



## PRESS RELEASE

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## FNB/BER BUILDING CONFIDENCE INDEX

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## **A further weakening in building activity on the cards despite a slight rise in the Building Confidence Index**

- The **FNB/BER Building Confidence Index** rose to 35 index points in 3Q2017, from 32 in 2Q2017.
  - Three of the six sub-sectors registered higher confidence in the quarter, led by building material manufacturers where confidence increased by 29 index points.
  - In contrast to the higher confidence, growth in activity - especially among main contractors, architects and quantity surveyors - deteriorated
  - Despite a slight increase in the overall Building Confidence Index, the building sector likely continued to weaken in 3Q2017 with little (if any) sign of improvement in 4Q2017.
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After declining by 11 points in 2Q2017, the **FNB/BER Building Confidence Index** improved by 3 index points to 35 in 3Q2017.

However, even though confidence improved somewhat, the current level of the index indicates that the majority (more than sixty per cent) of respondents are dissatisfied with prevailing business conditions.

The higher confidence was in part due to a 29 index point jump in confidence of **building material manufacturers** to 37, from 8 in 2Q2017. This marks their highest confidence since mid-2015. Underpinning the rise in confidence was an improvement in production and export orders. However, sales remained weak. *“The poor performance of building materials sales reflects the poor underlying conditions in the building sector in general”*, remarked John Loos, Property Economist at FNB.

**Hardware retailer confidence** was also higher at 18 index points, from 13 in 2Q2017.

**Main contractor** confidence gained eight points to register a level of 44 in 3Q2017. However, the rise in confidence was not supported by the underlying indicators. In particular, activity and overall profitability deteriorated. *“The change in confidence and the indices measuring activity and profitability tell a very different story. If one is to look at activity and profitability, it is clear that contractors face very difficult trading conditions characterised by weak demand and stiff competition”*, stated Loos. Both residential and non-residential contractors reported a similar set of weakening conditions with residential contractor activity now also showing a marked deterioration. *“In the recent past, residential building activity has acted as a buffer against very poor non-residential building activity. This no longer seems to be the case, or at least the positive effect seems to be waning”*, added Loos.

**Architect and quantity surveyor** business confidence dropped to 33 and 42 index points respectively. In the case of architects, confidence is at its lowest since the end of 2012. According to Loos, *“activity for both architects and quantity surveyors was noticeably lower in the quarter. This is worrying as it suggests that the slowdown in building activity implied by this quarter’s main contractor results is likely to continue into the fourth quarter, if not longer”*.

The business confidence of **sub-contractors** shed 1 index point to register a value of 37 in 3Q2017. Residential sub-contractor confidence was somewhat higher during the quarter due to an uptick in activity. *“Sub-contractors are typically further down the building value chain and the uptick in residential sub-contractor activity is merely a lagged effect of the better activity among residential main contractors seen over the preceding few quarters”*, noted Loos.

In conclusion: Although the FNB/BER Building Confidence Index rose marginally in 3Q2017, the performance of the sector is likely to be worse relative to 2Q2017 due to low activity. This is especially true of main contractors where residential and non-residential respondents report growth in activity close to multi-year lows. This is also reflected by lower domestic sales of building material manufacturers, although production boosted sentiment.

In addition, a sharp deterioration in activity at the start of the building pipeline (architects and quantity surveyors) points to further weakness in building activity in coming quarters. *“One possible saving grace could be further interest rate cuts by the Reserve Bank, especially for the residential sector. However, this may not be the case if the broader economic performance, employment growth and consumer confidence remain poor”*, stated Loos.

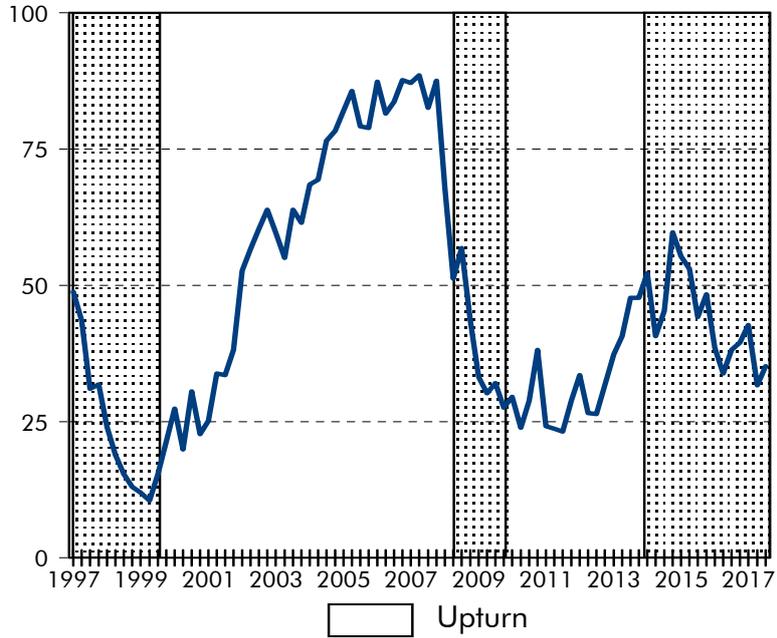
About the survey:

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 third quarter survey was conducted between 31 July and 5 September 2017.

