

Overview of the Gauteng Construction Sector

Presented by:
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Industry Insight



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AGENDA SLIDE

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1

Global and Domestic Outlook

Brief overview of the main points affecting the global and domestic economic outlook

2

Cement Volumes

Domestic and Import Volumes

3

Gauteng Construction Industry

With a focus on Tshwane, Johannesburg, Ekurhuleni and the private sector

4

Budget 2023, Forecast

What is the most likely outlook for the industry?.



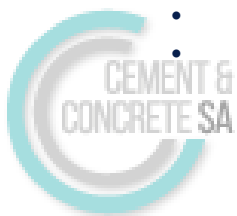
Sluggish Global and Domestic Growth outlook

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	2018	2019	2020	2021	2022	2023	2024
World	3.5%	2.8%	-3.1%	6.2%	3.4%	2.9%	3.1%
Advanced Economies	2.2%	1.6%	-4.5%	5.4%	2.7%	1.2%	1.4%
US *	3.0%	2.2%	-3.4%	5.9%	2.0%	1.4%	1.0%
Eurozone *	1.8%	1.3%	-6.4%	5.3%	3.5%	0.7%	1.6%
UK *	1.3%	1.4%	-9.4%	7.4%	4.1%	-0.6%	0.9%
Emerging markets	4.5%	3.6%	-2.0%	6.7%	3.9%	4.0%	4.2%
Brazil	1.3%	1.4%	-3.9%	5.0%	3.1%	1.2%	1.5%
Russia	2.5%	1.3%	-2.7%	4.7%	-2.2%	0.2%	2.1%
India	6.1%	4.2%	-7.3%	8.7%	6.8%	6.1%	6.8%
China *	6.8%	6.0%	2.3%	8.4%	3.0%	5.2%	4.5%
Sub-Saharan Africa	3.3%	3.2%	-1.7%	4.7%	3.8%	3.8%	4.1%
SA	0.8%	0.2%	-6.4%	4.9%	2.6%	1.2%	1.3%

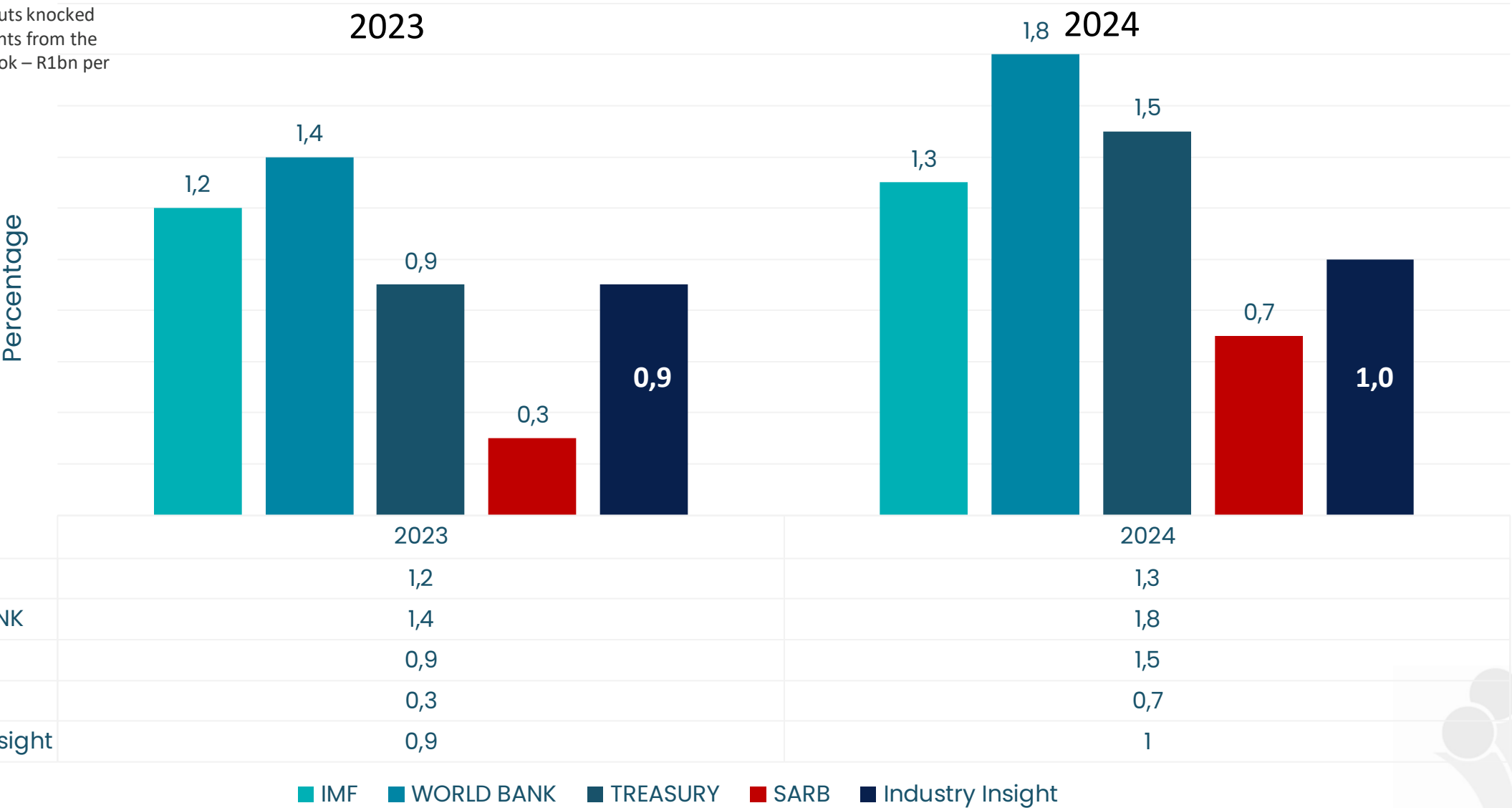
- 40% weak activity in trading partners
- Collectively (on average) 48 percent lower compared to 2018

Source IMF World Economic Outlook January 2023



SARB takes a more bearish outlook and is the least optimistic regarding growth outlook

SARB: Rolling blackouts knocked off 2 percentage points from the annual growth outlook – R1bn per day



SARB projects moderate cut in the repo rate by end 2024, stabilise in 2025, upside risks remain (USA price inflation and energy prices)

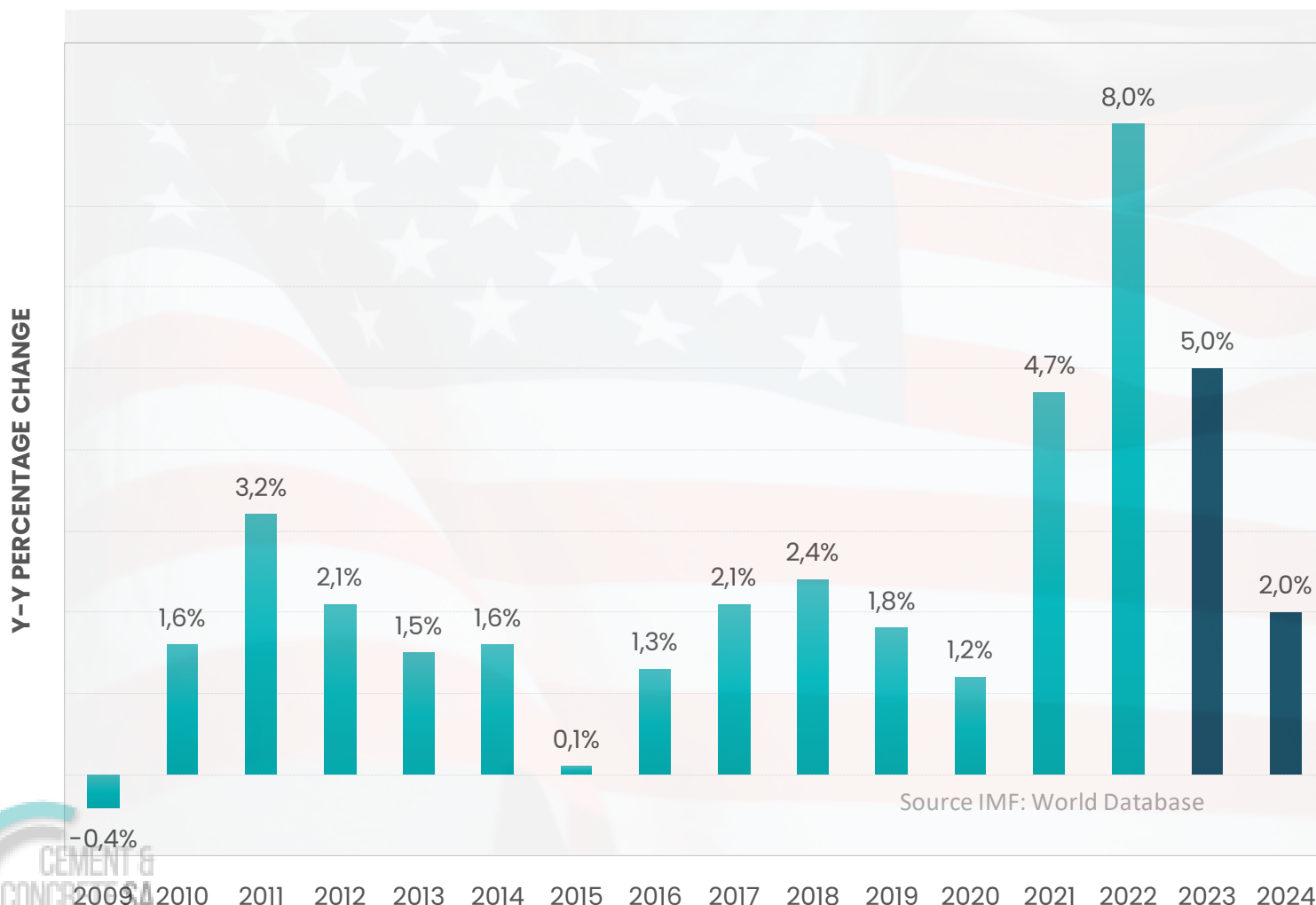


All about the USA's next move....

If inflation starts to moderate without easing MP, translate to significant dollar strength, putting pressure not only on SA's currency, but globally

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US Consumer Inflation



“However, it now appears likely that the Fed is going to keep rates elevated for the foreseeable future. **Not a single member of the Federal Open Market Committee expects rate cuts in 2023**”

“Rate cuts are possible by **September 2023**”

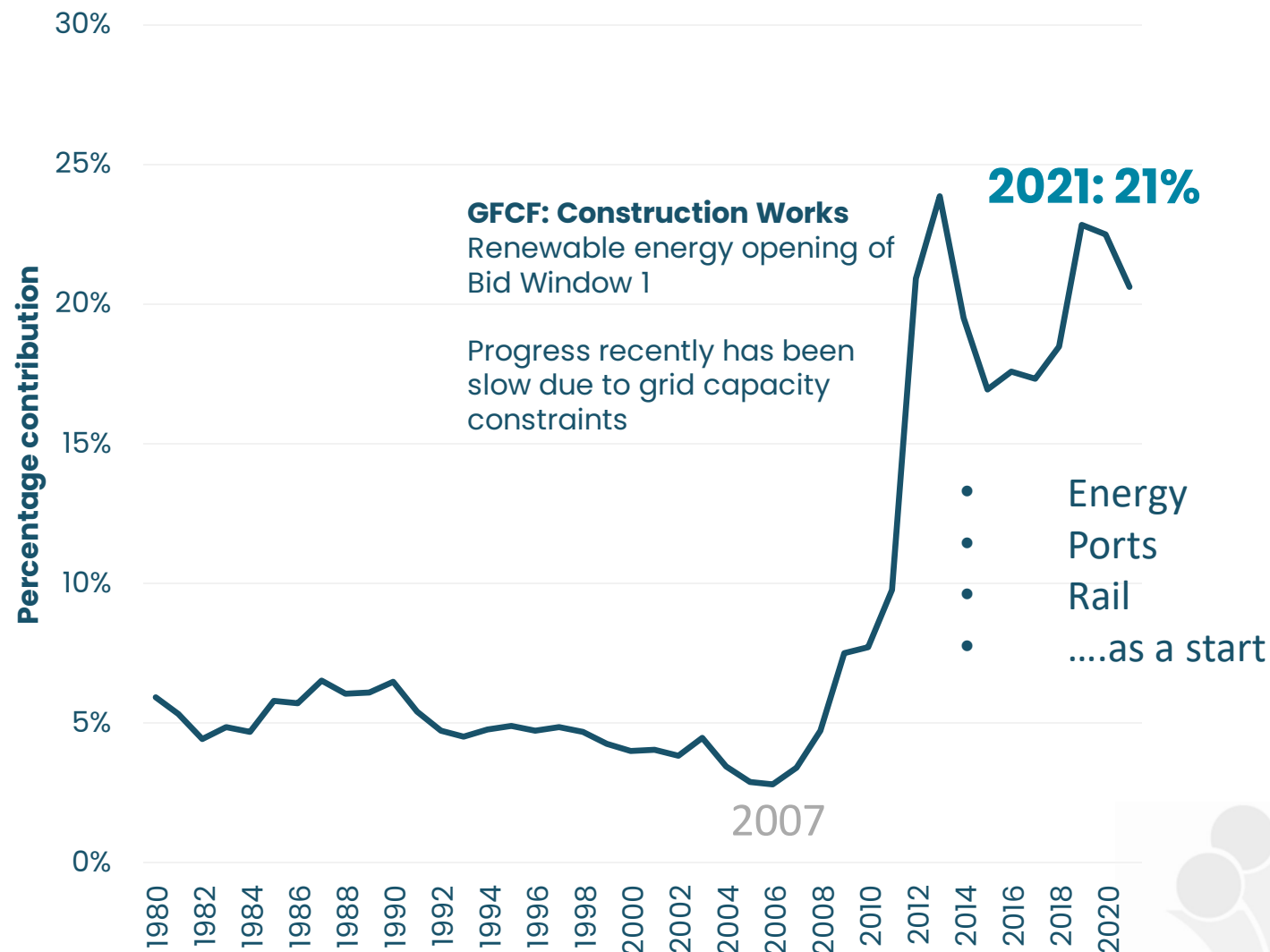
Global catastrophe if the
US does not start to cut
lending rates to reign in
real rates back to around
2 percent



Will the private sector be playing a more active role in economic infrastructure development?

