

Second Quarter 2005 Review

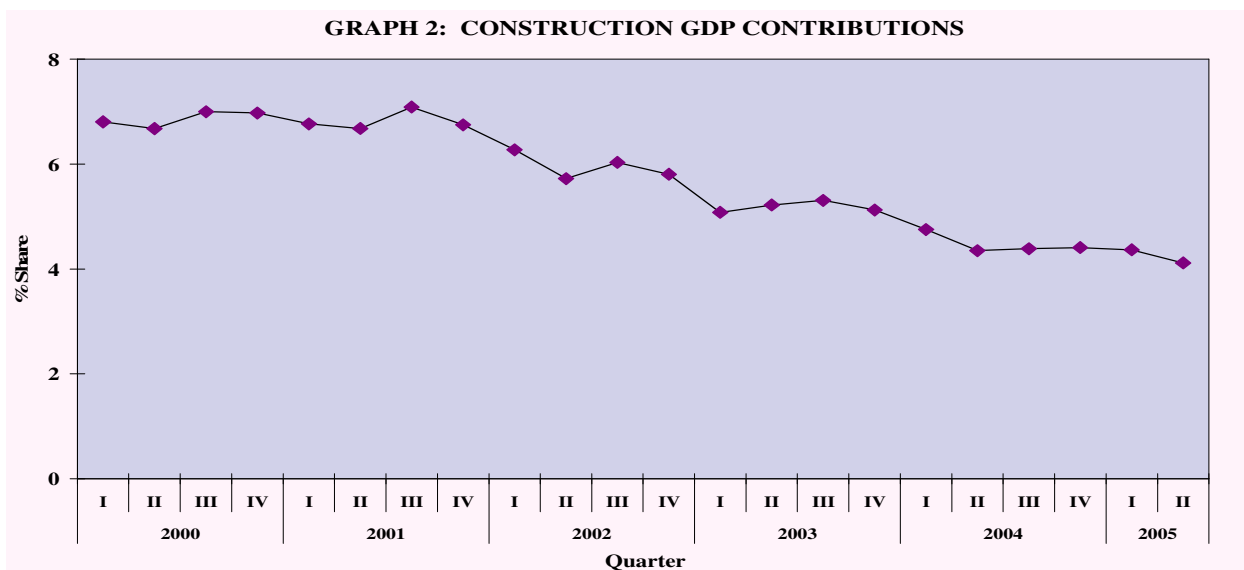
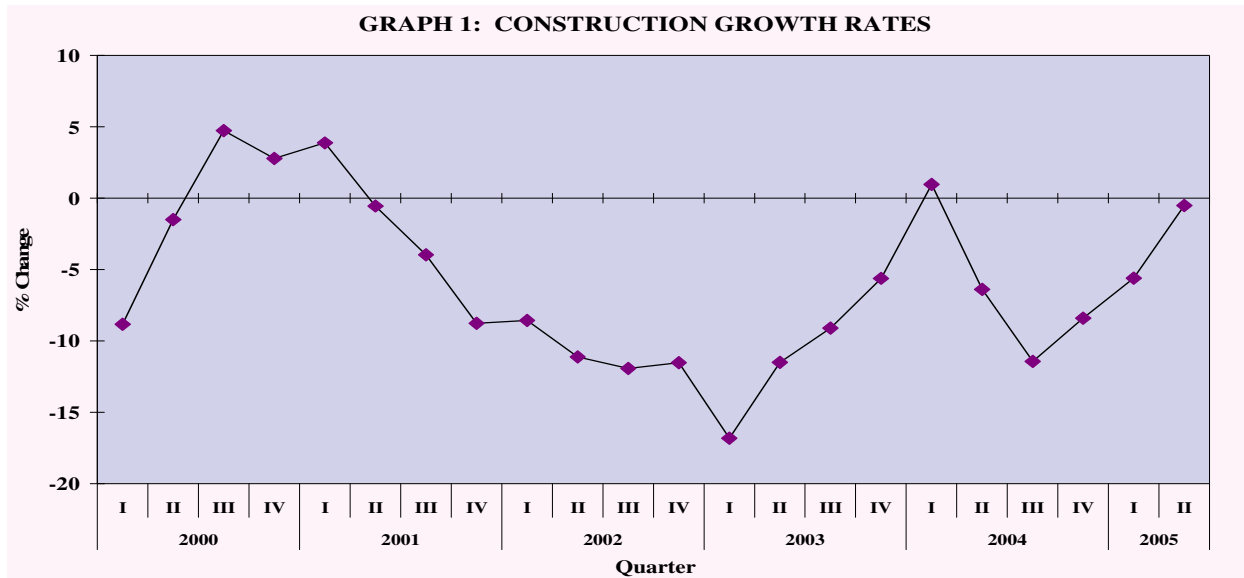
by
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SUMMARY

