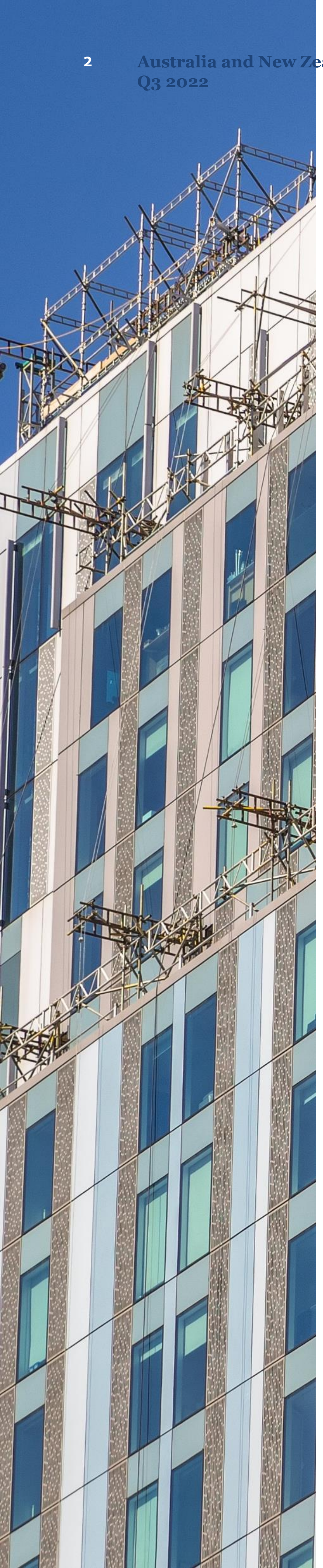
Turner & Townsend

Australia and New Zealand market intelligence report

Q3 2022

making the **difference**



Introduction

Our latest report finds that rising construction costs, higher interest rates and declining property values are seeing new private sector investment slow, while public sector activity continues to ramp up.

Australian construction markets remained active over Q3 2022, supported by strong public sector activity. While there remains a large pipeline of work yet to be completed across most states, new investment from the private sector is showing signs of slowing amid increasingly challenging market conditions and an uncertain economic outlook. Skills shortages remain the key challenge across Australian construction markets, with stronger growth in wages now materialising. Construction costs remain high across all markets and will continue to remain elevated whilst the large current volume of work is completed.

Similarly, in New Zealand, the volatile global and domestic backdrop has created immense challenges for the construction sector, which is weighing in on new private sector investment. Public sector projects continue to press ahead, in particular transport infrastructure projects. Construction costs have increased sharply across the country, and we expect prices will remain elevated until demand softens and pressures on the supply side ease.

The Australian and New Zealand economies remained resilient over Q2 2022, with both economies recording growth, despite intensifying global headwinds and high domestic inflation. The tightening of monetary policy has been firm handed, with higher interest rates now starting to take effect. As tensions continue to mount around the war in Ukraine and the outlook for the global economy softens, we expect tougher conditions ahead for both the Australian and New Zealand economies.

The continued interconnectivity of markets is more apparent now than ever and we are seeing near-universal inflationary trends hitting costs and programs. Successful delivery of a project, program or portfolio in an inflationary environment is dependent on the quality of thought and approach that is adopted at both the definition and execution of the procurement process. This quarter, we explore some important steps businesses can take to mitigate risk through procurement.

Australia market overview

Construction activity continues to remain strong across Australia. However, surging construction costs, worsening skills shortages, and uncertainty of outlook are curtailing new investment.

Construction costs continued to rise over Q3, as ongoing supply chain constraints, labour shortages and high inflation added to cost pressures. Across the country, construction activity remains strong, which has impacted the ability of local supply chains to meet demand. Backlogs and bottlenecks are being experienced for some key building materials, which has pushed up costs, increased lead times and is increasing project risk.

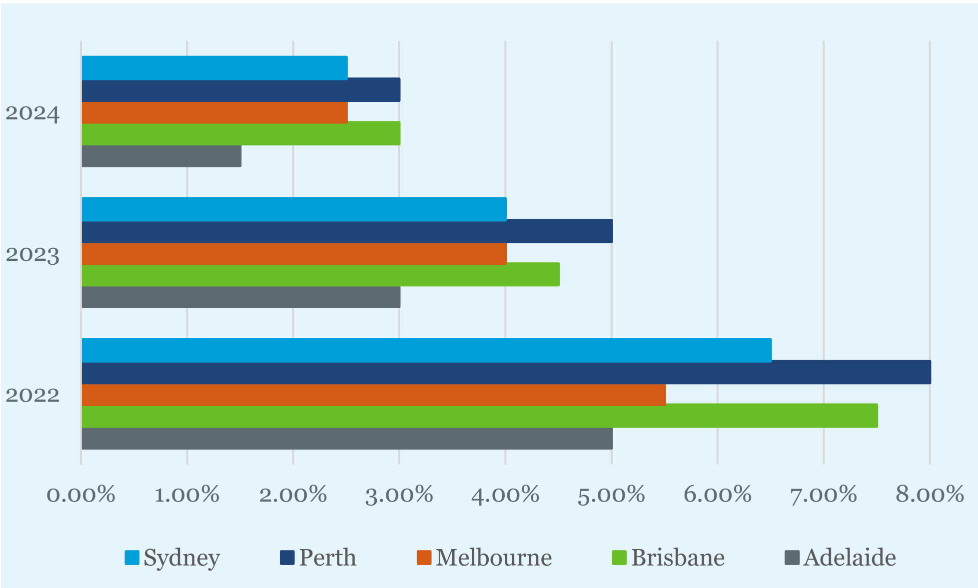
In global markets, there are signs that global supply chain disruptions and strong global demand are starting to ease. Rising inflation across many major economies and the subsequent tightening of monetary policy is slowing business and consumer spending, which is easing the pressure on global supply chain disruptions and bottlenecks. Additionally, uncertainty around the war in Ukraine, rising energy costs and the possibility of a global recession are weighing in on confidence. As a result, costs for key construction materials such as steel, timber and copper have started to fall in global markets.

