Building sector hopes confidence is no house of cards

By Mark Allix

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The rebound in the FNB/BER building confidence index is a "positive surprise", says John Loos, property economist at FNB. But he warns it comes off a low base and will be difficult to sustain given the poor economic fundamentals affecting the sector.

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Nearly 60% of index respondents remain dissatisfied with business conditions. The biggest increase in confidence was among building material manufacturers. That should be welcome news to Cashbuild, Southern Africa's biggest retailer of building materials. Revenue for the six months to December 2017 was up a tepid 5%, as operating profit fell 10% in the period and headline earnings per share slid 8%.

Cashbuild is trading in an "exceptionally tough" market, CEO Werner de Jager says. The FNB/BER index rose to 43 points in the first quarter of 2018 from 31 points in the fourth quarter of 2017. Apart from quantity surveyors, all six subsectors registered higher confidence. Fifty index points is the neutral mark.

Higher building activity is most notable among non-residential main contractors. The index also includes subcontractors, comprising plumbers, electricians, carpenters and shop fitters; architects; manufacturers of cement, bricks and glass; and retailers of building material and hardware.

Henry van de Wall, a member of the Association of Quantity Surveyors of SA, says the built environment and construction industry remains in a slump. This has led a number of contractors to review pricing strategies to offer services at a lower price than their competitors.

"Some contractors may be able to absorb the cost of taking on projects that don't necessarily yield a profit," Van de Wall says. This can be achieved by getting discounts from suppliers or by cutting margins But if a client defaults on payments, the contractor may not be able to complete work on other projects.

The FNB/BER confidence data comes as Afrimat's fourth-quarter construction index, released at about the same time, shows that SA's construction sector has broadly followed the upswing in GDP in the three months from October to December 2017.

In late February, however, Afrimat, a JSE-listed company that supplies basic building materials, indicated that headline earnings per share could fall as much as 20% in the year to February, amid the political uncertainty that led to Cyril Ramaphosa becoming president and a recent 17-year low in construction industry confidence. Compiled by economist Roelof Botha, the Afrimat index is calculated from nine indicators. These include the value of buildings completed by major municipalities; retail sales values for hardware, glass and paint and the value of building materials sold.

After reaching an eight-quarter high at the end of 2016, the index fell for two successive quarters before recovering in the third quarter of 2017. It rose again in the fourth quarter 2017.

"A proxy for the improvement in the index can be found in the latest national accounts data, released by Statistics SA in March," Botha says.

"During the fourth quarter of 2017, remuneration of employees and gross profitability in the construction sector both increased their year-on-year growth rates from the previous quarter's figures [by] 6.8% and 5%, respectively."

But Investec says the real value of total buildings completed fell 16.3% year on year in January 2018, following a 10.6% year-on-year fall in December 2017.

"All subcomponents of this category fell," bank economist Lara Hodes says.

Botha says the government should tackle late payments on the revenue and expenditure side of municipal finances. At the end of 2017, municipalities owed creditors R41.2bn, of which 39.3% was owed to Eskom and 17.7% to water boards. On the debtors' side, government and provinces owed municipalities a combined R6.6bn.

"Any threats to the financial viability of local governments undermine progress with housing and infrastructure projects," Botha says.

Source: Business Day