



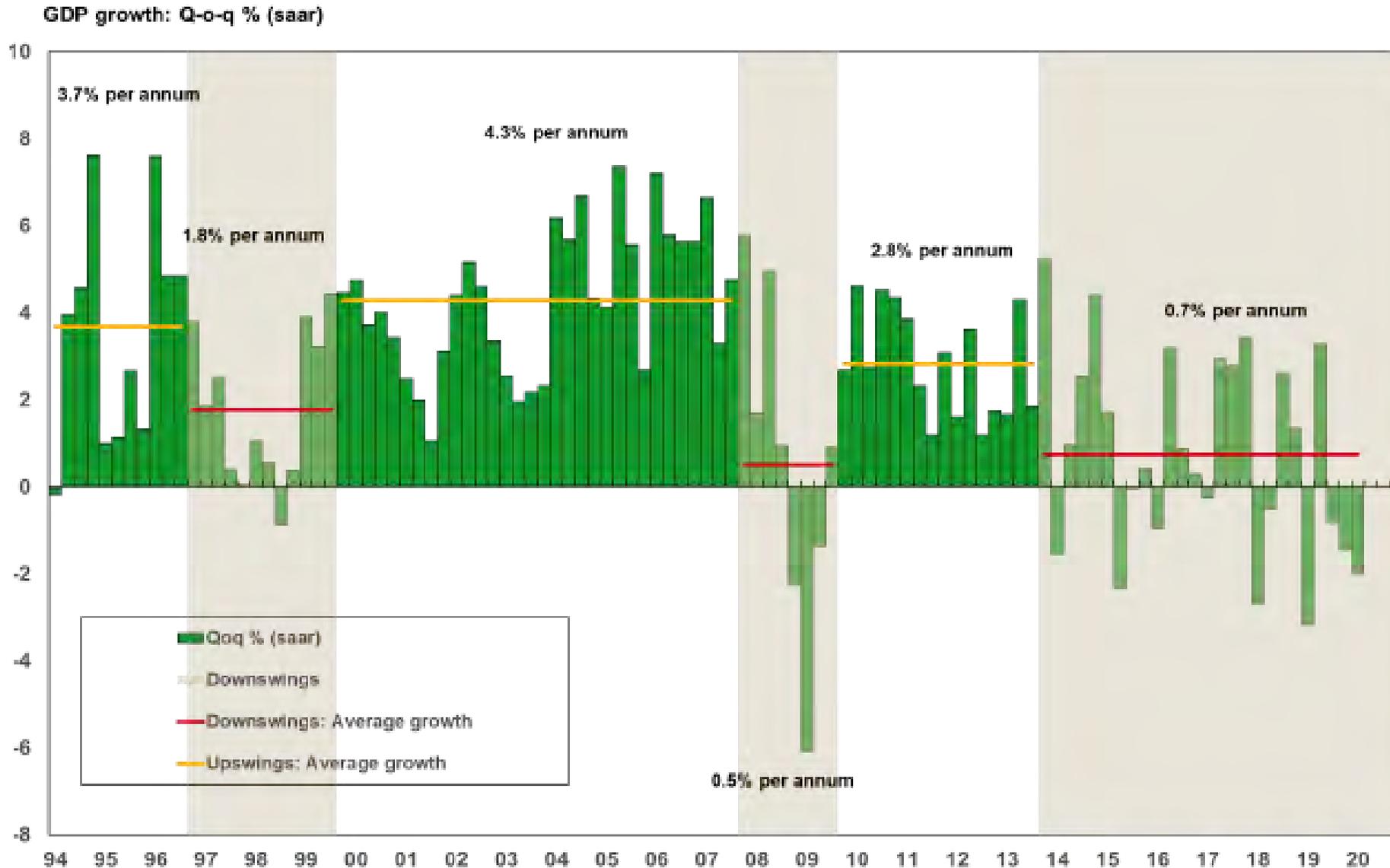
CONSTRUCTION'S ROLE IN POST-COVID19 ECONOMIC RECOVERY PLANS: A GLIMPSE OF SOUTH AFRICA

