



Tailored Cost Forecasting

Commissioned reports to assist in forecasting of project and operating costs in the construction, mining and utilities sectors.

Macromonitor regularly produces reports on the outlook for construction costs, on behalf of construction companies, utilities businesses, resources companies and other organisations undertaking major construction projects. We provide tailored cost forecasts for the following purposes:

- Project cost escalation forecasting
- Forecasts of rise-and-fall outcomes
- Independent cost forecasting for use in submissions to regulators

SUMMARY OF REPORT STRUCTURE

Our tailored reports result from detailed forecasts for each cost component, which are combined together to reflect the overall costs of specific types of work undertaken by our clients. Each input cost category is covered in a separate section, containing historical data, forecasts and written explanations of the forecasts. The sections include:

Wages costs

- Covered on an *Average Weekly Earnings* basis and also a *Wage Price Index* basis (with explanations of the differences in these measures and how they should be used)
- Wages by type of worker and by method of pay setting (awards, enterprise agreements, individual contracts)
- Total wages cost indicator – we combine the various wages measures to produce an index, with forecasts, of wage costs relevant to your projects

Materials costs

- Individual cost indicators for each material input, including:
 - steel products
 - concrete
 - cement
 - copper and aluminium products
 - electrical components
 - machinery and equipment, and
 - other materials dependent on the nature of the projects.
- Total materials cost indicator – we combine the individual materials costs together using a set of weights which reflects the nature of the relevant projects (these weights can be provided by the client, or can result from Macromonitor research)

Plant costs

- Fuel costs – normally measured as terminal gate diesel prices
- Plant hire costs – costs of hiring or renting equipment
- New equipment purchase costs

Total cost index

- We compile a set of weights across all of the individual input costs listed above, which best reflects the nature of the projects you will be undertaking, or the nature of your ongoing work
- We then calculate an index of total costs by applying these weights to the individual cost elements
- The end result is an index of total costs applicable to your projects, which includes actual historical data and our thoroughly researched forecasts

FORECASTING HORIZON

The forecasting horizon can be of any duration, usually matching the time frame of the projects and up to a maximum of ten years.

DRIVERS OF THE FORECASTS

Each input cost is forecast separately, based on a thorough understanding of the determinants of that cost item. There are drivers of cost increases that are specific to each cost item, and there are also drivers that are common across a number of cost items.

One way of thinking about the drivers of costs is to split them into ‘bottom-up’ and ‘top-down’ drivers. Each of these is equally important.

‘Bottom-up’ drivers affect specific cost items, and include factors such as:

- Specific commodity prices (in the case of steel, fuel etc.)
- Exchange rates
- Supply and demand for each input (most importantly labour)
- Costs of inputs to materials manufacturing
- Announced price increases from suppliers

Top-down drivers have a general effect on cost changes, and include factors such as:

- The cycle in construction activity in a particular sector and region (the construction cycle, or the rate of construction growth, has a big impact of the rate of cost increases across the board)
- Economic growth and employment growth in the national and state economy
- General inflationary pressures in the overall economy

REGIONAL BASIS

We also provide cost forecasts at the state and regional level.

The approach we take in compiling regional cost forecasts is to produce a set of forecasts at the total state level and then augment these forecasts with a regional difference factor. The regional difference factor is determined by factors such as the relative strength of construction activity in the region and sector in which the projects are located.

This approach is based on an historically demonstrable relationship between the relative rate of construction growth and the relative rate of cost increases.

This approach can be further improved by referencing data provided by the client, if available, on cost increases which they have historically experienced in your region and type of work. This information is not essential, but can be useful in providing a more complete picture.

DELIVERABLES

We provide the following:

- A hard copy of our written report
- A CD Rom containing an electronic copy of the report (in PDF) and the all of the data and forecasts featuring in the report in Excel format.

For more information please contact:

Nigel Hatcher

Director

Macromonitor Pty Ltd

+61 2 9869 8844

nigelhatcher@macromonitor.com.au