

Current And Future Market Escalation View – Q2 2023

Persistent high inflation and headline borrowing costs have been producing headwinds for the construction sector in Australia in recent times. The second quarter of 2023 has seen some relief on certainty around material lead times and pricing, however availability of skilled labour remains a major challenge set to continue throughout the year. The latest trends in CPI and BPI provide a sign that escalation is set to return to more normalised levels in the near future.

Building approvals have dropped to their lowest levels since 2012, having the greatest impact in the private sector with many developers proceeding cautiously resulting in the deferral of projects. However as we see contractors complete troubled projects delayed by escalation and wet weather over the past two years, there is a general optimism that projects won over the next 12 months will not be subject to the same level of risk. In the public sector, spending remains high which continues to pressure construction cost and labour availability in the short term.

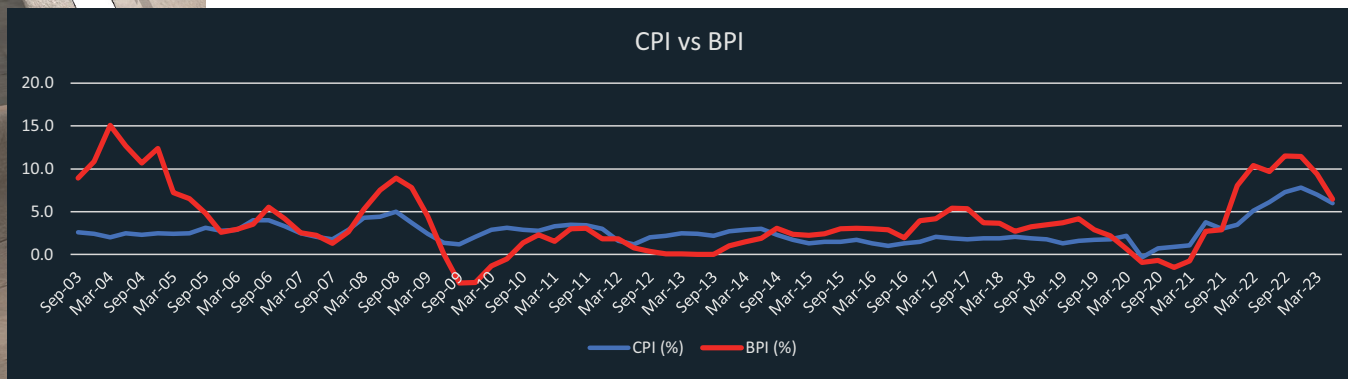
While it is viewed that construction cost escalation peaked in 2022, MBM continues to forecast

relatively high escalation figures for 2023 albeit at slowing rates. With all signs indicating a slowdown in construction activity during 2023 and a steady government spending pipeline, we foresee cost escalation to ease over the coming years.

Over Q1 and Q2 of 2023 we observed labour prices driving the majority of cost inflation, with the labour market expected to remain relatively tight over the next 12 months. Moderate material/commodity price increases have been offset by a large increase in wage growth, driven largely by a shortage of skilled labour. Published wage growth as at the beginning of 2023 was only 3.3%, while inflation was at 7.8%; this indicates a long way to go for wages to align with inflation. Published ABS unemployment rates remained at 3.5%, aligning with levels at the end of 2022 and with forecasts by the RBA to slightly ease to 3.9% by the end of 2023, and 4.4% by Q4 2024.

In the short term, we foresee a risk averse outlook from contractors moving forward, with price adjustment mechanisms such as “rise and fall” being included as negotiated conditions to tender pricing. Finding the right contractors

Headline Consumer Price Index vs Building Price Index (Mar '13 to Jun '23)



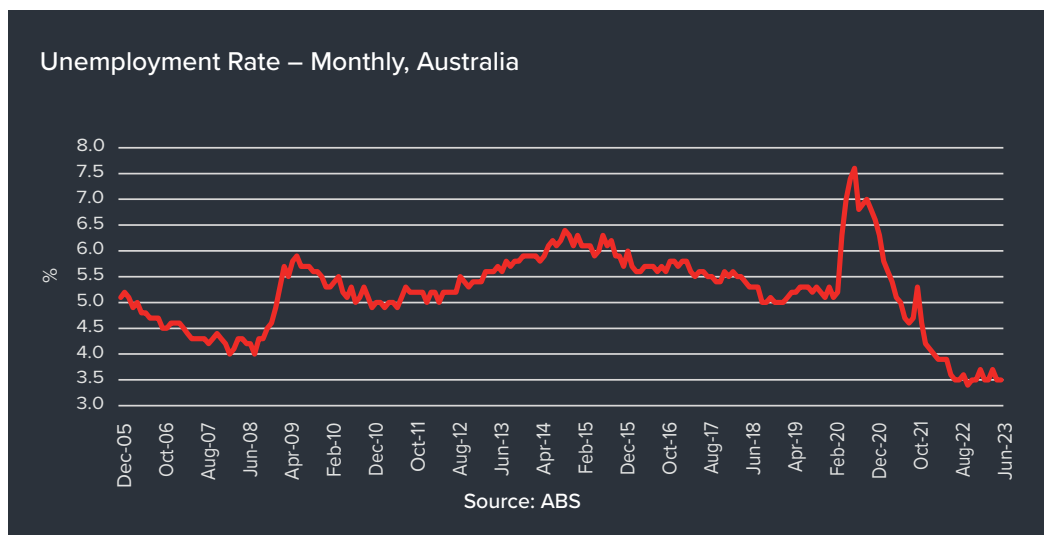
to suit the project size and nature will be vital to the project's success. Some contractors will prove proactive in their pricing, whilst others will exhibit an aversion to risk, relying on status of workbooks to provide competitive prices. While factors that influenced pricing in late 2021 to mid-2022 have subsided, inflation remains high and skilled labour availability will continue to be obstacles in the industry.

