2017

State of the South African Civil Engineering Contracting Industry

SAFCEC

1st Quarter 2017

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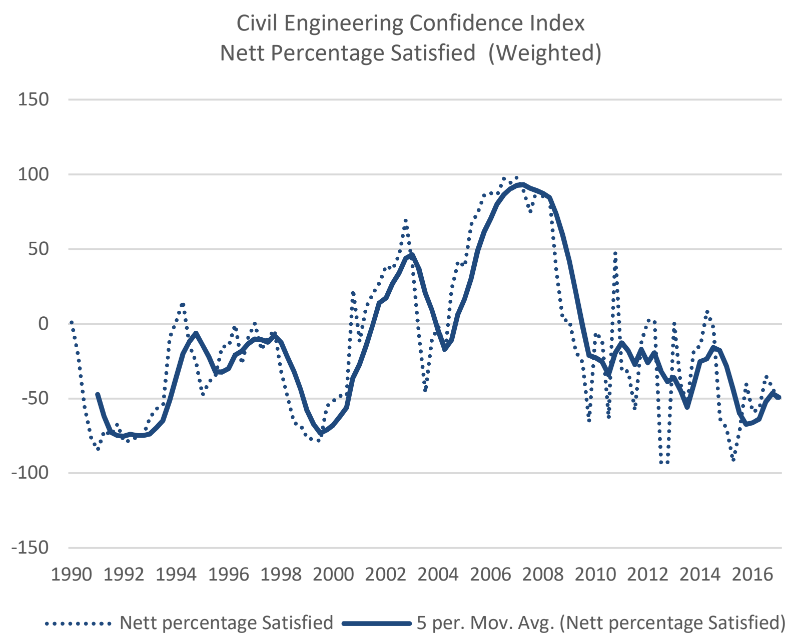
Executive Summary

World economic growth is projected to show a mild recovery reaching 3.6 percent by 2018, supported by mainly by accelerated growth in emerging and developing economies. The outlook for the South African economy remains muted, but with some hope of a mild recovery in 2017, following an estimated growth of 0.3 percent in 2016 (from an expected growth of 0.5 percent). National Treasury expects the South African economy to grow by 1.3 percent in 2017, 2.0 percent in 2018, and 2.2 percent in 2019. In terms of investment, a revival in business confidence is critical to encourage higher levels of private sector investment. Business confidence averaged a dismal 37 percent in 2016, according to the FNB Business Confidence index, from 41.5 percent in 2015, well below the neutral level of 50 percent and significantly lower than the required 60 to 70 percent necessary to stimulate growth in investment. According to the World Bank the reasons behind South Africa's decelerating growth, lies in the fact that the country has been directing capital to less productive sectors, where it should have rather been directed to investment tax incentives towards trade, construction, manufacturing, and agriculture, all sectors which are supportive of enhancing labour absorption in the country. According to the latest Budget, tabled on 22nd February 2017, infrastructure expenditure by the public sector (including government and SOE's) are projected to increase by an average nominal rate of 4 percent over the MTEF period (2017/18 – 2019/2020), from a previously estimated increase of 1.8 percent (2016/17 Budget). In real terms allowing for an average cost inflation of between 6 and 8 percent, this implies a contraction in investment over the next three years. Public sector infrastructure expenditure as a percentage of GDP rose from 6.8 percent in 2015 to 7.5 percent in 2016, according to estimates provided by National Treasury. Expenditure is projected to increase to 7.8 percent of GDP in 2017, 7.9 percent in 2018 and 8.0 percent in 2019, against the NDP target of 10 percent by 2030.

Tough working conditions clearly remain in the civil engineering contracting industry, following the release of the 1st quarter 2017 survey results, conducted amongst SAFCEC members. As a major job creator in the industry, employment continue to fall, alongside contraction in revenue, profitability and tender opportunities. Employment fell by 5.6 percent q-q in the 1st quarter of 2017, mainly due to an 11 percent contraction in limited duration employees. The report provides a more detailed breakdown of the key indicators segmented by the various firms sizes, namely small (employing up to 100 people), medium (employing between 100 and 1000) and large (employing more than 1000 people). The total value of civil engineering construction certified for payment contracted by 10.7 percent q-q in the 4th quarter, following the q-q decrease of 4.3 percent in the previous quarter. Majority of firms reported a slowdown in payments during the 4th quarter of 2016. The overall value of the two-year forward order book rose by 5.9 percent q-q, after having stabilised in the 3rd and 2nd quarters, with no growth reported during those periods. Medium size firms did however report a more muted outlook on order books, down by 19.6 percent q-q, which may signal a potential slowdown in the recent more robust growth reported by medium size firms active in the local civil industry. Although the value of late payments fell on a quarter on quarter basis (down 5.6 percent), the value of late payments outstanding for longer than 90 days as a percentage of turnover, rose to 7.1 percent in the current survey, suggesting growing concerns around late payments. Unfortunately regulations around CIDB's Prompt Payment regulations, are yet to be resolved. The negative nett satisfaction rates regarding working conditions, prices, tenders and awards continued in this survey, although there has been some improvement in the level of pessimism reported by contractors. Several construction companies released their financial results in the first three months of 2017, including Aveng, Group Five, Murray & Roberts, Basil Read and WBHO. Overall majority of contractors reported a drop in revenue, except for WBHO who reported relatively flat revenue growth.



The quarter on quarter movement in the SAFCEC Confidence index has been more erratic since 2010, with some improvement reported in 2014, brought about by a more optimistic outlook from medium size contractors. However, sentiment has returned to being more pessimistic in the last few surveys, with industry sentiment representing levels last seen in 2000. In this survey larger contractors reported a more pessimistic view, with 60 percent (majority) stating a poorer outlook on business conditions in South Africa. Medium size contractors were equally pessimistic, with none of the firms reporting that business conditions are good in the South African market. The overall nett satisfaction rate (weighted) deteriorated from -42.5 percent in the 4th quarter 2016 to -52.5 percent in the current survey.

Table 1: Overall assessment of business conditions (RSA Only)

Values	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1
Very Quiet	4.8%	4.2%	0.1%	5.5%	25.2%
Quiet	55.2%	54.8%	34.8%	37.0%	27.7%
Satisfactory	39.0%	38.8%	65.2%	57.5%	46.7%
Quite busy	1.0%	2.2%	0.0%	0.0%	0.4%
Very busy	0.0%	0.0%	0.0%	0.0%	0.0%
Nett %	-59.0%	-56.8%	-34.8%	-42.5%	-52.5%

The overall outlook for the civil industry in 2017 remains muted, in spite of some improvement expected during the first half of 2017 following an increase in tender activity of higher value projects during the last half of 2016. Cancellations of projects showed a robust increase in January 2017, raising fears that tenders issued last year will not reach execution as expected. Economic conditions are also simply not conducive to support higher levels of investment, currently constrained by poor economic growth, policy and political uncertainty, low investor confidence and a slowdown in both government and SOE's public sector infrastructure expenditure. Industry turnover is therefore expected to contract by around 6 percent in 2017 (nominal terms), or -9.0 percent in real terms allowing for an average cost inflation of 3.3 percent in 2017. The outlook for 2018 and 2019 is subject to a stabilisation in government expenditure and some improvement in private sector spending allowing for greater policy certainty. However these forecasts are weighed heavily on the downside as an improvement in investor confidence still appears to be somewhat unlikely over the medium term.

Economic Background

Global outlook

Global growth declined marginally in 2016 to 3.1 percent, from 3.2 percent in 2015, for mainly three reasons: 1) policy uncertainty, 2) sluggish investment growth and 3) slowing global trade. The IMF projects that the world economic growth will accelerate moderately to 3.4 percent in 2017 and 3.6 percent in 2018. This outlook however is weighed down by the absence of a clear policy trajectory in developed economies (specifically the United States) and growth risks associated with the Chinese economy.

Growth in advanced economies is expected to remain at around 2 percent, on average over the medium term, while developing economies are expected to remain the main contributors to higher global growth projected for 2017 and 2018. Brazil and Russia are expected to return to moderate growth (following recessions in both of these countries), while growth in India is expected to remain above 7 percent. China's growth is expected to decelerate, but remain above 6 percent. The outlook for Sub-Saharan Africa (a major export destination for South Africa) has been revised up marginally by the IMF, to 3.7 percent for 2018, supported by a mild improvement in commodity prices.

Globally, the oil price has recovered somewhat with OPEC agreeing to cut supply, and other commodity prices have also picked up, which is giving more hope to economies based on exporting these goods. Overall, there is slightly more positive sentiment globally, coming off a low base however.

Table 2: GPD Y-Y percentage change (Source National Treasury Budget Review 2017/18)

Region/country	GDP projections[1]				CPI projections[2]			
Percentage	2015	2016	2017	2018	2015	2016	2017	2018
World	**3.2**	**3.1**	3.4	3.6	**2.8**	**2.9**	3.3	3.3
Advanced economies	**2.1**	**1.6**	**1.9**	**2.0**	0.3	0.8	**1.7**	**1.9**
United States	2.6	1.6	2.3	2.5	0.1	1.2	2.3	2.6
Euro area	2.0	1.7	1.6	1.6	0.0	0.3	1.1	1.3
United Kingdom	2.2	2.0	1.5	1.4	0.1	0.7	2.5	2.6
Japan	1.2	0.9	0.8	0.5	0.8	-0.2	0.5	0.6
Emerging markets and developing economies	**4.1**	**4.1**	**4.5**	**4.8**	**4.7**	**4.5**	**4.4**	**4.2**
Brazil	-3.8	-3.5	0.2	1.5	9.0	9.0	5.4	4.8
Russia	-3.7	-0.6	1.1	1.2	15.5	7.2	5.0	4.5
India	7.6	6.6	7.2	7.7	4.9	5.5	5.2	5.3
China	6.9	6.7	6.5	6.0	1.4	2.1	2.3	2.4
Sub-Saharan Africa	**3.4**	**1.6**	**2.8**	**3.7**	**7.0**	**11.3**	**10.8**	**9.3**

1. IMF World Economic Outlook Update, January 2017
2. Consumer price inflation, IMF World Economic Outlook, October 2016

Domestic Outlook

The outlook for the South African economy remains muted, but with some hope of a mild recovery in 2017, following an estimated growth of 0.3 percent in 2016. National Treasury expects the South African economy will grow by 1.3 percent in 2017, 2 percent in 2018, and 2.2 percent in 2019. These forecasts are underpinned by a mild recovery in the oil price to an average of $58/barrel in 2017 (from $44/barrel in 2016), but with no real further price change expected in the next two years. The domestic recovery will be supported by moderately stronger global growth, improved weather conditions to alleviate the adverse impact of the drought, reliable electricity supply, less volatile labour relations, a recovery in business sentiment and stabilizing commodity prices. Headline inflation averaged 6.4 percent in 2016, from 4.6 percent in 2015, driven primarily by higher food and petrol prices. In an attempt to anchor inflation expectations the Reserve Bank rose the repo rate by 2 percentage points since the beginning of 2014. Headline inflation is projected by Treasury to remain above 6 percent in 2017, before moderating to 5.7 percent and 5.6 percent in 2018 and 2019.

In terms of investment, a revival in business confidence is critical to encourage higher levels of private sector investment. Business confidence averaged a dismal 37 percent in 2016, according to the FNB Business Confidence index, from 41.5 percent in 2015, well below the neutral level of 50 percent and significantly lower than the required 60 to 70 percent necessary to stimulate growth in investment. The 2017 Budget promulgates greater private sector investment alongside a recovery in confidence as cornerstones for higher economic growth, but this is generally easier said than done and will require greater levels of political stability and policy certainty, something which has been lacking in the economic arena for some time.

According to the World Bank the reasons behind South Africa's decelerating growth, lies in the fact that the country has been directing capital to less productive sectors, where it should have rather been directed to investment tax incentives towards trade, construction, manufacturing, and agriculture, all sectors which are supportive of enhancing labour absorption in the country.

Table 3: Macroeconomic performance and projections (Source National Treasury Budget Review 2017/18)

Calendar year	2013	2014	2015	2016	2017	2018	2019
Percentage change		**Actual**		**Estimate**		**Forecast**	
Final household consumption	2.0	0.7	1.7	0.9	1.3	2.0	2.3
Final government consumption	3.8	1.8	0.2	1.4	0.9	0.0	0.4
Gross fixed-capital formation	7.0	1.5	2.5	-3.6	1.5	1.6	2.8
Gross domestic expenditure	2.8	0.5	1.7	-0.3	1.3	1.8	2.2
Exports	3.6	3.3	4.1	-1.2	1.9	4.9	5.0
Imports	5.0	-0.5	5.3	-3.6	2.0	4.3	4.9
Real GDP growth	**2.3**	**1.6**	**1.3**	**0.5**	**1.3**	**2.0**	**2.2**
GDP inflation	6.6	5.7	4.0	7.2	6.4	5.9	5.8
GDP at current prices (R billion)	**3 549.2**	**3 812.6**	**4 013.6**	**4 322.3**	**4 657.5**	**5 029.9**	**5 440.6**
CPI inflation	5.8	6.1	4.6	6.4	6.4	5.7	5.6
Current account balance (% of GDP)	-5.9	-5.3	-4.3	-4.0	-3.9	-3.7	-3.8

Source: National Treasury and South African Reserve Bank

Gross Fixed capital formation

Gross fixed capital formation fell by around 4 percent y-y in 2016 (in real terms), after reporting no real growth during 2015. Investment growth by government slowed to no change in 2016, from an increase of 21 percent in 2015, while investment by SOE"s recorded its 6th consecutive quarter of negative growth by the 4th quarter of 2016, down 2 percent y-y in 2016. Private sector investment also continued to contract, and fell by 6 percent in 2016 (-4 percent in 2015). According to National Treasury estimates, growth in fixed investment is expected to recover to an increase of 1.5 percent in 2017, accelerating moderately to 1.6 percent in 2018, before showing more meaningful growth of close to 3 percent in 2019.

