mbm

Escalation Update

FIRST QUARTER 2025

NAVIGATING THE ECONOMIC FORCES SHAPING ESCALATION IN THE AUSTRALIAN CONSTRUCTION INDUSTRY

Contents

National Outlook	3
Material Price Changes	6
2025 Escalation Outlook	7
Advisory Outlook	8
State Outlooks	
– New South Wales	10
– Victoria	12
– Queensland	14
– South Australia	16
– Western Australia	18
MBM Escalation Experts	20
MBM Locations	21

National Outlook

In the fourth quarter of 2024, national construction cost escalation slowed further from the unprecedented inflationary spikes in 2022 and 2023. The primary reason for inflation surges in recent years was supply-side factors including commodity market volatility, energy cost rises, and supply-chain disruptions.

While the global drivers of construction cost escalation see moderation, inflationary pressures persist due to domestic factors such as higher interest rates, labour shortages, and wage increases without productivity gains. In 2025, the construction industry hopes to experience strong productivity improvements to reduce the risks of significant reacceleration to cost escalation.

CPI Inflation versus Construction Cost Escalation

Historically, construction cost inflation has outpaced broader household-based inflation measures such as the Consumer Price Index (CPI). The difference arises because construction cost indices and the CPI measure fundamentally different things. The CPI focuses on a representative basket of goods and services purchased by households, while construction cost indices reflect movements in prices for construction inputs, including preliminaries and contractor margins.

Price movements for raw commodities like oil, coal, copper, and quarry products, as well as construction industry wages, heavily influence construction cost escalation. These factors make up a significant portion of total costs for construction projects and industry expenditure. As a result, commodities and wages have a greater impact than CPI, which continued to diminish from 4.1% in 2023 to 2.4% in 2024. MBM notes a slower reduction in construction cost escalation across Australia over the past year from 6.17% to 4.94% on average.

Current Outlook and Risks

During the second half of 2024, construction cost escalation levelled but remained relatively high. The market saw large price falls in key energy and metal commodities, with benchmark Brent oil prices expected to average a small drop through FY24 compared to the FY23 average. Coal prices have reduced by 15% over the past year, and LNG prices are expected to land around 25-30% less than the FY23 average.

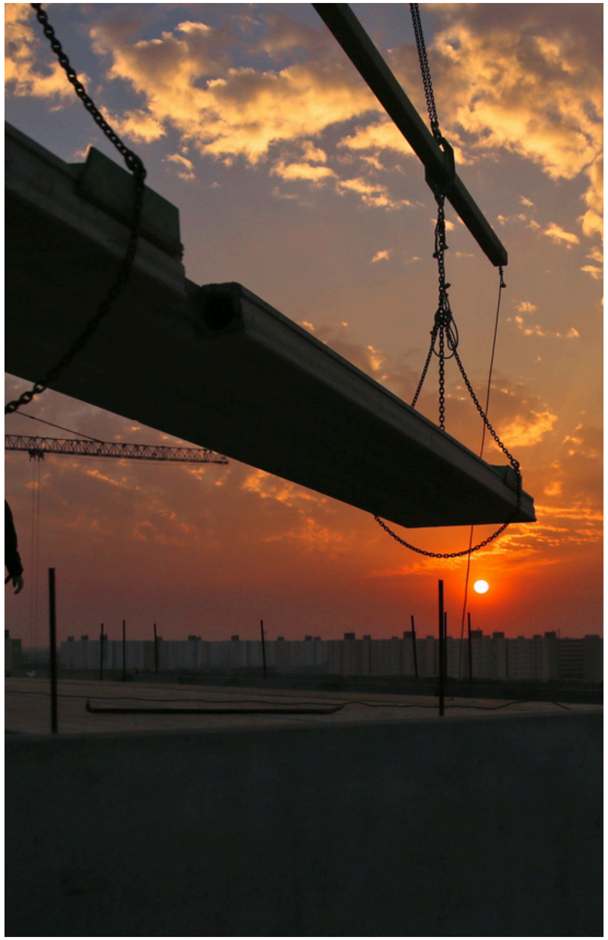
Prices for steel products, such as beams and sections, fell by 4% in the year to December 2024. Despite lower prices for several key inputs to the construction industry and a slowdown in construction cost escalation measures, prices continue to rise. However, the rate of increase has lost momentum, and a complete reversal is not expected.

Cost escalation moderation is offset by price acceleration for other inputs. Instead of international factors driving escalation, domestic price pressures now influence costs driven by strong demand for construction labour and local materials. The ABS Wage Price Index (WPI) shows that wage growth in construction has climbed from a low of 1.5% in 2020 to a high of 4.3% in late 2023, and 3.5% at present.

The national market observes a difference in wage growth across states, and some locations see higher rates such as Queensland.

National Outlook

Continued



Looking ahead, cost escalation shows a strong likelihood to remain elevated, even if the Reserve Bank of Australia successfully keeps CPI growth within the 2-3% target band. Many Enterprise Bargaining Agreements (EBAs) are now in place until 2026-27. As a result, large-scale projects with labour increases of 5-6% per annum over the next three years will witness an annual floor of 3% escalation.

