

ESCALATION UPDATE

NAVIGATING THE ECONOMIC FORCES SHAPING ESCALATION IN THE AUSTRALIAN CONSTRUCTION INDUSTRY



MBM

National Snapshot

and Outlook

Overview

MBM's Q1 FY26/27 outlook points to continued elevated cost escalation across the country compared to long term averages, underpinned by strong underlying demand. While market conditions are expected to moderate, supply chain volatility continues to ease in most states, with Western Australia and Queensland remaining notable exceptions. Activity remains elevated, with construction work at record levels and strong approvals noting value of residential and non-residential work based on approvals up **19.37%** and **23.05%** YOY respectively. Construction costs continue to increase, with national business as usual escalation around **5–5.5%** in 2026 depending on building/infrastructure. Conditions vary significantly by location, with stronger markets experiencing firmer pricing including hospitality, residential, schools and health sectors. Public infrastructure and essential services are providing resilience to the construction pipeline with **\$242 bn committed** from 2024 to 2028 nationally. Higher interest rates are expected to soften construction activity, particularly residential, due to higher borrowing costs associated with the current cash rate of **4.35%**. In Queensland, the compressed delivery window ahead of the 2032 Olympic Games is compounding this pressure further, with a concentration of major projects all required within the next five years expected to drive a sharp escalation in construction costs as the Games approach.

2026 Industry Figures

3.2%

WPI
(Jun 2026)

4.5%

Unemployment Rate
(Jul 2026)

4.35%

Interest Rate
(Aug 2026)

3.8%

Headline Inflation
(Aug 2026)

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

Skilled Labour Availability

Skilled labour shortages and constrained subcontractor capacity remain major escalation drivers across Australia, with **20,000 job vacancies** within the industry remaining unfilled and the number of construction apprentices in training at a 5-year low. Strong project pipelines across several states are placing further strain on an already stretched resource pool, adding pressure to availability and continuing to drive price escalation over the next few years. Data centres are one of the strongest areas of non-residential construction nationally with Deloitte Access Economics tracking an investment pipeline of more than \$104bn across 33 data centre projects in Australia.

Materials Prices and Availability

Fuel, freight, energy-intensive materials and imported products have been affected by the Middle East conflict, increasing costs and creating uncertainty around project feasibility and procurement. With oil price volatility, fuel excise dropping away and copper price rising affecting inputs such as PVC/polethylene pipes, bitumen /waterproofing membranes, foam insulation, adhesives and sealants, copper plumbing, electrical cabling and HVAC equipment, developers should be aware of contractors pricing these risks into their pricing until the conflict is resolved and the resultant impact can be quantified.

State Escalation Predictions					
MBM View on Building Cost Escalation					
	2026	2027	2028	2029	2030
New South Wales	4.0%	4.25%	4.5%	4.0%	4.0%
Victoria	4.0%	4.0%	3.5%	3.5%	3.5%
Queensland	6.0%	8.0%	9.0%	8.0%	8.0%
South Australia	5.5%	5.5%	5.5%	5.0%	5.0%
Western Australia	6.5%	5.0%	4.0%	4.5%	5.0%

Construction Output Price Escalation

By State

NSW		Building Construction		Non-Residential Building Construction	
		% Change per Quarter	% Change per Year	% Change per Quarter	% Change per Year
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%
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%
Q1 2025	167.4	0.60%		161.0	1.19%
Q2 2025	168.8	0.84%		162.4	0.87%
Q3 2025	170.1	0.77%		163.5	0.68%
Q4 2025	171.8	1.00%	3.25%	165.0	0.92%
Q1 2026	172.9	0.64%		166.2	0.73%
Q2 2026	175.3	1.39%		168.1	1.14%

VIC		Building Construction		Non-Residential Building Construction	
		% Change per Quarter	% Change per Year	% Change per Quarter	% Change per Year
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%
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%
Q1 2025	143.7	-0.42%		135.0	0.45%
Q2 2025	145.0	0.90%		136.3	0.96%
Q3 2025	146.5	1.03%		138.0	1.25%
Q4 2025	147.8	0.89%	2.43%	139.3	0.94%
Q1 2026	149.7	1.29%		141.1	1.29%
Q2 2026	150.2	0.33%		141.4	0.21%

QLD		Building Construction		Non-Residential Building Construction	
		% Change per Quarter	% Change per Year	% Change per Quarter	% Change per Year
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%
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%
Q1 2025	165.4	0.12%		155.0	0.26%
Q2 2025	165.5	0.06%		156.0	0.65%
Q3 2025	170.2	2.84%		161.9	3.78%
Q4 2025	173.1	1.70%	4.78%	164.2	1.42%
Q1 2026	175.2	1.21%		166.0	1.10%
Q2 2026	179.5	2.45%		169.5	2.11%