The construction sector fell by 0.5% in the second quarter, an improvement over the decline of 5.6% in the first quarter. The smaller contraction of construction GDP helped to strengthen the construction productivity, which registered a milder 0.4% contraction. Total value of construction orders, on the other hand, shrank by 33.1% in the second quarter, mainly due to the fall in the public sector construction demand. Nevertheless, forecast for total construction demand this year has been revised slightly upwards to between \$10.5 billion and \$11.5 billion in view of stronger private sector demand than originally projected.

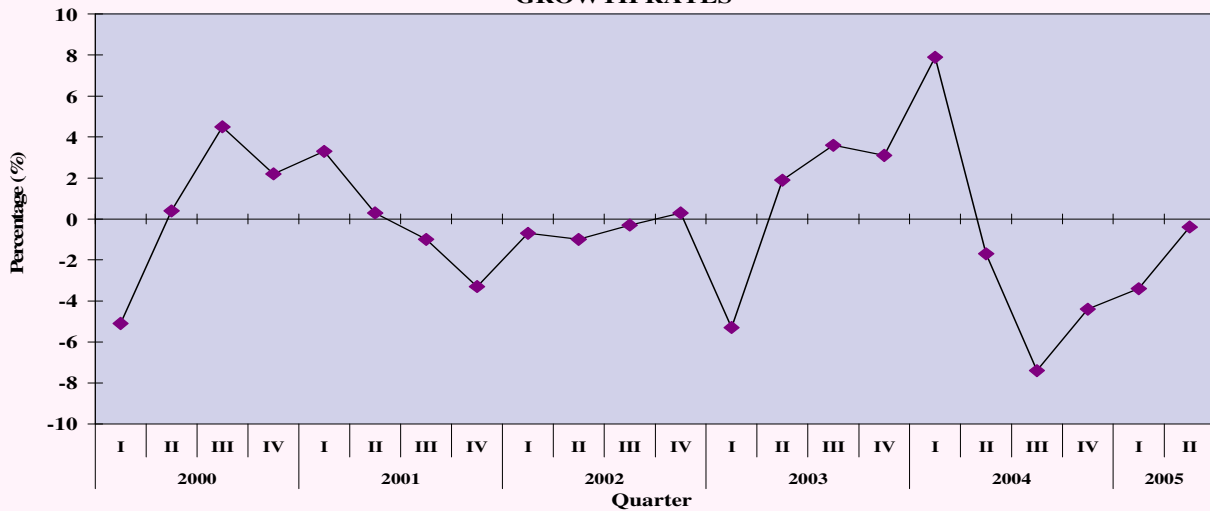
CONSTRUCTION GDP & PRODUCTIVITY

The construction sector improved from -5.6% in the first quarter to -0.5% in the second quarter (Graph 1), on account of strengthened output from commercial as well as private institutional & other building and civil engineering projects. On the other hand, with the expansion of economic GDP, the construction industry's share of the economy dropped further from 4.4% in the last quarter to 4.1% in this quarter (Graph 2). Its overall contribution to the economy in the second half of this year is likely to hover around 4% to 5%.



In tandem with the improved GDP, construction productivity registered a milder 0.4% contraction, as compared to a 3.4% drop in the first quarter (Graph 3).