Following more robust growth of 8 percent in 2015, investment in housing contracted by 2.4 percent in 2016, while negative growth in investment in non-residential buildings accelerated further from -2.5 percent in 2015 to -3.8 percent in 2016. Investment growth in construction works also decelerated to 2.6 percent in 2016 from an increase of 6.4 percent in 2015.

According to Reserve Bank's latest estimates, a total of R420 bn was spent on construction (including costly importation of machinery and equipment used on construction) during 2016, with R78 bn spent on housing, R73 bn on non-residential building and R269 bn on construction works (including spending on transport, water and energy).

Public Sector Infrastructure Estimates

According to the latest Budget, tabled on 22nd February 2017, infrastructure expenditure by the public sector (including government and SOE's) are projected to increase by an average nominal rate of 4 percent over the MTEF period (2017/18 – 2019/2020), from a previously estimated increase of 1.8 percent (2016/17 Budget). In real terms allowing for an average cost inflation of between 6 and 8 percent, this implies a contraction in investment over the next three years.

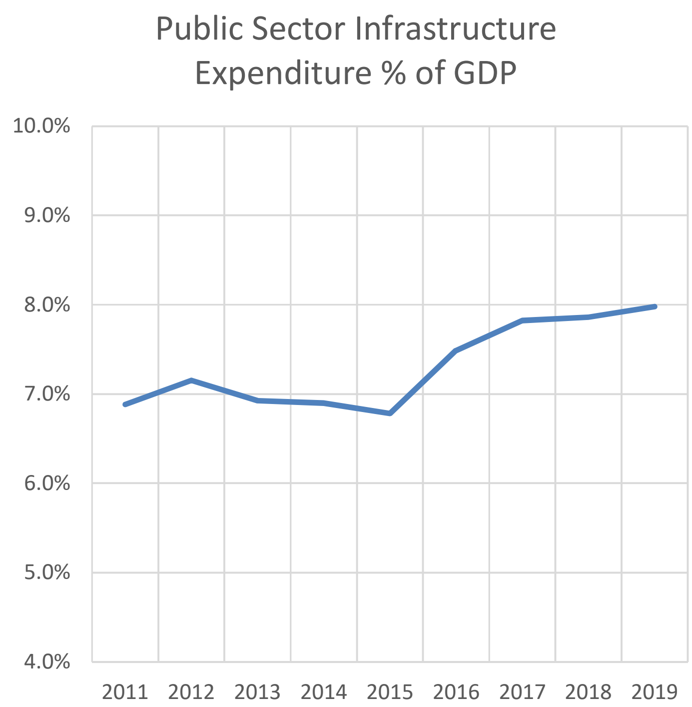
Of the total R946 bn projected for infrastructure expenditure over the medium term framework (2017/18 – 2019/20), 47 percent or R449bn is earmarked for expenditure by government, including central, provincial and local government departments. While the average nominal increase in public sector infrastructure expenditure (including projected spending by government and state owned enterprises) is projected at 4 percent, growth in projected expenditure by government (excluding state owned enterprises) is projected at 6.4 percent, slightly above the overall average increase, and relatively on par with the expected average inflationary increase over the medium term period, suggesting no real growth over the next three years. Construction Cost inflation may very well exceed the average expected inflationary increase pending further developments in the price of key materials such as steel and cement and the impact of currency volatility on the cost of imported construction materials.

Table 4: Public Sector Infrastructure Estimates (Current prices, Rm) (Source Budget 2017/18)

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	MTEF
R billion		Outcomes			Estimates			Total
Energy	69.6	67.8	65.9	75.0	78.3	81.9	74.3	234.5
Water and sanitation	25.8	29.5	31.5	37.2	39.3	41.2	44.9	125.4
Transport and logistics	77.8	92.4	81.3	91.4	104.6	105.7	117.4	327.7
Other economic services	13.0	13.0	13.2	16.0	12.6	12.9	13.0	38.5
Health	10.0	8.7	10.3	11.0	11.2	11.9	12.5	35.6
Education	13.7	15.4	18.0	17.3	17.6	15.8	16.7	50.1
Human settlements[1]	17.0	17.1	18.3	18.3	20.0	21.1	22.3	63.4
Other social services	12.9	13.1	16.3	15.6	16.1	16.6	17.5	50.2
Administration services[2]	5.0	5.2	6.5	7.9	7.1	7.2	7.5	21.7
Total	244.8	262.2	261.2	289.8	306.7	314.3	326.1	947.2
National departments	11.9	13.5	14.5	16.6	16.7	16.0	15.0	47.7
Provincial departments	55.2	56.4	60.6	62.3	64.1	65.1	68.9	198.2
Local government	47.1	53.2	54.7	58.2	56.7	59.1	63.9	179.6
Public entities[3]	15.4	19.2	17.8	22.0	23.9	23.6	24.9	72.3
Public-private partnerships	3.9	4.0	4.3	4.8	5.1	5.5	5.9	16.5
State-owned companies[3]	111.2	115.8	109.3	125.8	140.3	145.0	147.5	432.8
Total	244.8	262.2	261.2	289.8	306.7	314.3	326.1	947.2

Table 5: Public Sector Infrastructure Expenditure: Y-Y Percentage (Nominal)

R billion	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Average MTEF
Energy	-2.6%	-2.9%	13.9%	4.4%	4.6%	-9.3%	-0.1%
Water and sanitation	14.4%	6.6%	18.3%	5.6%	4.7%	9.2%	6.5%
Transport and logistics	18.7%	-12.0%	12.4%	14.4%	1.1%	11.1%	8.9%
Other economic services	-0.2%	1.5%	21.6%	-21.1%	2.0%	0.6%	-6.2%
Health	-13.1%	18.4%	7.4%	1.7%	5.9%	4.9%	4.2%
Education	12.1%	16.7%	-3.8%	1.8%	-9.8%	5.6%	-0.8%
Human settlements[1]	0.6%	7.1%	-0.1%	9.2%	5.7%	5.8%	6.9%
Other social services	1.2%	24.6%	-4.5%	3.4%	3.4%	5.5%	4.1%
Administration services[2]	5.2%	24.4%	21.6%	-10.8%	1.3%	4.4%	-1.7%
Total	7.1%	-0.4%	10.9%	5.9%	2.5%	3.8%	4.0%
National departments	13.4%	7.1%	15.0%	0.2%	-3.8%	-6.2%	-3.3%
Provincial departments	2.1%	7.4%	2.8%	2.9%	1.6%	5.8%	3.4%
Local government	13.0%	2.7%	6.4%	-2.6%	4.3%	8.3%	3.3%
Public entities[3]	24.8%	-7.2%	23.8%	8.2%	-0.9%	5.2%	4.1%
Public-private partnerships	3.3%	7.7%	11.6%	6.0%	6.6%	7.2%	6.6%
pState-owned companies[3]	4.1%	-5.6%	15.1%	11.5%	3.4%	1.8%	5.6%
Total	7.1%	-0.4%	10.9%	5.8%	2.5%	3.8%	4.0%



Public sector infrastructure expenditure as a percentage of GDP rose from 6.8 percent in 2015 to 7.5 percent in 2016, according to estimates provided by National Treasury. Expenditure is projected to increase to 7.8 percent of GDP in 2017, 7.9 percent in 2018 and 8.0 percent in 2019. Although the increase is encouraging it continues to fall seriously short of the 2030 target of 10 percent of GDP. In rand terms, over the MTEF period this equates to a shortfall of an estimated R253 billion, meaning expenditure should be close to R1.2 trillion as opposed to the R946 bn over the next three years.

THE POSITION OF THE CIVIL ENGINEERING INDUSTRY

Background

- Questionnaires were distributed to all SAFCEC members during February 2017.
- It is important to increase the usability of the industry report for all SAFCEC members, including small, medium and large enterprises. For this reason more focus is given to the developing trends within the defined employment categories. The categories are as follows:
    - Small : Employing less than 100 people
    - Medium: Employing between 100 and 1000 people
    - Large: Employing more than 1000 people
- Responses are weighted according to employment only where applicable. Comparisons between the different firm-size categories are not weighted as responses between the firm sizes have already been categorised.

Sample profile

Survey participation increased by 8.3 percent in the 1st Quarter of 2017, compared to the 4th quarter of 2016, due to an increase in participation by medium and small size companies. Larger firms contributed 39 percent to the current survey, medium size firms 15 percent and smaller firms 46 percent.

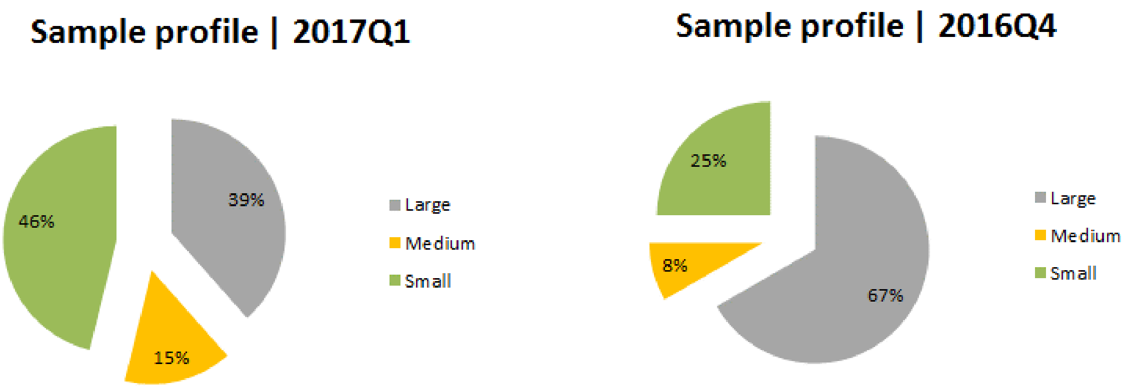


Figure 1: Profile of respondents

Key observations

Human Resources

Employment fell by 5.6 percent in the 4th quarter of 2016, following the decline of 7.5 percent reported in the 3rd quarter of 2016. Medium size firms again reported an increase in employment, up by 8.8 percent, but this was offset by a decrease in employment reported by larger and smaller firms, down 7.2 percent and 1.2 percent respectively. The overall decrease was mainly due to contraction in the limited duration employees which fell by 11 percent since the 3rd quarter, while employment of permanent employees rose by 2 percent.

Labour brokers represented a historical low of 0.3 percent of the total workforce, down from 1.1 percent and 5.3 percent in the previous two quarters. This decline could be as a result of fewer companies making use of labour brokers or simply refrain from reporting on it.

Firm Size Category	*Limited Duration*	*Permanent Employees*	*Total*	*% Limited Duration of total workforce*
Large	-14%	2%	-7.2%	53.8%
Medium	11%	3%	8.8%	69.6%
Small	-2%	0%	-1.2%	66.7%
Total	-11%	2%	-5.6%	55.9%

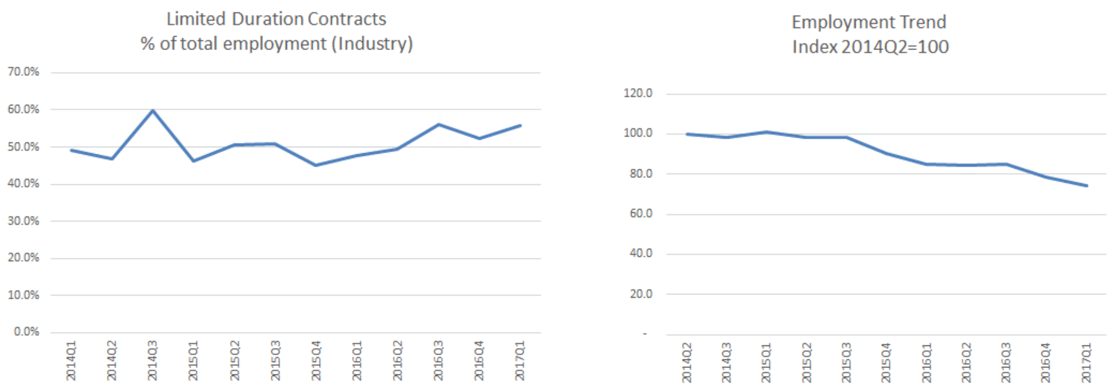
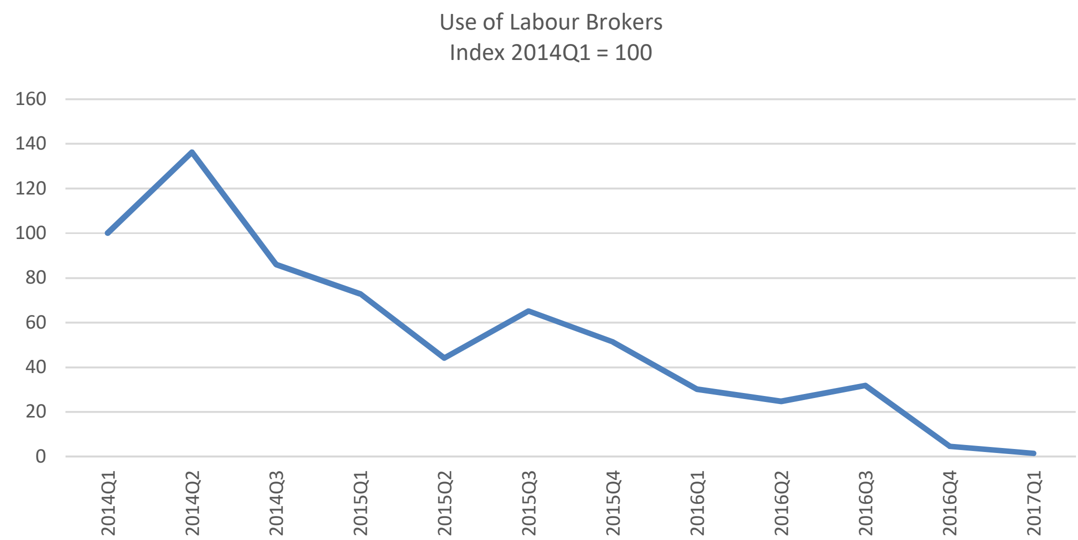


Figure 2: Limited Duration Contracts % of Employment & Employment Trend (index)



Financial Statistics

Turnover, Wages and Order Books

The total value of civil engineering construction certified for payment contracted by 10.7 percent q-q in the 4th quarter, following the decrease of 4.3 percent in the previous quarter. Majority of firms reported a slowdown in payments during the 4th quarter of 2016.