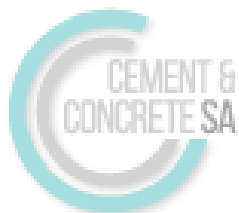
Loadshedding and development of new trading partners through the Russian invasion, may be catalysts to fast track private sector participation in economic infrastructure

- Looking back someday we may be thanking Loadshedding
- But it has to become more than just Renewable energy
- Impact on construction is limited 10 – 15%



“The problem with socialism is that you eventually run out of other people’s money”

Margaret Thatcher

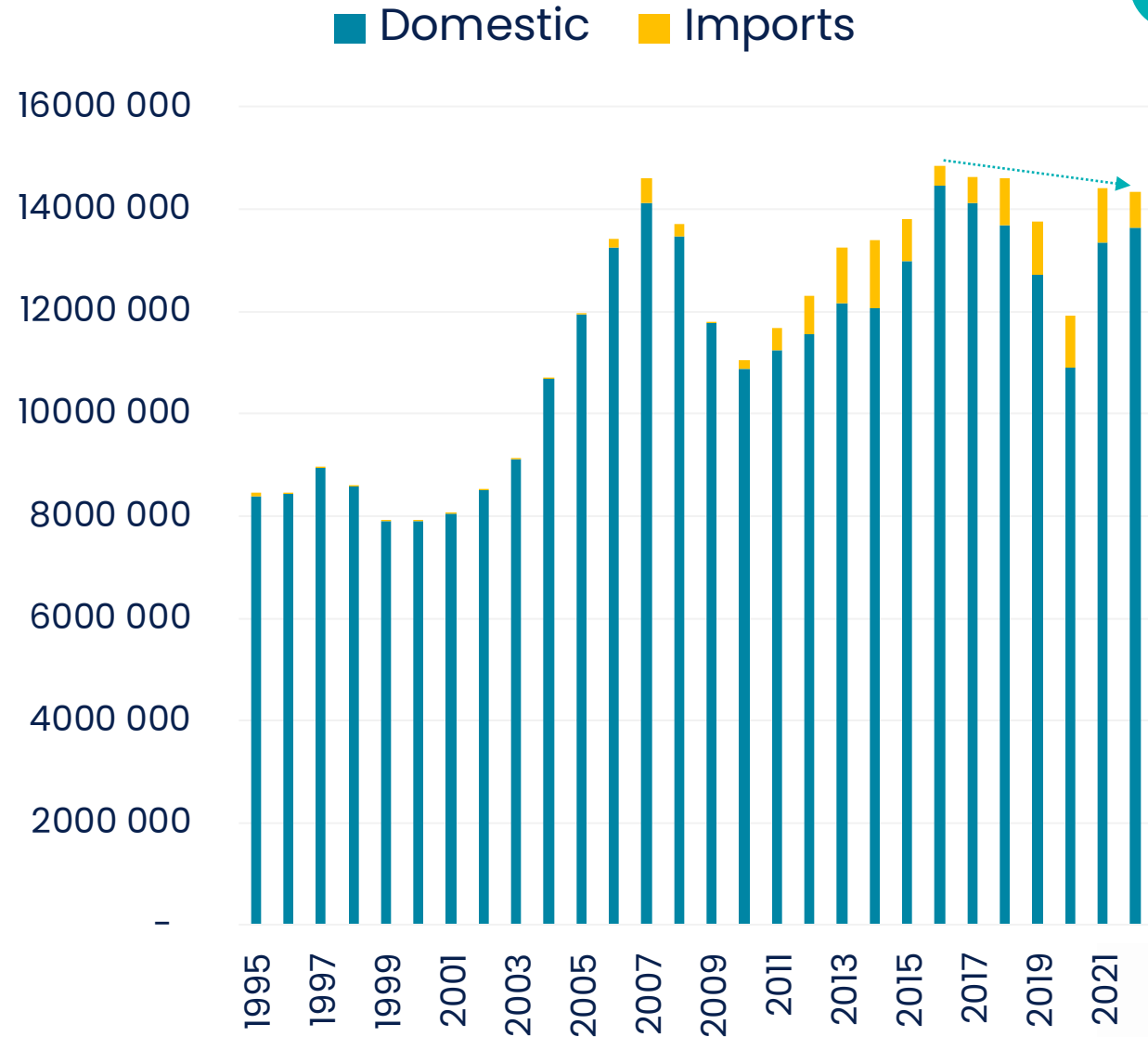


Source: SARB

Cementitious market

Domestic sales and imports

- Last official stats released was for 2020Q3
- Weaker import market in 2022, down 33%, (714 000 tons) contributed 5 percent of total domestic market
- Cement volumes have been tapering off since 2016, strong rebound in 2021 (DIY market), surprising **resilient** considering the decline in investment
- Domestic cementitious sales volumes estimated at 13,6mt (2022), down 0,4 percent y-y

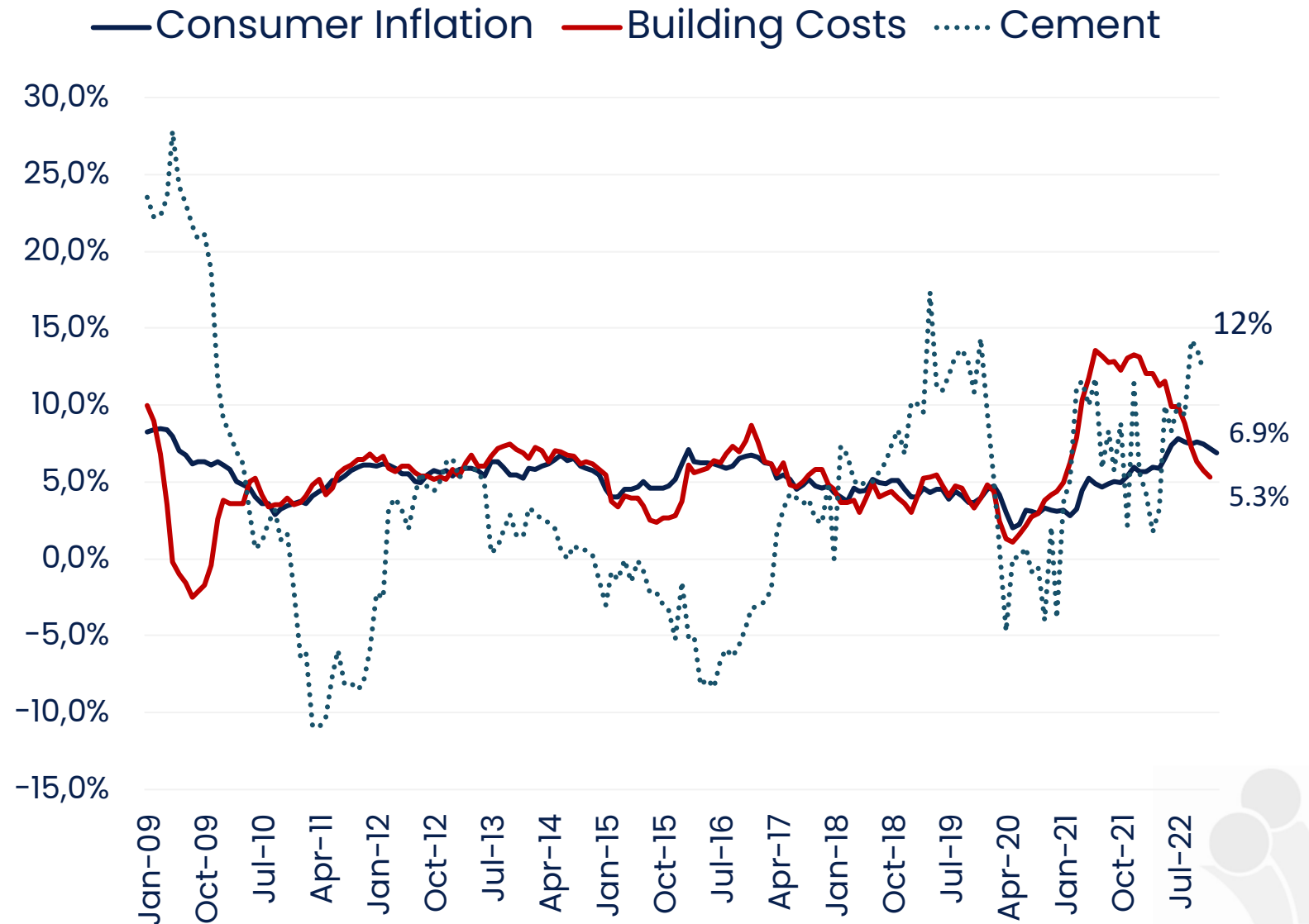


Building costs outpaced consumer inflation in 2021/22

But rate of increase is slowing more rapidly

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- Building Cost inflation averaged 9,1 percent in 2022 (moderated to 5,3 percent in Dec-22, below inflation)
- Cement price adjustments were below average between 2010 and 2017
- Cement averaged 9 percent in 2022, but ended up 12 % in Dec-22



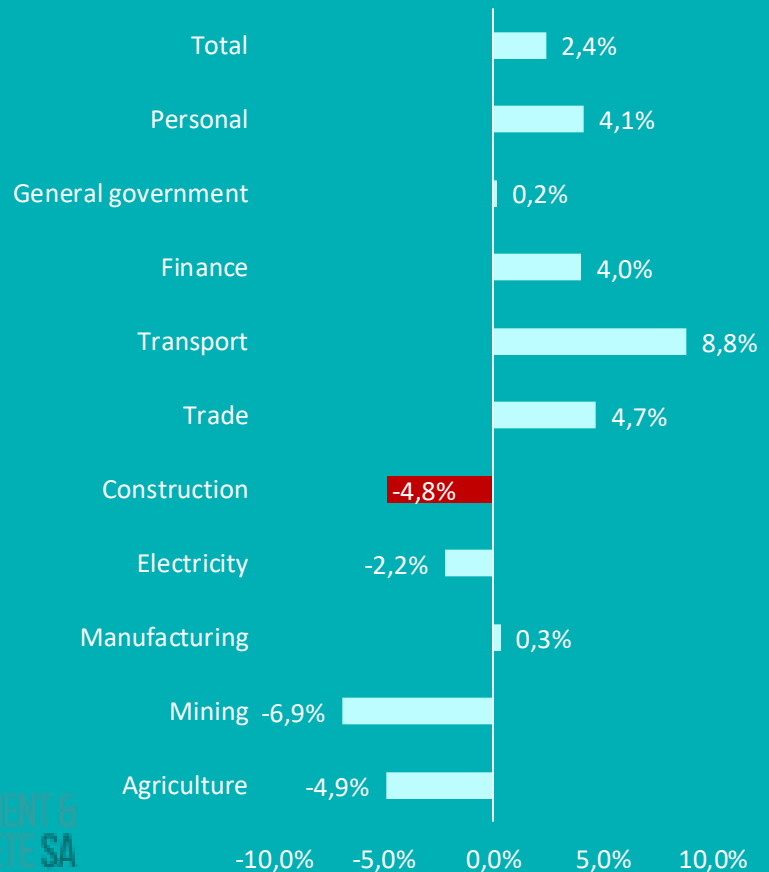
Tough period for the local construction industry

Sector hardest hit in 2022

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GDP Performance

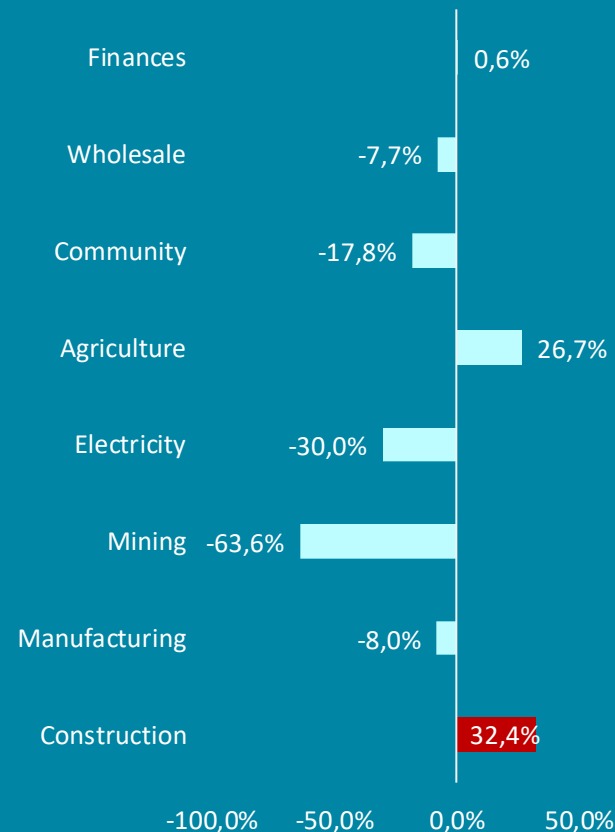
Average 2022 (3rd QTR)



Source: SARB

Liquidations

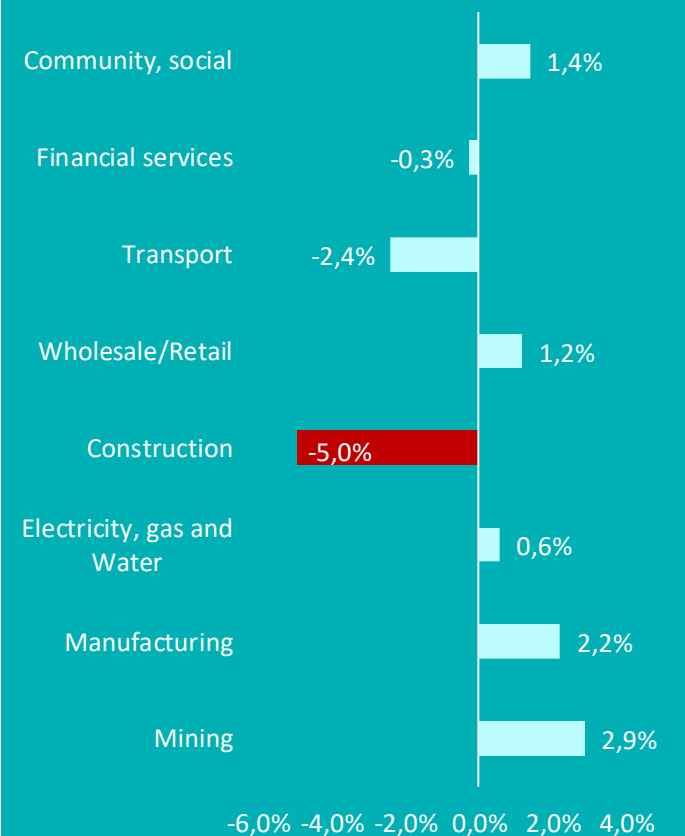
2022 vs 2021



Source: Stats SA

Formal employment

2022 vs 2021



Source: Stats SA Quarterly Employment Earnings

...but there are few recent highlights

GFCF and FDI

- Residential investment ticked back up in Q3 2022
- Rate of decline is slowing in non-residential and civil works investment
- 36% in Foreign direct investment in 2021 compared to 2019 (pre-covid)
- 50% increase in the estimated civil tender values (2022)
- >100% in January 2023

