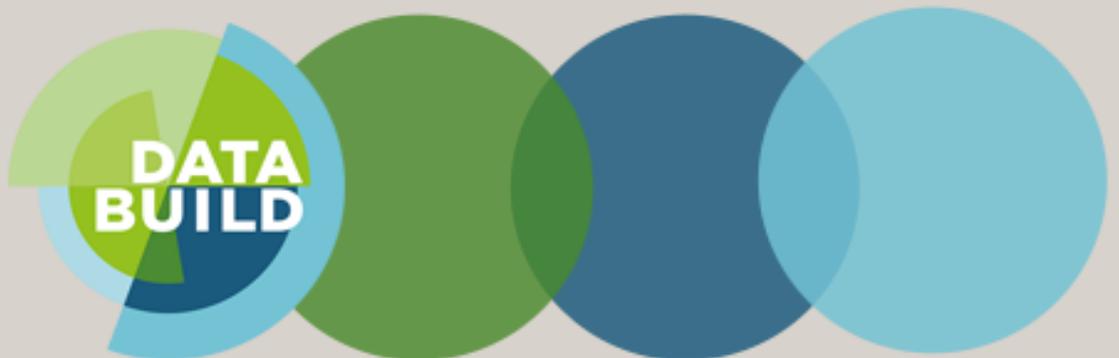


Databuild Insight



Are you making the right strategic move for your company?

With Databuild Insight, you can monitor activity in the South African construction industry and make informed decisions.



A monthly snapshot view of key trends in the economy, affecting the local construction industry



Databuild Insight

September 2020



The dashboard includes an update of selected data pertinent to current and projected developments in the construction industry.

- **Economy contracts by 51% in Q2**
- **Construction worst performing sector following five-week shutdown**

Economic snapshot

Stats SA confirmed in September that the South African economy experienced its biggest contraction in economic activity in more than 90 years. The shocking GDP figure published showed that on an annualised, seasonally adjusted basis, the South African economy contracted by a staggering 51 per cent in the second quarter of the year, following on from a contraction in the first quarter. The figures are worse than expected, as the Covid-19 pandemic and subsequent lockdown dug in deep, causing an unprecedented slowdown in economic activity as all industries not declared essential services were forced to shut down while everyone stayed at home.

Looking at the expenditure figures, which calculate GDP based on South African goods and services bought, GDP was down a similar 17.6 per cent in the second quarter, with huge contractions in household spending, imports, exports and investment in the South African economy. On an annualised basis, household consumption expenditure was down just under 50 per cent, with huge contractions in spending on non-essential goods and services. Some of the worst affected market segments included restaurants and hotels (down 99.9 per cent), alcoholic beverages and tobacco (down 92.4 per cent), clothing and textiles (down 91.5 per cent), and recreation and culture (down 86 per cent).



Construction received the short end of the stick, and was the worst performing sector in the second quarter, following a total five-week shutdown after not being declared an essential service. Evidence shows that the industry was very slow to start up again, operating at only around 15 per cent capacity a month after receiving the go-ahead to open. Various logistical difficulties, including health and safety regulations, hampered people returning to site.

Overall, on an annualised basis, the construction industry saw a staggering 76.6 per cent decline quarter-on-quarter (q-q), and was already very much in recessionary territory, contracting consistently over the eight to nine quarters prior to the Covid-19 pandemic. Other poor performing sectors included manufacturing and mining, which were down by 74.9 and 73.1 per cent respectively in the second quarter. Agriculture was the best performing sector, which was mostly declared an essential service, seeing record harvests for field crops and good numbers for both horticultural and animal products.

South African construction industry

After a few months of much better-than-expected data, the value of tenders awarded saw its first significant decline in August since the onset of the Covid-19 pandemic and subsequent lockdown, at 32.1 per cent lower, compared to August last year. The number of civil construction tenders awarded remains relatively robust (still near historical lows, but there has been some stabilisation over the last year or so) with growth of nine per cent in the month, in nominal terms year-on-year (y-y). The civil construction sector is expected to significantly outperform the private sector-dominated building industry in coming years and months.

