

Business Economics Insights:

Updates on Current and Expected Trends in Costs, Prices, Wages and Government Policy That May Have an Impact on Your Business

Wage growth is mixed across the economy, with more wage growth to come

Price growth more than **13%**

The Reserve Bank of Australia's (RBA) May 2022 Statement on Monetary Policy **forecasts price growth, as measured by Consumer Price Index (CPI), of more than 13 per cent over the three years to June 2024**. RBA forecasts for wages growth, as measured by Wage Price Index (WPI), over the same period are 10 per cent.¹



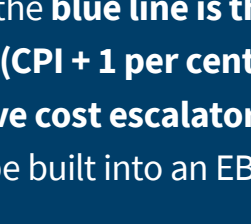
WPI can lag price growth. **More than 60 per cent of Australians are subject to long-term wage arrangements in which wage adjustments lag changes in prices**. Accordingly, wages can take up to five to six years to catch up with price rises.²

WPI grew **1%** per annum more than CPI

Historically, WPI has grown at a significantly higher rate than CPI. For example, over the 20 years from June 2001 to June 2021, **WPI grew by around 1 per cent per annum more than CPI**. This long-term relationship is likely to continue, especially with unemployment at a historic low.³



It's likely that **workers will seek to catch up in future Enterprise Bargaining Agreement (EBA) negotiations** if real wages fall due to inflation.



In the example in Figure 1, the **green line represents pay increases over time**, from when an example EBA was signed in 2018. By contrast, the **blue line is the CPI**. The **aqua line (CPI + 1 per cent)** shows an **alternative cost escalator** that could be built into an EBA.

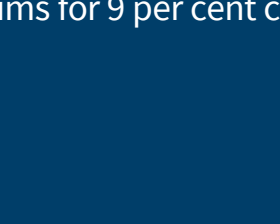
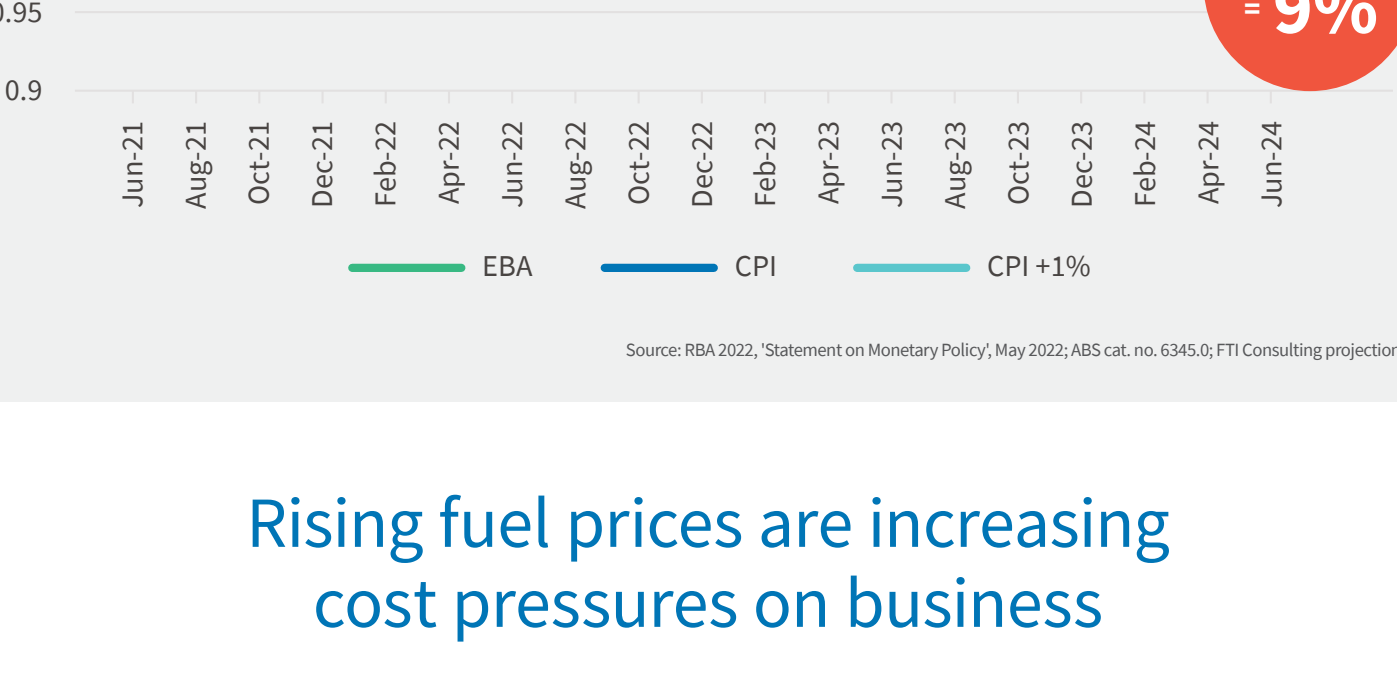