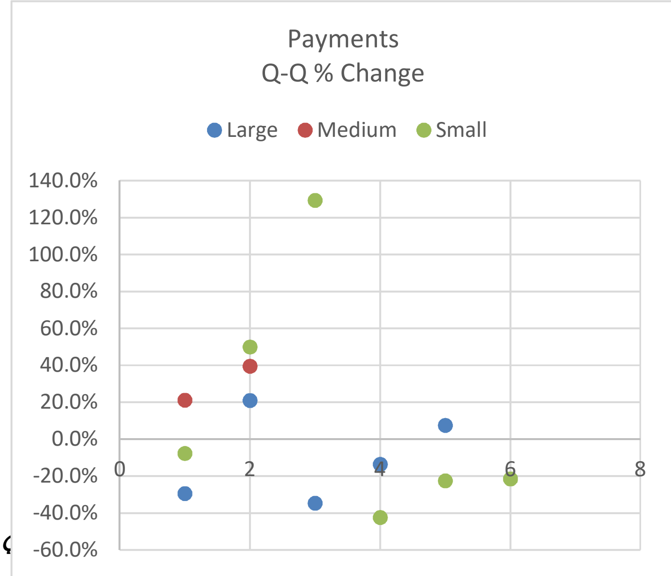


Figure 4: Q

The cumulative salary and wage bill represented 18 percent of total turnover, with no change reported by the participating contractors.

Alongside the q-q contraction in employment (-5.6 percent), the salary and wage bill fell by 10.2 percent q-q, across all firm size categories, the largest being the 10.8 percent decline reported by larger firms. Medium and Small size firms also reported a drop in the salary and wage bill, down 3.9 percent and 2.1 percent respectively.

The overall value of the two-year forward order book rose by 5.9 percent q-q, after having stabilised in the 3rd and 2nd quarters, with no growth reported during those periods. Medium size firms did however report a more muted outlook on order books, down by 19.6 percent q-q, which may signal a potential slowdown in the recent more robust growth reported by medium size firms active in the local civil industry.

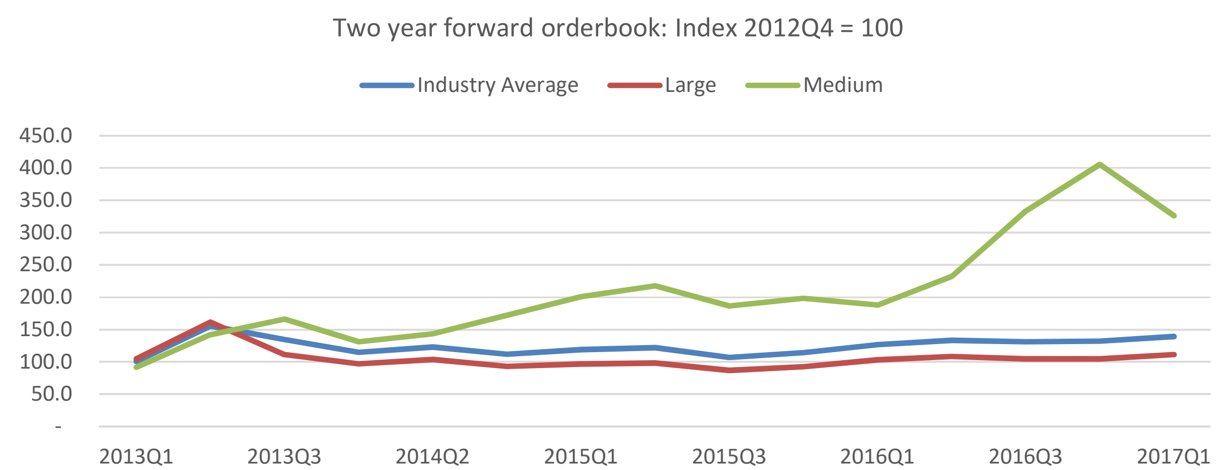
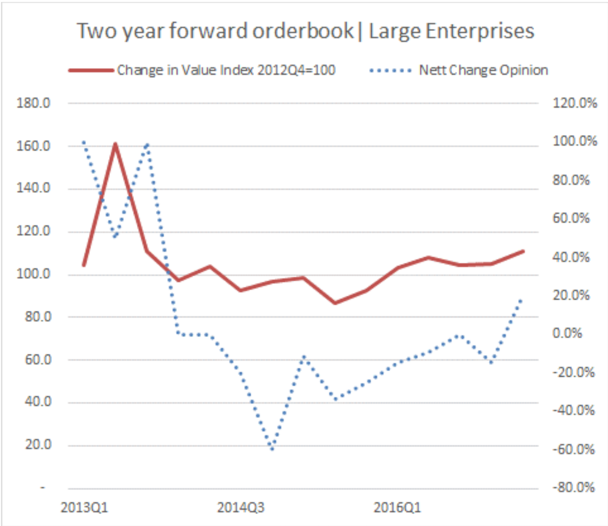
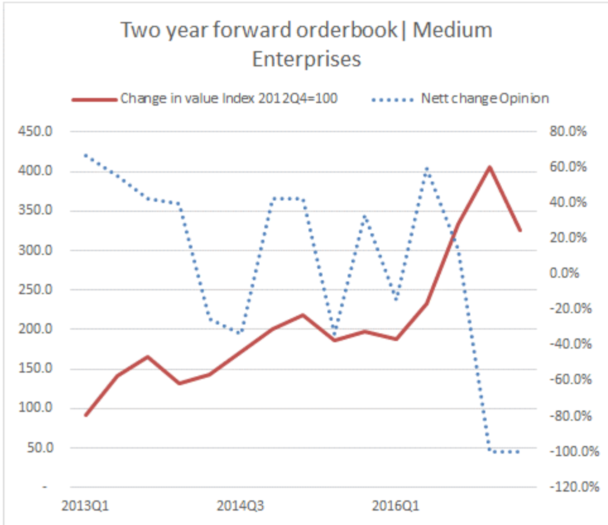


Figure 5: Value of two year forward order book, Index 2012Q4=100





Medium size contractors were more pessimistic regarding the outlook on order books in the 1st quarter survey, as the nett satisfaction rate dropped to -100 (on par with the survey in the 4th quarter), while larger firms reported some improvement in sentiment, recovering from a negative nett satisfaction rate of -14.3 percent in the 4th quarter of 2016 to 20.0 percent in the 1st quarter of 2017. However sentiment is somewhat volatile, but from the accompanying charts the gradual improvement in sentiment by larger contractors can be seen as order book have to some degree shown some stabilisation over the last 12 months, albeit at best showing a moderate improvement, while the more optimistic outlook of medium size contractors may be coming to an end as an increasing number of firms are starting to report a more negative outlook on order books,

Late Payments

There was a 5.6 percent q-q decrease in the value of late payments as reported by the participating contractors during the 4th quarter of 2016, following the marginal decrease of 1.6 percent q-q in the 3rd quarter. However, smaller size firms did report a 46 percent increase, but this was offset by more positive responses by larger and smaller firms. The value of late payment for larger firms working across the border has also decreased, down by 24 percent q-q.

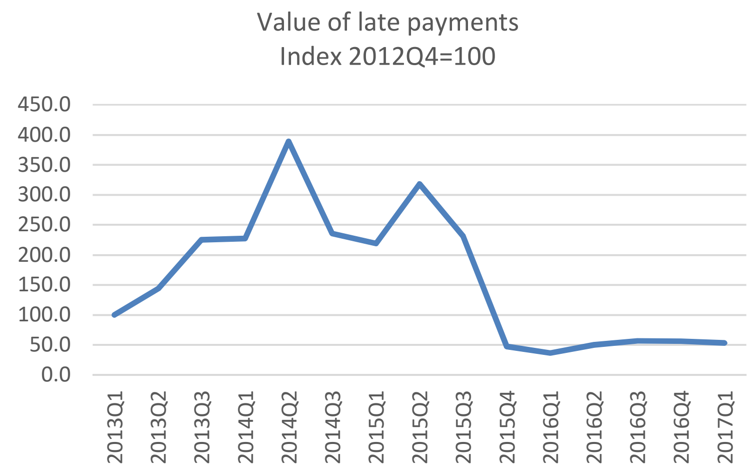
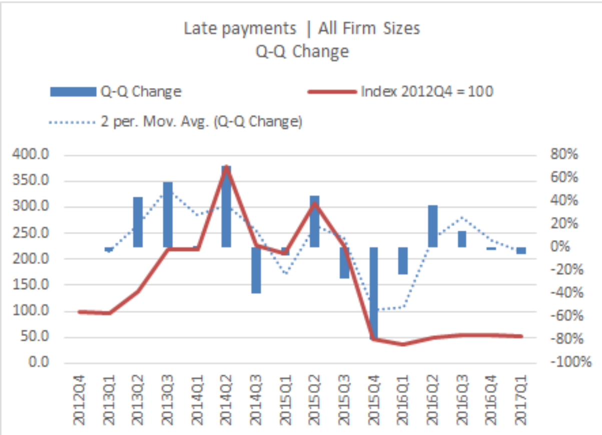
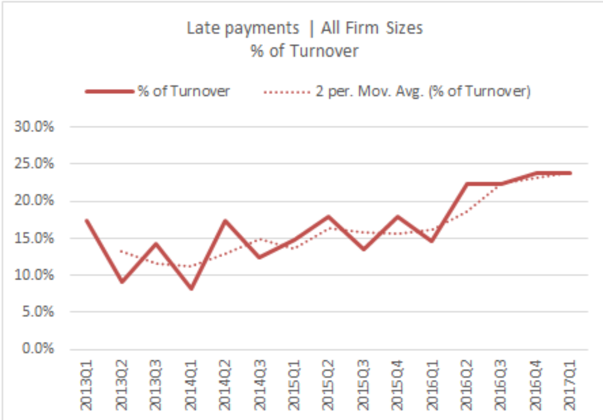
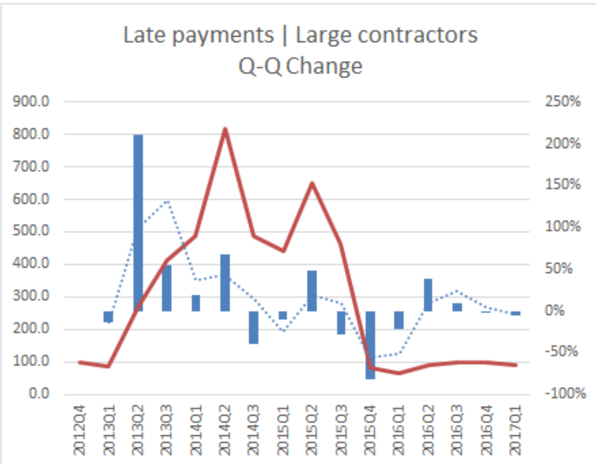


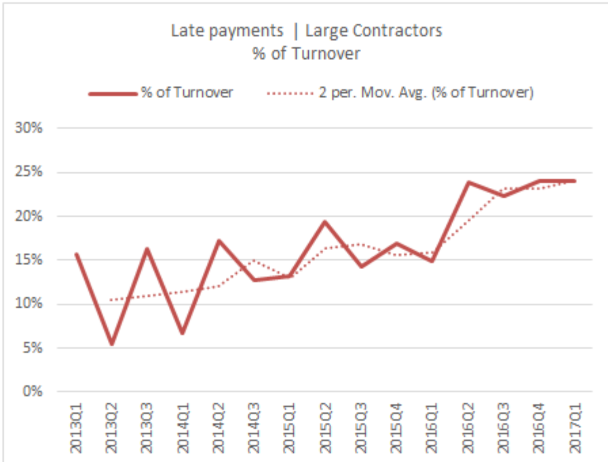
Figure 6: Value of late payments (Index)

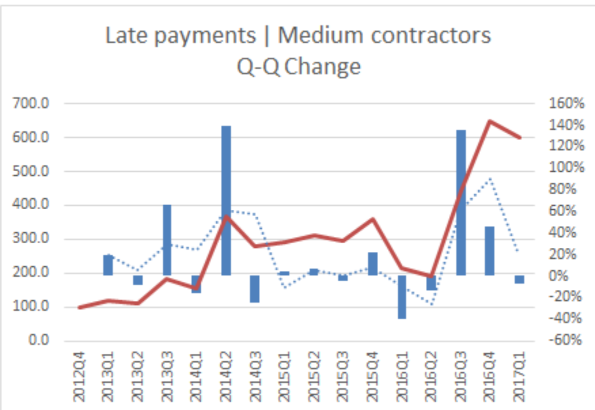
Although the value of payments outstanding have decreased, in relation to turnover, it is showing a gradual increase. The value of late payments represented 24 percent of total turnover (or value of work certified), slightly up from 23 percent in the previous quarter. A more important indicator however is the ratio of payments that have been outstanding for longer than 90 days, as this can be financially debilitating to a construction firm. The value of payments outstanding for longer than 90 day increased to 7.1 percent of turnover, up from 4.7 percent and 3.1 percent in the 3rd and 2nd quarters. The situation is less dire for smaller size firms with less than 2.2 percent outstanding for more 90 days but most critical for larger firms where 7.3 percent is outstanding for longer than 90 days.