Building tenders awarded declined significantly in August, down 52 per cent y-y. The value of civil tenders awarded was up by nine per cent in the month, in nominal terms. Tender activity data has been a lot more in line with our expectations over the last few months since the onset of the pandemic and subsequent lockdown. August saw an improvement in tender activity, however, off the back of a better month in July. Thirty eight per cent more projects came out to tender during August, compared to the same month last year. This was driven by almost 50 per cent more civil construction projects coming out to tender, compared to 18 per cent more building projects. This is a good improvement after the historic lows reached during the construction shutdown months .

Approvals for private sector construction fell by 52 per cent y-y during July to 704 000 SQM, with sharp decreases reported across all market segments. Approvals were lower by close to 800 000 SQM, compared to the same month last year. Overall, approvals are down by 33 per cent y-y in the first seven months of the year, to 10.2 million SQM, the lowest level since 1993. The repercussion of the collapse in private sector building will be severe in the longer term, as demand for housing in particular continues to increase , thereby increasing the current backlog. Gauteng took the hardest knock during July, with a decrease of close to 600 000 SQM, mainly within the smaller and multi-unit housing developments, compared to the same month last year. Western Cape ended flat, while North West reported marginal growth in the smaller housing market segment.



The market in Gauteng has shrunk by 2.3 million SQM in the last year (as at July 2020), with Western Cape and KwaZulu-Natal both declining by one million SQM. North West is the only province currently showing an increase, albeit marginal, in approvals over the last year, supported by the smaller housing market segment.

The Monetary Policy Committee kept the repo rate unchanged at 3.5 per cent during September's meeting, despite some panel members advocating for a further 25 basis point cut. Lower interest rates, currently at the lowest level since 1931, have supported increased activity in the real estate market, but are yet to impact more positively on the new built environment as conditions remain unsupportive for higher levels of investment. Private sector business confidence improved to 24 in the third quarter of 2020, from a dismal five in the second quarter amid COVID-19 regulations, but is a long way from being conducive to stimulate higher levels of investment. For now the building industry remains heavily reliant on government's infrastructure programme and its human settlement development projects in particular, as listed in SIP (Strategic Integrated Project). These projects are largely centred in and around Gauteng.

Sources:

Statistics South Africa

South African Reserve Bank

Databuild

Industry Insight

Outlook

Data for the construction industry continues to be relatively better than expected on the civil side of the market, specifically in roads and water projects, with much better tender activity in August. The data on private sector building continues to be very worrying, however, with the private sector unable to play the countercyclical role the government would normally have the scope to do. Demand for shopping centres and office space has collapsed, and is not expected to return to pre-pandemic levels, which potentially places part of the building industry on a lower growth path. The demand for new housing has also collapsed and is not expected to recover in a hurry. Historically low interest rates have driven a mini-boom in property demand, but this is very much on the second-hand market. Very few new mandates, which the construction industry relies on, have been reported.



