



社会经济研究中心
SOCIO-ECONOMIC
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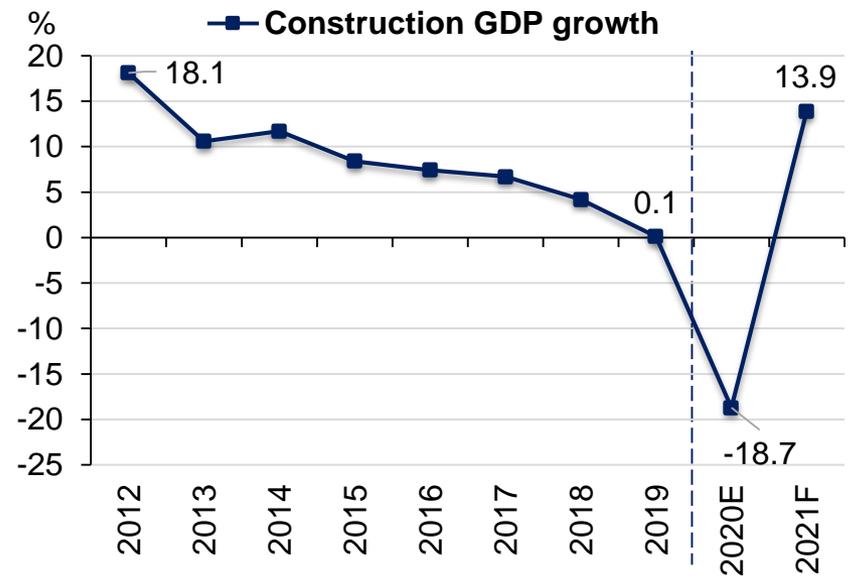
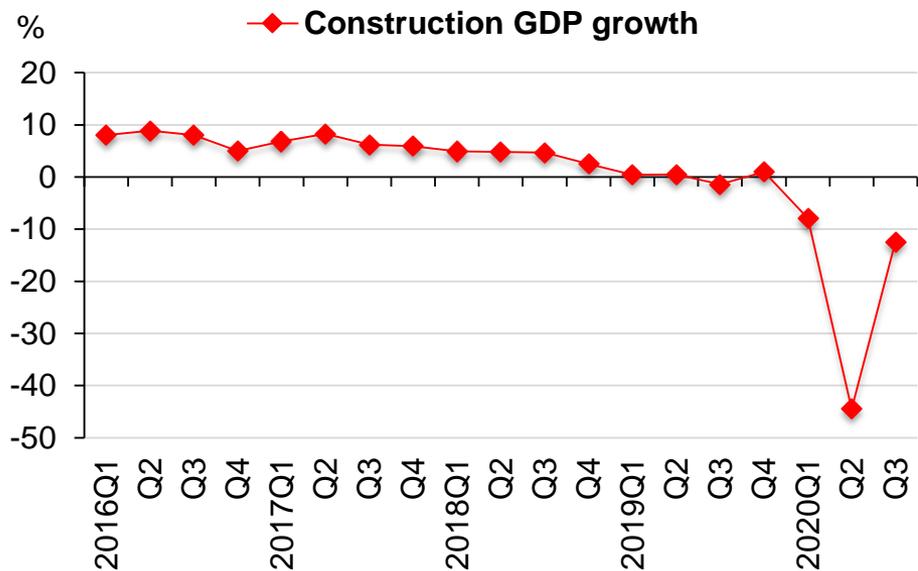
The Construction Industry-
The Impact of COVID-19 & Rebound Plan
- A case of Malaysia-

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The sluggish state of the construction sector

- The construction sector had experienced a prolonged period of consolidation since 2015. Its growth had pulled back sharply from 11.7% in 2014 to 4.2% in 2018 and almost flat growth (0.1%) in 2019. This due to: a) **Completion and near completion of large infrastructure and mixed development projects**; and b) **Fewer and smaller new projects amid the commercial property glut and elevated level of unsold residential properties**.
- **In Jan-Sept 2020, construction output contracted by 21.3% yoy**, largely due to restrictions on movements to prevent the COVID-19.
- **Ministry of Finance** expects the **construction sector to rebound to 13.9% in 2021**, a sharp turnaround from a decline of 18.7% in 2020.