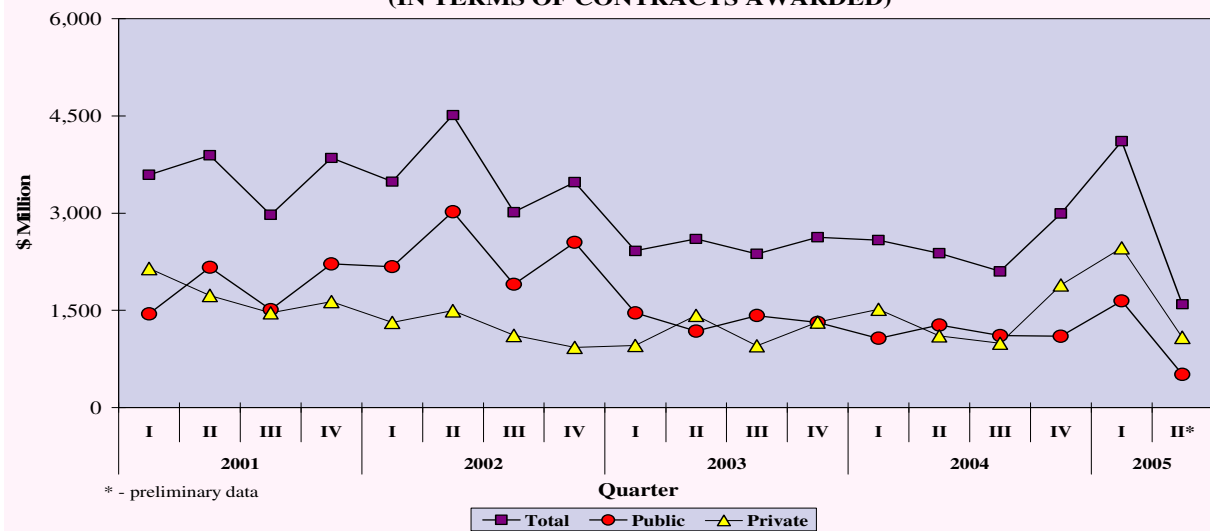
GRAPH 3: CONSTRUCTION PRODUCTIVITY GROWTH RATES



CONSTRUCTION ORDERS (CONTRACTS AWARDED)

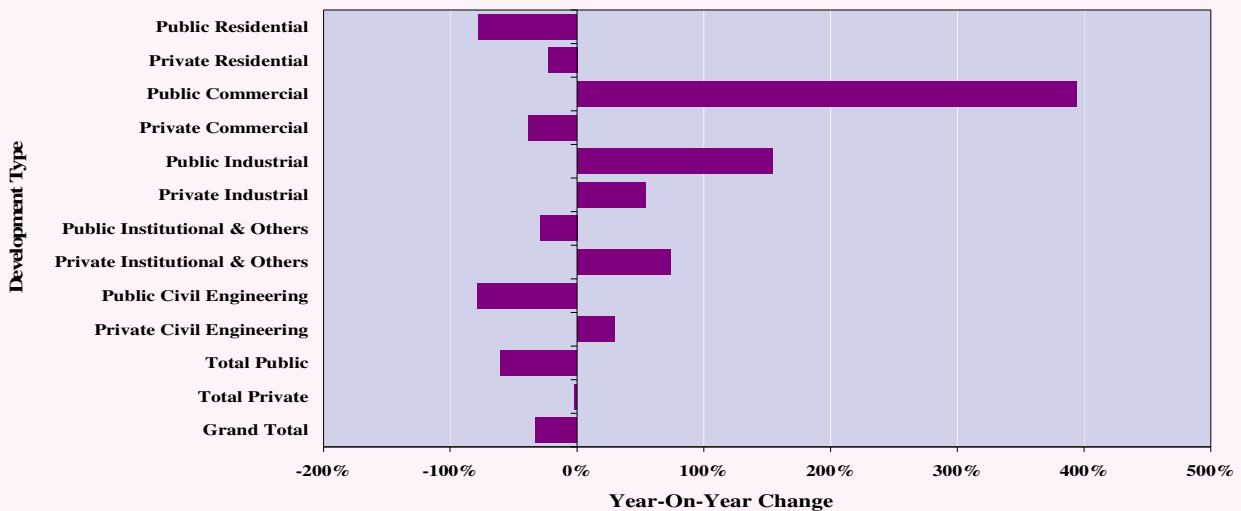
Total value of construction orders in the second quarter shrank by 33.1% year-on-year to \$1.6 billion. The decline was mainly due to the fall in the public sector construction demand, which dropped by 60.0% to \$509 million. The private sector construction demand also decreased, albeit at a smaller drop of 2.1% to \$1.1 billion in the same quarter (Graph 4).

GRAPH 4: CONSTRUCTION ORDERS (IN TERMS OF CONTRACTS AWARDED)



While the construction orders for commercial and industrial developments in the public sector turned in higher volumes as compared to the same period a year ago, the rest of the development types posted negative growths. The performance of the private sector construction orders was also mixed, with residential and commercial projects declining as compared to the corresponding quarter last year and all other types of projects enjoying positive expansions (Graph 5).

