Economics and Markets Research

Economic Comment

Construction Costs: From High to Higher

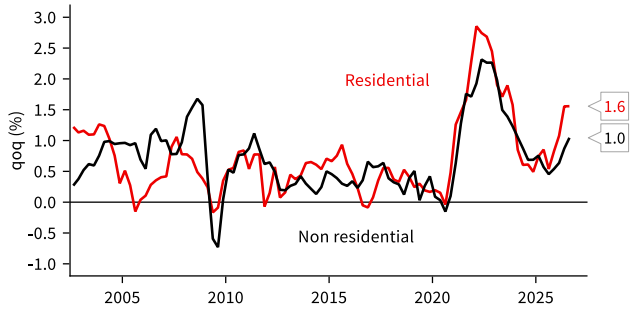
Key points

- **Construction material costs are rising again. Input costs for detached housing rose 2.1% in the June quarter, the strongest quarterly increase since late 2022.**
- **This is building off an already high base, with materials costs around 40% above pre-pandemic levels.**
- **Some materials are particularly exposed to the Middle East conflict because of their high import intensity, including refined fuels.**
- **These costs matter but are a relatively small share of the cost base, with manufactured inputs around a quarter of residential construction output.**
- **Timely indicators suggest the direction of travel in costs is clearly upwards.**

Construction input cost growth has picked up again.

Purchase cost growth has strengthened across construction firms in the NAB Business Survey. On a trend basis, purchase costs for residential construction firms rose 1.6% qoq in the September quarter, while non-residential firms recorded a more modest increase of 1.0% qoq.

Construction Purchase Costs



Source: National Australia Bank
Note: 2-quarter moving average.

The pick-up in purchase cost growth partly reflects the pass through of renewed cost pressures because of the conflict in the Middle East. Early signs were already evident in the June quarter Producer Price Index, and higher commodity prices and freight prices suggests there is more to come.

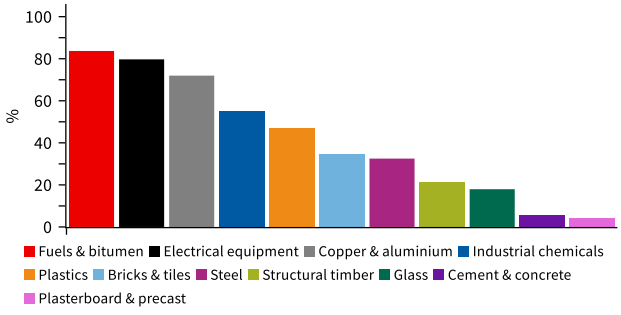
Labour availability remains a key constraint on construction activity, but the focus of this note is materials. We detail which construction inputs are most exposed to global developments by considering their import intensity and importance to the construction industries overall cost base. It then examines higher frequency data to assess how costs are evolving, before considering how the cost picture has changed over the past few years.

Import intensive inputs are most exposed.

Import intensive inputs are more exposed to global developments and are more sensitive to changes in global commodity prices, freight costs, and supply disruptions. Fuel & bitumen and electrical equipment are among the most import dependent inputs for the construction industry, with imports accounting for over 80% of purchases in both residential and non-residential construction. Copper & aluminium are also highly import intensive, with imports accounting for around 70% of residential construction purchases and 60% in non-residential construction.

Plastics are roughly evenly split between domestic and imported sources, while steel is more import intensive in non-residential construction (50%) than residential construction (30%). Structural timber has an import intensity of around 20% in residential construction and 10% in non-residential construction. In contrast, cement & concrete and plasterboard & precast products are predominately sourced from domestic producers.

Import Intensity of Residential Construction Inputs



Source: ABS; National Australia Bank
Notes: Data as at 2023-24.

While some construction inputs are highly import dependent, these product level import shares overstate the construction sector's overall exposure. Manufactured inputs account for only around one quarter of the value of residential construction output. Within this category, imports account for about 30% of manufacturing industries' supply to residential construction and 40% to non-residential, below the import shares of many individual products above highlighted above.

Author: Jessie Cameron, Economist

© National Australia Bank Limited ABN 12 004 044 937 AFSL and Australian Credit Licence 230686

Direct purchases of refined fuels sit within the manufactured inputs category and account for just 0.3% of residential construction output. However, this understates the industry's exposure because fuel is also embedded in goods and services purchased from other industries. For example, road transport services accounts for 1.3% of residential construction output, and about one tenth of that reflects imported refined fuels. Considering fuel used throughout the supply chain, for every dollar of residential construction output, 3 cents are refined fuels costs.

