



OUTLOOK FOR THE CONSTRUCTION INDUSTRY POST COVID-19

INDUSTRY INSIGHT
SEPTEMBER 2020

- Economic overview (brief)
 - Worst economic collapse in 100 years
 - Key risks/outlook for local economy
- Construction industry
 - Infrastructure stimulus
 - Covid-19 impact on the industry: some initial data
- Civil outlook
- Building outlook
 - Different dynamics



AGENDA

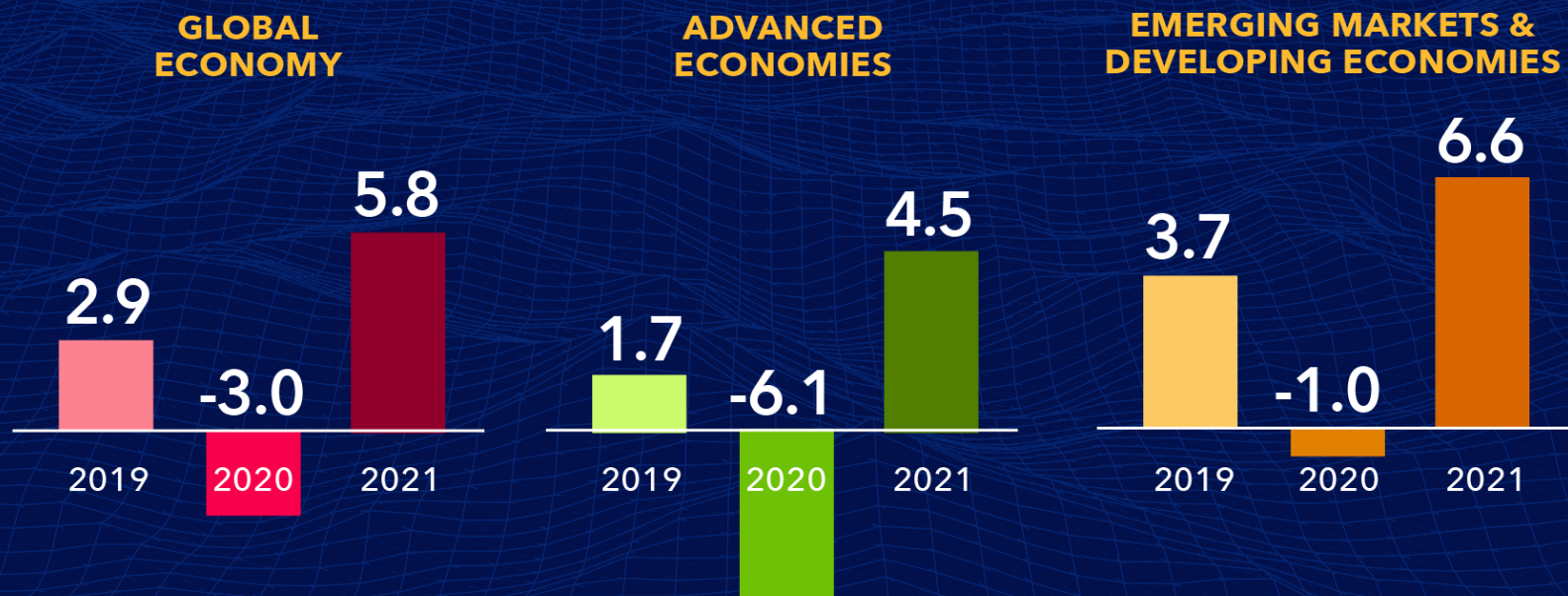


ECONOMIC OVERVIEW

SOUTH AFRICAN ECONOMY IN CRISIS

GROWTH PROJECTIONS

The COVID-19 health crisis will have a severe impact on economic activity in 2020



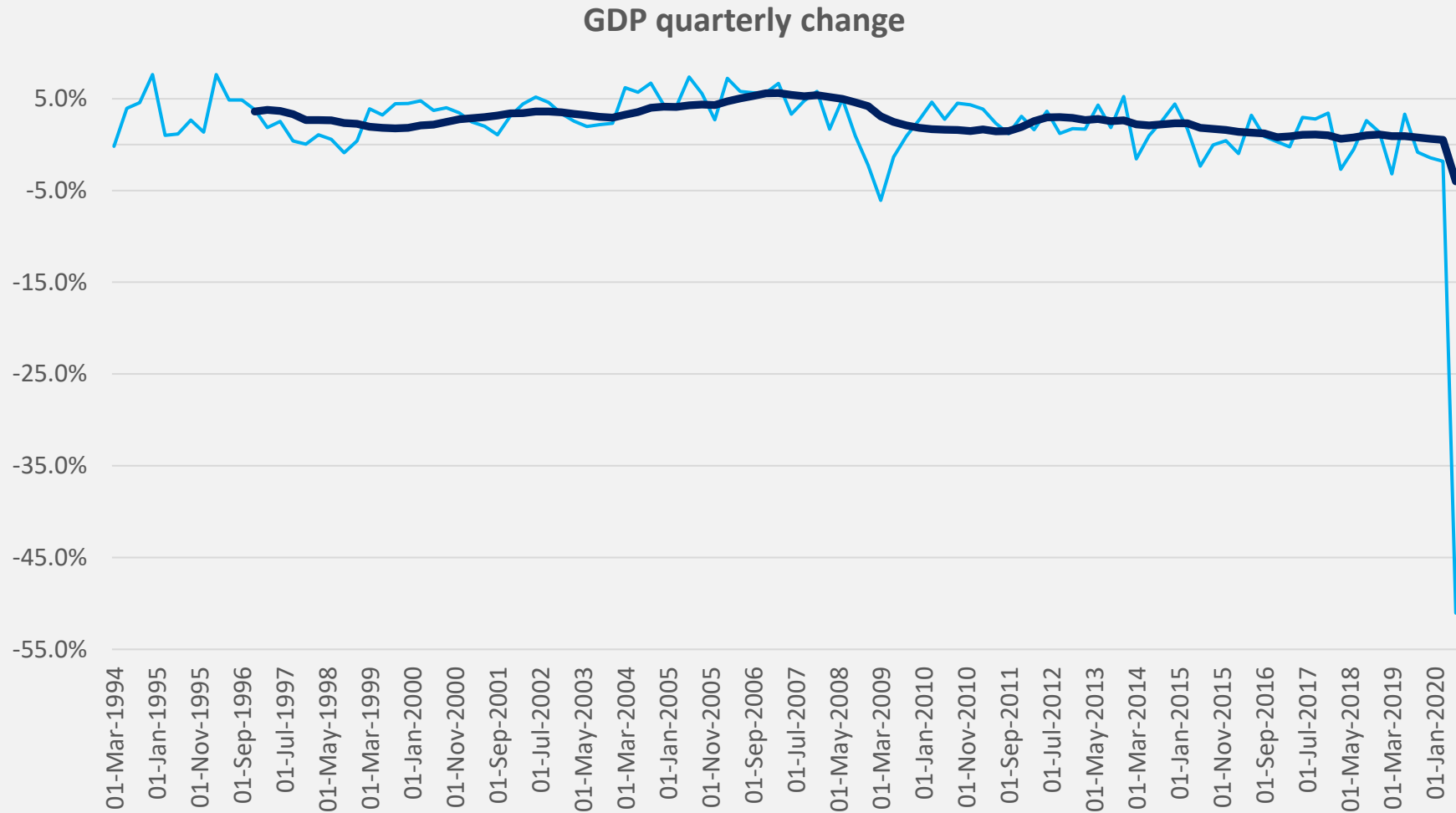
INTERNATIONAL MONETARY FUND

IMF.org #WEO

- Global economy expected to contract by 3.0% in 2020
- Worst since Great Depression
- Interconnected world
- Millions and millions of jobs lost

