

Box 2.1 Singapore's Construction Sector: An Update on Construction Prices

On the back of strong construction demand, the construction sector grew by 20 per cent in 2007 and 18 per cent in the first half of 2008. However, growth in the sector began to moderate in the third quarter of 2008 as it grew at a slower pace of 13 per cent. There are also signs that construction cost increases may be easing after the strong growth recorded in the last two years. This article analyses the factors that have driven up construction tender prices in the past two years, and the near-term outlook for construction prices.

Rise in construction costs in the past two years...

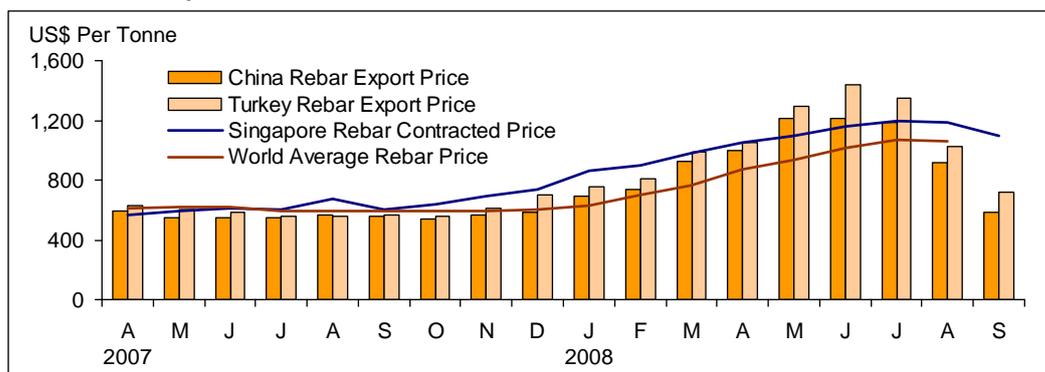
Construction tender prices, as measured by the Tender Price Index (TPI) for building works compiled by the Building and Construction Authority (BCA), rose by 19 per cent in 2007 and an additional 15 per cent in the first three quarters of 2008.

The overall level of construction tender prices is influenced by both global and local demand and supply factors. Singapore's construction demand expanded at a time that coincided with the global construction boom, particularly in China and the Middle East. As a small economy, Singapore is a price taker in the market for construction resources which had seen prices rise as global demand far outstripped supply. Estimates by BCA indicate that construction resources such as materials and equipment account for the bulk of construction input costs. The sharp rise in global prices for these construction resources in the past year has thus contributed to higher tender prices in Singapore. Local factors such as a tight labour market and limited contracting resources have also played a part in driving up tender prices.

... have been due to higher construction material prices

Construction materials include steel reinforcement bars, granite, cement, concreting sand and ready-mix concrete. Of these, the contracted price of steel reinforcement bars – which make up around 8 per cent of total project cost – saw one of the largest price increases due to high global demand. In the first half of 2008, steel rebar prices rose 78 per cent compared to the same period last year. Steel rebar prices, however, have since softened, falling by 8 per cent in September 2008 compared to the previous month. As more than half of Singapore's rebars are imported from China and Turkey¹, the contracted price for steel rebars in Singapore largely tracks the export price trends for Turkish and Chinese rebars (Exhibit 1). Turkish and Chinese export prices rose sharply in the first half of 2008, but have fallen in recent months due to a weakening of global demand. Similar to steel rebars, the high global prices of cement, copper and other materials, which had contributed to higher construction prices over the past year, have also started to stabilize or fall.

Exhibit 1: Comparison of Steel Rebar Prices



Source: Building and Construction Authority; Metal Bulletin, MEPS

Note: The world average rebar price and BCA's reported price track the cost of 20mm rebars, while the Chinese and Turkish export prices are the average costs of all rebar specifications.

¹ Based on import data for the second quarter of 2008, Singapore imports around 35 per cent of its steel rebars from China and 31 per cent from Turkey. Source: BCA Second Quarter 2008 Review.

... professional and managerial manpower cost increases

The shortage of professional and managerial staff has been a critical driver of manpower cost increases. While MOM estimates show that the wages of professionals in the construction sector increased by around 5 per cent in 2007², some construction firms have reported that the salaries of professional and supervisory personnel had increased by as much as 35 per cent in 2007. The surge in the local salaries of professionals can be partially attributed to the construction boom experienced in China and the Middle East which has led to fierce competition for personnel. However, with property markets in China, the Middle East and Singapore showing signs of cooling, the demand for such personnel could fall and the growth in their wages is likely to moderate or stabilize in the near future.

In comparison, the wages of construction workers have remained relatively stable over the period 2005 – 2007. This suggests that changes in our foreign worker policy for the construction sector have permitted the supply of construction workers in Singapore to keep pace with construction demand.

...and higher rental costs for construction equipment

The global shortage of construction plant and equipment and the simultaneous upsurge in local construction demand has led to high construction equipment utilization and rental rates in Singapore. For instance, crane rental rates soared to unprecedented highs in the earlier months of this year. Contractors had earlier also reported long waiting intervals for the receipt of cranes from their suppliers in China and elsewhere due to the high global demand for such equipment. Nevertheless, recent weaknesses in the global and local economies have dampened equipment demand and consequently led to a moderation in rates.

Local supply constraints have also contributed to higher construction tender prices...

The recent construction boom came after a prolonged construction downturn from the late 1990s to 2005, which saw a sharp contraction in contracting capacity in Singapore. The sharp increase in local construction demand after 2005 meant that local contractors had very little time to build up their construction capacity. As observed earlier, the tightness in the local supply of contracting resources, such as manpower and equipment was further exacerbated by the high global demand for such resources. The limited capacity of contractors to meet the increased local demand, coupled with the recent sharp fluctuations in construction input costs, may have given contractors scope to impute higher risk premiums and raise their tender prices. While some degree of tightness still exists, the industry has recently seen signs of easing in contracting capacity in tandem with the slowdown in construction demand.

Overall, construction prices may ease in 2009...

The recent global economic downturn has already led to a slowdown in global and local property markets. For instance, home sales by volume in Beijing and Shanghai have plunged by 56 per cent and 39 per cent in the first eight months of 2008. Locally, private residential property prices and transactions have also started to decline. As the global financial crisis worsens, demand for commercial and industrial space will also be affected. Overall construction demand is thus likely to weaken in the coming year. Recent trends in construction materials prices and equipment costs suggest that input costs have already started to adjust downwards, and construction tender prices are thus expected to moderate in 2009.

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² Report on Wages in Singapore, Ministry of Manpower.