mbm

Escalation Update

THIRD QUARTER 2025

NAVIGATING THE ECONOMIC FORCES SHAPING ESCALATION IN THE AUSTRALIAN CONSTRUCTION INDUSTRY

Contents

National Outlook

Kenny Toplis
Associate and Construction Economist

The Australian construction industry outlook remains positive with the Australian Construction Industry Forum (ACIF) forecasting 1.9% growth in construction activity across 2025–26. The rise is a combination of interest rate eases, strong population rises, and a renewal of private and public investment. The market predicts large-scale projects, such as data centres, transport upgrades, and social infrastructure, to underpin activity while residential construction shows signs of recovery after a period of stagnation. At the same time, the industry continues to navigate challenges like workforce shortages, material price volatility, subcontractor insolvencies, and productivity constraints.

Skilled Labour Availability

Labour supply continues to challenge the sector. The industry faces a skills shortage, particularly across specialist trades, project management, and engineering roles. Migration policies and government investment in vocational training provide some relief, and states like Western Australia will commit additional funds to workforce and skills development. However, demand outstrips supply, particularly with major infrastructure, defence, and resource projects drawing on the same talent pool. Labour pressures risk on flows to wage escalation and project delays if not carefully managed.

Material Availability

Australia's construction sector continues to grapple with cost elevation despite a stabilisation of global commodity prices compared to the extreme volatility experienced in recent years.

Steel, concrete, and timber prices sit above historical averages, while market demand for sustainable and low-carbon materials drives higher premiums. Builders and developers increasingly turn to long-term procurement contracts and local manufacturing capacity to manage risks. The industry foresees government policy incentives for recycling and alternative building materials to support cost control and sustainability outcomes in the medium term.

Supply Chain and Geopolitical Risks

The global construction supply chain continues to feel the pinch of geopolitical tensions, trade disputes, and freight disruptions. Uncertainties in regions like the South China Sea and Europe highlight trade vulnerabilities. Australia's construction industry exposes itself to delays due to a reliance on imported components for mechanical, electrical, and specialised fitout works. In response, some state governments actively encourage onshore manufacturing of construction inputs, with data centre and defence projects often specifying local supply as part of procurement.

Inflation and Consumer/Business Sentiment

The optimistic consumer and business sentiment ties in closely to expectations of inflation eases and lower interest rates in late 2025. Confidence in the housing market shows a slow return with first-home buyer schemes, build-to-rent tax concessions, and low-deposit loan programs set to boost stronger residential demand.

National Outlook

Continued

Non-residential projects, including commercial refurbishments and energy infrastructure, are the focus of corporate investment flows. While affordability concerns remain acute, particularly in housing, the broader economic environment is forecast to provide a more stable foundation for the industry in the next six months.

Construction Activity

According to the latest ABS data, dwelling commencements rose by 11.7% in the March quarter with contributions from both house and apartment starts to growth. Building approvals surged in June 2025 for the non-house dwelling category and point to a strong pipeline of future work. State infrastructure budgets will further boost activity. Queensland has allocated nearly $4B to Olympics-related projects, Victoria prioritises major transport and road upgrades, and Western Australia will invest $38B into its health, education, housing, and utilities sectors. Collectively, Australia's state government commitments will fuel a robust pipeline across residential, commercial, and public infrastructure markets.

Contractor Solvency and Industry Risk Profile

Despite strong demand, the construction sector continues to face contractor solvency risks due to thin margins, fixed costs increases, and payments delays. Builders are selective with tenders, and prioritise clients and projects with clear funding and risk-sharing mechanisms. While risks persist, proactive financial management and greater transparency have helped to restore confidence across the market.

Outlook

Looking ahead, the Australian construction industry enters the 2025-26 financial year with greater momentum and cautious optimism. The sector expects solid growth from a rebound in residential activity, strong government infrastructure commitments, and greater private investment across sectors like data centres, energy, and logistics.

As the sector stares down challenges including labour supply, cost management, and contractor solvency, careful risk mitigation and innovative delivery models can support better project outcomes.

MBM View on Building Cost Escalation

	2024	2025	2026	2027	2028
NSW	5.5%	4.0%	3.8%	3.5%	3.5%
VIC	5.0%	4.0%	4.0%	3.5%	3.5%
QLD	6.0%	6.0%	8.0%	8.0%	8.0%
SA	5.5%	5.5%	5.5%	4.5%	4.5%
WA	5.0%	5.0%	4.5%	4.0%	4.0%