While the global situation signals that some cost relief may be ahead, there are considerable domestic challenges that are keeping local construction costs high. There is a significant backlog of housing construction still to be completed across the country following the HomeBuilder stimulus and an increasing number of builder insolvencies. A supply-demand imbalance has meant that many residential projects have experienced significant delays to both commencement dates and construction duration.

Additionally, engineering construction is in a strong upswing across the east coast of Australia, with a vast pipeline of major projects underway and about to commence. There are growing concerns around the capacity of markets to deliver this major pipeline of work, given the simultaneous upswing in activity across the states.

Whilst the volume of work in the pipeline is significant, new investment is starting to slow. Current market conditions are making it increasingly difficult for new projects to gain traction. The sharp rise in the cost of construction, coupled with rising interest rates and increased uncertainty regarding the economic outlook is impacting the viability and feasibility of new projects. We expect construction activity will continue to remain strong while the current high volume of work is completed but we are expecting to see some softening over the next 12 months.

Figure 1:
Australia construction cost escalation



New Zealand market overview

Capacity pressures across New Zealand's construction markets remain high, reflecting tight labour market conditions and ongoing supply chain disruptions. Intense cost pressures and rising interest rates are resulting in softer private sector investment, which may negatively impact the level of construction activity moving forwards.

Labour and materials shortages continue to challenge the construction sector in New Zealand. Expectations that the reopening of international borders will ease these shortages have not yet materialised and the sector continues to face headwinds from ongoing supply chain disruptions and volatile global markets conditions.

Intense cost pressures also remain an issue. With volatile global markets and high consumer price inflation, the central bank continues to raise interest rates at pace. Whilst this has not yet resulted in any significant improvement in construction costs, it has reduced demand for construction in the residential sector. Relative to the public sector, we expect that demand for construction in the private sector will continue to decline as high levels of inflation persist and interest rates continue to rise.

The construction sector in general is projected to grow marginally with growth driven by a strong pipeline of civil and engineering projects. Additionally, despite the anticipated fall in residential construction activity, there is a considerable pipeline of work yet to be completed. We therefore expect that total building activity will stay largely consistent for the remainder of 2022 and into 2023 as the pipeline of current projects are completed. With labour and materials shortages, we also expect cost pressures to remain high over the remainder of 2022.

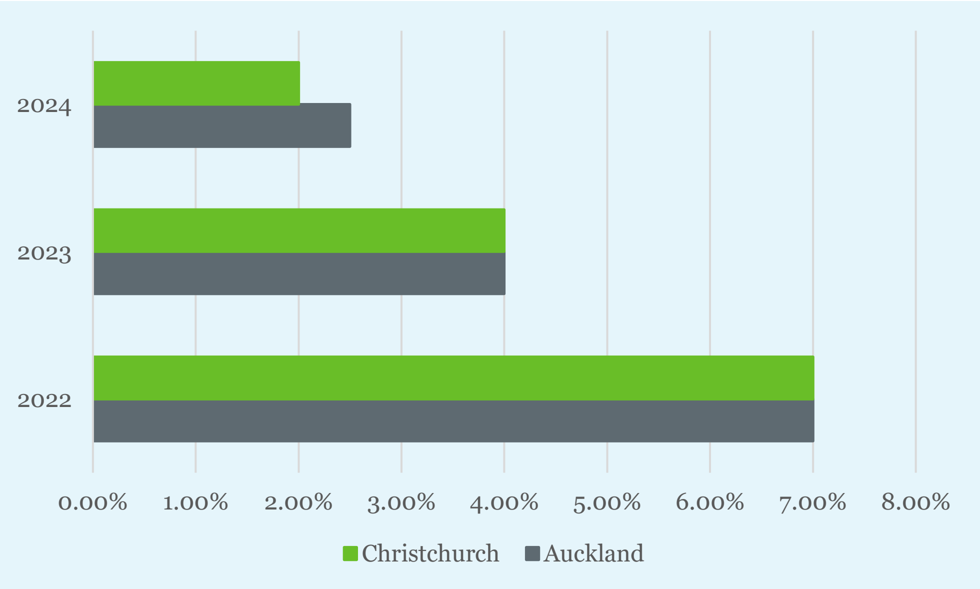


Figure 2:

New Zealand construction cost escalation

New South Wales

Key price indicators

Movement (%)
Q3 2021 – Q3 2022

12.2% Site foreman / hr

25.0% Group 1 tradesman

5.5% Concrete 32 Mpa / m3

4.5% Plasterboard 13mm thick to stud wall / m2

5.4% Structural steel / tonne

2.8% Main contractors margin movement

The New South Wales construction market remains hot with high volumes of projects across all sectors progressing on site in addition to new projects being announced and progressing in the design phase. There has been an uptick in the number of project commencements across data centres and commercial office fit-outs as new commercial towers near completion.

We expect the market to stay warm over the next six months, following the announcements of several significant projects including the Tech Central Precinct and several industrial projects. There are also several major public sector projects underway across transport, health and education, which will keep the market active.

Over the last quarter, we have seen an increase in tenders in the commercial occupier sector as tenants recommence their property strategy post-COVID-19. We are also seeing many tenders being received from landlords to undertake building upgrades, provide additional amenity space to tenants, and increased demand for spec suites to attract new tenants.

While the number of projects out for tender is increasing, there is a notable decline in the response rate from the market over the last 6 months. This is making it increasingly challenging for tenderers to get adequate responses from the supply chain and is a sign that the market is reaching capacity.

