Attachment 3.4

Labour cost escalation forecasts to 2025/26 report

BIS Oxford Economics

Revised GN21 Plan

ACT and Queanbeyan-Palerang gas network 2021–26

Submission to the Australian Energy Regulator

January 2021

evoenergy

BIS OXFORD ECONOMICS

LABOUR COST ESCALATION FORECASTS TO 2025/26

PREPARED BY BIS OXFORD ECONOMICS FOR EVOENERGY

REVISED FINAL

DECEMBER 2020

BIS Oxford Economics

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December 2020

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

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1. EXECUTIVE SUMMARY

BIS Oxford Economics was engaged by Evoenergy to provide updated price forecasts of labour costs that are relevant to the Australian Capital Territory (ACT) gas distribution industry for the period 2020/21 to 2025/26 (FY21 to FY26). Forecasts for wage escalation will be used by Evoenergy to develop the real price changes over its upcoming regulatory period, which, in turn, will be used by the business to construct its operating and capital expenditure forecasts.

BIS Oxford Economics expects real wage costs for the Australian Electricity, Gas, Water and Waste Services (EGWWS or 'Utilities') sector — as measured in the Wage Price Index — will grow (escalate) by an average of 0.6% per annum over the five years to FY26, 0.4% higher than the national 'All Industries' average over the same five-year period. Over the same 5-year period to 2026, the ACT EGWWS WPI is forecast to average 0.6% p.a., 0.3% higher than the ACT all industries WPI average of 0.3% p.a. (all in real terms).

Note that these forecasts include the impact of the proposed increases to Superannuation Guarantee (SG) over the forecast period. We anticipate that both the ACT and Australian EGWWS WPI will be, on average, -0.3% lower each year, than if the SG increases did not proceed. RBA research shows that employees tend to receive lower wages due to the imposition of a SG increase. In effect some of the employees' wage increase (which they would have received in the absence of the SG increase) is replaced with the extra superannuation contribution. This means that although the 'statutory' incidence of the higher superannuation contributions are borne by employers, over time a proportion of these higher SG costs are passed from employers to employees via lower wage growth. Section 4.3 includes a discussion of SG increases, how they apply to the WPI (and other wage measures) and the assumptions underpinning the impacts of the WPI forecasts in this document. Note that excluding the -0.3% annual impact of the SG increases, the forecast real growth in Australian EGWWS WPI would be slightly below the 1.0% p.a. averaged over the past decade.

During the current COVID-19 crisis, the EGWWS sector has fared much better than just about all other sectors, along with the Mining, Finance and Insurance sectors. Surveys have shown that employment and wages have hardly suffered since the start of the crisis in February/March 2020. Indeed, recent ABS data showed the EGWWS sector actually increased employment in the 3 months to May 2020 – by +24.5% compared to February levels (in seasonally adjusted terms) for Australia, although some of this increase was unwound over the 3 months to August (when employment slipped back -8.6%). This shows a healthy level of ongoing labour demand in what is an essential service. Meanwhile, EGWWS WPI growth in the June quarter was 0.6% in quarterly % change terms (q/q) – in original terms (i.e. not seasonally adjusted) – to be 2.5% higher than the June quarter 2019, i.e. year-on-year (y/y), well above the All Industries average of 0% q/q (original terms) and 1.8%y/y. This strong out-performance continued in the September quarter, with the EGWWS WPI increasing by 0.6% q/q to be 2.1% y/y – much higher than the 0.4% q/q (in original terms) and 1.4% y/y for the All Industries WPI.

National and ACT utilities wages are forecast to increase by more than the national and state all industries averages over the forecast period because of the following factors:

- the electricity, gas and water sector is a largely capital intensive industry whose employees have higher skill, productivity and commensurately higher wage levels than most other sectors
- strong union presence in the utilities sector will ensure outcomes for collective agreements, which cover 65% of the workforce, remain above the wage increases for the national 'all industry' average. In addition, with the higher proportion of employees on EBAs, compared to the national

average (38%), and EBAs wage rises normally higher than individual agreements, this means higher overall wage rises in the EGWWS sector.

- increases in individual agreements (or non-EBA wages) are expected to strengthen from the current weak pace as the labour market tightens and labour productivity growth builds from around FY23.
- demand for skilled labour will pick up and strengthen with the high levels of utilities investment from FY22 to FY26, with investment levels expected to remain elevated over the medium term. This will also be a key driver of wages going forward.
- the overall national average tends to be dragged down by the lower wage and lower skilled sectors such as the Retail Trade, Wholesale Trade, Accommodation, Cafés and Restaurants, and, in some periods, also Manufacturing and Construction. These sectors tend to be highly cyclical, with weaker employment suffered during downturns impacting on wages growth in particular, such as is now occurring in the wake of the COVID-19 impacts. The EGWWS sector is not impacted in the same way due to its obligation to provide essential services and thus retain skilled labour.

Although we expect the overall labour market to weaken further over the next year, we subsequently expect an acceleration of employment growth through FY23, which will outpace population and labour force growth and see the unemployment rate drop back appreciably. Hence, we expect to again witness the re-emergence of skilled labour shortages and competition for scarce labour particularly from the mining and construction sectors, which will push up wage demands in the utilities sector. Mining investment is now picking up and is forecast to see significant increases over the next 3 years to FY24, before easing. Meanwhile, there is similar strong growth coming through in the Construction sector, which, after a short-term set-back due to COVID-19, we expect to see a synchronised upswing across all segments of the overall construction sector (residential construction, non-residential building and civil engineering & infrastructure construction) over FY23 to FY25, leading to strong labour demand in that sector, particularly from 2024 when activity surpasses the 2018 levels.

A key problem is that the TAFE (technical and further education) systems across the country have simply not been training enough workers. BIS Oxford Economics research shows this is being compounded by new graduates in the trades stream in particular not increasing fast enough to replace retiring workers, with some numbers actually falling. Despite government announcements that they are moving to address the TAFE system, it is unlikely that these issues will be addressed within the next 5 years. Added to this is that skilled immigration has been suspended. When it does return, it is likely to be a slow ramp-up, meaning that the skill shortages will persist and won't be easily solved by migration.

With strong competition for similarly skilled labour from the mining and construction industries, firms in the utilities sector will need to raise wages to attract and retain workers. In other words, the mobility of workers between the EGWWS, mining and construction industries means that demand for workers in those industries will influence employment, the unemployment rate and hence spare capacity in the EGWWS labour market. Businesses will find they must 'meet the market' on remuneration in order to attract and retain staff and we expect wages under both individual arrangements and collective agreements to increase markedly over the FY24 to FY26 period.

The ABS does not provide WPI data for the Utilities sector in the ACT, providing state utilities data only for NSW, Victoria and Queensland (the latter since early 2019 only). These three states collectively account for 73% of total Australian utilities employment, with the ACT accounting for less than 2%. Historical data and forecasts of WPI for the EGWWS sector in the ACT is therefore based on national EGWWS WPI forecasts, as well as movements in the 'unknown residual' for the utilities

wage price index and recent differences in outcomes in collective bargaining in the ACT compared to the national average for the utilities sector.