Commentary for Databuild Insight is provided by

David Metelerkamp, Senior Economist at Industry Insight

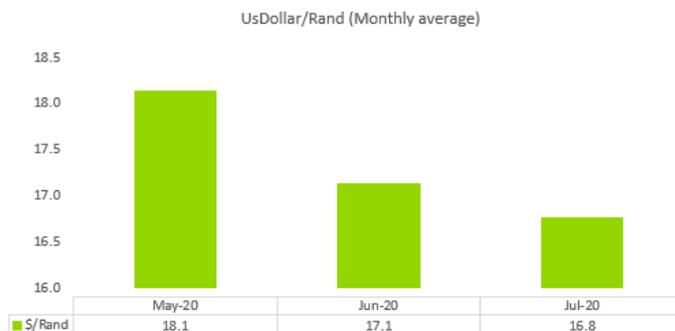
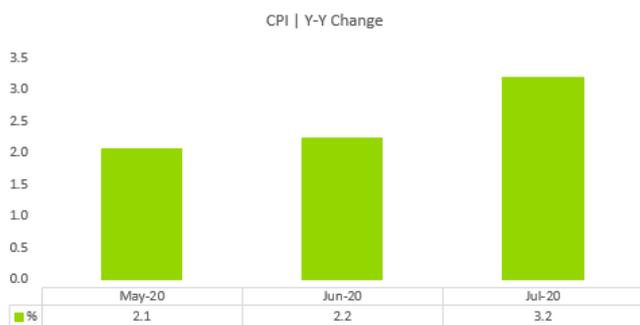
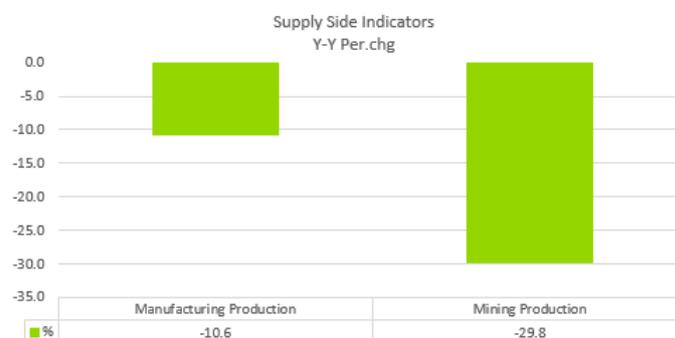
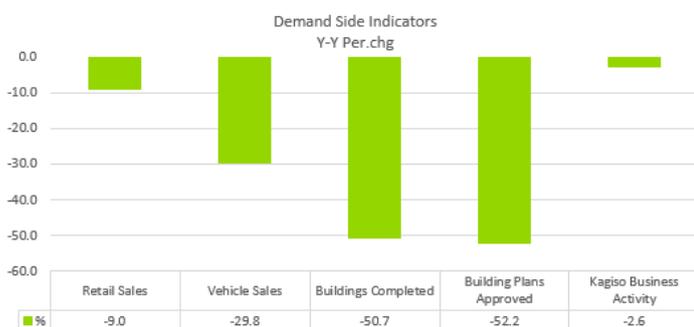
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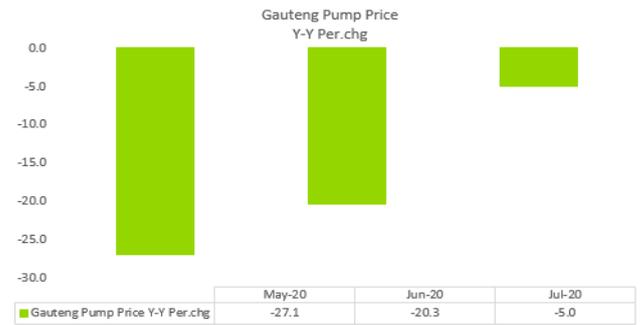
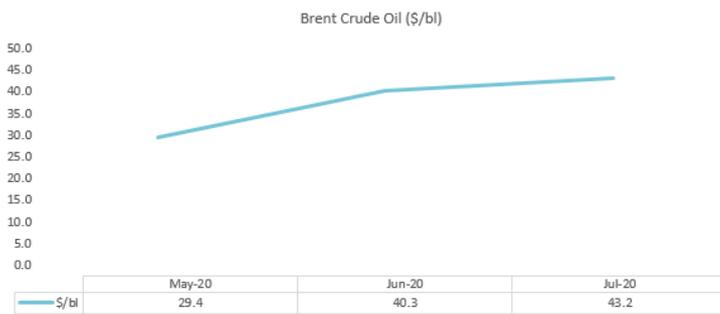
Please note: Due to the lockdown, receiving some data from STATS SA has been delayed

| Y-Y Per. Chg | Jun 20 | Jul 20 |
|--------------------------|--------|--------|
| Retail Sales | (7.5) | (9.0) |
| Vehicle Sales | (31.1) | (29.8) |
| Manufacturing Production | (16.3) | (10.6) |
| Mining Production | (28.2) | (9.1) |
| Kagiso PMI Index | | |
| - Business activity | 43.0 | 14.2 |
| - Inventories | 12.1 | (17.0) |
| - New Sales orders | 29.5 | 1.1 |

| | Jun 20 | Jul 20 |
|---------------------------------|--------|--------|
| Building plans completed | -76.8 | -50.7 |
| Building plans passed *Value | -57.3 | -52.2 |
| Consumer Price Index (%) | 2.2 | 3.2 |
| Producer Price Index (%) | 0.5 | 1.9 |
| US Dollar/Rand: avg | 17.1 | 16.8 |
| Brent Crude oil (\$/barrel,avg) | 40.3 | 43.2 |

