Linesight

Australia

Country Insights and Commodity Report

Q3 2022

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In its latest update, the International Monetary Fund (IMF) has forecast 3.8% economic growth for Australia in 2022, before a marked slowdown to a rate of 1.9% next year. Inflationary pressures remain, with a rate of 6.5% expected to round out the year before 4.8% will be seen in 2023. The Reserve Bank of Australia (RBA) has taken a similarly aggressive approach to interest rates as that of many other central banks around the world, which is beginning to be reflected in a slowdown in household spending.

Construction output is expected to come in at 4.3% for the 2022 year in real terms, before easing off slightly in 2023 and in subsequent years. Inflation and interest rates, elevated material and labour costs, supply chain challenges and spiking energy prices are all weighing on the industry, with construction costs in particular having a significant bearing on the viability of some projects.

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Lumber

Lumber prices are expected to remain elevated this year, with persistent supply chain disruption further exacerbating shortages. The total number of dwellings under construction in Australia reached a record high in Q1 2022 and leading indicators suggest this may have been repeated in the June quarter. Further upwards price pressure will come from the imposition of the 35% import tariff on lumber products from Russia and Belarus, which account for a significant proportion of its imported laminated veneer lumber and engineered wood products. In the long term, supplies of lumber are expected to remain tight, despite the Labor government's AU$86 million investment in plantations, with the development of new plantations stagnant over the last two decades, according to the Australia Forest Products Association.

Cement and aggregates

While new construction activity is expected to slow towards the end of this year, tight supply and rising rates of inflation are expected to drive marginal price growth in the second half of the year. Rising energy costs will further contribute to this increase in prices, with the energy-intensive manufacturing process increasing in cost. Disruption to supply chains and elevated shipping rates, as demand and fuel prices rise, will tighten the availability of cement clinker, further driving up the cost of domestically manufactured cement.

Concrete blocks and bricks

Concrete block and brick prices are expected to continue to rise across the second half of the year. Driving this increase in prices will be a rise in manufacturing costs due to elevated energy prices, continued disruption to supply chains, particularly in China, and multi-year high rates of inflation. With the RBA aggressively hiking interest rates and new residential construction approvals beginning to regress, brick demand and prices will begin to moderate in the first half of 2023.

Steel (rebar and structural)

With global demand for steel moderating as economic growth stalls, and Chinese output cuts in the winter expected to have only a minimal effect on global output, a surplus of supply is anticipated to result in a decline in the price of steel in the second half of the year and into 2023. The collapse of activity in the Chinese residential sector is expected to be the most significant drag on global demand. While steel demand in Australian construction and rising inflation rates will exert some upwards pressure on steel prices domestically, a tighter credit environment and falling building approvals will begin to dampen domestic demand, as the Reserve Bank of Australia tightens policy.

Copper

Following its peak of US$10,730 per metric tonne on the London Metal Exchange in March, copper was down almost 30% by early October. Rising inflation rates, a near universal tightening of monetary policy globally and the increasing strength of the US dollar have all exerted significant downwards pressure on copper prices, which is exacerbated by the continued downturn in activity in the Chinese residential sector. Upside risk for copper prices in the short-term include a strengthening of demand in China as its substantial increase in infrastructure construction gains pace, low global copper inventories and an increase in demand in Australia as part of Labor's Powering Australia plan to improve the electricity grid. In the longer-term, copper prices are expected to increase significantly, with Goldman Sachs forecasting a price of US$15,000 per MT by 2025, as the green energy transition intensifies.

