

Q3 2023 MBM Escalation Update

Navigating the economic forces shaping escalation in the Australian construction industry

“...input costs driven by inflationary pressures, rising preliminary costs, labour shortages and wages continue to drive escalation in the short to medium term.”

Construction price increases have slowed for the first quarter since December 2019, showing no increase over the third Quarter in 2023. While prices for structural steel and timber have fallen, these have been offset by increases in other materials such as bricks, tiles, and ready-mixed concrete due to manufacturing costs increasing as a result of recent rises in energy costs, and strong demand from multiple sectors of construction. Despite material price escalation slowing or showing a decline in certain areas, construction costs remain high due to elevated preliminary costs as well as labour rates.

The Australian economy will likely continue to face ongoing cost pressures due to combined impacts which are largely global in nature. The impacts include the ongoing Russia-Ukraine conflict, the outbreak of tensions in the Middle East, and ongoing labour shortages - despite increased inflows of skilled immigration into Australia. Benchmark interest rates in Australia have increased by 4 to 4.25 percentage points since May 2022, and overseas-sourced specialty supply constraints continue to persist.

Both the residential and non-residential markets have been experiencing a cooling period over the first half of 2023 due to increased construction costs, labour shortages, and market risks including the rise in construction insolvencies. Public sector investment remains high with strong outlooks despite private sector slowing.

According to the latest RICS Global Construction Monitor, there has been a slight increase in construction activity over the past quarter with forecasts of workloads in private and public sectors expected to improve over the next year. Factors continuing to affect activity includes material prices, heightened interest rates, and skilled labour shortages. Sentiment around the impacts of availability of skilled tradesmen, shortages of suitable contractors, change in Government at State and National level, delays in planning approval, and interest rates remain hurdles for the Australian construction market.

Over the past twelve months, non-residential building construction has increased on average 5.73% across Australia. Looking into the non-residential building index, NSW has shown an increase of 1.24% over the last quarter and 4.55% year to date. Victoria reflects an increase of 1.23% for the past quarter and 2.92% for the year. Both states align with forecasted escalation expectations. Queensland has shown a quarterly and year to date escalation of 3.64% and 5.79% respectively indicating a massive increase in construction costs over the third quarter. **Materials remained relatively flat over the quarter with competition (and resultant main contractor margin movement) and labour attributed to the increase.**

MBM's outlook remains as is with the view that escalation peaked late 2022, will continue to reduce towards the end of 2023 and stabilise into 2024. However, input costs driven by inflationary pressures, rising preliminary costs, labour shortages, and wages continue to drive escalation in the short to medium term.

MBM View on Building Cost Escalation				
	2022	2023	2024	2025
NSW	9.5%	6.0%	3.0%	2.5%
VIC	7.8%	6.0%	5.0%	4.0%
QLD	10.9%	6.5%	6.0%	2.5%
SA	6.2%	4.0%	2.5%	2.5%
WA	7.4%	5.5%	3.5%	2.5%

