

Building

Quarterly analysis of building activity

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Executive summary

The **FNB/BER Building Confidence Index** fell to 31 in 2017Q4, from 35 in 2017Q3.

Four of the six sub-sectors included in the index registered lower confidence during this quarter, led by building material manufacturers.

After rising to 49 in 2017Q3, **residential contractor** confidence lost 6 points to register a level of 43 in 2017Q4. Confidence was lower despite somewhat higher activity, which resulted in less keen tendering price competition.

Residential sub-contractor confidence also fell, by 1 index point, to a level of 43 in 2017Q4. Lower activity and profitability likely contributed to the somewhat lower confidence.

Growth in non-residential building activity has been weak for a number of quarters, and this remained the case in 2017Q4. However, despite the deterioration in activity, tendering price competition eased and profitability improved. Overall, the market remained under pressure, resulting in a 23 index-point decline in **non-residential building contractor** confidence.

In contrast, **non-residential sub-contractor** confidence gained 19 index points to register a level of 50 in 2017Q4. This was supported by higher profitability as activity improved and tendering price competition eased.

The business confidence of **architects** and **quantity surveyors** declined further to 25 and 38 index points respectively in 2017Q4 (after dropping to 33 and 42 in 2017Q3). The lower confidence was largely due to worsening business conditions and lower activity, particularly for architects.

According to preliminary data, the **BER Building Cost Index** yielded a rise of 10.2% y-o-y in 2017Q4. This lifts the full year average to 7.1% in 2017.

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Introduction

According to Statistics South Africa (Stats SA), the economy expanded by 2.0% quarter-on-quarter¹ (q-o-q) in 2017Q3, from an upwardly revised 2.8% in 2017Q2. On an annual basis, the economy grew by 0.8%.

Primary sector responsible for bulk of output growth in Q3

Once again, output was lifted by higher production in the primary sector, which recorded growth of 14.9% q-o-q in 2017Q3. Taking the lead was the agricultural sector with spectacular growth of 44.2% q-o-q (contributing 0.9 of a percentage point to the total economy-wide GDP growth), followed by the mining sector with growth of 6.6% q-o-q.

Construction sector output registers third consecutive quarterly decline in 2017Q3

Output in the tertiary sector slowed to 0.3% q-o-q in 2017Q3, after a mild rebound in 2017Q2. The trade and government services sector contracted by 0.4% and 0.1% q-o-q respectively in 2017Q3. This was offset by growth in the finance (1.2% q-o-q), personal services (0.9%) and transport (0.6%) sectors.

The secondary sector saw growth remain largely flat at 2.1% q-o-q in 2017Q3. This was made up of growth of 4.3% in the manufacturing sector while output in the electricity, gas and water sector declined by 5.5% q-o-q.

Output in the construction sector contracted for the third consecutive quarter in 2017Q3, falling by 1.1% q-o-q. This is in line with the 2017Q3 BER Building and Construction survey results.

This report outlines some of the key findings of the BER's 2017Q4 Building survey, including the **FNB/BER Building Confidence Index**.

2017Q4 survey results show little relief on the horizon for the building and construction sectors.

This quarter's results continue to show that growth in activity in the residential market remains noticeably better than that of the non-residential market, especially where main building contractors are concerned. On balance, the sector likely recorded growth more or less in line with that registered in 2017Q3.

The rest of the report provides a discussion of the 2017Q4 survey results.

¹ Data in this section is quoted on a seasonally adjusted and annualised basis unless otherwise indicated.

