

Datuk Hamzah Hasan gives his take on  
the health of the  
**Malaysian economy**



In the wake of the unprecedented energy price hikes and financial upheaval of 2008 which assumed global proportions, Malaysia has not been spared the resulting turmoil. The domestic building construction industry, for one, has had to contend with escalating increases in the costs of essential building materials, e.g., steel, concrete and sand, for both projects in progress and in the pipeline. In addressing the ensuing economic slowdown, the government has been pro-active in launching a number of initiatives tailored to the building construction industry with the view to energise domestic demand and boost economic growth.

In this respect, the Construction Industry Development Board (CIDB) is the principal agency dedicated to the task and B&I talked recently to YB Datuk Hamzah Hasan, Chief Executive Officer of CIDB, for his assessment of the status to date and his take on the remedial measures by the government.

**B&I: In June 2008, the industry was finding it hard to manage the business of construction in the face of drastic cost increase in energy and essential building materials. What is the scenario to date, that is, are conditions still tenuous or is there light at the end of the tunnel now with stable energy prices? What are some of the key CIDB programmes planned for 2009?**

**Datuk Hamzah:** Following marginal increases for the first half of 2008, June saw a drastic rise in the costs of many building materials as a result of the increase in the price of fuel announced by the government on June 5. The average price of ready mixed concrete increased by 29 per cent, cement by 23 per cent and clay brick by 13 per cent compared to May 2008 for Peninsular Malaysia. For Sabah, the price of sand increased by 34 per cent, steel by 23 per cent and aggregate by 22 per cent. However in Sarawak, the price of aggregate increased by 34 per cent, steel by 26 per cent and ready mixed concrete by 16 per cent.

Essentially, prices have been rising steadily but marginally since the end of 2006 following the construction boom in China, West Asia and India and the increase in the global price of crude oil, with the trend continuing through 2007 and worsening in June 2008.

Between July 2008 and August 2008, the average price of major construction materials increased by up to 30 per cent. This had a direct impact on the viability of many projects arising from contractors' inability to complete their projects due to margin erosion. CIDB's Survey on Impact of Fuel Increase to Contractors shows that of the 677 respondents, 13 per cent cited construction cost increase of more than 40 per cent, 42 per cent of 30 per cent to 40 per cent and 28 per cent of 10 to 20 per cent. In some cases, contractors are no longer willing to complete their projects at the original tender price.

Realising the challenges faced by contractors, the government introduced measures to cushion the financial difficulties of contractors undertaking government projects by broadening the coverage and improving the implementation of the Special Provisions on "Variation of Price (VOP)" which included: reimbursement of steel bar price increases based on transaction price; extension of VOP coverage to include (a) Design & Build and M&E contracts and (b) six additional

construction materials for civil projects; allowing automatic three-month extension of time for delay without imposing penalty (LAD); and introduction of twice-monthly progress payments.

Between 23 August 2008 and 16 December 2008 the government has gradually reduced the price of fuel seven times. This was followed by a gradual reduction in the price of construction materials albeit at a minimal rate of zero to three per cent for all materials, except for steel bar and bitumen.

The prices of steel bars decreased by 11 per cent in September 2008 and 40 per cent in November 2008, mainly due to the drastic reduction in the steel scrap price in the global market (67 per cent, from USD635 per tonne in July 2008 to USD207.5 per tonne in November 2008) which strongly influences the prices of steel bars.

Bitumen price decreased by 30 per cent in November 2008 and 13 per cent in December 2008.

While it is observed that 2009 started on a positive note with construction material prices stabilising as a direct result of the stable price of fuel, the rate of reduction in the prices of construction materials was much slower compared to their rate of increase in 2008. Compounding this, it was recently reported that some suppliers of goods and services are not willing to reduce their charges, for example, mobile crane and tipper lorry operators, citing higher costs of maintenance and spare parts.

In 2009, the global economic downturn will soon impact Malaysia's economy, including the construction sector. Throughout the year, the trend will be for prices of construction materials, particularly imported materials, to drop in line with the reduction in the global demand.

**B&I: "Though set against a backdrop of uncertainty in costs, the construction industry is not in crisis but is challenged more than ever to invest in innovative and advanced technology if it is to remain solvent". How valid is this statement, considering that innovation and advanced technology come at a premium and can be beyond the financial capability of most SMEs?**

**Datuk Hamzah:** From an innovative perspective, we are promoting and encouraging the construction industry to "value-

innovate" as described in the Blue Ocean philosophy. Value-innovation will not necessarily involve extensive resources such as funding. It propagates re-looking at our delivery system as well as business modeling in providing product and services to the customer. The answers may be in the re-packaging, re-branding, re-engineering, re-looking at processes, and so on. As such, one does not have to resort to advanced technology in order to be innovative.

