

## Earlytrade Supply Chain Scorecard FY23 September Quarter

# 5 new challenges facing the construction industry

Earlytrade's Supply Chain Scorecard tracks 1.8 million B2B invoices representing more than \$10 billion of trade between 80,000 suppliers, subcontractors and some of Australia's largest corporate buyers.

### Focus on construction

#### Early Payments - Construction

**+87%** QoQ



Represents value of early payments accelerated by subcontractors

#### Early Payment Ratio

**+50%** QoQ



Represents proportion of invoices accelerated by subcontractors

#### New Subcontractor Registrations

**+18%** QoQ



Represents subcontractor intentions to request early payments

#### Value of Trade

Value of early payments (\$)

**+24%** QoQ



Represents total trade payments made by buyers to subcontractors

# Early payment demand increases by 87% in the September quarter

- Early payment requests from subcontractors in the construction industry increased by 87% during the September quarter
- Subcontractor registrations increased by 18%, representing a 6-fold increase YoY
- Construction input costs increased by 2.9% during the quarter, or 16% on an annual basis
- Small business borrowing costs rose 21%, further limiting many subcontractors access to affordable capital
- We maintain our view that productivity in the construction industry will continue to slump in light of higher input costs, reduced access to affordable capital and critical skills shortages

One hundred fifty basis points of interest rate hikes, combined with sustained increases in construction material costs encouraged many subcontractors to utilise other cash flow options during the September quarter of 2022.

## 1. Rate hikes start to bite

With the RBA's tightening cycle continuing at great speed, small and medium-sized businesses in Australia saw their **borrowing costs increase by 21%** (right).

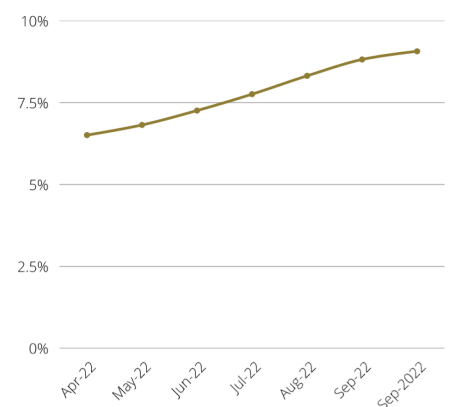
Many were subcontractors in the construction industry who, despite already being severely underserved by traditional financing, have seen their access to affordable capital become even more constrained.

During the same period, Earlytrade saw an **87% increase in the number of early payment requests** from construction industry participants. This was compared to an increase of 17% across other industries, highlighting how savvy subcontractors are quickly realising the value of debt-free early settlement of their claims.

## 2. Macro environment creates perfect storm

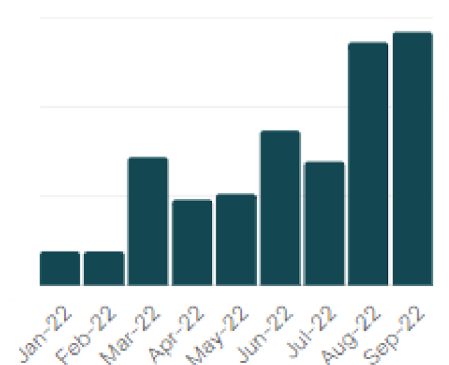
With interest rate hikes also threatening to dampen demand in consumer-facing construction sectors, Australia's major builders found themselves in a perfect storm as supply chain constraints continued to drive the cost of materials higher in the September quarter.

SME Borrowing Costs



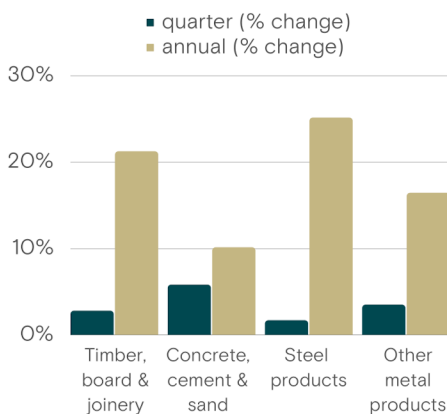
Source: RBA

Early Payment Demand (\$)



Source: Earlytrade

### Main PPI contributors to quarterly growth in costs



Source: ABS

### Construction New subcontractor registrations



Source: Earlytrade

### 3. Construction costs continue to surge

ABS data (left) showed that input costs in the construction sector increased by 2.9% versus the June quarter, meaning a **staggering 16% cost increase** over the past 12 months.

Whilst some of these costs have inevitably been passed through, an uncertain economic outlook and weakening consumer sentiment encouraged construction clients to better collaborate with their subcontractors.

Indeed, Earlytrade saw a **24% increase in the amount of claims made available for early settlement** by large construction companies. This highlights the value these companies see in ensuring that their subcontractors can access affordable, on-demand cash flow in order to minimise the risk of project delays or non-completion.

### 4. Construction sector contracts for fourth consecutive month

Higher interest rates, increased economic uncertainty and elevated input costs ultimately led to a contraction in the Australian construction sector in each month of the September quarter, according to the *AI Group / HIA Performance of Construction Index*. The September reading of 46.5 represents a **contraction for four consecutive months** as constructors reported a slow-down in interest and customers pulling out of builds.

Compounding this, building approvals fell 5.8% on a seasonally adjusted basis suggesting that despite Australia's record infrastructure pipeline, the current macroeconomic conditions could create some volatility in the construction industry, particularly with fixed priced contracts remaining prevalent across certain subsectors.

### 5. Uncertain outlook encourages real-time cash flow management

With the short-term outlook uncertain, and record rainfall across Australia driving increased inclement weather events, Earlytrade saw a **50% increase in the early payment ratio** during the quarter. Anecdotal feedback indicates that subcontractors accessed more early payments in order to capitalise on the projects available to them now, without having to wait weeks or months for their outstanding claims to be settled.

Additionally, the September quarter saw an **18% increase in new subcontractor registrations** on Earlytrade, a 6-fold increase from the prior year; significant growth in the network of suppliers and subcontractors with intentions to request early payments in order to manage any medium-term volatility in their cash flows.

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.



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