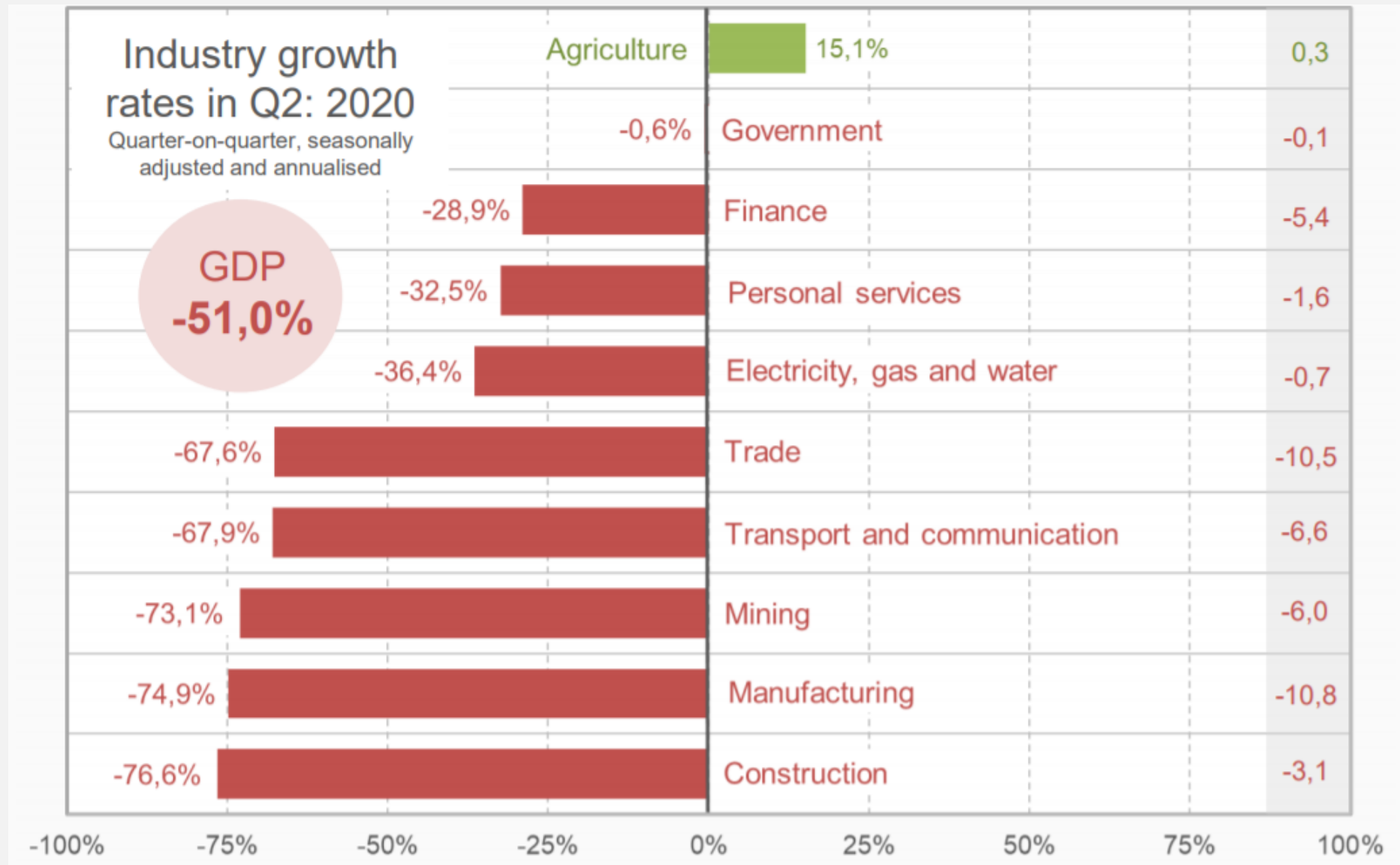
Source: IMF WEO

- Down a staggering 51% q-q annualized (exaggerated)
- Down 17.1% y-y (more reliable stat)



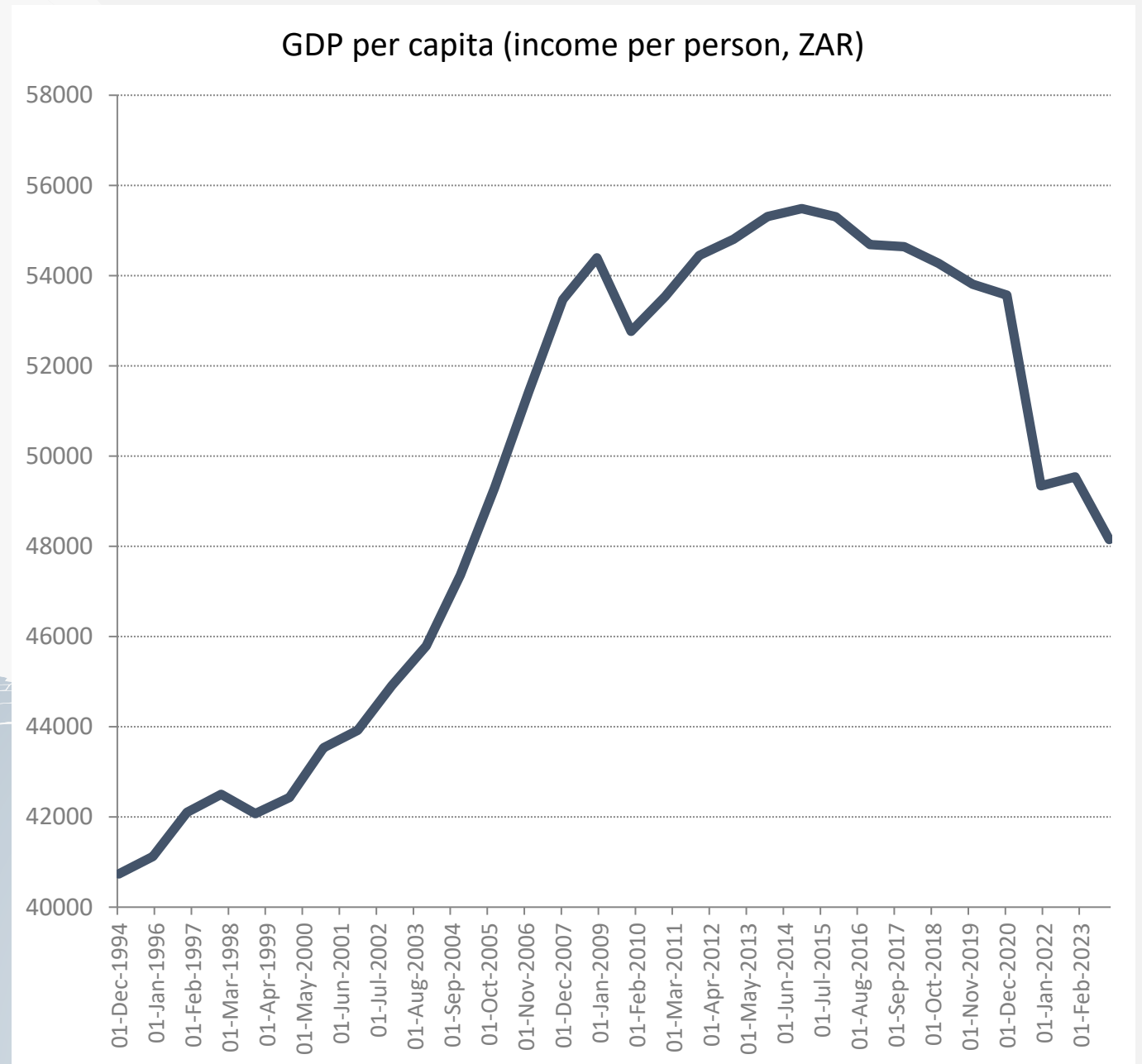
Source: Stats SA

Construction always gets short end of the stick



South Africans are expected to get significantly poorer

- We already LOST A DECADE before Covid-19
- Unlike the rest of the world, we were already in recession
- **Per capita income expected to only be around R49 300, from R53 500**
- **Around 8% lower, and getting worse!**



Source: IMF, IHS

KEY RISKS - Fiscal response: Stimulus measures of R500bn

- Supposed to be 10% of GDP
- Has only been about 2% (so far), compared to 17.5% for the US for example
- **Auditor general report: Covid-19 relief FROUGHT with corruption:**
 - SASSA fraud
 - 30 000 payments being investigated
 - UIF/TERS payment fraud
 - Dead people, people already working for government received payments
 - Procurement of PPE
 - “clear indications of fraudulent activities..”
 - Food parcels
 - Difficult to keep track of
- **Delays**
- **Inefficiencies (R200bn loan fund for example)**

South Africa  9

R500bn Covid-19 relief package exposed to fraud

May have been fraudulently paid to improper beneficiaries.

By Mfuneko Toyana, Reuters 2 Sep 2020 13:48

NATIONAL

Auditor general points to the state's flaws enabling Covid-19 graft

Lester Kiewit 2 Sep 2020

NATIONAL

UIF heads roll over Ters irregularities

Employment & labour minister Thulas Nxesi says UIF commissioner Teboho Maruping as well as the fund's CFO, COO and the head of the supply chain were suspended pending a forensic investigation

BL PREMIUM
02 SEPTEMBER 2020 - 15:39 by GENEVIEVE QUINTAL
UPDATED 02 SEPTEMBER 2020 - 23:48

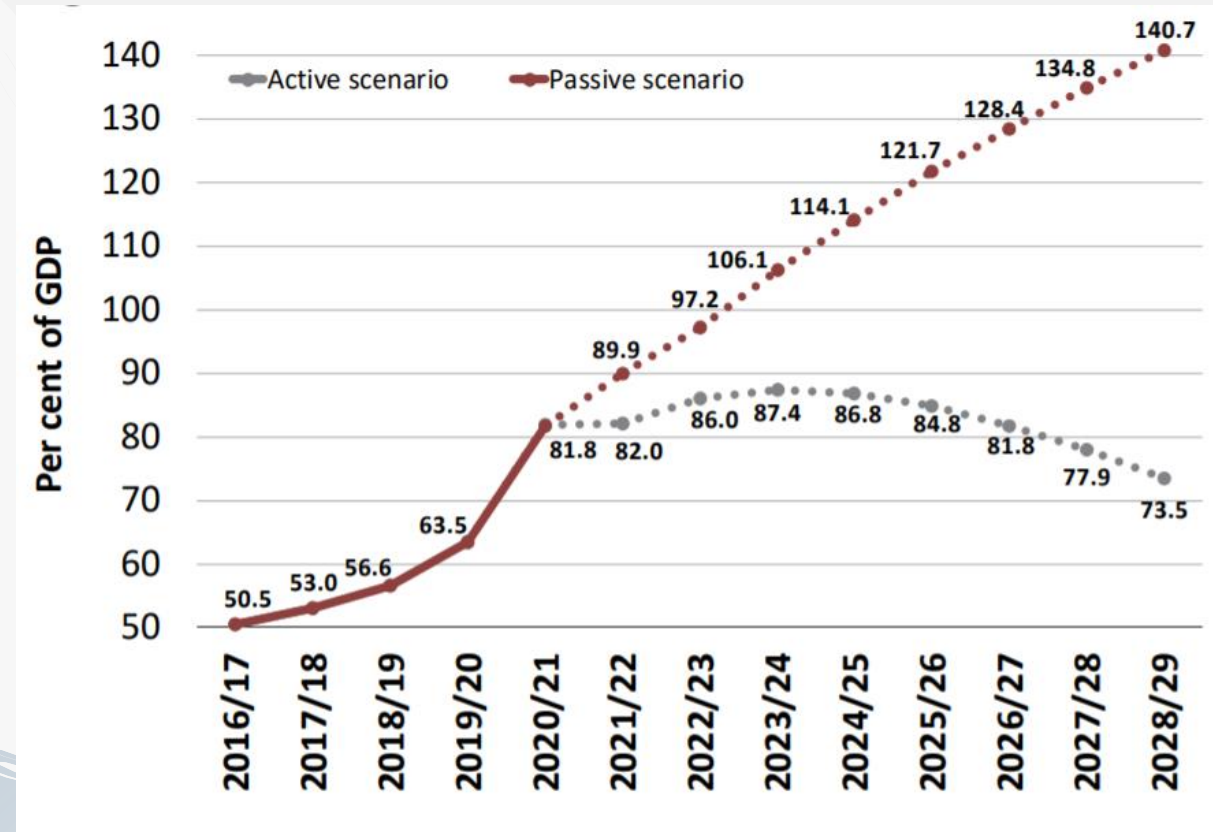
Ramaphosa takes a stand on corruption in letter to ANC members