**B&I: In the mid-term review of the 9MP with its subsequent cutback in public spending, the construction sector appears to have taken a knock as cutback will adversely affect building material demand as a result of cancelled or shelved projects. Any comment on this, from CIDB's viewpoint?**

**Datuk Hamzah:** In the mid-term review of the 9MP, Government announced an additional budget of RM30 billion, an increment from RM220 billion to RM250 billion. Up to now, there has been

no evidence of reduction in government expenditure especially for construction activities. For 2008, RM63.15 billion worth of projects was awarded (of which 43.7 per cent or RM27.60 billion, is from government's coffers) compared with 2007 and 2006 values of RM47.48 billion and RM22.45 billion respectively, that is, no cutback in government spending for construction activities. Notwithstanding the postponement of several mega projects, for example Penang Outer Ring Road and Penang Monorail, the government has the flexibility to implement other projects that will give high impact to the Rakyat and the economy.

Construction activities by the private sector, however, are expected to slow down as evidenced from Tables 3 and 4. In contrast, contribution from the government project shows an increase from year to year (Table 2).

The worsening of the global economic slowdown is expected to impact especially on private investment. In mitigation and to boost economic growth, the government is

Table 1: Average Price of Construction Materials in June 2008 compared to May 2008

Construction Materials	Peninsular Malaysia		Sabah		Sarawak	
	May '08 (RM)	June 08 (RM)	May '08 (RM)	June 08 (RM)	May '08 (RM)	June 08 (RM)
Ready mixed concrete (per tonne)	157.45	203.50	243.28	41.17	235.73	273.14
Clay brick (unit)	0.31	0.35	0.34	0.36	0.30	0.33
Cement (per beg)	11.14	13.74	15.93	16.97	15.05	15.83
Sand (per tonne)	26.77	27.02	27.11	27.11	24.86	29.67
Steel (per tonne)	3,662	3,830	3,382	4,163	3,144	3,968
Aggregate (per tonne)	24.88	25.77	41.17	50.39	21.22	28.33

Table 2: Number and Value of Project Awarded by Sector

Year	Total Contract Awarded		Government Contract		Private Contract	
	Number	Value (RM m)	Number	Value (RM m)	Number	Value (RM m)
2006	5,860	60,926.99	1,652 (28.1%)	22,454.97 (36.9%)	4,208 (71.9%)	38,472.02 (63.1%)
2007	7,070	90,458.02	2,880 (40.7%)	47,479.47 (52.5%)	4,190 (59.3%)	42,978.55 (47.5%)
2008	4,894	63,150.30	2,066 (41.7%)	27,603.64 (43.7%)	2,828 (58.3%)	35,546.66 (56.3%)

Table 3: Number of Project Awarded for Private Sector by Category

Year	Total Number of Project	Private Sector					
		Residential	Non Residential	Mix Development	Social Amenities	Infrastructure	Others
2006	4,208	1,610 (38.3%)	1,638 (38.9%)	10 (0.2%)	160 (3.8%)	774 (18.4%)	16 (0.4%)
2007	4,190	1,534 (36.6%)	1,700 (40.6%)	25 (0.6%)	188 (4.5%)	730 (17.4%)	13 (0.3%)
2008	2,828	922 (32.6%)	1,193 (42.2%)	16 (0.6%)	138 (4.9%)	544 (19.2%)	15 (0.5%)

undertaking various measures which include implementing construction activities that will spur demand to other sectors. This is because construction will induce multiplier effect to the economy. Out of 94 economic activities, construction ranks third in terms of value and number one in terms of generating demand for 86 commodities it supports (refer Table 5). This is because building and construction activities use more intermediate input compared to other economic activities.

Out of the RM7 billion Economic Stimulus Package announced by the government for implementation in 1Q 2009, at least RM4 billion is for infrastructure, public amenities and residential projects.

Reduction in demand for construction materials, if any, is contributed by the private sector due largely to the increase in construction materials prices and the current economic scenario.

**B&I: Despite regulatory measures and industry safeguards, accidents at worksites still persist, with fatalities in some instances. In CIDB's view, how much more can or should be done to ensure safety at work, that is, "zero accident" during construction and, if so, which are the particular areas that require attention?**

**Datuk Hamzah:** "Zero accident" is somewhat unachievable in conventional construction due to the very nature it is organised, through the use of manual labour, high usage of temporary materials and equipment, and so on, a scenario which exposes the project to potential accidents. In order to achieve "zero accident", we need to execute buildings in a more mechanical and controlled manner. Once we are able to control things, there will certainly be less probability of accident occurrences. Our main initiative to realise this scenario is the Industrialised Building System (IBS) programme which started in 2003 with an IBS Roadmap 2003 – 2010. This programme promotes the use of off-site industrialised/manufactured building components which are subsequently assembled on site using much less and temporary logistics.

**B&I: As the CEO of CIDB, would you care to look into your crystal ball and venture an overview of the future prospects of the building and construction industry, from the standpoint of builders, developers and that of the consumer?**

**Datuk Hamzah:** For 2008, the demand for government projects (public infrastructure works and social amenities) stands at 44 per cent and private projects (residential, commercial and industrial) at 56 per cent.