Associate Professor Kathy Michell, University of Cape Town

Covid-19 Lockdown Regulation Timeline

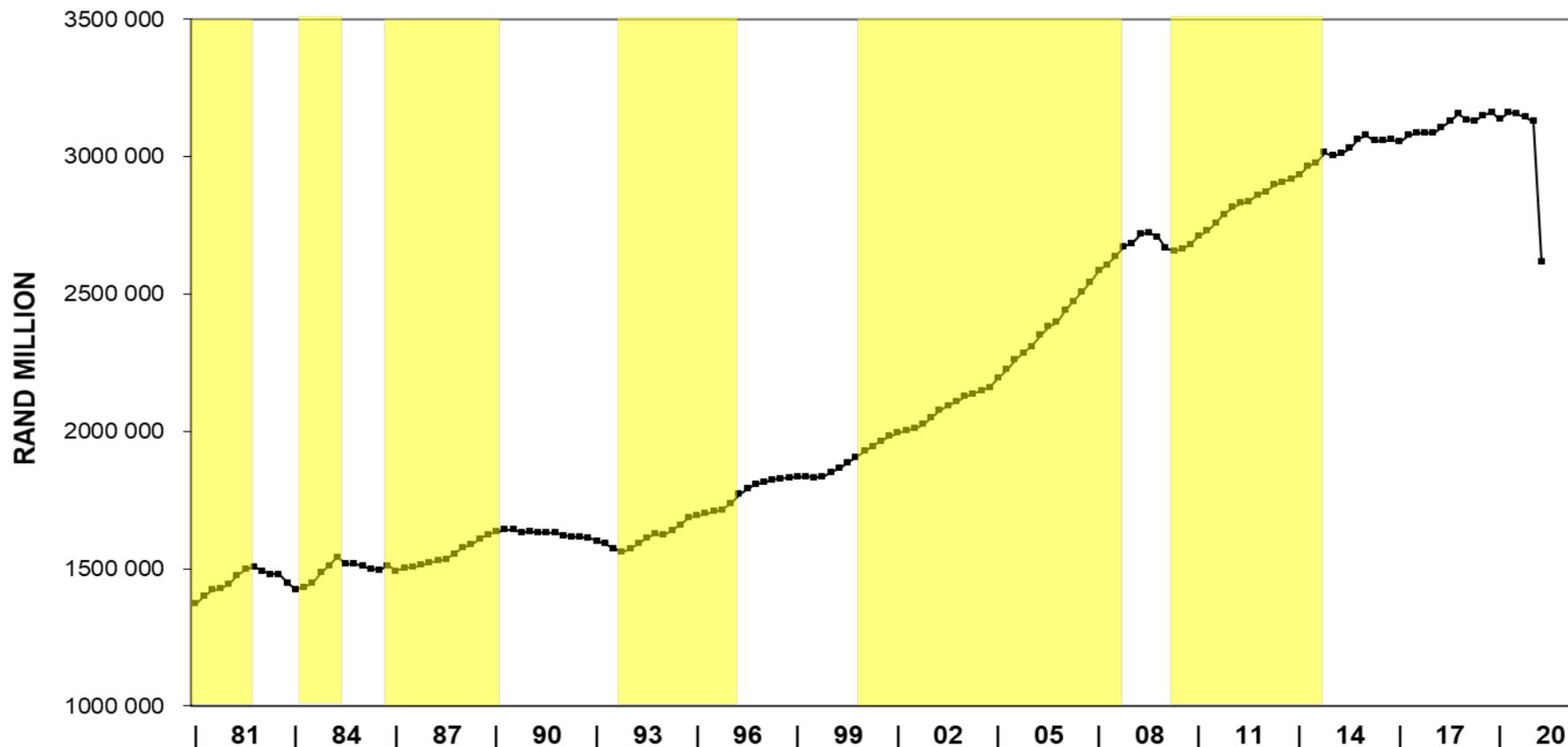
- Level 5 – 27th March
 - Most economic activity ceased
 - Only essential services remained open (health, food, emergency services)
- Level 4 – 1st May
 - Some sectors reopen (with strict protocols)
- Level 3 – 1st June
 - A few more sectors open (with strict protocols)
- Level 2 – 18th August
 - Inter-provincial travel permitted
- Level 1 – 21st September
 - International travel permitted (with restrictions) from 1 October

