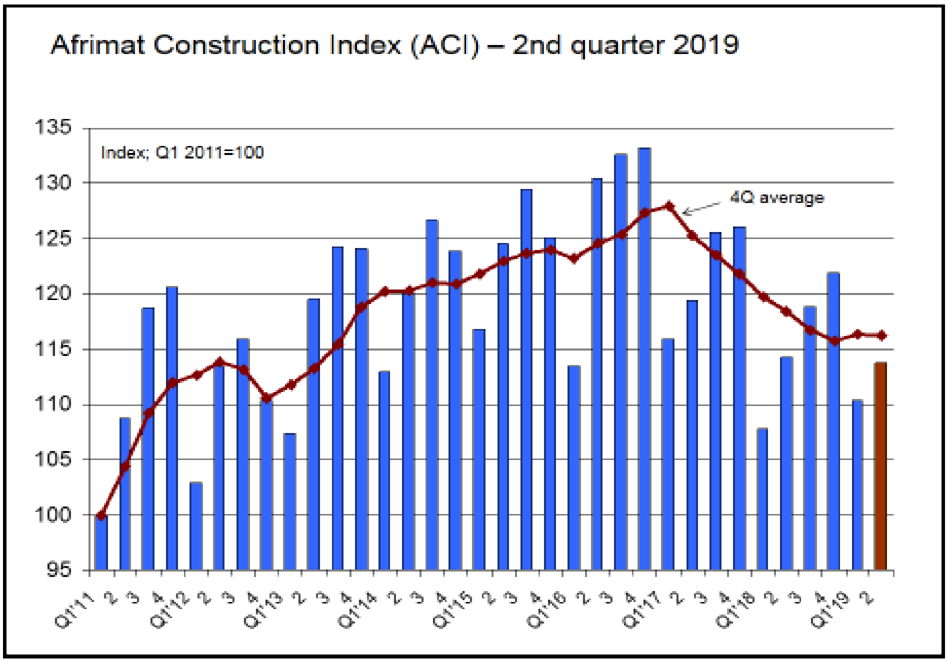
Afrimat Construction Index for second quarter of 2019 rebounds in line with recovery of SA's GDP

Johannesburg, 18 September 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 second 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.

During the second quarter of 2019, the ACI virtually mirrored the performance of total economic activity in the country, recording an identical increase to that of second quarter Gross Domestic Product ("GDP"), namely 3.1% (quarter-on-quarter). However, the latest ACI value still lags that of a year ago, albeit marginally.

According to Botha, it is encouraging to note that the four-quarter average of the ACI has stabilised at a level 13.8% higher than during the first quarter of 2011 (the base period for the ACI). "This growth nearly matches that of the total South African economy, with real value added in the non-agricultural sectors having increased by 14% since the first quarter of 2011. It indicates too, that while the construction sector is still under severe pressure, it is not yet on its knees, as the level of activity has increased at almost the same pace as overall economic activity."

Botha adds that the declining trend in the ACI's four-quarter average value that lasted for seven successive quarters has been halted, and a new growth phase may have commenced on the back of interest rate relief, albeit marginal.



He also points out that the ACI could receive a boost from the implementation of National Treasury's new growth plan. "The plan, which has been welcomed by the private sector at large, seeks to start removing obstacles to higher economic growth and job creation and to incentivise activity in labour-intensive sectors. Construction remains the most labour-intensive sector of the South African economy and stands to gain from pragmatic and focused growth policies, such as resuscitating the RDP housing scheme."

Botha further noted that it is also evident that government intends to rectify the declining ratio of infrastructure spending to consumption spending by the public sector. “The expansion of infrastructure in South Africa has become critically important, a fact that has been acknowledged by President Cyril Ramaphosa and Finance Minister Tito Mboweni. The construction sector stands to gain from the new-found emphasis on raising the country’s economic growth rate.”

He points out that capital formation and GDP are highly correlated, especially in emerging markets. “The construction industry at large has a pivotal role to play in the quest for job creation on a significant scale.”

Compared to the first quarter of 2019, the best performing indicators included in the ACI were the values of Buildings Completed, Labour Remuneration (Salaries & Wages) and the Volume of Building Materials Produced. Only two indicators recorded declines, which was in line with the traditional recovery of construction activity during the second quarter of each year.

% Change in the constituent indicators of the Afrimat Construction Index:
1st quarter 2019 to 2nd quarter 2019

Indicator	%
Building Plans Passed (Value)	-7.8
Construction Value Added	-1.2
Retail Trade Sales – Hardware	1.2
Employment in Construction	1.8
Building Materials (Sales)	2
Building Materials (Volume)	3.2
Salaries & Wages – Construction	15.2
Buildings Completed (Value)	15.8

Afrimat Construction Index	**3.1**
Real GDP	**3.1**

According to Botha, the following policy initiatives could pave the way for a sustained recovery of construction activity:

- Deregulation, particularly in the area of labour legislation, in order to make it easier for companies in the construction industry supply chain to increase employment.
- A more accommodating policy stance by the Reserve Bank. Despite the recent lowering of the repo rate by 25 basis points, South Africa’s real central bank repurchase rate remains between 100 and 400 basis points higher than most of its key trading partners and emerging market peers
- Clarity needs to be provided over the issue of land expropriation without compensation, as this has caused predictable hesitancy amongst property developers and other investors to engage in construction activity.
- Restoration of the functionality of local governments would go a long way to revive activities related to the maintenance and expansion of infrastructure and service delivery, especially in the areas of roads, low-cost-housing, schools and clinics.

Botha is confident that construction activity should improve further during the second half of the year, gaining momentum in 2020. “The gradual implementation of the new growth plan published by National Treasury places emphasis on creating new infrastructure and targeting sectors with high growth and employment creation potential, which could consolidate the latest modest recovery of construction sector activity and lead to a new sustained growth path," says Botha.

"It is most encouraging that the South African National Roads Agency Limited ("SANRAL") recently announced its belief in an imminent resurgence of road construction projects. According to SANRAL, road construction tenders to the value of more than R40-billion will come to the market over the next two to three years."

Other encouraging news that emanated from the GDP data for the second quarter of 2019 is the surge in real gross capital formation, which increased by a staggering 18% (quarter-on-quarter), following a declining trend that has lasted for several years.

Two lingering concerns are the decline in the value of building plans passed and the downward trend in the volume of building materials produced. Despite a marginal improvement in the second quarter, the latter indicator is hovering at levels that are 25% lower than two years ago. "One explanation may be the entry of informal sector agents that fall outside the scope of official statistical surveys," notes Botha.

Afrimat CEO, Andries van Heerden, says it is pleasing to see the ACI recover. "We welcome signs of improvement and the recognition by government that the economy should be jump-started, but we don't foresee wholesale recovery within the sector taking place for some time yet."

He adds, "As I've said previously, Afrimat itself will, by virtue of our entrepreneurial approach, diversified product range, strategic positioning and excellent service delivery, continue to navigate existing conditions, and is well-placed to take advantage of any uptick in the market when this happens. Of course, our most recent diversification into iron ore helped support our growth trajectory and cash position."

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