Australia – Commodity Report

Materials	Q4 2022 (f) AU$	Q4 2021 – Q4 2022 (f) AU$	2021-22* % change	Q2 2022 – Q3 2022 (e) % change
Copper (AU$/MT)	11,672	13,352	-12.6% ↓	-16.6% ↓ ●
Steel rebar (AU$/MT)	843	1,020	-17.4% ↓	-17.5% ↓ ●
Steel flat (AU$/MT)	823	1,088	-24.3% ↓	-17.7% ↓ ●
Lumber (AU$/M3)	141	131	7.7% ↑	3.6% ↑ ●
Asphalt (AU$/MT)	1,616	1,261	28.2% ↑	11.1% ↑ ●
Limestone (AU$/MT)	50	50	0.5% ↑	-16.7% ↓ ●
Cement (AU$/MT)	529	484	9.4% ↑	1.2% ↑ ■
Concrete (AU$/M3)	332	320	3.6% ↑	0.8% ↑ ■
Welded mesh (AU$/unit (a))	122	97	25.7% ↑	0.0% ↔ ■
Bricks (AU$/'000 unit)	1,701	1,556	9.3% ↑	0.3% ↑ ●
Plasterboard (AU$/unit (b))	37	35	6.5% ↑	2.2% ↑ ●
Diesel (AU$/litre)	2.15	1.46	47.4% ↑	1.0% ↑ ●

(a) 600x240cm, dia.-6mm
(b) 300x120x1cm (LxWxT)

● **Q2 to Q3 2022 % change greater than estimation in our Q2 report**
■ **Q2 to Q3 2022 % change less than estimation in our Q2 report**

Material	% change Q3 – Q4 2022 (f)	Level of impact of pricing on construction procurement and supply chain *	
Copper	+2.3% ↑	High	Copper prices are expected to have fallen in Q3 2022, and growth will slow further in Q4 and into 2023. The continued downturn in residential activity in China, slowing industrial activity in the US and Europe, coupled with a significant weakening of global currencies against the US dollar are the principal factors driving down prices. Chinese infrastructure spending and domestic grid infrastructure spending may exert some upwards pressure on prices towards the end of the year, though this is unlikely to be sufficient to cause any significant increase. In the long run, copper prices are set to rise substantially as the energy transition accelerates and EV manufacturing intensifies, with the increase in demand expected to greatly outweigh that of supply.
Steel prices - Steel rebar - Flat steel	 -0.6% ↓ -2.1% ↓	Moderate	A slowing of global demand and limited winter output in China are anticipated to result in a fall in the price of steel across the second half of the year. The sharp downturn in construction activity in China is expected to be the most significant drag on demand, with it typically accounting for approximately of 35% of China's steel consumption. Rising inflation and demand from Australian construction will exert some upwards pressure on domestic prices. However, with the RBA aggressively hiking rates and residential building approvals falling, this demand is expected to ease.
Lumber	+2.6% ↑	Moderate	Lumber prices are expected to rise across the second part of the year as supply remains tight due to disruption to supply chains and the aforementioned import tariff on conflict timber from Russia and Belarus. Given the proportion of laminated veneer lumber and engineered wood imports from Russia and Belarus used in the Australian commercial and residential sectors, this demand will underpin price growth this year. Lumber prices may, however, begin to moderate into the first half of 2023, as construction activity in Australia weakens.
Asphalt	+0.5% ↑	Moderate	Asphalt prices are thought to have increased by over 10% QoQ in Q3 and are expected to continue to rise into Q4. This is largely attributable to the currently elevated price of crude oil, which is expected to rise further following OPEC+'s decision to cut output by 2 million barrels per day on October 5th. Further upwards pressure on asphalt prices will be generated by the Australian government's significant project pipeline of infrastructure construction. However, with some projects being postponed, such as the Beaches Link tunnel in NSW, this pressure may begin to ease.