Nedbank Group Economic Unit – Nicola Weimar (July 2020)



Gross domestic product rose by 0.8% in 2018 and by 0.2% in 2019. During 2020Q2, GDP declined by -17.1% year-on-year and by -51% quarter-on-previous quarter (seasonally adjusted and annualised).

GDP AT CONSTANT 2010 PRICES SEASONALLY ADJUSTED



Source: SARB; MFA DATABASE (ECONOMIC UPSWINGS SHADED)



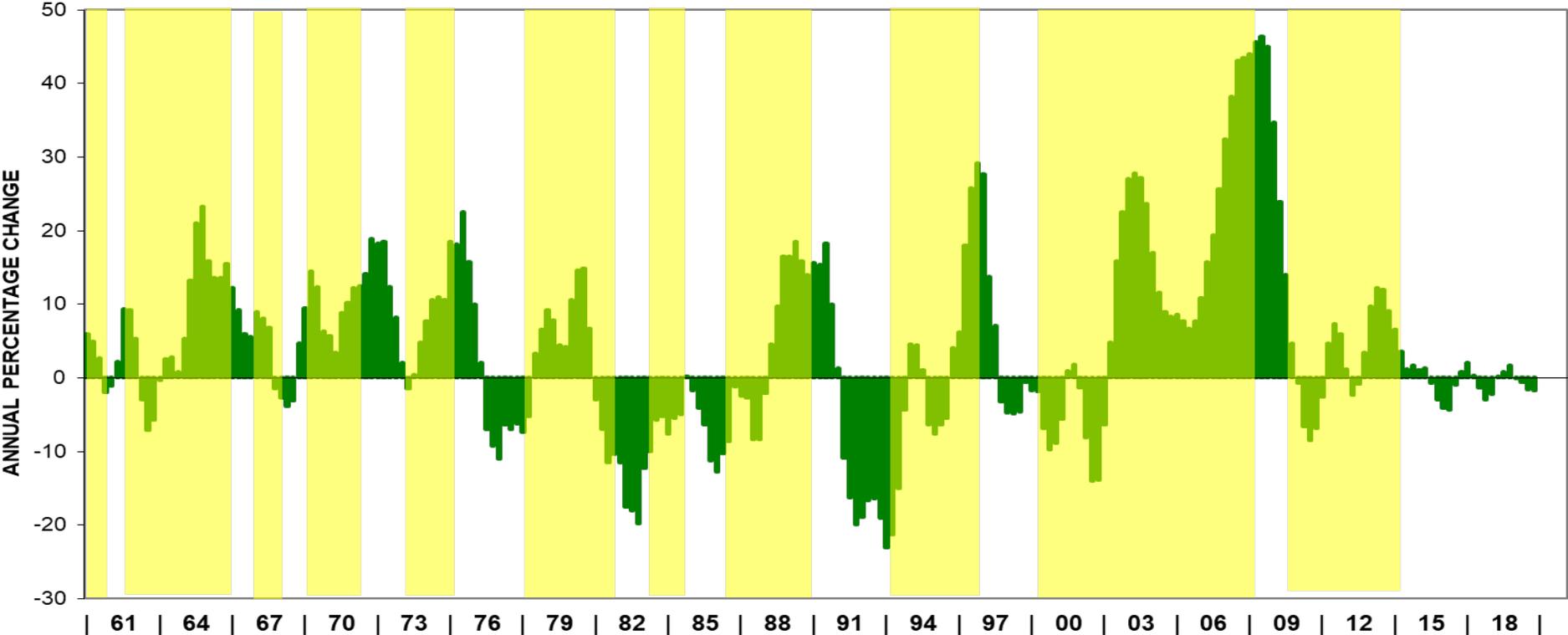
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Building and Construction Demand & Investment Levels