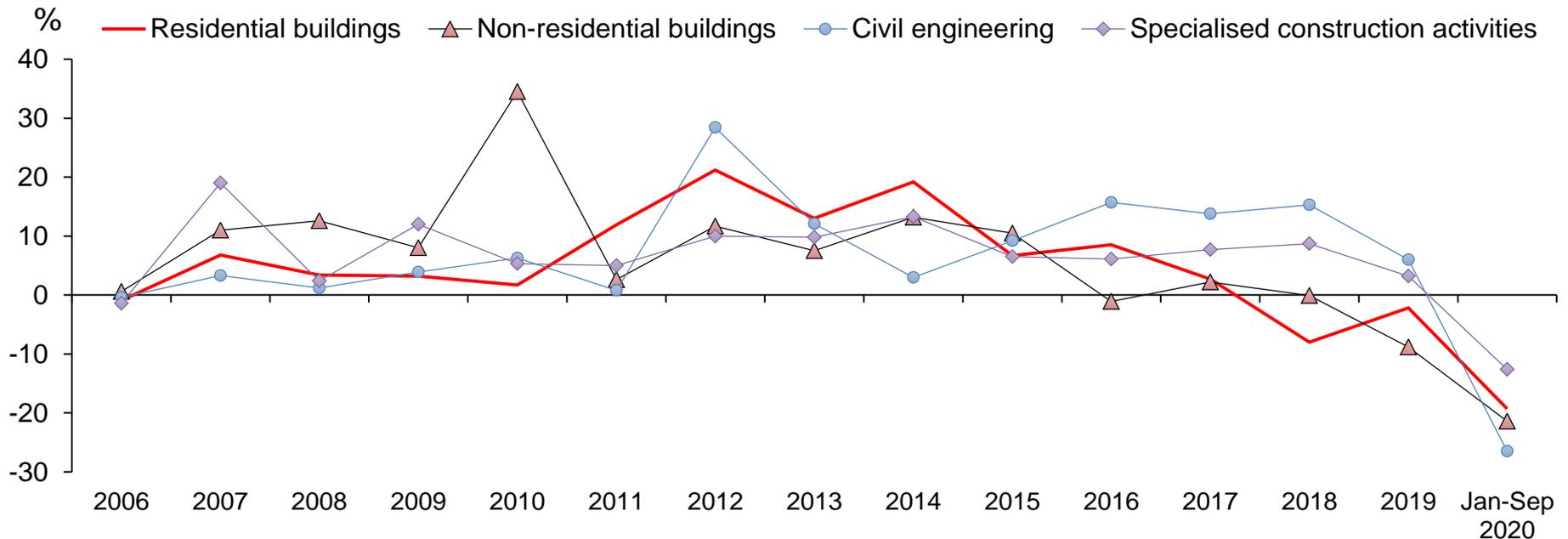


Source: Department of Statistics, Malaysia (DOSM), Ministry of Finance Budget 2021

A marked slowdown across-the-board

- **Overhang in both residential and non-residential sectors** had caused a sharp pullback in their growth.
- **Both civil engineering and specialized construction activities sub sectors** were significantly affected due to a slow implementation in public infrastructure projects.
- While most construction site projects to continue during the COVID-19 amid increased health and safety measures to protect employees, shortage of workers and a compulsory testing of foreign workers may result in the disruption of commencement / resumption of construction activities.

Construction GDP growth by sub-sector



Source: DOSM

Measures taken to ease the impact of COVID-19 on construction industry



Massive fiscal economic stabilisation and recovery package (RM305 billion or 21.3% of GDP)



The implementation of **socio-economic development and public infrastructure projects.**



Measures to help spur the demand of property sector (Home Ownership Campaign, stamp duty exemption, exemption of Real Property Gain Tax)



Monetary stimulus, including cutting interest rate by 125 basis points and injecting liquidity into the banking system.



Wage subsidy program to ease operating cash flow of employers while helping to keep employees.



Loan moratorium and targeted loan repayment assistance to individuals and businesses.



The COVID-19 Act – temporary measures to help ease the impact (inability to perform contractual obligations)



RM69 billion development expenditure allocation in the Budget 2021 to revitalise domestic demand

How construction sector can rebound from the pandemic?

- Given the wider inter-linkages (backward and forward linkages) of 140 sub-sectors of the construction industry with other major sectors of the economy such as manufacturing, transport, commerce, trading and financial services, it is important to revive the construction sector so as to support overall economy.
- The Budget 2021 has budgeted a total of RM69.0 development expenditure. Of the total, **RM37.1 billion or 53.7%** are construction related projects.

