



Cost of Construction in Kuwait and its components

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Executive Summary

Global economies are confronting higher inflation in 2022. Global supply-chain disruptions, high commodity prices, higher shipping costs, and supply shortages have led to a spike in prices of construction raw materials globally. Some of the primary raw materials that have observed significant price increases include Structural Steel sections, steel reinforcement, softwood timber for shuttering, copper pipes, and copper cables.¹

In Middle East, 40% of respondents to a construction survey by Turner & Townsend have highlighted that rise in construction costs is significantly impacting delivery and 60% have stated that skilled labour shortage is impacting delivery. Across GCC, costs of transport increased and imported goods prices have risen due to global supply chain challenges.² However, inflation rate has not been as high as in GCC as in other parts of the world.

Kuwait

In line with global trends, Kuwait's construction industry is currently seeing increase in cost of construction on the back of rise in labour costs, price of materials and transportation prices. Cost of building one square meter for medium-end private housing prior to the pandemic was estimated at KD 170 whereas it was estimated at KD 230 as of February 2022, marking an increase of about 35%. While the exact time frame during which the construction cost was KD 170 is not mentioned, it gives an indicative idea of the rise in construction over the last 2 years. The cost of building a private housing unit with built up area of 1240 sq.m has increased from KD 210,800 (KD 170/sq.m.) pre-pandemic to KD 285,200 (KD 230/ sq.m.).³ While this translates to USD 741/sq.m, it is less than cost of construction of villas and high rise in Saudi Arabia, and United Arab of Emirates which averages at USD 1,396/sq.m and USD 1,835/sq.m respectively.⁴ This could be due to the provision of construction materials at subsidised prices by the government and measures such as monitoring of prices and banning of import and re-export of materials such as cement, lumber, iron etc.

Labour

In the backdrop of COVID-19 pandemic and broader Kuwaitization policy, many expatriates were repatriated to their home country with their numbers declining to 3.15mn in H1 2021 from around 3.34mn in 2019.⁵ With decline in labour availability, labour cost has increased. Overall, average monthly wages for expats in private sector has risen by 5.6% y/y as of March 2022.⁶ Daily wages are in the range of KD 18-30/day with that for unskilled labour at KD 18 and for skilled labour at KD 30. This compares to earlier values of KD 9-18/day with unskilled labour's daily rate at KD 9 and skilled labour rate at KD 18.⁷

¹ Turner and Townsend

² Turner and Townsend

³ Times Kuwait

⁴ JLL, November 2021

⁵ PACI/NBK

⁶ LMIS

⁷ Kuwait Times, As of June 2022

Material

Globally, commodity prices have increased on the back of supply chain issues due to COVID-19 lockdowns in countries like China and geopolitical issue in Russia and Ukraine. With Kuwait reliant on imports of materials such as iron and steel, copper wire etc, the price increases have trickled down to the local markets.

Table: Value of some key inputs in construction imported by Kuwait

	2020 (USD bn)
Articles of iron or steel	1.1
Iron and steel	0.6
Copper Wire	0.5
Aluminium	0.2

Source: Trading Economics; OEC

In Kuwait, the series of price hikes in construction goods has ranged between 8.7% and more than 100% from January to early June 2022.⁸

- Cost of iron is reported to be at KD 280/ton in May 2022. This compares to price of KD 248/ton in June 2021.
- Cement has increased moderately from KD 1.1 before pandemic to KD 1.25 per bag as of February 2022 as the prices are subsidised by the government.
- Steel prices had increased by 50% since early 2020 and were at KD 254 per ton as of May 2021. Prices of steel rebars manufactured in Kuwait had increased by 37.2% y/y to KD 295/ton in March 2022.⁹ However, it is now down to KD 195/ton.
- While global oil prices have spiked, local gasoline prices have largely remained unchanged since start of the pandemic but for Gas Oil and Gasoline 98 (Ultra).¹⁰

Table: Annual Price Change in Kuwait for some key inputs in construction

	y/y changes in prices		
	Mar-22	Mar-21	Mar-20
Articles of concrete, cement and plaster	2.3%	0.0%	10.1%
Products of iron or steel	25.4%	1.3%	-0.6%
Manufacture of wood and of products of wood and cork	23.8%	1.6%	2.0%
Oil	69.8%	179.4%	-66.7%
Copper	13.8%	73.4%	-19.5%
Aluminium	59.7%	36.0%	-13.9%

Source: Copper, Aluminium - World Bank; Oil - Refinitiv, Brent Crude; Others - Central Statistical Bureau Wholesale Price Index

According to World Bank estimates, prices of commodities, metals and energy are expected to ease in 2023 but is expected to continue to remain elevated. While commodity prices are estimated to be higher than their five year averages, metal prices are expected to remain at historically elevated levels. Construction cost inflation in GCC is expected to average at 5.4% in 2022 and at 5.0% in 2023, indicating an upward trend in cost of construction for Kuwait as well.¹¹

⁸ Arab Times

⁹ AIU Steel

¹⁰ FuelPrice

¹¹Turner and Townsend; Average of Riyadh, Abu Dhabi, Dubai, Doha and Muscat

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