Summary of the 2017Q4² building survey results

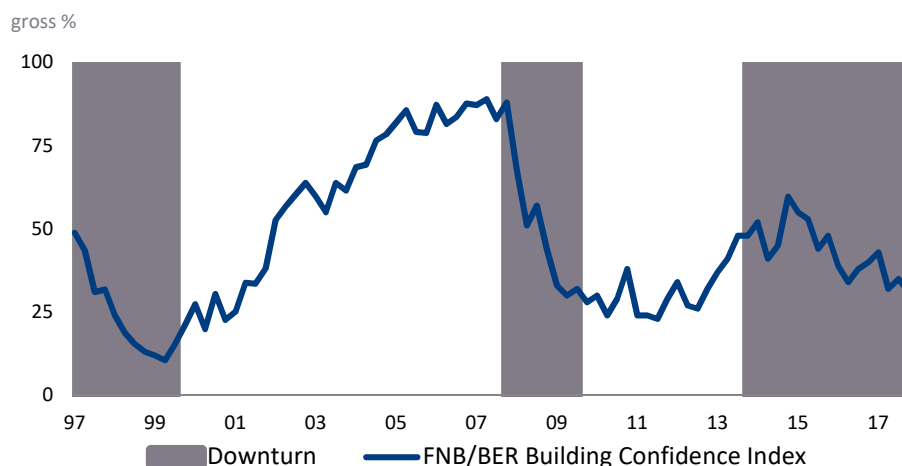
Building confidence edges lower in Q4

Close to 70% of respondents dissatisfied with business conditions

The **FNB/BER Building Confidence Index** fell to 31 in 2017Q4, from 35 in 2017Q3. This marks the lowest confidence since 2012Q3 (Figure 1).

At the current level, the index indicates that the majority (nearly 70 per cent) of respondents are dissatisfied with prevailing business conditions.

Figure 1: FNB/BER Building Confidence Index



Source: BER

After gaining 29 index points in Q3, the confidence of building material manufacturers lost 21 points in Q4

Four of the six sub-sectors registered lower confidence in the quarter, namely building material manufacturers (-21), main contractors (-10), architects (-8) and quantity surveyors (-4). This was partially offset by higher confidence among building sub-contractors and hardware retailers, which each gained 10 points in the quarter.

The drop in confidence was underpinned by a deterioration in activity levels in the quarter and points to weaker building sector growth in 2017Q4, relative to 2017Q3.

² The survey was conducted between 16 October and 21 November 2017.

Building pipeline continues to weaken

After contracting by 15.5% in 2017Q2, the real value of building plans passed rose by 7.7% year-on-year (y-o-y) in 2017Q3. This was due largely to an 18.7% annual rise in the value of non-residential building plans passed (from -25.9% in 2017Q2). Similarly, the value of plans passed for residential buildings and additions and alterations increased by 4.6% and 4.8% y-o-y. However, according to the BER's survey of **architects** and **quantity surveyors**, building plans passed likely weakened in 2017Q4.

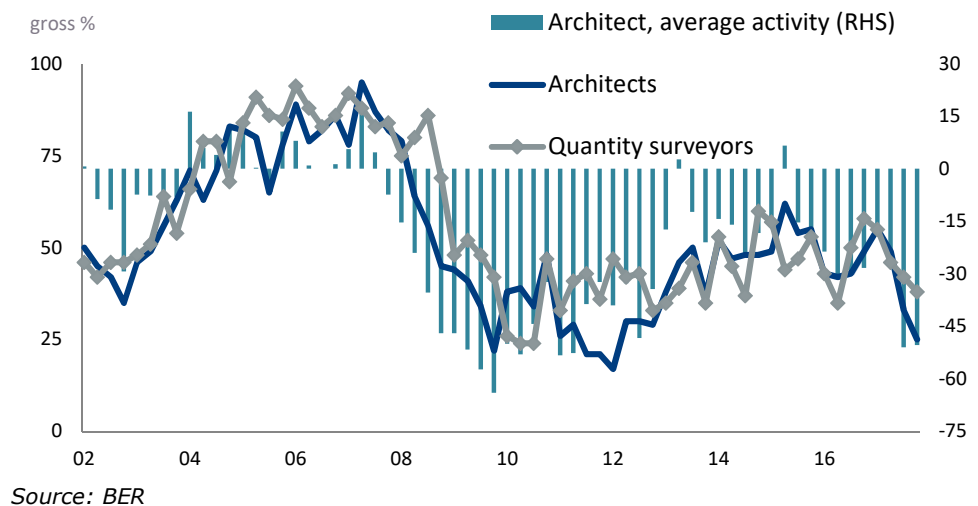
Activity among architects remained at weak in Q4

The average activity index³ for architects was largely unchanged at relatively low levels (a net balance of -50) in 2017Q4. In contrast, the average activity index for quantity surveyors improved somewhat to -33%, from -44% in 2017Q3. However, at the current level, it is below that registered during the first half of 2017.