Source: SARB

Confidence levels: Civil

Improved to
31, the
highest level
since March
2017

Source: Stats SA

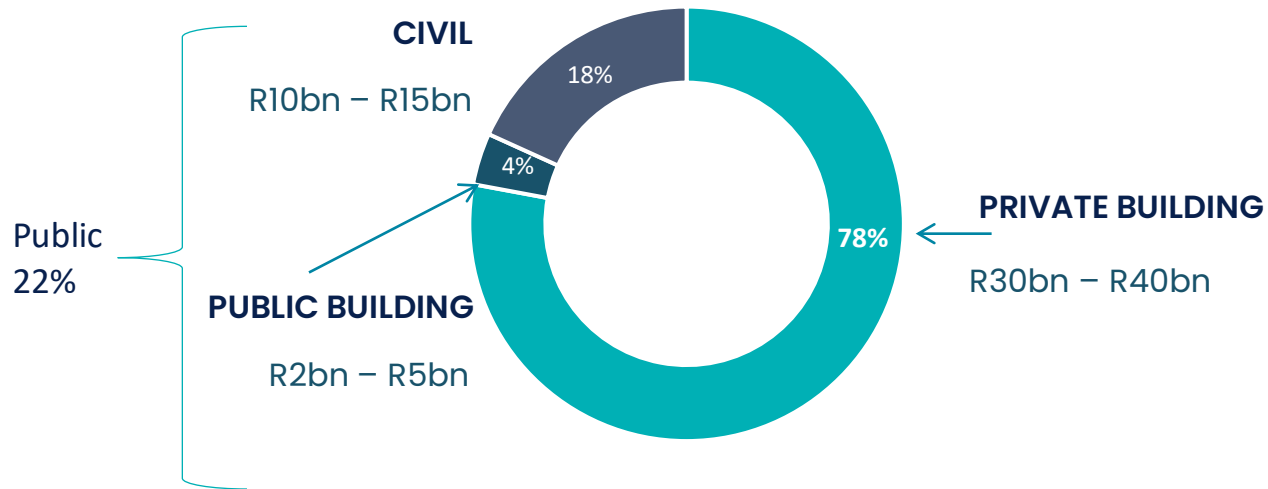
Consulting Engineers show higher levels of optimism in first half of 2022

Improved to
59 in first half
of 2022, the
highest level
since 2016/17

Source: Stats SA Quarterly Employment Earnings

Construction profile in Gauteng

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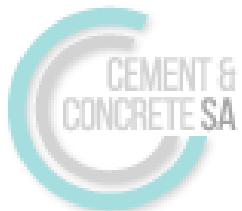
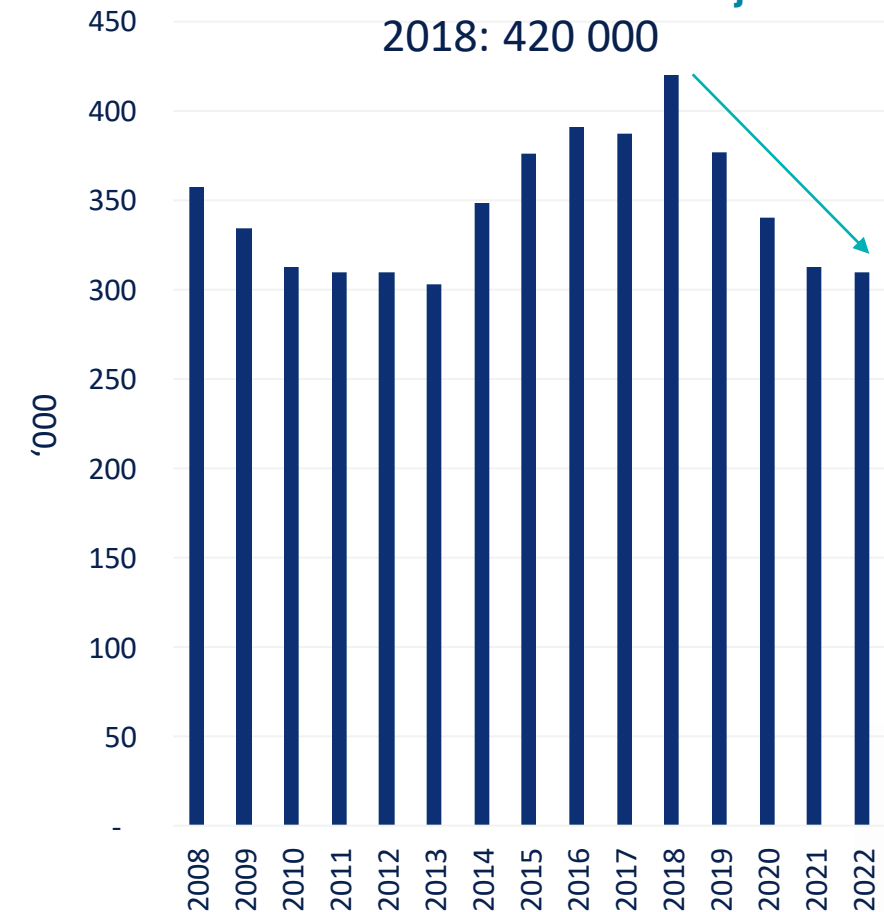


R42bn – R60bn

Gauteng Construction Labour Force (Formal and informal)

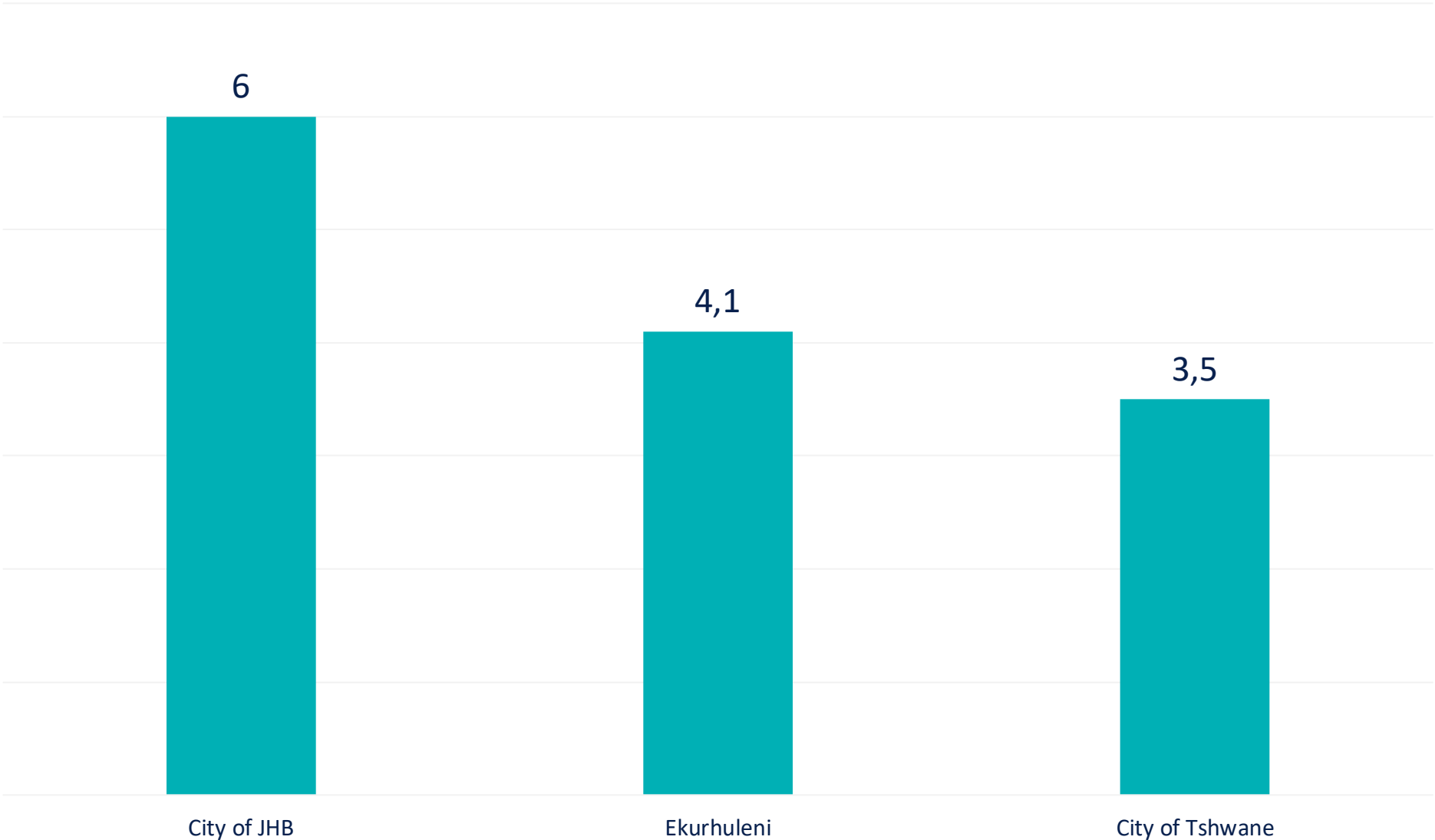
Shed 26 percent of its labour force since 2018 (110 000 job opportunities)

- 2022 (avg): 310 000
- Q3: Drop of 13 000 jobs



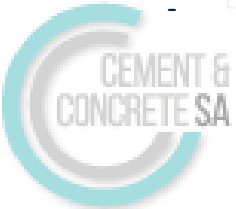
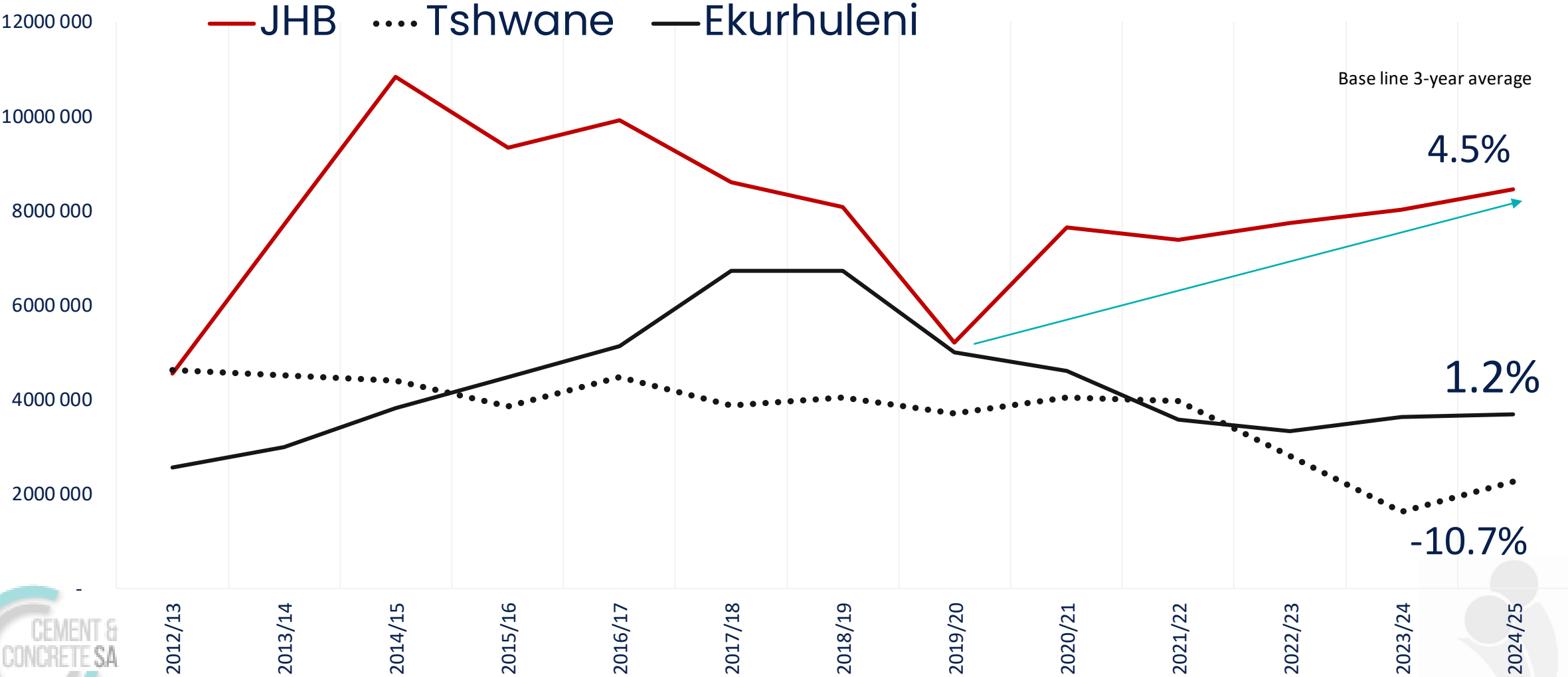
Source: SARB, Stats SA, Databuild, Treasury, Industry Insight

Three Metro's account for close to 70% of total provincial population



GAUTENG METRO'S CAPITAL BUDGETS

Average CUMULATIVE **nominal decline of 1 percent** over the three year period up to 2024/25
Overall poor performance for Metro's that must cater for close to 14 million people

