

# Transport for NSW Road & Rail Cost Escalation Indices 2025 Update

Applicable for State funded projects

July 2025

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# Road and Rail Cost Escalation Indices 2025

This cost escalation update provides road and rail cost escalation indices to 2029/30 and supersedes the Road and Rail Cost Escalation Indices 2024. The rates are to be used as general guidance only in the absence of other guidance issued by, for example, Australian Government for federal funded projects and or specific evidence of variation in the forecast of key inputs.

The forecasts in this report cover the period from 2024/25 to 2029/30. These updates are mainly based on the latest available Australian Bureau of Statistics (ABS) data, forecasts from the Australian Construction Industry Forum (ACIF), NSW Treasury, the Australian Government, the NSW Valuer General, and the Reserve Bank of Australia. No change has been made to the current TfNSW construction and maintenance cost escalation methodology.

## Cost escalation forecasts

The global economy is facing considerable uncertainty and growth is expected to remain relatively subdued, in line with rising trade tensions and volatility in global markets. The Australian economy remains resilient, although demand and price pressures are expected to moderate. In New South Wales, cost of living pressures have weighed on household demand and investment and slowed overall economic growth, with price pressures also easing.

Capacity pressures in the construction sector are easing, with material cost inflation slowing and labour availability improving. A gradual slowdown in infrastructure investment is anticipated in coming years, given fiscal sustainability considerations. At the same time, lower interest rates and solid population growth are expected to bolster demand in future years.

Commodity prices have trended downward since late 2024, reflecting softer global demand and improved supply. Modest further declines are expected, although prices remain volatile and ongoing global economic uncertainty continues to pose risks.

Cost escalation rates are generally expected to ease gradually over the future years. Table 1 and Table 2 present the forecast escalation rates for road, rail, and maintenance and operating costs – with and without the inclusion of property prices.

**Table 1: Forecast Escalation of the Road and Rail Costs (excluding property prices)**

| Construction Cost Escalation Rates 2025 (Excluding Property Prices) |          |                  |                  |          |                  |                  |                          |
|---|----------|------------------|------------------|----------|------------------|------------------|--------------------------|
| Year ending June  | Road TCI | Road TCI - Rural | Road TCI – Urban | Rail TCI | Rail TCI - Rural | Rail TCI - Urban | Maintenance & operations |
| 2024/25   | 3.5%     | 3.5%             | 3.5%             | 2.6%     | 2.6%             | 2.6%             | 3.7%                     |
| 2025/26   | 3.2%     | 3.2%             | 3.2%             | 2.8%     | 2.8%             | 2.8%             | 3.0%                     |
| 2026/27   | 3.2%     | 3.2%             | 3.2%             | 2.7%     | 2.7%             | 2.7%             | 2.9%                     |
| 2027/28   | 3.2%     | 3.2%             | 3.2%             | 2.7%     | 2.7%             | 2.7%             | 2.9%                     |
| 2028/29   | 3.1%     | 3.1%             | 3.1%             | 2.7%     | 2.7%             | 2.7%             | 2.8%                     |
| 2029/30   | 3.1%     | 3.1%             | 3.1%             | 2.7%     | 2.7%             | 2.7%             | 2.8%                     |

**Table 2: Forecast Escalation of the Road and Rail Costs (including property prices)**

| Construction Cost Escalation Rates 2025 (Including Property Prices) |          |                  |                  |          |                  |                  |                          |
|---|----------|------------------|------------------|----------|------------------|------------------|--------------------------|
| Year ending June  | Road TCI | Road TCI - Rural | Road TCI - Urban | Rail TCI | Rail TCI - Rural | Rail TCI - Urban | Maintenance & operations |
| 2024/25   | 3.7%     | 3.7%             | 3.6%             | 3.0%     | 2.9%             | 2.9%             | 3.7%                     |
| 2025/26   | 3.5%     | 3.5%             | 3.5%             | 3.2%     | 3.0%             | 3.1%             | 3.0%                     |
| 2026/27   | 3.5%     | 3.5%             | 3.5%             | 3.1%     | 2.9%             | 3.0%             | 2.9%                     |
| 2027/28   | 3.5%     | 3.5%             | 3.5%             | 3.1%     | 3.0%             | 3.0%             | 2.9%                     |
| 2028/29   | 3.4%     | 3.5%             | 3.4%             | 3.1%     | 2.9%             | 3.0%             | 2.8%                     |
| 2029/30   | 3.4%     | 3.5%             | 3.4%             | 3.1%     | 2.9%             | 3.0%             | 2.8%                     |

