



ENQUIRIES:

John Loos: Property Economist FNB

Tel: 087-328 0151

Cell: (083) 453 8096

E-mail: john.loos@fnb.co.za

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

Lwazi Stuurman, media enquiries

Tel: (087) 312 5904

FNB/BER BUILDING CONFIDENCE INDEX

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Building sector regains some momentum in Q4

- The **FNB/BER Building Confidence Index** gained 4 points to register a level of 48 in 4Q2015.
 - Although confidence remained below 50, the underlying activity indicators particularly that of **residential contractors** and hardware merchants, suggest that growth in the sector regained some momentum.
 - In contrast, the slowdown in the **non-residential** building activity intensified during the quarter.
 - Overall, growth in the sector likely accelerated in 4Q2015. However, the outlook for the sector remains uncertain.
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After losing 9 points in 3Q2015, the **FNB/BER Building Confidence Index** regained some ground, rising by 4 points to 48 in 4Q2015. Four out of the 6 sub-sectors surveyed recorded higher confidence, led by retailers of hardware material.

The current level of the index indicates that close to half of respondents are satisfied with prevailing business conditions.

The confidence of **main contractors** fell to 39 index points, from 45 in 3Q2015. The lower confidence was largely due to a sharp deterioration in the confidence of non-residential contractors. *“According to the survey, non-residential building activity fell sharply during the quarter, leading to an uptick in competition”* said John Loos, Property Economist at FNB. Loos added that *“although there are areas where non-residential building activity remains robust, in general, underlying conditions have worsened noticeably over the last 12 months”*

In contrast, residential main contractor confidence was largely unchanged despite the underlying indicators improving. Building activity in particular rose markedly. *“The residential building sector has outperformed the non-residential market in terms of building activity over the past few quarters, however, this*

quarter the gap is much more noticeable” said Loos. *“Although still subdued, the pace of growth in residential building activity definitely accelerated in Q4”* added Loos.

A similar trend existed among building sub-contractors, where residential sub-contractors are performing better than their non-residential counterparts in terms of activity and profitability. In all, **building sub-contractor** confidence shed 5 points to register an index level of 51.

After falling to 37 in 3Q2015, confidence of **hardware retailers** gained 24 points to register an index level of 61. *“Hardware retailer sales likely benefited from the rise in residential building activity during the quarter, however, continued informal building activity as well as the building renovations market may also have lifted sales,”* according to Loos. Confidence of **wholesalers of building material** - which is not included in the index - also rose on the back of a sharp spike in sales.

The rise in hardware sales and the improvement in residential building is yet to meaningfully filter through to **manufacturers of building materials**. Although production and manufacturing sales increased, it was still relatively weak levels. As a result, confidence, although 5 points higher remained low at 31 index points.

According to the survey, growth in activity at the start of the building pipeline was restrained. Even though the confidence of **architects** and **quantity surveyors** edged higher, by 1 and 5 index points respectively, the underlying activity indicators remained largely unchanged at relatively low levels. *“The muted growth in architect and quantity surveyor activity along with an environment of higher interest rates may cause the current improvement in residential building to stall and further depress the non-residential market”* remarked Loos.

In conclusion: After slowing for the most part of 2015, the growth in the building sector regained some momentum in 4Q2015 as reflected by the 4 index point increase in the FNB/BER Building Confidence Index. Underpinning this improvement was an increase in retail sales of hardware materials and, more

importantly, a noticeable increase in residential building activity. In contrast building work in the non-residential building sector slowed.

Despite the improvement this quarter, the outlook for the sector remains uncertain. *“Although there is evidence to suggest that the residential market should continue to grow, albeit modestly, a faster than expected rise in interest rates may cause this to stall. In addition, pressure on consumers may weigh on hardware retailers while the weak growth in architect and quantity surveyor activity could see non-residential building activity remain low”* said Loos

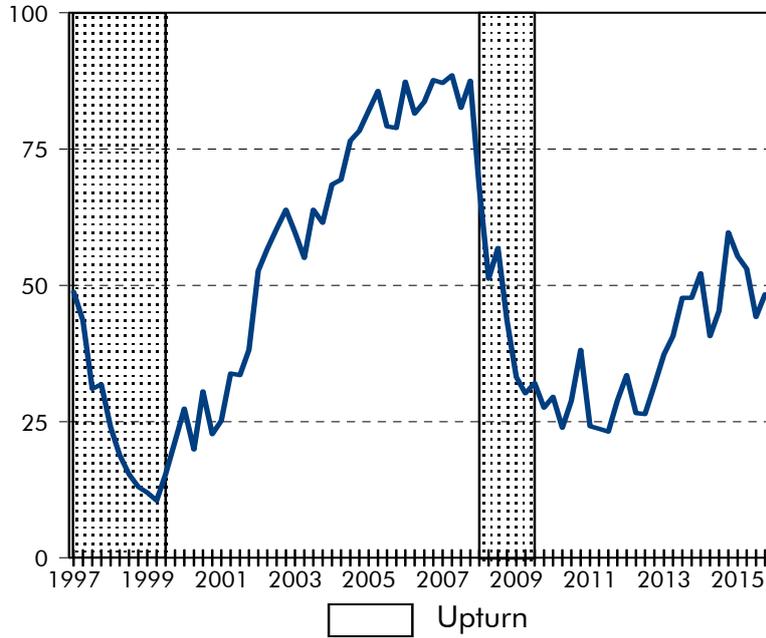
About the survey:

The FNB/BER building confidence index can vary between zero (indicating an extreme lack of confidence) and 100 (indicating extreme confidence). It reveals the percentage of respondents that are satisfied with prevailing business conditions in six sectors, namely architects, quantity surveyors, main contractors, sub-contractors (plumbers, electricians, carpenters and shop fitters), manufacturers of building materials (cement, bricks and glass) and retailers of building material and hardware.