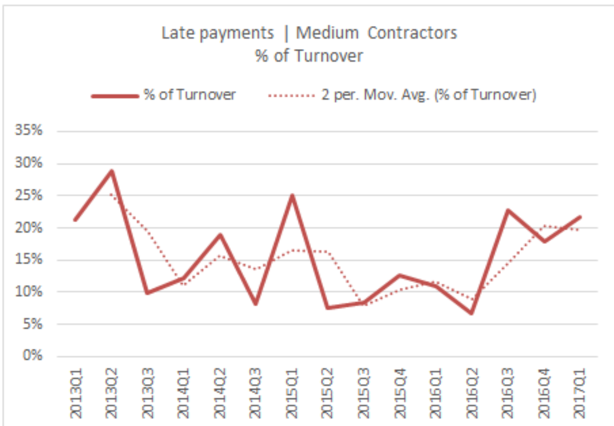












Industry Profile

The following section provides a snapshot view of responding firms' turnover earned by project type, client and province during the 4th quarter of 2016 (surveyed in the 1st quarter of 2017). This is not necessarily representative of the entire industry, but again shows the significant contribution by the roads segment.

Roads contributed 65.4 percent of turnover during the 4th quarter of 2016, higher when compared to the past few surveys, suggesting the impact of road construction on industry turnover. Large and medium size firms are highly dependent on road construction in South Africa, while smaller firms that participated in this quarter's survey seem to have diversified their exposure somewhat.

Table 6: Turnover distribution by sub-discipline

Discipline	Large	Medium	Small	Total 2016Q1	Total 2016Q2	Total 2016Q3	Total 2016Q4
Roads	66.1%	61.0%	27.7%	59.8%	60.3%	61.7%	65.4%
Earthworks	0.8%	0.0%	13.7%	5.7%	2.9%	2.0%	0.9%
Water Bulk Infrastructure	3.7%	0.0%	23.2%	3.3%	4.1%	4.6%	3.8%
Water and Sanitation	2.8%	0.0%	3.1%	2.0%	1.6%	2.5%	2.6%
Rail	0.2%	0.0%	0.0%	0.6%	0.7%	0.7%	0.2%
Harbours	1.9%	0.0%	0.0%	2.1%	1.6%	3.7%	1.8%
Power (bulk)	8%	0.0%	0.0%	7.7%	8.3%	10.7%	7.4%
Power (services)	8.4%	0.0%	0.0%	4.7%	5.6%	3.8%	7.9%
Airports	0.0%	0.0%	0.0%	0.0%	0.7%	0.0%	0.0%
Mining Infrastructure	0.8%	15.7%	0.0%	3.4%	4.0%	2.5%	1.5%
Mining (Surface earthworks)	0.0%	7.3%	22.1%	1.4%	1.3%	0.4%	0.6%
Other	7.5%	16.0%	10.1%	9.4%	8.9%	7.4%	7.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 7: Turnover distribution by client

	Large	Medium	Small	Total 2016Q1	Total 2016Q2	Total 2016Q3	Total 2016Q4
Central	12.7%	0.4%	0.0%	14.3%	17.7%	17.7%	11.9%
Provincial	10.9%	0.0%	13.7%	10.1%	10.4%	8.9%	10.4%
District/Local/Metropolitan Councils	12.0%	55.9%	12.9%	8.3%	11.6%	8.4%	14.1%
Parastatals	28.7%	3.9%	22.4%	17.4%	13.3%	25.1%	27.5%
Private	35.7%	39.7%	51.0%	49.9%	47.0%	39.8%	36.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The contribution by the private sector in this survey fell to 36.1 percent from 39.8 percent and 47.0 percent in the previous two surveys. Medium size firms earned 55.9 percent of turnover from local government, compared to just 12 percent by larger firms.

Table 8: Geographic distribution of the value of civil engineering construction work (turnover)

Province	Large	Medium	Small	2016Q1	2016Q2	2016Q3	2016Q4
GAU	20%	49%	19%	21%	24%	21%	21%
WC	7%	22%	2%	11%	12%	7%	7%
EC	14%	0%	44%	10%	11%	13%	14%
NC	6%	22%	0%	5%	6%	8%	7%
MPU	6%	7%	19%	14%	11%	10%	7%
FS	13%	1%	1%	9%	11%	14%	13%
LIM	8%	0%	0%	6%	4%	7%	8%
NW	3%	0%	4%	5%	3%	3%	3%
KZN	22%	0%	12%	20%	18%	19%	21%
Total	100%	100%	100%	100%	100%	100%	100%

Gauteng contributed 21 percent to this survey, followed by 21 percent in KwaZulu-Natal, 13 percent in the Free State and 14 percent in the Eastern Cape.

Economic Indicators

Economic indicators generally depict the "opinions" of respondents related to work conditions, tempo of work activity, competition for tenders, profitability and prices. It measures contractors' sentiment during the survey period (1st quarter 2017).

The mostly negative market sentiment continued to prevail since 2009, and although the level of sentiment expressed by respondents reached new lows during the 2nd quarter of 2015 there was a marginal improvement in the last few quarters, but not enough to lift the overall sentiment out of the red. The outlook for the 2nd quarter of 2017 however has shown some improvement, largely due to a moderately more optimistic sentiment expressed by larger firms.

A positive rate implies more firms reported improved business conditions, while a negative rate implies majority of firms reported a more pessimistic outlook on the industry.

Please note that these calculations are weighted according to a firm's total reported work force in RSA.

- **The nett % satisfied with working conditions** during the 4th quarter of 2016, remained in deep negative territory, deteriorating to -76.9, compared to -45.0 in the previous quarter, contradicting expectations in the previous survey that conditions are expected to show some improvement in the 4th quarter. Although the overall negative market sentiment persists for the 1st and 2nd quarter of 2017, larger firms seem more optimistic regarding business conditions by the 2nd quarter of 2017, as 50 percent expect at least satisfactory business conditions to prevail. However, none of the firms expect business conditions to be any better than simply satisfactory.
- **Competition for tenders** remain fierce, with 73.4 percent of the contractors reporting that there were more than 11 bids pre contract, compared to 75 percent in the previous survey. It is also further possible that pre-qualification could be a contributing factor to the reduced number of bids.

Table 9: Competition for tenders (weighted responses)

Values	2014Q2	2014Q3	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1
Up to 5	0.0%	0.0%	1.5%	3.5%	0.0%	0.2%	4.7%	0.1%	0.1%	0.9%	0.6%
5-10	55.4%	68.8%	49.2%	58.3%	32.0%	26.9%	23.2%	9.4%	23.8%	24.1%	26.1%
11-25	44.4%	29.3%	44.7%	36.2%	58.7%	67.6%	42.1%	53.4%	67.3%	73.0%	68.5%
>25	0.3%	1.9%	4.6%	2.1%	9.3%	5.2%	29.9%	37.1%	8.8%	2.1%	4.9%
>11	44.6%	31.2%	49.3%	38.3%	68.0%	72.9%	72.1%	90.4%	76.2%	75.0%	73.4%

- **Although tender prices** remain under pressure, the percentage of contractors that reported very low prices eased to 37 percent from 57.2 percent in the previous survey. None of the respondents (across all firm sizes) reported reasonable tender prices in the current survey, on par with the previous survey.

Table 10: Tender prices (weighted response)

Values	2014Q2	2014Q3	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1
Very Low	8.0%	33.1%	11.5%	29.3%	44.6%	48.7%	30.6%	28.5%	42.9%	57.2%	37.0%
Keen	91.9%	66.8%	87.5%	68.3%	55.4%	45.2%	53.3%	66.1%	49.6%	42.8%	62.8%
Reasonable	0.0%	0.0%	1.1%	2.3%	0.0%	6.0%	16.2%	5.4%	7.5%	0.0%	0.1%
Good	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Keen and higher	92.0%	66.9%	88.5%	70.7%	55.4%	51.3%	69.4%	71.5%	57.1%	42.8%	63.0%

- There has been some improvement in profitability levels. Although the nett satisfaction rate related to profitability remained negative, it improved from -27.7 percent in the 4th quarter of 2016 to -13.8 percent in the current survey. Majority (43.1 percent) reported satisfactory profitability compared to the previous survey when majority reported low profitability levels.

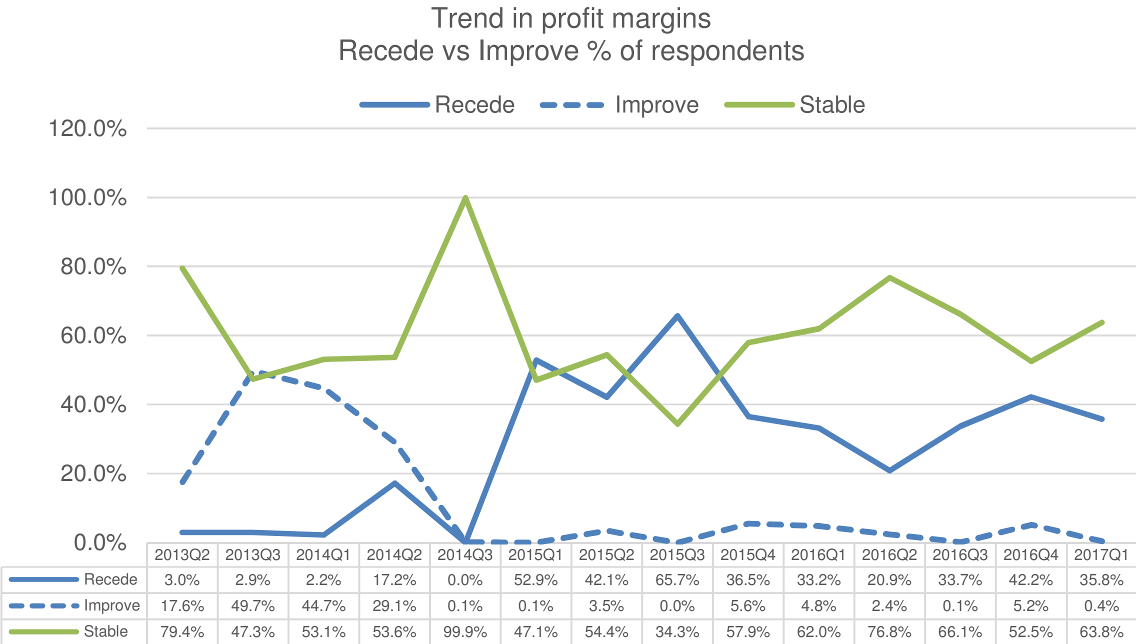
Table 11: Profitability (weighted response)

Values	2014Q2	2014Q3	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1
Very Low	16.8%	9.1%	11.9%	35.7%	13.4%	10.6%	10.7%	0.2%	12.2%	14.0%	35.2%
Low	39.9%	72.0%	43.4%	52.8%	63.4%	40.3%	26.4%	36.5%	39.6%	49.8%	21.7%
Satisfactory	43.1%	18.8%	44.8%	11.5%	23.2%	49.1%	62.9%	63.4%	48.3%	36.1%	43.1%
High	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Keen and higher	-13.4%	-62.3%	-10.5%	-76.9%	-53.5%	-1.9%	25.7%	26.7%	-3.5%	-27.7%	-13.8%

- Majority of contractors (supported mainly by medium size contractors) expect profitability trends to stabilise (63.8 percent), while only 0.4 percent of the participants are expecting margins to improve. Around 35.8 percent of the firms expect a further deterioration in profitability.

Table 12: Trends in profit margins (Weighted response)

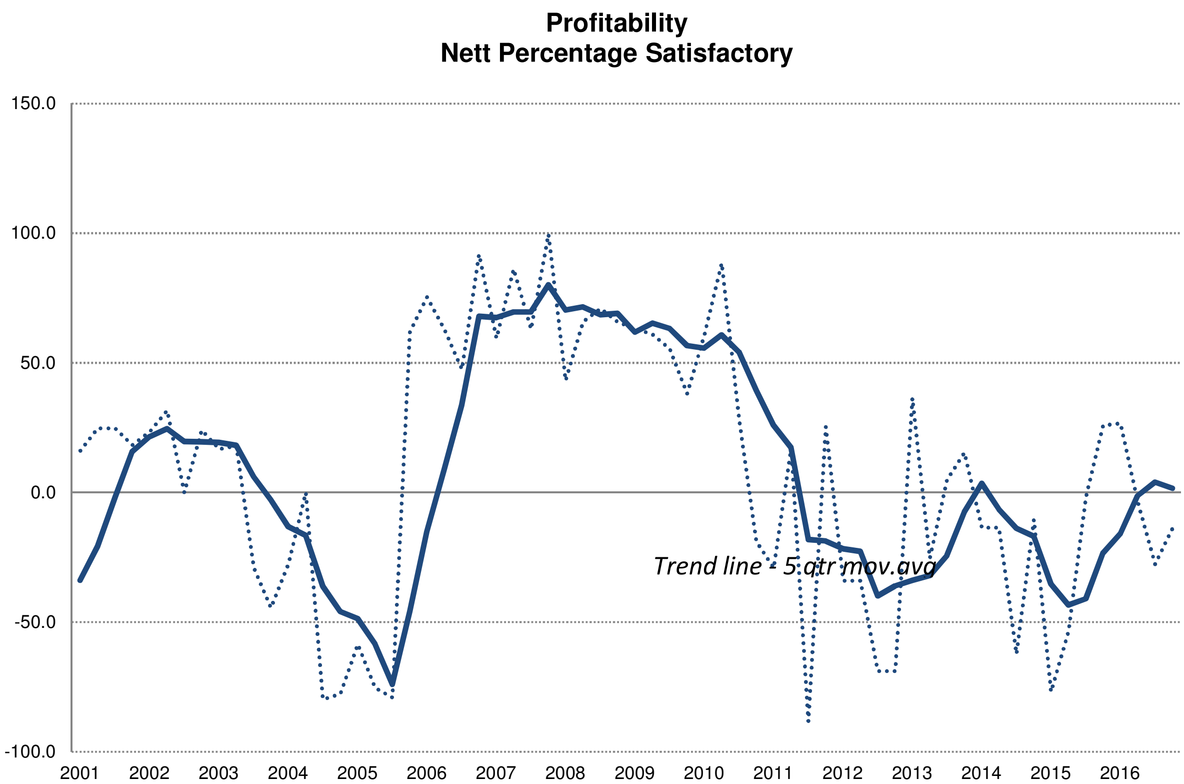
Values	2014Q2	2014Q3	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1
Receding	17.2%	0.0%	52.9%	42.1%	65.7%	36.5%	33.2%	20.9%	33.7%	42.2%	35.8%
Stabilise	53.6%	99.9%	47.1%	54.4%	34.3%	57.9%	62.0%	76.8%	66.1%	52.5%	63.8%
Improve	29.1%	0.1%	0.1%	3.5%	0.0%	5.6%	4.8%	2.4%	0.1%	5.2%	0.4%