Composition of Residential Construction Output

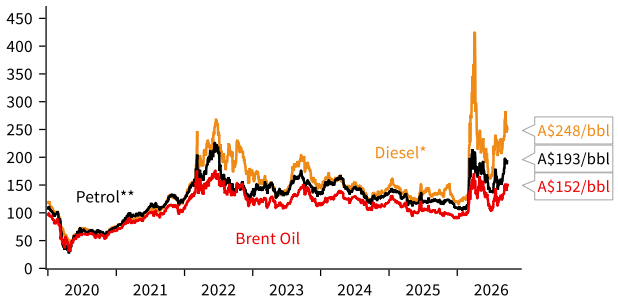


Source: ABS; National Australia Bank
Notes: Shares of residential building construction output at basic prices in 2023-24; Construction services have been allocated across components; GOSMI is gross operating surplus and mixed income.

Construction costs are under renewed pressure.

Renewed cost pressures have emerged alongside the increase in oil prices. The disruption to global oil supply has increased the price of brent oil by ~50% since the onset of the Middle East conflict. This has flowed through to refined fuel products. Diesel prices around 90% higher than pre-conflict levels, partly reflecting supply disruptions in key diesel exporting regions. Higher diesel costs raise the price of transporting materials and operating heavy machinery on site, adding to cost pressures across the construction sector.

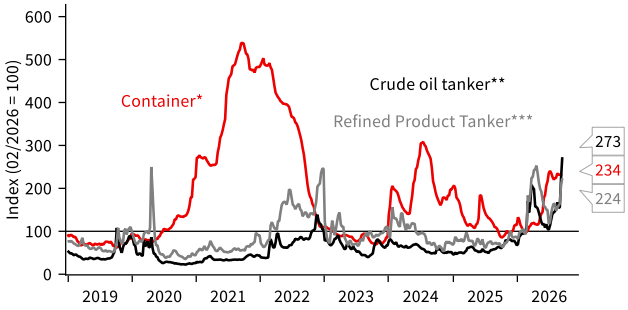
Oil and Singapore refined products (A$)



*Gasoil 10ppm, **Mogas 95
Source: National Australia Bank, Bloomberg

Shipping costs have also increased because of higher fuel prices as well as insurance costs and re-routing. While crude oil and refined product tanker costs were easing from their late March highs, they have since re-accelerated and are now around 170% and 125% above pre-conflict levels. Meanwhile, the cost of shipping finished manufactured goods has remained elevated since February 2026 and are about 130% higher than before the conflict.

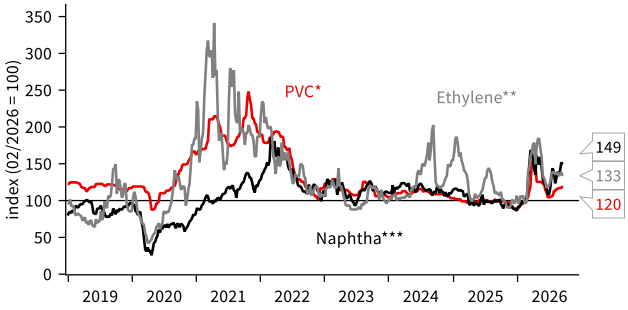
Global Shipping Costs



Source: Bloomberg; National Australia Bank
Notes: *Drewry World Container Index; ** Baltic Dirty Tanker Index; *** Baltic Clean Tanker Index.

Petrochemical feedstock and PVC are embedded throughout the construction supply chain, including pipes, plumbing fittings, cable insulation and conduit, sealants, paints and coatings, as well as packaging materials. Ethylene prices peaked at 84% above their February 2026 level, while naphtha and PVC prices reached peaks of 68% and 55%, respectively. While prices have retraced part of these gains, they remain above pre-conflict levels.

