OXFORD ECONOMICS AUSTRALIA

COST ESCALATION: FORECASTS TO 2031/32

PREPARED BY OXFORD ECONOMICS AUSTRALIA FOR AURIZON NETWORK

MAY 2025

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May 2025

This report can be made public and published on the Queensland Competition Authority (QCA) website as part of Aurizon Network's regulatory proposal for the Post-UT5 Term.

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

Oxford Economics Australia (OEA) was engaged by Aurizon Network (AN) to provide price forecasts of labour and services relevant to Aurizon Network's Central Queensland Coal Network operations for the period 2027/28 (FY28) to 2031/32 (FY32). Forecasts for wage cost escalation will be used by AN to develop their operating expenditure forecasts. These forecasts, in turn, will be included in AN's Post-UT5 Term submission to the Queensland Competition Authority (QCA) - with the regulatory period covering the five-year period from 2027/28 to 2031/32 (FY28 to FY32) inclusive.

Note that most of the references to historical data and forecasts of wages are in nominal terms unless specifically stated that the data/forecasts are in real (inflation-adjusted) terms. The forecasts in this report were finalised in early May 2025 and incorporate the latest data and macro-economic forecasts as at late April 2025.

CPI Inflation and Labour Cost Escalation

The Brisbane CPI is forecast to average 2.8% per annum over the five-year period from FY28 to FY32. (i.e from July 2027 to June 2032), around 0.1% higher than the Australian headline CPI rate over the same period. For labour costs, Oxford Economics Australia forecasts that total wage costs for the Queensland (QLD) construction and mining sectors — expressed in Wage Price Index (WPI) terms for the private sector — will average 3.9% and 3.6% per annum, respectively, over the five-year period from FY28 to FY32 inclusive. In real (inflation-adjusted) terms, these QLD WPI's are forecast to average 1.0 % and 0.7% p.a. over the five years to FY32 (see Table 1.1 below).

Over the forecast period, the QLD construction and mining WPI growth is expected to remain higher than the All Industries WPI average, with the private sector QLD All Industries WPI forecast to average 3.6% over the five years to FY32. For QLD construction wages, this means that the WPI is expected to be 0.3% higher than the QLD All Industries average, which is slightly lower than the 0.4% historical difference of the decade to FY21. QLD mining wages will sit around the QLD ALL Industries average.

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

- demand for labour will remain high and strengthen with the high levels of building and infrastructure investment from FY23 to FY32, which are well above the levels of the past two decades. Oxford Economics Australia is forecasting construction activity to see sustained increases over the next 6-7 years, with overall QLD construction activity to be 29% higher in FY31 compared to FY24 levels.
- stronger union presence in the construction sector will ensure outcomes for collective agreements, which cover 22% of the workforce, remain well above the wage increases for the national 'All Industries' average.
- increases in individual agreements (or non-EBA wages) are expected to remain elevated as the labour market remains tight, with the unemployment rate now around 4% and expected to remain around 4-4.4% over the next two years, before again tightening over the FY28 to FY30 period as the unemployment rate again falls below 4%.

- Skilled labour shortages, which have contributed to the surge in wage outcomes over recent years, are likely to persist over the next few years, due to a declining supply of new graduates and apprentices with the necessary STEM qualifications coming through, with increasing retirements only exacerbating the situation. These skills are in strong demand across the construction, mining, manufacturing and electricity, gas, water and waste services (EGWWS) industries.

Table 1.1 Construction, Mining, EGWWS and All Industries Wage Price Index, and Engineering Consulting and Computer System Design Services Producer Price Index.

(year average, year ended June)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	5 yr Avg (h)
	Actuals						Forecasts			Next Regulatory Period					2028-32
NOMINAL PRICE CHANGES															
1. Construction Wages															
Construction Private WPI - Queensland (a)	**1.7**	**0.6**	**0.5**	**1.8**	**3.3**	**4.5**	**3.9**	**3.8**	**3.7**	**3.8**	**4.1**	**4.3**	**3.8**	**3.5**	**3.9**
Construction Private WPI - Australia (a)	1.9	1.6	1.3	2.7	3.8	4.1	3.6	3.6	3.5	3.5	3.8	4.0	3.7	3.4	3.7
2. Mining Wages															
Mining Private WPI - Queensland (b)	**2.0**	**2.3**	**2.0**	**2.2**	**3.5**	**3.3**	**3.9**	**3.4**	**3.4**	**3.5**	**3.6**	**3.8**	**3.7**	**3.4**	**3.6**
Mining Private WPI - Australia (b)	2.0	2.1	1.5	1.8	3.5	4.0	3.6	3.5	3.4	3.5	3.6	3.8	3.7	3.4	3.6
3. All Industries Wages															
All Industries Private WPI - Queensland (c)	**2.2**	**1.9**	**1.4**	**2.4**	**3.6**	**4.7**	**3.7**	**3.5**	**3.4**	**3.4**	**3.7**	**3.9**	**3.6**	**3.4**	**3.6**
All Industries Private WPI - Australia (c)	2.3	2.0	1.5	2.5	3.7	4.2	3.5	3.3	3.3	3.3	3.6	3.8	3.6	3.3	3.5
4. Skilled Labour & Specialist Staff Indicators															
EGWWS WPI - Queensland (d)	**3.0**	**2.7**	**1.9**	**1.6**	**4.8**	**5.7**	**6.7**	**4.2**	**3.9**	**3.7**	**3.9**	**4.1**	**4.0**	**3.8**	**3.9**
EGWWS WPI - Australia (d)	2.8	2.7	1.8	1.5	3.5	4.1	4.2	4.0	3.5	3.5	3.7	3.8	3.8	3.7	3.7
Engineering Consulting - Australia (e)	3.5	3.1	1.0	6.2	4.4	5.2	3.7	3.2	3.0	3.3	3.8	3.9	3.6	3.3	3.6
INDEX															
1. Construction Wages															
Construction Private WPI - Queensland (a)	**86.7**	**87.2**	**87.6**	**89.2**	**92.1**	**96.2**	**100.0**	**103.8**	**107.6**	**111.6**	**116.2**	**121.2**	**125.9**	**130.3**	
Construction Private WPI - Australia (a)	84.5	85.9	87.0	89.3	92.7	96.5	100.0	103.6	107.2	111.0	115.2	119.9	124.3	128.5	
2. Mining Wages															
Mining Private WPI - Queensland (b)	**84.4**	**86.3**	**88.1**	**90.0**	**93.2**	**96.3**	**100.0**	**103.4**	**106.9**	**110.6**	**114.6**	**119.0**	**123.3**	**127.5**	
Mining Private WPI - Australia (b)	85.0	86.8	88.1	89.7	92.8	96.5	100.0	103.5	107.0	110.7	114.7	119.1	123.5	127.7	
3. All Industries Wages															
All Industries Private WPI - Queensland (c)	**84.1**	**85.7**	**86.9**	**89.0**	**92.2**	**96.5**	**100.0**	**103.5**	**107.0**	**110.7**	**114.8**	**119.3**	**123.6**	**127.8**	
All Industries Private WPI - Australia (c)	84.3	86.1	87.4	89.5	92.8	96.7	100.0	103.3	106.8	110.3	114.3	118.6	122.8	126.8	
4. Skilled Labour & Specialist Staff Indicators															
EGWWS WPI - Queensland (d)	79.6	81.7	83.3	84.6	88.7	93.7	100.0	104.2	108.2	112.2	116.6	121.3	126.1	130.9	
EGWWS WPI - Australia (d)	83.9	86.1	87.7	89.0	92.2	96.0	100.0	104.0	107.6	111.4	115.6	120.0	124.6	129.2	
Engineering Consulting - Australia (e)	79.4	81.9	82.7	87.8	91.7	96.5	100.0	103.2	106.3	109.8	113.9	118.4	122.6	126.7	
Consumer Price Index - Brisbane (f)	80.6	81.5	83.2	87.6	94.1	97.9	100.0	103.7	106.8	109.6	112.7	116.1	119.5	122.8	
Consumer Price Index - Brisbane: % change	1.6	1.2	2.1	5.4	7.3	4.1	2.2	3.7	2.9	2.7	2.8	3.0	2.9	2.8	2.8
REAL PRICE CHANGES (g)															
1. Construction Wages															
Construction Private WPI - Queensland (a)	**1.4**	**1.5**	**-0.2**	**-3.8**	**-2.5**	**1.6**	**4.5**	**0.5**	**0.9**	**1.0**	**1.1**	**1.1**	**1.0**	**1.0**	**1.0**
Construction Private WPI - Australia (a)	1.2	1.5	-0.3	-3.9	-3.8	0.1	2.0	0.3	0.6	0.9	1.0	0.8	0.9	0.9	0.9
2. Mining Wages															
Mining Private WPI - Queensland (b)	**0.4**	**1.2**	**0.0**	**-3.2**	**-3.8**	**-0.7**	**1.7**	**-0.3**	**0.4**	**0.8**	**0.8**	**0.8**	**0.7**	**0.6**	**0.7**
Mining Private WPI - Australia (b)	0.4	1.2	0.0	-3.2	-3.8	-0.7	1.7	-0.3	0.4	0.8	0.8	0.8	0.7	0.6	0.7
3. All Industries Wages															
All Industries Private WPI - Queensland (c)	**0.6**	**0.7**	**-0.6**	**-3.0**	**-3.7**	**0.6**	**1.5**	**-0.2**	**0.5**	**0.8**	**1.0**	**0.9**	**0.7**	**0.6**	**0.8**
All Industries Private WPI - Australia (c)	0.6	0.9	-0.6	-2.9	-3.7	0.1	1.3	-0.4	0.4	0.7	0.8	0.8	0.6	0.5	0.7
4. Skilled Labour & Specialist Staff Indicators															
EGWWS WPI - Queensland (d)	**0.1**	**-0.6**	**-1.6**	**-3.6**	**-4.1**	**0.5**	**1.7**	**0.1**	**0.7**	**1.1**	**1.3**	**1.3**	**0.9**	**0.7**	**1.1**
EGWWS WPI - Australia (d)	0.2	0.4	-0.8	-2.7	-3.6	0.0	1.5	-0.1	0.5	0.9	1.0	1.0	0.7	0.6	0.9
Engineering Consulting - Australia (e)	1.8	1.9	-1.1	0.8	-2.9	1.1	1.5	-0.5	0.0	0.6	1.0	0.9	0.6	0.5	0.7

Sources: Oxford Economics Australia, ABS

(a) Construction Sector Wage Price Index (WPI). Total hourly rates of pay, excluding bonuses (including overtime), Private sector
(b) Mining Sector Wage Price Index (WPI). Total hourly rates of pay, excluding bonuses (including overtime). Private sector
(c) All Industries Wage Price Index (WPI). Total rates of pay, excluding bonuses (including overtime, Private sector.
(d) Electricity, Gas, Water and Waste Services (EGWWS) Wage Price Index (WPI).
(e) Engineering design and consulting services producer price index (PPI). From Table 24 of ABS release 6427 "Output of the professional, scientific & technical services".
(f) Brisbane CPI (All Groups). Inflation forecasts are OEA forecasts.
(g) Real price changes are calculated by deducting the inflation rate from nominal price changes.
(h) Average Annual Growth Rate for 2027/28 to 2031/32 inclusive, ie for next regulatory period.

