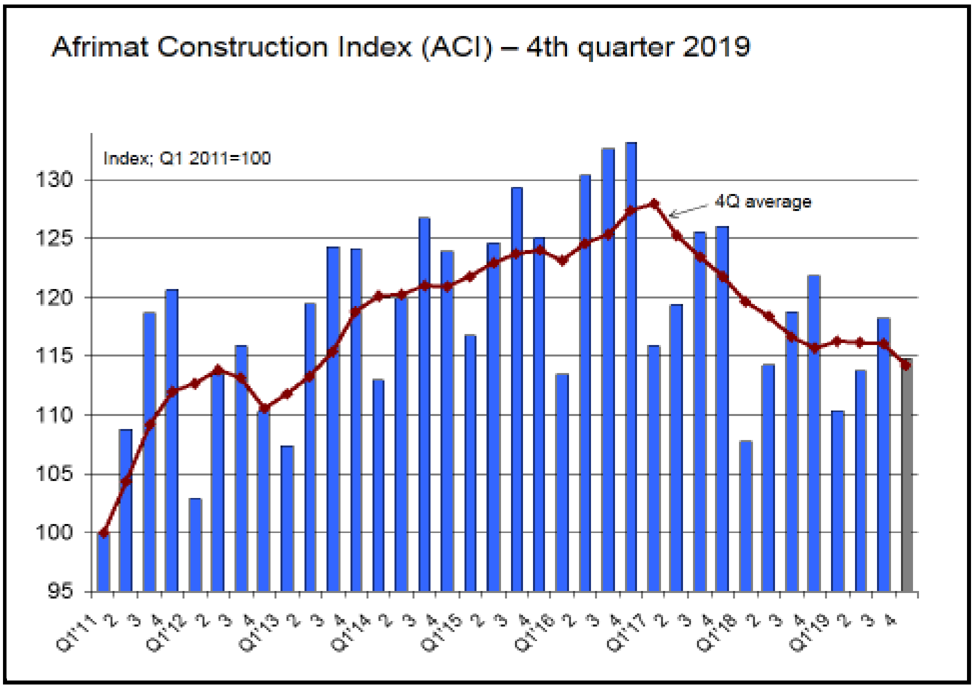
Afrimat Construction Index shows decline in the fourth quarter of 2019

Johannesburg, 11 March 2020 – 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 2019. 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.

In contrast to the marginal increase in the value added by the construction sector during the fourth quarter of 2019, the ACI declined by 2.9% this quarter. The trend of the ACI, as measured by the four-quarter moving average, is now at its lowest level since early 2013. "It is clear that a combination of high interest rates, uncertainty over land reform, inefficiencies within the public sector at large, and lethargic overall economic growth continue to place the construction sector under pressure," says Botha.

Viewed from the perspective of the base year for the ACI (the first quarter of 2011), the ACI has increased by an average annual rate of 1.6% (in real terms), which is only marginally less than the average annual increase of 1.8% in South Africa's real gross domestic product ("GDP") over this period.

According to Botha, it is clear that the construction sector is under-performing, which should be ringing alarm bells for government, due to the obvious and urgent need to expand the country's infrastructure, especially in the areas of electricity, housing, transport and water.



Afrimat Construction Index (ACI) – 4th quarter 2019

He says a particular point of concern is the decline of almost 7% in the year-on-year ACI level (from 121.9 to 114.3) and the continued weakness in both the volume and sales value of building materials produced. "Although the latter two indicators don't fully reflect the utilisation of building materials used in the informal sector, they mirror the downward trend in the value of building plans passed by the larger municipalities in the country. The latter was the worst-performing indicator included in the Index and declined by more than 13 % in the fourth quarter of 2019, compared to the third quarter."

Fortunately, data released early in March by Statistics SA confirmed a small increase in formal employment levels within the construction sector. The ACI was also buoyed somewhat by the traditional increase in salaries and wages during the fourth quarter, due mainly to overtime and bonuses during December. The performance of retail trade sales for the hardware sector was also encouraging. This indicator increased by almost 9% in the fourth quarter.

According to Botha, the economy as a whole and construction activity in particular remain in desperate need of meaningful interest rate relief, in order to lower the cost of fixed capital formation and stimulate growth and employment creation.

% Change in the constituent indicators of the Afrimat Construction Index
3rd quarter 2019 to 4th quarter 2019

Indicator	%
Building Plans Passed (Value)	-13.1
Building Materials (Volume)	-11.7
Buildings Completed (Value)	-6.5
Building Materials (Sales)	-3.8
Construction Value Added	0.7
Employment In Construction	0.8
Retail Trade Sales – Hardware	8.9
Salaries & Wages – Construction	11.4
Afrimat Construction Index	**-2.9**
Real GDP	**1.6**

"High interest rates act as a disincentive for venture capital and fixed capital formation," says Botha. "Since the beginning of 2017, when the scope of state capture and corruption within municipalities and SOCs became evident, construction activity has been in a slump – in real terms – which represents one of the major reasons for the increase in the country's unemployment rate."

Botha is nevertheless confident that the 2020 State of the Nation Address ("SONA") and National Budget paved the way for a modest increase in construction activity during 2020, which could gain considerable momentum in 2021. He cites the following signs of hope for the construction sector:

- A plan designed by Consulting Engineers South Africa to inject private engineering skills and expertise into relevant public sector departments and agencies. This could be done either by short-term secondments or by the appointment, through a competitive bidding process, of in-house technical units within the public sector, especially at municipal level.
- The SONA was unequivocal in committing government to an increase in infrastructure spending, especially with regard to water provision, roads and expanding the renewable energy supply.
- A key future element of fast-tracking infrastructure spending would be the work of the implementation team of the Infrastructure Fund, which had finalised a list of so-called "shovel-ready projects" in student accommodation, social housing, water, rail freight branch lines, embedded electricity generation and municipal bulk infrastructure.
- According to National Treasury, public sector infrastructure spending over the medium-term expenditure framework period is estimated at R815-billion. It is anticipated that public sector infrastructure spending will continue to increase at double-digit rates over the medium term, mainly owing to higher estimated spending by SOCs.

"Anyone reading this will know the ACI reflects what many construction companies have been experiencing over the past two to three years, so the results aren't surprising, " says Afrimat's CEO, Andries van Heerden, adding it's how to spot opportunities that can be a game-changer for construction companies in times like this.

"Readers should be familiar with Afrimat's diversification strategy, and while some say that we've been fortunate not to be exposed to the full brunt of the downswing in the sector, that's come through the steady implementation of our diversification strategy, along with relentless planning, remaining very cost conscious, driving efficiencies, and last, but by no means least, being constantly on the look-out for new opportunities. And trust me, these do exist – one just needs to be vigilant."

The company's diversification into iron ore may have paid off handsomely, but Van Heerden says that the construction materials segment of the business is also performing well. "We are seeing some tenders coming through from the South African National Roads Agency and the Airports Company of South Africa amongst others, but as these will take time to work through the system to a point where Afrimat will benefit from them, we're working on other opportunities instead of looking to government to intercede or simply hoping things will improve."

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