



ENQUIRIES:

Sizwe Nxedlana: Chief Economist FNB

Cell: 082 812 7730

E-mail: snxedlana@fnb.co.za

Website: <http://www.blog.fnb.co.za/category/economics>

Lekha Gosai, media enquiries

Tel: (087) 311 8387

Cell: (082) 614 9110

THE STATE OF THE CIVIL CONSTRUCTION INDUSTRY

Issued by First National Bank

EMBARGO: Wednesday, 26 March 2014

12:00

Construction confidence falls in 1Q2014

- After rising to 66 index points in 4Q2013, the **FNB/BER construction confidence index** declined to 55 in 1Q2014.
 - The fall in confidence was likely due to a lower than expected increase in construction activity and a mild deterioration in profitability during the quarter.
 - However, the outlook for the sector remains quite upbeat with a sharp increase in construction work and profitability expected in 2Q2014.
-

The **FNB/BER construction confidence index** fell by 11 index points, from 66 to 55 in 1Q2014.

Even though confidence decreased noticeably, the current level of the index still means that the majority of respondents were satisfied with prevailing business conditions during 1Q2014.

A moderate increase in construction work during the quarter helped keep confidence above the neutral 50-index point level. *“However, a more robust increase in construction work was expected than was actually realised during 1Q2014. This disappointment likely weighed on confidence, even though the pace of construction activity itself rose”* said Sizwe Nxedlana, chief economist at FNB.

Construction work likely came from the following sources during 1Q2014:

- Construction work in the **private sector** probably continued at a decent pace, despite industrial action in the mining sector.
- It is possible that the growth in capital expenditure (capex) by municipalities remained strong, continuing the performance registered during the second half of last year. This in all likelihood boosted overall

general government capex. In contrast, the growth in provincial capex was probably flat.

- The growth in construction work from public corporations likely remained stable.

A slight deterioration in profitability may also have contributed to the decline in confidence. *“Profitability has been moving within a very narrow band over the past year, while construction work has been showing a more marked increase. This continued into 1Q2014 and suggests that, although work has risen, firms still face some difficulties.”* said Nxedlana.

Despite their disappointment in the actual results this quarter, respondents remain upbeat about prospects for 2Q2014. According to Nxedlana, *“civil contractors expect construction work and profitability to improve noticeably in 2Q2014.”*

In conclusion: Although confidence fell during the quarter, construction activity was slightly higher. However, the sector remains under pressure as reflected by the slight worsening in profitability.

Construction work and profitability is expected to be higher next quarter. However, like this quarter, respondents’ expectations for 2Q2014 may be too optimistic.

Visit the FNB Economics website at www.fnb.co.za/economics and consider using our free e-mail service.

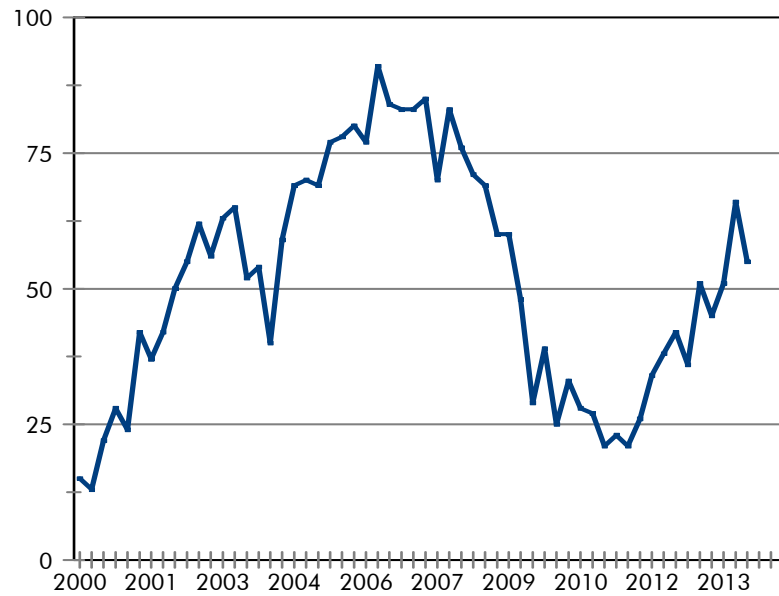
About the survey:

The FNB/BER civil confidence index can vary between a maximum of 100 (which indicates that all respondents were satisfied with prevailing business conditions) and a minimum of zero (indicating that all respondents were dissatisfied). A level of 50 indicates that the respondents are equally divided between those satisfied and dissatisfied.