Key Drivers of Potential Reacceleration

Wage growth in the construction industry is yet to fully reflect the impact of the latest inflationary episode. Over the next 12 to 18 months, more EBA renegotiations will attempt to recover the sharp falls in real wages experienced during 2022 and 2023. As agreements are restructured, contracts will gradually lock in relatively higher wage growth outcomes for several years, affecting employers' labour costs and project budgets across the industry.

Increased construction activity will be driven by strong targets for building new assets in housing, energy, water, transport, health, and education. It is also anticipated that new investments across the Defence industry, the resources sector, and the Brisbane Olympics will propel a substantial upswing in construction activity later this decade. The boost in construction activity will likely sustain demand-side price pressure on local construction wages and materials.

Sustainability initiatives to reduce carbon emissions in the construction sector are becoming more important as part of broader movements towards net zero.

However, the adoption of newer, sustainable low-carbon products and processes can involve a trade-off with costs in the short-term. Despite the initial financial impact, sustainability initiatives are essential to achieve long-term environmental goals and can lead to cost savings and operational efficiencies over time as the industry adapts and scales up sustainable practices.

Supply chain vulnerabilities, although significantly improved over the past 12 months, are likely to remain relatively 'thin' compared to pre-COVID times. Supply chains are prone to further disruptions or cost pressures from strong demand or future shocks, such as geopolitical events and greater trade protections. The impacts of the Trump administration are speculative but likely to be disruptive.

MBM View on Building Cost Escalation

	2024	2025	2026	2027	2028
NSW	5.5%	4.0%	3.5%	3.0%	2.5%
VIC	5.0%	4.0%	4.0%	3.5%	3.5%
QLD	6.5%	8.0%	7.0%	6.5%	6.5%
SA	5.5%	5.5%	5.5%	4.5%	4.5%
WA	5.0%	5.0%	4.5%	4.0%	3.5%

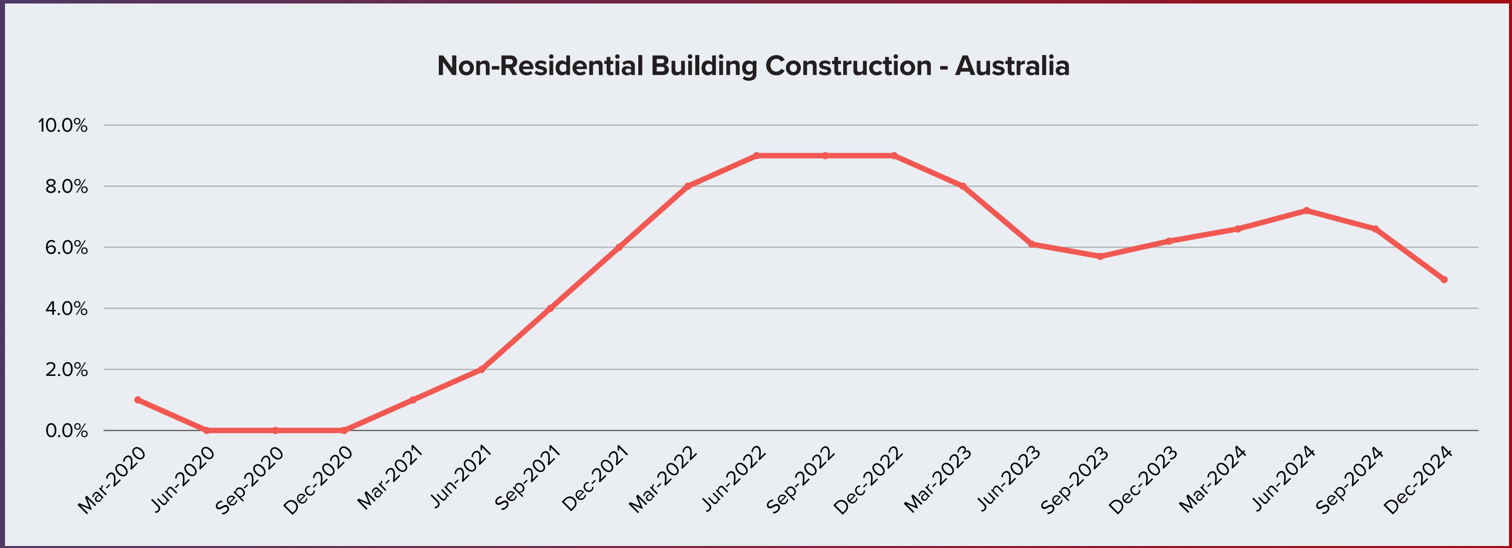
National Outlook

Continued

4.0%

Unemployment in December 2024

The unemployment rate in December 2024 remained steady at 4.0%. Despite ongoing demand for skilled workers, particularly in infrastructure projects, the sector continues to face challenges in attracting and retaining labour.



