



AUSTRALIAN CONSTRUCTION MARKET CONDITIONS REPORT

November 2023



INTRODUCTION

ESCALATION HAS BEEN HIGHER THAN MOST EXPECTED THROUGH 2023. WHAT IS THE PATH FORWARD FOR ESCALATION TO 2026?

Notions of a swift retracement of construction cost escalation to 'normal' levels, or even into negative territory, during 2023 were always highly fanciful. However, few expected cost pressures to remain as broadly stubborn as they have been.

Sure, Infrastructure construction levels climbing to record highs (when Mining-related works are excluded) has been crucial to escalation remaining elevated in that sector. But for escalation in Building to come in well above the 3% 'rule of thumb' is not in line with construction levels.

So... where to from here? How will escalation change moving forward? This short pack aims to provide insight on escalation, both from a broader market perspective and by input.

WT VIEW ON AUSTRALIA COST ESCALATION BY KEY MARKET - BUILDING

	2020	2021	2022	2023	2024	2025	2026
SYDNEY	4.5%	6.0%	6.5%	5.2%	4.0%	3.5%	6.0%
MELBOURNE	2.0%	3.0%	9.5%	6.0%	3.5%	2.8%	5.8%
BRISBANE	3.0%	3.8%	8.5%	8.0%	6.0%	7.0%	5.0%
ADELAIDE	0.0%	15.0%	6.0%	5.0%	4.0%	4.5%	6.5%
PERTH	4.0%	16.0%	11.0%	4.5%	4.0%	5.0%	4.5%
HOBART	2.0%	10.2%	10.5%	6.0%	5.5%	4.5%	5.5%
CANBERRA	2.5%	6.5%	10.0%	6.0%	4.0%	4.0%	3.5%

WT VIEW ON AUSTRALIA COST ESCALATION BY KEY MARKET - INFRASTRUCTURE

	2020	2021	2022	2023	2024	2025	2026
SYDNEY	3.0%	4.5%	9.0%	7.0%	4.5%	4.0%	4.0%
MELBOURNE	1.0%	3.5%	8.0%	5.5%	5.0%	6.5%	5.5%
BRISBANE	0.5%	3.0%	8.5%	5.3%	5.5%	7.0%	5.8%
ADELAIDE	0.8%	3.3%	9.3%	7.0%	4.0%	9.0%	6.5%
PERTH	0.7%	3.1%	8.6%	4.7%	3.6%	5.0%	6.0%
HOBART	1.6%	2.5%	8.3%	8.5%	4.5%	8.0%	5.0%
CANBERRA	1.3%	3.8%	8.8%	6.0%	6.0%	5.0%	5.0%

CONTRIBUTION TO COST ESCALATION BY INPUT - BUILDING

- IMPROVES ESCALATION SIGNIFICANTLY
- IMPROVES ESCALATION SOMEWHAT
- HAS NO REAL IMPACT ON ESCALATION
- MAKES ESCALATION SOMEWHAT WORSE
- MAKES ESCALATION MUCH WORSE

	2023	2024
LABOUR (DIRECT)	MAKES ESCALATION MUCH WORSE	MAKES ESCALATION SOMEWHAT WORSE
MATERIALS	MAKES ESCALATION MUCH WORSE	MAKES ESCALATION SOMEWHAT WORSE
PLANT & EQUIPMENT	MAKES ESCALATION SOMEWHAT WORSE	MAKES ESCALATION SOMEWHAT WORSE
ENERGY	MAKES ESCALATION MUCH WORSE	HAS NO REAL IMPACT ON ESCALATION
FREIGHT	IMPROVES ESCALATION SOMEWHAT	HAS NO REAL IMPACT ON ESCALATION
EXCHANGE RATES	MAKES ESCALATION SOMEWHAT WORSE	MAKES ESCALATION SOMEWHAT WORSE
INDIRECT COSTS	MAKES ESCALATION MUCH WORSE	MAKES ESCALATION MUCH WORSE
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KEY POINTS TO ESCALATION OUTLOOK – BY MARKET

Sydney

Risk that Building escalation remains quite high in near term via stronger indirect cost pressures and new regulation (more so in Residential), and skills loss to SE Qld. Escalation set to move higher from 2026. Softer Infrastructure outlook via State Government cost-cutting.

Melbourne

Some current market softness offset by likely loss of skills to SE Qld. Elevated risk of near-term State Government cuts to add to downside risks before escalation strengthens from 2026 as next major projects proceed, made more urgent by robust population growth.

Brisbane

Sub-par capability plus surging pipeline of work has seen escalation almost at 2022 highs. Building will be higher in near-term (hospitals-led) but Infrastructure strength to come post-2026. Influx of trades from interstate crucial to keep a lid on escalation.

Adelaide

Steady flow of major projects to keep Building escalation elevated. Infrastructure outlook dependent on major Transport project timing (amidst very strong renewables spend).

Perth

Escalation has retraced more than in most markets despite strong population growth and healthy State Government finances. This points to an uplift in activity and escalation across Building and Infrastructure, with potential major Mining spend to heighten cost pressures.