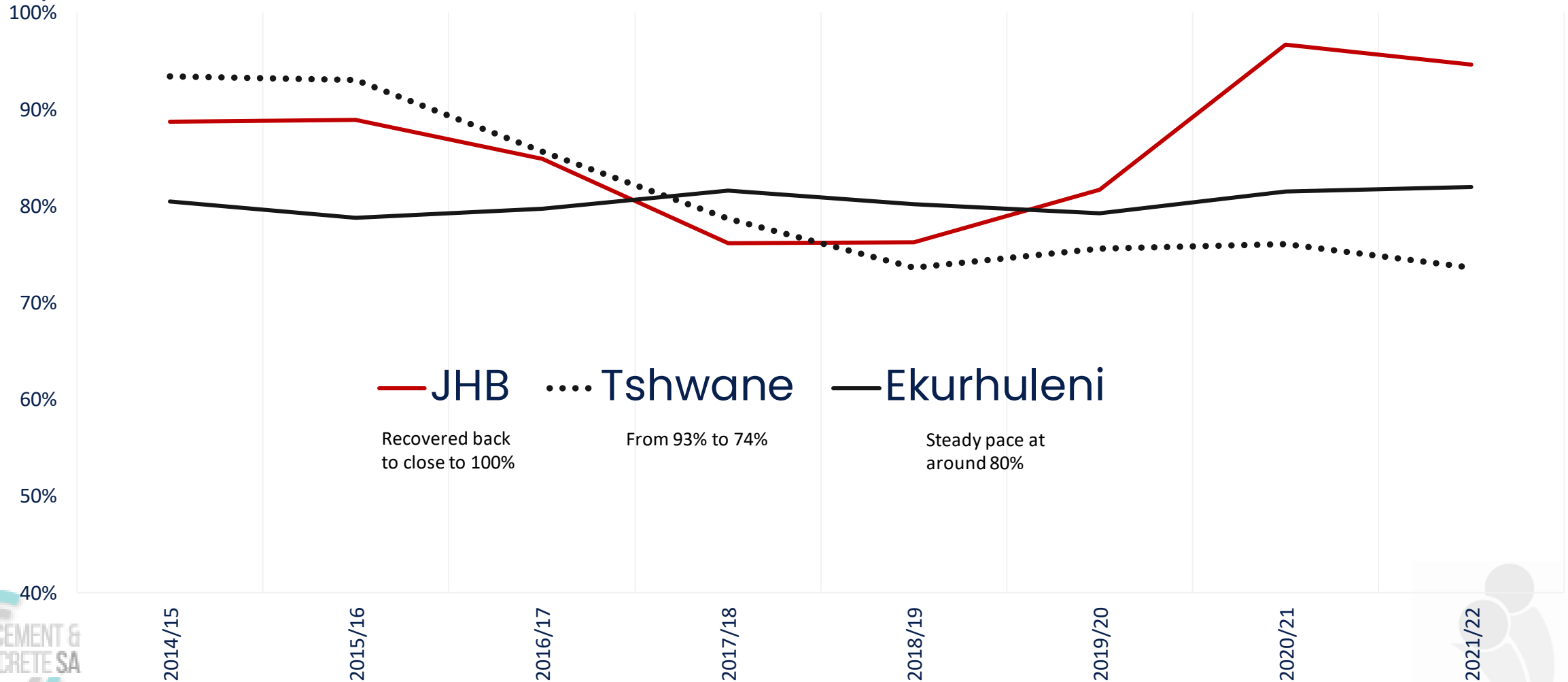


Source: Treasury, Industry Insight

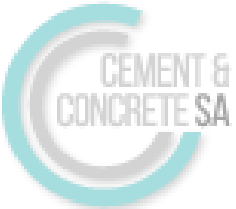
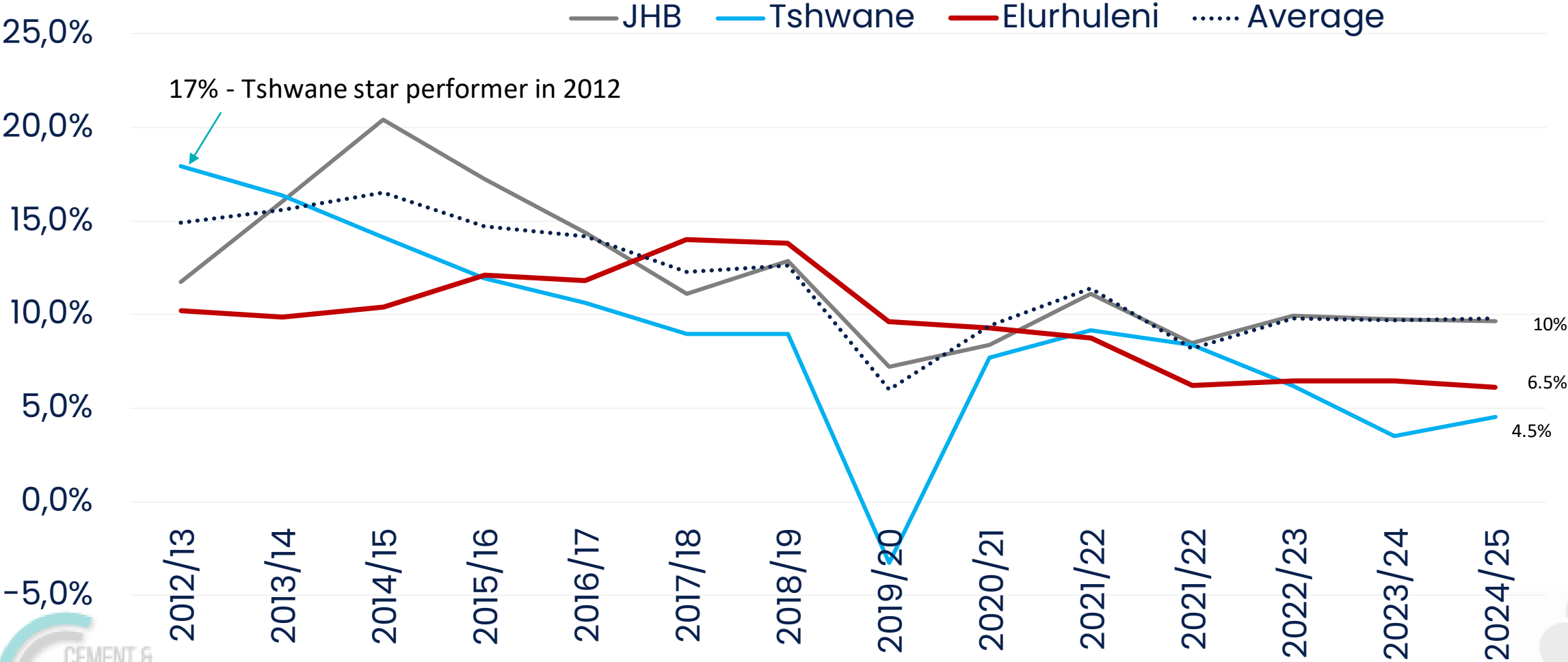
GAUTENG METRO'S ACTUAL CAPITAL EXPENDITURE RATIO– 3 YEAR MOVING AVERAGE

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Actual expenditure rate deteriorated from **AN AVERAGE OF 84%** prior to 2019/20 to **80%** in 2021/22



Capital budget contribution projected to slow to 8,9% of total expenditure by 2024/25 – below average (from an average of 16% prior 2019)

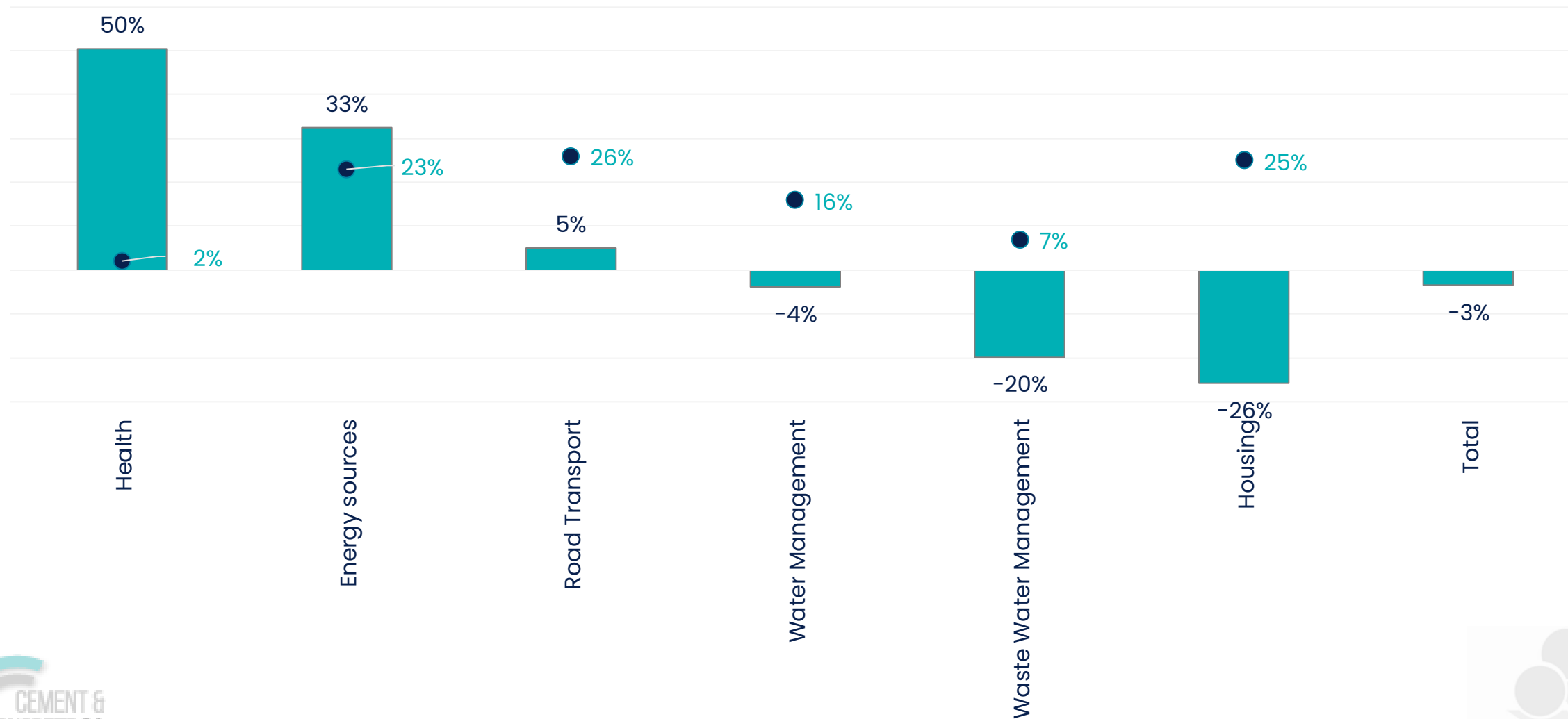


Source: Treasury, Industry Insight



Capital Budget: Winners and Losers in the **2022/23 Budget** (cumulative)

■ Per.chg ● Market share

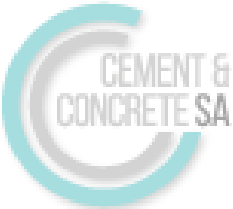
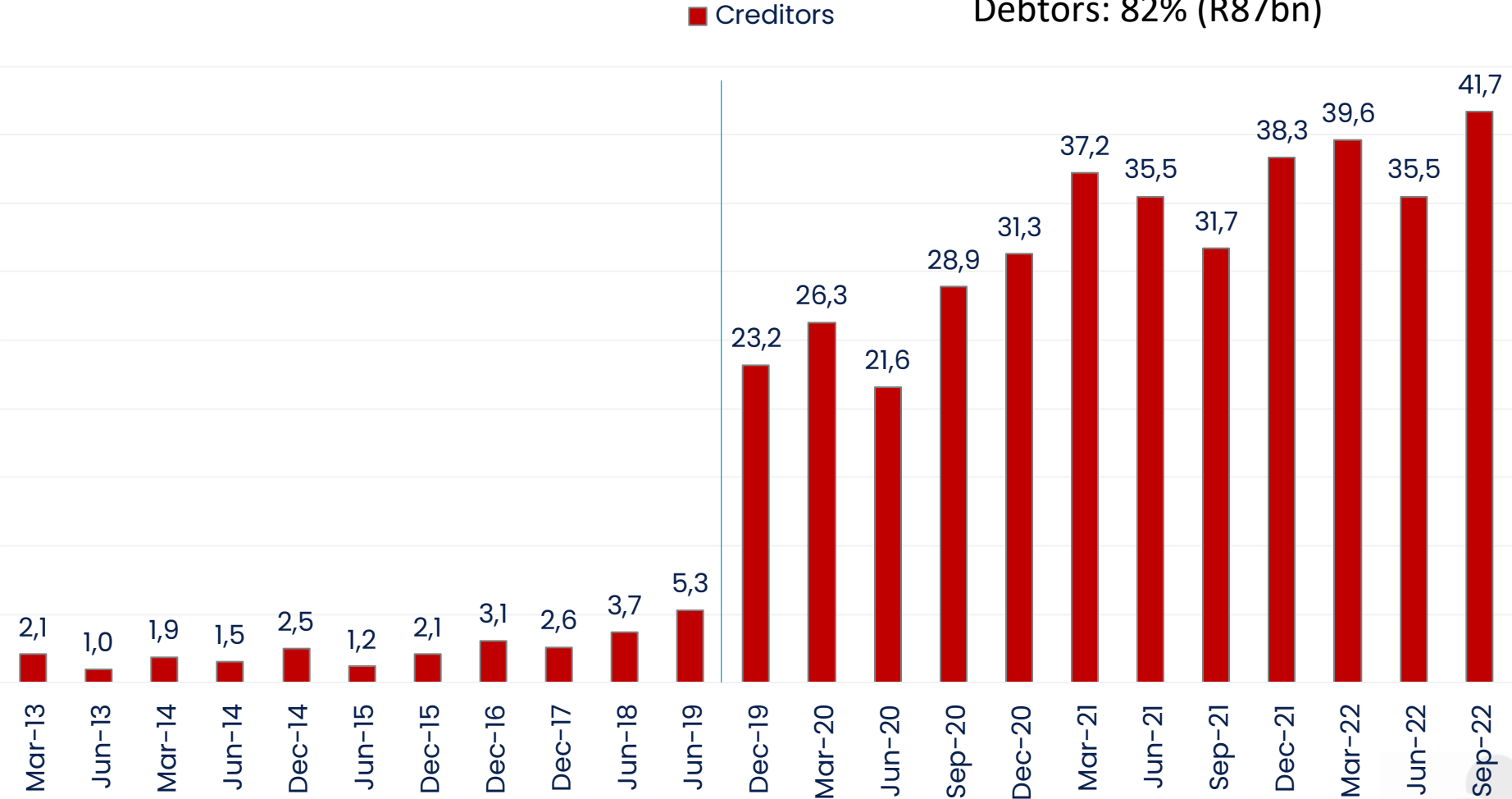