4.9%

Non-Residential Building Construction in 2024

Non-residential construction saw a boost in Q4 2024, particularly in New South Wales and Victoria, where the sector performed strongly. The 0.7% rise in costs was largely driven by an ongoing shortage of skilled labour and the continued high demand for government-funded projects in education, healthcare, and infrastructure. In contrast, Queensland's market faced a slowdown influenced by falling steel prices and increased competition for smaller projects.

Source: https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/latest-release

Material Price Changes Q4 2024

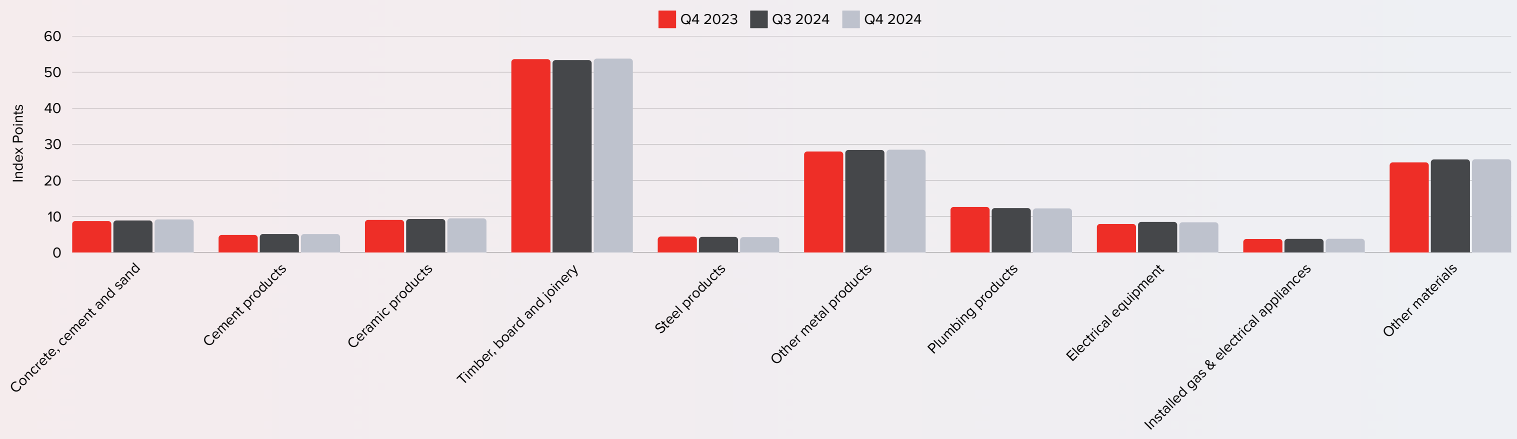
The recent price increases in concrete and electrical services can be attributed to rising material costs and higher labour expenses.

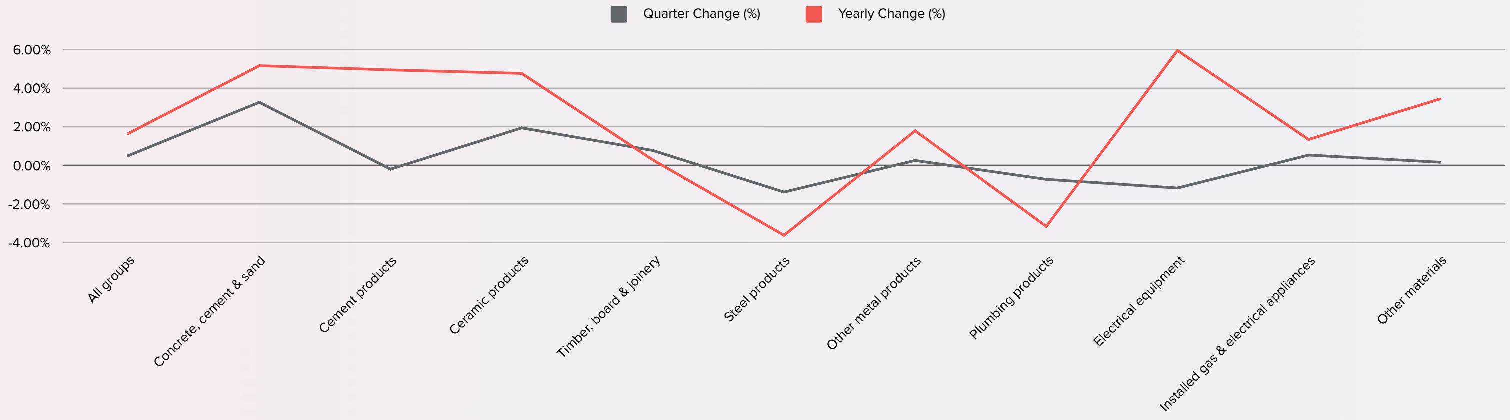
For concrete, the prices of key components such as cement, aggregates, and additives have risen due to global supply chain disruptions and increased demand from infrastructure projects. The price of cement has been affected by energy costs and shortages of critical ingredients.

For electrical services, the cost of key materials such as copper, wiring, and electrical components has also surged. Copper, in particular, has seen price volatility, driven by both global supply constraints and increased demand from sectors like renewable energy and electric vehicles, which compete for similar resources.

