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STATE OF THE SOUTH AFRICAN CIVIL ENGINEERING INDUSTRY

Q2 | 2018

South African Forum of Civil Engineering Contractors
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EXECUTIVE SUMMARY

Since our base forecast report at the beginning of the year, the South African public and business community remain upbeat on balance. Business as well as consumer confidence indices increased markedly in the first quarter of the year, **GDP figures did not however.** Since our last report, the GDP figures for the first quarter of 2018 have been released, which were very poor, and worse than expected. Overall, the economy shrank by 2.2 percent in the first quarter, according to the seasonally adjusted q-q figures. According to latest GDP figures released by Stats SA, the value add in the construction sector declined for the fifth consecutive quarter in the first quarter of 2018, down by 1.9 percent y-y (seasonally adjusted annualised rate), largely in line with expectations. The short term outlook for the construction sector is not good, as the sector tends to lag growth in the overall economy. We only expect a more positive outlook in 2 to 3 years' time.

Most sectors contracted q-q with regards to the first quarter GDP. Agriculture saw a 24.2 percent decline, largely because the number was coming off such a high base. The mining sector on the other hand was not coming off a high base, and contracted by 9.9 percent in the first quarter, off the back of a 4.4 percent contraction in the previous quarter. Manufacturing, one of South Africa's biggest sectors, also declined in the first quarter, a contraction of 6.4 percent, also indicating a disappointing start to the year. Wholesale and retail trade also contracted quite severely, by 3.1 percent, which indicates all the confidence indices were largely overstated. Finance, real estate and business services, as well as transport and general government services, were the only sector to expand in the first quarter.

Conditions within the construction sector remain tough, on balance. Indicators from Industry Insight suggest a contracting construction sector as a whole with less awarding of projects in the first quarter of the year, contractions for both the building and civil sectors. Tender activity is more upbeat however, with more projects coming out to tender but the private building market also contracted in the first quarter. Longer term indicators are however more positive.

The investment figures for the first quarter have just been released and **investment in construction fell by 2.2 percent in the first quarter.** Investment in the non-residential sector was the only to expand y-y, the sector seeing growth of 1.8 percent in the first quarter. Investment in the residential market contracted by 2.8 percent y-y, and investment in the civil industry contracted by 2.5 percent y-y in the first quarter. Survey participation was higher in the 1st quarter of 2018, compared to the 4th quarter of 2017, but only slightly higher than returns in the same quarter of 2017.

Key observations:

- There was a decrease of 7.1 percent q-q in **employment** in the civil engineering contracting industry in the 1st quarter, after showing an increase in the 4th quarter of 2.5 percent. Compared to last year, employment has fallen more significantly.

- The total value of civil engineering construction certified for payment increased by 18.1 percent q-q. Large contractors reported an increase, whereas medium sized contractors reported a decrease. Large contractors saw an increase of 24.0 percent, while medium sized contractors saw a decrease of 17.0 percent.

- Overall conditions in terms of the **two-year forward order book** remains poor, and fell by 16.9 percent q-q, following the 7.4 percent decrease in the previous quarter. Large firms reported the strongest decrease in order books, down 17 percent q-q, following a decline of 9.7 percent in the previous quarter. Medium sized firms reported slightly better but still negative figures, with their order books decreasing by 9 percent.

