

The slowdown in utilities wage gains has been sharpest in the private sector. Private sector utilities wages grew by 2.4% in 2020 compared to 3.1% in 2019, while public sector utilities wages grew by 2.1% in 2020 compared to 2.5% in 2019.

Wage gains in the utilities industry have outperformed wages in the wider Australian economy for much of the past decade (see Chart 2.8). The outperformance of wage gains in the utilities industry has not been driven by the outperformance of output growth in the utilities industry. Utilities industry output growth has remained below growth in the wider economy from 2008-09 to 2019-20. Utilities industry output is forecast to marginally outperform the broader economy in 2020-21 as COVID-19 weighs more heavily on services industries. Utilities industry output is forecast to underperform from 2021-22 to 2025-26.

Chart 2.8 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 strength of utilities wage gains has 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) fell by 3% in 2019-20 and remains more than two fifths below the peak in 2000-01.

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

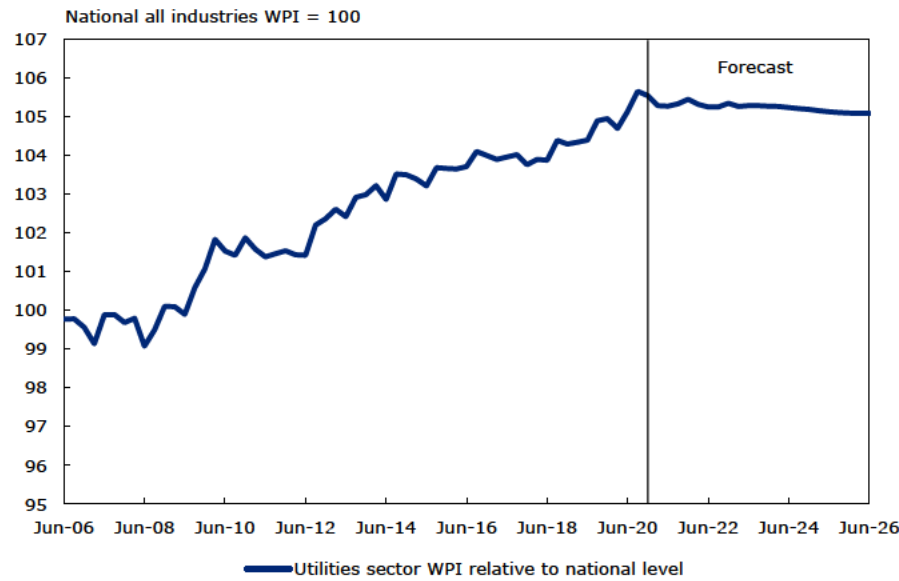
- Utilities employment grew by 1.3% in 2019-20, above 0.1% for all industries. Utilities employment growth has outperformed all industry employment growth since 2017-18, absorbing spare capacity in the utilities industry and placing upward pressure on wage gains.
- Conditions in the mining industry have improved in recent years. Growth in output has increased from a low of 1.3% in 2016-17 to an estimated 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.

Utilities industry wages have been negatively affected by COVID-19, but the impact has been more significant for industries most affected by restrictions such as the arts, tourism, retail and education.

The utilities WPI is forecast to grow by 1.8% in 2020-21 before slowing to 1.2% in 2021-22 amid a fall in both utilities output and employment. Wage gains are forecast to accelerate from 2022-23, reaching 2.0% in 2025-26. 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.

Forecasts for utilities WPI growth have been revised slightly higher from 2020-21 to 2023-24 compared to the forecasts in Report 1. Utilities wage growth has been revised up by a cumulative 0.4 percentage points across the forecast period from 2020-21 to 2025-26. This is largely due to the resilience of utilities WPI growth through 2020 and the faster than expected recovery.

Chart 2.9 Utilities Wage Price Index relative to National Wage Price Index



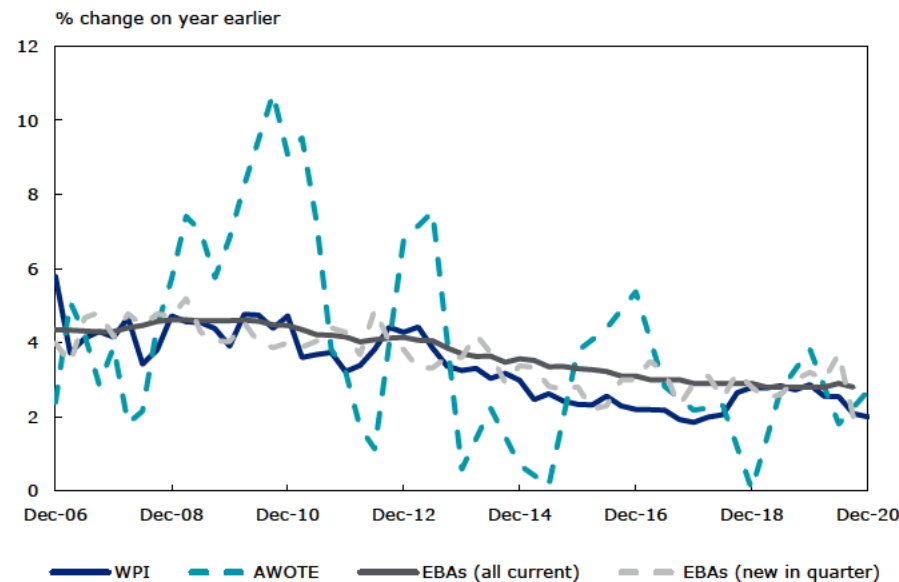
Source: ABS, Deloitte Access Economics.

2.2.2.2 Comparison with results from other wage growth measures

Chart 2.10 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 2.10 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 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 September quarter of 2020, there were 357 EBAs active in the utilities industry, covering some 48,300 employees. Wages in ‘all current EBAs’ grew at 2.8% for the utilities industry in the September 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.

There will be downward pressure on the AAWI for current EBAs from agreements expiring over coming quarters. A total of 40 EBAs (covering 7,600 employees) with an AAWI of 3.1% are due to expire in December 2020, 27 EBAs (covering 14,100 employees) with an AAWI of 2.9% are due to expire in March 2021, and 54 EBAs (covering 9,100 employees) with an AAWI of 2.5% are due to expire in June 2021.

A total of 26 new EBAs, covering 4,300 employees, were lodged in the September quarter of 2020. The AAWI for new EBAs in September 2020 was 2.0%, the lowest value since the EBA series began in June 2010.

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 September 2020 National Accounts (to 2018-19 from 2017-18).

Australian labour productivity fell in 2019-20 as COVID-19 restrictions weighed heavily on output while employment was supported by programs such as JobKeeper.³ There were also temporary factors weighing on productivity such as employees adjusting to work-from-home arrangements. Labour productivity growth is projected to recover through 2020-21 and 2021-22 as the forecast growth in output outpaces the forecast growth in employment.

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 an average annual rate of 2.7% from 1999-00 to 2019-20. Analysis from the

³ The introduction of JobKeeper on 30 March 2020 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.

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).

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 2019-20. Care should be taken when interpreting year to year productivity growth for the market sector and by industry."*⁴

Labour productivity in the utilities industry is forecast to grow by 0.7% in 2020-21, in-line with the all industry growth rate. Utilities labour productivity is forecast to grow by 1.9% in 2021-22 and 2.1% 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

Annual % change	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
All industries	-0.4	0.7	1.9	2.0	1.1	0.7	0.7
Utilities	-0.4	0.7	1.9	2.1	1.1	0.7	0.7

Year ending March changes in labour productivity forecasts

Annual % change	History Forecast							
	2020	2021	2022	2023	2024	2025	2026	2027
All industries	-0.4	0.0	2.0	2.1	1.3	0.7	0.7	0.7
Utilities	-0.5	-0.1	2.1	2.1	1.3	0.7	0.7	0.7

Source: ABS, Deloitte Access Economics.

⁴ 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							
Annual % change	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
All industries	2.1	1.3	1.3	1.3	1.7	1.8	2.1
Utilities	2.7	1.8	1.2	1.3	1.7	1.7	2.0

Financial year changes in real national industry sector WPI							
Annual % change	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
All industries	0.8	0.2	0.3	-0.4	-0.5	-0.4	-0.1
Utilities	1.3	0.7	0.2	-0.4	-0.6	-0.5	-0.1

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

Year ending March changes in nominal national industry sector WPI								
Annual % change	History		Forecast					
	2020	2021	2022	2023	2024	2025	2026	2027
All industries	2.2	1.5	1.3	1.3	1.6	1.8	2.0	2.5
Utilities	2.7	2.1	1.2	1.2	1.6	1.7	1.9	2.6

Year ending March changes in real national industry sector WPI								
Annual % change	History		Forecast					
	2020	2021	2022	2023	2024	2025	2026	2027
All industries	0.4	1.1	-0.1	-0.2	-0.5	-0.5	-0.2	0.4
Utilities	0.9	1.7	-0.1	-0.3	-0.5	-0.6	-0.3	0.4

Year ending March changes in labour productivity forecasts								
Annual % change	History		Forecast					
	2020	2021	2022	2023	2024	2025	2026	2027
All industries	-0.4	0.0	2.0	2.1	1.3	0.7	0.7	0.7
Utilities	-0.5	-0.1	2.1	2.1	1.3	0.7	0.7	0.7

Source: ABS, Deloitte Access Economics.

3 Victoria

3.1 Economic outlook

3.1.1 Overview

Victorian State Final Demand (SFD) fell by 5.2% in 2020, the largest decline of any state or territory. The fall was led by declines in household consumption and investment amid the impact of the stage 4 restrictions on consumer and business confidence.

Activity is expected to continue to recover in early 2021 reflecting the lifting of restrictions in October 2020 and government stimulus. Employment fell by 232,000 from February 2020 to a trough in September 2020, but has subsequently increased by 237,000 from September 2020 to February 2021. Victoria's unemployment rate fell to 5.6% in February 2021, below the Australian rate of 5.8%. The Victorian participation rate has also recovered to pre-COVID levels.

Retail activity is also recovering from the impact of COVID-19 restrictions. Retail sales grew by 0.3% in 2020, with improvements seen in previously weak categories such as clothing apparel and accessories. And further improvements are expected in 2021 as Victorian retail sales catch-up to the growth rates seen in other states and territories.

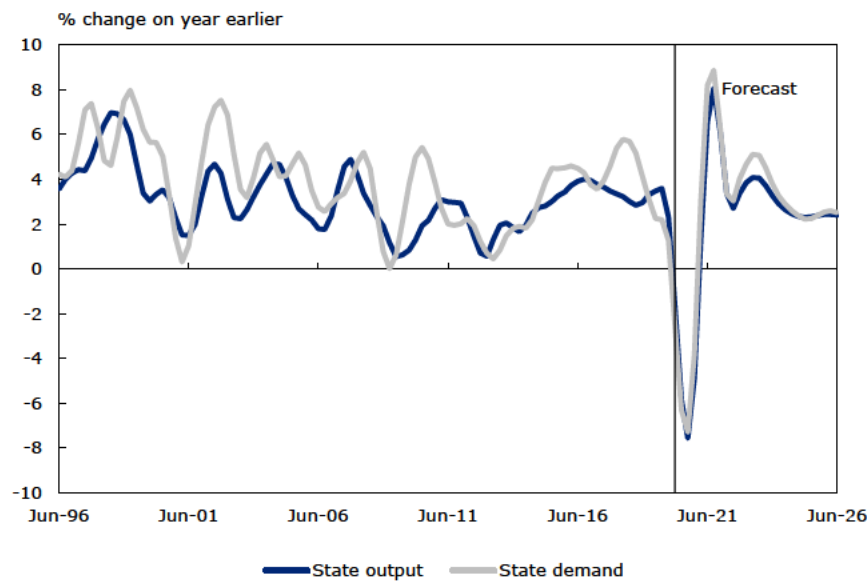
Victoria's recovery has been supported by government spending. The largest stimulus has come from the federal government in the form of JobKeeper, the Coronavirus Supplement and HomeBuilder. The latest federal budget also included a range of other stimulus packages including hiring credits for young people, instant asset write-offs for investment and income tax cuts. The Victorian state budget included increased infrastructure spending, funding for 12,000 new social housing dwellings, wage subsidies, funding for free childcare in 2021, and a temporary stamp duty waiver of up to 50%. These stimulus measures are expected to support Victorian economic growth over the coming years.