Wages in the ACT utilities sector are expected to outpace the national utilities sector average over the next two years, given relatively higher EBAs than the Australian average over the recent period and a stronger labour market in the ACT. However, over the following four years to FY26 inclusive, wage increases are expected to be slightly lower than the national average – due to relative weaker growth in construction activity in the ACT over the next 6 years, compared to the national average. Nevertheless, ACT utilities wages will still need to keep pace with increases in utilities and construction wages in other states (especially NSW and Victoria) in order to attract and retain staff. In addition, BIS Oxford Economics analysis of utilities-related civil engineering construction in the ACT forecasts solid growth over the next 6 years, with the increased labour demand underpinning this increased investment also expected to push up utilities wages in the ACT.

Overall, we are forecasting EGWWS WPI growth in the ACT to average 2.4% (in nominal terms) over the five years to FY26 inclusive (i.e. Evoenergy's next regulatory period) – just below the Australian average of 2.5%. for the ACT, this equates to 0.6% in real (inflation adjusted) terms (see Summary table 1).

The 'All Industries' WPI for ACT is used to escalate Evoenergy's **general labour** (i.e. non-network and non-external professional labour) costs. Growth in total or 'all industries' wages at the state level usually depends on the relative strength of the state economy and labour markets, compared to the national average.

At the national level, widespread wage freezes and very modest wage increases will see Australian **All Industries WPI** growth weaken over FY21, mainly due to the COVID-19 impacts. Some upside is expected to come from an increase in the National Minimum Wage (NMW), which was awarded by the Fair Work Commission at its Annual Wage Review in June 2020 – to be paid to workers in different industry sectors on a staggered timetable over 2020/21. Given the current circumstances, the FWC only awarded a 1.75% increase – down from the 3.1% to 3.5% increases of the past 3 years, but which the FWC deemed prudent to provide the poorer paid workers with an adequate wage. Although only 13% of full-time workers (a much higher proportion for part-time workers) rely on the annual increase in the minimum wage as their primary wage-payment mechanism, a significant proportion of workers are also indirectly influenced by the NMW increase, as it usually flows onto industry awards. Furthermore, some industries that are less affected by the COVID-19 impacts will also receive some pay rises over FY21. Overall, our forecast is for the All Industries WPI to increase by 1.1% in FY21.

As the economy and employment rebounds through FY22, growth in the All Industries WPI is also expected to exhibit a modest recovery, rising to 1.4%. Part of the rebound will be driven by deferred pay increases from 2020 and early 2021. We also expect a higher increase in the NMW in July 2021 to underpin higher increases. As the economy continues to strengthen over FY23 to FY25, we expect to see a marked improvement in the labour market, with labour demand increasing and the unemployment rate falling to around 5% by early FY25. We expect to see skill shortages manifest in some areas of the economy. The tightening labour market will see wage pressures increase, with the Australian All industries WPI forecast to gradually rise to 2.5% in FY25 and FY26.

In real terms (inflation-adjusted using RBA CPI forecasts), the average annual increase is forecast to be 0.2% (see Summary Table 1.1 below). Note that these wage forecasts for the All Industries wages include the impacts of the SG increase. At the national All Industries level, we estimate the impacts will be -0.4% for each year of the SG increase. See section 4.3 for the assumptions underpinning this estimate. If you exclude the -0.4% impact of the SG increase, the rate of real increase becomes 0.6%, which is only slightly below average movements of the past decade.

Over the five years to FY19, the **ACT All Industries** state average WPI growth was much weaker than the national average, averaging -0.3% lower than the national average. This is despite economic growth largely out-pacing growth in the national economy, in terms of state final demand (SFD) and Gross State Product (GSP), for most of those five years; and despite the ACT having a lower unemployment rate than the national average. However, in FY2020, the All Industries WPI in the ACT outpaced the national average, increasing to 2.3% compared to the 2.1% for the national average.

This outperformance is expected to widen in FY21, with the ACT All Industries WPI forecast to increase by 1.4% compared to the 1.1% for the national average. Key factors underpinning this outperformance include the stronger economic performance of the ACT compared to the national average, a lower proportion (in terms of workforce) of the worst affected industries (such as tourism, hospitality and transport-related services) and a higher proportion of government services, the latter which has been less affected by COVID-19. The out-performance is then expected to narrow from FY22 as the other state economies recover and begin to show stronger economic performances than the ACT. Over the FY22 to FY26 period, we expect the ACT all industries WPI to continue track the movements in the Australian average, but with the relativities vis-à-vis the national average more in line with the growth differentials between the ACT and Australian economy. However, although our baseline ACT All Industries WPI (i.e. baseline excludes the impact of the SG increases) indicates that the national All Industries average would outpace the ACT WPI over the FY24 to FY26 period, this is offset by a lower impact from the SG increases on overall ACT wages growth.

At the ACT All Industries level, we expect the impact of the SG to be much lower than the Australian average, due to a much larger proportion of public sector employees in the territory. Government employees are subject to public service wage caps in the state - which do not include changes to the SG - and will largely not have their wages discounted. As at June 2020, ABS data estimated the public sector workforce was around 43% of total ACT employment. We are assuming that all these employees are subject to the wage caps. There will also be other employees (including in the EGWWS sector and construction sectors in particular) whose wages will also not be discounted, with the overall proportion of employees not having their wages discounted close to around half of the ACT workforce. Overall, the impact on the total ACT workforce will be -0.24% for each of the 5 years from FY22 to FY26 inclusive – compared to the national average of -0.4% per year.

In the five years to FY26, we are forecasting the total state (All Industries) WPI in the ACT to average 2.2% in nominal terms, slightly above the 2.1% national average. In real (inflation-adjusted) terms, the average annual increase is forecast to be 0.3% (see Summary Table below).

Table 1.1 Summary – Labour Cost Escalation Forecasts: ACT & Australia - including Impact of Proposed Superannuation Guarantee Increases (financial years)

(per cent change, year average, year ended June)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Average (g)
				Actuals			Forecasts	Next Regulatory Period					
NOMINAL WAGE CHANGES													
Australian Capital Territory Wages: All Industries													
Wage Price Index (a)	**1.7**	**1.7**	**1.8**	**2.0**	**2.1**	**2.3**	**1.4**	**1.6**	**1.8**	**2.3**	**2.6**	**2.6**	**2.2**
Australian Wages: All Industries (b)													
Wage Price Index (a)	2.4	2.1	2.0	2.1	2.3	2.1	1.1	1.4	1.7	2.2	2.5	2.5	2.1
Average Weekly Ordinary Time Earnings (c)	2.4	1.9	2.0	2.4	2.7	3.9	3.4	1.6	2.0	2.6	2.8	3.0	2.4
Electricity, Gas, Water and Waste Services Wages													
Australian Capital Territory - Wage Price Index (d)	**2.6**	**2.3**	**2.3**	**2.2**	**2.8**	**2.8**	**2.0**	**1.9**	**2.1**	**2.5**	**2.8**	**2.8**	**2.4**
Australia - Wage Price Index (a,b)	2.8	2.4	2.2	2.0	2.8	2.7	1.9	1.9	2.1	2.6	2.9	2.9	2.5
Consumer Price Index (headline) (e)	1.7	1.4	1.7	1.9	1.6	1.3	0.9	1.1	1.8	2.1	2.1	2.1	1.9
REAL WAGE CHANGES (f)													
Australian Capital Territory Wages: All Industries													
Wage Price Index (a)	**0.0**	**0.4**	**0.1**	**0.0**	**0.4**	**0.9**	**0.5**	**0.5**	**0.0**	**0.2**	**0.4**	**0.5**	**0.3**
Australian Wages: All Industries (b)													
Wage Price Index (a)	0.7	0.7	0.2	0.1	0.7	0.8	0.2	0.2	-0.1	0.1	0.4	0.4	0.2
Average Weekly Ordinary Time Earnings (c)	0.7	0.5	0.3	0.5	1.0	2.5	2.5	0.5	0.2	0.4	0.7	0.9	0.5
Electricity, Gas, Water and Waste Services Wages													
Australian Capital Territory - Wage Price Index (d)	**0.9**	**0.9**	**0.6**	**0.3**	**1.2**	**1.5**	**1.1**	**0.8**	**0.3**	**0.4**	**0.6**	**0.7**	**0.6**
Australia - Wage Price Index (a,b)	1.1	1.0	0.5	0.0	1.1	1.3	1.0	0.8	0.4	0.5	0.8	0.8	0.6