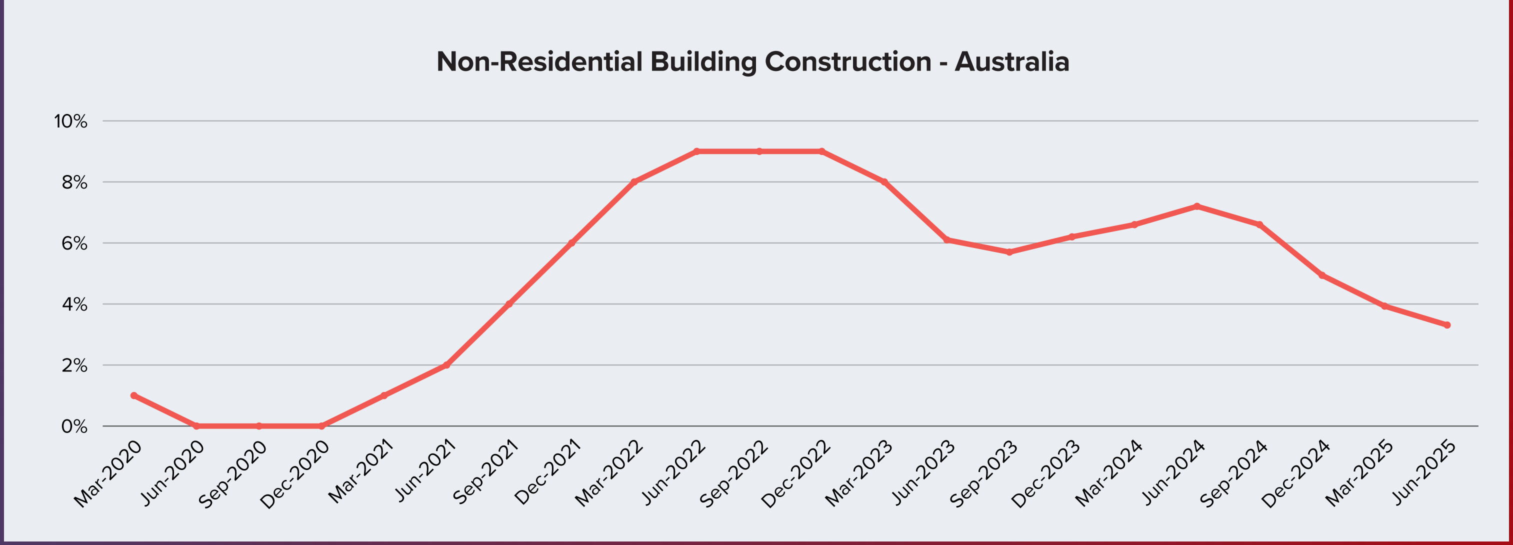
National Outlook

Continued

4.2%

Unemployment in July 2025

The unemployment rate in July 2025 maintained the recent increase of 4.2%. Australia's construction industry grapples with skilled labour shortages, particularly in the private sector, as major government projects attract workers.



3.31%

Y-o-Y Non-Residential Building Construction (Q2 2025)

In June 2025, input prices for non-residential building construction rose by 0.9% and drove a year-on-year rise of 3.31% nationally. The rise reflects labour cost increases for workers on large construction developments with key enterprise agreements. Public sector activity in non-residential and infrastructure markets kept competition high for limited labour and concrete supplies, alongside electrical services constraints.

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

Material Price Changes Q2 2025

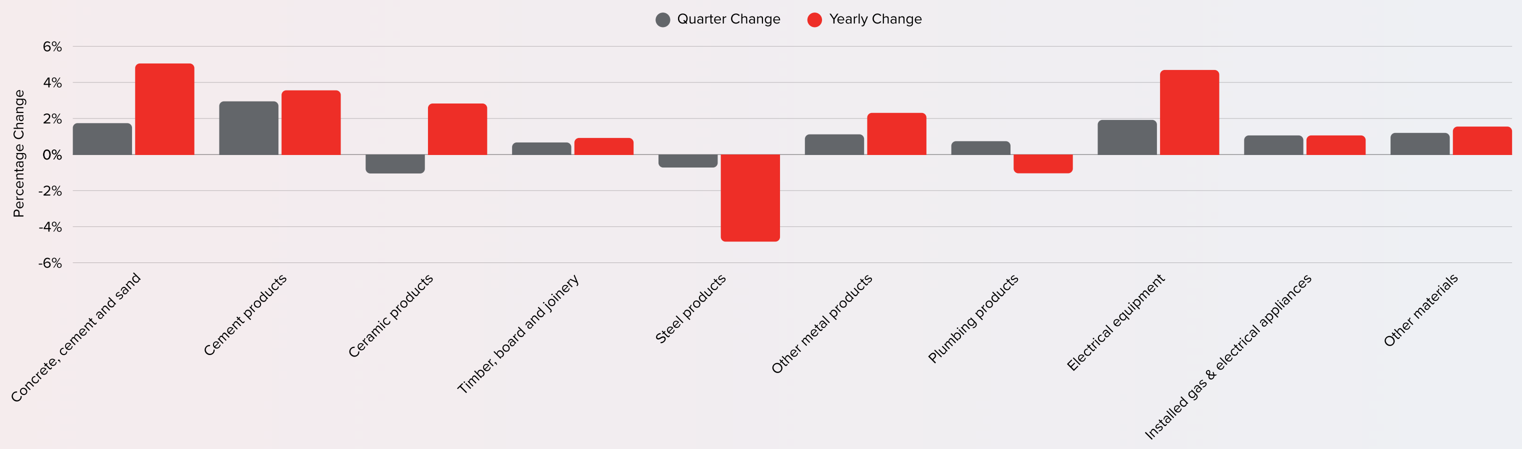
In June 2025, quarterly input prices to construction rose by 0.90%. The sectors biggest contributors to the cost increase include wood, metal, and plaster products.