GRAPH 5: 2005Q2 YEAR-ON-YEAR CHANGE IN CONSTRUCTION ORDERS



Public Sector

The public sector construction orders in the second quarter totalled \$509 million, a 60% drop over the same quarter last year. Despite the small absolute values of the commercial and industrial projects, both development types registered substantial increases of 5 times and 2.5 times respectively. However, other development types posted negative growths, with civil engineering projects shrinking the most by 78.8%.

In contrast to the strong public residential construction orders in the previous quarter due to the award of Pinnacle @ Duxton, only around \$90 million worth of public housing projects were awarded in the second quarter. This constituted about 22% of the volume a year ago. A majority of the demand was supported by a building contract at Jurong West comprising 576 dwelling units.

The public commercial building construction orders increased five-fold to \$25 million due to the low base in the second quarter of last year. Most of the commercial projects awarded were mainly food and market centres upgrading projects at various locations. Other major projects awarded in the quarter were related to retrofitting works for LTA’s premises at Hampshire Road.

Similarly, industrial building construction demand also more than doubled the low level of construction orders in the same quarter a year ago to reach \$18 million. About half of the demand was attributed to the development of a membrane bioreactor demonstration plant at Ulu Pandan’s water reclamation plant.

On the contrary, institutional & other building construction demand shrank by 29.2% to \$277 million. One of the major projects awarded was a retrofitting contract for NUS’s Institute of Molecular & Cell Biology Building at Kent Ridge. Other notable projects awarded in the quarter included additions & alterations to Hwa Chong Institution at Bukit Timah and redevelopment of Changi Prison Complex’s Special Services Centre at Upper Changi Road North.

Civil engineering construction orders dropped to around \$100 million in the second quarter, accounting for less than a quarter of the volume a year ago. Some of the major projects reported in the second quarter were signaling and communication system projects for Boon Lay MRT Extension, a new water pipeline contract and medium-sized road projects.

Private Sector

The total value of private sector construction orders dropped by 2.1% to \$1.1 billion, reversing the strong expansion registered in the first quarter. Both residential and commercial development types registered lower volume of construction orders, despite the healthy growths posted by other development types.

Although the private home prices edged up 2.4% year-on-year in the second quarter, it has not yet translated into a sustainable upswing of private residential construction demand. Total value of residential construction orders in the second quarter slipped back to a negative growth of 22.8% after enjoying a strong pick-up in the first quarter. However, the relaxed property rules for financing and foreign ownership unveiled by the Government in July 2005 may provide a boost to the overall sentiments. This may result in higher demand in the private housing market, which in turn will strengthen the construction orders in the coming quarters. Among the close to \$450 million worth of projects awarded, City Square Residences at Kitchener Road and Watermark Robertson Quay at Saiboo Street were the highlights in the quarter.

Total value of commercial construction orders remained weak since early this year. In the second quarter, \$110 million worth of projects were awarded. Similar to the preceding quarter, retrofitting works remained the main feature in this category. Some of the major projects awarded in the second quarter were building extension to Centrepoint Shopping Centre with an overhead link bridge, building extension to Bukit Panjang Plaza, and retrofitting works to Marina Mandarin Hotel.

In tandem with the strengthened price and rental trends as well as higher occupancy rates, total value of industrial building construction orders improved by 54.2% to \$186 million. The mainstay in the quarter were a few light industrial developments, such as two logistic hub projects at Alps Avenue, a warehouse at Tuas South and electrical & instrumentation works for Horizon's bulk liquid products terminal in Jurong Island.

Institutional & other building construction development was the star performer in the second quarter, reaching about \$180 million in construction orders. This not only represented a 73.9% increase year-on-year, it also doubled the level over the first quarter this year. The strong demand was underpinned by Lasalle-SIA College's new campus at Albert Street and Trinity Christian Centre at Paya Lebar Road.