Construction Output Price Escalation

By State

SA		Building Construction		Non-Residential Building Construction	
		% Change per Quarter	% Change per Year	% Change per Quarter	% Change per Year
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%
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%
Q1 2025	143.4	0.99%		129.8	0.78%
Q2 2025	143.4	0.00%		130.4	0.46%
Q3 2025	145.6	1.53%		131.8	1.07%
Q4 2025	147.9	1.58%	4.15%	133.2	1.06%
Q1 2026	148.9	0.68%		134.4	0.90%
Q2 2026	151.3	1.61%		134.6	0.15%

WA		Building Construction		Non-Residential Building Construction	
		% Change per Quarter	% Change per Year	% Change per Quarter	% Change per Year
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%
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%
Q1 2025	156.9	0.64%		129.8	0.93%
Q2 2025	158.1	0.76%		131.5	1.31%
Q3 2025	160.2	1.33%		132.8	0.99%
Q4 2025	162.4	1.37%	4.17%	133.6	0.60%
Q1 2026	165.3	1.79%		135.3	1.27%
Q2 2026	169.3	2.42%		138.1	2.07%

ACT		Building Construction		Non-Residential Building Construction	
		% Change per Quarter	% Change per Year	% Change per Quarter	% Change per Year
Q1 2023	127.2	1.68%		122.4	0.41%
Q2 2023	127.9	0.55%		122.6	0.16%
Q3 2023	128.6	0.55%		122.8	0.16%
Q4 2023	129.5	0.70%	3.52%	123.1	0.24%
Q1 2024	130.9	1.08%		123.6	0.41%
Q2 2024	130.9	0.00%		123.8	0.16%
Q3 2024	130.5	-0.31%		124.1	0.24%
Q4 2024	131.4	0.69%	1.47%	124.8	0.56%
Q1 2025	131.0	-0.30%		125.0	0.16%
Q2 2025	131.5	0.38%		125.2	0.16%
Q3 2025	131.7	0.15%		125.2	0.00%
Q4 2025	132.4	0.53%	0.76%	125.5	0.24%
Q1 2026	132.8	0.30%		126.2	0.56%
Q2 2026	134.0	0.90%		126.7	0.40%

State Outlooks

New South Wales

The New South Wales construction market holds firm on underlying demand, with major infrastructure, institutional and non-residential projects continuing to anchor activity even as the broader outlook softens.

Competitive tendering across Sydney is absorbing much of the cost pressure stemming from labour shortages and global supply-chain disruption. Specialist labour shortages persist and continue to push wages upward, while growing data-centre investment adds further demand pressure against an already tightening resource pool.

Victoria

Victoria's construction market continues a path of moderation, with escalation trending toward greater stability rather than the volatility seen in prior quarters.