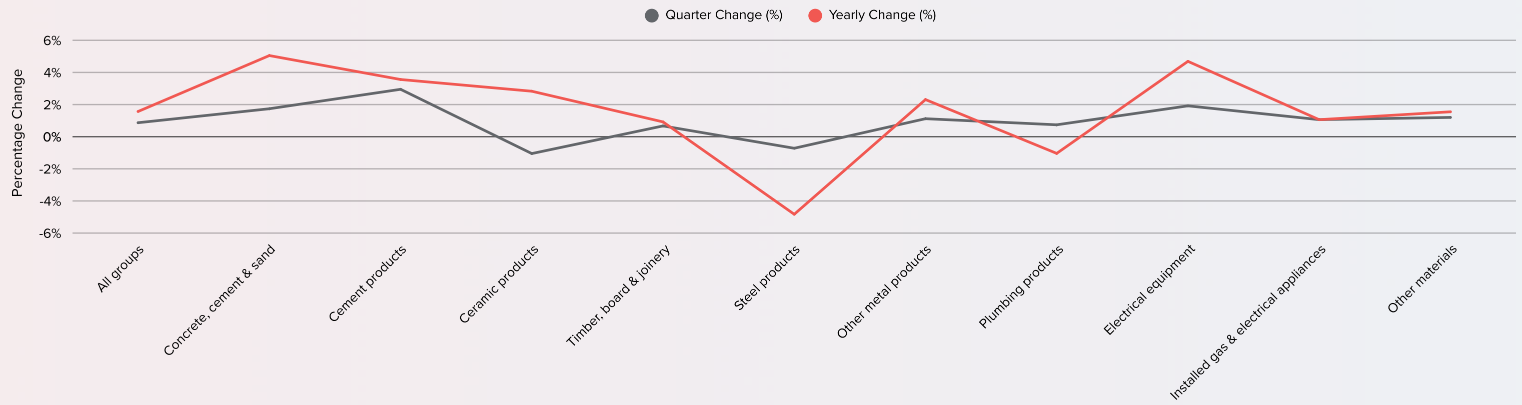
Timber, board, and joinery costs rose 0.7% as a result of global supply chain uncertainty and limited domestic timber availability. Other metal products climbed 1.1% driven by higher aluminium window and door prices as elevated raw material costs from recent quarters flowed through to fabricated products.

Year-on-year, sector input prices rose 1.6%. Materials such as ceramics bounced back from earlier increases in 2025, down -1.0% and -2.4% for clay bricks. The result reflects a construction market that still faces cost pressure from supply-chain volatility and elevated raw material prices.

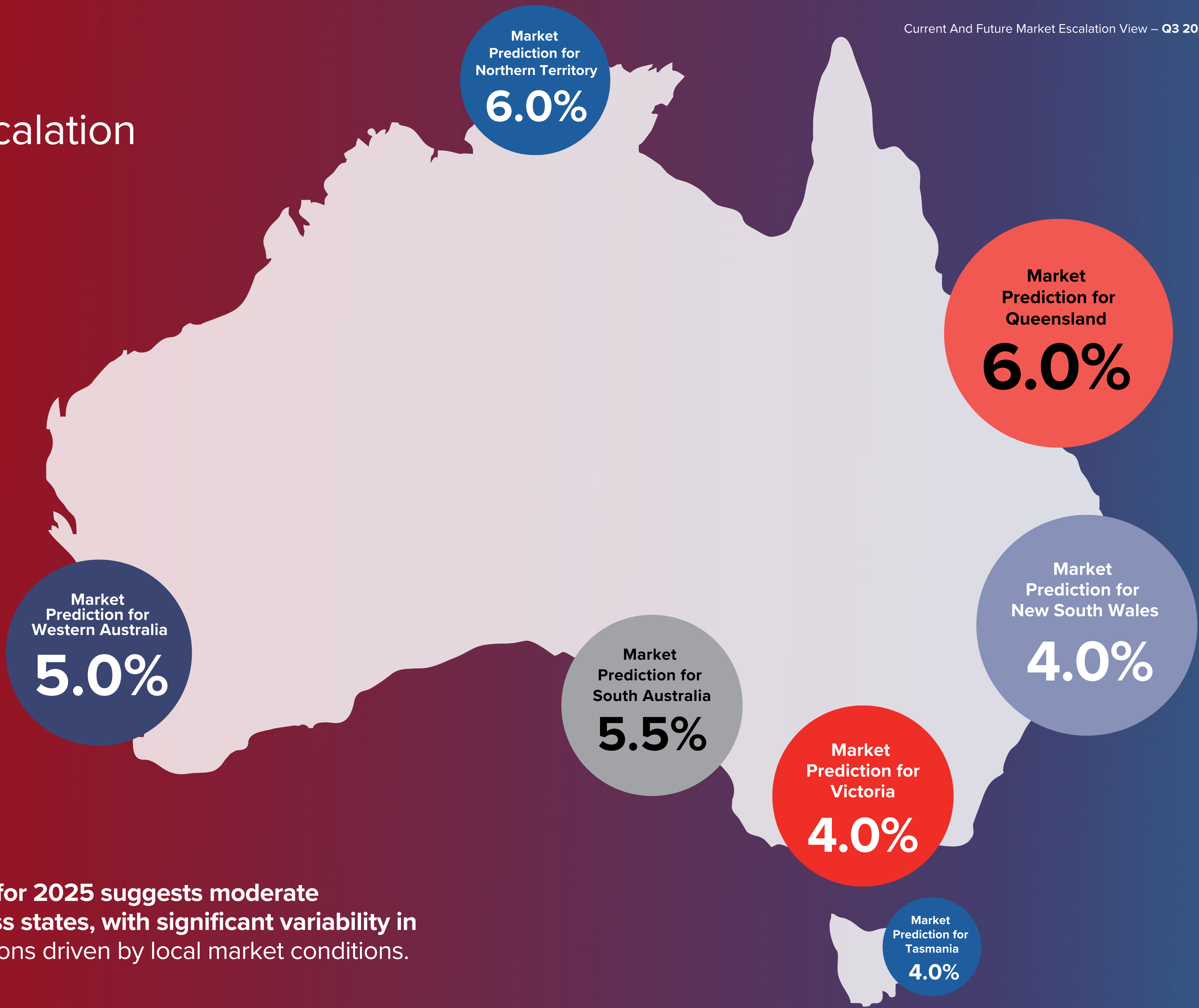
Source:
https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release