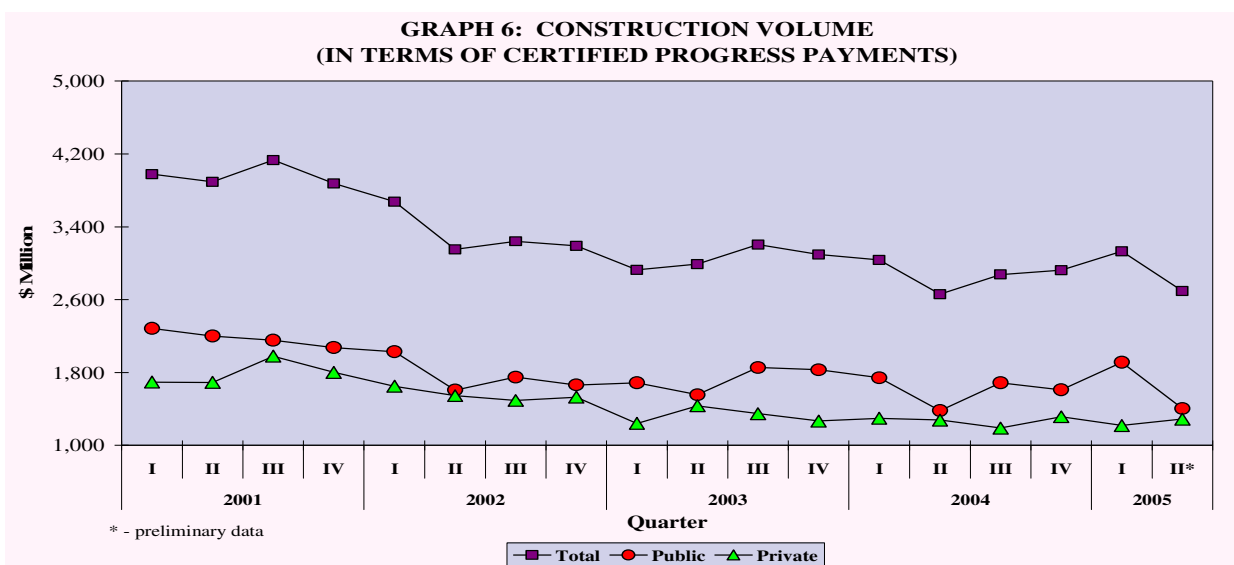
Civil engineering projects also increased by 29.4% to about \$160 million in the second quarter. The oil storage market in Singapore has been growing quite extensively and the demand for tanks is expected to rise in the future. The second quarter saw some storage companies stepping up their tankage facilities. For instance, the largest civil engineering contract awarded in the second quarter was Horizon's jetties and infrastructure related works at Meranti Crescent in Jurong Island. Likewise, Oiltanking Singapore also started to beef up their jetties facilities for storage capacities in Jurong Island.

Revised 2005 Forecast

Together with the first quarter's construction demand, the total construction orders in the first half of this year amounted to \$5.7 billion, a 14.9% increase as compared to the same period last year. The increase was mainly due to the robust expansions of both sectors' construction orders during the first quarter. In January this year, BCA forecasted that the total construction demand in 2005 to reach between \$10 billion and \$11 billion. Based on the results of BCA's latest survey and the improved performance in the first half of the year, the forecast for 2005 has been revised to between \$10.5 billion and \$11.5 billion.

CONSTRUCTION VOLUME (PROGRESS PAYMENTS)

Total value of construction output, in terms of progress payments, edged up 1.3% year-on-year to \$2.7 billion in the second quarter (Graph 6). The increase indicated a mild moderation from a higher growth of 3.1% in the previous quarter. However, both public and private construction activities registered positive growths in the second quarter, inching up 1.7% and 0.8% respectively.



Total public sector construction activity amounted to \$1.4 billion in the second quarter. Commercial building construction output posted the highest growth at 69.2%. The marked expansion was mainly fuelled by the development of Singapore Expo's exhibition halls 7 to 10. Residential construction output turned around with a positive growth due to the work commencement of Pinnacle @ Duxton. Institutional & other building construction output also grew year-on-year due to a major boost from the full-swing construction of Changi Airport Terminal 3 building. On the other hand, industrial and civil engineering construction activities slowed down after enjoying robust growths in the previous quarter.

The private sector construction activity reversed the contraction in the previous quarter and grew slightly to \$1.3 billion in the second quarter. The most outstanding performer was the three-fold year-on-year increase on civil engineering work volume, mainly contributed by Horizon's jetties and infrastructure works for its bulk liquid products terminal. Commercial and institutional & other building works continued their uptrend, with supports from the new retail development like Vivocity and new campuses for educational institutions like INSEAD and Singapore Management University (SMU). Construction output growths for residential and industrial projects, on the other hand, remained in the negative region.

CONSTRUCTION MATERIALS

Demand for steel reinforcement bars, ready-mixed concrete and granite contracted in the range of 7.4% to 20.5% year-on-year, while the demand for common bricks and cement raised marginally by 5.3% to 6% over the same period.