Hobart

Spectre of game-changing Stadium project lingers amidst an undercurrent of elevated (Building) sector activity elsewhere – this suggests above-average escalation to persist. Infrastructure escalation to ride Bridgewater Bridge and then Martinus Link (or other renewables) waves.

Canberra

Some softness in the Commercial pipeline to weigh on the Building escalation outlook, although support expected from the Social side. Infrastructure to remain elevated via a combination of robust activity and complex projects (requiring higher % of FIFO trades).

KEY POINTS TO ESCALATION OUTLOOK – BY YEAR

2023

- While escalation is down from 2022 highs, it has not slowed as much as we predicted in our April Market Report. Ongoing tightness in labour markets (including initial signs of trades shifting to Queensland) and a prolonged impact from indirect costs via recent unusual market conditions have been key contributors.
- Building escalation is expected to end up between 4.5 and 6% for most cities – with Brisbane the exception at 8%. For Infrastructure, where construction is stronger, we expect escalation of 5-7% across most cities (with Perth at 4.7% and Hobart 8.5%).

2024 and 2025

- The economy is expected to enter a slowdown from mid-to-late 2024 through 2025. However, our view is that the slowdown is unlikely to be a significant one, while prospects for a number of construction sectors are better than those of the broader economy.
- This points to higher escalation than would otherwise have been expected at this point in the cycle. Furthermore, should initial signs of a sustained interstate move of labour to Qld be maintained, this will see higher escalation in Sydney and Melbourne.
- For Building, our escalation forecast is 3.5-5.5% across most cities. Brisbane, with its booming pipeline of work, is at 6-7% here but may soften if the interstate response is high.
- For Infrastructure, our forecast is 4-6.5% for most cities in these years. This is largely on the back of robust activity levels, but also the next round of major projects in a number of cities.

2026 and beyond

- By 2026, the economy is expected to be in the early stages of recovery. While a sharp jump out of recession is unlikely, construction activity should still be ahead of that indicated by economic growth in many sectors.
- In addition, ongoing strong conditions in Brisbane and SEQ, plus the potential for very strong levels of Residential construction, point to an elevated risk of increased escalation across many markets via aggressive competition for resources.
- This should see escalation at 4-6.5% in most markets across Building and Infrastructure.
- While this is higher for Building, it is lower for Infrastructure vs. 2025. With that said, our post-2026 view on Infrastructure remains 'higher for longer'. This is due to elevated construction levels (and a higher % of complex works), resilience being a higher priority and prolonged boom conditions (mostly rural areas) for renewable energy / transmission build.



ECONOMIC OUTLOOK, IMPLICATIONS FOR CONSTRUCTION AND COST ESCALATION

THE AUSTRALIAN ECONOMY APPEARS LIKELY TO ENTER INTO A PERIOD OF INCREASED ECONOMIC WEAKNESS. WHAT MIGHT THIS MEAN FOR CONSTRUCTION & COST ESCALATION?

The Australian economy has continued to record solid growth numbers through 2022 and 2023. While there are some similarities to much of the decade prior to the pandemic, there is scant similarity outside of headline growth numbers. Furthermore, today's economic climate is increasingly schizophrenic; a sample of economic indicators, which often provide reassuring direction, are now more confusing and counteracting. Economists reaching for the favoured "mixed bag" metaphor are missing the chance to highlight increasing nuance.

On the one hand, the return of soaring inflation (after a two to three-decade hiatus) has seen a regime of Reserve Bank cash rate increases unprecedented in the current central bank setting. This has led to increasingly acute cost-of-living and housing market crises, but also fears of a 'cliff' for those coming off low fixed-rate mortgages on to now-higher variable rates.

These higher borrowing costs are also concerning State Governments, notably those with expansive spending plans (New South Wales and Victoria, perhaps Queensland, although their key financial metrics had a better starting point). Leadership changes in two of these states could well mean these spending plans are recalibrated to changing market conditions.

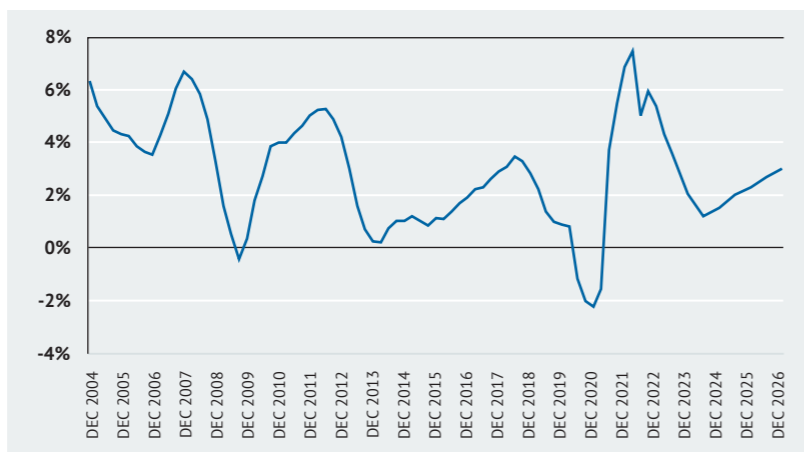
While Federal finances are in (rare) stellar health, they are pursuing an agenda of reined-in spending, largely to reduce the case for further Reserve Bank cash rate increases. Stubborn inflation numbers of late have seen the risk of additional Reserve Bank involvement persist, which would see consumer spending and housing come under increased pressure.