In contrast to the RMB/BER BCI, which includes only main contractors, the FNB/BER building confidence index covers the whole pipeline, from planning (represented by the architects and quantity surveyors), renovations, additions, owner builders, the informal sector (represented by building material and hardware retailers) and production (manufacturers of building materials) to the actual erection of buildings by main contractors and sub-contractors.

The fieldwork for the fourth quarter survey was conducted between 19 October and 17 November 2015.

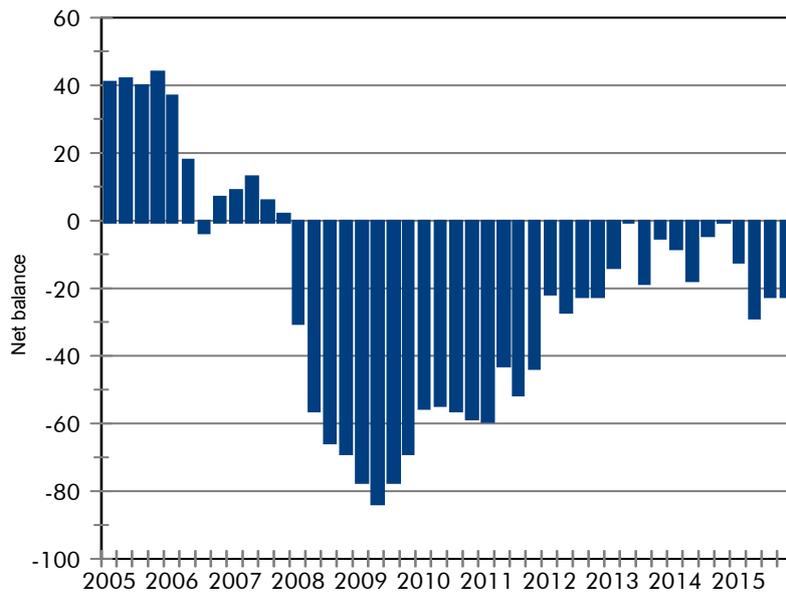
FNB Composite Building Confidence Index



Source: BER, Stellenbosch University.

Main Contractors:

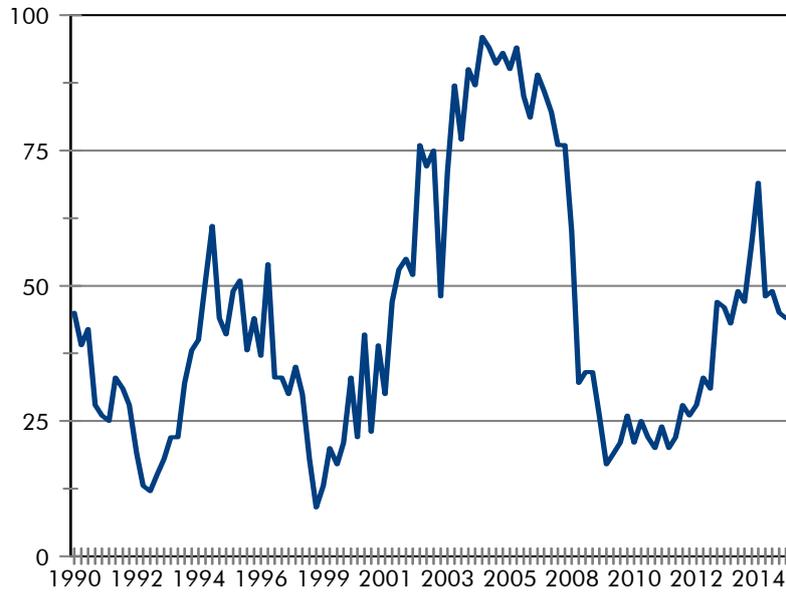
Growth in building activity (Net balance)



Source: BER, Stellenbosch University.

Residential contractors:

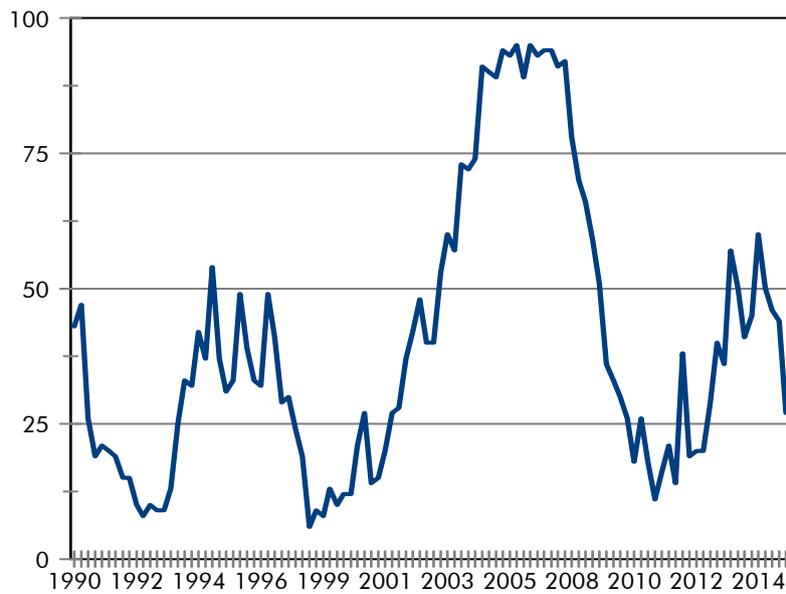
Business confidence



Source: BER, Stellenbosch University.

Non-residential contractors:

Business confidence



Source: BER, Stellenbosch University.