- Residential sector demand has declined by -7% over the last two years
- Non-residential sector demand has declined by -20.5% over the last three years
- Similar trends have been seen in investment figures

The (smoothed) annual percentage change in 2019Q4 was -1.5%. In 2020Q1 the year-on-year drop was slightly higher at -1.8%. The State President's Economic Stimulus Plan will have little effect in 2020 because of the lengthy planning stages, but the Plan could boost construction by 2023.

TOTAL CONSTRUCTION WORKS ANNUAL PERCENTAGE CHANGE
1960-2020 (3 QUARTER MOVING AVERAGE)



Source: SARB; MFA DATABASE (ECONOMIC UPSWINGS SHADED)

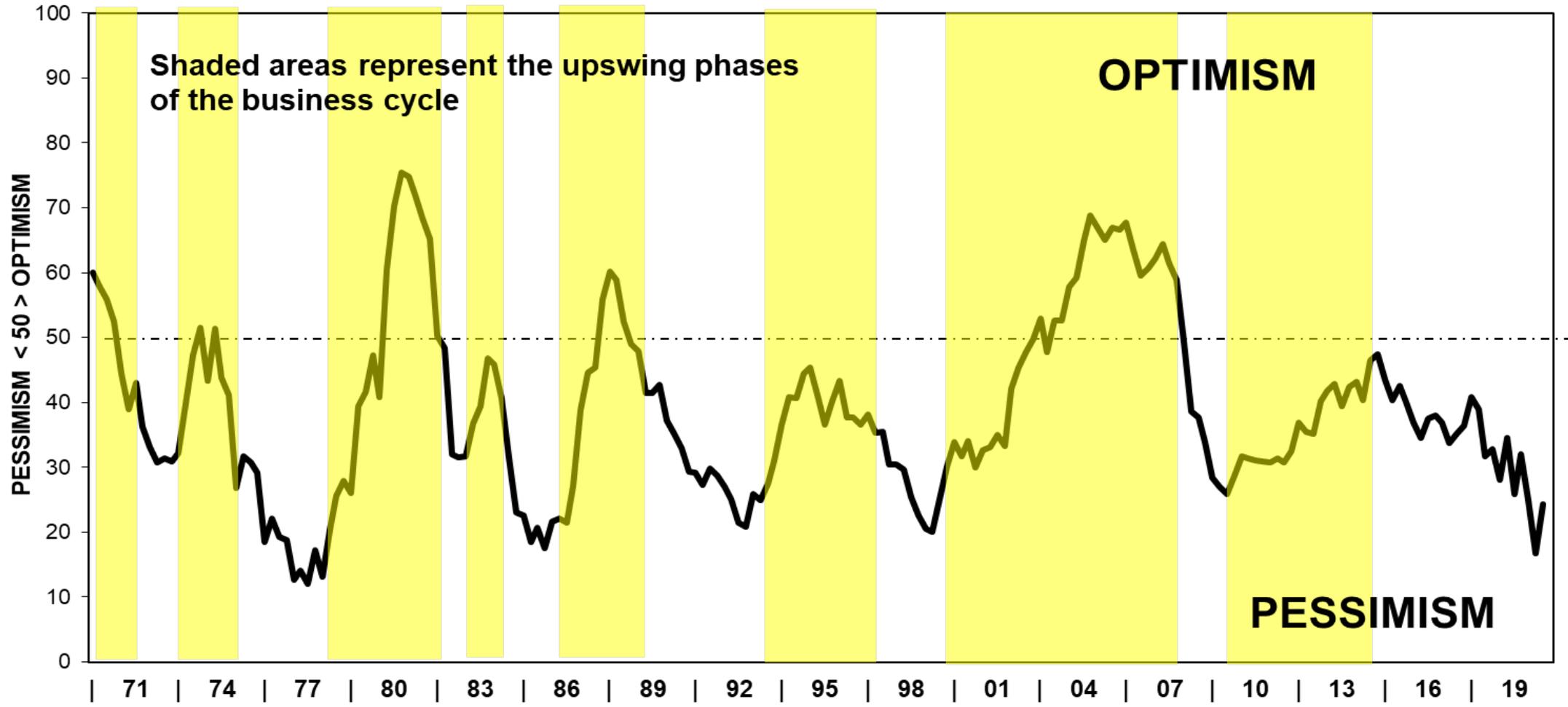