That these negatives have manifest in poor business and consumer sentiment numbers sits in stark contrast to the situation in much of the labour market, where metrics sit well above normal levels, even with the return of foreign labour after borders reopened. The softening of broader economic conditions saw predictions of mean reversion in these metrics, but this has only barely happened.

In all, given increased signs of decline in areas of weakness above, our base case view is for a recession starting in mid/late 2024. That the recent International Monetary Fund outlook called for a stronger downturn (vs. its April report) adds to this argument. However, the likely persistence of tight labour markets, robust Federal financial metrics and elevated population growth should mean the risk of a severe, 1990s-like recession is minimal. With that said, a historically typical post-recession bounce also seems unlikely; a return to recent "normal" conditions is most likely.

GROSS NATIONAL EXPENDITURE (GNE)

Annual % Change¹
(September and December quarters 2023 – estimate, 2024 to 2026 – forecast)



Implications

While typically, the outlook for construction is generally linked to that of the economy, there can be periods where these become untethered and other drivers can emerge. This is especially so at present, which may see Building construction activity strengthen and hence help to soften the expected impact of a recession.

Chart 2 below highlights annual change in construction activity by broad sector. While Infrastructure has been almost the sole contributor to overall sector growth in recent years, it appears Non-Residential construction will soon return to growth, perhaps overtaking Infrastructure in the not-too-distant future.

CONSTRUCTION ACTIVITY BY BROAD SECTOR

Annual % Change²
(Commencements basis, inflation-adjusted)

RESIDENTIAL
NON-RESIDENTIAL
INFRASTRUCTURE



But the nature of this change is of more immediate interest than the change itself. Commercial and Industrial sectors of Non-Residential construction are thought to be especially linked to broader economic conditions – but even this is not as strong a relationship as it once was.

Among key Commercial and Industrial sectors, Office is seeing construction activity (and indicators of construction activity) at a higher level than would be expected, given elevated uncertainty around occupancy rates (as the remote work revolution continues). Warehouses and Data Centres are the main sectors to benefit from digital and pandemic disruption; both are seeing signs of activity moving higher.

Retail and Hotels are perhaps on the other side of the disruption divide. However, Retail has seen disruptive conditions for some time now – activity oscillates around a somewhat elevated level, boosted by centre upgrades and other means to compete aggressively for customers. For Hotels and other accommodation, there was a brief spike post-COVID before falling back to decade lows, but the near-term sector momentum appears to be coming from student housing.

On the Infrastructure side, activity is at very strong levels generally (especially so ex-Mining construction). But much of the recent strong growth in the sector has come from the current round of Transport mega-projects. These either have very long lead times, are part of an ongoing catch-up after decades of neglect in major Rail spending, or both.

The other key driver of construction not mentioned above is Government spending (or initiatives). As seen in the next chart, this has become a crucial contributor to construction in the Non-Residential and Infrastructure sectors, and figures to be crucial (given a likely recession) for some years to come.

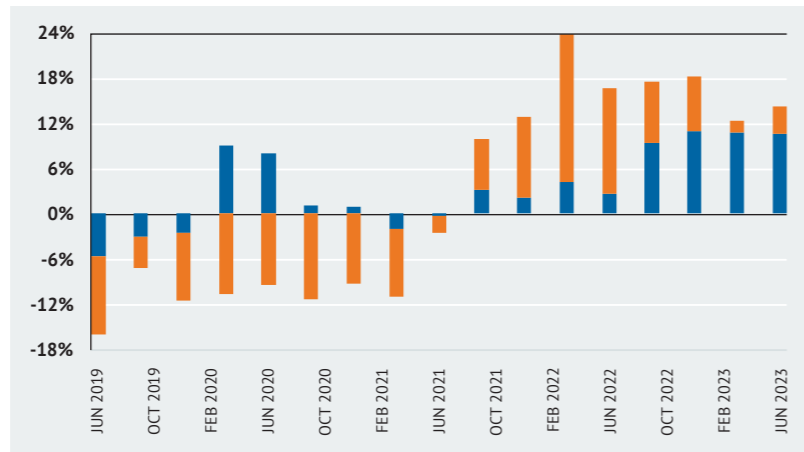
ECONOMIC OUTLOOK, IMPLICATIONS FOR CONSTRUCTION AND COST ESCALATION CONT.

Two main sectors where the influence of the public purse has been (and will be) seen are Health and Education, while (in addition to Transport), Electricity – both via new generation and new/upgraded transmission infrastructure – will be a key source of public-led growth on the Infrastructure side.

NON-RESIDENTIAL BUILDING AND INFRASTRUCTURE

Growth by Source³

■ PUBLIC
■ PRIVATE



Health may be the sector with the most significant direct Government involvement. An ongoing phase of major hospital construction and upgrades is underway across almost all states (but largely focusing on the eastern states). While the programs for these projects have been in train for many years, increasing lead times, especially for some larger or more complex projects, may yet result in a prolonged plateau of Health building, rather than the boom expected by many.