President vows in unprecedented move the party will take steps to deal with graft

23 AUGUST 2020 - 20:20 by GENEVIEVE QUINTAL

KEY RISKS – Fiscal ‘cliff’, default on debt

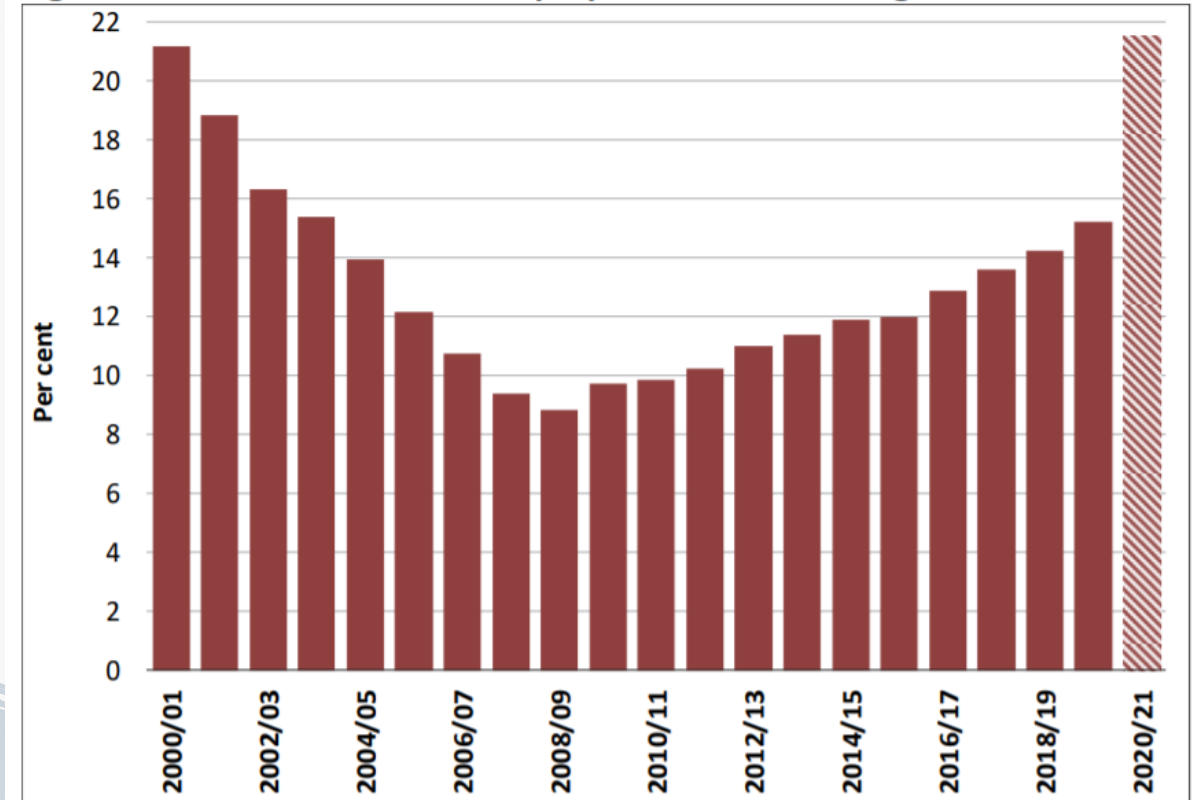
- **BEFORE:** Covid-19, government was already in an extremely precarious fiscal position. Gov. has taken on more and more debt over the last 10 years or so (by running large deficits), without reigning in spending or growing the economy..
- **NOW:**
 - R300bn+ shortfall in **tax revenue (R1.5 trillion)**
 - **Junk status** (more expensive to borrow)
 - Covid-19 relief spending
 - **Higher real interest rates** (higher bond yields)
 - Add in a 10 year history of **running a deficit** and a **lack of political will to cut spending** (everywhere)
 - **Interest payments** are already 16% of total revenue – could rise to 25% (in theory)..
 - EQUALS certain default if nothing is done – details about gov. plans to do are going to be laid out in mini budget in October
 - **No evidence of doing anything about it**
 - **Spending needs to be drastically cut NOW**



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Figure 1.1 Debt-service costs as a proportion of main budget revenue



Source: National Treasury

Macro forecasts

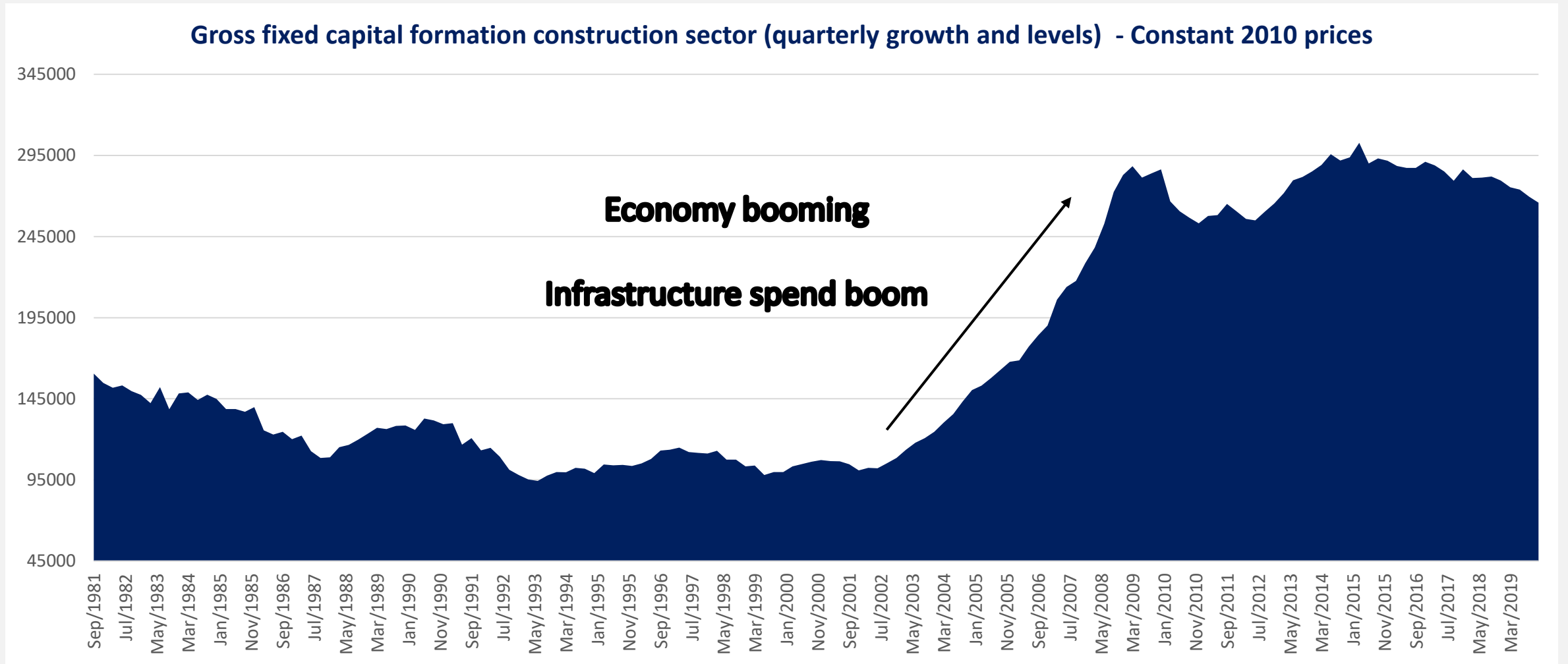
Macro-economic forecasts	2016	2017	2018	2019	2020	2021	2022	2023	2024
GDP	0.4%	1.4%	0.8%	0.1%	-6.8%	1.8%	-2.2%	0.2%	-0.3%
Household Consumption	0.6%	2.1%	1.8%	1.0%	-4.2%	1.6%	-1.7%	-0.2%	0.8%
Government Consumption	2.2%	0.2%	1.9%	1.5%	5.2%	-4.6%	-3.4%	2.1%	-1.5%
Gross fixed capital formation	-3.5%	1.0%	-1.4%	-0.9%	-12.7%	2.3%	-0.2%	0.3%	0.3%
Imports	-3.9%	1.0%	3.3%	-0.5%	-2.3%	1.0%	2.2%	4.0%	4.2%
Exports	0.4%	-0.7%	2.6%	-2.5%	-12.2%	6.2%	1.2%	3.9%	3.1%
Prime Rate	10.5%	10.3%	10.3%	10.0%	7.0%	7.3%	8.3%	9.0%	10.0%
Rand/Dollar	R 14.70	R 13.30	R 13.20	R 14.50	R 16.50	R 15.00	R 15.30	R 15.61	R 15.92
CPI Inflation	6.30	5.30	4.60	4.10	4.00	4.60	4.30	4.50	5.00