- Value of late payments increased by 69.3 percent in the 2nd quarter of 2018, this is up from a 6 percent contraction in the previous quarter. The value of payments (outstanding for longer than 90 days) rose marginally to 4.7 percent of turnover, from 3.0 percent and an average of 4 percent in 2016. This current level is more in line with reality in our opinion, as late payment remains a major issue within the construction sector in general.
- Liquidations **in the construction sector** were unchanged over the last year (until April 2018), compared to an overall marginal decrease of 0.4 percent in the total economy. There is however some contrast between compulsory and voluntary liquidations, as compulsory liquidations declined by 21.4 percent over the last year, while voluntary liquidations increased by 4.0 percent.
- **Competition for tenders** was less fierce in the 2nd quarter, as 45.2 percent of companies reported that there were more than 11 bids per contract, compared to 84.8 percent and 80.3 percent in the previous two surveys.
- **Tender prices** reached new lows in this survey, with 91.8 percent of contractors reporting very low tender prices (this is compared to an average of 44.4 percent in the previous 12 quarters). This sentiment was largely carried across all firm size categories.
- More than two thirds of contractors still continue to expect **profitability** trends to deteriorate, with 68.3 percent saying margins will recede (up from 48.2 percent in the previous survey), while 31.7 percent expect margins to stabilise. There are no expectations that margins will show any improvement. The first quarter figures were worse than the 2017 average. In 2017, on average, 51.4 percent of contractors thought profit margins were to recede, while 48.3 percent thought they would stabilise.
- None of the participating contractors reported better than satisfactory levels in terms of tender activity for the seventh consecutive quarter, while similar to the previous quarters, a high percentage reported low to very low levels, down slightly from 98.8 percent to 94.6 percent. Around 5.4 percent did however feel that tender activity levels were satisfactory (compared to 1.1 percent, 7.1 percent in the previous two surveys).
- Majority of firms (70.9%) reported capacity utilisation in terms of general plant and resources at between 51 and 76 percent, and more firms reported lower levels of capacity utilisation in general. Utilisation levels were down quite significantly, with almost three quarters of contractors reporting a utilisation of below 75 percent.
- According to responding contractors, nominal turnover based on certified payments received, increased by 15.0 percent q-q in the 1st quarter, following the 9.7 percent decrease in Q4. This gets the year off to a relatively good start, but we must caution that this data can be somewhat volatile. The outlook for the medium term remains bleak, with the prospect of further real declines in investment weighing heavily on the upside. Pending further developments in construction cost inflation (estimated at an average of 5.8 percent over the next three years), turnover is likely to contract by an average of 10 percent in in the medium term (2018-2020).
- **Stats SA completed a full revision of price indices**, affecting various producer price indices used to compile the construction cost index. This led to an adjustment in the average input **cost price movements** based on the Baxter contract price adjustment formula (CPAF). Input costs moderated to an average annual increase of 5.6 percent in the 1st quarter of 2018, from an average (revised) increase of 6.1 percent and 4.2 percent in the 3rd and 4th quarters of 2017. The largest drivers of inflation currently are materials, up by 9.5 percent in the 1st quarter, and fuel which increased by 8.1 percent.
- In this survey, **confidence** has returned to being much more pessimistic in the last few surveys, with industry sentiment representing levels last seen in 2000. The overall confidence level deteriorated to a nett

negative satisfaction rate of -99.9 in the 2nd quarter, from -78.0 percent in the 1st quarter, and -99.9 percent in the previous survey. Majority of respondents reported quiet conditions. In this survey, 100 percent of the larger contractors reported a poor outlook for the sector. Medium sized contractors all also reported a poor outlook for the sector however. Smaller contractors had more of a mixed outlook, with only 50 percent expecting poor conditions within the industry to prevail.

- The satisfaction rate in the FNB/BER index has been below 50 since the 1st quarter of 2015, and recorded a much weaker level of 12 in the 1st quarter of 2018, from a level of 40 in the 1st quarter of 2017, and an average of 39 in 2016. This is the weakest level since 2000 towards the end of the 1998/98 Asian Crisis, and again is evident of extremely difficult and tough conditions experienced in the civil industry in particular. While conditions in the building industry are also under strain, confidence levels of building contractors (although weak) averaged a higher level of 35 in 2017, and improved to 43 in the first quarter of 2018.

- Several key issues continue to affect the local civil industry, mainly the poor roll out of government projects which was significant to more than 80 percent of the contractors in the sample, there seems to have been a serious slowdown in projects coming out to tender. Other issues include delays, skills shortages, as well as the cancellation of projects, and payment issues.

ECONOMIC BACKGROUND

Global Outlook

The outlook for the global economy remains optimistic, according to the latest World Economic Outlook report (April 2018) released by the International Monetary Fund (IMF). The IMF expect the world economy to grow by 3.9 percent in both 2018 and 2019. This is an upward revision of 0.2 percent in both years, which may sound small, but is quite significant. Advanced economies largely drove this upward revision, with the outlook for emerging markets remaining more or less the same since their last report in October of 2017. Overall, although still relatively modest, this has been one of the most synchronised upswings in the global economy, since the recovery from the global financial crisis in 2010. Roughly 120 economies, who make up more than 75 percent of global growth, saw their economies expand on a year on year basis in 2017, according to the IMF's estimates.

