



# The domino effect: how the Middle East conflict is reshaping claims inflation in Australia

Update to Crawford's Claims Inflation Update:  
new volatility in fuel, materials and contracting



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NOTE: This discussion paper is provided for general informational purposes only and should not be construed as formal advice of any nature. All data within should be considered approximate and indicative only.

# Introduction

This bulletin is a continuation of Crawford's Claims Inflation Update released in late March. Since then, global events have moved quickly, and the cost environment has shifted with them. The Middle East conflict is beginning to influence Australian fuel, freight and petrochemical linked building inputs, adding volatility to repair and rebuild costs.

This reflects a potential domino effect across cost drivers. Fuel and freight shocks and step changes in high-use repair inputs ripple into contractor behaviour, tender validity and program timeframes, which may contribute to increased claim severity and underinsurance risk.

We note that we are awaiting more definitive guidance from peak bodies, including Master Builders Australia (MBA), the Housing Industry Association (HIA) and the Australian Institute of Quantity Surveyors (AIQS). What follows is based on the best available market intelligence as of April 2026.

## The 30-second takeaway

### RBA

Lifted the cash rate target to 4.10% in March, explicitly citing sharply higher fuel prices linked to the Middle East conflict as an inflation risk if sustained.

### Not broad CPI

It is a category specific shock, most visible in fuel, freight and petrochemical linked repair inputs that appear in everyday property claims.

### Plastics

Reported increases in plastics used in plumbing and drainage to the tune of up to 36% in some categories, with potential additional freight impacts for regional customers.

### Timber

Emerging as a secondary pressure point. While not petrochemical derived, timber and forestry supply chains are highly exposed to diesel costs across harvesting, haulage and delivery.

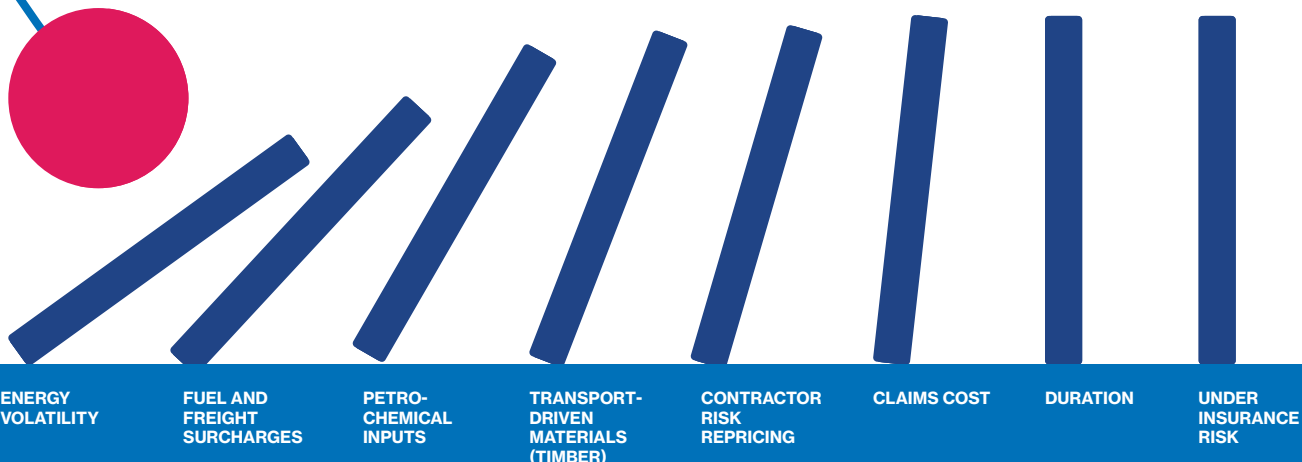
### Contracts

Shift away from fixed price and lump sum contracting toward cost plus models, and tender validity periods as short as 15 days, reflecting heightened uncertainty and faster risk repricing.

### Underinsurance risk

Underinsurance risk can widen quickly when rebuild costs reset higher

## The Domino Effect





## The transmission mechanism: from energy volatility to claim costs

Energy is emerging as the primary transmission mechanism. The RBA has stated that the conflict has resulted in sharply higher fuel prices which, if sustained, will add to inflation. In claims terms, fuel is embedded in mobilisation, transport, plant and materials delivery, so cost movements can flow through into repair budgets.

Uncertainty influences pricing; suppliers shorten quote validity, contractors increase contingencies and estimates become more time-sensitive. This increases variability in both cost-to-complete and time-to-complete, particularly where repairs rely on imported components or freight-heavy trades.



Supply may continue to arrive, but the cost of that supply, and the volatility around timing, can influence reinstatement outcomes.



# Materials and supplier cost escalation: where pressure is most visible

Plastics used in plumbing and drainage are an early pressure point because they are petrochemical-linked and appear across everyday repair scopes in losses, including escape of liquid and water damage. SmartCompany reported supplier price increases of up to 36% for key plastic pipe and fittings categories.

Timber pricing has reportedly increased by up to 15% in recent weeks, driven by higher freight and haulage costs feeding into domestic supply chains. Unlike PVC, timber is not a petroleum derivative, but it is highly transport-dependent and exposed to the diesel cost shock flowing through all logistics.

Industry reporting within the forestry and timber sector has also emphasised how diesel costs and freight exposure flow directly into the delivered cost of timber and wood products used on building sites, particularly for regional and long-haul movements.



“Builders are reporting surcharges for fuel, concrete and skip bins, with increases of between 20 to 30 per cent to plastic piping products.”

Master Builders Australia CEO Denita Wawn (SBS News, April 2026):

## 1-5%

MBA's estimated construction costs increase in 2026 to date, with further increases expected as supplier notifications flow through.