CONSTRUCTION SECTOR OUTLOOK

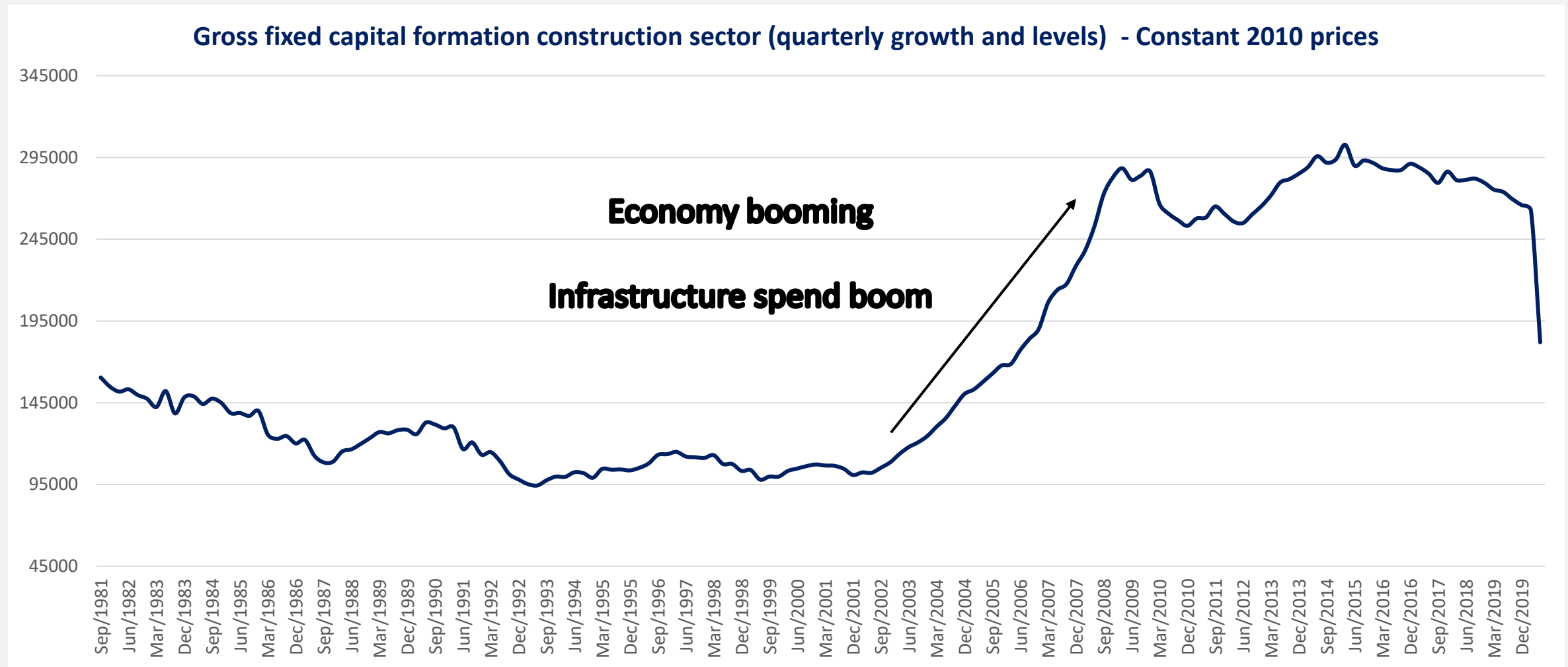
HOW BAD IS IT GOING TO BE???



Historical context

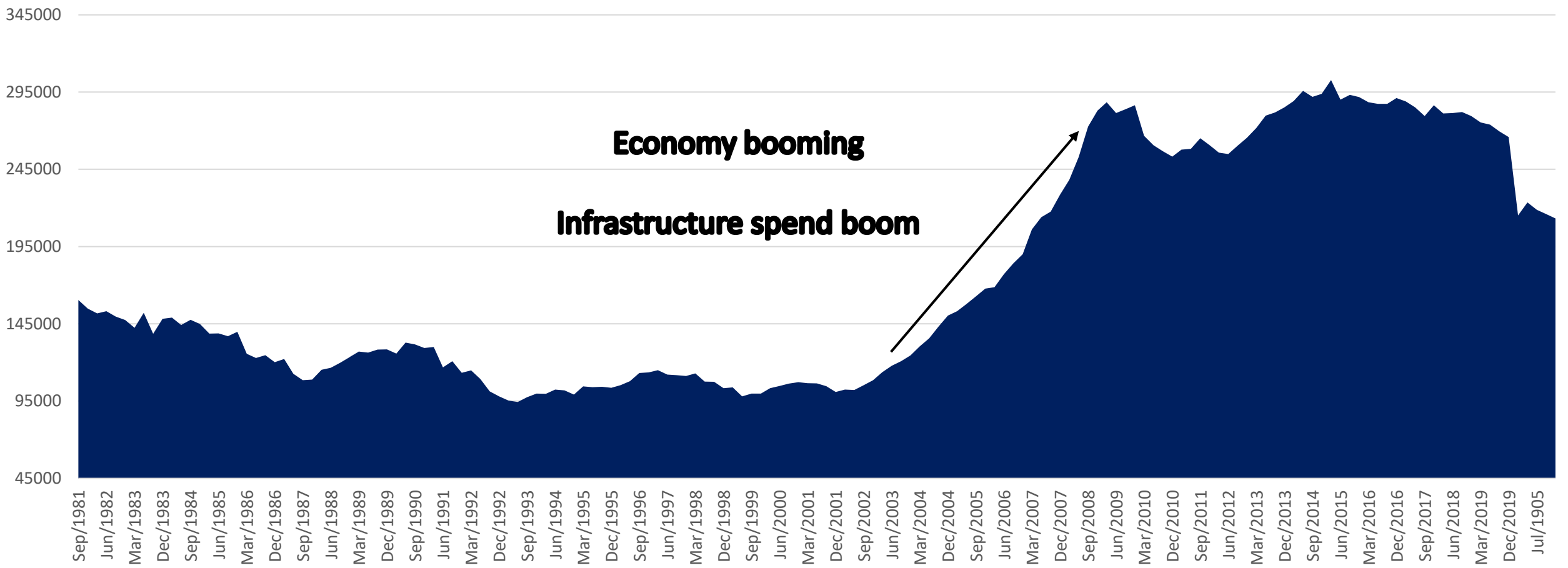


GFCF construction down 34% in the 2nd quarter

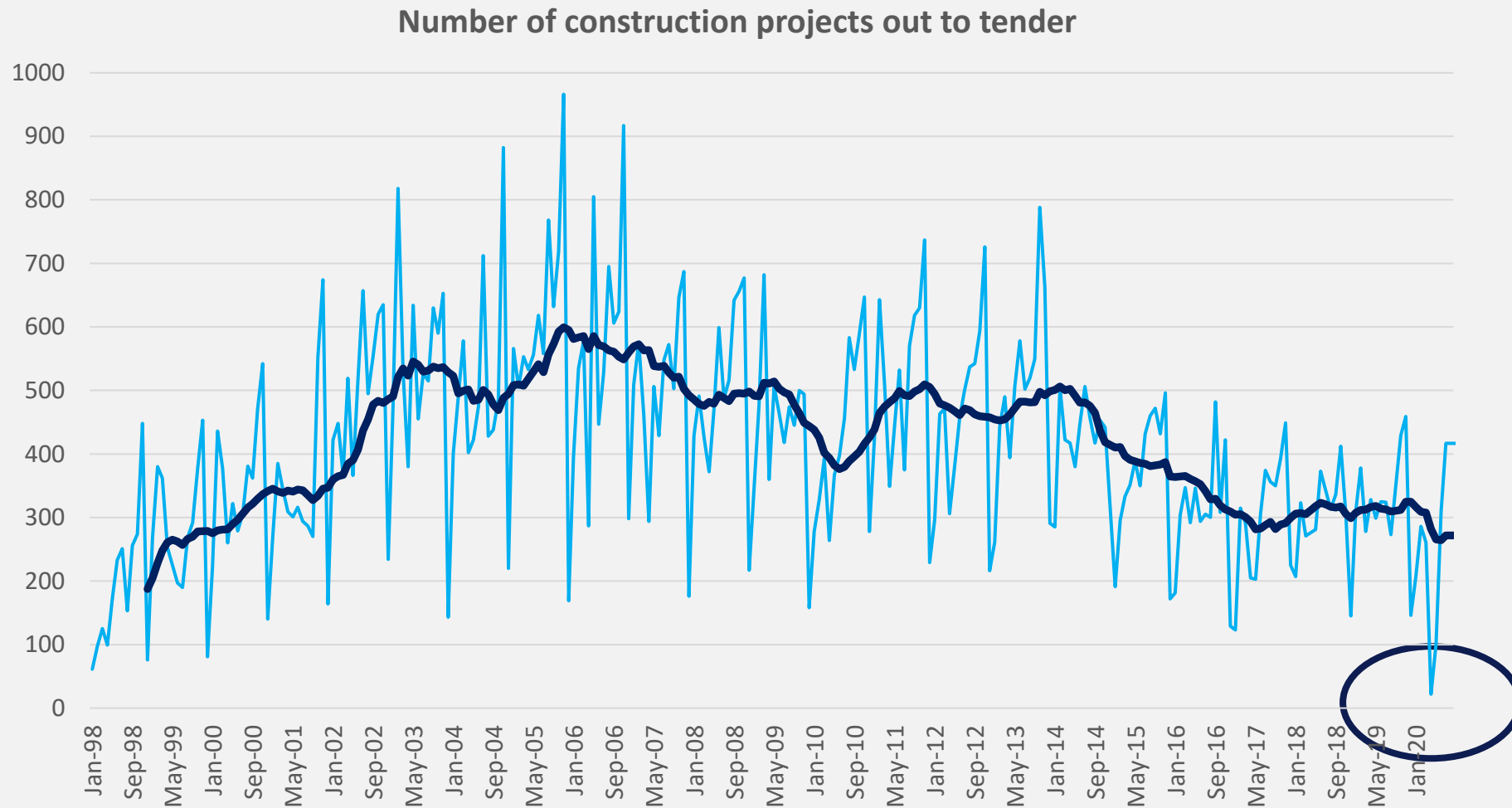


Forecast

Gross fixed capital formation construction sector (quarterly growth and levels) - Constant 2010 prices

