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Insights into Output of Building construction prices

Information paper presenting insights into prices across the Building construction industry subdivision of the Producer Price Indexes (PPI)

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Source: [Producer Price Indexes, Australia, June Quarter 2024](#)

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Introduction

The [Producer Price Indexes \(https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release\)](https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release) (PPIs) provide insights into the Australian economy across industries, including Construction, measuring the price change of products (good and services) as they leave the place of production or as they enter the production process. Prices are measured from the perspective of the industries that produce goods and services. PPI input price indexes show how the costs being incurred by businesses to produce their products and services are changing, while the output price indexes measure the rate of change in the prices of goods and services as they leave the producer (and are then received by other businesses or consumers). In some cases (such as the HomeBuilder Grant scheme), consumers receive grants or rebates which lower their out-of-pocket costs. In these cases, the PPIs reflect the price received by the producer (excluding the impact of grants) while the Consumer Price Index (CPI) is based on the out-of-pocket costs (including the grants received by the consumer).

This article outlines the factors impacting prices across the Building construction industry subdivision of the PPIs from 2019 to 2024, where many interrelated factors including

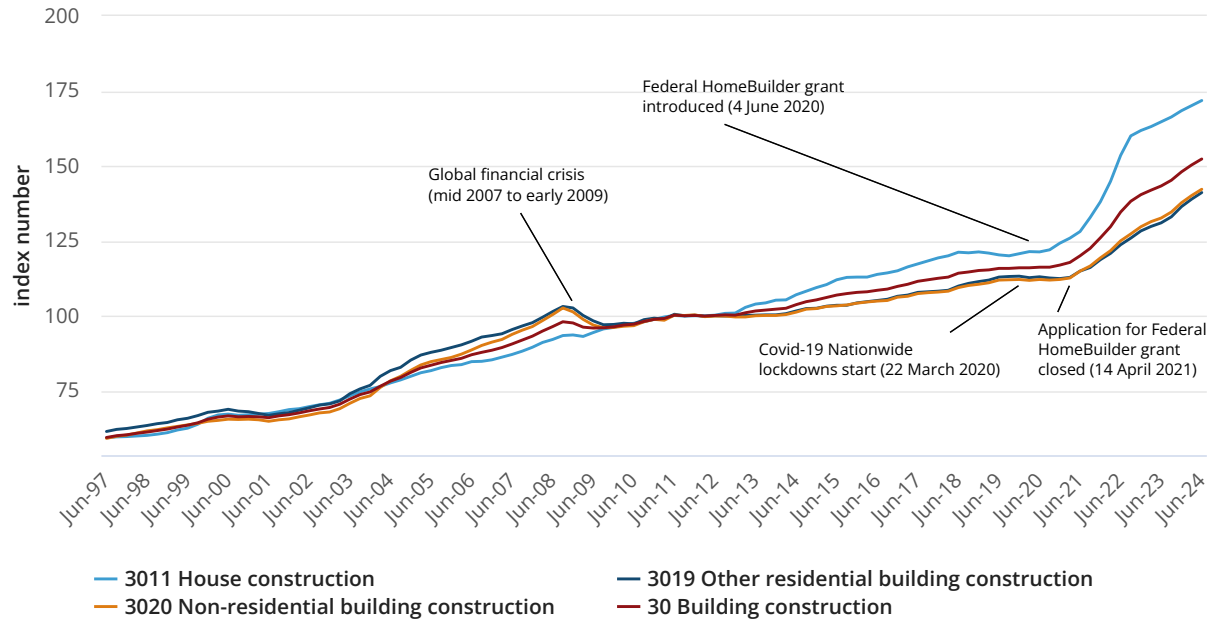
demand across the industry, input material prices, labour availability, competition and risk have impacted builders' decisions on overall pricing. Bringing together information from a range of sources, including PPIs, wages and building approvals provides rich insights into how prices have been changing across the construction industry.

The focus of this article is the Building construction subdivision, which includes House construction, Other residential building construction (e.g. apartments) and Non-residential building construction (e.g. office buildings, hospitals). It does not cover price indexes related to Heavy and civil engineering construction (e.g. roads and bridges), which are separate PPI indexes.