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Profitability of contractors and liquidations

- Building and construction industry is highly regulated with compliance costs forming a significant portion of total construction costs
- Profitability levels have significantly declined since the peak of the upswing in 2008/09
- Statistics SA: 2014/19
 - 594 construction firms liquidated
 - Including several of the major construction firms
 - Data up to July 2020 estimate for this year is an additional 100 construction firms to liquidate

MFA COMPOSITE LEADING INDICATOR (CLIBI) FOR THE SOUTH AFRICAN BUILDING INDUSTRY



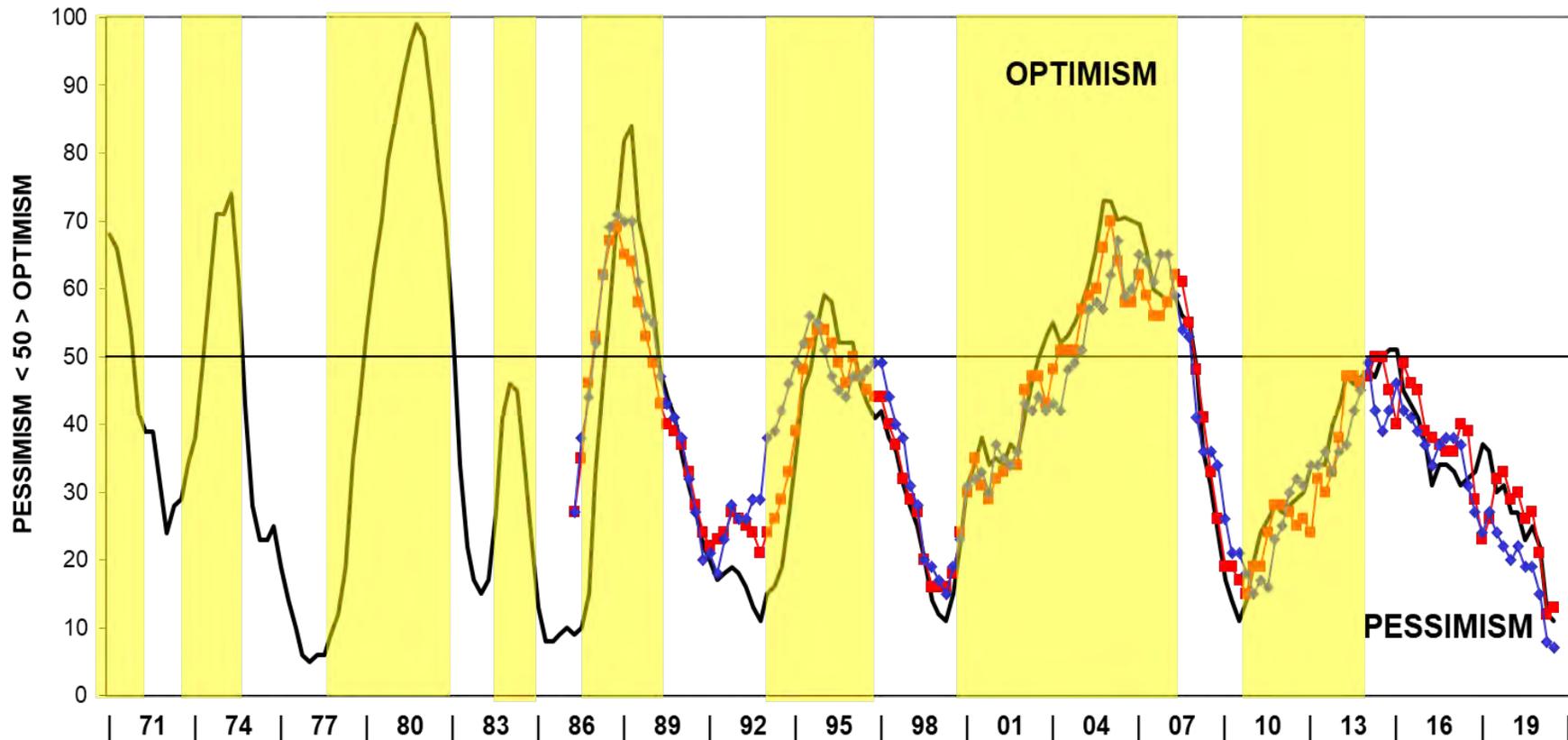
Source: FNB / BER; SARB; MFA DATABASE (Economic Upswings Shaded)