Mining wages growth picked up strongly over FY23 and FY24, driven by strong increases in mining investment (both in QLD and Australia), rising inflationary pressures, skilled labour shortages and competition from other sectors (e.g. construction). The Australian Mining WPI recorded increases of 3.5% and 4.0% over FY23 and FY24, respectively, while the QLD equivalent was 3.5% and 3.3%. Meanwhile, the national mining AWOTE measure recorded mining weekly earnings growth of 5.3%, well above the 4.2% national average. Mining WPI growth in FY25 is estimated to come in at 3.7% nationally, and 3.9% in QLD.

Moving forward, mining investment is expected to see further modest growth over FY25 and FY26, before subsequently easing over the following three years, with a late decade pick-up projected. Mining wages growth is forecast to soften over FY26 and FY27 but remain high compared to the decade to 2022, with the mining WPI's growing at an annual average rate of 3.4%. Following this, the national and QLD mining WPI is forecast to gradually pick up from FY28 and peak at 3.8% in FY30, before subsequently easing as mining investment falls back and overall labour market conditions ease. The mining WPI is forecast to average 3.6% over the FY28 to FY32 period. We note that wage growth as measured by the chosen WPI excludes bonuses, and that mining sector has tended towards attracting labour in time of strong demand via bonuses and other incentives, rather than increases to base wages (as represented by the WPI) - meaning that the mining WPI will tend to understate total remuneration in the mining sector.

In addition to the wage price indices for Construction and Mining, we have also included two indices which we believe also reflect the additional cost pressures for skilled demand across the construction and mining industries, and in particular, reflect the demand for skilled and specialist labour in terms of engineers and the electrical trades disciplines: the Electricity, Gas, Water & Waste Services (EGWWS) WPI and Engineering Design & Consulting Services producer price index (PPI). Strong demand coupled with skills shortages will see elevated wage growth for skilled labour over the coming years. Our forecast is for the QLD EGWWS WPI to average 3.9% over the five years to FY32, while the engineering consulting services PPI will average 3.6%. In real terms, this equates to 1.2% and 0.9% per annum on average, respectively. Skilled workers in the EGWWS sector benefit from a strong union presence and a highly organised wage setting environment (62% of workers are covered by a collective agreement). This has allowed these workers to achieve significant wage increase over the past two years - 5.7% in FY24 and an expected 6.7% in FY25 in QLD. Furthermore, the sectors largely capital-intensive operations whose employees have higher skill and relatively more productive to the wider economy commensurate higher wage levels than most other sectors. Wages in the engineering consulting service industry have a tight relationship with levels of construction activity (particularly the non-residential building and civil segments), and so the continuing pressure of increasing demand from the sector will result in elevated levels of wage growth.

1. INTRODUCTION

Oxford Economics Australia was engaged by Aurizon Network (AN) to provide price forecasts of labour relevant to Aurizon Network's Central Queensland Coal Network operations for the period 2027/28 (FY28) to 2031/32 (FY32). Forecasts for wage cost escalation will be used by AN to develop their operating expenditure forecasts. The forecasts in this report were finalised in early May 2025.

The Australian Bureau of Statistics is the primary data source for the consumer price index, wages, employment, real gross value added and investment data, and for a range of other economic variables. The data used in the projections is the latest available as at late April/early May 2025 and includes March quarter 2025 Consumer Price Index (CPI) and Producer price Index (PPI); and the December quarter 2024 Wage Price Index (WPI) and National Accounts data. The latest RBA 'Statement of Monetary Policy' is from February 2025. 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 Oxford Economics Australia reports, including the *Australian Macro Service*, *Long Term Forecasts: 2025 – 2039*, *Engineering Construction in Australia 2025-2039* and *Building in Australia 2024-2038,* along with other unpublished forecasts and from Oxford Economics Australia internal research and modelling.

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

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

Section 3 discusses Oxford Economics Australia' national wage and CPI projections and discusses the use of the Reserve Bank of Australia forecasts of the CPI for the deflation of nominal wages. Forecasts of the All Industries WPI are also provided in chapter 3. Not that most of the references to historical data and forecasts of wages and PPIs in Sections 3, 4 and 5 are in nominal terms unless specifically stated that the data/forecasts are in real (inflation-adjusted) terms.

Sections 4 provides the forecasts and rationale of the wage projections for the construction and mining for Australia and Queensland as measured by the wage price index (WPI).

Sections 5 provides the forecasts and rationale of the wage projections for skilled labour and consulting services as measured by the WPI and producer price index (PPI).

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

2. MACROECONOMIC AND CONSTRUCTION OUTLOOK

2.1 AUSTRALIAN MACROECONOMIC OUTLOOK

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

Australia's economy had a strong recovery after the COVID-19 related slump in 2020, growing by 3.3% per year over the three years to FY23. However, growth slowed sharply in FY24, with real Gross Domestic Product (GDP) rising just 1.4%—the weakest pace in over 30 years outside the pandemic slump—and Gross National Expenditure (GNE) increasing 1.8%, as high interest rates hit private consumption and pandemic-era savings dwindled. A recession was narrowly avoided thanks to strong population growth and sustained public sector spending.

Growth picked up to 0.6% quarter-on-quarter in Q4 (December 2024 quarter), resulting in annual growth of 1.3% over calendar 2024. All major expenditure components contributed steadily, with momentum broadening across both public and private sectors after a year of reliance on public spending. Encouragingly, private activity showed signs of turning, with per capita household consumption rising and business investment posting a strong quarter.

Fiscal support measures are helping households at present. Cost-of-living subsidies have left consumers with more money to spend on discretionary items. Moreover, public demand is keeping the labour market in a tight position, which continues to buoy the labour market and household incomes. We expect the degree of support from government spending will wane through 2025, notwithstanding the potential for increased spending promises from the federal election campaign or because of a sharp deterioration in the economic outlook due to Trump's tariffs and the escalating trade war.

Household spending to improve. Household consumption rose 0.4% quarter-on-quarter in Q4, boosted by strong discretionary spending and Black Friday sales, despite utilities rebates weighing on growth (with rebates recognised as public expenditure). While cost-of-living support is providing a temporary lift, high interest rates and inflation will keep spending weak near term. However, the July 2024 tax cuts, a tight labour market, wage growth, and easing inflation will support real incomes. With households saving much of the tax cuts, balance sheets remain strong. Consumption growth is expected to lift from 1% in FY24 and 0.8% in FY25 to 2% in FY26 and 2.6% in FY27.

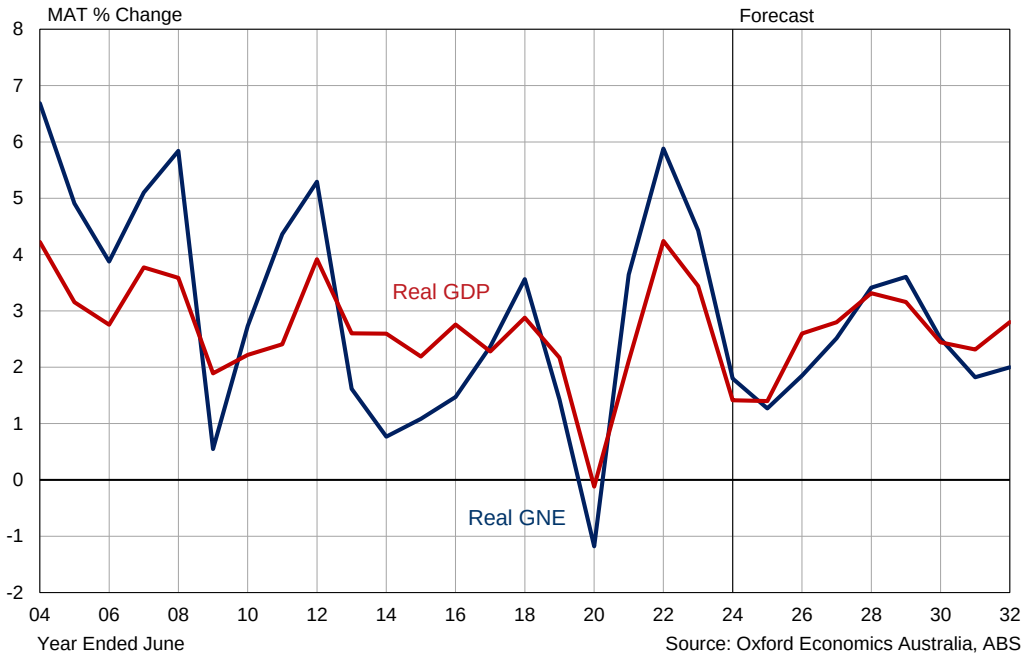
The near-term investment outlook is modest. Investment contributed steadily to Q4 growth, with publicly funded transport projects remaining a key driver, though activity in this segment has likely peaked. A large pipeline of infrastructure projects, accelerated during the COVID-19 response, will keep public construction strong, with spending expected to peak in FY26 before easing from FY27. Private sector investment in mining and electricity (including renewables) supported Q4 growth. Private sector engineering construction is expected to stay buoyant, driven by electricity, telecommunications, and mining (particularly oil and gas). Non-residential building activity will be

underpinned by data centres, accommodation, warehouses, and healthcare projects. However, capacity constraints and lingering cost inflation will continue to weigh on the pipeline of new work.

Mining investment has risen steadily over the past three years and is set to remain strong despite some softness in commodity prices—which may fall further if the fallout from Trump's tariff war worsens—supported by sustained demand for critical minerals. New business investment grew by 7.4% in FY23 and 6% in FY24 but is forecast to moderate to 2–5% growth over FY25 and FY26, led by private engineering construction and ongoing investment in equipment, technology, and intangibles. Business investment growth is expected to ease through FY27 but strengthen again by FY30, helping to expand the economy's long-term productive capacity.

Dwelling investment, however, remains a weak spot. It fell in Q4 due to capacity constraints, with declines across both new builds and alterations. Dwelling investment is expected to stay flat through FY25 and FY26 before rebounding strongly from FY27.

Figure 2.1 Australia – Basic Economic Indicators



Labour market healthy, inflation easing and more rate cuts coming. The labour market remains healthy, with employment growing 2.7% in FY24 after a strong 4.5% gain in FY23, supported by fast population growth and a record-high participation rate. Although the unemployment rate has edged up to around 4.1%, high job vacancies point to continued solid employment growth near term. However, as population growth eases and labour demand softens, employment growth is forecast to slow, pushing unemployment slightly higher to around 4.3% by mid-2025 and through to early 2027. This gradual cooling will help ease wage pressures, contributing to the broader moderation in inflation.

Inflation is already easing sharply. Headline CPI fell from 7% in FY23 to 4.2% in FY24, helped by temporary government relief measures, falling fuel prices, and weaker demand. Inflation is expected to

drop further to 2.5% in FY25 and remain relatively contained through FY28 before gradually picking up again into the early 2030s.

After rate hikes at 10 consecutive meetings, the RBA finally paused its hiking cycle in April 2023, but then added another 0.25% increase in May, June and November. The official cash rate then remained at 4.35% for five quarters. In response to the faster-than-expected decline in underlying inflation, the RBA cut rates to 4.1% in February 2025. More rate cuts are likely over 2025, with the timing (and number of cuts) dependent on a further easing in inflationary pressures and the RBA perceptions of the likely economic impacts from the trade war.