Source: ABS, RBA, BIS Oxford Economics

(a) Wage price index. Ordinary time hourly rates of pay excluding bonuses.

(b) Australian wages provided for comparison.

(c) Average Weekly Ordinary Time Earnings for full-time adult persons. Excludes over-time earnings, but bonuses are included.

(d) Wage price index for ACT. Historical data are estimates.

(e) Inflation forecasts are RBA forecasts for the next 2 years from latest 'Statement of Monetary Policy'. Beyond that, inflation forecasts are based on mid-point of RBA inflation target, but overall forecasts are calculated as a geometric mean of the 'official' RBA inflation forecasts over the next 10 years. This methodology has been adopted by the AER in its recent revenue decisions

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

(g) Average for the next revenue determination period i.e. from 2021/22 to 2025/26 inclusive.

2. INTRODUCTION

BIS Oxford Economics was engaged by Evoenergy to provide a report on expected real labour escalators relevant to their gas networks business in the Australian Capital Territory from 2019/20 to 2025/26 (FY20 to FY26). Forecasts of wages will be used by Evoenergy to estimate their real price growth in order to develop their operating and capital expenditure forecasts. This, in turn, will be included in Evoenergy's next regulatory proposal to be submitted to the Australian Energy Regulator (AER) by June 2020. Although Evoenergy's next revenue proposal covers the five-year period from 2021/22 to 2025/26 (inclusive), BIS Oxford Economics has provided seven-year forecasts covering financial years 2019/20 to 2025/26 to allow for escalation over the full outlook period. Forecasts of both nominal and real cost growth are provided. The wage forecasts in this abbreviated updated report were finalised on 1st December 2020.

The Australian Bureau of Statistics is the primary data source for the consumer price index, wages, employment, real gross value added and investment (including engineering construction) data, and for a range of other economic variables. The data used in the projections is the latest available as at late November 2020 and includes the September quarter 2020 WPI data release. Other inflation and interest rate data were sourced from the Reserve Bank of Australia.

Forecasts of the economic variables in this report were mostly sourced from BIS Oxford Economics reports, including *Australian Macro Service*, *Long Term Forecasts: 2021 – 2035, Engineering Construction in Australia 2020-2035* and *Building in Australia 2020-2035*, along with other unpublished forecasts and from BIS Oxford Economics internal research and modelling.

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

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

Section 3 discusses BIS Oxford Economics' national wage projections and discusses the use of the Reserve Bank of Australia forecasts of the Consumer Price Index (CPI) for the deflation of nominal wages.

3. MACROECONOMIC OUTLOOK

3.1 AUSTRALIA MACROECONOMIC FORECASTS

Coronavirus pandemic has created major global socioeconomic disruptions & uncertainty

COVID-19, the disease caused by SARS-CoV-2, was first identified in December 2019 and was recognised as an international pandemic by the World Health Organisation on 11 March 2020. The pandemic has led to major global socioeconomic disruptions, including national lockdowns, and has driven governments and central banks to rollout major stimulus packages. The unprecedented nature of both the pandemic and the response, and the speed at which governments and individuals are reacting, create a higher than normal level of uncertainty to the forecasts in this report. At the beginning of 2020, the Australian outlook had an expectation that economic conditions would gradually improve, but the COVID-19 outbreak and associated policy responses to limit its spread have caused a drastic re-evaluation of the outlook.

Deep Recession in 2020

The Australian economy is currently in recession. GDP shrank by 0.3% in the March quarter 2020, and COVID-19 related restrictions have seen a much larger contraction in Q2. Australia recorded its largest quarterly fall in output on record in Q2, with GDP contracting by 7%. As expected, household consumption led the decline, subtracting 6.7% pts from growth in the quarter. The weakness was concentrated in services (down 17.6% q/q), which have borne the brunt of trading and travel restrictions; goods purchases fell only 2.8% q/q. Business and dwelling investment also dropped back, and the outlook for these components is very weak. We expect GDP to fall 3.4% in 2020, before recovering to grow by a modest 2.4% in 2021.

While there are some bright spots in retail spending, these are more than offset by the curtailing of spending on many services, including travel and recreational activities. The housing market was already in the midst of a construction downturn, and the coronavirus will delay any recovery. Business investment is expected to take a large step down, with the uncertainty around the outlook and the strain placed on business revenue leading to the deferral or cancellation of capital expenditure. The mining sector is expected to remain relatively well insulated, but the sharp fall in coal, oil and natural gas prices is likely to lead to several new projects being put on hold. Public demand will continue to support growth, as will net exports; the relative strength in commodity shipments will see exports remain more resilient than imports.

The path of recovery is contingent on health outcomes but will be slow. The broader economic recovery was evident in July, with employment and hours worked rising further. Paradoxically, the unemployment rate rose to 7.5%, but this reflects a transition of workers from not in the labour force to looking for work. The situation in Victoria has been a drag on labour demand indicators; all other states and territories are recording increases in payrolls. Overall, we continue to expect that the recovery in the labour market will be slow and bumpy. The Victorian State Government has outlined a path out of their strict Stage Four lockdown. While some relaxation of restrictions have occurred through September and October, trading restrictions will still be quite severe through October, with a more substantive easing expected in November.

Moreover, when restrictions are eventually relaxed, it will be done gradually to ensure community safety, which will slow the speed of the recovery. We are assuming that most of the restrictions will be lifted by the end of Q4, 2020. A further key assumption is that a successful vaccine to COVID-19 is likely to be widely available around Q2/Q3 in 2021 – based on recent reports which suggests a

development timeline of 12-18 months - and this will allow the lifting of restrictions and aid the normalisation of travel and trade.