Overview of Building construction output prices

Following the initial shock of the COVID-19 pandemic, prices received by Building construction businesses have increased 31.1% from September quarter 2020 to June quarter 2024 (Figure 1), driven by growth in House construction prices which rose 40.8% over this period. Prices received for Other residential building construction (25.3%) and Non-residential building construction (27.1%) also strongly contributed to the rise.

Figure 1: Outputs of Building Construction, Index numbers, Australia



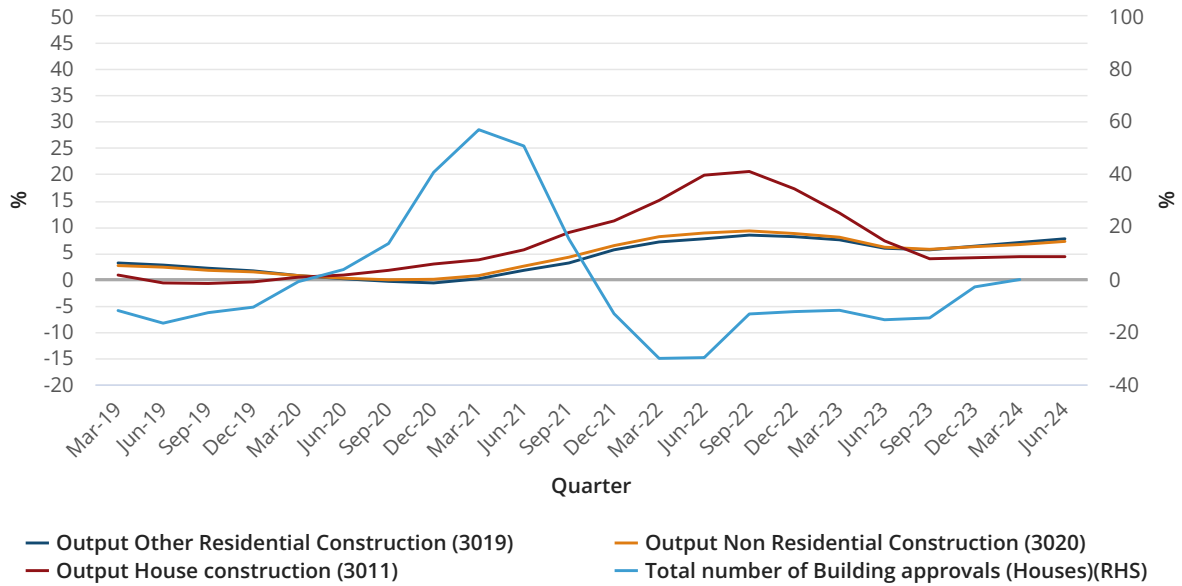
2019 to September 2020

Prior to the beginning of the COVID-19 pandemic, annual growth in prices received by builders was easing. Subdued growth was recorded across each of the residential and non-residential building classes within the industry, as demand softened in 2019 and early 2020 (Figure 2).

This easing of growth was magnified during the initial shock of the pandemic, as lockdowns impacted construction activity and demand weakened from April to December 2020.

The introduction of the federal HomeBuilder and other state-specific housing construction grant programs from June 2020, together with historically low interest rates, coincided with a notable increase in demand and House construction approvals that peaked in March 2021, as shown in Figure 2. This strong demand and anticipated pipeline of work influenced higher Outputs of House construction prices. Activity and price growth in Other residential building construction and Non-residential building construction both remained relatively subdued (Figure 2).