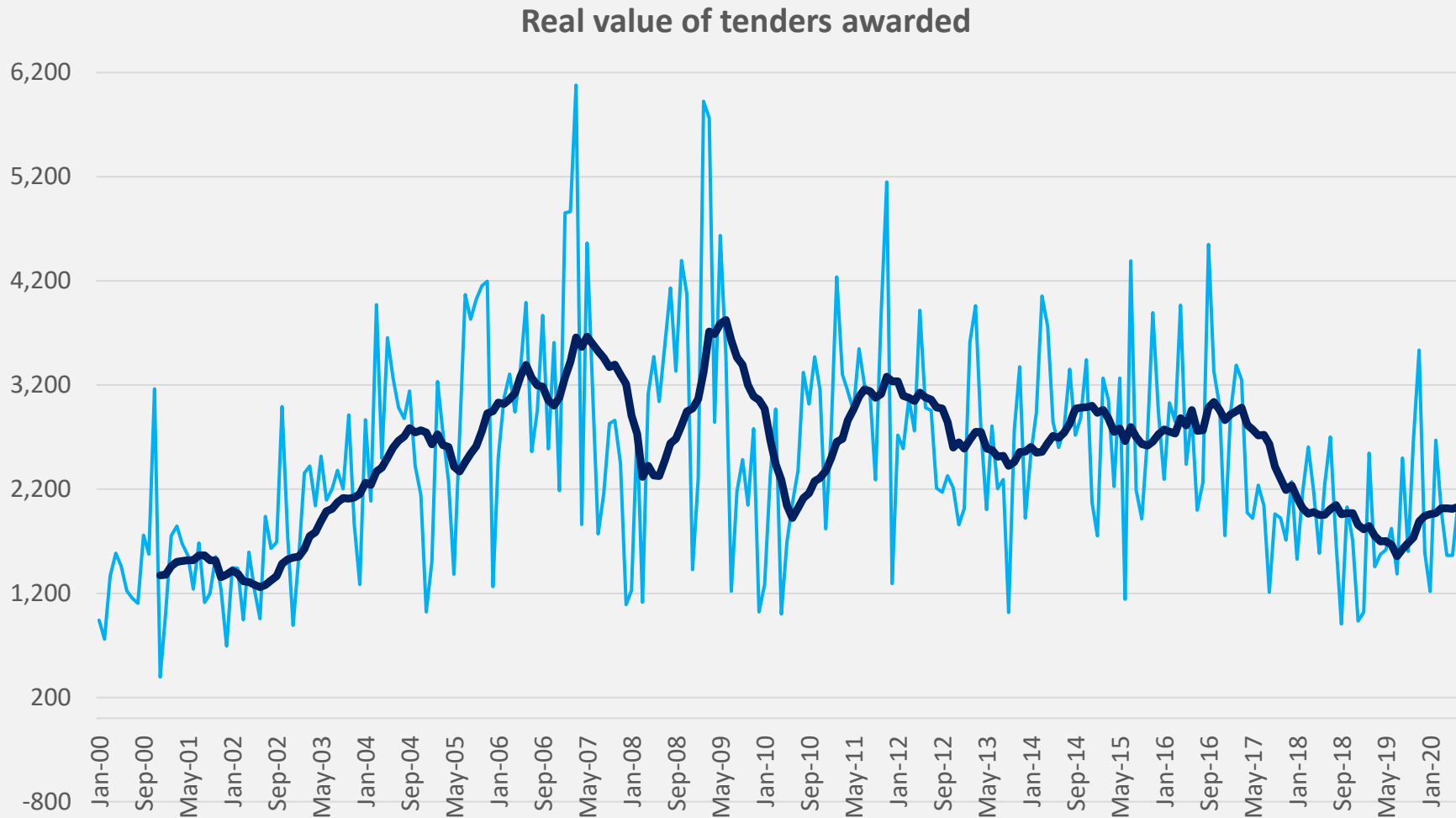


Worst tender activity levels since inception of data



- Lowest number of projects reported out to tender since inception of the data in 1998 in **April**
- **Lowest in more than 20 years!!**
- Quite staggering
- Has bounced back in July however

Some initial data from Databuild/Industry Insight



- No collapse in tenders awarded however
- **Data MUCH better than expected**
- **Actually trending upwards, with a lot of big projects being awarded**
- **Still coming off a very low base**
- **Recessionary territory**

Building versus civil – very different dynamics

Construction forecasts summary (2010 constant prices, gross fixed capital formation, Rand millions)

	2018	2019	2020f	2021f	2022f	2023f	2024f
<i>Total construction (GFCF)</i>	281 019	271 199	215,141	223,593	218,808	216,048	213,162
	-1.40%	-3.50%	-20.7%	3.9%	-2.1%	-1.3%	-1.3%
<i>Building</i>	109 782	101 459	72,220	76,098	73,673	72,946	73,780
	-3.30%	-7.60%	-28.8%	5.4%	-3.2%	-1.0%	1.1%
<i>Residential</i>	55 870	53 741	41,489	43,646	42,162	41,403	41,859
	-3.20%	-3.80%	-22.8%	5.2%	-3.4%	-1.8%	1.1%
<i>Non-residential</i>	53 912	47 718	30,731	32,452	31,511	31,542	31,921
	-3.30%	-11.50%	-35.6%	5.6%	-2.9%	0.1%	1.2%
<i>Construction Works (GFCF)</i>	171 237	169 740	142,921	147,495	145,135	143,103	139,382
	-0.10%	-0.90%	-15.8%	3.2%	-1.6%	-1.4%	-2.6%

Source: Industry Insight

CIVIL CONSTRUCTION OUTLOOK

-VERY DEPENDENT ON GOVERNMENT
SPENDING...

-GOVERNMENT CAN PLAY A COUNTER-
CYCLICAL ROLE



Tender activity – SAFCEC state of the industry survey

Values	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2
Nil	1.3%	2.1%	0.6%	0.9%	0.0%	0.0%	1.8%	0.0%	0.2%	1.0%
Low	97.5%	92.5%	96.1%	97.0%	58.2%	56.8%	35.5%	29.5%	10.4%	89.9%
Satisfactory	1.1%	5.4%	0.0%	0.2%	41.6%	41.5%	62.8%	70.5%	89.3%	9.0%
Good	0.0%	0.0%	3.3%	1.8%	0.2%	1.7%	0.0%	0.0%	0.1%	0.0%
Nett % satisfied	-97.7%	-89.3%	-93.4%	-96.0%	-16.5%	-13.6%	25.6%	41.0%	78.7%	-81.9%

- **Contractors were becoming more and positive around tender activity**
- **Big reversal, only 9% satisfied**

Source: SAFCEC State of the civil engineering industry Report 2020Q2

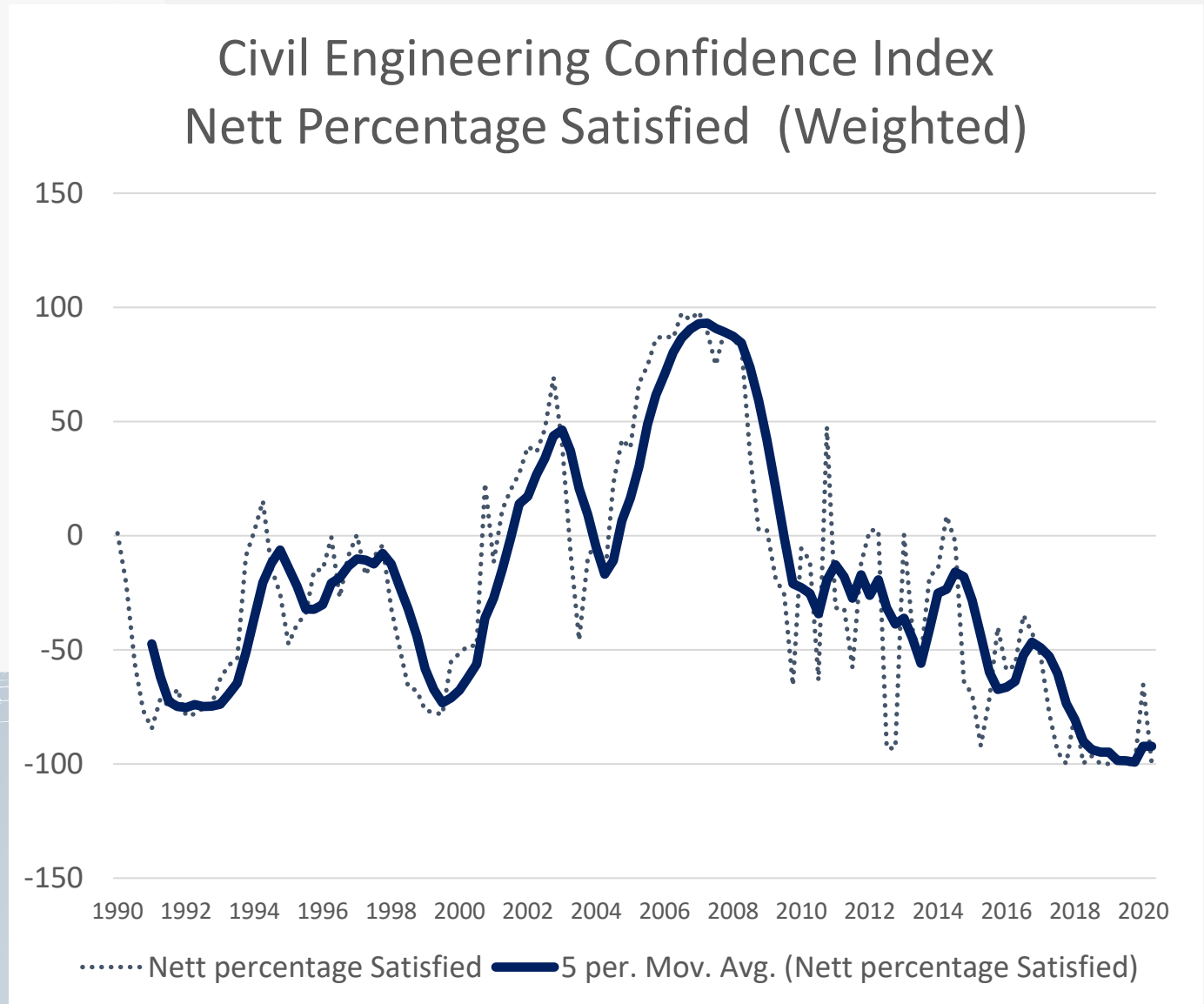
Award activity – SAFCEC state of the industry survey