	2013Q2	2013Q3	2014Q1	2014Q2	2014Q3	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1
Recede	3.0%	2.9%	2.2%	17.2%	0.0%	52.9%	42.1%	65.7%	36.5%	33.2%	20.9%	33.7%	42.2%	35.8%
Improve	17.6%	49.7%	44.7%	29.1%	0.1%	0.1%	3.5%	0.0%	5.6%	4.8%	2.4%	0.1%	5.2%	0.4%
Stable	79.4%	47.3%	53.1%	53.6%	99.9%	47.1%	54.4%	34.3%	57.9%	62.0%	76.8%	66.1%	52.5%	63.8%

Figure 7: Trend in Profit margins

Figure 8: Opinions related to Profitability



Opinions related to tenders, awards, order books and turnover

Tender and Award activity

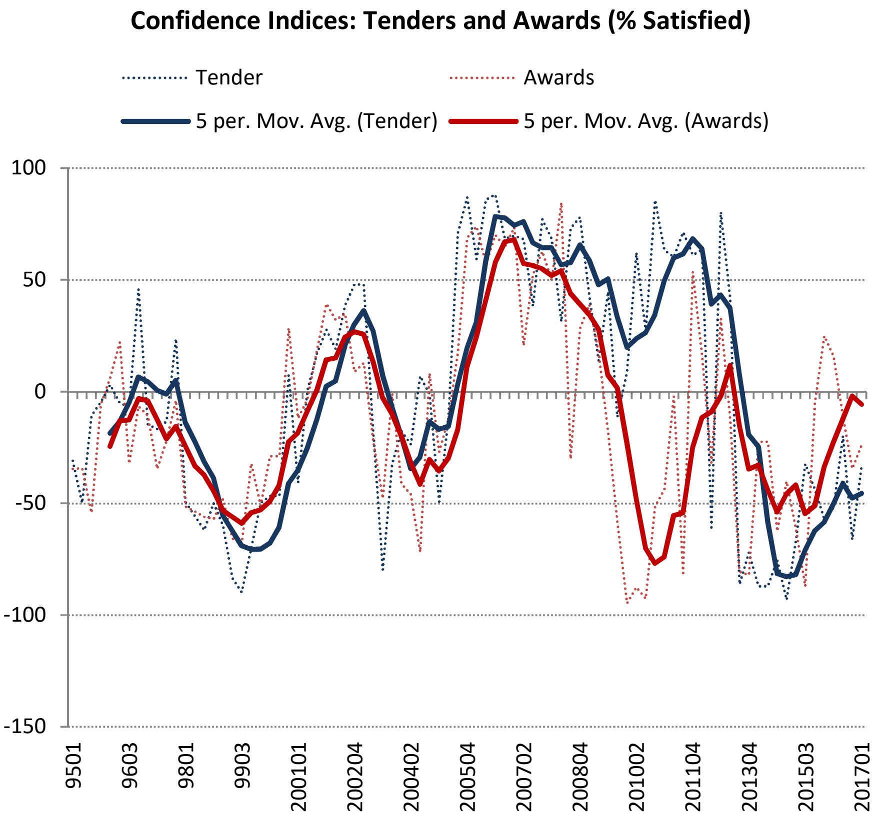


Figure 9: Opinions of new work tendered for

Explanatory note: Tender activity is a crucial indicator, being a first warning of the potential volume of work. The confidence reflected by companies regarding this indicator is therefore crucial and often deviates from the actual physical number of tenders during a period. The rate of involvement in cross border activity of larger contractors has increased in recent quarters, to counter act the impact of the dearth in work opportunities domestically in which they can compete. Some larger companies recently announced that the percentage contribution of work outside of South Africa is larger than revenue generated inside the country. Because these indicators are weighted, the opinions and perceptions of larger firms impacts quite heavily on the overall trend, and the impact of "cross border" activity must not be undermined in the movement of these indices.

Although none of the participating contractors reported on better than satisfactory levels in terms of tender activity, a higher percentage reported at least satisfactory levels (33.6 percent), compared to less than 17 percent in the previous survey. This resulted in some improvement in the negative nett satisfaction rate from -66.2 percent in the previous survey to -32.7 percent in the first quarter survey. However, opinions are relatively volatile from a survey to survey basis and the overall trend based on the last five quarters remain deep in negative territory. The last time contractors felt more optimistic regarding tender volumes was in 2013.

Opinions related to the awarding of contracts also improved moderately, as 38.1 percent reported satisfactory levels (from 32.8 percent in the previous survey), but none of the contractors were of the opinion that conditions were deemed as better than satisfactory.

The overall nett satisfaction rate related to order books has been positive in the last three surveys (after having reported negative nett satisfaction rates between 2014 up to the 2nd quarter of 2016), but moderately slightly to 24.2 percent in the first quarter of 2017 from 27.7 percent in the previous survey, due to an increase in the number of participants that reported low order book values, from 34.8 percent in the 4th quarter of 2016 to 37.4 percent in the 1st quarter of 2017. Majority (62 percent) reported satisfactory levels.

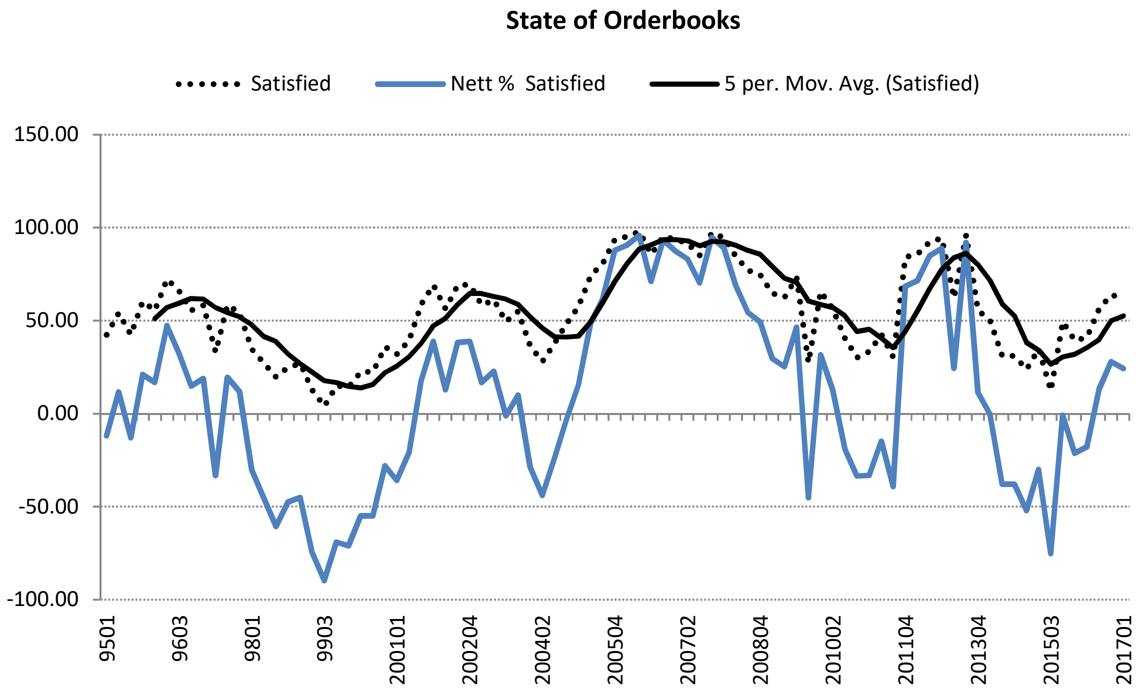
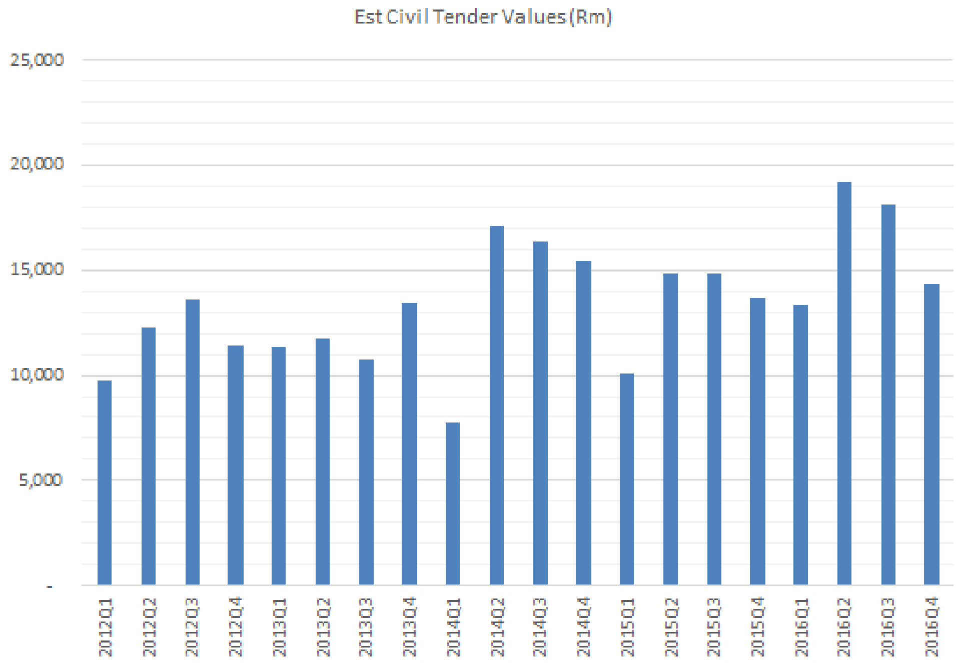


Figure 10: State of Orderbooks

According to an analysis of project lead information supplied by Databuild, the annual increase in the estimated value of civil projects out to tender slowed to 4.8 percent in the 4th quarter following to quarters of robust double digit growth. Although the value of road contracts out to tender increased by 51 percent for the year 2016, the value of water projects out to tender fell by 12 percent. Please note that this does not include mining infrastructure or bulk infrastructure projects. The significance of this is the expectation that civil industry turnover may be positively effected in the first half of 2017, provided that these projects are awarded and executed within a reasonable time frame. Increased tender activity for higher value projects (CIDB grade 9) is supportive of the less pessimistic views expressed by larger firms while medium size firms are becoming increasingly negative.



Source: Industry Insight Project Database, Databuild

Table 13: Estimated civil tender values, by project type, by quarter (Rm, current prices- not adjusted for inflation)

	Air	Bridges	Civil Other	Power	Rail	Road	Water	Grand Total	Y-Y Per. Change (Nominal)
2014Q1	-	287	423	285	9	3,886	2,871	7,760	-31.5%
2014Q2	4	232	432	456	97	8,270	7,584	17,074	45.6%
2014Q3	129	211	534	600	121	8,174	6,620	16,389	52.6%
2014Q4	-	306	489	366	104	7,668	6,489	15,421	14.5%
2015Q1	16	192	553	455	152	4,205	4,486	10,059	29.6%
2015Q2	102	467	418	476	153	9,252	4,006	14,875	-12.9%
2015Q3	128	380	388	765	108	8,924	4,129	14,822	-9.6%
2015Q4	4	492	365	700	277	5,245	6,615	13,697	-11.2%
2016Q1	-	467	495	516	50	7,789	4,048	13,364	32.9%
2016Q2	18	320	499	343	2	15,034	3,022	19,238	29.3%
2016Q3	-	123	374	1,328	21	11,022	5,233	18,100	22.1%
2016Q4	44	115	299	1,195	74	7,973	4,657	14,358	4.8%