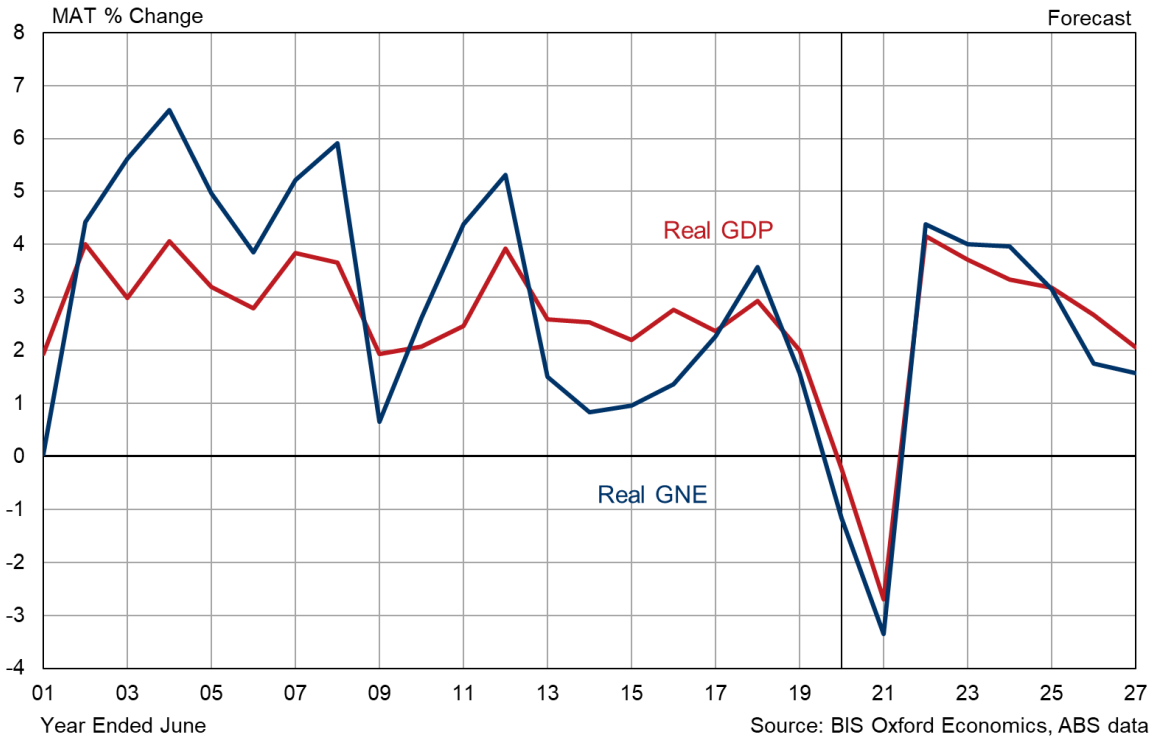
While the government have announced substantial support to help firms stay in business and maintain employment, softening the blow for those affected, there has still been a massive dislocation of labour in H1 2020, concentrated in casual employees and consumer-facing service sectors. Rising unemployment will weigh heavily on household consumption. The sharp reduction in household consumption and service exports will have flow-on effects on business investment.

Overall, in terms of financial years, Australian GDP declined -0.2% % in FY20 and is forecast to contract a further -2.7% in FY21, before recovering to 4.2% in FY22.

Discretionary consumption expenditure has plummeted

Household spending will be one of the primary channels through which GDP is affected. Some components of retail spending have seen increases – most notably sales at supermarkets. But this spending has either come at the expense of other retail categories (such as cafes, restaurants & take away food), or represents a pull forward of future spending as cautious households stock up on groceries. The largest hit to consumption has been to discretionary goods and services purchases, such as travel and other recreation activities. Moreover, in such an uncertain environment, discretionary goods purchases are likely to be deferred; for instance, vehicle sales have fallen sharply. Household consumption is now expected to contract sharply in FY21 (by -6.7%) - following the -2.6% decline in FY20 - before recovering over 2021, with a 5.8% rebound in FY22 (in year-average terms).

Figure 3.1 Australia Key Indicators



Government and RBA policies supporting household income and employment

The Federal and State Governments have announced a number of stimulus packages, that are collectively valued at around 11% of GDP. The first two packages were aimed at shoring up business investment and cash flow and supporting displaced workers. For households, a range of additional payments for those already receiving government benefits have been announced to assist cash flow.

The first stimulus package included a one-off $750 payment to pensioners, Newstart recipients, family tax beneficiaries and other social security recipients. As the growing scale of the pandemic became obvious, these measures were bolstered in a second package. An additional $750 payment will be given to a slightly narrower set of recipients, while a range of social security payments will be increased by $550 a fortnight for a six-month period.

The most substantial measure is the Federal JobKeeper program (the third package), which is expected to provide support payments to employers for up to 6 million workers (45% of total employment). This program will provide wage subsidies to firms for full- and part-time workers, as well as casual employees with a tenure greater than 12 months. Payments are roughly equal to the minimum wage and must go to the employees in full. The program has been designed to support household income and keep workers and firms attached through the crisis, to enable a relatively rapid recovery in activity once restrictions can be lifted. Further, it will mitigate the expected increase in the unemployment rate. Nevertheless, with many casual workers and temporary visa holders not currently covered, we expect unemployment numbers to jump to over 1 million, resulting in the unemployment rate peaking at below 9% in Q4 2020, as JobKeeper is wound back.

Monetary policy has also moved to provide support, but its effectiveness in dealing with the simultaneous supply and demand shocks is limited. The cash rate has been cut to its lower bound (0.25%), and the RBA has commenced asset purchases in an effort to target borrowing rates at a three-year horizon - government bond purchases have commenced, targeting a 3-year treasury bond yield of 0.25%. The aim is to lower risk-free rates along the yield curve, lowering corporate borrowing costs (which are closely related to the 3-year yield). Further, they have established relatively generous term funding for banks, with further incentives to extend this credit to businesses, in particular, small- and medium sized enterprises. The RBA's response to the crisis has focused on providing ample liquidity to the banking system, with the explicit aim of providing cheap credit to business. Thus far, signs of market dysfunction have been limited.

In terms of household income, the lift in social security payments and other government stimulus payments to households will help prevent very large falls in household income, while lower interest payments and lower income taxes will see household disposable income cushioned to some extent over FY20 and FY21. Thereafter, household disposable income will experience slow growth during the subsequent recovery as wage rises will lag the recovery, as taxes rise and as interest payments on household debt rise in the absence of further interest rate cuts.

The **2020-21 Federal budget** was brought down in October, deploying a wide array of additional spending, tax cuts, and other supports to kick start the economy's recovery from the COVID-19 pandemic. Higher spending plans and lower revenue will see the deficit reach 11% of GDP in FY21. And with no tax rises scheduled, the Treasury is projecting that the government will not return to surplus before the end of the decade. Notwithstanding the pulling-forward of infrastructure projects and the announcement of road maintenance projects, there were few large spending announcements. Rather, the government is aiming to bolster business investment and hiring through a large increase in asset write-offs, wage subsidies for young workers and other tax relief measures. For households, legislated personal income tax cuts will be fast-tracked, but there was no change to social assistance policies; the economy will still face challenges when income support payments are tapered off in H1 2021.

Dwelling investment will suffer

Dwelling investment fell by 6.8% in Q2, and the current downswing still has much further to run. The government's Homebuilder stimulus package will work to offset this a little, but we expect dwelling investment will be a substantial drag on growth in both 2020 and 2021. Stimulus measures have helped some lead indicators for the building sector move back into positive territory. House and land sales have reacted strongly to the HomeBuilder program and other state level incentives, while home improvement indicators have also improved. Against this backdrop and ongoing uncertainty around inbound international migration, the outlook for residential construction activity is extremely challenging, with further declines in approvals and work done expected. Residential construction is still expected to be a drag on growth in 2020, but the size of the headwind will be small relative to the other shocks faced by the economy.

