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FNB/BER BUILDING CONFIDENCE INDEX

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Building confidence lower in 2Q2012 as recovery remains weak

- After rising from 29 to 34 index points in 1Q2012, the FNB/BER building confidence index fell to 27 during 2Q2012.
 - Confidence was lower in all the components making up the composite index except for architects and sub-contractors.
 - Despite the drop in confidence, the underlying data on activity and profitability does not suggest that the recovery has stalled, rather that the pace of the recovery remains very slow.
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The FNB/BER building confidence index declined to 27 points in 2Q2012 from 34 in 1Q2012. However, despite the fall in confidence the index remains higher than that recorded for most of 2011.

The current level of the index suggests over 7 out of 10 respondents in different sectors of the building industry rate prevailing business conditions as unsatisfactory.

The FNB/BER building confidence index can vary between zero (indicating an extreme lack of confidence) and 100 (indicating extreme confidence). It reveals the percentage of respondents that are satisfied with prevailing business conditions in six sectors, namely architects, quantity surveyors, main contractors, sub-contractors (plumbers, electricians, carpenters and shop fitters), manufacturers of building materials (cement, bricks and glass) and retailers of building material and hardware.

In contrast to the RMB/BER BCI, which includes only main contractors, the FNB/BER building confidence index covers the whole pipeline, from planning (represented by the architects and quantity surveyors), renovations, additions, owner builders, the informal sector (represented by building material and

hardware retailers) and production (manufacturers of building materials) to the actual construction of buildings by main and sub-contractors.

Even though overall confidence fell, there was some divergence amongst the various sub-components. The biggest fall in confidence was registered by building material and hardware retailers (-29 index points), followed by manufacturers (-17), main contractors (-7) and quantity surveyors (-5). However, confidence amongst architects and sub-contractors rose by 13 and 3 index points respectively.

The business confidence of main contractors shed 7 index points to a value of 24 during 2Q2012.

As was the case last quarter, the biggest change in confidence was recorded amongst non-residential contractors where confidence fell from a level of 38 index points to 19 during 2Q2012.

The confidence of residential contractors remained largely flat, slipping 2 index points from 28 to 26 during 2Q2012.

Despite the more pronounced fall in confidence of non-residential contractors, the underlying information about activity and overall profitability is not suggestive of a slowdown compared to 1Q2012. In fact, the non-residential sector continues to outperform the residential sector, a continuation of the trend seen for the most part 2011 and 1Q2012.

A key factor driving the lower confidence amongst main contractors, non-residential in particular, is expectations. "Although the performance of the sector during 2Q2012 was not much changed from that of 1Q2012, it did not improve further as anticipated." said FNB chief economist Cees Bruggemans. This again highlights the slow, somewhat hesitant nature of the building recovery.

In addition, increased domestic and global uncertainty may have dampened confidence and contributed to the divergence between confidence and activity.

Surprisingly, sub-contractor confidence rose marginally, from 29 to 32 index points during 2Q2012. However, the underlying data about activity and profitability levels suggest deterioration during 2Q2012. So it seems that the improvement in building activity reported by main contractors has not yet trickled down / fed through to sub-contractor level.

After rising to 37 from 12 index points during 1Q2012, the confidence of building material manufacturers retreated to 20 index points during 2Q2012. The domestic market, measured by domestic sales and orders received, remained robust during 2Q2012. However, manufacturers faced a relatively steep rise in cost pressure during the quarter.

At 11 index points, confidence amongst building material and hardware retailers is at its lowest level in a year, 29 index points down from the 40 registered during 1Q2012. The fall in confidence comes on the back of a significant fall in the volume of sales as well as margin pressure, with the increase in purchasing prices remaining high whilst selling prices were unchanged during 2Q2012.