Figure 1 shows the **potential magnitude of future wage claims following periods of high inflation**. For example, an EBA due in 2024 may see claims for 9 per cent catch up.

Figure 1: An example of wage movements when workers seek immediate pay increases during EBA negotiations to make up for wage growth lower than CPI.



Source: RBA 2022, 'Statement on Monetary Policy', May 2022; ABS cat. no. 6345.0; FTI Consulting projections.

Rising fuel prices are increasing cost pressures on business



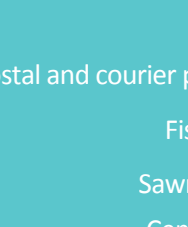
A variety of factors have significantly increased fuel prices – ranging from **28 per cent for petrol to 96 per cent for jet fuels** – since December 2021 (see Figure 2).



Rising fuel prices haven't had a uniform impact on Australian industries' costs. Transport is a key input in many industries, with **fuel costs contributing between 12 and 55 per cent of transport costs**, depending on the mode of transport and fuel requirements (see Figure 2).



Rising fuel prices have had a significant **impact on the water, pipeline and other transport industry** (see Figure 2). They have also affected industries such as forestry and logging, air and space transport, and road transport.



Where businesses have fixed contract prices with their customers, or they are unable to pass on cost increases due to competition, the fuel price rises will likely have a **significant effect on cash flow and profitability**.

Figure 2: The industries most affected by the fuel price rises, by ANZSIC subdivision, from December 2021 to March 2022.



Source: ABS cat. no. 5209.0.55.001; Australian Institute of Petroleum; International Air Transport Association; American Shipper; US Energy Information Administration; FTI Consulting analysis.

Construction costs are rising rapidly



Construction costs increased broadly in line with CPI from December 2011 to December 2020. Figure 4 shows that **costs across the major capital cities grew by around 2 per cent over the nine-year period**.

15%

In the year to December 2021, **costs increased by around 15 per cent**, which is about equal with the price rises over the previous seven-year period.

Figure 3: Annual percentage increase in costs for various construction materials.