The IMF has raised its growth expectations for the South African economy from 0.9 percent in 2018 to 1.5 percent and to 1.7 percent in 2019 respectively. However, this is not something to get too excited about as it is largely a median forecast, and in line with our forecasts at Industry Insight. It is also important to note that growth at under 2.0 percent will do very little alleviate poverty (especially given the systemic inequality within the South African economy), and also lags behind population growth. This means structural imbalances, and backlogs will continue to expand. The appointment of Cyril Ramaphosa certainly played a role in the IMF's improved outlook, but challenges such as improving infrastructure, reducing barriers to entry in key sectors, improving the efficiency of government spending, and reducing policy uncertainty remain central to attracting private sector investment. There has however been a big step in the right direction, but we will have to wait and see actual policy changes affect the economy.

Table 1: GPD Y-Y percentage change (Source IMF World outlook April 2018)

	2014	2015	2016	2017	2018	2018
World	*3.4%*	*3.2%*	*3.1%*	*3.8%*	*3.9%*	*3.9%*
Advanced Economies	*1.8%*	*2.1%*	*1.7%*	*2.3%*	*2.5%*	*2.2%*
US	2.4%	2.6%	1.6%	2.3%	2.9%	2.7%
Eurozone	0.8%	2.0%	1.7%	2.3%	2.4%	2.0%
UK	2.9%	2.2%	1.8%	1.8%	1.6%	1.5%
Emerging markets	4.6%	4.1%	4.1%	4.8%	4.9%	5.1%
Brazil	0.1%	-3.8%	-3.6%	1.0%	2.3%	2.5%
Russia	0.6%	-3.7%	-0.2%	1.5%	1.7%	1.5%
India	7.3%	7.6%	6.8%	6.7%	7.4%	7.8%
China	7.4%	6.9%	6.7%	6.9%	6.6%	6.4%
Sub-Saharan Africa	5.0%	3.4%	1.4%	2.8%	3.4%	3.7%
SA	1.5%	2.0%	0.6%	1.3%	1.5%	1.8%

Domestic Outlook

Since our base forecast report at the beginning of the year, the South African public and business community remain upbeat on balance. Business as well as consumer confidence indices increased markedly in the first quarter of the year, GDP figures did not however. The BER business confidence index ticked up to 45 point, from 34 points in the fourth quarter of 2017. Consumer confidence rocketed up to 26 points, the highest ever recorded, since the inception of the index. This suggests that initial euphoria over Zuma's exit, and Ramaphosa's rise to power have largely continued into the early stages of the year, we will have to wait and see how the poor GDP figure affects these indices. This definitely will not have an immediate effect on the economy, but there certainly have been some positive developments in some proposed policy. This includes a renewed and more realistic mining charter, as well as more policy certainty within the renewable energy market. There also seems to be a clear effort to reverse the effects of state capture, especially on South Africa's key state owned entities.

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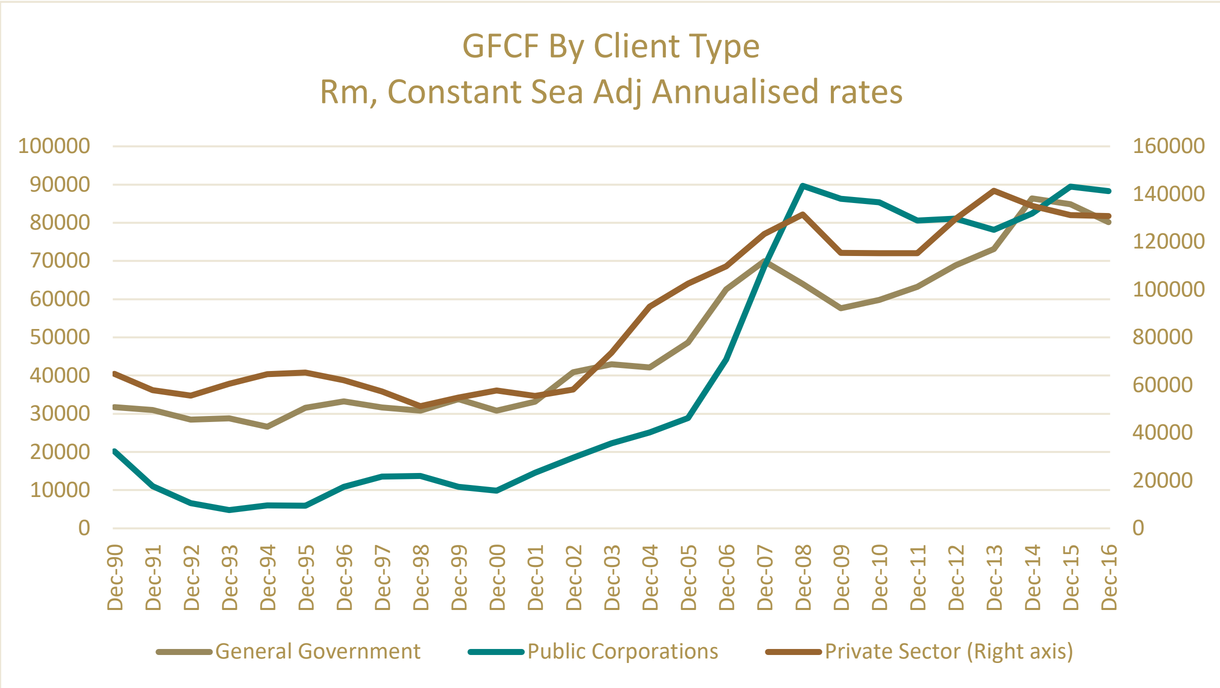
Table 1: Macro economic growth projections (Industry Insight Forecast Report 2018Q1)