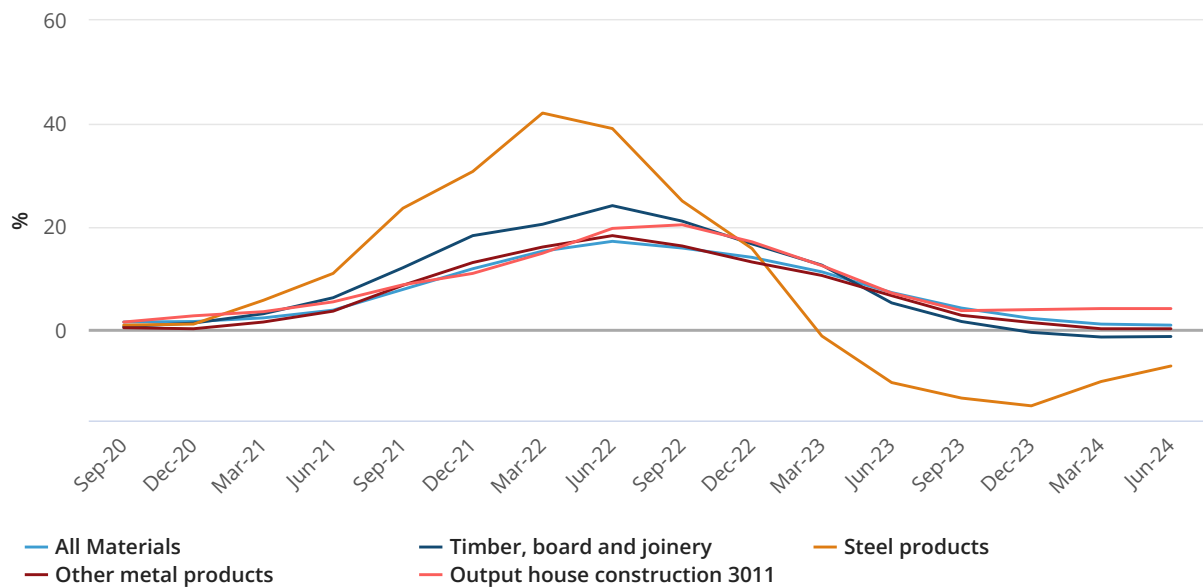
Figure 2: PPI Construction output indexes and Building Approvals, Australia, Annual percentage change



From March 2021, the impact of supply constraints, both globally and domestically, reduced timber and metal supply. Coupled with strong demand for these materials, this resulted in a sharp rise in the Input to the House construction index (Figure 3), which measures price changes of materials used in house construction. Timber, board and joinery, Other metal products and Steel products account for half the contribution to the Inputs to House construction index ([Table 30 \(https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release#data-downloads\)](https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release#data-downloads)). Builders passed through these rises, with the input and output series' for House construction aligning through 2021 and 2022, as shown in Figure 3. These products, especially timber, are used more predominantly in house building than they are for other types of construction, and so had a larger impact on the House construction index than on the other indexes. In addition, time frames for House construction are shorter than for other types of

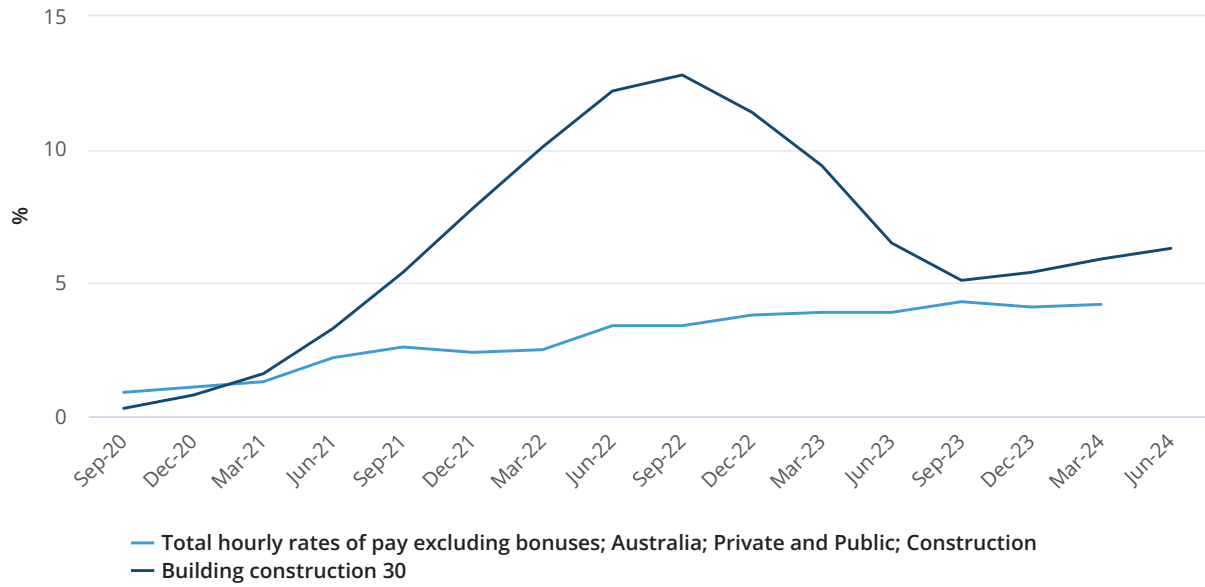
building construction, so changes to input costs tend to flow through to house building prices more quickly.