In addition to poorer activity growth, business conditions remained downbeat. A net 61% of architects and 54% of quantity surveyors cited that business conditions worsened compared to a year earlier, up from the 60% and 50% registered in 2017Q3 respectively.

Worsening business conditions and somewhat lower activity resulted in business confidence falling for both architects and quantity surveyors to 25 (from 33 in 2017Q3) and 38 (from 42 in 2017Q3) index points respectively (Figure 2).

Figure 2: Architect and quantity surveyor business confidence and activity index



³ This is the average net balance for projects at sketch plan phase, commissions at working drawing stage and the number of contracts awarded

Residential contractor confidence sheds 6 index points in Q4

Residential contractor activity rebounds in Q4

After recording a level of 49 points in 2017Q3, **residential contractor confidence** fell by 6 points to 43 in 2017Q4, exactly in line with the long-term average (Figure 3). However, the underlying indicators, especially activity, did not support this decline in confidence.

Figure 3: Residential contractors, business confidence

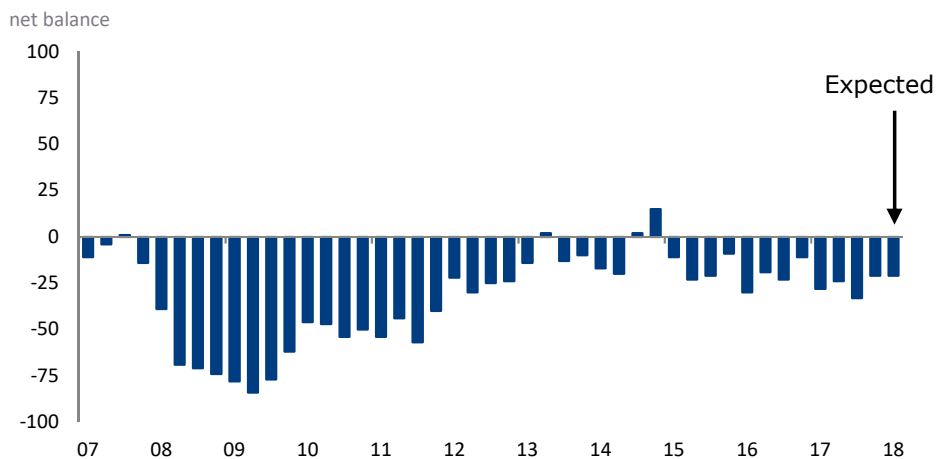


Source: BER

Residential building activity rebounds, moving close to its long-term average

The net percentage of respondents citing lower growth in building activity compared to a year ago edged lower to 21% in 2017Q4, from 33% in 2017Q3 (Figure 4). This returns the index to the level recorded during the first half of 2017.