Demand/supply and Price Indicators





South African Construction Industry

Nominal value of projects awarded |Y-Y Per. Chg - same month last year Aug-20 Mat, Per. Chg Change in annual growth

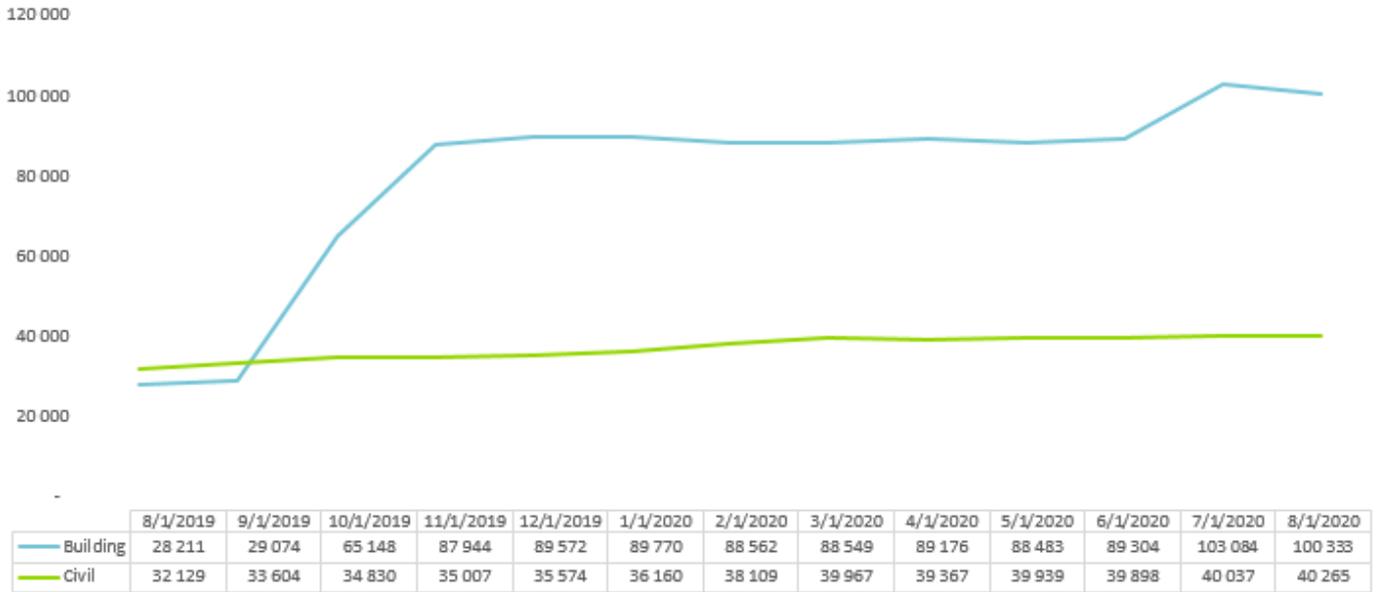
| | | | |
|------------------------|------|--------|--------------|
| Residential | -56% | 601.4% | -319% |
| Non-Residential | -44% | 16.4% | 1% |
| Building | -52% | 255.6% | -47% |
| Civil | 9% | 25.3% | 0% |
| Total | -32% | 133.0% | -16% |

Number of projects out to tender |Y-Y Per. Chg.- same month last year Aug-20 Mat, Per. Chg Change in annual growth