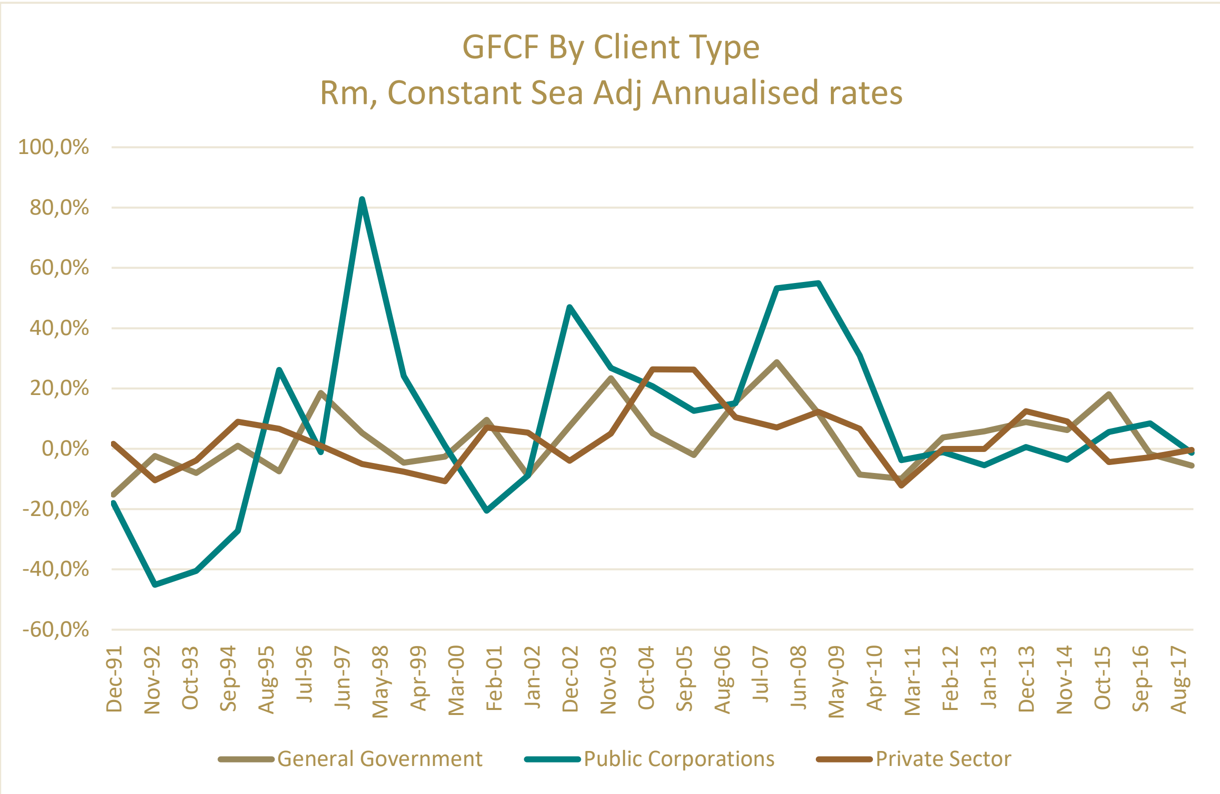
Macro-Economic Forecasts	*2015*	*2016*	*2017*	*2018*	*2019*
GDP	1.3%	0.6%	1.3%	1.5%	1.8%
Household consumption	1.7%	0.8%	0.9%	1.4%	1.6%
Government consumption	2.0%	2.0%	0.0%	1.9%	1.2%
Gross Fixed capital formation	2.7%	-3.9%	0.4%	1.6%	2.4%
Imports	6.4%	-3.7%	2.1%	4.3%	4.2%
Exports	3.0%	-0.1%	1.4%	5.0%	4.4%
Prime Lending rate	9.7%	10.5%	10.25%	10.25%	9.75%
ZAR/US$	12.10	15.20	13.80	12.40	11.90
CPI Inflation	3.8%	6.0%	5.3%	5.2%	5.8%
Current Account Deficit	-4.4	-3.0	-3.9	-3.0	-3.9