For Education, ongoing strength in funding – mostly for new public schools, but also for some significant university projects – remains an important contributor to elevated activity levels. However, the diverse nature of the sector means there are other key drivers of projects. These notably include very strong foreign student numbers and the ongoing ‘battle of egos’ among top-tier private schools for upgrades and improvements (often funded by well-off families).

The Non-Residential construction component associated with the ongoing rollout of major new Rail projects is in stations, typically underground. This has seen the Transport (building) sector hit record activity levels in recent years, and hence become a more public-led sector (it was previously more of a private-led sector, led by airport projects). With huge metro-style projects still to come in Sydney and Melbourne in the years ahead, Transport building should see new peaks and ongoing elevated activity levels for many years to come.

Lastly, while not slated to be fully driven by direct Government involvement, the expected strong growth ahead in Electricity (both in generation and transmission infrastructure) could well be the sector to see greatest growth in coming years. Such is the task ahead in meeting Net Zero mandates within specified timeframes and with a major increase in transmission infrastructure needed.

Our base case view is one which largely sees these public-led (or supported) projects proceed in coming years, and that this helps to support our view that the looming recession will not be severe. However, conditions for Government funding of major projects or initiatives can change quickly. This has been seen in recent months with the change of Premier in three of Australia’s largest states, with strong spending plans in NSW and Victoria increasingly under the microscope.

From an escalation perspective, what happens with public-led construction, especially over the next few years, will be crucial to the path of construction activity and hence to escalation. As such, the strength (or otherwise) of public-led construction is a key risk to our forecasts.

More generally, however, softer economic conditions will detract from escalation, especially over 2024 and 2025. With that said, our view that construction activity will generally remain elevated, and will continue to feature an increasing proportion of major / complex projects (in Infrastructure but also Building) is forecast to see escalation levels bottom out on the higher side of the 3% ‘rule of thumb’.

Lastly, recent policy developments point to a resurgent level of Residential construction in coming years. While inputs for detached Residential construction share little in common with those of attached Residential and of Non-Residential Building, a significant boost to construction of detached Residential would ultimately put pressure on costs across all construction sectors – albeit this may not eventuate until beyond our 2026 forecast horizon.

Our detailed analysis of contributors to escalation by construction component follows.



ESCALATION COMPONENT ANALYSIS

LABOUR (DIRECT)



AUSTRALIA – CONSTRUCTION WAGES

Annual % Change⁴
(calendar years:
2023 – estimate,
2024 – forecast)



Recent Trends: While our previous view that construction wages growth (nation and sector wide) would peak in 2023 should still hold, this may not be the case. Trends across the demand side (via robust construction activity and associated strength in labour) and supply (reflected in flat construction labour force numbers and trades coming in from overseas) should see annual wages growth climb further over the rest of 2023. This would see wages growth hit an 11-year high of 3.9%.

Looking Forward: Various lead indicators point to overall wages growth moderating through 2024, which would likely continue into 2025. However, the view across the construction wages landscape can encapsulate a wide range of outcomes; this is quite likely to be the case in coming years. The following trades would usually see above-average growth (the premium these trades usually see could easily strengthen in coming years):

- Trades in higher demand on major/complex projects (often with Tier 1 builders and on enterprise bargaining agreements),
- with a focus on the Infrastructure side (or at least the ability to switch between Infrastructure and Building) and,
- perhaps the ability to relocate interstate (and take advantage of likely strong market conditions in Queensland; preliminary ABS data suggests this may already be underway)

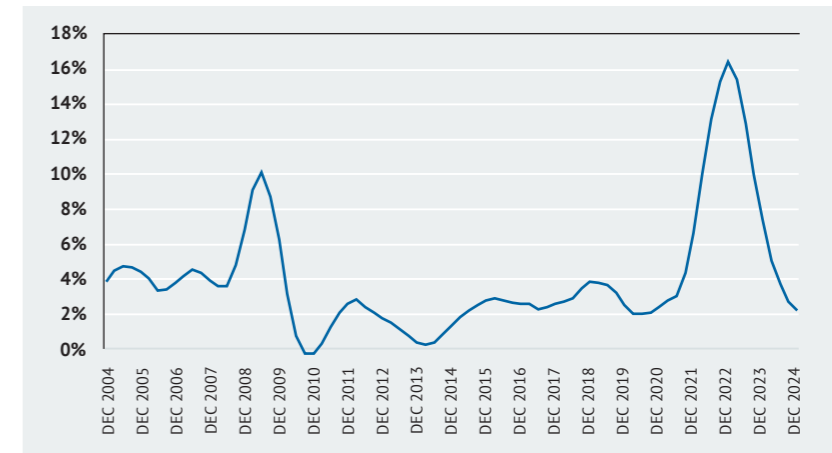
That labour market conditions are set to remain somewhat tight through a weaker period of economic/construction activity suggests skills shortages could recur for much of the 2020s. Analysis of the pipeline of trades coming through vocational training gives some hope that this situation may be avoided but medium-term strength across much of construction could more than offset this.