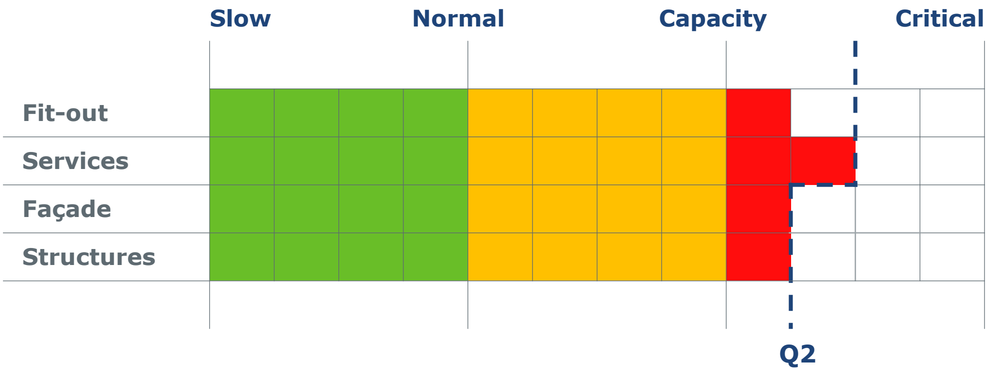
From the supply side, skills shortages is one of the biggest challenges facing the local market. This is forcing contractors to pay premium prices to attract suitably skilled workers to their projects. Additionally, strong local demand for building materials continues to keep prices of key inputs elevated, which we expect will continue until activity cools. We continue to see extended lead times for several key items generally related to mechanical equipment and technology/IT equipment. However, these long lead times are now well known and understood and are generally being well managed through early procurement.

A notable change to occur over Q3 was the increase in contributions to the City of Sydney. Levies have increased from 1 percent of the total project cost to 3 percent, which means development costs on projects are now significantly higher.

Figure 3:

Supply chain capacity in New South Wales

Q3 2022



Queensland

0%
Site foreman / hr

15.0%
Group 1 tradesman

3.0%
Concrete 32 Mpa / m3

36.4%
Plasterboard 13mm thick to stud wall / m2

-8.5%
Structural steel / tonne

25.0%
Main contractors margin movement

Key price indicators

Movement (%)
Q3 2021 – Q3 2022

Over Q3, construction market conditions in Queensland remained much the same. The large pipeline of major projects, coupled with a large backlog of housing projects across the state is continuing to place significant demand on the local supply chain and push up construction costs.

Public sector spending continues to make the headlines with the state government announcing approximately $10bn of expenditure on health over the next six years. Private sector investment is starting to slow amid surging construction costs, rising interest rates and the decline in property values. Limited resources across the state also means that most contractors have a significant backlog of work yet to be completed.

There is a general decline in construction tendering, although there is relatively more consultancy work from the public sector. Contractor and sub-contractor liquidation continues to be a problem. However, this seems to be hitting the home builder market more than the general contractor market.

Availability of labour and materials continue to be an issue, yet some of these constraints are beginning to ease with prices for some materials appearing to have stabilised. The most prominent issue at present is obtaining large scale electrical and mechanical plant as well as lifts and escalators, which are experiencing lengthy delays to delivery times.

As the trend in contractor and sub-contractor liquidation continues, we can expect this to be the biggest challenge that the construction sector in Queensland will face over the next six months in addition to construction cost inflation.

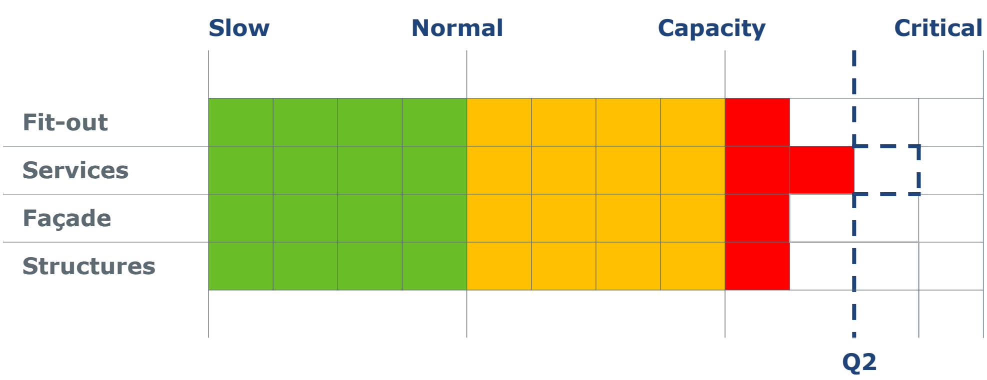


Figure 4:
Supply chain capacity in Queensland
Q3 2022

South Australia

Key price indicators

Movement (%)
Q3 2021 – Q3 2022

16.7% Site foreman / hr

14.3% Group 1 tradesman

12.5% Concrete 32 Mpa / m3

128.5% Plasterboard 13mm thick to stud wall / m2

32.4% Structural steel / tonne

0% Main contractors margin movement

The South Australia market has remained active over the last 12 months, despite considerable challenges associated with supply chain constraints, skills shortages and rising construction costs.

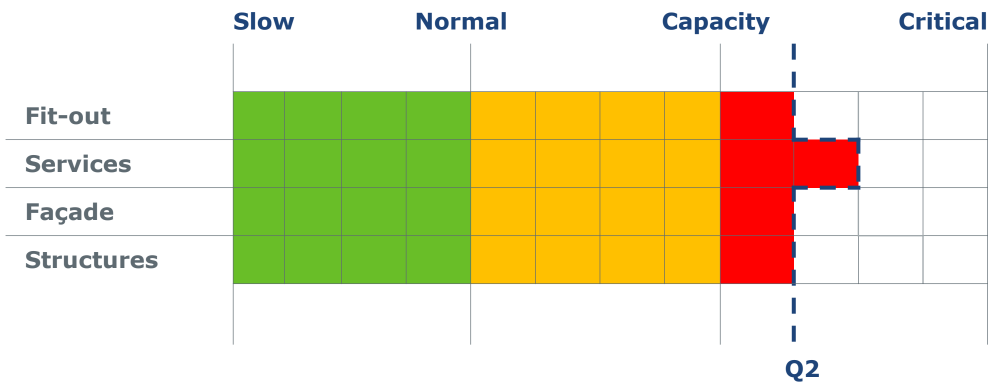
There are several large private sector projects underway and to commence including 141 King William Street, 60 King William Street, Festival Plaza office tower and the Entrepreneur and Innovation Centre.

In the public sector, there are several large health and education projects underway, including Flinders University Health Research Building and the Queen Elizabeth Hospital New Clinical Building.

While new private sector investment is likely to slow over the coming months in response to rising construction costs and higher interest rates, the outlook for the public sector in 2023 remains strong. The $1.2bn New Women's and Children's Hospital is due to commence as well as several other large-scale transport projects.