A key driver of the Victorian economy prior to the outbreak of COVID-19 was strong population growth. The Victorian population has grown at an average annual rate of 2.1% in the decade to 2019, compared to 1.6% growth in the wider Australian population. More than three fifths of the increase in the Victorian population over this period has been due to international and interstate migration. International borders remain closed to non-residents and there is uncertainty as to when overseas arrivals will return to pre-COVID levels. This will have wide-ranging effects on the state's economy, weighing heavily on industries such as tourism, education, and housing construction.

Several risks remain for the outlook. In the near term, the end of JobKeeper and other support measures in March 2021 could weigh on household incomes. More broadly COVID-19 will continue to pose a risk to the economic recovery until a vaccine is widely distributed. The short stage 4 lockdown in February 2021 could also negatively affect growth in the first quarter of 2021.

Deloitte Access Economics forecasts Victorian output to fall by 1.5% in 2020-21 before rebounding by 5.1% in 2021-22. This acceleration in the pace of growth reflects the relatively large decline in activity experienced in Victoria compared to other states and territories. Output growth is then expected to moderate to 2.4% by 2025-26 as low population growth weighs on activity.

Chart 3.1 Output and demand (change on year earlier), Victoria



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 : Victoria economic forecasts

Annual % change (unless noted)	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Consumption							
Private sector	-3.3	-2.6	5.5	3.5	4.3	3.6	3.4
Public sector	6.7	5.7	1.1	-1.4	-1.3	1.0	1.4
Private sector investment							
Dwelling investment	-2.8	-7.8	3.2	14.8	3.0	-1.7	-0.8
Non-residential building	2.0	-22.0	11.9	22.1	9.3	1.3	0.7
Engineering construction	-4.9	-12.3	22.5	14.3	4.7	0.8	0.3
Machinery and equipment	-13.1	3.6	23.4	6.1	9.8	3.2	2.7
IP and livestock	3.5	7.8	4.8	28.8	12.9	7.0	6.6
Public investment							
General Government	2.1	35.0	4.9	-0.9	-1.7	-2.2	1.1
Public enterprises	-6.6	-0.3	1.4	4.0	4.5	2.7	2.3
Real final demand							
Private sector	-3.2	-3.7	6.7	6.8	5.1	3.0	2.9
Public sector	5.3	10.2	1.9	-1.1	-1.2	0.4	1.4
Gross State output							
	-0.5	-1.5	5.1	3.9	3.1	2.4	2.4
Employment							
	0.9	-0.8	1.5	1.6	2.2	1.8	1.8
Unemployment rate (%)							
	5.4	6.9	6.6	6.1	5.5	5.2	5.2

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

3.1.1 Utilities

Victorian electricity demand remained muted in the December quarter of 2020 with sunny and mild weather conditions (which supported rooftop PV generation) as well as a seasonal drop in

underlying demand. The state recorded a new minimum demand record on three separate occasions during the quarter. According to AEMO, the easing of Victoria's stage 4 COVID-19 restrictions on 28 October 2020 did not materially impact electricity demand in the December quarter of 2020.⁵

Victorian wind and solar generation reached a record high in the December quarter of 2020.⁶ This was driven by continued uptake of rooftop PV and favourable weather conditions. The combination of low underlying demand and increased supply from rooftop PV has pushed average weekly electricity prices to their second lowest level on record.

Victoria currently has around 7.8 GW of existing wind and solar generation capacity. Looking ahead, AEMO has estimated that a minimum of 5.4 GW of additional renewable energy generation is required by 2030 if the state is to hit the Victorian Renewable Energy Target of 50% of electricity generation in that year.⁷

The Victorian Government has committed \$540 million to a Renewable Energy Zone (REZ) Fund to facilitate investment into renewable energy. This fund will help plan, develop, and invest in six Victorian REZs identified by AEMO. According to the Victorian Government, the plan could increase renewable energy capacity by 10 GW.⁸

The broader economic recovery from COVID will have important implications for the Victorian utilities sector. A rebound in business activity is likely to increase commercial electricity demand while the extent of work from home arrangements over the longer term could permanently alter residential demand patterns.

The Australian Competition and Consumer Commission (ACCC) has reported that the risk of southern states in Australia suffering from a gas supply shortfall remains as the fall in oil and gas prices in 2020 slowed investment in new gas projects. The supply shortfall could arise as early as 2024 if there is no investment in additional supply, removal of pipeline constraints, or investment in an LNG import terminal.⁹

There are currently two proposed LNG terminals in Victoria. The AGL Crib Point terminal which may be operational in 2023 and Viva Geelong terminal which may be operational by 2024. However, these projects remain in the early planning stages and there is uncertainty about whether they will proceed through to construction.

Beach Energy recently discovered a larger than expected amount of gas off the coast of Victoria in the Otway Basin. The discovery would add 97 petajoules of gas to Victorian supply and alleviate some supply concerns. Beach Energy is aiming to produce first gas from the resource as early as 2022.¹⁰

⁵ AEMO, *Quarterly Energy Dynamics Q4 2020* (29 January 2021) <<https://aemo.com.au/-/media/files/major-publications/qed/2020/qed-q4-2020.pdf?la=en>>.

⁶ AER, *Wholesale Markets Quarterly Q4 2020* (24 February 2021) <<https://www.aer.gov.au/system/files/Wholesale%20markets%20quarterly%20%E2%80%93%20Q4%202020%2811929446.1%29.pdf>>.

⁷ AEMO, *Victorian Annual Planning Report* (24 February 2021) <https://aemo.com.au/-/media/files/electricity/nem/planning_and_forecasting/vapr/2020/2020-vapr.pdf?la=en>

⁸ Victorian Government Department of Environment, Land, Water and Planning, *Victorian Renewable Energy Zones Development Plan Directions Paper* (24 February 2021) <https://www.energy.vic.gov.au/__data/assets/pdf_file/0016/512422/DELWP-REZ-Development-Plan-Directions-paper.pdf>

⁹ ACCC, *Gas inquiry 2017 – 2025 Interim report January 2021* (26 February 2021) <https://www.accc.gov.au/system/files/Gas%20Inquiry%20-%20January%202021%20interim%20report_1.pdf>

¹⁰ Sydney Morning Herald, *Beach Energy hits Otway Basin drilling success as gas crunch looms* (25 February 2021) <<https://www.smh.com.au/business/companies/beach-energy-hits-otway-basin-drilling-success-as-gas-crunch-looms-20210215-p572o7.html>>

3.2 Outlook for wages

3.2.1 All industries

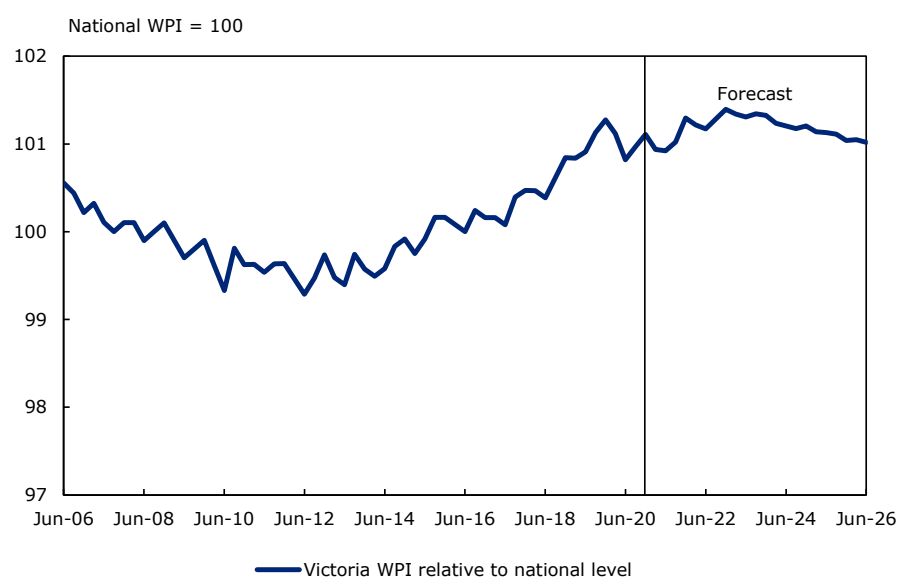
The Victorian WPI grew by 1.7% in 2020, in line with growth in the Australian WPI, but below the 2.7% gain in Victoria in 2019. The introduction of strict COVID-19 restrictions in June and September weighed heavily on economic activity and wage growth in these quarters. Overall, wage growth fell by 0.1% in the June quarter and rose by just 0.2% in the September quarter.

Wage growth rose by 0.7% in the December quarter of 2020 amid the easing of restrictions and subsequent recovery in economic activity. Wage growth was also boosted by the unwinding of temporary wage cuts or freezes for some workers. According to the ABS, Victoria and New South Wales were the two states most affected by these wage restorations in the December quarter of 2020.

Victorian private sector wages grew by 0.8% in December 2020, while public sector wages grew by 0.6%. This was driven by the impact of wage restorations – particularly in the professional, scientific and technical services industry. Private sector wages grew by 1.5% in 2020 compared to a 2.3% gain for public sector wages. Public sector wage gains remained resilient through 2020, supported by strong gains in industries such as health and education.

In the short term, Victorian wages are forecast to increase relative to national wages (Chart 3.2). This reflects the faster rate of economic growth in Victoria compared to the national average as the state recovers from a relatively larger contraction in 2020. Over the medium term, Victorian wages are forecast to remain above the national average, but for this outperformance to decline. This is partly due to a moderation in the outperformance of the Victorian economy amid slower forecast rates of population growth compared to pre-COVID forecasts.

Chart 3.2 Victoria WPI relative to national WPI



Source: ABS, Deloitte Access Economics.

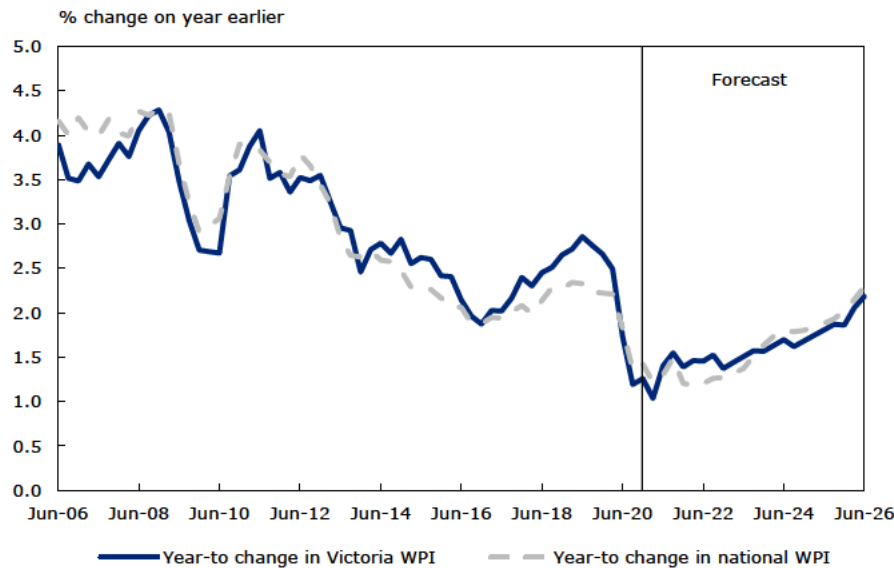
The pace of Victorian wage growth has fallen from a mid-2019 peak. Wages fell by more in Victoria compared to the national average due to more severe restrictions in Victoria from July 2020 to October 2020, as well as the proportionally large impact of lower net international migration on the Victorian population and economy.