Figure 3: Material inputs into House construction and Outputs of House construction, Annual percentage change



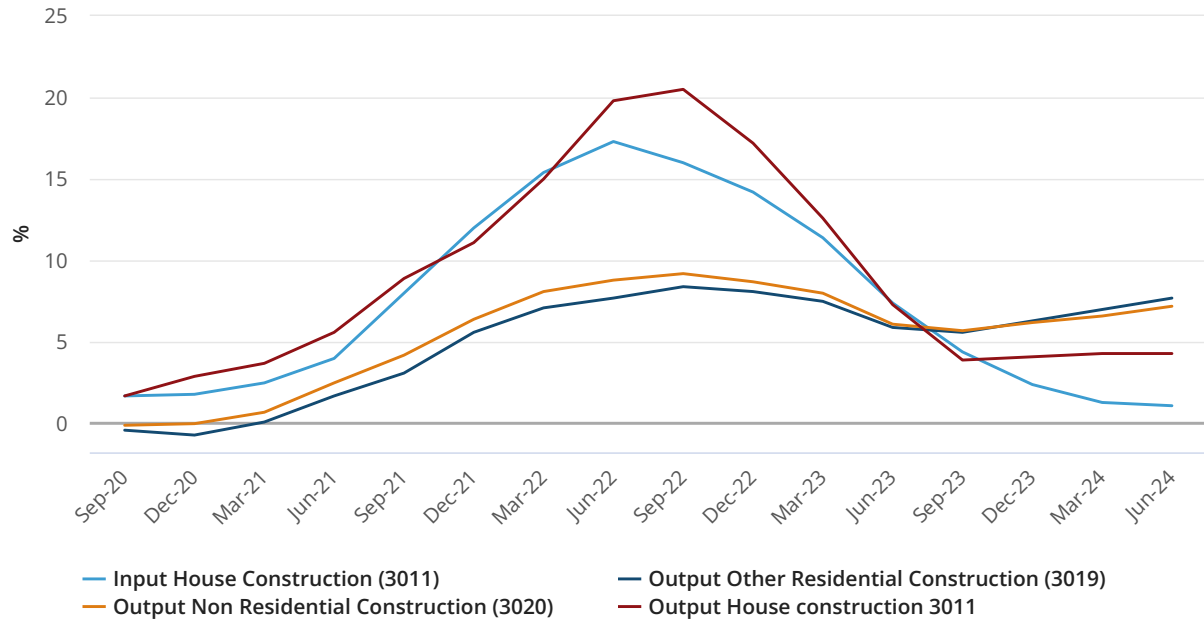
Strong building activity and low overseas migration resulted in high demand for contractors and tradespersons amid limited supply from late 2021. This created competition for skilled workers integral to project completion across all of the Construction industry and resulted in higher wages growth (Figure 4) as businesses paid more to attract and retain staff. Labour accounts for a significant proportion of construction project costs, with these increased costs influencing higher output prices in all three classes of Building construction.

Figure 4: Wage Price Index (Construction) and PPI Building construction, Annual percentage change



Upward pressure on labour costs combined with continued strong demand and input material price rises accelerated annual growth across Building construction, which peaked in September 2022 at 20.5% for House construction, 9.2% for Non-residential construction and 8.4% for Other residential construction, as shown in Figure 5.