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

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

Meanwhile, Australia's trade balance will stay weak in the near term. Net exports detracted from growth for the fourth consecutive year in FY24 and are expected to do so again in FY25. However, a turnaround is likely by FY26–27 as exports outpace imports. Resources exports have been flat due to production issues but should recover as new capacity comes online. Rural exports are strong, thanks to bumper crops, while manufacturing exports will benefit modestly from a weaker Australian dollar, despite soft global demand. Merchandise imports will remain subdued, while services exports, particularly tourism and education, will grow more slowly, helped by the low dollar boosting inbound tourism.

Increased uncertainty for the global economic outlook as trade war looms. The global economic outlook has weakened, with growth forecast to ease from 2.8% in 2024 to 2.3% in 2025 and 2026. Uncertainty is rising sharply due to the volatile US tariff policy under President Trump. Frequent tariff announcements and reversals are heightening global instability, dampening investment, and raising the risk of a US recession. The US economy faces four major shocks—rising uncertainty, real income declines, supply chain disruptions, and falling stock markets impacting financial wealth—with spillovers causing a broader global demand shock. Despite these risks, the US is still forecast to avoid

a deep recession, with US GDP growth slowing from 2.8% in 2024 to 1.2% in 2025 before pickup to 1.6% in 2026, before rebounding modestly over 2027 and 2028.

Higher tariffs may prolong inflation, delay interest rate cuts, and trigger stagflation risks. Falling equity markets could also drag down US consumer spending. Globally, US tariffs will hurt Chinese and targeted economies' exports, but diversification may limit the overall damage. Longer term, the shift toward regionalisation and protectionism will reshape global trade patterns.

China's growth is projected to slow from 5% in 2024 to 4.1% in 2025 and 3.9% in 2026 and 2027, with modest direct hits to exports, cushioned somewhat by diversification efforts since 2018. The Eurozone will gradually strengthen, helped by faster rate cuts and a small lift from defence spending, though gains will be modest. Most major economies are easing monetary policy cautiously as inflation declines, but service sector inflation and tight labour markets remain concerns.

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

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

Australia is unlikely to enter a recession in the near term, with modest growth expected over the next two years before strengthening from FY28. Domestic demand is forecast to slow from 2.4% in FY24 to 2% in FY25, then lift to 2.2% in FY26 and 2.6% in FY27. GDP growth is expected to hold at 1.4% in FY25 before improving to 2.8% in FY26 and 2.7% in FY27, supported by a positive contribution from net exports as tourism rebounds and resources exports recover.

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

Interest rate cuts are expected through 2025 and FY26, helping inflation return to the RBA's 2–3% target range. Lower rates will trigger a strong rebound in dwelling construction, addressing pent-up housing demand. As consumers and businesses adjust to a new normal of higher, but manageable, interest rates, investment and consumption are expected to return to trend growth. GDP growth is forecast to strengthen to 3.3% by FY28 before easing slightly thereafter.

Over the longer term, potential growth will slow primarily due to a smaller contribution from labour force growth compared to recent history. Net overseas migration will fall back and the contribution from natural increase will also moderate. The relatively large cohort of Australians aged 65+ moving

into retirement will also place downward pressure on the labour force participation rate, although this will continue to be somewhat alleviated by relatively high net immigration.

2.2 QUEENSLAND MACROECONOMIC OUTLOOK

Growth in Queensland's Gross State Product (GSP) eased in FY24 to 2.1%, from 2.8% in FY23, while SFD increased by 2.9% in both years. Healthy growth of around 2.8% to 3% over the next three years will be underpinned by strong public investment, which is forecast to surge over FY25 and see further moderate increases over the following five years. Private dwelling and non-dwelling building activity will also see sustained increases, while strong growth in private engineering construction activity will be driven by roads and subdivisions, electricity infrastructure (mainly renewables) and mining.

Growth is projected to strengthen over FY28 and FY29, pushing up to around 3.7% for SFD and 3.4% for GSP. Strong construction activity will also underpin employment growth in the state, which will drive higher household spending. Queensland currently enjoys some of the lowest public debt in the country as a share of GSP, which will help sustain solid public investment in infrastructure and services. The state unemployment rate has recently dipped below the national average, and we expect the state's unemployment rate to be sustained at close to (or just below) the national average, given strong economic and employment growth – thus adding to wage pressures.

Queensland's long term economic activity will be underpinned by strong population growth. Population growth is forecasts to ease from 2.3% in FY24 to 1.7% in FY25, and then grow at 1.5% over the following four years – at an average of 0.3% above the national average. The state's population growth will then ease down to 1.3% by FY32, but it will still be 0.2% above national population growth. Lifestyle preferences and better affordability compared to other capital cities like Sydney and Melbourne should continue to support robust growth in the Sunshine Coast and Gold Coast regions.

Fig 2.2 Queensland– Key Economic Indicators

								Forecast							
Year Ended June	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Queensland															
Total Construction Activity(*)	4.9	-9.3	-4.2	-0.6	3.7	3.6	7.7	9.2	6.3	4.1	2.6	4.0	1.9	0.6	-1.5
State Final Demand	3.7	0.9	0.2	5.1	5.0	2.9	2.9	3.0	2.9	3.2	3.7	3.8	2.9	2.2	2.1
Gross State Product (GSP**)	**4.0**	**0.9**	**-0.9**	**2.8**	**5.5**	**2.8**	**2.1**	**3.0**	**2.8**	**2.9**	**3.4**	**3.4**	**2.7**	**2.4**	**2.5**
Employment Growth (Year Avg)	4.0	1.7	0.1	2.4	5.1	3.8	3.0	2.9	1.5	1.3	2.2	2.7	2.1	1.4	1.5
Australia															
Total Construction Activity(*)	11.8	-8.9	-3.8	-0.5	1.7	6.3	5.7	3.2	2.2	2.9	1.9	3.2	1.5	0.1	-1.4
Australian Domestic Demand	3.5	1.6	-0.8	2.9	5.5	4.3	2.4	2.0	2.2	2.6	3.3	3.5	2.6	1.9	2.0
Gross Domestic Product (GDP)	2.9	2.2	-0.1	2.1	4.2	3.4	1.4	1.4	2.8	2.7	3.3	3.2	2.4	2.3	2.8
Employment Growth (Year Avg)	2.9	2.4	0.3	0.4	3.3	4.5	2.7	2.3	1.1	1.0	1.9	2.3	1.8	1.1	1.2

Source: Oxford Economics Australia, ABS

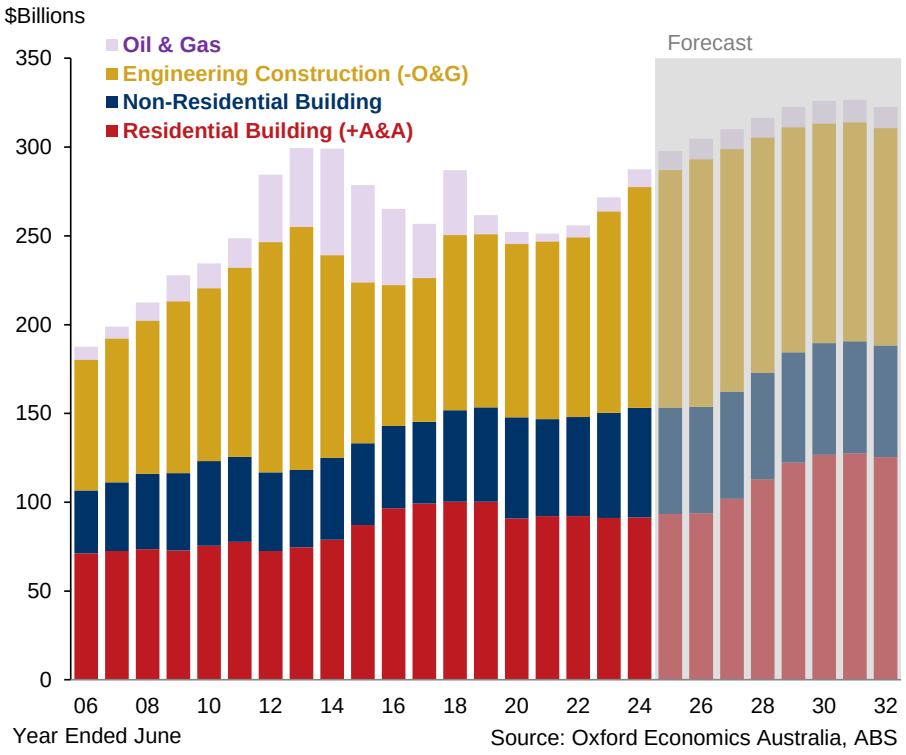
* Total construction work done in constant prices as per the ABS Building Activity and Engineering Construction Activity
Total construction is the sum of new dwelling building (includes alterations and additions activity greater than $10,000), new non-building activity and new engineering construction.

2.3 AUSTRALIA CONSTRUCTION OUTLOOK

Beginning in FY19, total construction activity, measured in work done terms, saw three years of consecutive declines which were exacerbated by the outbreak of COVID-19. Nationally, residential building activity is yet to recover from the decline. However, a strengthening pipeline of non-residential building and transport and utilities infrastructure has driven overall construction (including alterations and additions or 'A&A') to recover to $287bn in FY24. Excluding oil and gas work done, which typically does not impact local construction capacity to the same extent as other sectors, construction work done totalled $277bn in FY24. This represents a local peak in construction activity levels, with the previous peak equal to $255bn in FY13 (8.8% higher in FY24).

Total construction activity is expected to continue to rise to $298 billion over FY25, with the most recent FY25 H1 figures already up 2.7% compared to the same time last year. Overall, total construction activity is forecast to strengthen steadily over the following five years, rising a cumulative 9% to reach $326bn in FY30, before plateauing in FY31 and suffering a small decline in FY32.

Figure 2.3 Construction Outlook - Australia



Residential and non-residential building construction activity has seen soft growth over the past three years as high building costs and capacity constraints plagued the sector. Further hindrance in the form of higher borrowing costs will see activity growth flatline over FY25 (+0.1%) and FY26 (+0.3%). Pent up dwelling demand and easing borrowing costs are then expected to stimulate a surge in construction, namely from residential, with total building activity forecast to lift a cumulative 24% over the four years from FY26 to FY30 – rising from $140bn to a record $174bn, before easing over FY31 and FY32.

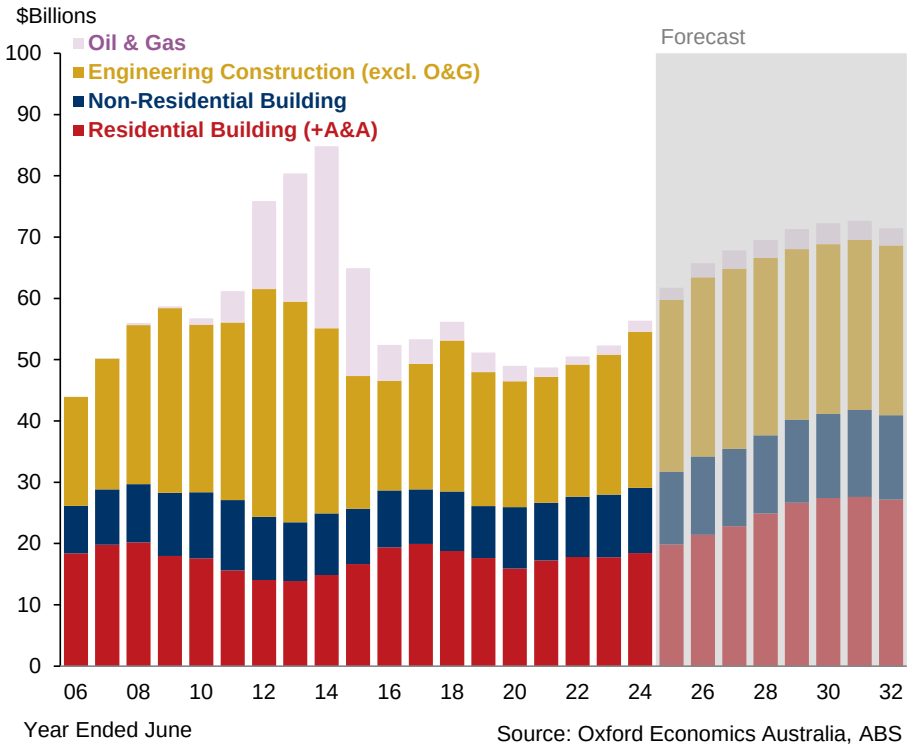
Engineering construction activity (including oil & gas construction) sat at $134bn in FY24 and is expected to continue to rise to a peak of $151bn in FY26 (a cumulative+12% over next 2 years), on the back of publicly funded transport infrastructure, renewed mining investment and continued strong growth in electricity and water infrastructure. Transport infrastructure investment has contributed much to recent growth in activity, but we anticipate that this will shift towards the utilities sector over the next seven years. Engineering construction is expected to slowly ease back a cumulative -11% over FY27-FY32 as major urban transport projects near completion.