3.6%

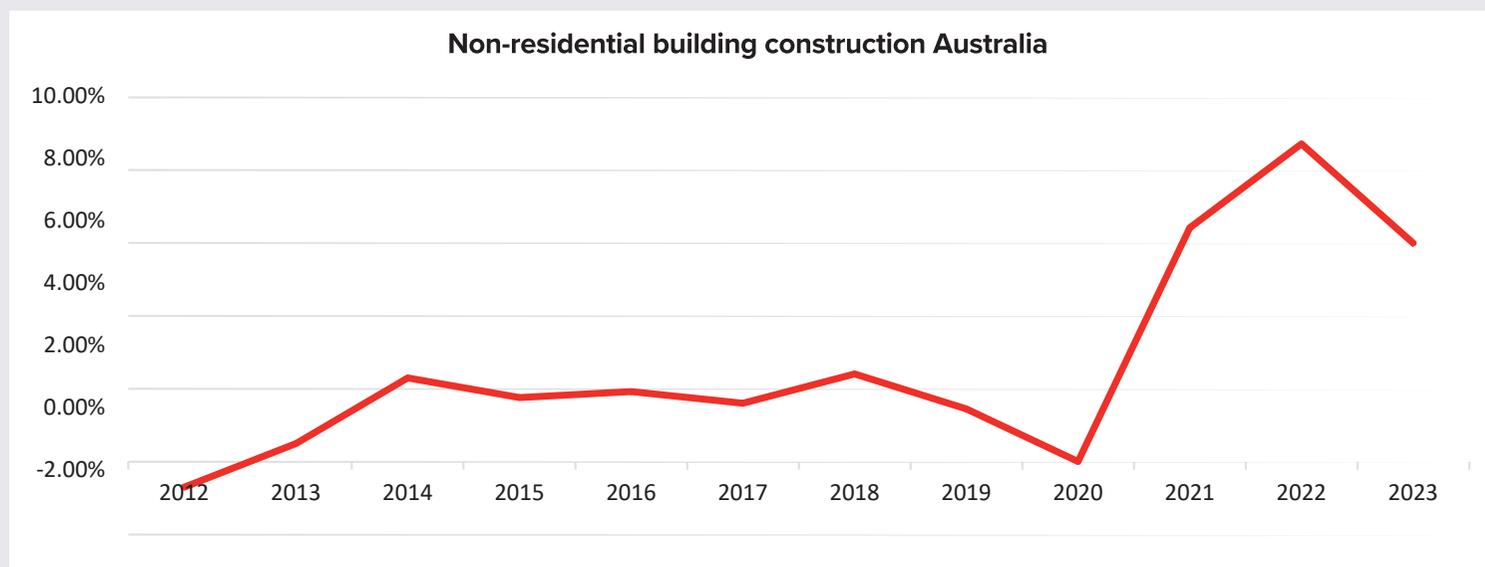
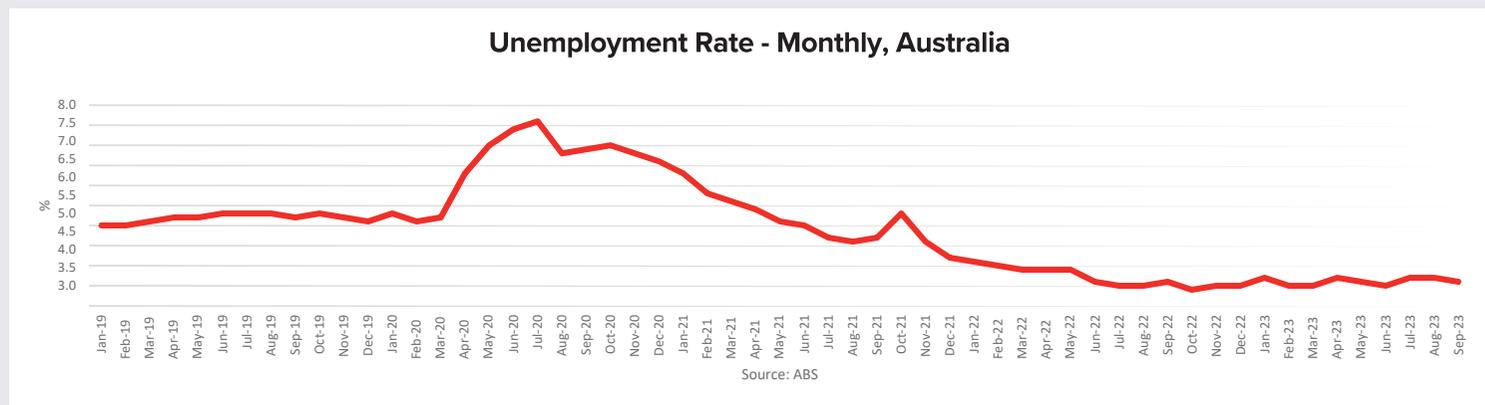
The seasonally adjusted unemployment rate in Australia exhibited a slight decrease, moving from 3.7 percent in August 2023 to 3.6 percent in September. The positive change coincided with a decrease of 19,800 individuals classified as unemployed, which exceeded the market expectations of 3.7%

New South Wales

has exhibited a notable increase of 1.24% in the most recent quarter. Year to date, growth for non-residential building constructions stands at 4.55%. These figures underscore NSW's role as a vibrant hub for non-residential construction.

Similarly, Victoria

reported a 1.23% increase for the preceding quarter and a 2.92% rise for the year. Queensland recorded a substantial surge in construction costs during the third quarter due to ongoing challenges surrounding materials and trades supply issues.