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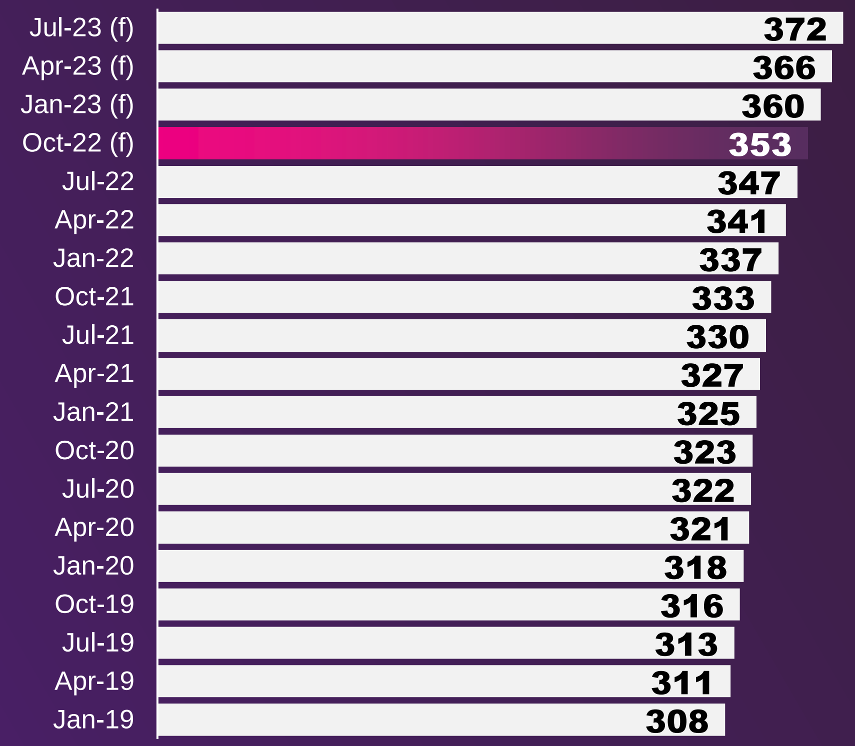
Australia – Commodity Report

AIQS Building Cost Index 2019-2023(f)

