

Current And Future Market Escalation View – Q1 2023

The Australian construction industry over the last 18 months has faced unprecedented escalation due to domestic and international challenges, as well as supply chain and labour shortages, so how is 2023 shaping up?

We have seen some relief from continual rises and now stabilisation of all metallic trades (steel, aluminium, copper) as well as timber. There remains steep price fluctuations in plasterboard, laminate, glass, plastics, and special coatings (intumescent, galvanising) along with the cost of labour.

MBM views speculation on an impending recession or potential stagflation as unlikely, given the constant workflow that continues in the building industry from Government initiatives. We envisage

that escalation has likely hit a long-term peak as of Q3 2022, and a continuation of easing into 2023 is probable. Our perspective is informed by the Federal Treasury's publication of official inflation figures for Q4 2022 at 7.75%, with forecasted market price decreases over the next two years due to interest rate hikes. The Commonwealth Bank has similarly expressed confidence that inflation will soon lose its momentum. Adding to optimism, investment in supply chain repairs and extensions of building capacities are expected to further alleviate market demand pressures.

MBM View on Building Cost Escalation	2022	2023	2024	2025
New South Wales	9.5%	5.0%	3.0%	2.5%
Victoria	7.8%	6%	3.0%	3.0%
Queensland	10.9%	4.0%	3.0%	2.5%
South Australia	6.2%	4.0%	2.5%	2.5%
Western Australia	7.4%	5.5%	2.5%	2.5%

With the acute risk of an economic downturn, MBM's forward outlook predicts a greater easing of project escalation factors in 2024. However, we identify a weakening national currency (AUD) and industrial uptake trends of enterprise bargaining agreements (EBAs) as potential barriers to de-escalation. Subsequently, we forecast a resulting minimum escalation rate of 2-3% for 2024.

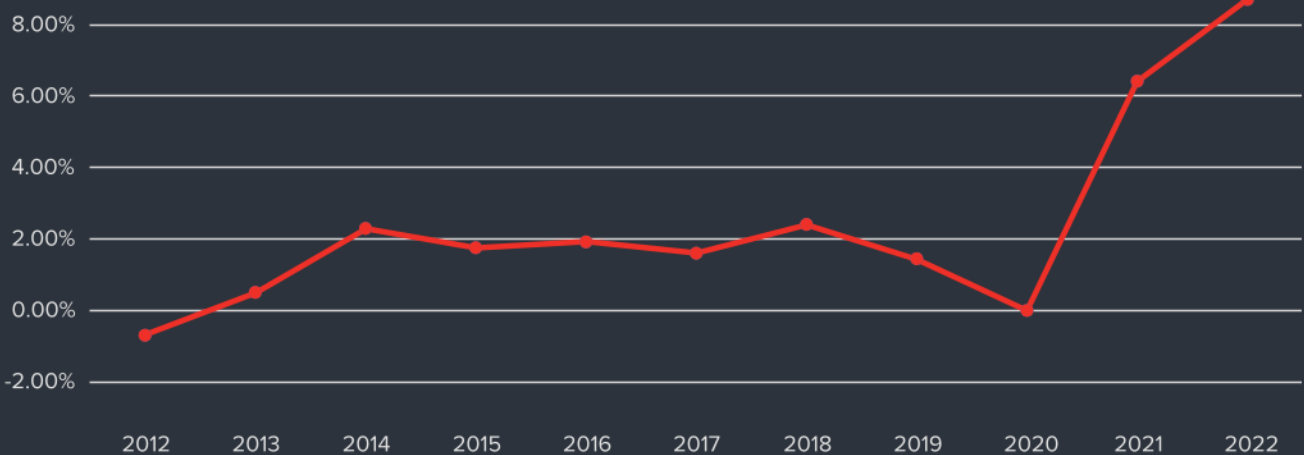
MBM anticipates a risk-averse approach from contractors through the incorporation of price adjustment contract conditions such as rise and fall clauses. The current peak of inflation and scarcity of skilled labour will continue to challenge the construction industry. While the public sector remains highly active, current economic and market conditions are affecting the viability of new private sector projects. Investment is decelerating due to the impacts of rapidly increasing interest rates, regressing property values and surging constructions costs.

MBM views the use of long lead item management and the utilisation of alternative contract structures, such as the early contractor involvement (ECI) model and construction management approach, to be beneficial in mitigating risk. Through appraisals of buildability and value management in preliminary design phases, cost and time overruns can be

minimised. This is highly effective for industrial projects where employing a modular design with commonly used products can substantially reduce fabrication expenditure. In addition, the use of lump sum fixed-priced contracts with greater detailed design and bills of quantities results in less risk of price increases during construction.

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Historic Construction Escalation in Australia



Non-residential building construction Australia

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

ABS Data for various states

ABS data indicates escalation peaked mid 2022 with the latest publication for Q4 2022 continuing the downward trend from the 2021/2022 financial year highs.

New South Wales	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%
Victoria	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%
Queensland	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%
South Australia	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%

Source: www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release#construction
Table 30 Contribution to input to the house construction industry index, weighted average of six state capital cities, index points

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