

Afrimat Construction Index shows modest recovery in the 3rd quarter of 2017

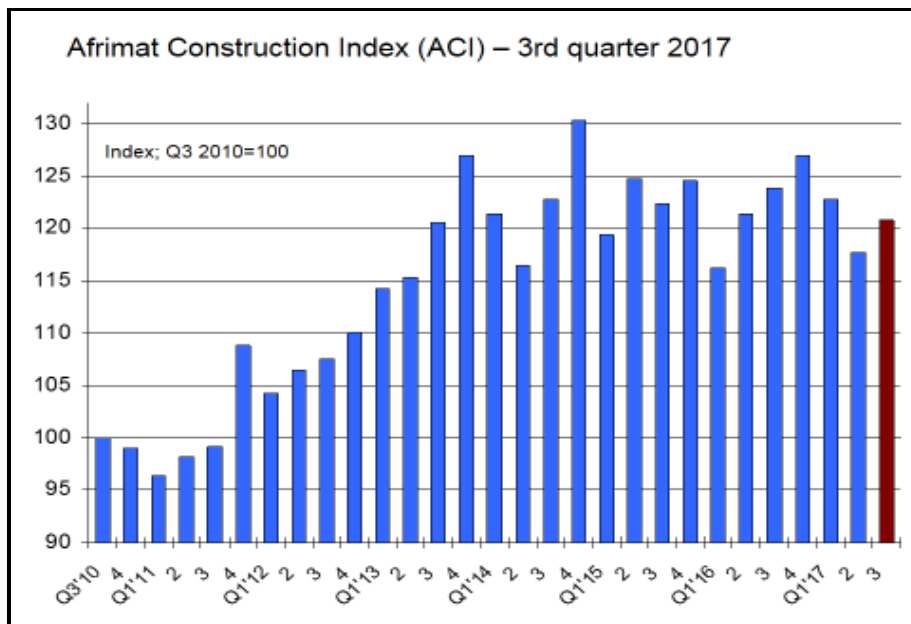
Johannesburg, 7 December 2017 – Afrimat, a leading open pit mining company providing industrial minerals and construction materials, has released the findings of the Afrimat Construction Index (“ACI”) for the third quarter of 2017.

For the three months between July and September, the Afrimat index trend has managed to buck the trend of several other indicators of the level of economic activity in South Africa by notching up a modest improvement over the second quarter results.

A number of surveys of confidence in the economy, in general, have slipped back to lows that were last recorded during the 2008/09 recession, but the bulk of quantifiable data on the state of the economy supports the fact that South Africa’s GDP expanded by more than one per cent, in real terms, during the third quarter of 2017 (year-on-year basis).

After reaching an eight-quarter high of 127 in the 4th quarter of last year, the ACI declined to a level of 117.7 in the 2nd quarter of 2017 but has now bounced back to a level of 120.8 in the 3rd quarter, despite a further marginal decline in the real value added by construction. It should be pointed out that, in the national accounts, the latter sector only includes contractors and is therefore not representative of all building and construction-related activity, representing merely 3.5% of total GDP.

The construction sector at large continues to outperform the economy as a whole, with the ACI having expanded by 20.8% since the 3rd quarter of 2010 (the base period), substantially higher than the rate of growth of 13.6% for the economy as a whole over this period (in real terms).



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.

Botha says the composite index provides a balanced and realistic view of the level of activity in the construction sector as it evens out the contradictory trends of conditions in the construction sector that are often portrayed by the individual components that comprise the index.

The ACI is calculated from nine different constituent indicators: the volume of building materials produced; the sales value of building materials; the value of buildings completed within larger municipalities; the value of building plans passed by larger municipalities; the FNB/BER building confidence index; the FNB/BER civil construction index; retail trade sales of hardware, paint and glass; formal employment in construction; and the value added by the construction sector.

The improvement in the ACI between the 2nd and 3rd quarters of 2017 was driven mainly by the following indicators:

- Value of building plans passed by major municipalities
- Retail sales values for hardware, glass and paint
- FNB/BER building confidence index
- Volume of building materials produced

Significantly, six of the nine indicators included in the Afrimat Construction Index recorded improvements during the 3rd quarter, with the only negative trends represented by the FNB/BER civil construction index and employment & value added in construction.

Proxies for the marginal improvement in the Afrimat Construction Index that fall outside of the scope of the indicators comprising the index are not too difficult to find. During the third quarter of 2017, the seasonally adjusted index of the volume of manufacturing production for divisions closely associated with construction activity increased by more than one percent over the previous quarter. These divisions include structural wood products, non-metallic minerals, and metal products & machinery.

No doubt exists over the negative impact on a more meaningful expansion of construction activity induced by the declining trend in overall business confidence in the country, due, *inter alia*, to a large measure of policy uncertainty and the continued delay of the South Africa Reserve Bank to adopt a more accommodating approach towards monetary policy.

“In the event of a more business friendly approach towards economic policy being adopted by the winning candidate in the governing party’s leadership elections later in December, construction activity could well start taking off again in 2018” says Botha.

Andries van Heerden, Afrimat CEO, says the activity in the construction sector, as indicated by the ACI, bodes well for the economy and players able to adapt and embrace circumstances. “The Afrimat strategy is supported by our experience over the past six years. Companies involved in the construction sector had to box cleverly to source projects or supply product to the sector. Our research showed that several smaller projects were available and one simply had to adapt the model a little to be successful. Afrimat being in many of the rural areas of the country is an example of an adaption that paid off.”

The results of this study are showing that construction is a sector in which government spend is still taking place and given economic constraints, it is natural for the sector to come off slightly.

“However, if companies position themselves correctly on product quality, price and service delivery, they should be able to make a decent return for shareholders,” concluded van Heerden.

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