The fieldwork of the second quarter survey was conducted between 03 February and 03 March 2014.

FNB/BER Civil Confidence Index

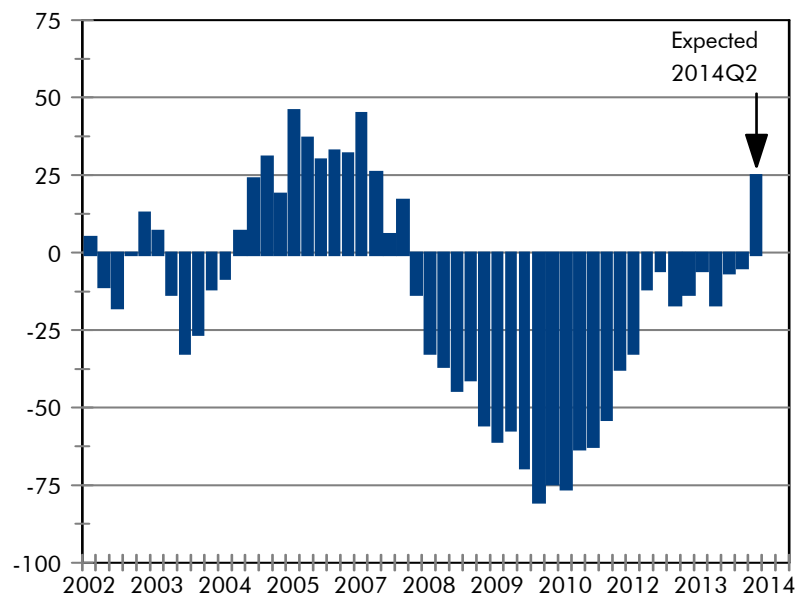
Percentage satisfied



Source: BER Stellenbosch University

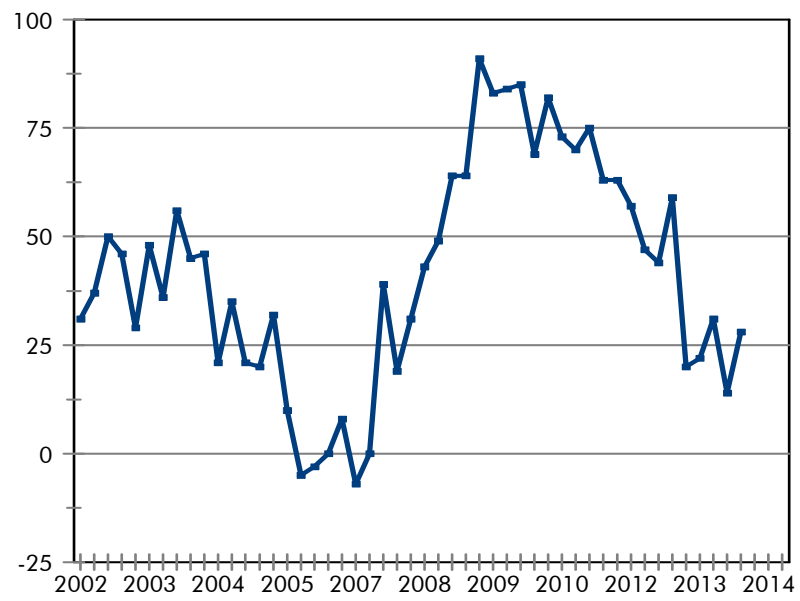
Civil construction

Growth in construction activity



Source: BER Stellenbosch University

Civil construction
Tendering competition



Source: BER Stellenbosch University