Values	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2
Nil	28.9%	72.4%	22.2%	17.4%	7.0%	6.4%	17.1%	26.0%	17.1%	11.4%
Low	20.1%	22.2%	29.1%	82.6%	78.9%	84.8%	82.9%	74.0%	82.9%	68.1%
Satisfactory	51.0%	5.4%	48.7%	0.0%	11.9%	8.8%	0.0%	0.0%	0.0%	20.5%
Good	0.0%	0.0%	0.0%	0.0%	2.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Nett % satisfied	2.0%	-89.3%	-2.7%	-100.0%	-71.7%	-82.4%	-100.0%	-100.0%	-100.0%	-59.0%

- Bit of an improvement in award activity however

Source: SAFCEC State of the civil engineering industry Report 2020Q1

Civil engineering confidence bounce back in Q1, but back to rock bottom in Q2



Is there hope?

**Investing in
infrastructure key
part of the gov.
stimulus plans
going forward**

**Some steps in
the right
direction
-SIDDSA**

50 major projects planned for South Africa – including a new mega city and space hub

Staff Writer 27 July 2020



50 SIP projects gazetted at the end of July (apparently R360 billion)

'Shovel Ready'

'Bankable'

'Fast tracked'

-Lacks detail

-These are projects already in the system at various municipalities, gov dept

-A lot of work has already been done on these projects

-We are very sceptical about how 'bankable' these projects really are because:

-They have been in the system in excess of 5 years in most cases

-Have gone out to tender more than once

The gazetted projects include:

- R106 billion for water and sanitation projects, including phase 2A of the Mokolo Crocodile water augmentation project in Limpopo.
- Three energy projects valued at R58 billion, including the development, installation and operation of 2 000 megawatts of new generation capacity from Independent Power Producers (IPP's)
- R47 billion for 15 transport projects.
- R138 billion for human settlement projects, including Mooikloof Mega Residential City Project, one of four projects listed from the private sector.
- R4 billion for projects in the digital sector
- R7 billion for two projects in the agriculture and agro-processing sector.

BUT...

- Implementation a huge issue
- Government is **broke**
- Private sector*** expected to take the lead (why would they?) incentives..
- Lacks **detail**
- No **transparency**
- Skills?** For project preparation
- Corruption**

State's infrastructure programme criticised for lacking details

Many projects have been in the pipeline for years and may not be as ready for implementation as government claims – Industry Insight

By Roy Cokayne 14 Aug 2020 00:01



Limpopo benefit – water and sanitation projects

1. Strategic Integrated Project No 19: Water and Sanitation

SIP 19: SUB-PROJECTS

- a. Vaal River System including Phase 2 of the Lesotho Highlands Water Project: Gauteng
- b. Phase 2A of the Mokolo Crocodile River (West) Augmentation Project: Limpopo
- c. uMkhomazi Water Project: KwaZulu Natal
- d. Olifants River Water Resource Development Project - Phase 2: Limpopo
- e. Vaal-Gamagara: Northern Cape
- f. Mzimvubu Water Project: Eastern Cape
- g. Rehabilitation of the Vaalharts-Taung Irrigation Scheme: Northern Cape & North West
- h. Groot Letaba River Water Development Project - Nwamitwa Dam: Limpopo
- i. Berg River Voëlvlei Augmentation Scheme: Western Cape
- j. Rustfontein Water Treatment Works: Free State
- k. Orange-Riet Canal Increase of Bulk Raw Water Supply: Free State

Limpopo potentially benefit from 2 big road projects

3. Strategic Integrated Project No 21: Transport

SIP 21: SUB-PROJECTS

- a. N1 Windburg Interchange to Windburg Station: Free State
- b. N1 Musina Ring Road: Limpopo
- c. N1 Polokwane Eastern Ring Rd Phase 2: Limpopo
- d. N1 Ventersburg to Kroonstad: Free State (2 projects in One)
- e. N2 Mtunzini Toll Plaza to Empangeni T-Junction: KwaZulu Natal

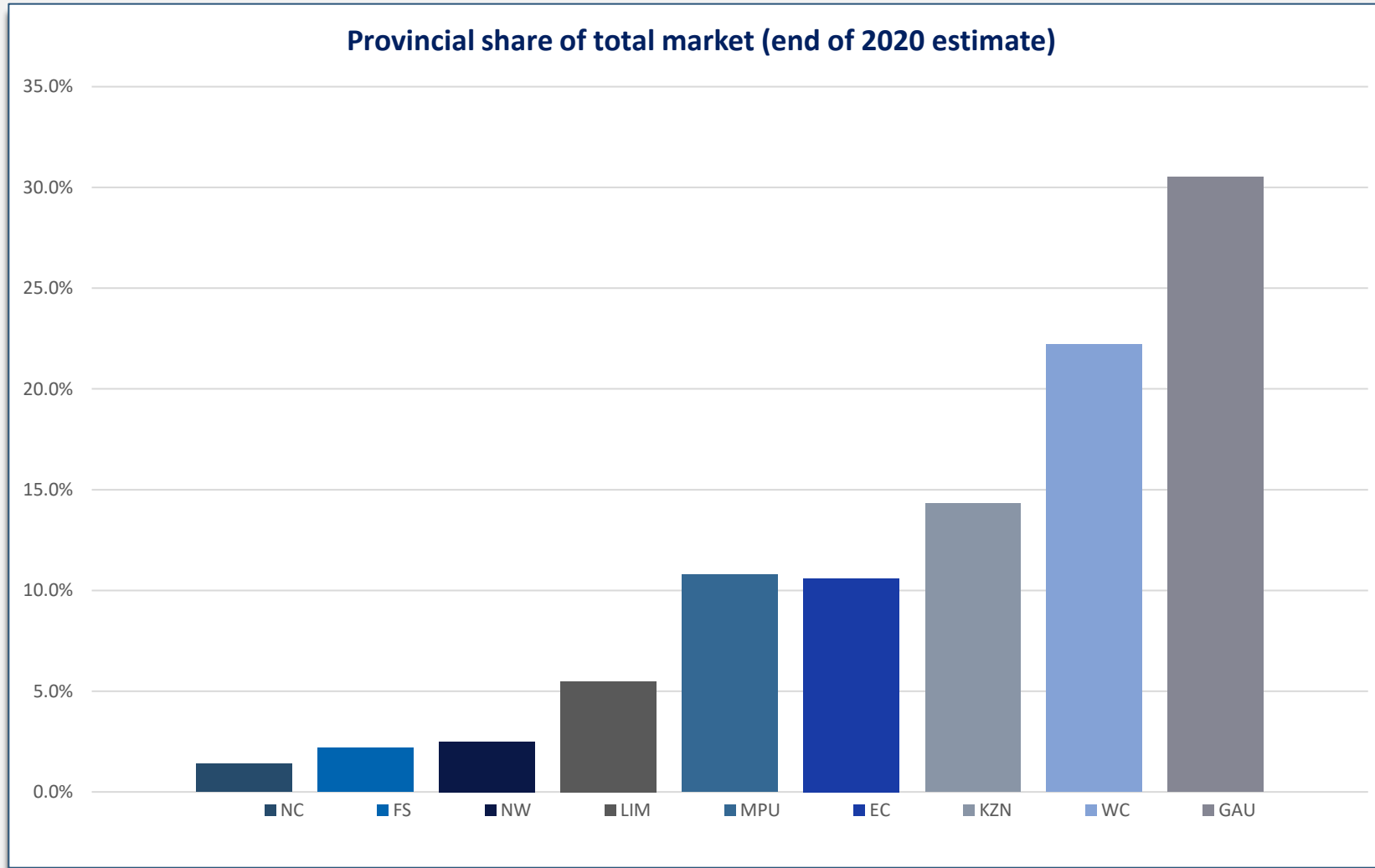
- f. N3 Cato Ridge to Dardanelles: KwaZulu Natal
- g. N3 Dardenelles to Lynnfield Park: KwaZulu Natal
- h. N3 Paradise Valley to Mariannhill Toll Plaza: KwaZulu Natal
- i. N2 Edwin Swales to South of EB Cloete Interchange: KwaZulu Natal
- j. N3 Ashburton Interchange to Murray Road: KwaZulu Natal
- k. N3 Mariannhill Toll Plaza to Key Ridge: KwaZulu Natal
- l. N2 EB Cloete Interchange: KwaZulu Natal
- m. Small Harbours Development: National
- n. N3 New alignment via De Beers Pass: Free State
- o. Boegoebaai Port and Rail Infrastructure Project: Northern Cape