Another headwind for business investment, although upside for Public demand

Business investment will also take a large step down, with the uncertainty around the outlook and the strain placed on business revenue leading to the deferral or cancellation of capital expenditure. However, the mining sector is expected to remain relatively insulated from this shock, although there are expected to be deferrals of coal, oil and LNG investments. The Federal Government's stimulus packages have aimed to assist businesses with cash flow and have made borrowing conditions significantly cheaper. Moreover, business investment has been incentivised through increased asset deductions. These measures will aid the speed of the eventual recovery. However, investment will be a low priority for most firms in the near term, and after declining by -2% in FY20 we expect business investment will fall a further 8% in FY21, before a modest pick-up ensues in FY22. Instant asset write-off concessions announced in the 2020-21 Budget will help shore up business investment; firms will be able to deduct the entire value of machinery & equipment and intellectual property investments made before June 2022.

The Federal Government stimulus announcements to date have centred around transfers to businesses and households. However, working to offset the pronounced weakness in private demand, public demand made a large, positive contribution to growth in Q2 (0.6% pts). Government consumption increased by 2.9% q/q, to be 7.5% higher than a year ago. The ongoing rollout of the NDIS continues to provide strong, underlying demand, while more recently, expenditure related to COVID-19 testing, treatment, containment and other support has boosted growth. Government investment surprised to the upside in Q2, increasing by 1%. The near-term outlook has been upgraded in recent quarters, with a number of infrastructure projects either brought-forward or fast-tracked in order to support economic activity. We expect the boost to growth from public demand will wane as the acute phase of the pandemic passes but expect it to remain positive through 2020 and 2021.

COVID-19 outbreak has plunged the world into a recession

The global economy was showing signs of stabilisation toward the end of 2019. But the coronavirus outbreak has seen a number of advanced and emerging economies plunged into recession. Most notably, the US is headed for a recession in 2020 despite aggressive fiscal and monetary policy responses. Oxford Economics is forecasting a -4% contraction for the US economy in 2020. Similarly, in the Eurozone, restrictions on the movement of citizens has seen large falls in consumer spending, business investment and industrial activity, and severe recessions are expected in 2020 in most countries. Trade disruptions will also weigh on growth and considerable increases in unemployment rates are expected, which will constrain the economic recovery over 2021 and 2022.

The Chinese economy is a little ahead of others in the process toward recovery. Industrial activity is recovering and this is underpinning commodity demand. GDP growth is forecast grow by 2.5% in 2020, weighed down by lingering domestic weakness and softer global demand, but rebound to 7.9%

in 2021. Neighbouring Asian economies will also slow markedly due to industry shutdowns, with supply chain disruption further complicating the path toward recovery. Coupled with the ongoing global demand shock, a dispute between OPEC nations (most notably Saudi Arabia) and Russia over production limits has seen oil prices plunge. While this will aid the path to recovery for net oil importers, higher-cost producers elsewhere, such as the US, will be adversely affected.

Overall, global GDP growth is forecast to contract by -4.1% in calendar 2020 (in US$ terms) – worse than the -1.1% in 2009 in the aftermath of the GFC. But a relatively sharp recovery is expected in 2021, as restrictions are eased, with global GDP growth predicted to be 5.2%. Dissemination of a successful vaccine to COVID-19 is likely sometime in 2021, and this will aid the normalisation of travel and trade and boost the global recovery.

Beyond the near-term disruptions, we expect global growth will gradually decelerate and return to its trend pace of around 3% by 2025. Australia's trading partner growth (weighted by export proportions) is forecast to grow at a faster pace over the next 5-20 years, due to the high weights of China, East Asia and India (all of which are expected to outpace the average pace of global growth) in Australia's export mix.

Net exports positive in the near term

Overall, net exports are expected to make a strong, positive contribution to GDP growth over the next two years, with import volumes expected to fall much more than export volumes. Commodity demand, although declining, is still expected to be reasonably firm, with the gradual normalisation of industrial activity in China putting a floor under commodity shipments. Rural exports will also bounce back over FY21 with the end of the drought in the eastern states boosting grain, other crops and dairy exports. Meanwhile, with Gross National Expenditure (i.e. domestic demand and stock changes) having fallen -1.2% in FY20 and forecast to decline -3.4% in FY21, merchandise imports will fall significantly. Imports only account for around 12% of food and beverages retailing - the strongest sector of consumer spending – while the import shares of discretionary consumer goods and business equipment spending range from 43% to over 80%, and these categories of domestic spending will fall the most, with a commensurate fall in imports.

Services trade will fall markedly, with tourism and education exports severely curtailed. Australian outbound travel will all but stop in Q2, weighing heavily on services imports. However, services exports will fare better than services imports. Education exports were worth $37.6 billion in FY19, or almost 39% of overall services exports (compared to only $461m for outbound education import 'debits'). Although still impacted, education exports will suffer less and recover quicker than 'tourism' flows – partly because of online teaching and partly because many overseas students returned before travel restrictions. On the other hand, tourism exports (including 'business travel') were worth $25.3 bn in FY19 (26% of overall services exports), compared to $50.6 billion for outbound services 'imports' – which accounted for almost 50% of overall services imports. As such, the import side of services will suffer far more than the export side in the near-term. And even after travel restrictions are lifted, tourism flows are unlikely to recover back to their previous levels for a number of years, keeping services debits relatively weaker than services exports.

GDP to lift in FY22 and remain buoyant over FY23 and FY24.

Assuming trade and travel restrictions are lifted through FY21, with a 'return to normalisation' aided by the widespread dissemination of a vaccine over the second half of 2021, we expect economic growth to bounce back in FY22, both in Australia and overseas. However, an early return to the previous path or levels previously expected (pre-coronavirus) is unlikely. Nevertheless, we expect household spending to bounce back strongly as pent-up demand is released and as employment growth recovers markedly. However, employment levels are not expected to return to the pre-coronavirus levels until mid-2022, and this will restrain consumer spending somewhat. Housing and business

investment are also forecast to lift over FY23 and FY24 as deferred investment is undertaken. However, some sectors, such as hotel construction and other tourism-related investment, will take longer to recover. Meanwhile, public investment is expected to strengthen as a large pipeline of transport infrastructure and social and institutional buildings projects come through, although government recurrent expenditure is expected to weaken over the medium term.

Overall, we are forecasting GNE to increase by 4.7% in FY22 – although this bounceback depends crucially on the rebound in household spending (the largest component of GNE/GDP) - and around 4% over FY23 and FY24, before easing to (a still healthy) 3.2% in FY25. GDP is forecast to rise 4.2% in FY22, with net exports detracting from growth as a sharp lift in imports outpaces a healthy increase in exports. GDP is then forecast to increase 3.7% in FY23, 3.3% in FY24 and 3.2% in FY25.

Inflation and interest rates to remain low over the next 3 years, before gradually rising

A lack of inflation and continuing slack in the labour market is expected to keep the RBA on hold for a long time, with the cash rate forecast to remain at 0.25% until late-2023, before rising to 1.25% by early 2025 as wages and CPI inflation rise back toward historical averages, and the unemployment rate falls toward 5%. Meanwhile, the 1% rise in the cash rate in Australia means the benchmark housing variable rate will rise to 5.1% by late 2024, which will be enough to slow consumer spending and impact housing and business investment over FY25 and FY26, with annual GDP growth easing to around 2.7% in FY26.

