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Afrimat Construction Index for last quarter of 2018 shows reality of sector challenges

Johannesburg, 11 March 2019 – 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 fourth quarter of 2018. 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.

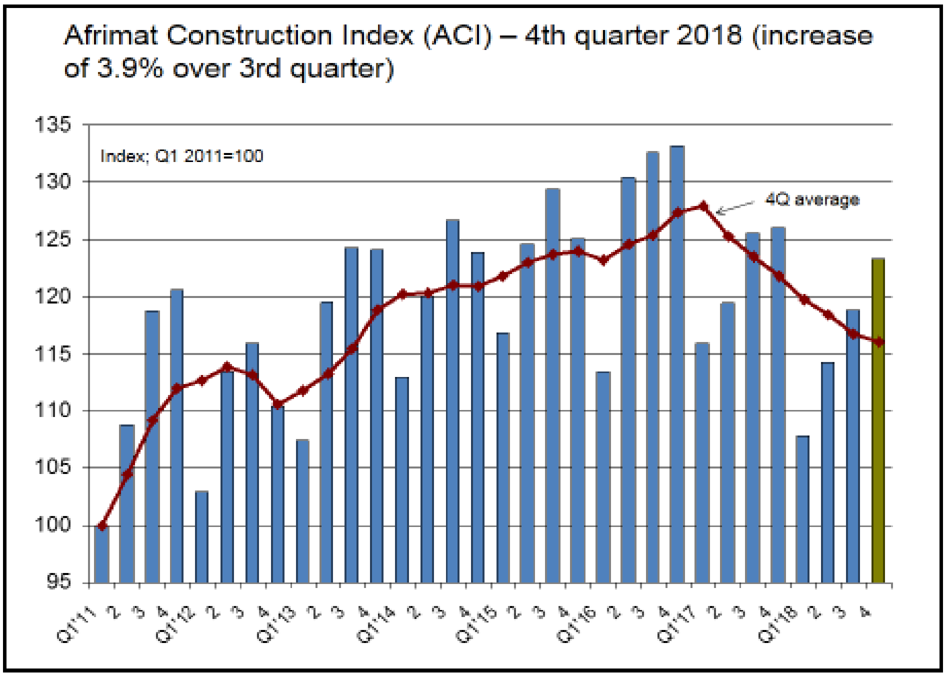
According to Botha, the recovery in the last quarter of 2018 was not sufficient to lift the index to a higher level than a year earlier. The average value of the index in 2018 was 4.7% lower than in 2017 and it is clear that the South African construction sector has been under-performing since the end of the recession in 2009.

"When compared to the same quarter a year ago, five of the eight constituent indicators remained in the red, with substantial declines in the value of building plans passed and completed, as well as the volume of building materials produced."

Botha points out that real Gross Domestic Product ("GDP") increased by 1.1% during the four quarter of 2018 on a year-on-year basis, but the value added by the construction sector declined by the same margin during this period – a clear indication of the stressful conditions being experienced by the sector.

"It is, however, encouraging to note that the index level has risen for the third consecutive quarter, following a below-par performance in 2017 and a fairly sharp deterioration in the first quarter of 2018. The index recorded a gain of 3.9% in the fourth quarter of 2018 and is now 14.4% higher than during the first quarter of 2018.

"This reflects a continuation of a broad-based recovery of the level of activity in the sector since the beginning of 2018, with five of the eight constituent indicators recording gains over the third quarter." He indicated that the best performers during the fourth quarter of 2018 were salaries and wages in the sector, the value of hardware retail sales and building material sales.



Despite the welcome recovery in construction activity during the course of 2018, it has also not been sufficient to lift the index into the record territory that was recorded in the fourth quarter of 2016.

% Change in the constituent indicators of the Afrimat Construction Index 4th quarter 2017 to 4th quarter 2018	
Indicator	**%**
Employment In Construction	6.5
Building Materials (Sales)	4
Salaries & Wages – Construction	0.2
Construction Value Added	-1.1
Retail Trade Sales – Hardware	-3.1
Buildings Completed (Value)	-6.6
Building Materials (Volume)	-7.2
Building Plans Passed (Value)	-17.5
Afrimat Construction Index	**-2.2**
Real GDP	**1.1**

According to Botha, five factors contributed to the persistence of a declining trend in the fourth-quarter average index value:

- the higher base value that existed in 2017, combined with the sharp decline of the first quarter of 2018;
- lethargic economic growth, in general;
- high interest rates, which continue to burden industries that rely heavily on debt financing;
- continued policy uncertainty, especially regarding the possibility of land expropriation without compensation, which has eroded business and consumer confidence; and
- continued declines in capital formation for the key asset types associated with construction activity.

Botha is concerned over the fact that capital formation in residential buildings and non-residential buildings was 5.5% lower in the third quarter of 2018 than the same quarter two years earlier (in real terms), whilst capital formation in construction works declined by 7% over this period.

Looking ahead, construction sector activity may improve during the second half of 2019, especially as a result of the new approach towards economic policy, in general, that has characterised the early stages of President Cyril Ramaphosa's tenure.

"In a significant departure from the national budget speeches during the Zuma-era, Minister of Finance Tito Mboweni made it very clear on 20 February that higher economic growth will be the government's overriding priority in coming years – a sentiment also proclaimed during the State of the Nation Address, or SONA as it's known, earlier in February," says Botha.

He points out that a number of measures were announced during the SONA and the national budget speech to strengthen public sector corporate governance and market-friendly policies, which have already delivered dividends to the country, most notably in the form of a lower yield on the 10-year government bond and an upgrading of the outlook for Eskom's debt by ratings agency Standard & Poor's.

"From a construction perspective, the 2019 budget has provided hope that public sector spending on infrastructure could start improving soon, with the Finance Minister promising to develop a clear strategy aimed at improving the rate of infrastructure expansion, including a sensible project pipeline and streamlining regulations to make it easier to actually start building."

According to Afrimat CEO, Andries van Heerden, the anticipated upswing in activity in the sector would be welcome, although the group has diversified significantly over the past few years to take advantage of opportunities elsewhere, such as in iron ore.

"We remain cautiously optimistic that the outlook for construction and aggregate materials will improve but have always followed the mantra of positioning ourselves correctly on superior product quality, price and service delivery, which, along with our highly entrepreneurial culture and positive attitude, has ensured Afrimat continues to deliver a decent return for our shareholders, no matter the circumstances," concludes van Heerden.

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