Gross Fixed Capital Formation

Gross fixed capital formation recorded positive growth in 2017, but was only marginal, with growth of just 0.4 percent. This is however much better than 2016, where investment contracted by 3.9 percent. In 2017, there a small return of private investment, with private gross fixed capital formation increasing by 1.2 percent.

The figures for the first quarter have just been released and investment in construction fell by 2.2 percent in the first quarter. Investment in the non-residential sector was the only to expand y-y, the sector seeing growth of 1.8 percent in the first quarter. Investment in the residential market contracted by 2.8 percent y-y, and investment in the civil industry contracted by 2.5 percent y-y in the first quarter.





THE POSITION OF THE CIVIL ENGINEERING INDUSTRY

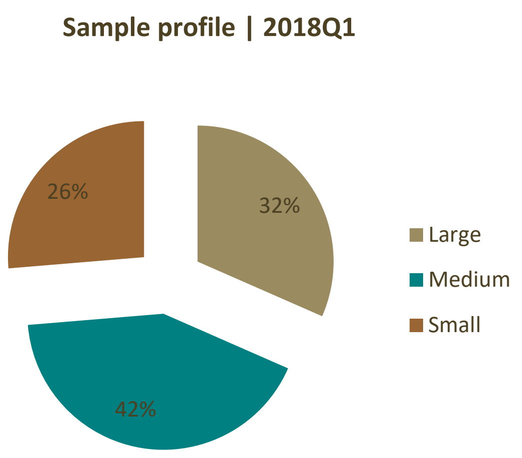
Background

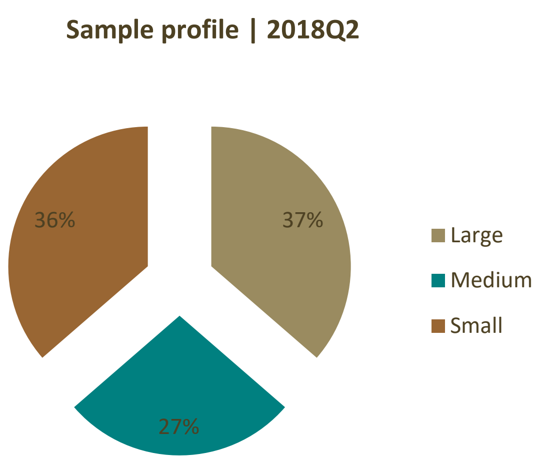
- Questionnaires were distributed to all SAFCEC members during **May 2018.**
- It is important to increase the usability of the industry report for all SAFCEC members, including small, medium and large enterprises. For this reason, more focus is given to the developing trends within the defined employment 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 was lower in the 2nd quarter of 2018, compared to the 1st quarter of the year, largely due to the short time frame between the two quarters. Larger firms contributed 37 percent to the current survey, medium size firms 27 percent, and smaller firms 36 percent, relatively similar to the previous report.