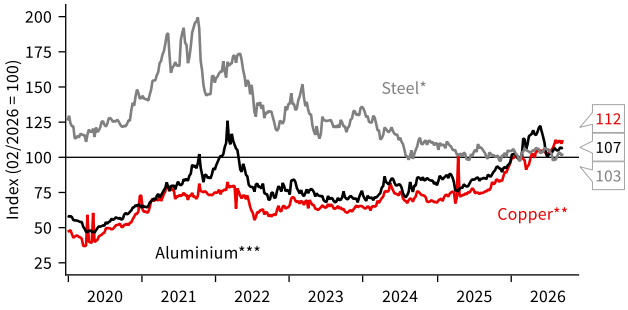
Petrochemical Inputs and Plastic Prices



Source: Bloomberg; National Australia Bank
Notes: * Asia PVC CFR; ** US Gulf Ethylene; *** Northwest Europe Naphtha.

Other construction related commodities have seen more modest price increases. Aluminium, which is widely used in windows, doors, cladding and panels, rose to around 20% above pre-conflict levels in late May before easing back to remain 7% higher. Copper, a key input into electrical wiring and cabling, is currently 12% above pre conflict levels. In contrast, steel products, including rebar and hot rolled coil, are only slightly higher.

Other Commodity Prices

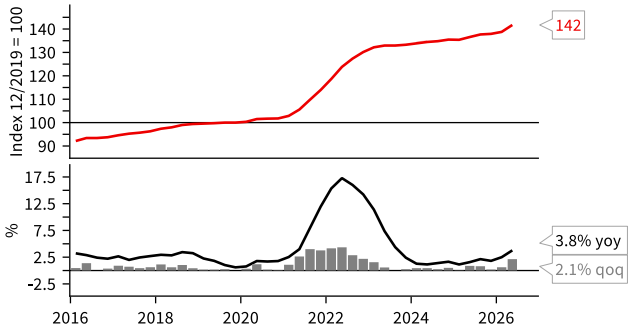


Source: Bloomberg; National Australia Bank
Notes: * SHFE Rebar Generic 1st Future; ** LME Copper Spot; *** LME Aluminium Spot.

Material input cost growth has eased from pandemic highs but remains elevated.

These renewed cost pressures came against an already elevated price level. Growth in material costs for detached housing slowed from a peak of around 17% yoy in mid-2022 to 3.8% yoy to Q2 2026. However, while cost growth has moderated, the level of costs has not fallen back. Material costs remain around 40% above pre-pandemic levels.

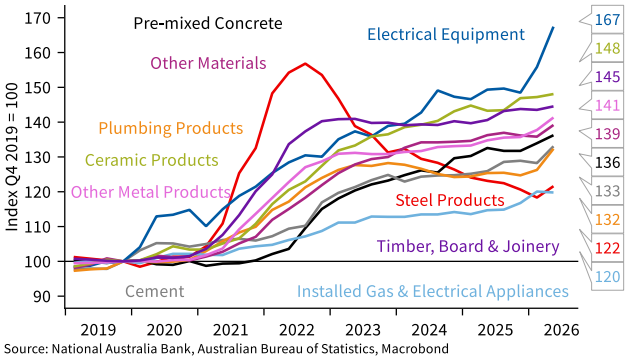
House Building Material Costs



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

That elevated level largely reflects the sharp increase in costs over 2021 and 2022. It reflected both domestic and global supply shortages because of the COVID pandemic, as well as strong demand for new housing supported by the Federal HomeBuilder Grant, state grants and low interest rates. Timber and steel led the rise, with steel price rises peaking at 42% over the year to Q1 2022 and timber at 24% over the year to Q2 2022, although increases were broad-based across most materials. While the pace of growth has since slowed as supply chains normalised and demand softened, steel is the only major input where prices have fallen back materially from its post-pandemic peak.

House Building Material Costs

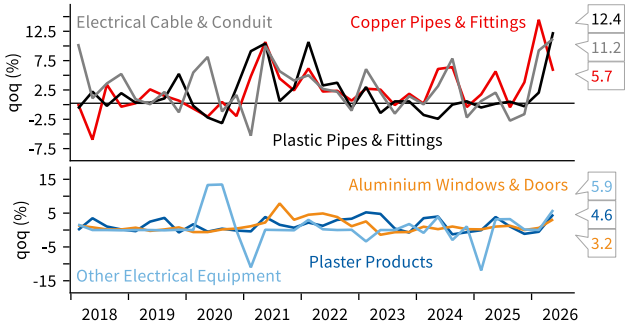


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Renewed cost pressures were already evident in Q2.