Figure 4: Residential contractors, growth in building activity

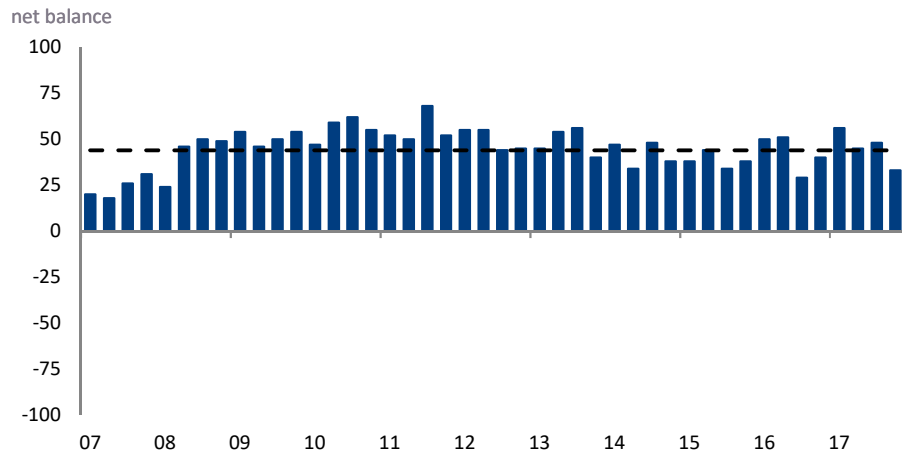


Source: BER

The improvement in building activity resulted in less keen tendering price competition. In 2017Q3, a net 48% of respondents reported that tendering

competition intensified compared to a year earlier. Only 33% reported as such in 2017Q4 (Figure 5). This is the best level of the index this year.

Figure 5: Residential contractors, tendering competition



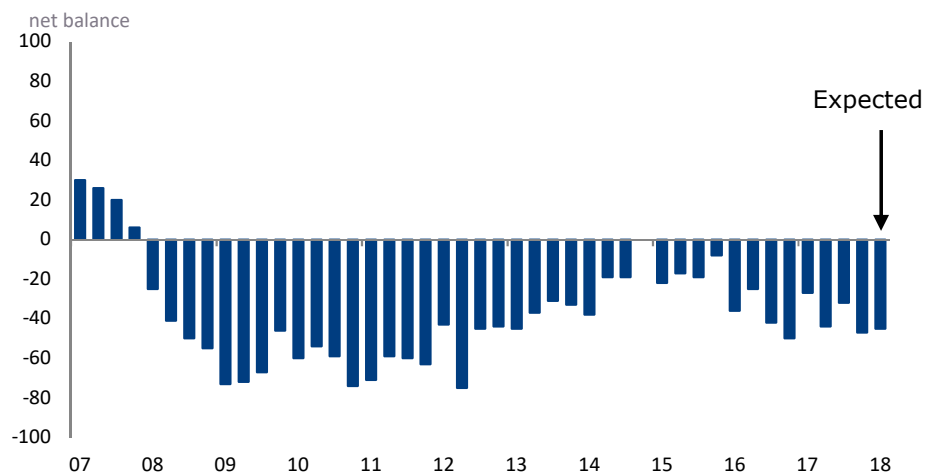
Source: BER

Easing tendering price competition, coupled with higher building activity, had a positive effect on overall profitability. A net 40% of respondents stated that profitability was lower when compared to a year ago in 2017Q4, down from 51% in 2017Q3.

Similar to contractors, **residential sub-contractor confidence** declined by 1 index point to register a level of 43 in 2017Q4.

Underpinning the slight drop in confidence was a deterioration in building activity. A net 47% of respondents indicated that building activity was lower compared to the same period last year, up from 32% in 2017Q3 (Figure 6).

Figure 6: Residential sub-contractors, growth in building activity



Source: BER

New (residential) BER Index

In coming quarters, the BER will no longer report on residential and residential sub-contractor business confidence and related indices. Instead, the results of the two sectors combined will form the basis of a discussion on the residential market.

Residential builder confidence fell by 4 index points in Q4, despite higher building activity