2022/23 Budget	City of JHB	Ekurhuleni	Tshwane	Total	Share	Per.chg 2021/22
Housing	1 548 585 925	583 313 488	441 730 924	2 573 630 337	25%	-26%
Health	121 700 000	5 050 000	59 500 000	186 250 000	2%	50%
Road Transport	1 683 625 001	577 287 922	441 190 769	2 702 103 692	26%	5%
Energy sources	1 227 736 000	558 033 106	595 675 670	2 381 444 776	23%	33%
Water Management	593 441 000	690 250 000	383 531 174	1 667 222 174	16%	-4%
Waste Water Management	318 954 000	91 558 800	337 421 788	747 934 588	7%	-20%
Total	5 494 041 926	2 505 493 316	2 259 050 325	10 258 585 567	100%	-3%
Share	54%	24%	22%	100%		
Per.chg 2021/22	4%	-3%	-18%	-3%		

GT Provincial Payment issues

CREDITORS AGE ANALYSIS
Percentage outstanding for longer than 90 days

Creditors :**R8,9bn**
outstanding (Sep-22)
Debtors: 82% (R87bn)



Source: Treasury, Industry Insight

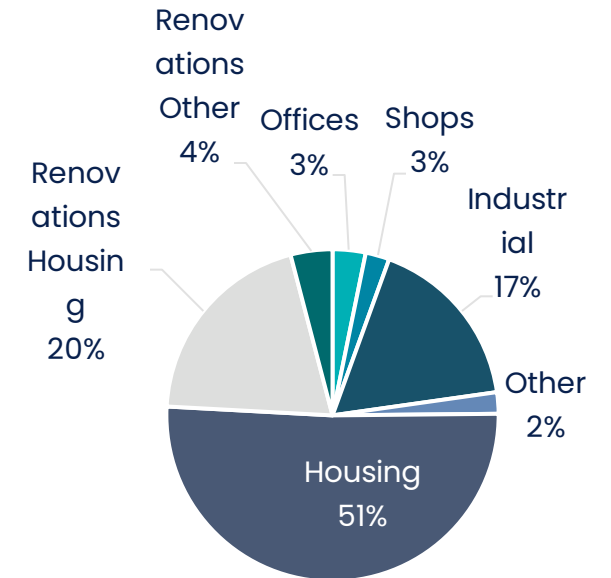
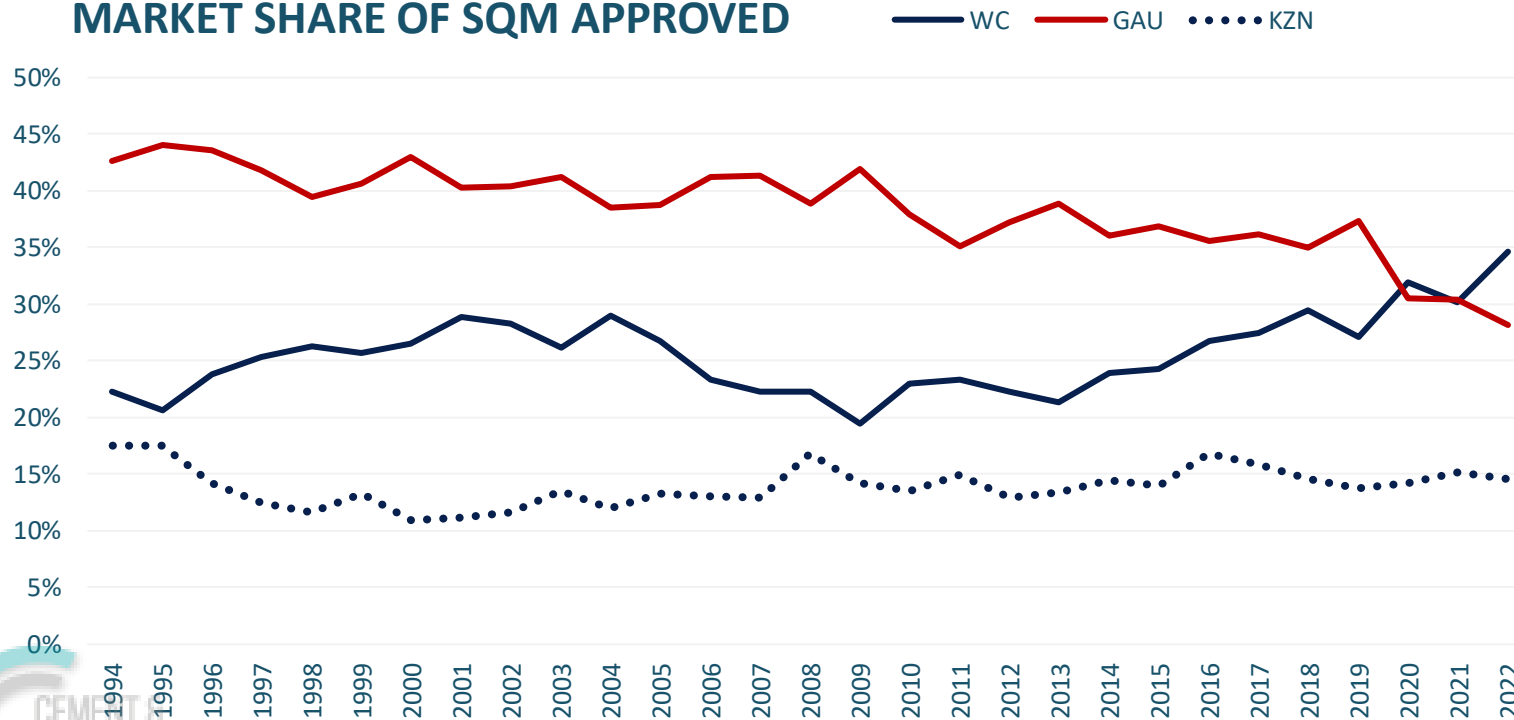


GAUTENG'S market share of **private sector** building SLOWED to 28%

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- Around than 4 million SQM approved in 2022 (compared to 4.8m in WC)
- 17 percent lower compared to WC
- Valued at R36bn – R1bn lower compared to WC
- Represented 28 percent of the total national market (1994: 43%)

MARKET SHARE OF SQM APPROVED



Strong focus on housing and Industrial (68% – Similar profile to KZN)

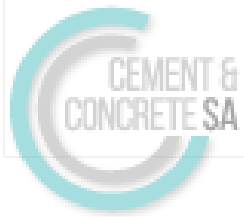
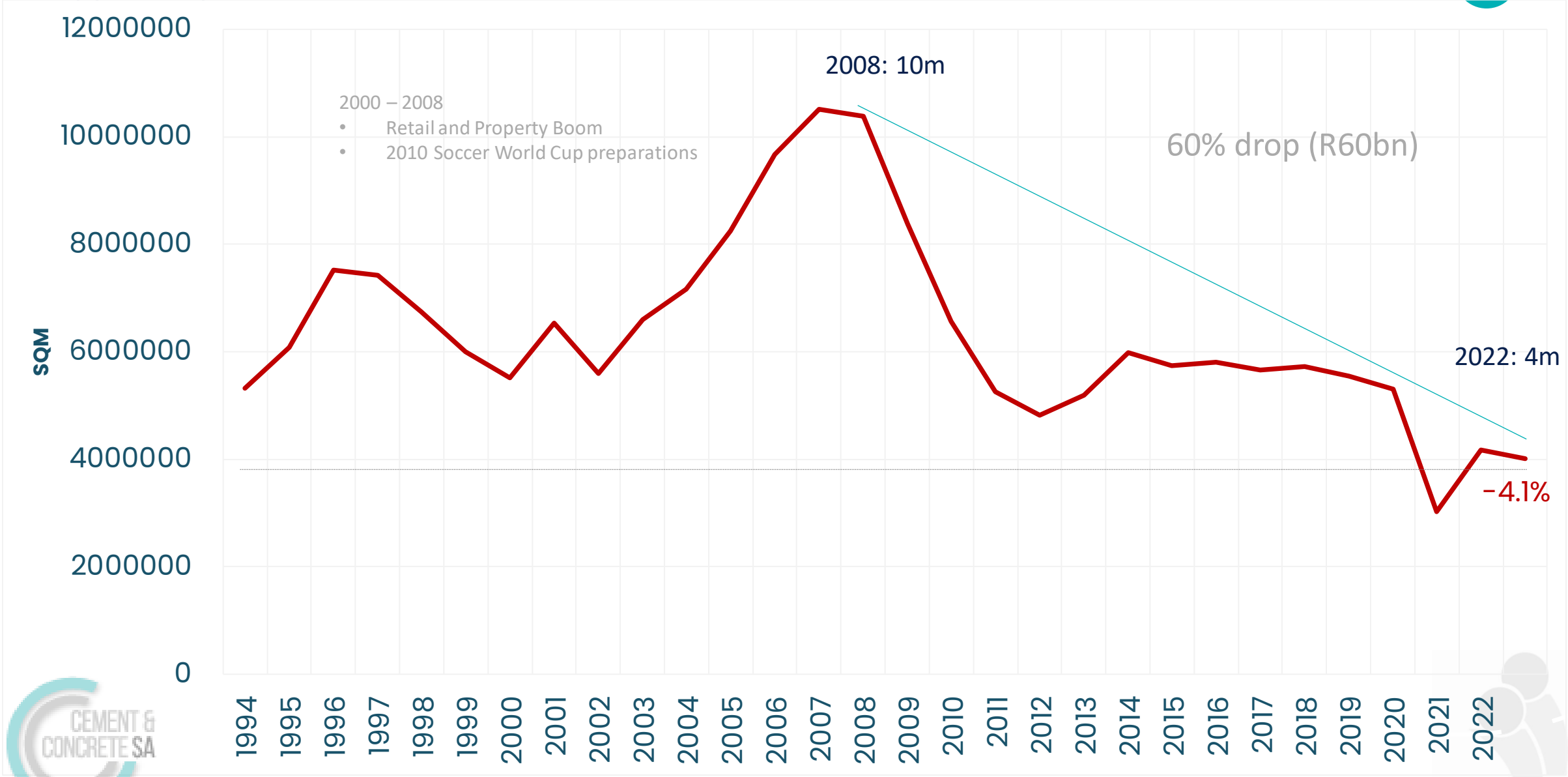


Source: Stats SA, Industry Insight



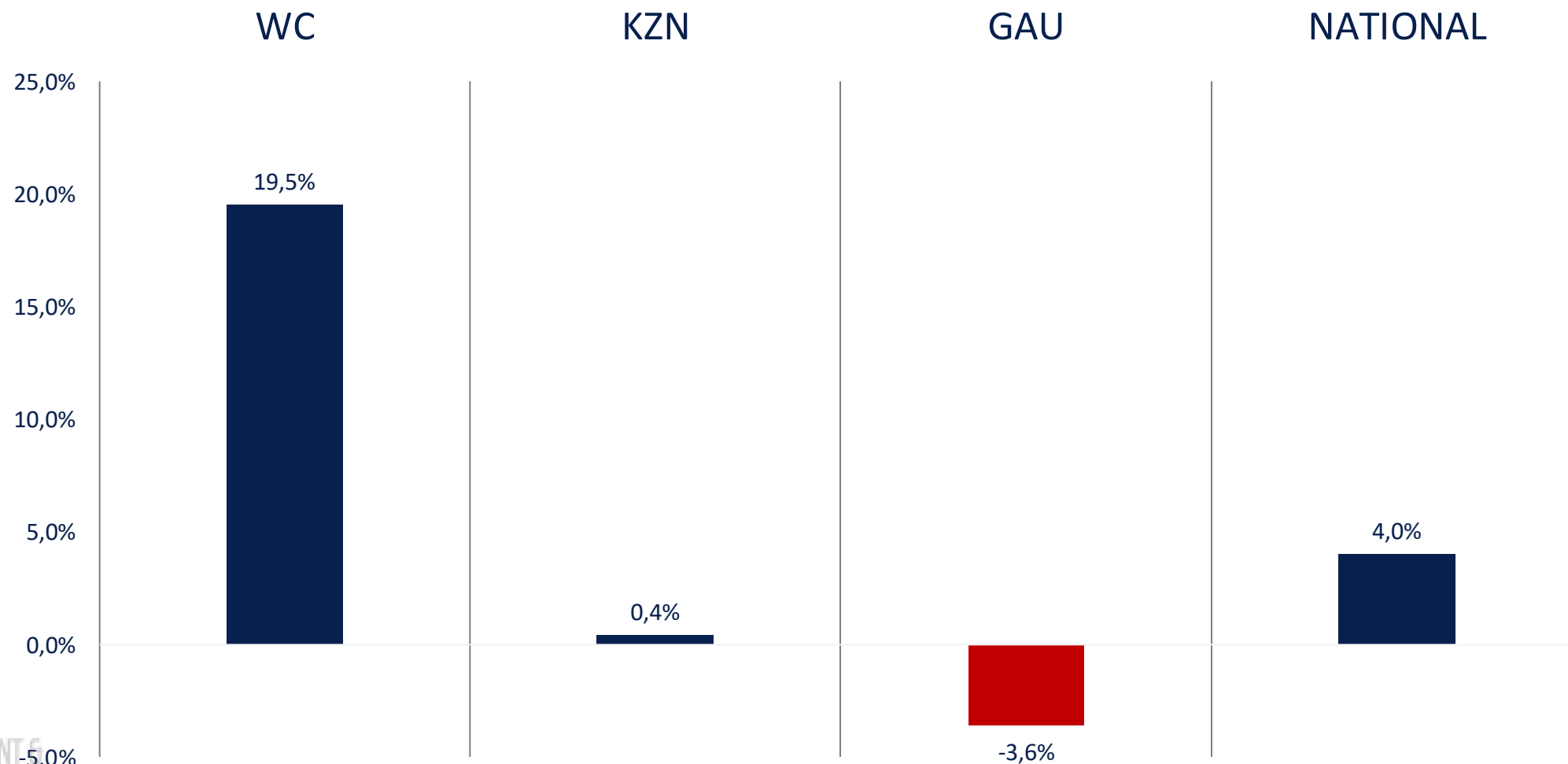
Approvals in Gauteng slow to record low levels

