



## PRESS RELEASE

**ENQUIRIES:**

**John Loos: Property Economist, FNB**

**E-mail: [john.loos@fnb.co.za](mailto: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

Issued by First National Bank

Thursday, 22 June 2017

## Building confidence registers sharp fall in Q2

- The **FNB/BER Building Confidence Index** lost 11 points to register a level of 32 in 2Q2017.
  - Confidence was lower in all of the sub-sectors measured which signifies a broad-based softening in the building sector.
  - Underpinning the lower confidence was continued weak activity, especially among non-residential contractors and building sub-contractors. In contrast, residential building activity improved somewhat.
  - On balance, the building sector likely fared poorly in 2Q2017.
- 

After reaching its highest level in more than a year of 43 points in 1Q2017, the **FNB/BER Building Confidence Index** fell sharply to 32 in 2Q2017. Moreover, all of the sub-subsectors measured registered a drop in confidence. This has only happened in five other instances since the index was first compiled in 1997. *“The broad-based nature of the decline in confidence suggests that the sector is facing increasing pressure from a number of different fronts”*, said John Loos, Property economist at FNB.

The current level of the index indicates that close to seventy per cent of respondents are dissatisfied with prevailing business conditions.

The biggest fall was reported by **hardware retailers** where confidence shed 24 index points to 13. This is the joint lowest level since 2Q2012. Continued low sales, coupled with rising input costs, weighed significantly on profitability in the quarter. This helps explain the fall in confidence. According to Loos, *“the woes in the hardware sector is consistent with the broader retail environment which is suffering amid constrained consumer spending”*.

The confidence of **manufacturers of building materials** also deteriorated to a multi-year low of 8 index points, from 25 in 1Q2017. The lower confidence was due to a marked decline in domestic production and sales.

The confidence of **main building contractors** declined to 36 index points, from 42 in 1Q2017. However, the overall confidence of main contractors hides the developments within the two segments, namely residential and non-residential. While the confidence of both residential and non-residential contractors fell in 2Q2017, at 41, residential contractor confidence is only marginally below its long-term average of 43. In contrast, non-residential contractor confidence fell to 25. *“The divergent performance of the residential and non-residential segments is even more pronounced when looking at activity levels”*, noted Loos. Residential contractors reported a slight uptick in activity compared to 1Q2017. However, non-residential contractor activity, remained very depressed. Loos stated that, *“Official data showed that residential investment was surprisingly robust in 1Q2017 and these survey results suggest that there is indeed some activity. Non-residential investment on the other hand has been contracting since 3Q2016 with no respite in 2017Q2. In fact, most of the evidence suggests that non-residential building activity is likely to worsen further before improving”*.

The business confidence of building **sub-contractors** shed four points to 38 in 2Q2017. Underpinning the fall in confidence was a deterioration in building activity as well as a sharp drop in overall profitability.

After showing some promise in 1Q2017, activity at the start of the building pipeline slowed. Both **architects** and **quantity surveyors** were more pessimistic regarding activity in 2Q2017. As a result, confidence was lower, 49% and 46% respectively stated that business conditions were satisfactory, down from 55% in 2017Q1.

In conclusion: Non-residential building activity fared poorly in 1Q2017 with activity expected to remain under significant pressure in 2Q2017. In contrast, residential activity is predicted to improve somewhat, but unlikely by enough to offset the weaker non-residential market. The prospects for the other building related sectors are also downbeat. Softer consumer demand is expected to weigh on the fortunes of hardware retailers. This, along with the underperforming non-residential sector, will in turn sour the performance of building material manufacturers. *“In all, the results are reasonably consistent in*

*that they point towards a further contraction in the building sector in 2Q2017*", said Loos.

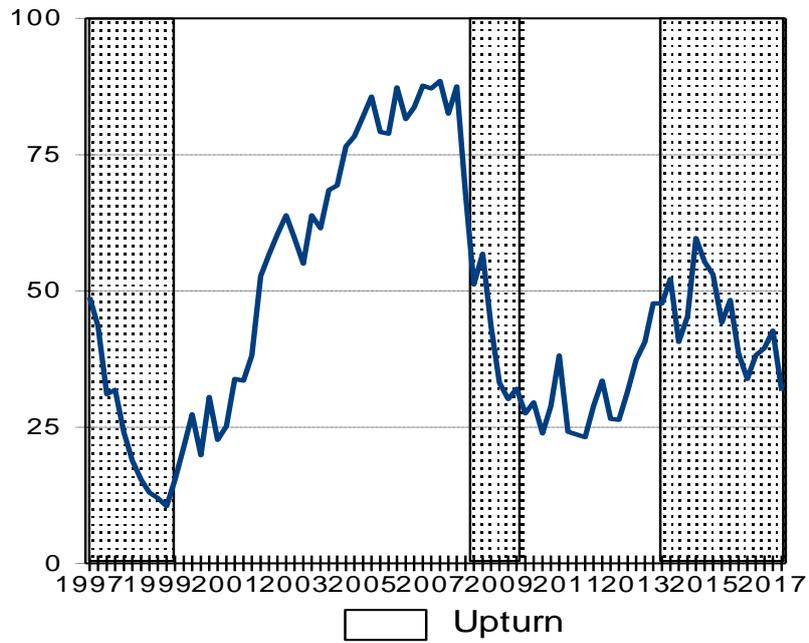
About the survey:

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 second quarter survey was conducted between 02 May and 06 June 2017.