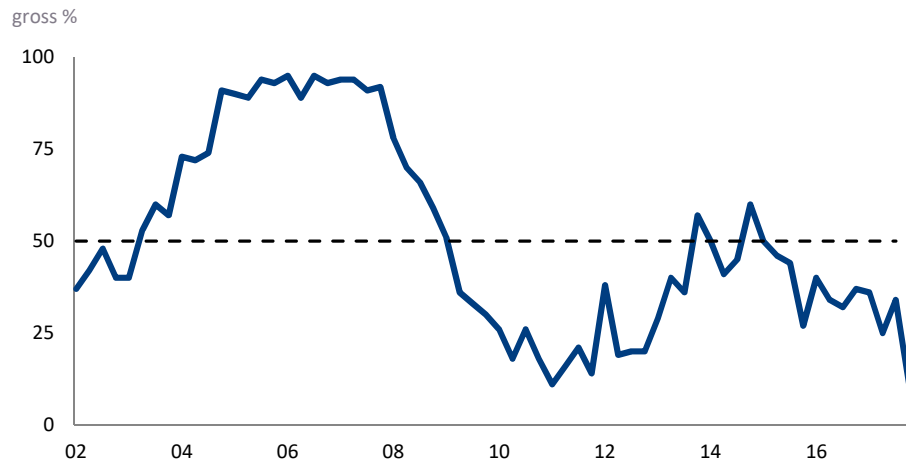
Residential builder confidence (the new combined index) fell to 43 index points in 2017Q4, from 47 in 2017Q3. Twenty-eight per cent of respondents stated that building activity growth was lower compared to a year earlier, down from 32% in 2017Q3. In addition, the percentage of respondents that cited insufficient new demand as a business constraint remained unchanged at 67 in 2017Q4.

Non-residential contractor confidence slips further

Non-residential contractor confidence sheds 23 index points

The business confidence of **non-residential contractors** shed 23 index points to register a level of 11 in 2017Q4, from 34 in 2017Q3 (Figure 7). This quarter's reading matched a level last seen in 2011Q1 and it is the second lowest since 1999Q3 when the index was at 10.

Figure 7: Non-residential building contractors, business confidence

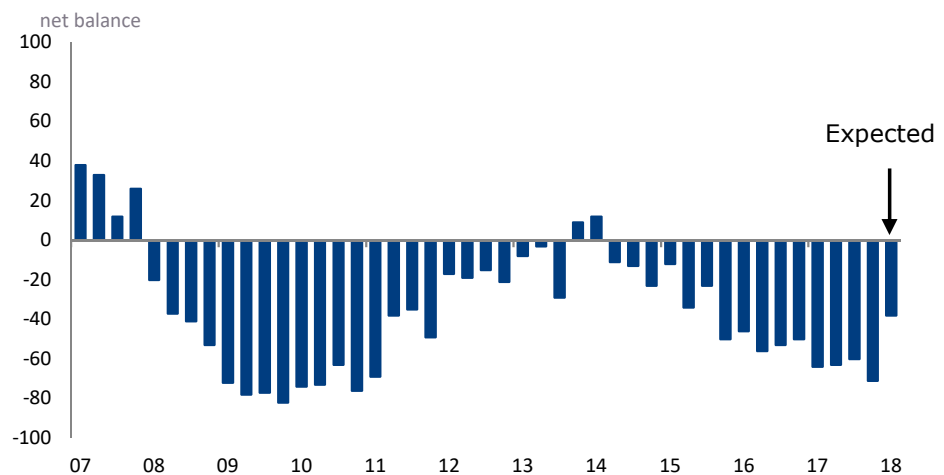


Source: BER

Weak activity continues to weigh on non-residential contractor confidence

Behind the drop in confidence was a marked slowdown in building activity growth. While 60% of respondents stated that building activity was lower compared to the same quarter a year earlier in 2017Q3, 71% stated as such in 2017Q4 (Figure 8).