MATERIALS



AUSTRALIA BUILDING MATERIALS COST INDEX

Annual % Change⁴
(calendar years:
2023 – estimate,
2024 – forecast)



Recent Trends: While annual escalation (of proportions of materials for a 'typical project') remains at strong levels, these have eased from last year's peak. With supply chain disruptions largely passed and globally traded materials seeing much softer conditions, these have removed a major driver of escalation – but still leave escalation around 7% for 2023 overall: the highest (ex-2022) since 2009. For Infrastructure, oil-linked materials may see escalation remain somewhat higher into 2024.

Looking Forward: Our view suggests escalation could slow markedly (to almost 2%) in 2024. Two key drivers here could be the easing of what have been significant cost pressures in electricity (which would ultimately see production costs for energy-intensive materials follow suit) and from demand in general falling back in line with the expected economic downturn.

There are, however, two other key points to consider: if the pace of take-up of 'greener' materials and/or methods of producing materials is faster than currently slated, and if the Israel-Hamas tensions escalate further to involve major energy exporters. While the former may have a significant effect on costs, this is more likely to be gradual (possibly beyond 2026) and perhaps only in specific sectors. But for the latter, this would likely be near-term, perhaps quite sudden, and, depending how wide the involvement becomes, may see geopolitical-led cost pressures rise for many materials.

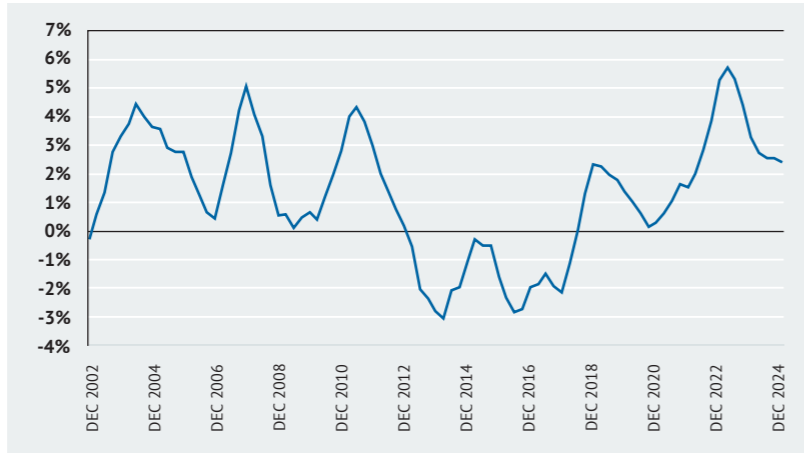
ESCALATION COMPONENT ANALYSIS CONT.

PLANT & EQUIPMENT



AUSTRALIA – PLANT & EQUIPMENT HIRE COST

Annual % Change⁶
(calendar years:
2023 – estimate,
2024 – forecast)



Recent Trends: After a decade of escalation averaging around 0%, plant and equipment hire followed the trend across construction inputs, surging to multi-decade highs in 2022 and 2023. While a cooling appears certain, this could see escalation return only to average levels seen during the 2000s – i.e., above escalation seen for the better part of a decade.

Looking Forward: While, in normal circumstances, the repair of supply chains would see a sector as international as plant and equipment be more likely to return to pre-COVID conditions, sector irregularities persist. Specifically, closures among major plant and equipment manufacturers in Europe (as a result of exorbitant electricity price increases). Plant and equipment from China could well increase to fill some of this void, but a weaker \$A could negate some of these increases. Escalation may take several years to return to 1-2% levels for a prolonged period.

77 Market St, Sydney

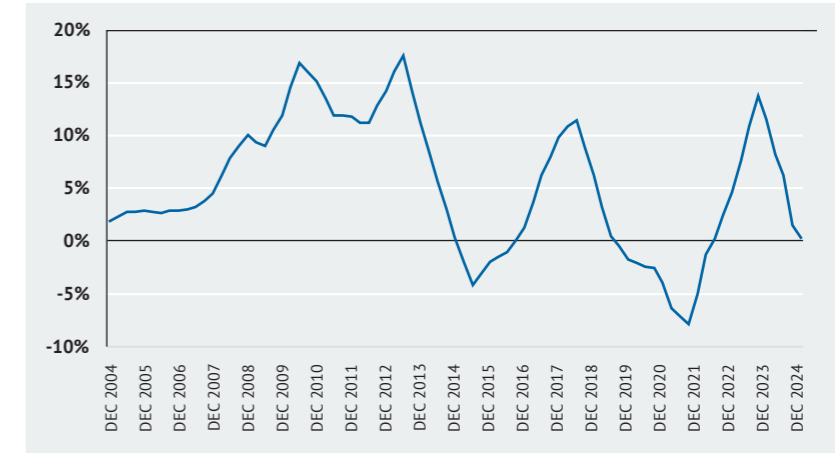


ENERGY



AUSTRALIA – ELECTRICITY PRICE (CPI)

Annual % Change⁷
(calendar years:
2023 – estimate,
2024 – forecast)



Recent Trends: It was always going to be the case that the significant market ructions in early-to-mid 2022 would impact electricity for some time to come. The immediate surge in wholesale electricity prices (which, to be fair, had causes additional to the Russo-Ukraine War) 18 months ago has worked its way to the end user in Australia; electricity price escalation is estimated to have peaked in the September quarter at just under 14%.

