

Construction

Quarterly analysis of construction activity

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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 construction survey results.

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

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

According to the survey, growth in construction activity is set to weaken in 2017Q4. In addition, the rating of insufficient demand for new work as a constraint suggests that the outlook is downbeat.

The rest of the report provides a discussion of the 2017Q4 survey results as well as related data.

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

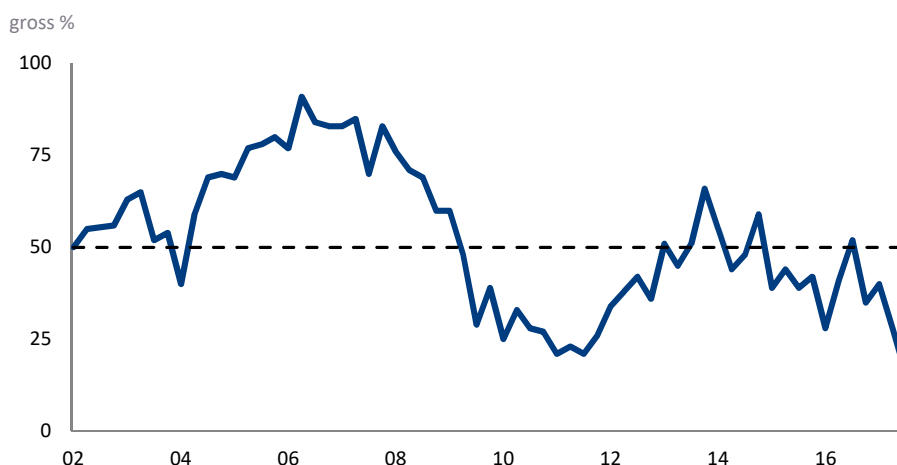
Construction survey results, 2017Q4

Civil contractors remain under pressure in Q4

Civil contractor confidence slightly higher in Q4

After reaching a 17-year low in 2017Q3, the **FNB/BER Civil Confidence index** ticked up slightly in 2017Q4, rising by 4 index points to register a level of 19 (Figure 1). This brings the index to its second lowest level in 17 years.

Figure 1: Civil contractors, business confidence

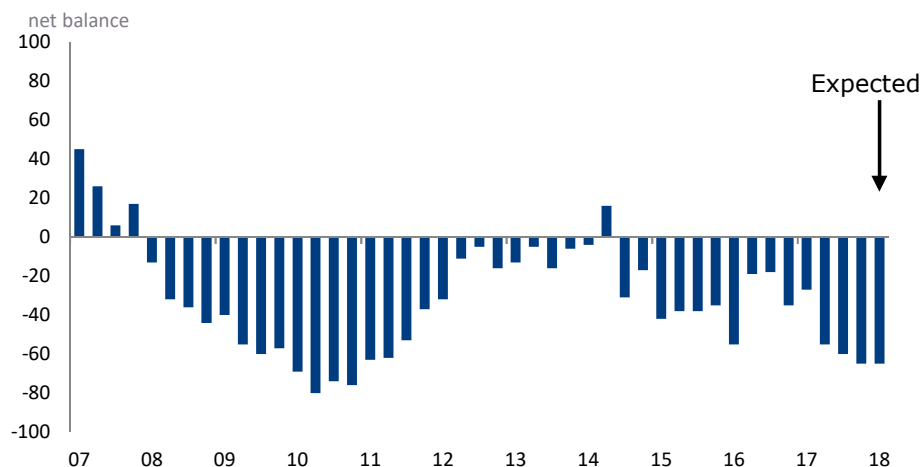


Source: BER

Growth in construction activity remains subdued

Confidence rose despite lower construction activity. A net 65% of respondents reported lower construction activity in 2017Q4 compared to 2016Q4, up from 60% in 2017Q3. This is the worst level since 2011. Respondents expect this to persist in 2018Q1 (Figure 2).