Figure 5: PPI Construction indexes, Australia, Annual percentage change



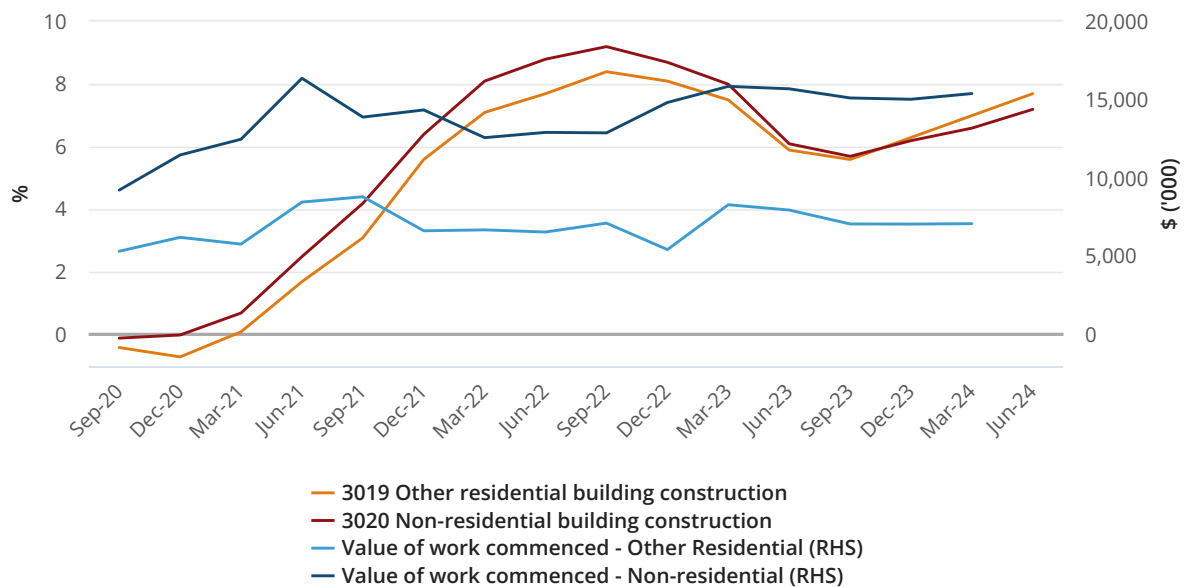
December 2022 – June 2024

Demand for new house construction softened through 2022, amid the winding down of Government incentives, rising interest rates, affordability pressures and lengthy build times. This resulted in the pipeline of House construction work moving towards the finishing stages from late 2022. While prices were still elevated, demand for materials used at the beginning stages of House construction (structural timber, steel beams) started to weaken as supply chains normalised, easing some of the upward pressure and resulted in moderating price growth. However, strong demand for materials used in the final stages of house construction (ceramic products, plasterboard and paint) together with ongoing cost pressures from wages and energy inputs curbed the deceleration of overall House construction price growth (Figure 5).

Through 2023, consistent Other residential and Non-residential building project commencements (Figure 6) across the country led to constant demand for concrete products and other materials used across all construction projects. Prices for these products were increasing due to increased energy input costs. A solid pipeline of building

commencements enabled these higher costs to be passed through, leading to increases in the final prices Other residential and Non-residential building projects. Skilled labourers remained in short supply, with competition for workers across all construction projects and other industries resulting in wages continuing to grow across the industry (Figure 4). Annual growth in output prices for Other residential building construction and Non-residential building construction have continued to trend above 5% in 2024, as rising labour and project costs were passed on and increased risk due to persistent labour supply issues and industry insolvencies was factored into pricing.

Figure 6: PPI Construction output indexes, Annual percentage change and Building Activity, Australia, Value of work commenced



Nationally, price growth for Outputs of House construction has stabilised at a moderate pace through 2024, with labour costs and demand the main factors influencing prices. Differing demand has impacted builders’ ability to pass through costs, resulting in a divergence in growth across states, as shown in Figure 7. Steady demand influenced by

strong population growth in Western Australia and South Australia has been partly offset by easing demand for new houses in New South Wales and Victoria. Changes in input material costs have continued to impact on growth through this period, although to a lesser extent than previous years.

Figure 7: PPI Outputs of House construction index, by selected states, Annual percentage change