Capacity Utilisation and Plant Equipment

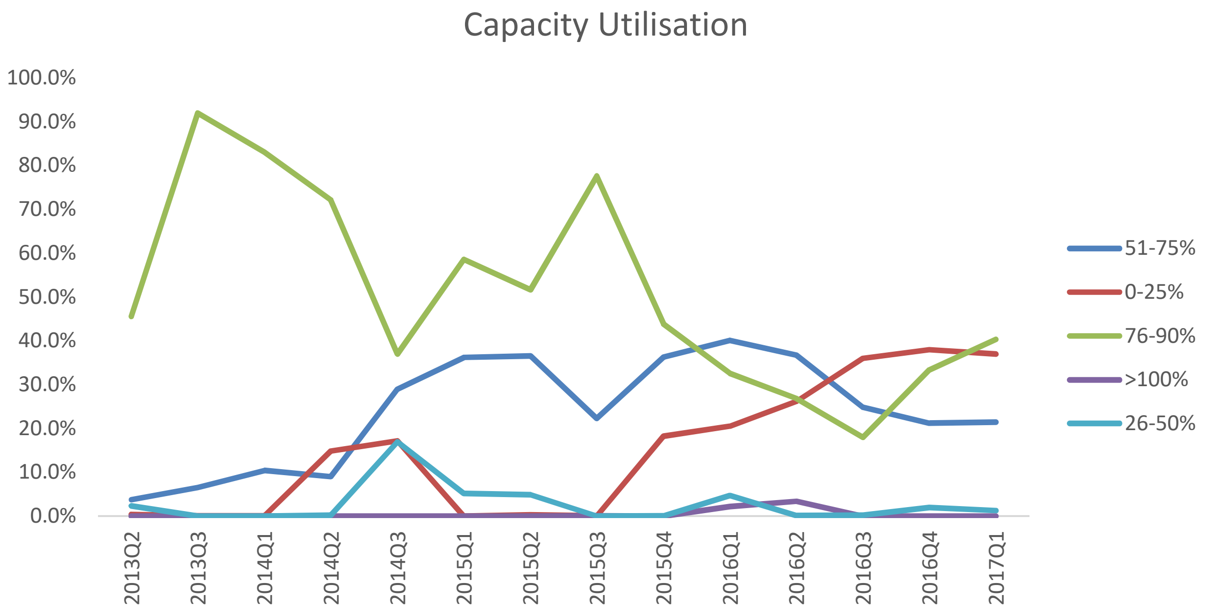


Figure 11: Capacity Utilisation Percentage breakdown of respondents

Table 14: Capacity Utilisation

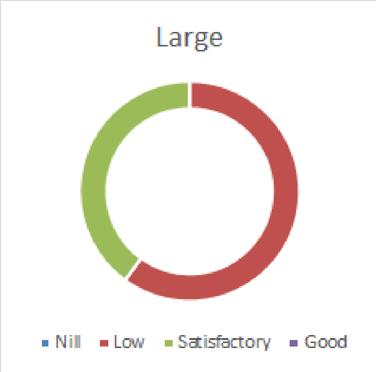
	2014Q2	2014Q3	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1
0-25%	14.8%	17.2%	0.0%	0.3%	0.0%	18.2%	20.5%	26.2%	36.0%	38.0%	37.0%
26-50%	0.2%	17.0%	5.2%	4.9%	0.0%	0.0%	4.6%	0.1%	0.2%	1.9%	1.3%
51-75%	9.0%	28.9%	36.2%	36.6%	22.3%	36.3%	40.1%	36.7%	24.8%	21.2%	21.4%
76-90%	72.1%	37.0%	58.6%	51.6%	77.6%	43.9%	32.5%	26.8%	17.9%	33.3%	40.3%
91-100%	3.9%	0.0%	0.1%	6.6%	0.1%	1.6%	0.1%	6.7%	21.1%	5.5%	0.0%
>100%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.1%	3.4%	0.0%	0.0%	0.0%
Capacity >90%	*3.9%*	*0.0%*	*0.1%*	*6.6%*	*0.1%*	*1.6%*	*2.2%*	*10.1%*	*21.1%*	*5.5%*	*0.0%*

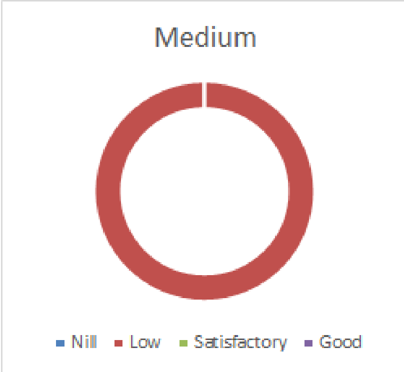
Majority of firms (40%) reported capacity utilisation in terms of general plant and resources at between 76 and 90 percent, a relatively strong recovery from 17.9 percent and 33.3 percent in the previous two quarters. 37 percent of respondents still report on utilisation levels below 25 percent, slightly lower than the 38 percent reported in the 4th quarter of 2016. Majority reported that less than 25 percent of plant and equipment is standing idle (72.7 percent), but there has been a notable increase in the number of firms saying that more than 50 percent of plant equipment is standing idle, from 8.8 percent to 14.5 percent in the 1st quarter of 2017.

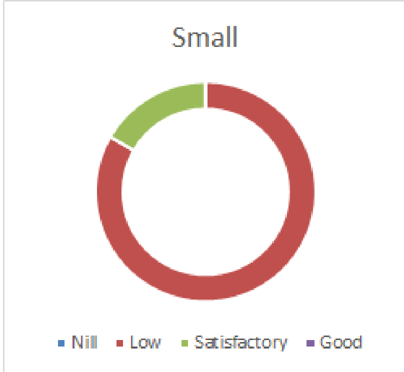
Table 15: Percentage of plant and equipment standing idle

	2014Q2	2014Q3	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1
0-25%	87.3%	100.0%	56.7%	77.3%	86.5%	65.0%	61.1%	57.4%	88.1%	89.9%	72.7%
26-50%	9.3%	0.0%	43.3%	16.3%	10.2%	28.0%	36.6%	31.3%	11.8%	1.3%	12.8%
51-75%	0.0%	0.0%	0.0%	6.4%	0.0%	4.6%	2.3%	8.4%	0.0%	8.8%	14.5%
75-90%	3.4%	0.0%	0.0%	0.0%	3.3%	2.4%	0.0%	2.9%	0.0%	0.0%	0.0%
90-100%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.1%	0.1%	0.0%
>100%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
More than 50% idle	3.4%	0.0%	0.0%	6.4%	3.3%	7.0%	2.4%	11.3%	0.1%	8.8%	14.5%

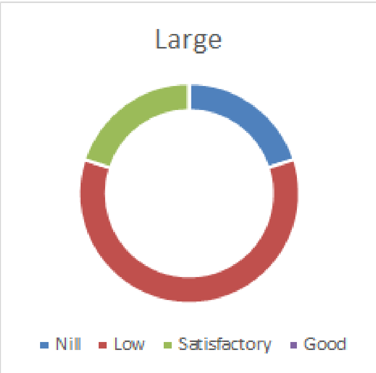
TEnder Volumes

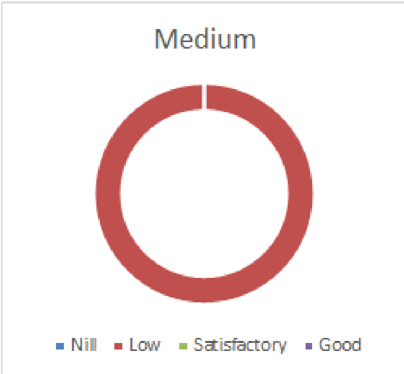


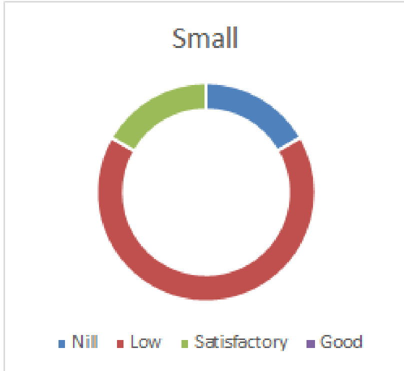




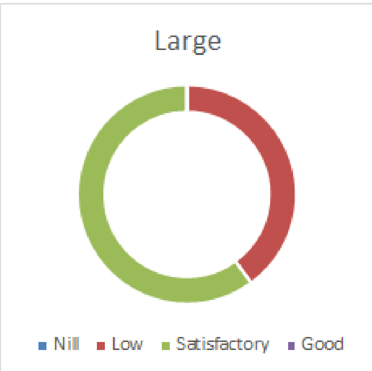
Contract Awrads

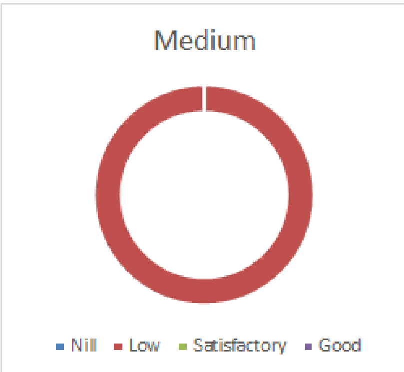


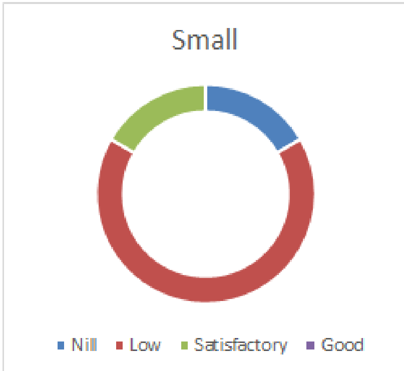




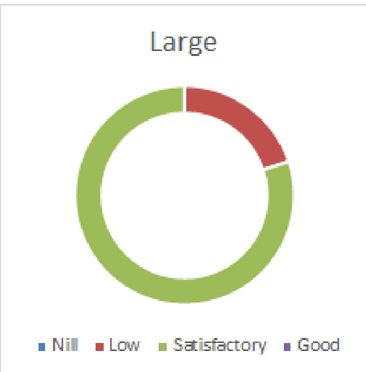
Order Book

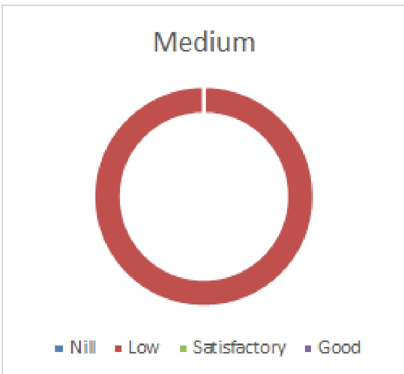


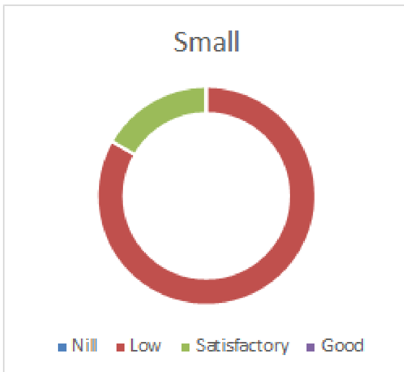




Turnover







Firm size market segmentation

Opinions and sentiment are categorised by firm size, based on reported work force including permanent and limited duration employment.

Results for various indicators are shown here, summarised by firm size.

- Working conditions for next quarter
- Competition for tenders
- Tender prices
- Profitability
- Profitability – Trend
- Capacity Utilisation
- Plant Idle

Performance of the listed sector

Several construction companies released their financial results in the first three months of 2017, including Aveng, Group Five, Murray & Roberts, Basil Read and WBHO. Overall majority of contractors reported a drop in revenue, except for WBHO who reported relatively flat revenue growth.

Aveng Ltd released their interim financial statements for the six months, year-end December 2016. The groups' revenue decreased by 21 percent to R14.3bn from R18bn at their year end of December 2016. Their 2 year order book was down by 1 percent, so remained more or less unchanged at R27.7bn. They cite limited large civil engineering projects coming to the market as the reason for the poor results. More importantly, due to the deal Aveng made with the government, as part of an agreement between Aveng and the government to fast track transformation in the construction sector, they have decided to sell 51 percent of their construction segment (Aveng Grinaker-LTA) to emerging contractor Kutana construction.

Group 5 also released interim results for the year end of December 2016. In the release of their interim results, revenue was down by 20.5 percent and an operating loss was recorded, 218 percent worse than the previous year. The order book was down overall to R15.7bn, from R17.3bn in the previous year, a 9.2 percent drop in nominal terms. They cite the R255 million settlement with the government as the main reason for the poor financial performance.

Murray and Roberts released interim results for the year end December 2016. Revenue from continuing operations was down to R10.7bn from R13.0bn in the previous period. A headline earnings per share of 27 cents was reported, down from 93 cents in the previous period, and a loss of R60 million was recorded, compared to a R376 million Rand profit in the previous year. Their order book was down to R24.6bn from R35.2bn, and the company has requested to now be listed under the general industrial sector, rather than construction and materials, as they no longer operate in this market, to a large extent. Note that the big jump in the share price was due to a big sale by Coronation, at an above market value price.

In provisional results, **Basil Read** reported a slight drop in revenue to R5.1bn, from R5.5bn, while an operating profit of R63.7 million was recorded, which is a 70 percent decrease. The order book is however up by about R1.6bn, increasing to R12.3bn overall. More information will follow in the full interim release.

WBHO also released provisional, unaudited interim results. Revenue from continuing operations was up 0.9 percent to R15.4bn in the six months to December, but profit from operations declined 37.5% to R242.6 million. The total order book in the period dropped 6 percent to R40.2bn, reflecting a 15 percent decrease in the Australian order book and a 7 percent decrease in the building and civil engineering order book. The roads and earthworks order book improved significantly, up 92 percent to R5.8bn from R3bn.

Industry Turnover

According to responding contractors, nominal turnover based on certified payments received, fell by 10 percent q-q in the 4th quarter of 2016, compared to the previous quarter, resulting in an overall decline of 3.2 percent in nominal terms in 2016 (or –9.2 percent in real terms, allowing for an average cost inflation of 6.7 percent in 2016). The outlook for 2017 remains on the downside, in spite of some improvement expected during the first half of 2017 following an increase in tender activity of higher value projects during the last half of 2016. Conditions are simply not conducive for higher levels of investment, currently constrained by poor economic growth, policy and political uncertainty, low investor confidence and a slowdown in both government and SOE's public sector infrastructure expenditure. Turnover is therefore expected to contract by around 6 percent in 2017 (nominal terms), or -9.0 percent in real terms allowing for an average cost inflation of 3.3 percent in 2017. The outlook for 2018 and 2019 is subject to a stabilisation in government expenditure and some improvement in private sector spending allowing for greater policy certainty. However these forecasts are weighed heavily on the downside as an improvement in investor confidence still appears to be somewhat unlikely over the medium term.

Turnover is likely to contract further in the 1st quarter of 2017, as government departments are still in the final phases of their financial years, and awaiting the release of allocations in the 2017 Budget. Turnover generally increases at a stronger pace in the 2nd quarter as funds have been allocated towards infrastructure allocations for the next financial year, following the release of the budget in February each year.

Please note turnover levels only depict SAFCEC estimates based on member's firms participation and may not be reflective of the overall civil industry contracting fraternity. Turnover values have also been re-worked from a base year of 2012 to a base year of 2016.