4. WAGES AND INFLATION OUTLOOK

4.1 RBA CPI FORECASTS ARE USED TO CALCULATE REAL WAGES

To calculate real wage increases, we deflate nominal wages growth by deducting expected inflation over a 10-year period, using the CPI forecasts from the Reserve Bank of Australia (RBA). The RBA's November 2020 'Statement on Monetary Policy' forecast the headline CPI rate at "1/2 per cent" in the December quarter 2020 and 2 ¼ per cent in the June quarter 2021 – giving an average of 0.9% for FY21. The RBA then forecasts headline CPI to ease to 1% in December 2021 and pick up slightly to at 1.25% in the June 2022 quarter (giving a year average of 1.1% for FY22), before rising to 1.5% in the December quarter 2022. Assuming a further rise over calendar 2023 to the mid-point of the RBA's target range by December 2023, this implies a year average CPI rate of 1.8% for FY23.

Expected inflation for the next 10 years is derived by using the geometric mean of RBA forecasts for the next three years, with the 2.5% mid-point of the RBA's inflation target band (i.e. 2 to 3%) used for the remaining 7 years – to give an average of 2.1% for FY24 to FY26. This methodology has been adopted by the AER (Australian Energy Regulator) in their recent revenue decisions. For example, see Transgrid Draft Determination 2018-23, Attachment 3, page 142.

We are aware that the AER has issued a Draft position paper "Regulatory Treatment of Inflation", released in October 2020. The main changes for the expected inflation projection are to reduce the length of the geometric average from 10 to 5 years and have a 'glide-path' from the latest RBA forecast to the 2.5% mid-point by year 5 of the forecast period. However, we have not adopted the proposals put forward by the AER in this paper in the forecasts in this report, because the proposals put forward by the AER are still effectively a draft position, with the final position yet to be finalised. The AER has requested feedback from stakeholders, so it's possible that there could be some amendments to the 'positions' proposed in the draft paper.

4.2 NATIONAL WAGES

The key determinants of nominal wages growth are consumer price inflation, productivity, the relative tightness of the labour market (i.e. the demand for labour compared to the supply of labour), and compositional (structural) changes in the labour market following the end of the mining investment boom.

Low wages growth over recent years

Wages growth has slowed markedly over the past 5 years, primarily due to weaker demand for labour, caused by both cyclical and structural factors. Among the underlying structural changes causing this unspectacular wage growth are increasing market flexibility and casualisation of the work force (what is commonly coined the 'gig-economy'), falling union membership, slower productivity growth and the effects of lower inflation expectations.

Low wages growth is both a product of and key cause of low underlying inflation. Low wages are keeping business costs down and thus muting upward price pressures, while a significant section of pay deals are being set in line with CPI inflation – especially for employees on awards.

The unemployment rate and underemployment rate are key indicators of the amount of slack in the labour market. The unemployment rate was just above 5% over the two years to the March quarter 2020, before the COVID impacts. Historically this rate was seen as close to the NAIRU, (the Non-Accelerating Inflationary Rate of Unemployment or the `natural rate of unemployment'), but our latest research suggests that the natural rate has declined in recent years, as a result of falling rates of unionisation and increasing casualisation. In addition, the relatively high underemployment rate

suggested spare capacity in the labour market. The high underutilisation rate – the sum of unemployment and underemployment – reflects considerable slack in the labour market, which limits the bargaining power of workers and reduces pressure on wages.

Wages growth to remain weak over next 2 years, before rising

Wages growth in terms of the wage price index (WPI) and average weekly earnings measures had been showing signs of improvement over 2018-2019, although the improvement in WPI appeared to have stalled in the second half of calendar 2019 and the March quarter 2020 at 2.2% in terms of annual increases. These increases may have been helped by higher increases in the minimum wage decisions and collective bargaining outcomes over the past 3 years, with increases in the dominant 'individual arrangements' segment also improving.

However, the impact of COVID-19 pandemic have seen employment plummet and dramatically lift the unemployment and underemployment rates. This has reversed the nascent improvement in wages that had been building. There has been a severe dislocation in labour markets around the country. While conditions have recovered a little, employment is 530,000 below its February level, and the unemployment rate has risen to 7.5%. Yet these numbers still hide the full extent of the devastation. Until now, recipients of JobSeeker have not had to look for work, and as a result many of the people who have lost their jobs have officially exited the labour force – once these people re-enter the labour force the unemployment rate will increase further. While the government's JobKeeper program has been very effective at keeping people in their job there is a large cohort of employees working zero hours, which is boosting the underemployment rate. The government has announced JobKeeper will extend through Q1 2021, albeit at a tapered and tiered rate from Q4 2020.

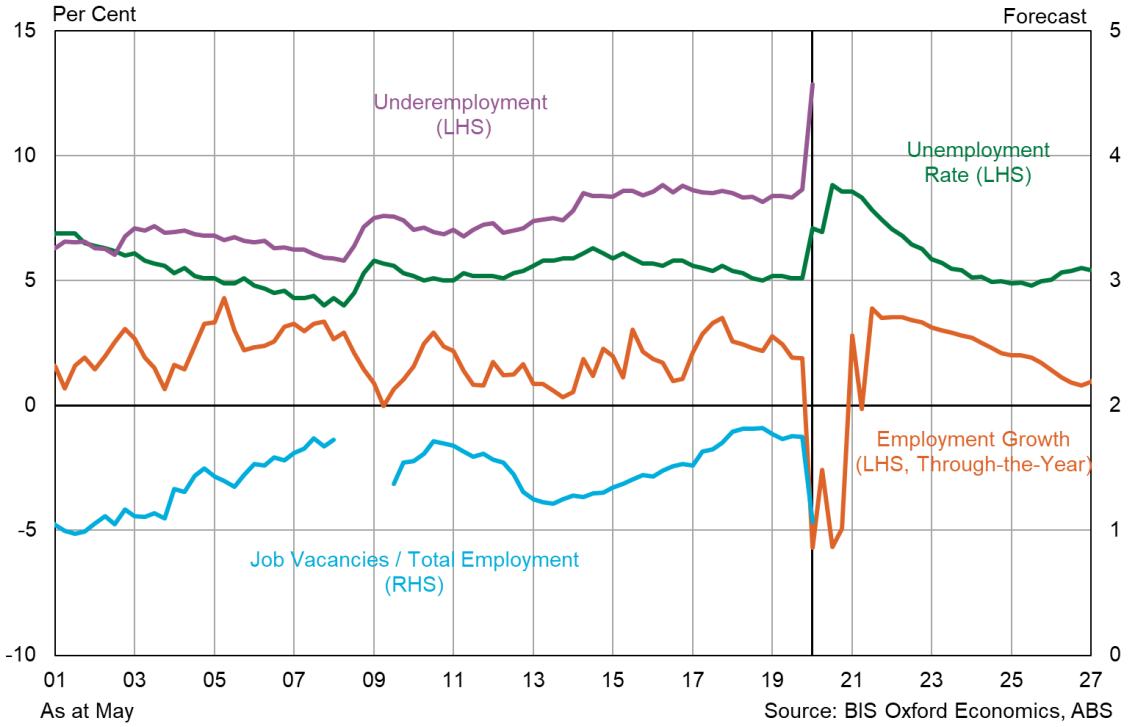
The sharp deterioration in economic conditions over the June quarter saw the All Industries WPI rise only 0.2% in the June quarter (seasonally adjusted, or 0% in original terms), with the annual rate of increase sliding to 1.8% (June 2020 compared to June quarter 2019), while the average for FY20 slowed to 2.1%. Widespread wage freezes and very modest wage increases will see WPI growth weaken over FY21.