Current market prices of cement, granite, common bricks and ready-mixed concrete continued to rise, driven by higher fuel and production costs. Escalating freight costs have diverted cement imports to nearer sources like Taiwan and Malaysia. Prices of steel

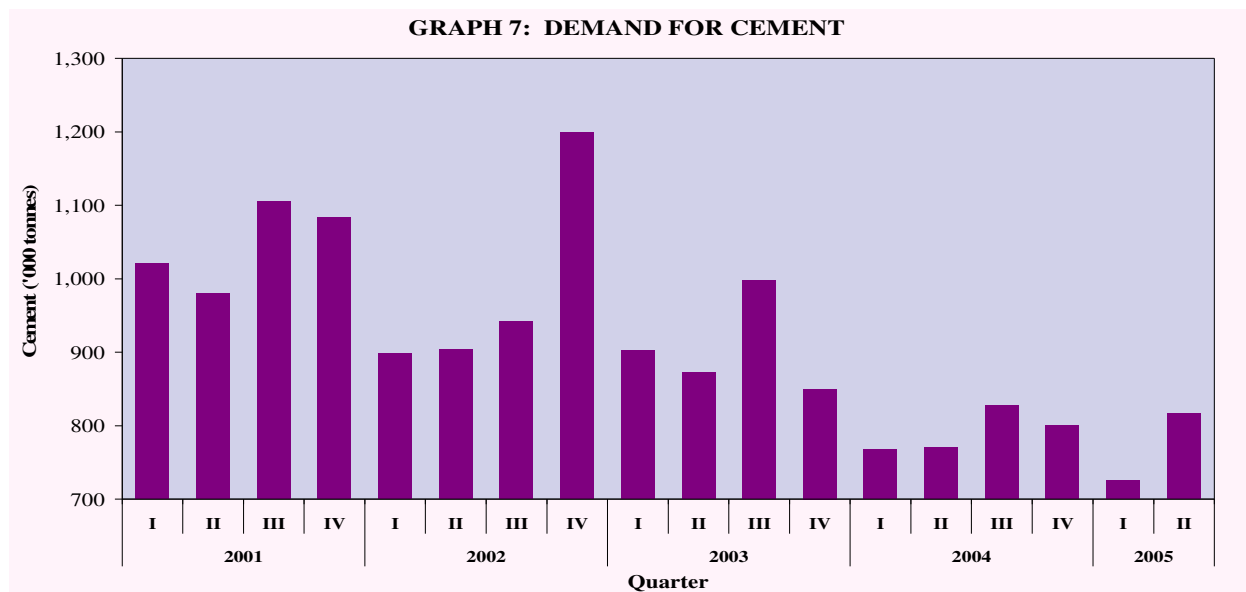
reinforcement bars dipped further due to high stock levels and weakened global demand. Import of steel bars from China shrank substantially in the second quarter, likely due to the recent trading control measures imposed by the China government. It is anticipated that the latest 'Steel Industry Development Policy' announced by the China's State Council would have further impact on China's presence in the world steel market.

Demand for construction materials is expected to stay stable in the coming quarter. Local steel reinforcement bar prices are likely to remain soft, as the depletion of the surplus global stock level is hampered by weakened demand. In anticipation of further fuel price hikes, market prices of cement, ready-mixed concrete and granite prices are likely to continue their upward trend. Tightened supply of bricks in North Malaysia is expected to stimulate sourcing from South Malaysia, which could indirectly raise the export prices of bricks to Singapore.

Cement

Demand and Supply

Demand for cement saw a marginal increase of 6% to 0.8 million tonnes in the second quarter of 2005 (Graph 7). Import dependency was 90.5%. Cement imports from nearer sources including Malaysia and Taiwan remained relatively strong at 26.2% and 19.9% respectively. Total import from Japan was 40.1%.



