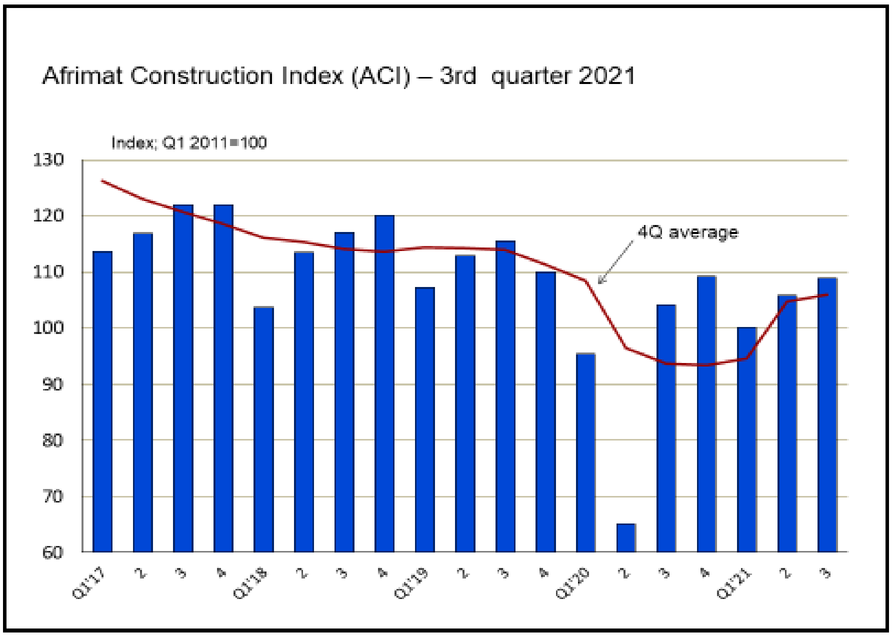
Afrimat Construction Index recovers further in third quarter of 2021

Johannesburg, 9 December 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 third 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.

In line with several key indicators of construction activity, the ACI staged a swift recovery from the Covid-19 induced slump that occurred during the second quarter of 2020, increasing by 60% in the very next quarter. Since then, however, progress has been muted, with a year-on-year improvement of 4.5%. It is nevertheless encouraging that the ACI has managed to record a quarter-on-quarter rate of increase of 2.8% when several sectors of the economy were under severe pressure due to the July unrest in parts of KwaZulu-Natal and Gauteng.

Another encouraging feature of the latest ACI is the fact that these sectors have outperformed most others, including the economy as a whole. According to Statistics South Africa data, the country's gross domestic product (GDP) shrank marginally by 0.3% during the third quarter compared to the second quarter. A full recovery from the effects of the pandemic will probably only be realised in 2022, with the current value of the ACI (108.9 index points) still more than 5% shy of the value recorded in the third quarter of 2019.

The stand-out performers during the third quarter of 2021 were Building Material Sales, Hardware Retail Sales, the Volume Of Building Materials Produced, and the Value Of Buildings Completed in the country's larger municipalities.



According to Dr Botha, on-going efforts to rebuild the facilities that were damaged during the July unrest should continue to boost construction-related activity during the four quarter, which, combined with the absence of strict lockdown regulations during these three months, could witness a further recovery in the ACI to very close to its pre-Covid-19 level.

“Construction-related activity is inherently labour intensive and, hopefully, government will not react too harshly to the fourth wave of Covid infections, which does not seem to be as severe as the previous wave in terms of the rate of hospitalisations,” says Botha.

“One point of concern is the decision by the South African Reserve Bank to raise interest rates at a time when there is clearly an absence of excessive demand in the economy and when unemployment keeps rising. Private sector credit extension also remains on a downward trajectory, which makes the Reserve Bank’s return to more stringent monetary policy quite strange.

“Fortunately, however, the prime overdraft rate at 7.25% is still low by historical standards, which should not deter the construction sector to continue on a growth path during 2022.”

Botha points out that only three of the nine constituent indicators that comprise the ACI recorded negative outcomes in the third quarter compared to the second quarter. “The year-on-year performance was even more impressive, with eight of the nine indicators recording positive growth rates.”

% Change in the constituent indicators of the Afrimat Construction Index
2nd quarter 2021 to 3rd quarter 2021

Indicator	**%**
Buildings Completed (Value)	**17.4**
Retail Trade Sales – Hardware	**7.2**
Building Materials (Sales)	**4.5**
Building Materials (Volume)	**3.6**
Salaries & Wages – Construction	**2.1**
Construction Value Added	**0**
Wholesale Construction Trade	**-0.7**
Employment In Construction	**-5.3**
Building Plans Passed (Value)	**-7.5**
Afrimat Construction Index	**2.8**
GDP	**-0.3**

He says that an interesting feature of the latest building statistics is the increase in the share of alterations and additions, which had averaged 15% in 2019, but increased to more than 20% during 2021, with a new quarterly record high of almost 29% during the third quarter of 2021.

According to property market experts, this phenomenon may become a permanent one, due to the occurrence of “semigration”, a term used to describe the migration of South Africans to smaller towns. Houses in these areas are seldom suited for people used to a fast-moving urban environment and usually require substantial renovation, especially in the area of creating a *de facto* home office.

Botha is confident that the current momentum of recovery in construction can be taken forward into 2022. “Further recovery of the construction sector is on the cards for next year,” says Botha, basing this optimism on the presence of a number of growth drivers, including the following:

- The dire need to repair and maintain infrastructure that has fallen behind schedule as a result of the lockdown regulations induced by the pandemic.
- Promises during the recent municipal elections by all of the largest political parties to improve service delivery throughout the country.

- Renewed business confidence, as reflected by several authoritative indices, including the Reserve Bank's leading business cycle indicator and the Absa/BER Purchasing Managers' Index (PMI) for the manufacturing sector. Both of these indicators recently recorded all-time record highs.
- Addressing infrastructure deficiencies will remain a top priority of the government for many years to come and it was heartening to be informed in November by the new Minister of Finance that an additional 55 projects valued at almost R600 billion have been added to the pipeline of infrastructure projects. In the short term, the sectors for telecommunication, transport and water and sanitation will be prioritised.

Botha also points out that several companies in the construction and materials sector of the JSE continue to record impressive financial results. This JSE sector has outperformed the JSE all share index (Alsi) by a considerable margin during 2021, recording an increase in market capitalisation of 57% between early January and early December. By comparison, the JSE Alsi improved by 12%, albeit from a much higher base.

Afrimat's CEO, Andries van Heerden, remains positive and steadfast in the diversification initiatives undertaken by Afrimat to ensure the business is able to operate at the highs and lows not only of the South African economy, but also of cyclical commodities too.

"Our most recent results show a correlation to the results of this index with our Construction Materials and Industrial Minerals segments returning closer to pre-Covid-19 volumes and margin levels. However, we do remain cautiously optimistic that additional momentum will come to the fore during the course of 2022, driven by the much anticipated infrastructure projects."

Van Heerden indicates that post the results announcement a little more activity is being picked up in the Construction Materials businesses, "but it still have some way to go", he adds.

Note: *Index value comparison with previous editions need to take cognisance of the re-basing of South Africa's GDP by Statistics South Africa, which has affected the historical values.*

-Ends-

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