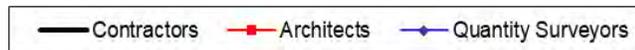
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During 2020Q2, all groups in the building pipeline are in the pessimistic zone of the graph. The reading of quantity surveyors is at an all-time low level.

**ARCHITECTS, QUANTITY SURVEYORS & BUILDING CONTRACTORS
BUSINESS MOOD 1970 to 2020**



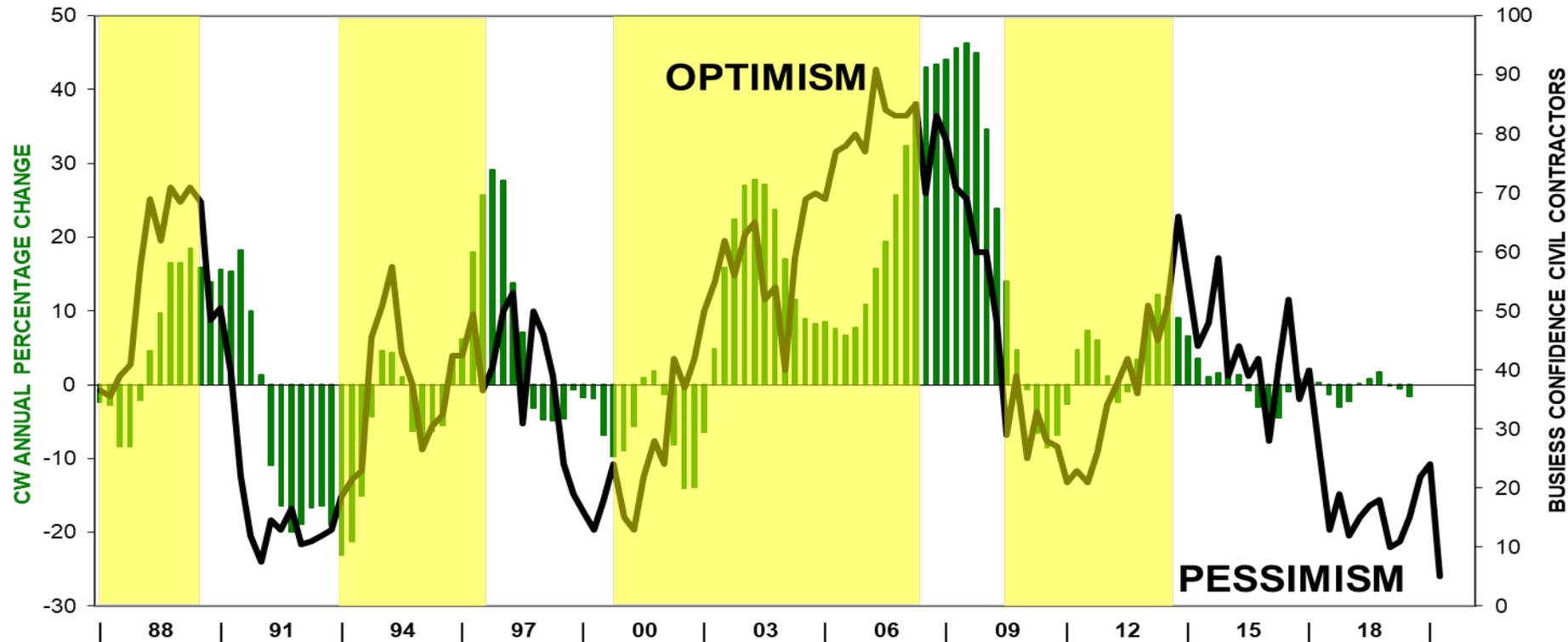
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The SARB investment figure for 2020Q1 shows a year-on-year drop of -1.8%. This finding suggests further real declines in construction works during coming years. Consequently, the confidence level of civil contractors is bumping along the bottom.

