

## PRESS RELEASE:

### GENERAL BUILDERS AND CIVIL CONTRACTORS CONFIDENCE CONTINUES TO FALL IN Q3

**Pretoria 02 October, 2017:** During the third quarter, general building confidence as measured by the cidb SME Business Conditions Survey fell to 40 index points (from 42 points previously). The ongoing pessimism in the sector was in line with the broad-based weakness in underlying indicators. Ntando Skosana, Project Manager for Monitoring and Evaluation at the cidb commented, “The trajectory in Q3 was broadly similar to the previous quarter. Once again, we saw building activity lose momentum and in turn placed further downward pressure on profit margins. Disconcertingly, the profitability indicator for the sector has deteriorated to an all-time low.”

From a grades perspective, confidence levels remained in contractionary territory (i.e. below 50 index points). Sentiment only improved among Grades 3 and 4 building contractors to 47 points from 41 in Q2. Skosana pointed out that, “Although confidence picked up for the smaller grades, this was not supported by the underlying indicators. In fact, this group of contractors saw significantly lower profits.” Meanwhile, confidence fell for Grades 5 and 6 builders, as well as for builders in Grades 7 and 8.

At the provincial level, general builders in the Western Cape regained confidence, with the indicator returning to a level above the key 50-point mark. Sentiment improved as building activity in the province gained some momentum during the quarter. Unfortunately, for the other three provinces, builders lost confidence, with the respective indicators registering below 40 index points. For KwaZulu-Natal in particular, confidence fell sharply by 18 index points to 19 (lowest level since 2010Q1), as building activity and profitability deteriorated to their lowest levels on record.

Civil engineering confidence dipped by 5 index points to 38 during 2017Q3. Survey participants reported less favourable business conditions during the quarter. Indeed, civil construction activity weakened, which resulted in further pressure on profitability. Furthermore, insufficient demand for construction work was cited as a key hindrance to business operations, which bodes ill for activity growth going forward.

Among the different grades within the civil sector, confidence edged down for Grades 3 and 4 to 43 points, while it improved for Grades 5 and 6 (to 44 points) and Grades 7 and 8 (to 21 points). For Grades 3 and 4, the slowdown in construction activity had a pronounced negative impact on profitability which deteriorated to its worst level on record. In contrast, for Grades 5 and 6 civil

contractors, the more favourable sentiment was supported by the improvement in the underlying indicators. Skosana observed that, “Although the confidence index for Grades 7 and 8 civil contractors picked up, this outcome should be interpreted with caution. At the current depressed level of 21 index points, this means an overwhelming majority of respondents (i.e. 79%) were dissatisfied with prevailing business conditions in Q3. From this perspective, it makes sense that the underlying indicators continued to deteriorate, with activity and profitability indicators reaching multi-year lows.”

Similar to what was seen in building last quarter, civil confidence was downbeat among all four provinces in Q3. Insufficient demand for construction work was a key constraint in all four regions, especially in Gauteng. “I think a key disappointment this quarter was the Western Cape. After remaining on or above the 50-point mark for four consecutive quarters, confidence dropped sharply by 13 points and is currently at 44. The deterioration in the key indicators was also broad-based, with the spotlight also being shone on the scarcity of civil work in the province. The outlook for the sector is definitely clouded in the province,” highlighted Skosana.

Regarding the other provinces, civil contractors in KwaZulu-Natal lost confidence, while their counterparts in the Eastern Cape and Gauteng saw some improvement in sentiment.

### **Conclusion**

During 2017Q3, business confidence was lower for the SME segment for both the building and civil engineering sectors. For both sectors, this marks the second year in a row that confidence has been below the neutral 50-point mark. For the building sector, one positive outcome worth highlighting is the improvement in confidence in the Western Cape to 52 index points. Besides this, the sector remained under pressure. For civil construction, there were unfortunately no green shoots in sight in Q3. The scarcity of construction work was evident across the board, while activity and profitability deteriorated.

The latest GDP growth statistics from Stats SA showed that the construction industry contracted by 0.5% q-o-q (saar). These survey results suggest that pressure on both building and civil construction activity is likely to persist. Indeed, insufficient demand for work remains a key constraint, which points to scarcity in building and construction projects in the near term.