Looking Forward: The industry / sector response to this surge in prices looks to have curtailed what could have been a period of sustained high escalation. This included the decision by the Federal Government to instigate price caps (for gas and coal) in late 2022, but also aggressive moves away from Russian gas use in Europe, continued fast pace of solar rollout in Australia as well as mild (winter) weather conditions across both continents. This should see electricity escalation slow from late this year, gathering pace from mid-2024.

The threat from geopolitical instability on energy prices is constant, especially in a world with elevated risk of instability. The recent escalation of Israel-Hamas tensions may well mushroom into something far more substantial, encompassing other significant (and energy-producing) players in the Middle East. In such a scenario, an impact similar to that seen from the onset of the Russo-Ukraine War could reasonably be expected, although the improvement in renewables capacity since February 2022 would help to negate some of this impact

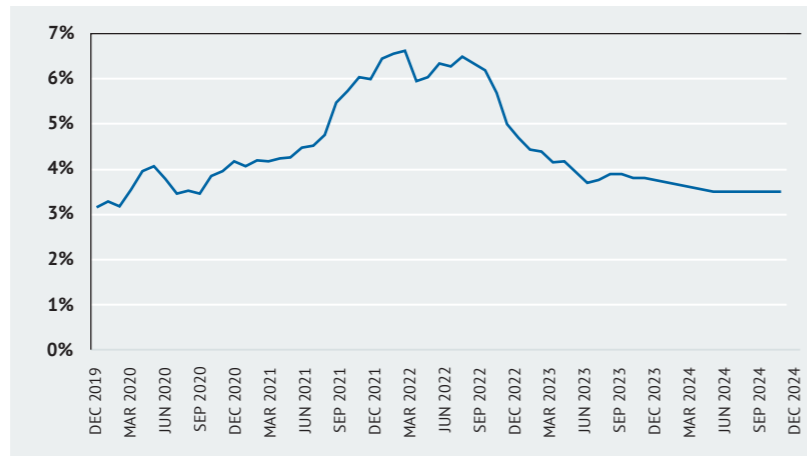
ESCALATION COMPONENT ANALYSIS CONT.

FREIGHT



AUSTRALIA – FREIGHT COST

As % of Total Imported Goods Cost⁸
(September to December 2023 – estimate, 2024 – forecast)



Recent Trends: The combination of less global demand for goods, increased shipping capacity and fixed-term freight contracts ending (and rolling on to either the spot market or a much lower new contract) have seen freight costs continue to fall back through 2023. Some significant recent weakness in the spot market has led to reports of shipping companies cutting back on capacity – and hence some signs of spot rates bouncing. This practice may periodically recur, but our view generally is for (blended i.e., mix of contract and spot) freight rates to soon settle at a level approaching pre-pandemic marks.

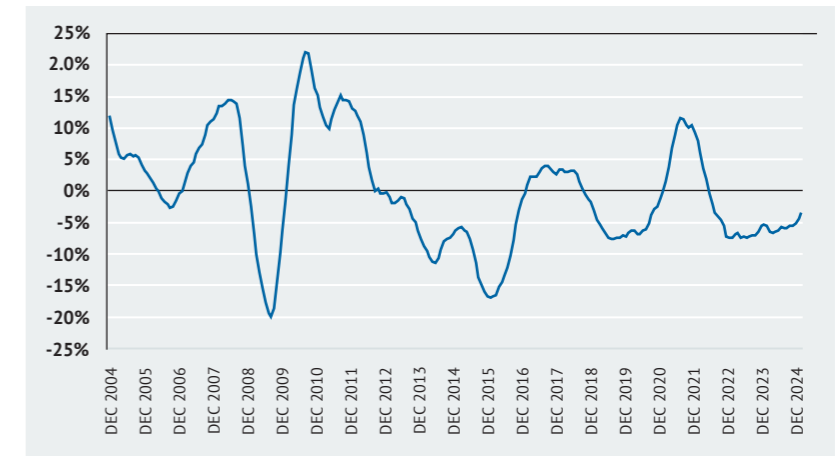
Looking Forward: The next hurdles for global shipping companies include a likely global economic slowdown leading into the arrival of significant new capacity coming online from 2025. Black Swan events notwithstanding, the outlook for freight escalation appears to be one of minor movements each way (after the level of freight costs bottoms out in the near future), before the next economic upturn sees excess shipping capacity absorbed and rates move higher.