2.4 QUEENSLAND CONSTRUCTION OUTLOOK

Queensland's construction outlook is on a trajectory of sustained growth over the second half of the decade. Infrastructure works related to the 2032 Brisbane Olympic Games and the $62bn Queensland Energy and Jobs Plan will further support activity during this period. In addition, fundamental drivers of demand in the state economy will outpace national averages over the next decade, including Queensland's population growth. Overall, growth in QLD construction activity is forecast to average 3.7% p.a. over the next 7 years to reach over $72bn in FY31 – a 29% rise from FY24 levels.

Both residential and non-residential building activity are set to increase over the coming years. Heightened population growth will exacerbate the existing undersupply of dwellings and boost investment in residential dwellings, whilst solid public investment in health and Olympics related infrastructure will help support non-residential activity. Engineering construction activity has seen three years of solid growth (averaging 7% p.a.) and is expected to continue rising over the next two years on the back of transport infrastructure works, before tapering off. Engineering activity will then plateau at around $32bn over FY27-FY30 as major rail, road and mining projects reach completion.

Figure 2.4 Construction Outlook – Queensland



Source: Oxford Economics Australia, ABS

3. WAGES AND INFLATION OUTLOOK

3.1 CONSUMER PRICE INDEX OUTLOOK

Price inflation to ease back to RBA target over the next year as supply pressures ease

Consumer price inflation was subdued for the five years to the March quarter 2020, with annual (through-the-year or y/y) headline CPI inflation ranging between 1.0% and 2.2%; averaging 1.7%. Meanwhile, underlying (or core) inflation fell below the Reserve Bank's target 2-3% band in March 2016 and stayed there. Despite considerable volatility in prices due to COVID-19, the CPI remained under 2% over FY20 and FY21. However, over 2021 and 2022 a series of factors resulted in CPI inflation climbing, with headline CPI peaking at 7.8% and core inflation (trimmed mean) peaking at 6.8% in the December quarter 2022. These factors included severe supply chain shortages and delays, the zero-Covid policy pursued by China, the outbreak of war in Ukraine (and associated sanctions), floods in eastern Australia leading to substantial rises in some food prices; and the decline in the Australian dollar over 2022 and into 2023, further pushing up imported prices. Added to this was evidence of rising demand inflation via widening profit margins, as local businesses took advantage of stronger economic conditions.

Another important component of procyclical inflation since mid-2021 was the cost of constructing a new dwelling (which constitutes 8.5% of the CPI 'basket'). Cost inflation in the construction sector had been escalating since late 2020, due to both the surge in construction work generated by the HomeBuilder subsidy, and materials and labour shortages caused by this additional demand and exacerbated by supply bottlenecks and workplace restrictions. The house purchase component increased 20.7% y/y over the year to September 2022, before easing over the past two years to 4.8% y/y in the September quarter 2024 and then to 1.4% in the March 2025 quarter.

Overall, headline CPI inflation averaged 7% in FY23 and 4.2% in FY24. In July 2024, the government enacted a number of measures, including temporary electricity bill relief and rental subsidies, plus a sharp fall in fuel prices. This resulted in a low September and December quarter CPI outcomes of just 0.2% in each quarter, pushing the annual (through-the-year or y/y) growth from 3.8% in the June 2024 quarter to 2.4% in the December quarter. The March 2025 quarter outcome of 0.9% q/q saw the headline rate remain at 2.4%, but more importantly, saw the core inflation rate fall to 2.9% - the first time the core rate has been back in the RBA target band since December 2021.

Meanwhile, the **Brisbane CPI** inflation index experienced much higher rates over FY21 to FY23 (outpacing the national CPI average by 0.4%, 0.9% and 0.3% over those three years respectively, before falling back below the national rate in FY24 (-0.2% lower). A very low outcome for the Brisbane CPI in the September quarter 2024 (of -0.9% q/q) is expected to see the Brisbane CPI track almost 0.3% below the national average of 2.4% in FY25.

With most of the above supply-side pressures to ease further and oil and other commodity prices to weaken over FY25, we expect their absence will help subdue headline inflation materially over the coming year. Demand-driven inflation has also appeared to have weakened, largely due to higher interest rates. Nevertheless, the tight labour market - with the unemployment rate currently around

4% and expected to stay around 4.1-4.4% for the next year - will continue to contribute to wage pressures, although overall wages have now peaked.

However, some structural factors will add to inflation over the short-to-medium term, such as household energy costs, rising higher rental and elevated food inflation. Rents constitute around 6% of the CPI, electricity and gas 2.9%, while food accounts for over 10% of CPI basket (or over 17% if you include meals out and takeaway food). Rental price growth rose to 4% (y/y) in the December quarter 2022 and lifted to 7.6% in the September quarter 2023 and has only slowly subsided to 5.5% in the March quarter 2025. Given the extreme tightness in rental markets currently, the CPI measure of rents is expected to remain quite high over the next 2-3 years as existing rental contracts roll over to new, much higher rents and new supply fails to keep with strong housing demand. Another factor driving inflation over the next 1-2 years will be further above-average increases in electricity and gas prices. It is worth noting that both rent and energy price rises in the September and December quarters were constrained by temporary government subsidies, which will then see headline CPI inflation jump in the September quarter 2025 and March quarter 2026, when these temporary measures finish.

Food inflation had averaged around 2.8% p.a. over the 25 years to 2014 but were very weak over the five years to FY19 (averaging only 1.1% p.a.), which was a key factor which muted prices over those years. This was due to intense competition between the major supermarkets and falling or weak global agricultural prices. The supermarkets cannot keep cutting prices (and either their own margins or suppliers' margins), while world agricultural prices will remain elevated over the medium term, now the previous global oversupply has dissipated. So while food inflation has fallen back from the 10% rises of 2022 to 3.2% y/y in the latest quarter, food prices are unlikely to track back to the sub-2% of the 2015-2019 period.

Underlying and headline CPI inflation are expected to remain somewhat elevated over FY25 to FY26 as the supply and demand pressures slowly abate, the labour market remains tight, and wage growth remains relatively high. Although global inflationary pressures will ease further over the next year, they will remain elevated, contributing to higher manufacturing costs and prices over the near term. The sharp decline in the exchange rate from around US$0.72 in the first half of 2022 to US$0.63 recently will also add to inflationary pressures in the near term. Conversely, we expect the A$ to appreciate toward US69 cents over the medium-term, which will provide some offsetting pressures.

Overall, OEA forecasts the national headline CPI inflation to be 2.4% in FY25 and 3.2% in FY26. The softer growth in the economy over FY24 to FY27 will see price and wage pressures weaken, with the CPI to ease back to around 2.8% in FY27 and 2.5% in FY28, before picking up from FY29 and averaging 2.8% over the latter years of the 2020s, before easing back over FY31 and FY32 as the economy slows. **Brisbane's CPI** is projected to bounce back to 3.7% in FY26 (0.5% above the national average), with the removal of the subsidies that drove the lower FY25 result. Thereafter, stronger economic and employment growth- and hence stronger demand - in Queensland is expected to see higher CPI outcomes over the rest of the projection period. Over FY28 to FY32, the Brisbane CPI is forecast to be 2.8%, just over 0.1% higher than the national average.

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

Headline CPI inflation is expected to sit in the upper half of the RBA's 2-3% target band in the long run based on the following:

- Tradeables inflation, which currently constitutes around one-third of the CPI basket, is forecast to increase by an average of around 1.5% to 2% per annum contributing around 0.6% to annual inflation. Limited movements in the A$, steady (but subdued) increases in global manufacturing costs and some commodity price increases underpin this projection.
- Non-tradeables inflation comprises the remaining two-thirds of the basket, but this proportion is increasing due to the move toward services and higher price inflation (than tradeables). It is assumed to increase by around 2.5-3% per annum, contributing around 2.1% to headline inflation. This is weaker than the 3.7% average achieved from 2001 to 2015 when relatively high wage inflation, lower than average productivity growth to 2009 and also large rises in utilities prices pushed non-tradeables inflation to well outside of the RBA's 2 to 3% target range. We expect higher wages growth in the longer term and lower long-term productivity will also contribute to the maintenance of relatively high non-tradeables inflation.

3.2 ALL INDUSTRIES WAGES GROWTH – AUSTRALIA & QUEENSLAND

The key determinants of nominal wages growth are consumer price inflation, productivity, the relative tightness of the labour market (i.e. the demand for labour compared to the supply of labour), and compositional (structural) changes in the labour market following the end of the mining investment boom around 2013. The low wage growth of the 2014-21 period was both a product of and key contributor of low underlying inflation. Low wages helped keep business costs down and thus mute upward price pressures, while a significant section of pay deals are set in line with CPI inflation – especially for employees on awards. The unemployment rate and underemployment rate are key indicators of the amount of slack in the labour market. The unemployment rate was just above 5% over the two years to the March quarter 2020, before the COVID impacts. Historically this rate was seen as close to the NAIRU, (the Non-Accelerating Inflationary Rate of Unemployment or the 'natural rate of unemployment'), but our latest research suggests that the natural rate has lowered in recent years, possibly to around 4%[1].

Wage growth will remain elevated as labour market remains tight

Following the covid-inspired slump in wages in FY20 and FY21, wages growth picked up over FY22, with the All Industries wage price index (WPI) increasing to 2.4% in FY22 (from 1.5% in FY21). A further acceleration in wages growth occurred over FY23 and FY24 – to 3.5% and 4.1% respectively. The pace of growth in FY24 was the fastest rate of growth since the mining boom years of the late 2010s (see chart 4.1 and table 5.1). Wages growth appears to have now peaked and we expect wages growth to gradually ease back over FY25 to FY27, before stabilising and then re-accelerating over FY29 to FY30.

