

Building confidence up by five points

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The FNB/BER building confidence index rose for the second consecutive quarter to its highest level since 2010, gaining five points and climbing from 32 to 37 during the first quarter of this year.



But its current level still suggests more than six out of 10 respondents in different sectors of the building industry still rate prevailing business conditions as unsatisfactory.

The index can vary between zero, which indicates an extreme lack of confidence, and 100 points, indicating extreme confidence.

"The rising demand for building materials shows that the building recovery is gaining some traction. The increase in building activity of main contractors seems to be leading to higher growth in building material sales," Sizwe Nxedlana, chief economist at FNB, said on Tuesday (16 April).

However, he said further sales growth could be inhibited if consumer finances came under more pressure.

Nxedlana told *I-Net Bridge/BDlive* the rise could be attributed to a slight improvement in the lower-income housing market. This included those who did not qualify for mortgage loans through banks, but who were earning more than the threshold for reconstruction and development programme (RDP) housing.

Compared with the fourth quarter of last year, manufacturers and retailers of building materials, as well as architects, were more confident. However, confidence among main contractors, quantity surveyors, and sub-contractors was subdued.

Nxedlana said this might be because contractors are not passing work on to sub-contractors when it came to lower cost housing projects, as there was still "insufficient" demand for building work in SA, despite an improving trend overall.

Building activity

"Competition and margins are still under pressure," he said.

The index also said the "marginal" increase in confidence did not reflect the more significant rise in building activity during the first quarter. This expanded at its highest rate since the start of the global recession in late 2008.

The rise in activity was more pronounced among contractors involved in non-residential projects than those in the residential market, despite their profit margins coming under renewed pressure. The profitability of residential contractors had improved.

The index said this, in part, explained non-residential contractor confidence increasing, while the confidence of residential contractors declined marginally in the quarter.

"The business confidence (index) is a 'catch all' phrase. It is the answer to a question: 'Are you satisfied or not satisfied with current business conditions'," said Johan Snyman, adjunct professor in the department of construction economics and management at the University of Cape Town.

He said the index reflected "the perceptions" of senior people in business, meaning it was made up of qualitative, and not quantitative data.

The index said main contractors forecast an even bigger rise in activity in the second quarter of the year. The demand for building materials increased in the first quarter, resulting in the confidence of retailers registering the biggest increase in the sub-components of the index.

For similar reasons, the confidence of building material manufacturers also rose significantly.

The index showed that the building pipeline looked more promising, especially in relation to the confidence levels of architects.

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