Figure 1: Profile of respondents





KEY OBSERVATIONS

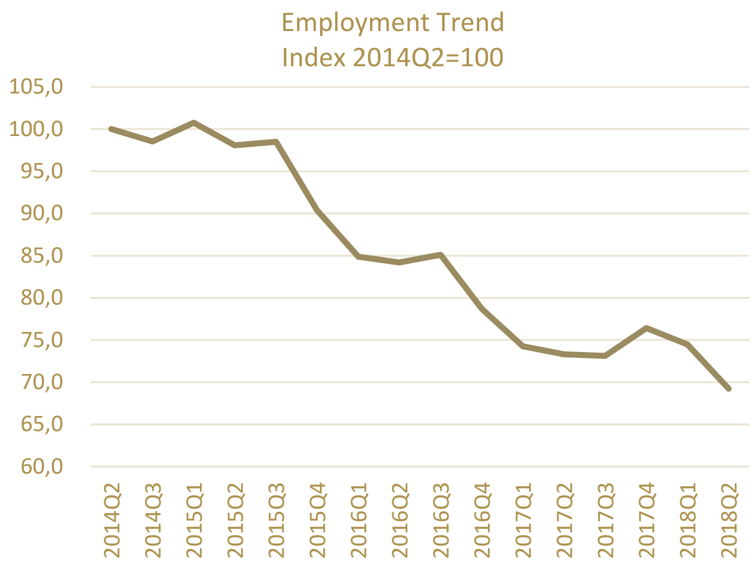
Human Resources

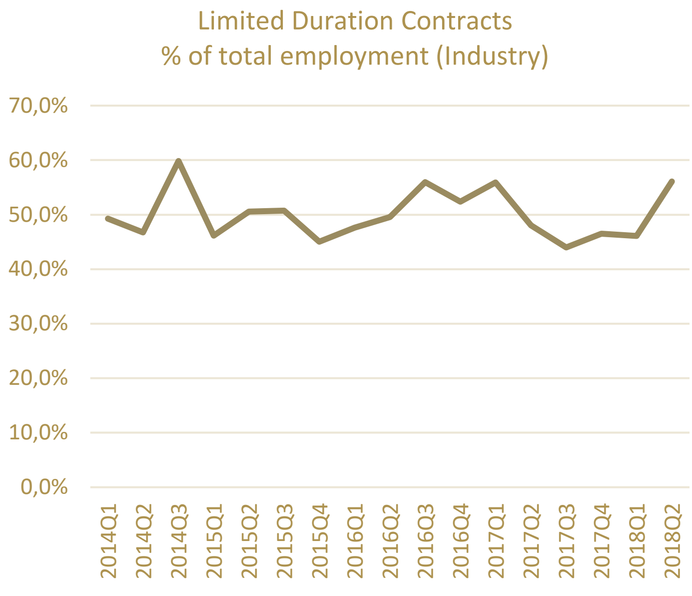
Employment decreased by 7.1 percent q-q, following a 2.5 percent decrease in the previous quarter. As normal, employment trends differ between the different size categories, larger firms on the one hand shed both limited duration jobs, as well as permanent jobs, down a whopping 58 percent and 3 percent respectively. Medium size firms reduced limited duration employment quite significantly, a decrease of 29 percent, but permanent employment stayed the same as the previous quarter (no change). The contribution of limited duration employees to total employment increased 10 percent, from 46.1 percent in the 1st quarter to 56.1 percent in the current quarter. Large contractors had almost 60 percent limited duration employment in the 2nd quarter (up from 46.4 percent last quarter).

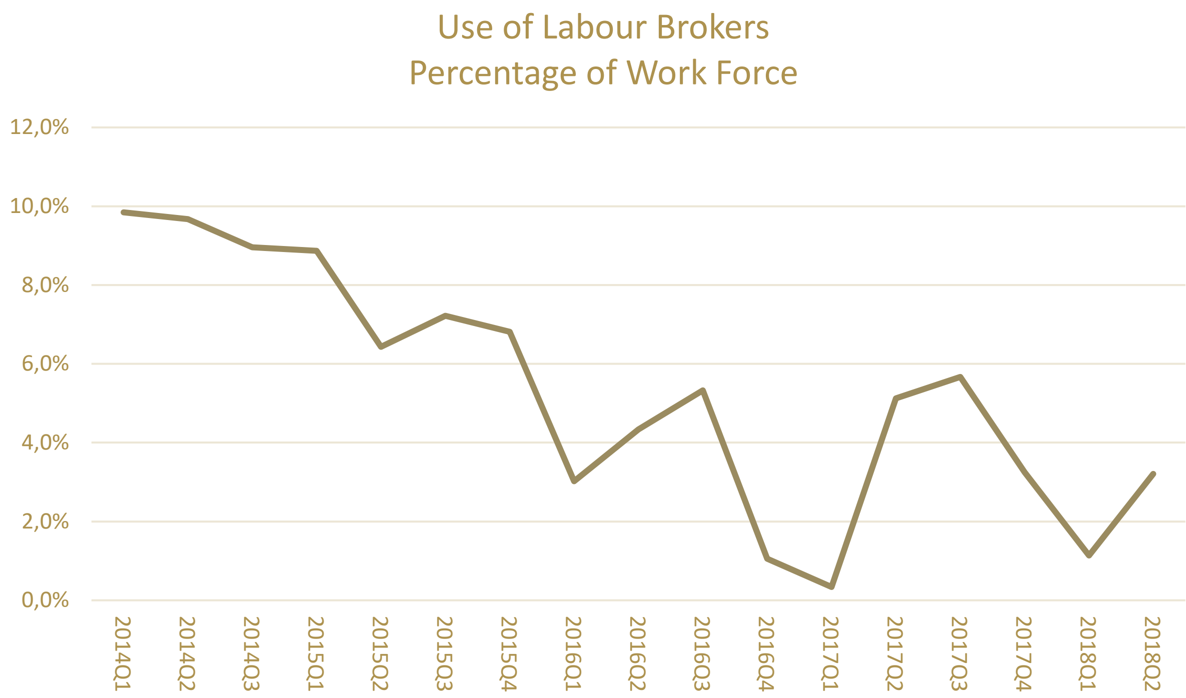
Table 3: Limited Duration Contracts; % of Total Employment