A key element adding to wage pressures over FY22 to FY24 was the rapid tightening in the national labour market. Employment growth has been very strong over the past three years, with the unemployment rate averaging 3.6% in FY23 and 3.9% in FY24 and labour force participation rates at record levels. A key to the outcomes over FY22 was little growth in the pool of available labour. The

[1] A 4% NAIRU is within the RBA's the lower bound estimate as of 2019. See the RBA's Assistant Governor Luci Ellis' 2019 speech "Watching the Invisibles".

cessation of international migration to Australia from March 2020 saw population growth plummet to just 0.2% in the year to June 2021. Growth in the labour force over recent years has been facilitated by a marked increase in the labour force participation rate to record levels, with the return of high immigration adding to employment growth. However, immigration and the growth in the working population will slow markedly from here, as the government acts to stem the high numbers of arrivals. Furthermore, there is now little scope to raise the participation rate further and, with the underemployment rate near historical lows and job vacancies still well above pre-COVID levels, wage pressures will remain elevated in the near-term.

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

Although OEA's economic growth (GDP) forecasts are for further weak growth over FY25 and FY26, we still expect the labour market to remain tight, with labour demand still relatively strong and the unemployment rate only drifting up slowly from 4% now to 4.3% by late-2025 where it will remain until late 2026. Job ads are still very high – well above pre-Covid levels, suggesting further jobs growth, although slowing from here. Furthermore, we expect that the rise in the unemployment rate will be kept in check by falls in the participation rate from current record levels, as employment growth slows. This is likely to occur amongst those currently in the workforce with a 'loose attachment' to the workforce, such as older workers who stayed in the workforce due to strong labour demand. As demand eases, a significant proportion of workers are likely to drop out of the workforce (and hence the labour force statistics) and possibly retire.

Skill shortages, which have already emerged, are expected to remain acute in many parts of the economy, although there has been recent evidence of shortages of unskilled labour beginning to ease. The tight labour market will see wage pressures remain elevated. Wages have been slower to pick up compared to the inflation rate, due to lags in the transmission of wage increases, particularly in the enterprise bargaining segment, where the duration of agreements runs for 2-3 years.

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

In the short-term, our wage forecasting methodology involves an analysis of the expected future wage movements in the three main methods of setting pay – for those reliant on awards (13% of the full-time workforce), collective agreements (35% of the workforce) and those who have their pay set by individual arrangements (52%). In terms of those workers on awards who have their pay determined by the Fair Work Commission (FWC) in the annual National Minimum Wage (NMW) case, the increase given in June 2022 for the 2022/23 financial year was much higher than previous years – with the FWC awarding a 5.2% increase to workers on the minimum wage, although workers on award rates only received a 4.6% increase (minimum $40/week increase for award rates below $870/week). A key element of this decision was the very high CPI inflation rate of 5.1% in the March quarter 2022 (which was then the latest available quarter).

The June 2023 NMW decision (for the 2023/24 financial year) was even higher, driven by CPI inflation of 7% in the March quarter 2023. The Commission awarded an 8.6% in the minimum wage and an increase of 5.75% for workers on awards. This underpinned the lift in wages growth in FY24. The most recent 2024 NMW decision, for the 2024/25 financial year, will see the minimum wage increase by 3.75%, another strong result given CPI will be trending below 3.0%. It is likely that the minimum and

Figure 3.1 Australia: Wages and Prices

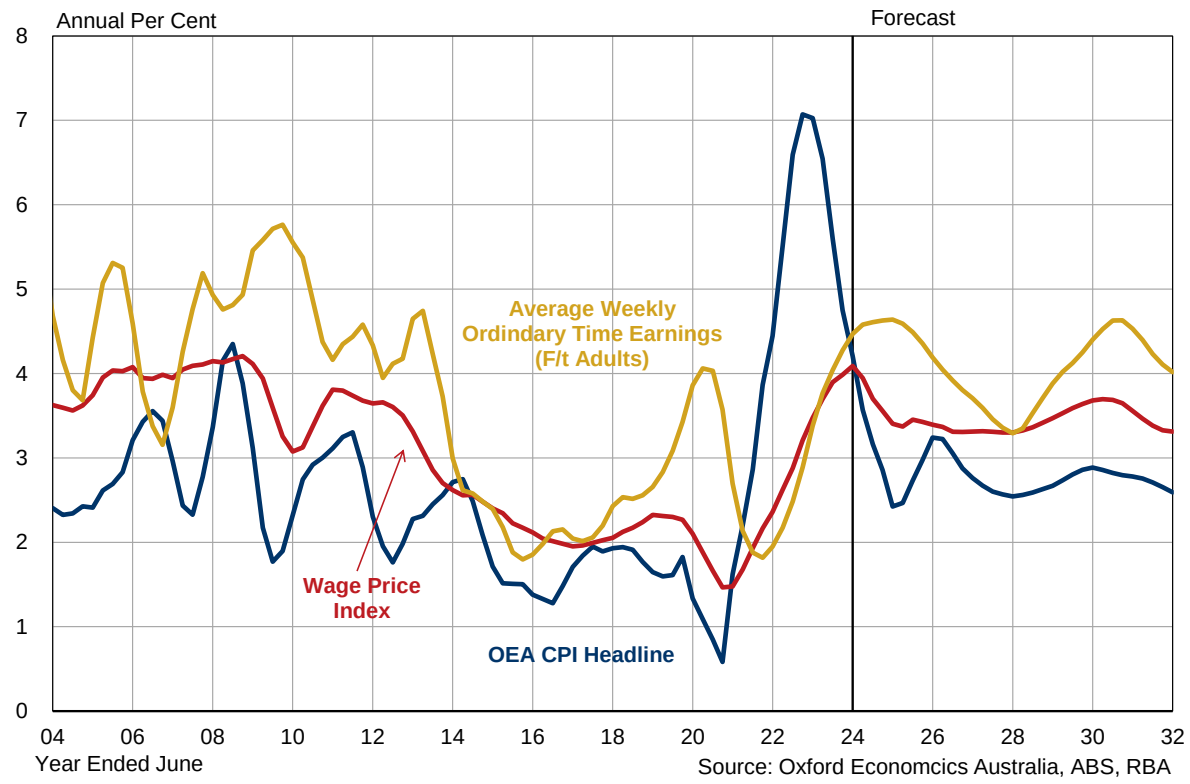
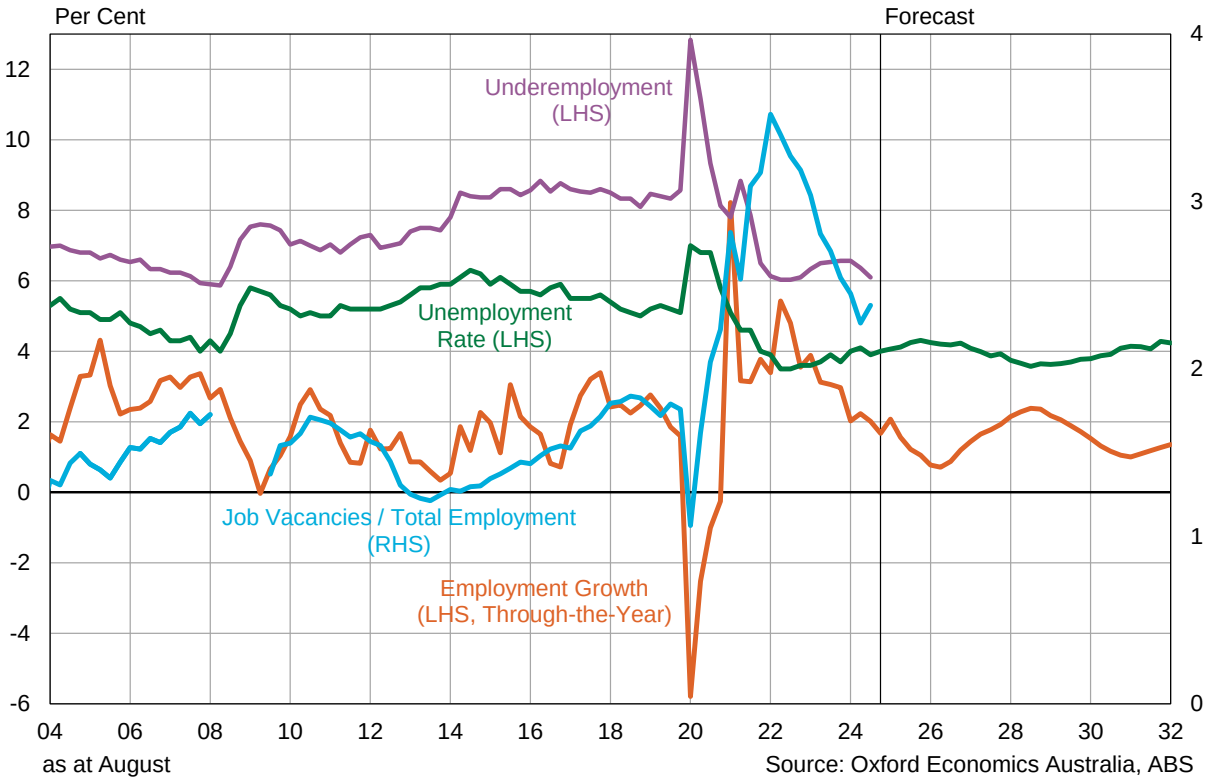


Figure 3.2 Australia: Employment and Unemployment



award increases provided by the FWC will remain high again in FY26 given elevated CPI inflation and particularly given the support for higher wages from the current Federal Labor government (which the previous government did not support).

Although only 13% of full-time workers (a much higher proportion for part-time workers) rely on the annual increase in the minimum and award wage as their primary wage-payment mechanism, a significant proportion of workers are also indirectly influenced by the NMW increase, as it usually flows onto industry awards, with the Fair Work Commission estimating its decisions will affect more than 2.7 million workers (around 20% of the workforce). Accordingly, these FWC decisions will also influence the strength of wage increases given to those who receive their wages via 'individual arrangements' pay setting arrangements, as a significant proportion of wage increases given under individual arrangements are based on awards. Recent inflation outcomes, inflationary expectations and the tightness of the labour market are also key influences in the setting of wage increases under individual arrangements.

It is important to note that wage growth usually lags changes in the labour market, inflation and economic conditions, because of the inherent lags in wage setting mechanisms. Although wage increases related to the NMW and relevant awards are set each July, many of the enterprise agreements – covering 35% of the full-time workforce – run for an average of 2-3 years. These agreements averaged 2.6% over the five years to December 2021, having been set in an environment of low inflation and a much less tight labour market. However, as these previous (low wage increases) agreements expire, the next round of agreements have been materially higher, due to ongoing high CPI inflation and because of widespread skilled labour shortages (with the unemployment rate expected to be below 4%). The latest DEWR (Department of Employment and Workplace Relations) data shows that agreements recently approved have lifted from 2.6% (average annualised wage increases – AAWI) in the September 2022 quarter to a very high 4.8% in the latest quarter (December 2024), with an average of 4% over the past two years (September 2023 – December 2024). We expect continued high agreements to be negotiated over coming quarters.

Of the other 52% of workers on individual agreements, those of who are on awards will receive an annual pay increase via the FWC increase, while others may receive an annual salary increase, but there are a significant proportion on fixed contracts running over a few years. The bottom line is that the recent and current rounds of wage rises negotiated by workers will be much higher than recent years.

The Australian All Industries WPI rose 4.1% in FY24 and is forecast to remain at an elevated 3.4% over the next two years. As the economy cools and the unemployment rate rises, All Industry wages are expected to soften over FY27 and FY28. However, from FY29 the WPI is expected to re-accelerate as the economy strengthens, the unemployment rate declines, the labour market tightens (particularly for skilled labour) and CPI inflation begins to pick up. The All Industries WPI is forecast to rise and peak at 3.7% in FY30, before easing as the economy slows. Although easing over the next 4 years, All Industries wage growth will still sit well above the 2.2% averaged over the back half of the 2010's. This will be due to the fact that labour market conditions will be tighter and inflation higher compared to this pre-covid period.