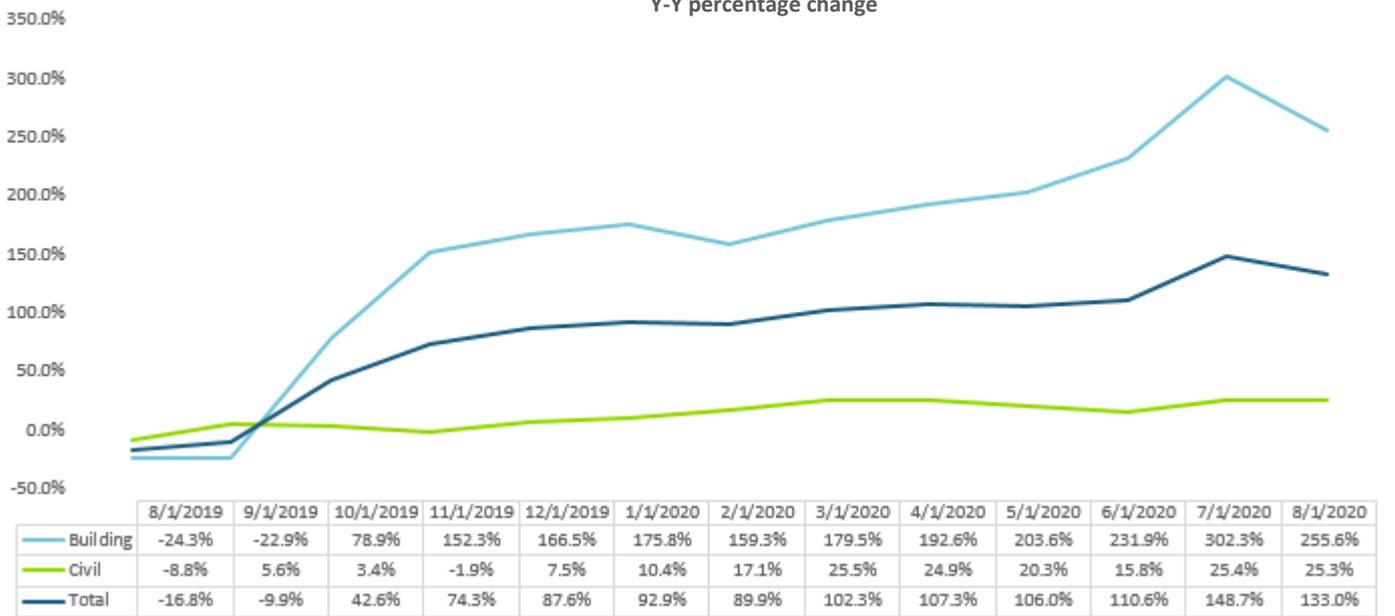
| | | | |
|------------------------|-----|--------|------------|
| Residential | 0% | 0.9% | 10% |
| Non-Residential | 19% | -13.7% | 1% |
| Building | 18% | -12.6% | 2% |
| Civil | 49% | -12.6% | 5% |
| Total | 38% | -12.6% | 4% |