Although the outlook for construction is positive, considerable challenges are being experienced around skills shortages and rising construction costs. The strong levels of activity underway mean that securing resources for upcoming projects is increasingly challenging and costly. Additionally, the sharp rise in construction material costs is adding to these pressures. While contractors are now mostly aware of these higher costs and are able to build them into their pricing, any further significant price increases may increase the risk of contractor insolvencies.

Figure 5:
Supply chain capacity in South Australia
Q3 2022



Victoria

Key price indicators

Movement (%)
Q3 2021 – Q3 2022

11.1% Site foreman / hr

4.2% Group 1 tradesman

2.6% Concrete 32 Mpa / m3

42.9% Plasterboard 13mm thick to stud wall / m2

28.5% Structural steel / tonne

25.0% Main contractors margin movement

The Victorian construction market remains active with several major public and private sector projects getting underway over recent months. Public sector activity continues to dominate the market, with a large pipeline of transport, health and education projects underway and to commence.

While construction activity remains strong, the market continues to face challenges associated with skills shortages, supply constraints and higher construction costs. This is raising concerns about the viability and feasibility of new projects, particularly in the private sector. We, therefore, expect new private sector investment to slow over the coming months, which will likely reduce the size of the pipeline of work ahead.

The public sector, however, continues to keep the industry engaged with several large infrastructure projects in the planning stages, increasing tenders from the public sector. Tendering conditions in the Victorian market are becoming increasingly challenging with difficulty in getting contractors to provide competitive prices.

Ongoing supply chain disruptions continue to contribute to long lead times for most materials. Lack of equipment and machinery remain a key issue. Whilst there is generally an improvement in the price of most materials, prices are still higher than pre-pandemic levels. Major constraints in the labour market have also led to wage growth that impact higher construction costs. Skills shortages will continue to remain one of the biggest challenges for the construction industry while activity remains strong.

The outlook for construction activity in Victoria is mostly positive, buoyed by the public sector. Although the pipeline of public sector projects is significant, challenges around higher construction costs, skills shortages and market capacity, could see some of these projects delayed or not proceed, which would soften overall construction activity.

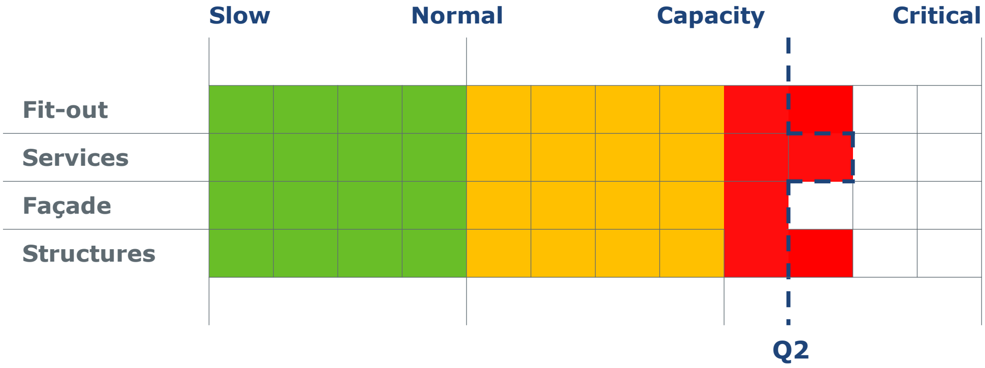


Figure 6:
Supply chain capacity in Victoria
Q3 2022

Western Australia

Key price indicators

Movement (%)
Q3 2021 – Q3 2022

50.0% Site foreman / hr

19.1% Group 1 tradesman

19.7% Concrete 32 Mpa / m3

40.0% Plasterboard 13mm thick to stud wall / m2

142.6% Structural steel / tonne

45.5% Main contractors margin movement

Construction market conditions in Western Australia have seen little change since Q2 2022. Construction costs have surged and are continuing to climb as demand outpaces supply. The strong growth in construction costs has been driven by a combination of factors including high materials costs and extremely tight labour market conditions.

High construction costs continue to dampen activity in the private sector with new private sector investment starting to decline. On the other hand, the recent state government budget announcement including major infrastructure and defence projects will see demand for construction resources increase further, while market capacity remains constrained.

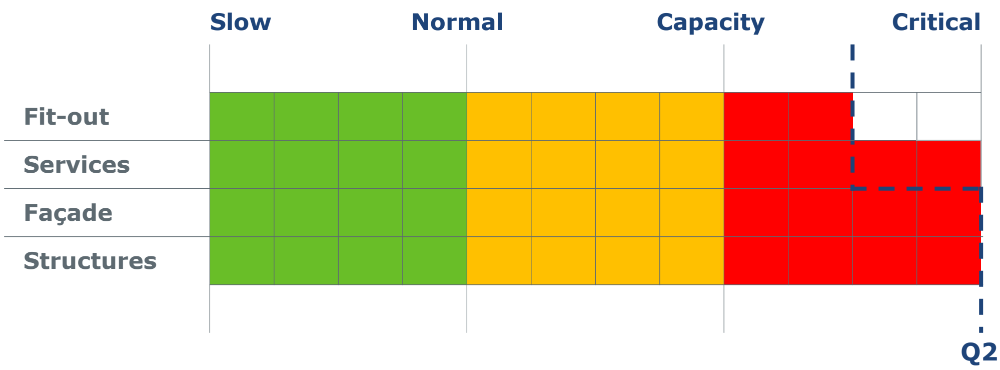
With a strong pipeline of public infrastructure projects, we expect that inflationary pressures will intensify. The need for construction labour and materials resulting from increased activity within the public sector will exacerbate the existing shortages in the state. Despite the reopening of the international borders, which was meant to help address skills and labour shortages, tight labour market conditions are still the greatest challenge in the Western Australia construction market.

There are significant pressures on contractor tender pricing, which has been volatile in recent months as contractors have found it difficult to pin down pricing from their supply chain. Additionally, most contractors and sub-contractors are at capacity and unable to take on new work. Cost pressures experienced by several contractors have led to a number of recent insolvencies.