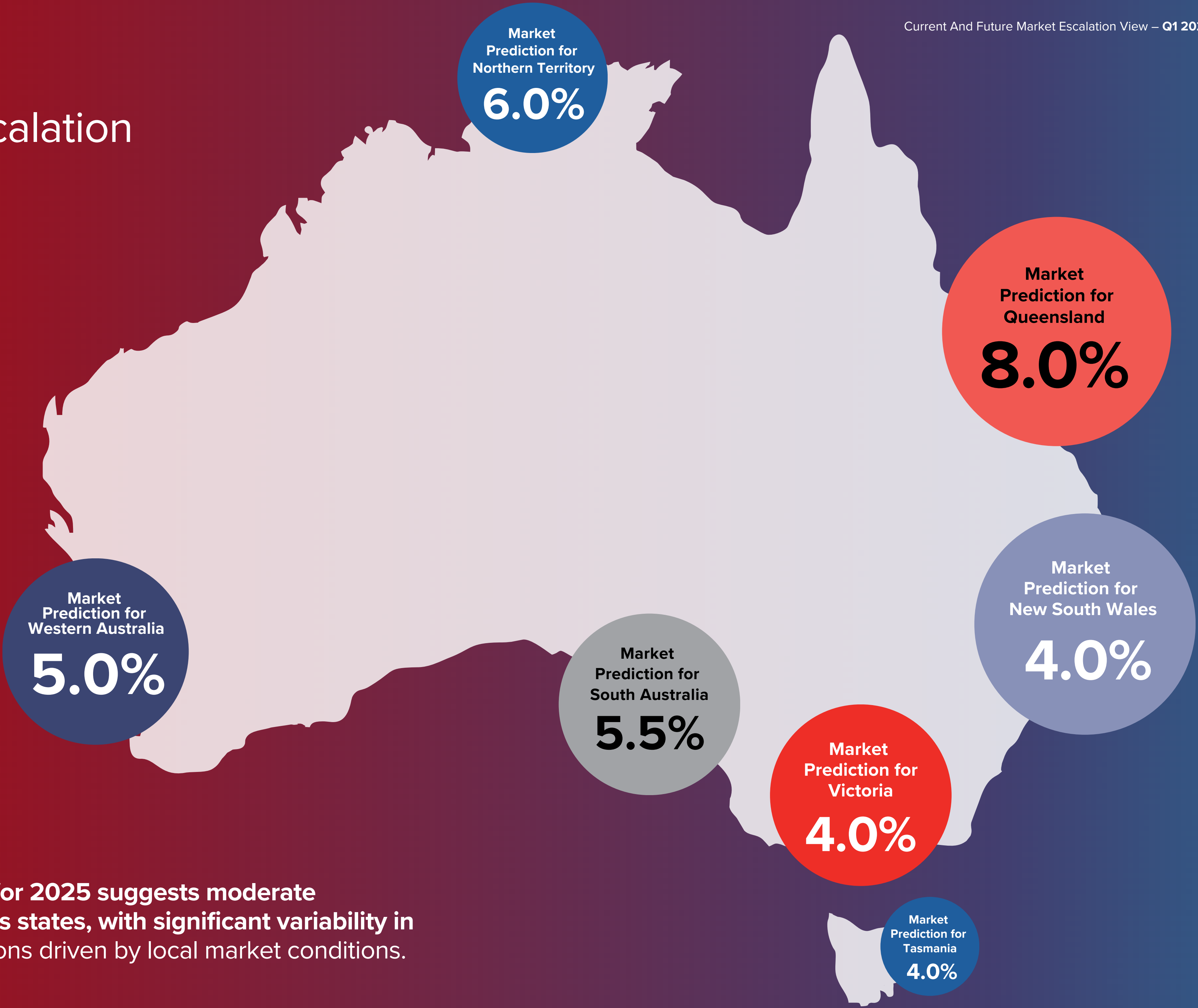
Source:
https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release

Table 30 Contribution to Input to the House construction industry index, weighted average of six state capital cities, index points





2025 Escalation Outlook

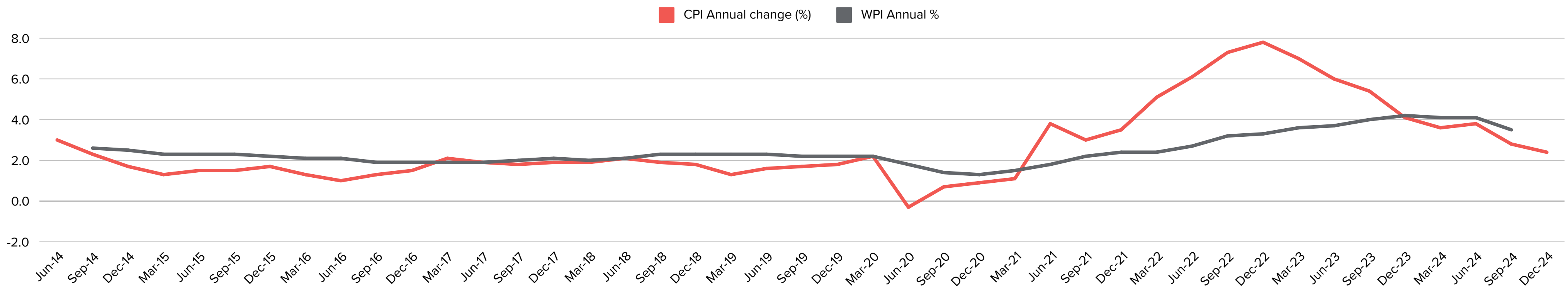


MBM's outlook for 2025 suggests moderate escalation across states, with significant variability in more active regions driven by local market conditions.