COMPARISON: BUSINESS CONFIDENCE CIVIL ENGINEERING CONTRACTORS & CONSTRUCTION WORKS ANNUAL PERCENTAGE CHANGE (SMOOTHED)



Source: BER; SAFCEC; SARB; MFA DATABASE

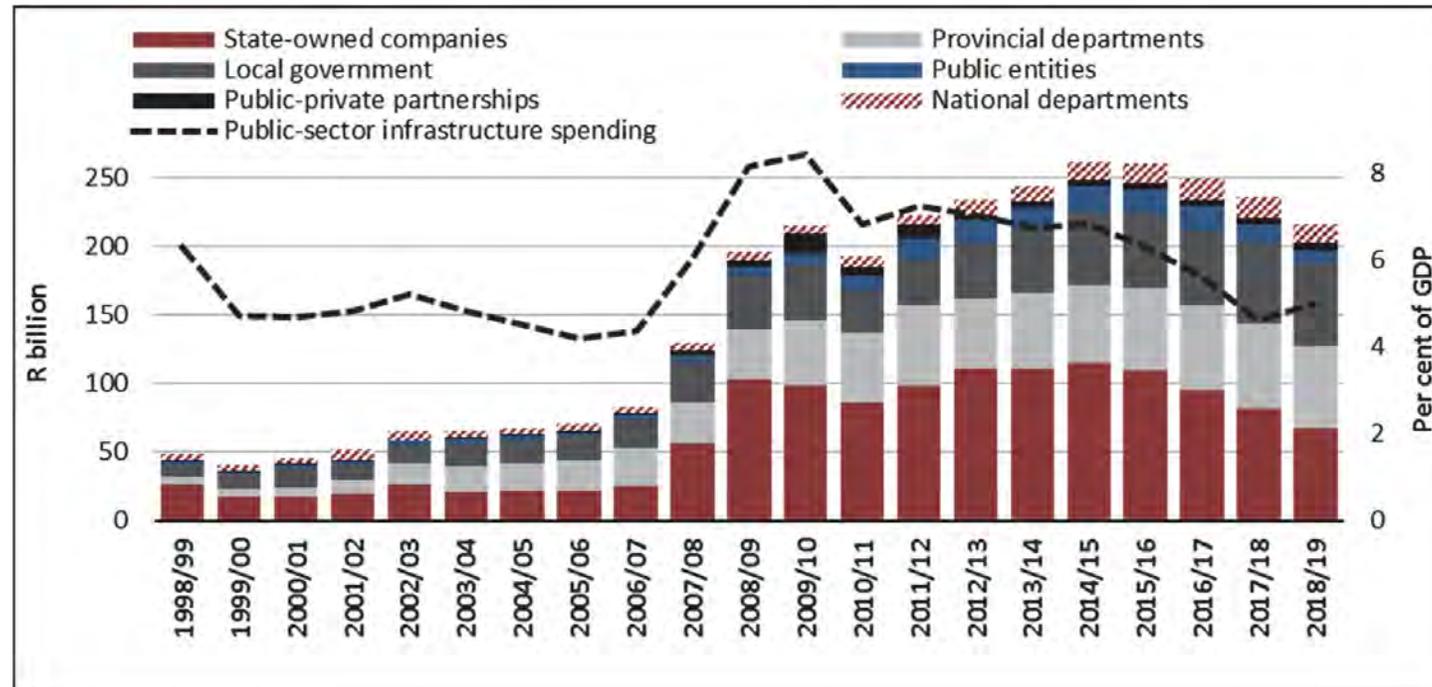
■ CW APC Smoothed — BUS CONFIDENCE CIVIL CONTRACTORS