Given the unavailability of skilled labour, there are significant cost increases in civil construction, steelwork, concrete, and reinforcement. Increasingly, clients are considering alternative materials for their construction to reduce costs. For instance, some clients are moving away from steel towards concrete as an alternative in order to address their construction needs.

Given the volume of pipeline activities that is expected to place further strain on the construction sector, we expect that ongoing challenges in the Western Australia market will linger well into 2023.

Figure 7:
Supply chain capacity in Western Australia
Q3 2022



Auckland

30.7%
Site foreman / hr

0%
Group 1 tradesman

0%
Concrete 32 Mpa / m3

Key price indicators

Movement (%)
Q3 2021 – Q3 2022

39.3%
Plasterboard 13mm thick to stud wall / m2

43.6%
Structural steel / tonne

0%
Main contractors margin movement

Auckland's construction market has been heavily impacted by high inflation as well as shortages of skills, labour and materials. The current market is heated and projected to stay this way over the next six months as the current pipeline of work gets completed. However, there has been a notable decline in new investment from the private sector as caution grows amid surging construction costs and rising interest rates. Beyond the current pipeline, we are likely to see some softening in activity until the market stabilises and conditions improve. On the other hand several large-scale infrastructure projects are underway and due to commence, which will help to support construction activity over the outlook.

Tight labour market conditions are driving higher-than-normal labour rates in Auckland. Labour and materials shortages have continued to influence decisions by contractors to pull out of projects due to being overcommitted, specifically in regional locations. Over Q3, we observed a slight decline in the number of tenders received, although tenderers continue to demonstrate their willingness to bid on projects competitively. We have also observed a strong move towards early contractor engagement and as well as an increase in requests for pricing documents to streamline the pricing process.

We are observing large variances in pricing driven by shortages of contractors and subcontractors as well as shortages of labour and materials. Contractors and subcontractors are therefore pricing themselves out of the jobs due to the inability to take on new work.

Timber, GIB plasterboard and structural steel remain heavily impacted by supply chain disruptions, however, there are signs that structural steel and GIB are becoming more readily available. Transport issues experienced around structural steel also seem to be improving.

In the next six months, we expect that the changes in border policies that resulted in the reopening of the international borders will help to improve the labour market conditions and ease the current skills shortages. We also expect the recent monetary policy changes will help curb inflationary pressure and should provide some relief to construction cost pressure.

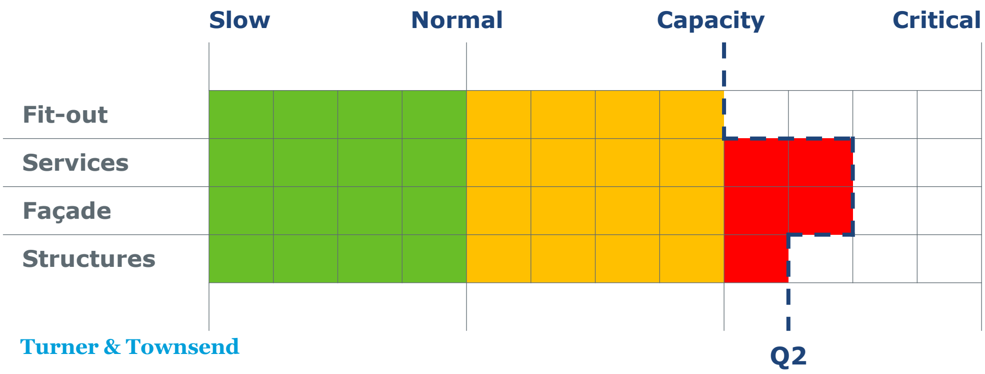


Figure 8:

Supply chain capacity in Auckland

Q3 2022

Christchurch

Key price indicators

Movement (%)
Q3 2021 – Q3 2022

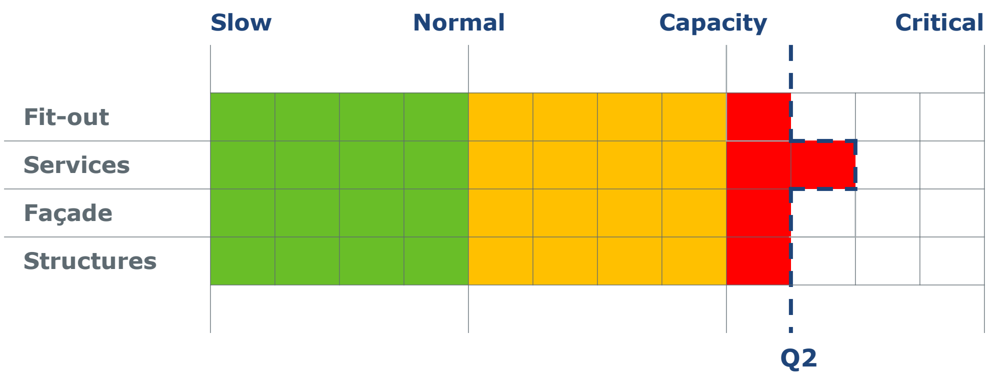
- **17.3%** Site foreman / hr
- **7.1%** Group 1 tradesman
- **25.9%** Concrete 32 Mpa / m3
- **4.6%** Plasterboard 13mm thick to stud wall / m2
- **75.0%** Structural steel / tonne
- **4.6%** Main contractors margin movement

The increase in interest rates has seen the national median price of houses starting to cool down and the Christchurch construction market is expected to follow suit. The Canterbury region, however, had the highest number of consents for new homes issued per capita of any New Zealand region in the year to June 2022. On the other hand, non-residential consents were down for the same period. The impact of the cooling down of the housing market will not likely be felt immediately, as we expect the market will still be constrained by labour and material shortages while the current pipeline of work is being completed.

While the Reserve Bank introduced some measures to curb inflation, in the short-term, we expect the market is likely to stay the same due to labour and materials shortages. The level of uncertainty in the Christchurch construction market has also significantly increased given that expectations about improved labour market conditions are yet to be seen despite the reopening of the international borders.

The effects of the ongoing supply chain disruptions are still being felt strongly with major supply issues for plasterboard and window supplies. More generally, the supply of most construction materials is constrained given that Christchurch largely relies on imported materials for construction. Rising costs and shortage of materials and critical skills have kept the pressure on the already overheated market. These challenges are expected to remain over the next six months.

