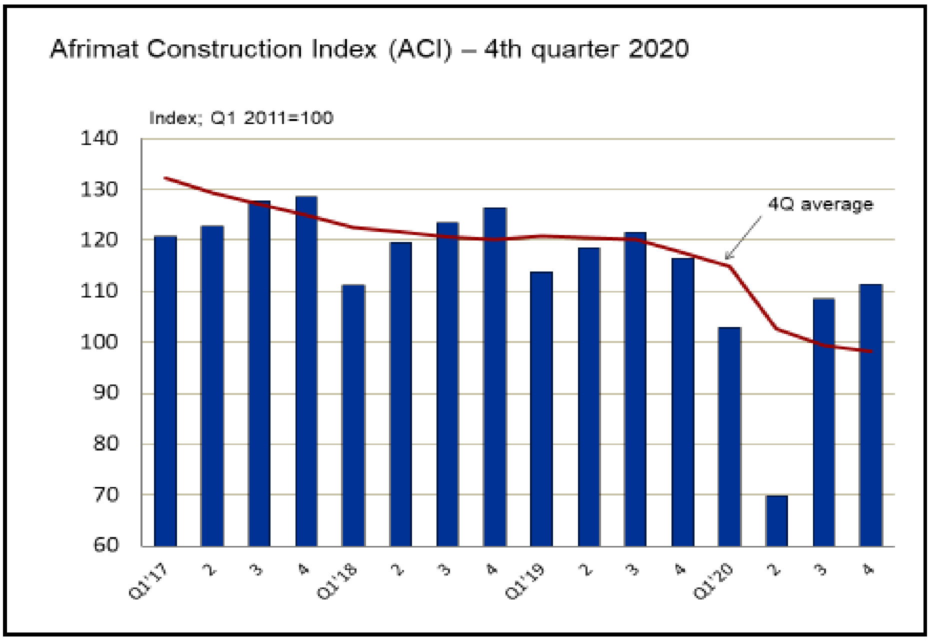
Further recovery of the construction sector

Dr Roelof Botha, Joint Managing Director, GOPA Group SA (Pty) Ltd *18 March 2021*

In line with a host of other key indicators, the construction sector is exhibiting a swift return to pre-pandemic levels of economic activity.

During the 4th quarter of 2020, all nine of the constituent indicators included in the Afrimat Construction Index (ACI) recorded impressive gains from the lows that were experienced during the "lockdown" quarter (April to June 2020).



The overall ACI recorded a level of 111.3 at the end of last year, which is 11% higher than the base period (1st quarter of 2011) and an impressive 60% higher than in the 2nd quarter of 2020. The index is now virtually on the same level as during the beginning of 2018.

Following the rather predictable rebound in the 3rd quarter (from the very low base induced by the Covid-19 pandemic), it is particularly encouraging that two-thirds of the ACI's constituent indicators managed to sustain the recovery by recording positive growth in the 4th quarter.

Booming hardware sales

The two stand-out performers in construction-related activity are retail and wholesale trade sales of hardware, paint and building materials, who have gained 72% and 91%, respectively, since the 2nd quarter of last year (in real terms).

Another encouraging feature of the recent recovery of construction sector activity is the impressive rebound in the value of building plans passed by the larger municipalities, despite several of them still functioning with limited staff.

The 4th quarter of 2020 recorded a marginally higher figure for the value of building plans passed than the same quarter of 2019 (at current prices), but the value of buildings completed was still lagging 20% behind the previous year's figure.

Unfortunately, further gains in the latter two indicators will be hamstrung by the fact that close to 100 municipalities in South Africa are technically dysfunctional. A huge task lies ahead to restore the ability of these municipalities to complement the roll-out of government's new infrastructure drive.

It has become a matter of utmost importance to improve the efficiency and competence of local governments to fulfil their constitutional tasks, especially with the streamlining of the necessary regulatory approvals related to building activity.

No other key sector of economic activity has suffered a worse fate during the Covid-19 pandemic than construction. During the 4th quarter of 2020, the year-on-year decline in value added by construction amounted to almost 20% - equal to the decline for 2020 as a whole. In the process, the construction sector's share of the country's GDP has shrunk from 3.5% to 2.8% - a worrying trend against the background of significant infrastructure backlogs.

Growth drivers

Fortunately, the worst of the pandemic-related knock that was suffered by the construction sector may be over. In addition to the swift recovery of all of the indicators included in the ACI, a number of growth drivers have appeared that promise to boost construction activity during 2021, including the following:

- Inflation is likely to remain well within the Reserve Bank's target range of 3% to 6%, which means that interest rates could remain at their current low levels. The decline of 30% in the cost of capital (and of credit) – measured against the prime rate, should continue to encourage demand growth in the property and construction sectors.
- Following the taxation revenue windfall that occurred as a result of a fast rebound of the country's GDP, National Treasury was in the fortunate position to avoid an austerity budget. Expenditure on economic development has been increased by a significant margin, which augurs well for government's new infrastructure drive and the Recovery & Reconstruction Plan.
- The second half of 2020 has witnessed a remarkable recovery of mortgage financing, with the average monthly increase in the value of mortgage advances closing in on a level of R8-billion – a clear sign of recovery in the property market.