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THE STATE OF THE CIVIL CONSTRUCTION INDUSTRY

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Construction sector woes continue

- The **FNB/BER Civil Confidence Index** increased by 5 points to register a level of 44 in 2Q2015.
 - The higher confidence was probably due to the growth in construction work which remained stable, as opposed to moderating further as was the case in preceding quarters.
 - Overall, the rise in confidence is deceiving in that the state of the civil construction industry seems to have worsened in 2Q2015.
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After dropping to 39 points in 1Q2015, the **FNB/BER Civil Confidence Index** recovered somewhat to 44 points in 2Q2015.

Despite the higher confidence, the current level of the index still indicates that more than half of the respondents are dissatisfied with prevailing business conditions.

According to the South African Reserve Bank, annual growth in the real value of construction work moderated to 1.0% in 1Q2015, from 3.3% in 4Q2014. *“The survey results imply that the growth in construction activity likely remained flat in 2Q2015. It seems firms are relieved that construction activity didn’t moderate further this quarter, which likely lifted confidence”* said Jason Muscat, senior industry analyst at FNB. Muscat added that *“the outlook, however, is quite bleak with respondents remaining concerned about the subdued demand for new construction work”*

“Due to the limited availability of construction work, tendering competition intensified noticeably. In fact, according to respondents tendering price competition is at its worst level since the end of 2011” said Muscat.

Profitability was largely unchanged. *“This is likely due to increased cost cutting, particularly labour”* noted Muscat.

In conclusion: The state of the civil construction industry deteriorated in 2Q2015. Although confidence was up, the growth in construction activity was likely flat at best, following slower growth in preceding quarters. In addition, civil contractors face keener competition and weak demand for new construction.

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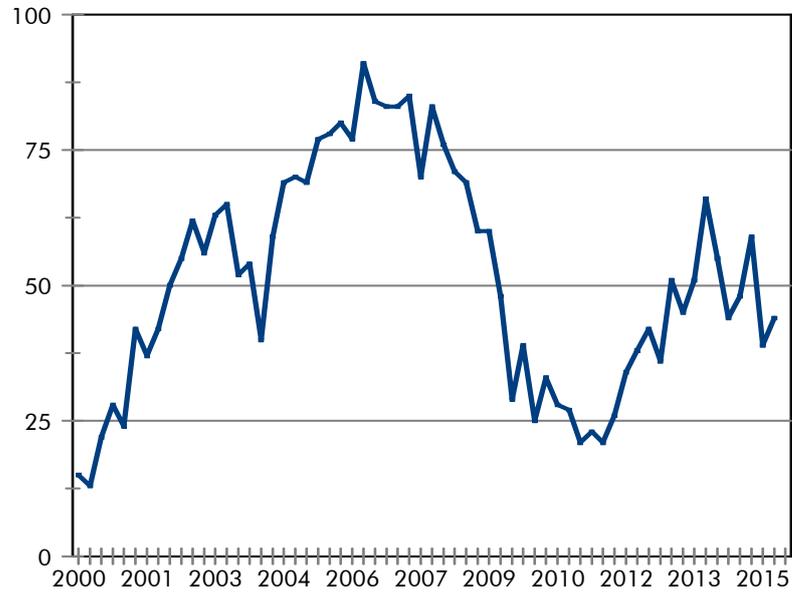
About the survey:

The FNB/BER civil confidence index can vary between a maximum of 100 (which indicates that all respondents were satisfied with prevailing business conditions) and a minimum of zero (indicating that all respondents were dissatisfied). A level of 50 indicates that the respondents are equally divided between those satisfied and dissatisfied.

The fieldwork of the second quarter survey was conducted between 04 May and 02 June 2015.

FNB/BER Civil Confidence Index

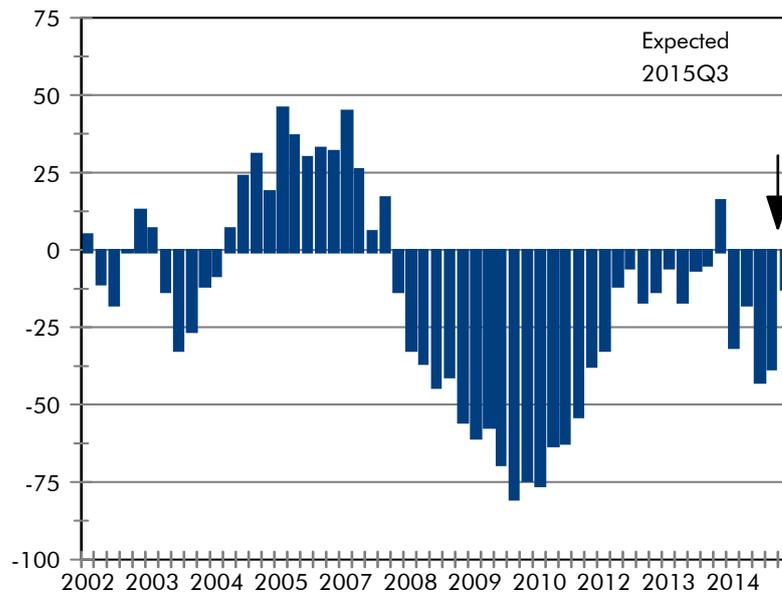
Percentage satisfied



Source: BER Stellenbosch University

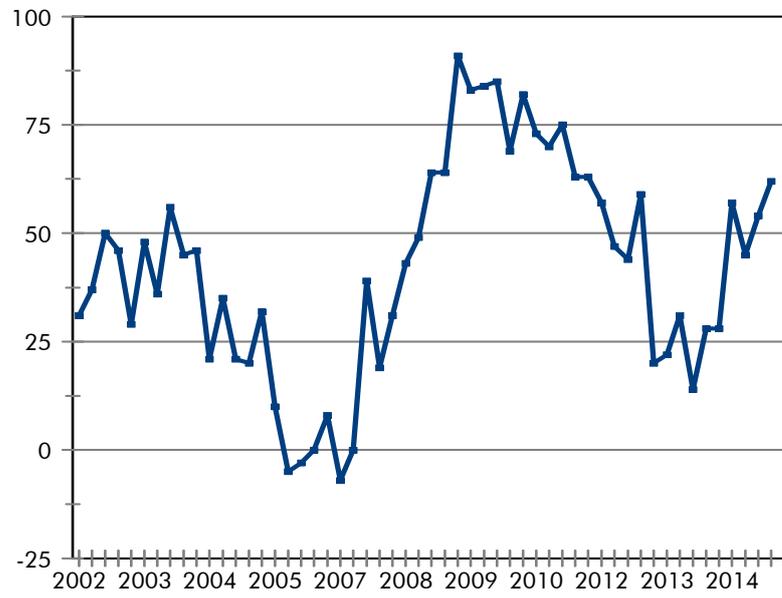
Civil construction

Growth in construction activity



Source: BER Stellenbosch University

Civil construction
Tendering competition



Source: BER Stellenbosch University