Figure 9:
Supply chain capacity in Christchurch
Q3 2022



Australia economic overview

Australia's economy has remained largely resilient despite global headwinds. However, soaring inflation and increasing interest rates are a growing risk to growth in the coming quarters.

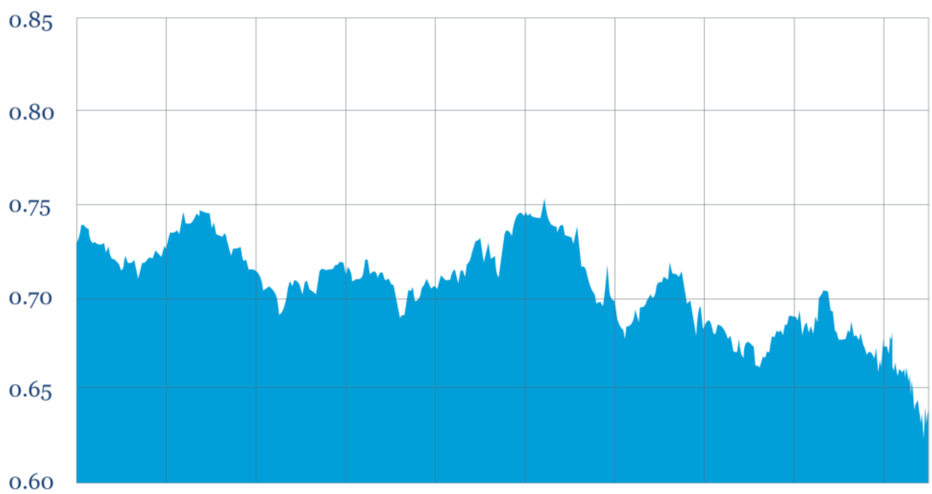
Australia's economy has shown resilience to multiple shocks with strong growth recorded across most sectors in Q2 2022. The full reopening of domestic and international borders contributed to the third consecutive quarter of growth over Q2, with GDP increasing by 0.9 percent in the quarter and 3.6 percent through the year to June. Household consumption rose further, led by spending on travel-related categories such as transport services, hotels, cafes and restaurants. Additionally, net exports increased substantially, supported by iron ore, LNG and coal exports.

Inflation remains a key challenge in the Australian economy, reaching 6.1 percent in June. Strong domestic demand coupled with global supply chain disruptions and high energy costs are keeping prices elevated. Imported inflation is also contributing to higher domestic costs, with many economies around the world experiencing the same inflationary pressures.

The Reserve Bank of Australia has been swift to respond to high inflation with interest rates being raised every month since May. From June to September, the RBA cash rate has been increased by 50 basis points, however, in October, this slowed to 25 basis points, a signal from the bank that the peak of the rate hike cycle is near. With the current cash rate now at 2.6 percent, borrowing costs are now at a level not seen since 2013. While further rate hikes are likely, we expect only 25 basis point increases for the remaining months of the year.

The labour market continues to remain tight with very little spare capacity. In August, the unemployment rate remained at a low of 3.5 percent. A strong rebound in net overseas migration is expected, following the Jobs and Skills Summit announcement to increase the permanent visa cap from 160,000 to 195,000. This should help to improve labour market tightness over 2023 and 2024.

Figure 10:
AUD USD performance
Q3 2021 – Q3 2022



Forex movement of -14% in 12 months

Figure 11:
AUD forex forecasts

	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
USD	0.63	0.62	0.60	0.59	0.59
GBP	0.59	0.60	0.60	0.60	0.60
EUR	0.68	0.69	0.70	0.70	0.69
YUAN	4.71	4.76	4.73	4.72	4.75

	Latest	Previous
GDP quarterly growth rate	0.9% Mar 22 – Jun 22	0.7% Dec 21 – Mar 22
GDP annual growth rate	3.6% Jun 21 – Jun 22	3.3% Mar 20 – Mar 21
Inflation (annual)	6.1% Jun 21 – Jun 22	5.1% Mar 21 – Mar 22
Unemployment rate	3.5% Aug 22	3.4% Jul 22
Business confidence index	10 Aug 22	8 Jul 22
Retail sales	19.2% Aug 21 – Aug 22	16.5% Jul 21 – Jul 22
Interest rate	2.6% Oct 22	2.35% Sep 22

New Zealand economic overview

Despite global headwinds, the New Zealand economy continues to strengthen following the downturn caused by COVID-19 lockdowns in the first half of the year.

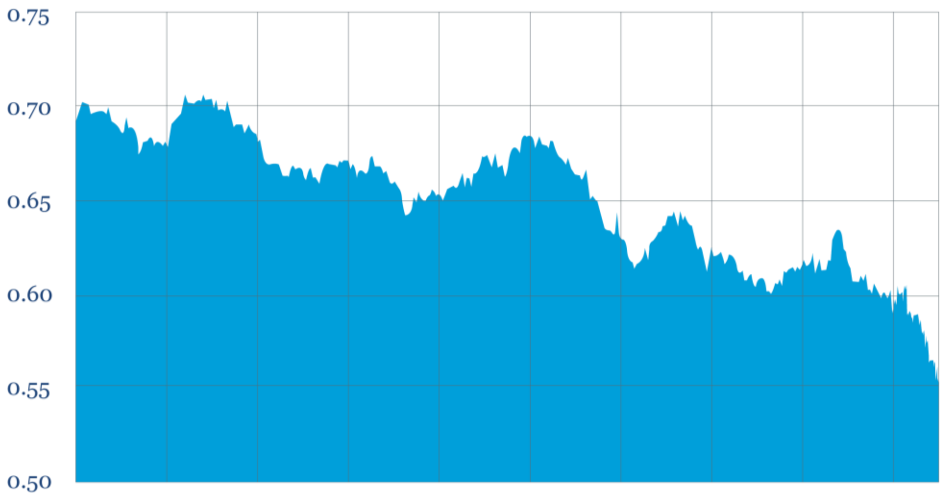
The New Zealand economy is expected to continue its solid recovery despite fluctuations caused by the surge of the Omicron variant in early 2022. Over the June quarter, as international travel resumed and COVID-19 restrictions eased, economic activity rebounded by 1.7 percent following the weak March quarter. Growth was largely supported by a rebound of industries that had been impacted by the closure of international borders and the Omicron outbreak related restrictions.