Input costs for detached housing construction rose 2.1% qoq in the June quarter 2026, the strongest quarterly increase since late 2022. Cost pressures appear to be driven by materials exposed to the Middle East conflict. For example, electrical cable & conduit prices rose 11.2% in the quarter, supported by higher copper and PVC costs. Plastic pipes & fittings increased 12.4% qoq, while plaster products increased 4.6% qoq because of higher manufacturing and transportation costs. Aluminium windows & doors rose 3.2% qoq, reflecting higher aluminium and freight costs.

House Building Material Costs



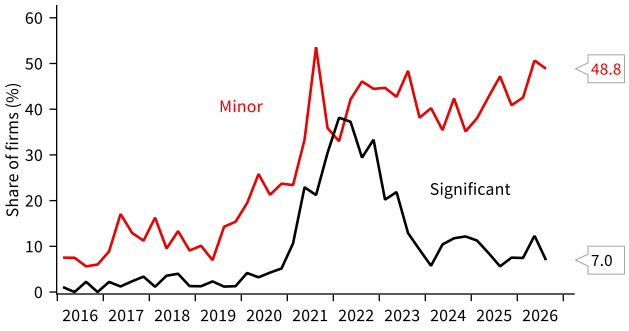
Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

The outlook

Construction input cost pressures are rising again, with import intensive inputs such as refined fuels and electrical equipment most exposed to the conflict in the Middle East. While this is a material shift, these inputs account for a relatively small share of residential construction output, limiting the direct impact on overall build costs.

Cost increases are likely to be more moderate than during the pandemic. The pipeline of work remains elevated, and is further supported by non-residential work including the data centre buildout and public sector investment. However, unlike 2021 and 2022, cost pressures are being driven primarily by supply side disruptions rather than a combination of surging demand and constrained supply. Almost half of construction firms reports materials as a minor constraint on output in Q3, but only 7% of firms cited material availability as a significant constraint, compared with around 30% at the pandemic peak.

Materials as a Constraint on Construction Output



Source: National Australia Bank

Economics and Markets Research Contacts

Sally Auld
Chief Economist
+61 422 224 752
sally.auld@nab.com.au

Teisha Bonner
Executive Assistant
+61 452 093 086
teisha.bonner@nab.com.au

Barbara Leong
Research Assistant
+61 429 127 590
barbara.leong@nab.com.au

Economics

Australian Economics

Gareth Spence
Head of Australian Economics
+61 422 081 046
gareth.spence@nab.com.au

Taylor Nugent
Senior Economist
+61 452 671 752
taylor.nugent@nab.com.au

Jessie Cameron
Economist
+61 491 380 013
jessie.cameron@nab.com.au

Michael Hayes
Economist
+61 411 186 777
michael.hayes@nab.com.au

International Economics

Tony Kelly
Head of International Economics
+61 477 746 237
antony.kelly@nab.com.au

Gavin Friend
Senior Markets Strategist
+44 207 710 1588
gavin.friend@eu.nabgroup.com

Josh Copeland
Economist
+61 484 239 255
josh.copeland@nab.com.au

Behavioural Economics

Dean Pearson
Head of Behavioural Economics
+61 457 517 342
dean.pearson@nab.com.au

Robert De Iure
Senior Economist
+61 477 723 769
robert.de.iure@nab.com.au

Economics Analytics

Brien McDonald
Senior Economist
+61 455 052 520
brien.mcdonald@nab.com.au

Thao Nguyen
Senior Data Analyst
+61 451 203 008
thao.nguyen5@nab.com.au

Markets Research

Skye Masters
Head of Markets Research
+61 467 767 604
skye.masters@nab.com.au

Jacob Jones
Strategist
+61 2 7226 8217
jacob.jones@nab.com.au

Credit Strategy

Peter Fullerton
Head of Credit Strategy
+61 400 237 416
peter.fullerton@nab.com.au

FX Strategy

Ray Attrill
Head of FX Strategy
+61 2 9293 7170
ray.attrill@nab.com.au

Rodrigo Catril
Senior FX Strategist
+61 2 9293 7109
rodrigo.h.catril@nab.com.au

Rates Strategy

Kenneth Crompton
Head of Rates Strategy
+61 439 411 709
kenneth.crompton@nab.com.au

Gregorius Steven
Rates Strategist
+61 2 7209 8133
gregorius.steven@nab.com.au

Commodity Strategy

Vince Carse
Commodity Strategist
+61 3 7035 7039
vince.carse@nab.com.au

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click here to view our disclaimer and terms of use.