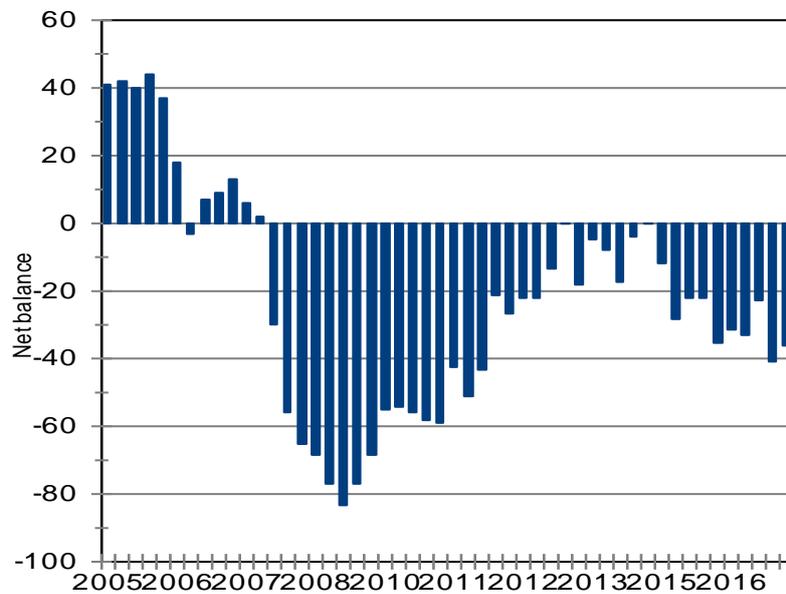
## FNB Composite Building Confidence Index



Source: BER, Stellenbosch University.

### Main Contractors:

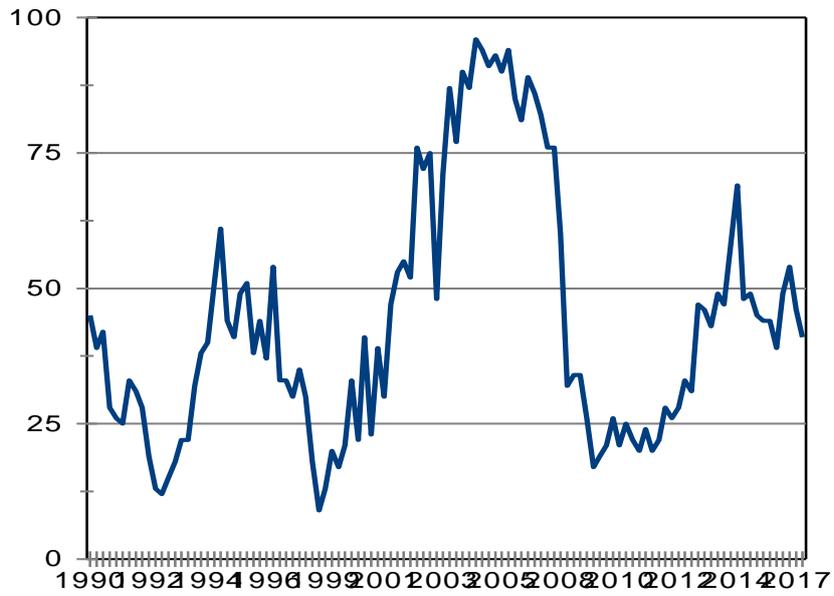
#### Growth in building activity (Net balance)



Source: BER, Stellenbosch University.

**Residential contractors:**

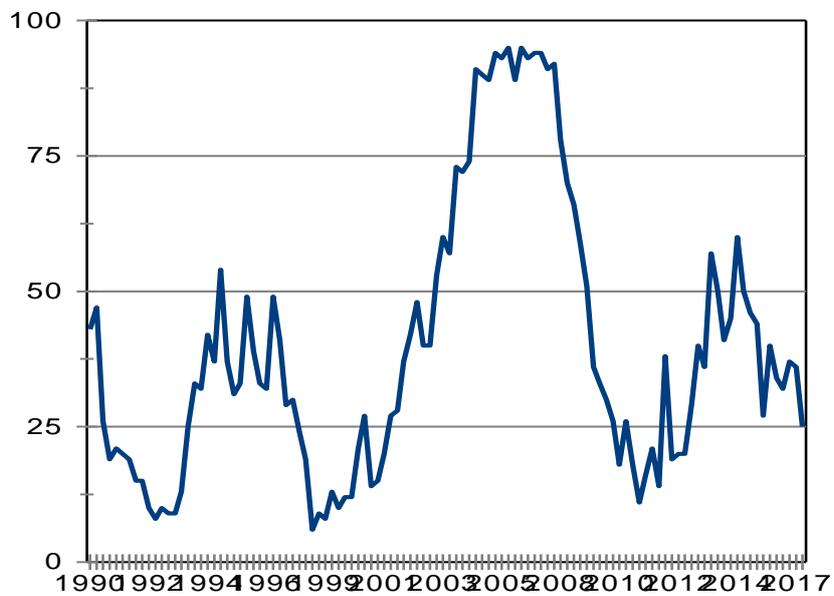
**Business confidence**



Source: BER, Stellenbosch University.

**Non-residential contractors:**

**Business confidence**



Source: BER, Stellenbosch University.