

The State Of The Civil Construction Industry

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Weaker construction activity weighs on confidence in Q1

The **FNB/BER Civil Confidence Index** decreased to 28 in 1Q2016.

The lower confidence reflects a marked deterioration in construction activity and more competitive environment.

After improving marginally to 42 in 4Q2015, the **FNB/BER Civil Confidence Index** lost 14 points to register a level of 28 in 1Q2016. This is the lowest value since the end of 2011.

The current level of the index indicates that more than 70% of respondents are dissatisfied with prevailing business conditions.

“The lower confidence is explained by a noticeable weakening in construction activity,” said Jason Muscat, Senior industry analyst at FNB. According to the South African Reserve Bank (SARB), growth in the real value of construction works accelerated to 4.0% year-on-year (y-o-y) in 4Q2015, from 3.7% in 3Q2015. Construction activity was largely supported by capital outlays by provinces and municipalities while capital expenditure (capex) by private enterprises, particularly in the mining sector, remained weak. *“The current survey results suggest that, following the mild uptick in 4Q2015, growth in construction works likely eased in 1Q2016,”* added Muscat.

“As a consequence of the lower growth in construction activity, tendering

competition intensified for those projects that are available,” Muscat noted. The percentage of respondents that indicated tendering competition as keener rose noticeably in 1Q2016, to a five-year high. Despite the lower activity and higher competition, overall profitability remained relatively stable.

Regarding the outlook, survey respondents expect an improvement in construction activity next quarter. However, other data suggests that the remainder of 2016 may see construction work slow further, particularly given soft demand. The percentage of respondents that rated insufficient demand for new construction work as a business constraint jumped to 85, a four-year high.

“Although the national budget speech was tabled towards the end of the survey period, the high rating of the lack of new demand as a constraint could already be reflecting the downbeat near-term outlook for public sector (including government and state owned enterprises) capex. This is especially relevant given that the public sector remains the construction industry’s single biggest client,” said Muscat.