Wage growth in Victoria is forecast to rebound in 2021 as economic activity recovers, absorbing spare capacity in the labour market and placing upward pressure on wages. However, wage growth is not expected to return to pre-COVID levels by 2025-26. COVID-19 is likely to have exacerbated several long-running trends weighing on the pace of wage growth (such as

automation of work processes, cost-control measures within businesses, and employees prioritising job security).

These forecasts represent a faster rate of growth from 2020-21 to 2023-24 and a slower rate of growth from 2023-24 to 2025-26 when compared to those in Report 1. Wage growth is a cumulative 0.1 percentage points higher across the forecast period from 2020-21 to 2025-26. Despite this, the Victorian WPI is forecast to reach 2.0% in 2025-26 compared to a forecast of 2.8% in Report 1.

Chart 3.3 Victoria general WPI growth



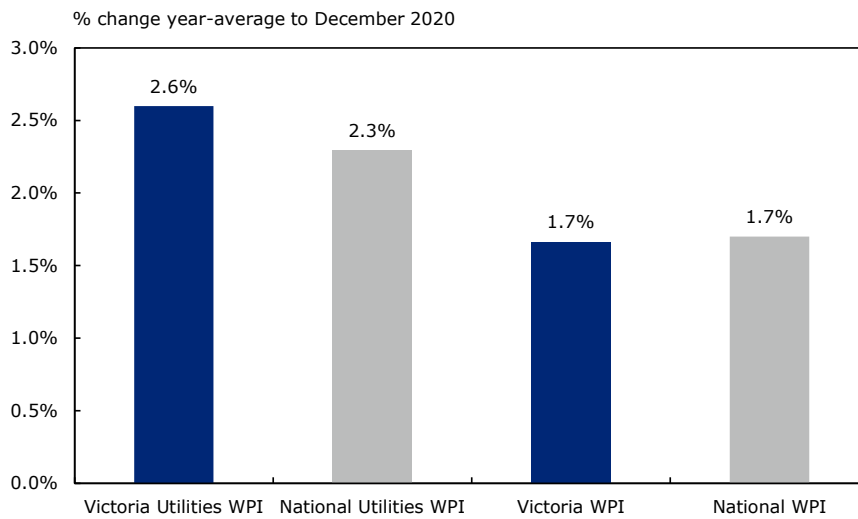
Note: % change on year earlier refers to output growth between a quarter and the same quarter a year earlier.
Source: ABS, Deloitte Access Economics.

3.2.2 Utilities industry wages

Victoria is Australia’s second most populous state and comprises a substantial share of national utilities output. Therefore, Victorian and national utilities industry wages often follow similar trends. However, at the state level there may be greater volatility in utilities output, particularly over the short term.

Wages in the Victorian utilities industry grew by 2.6% in the year to December 2020 (Chart 3.4). This is above the national average for the utilities industry of 2.3% and remains above the Victorian all industry average of 1.7%. 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, 2020



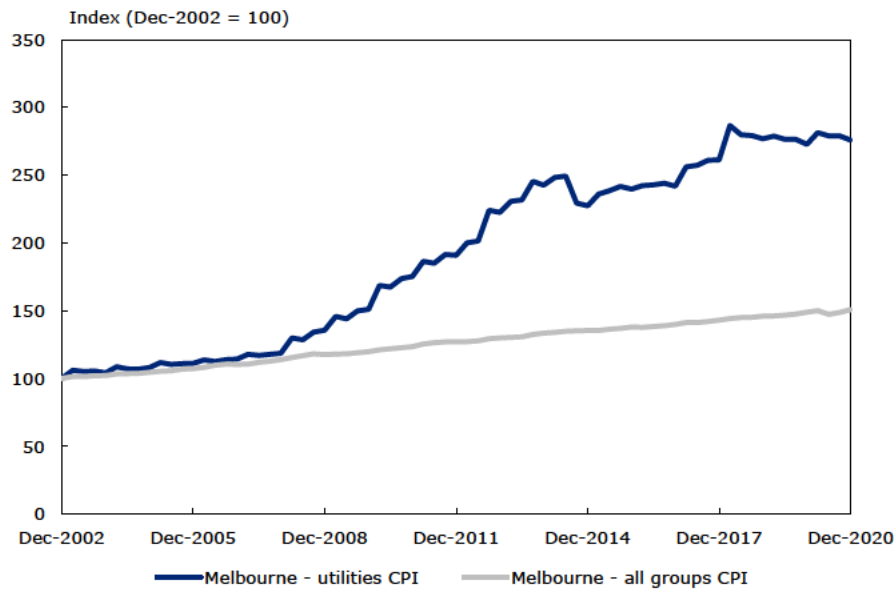
Source: ABS, Deloitte Access Economics.

Utilities prices increased in line with the broader CPI until 2008. Over the next decade utilities CPI rose 7.8% per annum compared to 2.2% for the broader CPI group (see Chart 3.5). Since 2018 utilities prices have fallen by 0.1% per annum while CPI has increased by 0.3% per annum. The growth of rooftop PV generation has reduced demand for grid-supplied electricity while continued growth in renewable energy capacity has increased supply. The combination of these factors has helped to stabilise electricity prices.

In the year to December 2020, the utilities CPI increased by 1.0% compared to a 1.3% increase across all groups. However, the utilities CPI remains well above the all groups CPI following the large increase between 2008 and 2018. Looking ahead, the Australian Energy Market Commission (AEMC) expects annual residential electricity bills to decline by 15.2% from 2019-20 to 2022-23, mostly driven by increased in wind generation capacity and decreases in distribution and metering costs.¹¹

¹¹ 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>>.

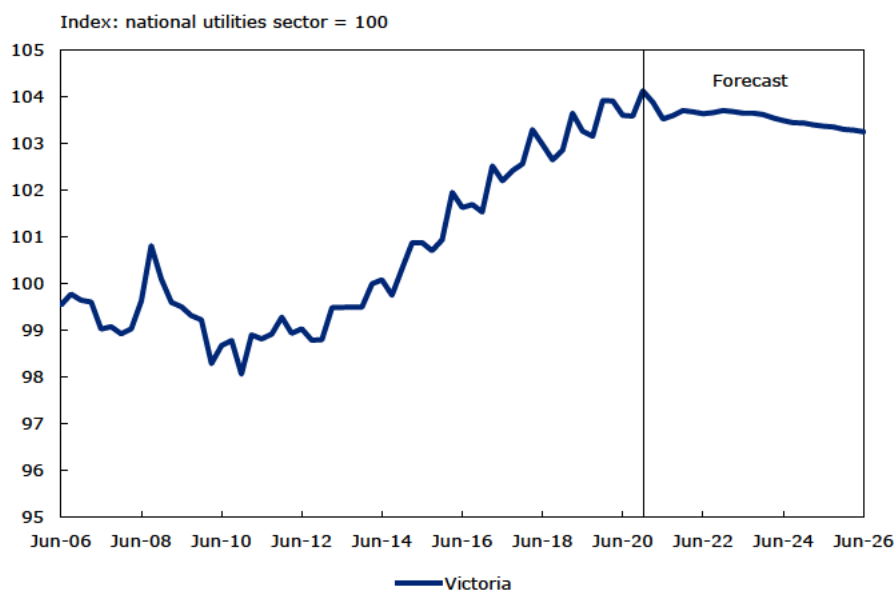
Chart 3.5 Melbourne utility prices



Source: ABS

The Victorian utilities industry WPI has steadily increased relative to the national utilities industry WPI over the past decade (Chart 3.6). This reflects the strength of the Victorian economy relative to other Australian states and territories. The faster relative population growth in Victoria has helped boost the broader economy as well as utilities sector output. It has also supported conditions in other Victorian industries which compete with the utilities industry for workers, including the construction industry. Looking ahead, the Victorian utilities industry WPI is expected to fall slightly relative to the national level amid the long term impact of COVID-19 on rates of international migration and population growth.

Chart 3.6 Victoria utilities WPI relative to national utilities WPI

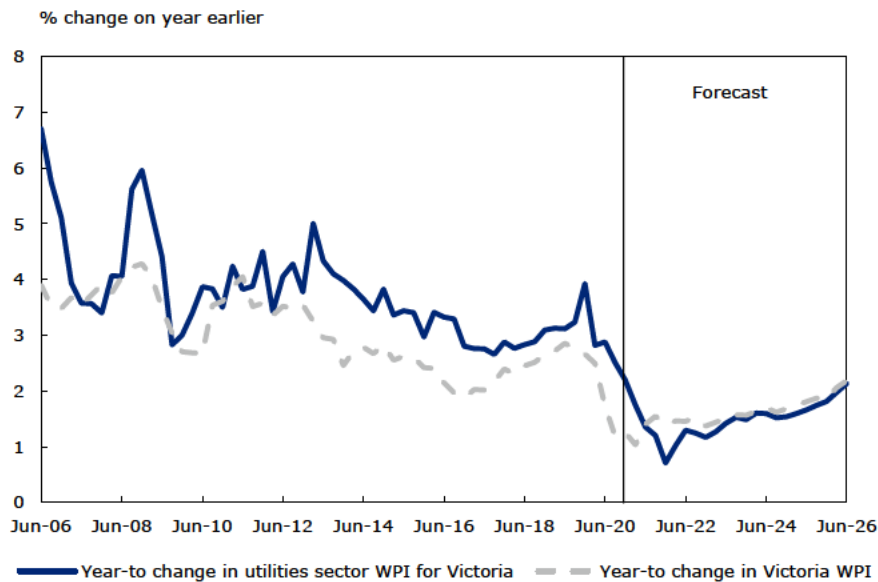


Source: ABS, Deloitte Access Economics.

Wage growth in the Victorian utilities industry is forecast to reach a trough of 0.9% in 2021-22. From 2022-23 wage gains are then expected to accelerate, reaching 1.9% growth in 2025-26 as utilities sector output gradually recovers.

From 2021-22 onwards the utilities sector wage growth in Victoria is forecast to lag growth for wages in the broader state economy. This reflects forecasts for more modest growth in the utilities industry compared to the all industry average. These forecasts represent a smaller contraction in wages from 2020-21 to 2022-23 and a more modest subsequent recovery from 2023-24 compared with those in Report 1.

Chart 3.7 Victoria 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 96 current EBAs in the utilities industry in the September quarter of 2020, covering around 9,800 employees, with an AAWI of 3.0%. Chart 3.8 shows the utilities industry WPI and the outcomes in state EBAs for the industry. The chart shows:

- The AAWI for current EBAs has fallen to its lowest value since the EBA series began in June 2020. The AAWI for current EBAs in Victoria (3.0% in September 2020) remains above the Australian average (2.8%).
- The AAWI for new EBAs fell to 2.0% in the September quarter of 2020 from 3.1% in the June quarter of 2020. A total of 2,200 employees are covered by the EBAs lodged in the September quarter.

Chart 3.8 Comparative measures of wage growth in the Victorian 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

Victorian utilities and all industry labour productivity fell by more than the equivalent Australian labour productivity measures in 2019-20. This reflects the proportionally large impact of COVID-19 restrictions on the Victorian economy.

Victorian labour productivity growth is forecast to remain below the national average in 2020-21 amid the impact of Victoria’s second lockdown from July 2020 to October 2020. Victorian utilities labour productivity is forecast to grow by 0.4% in 2020-21 as declines in utilities employment outweigh declines in utilities output.