The **Queensland All Industries WPI** tracked marginally higher than the Australian All Industries WPI over FY21 to FY23, but then jumped to 4.7% in FY24, 0.6% above the national average and the highest annual rate of growth in the Queensland All Industries WPI since its inception in 1997. The rate of growth in the Queensland WPI is forecast to drop back to 3.8% in FY25 (+0.4% above the national average) and thereafter is expected to largely track around 0.1% higher than the national All Industries WPI over the forecast period, with minor year-by-year differences related to the relative strength of the respective state economic growth and labour markets.

In terms of the **private sector All Industries WPI**, the private sector WPI is expected to be slightly higher than the total WPI (private + public sector), due mainly to stronger economic conditions and lower unemployment, plus an element of wage restraint in the public sector wages and salaries growth.

4. INDUSTRY WAGE FORECASTS – CONSTRUCTION, MINING: AUSTRALIA & QUEENSLAND

4.1 NATIONAL & QUEENSLAND CONSTRUCTION WPI FORECASTS

Our research has shown that construction activity (ie work done in the sector) normally has a strong influence on construction wages, although changes in wages tend to lag construction (in work done terms) by around one year. Hence, our wage forecasts are based on Oxford Economics Australia forecasts of construction activity by state (which includes residential and non-residential building, plus engineering construction) as well as predicted movements in the construction wages at the national level.

In the short-term, our wage forecasting methodology involves an analysis of the expected future wage movements in the three main methods of setting pay – for those reliant on awards (8% of the full-time workforce in the Construction sector), collective agreements (22% of the construction workforce) and those who have their pay set by individual arrangements (70%). In terms of those workers on awards, their pay is determined by the Fair Work Commission (FWC) in the annual National Minimum Wage (NMW) case. However, many employers in the Construction sector also base their wage increases for their employees on the award increases.

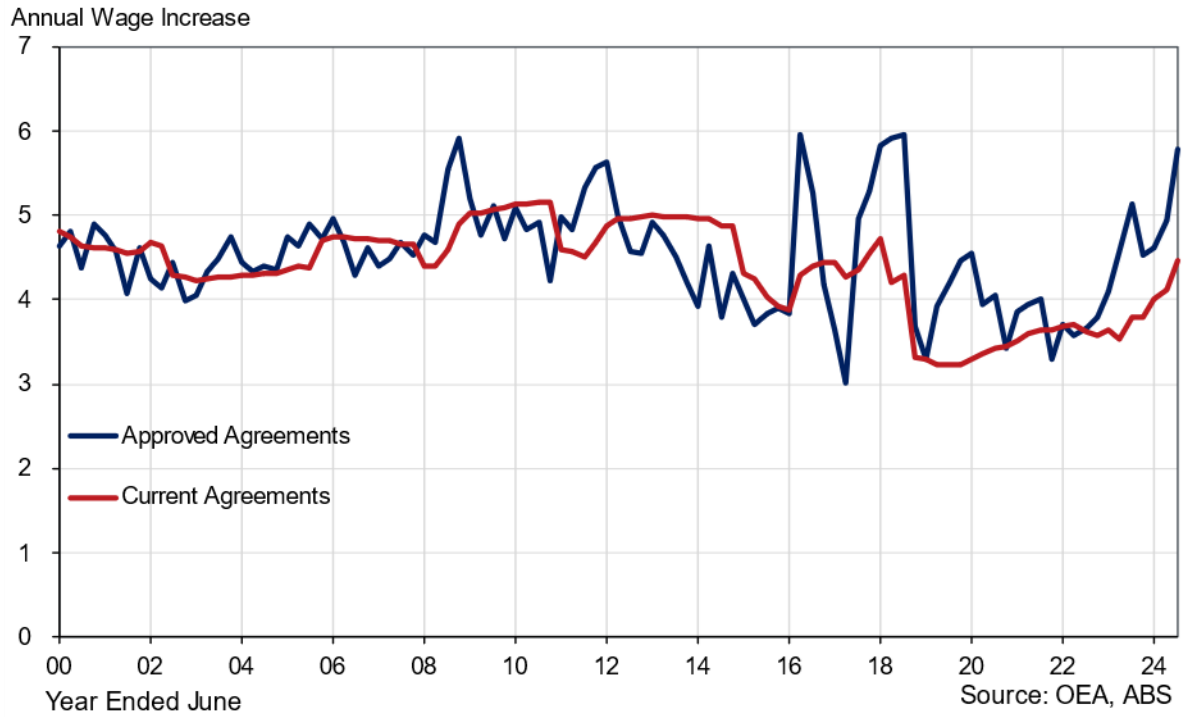
As well as increases in CPI, increases in collective agreements under enterprise bargaining are also influenced by a combination of inflationary expectations, the recent profitability of relevant enterprises, current business conditions and the short-term economic outlook, and, as mentioned, by the industrial relations 'strength' of relevant unions. Because the average duration of agreements runs for two-to-three years, Oxford Economics Australia bases its near-term forecasts of Enterprise Bargaining Agreement (EBA) wages on the strength of recent agreements, which have been formalised or lodged (i.e., an agreement has been reached or approved) over recent quarters.

Negotiated (approved) national construction EBA outcomes averaged 3.8% over FY22 and FY23, well below inflation which averaged 5.7% over the same. The unanticipated sharp rise in inflation eroded the wages of those locked into 2-3 year agreements. Those individuals locked into lower wage growth agreements over this period are rolling off and are now (and will continue to be) negotiating new agreements with previous real wage losses in mind. This underpins the lagged impact of inflationary pressures on EBA wage growth and indicators of this occurring have already emerged, with new EBA's over the past five quarters have averaged 5.0%. In Queensland, approved EBA outcomes have averaged 5.5% over the past 5 quarters.

We expect the next rounds of EBAs negotiated in the construction sector to remain elevated around current levels of 5.0% (average of past 5 quarters), due to several factors:

- CPI inflation will remain high (averaging 7% in FY23, 4.2% in FY24, 2.4% in FY25, 3.2% in FY26),
- the demand for skilled labour remains strong, and
- powerful unions in the construction sector are consistently able to secure very high enterprise agreement outcomes

Fig 4.1 EBAs – Approved vs Current Agreements – Construction Sector, Australia



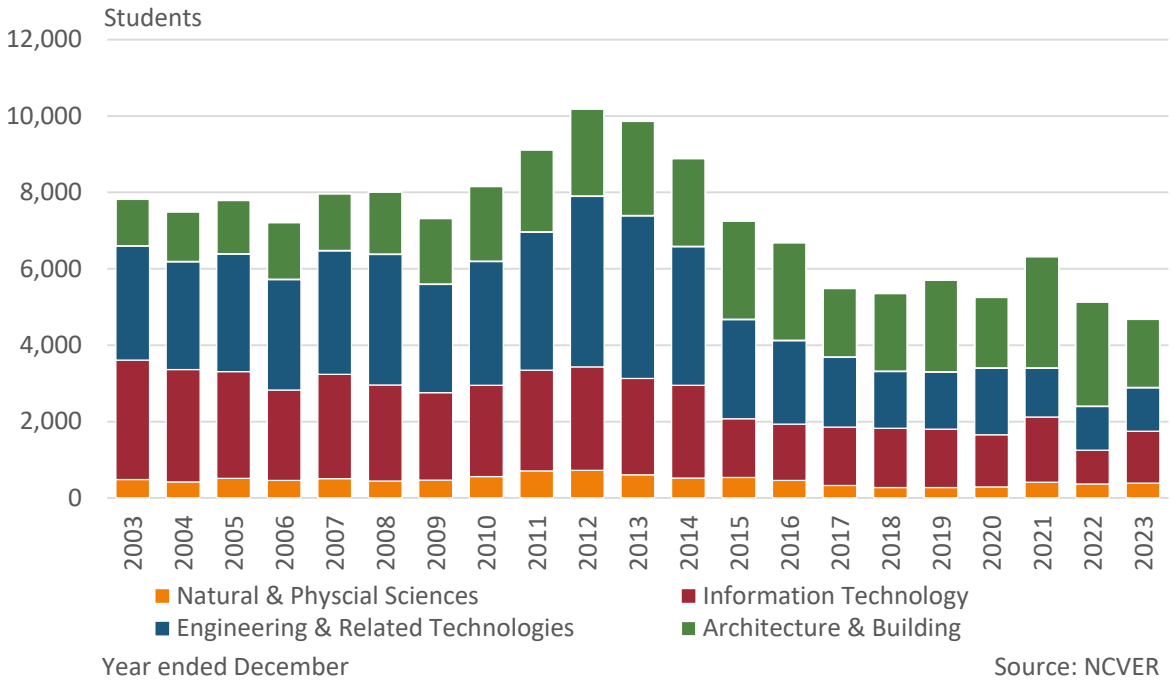
Wage increases under Individual agreements and EBAs will remain elevated due to tight supply and strong demand for skilled labour.

Increases in individual agreements (or non-EBA wages) are primarily influenced by the strength of the labour market (especially the demand-supply balance of skilled labour), inflationary expectations, the recent profitability of relevant enterprises (which influences bonuses and incentives, etc.), current business conditions and the short-term economic outlook. Demand for labour (and hence wages) in the construction sector are also significantly influenced by construction activity.

The overall labour market is expected remain tight over the next 2 years, with the unemployment rate to remain around 4%, despite a slowing in employment growth from 4.5% in FY23 and 2.7% in FY24 to 2.3% in FY25 and 1.2% in FY26. We expect population and labour force growth to largely match employment growth, with small declines in the participation rate keeping the unemployment rate low, as workers with a 'loose attachment' to the workforce drop out as labour demand eases (some to fully retire). Hence, we expect to see the continuation of critical skilled labour shortages and competition for scarce labour, which will push up wage demands in the construction sector.

Employers are already reporting an increasing shortage of technicians and trade workers, and employees with STEM skills. These are essential workers in the construction sector (in addition to skilled workers, discussed in chapter 5). A key problem is that the TAFE (technical and further education) systems across the country have simply not been training enough workers. OEA research shows this is compounded by new graduates in the trades stream, in particular, not increasing fast enough to replace retiring workers, with new graduate numbers in some trades actually falling (see Figure 4.2). 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 only fully returned in the first half of 2022, after being suspended since early 2020. Although now resumed, the backlog of skilled labour shortages will be slow to fill, meaning that the skill shortages will persist for at least the next 2 years.