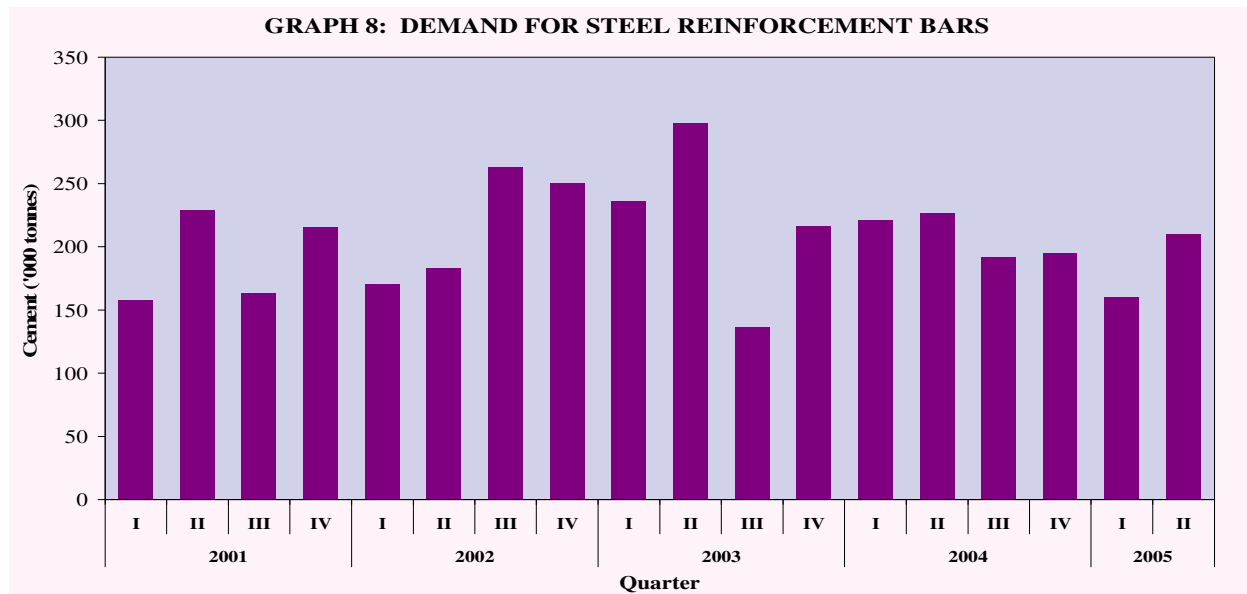
Prices

Current market prices of both bulk and bagged cement have moved up to \$85.40 and \$94.30 per tonne respectively. The recent cement price hike in Malaysia has minimal impact on Singapore. Nevertheless, rising fuel and raw material costs are expected to sustain cement prices at relatively high levels in the coming quarter. This is reflected by the two recent HDB cement bulk tenders awarded in May and June 05.

Steel Reinforcement Bars

Demand and Supply

Demand for steel reinforcement bars contracted by 7.4% to 210,000 tonnes (Graph 8) year-on-year. Korea (36.4%) emerged as the leading import source for steel reinforcement in the second quarter, followed by Malaysia (27.3%) and Taiwan (16.7%). Import of steel bars from China contracted significantly in the second quarter to 9.3%, likely due to the trading control measures imposed by the China government. It is envisaged that China's recently announced 'Steel Industry Development Policy' would pave the way for nation-wide consolidation efforts among its major steel makers as well as curbing the rampant growth of smaller players. Coupled with a new policy to restrict foreign investment in steel production, China's future steel supply capacity is likely to be developed to the extent of meeting the domestic demand. This will certainly have strong impact on China's presence in the world steel market.