The Victorian economy is forecast to rebound in 2021-22 and 2022-23 as the vaccine rollout supports consumer and business confidence and enables the further easing of COVID-19 restrictions. This is forecast to boost both output and employment. By the end of the forecast period Victorian labour productivity growth will largely be in line with national labour productivity growth.

Table 3.2 : Victoria and national labour productivity forecasts

Annual % change	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Victoria - All industries	-1.3	-0.7	3.6	2.2	0.8	0.5	0.6
Victoria - Utilities	-0.8	0.4	2.4	2.1	1.0	0.6	0.7
National - All industries	-0.4	0.7	1.9	2.0	1.1	0.7	0.7
National - Utilities	-0.4	0.7	1.9	2.1	1.1	0.7	0.7

Year ending March changes in Victoria labour productivity forecasts

Annual % change	History Forecast							
	2020	2021	2022	2023	2024	2025	2026	2027
All industries	-0.3	-2.3	3.5	2.6	1.1	0.6	0.6	0.6
Utilities	-0.4	-0.9	2.6	2.2	1.3	0.7	0.7	0.6
National - All industries	-0.4	0.0	2.0	2.1	1.3	0.7	0.7	0.7
National - Utilities	-0.5	-0.1	2.1	2.1	1.3	0.7	0.7	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 : Victoria and national wage forecasts

Financial year changes in Victoria and national nominal WPI

Annual % change	History Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Victoria - All industries	2.4	1.2	1.1	1.5	1.6	1.7	2.0
Victoria - Utilities	3.2	1.9	0.9	1.3	1.6	1.6	1.9
National - All industries	2.1	1.3	0.9	1.3	1.7	1.8	2.1
National - Utilities	2.7	1.8	0.9	1.3	1.7	1.7	2.0

Financial year changes in Victoria and national real WPI

Annual % change	History Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Victoria - All industries	0.7	0.5	0.4	-0.2	-0.6	-0.5	-0.1
Victoria - Utilities	1.5	1.2	0.1	-0.4	-0.7	-0.7	-0.2
National - All industries	0.8	0.2	0.2	-0.4	-0.5	-0.4	-0.1
National - Utilities	1.3	0.7	0.2	-0.4	-0.6	-0.5	-0.1

Year ending March changes in Victoria and national nominal WPI

Annual % change	History Forecast							
	2020	2021	2022	2023	2024	2025	2026	2027
Victoria - All industries	2.7	1.3	1.4	1.4	1.6	1.7	1.9	2.4
Victoria - Utilities	3.3	2.3	1.1	1.2	1.5	1.6	1.8	2.5
National - All industries	2.2	1.5	1.3	1.3	1.6	1.8	2.0	2.5
National - Utilities	2.7	2.1	1.2	1.2	1.6	1.7	1.9	2.6

Year ending March changes in Victoria and national real WPI

Annual % change	History Forecast							
	2020	2021	2022	2023	2024	2025	2026	2027
Victoria - All industries	0.8	1.0	0.2	0.0	-0.5	-0.6	-0.2	0.3
Victoria - Utilities	1.3	2.0	-0.2	-0.2	-0.6	-0.7	-0.3	0.3
National - All industries	0.4	1.1	-0.1	-0.2	-0.5	-0.5	-0.2	0.4
National - Utilities	0.9	1.7	-0.1	-0.3	-0.5	-0.6	-0.3	0.4

Note: Victorian utilities WPI growth in 2021-22 is equal to the forecast change in WPI from the average of the first six months of 2021 to the average WPI over the twelve months of 2021-22. This adjusted has been applied to account for the transition towards a new regulatory period commencing 1 July 2021.

Source: ABS, Deloitte Access Economics.

4 South Australia

4.1 Economic outlook

4.1.1 Overview

South Australian SFD grew by 0.6% in the December quarter of 2020 as COVID-19 restrictions eased and consumer and business confidence recovered. However, SFD fell by 2.1% in 2020. As with other states and territories, COVID-19 has weighed heavily on private consumption, business investment and exports. Economic activity in the state is expected to continue to recover as the roll-out of the vaccine commences throughout 2021.

The number of people employed in South Australia fell by 43,400 from February 2020 to a trough in May 2020, but has subsequently increased by 38,500 from May 2020 to February 2021. The unemployment rate has fallen from a peak of 8.8% in June 2020 to 6.8% in February 2021, while the participation rate has returned to pre-COVID levels.

The South Australian economy continues to be limited by slow population growth. The South Australia population has grown at an average annual rate of 0.9% in the decade to 2019, compared to 1.6% growth in the wider Australian population. This has been driven by weak net interstate migration and low levels of natural increase (reflecting the state's older age profile). COVID-19 induced border restrictions prevented many young people from moving interstate in 2020, but the loosening of border restrictions in 2021 may see this trend reverse. The South Australian population is forecast to grow by 0.3% in 2020-21 compared to a 0.6% gain in the Australian population.

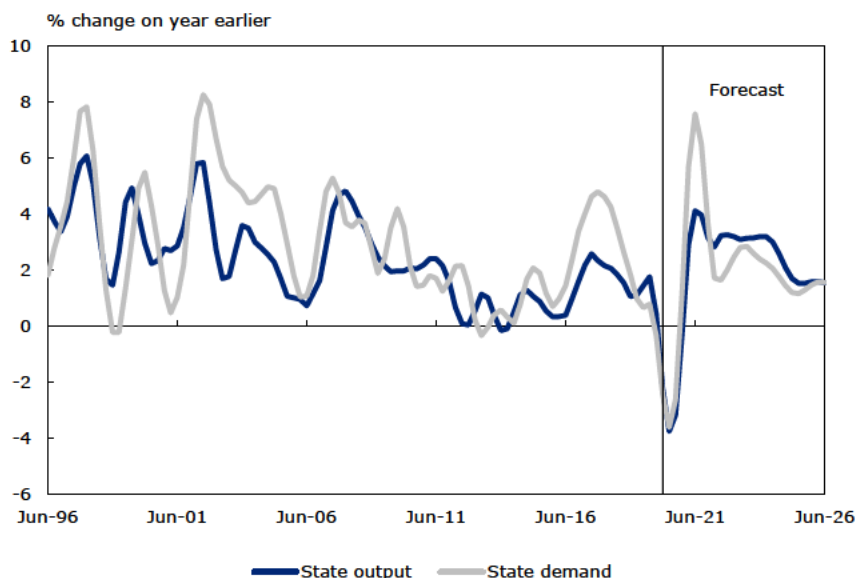
South Australian private consumption is expected to grow by 2.7% in 2020-21 following a 3.1% fall in 2019-20. The rollout of vaccines is expected to drive greater consumer confidence while the continued easing of COVID-19 restrictions will support wider economic activity, helping to offset the impact of the end of JobKeeper and other government support programs in March 2021.

The recovery in the South Australian economy will be supported by growth in public consumption and investment. The 2020-21 South Australian Budget included \$4 billion in stimulus measures and a record \$16.7 billion infrastructure investment pipeline over the next four years. This infrastructure pipeline includes \$6.9 billion towards roads, \$1.7 billion towards health facilities, \$1.3 billion towards educational facilities, as well as \$200 million towards sport and recreation.

South Australian exports are estimated to have fallen by 9.8% over 2020. Border restrictions, bushfires, drought and trade tensions with China weighed on overall demand for South Australian exports. Exports are forecast to grow by 6.2% in 2021 as the easing of COVID-19 restrictions supports the state's relatively large tourism industry. Over the medium term, the easing of international border restrictions is expected to further support South Australian services exports such as tourism and education.

The South Australian economy is forecast to grow by 1.6% in 2020-21 before accelerating to 3.0% in 2021-22 and 3.1% in 2022-23. Over the longer run, South Australia's economy is forecast to grow at a slower rate than the wider Australian economy, driven primarily by a slower forecast rate of population growth in the state relative to other jurisdictions.

Chart 4.1 Output and demand (change on year earlier), South Australia



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 4.1 South Australian output and demand forecasts

Annual % change (unless noted)	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Consumption							
Private sector	-3.1	2.8	1.4	1.1	3.2	2.1	2.0
Public sector	2.4	3.2	2.4	-0.8	-1.2	0.7	0.9
Private sector investment							
Dwelling investment	0.3	-6.6	0.9	18.0	4.0	-2.2	-1.5
Non-residential building	-10.8	-6.9	7.2	16.8	4.2	0.1	-0.3
Engineering construction	-22.0	7.6	11.2	9.9	-0.2	-0.8	-0.7
Machinery and equipment	0.9	11.5	7.4	-1.7	7.7	3.1	1.5
IP and livestock	1.9	9.2	6.3	27.6	7.5	5.6	6.5
Public investment							
General Government	4.7	33.1	14.2	-2.9	-3.4	-3.4	-0.2
Public enterprises	-12.4	6.9	11.9	4.3	6.3	3.5	2.5
Real final demand							
Private sector	-3.1	2.3	2.2	3.9	3.7	1.8	1.7
Public sector	1.9	7.6	4.9	-1.0	-1.2	0.1	0.8
Gross State output							
	-1.3	1.6	3.0	3.1	3.1	1.9	1.6
Employment							
	-0.6	1.1	0.7	0.7	1.1	0.8	0.7
Unemployment rate (%)							
	6.8	6.9	6.5	6.1	5.6	5.4	5.4

Note: All variables (except for jobs and unemployment) expressed in inflation adjusted terms.

Source: ABS, Deloitte Access Economics.

4.1.2 Utilities

South Australia recorded a decrease in underlying electricity demand in the December quarter of 2020, while average quarterly operational demand reached a record low. This was driven by mild weather, a seasonal fall in electricity demand and the continued uptake of rooftop PV (leading to lower demand for grid-supplied electricity).

The South Australian utilities industry is currently undergoing a rapid transition towards less carbon-intensive forms of electricity generation. This was marked on 11 October 2020, when total solar output in the state was equivalent to 100% of underlying demand. This is a world-first for a jurisdiction of South Australia's size.

Renewable energy remains a priority for the South Australian Government. AEMO forecast that an additional 36,000 new solar rooftop systems are expected to be installed in the next 14 months in the state, adding to the 288,000 homes already generating solar power.¹²

Demand for grid-supplied electricity is forecast to continue to slowly decline over the medium and longer term. Demand is set to be weighed down by the increasing uptake of rooftop PV, improvements in energy efficiency and a decline in demand from the manufacturing industry. This is set to more than offset upward pressure on demand from population growth and the uptake of electric vehicles.

With South Australia on track to reach 100% renewable energy generation by 2030, there are concerns around system strength and reliability in South Australia.¹³ This places an emphasis on the integration of distributed energy resources such as rooftop PV and batteries, as well as improvements to NEM infrastructure such as the new \$2.5 billion interconnector between New South Wales and South Australia.

There are currently 10,400 megawatts (MW) worth of electricity generation projects proposed or committed in South Australia.¹⁴ A total of 6,800 MW relates to large-scale wind and solar developments. The 2020-21 South Australian Budget included \$18.3 million to help increase the uptake of electric vehicles. The funding will go towards the development of a fast-charging network and the transition of the state government fleet to electric vehicles.

4.2 Outlook for wages

4.2.1 All industries

The South Australian WPI grew by 0.2% in the December quarter of 2020, the lowest quarterly increase of any state. However, South Australian wages grew by 2.0% in 2020, above the 1.7% gain in Australian wages. South Australia has been less affected by temporary wage cuts or freezes compared to other jurisdictions.

Private sector wages grew by 2.0% in 2020, below the 2.4% gain in 2019. By comparison, public sector wage gains have accelerated from 1.7% in 2019 to 1.9% in 2020. While private sector wage growth remains above public sector wages in the states, private sector wages have been weighed down by the impact of COVID-19 on output and employment. Demand for public sector employment has remained resilient – particularly in the public administration and health care and social assistance industries.

