



MASTER BUILDERS
A U S T R A L I A

8 December 2021

The Hon Michael Sukkar MP
Minister for Housing
Assistant Treasurer
Parliament House
Canberra ACT 2600

The Hon Angus Taylor MP
Minister for Industry, Energy and
Emissions Reduction
Parliament House
Canberra ACT 2600

Dear Ministers

I am writing to follow-up discussion about the impact of materials shortages and supply constraints on construction prices and activity.

The main problem is that the cost of some building materials continues to increase at a very rapid pace. For builders who entered into fixed-price home building contracts over the past 18 months, these cost increases could completely erode profit margins on these projects.

The cost of newly-built homes is currently rising at its fastest rate in 21 years. During the September 2021 quarter, there was a 3.8 per cent increase in the cost of new dwellings purchased by owner occupiers. This is the sharpest increase since the September 2000 quarter when there was growth of 8.1 per cent (due to the introduction of the GST).

Materials cost increases are a big contributor to building price increases. There has been an 8.0 per cent increase in the cost of building materials over the year to September 2021. Over this period, prices have increased across all 11 categories of building product covered by the ABS figures. Builder margins to cover contingencies (ie delay/cost increases) and profit tend to be around a net 10% margin.

Timber and steel are experiencing the biggest price increases. Over the year to September 2021, the cost of steel products is up by 23.7 per cent while timber-related products have seen prices grow by 12.2 per cent.

For some specific products, price increases have been particularly acute. The cost of reinforcing steel rose by 22.1 per cent over the year to September while structural timber is up by 22.1 per cent.

Hobart has seen the highest increase in steel by 43% and Adelaide the highest increase in timber by 14.9%. The tables attached provide national and state breakdowns of construction materials price increases in ABS September 2021 Producer Price Index data.

Supply of construction products in normal times when there is excess demand can be supplemented by imports. Unfortunately for Australia, domestic production is at full capacity and imports are constrained by logistical and global demand pressures, with the US market influencing Australian prices.

Australian builders are hopeful that interest rate increases in the US have a positive impact on bringing down material prices in Australia.

Master Builders acknowledges the global supply chain problem is not unique to building and construction. It is made worse in building and construction because global activity is booming and dictating market prices but these prices cannot be passed on in fixed price residential building contracts mandated by most Australian States.

The cost strain is worn by the builder because they can't pass on cost increases to consumers and have security of payment obligations to subcontractors. Our member states are engaging directly with their respective governments on options for more flexibility in fixed price contracts.

Workforce shortages are also adding to price and the risk of not completing building projects. Recent Master Builders member surveys of workforce challenges indicate at least a 3 month delay across the board for labourers and trades.

While the volume of construction business insolvencies is currently at quite a low level by historic standards, there are a number of grounds for concern. These include the following:

- The number of construction businesses entering external administration over the three months to October 2021 is 48.2 per cent higher than the same period last year.
- The share of all insolvencies accounted for by construction businesses has risen sharply over recent months and is coming close to its highest level since records began in mid-2013.

With many creditors currently holding off with respect to recovering debts owed to them, the worry for 2022 is that insolvencies could rise much further once creditors become more assertive again.

To mitigate price pressures and insolvency risk in the sector, Master Builders is therefore seeking the following:

- The Australian Competition and Consumer Commission (ACCC) taking a more active role in construction materials price monitoring.

- Better engagement with banks on assisting building and construction businesses with finance and cashflow challenges.
- The Australian Taxation Office taking a measured approach with building and construction business.
- State governments enabling more flexible requirements for fixed price contracts to manage exceptional circumstances such as pandemic related supply constraints.
- Government taking a more active role in boosting local manufacturing, supply and workforce capability in the building and construction sector. This might be delivered through a new, dedicated modern manufacturing cluster.
- Government taking a more active role in enabling trade access arrangements for imported building products.

In addition to the above Master Builders has been working directly with other industry representatives such as the Australian Forest Products Association (AFPA) to develop product specific responses. Attached is a copy of our joint advocacy campaign on possible short and medium term policy responses to timber supply shortages.

To this end, Master Builders acknowledges and congratulates recent support from the Federal Government to address immediate domestic timber supply challenges.

Master Builders appreciates the opportunity to engage with you on these issues and work constructively with government on ways to mitigate price pressures and the risk of business insolvency.

I would be happy to meet to discuss the issues raised in this letter should this be required.

Yours sincerely



Denita Wawn

Chief Executive Officer



+61 2 6202 8888



enquiries@masterbuilders.com.au
www.masterbuilders.com.au



Level 3, 44 Sydney Avenue
Forrest ACT 2603



PO Box 7170
Yarralumla ACT 2600