



Blueprint Group has been conducting bi-annual surveys of the construction industry since 2012. The survey typically includes analysis of cement consumption and building trends within the industry. Information gathered is used to determine growth in the industry as well and monitor trends in building materials used. The survey focuses mainly on two groups of key players in the construction industry, the resellers of building materials and the concrete product manufacturers. During the survey a number of companies within these two sectors are contacted to obtain the relevant information needed to compile industry data. The survey mainly focused on cement consumption as an indicator of activities in the building and construction industry.

Industry Overview

The construction industry in South Africa provides employment for approximately 1.46 million people, including 1 million in the formal construction industry and 460,000 in the informal construction industry. Order books looked promising at the start of the year, however, the lack of recovery in the economy and low national infrastructure spend coupled with overcapacity in the construction market and low margins.

Main contractors have seen an increase in profitability, but this was mainly due to less keen tendering competition and not necessarily caused by an increase in demand. Building activity has remained largely unchanged in the first two quarters of 2016.

The residential market appears to be registering normal growth in building activity and profitability, however the non-residential market is looking increasingly weak.

Hardware retail sales have remained weak which, along with subdued growth in selling prices, has weighed on profitability. The results of the survey indicated that retailers and concrete product manufacturers will mostly be optimistic regarding growth in the industry for the rest of 2016, however many of the respondents also indicated that the industry has been stagnant with a lack of government spending placing a damper on growth prospects.

Key factors affecting the construction business environment, as noted by Group Five, include the following:

- Consumption-driven economic activity which are supportive of retail, residential real estate and other consumer related sectors;
- The relatively weak rand;
- Rising inflation driven by increasing energy prices, as well as import inflation;
- Wage disputes and settlements;
- Power shortages and outages coupled with uncertainty regarding Eskom's ability to meet the power demands of the country;
- Continued labour unrest in many industries; and
- The downgrading of South Africa's credit rating to one notch above "junk bond" status.

Low commodity prices and a weak demand for commodities have resulted in a sharp contraction in all mining-related activities and has also been affecting the business environment for the construction industry. Some mining projects have been cancelled or rephrased, and mining customers are placing pressure on contractors to reduce their rates, adversely affecting margins.

On a more positive note, South Africa's Development blueprint, the National Development Plan to 2030 shows a continued commitment to infrastructure investment with promising signals for future growth in the industry.

Survey Insights

Growth in the construction industry was again seen in mostly DIY work and renovations, with residential activity featuring slightly more than in the previous survey. Non-residential building activity appear to be weak with only a few large scale projects taking place in areas such as the Western Cape, KwaZulu-Natal and Gauteng.

The table below gives an indication of respondent's attitude towards the state of the construction industry in their respective areas:

Table 1: Growth in the Construction Industry (Survey Respondents Opinions)

Province	Growth	Stagnant	Decline
Eastern Cape	55%	7%	38%
Free State	42%	19%	38%
Gauteng	52%	14%	34%
KZN	53%	9%	38%
Limpopo	71%	-	29%
Mpumalanga	41%	7%	52%
Northern Cape	43%	16%	41%
North West	74%	5%	21%
Western Cape	57%	13%	30%
Transkei	-	14%	86%

Many of the respondents noted that the construction industry faces corruption challenges where tenders are concerned, with tenders being awarded without adhering to the recommendations of the government's Tender Committee. According to the Construction Industry Development Board, approximately 12% of public sector projects have been awarded after overruling the recommendations of the Tender Committee.