Value of contracts awarded, Rm current

Value of construction projects awarded Rm, current prices MAT



Value of construction projects awarded Y-Y percentage change



Residential Projects



Non-Residential Projects



Building Projects Awarded



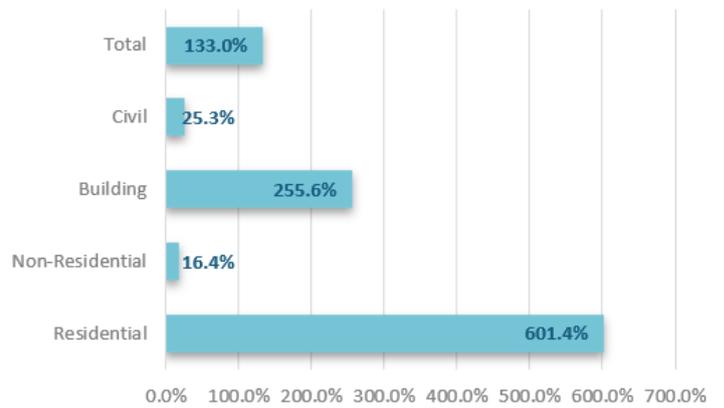
Civil Projects Awarded



Total Projects Awarded



Y-Y Per. chg



Number of construction projects out to tender