SQM approved per annum



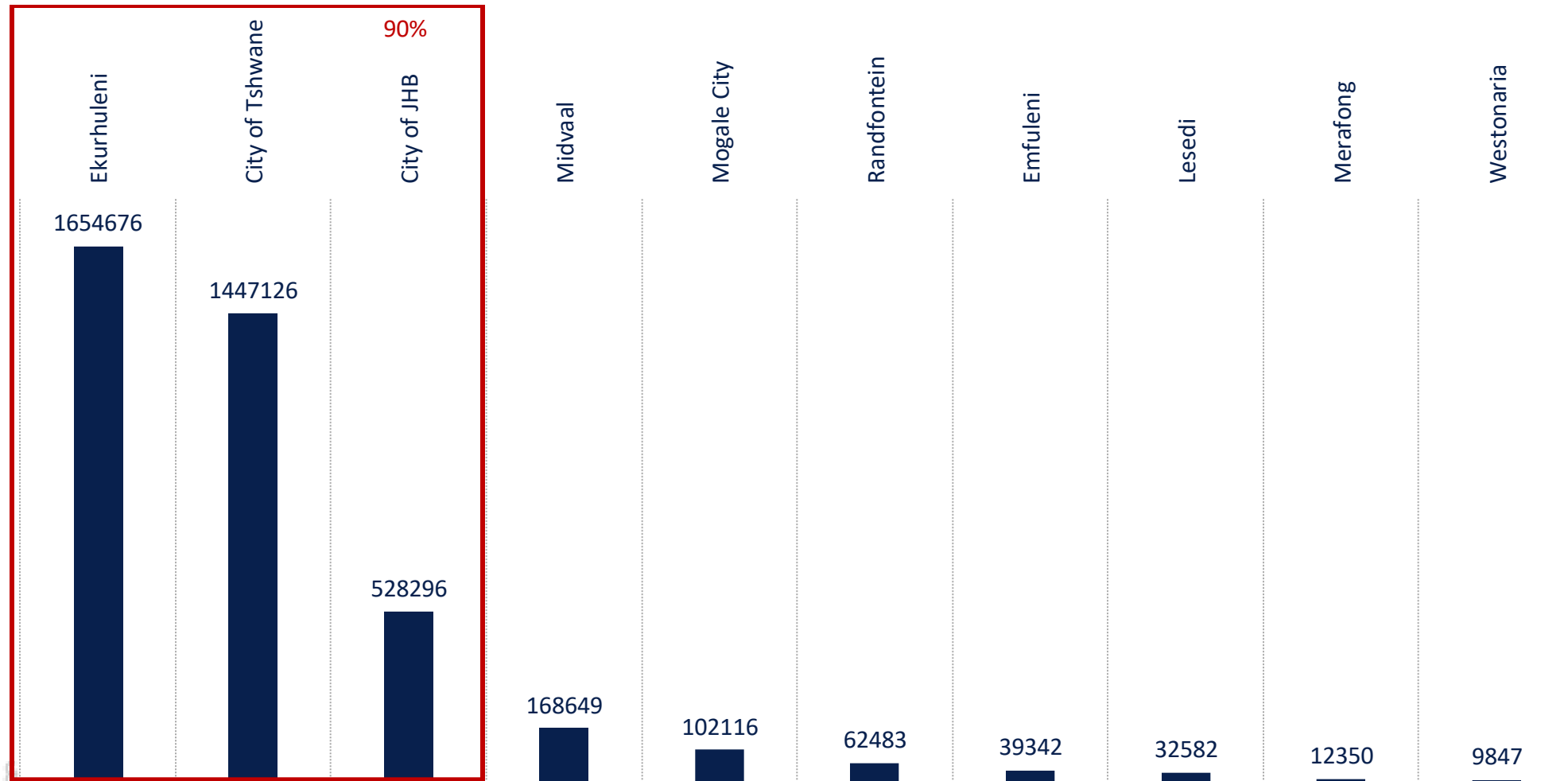
Gauteng's building approvals remain below pre-covid level (2019) in 2022, below the national average and significantly lower compared to WC

22

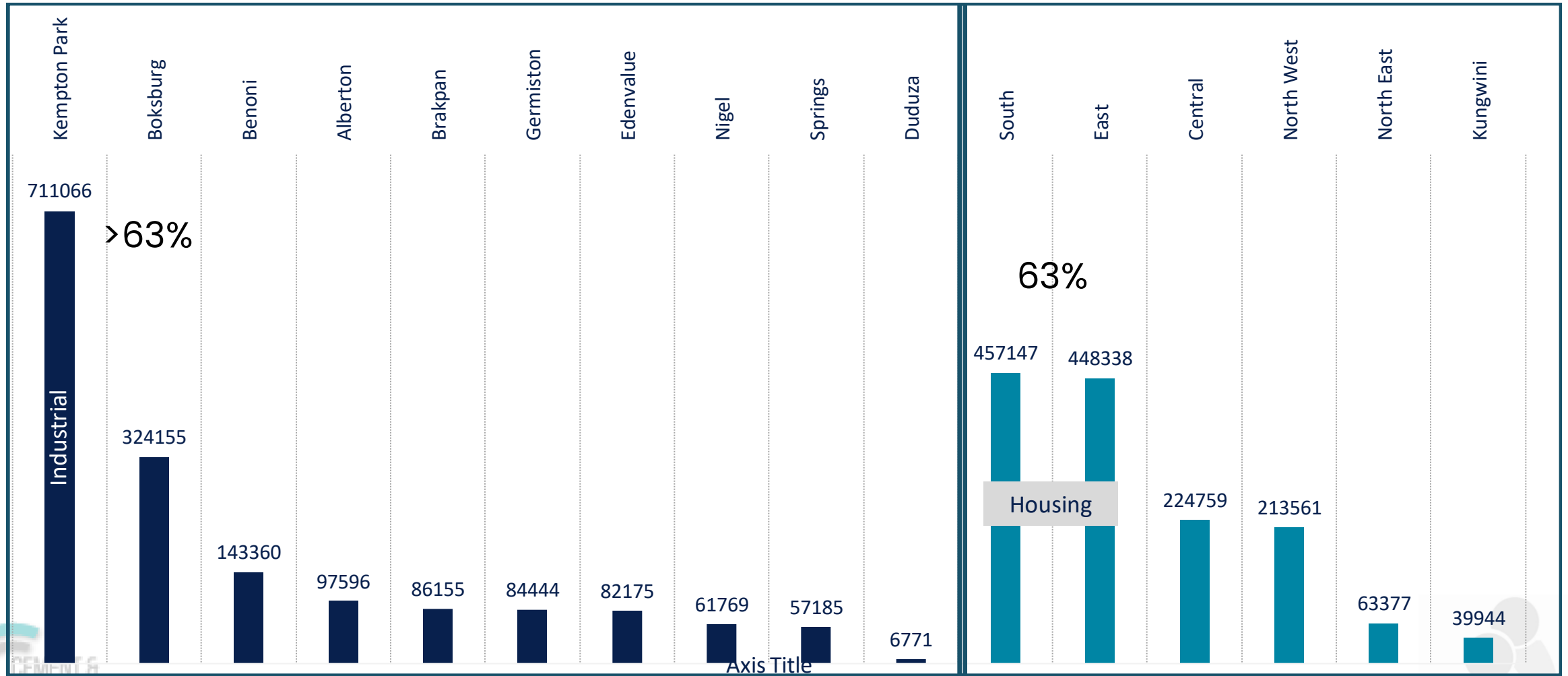


Areas with the highest number of SQM's approved for private sector construction in 2021?

23



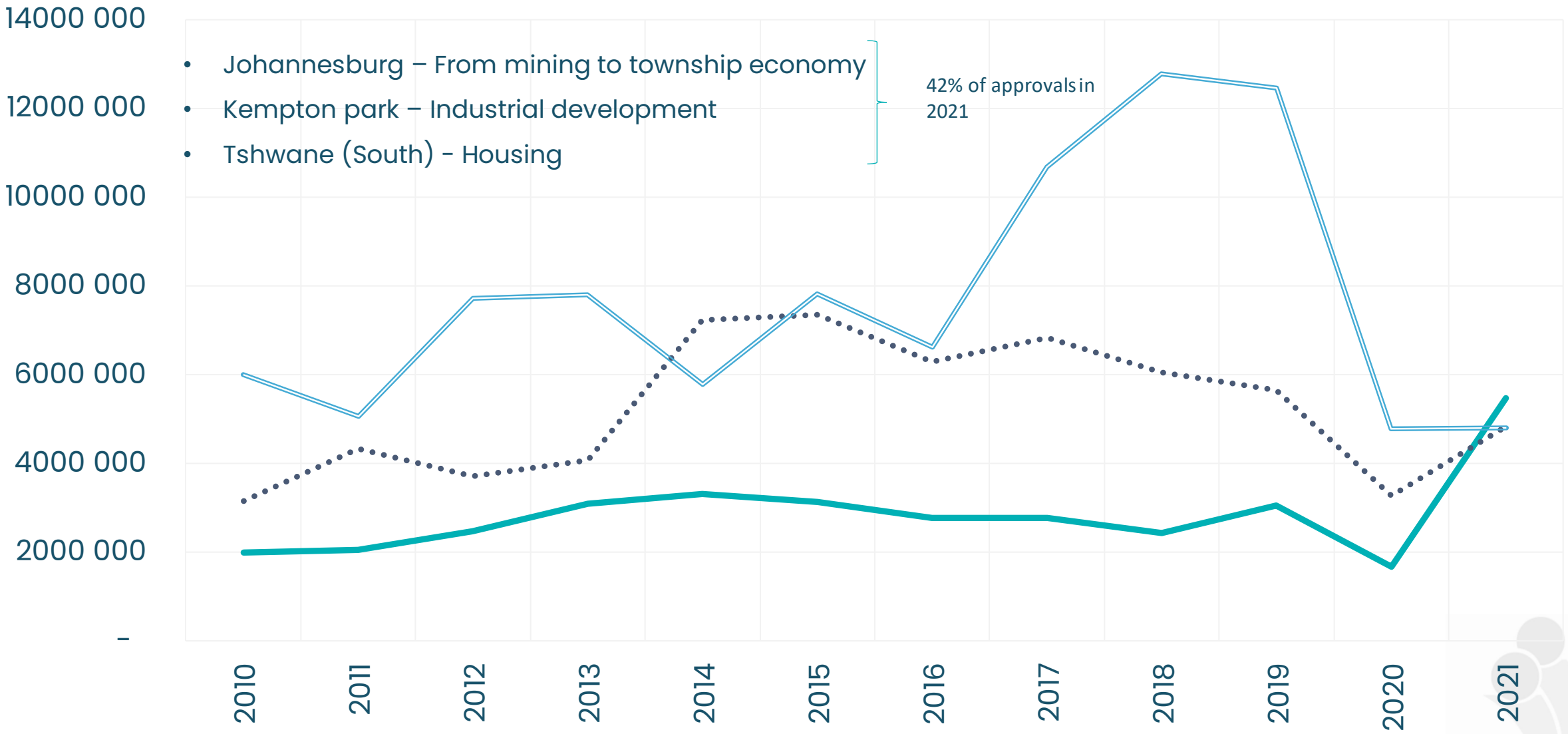
Ekurhuleni vs City of Tshwane



Source: Stats SA, Industry Insight

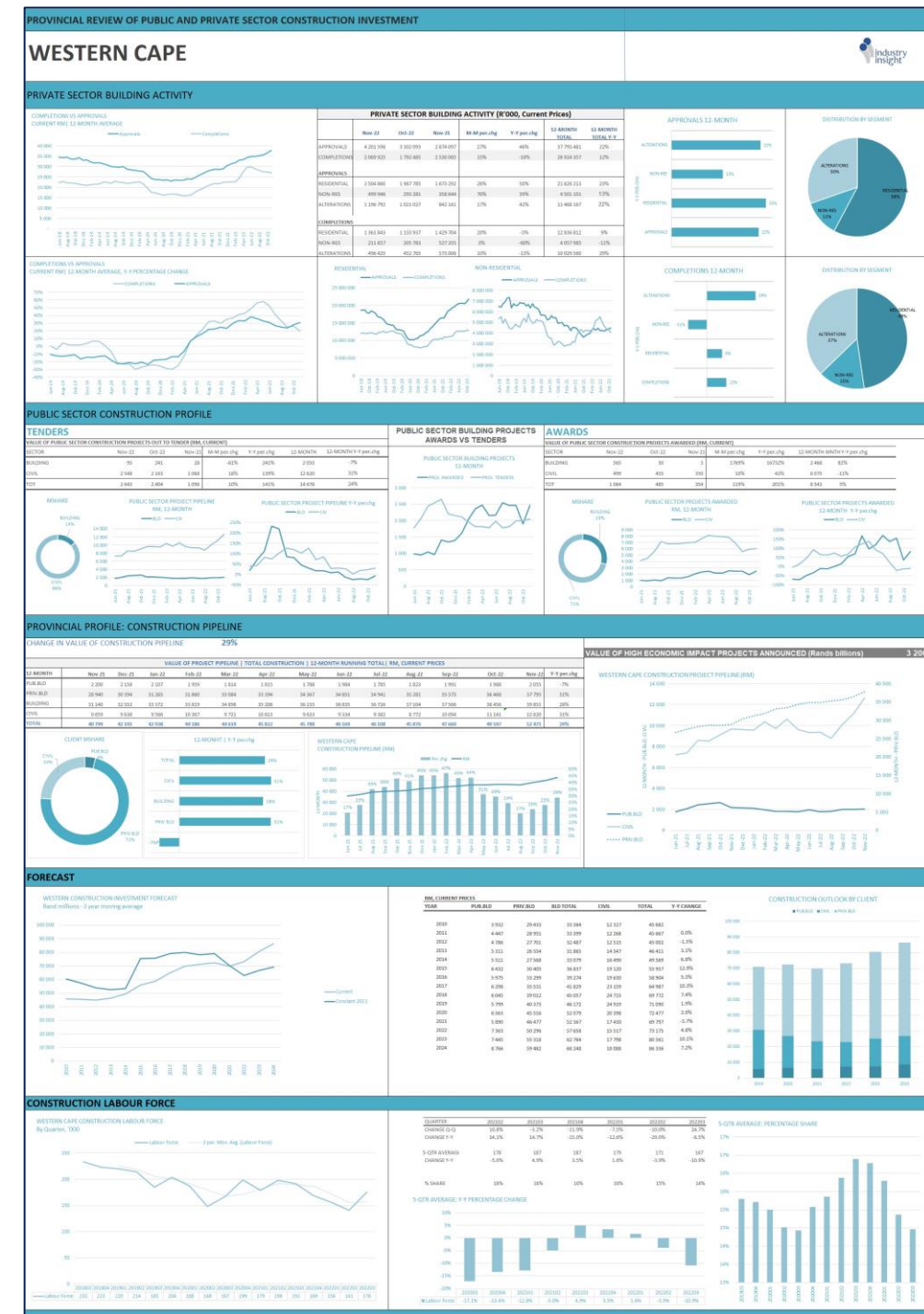
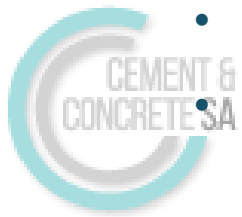
PRIVATE SECTOR APPROVALS (ANNUAL, RM CURRENT PRICES) – TOP 3