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





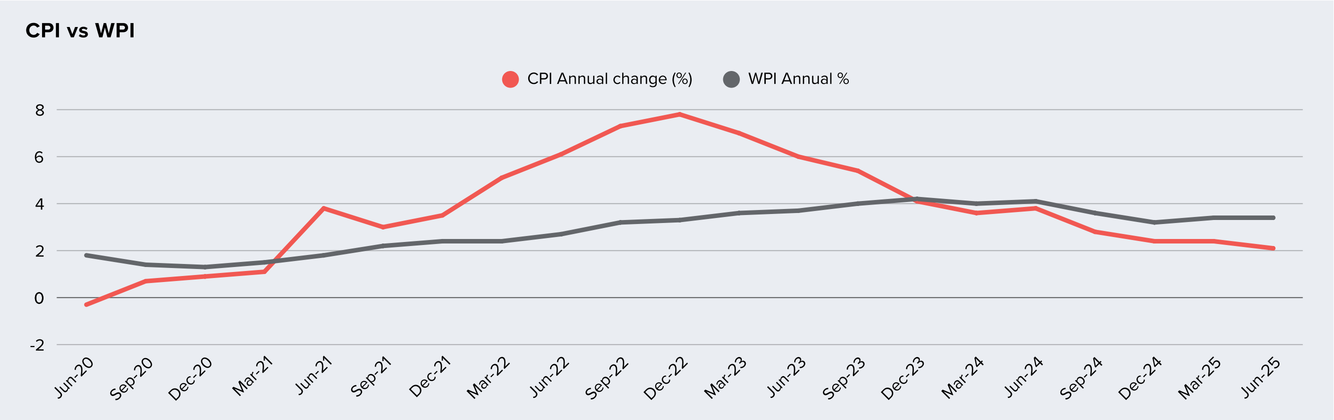
2025 Escalation Outlook



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

Asset and Facilities Management Outlook

The Consumer Price Index rose 0.7% in the June quarter with a further slowdown in year-on-year inflation at 2.1% since June 2024.



Justin Noakes
Director

Ujwal Lakra
Director

Government spend continues to underpin growth in the facilities and asset management (AM/FM) sector from investment in infrastructure upgrades, health, education, and social housing programs. Queensland leads the charge with regional development programs and preparations for the 2032 Olympic Games. The Government's initiatives create long-term demand for outsourced AM/FM services to manage, maintain, and optimise assets.

Across Australia, state governments hold a focus on energy efficiency, sustainability targets, and lifecycle asset management. The key areas shape AM/FM contracts with performance-based models and data-driven reporting increasingly woven into terms. AM/FM providers hold a strong foundation of demand from sustained spend in the state government pipelines despite broader economic pressures.

Labour availability remains a key challenge for the sector. While Facilities Managers express general job satisfaction, many report a high workload due to small teams and competing priorities. AM/FM operations report strain from skills shortages in technical trades like electrical, HVAC, and building automation. The next generation show interest in AM/FM careers from clearer tertiary pathways, vocational programs, and greater recognition of the profession.