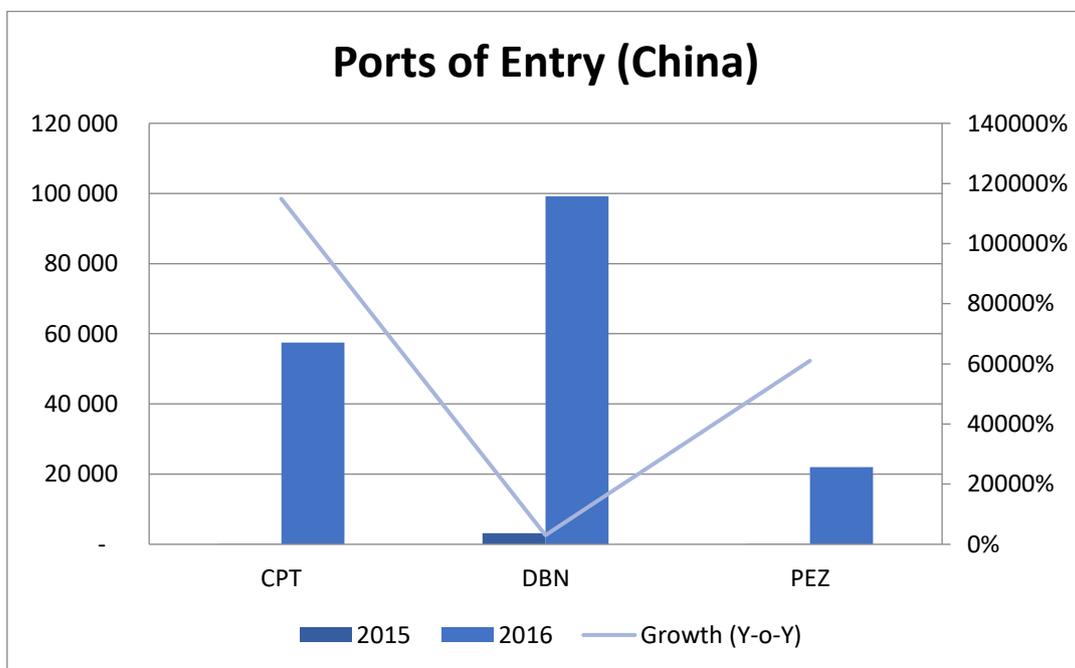
Late payments as well as no-payments for work completed and orders delivered has also been cited as a major challenge facing the construction industry. Small-and medium-sized contractors do not have the necessary cash flow to cope with late payments and as such many companies have had to close their doors.

Imported Cement

Imported cement from Pakistan continued to decrease, with local consumers not being willing to pay higher prices. The weak rand has also contributed to increasing cement prices, and many respondents noted that they would rather support local manufacturers since the price of imported cement has now reached the same level as locally manufactured cement in many areas.

Cement from China has reached the shores of Durban, however no Chinese cement imports were recorded during the survey. Respondents in general are sceptical about the quality of Chinese cement, and have indicated that the cement will first have to be tested before they will consider buying and selling. The figure below shows the import of Chinese cement by port of entry.

Figure 1: Chinese Cement Imports by Port of Entry 2015/2016



Cement Usage per Province

As with the previous survey, cement sales originated mainly from the retail market as residential building activity along with DIY work and renovations continue to dominate growth in the industry. There appears to be a steady consolidation in the hardware retail industry, with the traditional independent hardware stores closing doors one after the other because of national retailers taking their market place or because of the establishment of larger buying groups.

Table 2: Cement Consumption per Province (January – June 2016)

Eastern Cape	Free State	Gauteng	KZN	Limpopo	Mpumalanga	North West	Northern Cape	Western Cape	Transkei	TOTAL
143,158	123,809	395,858	237,346	308,440	155,709	112,219	51,656	237,356	50,292	1,816,480
8%	7%	22%	13%	17%	9%	6%	3%	13%	3%	100%

Source: Blueprint

The highest demand and usage of cement was recorded in Gauteng (22%), followed by Western Cape and KZN (13%).

Note: Data used is from the survey sample and does not portray the complete cement industry. The results are estimates based on independent research and extrapolation.

Your cooperation during the survey is much appreciated. Please note that this is a Bi-annual survey, and will commence again in the first quarter of 2017. In return for your time you will receive the annual results of the survey.

Thank you

The Blueprint Survey Team

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