Ekurhuleni - Kempton Park City of Tshwane - South (Region 4) City of Johannesburg



PROVINCIAL CONSTRUCTION PIPELINE

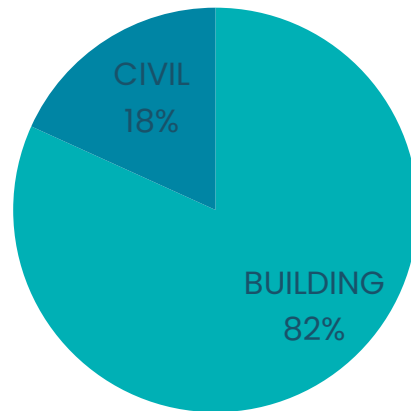
- Culminate various indicators into one provincial model
- Monitor change in (past) private and public sector awards and completions against (future) approvals and tenders at a provincial level
- Updated monthly / quarterly basis
- Split by public building, private building and civil works
- All nine provinces, with a national summary
- 3 year rolling provincial forecast
- Bottom up approach as opposed to Top Down
- Used as input into final national forecasts.



CONSTRUCTION PIPELINE GAUTENG

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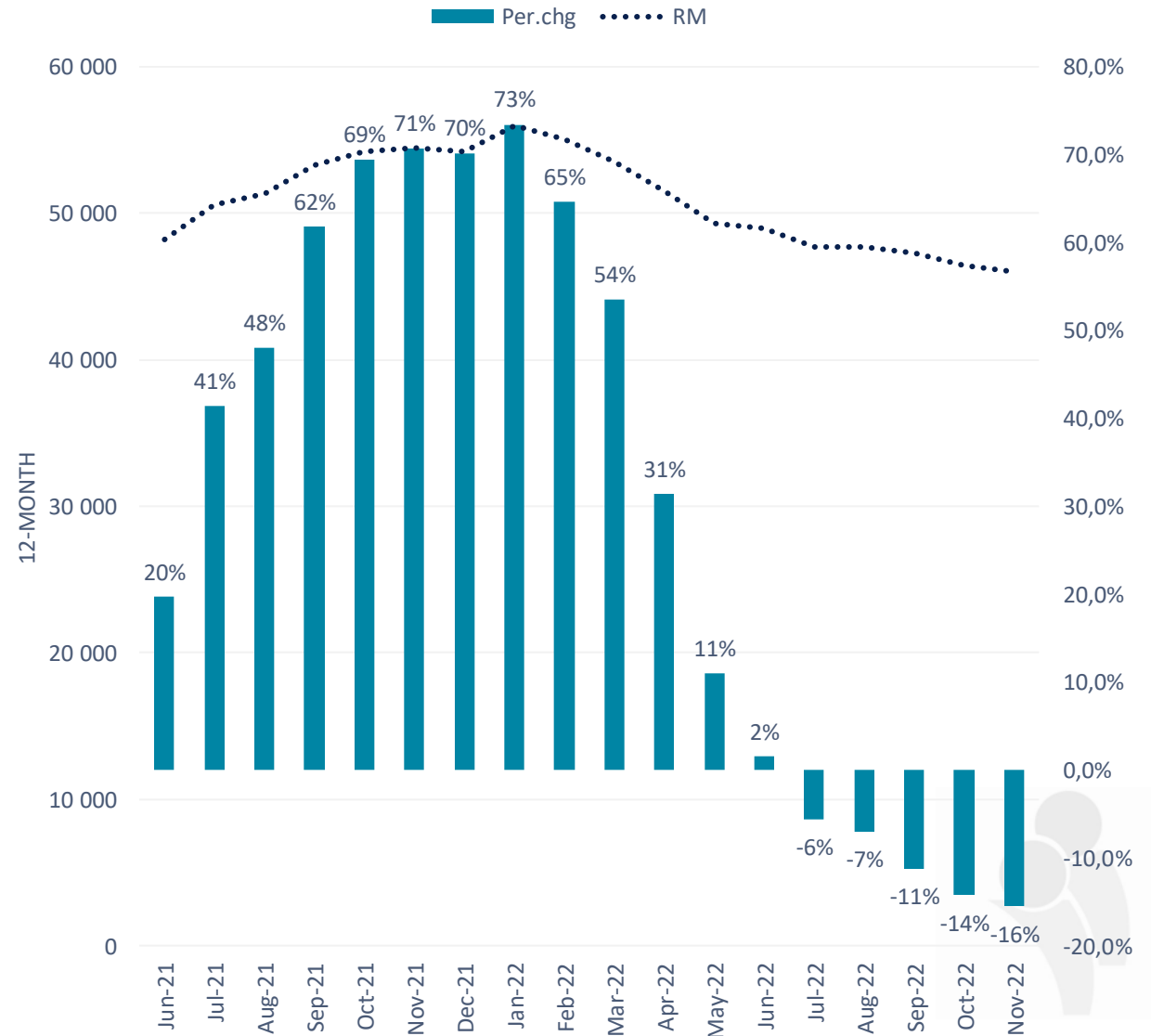
	Aug/22	Oct/22	Jan/23	Chg from prev report
GAU	-0.4%	-7.0%	-15.5%	-8.5%
WC	29.1%	17%	29%	12.0%
EC	-16.1%	-10%	-29%	-18.2%
KZN	13.3%	21%	8%	-12.4%
LIM	16.5%	41%	61%	20.4%
NWP	-5.7%	-12%	-19%	-7.4%
MPU	27.2%	32%	50%	17.5%
FS	30.0%	11%	-6%	-17.3%
NC	25.3%	33%	92%	59.1%
RSA	10.1%	8.3%	5.5%	-2.7%