The weighting applied to property costs in the calculation of a Transport Cost Index (TCI) in Table 2 is about 11% (7% for urban and 4% for rural). Therefore, project teams should be cautious when using the escalation factors as higher proportion of property costs in total costs will lead to a different escalation factor.

- If the property acquisition allowance is less than 11% of the total project cost, the escalation rates can be applied as per Table 2.
- If the property acquisition allowance is greater than 11% of the total project cost, project specific escalation rates should be estimated. Refer to section: Land and property acquisition cost escalation for more details.

The TfNSW cost escalation model was designed to provide the escalation rate forecast to 2029/30. There is an increasing uncertainty to forecast beyond five years. It is recommended that Australia's Inflation Target set by the Reserve Bank of Australia (RBA) be used for all index categories from 2030/31 and beyond.

## Forecasts and assumptions

Table 3 shows the expected trends in the cost of various inputs into road and rail construction and market conditions compared to the CAGR (Compound Annual Growth Rate).

**Table 3: Assumptions Regarding Key Inputs and Drivers**

| Economic / market drivers | 2024/25       | 2025/26       | 2026/27       | 2027/28       | 2028/29       | 2029/30       |
|---------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Engineering Construction  | 0%-CAGR       | 0%-CAGR       | CAGR          | CAGR          | 0%-CAGR       | 0%-CAGR       |
| Building Construction     | 0%-CAGR       | CAGR          | CAGR          | CAGR          | CAGR          | CAGR          |
| Residential Construction  | 0%-CAGR       | CAGR          | CAGR          | CAGR          | CAGR          | CAGR          |
| Steel prices              | negative YoY  | negative YoY  | negative YoY  | negative YoY  | 0%-CAGR       | 0%-CAGR       |
| Copper prices             | >US\$4/lb     | >US\$4/lb     | >US\$4/lb     | >US\$4/lb     | >US\$4/lb     | >US\$4/lb     |
| Oil prices                | \$50-\$75/bbl | \$50-\$75/bbl | \$50-\$75/bbl | \$50-\$75/bbl | \$50-\$75/bbl | \$50-\$75/bbl |
| Market crowding           | High crowding | Some crowding | Some crowding | Some crowding | Some crowding | Some crowding |
| Consumer Price Index      | 2-3%          | 3-4%          | 2-3%          | 2-3%          | 2-3%          | 2-3%          |
| Exchange rate (AU\$/US\$) | .65-.75       | .65-.75       | .65-.75       | .65-.75       | .65-.75       | .65-.75       |
| Enterprise Wage Bargain   | 7% p.a.       | 5% p.a.       | 5% p.a.       | 5% p.a.       | 5% p.a.       | 5% p.a.       |

Table 4 provides commentary on each of the key drivers for cost escalation forecasts.

**Table 4: Commentary on each key input**

| Input                                 | Commentary   |
|---------------------------------------|--|
| Engineering Construction <sup>1</sup> | Following increases in Engineering Construction over the last two years, moderate growth is expected to continue in future. While spending on Roads and Bridges, Railways and Harbours is expected to decline somewhat, this should be more than offset by increases in other Engineering Construction sub-components.                             |
| Building Construction <sup>1</sup>    | Reflecting the recent decline in approvals, Non-Residential Building is expected to contract in 2024-25. The reduction is expected to be concentrated in Accommodation, Entertainment and Recreation, Industrial, and Offices. A return to growth is expected in 2025-26 and future years, reflecting public sector support and population growth. |
| Residential Construction <sup>1</sup> | Residential Building is expected to decline in 2024-25 as elevated interest rates continue to impact demand. A return to growth is expected in 2025-26 and beyond, reflecting restored interest rate reductions, public sector support and restored population growth.   |
| Steel prices <sup>2</sup>             | Spot iron ore prices have been relatively stable in early 2025, after falling for most of 2024. Prices are expected to ease over most of the outlook, due to softer global demand from China's steel sector and rising global supply.  |

<sup>1</sup> Australian Construction Market Report, November 2024, ACIF.