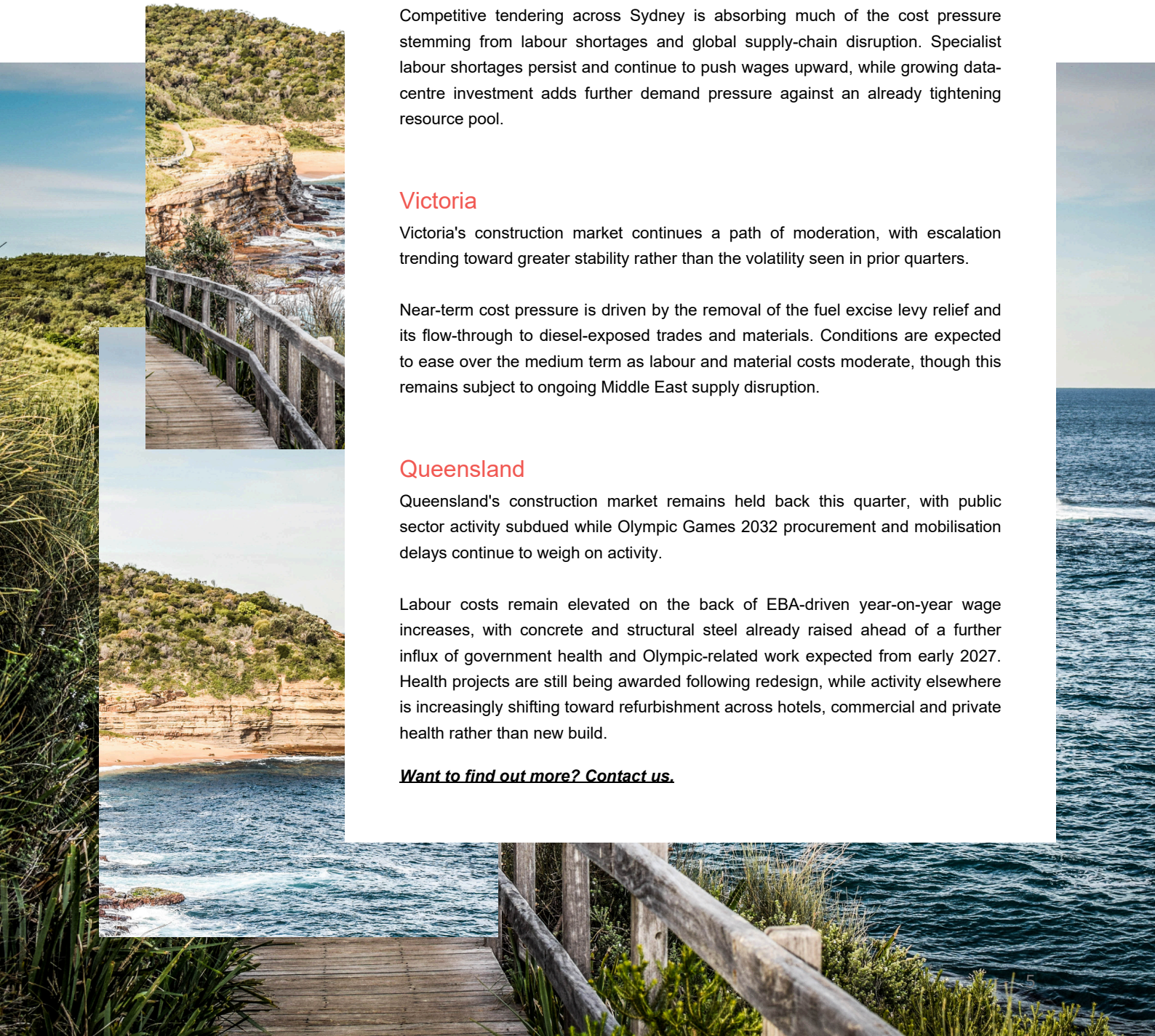
Near-term cost pressure is driven by the removal of the fuel excise levy relief and its flow-through to diesel-exposed trades and materials. Conditions are expected to ease over the medium term as labour and material costs moderate, though this remains subject to ongoing Middle East supply disruption.

Queensland

Queensland's construction market remains held back this quarter, with public sector activity subdued while Olympic Games 2032 procurement and mobilisation delays continue to weigh on activity.

Labour costs remain elevated on the back of EBA-driven year-on-year wage increases, with concrete and structural steel already raised ahead of a further influx of government health and Olympic-related work expected from early 2027. Health projects are still being awarded following redesign, while activity elsewhere is increasingly shifting toward refurbishment across hotels, commercial and private health rather than new build.

Want to find out more? Contact us.



State Outlooks

Western Australia

Western Australia's construction market remains active and public-sector led, though a clear divide is emerging between resilient government-backed demand and softening private-sector conditions.

Major commitments across regional roads, energy and transport infrastructure are keeping trade capacity and wages under pressure alongside AUKUS and airport-related works. Rising freight, insurance and fuel-related costs continue to affect imported and energy-intensive inputs, however softening private conditions offer an opening to secure Tier 2 and 3 capacities ahead of the pipeline's full mobilisation.

South Australia

South Australia's construction market is thriving through maintained activity, supported by a strong pipeline of civil, defence, social infrastructure and residential projects, with overall cost escalation averaging around 5.5% in line with material escalation and labour shortages.

Persistent skilled labour shortages remain the primary driver of high construction costs and capacity pressure, with interstate and overseas migration helping to ease the gap. Tier 1 contractors continue to face elevated pricing amid limited trade availability, while Tier 2 and 3 contractors are seeing better trade coverage and more competitive pricing, with volatile global supply chains remaining a key risk to delivery. Fuel prices remain above pre-war levels, though this pressure is easing, with prices forecast to trend back toward average levels in the coming months.

Australian Capital Territory

The ACT construction market continues to feel the effects of global cost pressures, including fuel costs, though escalation has slowed on the back of softer local demand in private development.

Construction sentiment has fallen alongside lower demand and higher costs, with office vacancy rising to 14.7% from 10.2% previously and concentrated across the CBD, Braddon, Barton and Fyshwick. Major projects including Stage 2 Light Rail, Northside Hospital, the New Lyric Theatre and the upcoming Convention Centre continue to anchor activity and shape the escalation outlook.

Want to find out more? Contact us.



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