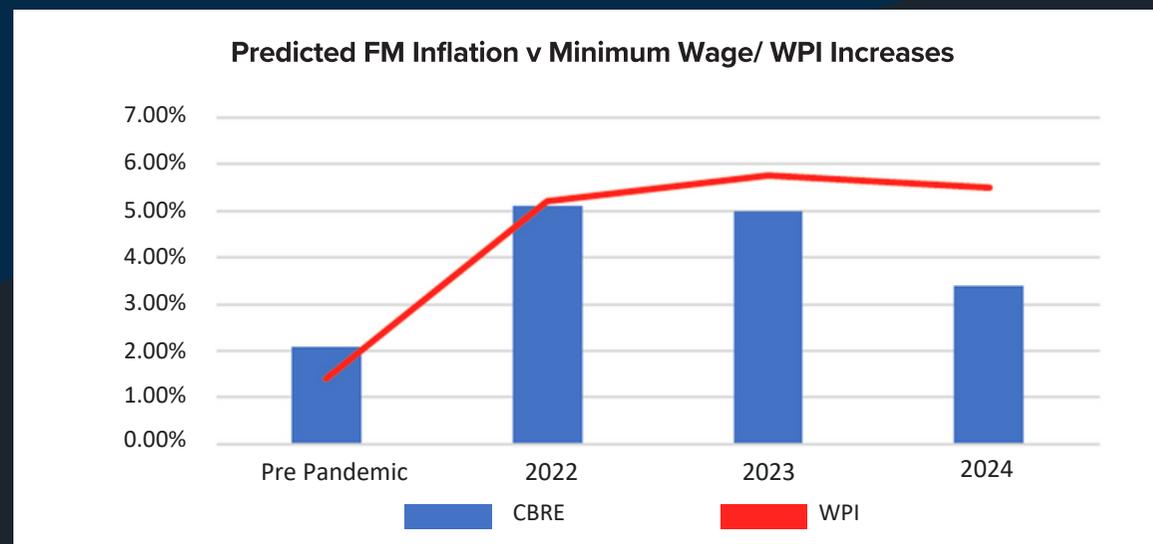
Advisory Outlook

Whilst global facilities management (FM) costs generally appear to have peaked in 2022, it is likely that labour markets will remain tight until at least 2024. This will maintain upward pressure on contract costs as wage growth is considered a core component to FM cost growth.

The lack of immigration during the pandemic has had a significant impact on resource availability for low entry barrier services (cleaning, security, landscaping) while also driving an increased level of early retirements for higher barrier entry services (electric, plumbing, HVAC) as employers looked to reduced costs.