<sup>2</sup> Resource and Energy Quarterly, March 2025, Department of Industry, Science and Resources (DISR).

|  |   |
|--|---|
| <b>Copper prices<sup>2</sup></b>             | Copper prices have risen in 2025, driven by Chinese and US demand. Prices are expected to increase gradually, driven by higher demand and a tight market. Growth in demand will be driven by investment in low emission technologies, data centres and urbanisation.  |
| <b>Oil prices<sup>2,3</sup></b>              | Brent crude oil prices have been volatile through 2024 and the first half of 2025, in light of ongoing geopolitical tensions. Crude oil prices are expected to decline as strong expected supply, and weak demand, put downward pressure on prices.   |
| <b>Market crowding<sup>4</sup></b>           | Skills shortages, stagnating productivity and rising materials costs pose challenges to the delivery of infrastructure projects. This is contributing to overall near-term market crowding. An easing in infrastructure investment is expected in coming years which, along with an expected easing in cost pressures, is expected to reduce market crowding somewhat.        |
| <b>Consumer Price Index<sup>5</sup></b>      | Inflation has moderated significantly, with pressures easing across a broad range of goods and services. Inflation in new dwelling prices has fallen to be close to a tenth of its peak, as capacity constraints in the construction sector ease. Inflation is returning to Australia's Inflation Target (between 2% and 3%) and is expected to remain there in future years. |
| <b>Exchange rate (AU\$/US\$)<sup>6</sup></b> | The Australian dollar has generally declined since late 2024 against both a strengthening US dollar and in trade-weighted terms. The current consensus amongst forecasters is for the AU\$/US\$ to appreciate moderately over the outlook period, as interest rates are expected to decline faster in the US than in Australia.   |
| <b>Enterprise Wage Bargain<sup>5</sup></b>   | Wage pressures have eased since the end of 2024 and are expected to continue to moderate. A range of indicators, including Enterprise Bargaining Agreements, suggest that wages growth reached its peak in 2024-25. Although moderating, wages growth is expected to remain elevated compared to pre-pandemic rates given the strong labour market.                           |

## Land and property acquisition cost escalation

The land and property cost escalation varies significantly by location and by project. For large projects when land and property acquisition can cause noticeable changes in a local property market, the project team should estimate the project specific cost escalation rates whenever possible. If such an analysis is not feasible, the project team can use the following generic escalation rates estimated from this update:

- 4.0% land and property cost escalation rate for projects in Greater Sydney areas.
- 4.0% land and property cost escalation rate for projects in Outer Metropolitan areas.
- 4.5% land and property cost escalation rate for projects in regional or rural areas.

## Feedback and enquiries

Please contact the Economic Advisory Team via email:

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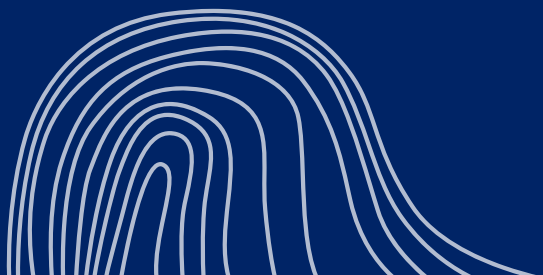
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<sup>3</sup> Resource and Energy Quarterly, March 2025, DISR.

<sup>4</sup> Infrastructure Market Capacity Program, December 2024, Infrastructure Australia.

<sup>5</sup> Australian Government Budget 2025-26, NSW Budget 2024-25; RBA Statement on Monetary Policy February 2025.

<sup>6</sup> Westpac; National Australia Bank, DISR.



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