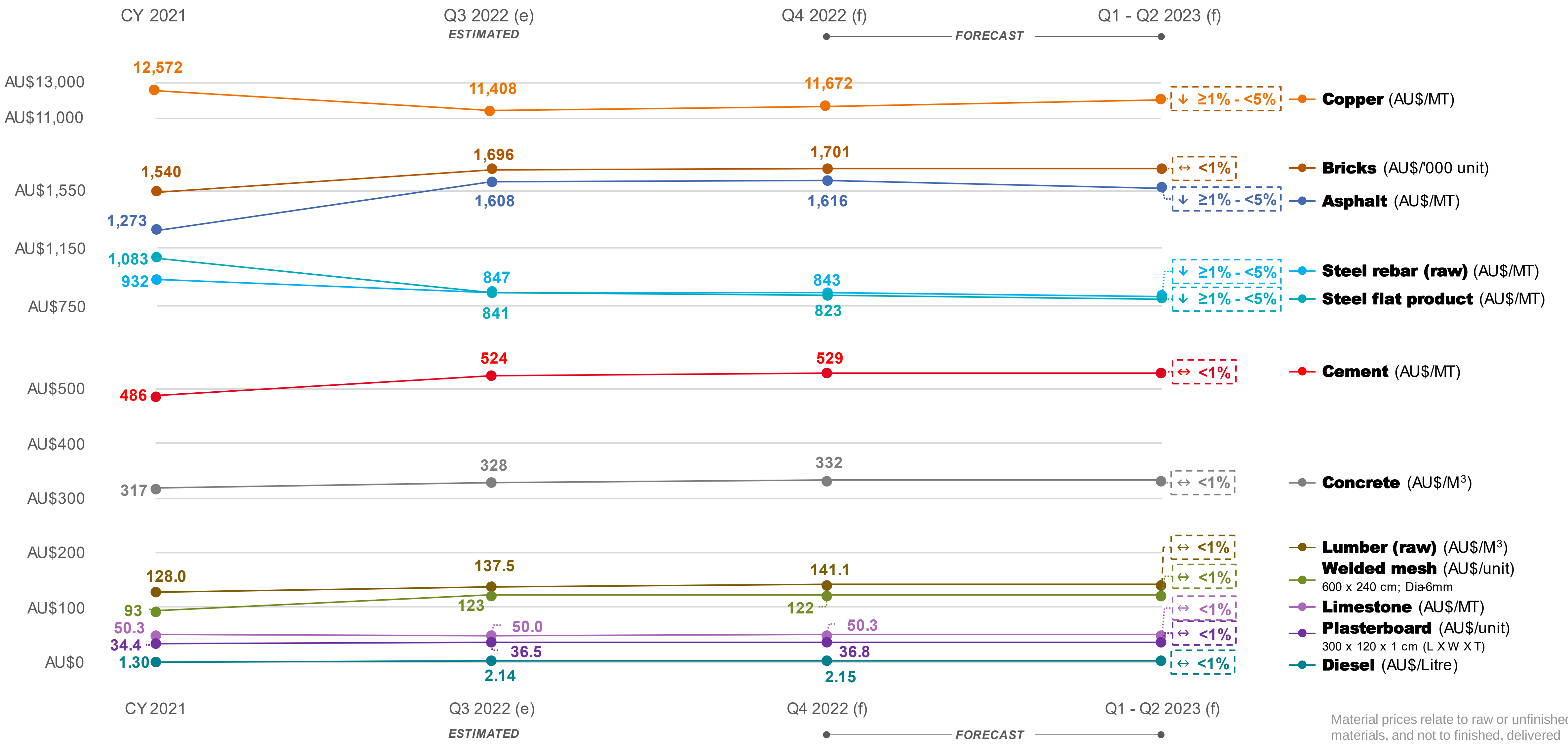


Material	% change Q3 – Q4 2022 (f)	Level of impact of pricing on construction procurement and supply chain *	
Cement **Concrete**	+1.1% ↑ +1.0% ↑	Moderate	Cement prices are thought to have risen marginally QoQ in Q3 2022, with demand from civil engineering exacerbating tight supply. Given the energy intensity of its production, increased energy costs are expected to lead to a further price rise in Q4 2022 and into 2023.
Limestone	+0.5% ↑	Moderate	Following the sharp increase early in the year, prices are expected to remain relatively stable through 2022, as demand remains balanced.
Welded mesh	-0.5% ↓	Moderate	While welded mesh prices are expected to fall marginally in the second half of the year, they are not expected to decrease to the same degree as steel. However, as construction activity in Australia slows, downwards pressure on prices may begin to build into the first half of 2023.
Bricks	+0.3% ↑	Low	Brick prices are estimated to have risen moderately in Q3 2022 and this is expected to continue into Q4. Further upwards pressure on prices will be generated by supply chain disruptions, particularly in China, and the increasing cost of energy. With the RBA aggressively tightening policy and residential approvals beginning to slow, towards the end of 2022 and into 2023, brick demand will begin to dampen, moderating price growth. Prices of plasterboard are expected to remain relatively stable in the coming quarters, appreciating slightly as inflation intensifies.
Plasterboard	+0.7% ↑	Low	
Diesel	+0.5% ↑	Moderate	The temporary excise cut on petrol and diesel came to an end on the 29th September 2022, with the full fuel excise of 46 cents per litre (Cpl) now reintroduced. In addition to the related increase in the GST, Australian consumers will be paying a 25.3 Cpl increase in taxes on diesel. Further upwards pressure on prices is expected to be generated by the decision by OPEC+ to cut production by 2 million barrels per day.

* Level of impact rating reflects a combination of factors: the price movement and also price level (compared to recent past beyond the last quarter), the importance of the material, and general state of the supply chain in terms of stability.

Please note that commodity prices are based on representative materials available in the respective countries, and as these materials may not be standard across all markets, cross-country comparisons on prices can be ineffective. For example, asphalt types can vary between hot, cold or a bitumen price, and standard unit sizes for materials can vary across countries.

Australia – Construction Materials Pricing (2021-2022)



Material prices relate to raw or unfinished materials, and not to finished, delivered and erected on-site prices.

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Australia – Macroeconomic overview

Economic indicators

3.84%
GDP growth in 2022 (f) and **1.48%** in 2021

6.23%
inflation rate in 2022 (f), and **2.86%** for 2021

12.6M
people employed in 2022 (f) and **12.32M** in 2021

4.2%
unemployment rate for 2022 (f) and **5.1%** in 2021

132
Consumer Price Index in 2022 (f) and **124.27** in 2021

120
Producer Price Index in June 2022 and **113.60** in June 2021

National holidays

7 public holidays
in Australia each year. All other public holidays are individually declared by the state and territory government.