Figure 4.2 Australia, number of completions, diploma or higher, VET, 2003-2023



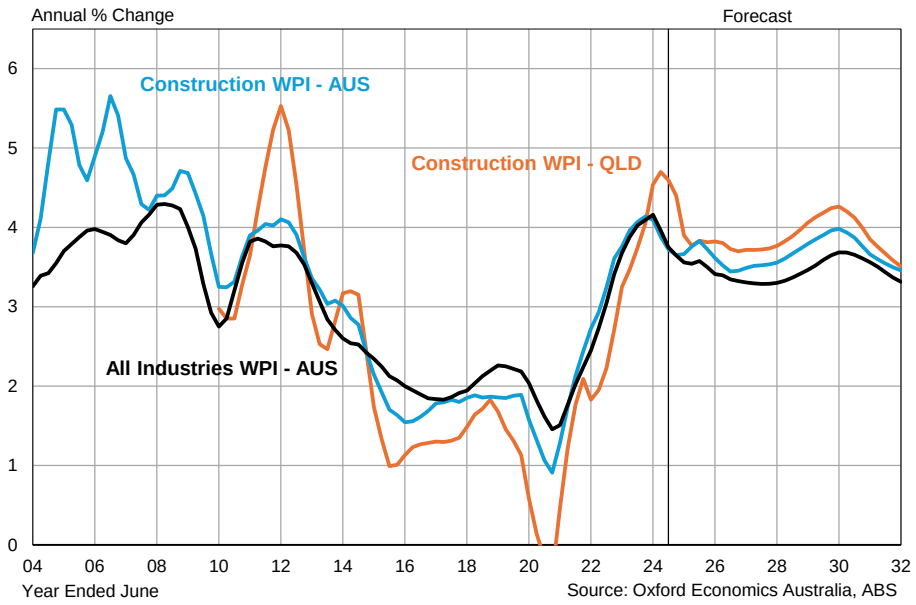
With strong competition for similarly skilled labour from the construction, mining, manufacturing and electricity, gas and water industries, firms in the construction sector will need to raise wages to attract and retain workers. In other words, the mobility of workers between these industries means that demand for workers in those industries will influence employment, the unemployment rate and hence spare capacity in this section of the skilled labour market. Businesses will find they must 'meet the market' on remuneration in order to attract and retain staff and we expect wages under both individual arrangements and collective agreements to show further strong increases over the next two years.

Our forecast is for the Australian Construction WPI (both total and private sector) to average 3.6% over the next three year (FY25 to FY27), and 3.7% over the regulatory period between FY28 and FY32. Queensland construction wages are forecast to average 3.8% to FY27 and 3.9% over the FY28 to FY32

period (see Table 1.1). While this is a marked improvement on the decade to FY22, it is still well down on the 4.3% annual national average over the decade to FY12.

The Australian Construction WPI growth recovered over FY22 to 2.6% followed by 3.7% in FY23 and 4.1% in FY24 (in year average terms). This compares to the meagre 1.6% annual average over FY16 to FY21. Construction wages are estimated to remain elevated in FY25 (3.6%) as construction activity increases and serious skills shortages worsen, underpinning higher wages due to strong labour demand. It is important to note that in FY24, overall construction activity levels surpassed the previous highs of FY13 and FY18 (see figure 2.3). Given the falling VET completions and increasing retirements, this means that there is likely a serious undersupply of skilled labour to cater for increasing construction levels. Construction wages growth stabilises at around 3.5% over FY26 to FY28 as activity cools somewhat. A tighter labour market Queensland construction wage growth outperformed the national average in FY25, at 4.5%. This trend forecast to continue as the state sees strong growth in demand over the coming years, with QLD wage growth averaging 0.2 percentage points above the national average.

Figure 4.3 Construction Wage Price Index – Australia and Queensland



4.2 NATIONAL & QUEENSLAND MINING WPI FORECASTS

Mining wages are heavily influenced by the quantum of mining investment, which is in turn related to the global demand for commodities, for which Australia plays a key role in the supply of many important energy and mineral supplies (e.g. iron ore, coal, alumina and gas). This was exemplified during the mining investment boom over the second half of the 2000s and early 2010s which resulted in rapid employment growth in the mining sector, with the strong demand for labour (in addition to rising profits) leading to strong growth in mining wages. Over 2005 to 2013, the Australian Mining Average Weekly Ordinary Time Earnings (AWOTE) averaged 6.4% per annum while the Mining wage price index (WPI) averaged 4.8% p.a., with both measures well above the national All Industries

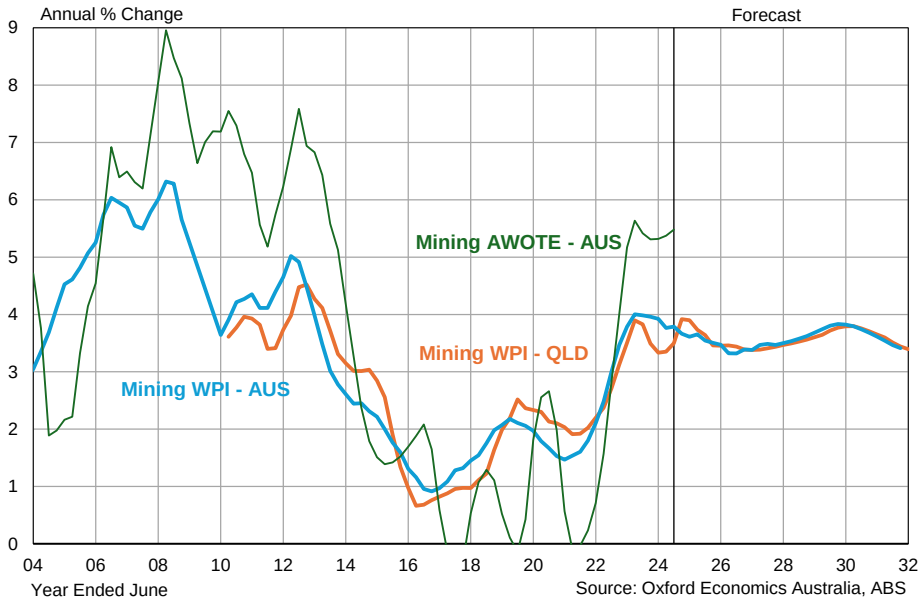
averages. The end of the mining investment boom and falling mining employment subsequently led to a sharp weakening in wages growth, with the mining WPI averaging 1.8% over 2014 to 2022, below the 2.1% recorded for the All Industries average.

Given the mining sectors preference for bonuses rather than base wage increase to attract labour (to allow for a more flexible wage arrangements in accordance with the highly cyclical nature of the sector), growth in the mining WPI tends to be more subdued than the AWOTE measure, which captures the impact of bonuses, in addition to compositional effects.

Mining wages growth picked up strongly over FY23 and FY24, driven by strong increases in mining investment (both in QLD and Australia), rising inflationary pressures, skilled labour shortages and competition from other sectors (e.g. construction). The Australian Mining WPI recorded increases of 3.5% and 4.0% over FY23 and FY24, respectively, while the QLD equivalent was 3.5% and 3.3%. Meanwhile, the national mining AWOTE measure recorded mining weekly earnings growth of 5.3%, well above the 4.2% national average. Mining WPI growth in FY25 is estimated to come in at 3.7% nationally, and 3.9% in QLD.

Moving forward, mining investment is expected to see further modest growth over FY25 and FY26, before subsequently easing over the following three years, with a late decade pick-up projected. Mining wages growth is forecast to soften over FY26 and FY27 but remain high compared to the decade to 2022, with the mining WPI's growing at an annual average rate of 3.4%. Following this, the national and QLD mining WPI is forecast to average 3.6% over the FY28 to FY32 period. Although the base rates – as represented by the WPI – will have relatively healthy growth, actual average wages growth is likely to be higher, as the mining industry appears to be increasingly adopting a model where the increase in base rates are contained, but bonuses and incentives are used to attract and retain labour.

Figure 4.4 Mining Wage Price Index – Australia and Queensland



5. SKILLED LABOUR, SPECIALIST STAFF AND IT SERVICES

Part of the Consultancy Services - Scope asked for the 'expert's views' on "whether the Wage Price Index appropriately reflects changes in labour costs for industries reliant on skilled labour (e.g. engineers/electrical disciplines)". In addition to the wage price indices for Construction and Mining, we have also included two indices which we believe also reflect the additional cost pressures for skilled demand across the construction and mining industries, and in particular, reflect the demand for skilled and specialist labour in terms of engineers and the electrical trades disciplines. These two indices are: the wage price index for the Electricity, Gas, Water and Waste Services sector and the producer price index (PPI) for the output of the 'Engineering Design and Engineering Consulting Services.

5.1 ELECTRICITY, GAS, WATER & WASTE SERVICES WAGES GROWTH

The Australian EGWWS WPI growth has consistently been above the national (All Industries) average since the index's inception in 1997 and averaged 0.6% higher over the past two decades. The Australian EGWWS WPI rose 4.1% in FY24, whilst the QLD EGWWS WPI rose 4.7%. Growth in EGWWS wages have accelerated over FY25, with an estimated 4.6% increase nationally, and a record 6.7% increase expected in QLD. The strong outcomes have been driven by recently negotiated enterprise bargaining agreements (EBAs), which will lock in higher wage growth over the near term. Key to these strong wage outcomes has been acute skills shortages, which has greatly favoured collective bargaining positions and individual agreements for skilled labour.

The utility sector's ability to attract stronger growth has been underpinned by a strong capital works program in the utilities sector over the past two decades (and particularly up to 2013 - resulting in robust employment growth over the same period), strong competition from the mining and construction workers for similarly skilled labour and the powerful influence of unions in the utilities sector. This is set to continue over the next decade. In addition, the electricity, gas and water sector is a largely capital intensive industry whose employees have higher skill, productivity and commensurately higher wage levels than most other sectors.

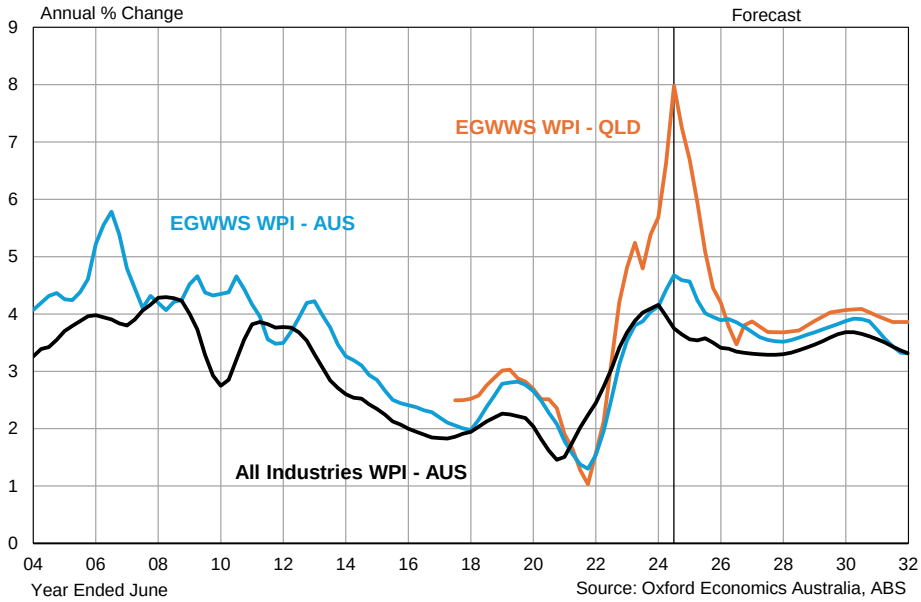
Trade unions are typically able to negotiate higher-than-average wage outcomes for their members through collective bargaining, resulting in stronger wage growth than the all-industry average. Across the EGWWS sector, there are a number of utilities unions such as the Communications, Electrical and Plumbing Union (CEPU) and Australian Services Union (ASU), which have a history of achieving high wage outcomes for the sector. Other unions active in the sector include the Australian Workers Union (AWU).