Advisory Outlook

The Consumer Price Index further declined following a three-year low with a slight rise of 0.2% to 2.4% from September to December 2024.

CPI vs WPI



Facilities Management (FM) contracts typically structure annual price adjustments to the Consumer Price Index (CPI). The CPI reflects the general cost of living and inflation which is used as a benchmark for contract price increases. However, a substantial portion of FM service costs are labour-driven with wages determined by award instruments that follow the Wage Price Index (WPI).

The current misalignment between CPI and WPI creates a widening financial gap for FM Service Providers. Reasons for the misalignment include enterprise agreements, skill shortages, and regulatory wage adjustments. The trend necessitates strategic adjustments to remain competitive and protect margins.

As WPI increases faster than CPI, FM providers experience higher operational costs without corresponding revenue growth that leads to margin compression and financial strain. Over time, the divergence is forcing service providers to either absorb the cost increases and reduce profitability, or renegotiate contract terms. Additionally, contract renegotiations may not always be feasible within rigid frameworks.

The above CPI vs WPI chart demonstrates the growing gap between wages and consumer inflation, and reinforces the need to review of FM contract pricing models. A potential solution could involve dual indexation, where both CPI and WPI are factored into contract price adjustments.

Alternatively, FM contracts could include cost escalation clauses that allow periodic wage adjustments in response to labour market shifts. The approach would reduce the risk of disparity and allow FM providers to minimise potential revenue shortfalls, reduced service quality, staffing challenges, and contract disputes.

A strategic review of FM pricing mechanisms is essential to ensure long-term financial sustainability and service delivery efficiency in the industry.

Source: https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/dec-quarter-2024

Advisory Outlook

The Facilities Management (FM) industry faces significant change due to evolving market dynamics, economic pressures, and advancements in technology. The FM supply market is poised for a consolidation phase in 2025 as organisations seek more efficient and cost-effective ways to manage assets in the face of tighter budget constraints and competitive pressures.

Instead of aggressively pursuing new contracts, FM providers are likely to focus on enhancements to transition processes and operational delivery. The change is driven by the growing importance of operational excellence as a differentiator in a competitive market. Providers are investing in streamlined onboarding and integration processes to minimise disruption and maximise efficiency for clients' long-term value and contract renewals.

FM supply market consolidation

The FM supply market will undergo a period of consolidation in 2025, with a shift in focus from winning new business to transition and operational delivery.

Limited large-scale FM opportunities

Large-scale FM opportunities are limited. FM contracts have either been awarded in 2024 or are being finalised in Q1/Q2 2025.

Cost optimisation

MBM sees a focus on cost optimisation as clients look at opportunities for efficiencies in their outsourced arrangements.

Decentralisation of FM services

Trend of FM service decentralisation for clients in most sectors, particularly in aged care, social and affordable housing, and higher education.

Tech-driven PPM scheduling

Technology continues to evolve with software automation and AI driving optimised PPM scheduling.

Facility Managers focus on upskilling

Facility managers are broadening their skill sets to become more versatile asset operators and practitioners that cover sustainability, governance, risk, performance, and value.

New South Wales

Outlook

-0.1%

**Sydney CPI
Q4 2024**

The seasonally-adjusted Value of Work Done in Q3 2024 was $12.5B - up 2.9% QoQ

6.64%

YoY (Q4) Non-Residential Building Construction Escalation

$4.93B
+7.6% QoQ

**Value of Non-Residential Building Approvals
Q3 2024**

Following the 2024 rise in escalation which reached 6.64%, the market is anticipated to stabilise within long-term averages of 2.5% to 3.5%. The shift towards more predictable growth reflects a recovery from the disruptions caused by supply chain challenges, material shortages, and labour constraints that characterised the previous years. The moderation of escalation rates, however, will not be uniform across all sectors and trades.

In 2025, a key trend set to influence the NSW construction industry is the sustained demand for certain asset classes, particularly those requiring complex installations such as data centres, hospitals, high-rise residential buildings, and schools. The sectors will continue to drive demand for electrical and mechanical services, which are expected to see escalation rates above the overall market average. The competition for specialist trades will intensify as the need for data centres grows in response to expanding digital infrastructure requirements.

The ongoing pressure on the availability of skilled subcontractors will keep prices elevated despite overall cost stabilisation in the broader market. The competitive nature of the tender market will remain strong during the first half of the year. Project deferrals, funding constraints, and cautious investor sentiments are likely to create an environment where contractors aggressively price tenders in order to secure work.