Some upside is expected to come from an increase in the National Minimum Wage (NMW), which was awarded by the Fair Work Commission at its Annual Wage Review in June 2020 – to be paid to workers in different industry sectors on a staggered timetable over 2020/21. Given the current circumstances, the FWC only awarded a 1.75% increase – down from the 3.1% to 3.5% increases of the past 3 years, but which the FWC deemed prudent to provide the poorer paid workers with an adequate wage. Although only 13% of full-time workers (a much higher proportion for part-time workers) rely on the annual increase in the minimum wage as their primary wage-payment mechanism, a significant proportion of workers are also indirectly influenced by the NMW increase, as it usually flows onto industry awards. Furthermore, some industries that are less affected by the COVID-19 impacts will also receive some pay rises over FY21. Overall, our forecast is for the All Industries WPI to increase by 1.1% in FY21.

As the economy and employment rebounds through FY22, growth in the All Industries WPI is also expected to exhibit a modest recovery, rising to 1.4%. Part of the rebound will be driven by deferred pay increases from 2020 and early 2021. We also expect a higher increase in the NMW in July 2021 to underpin higher increases. As the economy continues to strengthen over FY23 to FY25, we expect to see a marked improvement in the labour market, with labour demand increasing and the unemployment rate falling to around 5% by early FY25. We expect to see skill shortages manifest in some areas of the economy. The tightening labour market will see wage pressures increase, and the All industries WPI is forecast to gradually rise to 2.5% in FY25 and FY26. Note that the forecasts of the All Industries WPI over the 5 years from FY22 to FY26 include the impact of the SG increase. We have assumed that the All Industries WPI is -0.4% lower in each of those 5 years, than if the SG

Increase did not go ahead (see section 4.3 for key assumptions underpinning this impact). In the absence of the SG Impact, the All Industries WPI would have been 2.9% in FY26.

Fig. 4.1 Australia: Employment and Unemployment



4.3 SUPERANNUATION GUARANTEE INCREASES & THEIR IMPACT ON LABOUR COSTS

In light of the proposed increases to the Superannuation Guarantee, BIS Oxford Economics researched the treatment of superannuation contributions in regard to how the ABS measures labour costs. The Superannuation Guarantee is proposed to increase from the current 9.5% in the early-to-mid 2020s, rising 0.5% in July each year from July 2021 to 12% in July 2025.

To summarise, the Superannuation Guarantee Charge (SGC) is **not** included in the regular wage measure preferred by the Australian Energy Regulator – the Wage Price Index (WPI). The SGC is in effect **a labour 'on-cost'**. In terms of escalating wage costs over the regulatory period, the SGC therefore needs to be **added** to the forecast increases in the WPI. The exception to this rule would be where an employer already pays a superannuation amount higher than the legislated minimum (currently 9.5%), and chooses not to increase the super % until that proportion reaches the legislated minimum.

The basic WPI measures "ordinary time payments", with the broader measure – total hourly rates of pay - including only overtime payments in addition to ordinary hourly rates of pay. The ABS description of the Wage Price Index categorically states that:

"The following are specifically excluded from ordinary time payments:

- Employer contributions to superannuation funds"[1]

Six other types of irregular payments are also listed as being excluded from ordinary time earnings, such as severance, termination and redundancy payments; leave loading; etc.

In discerning the relationship between superannuation contributions and measures of wages and earnings we must first make some distinctions in the way the ABS considers superannuation contributions. Firstly, we note that the ABS recognises three distinct categories of labour costs in-line with the International Labour Organisation (ILO) International Standard Classification of Labour Costs, and most of these components are measured by the Major Labour Cost survey (cat. 6348.0):

1. Employee earnings – made up of wages and salaries, fringe benefits and termination payments.

2. Items of a social security nature that provides a future or contingent benefit to employees – made up of superannuation contributions and worker' compensation.

3. Taxes associated with employment – includes payroll tax and fringe benefits tax.

Secondly, the ABS recognises the concept of employer "on-costs", or equivalently "non-wage labour costs". These are considered additional costs employers incur beyond direct payments for work done by employees.

Employer on-costs are generally considered as involuntary outlays as they are primarily imposed by statutory requirements or under collective bargaining agreements. Employers have the obligation to pay the minimum amount of Superannuation Guarantee (SG) to employees. The Superannuation Guarantee Charge (SGC) was introduced from 1 July 1992 and increased both the coverage and minimum contribution levels.

In the September quarter 2004, the ABS expanded the scope of its Wage Cost Index (WCI), which was a predecessor of the Wage Price Index (WPI). Prior to the expanded scope, the WCI focussed exclusively on wage and salary rates. The series was renamed to the Labour Price Index (LPI), to reflect the inclusion of four separate non-wage indexes being recorded:

1. Employer contributions to superannuation
2. Workers' compensation
3. Annual leave and Public holidays
4. Payroll tax

The ABS discontinued the non-wage and labour price indexes in the September quarter 2012 and this resulted in what we now know as the WPI.

Therefore, we can categorically conclude that WPI in its current form, does not measure employer contributions to superannuation, and therefore will not be directly influenced by any changes to the Superannuation Guarantee.

As for **Average Weekly Earnings** (AWE), earnings in this context are "broadly defined as current and regular payments in cash to employees for work done" (ABS 2018). Through to 2007, AWE excluded amounts salary sacrificed and this is now considered as a form of wages and salaries in cash. In this

[1] ABS catalogue #6351.0.55.001 'Wage Price Index – Concepts, Sources and Methods, 2012', page 24.

context we can conclude, similarly with WPI, that AWE does not include superannuation contributions and will not measure any changes to the Superannuation Guarantee.

Assumptions regarding Superannuation Guarantee Increases & Their Impact on Forecasts Wage Increases and Labour Costs

The superannuation guarantee (SG) as it is currently legislated, has the contributions from employers increasing from the current 9.5% by 0.5% on 1st July each year from 2021 to 1st July 2025. This means that it will increase in each of the 5 years of the next regulatory period of Evoenergy (i.e. over FY22 to FY26).

As discussed above, the SG increases are not included in the wage price index, but will impact the quantum of the WPI increases in each year from FY22 to FY26 (i.e. 2021/22 to 2025/26). This is based on the notion that a proportion of the costs associated with SG increases will be ultimately borne by employees, via lower wage growth than would be the case if there was no SG increase. The Reserve Bank of Australia has estimated that around 80% of the increase in non-cash benefits, such as superannuation, are passed on to employees in the form of lower wage increases. This is referred to as the 'economic incidence' of the SG increase, whereas the 'statutory incidence' of the whole 0.5% annual SG increase falls on the employers. However, the proportion of the cost borne by employees would differ according to the form of pay-setting method and other intrinsic factors. Those employees who have their pay rises set under collective bargaining **and** who belong to a strong union with considerable industrial power are expected to ultimately receive a much higher proportion of their pay increase than those who receive their pay increase via the annual minimum wage increase (set by the Fair Work Commission) and those employees on 'individual arrangements'.