As at May 2023, 61.6% of full-time non-managerial employees in the EGWWS industry have their wages set by collective agreements, considerably higher than the national average of 35%. As we expect that the EGWWS industry will continue to have higher levels of unionisation than the national average, we expect that unions in the EGWWS industry will continue to be able to negotiate for higher wages for a substantial proportion of EGWWS employees, resulting in EGWWS wages growing faster than the national average.

With regard to utilities investment, Oxford Economics Australia is forecasting further strong increases over the next 2 years, with utilities-related engineering construction projected to be over 22% higher in FY32 compared to FY24 levels, following the 57% increase over the past three years. In Queensland, utilities-related construction has surged by 76% over the three years to FY24 and it is expected to increase another 55% over the period from FY24 to FY32. However, given the need for much greater amounts of transmission and distribution investment, let alone renewables generation, these projections could be considered conservative – there is a significant upside risk to the quantum of electricity-related investment required and therefore to the levels of skilled labour required.

Utilities wages are expected to ease over the FY26 and FY27 as employee's roll onto new EBAs, which will be negotiated at lower rates given falling levels of inflation. Overall, national wage growth is forecast to average 3.8% over the two years, and QLD wages averaging 4.0%. Over the regulatory period (FY28 – FY32), national utility wages are forecast to average 3.7%, and QLD 3.9%.

Figure 5.1 EGWWS Wage Price Index – Australia and Queensland



5.2 ENGINEERING CONSULTING SERVICES

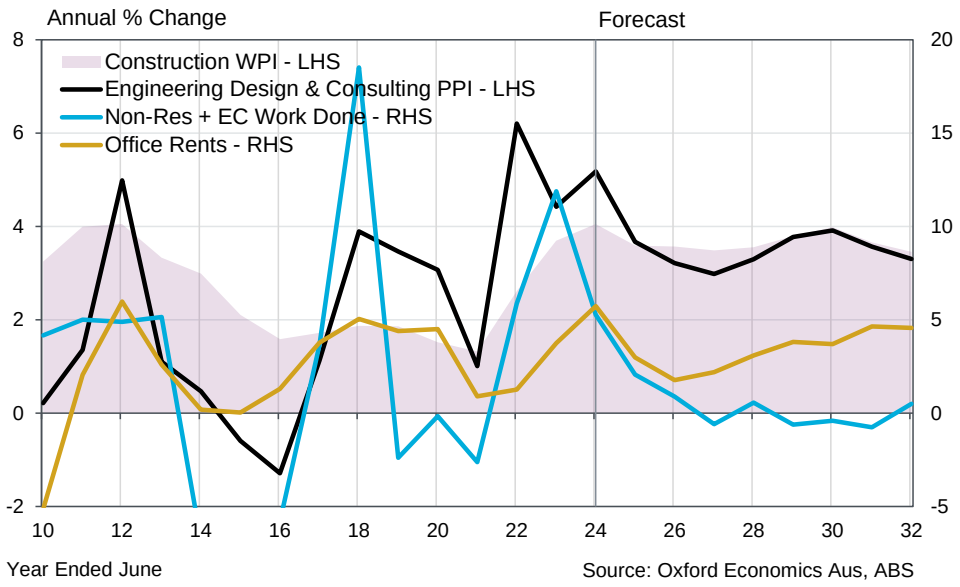
The ABS provide a quarterly series of output price indices through the Producer Price Survey (Cat No. 6427) for the professional, scientific and technical service industries, which we employ to measure the historical price changes in engineering consulting services. The 'engineering design and engineering consulting services' output producer price index (PPI) is the most appropriate price series – it traces price changes in services including building consulting, civil engineering & construction consulting and electrical engineering consulting.

Engineering consulting costs are heavily influenced by demand from the construction sector, in addition to business costs (e.g. wage bills and office rents). Consulting costs saw unprecedented growth through the 2000's, having averaged 7.8% per annum between FY02-FY09 as substantial levels of engineering construction activity flowing from the first phase of the mining investment boom and

consistent rises in non-residential building meant strong demand for engineering services. Subsequent downturn in mining investment and building construction gave way to weak growth in the index over FY13 to FY17. This was aided by sluggish wage growth which helped kept growth in wage bills down. The past three years has seen engineering consulting costs grow at a strong pace, having averaged 5.3% annual growth.

These strong results were driven by two forces – starting from FY22 a surge in construction activity as major engineering and non-residential building projects across the country kicked into gear, driving up demand for engineering services, while high inflation increased consultancy operating costs (via higher wage bills). With solid wage gains for skilled labour remaining persistent, consulting costs are estimated to rise a further 3.7% in FY25. On the demand side, further rises in engineering construction will help offset falling non-residential building activity. FY26 and FY27 are expected to see a moderate softening in consulting cost growth (averaging 3.1%) as demand eases back somewhat. Cost pressures are forecast to return from FY28 onwards as the fall in interest rates spurs on much needed investment into residential construction, driving up the demand for construction related services across the board. Over the five years to FY32, engineering consulting services are forecast to average 3.6% annually (0.7% in real terms).

Figure 5.2 Engineering Design & Consulting Price Drivers - Australia



APPENDIX 1: A NOTE ON DIFFERENT WAGE MEASURES & WAGE MODELS

Several different measures of wages growth are referred to in this report, each differing slightly both in terms of their construction and appropriateness for measuring different aspects of labour costs. The following provides a brief summary of the main measures, what they are used for and why.

The main wage measures are:

- Average Weekly Ordinary Time Earnings (AWOTE) — earnings gained from working the standard number of hours per week. It includes agreed base rates of pay, over-award payments, penalty rates and other allowances, commissions and retainers; bonuses and incentive payments (including profit share schemes), leave pay and salary payments made to directors. AWOTE excludes overtime payments, termination payments and other payments not related to the reference period. The AWOTE measures used in this report refer to full-time adult AWOTE and are sourced from the Australian Bureau of Statistics (ABS) catalogue number 6302.0, with Oxford Economics Australia forecasts.

- Average Weekly Earnings (AWE) — represents average total gross earnings (before tax) of all employees (including full-time and part-time workers). They include weekly ordinary time earnings plus over-time payments.

- The Wage Price Index (WPI) — a CPI-style measure of changes in wage and salary costs based on a weighted combination of a surveyed 'basket' of jobs. The WPI used in this report excludes bonuses. The WPI also excludes the effect of changes in the quality or quantity of work performed and most importantly, the compositional effects of shifts within the labour market, such as shifts between sectors and within firms. The WPI figures quoted in this report are sourced from ABS catalogue number 6345.0, with Oxford Economics Australia forecasts.

Each measure provides a slightly different gauge of labour costs. However, the main distinction between average earnings measures and the wage price index relate to the influence of compositional shifts in employment. The compositional effects include changes in the distribution of occupations within the same industry and across industries, and the distribution of employment between industries. For example, a large fall in the number of lower paid employees, or in employment in an industry with lower average wages, will increase average weekly earnings (all else being equal). While this is a true reflection of the average cost of labour to businesses, it is not necessarily the best measure of ongoing wage inflation (i.e. trends in wage-setting behaviour in the labour market). Another compositional problem with using the 'all persons' AWOTE is variations in the proportion of male and female employees (particularly as average female AWOTE is lower than average male AWOTE). However, in practice, the data shows only minor differences in the AWOTE growth rates between male and females (or males and all persons) — between -0.2 and +0.2 per cent — since the 1980s or basically since the equal pay legislation was enacted through the 1970s.

The wage price index was specifically designed to get around these compositional problems. It uses a weighted average of wage inflation across a range of closely specified jobs. As it measures the collective variations in wage rates made to the current occupants of the same set of specified jobs, the WPI reflects pure price changes, and does not measure variations in quality or quantity of work performed. However, like the CPI (Consumer Price Index), the weights are fixed in a base year, so that the further away from that base and the more the composition of the labour market changes over time, the more 'out of date' the measure becomes.

Importantly, the WPI does not reflect changes in the skill levels of employees within industries or for the overall workforce and will therefore understate (or overstate) wage inflation if the overall skill levels increase (or decrease). The wage price index is also likely to understate true wage inflationary pressures as it does not capture situations where promotions are given in order to achieve a higher salary for a given individual, often to retain them in a tight labour market. Average weekly earnings would be boosted by employers promoting employees (with an associated wage increase) but promoting employees to a higher occupation category would not necessarily show up in the wage price index. However, the employer's total wages bill (and unit labour costs) would be higher.

Oxford Economics Australia Wage Growth Model

Oxford Economics Australia' model of wage determination in the short-to-medium term is based on the analysis of expected future wage movements in the three main methods of setting pay, as each discrete pay setting method has its own influences and drivers. The main pay setting categories and their key determinants are:

• Employees under awards have their pay determined by Fair Work Australia in the annual National Wage case. When determining pay increases, Fair Work Australia aim to maintain the standard of living of those employed on awards by providing a safety net of fair minimum wages. Hence, they focus on the overall performance of the domestic economy, taking into account productivity, business competitiveness, inflation and employment growth. This means that increases in the Federal Minimum Wage are usually based on recent CPI growth along with Fair Work Australia's view on short term future conditions for the Australian economy. From 1 July 2022, the minimum wage was increased by 5.2%. This followed rises of 2.5%, 1.3%, 3.5% and 3.5% respectively in previous years. At the All Industries level, 13% of all non-managerial full-time employees (data excludes those in agriculture, forestry and fishing) have their pay rises determined by this method, but only 1.5% of Electricity, Gas, Water & Waste Services' (EGWWS) employees.

• For employees under collective agreements (representing 35% of all employees; 61.5% of EGWWS), their pay is determined through enterprise bargaining, and wage increases are influenced through a combination of recent CPI, inflationary expectations, profitability levels of relevant enterprises, business conditions, and the short-term economic outlook. Workers' unions can also play a significant part in negotiations, especially unions with a good position in industrial relations through strong membership. With the average duration of these agreements currently two to three years, Oxford Economics Australia use the most recent agreements formalised in recent quarters as a basis for our near-term forecasts. Beyond that, collective agreements are based on our expectations of economic conditions.

• The remaining 52% of employees (or 34.5% of EGWWS employees) have their pay set by individual arrangements, whether it be individual contracts or some other form of salary agreement, which may include incentive-based schemes. Similar to the minimum wage and collective agreements, inflation and inflationary expectations have a strong influence on agreements, as well as the strength of the labour market. Individual arrangements are skewed towards more skilled workers, so the balance between demand and supply in skilled labour can be an important influence.

Note that wage increases under 'individual arrangements' are calculated by deduction. Data from DEEWR (Department of Education, Employment and Workforce Relations) are used for wage increases under collective agreements.

The limitation of this methodology is that because individual arrangements are calculated as a residual, all of the compositional effects in terms of AWOTE (ie from more or less lower-paid workers being employed in the relevant year) plus all (or most) of the bonuses and incentives from those under award or collective agreements end up in the individual arrangements residual, which distorts the pay increases in this segment. However, the methodology works well for the WPI, particularly at the All Industries level, although some compositional problems occur at the sectoral level, particularly for sectors with a relatively small employment base (such as electricity, gas, water and waste services).

The 'bottom-up' approach to wage forecasting is complemented by a more formalised 'top-down' macroeconomic modelling framework – to ensure an overall macroeconomic consistency with output, employment, productivity and price variables. The wage price index is a function of the following explanatory variables:

- CPI
- unemployment rate
- labour productivity (GDP/employment)
- lagged wage (WPI) growth (to capture 'sticky' nature of wage determination in the short term).

The top-down macroeconomic modelling methodology becomes more relevant beyond the next 2-3 years.

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