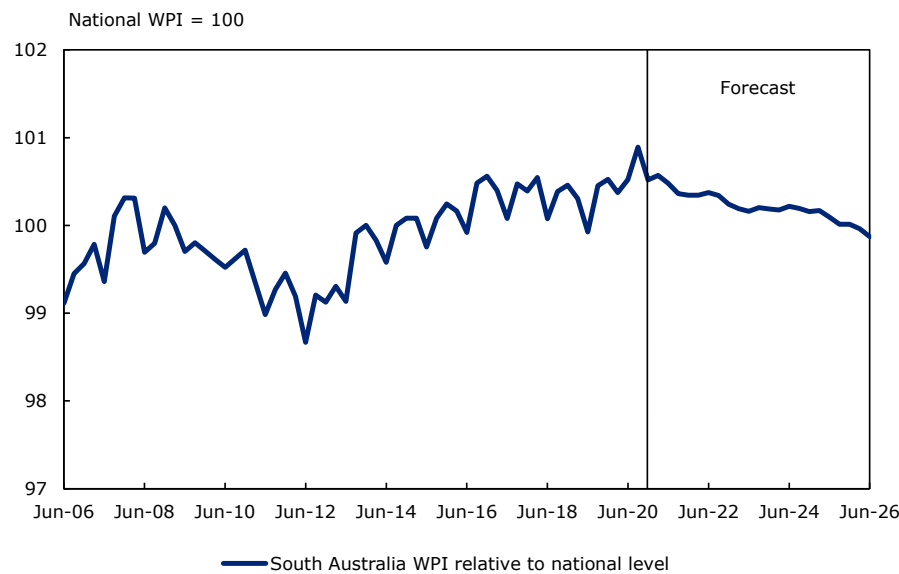
¹² Davies, R, ABC News, *All of South Australia's power comes from solar panels in world first for major jurisdiction* (25 October 2020) <<https://www.abc.net.au/news/2020-10-25/all-sa-power-from-solar-for-first-time/12810366>>.

¹³ COAG Energy Council, *2020 Health of the NEM* (5 November 2020) <<http://www.coagenergycouncil.gov.au/publications/2020-health-nem>>.

¹⁴ Australian Energy Market Operator, *Generation Information*, January 2021 <<https://www.aemo.com.au/energy-systems/electricity/national-electricity-market-nem/nem-forecasting-and-planning/forecasting-and-planning-data/generation-information>>.

The South Australian WPI is expected to moderate relative to the national WPI over the forecast period to 2025-26 (see Chart 4.2). This is largely driven by slower forecast growth in output and employment in South Australia relative to other states and territories.

Chart 4.2 South Australia WPI relative to national WPI



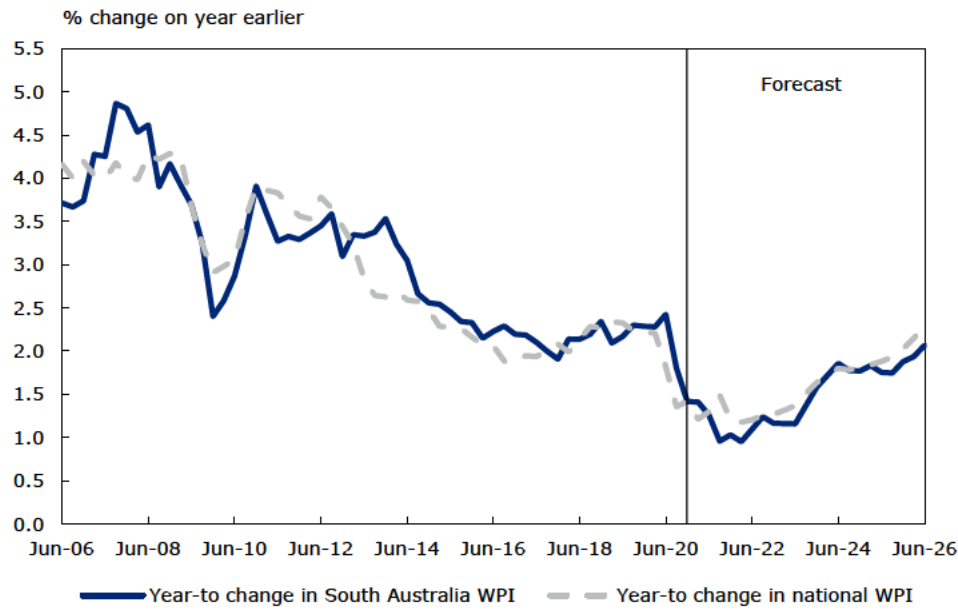
Source: ABS, Deloitte Access Economics.

South Australia also has an older workforce compared to the national average. As retirements increase over coming years, workers will be handed back greater power in wage negotiations with employers. This is expected to occur gradually over the long term.

Wage growth in South Australia is forecast to moderate from 1.5% in 2020-21 to 1.0% in 2021-22 reflecting spare capacity in the labour market and the roll back of government support measures. Wage growth is forecast to accelerate to 1.2% in 2022-23 before reaching 1.9% in 2025-26. Over the medium term, wage growth is likely to be supported by the recovery in the South Australian economy and growth in employment.

Compared with the forecasts presented in Report 1, the current forecasts present a faster rate of growth from 2020-21 to 2022-23 and a slower rate of growth from 2022-23 to 2025-26. Wage growth is a cumulative 0.4 percentage points higher across the forecast period from 2020-21 to 2025-26. Despite this, the South Australian WPI is forecast to reach 1.9% in 2025-26 compared to a forecast of 2.7% in Report 1.

Chart 4.3 South Australia general WPI growth

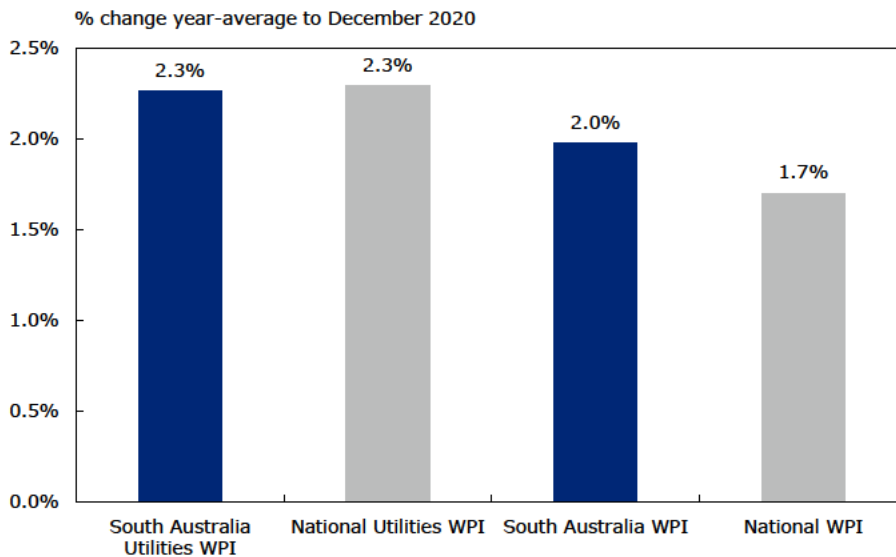


Note: % change on year earlier refers to output growth between a quarter and the same quarter a year earlier.
Source: ABS, Deloitte Access Economics.

4.2.2 Utilities industry wages

Deloitte Access Economics estimates that the South Australian utilities WPI grew by 2.3% in 2020. This is above the 2.0% gain in South Australian wages across all industries and reflects the relative resilience of the utilities industry to the impact of COVID-19. South Australian utilities WPI growth is in line with growth in the national utilities WPI.

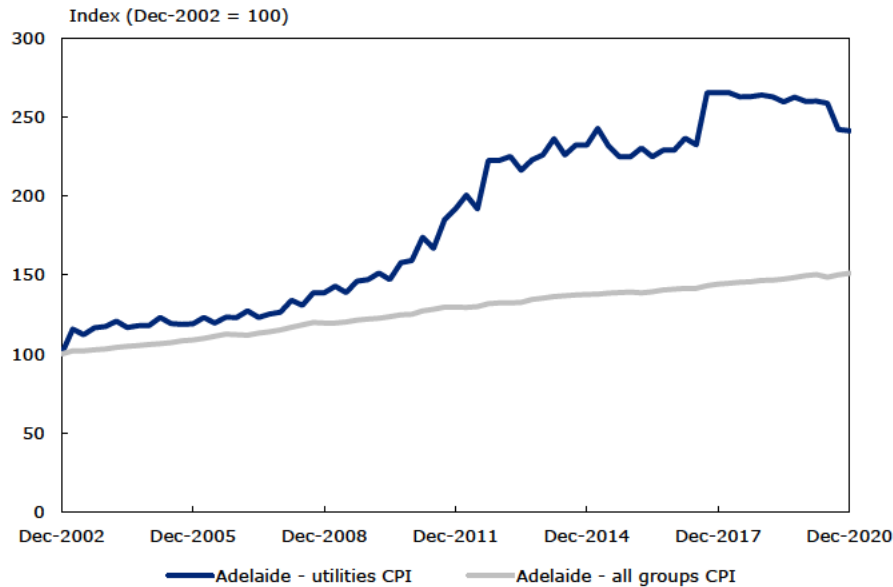
Chart 4.4 Comparative WPI annual growth rates, 2020



*Historical data estimated using Deloitte Access Economics' wage price model. Unavailable from the ABS.
Source: ABS, Deloitte Access Economics.

South Australian utilities prices have fallen since June 2020 (see Chart 4.5). According to the AEMC, South Australian electricity prices are forecast to fall by 11% between 2019-20 and 2022-23.¹⁵ The large fall in prices is driven by an annual average drop of 16.1% in wholesale costs, 3.0% in environmental costs and 0.4% in network costs.

Chart 4.5 Adelaide utilities prices



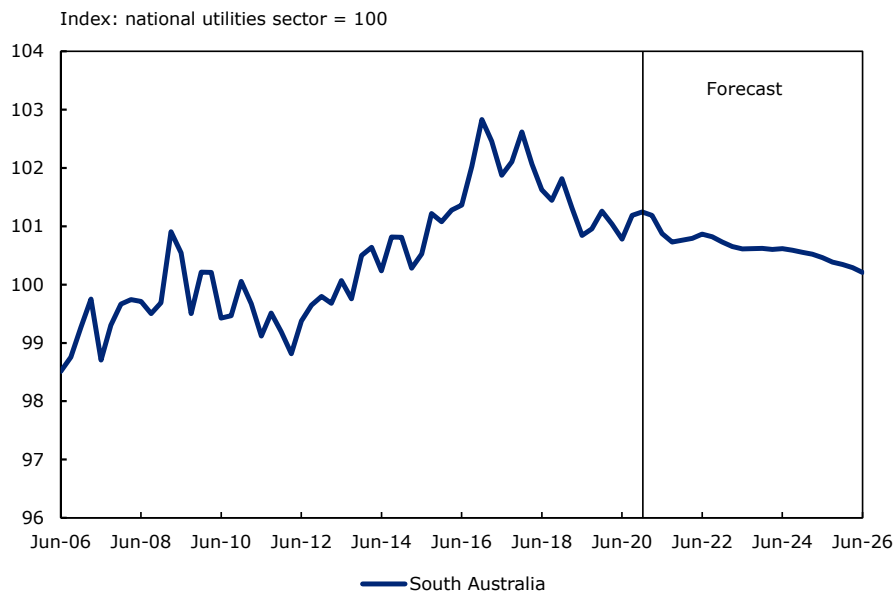
Source: ABS.

