

Oil Price Fluctuations and the Building Construction Industry in Singapore

Oil price is significant to every industry; that is why it is being tracked. Last year, oil price reached its peak at USD147/barrel in July 2008. Observation of the tender prices showed that its rise is consistent with higher oil price.

In situations where prices go up, contractors have no choice but to ride through it. Even if they try to study about the oil price trend, there is no way to be sure as even economists are unable to predict accurately. When oil price hike hits, there is no way to avoid it because unlike personal usage, construction processes cannot afford to wait. Contractors may have to absorb the cost increase.

As papers have reported, companies have not defaulted yet. This is due to the lagging effects and the buffer time is usually 1 to 2 years depending on contractors' cycle in securing jobs and managing them. If they were awarded job in early 2008 when prices were high, contractors are enjoying the low prices now and this may ensure the continuity of their business.

When oil price goes up, it is not a concern of whether industry players are ready or not, because they must ride through it and manage within what they have to survive and move on. Otherwise, developers may put projects on hold, contractors may go bankrupt, and consultants may retrench staff.

Every company has its own bottom line in terms of its costs. Whether oil price goes up or not, at the end of the day, it is about the total costs. Developers have their own bottom line and cannot help contractors much too. If contractors have ways to cut costs, the profit margin will be better. Oil price hike is an external factor and since contractors can do nothing much about it, contractors have to know their tender price and make do with what they have and be more efficient. After this oil price hike, there is increased awareness of material price fluctuations, but as oil is very far down the construction chain, contractors cannot react much to it other than being more efficient.

There are limitations to this study as the arguments are not well-supported by exact data. In Singapore, the construction industry does not focus much on research and the effects of oil price hike on building construction industry are not tracked. It is difficult to study the actual impacts of oil price on building construction industry is because of speculation reasons. Future studies may include how contractors can be motivated to improve themselves and be more efficient so as to increase their profit margin and resilience in harsh times.

Note: Yessy is currently doing a research on the effects of oil price fluctuations on the building construction industry in Singapore as her final year project. The article is a brief compilation of her preliminary research. DK has been invited to participate in one of the interviews conducted and provided some cost data for her research purpose. The opinions expressed in this article are strictly those of the author.



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