While this may reduce costs for some projects in the short-term, ongoing skilled labour shortages and regulatory changes could negate these savings later in the year. As 2025 progresses, rising demand for skilled workers and the continued effects of regulatory changes in areas such as safety and sustainability are likely to contribute to renewed upward pressures on costs. Labour shortages will remain a persistent issue for the construction industry, particularly in trades with already high demand. The trends will continue to challenge contractors as they work to maintain margins while managing the risks associated with a fluctuating market.

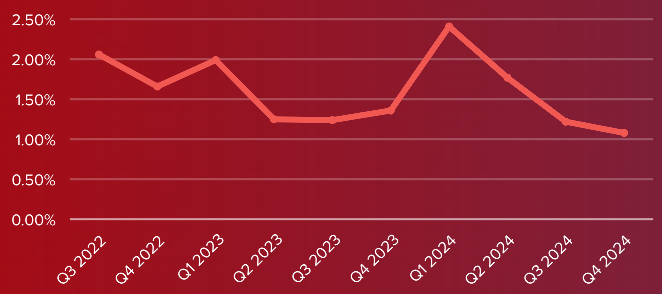
New South Wales

Outlook

ABS Data for New South Wales

Non-Residential Building Construction escalation showed moderation compared to the previous years. The annual escalation rate for 2024 reached 6.64%, a slight increase from 2023's 5.97%, but significantly lower than the 8.89% seen in 2022. The quarterly trends in 2024, particularly in Q4 (1.08%), reflect a continued decline from the previous year's rates, with Q4 2023 seeing 1.36%. The results speak to a general slowdown in cost increases following a peak in 2022 driven by supply chain disruptions and labour constraints.

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
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%		147.2	1.24%	
Q4 2023	**159.3**	**1.21%**	**6.13%**	**149.2**	**1.36%**	**5.97%**
Q1 2024	161.8	1.57%		152.8	2.41%	
Q2 2024	163.8	1.24%		155.5	1.77%	
Q3 2024	165.6	1.10%		157.4	1.22%	
Q4 2024	**166.4**	**0.48%**	**4.46%**	**159.1**	**1.08%**	**6.64%**

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

Victoria

Outlook

+0.1%

Melbourne CPI Q4 2024

The seasonally-adjusted Value of Work Done in Q3 2024 was $13.3B - up 0.7% QoQ

3.78%

YoY (Q4) Non-Residential Building Construction Escalation

$4.29B

+7% QoQ

Value of Non-Residential Building Approvals Q3 2024

The Victorian construction market sees strong competition among builders driven by uncertainty around future government and private sector pipelines. As builders seek to secure long-term workloads across multiple sectors, many are adopting assertive pricing strategies to remain competitive. Builder price strategies are particularly evident in tendering, where preliminaries and margin costs are softening and reflect the industry's push to win projects for workflow stability.

A key trend in costs has been the downward movement in steel, concrete, and plaster trades. The reductions provide some relief for builders facing margin pressure as materials availability is back to pre-pandemic levels. However, volatility persists in masonry and joinery trades for lower-tier contractors who may be managing supply chain inconsistencies or cash flow challenges. The impact of the fluctuations varies by project scale and contractor resilience, meaning cost savings in one area may be offset by unpredictability in another.

The long-term outlook remains uncertain despite the short-term trends given geopolitical influences. Factors such as the United State's (US) economic policy, domestic interest rate shifts, and global supply chain disruptions could significantly impact material costs and project feasibility. It is expected that US-imposed tariffs will have an impact, albeit low, on steel and aluminium. While some costs show signs of stability or reductions, ongoing international instability could reverse these gains and lead to renewed price volatility.

Moving forward, Victorian builders will likely need to balance competitive pricing with financial sustainability. With both considerations in check, builders can carefully navigate tendering strategies to remain viable amid ongoing market uncertainty. Those with stronger financial positions and diversified sector exposure will be better placed to weather potential disruptions and capitalise on emerging opportunities.

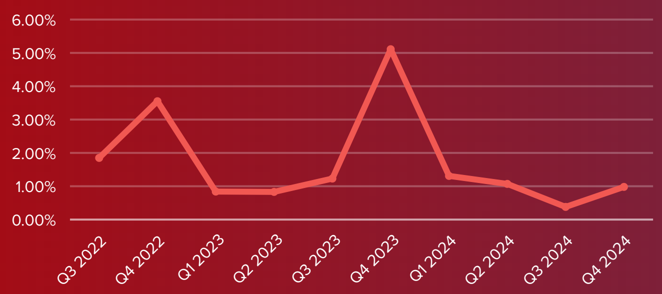
Victoria

Outlook

ABS Data for Victoria

Non-Residential Building Construction escalation experienced a notable decrease compared to 2023 and 2022. Quarterly escalation figures in 2024 remained relatively low with a total annual rise of 3.78%. The results show a significant drop from 8.19% in 2023 and 9.62% in 2022. The overall trend in 2024 reflects a more stabilised market from the return to predictable demand in some sectors and fewer significant disruptions in the global supply chain.

