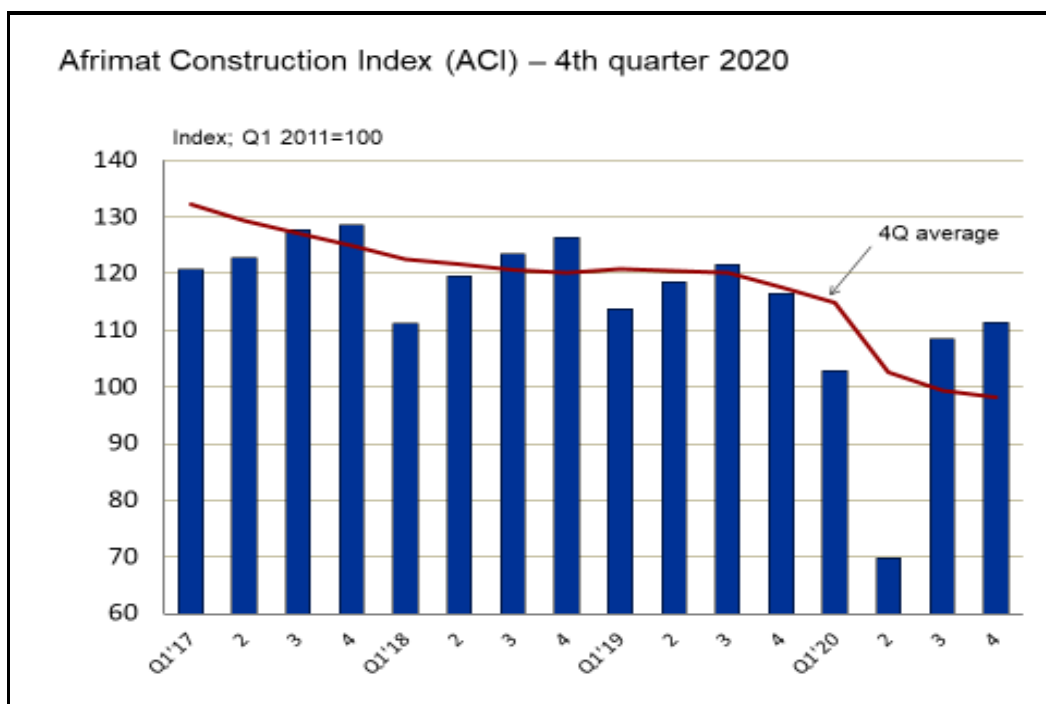


Afrimat Construction Index shows further recovery in fourth quarter of 2020

Johannesburg, 16 March 2021 – Afrimat, the JSE-listed diversified industrial company with vast open pit mining expertise providing Industrial Minerals, Bulk Commodities and Construction Materials, has released the findings of the Afrimat Construction Index (ACI) for the fourth quarter of 2020. 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.

During the fourth quarter of 2020, the ACI continued on the pronounced recovery path that started in the previous quarter. “Due to the lockdown regulations induced by the Covid-19 pandemic, the ACI dropped sharply in the second quarter of 2020, but has bounced back and has remained above the base period level of 100 for two successive quarters now,” says Dr Botha.

In line with a number of other key indicators, the construction sector is exhibiting a return to pre-pandemic levels of economic activity. The extent and speed of recovery of the South African economy caught many economists by surprise, including those at National Treasury, whose revenue forecasts in the October 2020 mini-budget were blown away by a taxation windfall of R92 billion (as reported in the February 2021 Budget).



Between October and December last year, the quarter-on-quarter change in the ACI amounted to a satisfactory increase of 2.5%, slightly lower than the comparable figure of 3.8% for the GDP. Compared to the fourth quarter of 2019, the ACI is down by 4.4%, which is very close to the year-on-year decline in the GDP of 4.1%.