Figure 8: Non-residential contractors, growth in building activity



Source: BER

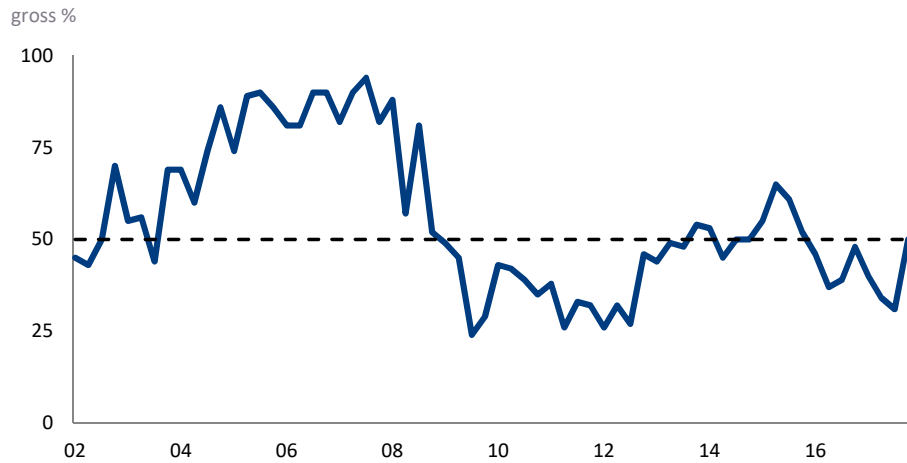
Even though there was inadequate building activity this quarter, tendering price competition eased. A net 66% of respondents reported tougher competition than

Non-residential sub-contractor confidence higher in Q4

a year ago, down from 77% in 2017Q3. This resulted in overall profitability improving somewhat, from a net -77% to -71% in 2017Q4.

The confidence of **non-residential sub-contractors** ended 2017 at its best level for the year at 50 index points (Figure 9). This is 19 index points higher than in 2017Q3. The underlying indicators support the uptick in confidence.

Figure 9: Non-residential building contractors, business confidence

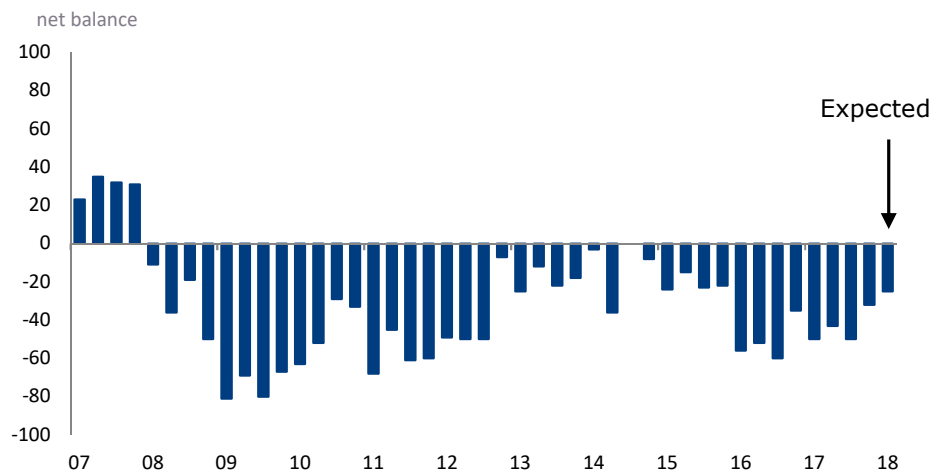


Source: BER

Confidence increased on the back of higher building activity. A net 32% of respondents reported lower building activity in 2017Q4 compared to 2016Q4, down from 50% in 2017Q3 (Figure 10).

The higher activity also resulted in a less competitive tendering price environment. According to the survey, 54% of respondents stated that tendering competition intensified compared to a year earlier, down from 63% in 2017Q3.

Figure 10: Non-residential sub-contractors, growth in building activity



Source: BER

Non-residential
builder confidence
stable in Q4

A new (non-residential) BER index

A new composite confidence index and sub-indices for the non-residential building sector are also under development (which groups together non-residential main contractors and sub-contractors) and will be phased in over the coming quarters. The new **non-residential building confidence** index fell by 1 index point to 32 in 2017Q4. This decline was driven by a 23 index-point fall in non-residential contractors' confidence, which was somewhat offset by a 19 index-point rise in the confidence of non-residential sub-contractors.

Confidence was lower despite a noticeable improvement in activity. Forty-three per cent of respondents stated that building activity growth was lower compared to a year earlier, down from 54% in 2017Q3. In addition, the percentage of respondents that cited insufficient new demand as a business constraint decreased to 64%, from 78% in 2017Q3.