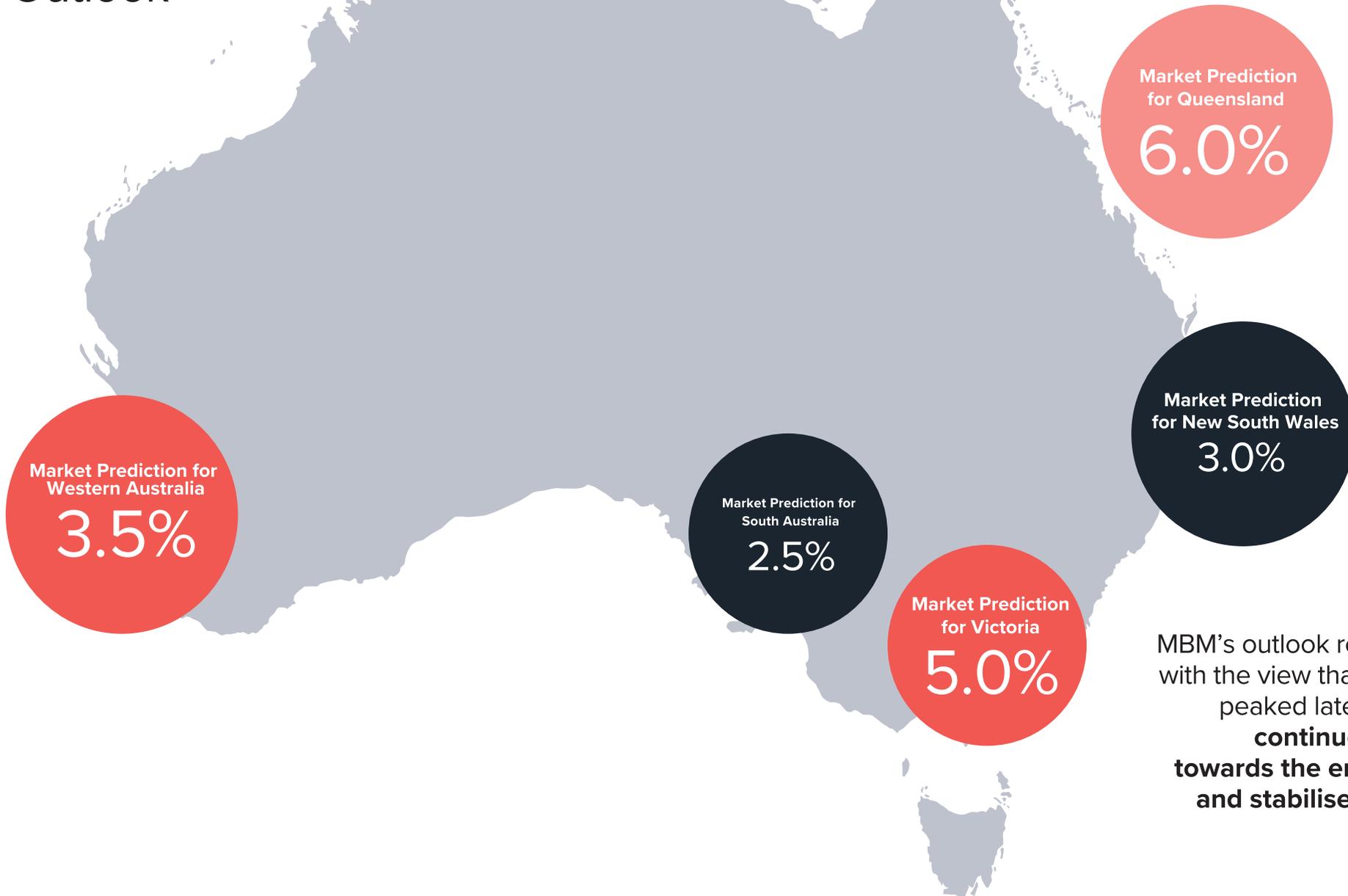
FM industry global indicators suggest that inflation is likely to be 3.5% and 5% for 2023 (down from a peak of 5-6.5% in 2022) and falling further to 2.5% to 3.5% in 2024. MBM's expectation is that escalation will remain around the 5-6.5% level for at least the first half of 2024 given increased employee superannuation contributions. In 2024, we expect a continued drive by unions to increase the minimum wage significantly above CPI increases for low barrier entry labour force, while the immigration/student workforce is still returning to pre-pandemic levels.

MBM View of GM Cost Escalation



MBM's outlook is that escalation **will continue to rise through the remainder of 2023 and the first half of 2024**, despite global views that indicate a 2% drop off in late 2024. MBM will continue to monitor over the course of 2024.

2024 Escalation Outlook



MBM's outlook remains as is with the view that escalation peaked late 2022, **will continue to reduce towards the end of 2023, and stabilise into 2024.**

