

## Earlytrade Supply Chain Scorecard FY23 December Quarter

# 2023: an inflection point for construction?

Earlytrade's Supply Chain Scorecard tracks 1.8 million B2B invoices representing more than \$12 billion of trade between 80,000 suppliers, subcontractors and some of Australia's largest corporate buyers.

### Focus on construction

#### Early Payments - Construction

**+45%** QoQ



Represents value of early payments accelerated by subcontractors

#### Early Payment Ratio

**+97%** QoQ



Represents proportion of invoices accelerated by subcontractors

#### Total Claims Processed

**-20%** QoQ



Represents the number of approved claims available for early payment

#### Value of Trade

Value of early payments (\$)

**-26%** QoQ



Represents total trade payments made by buyers to subcontractors

# Labour shortages drive early payment demand 45% higher in December quarter

- Early payment requests from construction subcontractors increased by 45% during the December quarter
- The proportion of claims being brought forward by subcontractors almost doubled
- Construction input costs showed signs of moderating, increasing by 2.2% during the quarter - the smallest quarterly increase since March 2021
- Skilled labour remains a significant risk to the industry, with 29% of construction firms reporting vacancies. Early payment demand from labour hire firms increased by 50% YoY

After 18 months of sustained growth in cost pressures, Australian construction firms finally saw some signs of moderation in the December quarter as input costs increased by *just* 2.2% - the slowest quarterly growth since March 2021 (right).

## Material costs stabilise

A key driver of this moderation was the 5% reduction in steel prices during the quarter, largely due to ongoing lockdowns in China and an uncertain demand outlook for a global economy teetering on the edge of recession.

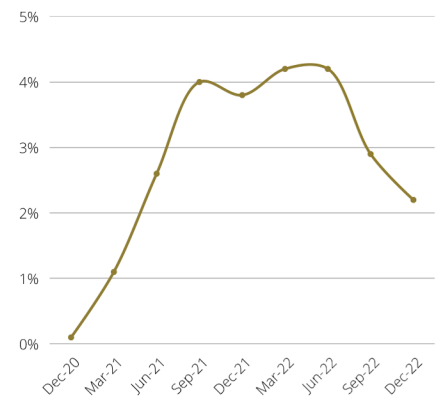
Other key construction materials showed similar moderation, with the cost increases slowing for timber (-16bps), cement (-48bps) and plumbing products (-388bps) from the September quarter as broad based supply chain pressures began to ease.

Whether this is an inflection point for Australia's overheated construction market is still unknown, but one thing that remains clear is skilled labour shortages continue to place extraordinary pressure on construction companies, subcontractors and their projects.

## Skilled labour shortage continues

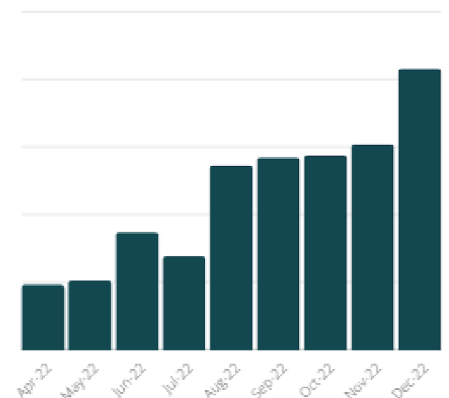
The loss of almost 500,000 international workers during the global pandemic has brought Australia's labour and skill shortage sharply into focus. Combined with dwindling apprenticeship completion rates, it now represents the biggest challenge for the construction industry.

Construction cost increases (QoQ)



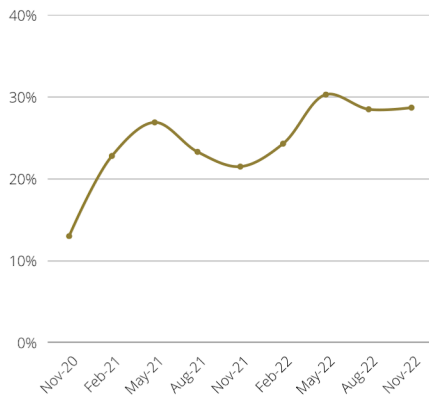
Source: ABS

Subcontractor Early Payment Demand (\$)



Source: Earlytrade

**Proportion of construction firms reporting vacancies**



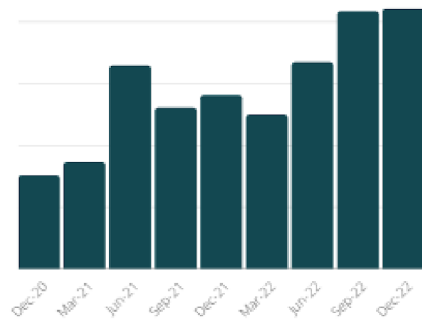
Source: ABS

This was clear during the December quarter, with ABS figures showing 29% of construction companies reported vacancies, up 33% from 2021 and 119% from 2020 (left).

In the same quarter, Earlytrade saw an increase of 50% (YoY) in early payment demand from labour hire companies (left), after a 60% increase in the September quarter, highlighting the increased hiring activity in an industry already operating at, or close to, capacity.

For many of these firms, early invoice payments are the most accessible option for them to manage timing differences in payables and receivables.

**Early payment demand from labour hire firms (\$/qtr)**



Source: Earlytrade

With the market now arguably at capacity, project slippage is now expected. According to the *Infrastructure Australia Market Capacity Report* from December "it is no longer a question of if a project will slip, but more likely when, by how long and at what cost."

**Construction contraction begins to ease**

These labour shortages combined with demand-side pressures, including rising interest rates and economic uncertainty, to dampen construction sales and new orders in the December quarter.

According to the *AI Group's PCI Index*, the sector recorded its sixth consecutive monthly decline in November, albeit the slowest rate of decline during the period.

**Early payment demand continues to grow**

Earlytrade saw this first hand as the total value of approved claims during the quarter fell by 26% from September. Interestingly, early payment demand still increased by 45% despite the reduced construction activity, taking the early payment ratio 97% higher over the same period.

This highlights the growing demand for early payments from subcontractors seeking new cash flow options that enable them to fulfil their labour requirements and meet key project delivery timelines for their clients.

We maintain our view that productivity in the construction industry will slump over the next six to 12 months as the higher cost environment, reduced access to affordable capital and labour market skills shortages continue to weigh on the industry.

## About Earlytrade

Earlytrade helps corporate buyers address their biggest challenges through their supply chains by creating a more valuable and productive use of liquidity.

Earlytrade's verticalised liquidity marketplace empowers subcontractors and suppliers with on-demand payments, and gives large buyers the tools to drive sustainability outcomes in their businesses and in their supply chains.

Now connecting more than 80,000 suppliers and subcontractors with billions of dollars in on-demand liquidity, Earlytrade is the largest working capital marketplace in Asia Pacific.



**GUY SAXELBY**  
CEO & CO-FOUNDER  
EARLYTRADE  
guy@earlytrade.com



**SAM MACPHERSON**  
HEAD OF TREASURY  
EARLYTRADE  
sam@earlytrade.com

