

Rising Construction Costs

It is no secret that construction costs are rising significantly in recent times. The RICS recently held a CPD event entitled Mitigating the Risk of Cost Escalation on Construction & Infrastructure Projects. They presented some interesting findings notably that there is no agreement from Quantity Surveying practices of where costs are likely to increase with escalation reported to be anywhere between 6 and 8% for 2022 falling to between 4 and 5 % in 2023 and anywhere between 3 and 5% for 2024¹. When considering the rising costs of construction, we can look at the factors driving these costs up.

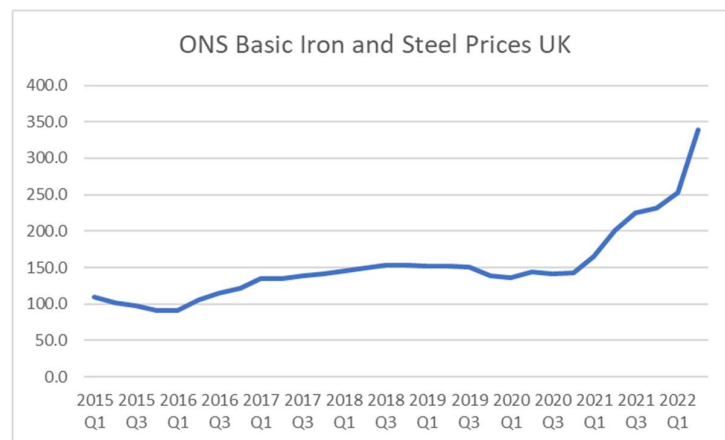
Timber

The Australian Bureau of Statistics confirms that over the past 12 months Timber, board and joinery has increased in cost in the order of 24.2% nationally². The ABS confirm that these increases are being driven by on going supply constraints for timber, strong freight prices, labour increases, storage storages, higher petroleum refining and manufacturing costs due to a decrease in global crude oil suppliers and an increase in demand for oil in response to easing COVID 19 restrictions.

Steel

Steel is another construction material experiencing significant price increases. CBRE confirmed that steel saw a sharp increase “between Q1 2021 and Q1 2022 which increased by 39.5%”³. The RICS concur that steel prices are increasing significantly with their findings for the first 6 months of 2022 confirming a possible steel price increase of up to 15%⁴.

This is not a factor isolated to Australia either. In the UK the Office for national Statistics confirmed that Steel prices rose by 46% in in the year to the end of Q2 2022. The ONS have tracked a sharp rise in steel prices since Q3 2020.



¹ RICS CPD Slides, Mitigating the Risk of Cost Escalation on Construction & Infrastructure Projects in Australia, 27 July 2022, RICS Online Academy, <https://ola.rics.org/course/view.php?name=MEE-AUSRCE-270722>

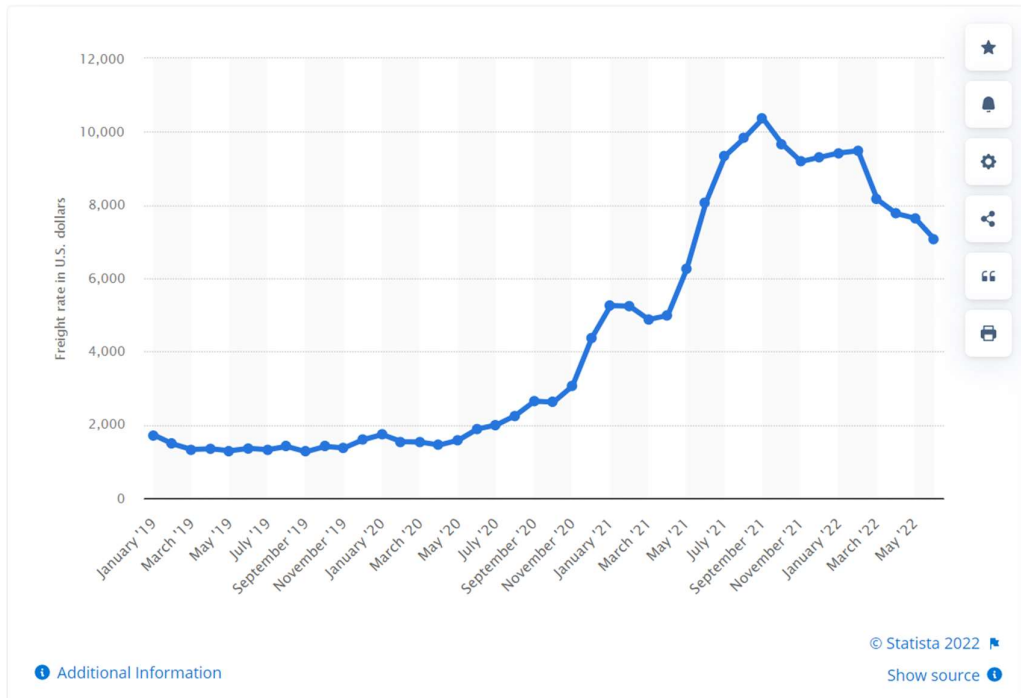
² Australian Bureau of Statistics, Producer Price Indexes, Australia, <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release>, June 2022.