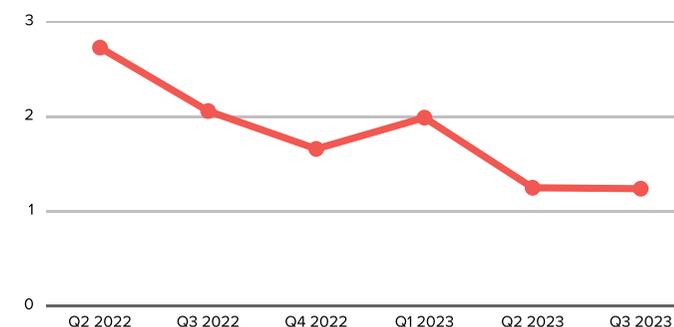
ABS Data for NSW



Building Construction Change Per Annum

▼	-0.79%	2020
▲	8.05%	2021
▲	10.77%	2022
▲	4.86%	2023

Non-Residential Building Construction Change Per Quarter



Building Construction – New South Wales				Non-Residential Building Construction – New South Wales			
		% Change per Quarter	% Change per Year			% Change per Quarter	% Change per Year
Q2 2020	125.8	-0.32%		120.4		-0.17%	
Q3 2020	125.9	0.08%		120.7		0.25%	
Q4 2020	125.4	-0.40%	-0.79%	119.7		-0.83%	-1.48%
Q1 2021	125.3	-0.08%		119.7		0.00%	
Q2 2021	129.1	3.03%		123.7		3.34%	
Q3 2021	130.8	1.32%		124.2		0.40%	
Q4 2021	135.5	3.59%	8.05%	129.3		4.11%	8.02%
Q1 2022	139.1	2.66%		132.1		2.17%	
Q2 2022	144.0	3.52%		135.7		2.73%	
Q3 2022	147.9	2.71%		138.5		2.06%	
Q4 2022	150.1	1.49%	10.77%	140.8		1.66%	8.89%
Q1 2023	153.6	2.33%		143.6		1.99%	
Q2 2023	155.3	1.11%		145.4		1.25%	
Q3 2023	157.4	1.35%	4.86%	147.2		1.24%	4.55%

Source: <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release#construction>

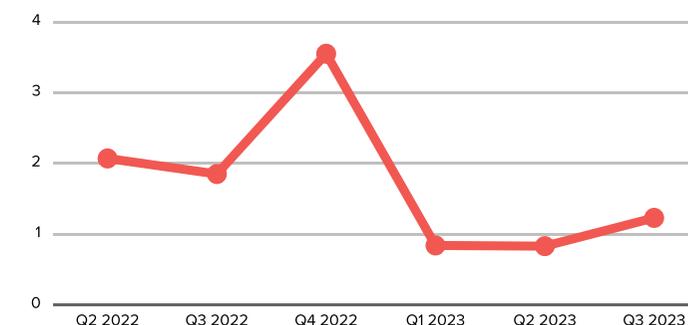
ABS Data for Victoria



Building Construction Change Per Annum

▲	1.69%	2020
▲	3.51%	2021
▲	12.79%	2022
▲	1.80%	2023

Non-Residential Building Construction Change Per Quarter



Building Construction – Victoria				Non-Residential Building Construction – Victoria			
		% Change per Quarter	% Change per Year			% Change per Quarter	% Change per Year
Q2 2020	112.8	0.36%		106.4		0.85%	
Q3 2020	113.1	0.27%		106.4		0.00%	
Q4 2020	114.1	0.88%	1.69%	107.2		0.75%	1.61%
Q1 2021	114.7	0.53%		107.3		0.09%	
Q2 2021	115.6	0.78%		108.2		0.84%	
Q3 2021	116.7	0.95%		108.5		0.28%	
Q4 2021	118.1	1.20%	3.51%	109.2		0.65%	1.87%
Q1 2022	121.3	2.71%		111.2		1.83%	
Q2 2022	126.3	4.12%		113.5		2.07%	
Q3 2022	129.8	2.77%		115.6		1.85%	
Q4 2022	133.2	2.62%	12.79%	119.7		3.55%	9.62%
Q1 2023	133.2	0.00%		120.7		0.84%	
Q2 2023	134.5	0.98%		121.7		0.83%	
Q3 2023	135.6	0.82%	1.80%	123.2		1.23%	2.92%

Source: <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release#construction>