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
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%		123.2	1.23%	
Q4 2023	**140.5**	**3.61%**	**5.48%**	**129.5**	**5.11%**	**8.19%**
Q1 2024	142.1	1.14%		131.2	1.31%	
Q2 2024	143.3	0.84%		132.6	1.07%	
Q3 2024	143.9	0.42%		133.1	0.38%	
Q4 2024	144.3	**0.28%**	**2.70%**	134.4	**0.98%**	**3.78%**

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

Queensland

Outlook

+0.6%

Brisbane CPI
Q4 2024

The seasonally-adjusted Value of Work Done in Q3 2024 was $8.14B - down -0.5% QoQ

4.39%

YoY (Q4) Non-Residential Building Construction Escalation

$2.59B
+16.4% QoQ

Value of Non-Residential Building Approvals Q3 2024

The availability of skilled labour remains a critical factor influencing project timelines and costs in the region. With the official opening of Queen's Wharf, there is a perception of some available labour within the Southeast Queensland (SEQ) market. However, the surplus is likely to be short-lived as upcoming developments, particularly Dexus' Riverfront project, will absorb much of the workforce.

Escalation trends expect to remain relatively stable with price increases to be minimal for Q1 and Q2 2025. However, the 100-day review of government infrastructure investment is close to complete and MBM anticipates the announcement of several large-scale government projects in the second half of the year. These include key developments such as Queensland Education (QED) projects and the Olympic Games 2032 (OG'32) infrastructure.

As projects transition from planning to procurement, MBM expects construction costs to rise in Q3 and Q4 due to higher demand for materials and labour.

Conversely, government-funded projects show signs of uncertainty. Some initiatives, such as projects in the HIQ Capital Expansion Program (CEP), are reported to be delayed or shelved. Budgetary constraints and shifting government priorities will play a key role in which projects proceed.

The residential sector continues to face significant budgetary pressures that contribute to a sluggish market. The SEQ market requires a massive housing boost to accommodate population growth and planned infrastructure within seven years. However, funding gaps and greater construction costs remain key barriers to delivery.

In the commercial fitout sector, activity is steady with businesses reassessing space requirements post-COVID. Many building owners and portfolio managers have a focus on the repositioning of existing assets rather than pursuing new developments. Meanwhile, retail, aged care, defence, and housing remain low-activity sectors that reflect broader economic pressures and funding constraints.

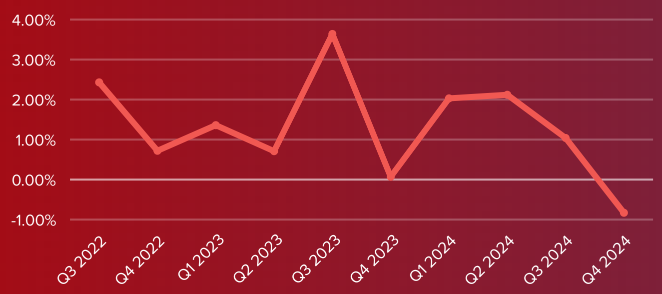
Queensland

Outlook

ABS Data for Queensland

Non-Residential Building Construction escalation hit negative numbers in Q4 2024 after several years of consistent quarterly and annual rises. The result took Queensland's construction escalation to 4.39% for 2024 - the lowest percentage increase since Q4 2020. The outcome signals a further easing of COVID-19 reverberations across the State's construction industry with a reduction from the 2023 escalation result of 5.86%.

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
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%		148.0	3.64%	
Q4 2023	**157.4**	**0.13%**	**4.10%**	**148.1**	**0.07%**	**5.86%**
Q1 2024	160.3	1.84%		151.1	2.03%	
Q2 2024	163.1	1.75%		154.3	2.12%	
Q3 2024	164.6	0.92%		155.9	1.04%	
Q4 2024	165.2	**0.36%**	**4.96%**	154.6	**-0.83%**	**4.39%**

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

South Australia

Outlook

-0.1%

**Adelaide CPI
Q4 2024**

The seasonally-adjusted Value of Work Done in Q3 2024 was $2.45B - up 2.2% QoQ

4.89%

YoY (Q4) Non-Residential Building Construction Escalation

$1.01B
-31% QoQ

**Value of Non-Residential Building Approvals
Q3 2024**

The construction sector anticipates some relief from the Reserve Bank of Australia's rate cuts in Q1 2025 and throughout the year, which could help reduce financing costs for both contractors and developers. However, continued government spending on major infrastructure projects such as the Torrens to Darlington (T2D) tunnel and the AUKUS submarine project in Adelaide will exert strong pressure on supply chains in terms of labour and materials.

The T2D project, which spans the next decade, will cause ripple effects. The relocation of businesses and landowners in the South Road area will further complicate logistical and financial aspects of construction. The submarine construction yard in Osborne will also demand substantial resources with material and labour supply being impacted by the mega project's scale.

Contractor trends in South Australia will continue to be driven by a high volume of government spending in health, education, and social infrastructure. The government's increasing investment in key sectors, particularly early childhood education, will lead to major projects coming to market. However, the knock-on effect will further impact contractor trends and labour shortages across trades, with more challenges for South Australia's specialist trades.