Despite the projected growth, high inflation and rising interest rates continue to weigh on private consumption. Consumer price inflation rose to 7.3 percent compared to the same quarter a year ago, which is the highest level seen in over three decades. Persistent tight labour market conditions, global supply chain disruptions and rising global energy prices continue to threaten the outlook for consumer prices even though interest rate rises have been implemented to help curb inflation.

Wage pressures are expected to increase given tight labour market conditions and the ongoing strain on global supply chains. The unemployment rate remains low at 3.3 percent, which is driving stronger wage growth. Despite an increase in wage growth, real wages, which take into account inflation, have declined. Retail sales activity and business confidence remain below expectation, reflecting the headwinds that confront the economy at various levels.

Ongoing global market volatility remains a risk to the outlook for the New Zealand economy.

Figure 12:
NZD USD performance
Q3 2021 – Q3 2022



Forex movement of -25% in 12 months

Figure 13:
NZD forex forecasts

	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
USD	0.55	0.54	0.53	0.52	0.52
GBP	0.50	0.50	0.51	0.51	0.52
EUR	0.57	0.57	0.58	0.58	0.58
YUAN	3.82	3.73	3.61	3.68	3.66

	Latest		Previous	
GDP quarterly growth rate	1.7%	Mar 22 – Jun 22	-0.2%	Dec 21 – Mar 22
GDP annual growth rate	0.4%	Jun 21 – Jun 22	1.0%	Mar 21 – Mar 22
Inflation (annual)	7.3%	Jun 21 – Jun 22	6.9%	Mar 21 – Mar 22
Unemployment rate	3.3%	Jun 22	3.2%	Mar 22
Business confidence index	-36.7	Sep 22	-47.8	Aug 22
Retail sales	-3.7%	Jun 21 – Jun 22	2.3%	Mar 21 – Mar 22
Interest rate	3.5%	Oct 22	3.0%	Sep 22

Mitigating inflation risk

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2022 is shaping up to be one of the most challenging years since the start of the pandemic. One of the key impacts is high inflation across many global economies which is increasing uncertainty in the market, raising costs, and leading to more cautious investment. As a result, many central banks have intervened by increasing interest rates and tightening monetary policies which is resulting in a slowdown of economic growth.

The continued interconnectivity of markets is more apparent now than ever and we are seeing near universal inflationary trends founded on three major challenges that are hitting costs and programs.

- **Rising cost of construction:** Escalating costs have the potential to see low-margin projects delayed or cancelled, as profitability erodes. Increased cost volatility is resulting in higher risk premiums being added to prices, which is adding to inflationary pressures.
- **Excessive lead times:** Geopolitical issues, transportation bottlenecks, and recent COVID-19 related shutdowns in China are having a considerable impact on supply and creating lengthy delays for many construction goods.
- **Skilled labour shortages:** The sharp rebound in construction activity, coupled with the delayed resumption of labour migration is limiting the availability of labour to complete the growing pipeline of work.

Successful delivery of a project, program or portfolio in an inflationary environment is dependent on the quality of thought and approach that is adopted at both the definition and execution of the procurement process. In this article we explore some important steps you can take to ensure you and your business are able to mitigate risk through procurement.

Procurement strategies in inflationary environments

Clients across Australia and New Zealand are taking strong action aimed at mitigating cost increases and driving value from the supply chain to get the best results from the market. The successful companies start to address this by getting 'back to basics', which from our experience requires:

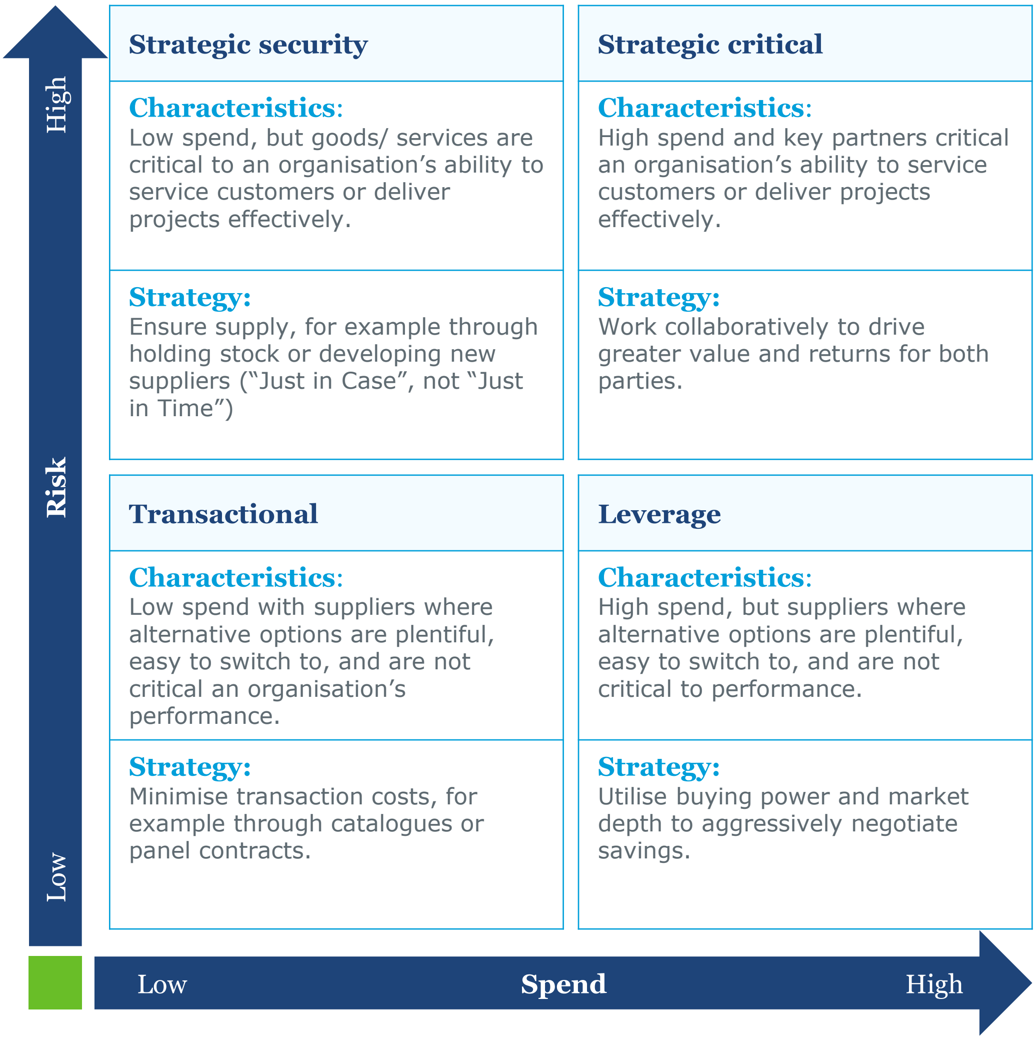
- **Knowing your costs and risks:** developing the procurement and contract strategies to drive value and mitigate risk.
- **Knowing the market:** driving value and performance from a better understanding of the supply chain.
- **Knowing your suppliers:** engaging the supply chain at an early stage to validate the strategy and obtain market buy-in.