6. Strategic Integrated Project No 24: Human Settlements

SIP 24: SUB-PROJECTS

- a. Greater Cornubia: KwaZulu-Natal
- b. Vista Park II & III: Free State
- c. Lufhereng: Gauteng
- d. Malibongwe Ridge: Gauteng
- e. N2 Nodal Development: Eastern Cape
- f. Matlosana N12 West: North West
- g. Green Creek: Gauteng
- h. Mooikloof Mega Residential City: Gauteng
- i. Fochville Extension 11: Gauteng
- j. Germiston Ext 4 Social Housing Project: Gauteng
- k. Newcastle Hospital Street Social Housing Project: KwaZulu Natal
- l. Hull Street Social Housing Project Phase 1: Northern Cape
- m. Kwandokuhle Social Housing Project: Mpumalanga
- n. Phola Heights - Tembisa Social Housing Project: Gauteng
- o. Sondela Phase 2: Gauteng
- p. Willow Creek Estate: Mpumalanga
- q. Joe's Place Social Housing: Gauteng
- r. Jeppestown Social Housing Project (Unity House): Gauteng

Mpumalanga expected to overtake EC in terms of size of industry

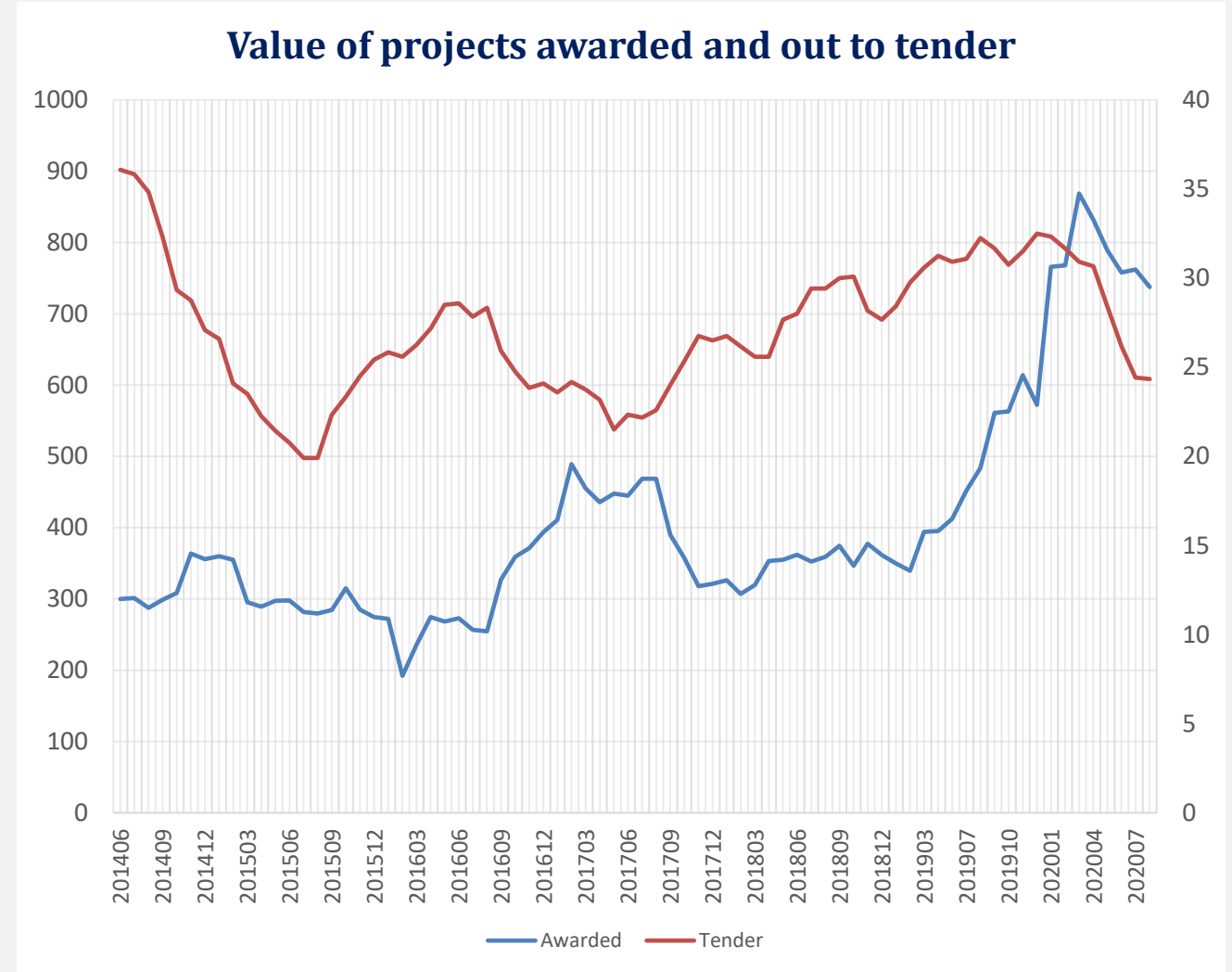
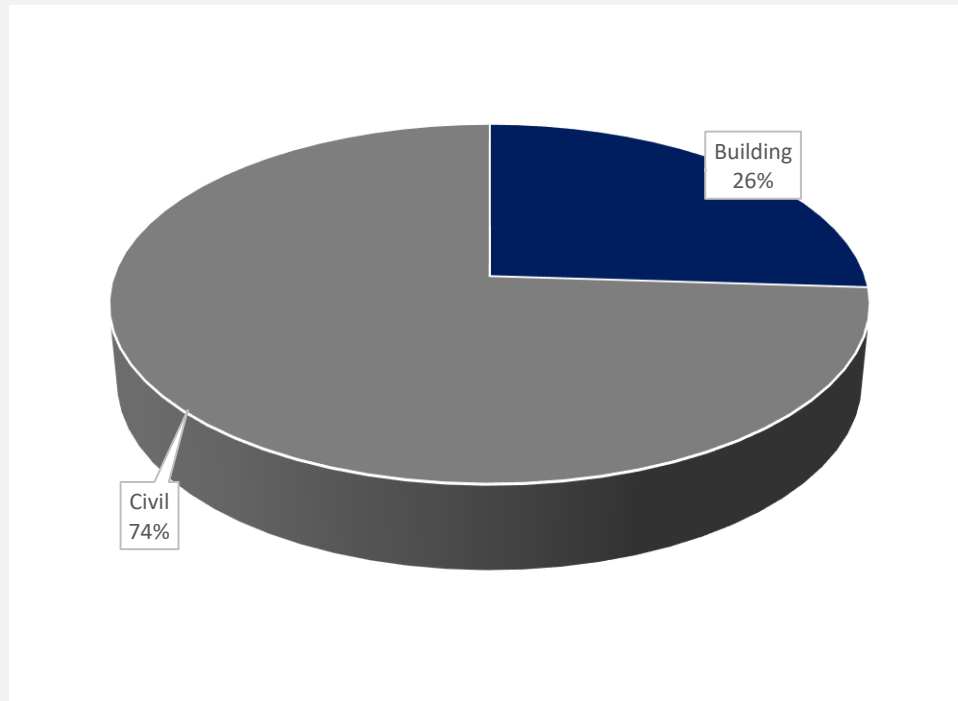


- MPU – 10.8%
 - R23.3bn
- LIM – 5.5%
 - R11.8bn

MPUMALANGA

- *74% civil*
- *26% building*

Awards and tenders were trending upwards



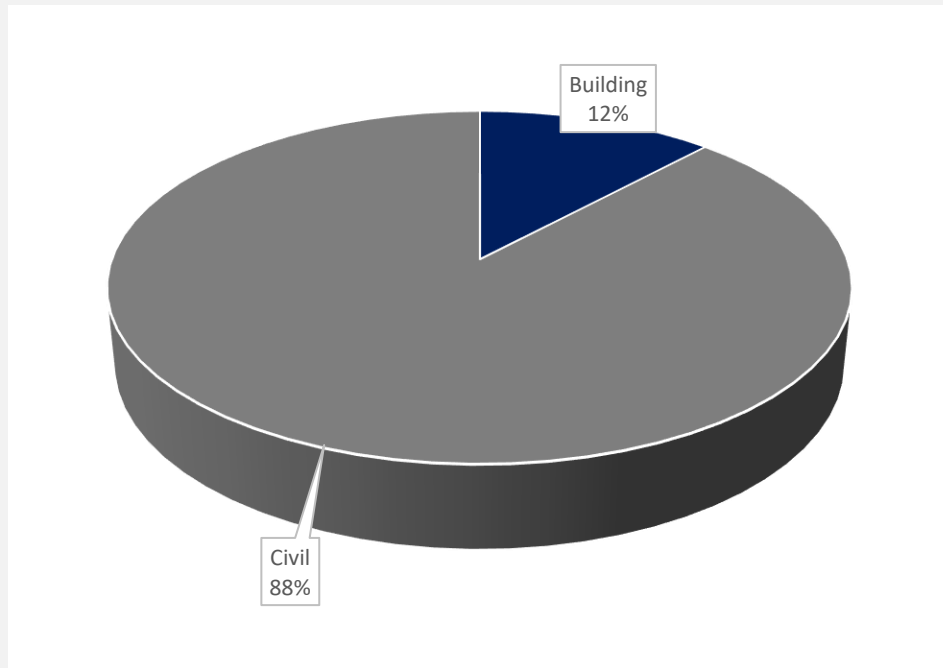
MPU – one of best performing provinces this year

- *Provincial construction forecasts show Mpumalanga construction industry contracting by 6.1% in 2020 (real terms)*
- *Although negative, one of the best performing provinces*