- New Year's Day (1 January)
- Australia Day (26 January)
- Good Friday (15 April)
- Easter Monday (18 April)
- Anzac Day (25 April)
- Christmas Day (25 December)
- Boxing Day (26 December)

Australia – Macroeconomic overview

Output 2021 and 2022 (in millions)

	Total 2021	Total 2022 (f)	% change
Commercial	AU$37,8645	AU$39,869	5.3%
Energy and utilities	AU$46,739	AU$49,517	5.9%
Industrial	AU$17,505	AU$18,083	3.3%
Infrastructure	AU$39,118	AU$41,076	5.0%
Institutional	AU$18,742	AU$19,417	3.6%
Residential	AU$88,264	AU$91,921	4.1%

Long-lead equipment (LLE) and Supply Chain narrative

Long-lead equipment (LLE) lead times have changed drastically since the start of 2022. Suppliers have seen the implications of material shortages, delays and price hikes throughout the supply chain, which is leading to extended lead times and reduced commitment from suppliers for new projects. The key areas in focus are:

1. **Demand**: The demand for long-lead equipment in the data centre sector has continued to increase in Q3 2022. More data centre and crypto mining providers are joining the market, and this continued demand far outweighs the capacity of the supply chain. Entry onto the production line remains a significant challenge, with suppliers reporting fully booked capacity until Q2 2024. There has been some growth in the development of Tier 2 and Tier 3 suppliers to support this demand. However, it will take time to build an extended supply chain. There has also been no sign of a decline in demand yet in early Q4 2022.
2. **Material shortage**: Just as material availability started to improve, the further threat of escalation with the Russia-Ukraine conflict has cast further uncertainties of future material stocks and reserves. The supply chain has continued to seek alternative sources of raw materials, and although this has been with partial success, market lead times remain conservative.
3. **Freight durations and costs**: Heightened by the increase in fuel costs, and compounded by the instability of labour and container availability, freight durations have been particularly volatile in recent times. Early indications from Q4 2022 suggest some stabilization in shipping durations is returning to the market, but the associated costs remain volatile due to the global fuel crisis. As clients consider alternative solutions, it almost becomes cost prohibitive to use quicker forms of transport, such as air freight, due to these increasing fuel costs.