Residential Projects



Non-Residential Projects



Building Projects



Civil Projects



Total Projects

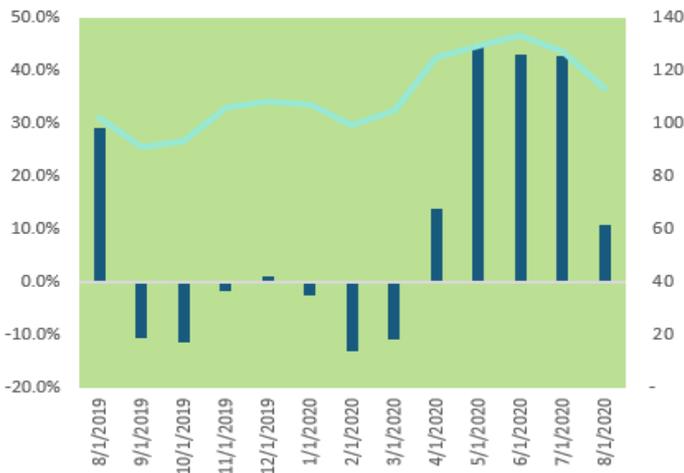


Y-Y Per. chg

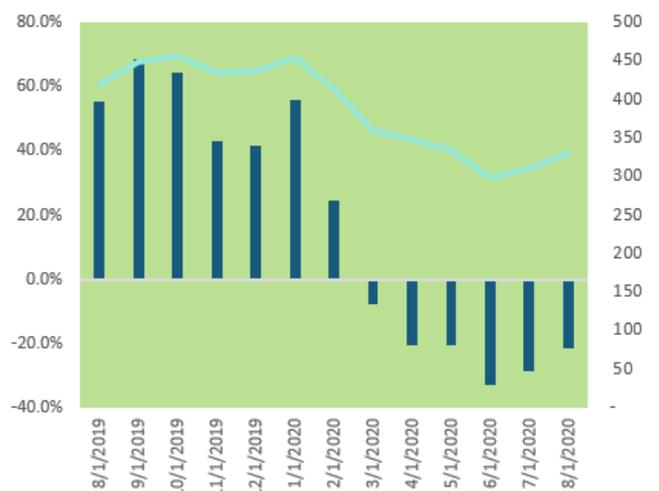


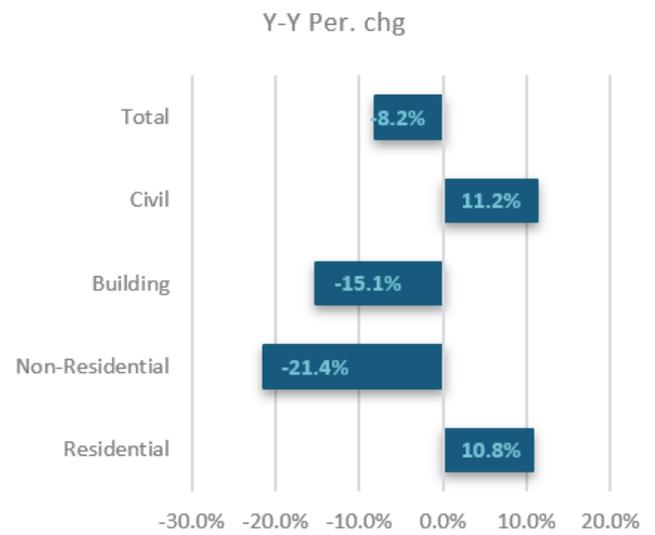
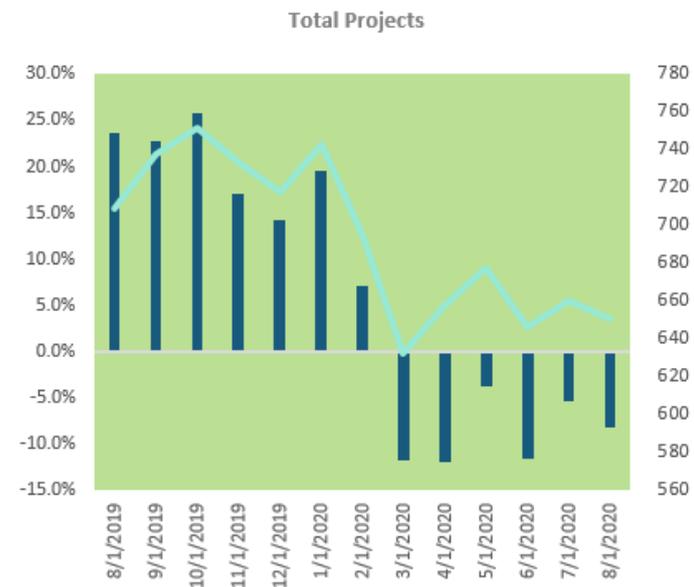
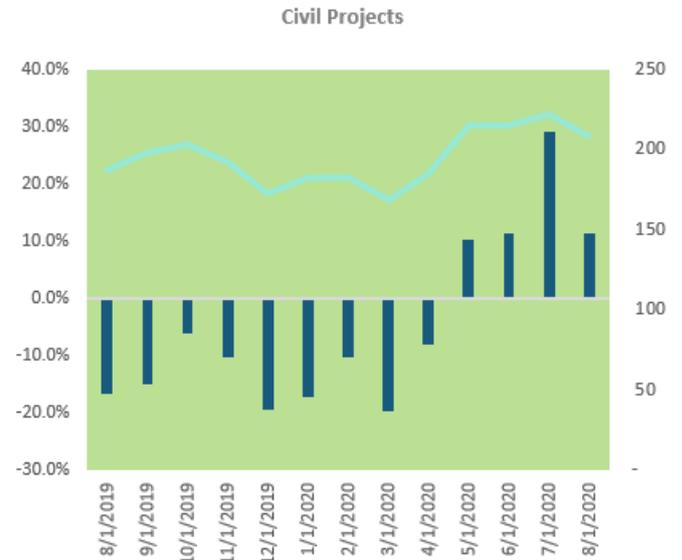
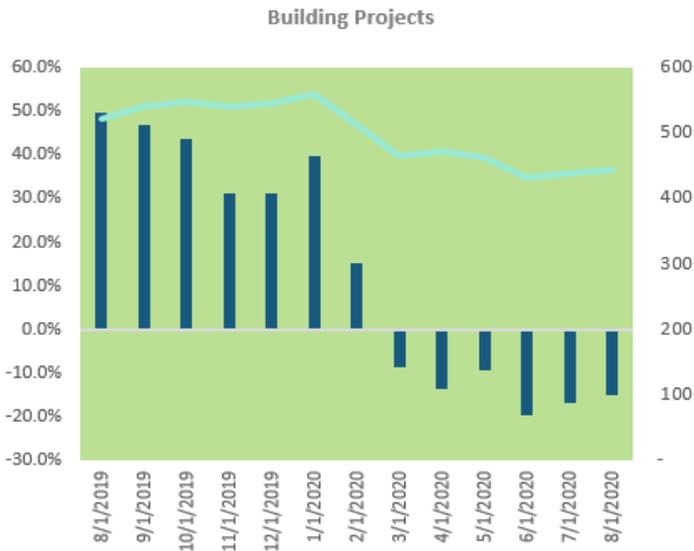
Number of construction projects postponed