MBM's outlook is that escalation will continue at similar rates as published in Q1 and Q2 throughout the remainder of 2023, before easing off in 2024. Our current view is that high interest rates, continued high inflation, and higher construction costs have resulted in a slowing private sector investment while public sector remains highly active. With the current market conditions and increased uncertainty regarding economic outlook, viability and feasibility of new projects are being impacted.

Whole of Life / Facilities Management View – Q2 2023

We are continuing to see skills shortages amplify throughout the FM Industry resulting in increasing impacts on operations and costs to the FM Industry and Clients. Hays Salary Guide 22/23 reported that 61% of employers intended to increase permanent levels of staff and this has resulted in trending down on unemployment levels and higher salary expectations of employees. The higher-than-expected levels of returning overseas students and re-opening of borders is likely to see this situation ease over the next 6-12 months however MBM is seeing a number of government and private sector clients being approached for out of contract cycle increases of between 4 and 8% on long term FM contracts as CPI (a typical FM contract escalation measure) fails to keep pace with cost of living pressures.

| MBM View on Building Cost Escalation | 2022 | 2023 | 2024 | 2025 |
|--------------------------------------|-------|------|------|------|
| New South Wales | 9.5% | 6.0% | 3.0% | 2.5% |
| Victoria | 7.8% | 4.5% | 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% | 3.5% | 2.5% |



ABS Data for various states

| 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% |
| Q1 2023 | 153.6 | 2.33% | | 143.6 | 1.99% | |
| Q2 2023 | 155.3 | 1.11% | 3.46% | 145.4 | 1.25% | 3.27% |

| 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% |
| Q1 2023 | 133.2 | 0.00% | | 120.7 | 0.84% | |
| Q2 2023 | 134.5 | 0.98% | 0.98% | 121.7 | 0.83% | 1.67% |

| 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% |
| Q1 2023 | 152.4 | 0.79% | | 141.8 | 1.36% | |
| Q2 2023 | 153.8 | 0.92% | 1.72% | 142.8 | 0.71% | 2.07% |

ABS Data for various states

| 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% |
| Q1 2023 | 131.4 | 1.70% | | 119.1 | 1.10% | |
| Q2 2023 | 133.8 | 1.83% | 3.56% | 119.8 | 0.59% | 1.70% |

| Western Australia | 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% | 0.60% | 119.8 | 0.42% | 1.27% |

MBM – Australias most trusted and reliable quantity surveying and asset consultant

Established in 2002, MBM is a national independent professional services firm specialising in quantity surveying and asset consulting.

Our expertise ranges from quantity surveying, building consultancy, tax depreciation & asset services, PPP advice, infrastructure, facilities management advice and expert witness advice.

Our Escalation Experts



DAVID MADDEN
Founding Director
dm@mbmpl.com.au



KENNY TOPLIS
Executive Construction Economist
kenny.toplis@mbmpl.com.au



JUSTIN NOAKES
Director – Advisory
justin.noakes@mbmpl.com.au

Disclaimer: This document is provided for information purposes only and does not constitute professional advice. The reader (including third parties) must make and rely on their own inquiries as to the currency, accuracy and completeness of the information contained herein, and MBM shall not be liable for any losses or damages whatsoever, arising from the reliance on information contained in this document. This document must not be used other than with the express written consent of MBM.
Copyright © MBM Pty Ltd.

ADELAIDE

Level 5
60 Waymouth Street
Adelaide SA 5000
08 8223 3038
sa@mbmpl.com.au

BRISBANE

Suite 12.1 Level 12
100 Creek Street
Brisbane QLD 4000
07 3234 4000
qld@mbmpl.com.au

CANBERRA

Level 1
68 Northbourne Avenue
Canberra ACT 2600
02 6152 0996
act@mbmpl.com.au

MELBOURNE

Level 6
500 Collins Street
Melbourne VIC 3000
03 9603 5200
vic@mbmpl.com.au

PARRAMATTA

Suite 1A Level 8
111 Phillip Street
Parramatta NSW 2150
02 9270 1000
nsw@mbmpl.com.au

PERTH

Level 32
152 St Georges Terrace
Perth WA 6000
08 9322 1795
wa@mbmpl.com.au

SYDNEY

Level 5
1 Chifley Square
Sydney NSW 2000
02 9270 1000
nsw@mbmpl.com.au

Website

mbmpl.com.au

LinkedIn

[linkedin.com/company/mbmpl-pty-ltd](https://www.linkedin.com/company/mbmpl-pty-ltd)