Firm Size Category	Limited Duration Q-Q Per.chg	Permanent Employees Q-Q Per.chg	Total Q-Q Per.chg	% Limited Duration of total workforce
Large	10%	-20%	-5,3%	58,3%
Medium	-29%	0%	-15,7%	44,6%
Small	-58%	-3%	-26,2%	23,3%
Total	4%	-18%	-7,1%	56,1%

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







The use of labour brokers increased in the current quarter, averaging 3.2 percent of the total workforce, from 1.1 percent in the previous quarter. Larger firms did not use labour brokers at all in the 2nd quarter, from 1.3 percent of their workforce in the previous quarter. Smaller firms also didn't use labour brokers. Medium firms used labour brokers, but to a lesser degree, and decreased their share by 79 percent. Overall the trend is still clearly downward over the last 3-4 years.

Financial Statistics

Turnover, Wages and Order Books

The total value of civil engineering construction certified for payment increased by 18.1 percent q-q. Large contractors reported an increase, whereas medium sized contractors reported a decrease. Large contractors saw an increase of 24.0 percent, while medium sized contractors saw a decrease of 17.0 percent.

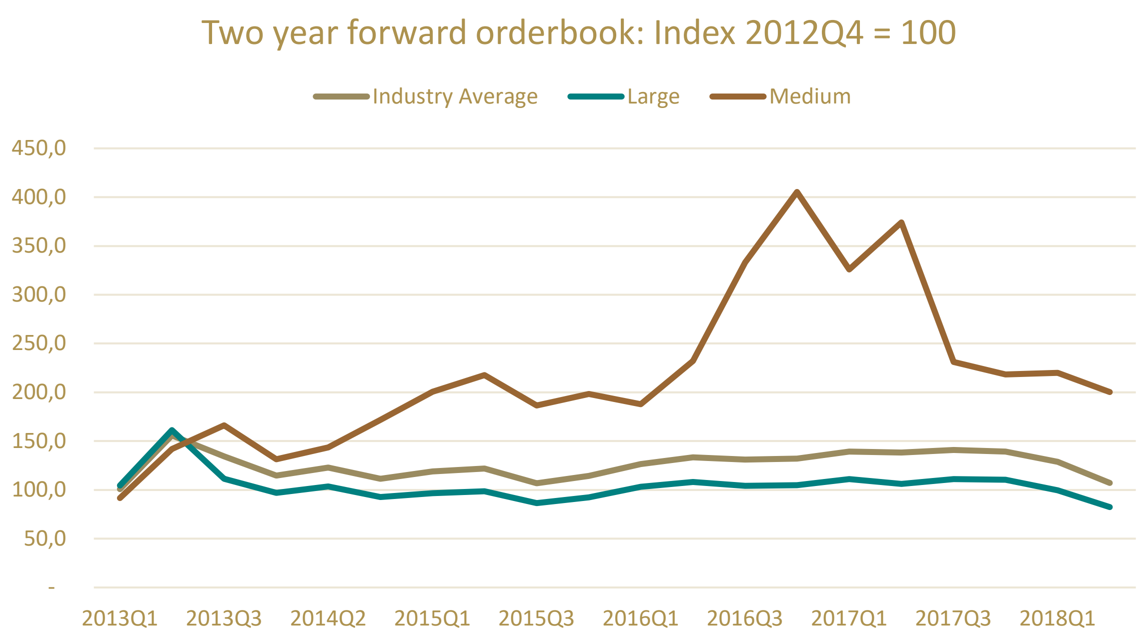
Year	Qtr	Turnover, nominal	Q-Q Per.Chg	Y-Y Per. Chg	MAT (12 months total) Y-Y Per.chg
2014	1	9,255,630,385	-11.0%	17%	7.08%
	2	10,643,974,943	15.0%	-4%	3.96%
	3	10,111,776,196	-5.0%	7%	7.02%
	4	9,929,764,224	-1.8%	-5%	2.62%
2015	1	10,525,550,078	6.0%	14%	2.43%
	2	12,209,638,090	16.0%	15%	7.61%
	3	12,270,686,281	0.5%	21%	11.20%
	4	11,043,617,652	-10.0%	11%	15.29%
2016	1	10,160,128,240	-8.0%	-3%	10.85%
	2	12,192,153,888	20.0%	0%	6.76%
	3	11,704,467,733	-4.0%	-5%	0.37%