Residential Projects



Non-Residential Projects



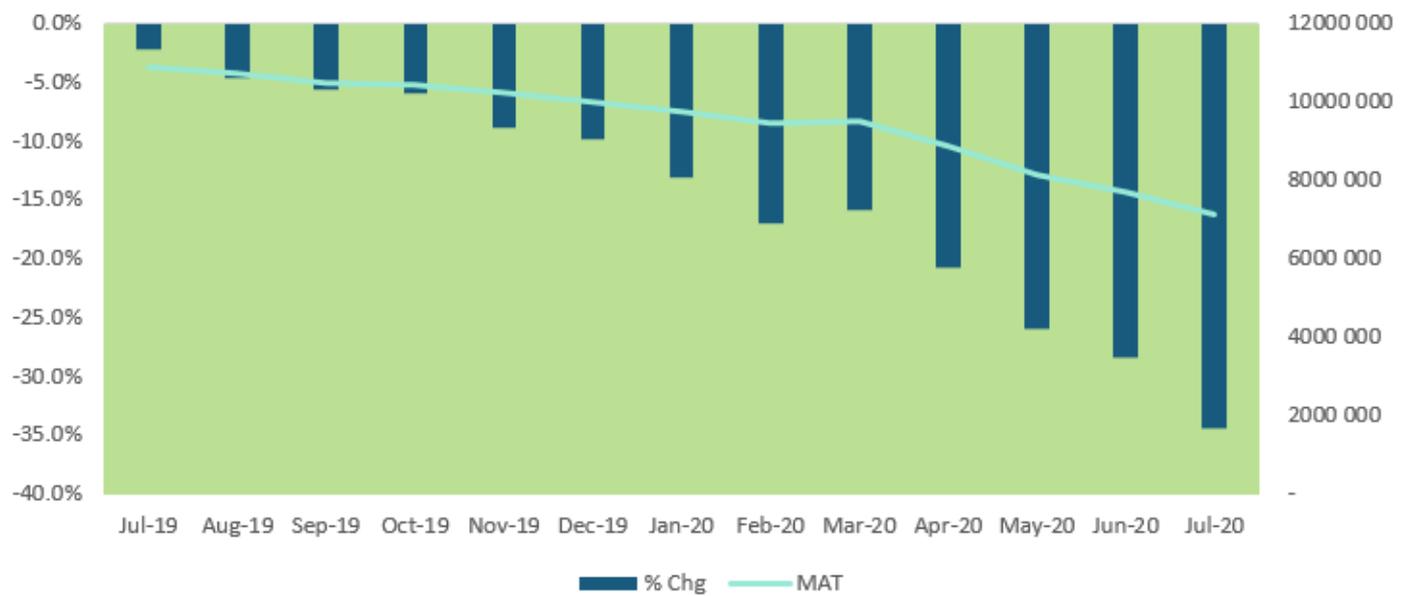


Building plans approved by local authorities for private sector construction (Source Stats SA)

| Plans approved, SQM, Mat | Y-Y Per. Chg | Market share | SQM | SQM approved Month | Change | MAT, Y-Y Per. Chg | MAT, Y-Y Per. Chg Total |
|--------------------------|--------------|--------------|---------|--------------------|--------|-------------------|-------------------------|
| Residential | | | | | | | |
| <80 SQM | -16.5% | 8.3% | 594326 | 65824 | -66.4% | -34.4% | -32.2% |
| >80 SQM | -27.6% | 38.4% | 2740846 | 236089 | -33.7% | | |
| Townhouses/Flats | -52.5% | 23.0% | 1640679 | 97420 | -64.1% | | |
| Other | -40.1% | 0.9% | 65978 | 2622 | 16.8% | | |
| Renovations | -26.0% | 29.5% | 2104681 | 155885 | -46.0% | | |
| Non-Residential | | | | | | | |
| Office and Banking space | -42.1% | 10.5% | 289113 | 45457 | -28.5% | -25.7% | |
| Shopping space | 24.0% | 20.6% | 565117 | 22757 | 14.2% | | |
| Industrial/Warehouse | -35.1% | 45.8% | 1258355 | 40905 | -69.3% | | |
| Additions/Renovations | -20.9% | 23.1% | 635274 | 22684 | -73.7% | | |

Buildings plans approved: SQM | MAT Percentage change

Residential Plans Approved



Non-Residential Plans Approved





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