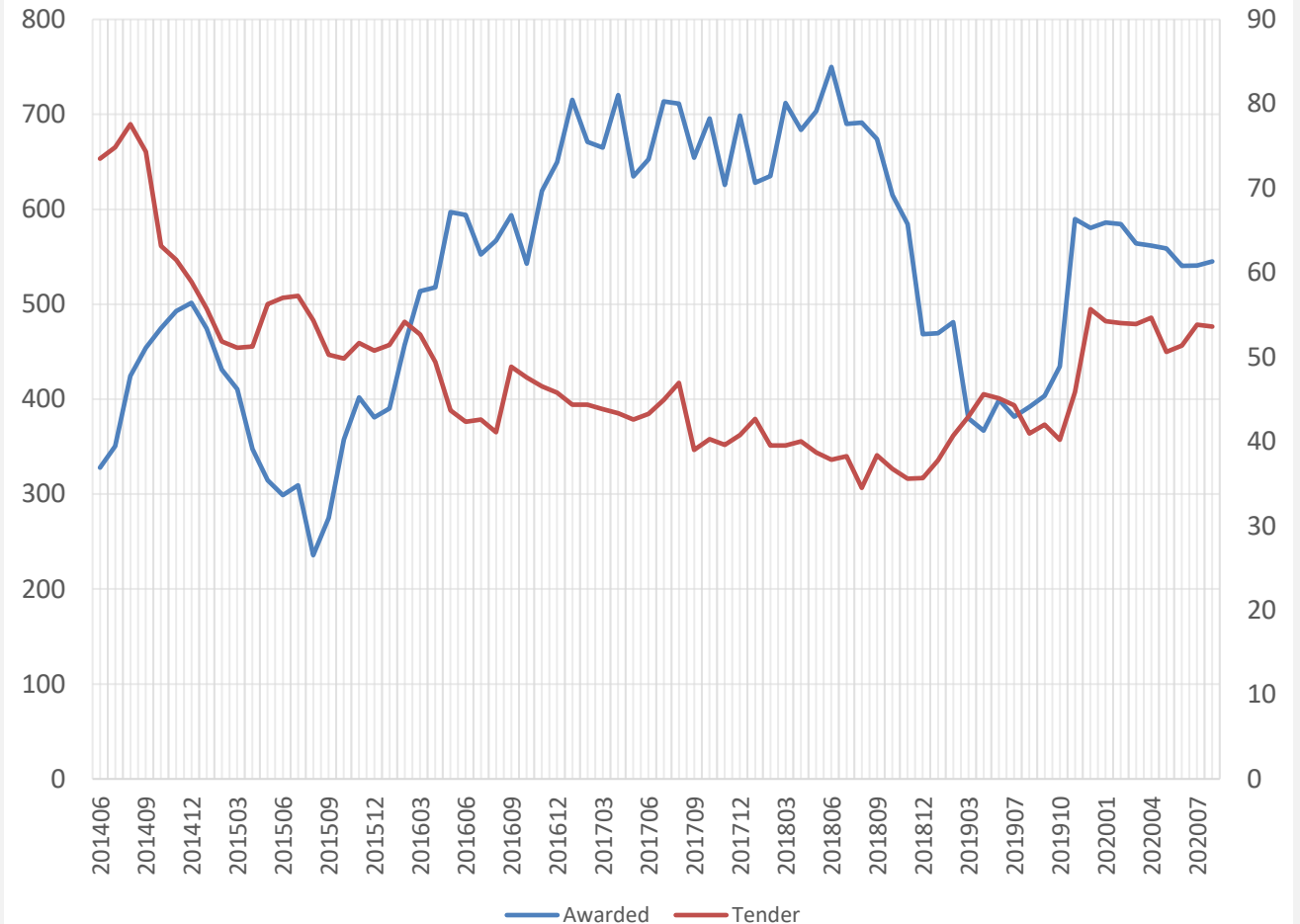
<i>Construction forecasts</i>	<i>2019</i>	<i>2020f</i>
Total construction (GFCF)	271,201	215,141
<i>% change</i>		-20.7%
Gauteng	91,734	65,618
<i>% change</i>		-28.5%
Western Cape	65,065	47,761
<i>% change</i>		-26.6%
Kwazulu Natal	37,340	30,765
<i>% change</i>		-17.6%
Eastern Cape	25,592	22,805
<i>% change</i>		-10.9%
Mpumalanga	24,756	23,235
<i>% change</i>		-6.1%
Limpopo	12,288	11,833
<i>% change</i>		-3.7%
North West	5,922	5,379
<i>% change</i>		-9.2%
Free State	5,221	4,733
<i>% change</i>		-9.4%
Northern Cape	3,283	3,012
<i>% change</i>		-8.3%

LIMPOPO

- *88% civil*
 - *12% building*
- Predominantly civil*



Value of projects awarded and out to tender



LIM – THE best performing provinces this year

- *Provincial construction forecasts show Limpopo construction industry contracting by 3.7% in 2020 (real terms)*
- *Although negative, the best performing provinces*

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Building versus civil – very different dynamics

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Source: Industry Insight

BUILDING OUTLOOK

PRIVATE SECTOR DRIVEN

EXPECTED TO BE HIT MUCH HARDER THAN
CIVILS

HUGE DEMAND SHOCK – SOUTH AFRICANS
UNDER MASSIVE FINANCIAL PRESSURE

NO COUNTER-CYCLICAL ROLE

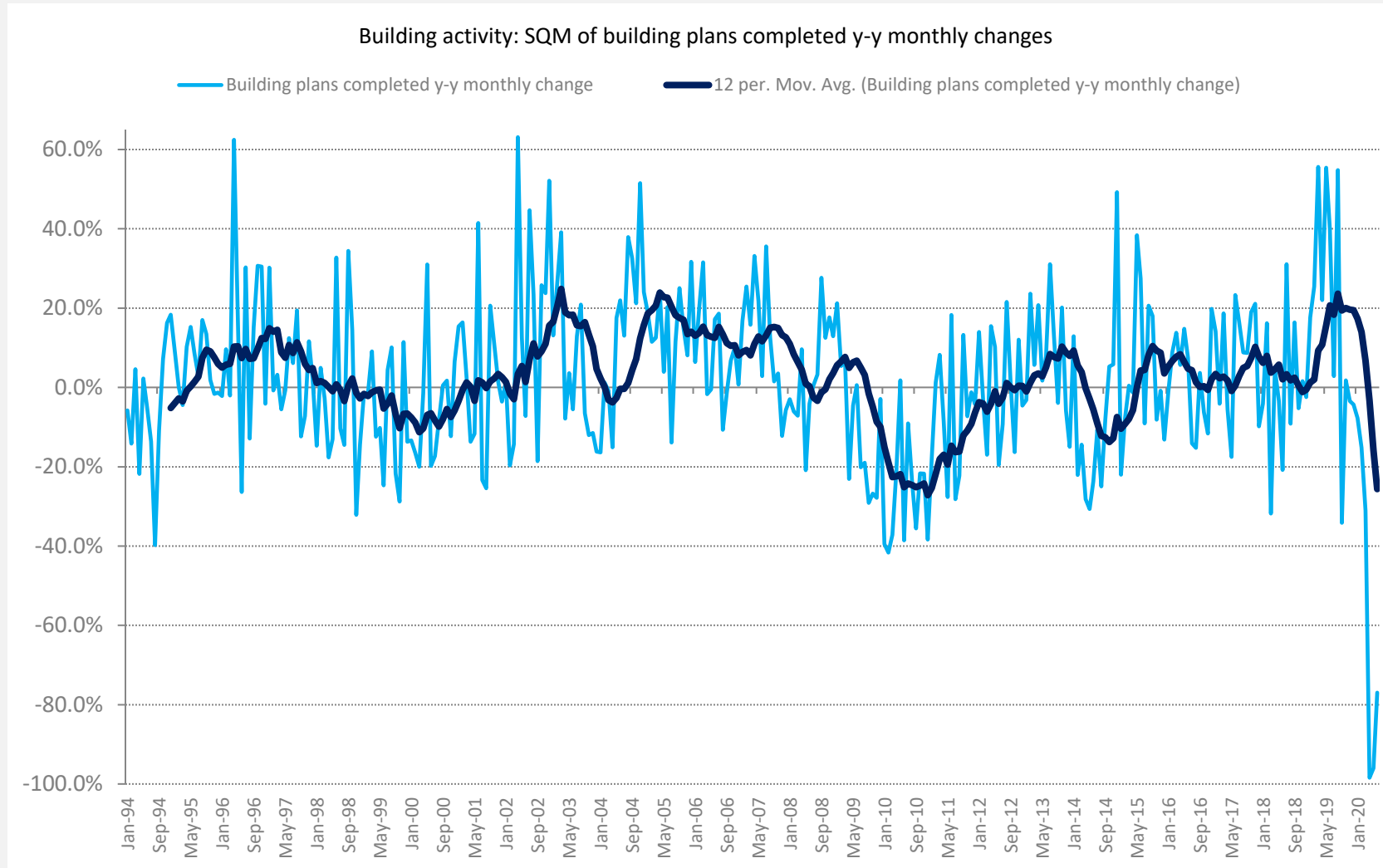


Building versus civil – very different dynamics

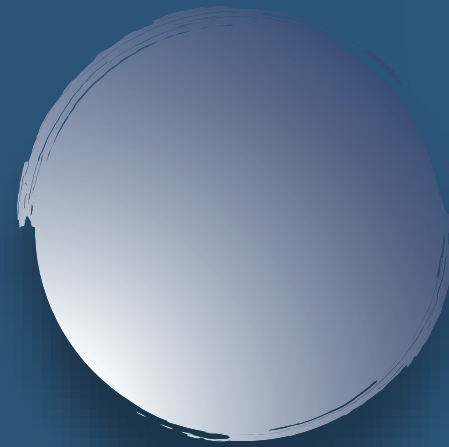
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Collapse in private building



- Lowest ever SQM completed in April, May and June.
- ***Instant deep recession***
- ***Building was already heading for recession***



SUMMARY

THANK YOU

DAVID@INDUSTRYINSIGHT.CO.ZA