The ACI recorded an index value of 111.3 in this last quarter, 60% higher than the index value during the disastrous second quarter of 2020. “The index is now virtually on the same level as it was at the beginning

of 2018, and it's particularly encouraging that two-thirds of the ACI's constituent indicators recorded positive growth in the fourth quarter compared to the preceding quarter," adds Dr Botha.

According to Dr Botha, the early start to the summer holiday season in December 2020 prevented an even stronger recovery of construction activity, with the ACI's key sub-indices for building material sales and volume of production both recording negative quarter-on-quarter growth during the fourth quarter.

"The systematic lifting of most of the lockdown regulations has clearly resulted in a V-shaped recovery for most sectors of the economy, including construction, and it seems clear that retail sales for hardware and building materials, and the value of building plans passed, and of buildings completed, are fuelling the latest recovery phase in the construction sector."

% Change in the constituent indicators of the Afrimat Construction Index

3rd quarter 2020 to 4th quarter 2020

Indicator	%
Building Plans Passed (Value)	31.6
Buildings Completed (Value)	28.6
Salaries & Wages – Construction	20.4
Employment In Construction	7.9
Retail Trade Sales – Hardware	5.4
Construction Value Added	4.2
Building Materials (Sales)	-0.4
Building Materials (Volume)	-5.0
Afrimat Construction Index	2.5
GDP	3.8

Botha is confident that a further recovery of the sector is on the cards during 2021. Several growth drivers have appeared that promise to boost construction activity, and they include the following:

- Inflation is likely to remain well within the Reserve Bank's target range of 3% to 6%, which means that interest rates could remain at their current low levels. The decline of 30% in the cost of mortgage financing (at the prime rate) has already aided a sharp increase in the value of new mortgage loans.
- Following the taxation revenue windfall that occurred as a result of a fast rebound of activity in most key sectors of the economy, National Treasury was in the fortunate position to deliver a budget that avoided increases in the three key sources of fiscal revenue, i.e. personal income tax, VAT and company tax, while also increasing expenditure on economic development by a significant margin. "The fact that an austerity budget has been avoided augurs well for Government's new infrastructure drive, which represents the cornerstone of the Recovery & Reconstruction Plan announced last year," explains Dr Botha.
- The pandemic caused the worst-ever decline in South Africa's inventory levels, namely R165 billion in 2020. This figure is more than ten times higher than in 2019, when inventories declined by R16 billion. "Indeed, if inventories had recorded zero change between 2019 and 2020 – a realistic scenario in the absence of a so-called 'black swan' event – South Africa's GDP would have increased by 1.2% in 2020, instead of decreasing by 2% in nominal terms. Herein lies a significant economic growth driver, namely the inevitability of a reversal of fortunes for inventory build-up during 2021."

- The Absa Purchasing Managers' Index (PMI) for the manufacturing sector recently recovered to reach its highest level in two decades and has been above the neutral 50-mark level for six successive months. The Absa PMI is compiled by the Bureau for Economic Research (BER) at Stellenbosch University and is widely regarded as a key benchmark of business confidence.

Dr Botha also points out that several economists expect GDP growth of above 4% during 2021, which could provide the momentum required for sustained growth from 2022 onwards.

Andries van Heerden, the CEO of Afrimat, says the continued improvement in the ACI is a very welcome sign of some recovery in the South Africa construction sector and Afrimat is similarly experiencing this positive momentum.

“Fortunately, Afrimat is in a good position to counter the effects of the pandemic by way of our diversification and with a very strong balance sheet, having close to zero debt. Aside from this, proactive measures to manage and minimise the impact of the pandemic were implemented, ever mindful of our employees and stakeholder’s safety. As a result, I believe we are now in a better position than ever to fully benefit from the ongoing recovery in the market, given the group’s diversification.”

-Ends-

Issued for: Afrimat Limited

Contact: Andries van Heerden, Chief Executive Officer (CEO)
Tel: 021-917-8853
Email: andries@afrimat.co.za
Website: www.afrimat.co.za

Account: Keyter Rech Investor Solutions
Contact: Vanessa Rech
Tel: 083 307 5600