³ CBRE, Australia Local Response - Sharp Rise In Construction Cost Inflation To Persist June 2022, <https://www.cbre.com.au/insights/reports/australia-local-response-sharp-rise-in-construction-cost-inflation-to-persist-june-2022>, Accessed August 2022.

⁴ RICS CPD Slides, Mitigating the Risk of Cost Escalation on Construction & Infrastructure Projects in Australia, 27 July 2022, RICS Online Academy, <https://ola.rics.org/course/view.php?name=MEE-AUSRCE-270722>

What is driving Increase Costs – Freight Prices

The ABS confirmed that strong freight prices are driving up the costs of timber, these increases are also being seen in the cost of steel. Freight costs have increased by a factor of seven since 2019 to December 2022 as can be seen by the Global container freight rate index.



Freight costs in Q2 of 2022 have started to reduce which may be an indicator that the increases that we have seen in construction costs may not continue, or at least will not continue to rise as sharply as they have over the past 6 to 12 months.

Oil

Oil has seen a similar price increase with the price of crude oil increasing from \$75.21 (AUD) in December 2021 to \$120.93 (AUD) in June 2022. That is in an increase of 60% in 6 months. However as with Freight costs there is now a slight downward trend being reported in relation to oil prices, however prices are not returning to their previously lower levels.

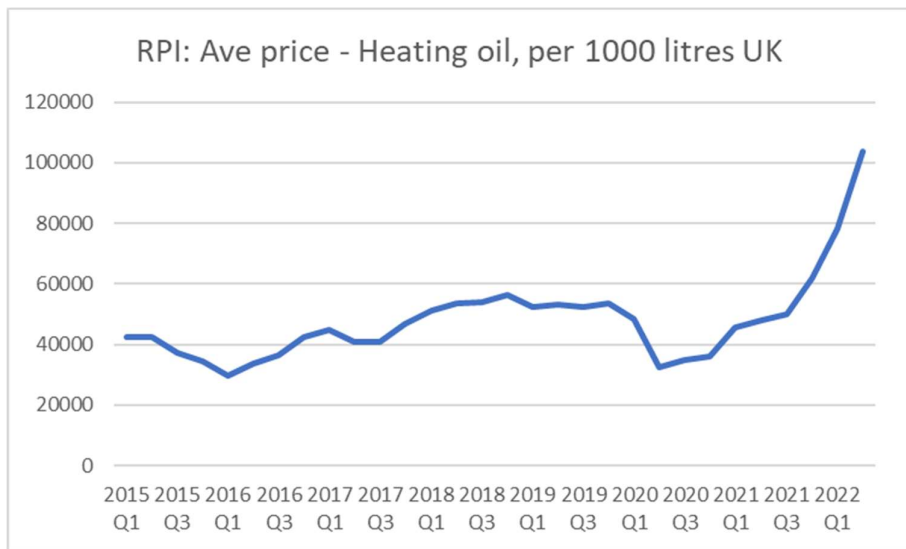
⁵ Statista, Global container freight rate index from January 2019 to June 2022, <https://www.statista.com/statistics/1250636/global-container-freight-index/>, accessed August 2022

Crude Oil Chart



6

This price reduction seen in the Australian market is not however being translated into lower energy costs elsewhere. The Office for National statistics in the UK has reported that Heating oil continue to rise sharply since Q3 2021 and the commencement of hostilities in the Ukraine.