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

In deriving the WPI forecasts, we have made the following assumptions when applying a 'discount' to the WPI in the All Industries and specific industry WPI forecasts:

1. The key underlying assumption assumes that around 80% of the economic incidence of the Superannuation Guarantee (SG) increases are passed on to employees, with employers only paying for 20% of the cost of the SG increases. This is in line with RBA research. This applies to the All Industries wages. This means that All Industries WPI growth is equivalent to 80% less than it would be in the 'alternative' case, where no SG increase occurred. In the context of a 0.5% increase each year, the impact on All Industries WPI is -0.4%.
2. The impact on employees is assumed to be evenly spread in each year, rather than unevenly spread over time. This implies wages are negotiated prior to the SG increase and spread evenly over the whole year - i.e. the impact is the same on the two half-year periods. We acknowledge this is a simplified assumption, given that often the economic incidence is not spread evenly across years, with the ultimate impacts going beyond the period of SG increases.
3. The incidence of the SG increase differs across the three different segments of pay methods. Those 13.1% of employees (full-time adults) who receive their annual pay rise via the Minimum wage case by the Fair Work Commission are assumed to receive 80% less, with those who receive payments via individual arrangements also receiving 80% less. At the All

Industries level, it assumed that the average of the 38.4% of employees who rely on collective bargaining also receive 80% less. However, this %age for those on collective bargains or EBAs will markedly differ across industry sectors.

4. For employees in the EGWWS sector, the base assumption is that those 64.6% of employees on EBAs will receive 50% less, with employers paying the other 50%. **This is a conservative assumption** - given the strength of the unions covering the EGWWS sector, it is likely that EBAs will not be reduced by as much as 50% to cover the increase in the SG. Overall, the impact on the whole EGWWS WPI will be -0.3% for each of the 5 years from FY22 to FY26 inclusive.
5. At the ACT All Industries level, we expect the impact of the SG to be much lower than the Australian average, due to a much larger proportion of public sector employees in the territory. Government employees are subject to public service wage caps in the state - which do not include changes to the SG - and will largely not have their wages discounted. As at June 2020, ABS data estimated the public sector workforce was around 43% of total ACT employment. We are assuming that all these employees are subject to the wage caps. There will also be other employees (including in the EGWWS sector and construction sectors in particular) whose wages will also not be discounted, with the overall proportion of employees not having their wages discounted close to around half of the ACT workforce. Overall, the impact on the total ACT workforce will be -0.24% for each of the 5 years from FY22 to FY26 inclusive.

4.4 ALTERNATIVE SCENARIO – SUPERANNUATION GUARANTEE INCREASES ARE DEFERRED

The scenario which the AER has effectively adopted is to assume that the SG increases as currently legislated proceed under the proposed timetable of increases, i.e. the first 0.5% increases the minimum superannuation guarantee occurs on 1st July starting 1 July 2021 and is increased 0.5% each 1 July until 1st July 2025 inclusive. This is effectively the 'base' scenario which is presented in this document and the associated forecasts.

However, there is a plausible 'alternative' scenario, whereby the proposed SG increases are again deferred. There is a reasonably high probability that the proposed increases in the Superannuation Guarantee Charge (SGC) will again be deferred, as they were in the second half of last decade. BISOE believes there will be considerable pressure from businesses, state and local governments to push out the 'legislated' start of the SGC increases at least 3 years, to say July 2024, given the impacts of COVID-19 on the economy and their perceived ability to pay. It should be remembered that the Commonwealth government decided to defer the original timetable of the SGC increases (then due to occur from the second half of the 2010s) because of the perceived weakness of the economy in 2014/15. The economy is much, much weaker now. However, as there is considerable uncertainty surrounding both the actual timing and quantum of the SGC increases, in the forecasts in the table below, we have assumed that the SG increases are pushed out beyond FY26.

Table 4.1 Alternative Scenario: SG Increases are Deferred beyond FY26 – Labour Cost Escalation Forecasts: ACT & Australia, Financial Years

(per cent change, year average, year ended June)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Average (g)
				Actuals			Forecasts	Next Regulatory Period					
NOMINAL WAGE CHANGES													
Australian Capital Territory Wages: All Industries													
Wage Price Index (a)	**1.7**	**1.7**	**1.8**	**2.0**	**2.1**	**2.3**	**1.37**	**1.88**	**2.07**	**2.53**	**2.82**	**2.84**	**2.43**
Australian Wages: All Industries (b)													
Wage Price Index (a)	2.4	2.1	2.0	2.1	2.3	2.1	1.10	1.77	2.07	2.62	2.89	2.94	2.46
Average Weekly Ordinary Time Earnings (c)	2.4	1.9	2.0	2.4	2.7	3.9	3.4	2.0	2.4	3.0	3.2	3.4	2.8
Electricity, Gas, Water and Waste Services Wages													
Australian Capital Territory - Wage Price Index (d)	**2.6**	**2.3**	**2.3**	**2.2**	**2.8**	**2.8**	**2.01**	**2.23**	**2.42**	**2.81**	**3.07**	**3.14**	**2.73**
Australia - Wage Price Index (a,b)	2.8	2.4	2.2	2.0	2.8	2.7	1.87	2.20	2.45	2.93	3.23	3.24	2.81
Consumer Price Index (headline) (e)	1.7	1.4	1.7	1.9	1.6	1.3	0.9	1.1	1.8	2.1	2.1	2.1	1.9
REAL WAGE CHANGES (f)													
Australian Capital Territory Wages: All Industries													
Wage Price Index (a)	**0.0**	**0.4**	**0.1**	**0.0**	**0.4**	**0.9**	**0.5**	**0.8**	**0.3**	**0.4**	**0.7**	**0.7**	**0.6**
Australian Wages: All Industries (b)													
Wage Price Index (a)	0.7	0.7	0.2	0.1	0.7	0.8	0.2	0.6	0.3	0.5	0.8	0.8	0.6
Average Weekly Ordinary Time Earnings (c)	0.7	0.5	0.3	0.5	1.0	2.5	2.5	0.9	0.6	0.8	1.1	1.3	0.9
Electricity, Gas, Water and Waste Services Wages													
Australian Capital Territory - Wage Price Index (d)	**0.9**	**0.9**	**0.6**	**0.3**	**1.2**	**1.5**	**1.1**	**1.1**	**0.6**	**0.7**	**0.9**	**1.0**	**0.9**
Australia - Wage Price Index (a,b)	1.1	1.0	0.5	0.0	1.1	1.3	1.0	1.1	0.7	0.8	1.1	1.1	0.9

Source: ABS, RBA, BIS Oxford Economics

(a) Wage price index. Ordinary time hourly rates of pay excluding bonuses.
(b) Australian wages provided for comparison.
(c) Average Weekly Ordinary Time Earnings for full-time adult persons. Excludes over-time earnings, but bonuses are included.

(d) Wage price index for ACT. Historical data are estimates.
(e) Inflation forecasts are RBA forecasts for the next 2 years from latest 'Statement of Monetary Policy'. Beyond that, inflation forecasts are based on mid-point of RBA inflation target, but overall forecasts are calculated as a geometric mean of the 'official' RBA inflation forecasts over the next 10 years. This methodology has been adopted by the AER in its recent revenue decisions

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

(g) Average for the next revenue determination period i.e. from 2021/22 to 2025/26 inclusive.

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