MASTER BUILDERS AUSTRALIA  
CEO DENITA WAWN (SBS NEWS,  
APRIL 2026)

### Key cost movements emerging



**+30-40%**  
Plastics (PVC/PE)



**+30-50%**  
Bitumen & Asphalt



**+5-10%**  
Steel



**+8\$/m<sup>3</sup>**  
Concrete

SOURCE: RAWLINSON'S APRIL 2026 UPDATE



## Subcontractor price increases

Almost all trade subcontractors in Australian construction consume significant diesel, as plant + equipment, site operations, and material deliveries are fuel-intensive. Price increases across subcontractors are expected based on current market indicators, although the scale remains uncertain. Subcontractors are only starting to quantify and pass on their additional costs.

**What is already visible:** Tier 1 and Tier 2 contractors are abandoning fixed-price and lump-sum arrangements, according to Altus Group, with tender validity periods shortened to as little as 15 days in some cases.



### **Why this matters for claims:**

As subcontractor pricing resets, it typically shows up as wider quote ranges, more variation discussions and longer decision cycles before work starts.



## Regional impacts: contained today, structurally fragile tomorrow

Regional markets operate with longer haul distances, thinner subcontractor capacity, and fewer substitution pathways when materials are scarce or freight surcharges rise.

The forestry and timber sector commentary is useful here: Forest & Wood Products Australia has flagged material impacts from fuel volatility. Regional operators have high exposure to rising diesel costs due to freight and long distances; cost stack compounds quickly outside metro corridors.



### **Insurance implication:**

If volatility persists, regional reinstatement cost gaps can widen faster than annual renewal cycles, increasing underinsurance risk and pushing repair timelines beyond what many insureds expect.



## Tendering challenges and imported products

Tendering conditions now resemble Covid-era dynamics in several respects, while moving faster. The parallel most relevant to insurance is the long tail of imported products and critical-path components.

Master Builders Queensland notes global events can affect local pricing and availability. This applies to door hardware, ironmongery, joinery fittings, glazing systems, electrical components, appliances, tapware, sanitaryware and specialist fixtures, many of which rely on international manufacturing and shipping networks exposed to higher energy and freight costs.

Altus Group has specifically flagged imported fixtures and long-lead items such as transformers as under supply chain pressure.



**Insurance implication:** Reinstatement estimates should be treated as time-sensitive, with greater allowance for procurement and sequencing risk than in stable markets.



## Contract risk: PC/PS items, variations and extensions of time

Contract mechanics often determine whether a cost shock becomes a claims shock.

Altus Group reports contractors are shifting from fixed-price to cost-plus models, with tender periods as short as 15 days, indicating risk is being repriced quickly and price-holding is increasingly difficult.

In this environment, provisional cost (PC) and provisional sum (PS) items are more exposed due to embedded uncertainty at contract execution, reconciled later at actual cost. When inputs move sharply, the gap between allowances and delivered cost can be material, increasing variations and dispute risk.

Extensions of time (EOT) are also a double-edged instrument. EOTs can protect against delay penalties, but if prices continue to rise, time becomes a cost driver. This matters for claims because longer programs can drive higher preliminaries and create more opportunities for scope variation.

**Master Builders Australia (MBA) has issued practical guidance to its members through recent webinars and advisory communications.**

Master Builder April 2026 webinar takeaways:

- ✓ Prices don't return to pre-crisis levels, as COVID taught us. The cost base resets upward, and normalisation, if it happens, occurs at a higher floor.
- ✓ Supply continues to flow into Australia, but cost and timing are the issues. Short-term shortages may occur in specific products.
- ✓ Cost-plus contracts shift cost risk to the principal. Builders have limited exposure but must manage client relationships carefully if costs rise.
- ✓ Fixed-price contracts cannot absorb these increases. MBA's advice is transparent and early communication with clients, where materials are in short supply, builders are advised to present reasonable alternatives.
- ✓ Delaying project starts is recommended. Industry consensus suggests that for projects not yet started, contractors and clients should wait to see how the situation develops before fixing prices.



## Underinsurance: the gap widens as the cost base resets

Underinsurance tends to worsen when replacement costs move faster than routine policy updates. The Insurance Council of Australia highlights inflation, labour and materials pressures shaping the premium environment.

Rising costs must be reflected in nominated sums insured. Policies from 2024 or early 2025 not reviewed since the conflict began risk being inadequate at claim time. The averaging clause, which cuts claim payouts if the sum insured is below 80-90% of replacement value, applies to partial and total losses. For example, a water damage claim involving PVC pipe replacement at 27-37% above the priced rate isn't just a material issue; if the total sum insured hasn't kept pace, the averaging clause reduces recovery.

### Why this matters in claims:

Replacement cost is not just today's build rate. It can include demolition, professional fees, compliance requirements and time-related escalation. In volatile periods, annual renewal cycles can struggle to keep pace, increasing the risk of shortfalls at claim time depending on policy conditions.

### What clients can do now

- ✓ **Sense-check sums insured** against replacement cost and whether policy settings reflect realistic rebuild conditions
- ✓ **Know your contract model** (fixed price vs cost-plus vs hybrid) and what that means for volatility, variations and timeframes.
- ✓ **Treat quotes as time-sensitive** and plan procurement earlier where possible, particularly for petrochemical-linked inputs and freight-exposed materials.
- ✓ **Keep supplier notices and revised quotes** to support transparent cost validation..

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## At Crawford, we are committed to restoring lives, businesses and communities impacted by losses around the world.

Given the range of inflationary pressures our clients are experiencing, that commitment extends to working with you to help manage claims costs more effectively via a range of expertise, technologies, platforms and networks across our organisation.

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