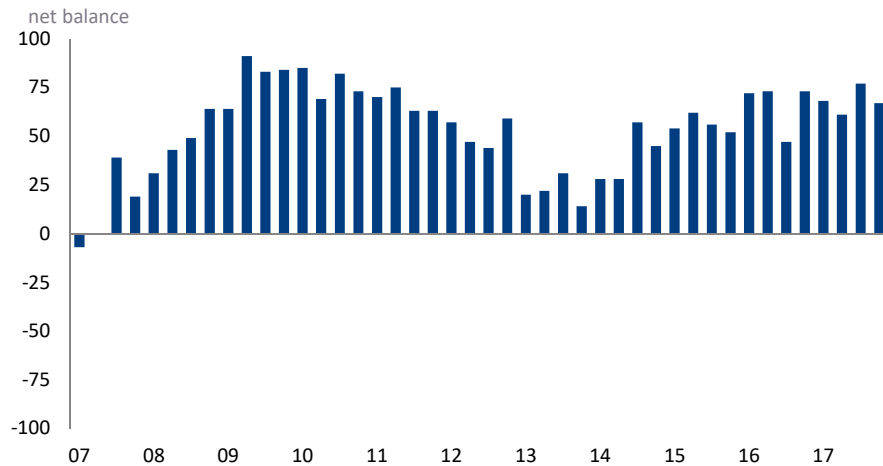
Figure 2: Civil contractors, growth in activity



Source: BER

Despite the continued fall in activity, overall profitability was somewhat better in the quarter. A net 61% of respondents noted that profitability worsened relative to a year ago in 2017Q4, down from 65% in 2017Q3. The marginal boost to profitability came from a moderation in tendering price competition, offsetting the effect of the lower activity. A net 67% indicated that tendering price competition was keener compared to a year earlier, down from 77% in 2017Q3 (Figure 3).

Figure 3: Civil contractors, tendering competition

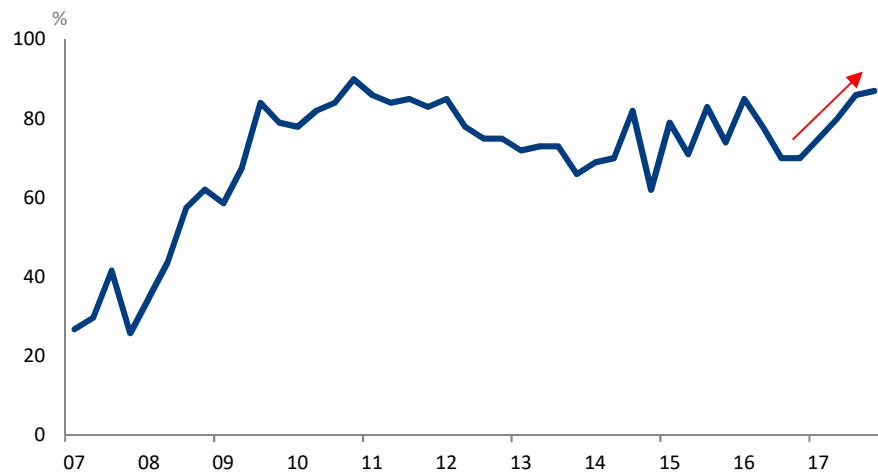


Source: BER

Weak demand for new work remains a concern for civil contractors

Despite the uptick in civil contractor confidence this quarter, the market remains under significant pressure. Adding to the woes is the ongoing increase in the number of respondents that cite insufficient demand for new work as a constraint to their business operations. Eighty-seven per cent of respondents stated as such this quarter, slightly up from 86% in 2017Q3 (Figure 4).

Figure 4: Civil contractors, insufficient demand as constraint



Source: BER

In conclusion

Civil contractor confidence, as measured by the **FNB/BER Civil Confidence Index**, ticked up to 19 in 2017Q4, from a 17-year low of 15. The uptick in confidence was due to a number of factors. Among these was a slight drop in tendering price competition, which in turn boosted overall profitability. Nonetheless, civil contractors remain under significant pressure with little sign of relief on the horizon. This is further highlighted by the rising number of respondents citing insufficient demand for building work as a business constraint.

Civil Construction : Total

	17Q1	17Q2	17Q3	17Q4	18Q1*
Business confidence ³	40	28	15	19	
Change in business conditions ¹	-38	-53	-66	-61	-49
Growth in construction activity ¹	-27	-55	-60	-65	-65
Growth in number of people employed ¹	-14	-36	-45	-47	-58
Growth in profitability of the business ¹	-48	-61	-65	-61	-59
Tendering competition ¹	68	61	77	67	
Weighted percentage rating shortage of skilled labour a constraint ²	34	34	33	29	
Weighted percentage rating inadequate supply of construction materials a constraint ²	16	16	15	13	
Weighted percentage rating insufficient demand for construction work a constraint ²	75	80	86	87	
Weighted percentage rating firm's inadequate access to credit a constraint ²	27	26	26	32	