The Wage Price Index (WPI) rose 3.4% over the 12 months to June 2025, and wage pressure is evident across both management and frontline roles. Wage growth is likely to remain high into late 2025 from surges to living costs and competition for skilled workers. In response, employers invest in automation advancement, AI integrations, and shift human resources to more strategic work.

The AM/FM industry in Australia and New Zealand is forecast to reach $32B by 2033. The sector's priorities include energy management, sustainability, and smart building technologies to reduce emissions and costs. The industry continues to evolve with AI adoption for predictive maintenance, analytics, and tenant experience, though integration remains complex.

Despite economic headwinds, AM/FM budgets are holding steady or increasing. Client investment reflects confidence in the sector's resilience and its critical role in productivity, sustainability, and compliance. The AM/FM industry is well-positioned for sustained growth with strong government investment, rising demand for outsourced services, and continuous innovation.

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

Building Consultancy Outlook

Gabi Davies
Executive Building Consultant

Australia's building consultancy sector operates in complex inflationary environment with cost escalation, delayed supply chains, and changes to regulatory requirements that impact both make good obligations and capital expenditure (CAPEX) planning.

As consultants advise landlords and tenants on asset lifecycle, maintenance, and reinstatement obligations, current escalation trends will influence the delivery of accurate cost advice, risk mitigation, and asset value preservation.

Escalation in Material and Labour Costs

Surges to labour and construction material costs remain the largest driver of uncertainty in the current market. Price benchmarks that held steady in previous years are now out of date, and historic make good schedules risk underestimations to reinstatement costs at lease expiry.

Building consultants work in close collaboration with in-house quantity surveying teams to update estimates. By contrast, CAPEX budgets prepared 12–24 months ago can become outdated and obsolete. For landlords, periodic reforecasts are imperative to reflect real-time market rates, particularly for major capital projects including façade renewals and services upgrades.

Extended Lead Times and Supply Chain Delays

Longer global and domestic lead times for plant, fittings, and façade materials continue to disrupt delivery programs. Reinstatement make good works that were once straightforward now face higher costs and longer timeframes, particularly on larger projects. Supply chain delays contribute to more uncertainty in cost estimates.

Prolonged lead times also affect major refurbishment CAPEX programs on large-scale assets. In addition to inflation allowances, CAPEX budgets must now carry contingency for items such as scaffolding, craneage, and licensing, particularly on CBD buildings where disruption risk adds further cost.

Deferred Maintenance During Tenure

Tenants who seek to reduce operational expenditure frequently defer maintenance during lease terms in a bid to save costs. However, the strategy increases the deterioration of finishes and services, and can escalate end-of-term liability and make good costs.

The trend also skews CAPEX forecasts as landlords may inherit additional reinstatement responsibilities above typical wear-and-tear assumptions. Consultants now advise clients to track tenant maintenance obligations in accordance with the lease to avoid larger rectification works at lease end.

Regulatory and Compliance Changes

Higher safety, accessibility, and energy efficiency standards mean buildings regularly require unplanned upgrades to remain compliant. As a result, reinstatement works at lease expiry are increasingly broad in scope and can involve a wider range of items than previously expected, depending on the lease terms.

However, whether these upgrades fall to the landlord or tenant often depends on the specific terms and liabilities outlined in the lease agreement. On the CAPEX side, design changes linked to updated building codes and client driven sustainability targets feed into investment planning together with project scheduling.

Outlook

Looking ahead, a key factor to consider is that escalation will continue to fluctuate over time. Building consultants should adopt agile forecasting approaches with routine reviews of price assumptions, greater contingencies, and collaborate with in house quantity surveying teams.

Those who can provide proactive, real-time advice on make good, lifecycle CAPEX, and compliance obligations will be best positioned to support their clients across Australia's property market.

New South Wales

Outlook

Kenny Toplis
Associate and Construction Economist

+0.6%

Sydney CPI
Q2 2025

The Value of Construction Work Done in Q1 2025 was $21.2B - down -1.3% QoQ

0.87%

Q2 Non-Residential Building Construction Escalation

$6.99B

Value of Non-Residential Building Approvals
Q2 2025

The New South Wales (NSW) construction industry remained relatively stable in Q2. The industry foresees ongoing stability in the second half of 2025, despite persistent escalation pressures in key sectors. Major road and rail programs drive strong demand for resources, and absorb high labour and materials. The projects create upward pressure on costs for residential and commercial developments, which compete for the same skilled trades. Sydney's commercial sector sees stronger competition among contractors, particularly within the CBD and Circular Quay, which pushes modest cost escalation to refurbishments and fitouts.

Labour shortages in NSW remain a critical escalation factor. In regional areas, a surge of worker migration creates an oversupply in some commercial trades, but acute shortages in high-demand specialised sectors, such as data centre construction. Tier 2 builders fight hard for work, but subcontractor caution and insolvencies create shaky ground in the market. Labour imbalances and weaker confidence contribute to higher wage costs in specialised areas, while general trades face moderate escalation pressures.

