Afrimat Construction Index gains good momentum in second quarter of 2021

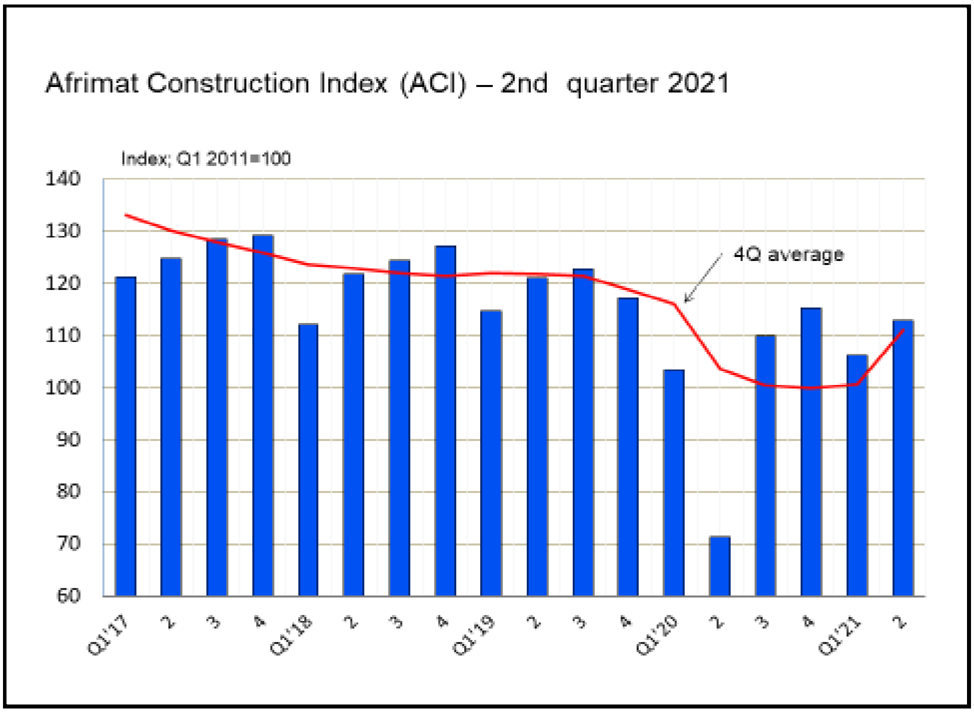
Johannesburg, 8 September 2021 – Afrimat, the JSE-listed open pit mining company providing industrial minerals, bulk commodities and construction materials, has released the findings of the Afrimat Construction Index (ACI) for the second quarter of 2021. The ACI is a composite index of the level of activity within the building and construction sectors, compiled by renowned economist Dr Roelof Botha on behalf of Afrimat.

"Following a predictable sharp decline during the second quarter of 2020, the ACI has emulated the trend of several key sectors of the economy by staging a swift and pronounced recovery from the worst of the Covid-19 lockdown regulations. During the second quarter of 2021, the ACI amounted to 110.3, a rebound of 55% compared to the same quarter last year, but this was due to the Covid-induced low base effect," says Dr Botha.

More significantly, he notes that the quarter-on-quarter improvement was a solid 4.0%, fuelled by strong increases in construction sector employment, as well as building material sales. A total of 156,000 jobs have been created in construction since the second quarter of 2020.

According to Dr Botha, other encouraging improvements in the constituent indicators were the value of building plans passed and the value of buildings completed in the country's larger municipalities.

"Unfortunately, however, the post-pandemic recovery in construction remains incomplete, with the second quarter of 2021 still lagging the same quarter in 2019, i.e. pre-Covid, by 6.8%."



He adds that little doubt exists over the dampening effect on construction activity resulting from the on-going lockdown regulations and the long duration of a high Covid-19 infection rate during the third wave.

"Hopefully, progress with vaccinations, combined with restrictions on so-called 'superspreader' events, will soon lead to a business environment that is more conducive to the labour-intensive nature of construction sector activity."

Dr Botha further notes that fortunately the higher level of construction sector activity that was foreseen in the ACI results of the first quarter of this year have materialised, with seven of the nine constituent indicators recording positive quarter-on-quarter growth.

"This is a significant improvement on the first quarter of the year, when only three of the nine constituent indicators of the ACI recorded positive growth quarter-on-quarter. The ACI has now remained above the base period level of 100 for four successive quarters."

% Change in the constituent indicators of the Afrimat Construction Index
1st quarter 2021 to 2nd quarter 2021

Indicator	%
Employment In Construction	13.2
Building Plans Passed (Value)	7.9
Building Materials (Sales)	7.7
Buildings Completed (Value)	5.9
Building Materials (Volume)	4.1
Wholesale Trade Sales – Construction Materials	1.9
Construction Value Added	0.5
Salaries and Wages – Construction	0
Retail Trade Sales – Hardware	-0.2
Afrimat Construction Index	**4**
GDP	**4.2**

He also remains confident that a further recovery of the construction sector is on the cards during 2021, saying that several growth drivers remain in place that promise to boost construction activity. They include the following:

- The damage caused to buildings and infrastructure during the unrest that occurred in parts of KwaZulu-Natal and Gauteng during July 2021 will undoubtedly trigger substantial construction sector activity during the rest of the year. In addition to repair work, many of the retail centres and individual shops that were victims of the looting will upgrade their security and access control systems, which will further boost activity in construction.
- In recent months, inflation has started to decline again and remains well below the upper end of the South African Reserve Bank's inflation target range, which means that interest rates could remain at their current low levels into 2022. The decline of 30% in the cost of mortgage financing at the prime rate has already aided the return to higher house prices (as confirmed by the FNB house price index), as well as an increase in the value of new mortgage loans.
- Two authoritative gauges of business confidence have recorded an immediate recovery from the decline that followed the July unrest. The ABSA/BER Purchasing Managers' Index (PMI) for the manufacturing sector has returned to above the neutral 50-level and the IHS Markit PMI, which covers the manufacturing and the services sectors, has rebounded from 46.1 in July to 49.9 in August.

Dr Botha points out that several companies with a strong foothold in the construction sector value chain have recently posted impressive financial results. Examples include JSE-listed Cashbuild and Murray & Roberts, which indicated that its order book had reached a new record of R60.7-billion.

"However, all eyes will now be on government's Recovery and Reconstruction Plan, which has been rather slow out of the starting blocks. The new Minister of Finance recently summed up the sentiment in the industry by stating that there should be less debate around economic growth and more action. Hopefully, further relaxation of lockdown regulations and the tax bonanza that has been reaped on the back of record mining sector profits will contribute to speedier implementation of this plan, which is closely aligned with the ambitious R340-billion infrastructure plan."

According to Afrimat's CEO, Andries van Heerden, positive economic momentum is being felt within the group, albeit slowly. "As a group, the diversification strategy we embarked upon a few years back continues to assist Afrimat through the troughs as well as the highs of both business and commodity cycles. The move deeper into the ferrous-metal value chain is beneficial due to demand from global infrastructure spend, primarily driven by China."

He says that his fervent wish for South Africa is that there is now clear momentum and commitment from Government to accelerate much-needed infrastructure projects, which business is ready to execute on. "In the case of Afrimat, we are extending an invitation to Government to call on us to jointly execute and build critical skills shortages to ensure infrastructure needed for the country is in place and maintains the high standards our infrastructure was once known for."

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