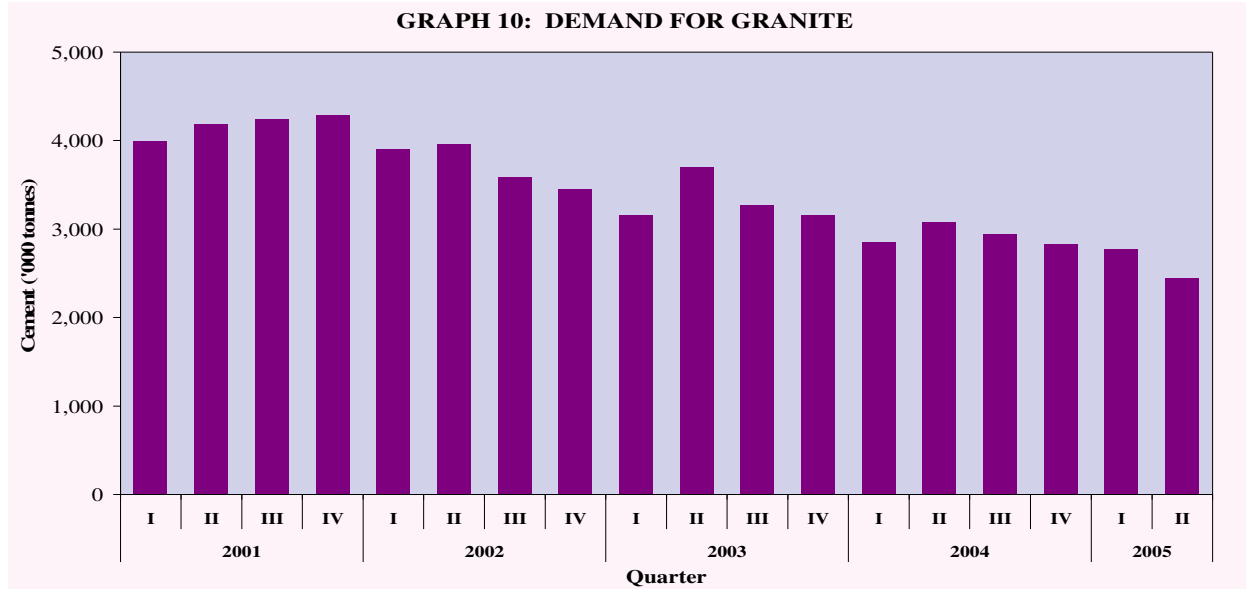
Prices

The current price of steel reinforcement bars in the second quarter 2005 was at \$746.50 per tonne. Local steel reinforcement bar prices are likely to remain soft in the coming quarter, as the draw down of the surplus global stock level is hampered by weakened demand worldwide. The recent policies introduced by China aimed at cooling down its overheated domestic steel industry are likely the key contributors to the shrinkage in China's demand for steel.

Granite

Demand and Supply

Demand for granite shrank by 20.5% to 2.4 million tonnes year-on-year (Graph 10). Bargaining problems faced by importers could possibly have slowed down granite supply over the period.



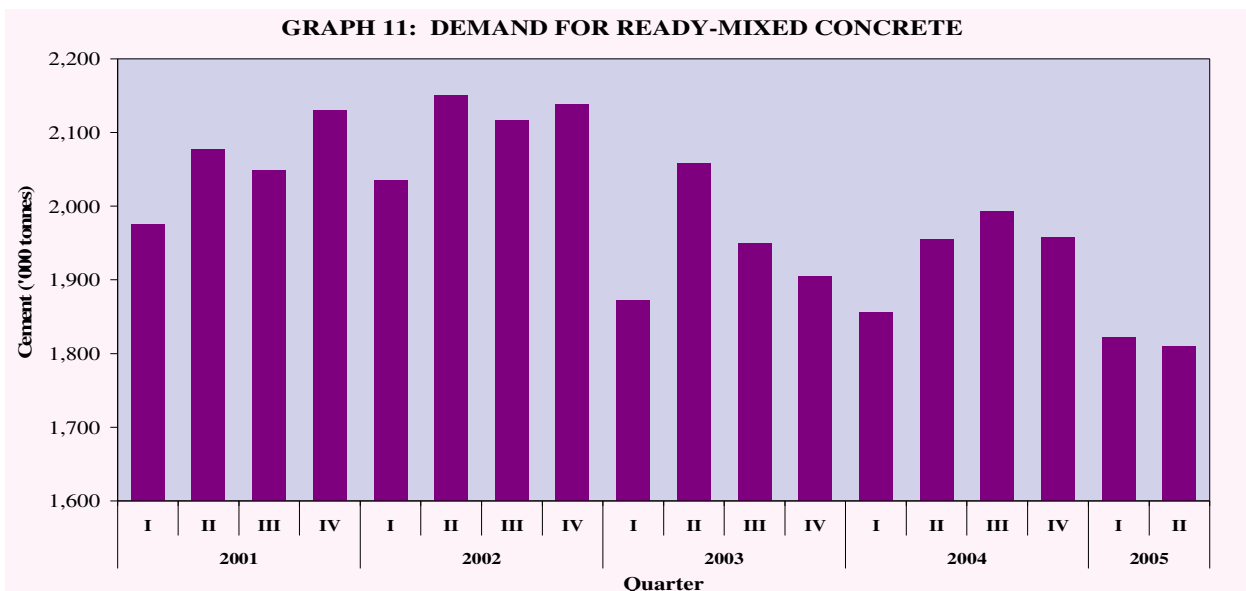
Prices

The current market price of granite in the second quarter was \$15.85 per tonne. The latest HDB bulk tender was awarded in July 05 at \$16.50 per tonne. Barring any further hikes in production and transportation costs, market prices for granite are likely to stabilise in the coming months.

Ready-Mixed Concrete

Demand and Supply

The consumption of ready-mixed concrete dipped by 7.4% to 1.8 million cubic metres year-on-year (Graph 11).



Prices

The current market price for ready-mixed concrete (Grade 30) was \$72.10 per cubic metre over the quarter. The upward price trend for ready-mixed concrete would likely correspond to the continual rising costs of production.