Public sector investment continues to underpin the NSW construction pipeline. Education, health, and infrastructure projects provide a steady work flow and stabilise market activity despite softer private sector conditions. Government-backed initiatives help maintain contractor engagement and mitigate some of the escalation headwinds experienced in the private sector. Moderate inflationary pressures persist driven by labour shortages, competitive contractor markets, and ongoing supply chain sensitivities. Material costs are fuelled by domestic demand and international market volatility that may affect imports.

Looking forward, the NSW construction industry presents a stable but cautious escalation environment. Developers may remain conservative in the short-term from uncertain feasibilities and returns. However, the market has a solid foundation for growth from strong public sector investment, a resilient commercial office market, and Sydney's position as a development hub. The city is set for growth in mixed-use, commercial, and residential projects if the economy and interest rates improve.

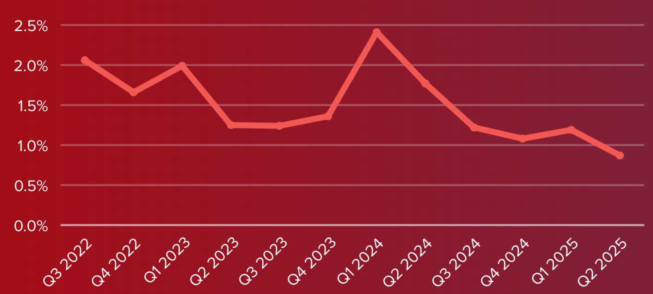
New South Wales

Outlook

ABS Data for New South Wales

Non-Residential Building Construction escalation rose by 0.87% in Q2 2025 and kept in theme with a slowdown to quarterly escalation increases. The movement reflects strong demand from major government-funded road, rail, hospital and school projects, which soak up trades, machinery, and key building materials. A constant pull on resources places upward pressure on prices, even as private sector activity slows. Escalation in NSW is forecast to remain modest around 4% in 2025, with the Q1 and Q2 totals at 2.06%.

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%	A	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%**
Q1 2025	167.4	0.60%		161.0	1.19%	
Q2 2025	168.8	**0.84%**		162.4	**0.87%**	

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

Victoria

Outlook

Edna Yeo
Director

+0.4%

Melbourne CPI
Q2 2025

The Value of Construction Work Done in Q1 2025 was $18.3B - down -1.1% QoQ

0.96%

Q2 Non-Residential Building Construction Escalation

$7.55B

Value of Non-Residential Building Approvals
Q2 2025

Victoria's (VIC) construction sector shows clear signs of a slowdown as 2025 approaches its final quarter. Contractors shift their focus to secure work for 2026 and beyond amid softer demand, and seek to fill order books in an increasingly cautious environment. After several years of steady activity, the market signals a more measured outlook. Firms have shifted gear with a broad prioritisation of project pipeline certainty amid emergent risks.

The Tier 1 contractor market has notably quietened with the State's major projects now in delivery or tender phases. With less large-scale projects in the market, Tier 1 contractors move to bid on smaller-scale works traditionally undertaken by Tier 2 firms. The growing Tier 1 contractor presence in the smaller project space intensifies competition across both tiers, and places additional pressure on Tier 2 contractors to remain competitive on pricing and capability.

Contractor project margins have become leaner as the heightened competition directly impacts project profitability. Most contractors now operate within narrow profit bands that average between 1.5% and 3% - a reflection of the need to maintain workforce stability and operational capacity in a challenging market. The tighter margins highlight the need to balance control costs and retain skilled staff amid rising expenses.

Looking ahead to 2026, escalation rates are forecast to average between 4% and 4.5%. The projection reflects persistent inflationary pressures across labour, materials, and supply chains in combination with subdued construction demand and margin compression. To navigate the market conditions, contractors should carefully manage bids, project costs, and risks to stay financially healthy and deliver high quality results.

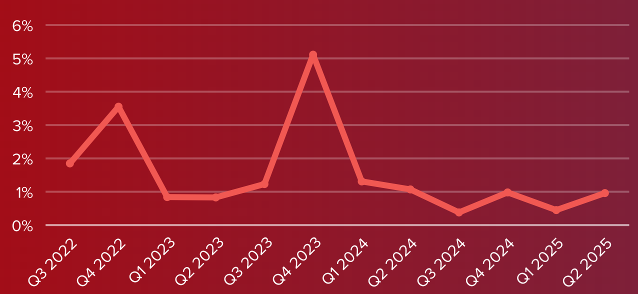
Victoria

Outlook

ABS Data for Victoria

Non-Residential Building Construction escalation crept up by 0.96% in Q2 2025. The increase reflects persistent labour and material cost pressures alongside heightened competition as Tier 1 contractors move into smaller projects amid a thinner pipelines. Additionally, the Victorian construction market sees cautious prices in response to soft demand and tighter margins. Escalation is forecast to stay modest in 2025 as market activity cools, before potential lifts in 2026 as demand rebuilds. The Q1 and Q2 increases create an escalation total of 1.41% in Victoria.