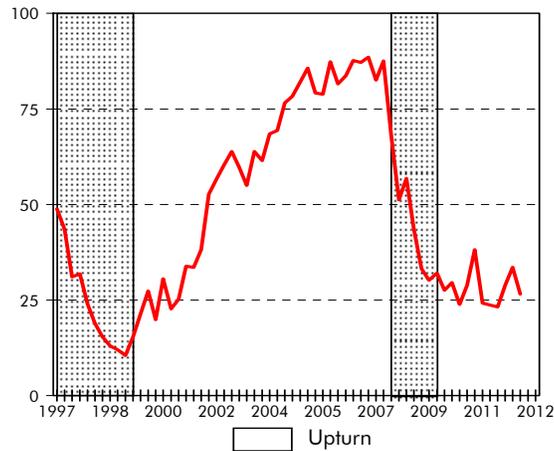
In contrast, wholesalers of building materials (not included in this index) did well during 2Q2012, highlighting that there is activity within the sector.

During 1Q2012, architect business confidence declined while that of quantity surveyors increased. In 2Q2012 this trend was reversed. Architect confidence rose to 30 index points from 17 during 2Q2012 with overall activity levels slightly better. Conversely, quantity surveyor confidence moved lower from 47 to 42 index points in 2Q2012. These two components are a reasonable indicator of the robustness of the non-residential building pipeline. The mixed set of results reinforces the idea of a slow, hesitant recovery.

In conclusion: Despite the 7 index point decline in building confidence, the underlying information about activity and profitability suggests that the recovery is still on track / continues, but, at a very sluggish pace, perhaps even slower than previously thought.

The mixed overall results (with some areas of the building sector doing better than others) point to continued difficulties within the sector and that the recovery is still in a vulnerable state.

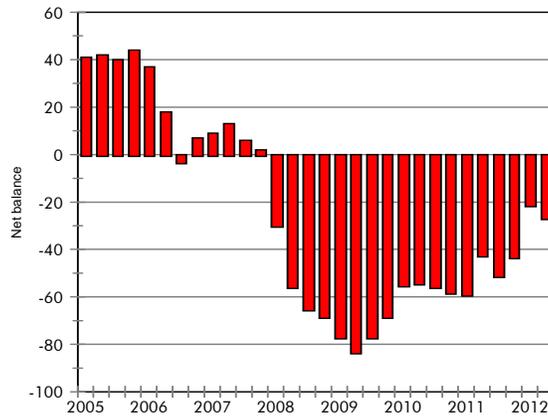
FNB Composite Building Confidence Index



Source: BER, Stellenbosch.

Main Contractors:

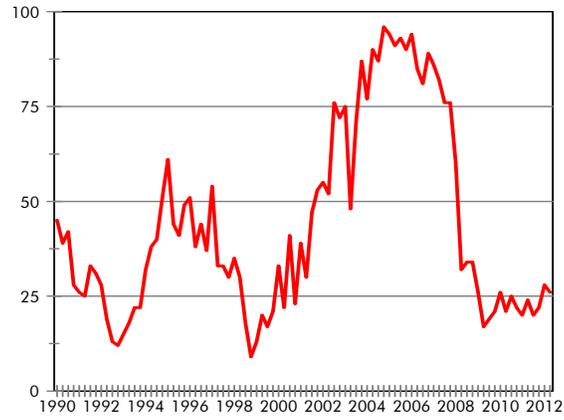
Growth in building activity (Net balance)



Source: BER, Stellenbosch.

Residential contractors:

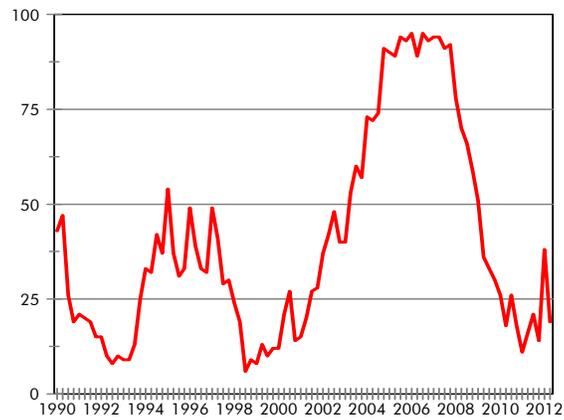
Business confidence



Source: BER, Stellenbosch.

Non-residential contractors:

Business confidence



Source: BER, Stellenbosch.