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ANALYSIS

Construction will be one of very few economic sectors to hit 2024 running

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CONSTRUCTION will be one of very few economic sectors that will hit 2024 running in South Africa as activity reached seven-year highs in 2023 off a low base following years of under investment on infrastructure, and the impact of the high interest rate environment.

A key indicator of the construction sector, the Afrimat Construction Index (ACI), reached its highest level in nearly seven years in the three months to September.

The index also measures data from informal sector construction-related sales, while Statistics SA's (StatsSA)construction data only measures the formal sector.

Similarly, the FNB/BER Civil Confidence Index released in December, although still at a low level with almost 60% of respondents dissatisfied with prevailing business conditions, painted an upbeat picture of the sector, with sub-indices related to growth in activity gaining momentum, resulting in better than average overall profitability.

"Activity in the civil construction sector has been on an upward trajectory for the past few quarters (to December 2023). While StatsSA data showed the sector contracted somewhat in the third quarter, the FNB/BER survey results suggested that construction activity likely rebounded in the fourth quarter of 2023," according to FNB senior economist Siphamandla Mkhwanazi.

Dr Roelof Botha, an economist who compiles the ACI, told *Business Report* that he anticipated 2024 would be a "very, very good year" for construction, with renewable energy, the urgent need to fix the logistics chain, and spending on roads and other government projects ahead of the election, all likely to boost the sector.

Another key driver of construction included new capital formation in the economy, which recorded its seventh successive double-digit growth rate during the third quarter of 2023, and a larger measure of price stability in the economy, which may lead to lower interest rates by early 2024.

Similarly, the launch of the fifth phase of the Expanded Public Works Programme (EPWP) next year also had potential to boost construction, and the government programme, which was likely to focus on roads and the fixing of them, would be even more effective through private-public partnerships with the construction sector, said Botha.

According to the Department of Public Works and Infrastructure, overall, for the EPWP Phase 4 (2019/20- 2023/24), more than 4.5 million work opportunities were created against a target of 5 million for the period ending March 2024.

Among the new principles for Phase 5 was to improve the quality and delivery of services to people, better training and providing better exit opportunities for EPWP participants.

In terms of outlook, "respondents' expectations for next quarter, an improvement in order books, and a decline in the index measuring the keenness of tendering price competition – which is at its lowest level since 2013 – all suggest that the growth momentum will be sustained, at least over the near term," said Mkhwanazi.

"The survey results reveal a sector in which demand is currently relatively abundant and the pipeline of work robust," Mkhwanazi said in a statement.

A factor that concerns many construction companies is the prevalence of the so-called "construction mafia", where criminals arrive at a construction site and extort jobs and financial benefits by threatening the company and its employees.

The Department of Public Works and Infrastructure estimated these criminals cost the country R68 billion in stalled and delayed construction projects.

However, the fact that President Cyril Ramaphosa late last year said the construction mafia in KwaZulu-Natal would be tackled, and that there was already a police unit specifically dedicated to deal with this criminal activity, at least indicated that the government was aware that this was a problem, and some effort was being made to deal with it, said Botha.

Afrimat's CEO, Andries van Heerden, said their "tremendous increase" in the construction materials business was echoed in the third quarter ACI.

"A strong performance from Construction Materials is due to successful and well-thought-through efficiency drives, as well as an uptick in demand for aggregates and other products for roads and private buildings," he said.

Raubex Group, another JSE-listed group that benefits from infrastructure and construction in South Africa, has a solid order book for the year to February 29, 2024, and the group's management were confident that, despite unfavourable general macroeconomic conditions, Raubex would deliver a solid set of results.

The group said recently that its construction materials division was expected to benefit from recently awarded tenders across the industry, although headwinds might arise due to delays in awards, the energy crisis, supply chain disruptions, and rising inflation.

The roads and earthworks division also had a strong pipeline of projects for the rest of the financial year.

"Although the group has noted a slight rise in new tenders being released within the road construction sector, the concern remains regarding the constant delays in closing new Sanral tenders," it said.

Raubex was targeting new opportunities in affordable housing, plans to tender to build six border posts, and to focus on other clients including toll road concessionaires, provincial governments and private sector companies including mines, the group's management said.

Wilson Bayly Holmes-Ovcon, the JSE-listed building and civil engineering, roads and earthworks, projects and construction materials group, said in its 2023 annual report that gross fixed capital formation increased to 15.2% of gross domestic product (GDP) by June 2023, up from 14% in 2022, resulting in some gains in construction GDP in 2023.