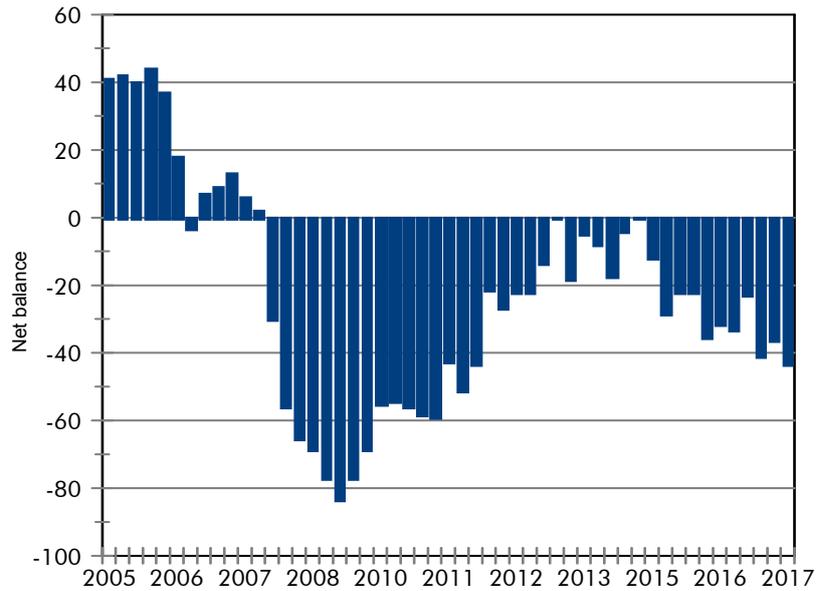
## FNB Composite Building Confidence Index



Source: BER, Stellenbosch University.

### Main Contractors:

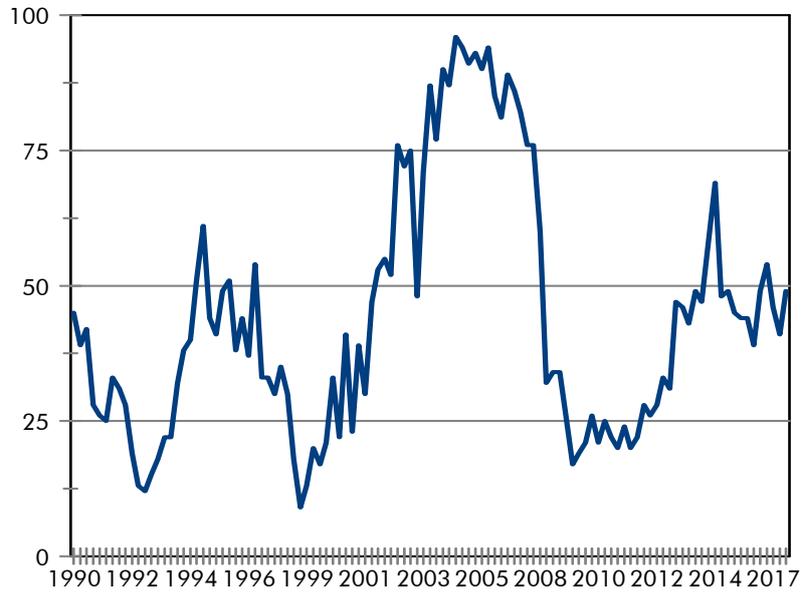
#### Growth in building activity (Net balance)



Source: BER, Stellenbosch University.

**Residential contractors:**

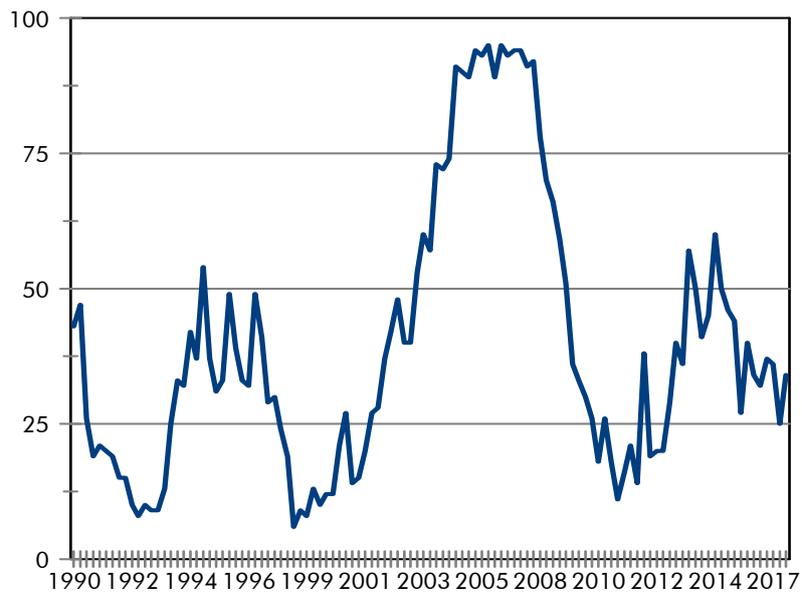
**Business confidence**



Source: BER, Stellenbosch University.

**Non-residential contractors:**

**Business confidence**



Source: BER, Stellenbosch University.