It is estimated that in 2009, the global economic crisis will impact on the construction industry, especially in the private sector, as investors may review the planned construction projects until the economic situation recovers. The demand for commercial and industrial properties is driven by the prevailing

economic momentum unlike government projects which are dependent on Government development policies and spending, or residential projects which are more dependent on public demand. This situation is in line with the trend for the past three years where, with the exception of 2007, demand for commercial and industrial properties has reduced and growth of real estate slow (2006: RM29.96 billion, 2007: RM33.92 billion and 2008: RM29.45 billion).

REHDA estimates that property demand will drop in the first and second quarter of 2009. In view of the economic slowdown, the government is expected to increase its share of construction projects from the existing 44 per cent in 2008 to between 48 – 50 per cent in 2009 through more allocation in the public infrastructure and social amenities. 9MP construction projects lined up in Budget 2009 and allocation of at least RM4 billion to the construction industry from the RM7 billion Government stimulus package are initiatives taken to sustain the construction industry in 2009.

Today, half of the world is facing economic recession and most economic analysts agreed that the year 2009 will be a challenging one. Even the Malaysian government's early forecast, during the Budget 2009 Speech, of 5.4 per cent economic growth has been revised downward to 3.5 per cent. Based on the current scenario, this economic growth is expected to be even lower.

In light of this, CIDB's forecast on the value of construction spending for 2009 can be viewed under three economic scenarios that is (a) worsening, (b) sustainable and (c) stable (Refer to Table 6). CIDB forecasts the construction spending to be RM55 billion under a worsening scenario, RM60 billion under a sustainable scenario and RM64 billion under a stable scenario as compared to the construction spending in 2008 at RM63



Datuk Hamzah Hasan (left) with B&I editor Eric Tan.

Table 4: Value of Project Awarded for Private Sector by Category

Year	Total Value of Project (RM m)	Private Sector					
		Residential	Non Residential	Mix Development	Social Amenities	Infrastructure	Others
2006	38,472.02	14,531.14 (37.8%)	14,276.90 (37.1%)	359.50 (0.9%)	783.27 (2.0%)	7,923.62 (20.6%)	597.59 (1.6%)
2007	42,978.55	13,783.75 (32.1%)	18,159.42 (42.3%)	994.02 (2.3%)	977.89 (2.3%)	8,990.70 (20.9%)	72.77 (0.2%)
2008	35,546.66	12,678.04 (35.7%)	11,223.65 (31.6%)	1,705.39 (4.8%)	3,842.43 (10.8%)	6,046.53 (17.0%)	50.62 (0.1%)

Table 5: Intermediate Input Consumed

Activity	Value	Number of Commodity
Oil and fat factory	RM 23.9 billion	71
Petrol and coal industry	RM 16.5 billion	59
House hold factory	RM 14.1 billion	66
Radio, tv etc. factory	RM 30.9 billion	44
Building, construction	RM 19.6 billion	86

Source: Malaysian Input-Output Tables 2000, Dept of Statistics

Table 6: Forecast of Economic Scenarios in 2009

No	Economic Scenario	Forecasted Value of Contract for year 2009
1.	Worsening (GDP less than 1%)	RM 55 billion
2.	Sustainable (GDP 1 to 2%)	RM 60 billion
3.	Stable / moderate (more than 3%)	RM 64 billion

billion until 31 December 2008 (refer Table 2). However, the value of contract for 2008 is expected to reach at least RM68 billion by March 2009, against earlier forecast of RM69 billion after late notifications of projects awarded are taken into consideration.

From the standpoint of builders and developers, the main concerns will be sustainability or survival in the business. In order to achieve this, several main elements need to be addressed: able to make sales demand so as to promote sales; easy access to financial facilities at lower costs to buyers; relax relevant government policies in the property market; provide incentives to promote sales; and improve consumers' confidence.

To sustain business opportunities, builders and developers expect the government to be the catalyst in generating projects to provide business opportunities. To this end, the government will: expedite the implementation of projects in 1st stimulus package; speed up the 2nd stimulus package; stabilise the country's political environment to attract more investors to spur the economic growth; create and maintain a conducive pro-business environment; and review the ceiling prices for low and medium-low cost houses to encourage builders and developers

to invest in these residential categories.

To lower the cost of doing business, builders and developers expect the government to formulate business-friendly strategies and policies to reduce cost of doing business. To this end, the government will: enhance delivery system to improve efficiency, effectiveness and productivity, especially in projects development plan and payment procedure; liberalise the industry for more building materials to create alternative options for source of supply; lower energy tariffs for electricity, gas and fuel; and introduce special incentives to reduce the cost of inputs, such as to subsidise the land prices for medium-low and low cost houses.

From the standpoint of consumers, they expect their existing disposable income and well-being to continue to be maintained through various initiatives. They expect the government to enforce stringent policies in the retrenchment of workers; make quality property and services affordable; ensure developers do not abandon construction projects; and financial institutions continue to provide easy access to financial facilities for purchase of properties. ■