The growing demand for both materials and skilled labour will continue to drive up costs with material prices and labour pricing both on the rise. With no new or tightened regulations on the horizon for 2025, the ongoing strain on supply chains and labour availability will be the primary factors that influence construction escalation in the region.

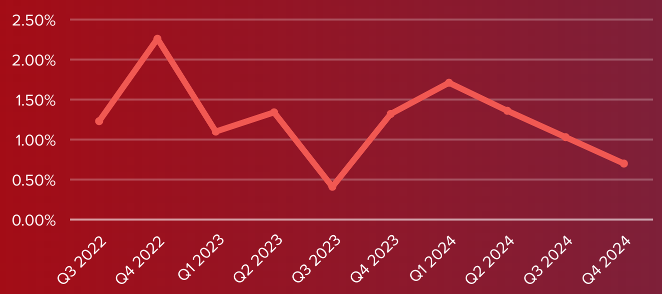
South Australia

Outlook

ABS Data for South Australia

Non-Residential Building Construction escalation dropped largely in Q4 2024, showing a departure from the Q1 to Q3 results across the year. The 0.70% increase is one of the smallest quarterly rises in the past four years, which may be due to seasonal or project factors. The increase in annual construction escalation landed at 4.89% for 2024. Although the percentage is a slight jump from the 2023 results, the South Australian market displays low volatility.

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
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%		121.2	0.41%	
Q4 2023	**136.7**	**1.41%**	**5.80%**	**122.8**	**1.32%**	**4.24%**
Q1 2024	138.6	1.39%		124.9	1.71%	
Q2 2024	141.7	2.24%		126.6	1.36%	
Q3 2024	142.5	0.56%		127.9	1.03%	
Q4 2024	142.0	**-0.35%**	**3.88%**	128.8	**0.70%**	**4.89%**

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

Western Australia

Outlook

+0.7%

Perth CPI
Q4 2024

The seasonally-adjusted Value of Work Done in Q3 2024 was $4.05B - up 5% QoQ

5.41%

YoY (Q4) Non-Residential Building Construction Escalation

$1.47B
-23% QoQ

Value of Non-Residential Building Approvals Q3 2024

The Western Australian (WA) construction industry presents a mixed but largely optimistic outlook for early 2025. A significant sector driver will be the upcoming WA State General Election in March 2025, which could influence policy direction and funding allocations in infrastructure and housing. Notably, the *Build a Life in WA Incentive* aims to attract tradespeople to the state. The program addresses ongoing labour shortages and could increase the available workforce to support project delivery.

In the health sector, construction demand bolsters both public and private developments. Major projects signal long-term activity in the space with redevelopment works underway at Geraldton, Joondalup, and Bunbury Health Campuses, and the $1.8B Mothers and Babies Hospital at Fiona Stanley Hospital set to begin in two years. The government's commitment to regional and mental health projects will sustain activity, and steady demand for new health facilities drives a constant flow of work in the private sector.

WA's housing sector remains strong, though the market shows signs of slowing price growth. Supply challenges are evident and exacerbated by labour shortages. However, apartment construction and social housing projects are expected to fuel consistent demand, and WA's commitment to the delivery of social and affordable housing across the state is critical for maintaining the sector's momentum.

In commercial and industrial sectors, there is a noticeable shift. While commercial demand has softened, industrial construction remains strong. Major development activity in the WA market will be fueled by Perth Airport's $5B redevelopment and the increasing demand for student accommodation.

While WA's construction sector is set for steady growth, labour shortages continue to present risks, impact delivery timelines, and contribute to price increases across the board.

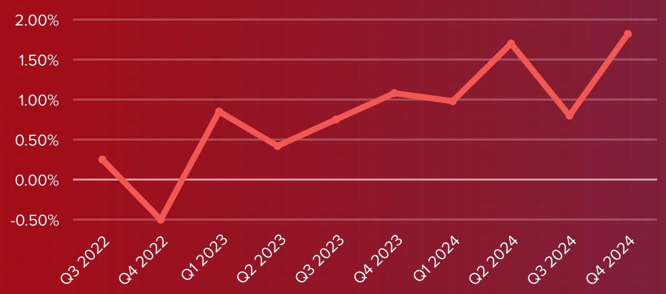
Western Australia

Outlook

ABS Data for Western Australia

Non-Residential Building Construction escalation jumped to the highest point throughout 2024 at 1.82% in Q4. The more than double increase from Q3 comes after two years of relative easing across the WA construction industry. However, the trendline shows a steady increase in quarterly escalation since Q3 2022, with WA seeing the annual escalation rate grow to 5.41%.

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
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%		120.7	0.75%	
Q4 2023	**141.8**	**3.43%**	**5.90%**	**122.0**	**1.08%**	**3.13%**
Q1 2024	145.2	2.40%		123.2	0.98%	
Q2 2024	150.2	3.44%		125.3	1.70%	
Q3 2024	153.9	2.46%		126.3	0.80%	
Q4 2024	**155.9**	**1.30%**	**9.94%**	**128.6**	**1.82%**	**5.41%**

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

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