

Be aware of building material cost headwinds in 2023

DESPITE the prognosis for global economic growth remaining grim, 2023 is projected to be the turning point for the Malaysian property market. Not only because the country's property market has regained its momentum – where the number and the value of property transactions and loan applications have gone back to pre-Covid-19 pandemic levels – but also due to pent-up homebuyers' demand, fear of missing out among investors, strong fundamental demand from young demographic segment, and the new government's commitment to ease the high cost of living.

MKH Principal Researcher Dr Foo Chee Hung and MKH Building Materials Sdn Bhd general manager Brandon Loo said, more importantly, a declining trend in building material costs has been observed throughout the fourth quarter of 2022.

As shown by data from the **Department of Statistics Malaysia**, average prices for the key building materials – steel bar and cement – declined 1.6% and 0.5% month-on-month, respectively, in October 2022, marking it the fourth consecutive month of downtrend. This, they said, indicates that construction cost headwinds are manageable, and profit margins are no longer as depressed as before when prices of key building materials reached all-time highs in the first half of 2022.

“However, when a longer time-frame of prices for key building materials is studied, one may find that the steel bar price is still higher than it was in 2019, though it has started to level off since August 2022, at the range of RM2,700-RM2,800 per metric ton.

“As reported recently, the government intends to remove electricity subsidies from medium-voltage and high-voltage industrial users, so as to mitigate the impact of high coal costs in the energy sector. Such a tariff increase of more than 566% – which is from 3 sen per kWh currently to between 20 and 27.7 sen per kWh – will definitely add fuel for another round of steel bar price hikes, and will probably lead to an increase of RM200/mt to offset the higher operating cost,” they said.

Also, following China's relaxation of Covid-19 restrictions, Foo and Loo said, the country's construction activities are expected to gradually resume their normal pace. This will definitely drive up global steel demand; and this is likely to add more pressure to Malaysian steel bar prices once the unity government announces its new mega projects. A surge in steel bar price towards its previous peak of RM3,600 per metric ton is highly possible.

Foo and Loo said prices for bagged cement surged to above RM20 per bag in December 2022, which were higher than the pre-pandemic level (lower than RM15 per bag). To note, the bagged cement list price of RM19.25 per bag had been revised to a recommended retail price of RM22.50 per bag across all regions in Malaysia on Nov 18 2022, an increase of 17%.

Certainly, they added, the revised list price coupled with the recent drastic cement rebate pullback of RM60-RM80 per metric ton are a double hit to cement-related products.

There is hardly a turning back of prices to pre-pandemic levels. Eventually, no one can rule out the pass-on effects that will spill over to homebuyers, they said, adding more challenges to housing affordability.

In this sense, one can expect that the housing market in 2023 will not be performing any better than it did in 2022; not to mention the possibility of bottoming out from the “recession” phase of the property cycle and entering into the next phase of “expansion”.

<https://www.thesundaily.my/home/be-aware-of-building-material-cost-headwinds-in-2023-ID10469100>