



## PRESS RELEASE

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## FNB/BER BUILDING CONFIDENCE INDEX

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## Declining building activity keeps confidence low in 3Q

- As in 2Q2018, the **FNB/BER Building Confidence Index** registered a level of 29 in 3Q2018.
  - Although the overall index was flat, there were noteworthy changes in confidence among the sub-sectors which make up the index, particularly a sharp drop in sub-contractor confidence.
  - Overall, the downbeat sentiment reflects weak building activity growth.
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After falling to 29 in 2Q2018, the **FNB/BER Building Confidence Index** was unchanged in 3Q2018.

The current level of the index indicates that the majority (more than 70 per cent) of respondents are dissatisfied with prevailing business conditions.

The stable – albeit low – confidence belies notable developments among the various sub-sectors. Two (sub-contractors and quantity surveyors) sectors registered lower confidence compared to 2Q2018, while three (main contractors, hardware retailers and architects) saw confidence improve. Building materials manufacturer confidence was unmoved.

The biggest shift in sentiment was among **sub-contractors** where a 29 index-point fall in confidence to 23 was recorded in 3Q2018. *“Sub-contractor activity deteriorated in 2Q2018, but confidence held up. Building activity worsened further in 3Q2018, however, this time it was reflected in the level of confidence,”* said John Loos, Property Economist at FNB. *“Sub-contractors are at the end of the building supply chain and this is in all likelihood a reflection of the softer building demand since late-2017,”* added Loos.

In contrast, **main contractor** confidence edged higher to 45 index points, from 37 in 2Q2018. However, like sub-contractors, building activity growth was poorer, especially from the non-residential sector. Loos noted that *“during the first half of 2018 we saw relatively upbeat non-residential confidence along with*

*noticeably improved activity. That being said, the sharply lower confidence and activity this quarter makes intuitively more sense given the weak performance by the broader economy, an oversupply of retail space, and persistently high office vacancy rates”.*

After falling to 2 index points in 2Q2018, the confidence of **hardware retailers** gained 16 points to reach a still low 18. Although confidence is higher, there was no material change in the underlying indicators. Sales growth, while an improvement from 2Q2018, is still weak and profit margins remain constrained.

**Building material manufacturer** confidence was unchanged at 13 index points. A rise in the growth in exports sales and domestic production was offset by a deepening slowdown in domestic sales. *“In addition to the slowdown in building activity, softer consumer spending is also weighing on the domestic sales performance of building material manufacturers and the retail hardware sector”*, said Loos

Once more, activity at the start of the building pipeline produced mixed results. **Quantity surveyor** confidence fell to 25 index points, from 31 in 2Q2018 while the confidence of **architects** edged higher to 47. Changes in underlying activity support the shifts in sentiment. Work among quantity surveyors deteriorated while that of architects improved to its best level since the beginning of 2017. *“Much like we cautioned last quarter, the uptick in activity at the start of the building pipeline should not be construed as an impending recovery in the building sector. It is positive, but we will need to see a more consistent and broad-based rise in activity to make such a call,”* stated Loos.

In conclusion: Although, the **FNB/BER Building Confidence Index** remained unchanged at 29 in 3Q2018, building activity growth worsened. *“Last quarter there was still some activity in the form of non-residential building, which was also confirmed by official statistics, lifting the sector. This seems to have faded, and, along with still weak residential activity growth, suggests that the building sector likely contracted once more in 3Q2018,”* added Loos.

Regarding the outlook, Loos stated that *“while the rise in architect activity is encouraging, we need to be mindful that the demand fundamentals are not yet*

*conducive to support any sort of sustained or robust upward momentum in the building sector”.*

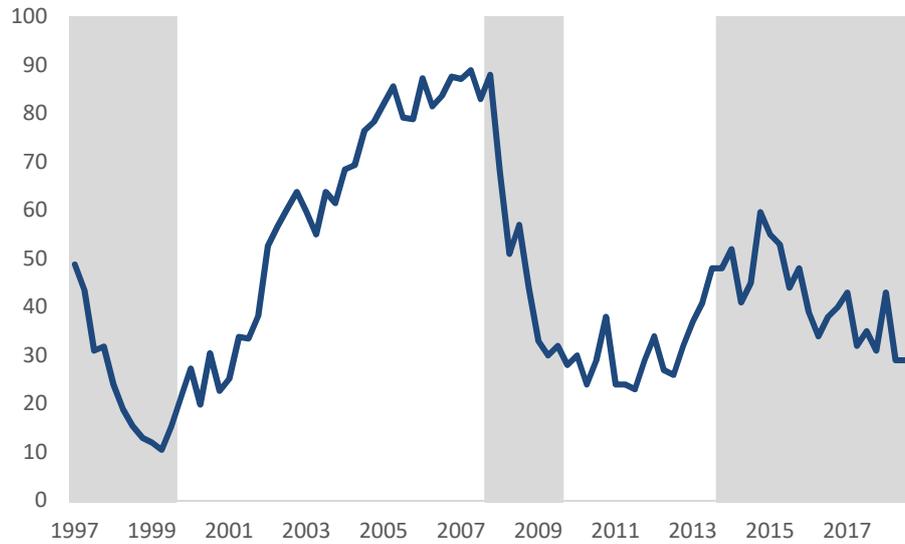
About the survey:

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 first quarter survey was conducted between 15 August and 3 September 2018.

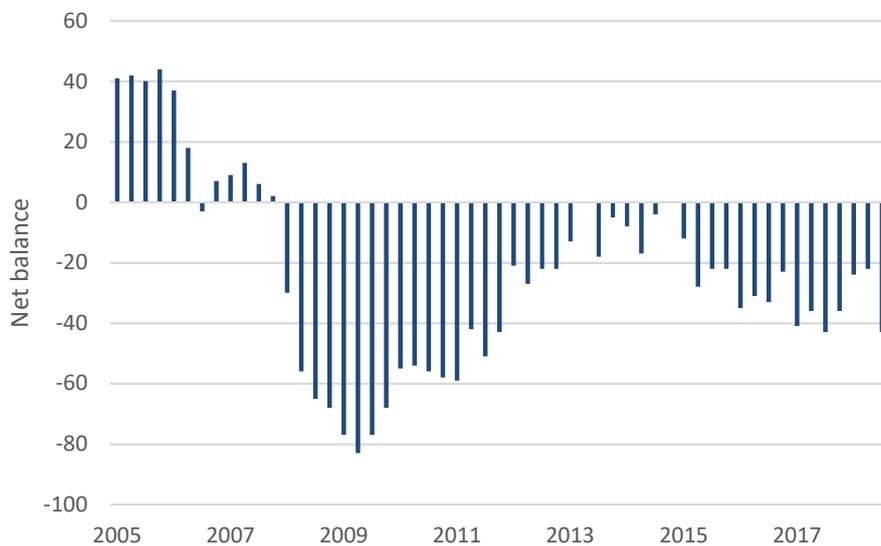
## FNB Composite Building Confidence Index



Source: BER, Stellenbosch University.

### Main Contractors:

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



Source: BER, Stellenbosch University.