### **About the survey**

The cidb SME Business Conditions Survey is conducted quarterly among Grades 3 to 8 cidb-registered contractors (categorised into Grades 3 and 4, Grades 5 and 6 and Grades 7 and 8), both for general building and civil industries.

The main indicator used for analysis purposes is business confidence, which indicates whether respondents find the current business conditions satisfactory. A business confidence index can vary between zero (indicating an extreme lack of confidence) and 100 (indicating extreme confidence). The 50 index point mark is interpreted as neutral.

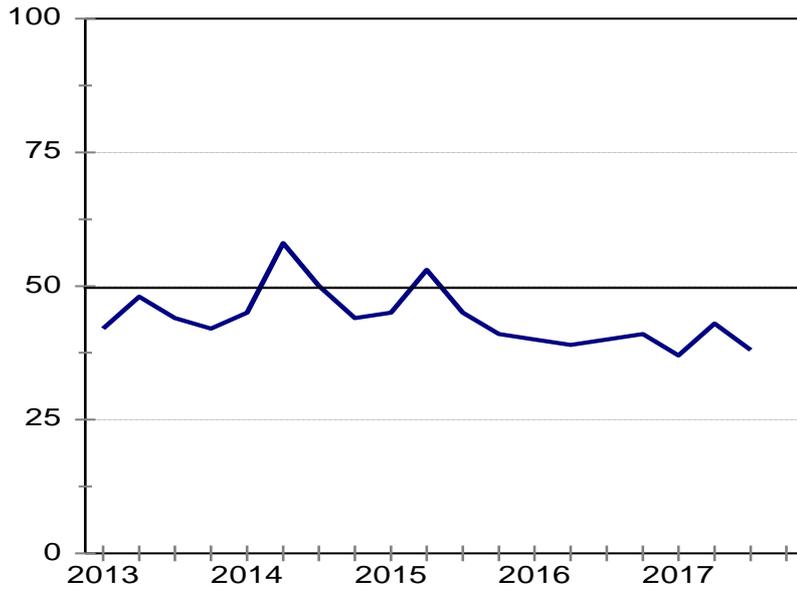
The fieldwork for the 2017Q3 survey was conducted during the period 31 July and 5 September 2017.

### **ENQUIRIES:**

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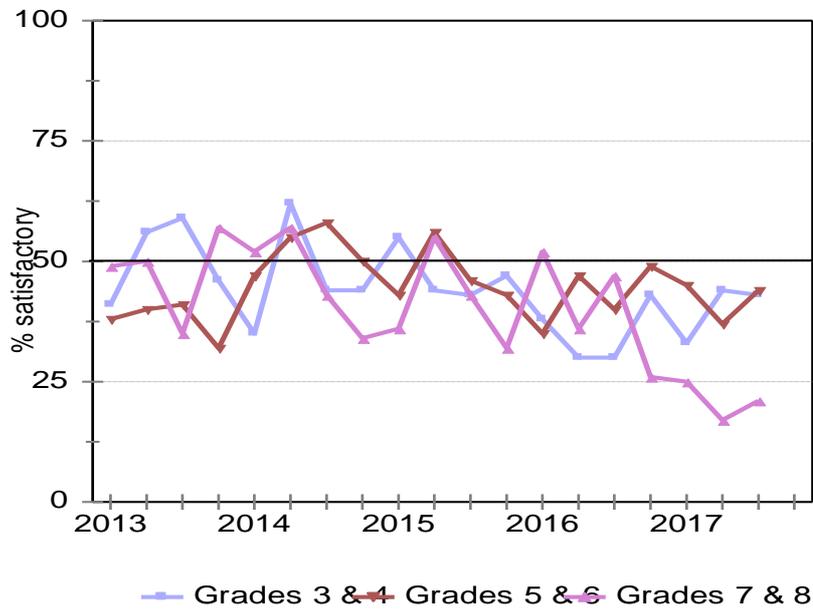


### Business confidence



Source: BER, Stellenbosch University

### Civil Engineers: Business confidence per grade



Source: BER, Stellenbosch University