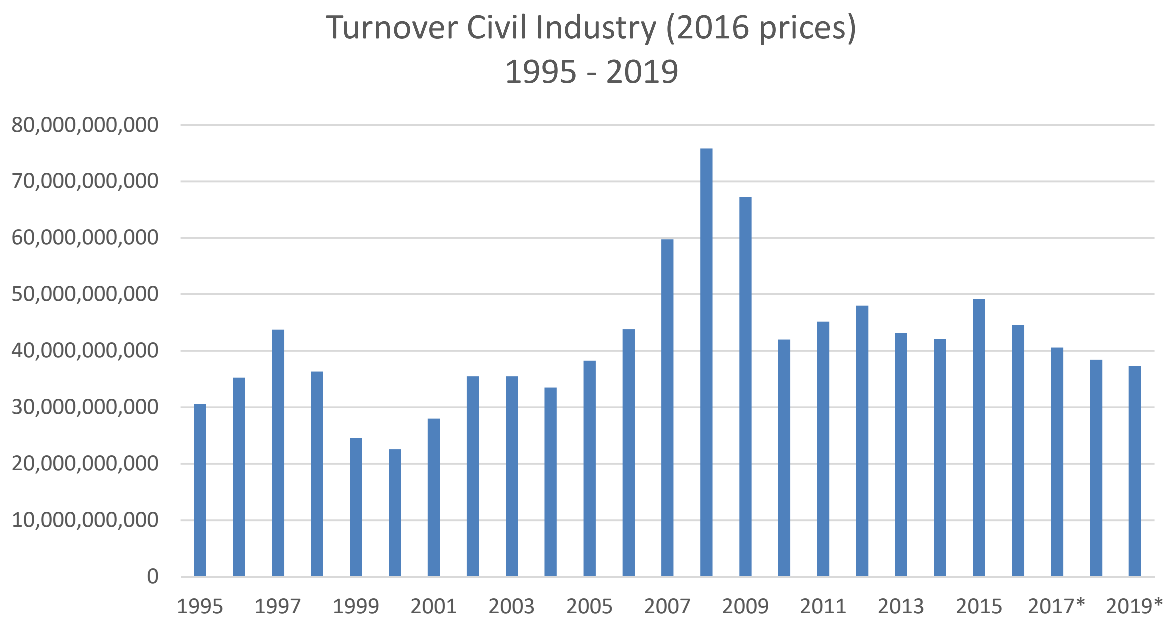
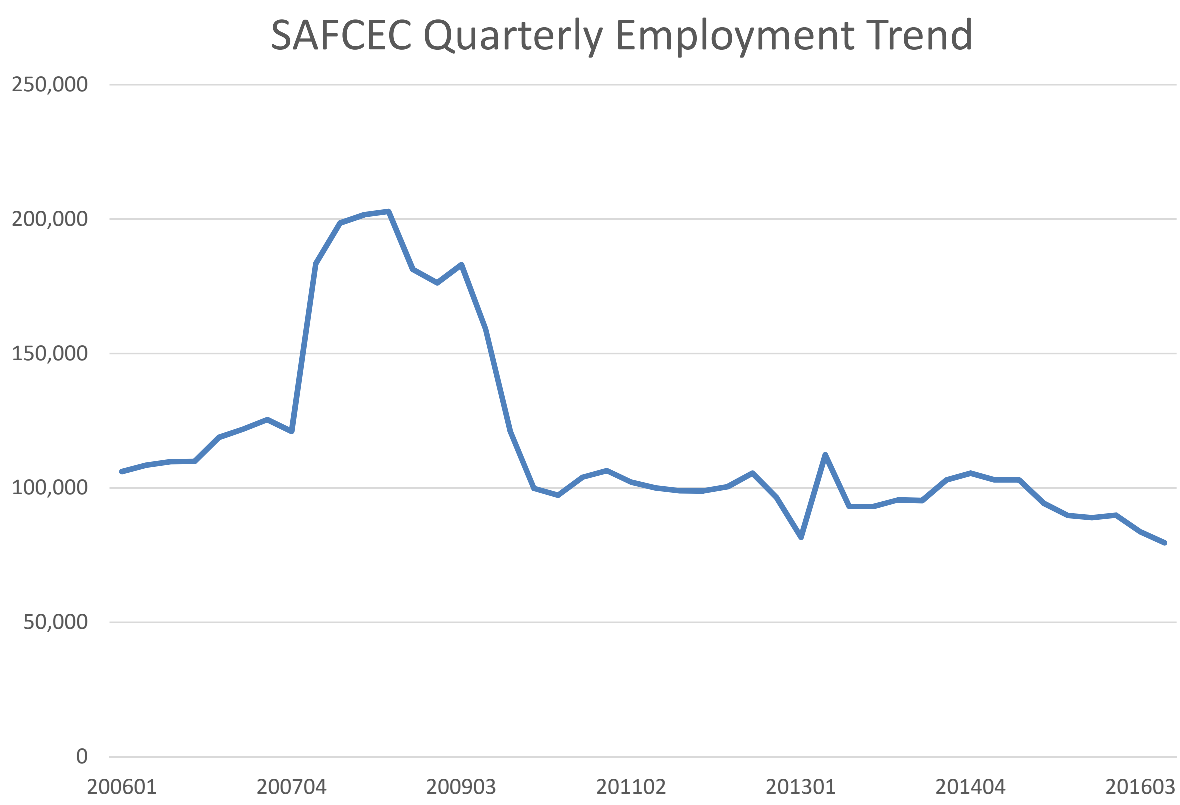


Table 15: Actual and Expected Turnover trends

	Turnover Nominal	% Change (Nominal)	Turnover 2016=100	% Change (Real)
1996	9,864,977,221	28.9%	35,249,842,470	15.3%
1997	13,282,356,448	34.6%	43,724,179,714	24.0%
1998	11,680,899,837	-12.1%	36,324,984,359	-16.9%
1999	8,600,472,761	-26.4%	24,562,081,293	-32.4%
2000	8,669,595,494	0.8%	22,556,233,581	-8.2%
2001	11,723,000,614	35.2%	28,011,798,970	24.2%
2002	17,138,501,083	46.2%	35,462,083,710	26.6%
2003	17,701,840,728	3.3%	35,481,366,070	0.1%
2004	17,180,281,073	-2.9%	33,459,646,964	-5.7%
2005	20,999,901,277	22.2%	38,250,997,170	14.3%
2006	25,783,535,490	22.8%	43,789,298,565	14.5%
2007	38,084,310,982	47.7%	59,737,657,516	36.4%
2008	58,063,639,993	52.5%	75,823,132,197	26.9%
2009	51,147,261,584	-11.9%	67,176,926,137	-11.4%
2010	32,744,103,366	-36.0%	41,993,396,767	-37.5%
2011	36,888,136,573	12.7%	45,184,339,496	7.6%
2012	40,952,061,358	11.0%	48,002,150,896	6.2%
2013	38,920,982,014	-5.0%	43,161,222,056	-10.1%
2014	39,941,145,748	2.6%	42,063,178,880	-2.5%
2015	46,049,492,101	15.3%	49,134,808,072	16.8%
2016 (f)	44,590,770,821	-3.2%	44,590,770,821	-9.2%
2017 (f)	41,915,324,572	-6.0%	40,587,324,484	-9.0%
2018 (f)	42,334,477,817	1.0%	38,464,455,053	-5.2%
2019 (f)	43,604,512,152	3.0%	37,324,947,076	-3.0%

Table 16: Employment, Contract Awards, Turnover and Salaries and Wages

	Employment	Turnover (nominal)	Salaries and Wages (nominal)
2011	101,854	36,888,136,573	8,163,344,624
2012.1	98,837	11,324,591,712	2,506,132,146
2012.2	100,497	10,456,138,926	2,313,943,544
2012.3	105,522	9,933,331,979	2,198,246,367
2012.4	96,502	9,237,998,741	2,044,369,121
2012	96,502	40,952,061,358	9,062,691,178
2013.1	81,651	7,944,678,917	1,758,157,444
2013.2	112,823	11,122,550,484	2,461,420,422
2013.3	93,894	9,454,167,911	2,092,207,359
2013.4	93,894	10,399,584,702	2,301,428,095
2013	95,565	38,920,9982,014	8,613,213,320
2014.1	96,241	9,255,630,385	2,048,271,004
2014.2	96,048	10,643,974,943	2,355,511,655
2014.3	103,732	10,111,776,196	2,237,736,072
2014.4	106,326	9,929,764,224	2,197,456,823
2014	100,587	39,941,145,748	8,838,975,554
2015.1	103,774	10,525,550,078	2,526,132,019
2015.2	103,774	12,209,638,090	2,677,699,940
2015.3	95,161	12,270,686,281	2,455,450,845
2015.4	90,403	11,043,617,652	2,319,159,707
2015	98,278	46,049,492,101	9,978,442,510
2016.1	89,679	10,160,128,240	2,133,626,930
2016.2	90,576	12,192,153,888	2,560,352,317
2016.3	84,234	11,704,467,732	2,457,938,224
2016.4	79,561	10,534,020,960	2,212,144,402



Employment in the civil engineering contracting industry moderated by 4.8 percent q-q in the 4th quarter of 2016, which is 11 percent lower when compared to the same quarter in 2015. On average SAFCEC estimates that employment has now moderated to just under 80 000 in the industry. According to Stats SA there are over 1 million people earning a livelihood in the South African construction industry, including the building and civil sectors as well as those that are self-employed.

Confidence Index

The quarter on quarter movement in the index has been more erratic since 2010, with some improvement reported in 2014, brought about by a more optimistic outlook from medium size contractors. However, sentiment has returned to being more pessimistic in the last few surveys, with industry sentiment representing levels last seen in 2000. In this survey larger contractors reported a more pessimistic view, with 60 percent (majority) stating a poorer outlook on business conditions in South Africa. Medium size contractors were equally pessimistic, with none of the firms reporting that business conditions are good in the South African market. The overall nett satisfaction rate (weighted) deteriorated from -42.5 percent in the 4th quarter 2016 to -52.5 percent in the current survey.

Explanatory note: The civil engineering confidence index relates to the overall business outlook amongst the companies within the industry. Levels below the 50-mark indicate pessimism, 0 equals total negativity, and 100 indicates absolute optimism. This is a continuously changing weighted index.

Table 16: Overall assessment of business conditions (RSA Only)

Values	2014Q2	2014Q3	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1
Very Quiet	3.1%	0.0%	36.3%	3.2%	17.7%	3.9%	4.8%	4.2%	0.1%	5.5%	25.2%
Quiet	18.4%	54.7%	33.4%	88.9%	62.4%	39.8%	55.2%	54.8%	34.8%	37.0%	27.7%
Satisfactory	48.5%	45.2%	30.3%	7.9%	11.0%	52.6%	39.0%	38.8%	65.2%	57.5%	46.7%
Quite busy	30.1%	0.1%	0.0%	0.0%	8.9%	2.5%	1.0%	2.2%	0.0%	0.0%	0.4%
Very busy	0.0%	0.0%	0.0%	0.0%	0.0%	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Nett %	8.7%	-54.6%	-69.7%	-92.1%	-71.2%	-40.1%	-59.0%	-56.8%	-34.8%	-42.5%	-52.5%

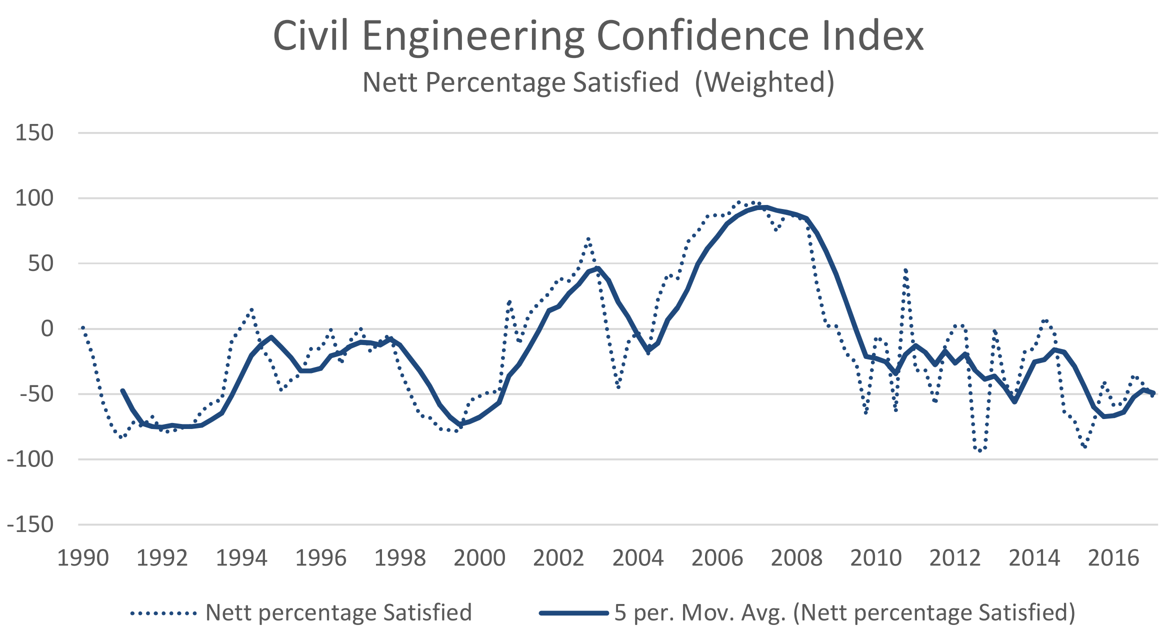


Figure 12: Civil Engineering Contractors Confidence Index

Key issues affecting current confidence levels in the industry:

- Global economic stabilisation, but weighed down by political risks in developed economies and slowing growth in China's economy.
- Domestic economic woes may seem to have alleviate somewhat but outlook remains clouded by risks associated with currency developments, political tension and practical implications associated with more radical economic transformation, as promised in the 2017 Budget. The threat of a credit rating downgrade remains on the cards.
- Project cancellations and delays in project implementation.
- Skills related to engineering is becoming a more serious constraint largely aggravated through continued client interference which creates an environment whereby agents are being disempowered. This leads to project implementation delays and is a contributing factor to the increase in payment delays, through delays in certification.