In conclusion

After rising to 35 index points in 2017Q3, building confidence, as measured by the **FNB/BER Building Confidence Index**, fell to 31 points in 2017Q4.

This quarter's results continue to show that growth in activity in the residential market remains noticeably better than that of the non-residential market, especially where the main building contractors are concerned. On balance, the sector likely recorded growth more or less in line with that registered in 2017Q3. However, looking ahead, lower activity at the start of the building pipeline - particularly among architects - could weigh on building activity in the subsequent quarters.

The growth in tender prices outpace inflation

According to the **BER Building Cost Index**, an analysis of accepted tenders, the results for 2016 yielded an average annual rise in tender prices of 5.1%.

During the year to Oct 2017, the input costs of building contractors (labour, materials, plant and fuel) rose by 5.9% (CPAP Work Group 180) and by 6.6% (CPAP Work Group 181).

Preliminary data points to acceleration in accepted tender prices in 2017

Tender prices rose by 5.4% y-o-y in 2017Q3. Preliminary data available for 2017Q4 yielded a rise of 10.2% y-o-y. In all, this yields an average growth rate of 7.1% for 2017.

Thus, tender price increases are currently rising faster than consumer inflation which registered growth of 4.8% in October 2017.

Table 1: BER Building Cost Index (y-o-y % change)

Quarter	2016	2017
First	-1.7	9.6*
Second	7.8	3.3*
Third	8.6	5.4*
Fourth	5.8*	10.2*
<i>Average</i>	5.1*	7.1*

Source: BER (*denote preliminary)

Technical note

Short-term planning is hampered as numeric (official) data is released with a time lag. Business *survey results reveal what happened between the release of the last official figures and the current state of affairs*. The results not only reveal beforehand the direction of sales, selling prices, employment etc. (for which official figures are published), but also provide unique information, such as business confidence, rating of business conditions and respondents' expectations (or forecast) for the next quarter for which no official figures exist. It is now widely recognised that these subjective individual expectations play a key role in economic developments. Furthermore, the survey results of successive quarters *provide a means of tracking cyclical movements, pinpointing trend changes* and establishing forecasts.

The survey results are obtained from questionnaires completed by senior executives in the trade, manufacturing and building sector during the last month of every quarter. The business survey questionnaire contains a small number of questions. These questions are qualitative in nature, e.g. "Compared to the same quarter a year ago, are the volume of sales up, the same or down?" No figures are requested. The sample of executives remains the same from one survey to the next. A panel is in effect established. The sample is divided according to main sectoral categories. Each firm gets a weighting in relation to turnover or size of workforce to provide for widely differing sizes. Participants have to complete a "participant details form" every few years to ensure that they are correctly classified and to provide for changes in turnover. The list of participants is also reviewed every few years to ensure an agreeable representation of the universe.

Most of the responses are converted into **net balances**. For example, if the percentage of respondents rating sales volumes higher / the same / lower than a year ago is as follows;

Higher	Same	Lower
70	10	20

then we can conclude that the majority of participants experienced higher sales. A net majority (i.e. the percentage of respondents rating sales higher less the percentage rating sales lower) of 50% is registered in the above example. A net majority of -10% for example would have indicated a decline in sales volumes compared to a year ago. A value of zero therefore indicates no change, between 0 and 100 reflects a rise (or improvement) and between 0 and -100 a decline (or deterioration) compared to the same quarter a year ago.

The responses relating to business confidence and constraints are presented as **percentages**. For example, business confidence of 10 would indicate that 10% gross of the respondents rated prevailing business conditions as satisfactory. These data series vary between zero and 100. A value of zero reflects an extreme lack of confidence (or absence of constraint) and 100 extreme confidence (or most severe constraint). Furthermore, respondents have to rate the present situation and not how it compares with that of the same quarter a year ago as in the case of the "net balance" questions.