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Public Sector Infrastructure Spending to date

(Source: National Treasury)



US\$1= R16.82

£1 = R21.51

€1 = 19.64

- Expenditure increased from R48.8 billion(1998/99) to R216.2 billion (2018/19)
- 1998/99 – 2006/07: average real growth = 8%
- Since FIFA World Cup in 2010, expenditure growth has been declining with average real growth of 2%

Government Infrastructure Plans

- 26th June – budget review
 - “slash and burn”
 - 276 infrastructure projects seeking international private investors
- 27th July
 - plans for 51 infrastructure projects gazetted
 - Estimated value = R360 billion
 - Fast tracked and strategically important
 - Tenders to be issued by October 2020

| Sector | Estimated R'billion |
|-------------------------------|---------------------|
| Water & Sanitation | 106 |
| Energy | 58 |
| Transport | 47 |
| Human Settlements | 138 |
| Digital/technology | 4 |
| Agriculture & Agro-processing | 7 |

Key Macroeconomic forecasts

(Annual Percentage Change)

| | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> |
|---------------------------|-------------|--------------|--------------|-------------|-------------|-------------|
| GDP | 0.8 | 0.2 | -9.0 | 4.0 | 4.5 | 3.0 |
| Inflation | 4.7 | 4.1 | 3.0 | 4.0 | 5.5 | 5.8 |
| Residential | -3.2 | -3.8 | -15.0 | -3.0 | 9.0 | 7.0 |
| Non-Residential | -3.3 | -11.5 | -22.0 | -5.0 | -4.0 | 7.0 |
| Construction Works | -0.1 | -0.9 | -15.0 | -9.0 | -3.0 | 5.0 |

Sources: Nedbank, BER, MFA

Challenges

- Severely diminished capacity in the construction sector to deliver on these projects (if they see the light of day)
- Have to be funded by international donors (IMF, World Bank, G20, African Development Bank)
- Diminished capacity of government to repay the debt (declining treasury income)
 - Projected shortfall of R300 billion in tax collection for 2020
 - Predicted total budget deficit of R761 billion (15% of GDP)

Challenges

- Corruption and state capture (?)
- Inadequate and expensive electricity, water crisis...
- It is not just about growing capital expenditure on infrastructure
- Spending needs to translate into economic growth
- If we have projects that have gone through stakeholders and approvals that are “shovel ready” – get them going immediately!
- Need to consider regulatory failure as the problem (not market failure)
- Government has run out of money,
 - needs to “play the supply side”
 - play the business confidence game
 - make it easier to do business
- *Overall a disruptive year, in an already ailing economy*



THANK YOU

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