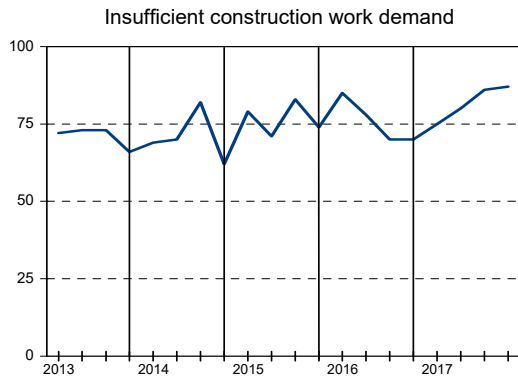
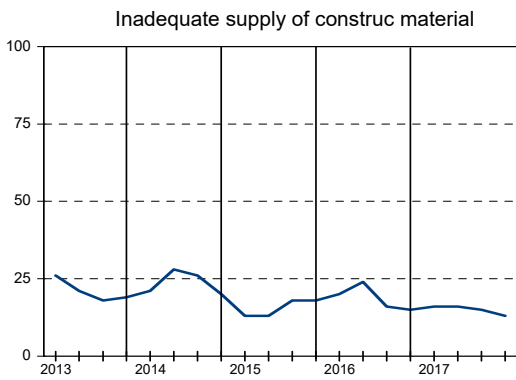
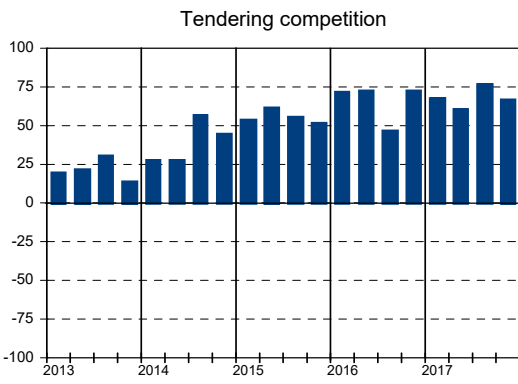
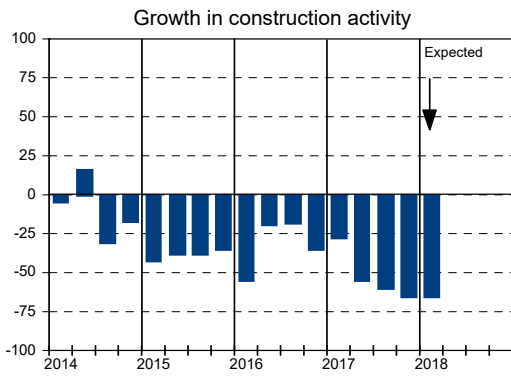
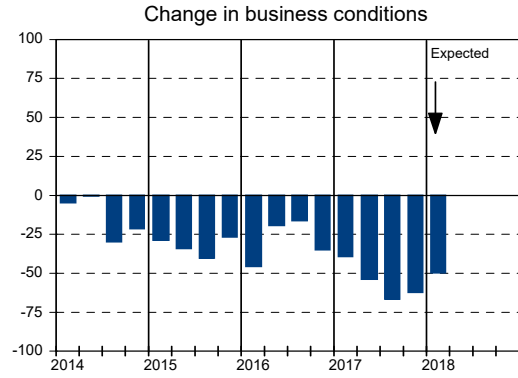
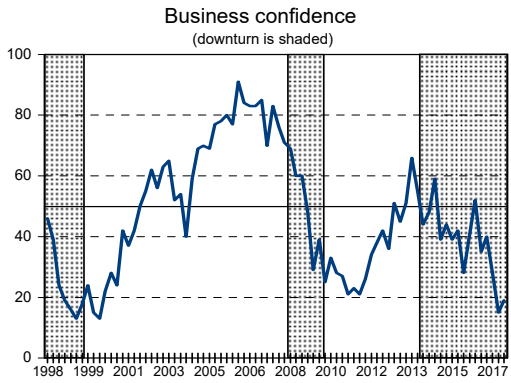
* Expected.

1 Net balance.

2 The index is calculated as follows: The answers of respondents rating a particular constraint as "serious" is weighted by 0,67%; those rating it as "slightly" by 0,33% and those rating it as "not a constraint at all" is discarded. The results are then multiplied by $100/67 = 1,49$ to convert it to an index that can vary between 0 and 100.

3 Percentage gross rating prevailing business conditions as satisfactory.

Blank spaces indicate data not available or not asked for.



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.