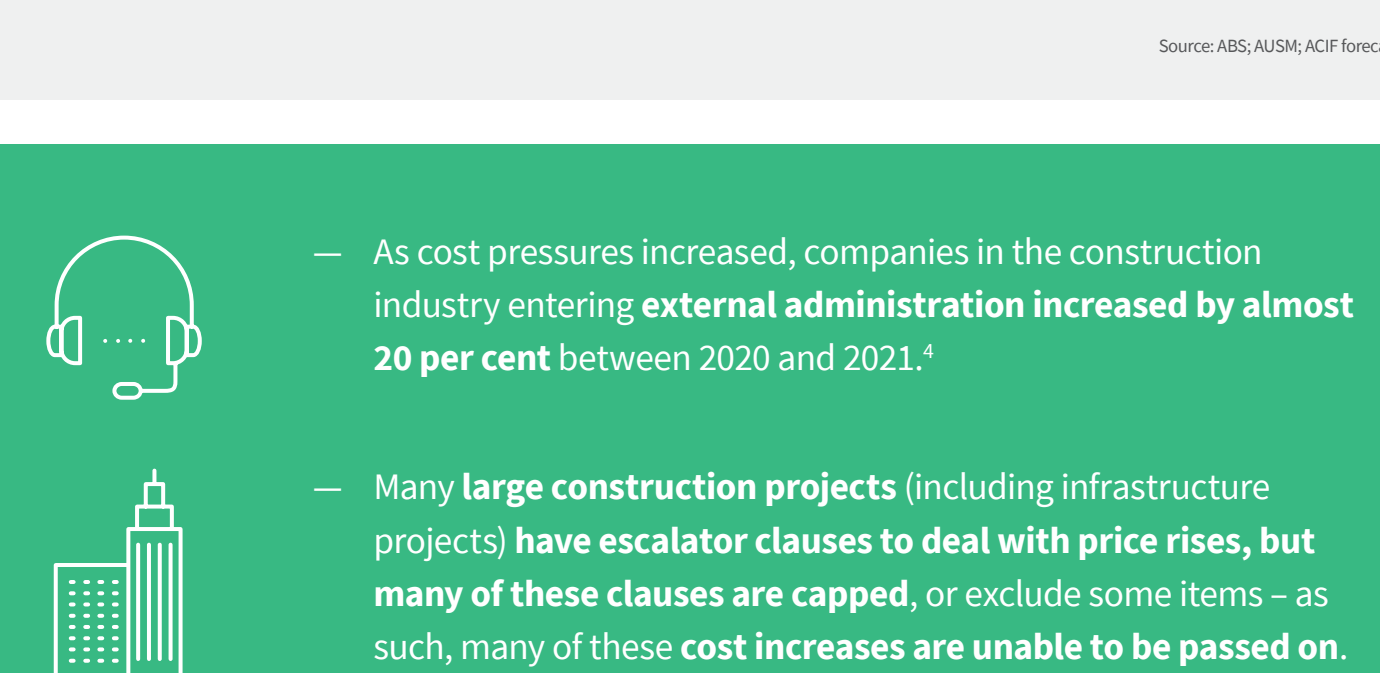
Source: ABS, AUSM, ACIF forecasts.

Steel products

MORE THAN 40%

The major driver of these cost increases was steel (see Figure 3), with **costs rising by more than 40 per cent for steel products**, and over **30 per cent for reinforcing steel**. Prices for structural timber also rose more than 30 per cent for the year.

Figure 4: Annual increases in the producer price index from 2011 to 2021.



Source: ABS, AUSM, ACIF forecasts.



As cost pressures increased, companies in the construction industry entering **external administration increased by almost 20 per cent** between 2020 and 2021.⁴



Many **large construction projects** (including infrastructure projects) have **escalator clauses to deal with price rises, but many of these clauses are capped**, or exclude some items – as such, many of these **cost increases are unable to be passed on**.

How FTI Consulting can help

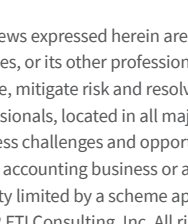
Rising costs and the promise of further increases present considerable challenges and opportunities in a range of areas including:



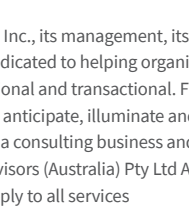
The Economic & Financial Consulting team at FTI Consulting has deep experience providing advice on these issues and can help businesses navigate the challenges and opportunities. For more information, please reach out to a member of our team.

1. RBA 2022, 'Statement on Monetary Policy', May 2022.
2. ABS cat. no. 6306.0; FTI Consulting analysis.

3. ABS cat. no. 6401.0; ABS cat. no. 6345.0; FTI Consulting analysis.
4. ASIC insolvency statistics; FTI Consulting analysis.



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