- Slow roll out of public sector infrastructure projects, including the delays to implement the targets as set out in the National Development Plan, aggravated by cuts in projected infrastructure expenditure allocations which were announced in the 2017/18 Budget, has resulted in marginal nominal growth projected over the medium term expenditure framework period (2017/18 – 2019/20).
- Award delays are also becoming more significant. Contractors have a quarter of the time to prepare and submit tender document, compared to the time taken by clients to adjudicate.
- Skills shortages in procurement which also include government's ability to implement proper project planning and implementation. It is also critical to shorten the delay between tender and awards which could take as long as one year.
- The inability of certain local and district municipalities to spend allocated budgetary allocations, which also suggest inadequate skills in planning and budgetary management.
- Low confidence in the mining sector and policy uncertainty, particularly also in the renewable energy sector is delaying private capital expenditure.
- The tendency by government to break what should be larger Grade 9 projects, into smaller grade projects, referred to as project fragmentation.
- Pricing by contractors remains a concern, as some contractors would tender on projects that fall outside the scope of the prescribed CIDB grade, leading to uncessary delays in the procurement process. Prices can also vary to the extent that it can almost be deemed as irresponsible, or below cost with little or no regard to operational efficiency or the impact of (negative) escelation on contracts.
- As the industry continues to shed employment, these and other challenges will impact on the industry's future capacity to respond effectively to increased demand when the industry starts to recover.

CIVIL ENGINEERING PRICE MOVEMENTS

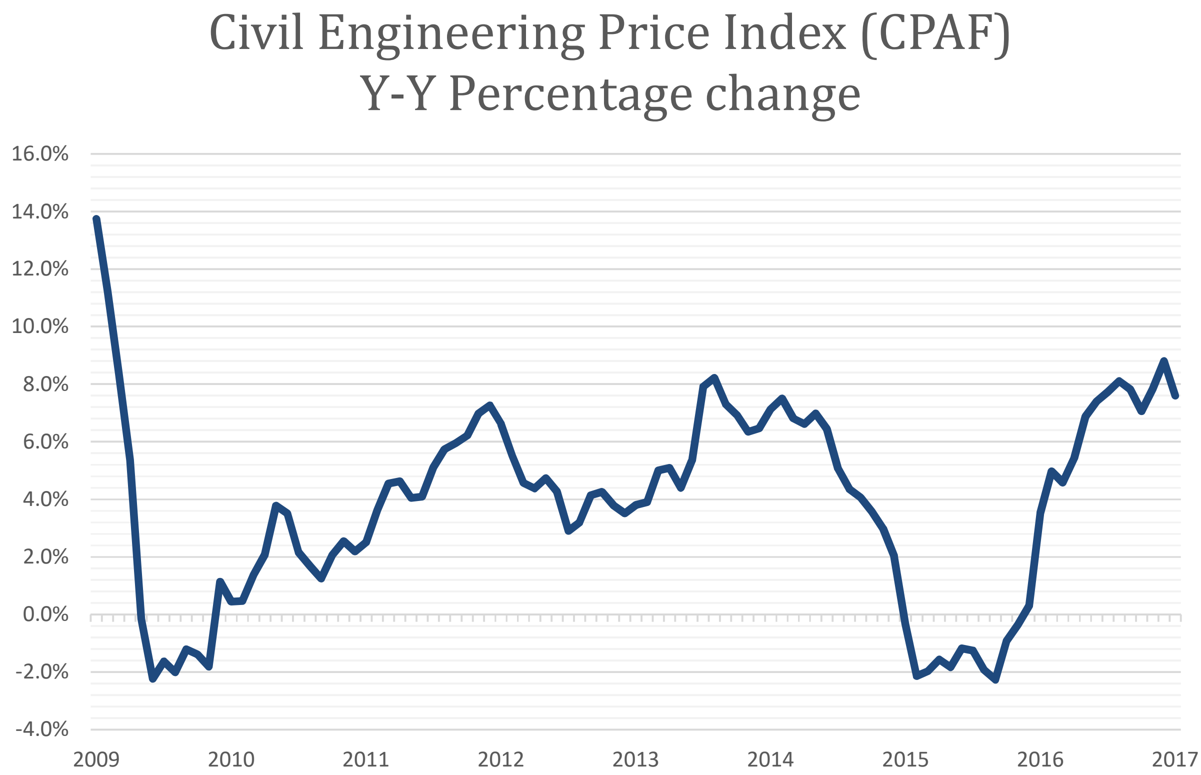
Input cost price movements based on the Baxter contract price adjustment formula (CPAF) averaged (revised) 6.7 percent in 2016, following an average increase of 15.8 percent in plant equipment, 5.2 percent in fuel, 6.2 percent in materials and 6.3 percent in labour (based on the CPI). Pending further developments in the oil price and currency vulnerability, we expect the composite index to average an increase of 3.3 percent in 2017 (coming off a higher base in 2016 and assuming some currency appreciation, but with a recovery in the oil price in 2017) and 6.6 percent in 2018. Our assumptions include a continuation of the low oil price, but recovering to an average of $57/barrel in 2017, and some appreciation in the currency from an average of R14.7/$ to R13.5/$ in 2017. These developments and the impact on input cost construction will be closely monitored.

The Baxter contract price adjustment formula (or CPAF), is widely recognised by the industry as an accepted set of indices to adjust contracts for payment escalation. However, it is important to clarify that these set of indices are freely available and published by Statistics South Africa and is not owned or manipulated by SAFCEC in any way

Please note the fuel index is now based on Diesel Fuel – Wholesale

Table 17: CPAF Indices (2016 = 100) Annual Percentage Change

Year	Material (SAFCEC)	Fuel (SAFCEC)	Plant (SAFCEC)	Labour (CPI)	Composite
2013	4.3%	7.2%	6.3%	5.8%	5.7%
2014	3.3%	3.1%	6.4%%	6.1%	5.6%
2015	-5.2	-15.5%	3.2%	4.6%	0.6%
2016	6.2%	5.2%	15.8%	6.3%	6.7%
2017*	7.0%	18.2%	-8.2%	6.4%	3.3%
2018*	5.0%	11.2%	7.4%	5.7%	6.6%
2019*	5.0%	8.7%	6.9%	5.6%	6.1%



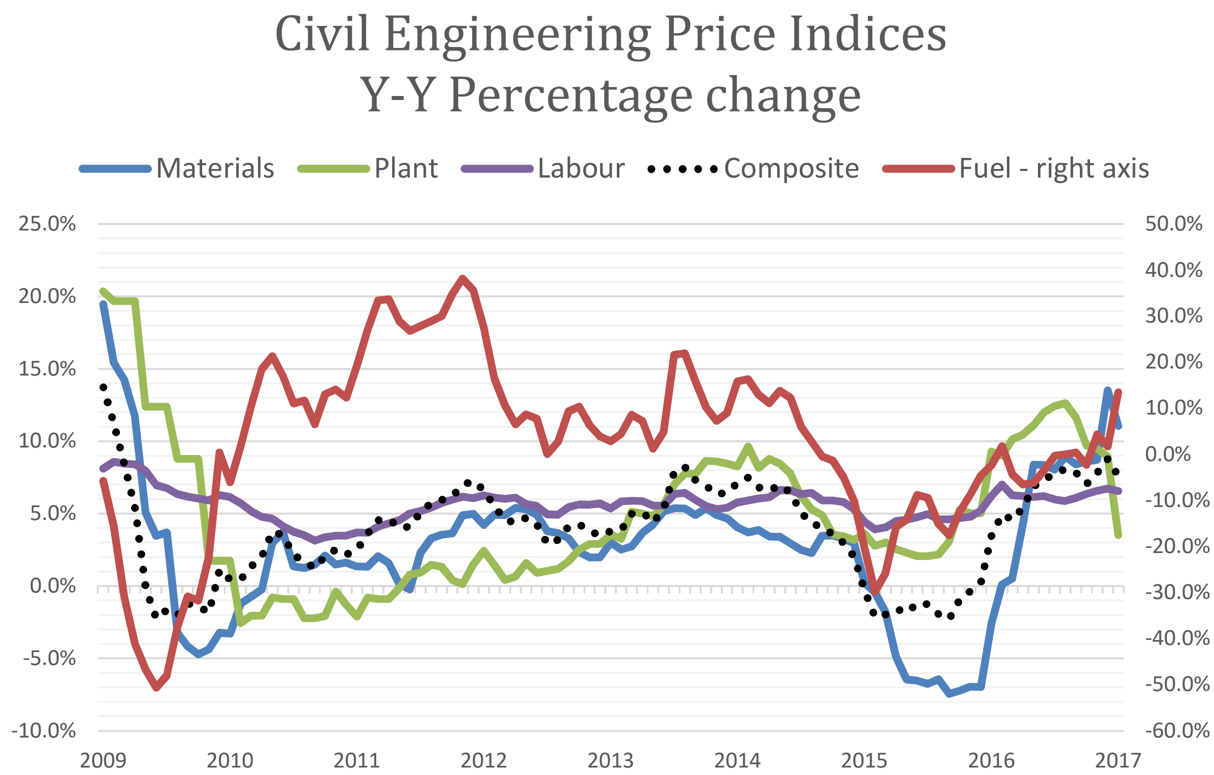


Figure 13: Civil Engineering price movements (source Stats SA)

Table 18: Macro Price Assumptions

	2013	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*
R/US$ Exchange Rate	9.7	11.3	12.7	14.7	13.5	14.5	15.5
Oil price ($ per barrel, UK Crude oil)	108.0	96.3	48.7	44.2	57.0	59.0	60.0
Oil Price (ZAR per barrel)	1042.2	1088.2	618.5	650.8	769.5	855.5	930.0
CPI (% change)	5.8%	6.1%	4.6%	6.3%	6.4%	5.7%	5.6%

Table 19: CPAF Indices Forecast 2012-2017

Index 2012= 100	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*
Plant	81.8	87.0	89.8	99.3	91.1	97.9	104.6
Fuel	109.5	115.9	98.0	96.5	114.1	126.9	137.9
Materials	91.3	94.3	89.4	95.0	101.6	106.7	112.0
Labour	83.0	88.0	92.0	97.8	104.1	110.0	116.2
Composite	87.8	92.4	91.2	97.3	100.5	107.1	113.6
Y-Y Percentage Change							
Plant	6.3%	6.4%	3.2%	15.8%	-8.2%	7.4%	6.9%
Fuel	9.4%	5.8%	-15.4%	5.2%	18.2%	11.2%	8.7%
Materials	4.3%	3.3%	-5.2%	6.2%	7.0%	5.0%	5.0%
Labour	5.8%	6.1%	4.6%	6.3%	6.4%	5.7%	5.6%
Composite	5.9%	5.3%	-1.3%	6.7%	3.3%	6.6%	6.1%

Table 20: CPAF Indices (Quarterly Average)

		CPAF Indices 2016=100					Y-Y Inflation				
Year	Quarter	Materials	Labour	Fuel	Plant	Composite	Materials	Labour	Fuel	Plant	Composite
2012	1	87.2	76.9	99.0	76.0	82.0	4.7%	6.1%	17.8%	1.4%	5.6%
	2	87.6	78.0	101.2	76.5	82.8	5.2%	5.8%	7.6%	1.1%	4.5%
	3	87.7	78.8	94.8	77.2	82.6	3.6%	5.1%	4.1%	1.3%	3.4%
	4	87.7	80.0	105.1	77.8	84.2	2.1%	5.6%	6.8%	2.8%	3.8%
2013	1	89.6	81.3	104.3	79.1	85.4	2.8%	5.7%	5.3%	4.0%	4.2%
	2	91.4	82.5	105.7	80.4	86.8	4.3%	5.7%	4.4%	5.1%	4.9%
	3	92.3	83.7	113.4	83.0	89.0	5.2%	6.2%	19.7%	7.5%	7.8%
	4	92.0	84.4	114.4	84.5	89.7	5.0%	5.4%	8.8%	8.6%	6.6%
2014	1	93.1	86.1	119.9	85.9	91.5	3.9%	5.9%	15.0%	8.7%	7.1%
	2	94.3	87.8	118.7	87.1	92.6	3.2%	6.5%	12.4%	8.3%	6.7%
	3	94.8	88.9	116.6	87.6	93.0	2.7%	6.2%	2.8%	5.5%	4.5%
	4	95.0	89.1	108.2	87.3	92.3	3.2%	5.7%	-5.4%	3.4%	2.9%
2015	1	92.5	89.7	89.5	88.6	90.2	-0.7%	4.1%	-25.4%	3.1%	-1.5%
	2	88.7	91.8	103.4	89.1	91.2	-6.0%	4.6%	-12.9%	2.3%	-1.5%
	3	88.3	93.1	100.2	89.7	91.4	-6.9%	4.7%	-14.0%	2.4%	-1.8%
	4	88.3	93.5	98.8	91.8	92.0	-7.1%	4.9%	-8.7%	5.1%	-0.3%
2016	1	91.9	95.5	87.9	97.0	94.1	-0.6%	6.5%	-1.8%	9.5%	4.4%
	2	94.9	97.5	97.8	99.1	97.2	7.0%	6.2%	-5.4%	11.2%	6.6%
	3	95.7	98.7	100.3	100.7	98.6	8.5%	6.0%	0.0%	12.2%	7.9%
	4	97.4	99.6	100.0	100.4	99.2	10.3%	6.6%	1.2%	9.4%	7.9%

Information Sources

1. SAFCEC Membership surveys
2. Databuild / Industry Insight project database of tenders, awards, postponements (www.industryinsight.co.za)
3. IMF World Economic Outlook
4. South African Reserve Bank, Quarterly Bulletins
5. Global Insight
6. Statistics South Africa
    a. PO044 Financial statistics
    b. P0141 Consumer Price Index
    c. P0151 Production Price Index: PPI For Selected Materials
7. FNB/BER confidence Indices
8. Estimates of National Expenditure Reviews (Treasury)