Over the past several years, utilities wage growth in the state has been lower than the national utilities industry. Conditions in the South Australian utilities industry have been affected by the closure of automotive manufacturing and more challenging conditions for other manufacturers (which reduced industrial demand for electricity), as well as the relatively rapid uptake of rooftop PV (which reduces demand for grid-supplied electricity).

The slow growth in the South Australian economy relative to the Australian economy has also contributed to weaker wage outcomes in the state’s utilities industry. A key driver of comparatively slow economic growth in South Australia has been low rates of population growth, which weighs on residential electricity demand. This trend is forecast to continue over the forecast period to 2025-26, placing downward pressure on South Australian utilities output and wages.

¹⁵ 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 4.6 Relative utilities WPI forecast for South Australia

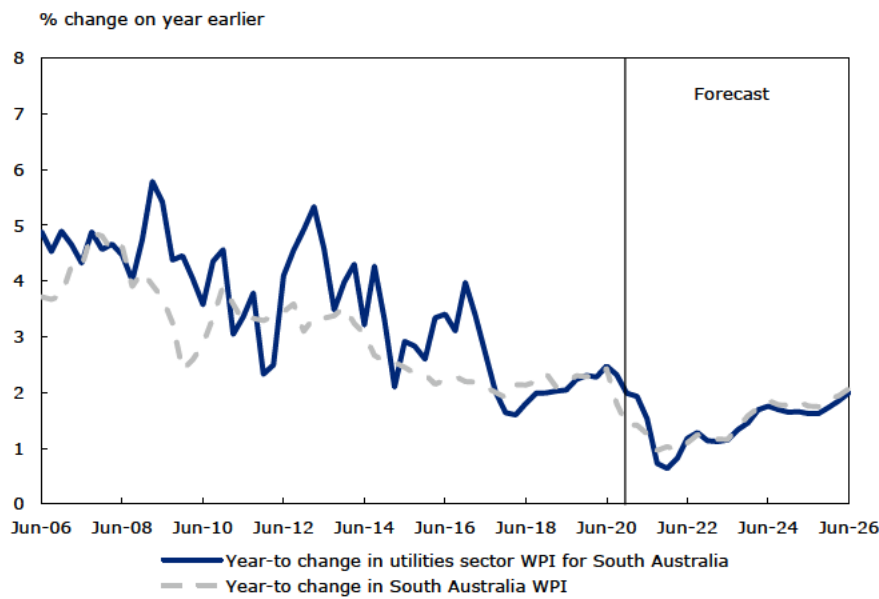


Source: ABS, Deloitte Access Economics.

The renewable energy sector is a large driver of overall utilities industry activity in the state. The South Australian Government aims to achieve a 100% renewable energy target by 2030 which has encouraged large investment in the region, with several renewable energy parks in the pipeline for development over the coming years. Renewable energy projects require employees with different skills compared with the skills required in traditional utilities industries. The demand for workers with specific skills is expected to place upward pressure on wages in the utilities industry. However, this may be partly offset by lower operational employment requirements at some renewable energy generators compared to non-renewable generators.

The South Australian utilities WPI is forecast to slow from 1.9% growth in 2020-21 to 0.8% in 2021-22 alongside the slowdown in South Australian all industry wages. South Australian utilities WPI growth is forecast to accelerate to 1.2% in 2022-23 before reaching 1.8% in 2025-26 as employment gains absorb spare capacity in the labour market. Utilities wage growth is forecast to grow at a slower pace than wages in the wider South Australian economy from 2021-22, reflecting the outlook for slower growth in utilities output relative to output from all industries. These forecasts represent a smaller contraction in wages from 2020-21 to 2023-24 and a more modest subsequent recovery from 2024-25 compared with those in Report 1.

Chart 4.7 South Australian utilities WPI forecast comparison



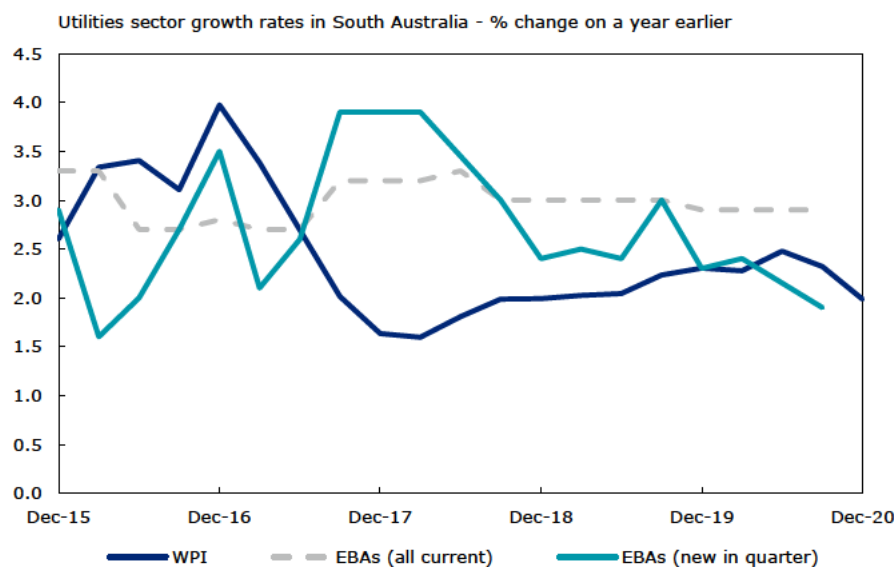
Note: % change on year earlier refers to output growth between a quarter and the same quarter a year earlier.
Source: ABS, Deloitte Access Economics.

4.2.2.2 Comparison with EBA outcomes

In the September quarter of 2020, there was one new EBA negotiated in the utilities industry in South Australia, with an average annual wage increase of 1.9% and covering less than 100 people. Chart 4.8 shows that:

- The AAWI for new EBAs in the utilities industry fell below the AAWI for all current EBAs in December 2018 as well as the WPI for the broader South Australian economy in March 2019.
- The AAWI for current EBAs grew by 2.9% in the September quarter of 2020, above the 2.6% AAWI for all EBAs in South Australia, and above the 2.8% AAWI for Australian utilities industry EBAs.

Chart 4.8 Comparative measures of wage growth in the South Australian 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.

4.2.3 Labour productivity

Labour productivity for South Australia's utilities industry declined by 0.5% in 2019-20 amid the impact of COVID-19 on utilities output. Labour productivity is forecast to grow by 0.8% in 2020-21 and 2.0% in 2021-22 as utilities output increases alongside the recovery in the South Australian economy.

South Australian utilities labour productivity is forecast to grow at a slower rate than South Australian all industry labour productivity from 2021-22. This reflects larger forecast gains in other industries compared to the utilities industry. Labour productivity in South Australia's utilities industry is projected to grow in-line with Australian utilities industry productivity over the long term.

Table 4.2 South Australia and national labour productivity forecasts

Annual % change	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
South Australia - All industries	-0.7	0.5	2.2	2.4	2.0	1.1	0.8
South Australia - Utilities	-0.5	0.8	2.0	2.1	1.3	0.7	0.7
National - All industries	-0.4	0.7	1.9	2.0	1.1	0.7	0.7
National - Utilities	-0.4	0.7	1.9	2.1	1.1	0.7	0.7

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.

Source: ABS, Deloitte Access Economics.

4.2.4 Summary results

Table 4.3 South Australia and national wage forecasts

Financial year changes in South Australia and national nominal WPI

Annual % change	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
South Australia - All industries	2.3	1.5	1.0	1.2	1.6	1.8	1.9
South Australia - Utilities*	2.3	1.9	0.8	1.2	1.6	1.7	1.8
National - All industries	2.1	1.3	1.3	1.3	1.7	1.8	2.1
National - Utilities	2.7	1.8	1.2	1.3	1.7	1.7	2.0

Financial year changes in South Australia and national real WPI

Annual % change	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
South Australia - All industries	0.5	0.4	0.0	-0.5	-0.5	-0.5	-0.3
South Australia - Utilities*	0.5	0.8	-0.2	-0.5	-0.6	-0.6	-0.4
National - All industries	0.8	0.2	0.3	-0.4	-0.5	-0.4	-0.1
National - Utilities	1.3	0.7	0.2	-0.4	-0.6	-0.5	-0.1

*Historical data estimated using Deloitte Access Economics' wage price model. Unavailable from the ABS.

Source: ABS, Deloitte Access Economics.

5 Australian Capital Territory

5.1 Economic outlook

5.1.1 Overview

Australian Capital Territory final demand increased by 3.8% in 2020, compared to the 2.5% fall in Australian final demand. The outbreak of COVID-19 has weighed on private consumption, business investment and services exports in the territory. But this has been offset by the impact of a robust labour market, the effectiveness of measures to control the spread of COVID-19, as well as continued strength in key areas such as housing investment.

Private consumption expenditure fell by 3.1% in 2020 amid the impact of COVID-19 restrictions, compared to an estimated 2.5% decline in the national figure. The Australian Capital Territory has experienced few cases of COVID-19 relative to nearby states such as New South Wales and Victoria. This has allowed restrictions to progressively ease since mid-2020 and the economic recovery to commence. Consumer confidence and private consumption have improved, and further gains are expected.

The relative strength of the Australian Capital Territory economy owes greatly to a robust labour market. The Australian Capital Territory has the lowest unemployment and underemployment rates of any state or territory, as well as the second highest participation rate. The territory's unemployment rate was 4.1% in February 2021 compared to the Australian unemployment rate of 5.8%. The Australian Capital Territory's strong performance is largely due to the fact that approximately one third of Australian Public Service employees are based in the territory. Public sector employment is traditionally stable and tends to fall by less than private sector employment during a downturn. Adding to this, the design, implementation, and review of the Australian Government's COVID-19 stimulus programs increased the demand for public servants in the Australian Capital Territory. This helped to drive employment in the territory through 2020 and early 2021.

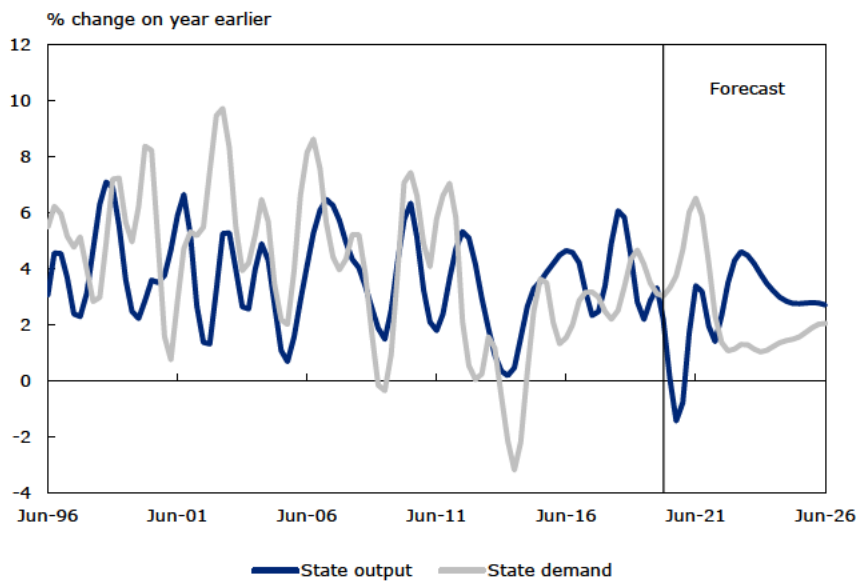
Overall public demand in the Australian Capital Territory grew by 8.8% in 2020, with a large gain in consumption more than offsetting a decline in investment. Public demand is expected to be supported by new spending announcements in the 2020-21 Australian Capital Territory Budget – including a \$4.3 billion infrastructure investment pipeline over the next four years and the \$150 million Sustainable Households Scheme.