EXCHANGE RATES



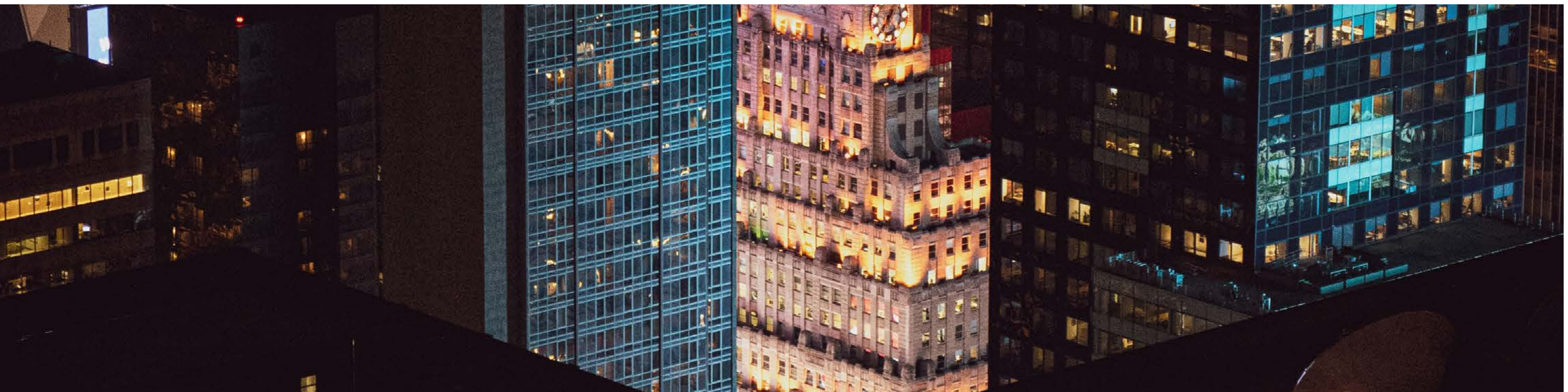
AUD / USD EXCHANGE RATE

Annual % Change⁹
(calendar years: 2023 – estimate, 2024 – forecast)



Recent Trends: Exchange rates can vary for numerous reasons, but the continued decline in the AUD / USD rate has largely aligned with changes in its two fundamental drivers: the outlook for interest rates between Australia and the US, and recent data / outlook for commodity prices (for the most abundant Australian mineral and energy commodities). This has seen 1 AUD fall below 64 US cents with possibly further to fall – given ongoing ‘higher for longer’ talk in the US and persistent softness in key commodity prices.

Looking Forward: Our view is for the AUD / USD to fall further (in annual average terms) through 2024 before moving higher through 2025. This is based upon our view that the prospect of US interest rates appearing more likely to rise (or remain elevated) vs. Australian rates begins to recede next year; should this not be the case, expect a further leg down in the AUD/USD, which will put upward pressure on escalation. The commodity prices driver is unlikely to turn positive in 2024.



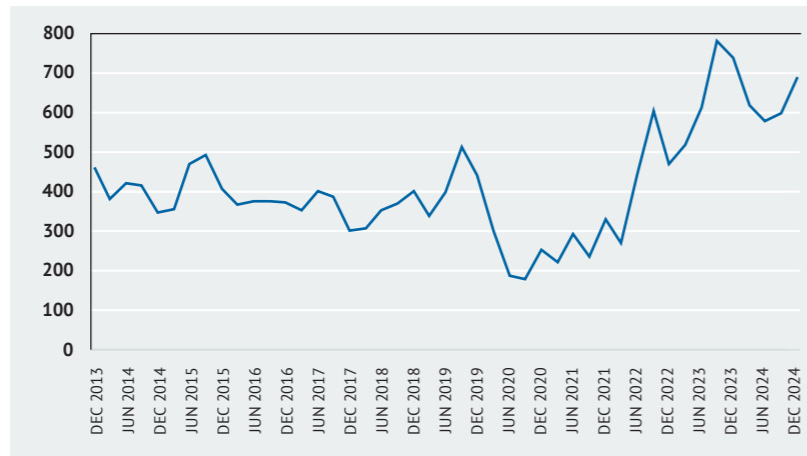
ESCALATION COMPONENT ANALYSIS CONT.

INDIRECT COSTS (INCLUDING PRELIMINARIES, DESIGN, OVERHEADS)



AUSTRALIA – CONSTRUCTION INSOLVENCIES

Quarterly¹⁰
(December quarter
2023 – estimate,
2024 – forecast)



Recent Trends: While most categories above have seen escalation at long-term highs in recent years, indirect costs has seen perhaps the most unfortunate combination of circumstances:

- Professional services wage growth at a 13-year high (both overall and for construction-specific sectors).
- Sector insolvencies at the highest level on record (i.e., since September 2013) in the September quarter. In addition, sector insolvencies were the highest % of total insolvencies seen since September 2013 (31%) in the September quarter.
- Insurance costs have surged. ABS CPI data on insurance is set to see annual growth of almost 13.5% by early 2024.
- Elevated construction activity and a higher % of more complex projects is making it more difficult to attract trades to jobs in smaller capital cities and regional areas. This means more FIFO workers and hence Living Away From Home Allowance (LAHFA) and other labour costs.
- Market weakness in some sectors and states has led to a higher % of projects being put on hold after the tender stage.

Combinations of these factors have seen the following impacts, driving indirect costs higher:

- Impact of insolvencies spread across overheads or new projects.
- Lower contractor and subcontractor competition, both in overall depth and due to lower levels of participation in tender opportunities.
- This is being seen more so among Tier 2 players, while in some sectors, there are also instances of additional risk contingencies.

