

## Afrimat Construction Index continues to outperform the general economy

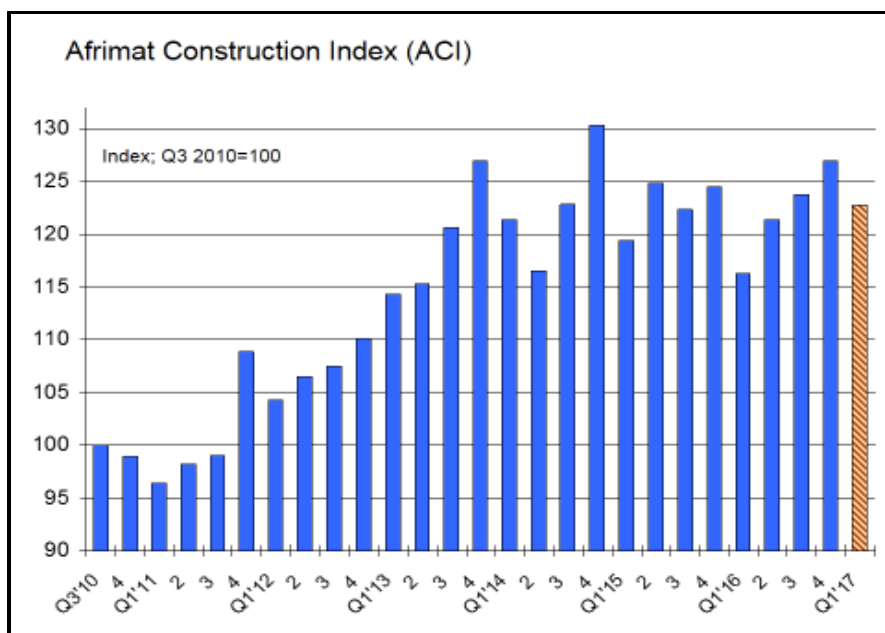
Johannesburg, 22 June 2017 – Afrimat, a leading open pit mining company providing industrial minerals and construction materials, has released the findings of the Afrimat Construction Index (“ACI”) for the first quarter of 2017.

The index trend has not escaped the negative impact of four very unfortunate recent events, viz. the dismissal of Mr Pravin Gordhan as finance minister; growing evidence of state capture; a ratings downgrade of sovereign bonds to junk status by two influential agencies; and a return to a technical recession.

In combination, these developments have conspired to erode business and consumer confidence, as evidenced by the latest RMB/BER Business Confidence Index, which has slipped to levels last witnessed during the 2009 recession.

After reaching an eight-quarter high of 127 in the 4<sup>th</sup> quarter of last year, the ACI declined to a level of 122.7 in the 1<sup>st</sup> quarter of 2017. The construction sector at large nevertheless remains on a stronger footing than seven years ago, with the ACI having expanded by 22.7% since the 3<sup>rd</sup> quarter of 2010 (the base period), more than double the rate of growth of the economy as a whole (in real terms).

The ACI is a composite index of the level of activity within the building and construction sectors, compiled by renowned economist Dr. Roelof Botha on behalf of Afrimat.



Botha says the composite index provides a balanced and realistic view of the level of activity in the construction sector as it evens out the contradictory trends of conditions in the construction sector that are often portrayed by the individual components that comprise the index.

The ACI is calculated from nine different constituent indicators: the volume of building materials produced; the sales value of building materials; the value of buildings completed within larger municipalities; the value of building plans passed by larger municipalities; the FNB/BER building confidence index; the FNB/BER civil construction index; retail trade sales of hardware, paint and glass; formal employment in construction; and the value added by the construction sector.

The expansion in construction activity up to the 1<sup>st</sup> quarter of 2017, as indicated by the ACI has been driven mainly by improved retail sales values for hardware, glass and paint and the volume of mined building materials.

Confidence levels in the construction sector were considerably higher in the 1<sup>st</sup> quarter of 2017 than in 2010 and more than 400,000 additional formal sector jobs have been created in construction since Q3 2010. The value of buildings plans approved by the larger municipalities was the worst performing indicator in Q1 2017.

Looking ahead, the ACI is likely to remain under pressure during the 2<sup>nd</sup> quarter, due to the declining trend in overall business confidence, socio-political unrest and the delay of the South Africa Reserve Bank to adopt a more accommodating approach towards monetary policy.

According to Dr Botha, the real value of outstanding mortgage loans has not yet recovered from the previous recession (in 2009) and this traditional source of funding for a significant portion of construction sector activity remains expensive. "Hopefully, the Monetary Policy Committee will acknowledge the realities of a lethargic economy including the absence of demand inflation and start lowering interest rates in July".

Dr Botha adds that the industry will nevertheless continue to be boosted by government expenditure programmes in economic and municipal infrastructure and human settlements, collectively valued at more than R285 billion in the current fiscal year.

Andries van Heerden, Afrimat CEO, says the activity in the construction sector, as indicated by the ACI, bodes well for the economy and players able to adapt and embrace circumstances. "The Afrimat strategy is supported by our experience over the past six years. Companies involved in the construction sector had to box cleverly to source projects or supply product to the sector. Our research showed that several smaller projects were available and one simply had to adapt the model a little to be successful. Afrimat being in many of the rural areas of the country is an example of an adaption that paid off."

The results of this study are showing that construction is a sector in which government spend is still taking place and given economic constraints, it is natural for the sector to come off slightly. "However, if companies position themselves correctly on product quality, price and service delivery, they should be able to make a decent return for shareholders," concluded van Heerden.

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