7

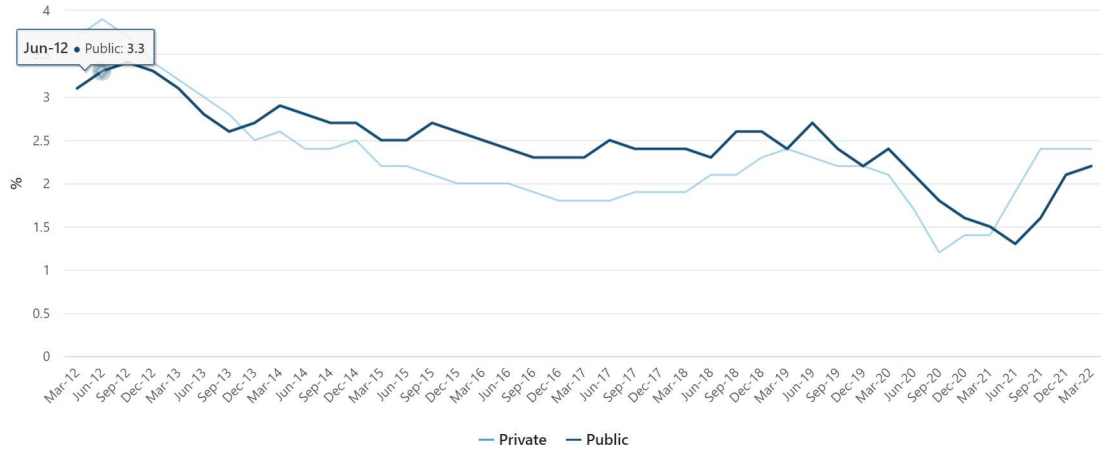
Wages

Whilst supply pricing continues to increase wages are however not keeping pace. The ABS has confirmed that “wages grew by 2.4% over the to March quarter 2022, with the annual rate of growth rising in each of the last five quarters”⁸.

⁶ Market Index, Crude Oil, <https://www.marketindex.com.au/crude-oil>, Accessed August 2022.

⁷ Office of national statistics, RPI: Ave price - Heating oil, per 1000 litres, <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/kj5u/mm23>, Accessed August 2022.

⁸ Australian Bureau of Statistics, Producer Price Indexes, Australia, <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release>, June 2022



Conclusion

Whilst there are some indicators that the increases in construction costs are being to slow there are still rising costs in construction. Factors driving costs up such as access to freight and oil will continue to push pricing up.

References:

1. RICS CPD Slides, Mitigating the Risk of Cost Escalation on Construction & Infrastructure Projects in Australia, 27 July 2022, RICS Online Academy, <https://ola.rics.org/course/view.php?name=MEE-AUSRCE-270722>
2. Australian Bureau of Statistics, Producer Price Indexes, Australia, <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release>, June 2022.
3. CBRE, Australia Local Response - Sharp Rise In Construction Cost Inflation To Persist June 2022, <https://www.cbre.com.au/insights/reports/australia-local-response-sharp-rise-in-construction-cost-inflation-to-persist-june-2022>, Accessed August 2022.
4. Statista, Global container freight rate index from January 2019 to June 2022, <https://www.statista.com/statistics/1250636/global-container-freight-index/>, accessed August 2022
5. Market Index, Crude Oil, <https://www.marketindex.com.au/crude-oil>, Accessed August 2022.
6. Office of national statistics, RPI: Ave price - Heating oil, per 1000 litres, <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/kj5u/mm23>, Accessed August 2022.
7. Australian Bureau of Statistics, Producer Price Indexes, Australia , <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release>, June 2022