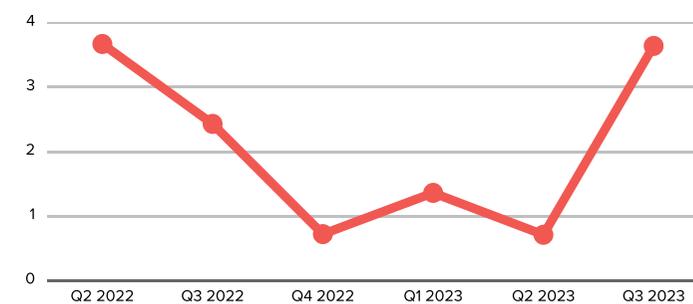
ABS Data for Queensland



Building Construction Change Per Annum

▲	0.58%	2020
▲	11.88%	2021
▲	11.50%	2022
▲	3.97%	2023

Non-Residential Building Construction Change Per Quarter



Building Construction – Queensland				Non-Residential Building Construction – Queensland			
		% Change per Quarter	% Change per Year			% Change per Quarter	% Change per Year
Q2 2020	120.1	0.17%		117.4		0.00%	
Q3 2020	119.4	-0.58%		116.5		-0.77%	
Q4 2020	121.2	1.51%	0.58%	118.0		1.29%	0.51%
Q1 2021	122.2	0.83%		118.8		0.68%	
Q2 2021	124.4	1.80%		120.8		1.68%	
Q3 2021	130.8	5.14%		126.5		4.72%	
Q4 2021	135.6	3.67%	11.88%	128.4		1.50%	8.81%
Q1 2022	139.7	3.02%		130.8		1.87%	
Q2 2022	146.1	4.58%		135.6		3.67%	
Q3 2022	150.1	2.74%		138.9		2.43%	
Q4 2022	151.2	0.73%	11.50%	139.9		0.72%	8.96%
Q1 2023	152.4	0.79%		141.8		1.36%	
Q2 2023	153.8	0.92%		142.8		0.71%	
Q3 2023	157.2	2.21%	3.97%	148.0		3.64%	5.79%

 Source: <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release#construction>

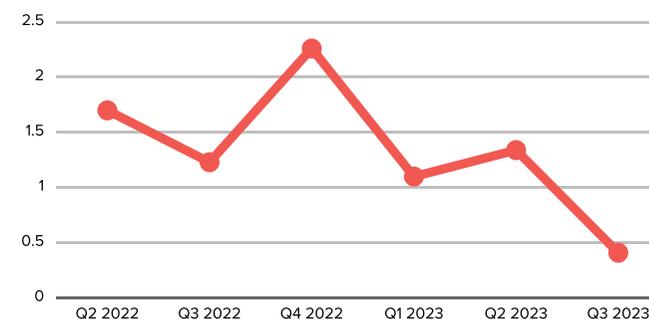
ABS Data for South Australia



Building Construction Change Per Annum

▼	-1.37%	2020
▲	7.32%	2021
▲	11.57%	2022
▲	4.33%	2023

Non-Residential Building Construction Change Per Quarter



Building Construction – South Australia				Non-Residential Building Construction – South Australia			
		% Change per Quarter	% Change per Year			% Change per Quarter	% Change per Year
Q2 2020	109.6	-0.18%		110.0		0.00%	
Q3 2020	107.5	-1.92%		106.9		-2.82%	
Q4 2020	107.9	0.37%	-1.37%	106.7		-0.19%	-2.82%
Q1 2021	109.4	1.39%		107.6		0.84%	
Q2 2021	110.7	1.19%		108.7		1.02%	
Q3 2021	112.6	1.72%		109.3		0.55%	
Q4 2021	115.8	2.84%	7.32%	110.1		0.73%	3.19%
Q1 2022	118.7	2.50%		111.9		1.63%	
Q2 2022	122.2	2.95%		113.8		1.70%	
Q3 2022	126.5	3.52%		115.2		1.23%	
Q4 2022	129.2	2.13%	11.57%	117.8		2.26%	6.99%
Q1 2023	131.4	1.70%		119.1		1.10%	
Q2 2023	133.8	1.83%		120.7		1.34%	
Q3 2023	134.8	0.75%	4.33%	121.2		0.41%	2.89%

Source: <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release#construction>

ABS Data for Western Australia



Building Construction Change Per Annum

▼	-1.37%	2020
▲	7.32%	2021
▲	11.57%	2022
▲	4.33%	2023

Non-Residential Building Construction Change Per Quarter



Building Construction – Western Australia				Non-Residential Building Construction – Western Australia			
		% Change per Quarter	% Change per Year			% Change per Quarter	% Change per Year
Q2 2020	103.6	0.68%		98.2		0.00%	
Q3 2020	105.1	1.45%		98.2		0.00%	
Q4 2020	106.8	1.62%	4.30%	98.7		0.51%	0.51%
Q1 2021	110.1	3.09%		100.6		1.93%	
Q2 2021	113.5	3.09%		103.7		3.08%	
Q3 2021	116.1	2.29%		107.1		3.28%	
Q4 2021	122.3	5.34%	14.51%	112.7		5.23%	14.18%
Q1 2022	128.5	5.07%		115.8		2.75%	
Q2 2022	132.1	2.80%		118.6		2.42%	
Q3 2022	133.6	1.14%		118.9		0.25%	
Q4 2022	133.9	0.22%	9.48%	118.3		-0.50%	4.97%
Q1 2023	134.6	0.52%		119.3		0.85%	
Q2 2023	134.7	0.07%		119.8		0.42%	
Q3 2023	137.1	1.78%	2.39%	120.7		0.75%	2.03%

Source: <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release#construction>

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