Afrimat Construction Index shows marginal improvement year-on-year

Quarter-on-quarter contraction echoes normal decline in construction activity in 1st quarter

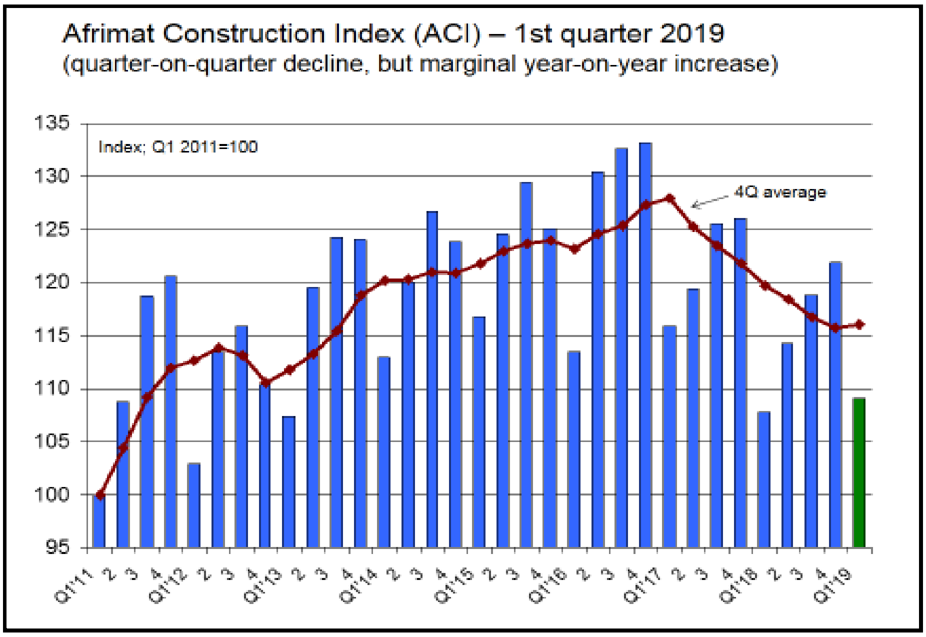
Johannesburg, 20 June 2019 – Afrimat, the JSE-listed open pit mining company providing industrial minerals, bulk commodities and construction materials, today released the findings of the Afrimat Construction Index ("ACI") for the first quarter of 2019. The ACI is a composite index of the level of activity within the building and construction sectors, compiled by renowned economist Dr Roelof Botha on behalf of Afrimat.

This quarter's ACI broadly followed the same disappointing trend evident in overall economic activity during the first quarter of the year, during which South Africa's Gross Domestic Product ("GDP") declined by more than three per cent (compared to the fourth quarter of 2018). According to Botha, it is nevertheless encouraging to note that the first quarter ACI level increased on a year-on-year basis, which is better than the zero real growth recorded for the economy as a whole since the first quarter of last year.

"The recessionary environment in the South African construction sector is confirmed by a declining trend in the ACI's four-quarter average value that lasted for seven successive quarters, although there was a marginal upward movement this quarter."

Botha also points out that the ACI is now 9.1% higher than eight years ago (the base period for the index), compared to an increase of 12.2% in the GDP over this period – signalling a below-par performance for a sector that plays a key role in the development of infrastructure, housing and new production capacity in the economy.

"This reflects a dire need for government to incentivise a higher level of business activity throughout the whole of the construction sector supply-chain, especially via a revival of the RDP housing scheme and restoring the functionality at dozens of bankrupt municipalities. The latter will assist local governments in accessing conditional grants earmarked for infrastructure." Botha indicated that the best performers during the first quarter of 2019 were the values of Building Plans Passed and Buildings Completed (compared to the previous quarter).



Compared to the same quarter last year, the best performers were the values of Buildings Completed and Building Material Sales. “Unfortunately, the other six indicators recorded declines, although this was not unexpected due to the traditional spike in construction activity during the second half of each year, which is followed by a dip in the first quarter of the following year.”

Year-on-year % change in the constituent indicators of the Afrimat Construction Index: Q1 2018 to Q1 2019

Indicator	%
Buildings Completed (Value)	36.1
Building Materials (Sales)	4
Retail Trade Sales – Hardware	-1
Salaries and Wages – Construction	-1.4
Building Materials (Volume)	-2.7
Construction Value Added	-2.9
Building Plans Passed (Value)	-5
Employment in Construction	-6.4
Afrimat Construction Index	**1.2**
Real GDP	**0**

According to Botha, the key factors that weighed on construction sector activity during the first quarter of the year included the following:

- On-going fiscal restraint as a result of slow growth in taxation revenues and the need to curtail the growth in public debt.
- The refusal by the Monetary Policy Committee (“MPC”) of the Reserve Bank to adopt a more accommodating policy stance. South Africa’s real repo rate is 450 basis points higher than the average real bank rate for the Euro-zone. High domestic interest rates have dampened construction activity via an increase in the real cost of capital of more than 100% since the retirement of Gill Marcus, the previous Governor of the Reserve Bank.
- Lingering uncertainty over the issue of land expropriation without compensation has caused a predictable hesitancy amongst property developers and other investors to engage in construction activity.
- In the run-up to the elections, many public sector agencies and government departments were rendered less efficient, due to uncertainty over the likely results and the high level of politicisation that exists in all three tiers of government. High levels of crime and intimidation that are being experienced at building sites, a concern that the South African Institute of Consulting Engineers has brought to government’s attention.

Botha is nevertheless confident that construction activity should improve considerably during the second half of the year, gaining momentum in 2020. “President Ramaphosa has made it abundantly clear that, apart from combating corruption, higher economic growth and employment creation will be afforded overriding priority during his term of office.”.

He added that the gradual implementation of the recommendations of the National Development Plan, especially the emphasis on creating new infrastructure and targeting sectors with high growth potential, could soon lift the construction sector to a new sustained growth path.

"A particularly welcome development that augurs well for construction activity in Gauteng is the announcement by Transnet that a concession will soon be awarded for a public-private partnership to build and operate a new R2.5-billion inland container terminal."

It was recently reported in *Engineering News* that the terminal will be built on a 607-ha property near Vosloorus, in Ekurhuleni. The Gauteng provincial government expects the container terminal – dubbed the Tambo Springs Intermodal Terminal – to catalyse further logistics-related investments worth R20-billion over the coming 15 years. In addition, the Gauteng government plans to invest R6.5-billion to strengthen the road infrastructure around the Tambo Springs Logistics Gateway.

According to Botha, projects such as this are also required in the country's other metropolitan centres and the streamlining of the regulatory environment, combined with the adoption of public-private partnerships, could spark a revival of construction activity in the near future.

"We are seeing some evidence of green shoots in the construction space, with certain elements of the economy stabilising to some extent, although this is currently limited to smaller projects in KwaZulu-Natal, Gauteng and the Western Cape, with noted improvement in the eastern Free State particularly," says Afrimat CEO, Andries van Heerden, who believes this bodes well for the sector if the trajectory continues, but that it is too soon to tell if the recovery will be full-blown.

"Therefore, Afrimat will continue to look for further opportunities to diversify where feasible and sensible, whilst still providing quality products, backed up by our excellent management, marketing and business development teams who thrive in an entrepreneurial environment, where challenges come with the territory."

Van Heerden says that it is however imperative for the sector in South Africa to be revived, questioning how any country could grow successfully without a vibrant construction industry.

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