Construction Health and Safety practices and culture

12

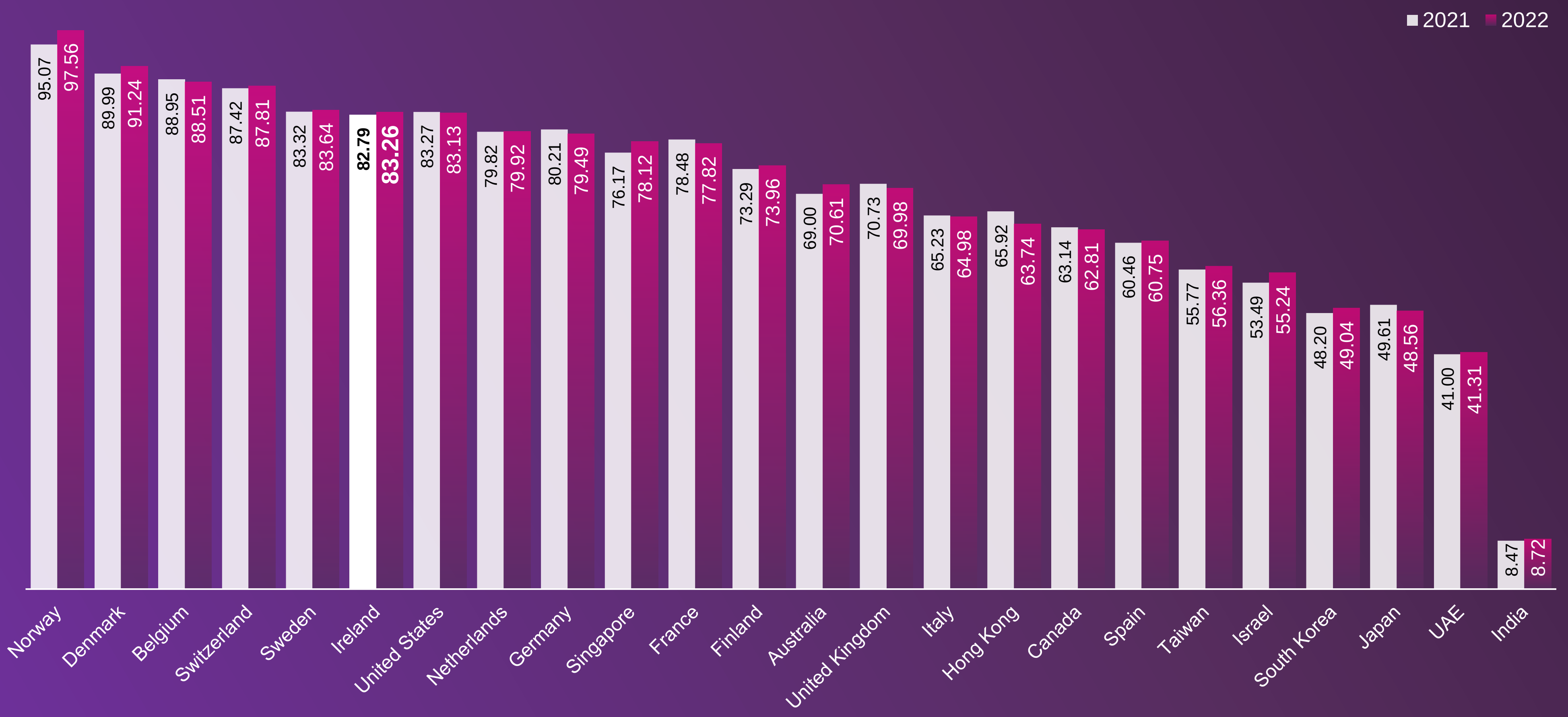
deaths in construction industry in 2021

15

deaths in construction industry from January to October 6th 2022

Australia – Macroeconomic overview

Labour productivity



Labour productivity per hour worked in 2021 international dollars, converted using Purchasing Power Parities

Labour costs

AU$53.50

as of June 2022, compared to AU$51.20 in June 2021.

Australia – Report methodology

Linesight has commissioned independent global research to track construction materials and commodity prices.
The approach and methodology for the collection of construction material pricing and other indicators is based on primary and secondary research.

Primary and secondary research

Primary research is conducted on a quarterly basis with stakeholders in the value chain, including manufacturers and suppliers/distributors of the target materials, to ascertain market information on prices in recent quarters, and also on projections for changes in the coming quarter and remainder of the year. The market analysis also involves a thorough assessment of secondary sources of data on materials and labour prices, in addition to underlying demand and supply trends that will impact market prices.

Sources include GlobalData's Construction Intelligence Center (CIC), the World Bank, IMF, OECD, as well as country specific national statistics offices, such as the U.S. Bureau of Economic Analysis, Bureau of Labor Statistics, and also industry specific associations and publications. A more comprehensive list of sources is included below.

Definitions

- Commodity prices are net of taxes for all the countries
- Prices are not customer delivered
- All commodities are raw materials
- Nominal and real data

Nominal data series do not exclude changes in prices and are also referred to as current prices series.

Annual changes in nominal data for construction output will include changes in construction activity, as well as changes in costs for materials and equipment.

Real data series are calculated by keeping prices constant (so, are also referred to as constant price series), and therefore, they reflect changes in activity only. Growth rates in nominal terms can overstate the pace of growth in construction activity if there is high inflation stemming from rising prices for key inputs.

Sample sources – Australia

For Australia, sources for this report include, but are not limited to:

- IMF
- ABS
- AIQS
- RBA
- Safe Work Australia
- GlobalData's Construction Intelligence Center (CIC)

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