The Australian Capital Territory's key service export industries – education and tourism – have been heavily affected by the introduction of border restrictions. A total of 21,600 tourists visited the Australian Capital Territory in 2020, an 80% fall compared to 2019. According to Tourism Research Australia, the number of international visitor arrivals to the Australian Capital Territory is not forecast to return to pre-COVID levels until 2023.

The territory's population is estimated to have grown by 1.0% in 2020 compared to a 1.1% gain in the Australian population. The introduction of international border restrictions has weighed heavily on net international migration to the Australian Capital Territory – which typically accounts for around half of the territory's population growth. International border closures look set to constrain population and output growth in the territory over the short term. There is also a risk that skilled migration remains lower than pre-COVID forecasts over the medium to long term.

The Australian Capital Territory economy is forecast to grow by 0.8% in 2020-21 before accelerating to 1.9% in 2021-22 amid the further easing of COVID-19 restrictions and recovery in both business and consumer confidence. Growth is then expected to reach 4.3% in 2022-23 before moderating. The Australian Capital Territory economy is forecast to grow in-line with the Australian economy over the medium term.

Chart 5.1 Output and demand (change on year earlier), Australian Capital Territory



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 5.1 : Australian Capital Territory economic forecasts

Annual % change (unless noted)	History Forecast		2021-22	2022-23	2023-24	2024-25	2025-26
	2019-20	2020-21					
Consumption							
Private sector	-2.3	2.1	2.0	1.1	3.8	3.5	3.5
Public sector	7.1	7.6	2.0	-1.1	-1.4	0.7	1.0
Private sector investment							
Dwelling investment	5.1	-3.9	3.5	8.1	-0.1	-2.7	-0.8
Non-residential building	24.0	-25.6	4.9	22.4	9.4	1.4	0.6
Engineering construction	-0.3	7.0	13.7	11.4	2.6	1.6	0.7
Machinery and equipment	18.3	-0.8	-1.0	2.1	11.4	5.5	4.1
IP and livestock	2.9	12.9	8.1	24.0	10.1	7.6	6.6
Public investment							
General Government	-6.1	29.5	18.6	-0.5	-2.4	-2.7	0.8
Public enterprises	-2.3	19.8	6.1	1.8	2.9	1.8	1.7
Real final demand							
Private sector	0.6	0.0	2.4	4.0	4.2	2.9	3.0
Public sector	5.4	10.1	4.1	-1.0	-1.5	0.2	1.0
Gross State output							
	2.4	0.8	1.9	4.3	3.6	2.8	2.8
Employment							
	2.7	2.8	1.6	1.7	2.0	1.7	1.6
Unemployment rate (%)							
	3.3	4.0	3.8	3.6	3.3	3.2	3.2

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

5.1.2 Utilities

The Australian Capital Territory's utilities industry is influenced by both independent pricing tribunals and market forces. The supply of electricity and water and waste services are determined by the Independent Competition and Regulatory Commission (ICRC) for small customers in the territory. Natural gas prices are not regulated.

The Australian electricity market has been undergoing a transition for several years. In electricity wholesale markets the electricity generation mix is shifting from large fossil fuel (e.g. coal) towards renewable (e.g. wind and solar) generation. The increased supply of renewable generation has meant wholesale prices in the NEM have been declining in recent years.

The territory has sourced 100% of its electricity from renewable sources since late 2019 and has a target of net zero emissions by 2045. The territory government has also announced zero-interest loans of up to \$15,000 to households to finance products that reduce emissions such as rooftop solar panels, battery storage and efficient electrical appliances.

These developments in wholesale markets have important implications for the territory's retail electricity market. The ICRC's price determination in June 2020 meant that a typical customer on a standing offer contract would see a 2.56% reduction in electricity prices in 2020-21. The price reduction is largely driven by reductions in wholesale costs and national green scheme costs. The reduction in wholesale costs is driven by an increase in generation capacity, mainly from renewable sources.¹⁶

Other important developments in the territory retail electricity market include is a small increase in competition. The largest retailer is ActewAGL which has seen its market share decline slightly from around 81% in the third quarter of 2019 to around 79% in the third quarter of 2020. Origin Energy has correspondingly increased its market share by 2 percentage points to 16%. Increased competition in the retail electricity market could put downward pressure on retail electricity prices in the territory.

There has also been a shift from standing (or default) contracts to market contracts. The increased take up of market offers reflects increased competition and regulators efforts to have consumers shop around for cheaper offers. The share of residential ActewAGL customers on standing offers has fallen to 40% in the September quarter of 2020 from 54% a year earlier.

Prices for water, sewerage and gas have generally been steady over the past year. According the latest territory budget, retail gas prices in 2020-21 have either fallen or been frozen for most customers.

5.2 Outlook for wages

5.2.1 All industries

The Australian Capital Territory WPI grew by 1.8% in 2020, slightly above the national figure of 1.7%. The marginal outperformance likely reflects the relative strength of the territory's economy and labour market, as well as the expansion of the public sector during the design, implementation, and review of COVID-19 stimulus programs.

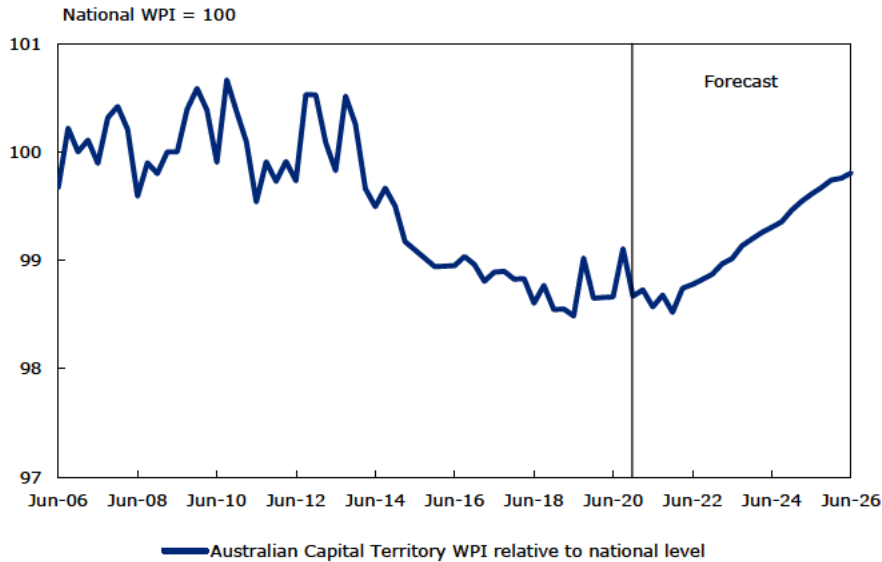
The territory's labour market includes a relatively high proportion of public sector employees. Public sector wages increased by 1.7% in 2020 compared to a 2.0% gain in private sector wages. The weaker increase in public sector wage growth is likely due to the deferral of wage increases for Commonwealth Public Servants.

Wage gains in the territory moderated relative to national wage gains from late 2013 through to mid-2019. This was largely due to strong economic activity and the tightening of labour markets in

¹⁶ Independent Competition and Regulatory Commission, *Retail electricity price investigation 2020 - 2024* (2 March 2021) <https://www.icrc.act.gov.au/__data/assets/pdf_file/0010/1556182/Electricity-Final-Report.pdf>.

other jurisdictions as well as delays and weak outcomes for EBAs covering employees in the territory. Australian Capital Territory wage gains are forecast to increase relative to Australian wage gains over the forecast period to 2025-26, largely driven by the outperformance of the territory’s economy as well as the end of public sector wage freezes.

Chart 5.2 Australian Capital Territory WPI relative to national WPI

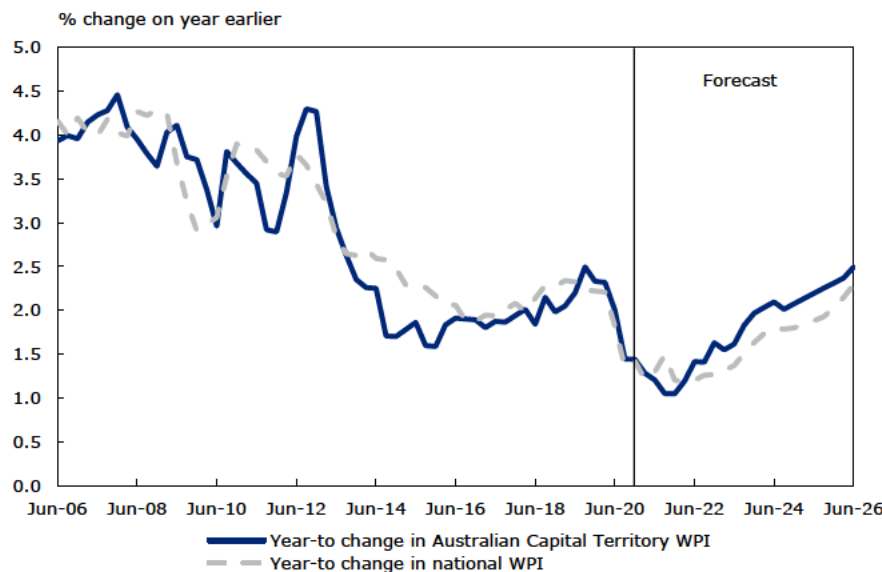


Source: ABS, Deloitte Access Economics.

The Australian Capital Territory WPI is forecast to grow by 1.3% in 2020-21, a deceleration from the prior year as economic activity remains subdued compared to pre-COVID-19 trends. Wage gains are expected to reach a trough of 1.1% in 2021-22 amid elevated levels of spare capacity in the labour market. As the labour market gradually tightens this will place upward pressure on wage growth, which is expected to reach 2.1% by 2025-26.

These forecasts represent a similar rate of growth from 2020-21 to 2023-24 and a slower rate of growth from 2024-25 to 2025-26 when compared to Report 1. Wage growth is a cumulative 0.6 percentage points lower across the forecast period from 2020-21 to 2025-26. The Australian Capital Territory WPI is forecast to reach 2.4% in 2025-26 compared to a forecast of 3.0% in Report 1.

Chart 5.3 Australian Capital Territory general WPI growth



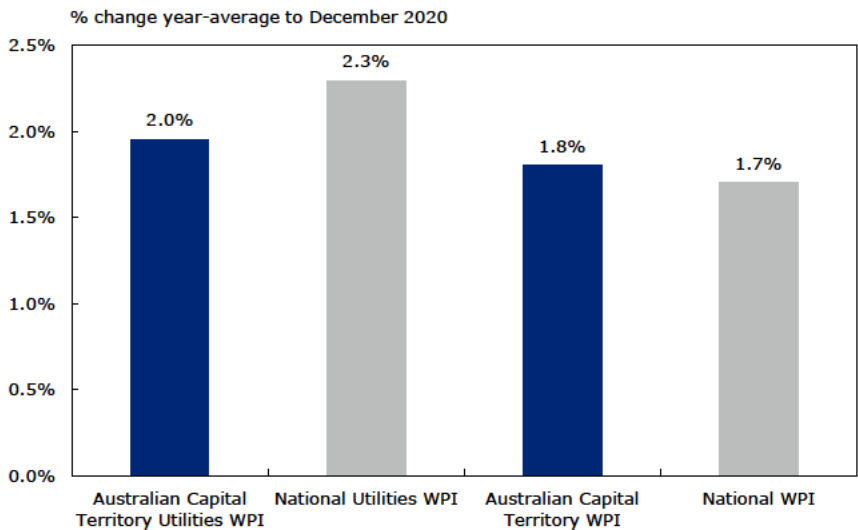
Note: % change on year earlier refers to output growth between a quarter and the same quarter a year earlier.

Source: ABS, Deloitte Access Economics.