Looking Forward: There may be scenarios by which most of the above drivers of strong indirect costs escalation begin to moderate. However, these appear unlikely to happen before the end of 2024. So, while there may be some improvement, another year of strong indirect costs escalation seems certain.

IMPLICATIONS AND RISKS

Implications

Labour (Capability):

- That various indicators of the state of play in construction labour point to broad sector tightness and ongoing skills shortages, at a time when construction activity is not super-strong, suggests this is an issue which will not be resolved quickly.
- While there is some hope from skilled migration and the pipeline of those studying to be in a trade, these sources of capability appear too limited to make a real impact.

Too Much Work (e.g., SE QLD):

- The concern over construction labour markets is amplified given the outlook in some parts of Australia, where demand is strong, but the supply response is typically limited.
- These are mostly smaller capital cities or – especially – regional areas (given expansive plans for Renewables and Defence) but appear to be of most concern in Brisbane and SE Qld.
- The 2000s saw trades shift from Sydney and (less so) Melbourne to work on the huge pipeline of work in SE Qld; if this happens again, it may dampen our view on Brisbane escalation, but at the expense of cost pressures in Sydney and Melbourne.

Prolonged Elevated Escalation:

- Our outlook does not see a return to 'normal' levels of escalation i.e., 3% before cost pressures rise again. Even allowing for an expected economic downturn, escalation is forecast to be somewhat higher than 3% in most markets through 2024 and 2025.
- This does suggest an environment where these escalation forecasts and elevated construction activity may find it difficult to co-exist where activity may see a marked decline.
- However, our view on the strength of growth drivers across the sector points to any such fall in activity being caught up again quite quickly.

Risks

Residential (Federal Government Programs):

- A key risk to the forecasts is if the Residential construction outlook materialises as Federal plans and sector growth drivers (e.g., population growth, rental vacancy rates) suggest.
- While Residential (especially detached) does not have significant overlap (in terms of inputs) vs. other construction, should the outlook in Residential match what is slated (or even faster), this could mean major pressure for resources in other construction sectors.

Geopolitics (Onshoring?):

- With the impact from the Russo-Ukraine War having eased, the escalation of Israel-Hamas tensions may yet result in similar, or even greater, impact on costs. Good judges also point to a China-Taiwan flashpoint before the end of the decade.
- It may be almost impossible for Australia to avoid costs impact of these events, but it does appear that a golden opportunity to substantially boost local manufacturing of key inputs (in the aftermath of COVID) has been missed.

China:

- The resurgent China economy theory (upon their late 2022 reopening after 'COVID Zero' policies) has largely disappointed. Recent attempts to provide further economic stimulus could see some improved economic performance but any benefit is likely to be fleeting.
- That is not to say the Chinese economy is in trouble, but more so that risks remain elevated and 'traditional' methods of stimulus could have less impact than they have in the past.
- So, our base case is ongoing patchy economic performance and solid manufacturing output to put downward pressure on materials costs. Hence, risks likely lie to the upside (i.e., stronger economic performance than expected) and upward pressure on materials costs.

METHODOLOGY

While our view is based on a variety of sources (not the least of which is WT market insight), the general approach in this pack is based on escalation from the input cost perspective. This aligns with the traditional QS approach to escalation but also allows rationalisation of bottom-up (i.e., input-level) and top-down (i.e., sector or economy level) escalation perspectives.

There is no single market-level data series which conceptually matches the above. However, data available by key inputs provides checks and balances on the overall WT view for key markets.

Points to note:

- All escalation shown is on a calendar year basis and is the % change between the full-year average vs. the previous year's full-year average.
- Escalation contribution by input is on a general, Australia-wide basis, while state-by-state figures are general across sub-sectors, project types and values. For more information on escalation relative to your project or sub-sector, please discuss with your usual contact or call your local WT office.
- In addition, escalation contribution by input assumes no other major drivers of escalation (e.g., large productivity increases, significant regulation changes re: approvals ('red tape')).

URBNSURF, Sydney



CONSTRUCTION ECONOMIST DAMON ROAST



Damon Roast
Construction Economist

Damon joined WT in June 2022 as Construction Economist to support the team and our clients in understanding economic conditions and their influence upon our projects. Damon joined us with a wealth of experience both in the local construction market and various global markets.

Damon provides research and analysis to help inform both our Market Reports and frequent reporting to our internal team and board. He is also available to assist our clients on research required for specific project opportunities.

Footnote references

- 1 Australian Bureau of Statistics, International Monetary Fund, WT.
- 2 ABS Building Activity, Engineering Construction
- 3 ABS Building Activity
- 4 ABS Wage Price Index, WT.
- 5 ABS Producer Price Index, WT.
- 6 ABS Producer Price Index, WT.
- 7 ABS Consumer Price Index, numerous State Government regulatory/pricing tribunals, WT.
- 8 ABS International Trade, WT.
- 9 Reserve Bank of Australia, WT.
- 10 Australian Securities and Investments Commission, WT.

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