Knowing your costs and risks

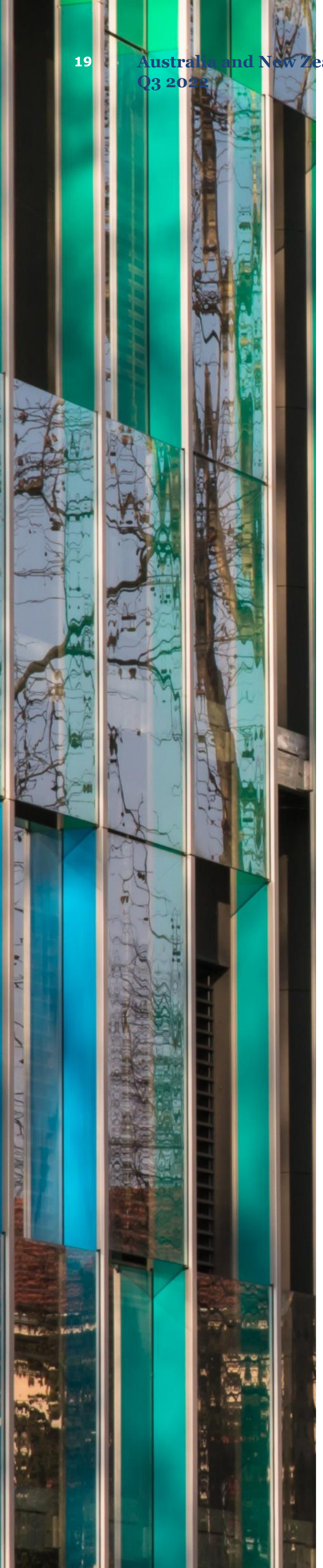
Having a deep understanding of both costs (spend base) and supply chain risk profile is essential in an inflationary environment. If not already performed, or if out-dated, organisations should consider analysing their supply chain across two factors:

- Spend – what is your relative spend in a particular category or with suppliers?
- Risk – how critical is a category of a supplier to your operations or project success? What is the impact if a supplier fails or significantly increases prices? Can you change easily?

Understanding these data points allows organisations to identify the appropriate procurement strategy for driving maximum value, through tools like the Kraljic Matrix (shown below). This matrix allows organisations to plot elements of their project spend based on the relative value of that spend, compared to the overall project, or spend in terms of the organisation. Once plotted, the appropriate strategy can be agreed and enacted, whether that is aggressively pursuing savings through leverage techniques, or investing in supply chains to offset risks to operations.



The takeaway from this is the need to review the components of your project or the projects within your program or portfolio to understand the right project strategy. In inflationary environments, understanding the right strategy is critical to success because it provides agility which gives businesses a competitive advantage.



Knowing the market

Leading organisations that are bucking the trend of inflation and theoretical dips in consumer confidence are utilising some, or all, of the tactics listed below to gain an accurate view of the market, and the competitiveness of their supply chain.

- Benchmarking at a global level to understand where their costs sit relative to peers.
- Using more innovative procurement techniques like reverse auctions to drive best in market pricing for commodities.
- Taking a global approach to tendering, looking at bringing some sourcing activities nearer to Australia and New Zealand or onshore to mitigate logistics or transport risks.
- Hosting value engineering workshops with key suppliers to proactively work with the supply chain to drive down costs.
- Identifying current and future overheated markets and deciding where to move the supply chain as appropriate.

Know your suppliers

In competitive markets, it is vital to thoroughly know your suppliers, and build relationships based on mutual trust and collaboration. Tactics to achieve this include:

- Understanding your suppliers' pain points in their supply chains and developing alternative solutions for your project or operations.
- Reviewing payment terms, cash-flow and ensuring equitable commercial terms are in place with suppliers, thereby becoming the 'customer of choice' in a heated environment where suppliers can have the balance of power.
- Including indexation/rise-and-fall clauses in contracts for the long-term, so that you are reviewing once a year on your terms, rather than multiple times a year on contractors' terms.
- Funding early contractor involvement (ECI) activities, as in a competitive market, contractors are now choosing which ECI to pursue, by selecting those with the lowest risk to them.

Mitigating inflation risk

While global headwinds are starting to ease, Australia and New Zealand are still experiencing disruption and volatility. By adopting a robust procurement approach which considers the supply chain, we can harness procurement strategies which generate better outcomes and enable projects to mitigate cost increases in an uncertain market.

Implementing solutions that foster better relationships with the supply chain, with a true pain/gain share strategies, offer organisations the ability to remain agile in the globally competitive environment in the longer term.

About Turner & Townsend

We are an independent professional services company specialising in programme management, project management, cost and commercial management and advisory across the real estate, infrastructure and natural resources sectors.

With 119 offices in 49 countries, we draw on our extensive global and industry experience to manage risk while maximising value and performance during the construction and operation of our clients' assets.

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