■ BUILDING ■ CIVIL

CONSTRUCTION PIPELINE (RM): R46BN

12-MONTH ANNUAL TOTAL

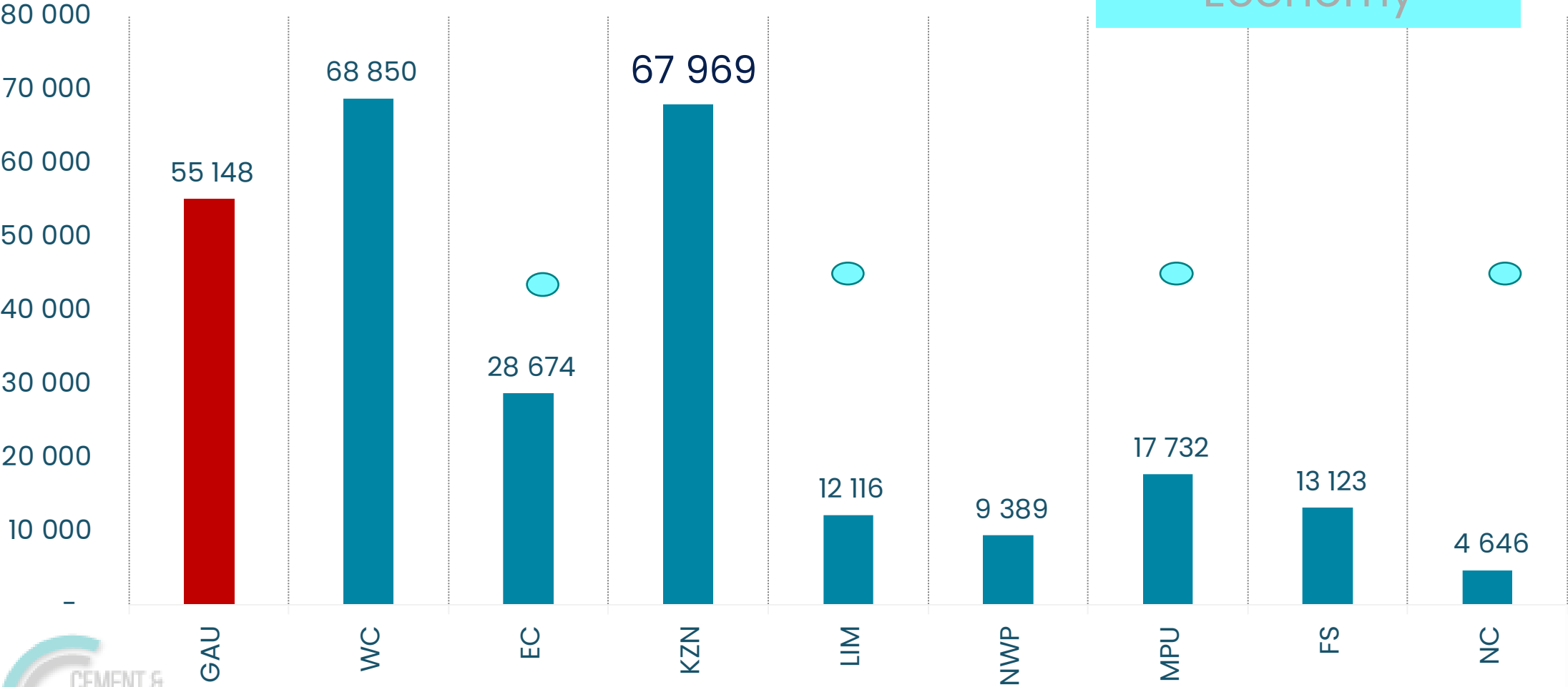


Average projected investment

Two year period: 2023 – 2024

Rand billions

Multi billion
Hydrogen
Economy

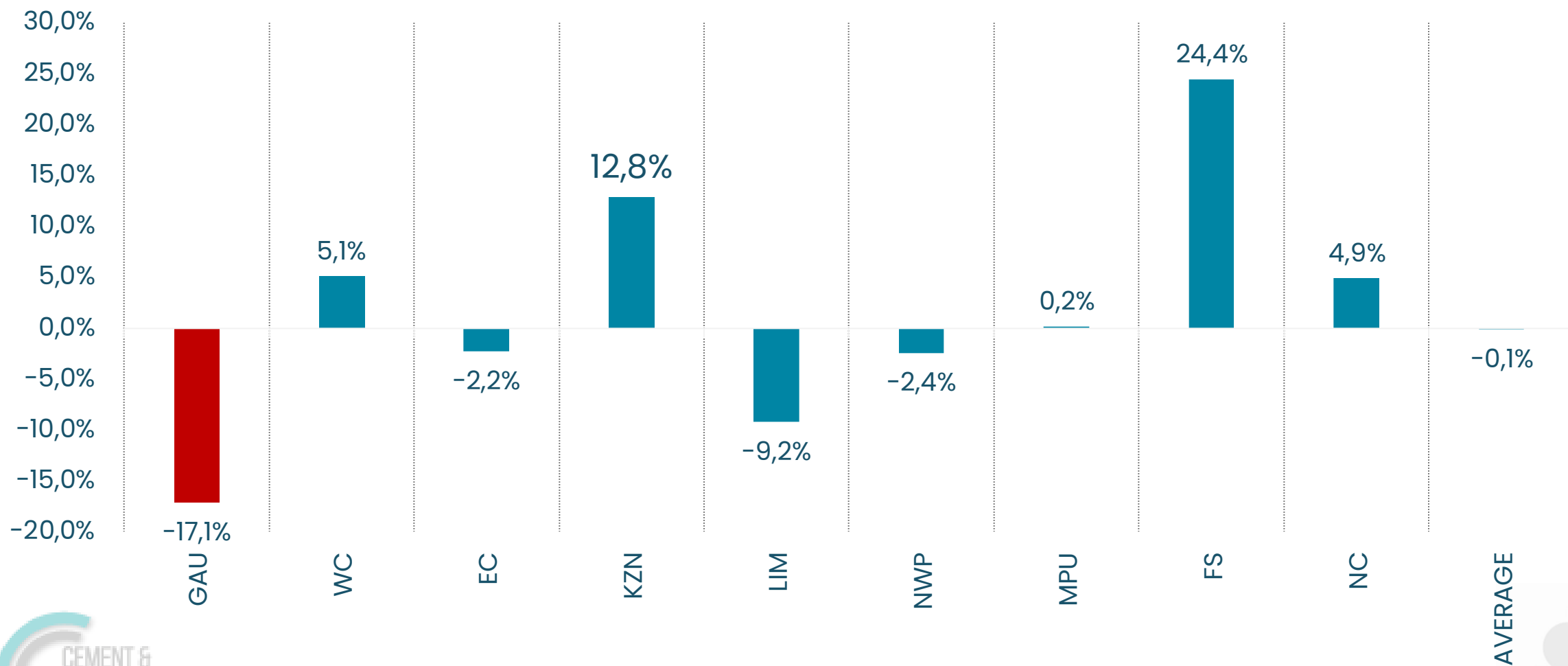


Source: Industry Insight



Average percentage change

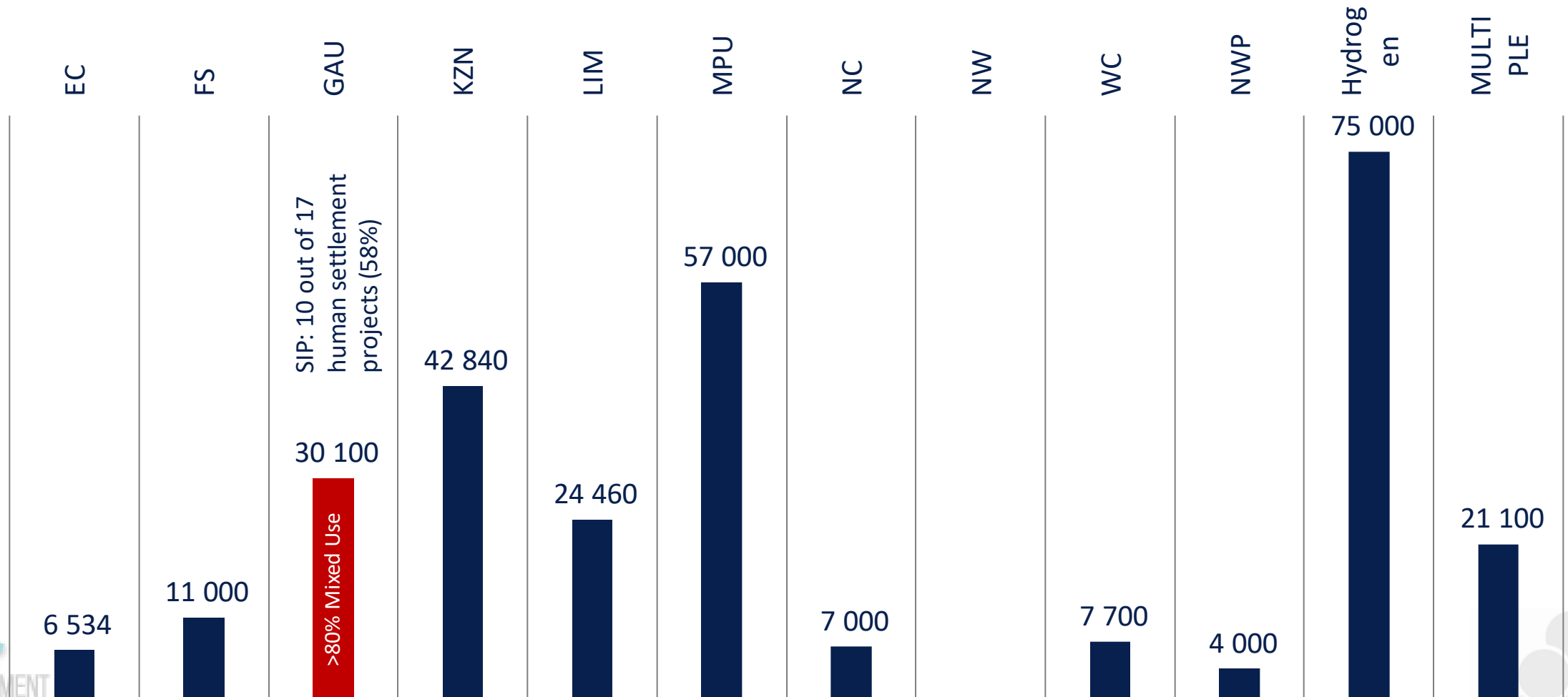
Two year period: 2023 -2024



High impact project announcements 2022: R286bn

Gauteng R30.1 bn project announcements

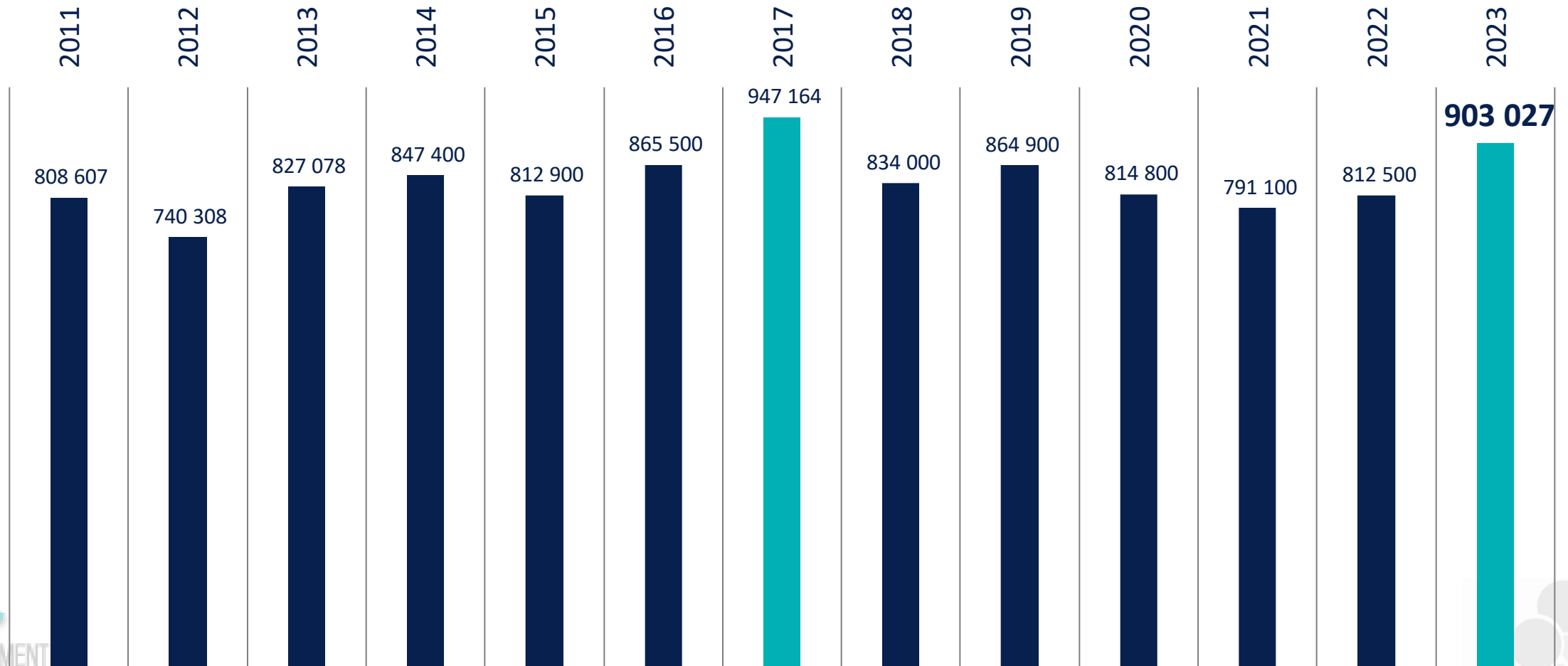
30



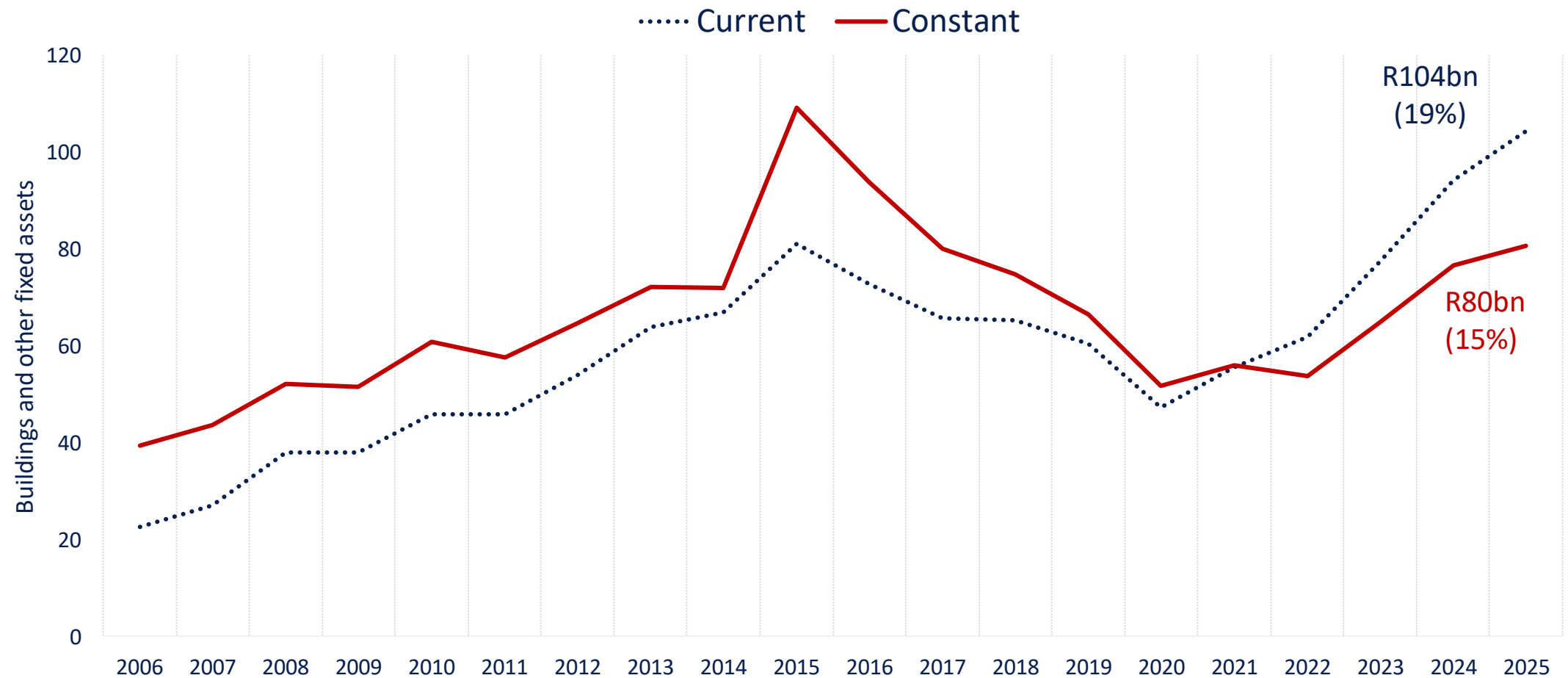
Budget 2023



Public Sector Infrastructure expenditure increased to highest level since 2017 – an increase of 10% (nominal) over 2022 MTEF projections



Government expenditure on “Buildings and other fixed structures” projected to increase by average of 14.7% in REAL TERMS (adjusted for inflation) over the baseline period (2023/24 – 2025/26)



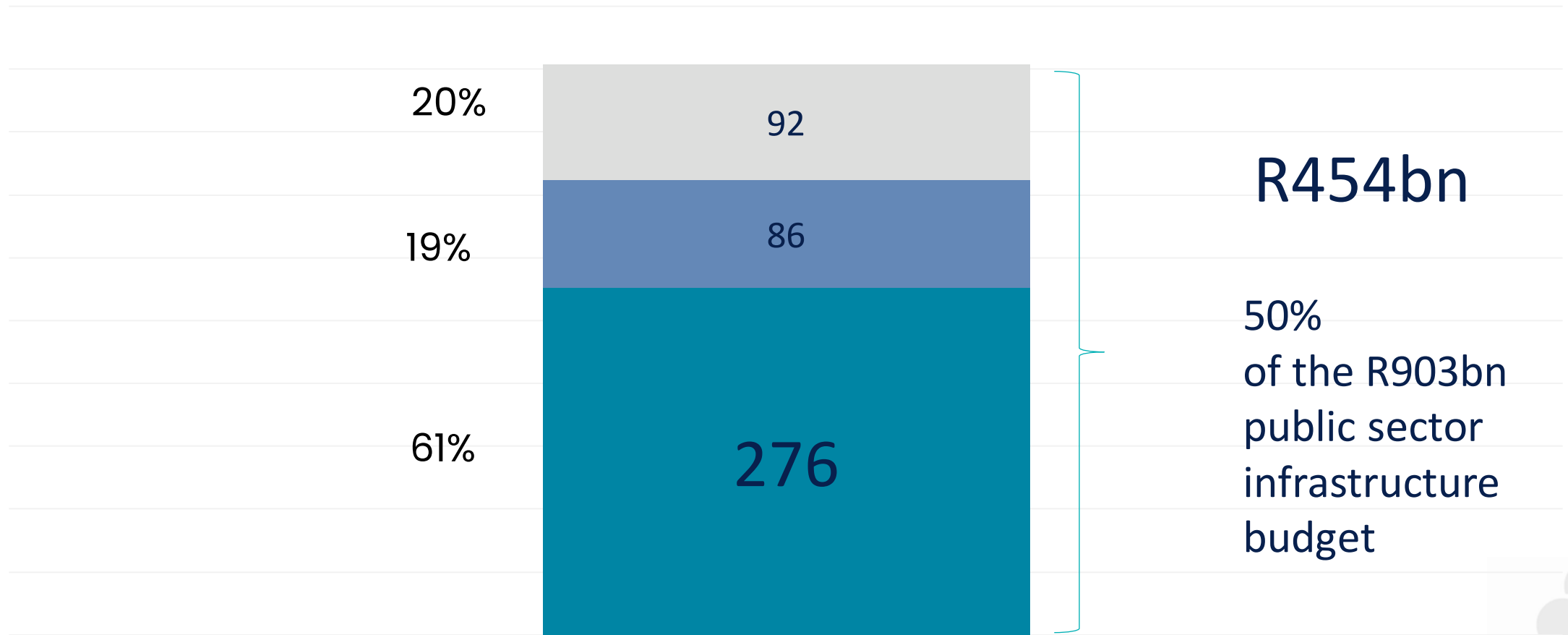
Government to spend 60% of infrastructure budget on buildings and other fixed assets

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■ Buildings and other fixed assets

■ Machinery and Equipment

■ Unknown



Forecast

2023-2024



	2019	2020	2021	2022	2023	2024
GDP (Y-Y per.chg)	0,1	-6,4	4,9	1,7	0,3	1,4
Interest Rates (Year end)	10,0	7,0	7,25	10,25	11,25	10,0
Inflation (Annual Average)	4,1	3,3	4,5	6,5	5,4	4,8
Currency (Average)	14,5	16,5	14,8	16,3	18,0	16,7
Y-Y Per.chg						
Building	-5,0	-19,0	-6,0	-0,9	3,3	2,0
Civil	-7,9	-16,2	-1,2	-5,0	9,8	5,0
Construction	-6,7	-17,7	-3,6	-3,0	6,5	3,5
Gauteng	-2.3	9.5	-9.9	-15.0	-10.0	-8.0
Construction Materials	4,1	0,7	8,4	16,0	6,0	8,0





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