5.2.2 Utilities industry wages

Deloitte Access Economics estimates that the Australian Capital Territory’s utilities industry WPI grew by 2.0% in 2020, below the national utilities WPI growth of 2.3%. This is driven by the faster pace of wage gains in other states over the same period – particularly Victoria and Queensland. The territory’s utilities industry WPI growth remains above the territory all industry WPI growth of 1.8%, reflecting the relatively large impact of COVID-19 on output in other industries.

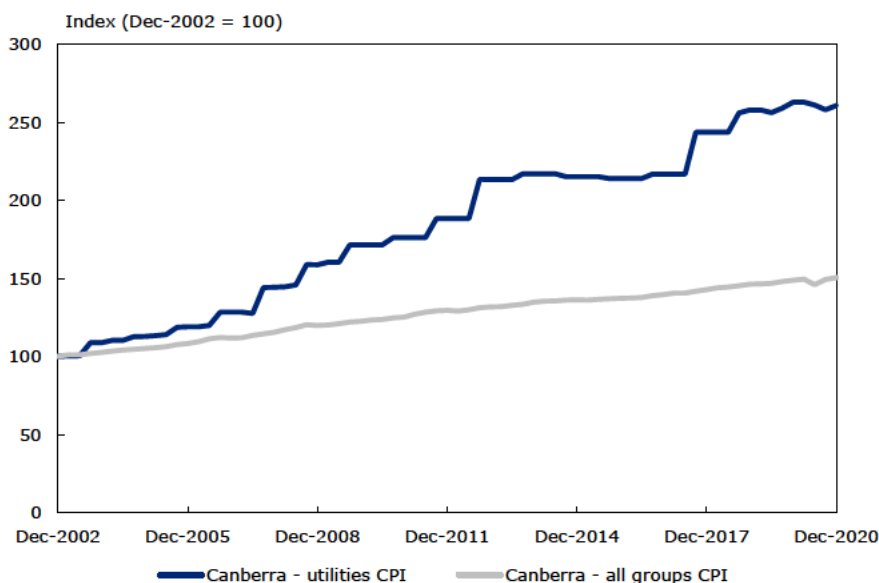
Chart 5.4 Comparative WPI annual growth, 2020



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

Consistent with many other states and territories, utilities prices in the territory have outpaced the broader CPI for much of the past two decades. However, price increases were negligible between 2012 and 2017 and have moderated more recently (see Chart 5.5). The AEMC forecasts that prices will increase by 2.3% from 2019-20 to 2022-23, as large falls in wholesale and environmental costs are more than offset a rise in network and other residual costs.

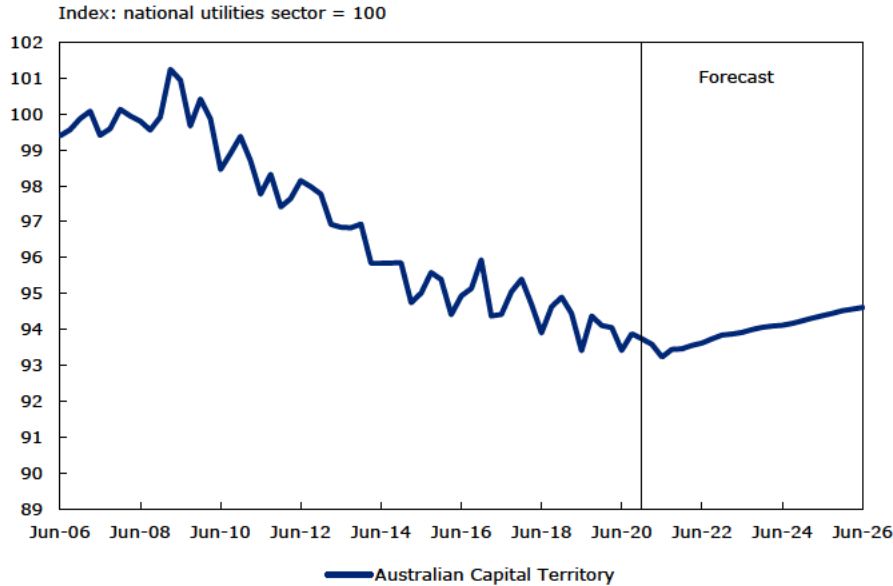
Chart 5.5 Canberra utility prices



Source: ABS

After declining for much of the past decade the utilities WPI in the territory is expected to grow relative to national utilities WPI over forecast period to 2025-26. This is primarily driven by forecasts for strong growth in Australian Capital Territory output and population.

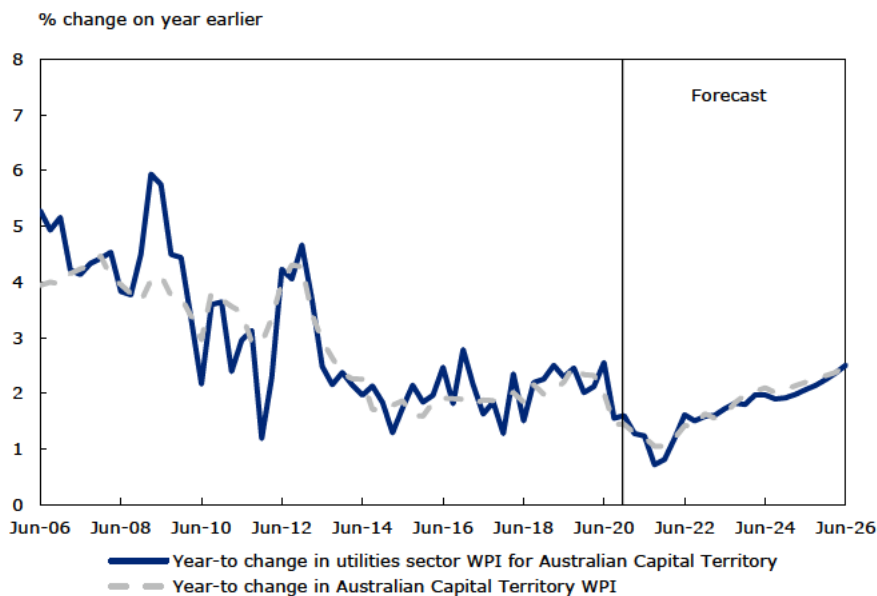
Chart 5.6 Australian Capital Territory utilities WPI relative to national utilities WPI



Source: ABS, Deloitte Access Economics.

Australian Capital Territory utilities wages are forecast to grow by 1.4% in 2020-21 before slowing to a 1.1% gain in 2021-22 as spare capacity in the labour market restricts wage growth. Wage growth is then expected to accelerate amid an acceleration in utilities sector output, reaching 2.3% in 2025-26. These forecasts represent a smaller contraction in wages from 2020-21 to 2023-24 and a more modest subsequent recovery from 2024-25 compared with those in Report 1.

Chart 5.7 Australian Capital Territory utilities general WPI growth



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

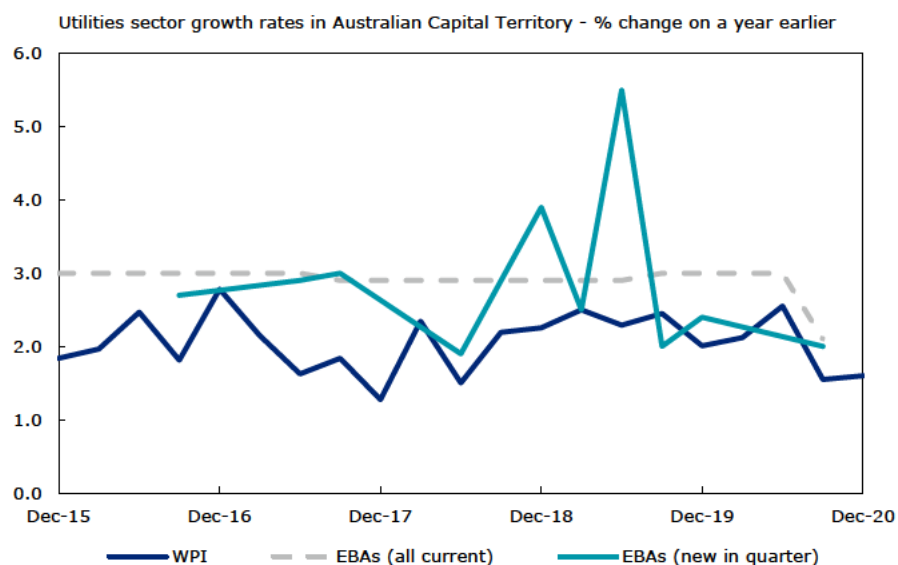
Source: ABS, Deloitte Access Economics.

5.2.2.2 Comparison with EBA outcomes

There were seven current EBAs in the utilities industry in the September quarter of 2020, covering 400 employees, with an AAWI of 2.1%. Chart 5.8 shows the utilities industry WPI and the outcomes in territory EBAs for the utilities industry. The chart shows:

- There has been a broad decline in wage growth during COVID-19. The AAWI for current EBAs declined from 3.0% in the June quarter of 2020 to 2.1% in the September quarter of 2020.
- The AAWI for new utilities industry EBAs has fallen from a high of 5.5% in June 2019 to 2.0% in September 2020. This is in line with the AAWI for new utilities EBAs across Australia in September 2020.

Chart 5.8 Comparative measures of wage growth in the Australian Capital Territory 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

5.2.3 Labour productivity

Labour productivity for the Australian Capital Territory's utilities industry fell by 0.5% in 2019-20 as the slowdown in output outweighed the slowdown in employment. Labour productivity is forecast to grow by 0.6% in 2020-21 as output recovers from the impact of COVID-related falls.

Labour productivity growth for both the territory overall and the territory utilities sector is expected to accelerate from 2021-22. Output growth is expected to expand alongside the rollout of the COVID-19 vaccine. Employment growth is projected to lag output growth, boosting labour productivity growth.

Australian Capital Territory utilities labour productivity is forecast to grow at a similar rate as productivity in the Australian utilities industry. This reflects the fact that the territory utilities industry is affected by trends in the broader national utilities industry.

Table 5.2 Australian Capital Territory and national labour productivity forecasts

Annual % change	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Australian Capital Territory - All industries	-0.3	-2.0	0.3	2.6	1.6	1.1	1.1
Australian Capital Territory - Utilities	-0.5	0.6	1.8	2.1	1.2	0.7	0.8
National - All industries	-0.4	0.7	1.9	2.0	1.1	0.7	0.7
National - Utilities	-0.4	0.7	1.9	2.1	1.1	0.7	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.

5.2.4 Summary results

Table 5.3 : Australian Capital Territory and national wage forecasts

Financial year changes in Australian Capital Territory and national nominal WPI

Annual % change	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Australian Capital Territory - All industries	2.3	1.3	1.2	1.6	2.0	2.1	2.4
Australian Capital Territory - Utilities*	2.3	1.4	1.1	1.6	1.9	2.0	2.3
National - All industries	2.1	1.3	1.3	1.3	1.7	1.8	2.1
National - Utilities	2.7	1.8	1.2	1.3	1.7	1.7	2.0

Financial year changes in Australian Capital Territory and national real WPI

Annual % change	History		Forecast				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Australian Capital Territory - All industries	1.1	-0.3	0.0	-0.1	-0.2	-0.2	0.2
Australian Capital Territory - Utilities*	1.1	-0.2	-0.1	0.0	-0.3	-0.3	0.1
National - All industries	0.8	0.2	0.3	-0.4	-0.5	-0.4	-0.1
National - Utilities	1.3	0.7	0.2	-0.4	-0.6	-0.5	-0.1

Source: ABS, Deloitte Access Economics.

Note: Historical data estimates using Deloitte Access Economics Wage Price Index forecasting model. Unavailable from the ABS.

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