Breakdown of key Budget 2021 allocation for construction		
	<i>RM million</i>	<i>% of total</i>
Public transport infrastructure projects	15,000	40%
Water and electricity infra, roads, medical facilities and education (Sabah & Sarawak)	9,600	26%
Various building, housing and rural projects	4,086	11%
New infrastructure projects	3,800	10%
Small and medium scale projects for G1 to G4 contractors	2,500	7%
Rural road network (920km)	1,300	4%
Projects in various development regions	780	2%
Total	37,066	100%

Recovery prospects of the construction sector

- **Near-term prospects are expected to remain challenging in 2020-2021** given the current unprecedented economic crisis. The government expects the **construction sector to decline by 18.7% in 2020 and will rebound strongly to 13.9% in 2021** respectively, compared to an average of 9.9% pa in 2010-2019.
- The **continuation of large-scale infrastructure projects and the commencement of new projects** are expected to support the construction sector amid the big drag from persistent overhang and unsold commercial and residential properties.

Continuation of large-scale infrastructure projects

- MRT2 (RM30.5 billion)
- LRT3 (RM16.6 billion)
- Pan Borneo Highway (RM32.5 billion)

Clarity on outstanding mega projects

- ECRL (RM44 billion), which has already construction in progress
- HSR (RM43 billion) – pending finalisation with Singapore
- MRT3 (RM20-25 billion)
- Johor-Singapore Rapid Transit System (RM3.2 billion)

Continued overhang & unsold commercial and residential property

List of major projects and programs

Transport sector RM15.0bn

Upgrading, expansion and maintenance of infrastructure



Mass Rapid Transit 2 (MRT2)



Light Rail Transit 3



Bayan Lepas Light Rail Transit



Electrified Double Track Gemas – Johor Bahru



West Coast Expressway (WCE)



Coastal Highways in Sarawak



Pan Borneo Highway



Klang Valley Double Track 1



Rapid Transit System (RTS)



Kuantan Port Expansion



Expansion of Airport in Sandakan

Energy and public utility RM3.3bn

Construction of:

- Langat 2 Water Treatment Plant
- Baleh Hydroelectric Dam
- Sarawak Water Supply Grid Programme



Communications sector RM600 million



National Fiberisation and Connectivity Plan (NFCP)

Health sector RM4.7bn

Procurement of medical service vehicles and equipment



Construction of:

- Serdang Hospital Cardiology Centre
- Putrajaya Hospital Endocrine Complex
- Lawas Hospital

Upgrading of:

- Kajang Hospital
- Tawau Hospital

Source: MOF

Digitalisation in construction

- If the construction industry wants to **unlock its full potential through digital transformation**, the next five years are essential.
- **Digital revolution and climate change should be subjected to proper regulations and incentives** to encourage efforts in these areas to create developments that are future proof.
- **New technology** can make **construction cleaner, greener, more productive and more inclusive**.
- It is already apparent that **technology is changing the way the construction industry works**. The use of drones has become increasingly common on construction sites, being used to improve survey data, make the process of surveying more efficient and get safer access to dangerous or hard-to-reach places.
- **Digital transformation can improve planning and resource monitoring** since the pandemic by **drawing on e-sourcing and digital stock management systems**. Construction companies can streamline stock and procurement processes during the lockdown.
- **Construction businesses can realise that virtual tours of sites can reduce on-site footfall** (crucial during periods of tightened Covid-19 lockdown), keeping projects moving and staff safe.
- **Smart helmets and rugged wearables can be adopted to improve the employee experience**. They have a range of innovative capabilities – from providing employees with instant feedback on-site and augmented reality (AR) compatibility to safety features such as health trackers, emergency alerts, and more. These have the potential to boost productivity by helping workers with hands-on tasks and improving working processes.

Our recommendations to the Government

1. **To task CIBD as the lead agency to help industry understanding of the value of digital and the skills and training required.**
2. **Provide incentives and grants to encourage the adoption of innovation and technology.**
3. **Lower relative costs of capital investment in technology vs labour. Provide Accelerated Capital Allowance on automation, machinery equipment, robots, AI and machine learning systems.**
4. **Management and workforce capability** in terms of skills and the use of modern technology.
5. **Ease construction costs, compliance and regulatory costs as well as holding cost**

Ease construction costs and holding costs



Allow **extension of time** or **waiver of Liquidated Ascertained Damages (LADs)** caused by MCO or other COVID-19 supply chain issues



Utility companies should reduce capital contribution charges by **50%**



Introduce an **automatic release mechanism for Bumiputera quotas**



Bumiputera discounts only apply for **First-Timer house buyer** and for free market housing up to RM700,000



KPKT should **expedite the approval of HDA Account (Regulation 9) Excess Money Release** in less than 1 month



Request **LPPSA (Government Loan Department)** to release payment to **developers in less than 2 weeks**



Lower land conversion premiums and **allow conversion premiums to be paid only upon the launching of each parcel**



Provide incentives to ease investment cost in the **adoption of industrial building system (IBS)** technology; and build **sustainable and eco-green** as well as **smart homes**



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谢谢
THANK YOU

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