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%**
Q1 2025	143.7	-0.42%		135.0	0.45%	
Q2 2025	145.0	**0.90%**		136.3	**0.96%**	

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

Queensland

Outlook

Reiss Draper
Director

+0.8%

Brisbane CPI
Q2 2025

The Value of Construction Work Done in Q1 2025 was $14.9B - up 1.5% QoQ

0.65%

Q2 Non-Residential Building Construction Escalation

$3.13B

Value of Non-Residential Building Approvals
Q2 2025

The Queensland construction market held steady in Q2 with limited momentum in public sector activity. Olympic Games 2032 (OG32) tenders have begun to emerge with a handful of projects released via expressions of interest for principal design consultants. Concurrently, wider public sector tender opportunities remain scarce. The slow pipeline restrains market confidence and keeps contractors cautious as they await clearer signals on project flow.

Public investment in health infrastructure is high with additional funding to cover shortfalls in the Capital Expenditure Program (CEP). Meanwhile, the public education sector shows strength. Universities look to forge international partnerships with countries across the world to position tertiary institutions as a strategic base for Olympians. The Department of Justice has announced significant expenditure plans over the next decade. The pipeline includes a surge in social infrastructure projects, particularly in South East Queensland, as the state prepares for the Olympic Games.

Despite pockets of activity, other sectors remain subdued. Private health projects are rare and the defence sector continues to lack significant construction work. Housing activity remains steady but falls short to meet demand as continuous cost pressures and labour availability constrain the market. Commercial fitout projects hold firm due to a strong refurbishment pipeline, while organisations display a shift away from new developments.

For the remainder of 2025, escalation rates are forecast to remain steady at around 6%. In 2026 and beyond, a notable increase may occur as construction demand intensifies and cost pressures re-emerge. The market outlook depends heavily on the timely release of public tenders and clarity on government funding commitments linked to OG32 and social infrastructure investments. Until then, contractors and developers will likely stay cautious and focus on active sectors while eyeing future growth opportunities.

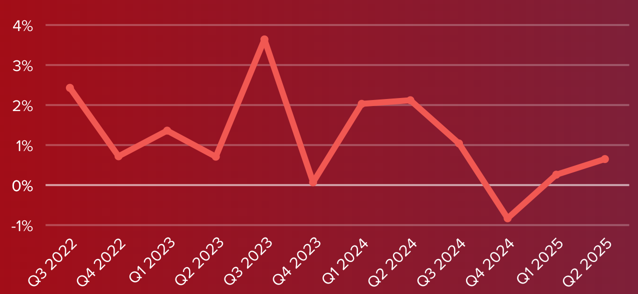
Queensland

Outlook

ABS Data for Queensland

Non-Residential Building Construction climbed 0.65% in Q2 2025 - a more than double increase from the Q1 results. The rise shows a cautious market in the midst of stabilisation with the uptick largely driven by tighter subcontractor availability and early movements in Olympic Games 2032-related procurement, which slowly boosts market activity and price expectations. Queensland's construction industry continues to signal moderate escalation in 2025, with the Q1 and Q2 total at a minor 0.91%.

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%**	**R**	**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%**
Q1 2025	165.4	0.12%		155.0	0.26%	
Q2 2025	165.5	**0.06%**		156.0	**0.65%**	

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

South Australia

Outlook

Rob Williamson
General Manager of South Australia

+0.8%

Adelaide CPI
Q2 2025

The Value of Construction Work Done in Q1 2025 was $4.6B - up 6.7% QoQ

0.46%

Q2 Non-Residential Building Construction Escalation

$1.04B

Value of Non-Residential Building Approvals
Q2 2025

The South Australian construction market navigated a complex environment in Q2 shaped by both local and national economic factors. A key driver of cost escalation pressures is state-based inflation, and the average remains high at 5–6% across all trades.

The Reserve Bank of Australia's (RBA) interest rate adjustments over the past six months are forecast to positively influence market confidence. The RBA's rate cuts should temper some overheated sectors, and have already begun to restore confidence among private investors in the market. Developers show a cautious but greater willingness to bring new projects to market. However, uncertainty around further RBA changes may limit the pace of private investment.

Cost escalation in South Australia continues to be fuelled by labour shortages. While Tier 2 and Tier 3 contractors report improvements in trade availability and more competitive pricing, Tier 1 contractors continue to face hardships from limited trade resources and higher labour pressures.

Key materials have stabilised with limited inflation to steelwork and concrete prices in 2025. The cost moderation is a welcome relief compared to previous years, though escalation pressures linger from the macroeconomic environment. Other trades continue to feel the impact of higher input costs with upward pressure on project budgets across most sectors.

Government spend critically sustains market activity across sectors. South Australia sees strong investment in social and civil infrastructure, including the Pre-School Planning Studies as a key area of focus. At the same time, private sector confidence remains intact despite sensitivities to the RBA's decisions and the cost of capital. Commercial fitout activity has remained steady with a consistent stream of work.

