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Building industry slump deepens

Roy Cokayne

CONFIDENCE in the building index slumped in the second quarter to its lowest level since 2012.

The FNB/Bureau for Economic Research (BER) building confidence index released yesterday lost 14 points to drop to 29 points on a 100-point scale in the quarter to wipe out the 12 point improvement in the first quarter.

The current level of the index indicates that more than 70 percent of respondents were dissatisfied with prevailing business conditions.

The Afrimat construction index, also released yesterday, also showed a downward trend in construction activity in the first quarter.

Economist Roelof Botha, who compiles this index on behalf of Afrimat, said it was concerning the country's most labour-intensive sector was not growing, as confirmed by the first quarter gross domestic product data released by Statistics South Africa.

Botha attributed this to high interest rates, policy

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uncertainty, particularly on land reform, and a strong rand, which caused the mining sector to contract in the first quarter.

He said fiscal pressure resulting from an unavoidable conservative budget in February and dysfunctional local authorities which hampered infrastructure development also contributed to the declined in the sentiment.

The release of these indexes coincided with Master Builders Association North executive director Mohau Mphomela calling for urgent action to save the construction industry.

Mphomela said the announcement last week that Basil Read Construction, a wholly-owned subsidiary of the listed construction group, had applied for business rescue

was "a clear indication of the critical state of the construction industry".

He said Basil Read Construction was the second principal contractor to apply for business rescue since NMC Construction in December, while others that had applied for debt-freezing agreements included Group Five and LBC Lenco Construction.

"Indications are that there are still more to come. The writing is on the wall unless we unite as an industry to discuss the challenges we all face and come up with solutions.

"There is no time to be lost. If we lose our big construction companies, we lose not only many jobs, but also our national capacity to build the infrastructure a growing economy needs," he said.

Mphomela believed a wide range of factors have played a part in the industry's decline, including shrinking margins, increased penalties and non-payment or delayed payment by public and private sector clients.

John Loos, a property economist at FNB, said the decline in the index was largely due to the sharply lower confidence of

hardware retailers and manufacturers of building materials.

Four out of the six sub-sectors in the FNB/BER index registered lower confidence, with the confidence of hardware retailers slumping by 45 points to only 2 index points, and weighing down the overall building confidence index.

Confidence among manufacturers of building materials also declined steeply to 13 index points from 45 index points in the first quarter of this year.

However, Loos stressed that with the exception of main contractors and quantity surveyors, activity levels were poorer in the quarter.

Loos added that the noticeable deterioration in sales volume growth of hardware retailers seemed exaggerated, given that building activity, particularly among main contractors, had remained almost unchanged from the first quarter.

"This suggests that other factors, such as constrained consumer spending or softer demand in the home renovations market, may have negatively affected hardware retail sales," he said.