Looking ahead, South Australia's construction market will reflect a mix of government-driven investment and cautious private sector recovery. Inflation is likely to stay elevated at around 5–6% across trades, while RBA decisions will shape market activity and investment.

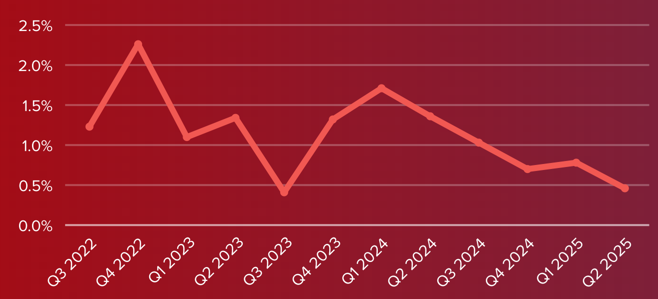
South Australia

Outlook

ABS Data for South Australia

Non-Residential Building Construction escalation lifted by 0.46% in Q2 2025 and continues the trend of inflation eases. The deceleration reflects market stability after a period of high escalation driven by supply chain issues, labour demands, and government-led social and civil infrastructure investment. South Australian construction cost inflation will likely reach 5-6% in 2025 due to upward pressure from macroeconomic factors. South Australia's escalation is forecast to reach 5.5% in 2025, with the Q1 and Q2 total at 1.24%.

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%**
Q1 2025	143.4	0.99%		129.8	0.78%	
Q2 2025	143.4	**0.00%**		130.4	**0.46%**	

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

Western Australia

Outlook

Scott Williamson
General Manager of Western Australia

+1.9%

Perth CPI
Q2 2025

The Value of Construction Work Done in Q1 2025 was $12.3B - up 2.0% QoQ

1.31%

Q2 Non-Residential Building Construction Escalation

$2.09B

Value of Non-Residential Building Approvals
Q2 2025

Western Australia's (WA) construction market continues to benefit from a strong investor appetite, however, resource shortages bottleneck project deliveries. Firms have responded with procurement strategies to engage contractors earlier in the project lifecycle for secure commitments. The Reserve Bank of Australia's (RBA) monetary decisions will likely remain cautious and balance inflationary control with boosts to construction activity. Strong demand for residential and infrastructure projects could soften steep interest rate hikes, but persistent labour and materials constraints may feed into overall cost pressures.

WA's construction pipeline is backed by public sector projects. Major government developments near commencement, including the Perth Convention and Exhibition Centre redevelopment and works already underway at the New Mothers and Babies Hospital. Meanwhile, Edith Cowan University's City Campus project approaches completion by the end of 2025. State government initiatives drive steady work and offset weaker conditions in private sectors.

Inflationary pressures persist as a result of high skilled labour costs and scarcity. Materials availability is uneven with specific shortages that create risks for project timelines. In the commercial sector, momentum has slowed with undeveloped lots in hubs such as Elizabeth Quay. WA's housing sector faces challenges from high demand, supply limitations, and resources constraints. Residential developers who enter administration have exacerbated economic pressures. Optimistically, Perth's broader residential sector continues to generate strong demand and market activity in Build-to-Rent and Student Accommodation.

Looking ahead, Western Australia's construction sector presents a mixed but resilient outlook. State government investment supports a steady project pipeline while the private sector adapts to resources limitations through early contractor engagement. Labour and materials shortages remain key escalation risks, with inflationary pressures likely to continue and influence both project costs and RBA policy considerations. Strategic planning and early procurement will stay essential to mitigate potential project cost escalation.

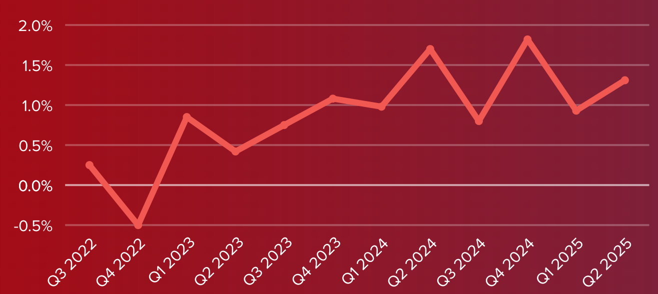
Western Australia

Outlook

ABS Data for Western Australia

Non-Residential Building Construction edged higher by 1.31% in Q2 2025. The acceleration follows a period of slight eases to cost pressures in Q1 2025. The uplift reflects stronger demand across key sectors coupled with a gradual pick-up in private investment confidence following recent RBA rate stability. Cost increases track with the quarterly results recorded in 2024, and the Q2 2025 rise points to a tighter market alongside project pipeline optimism. Currently at 2.24% for Q1 and Q2, Western Australia's quarterly escalation is forecast to hover around 5% for the year.

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%**
Q1 2025	156.9	0.64%		129.8	0.93%	
Q2 2025	158.1	**0.76%**		131.5	**1.31%**	

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

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