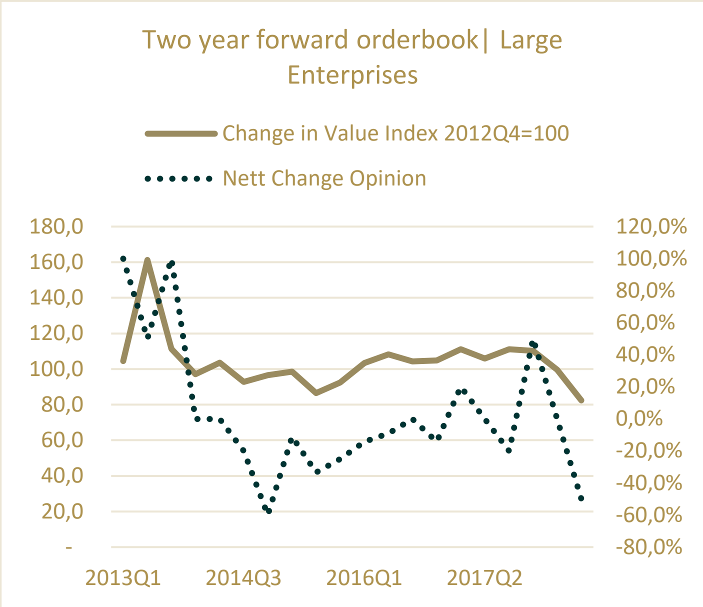
	4	10,534,020,960	-10.0%	-5%	-3.17%
2017	1	8,848,577,606	-16.0%	-13%	-5.26%
	2	10,264,350,023	16.0%	-16%	-9.45%
	3	10,623,602,2749	3.0%	-9.0%	-10.7%
	4	9 593 112 853	-9.7%	-6%	-11,11%
2018	1	11,032,079,781	15%	25%	-4.08%

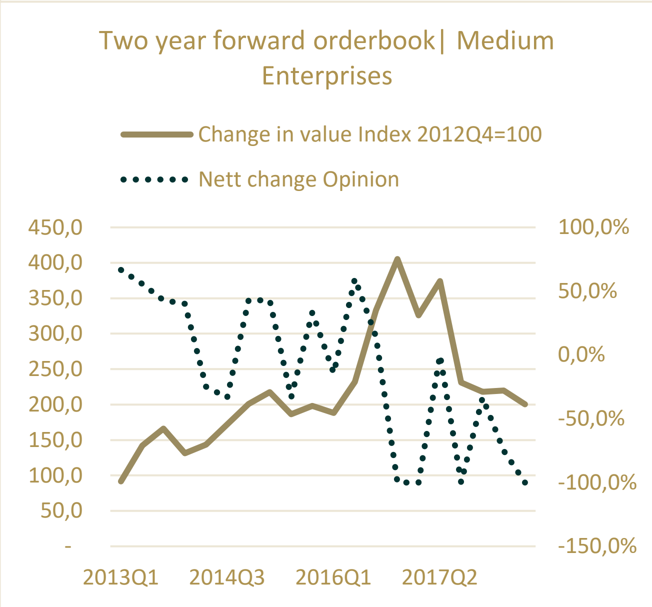
The cumulative salary and wage bill represented 17 percent of total turnover, 9 percent lower than in the previous quarter. The contribution of the salary and wage bill is higher for smaller firms interestingly, averaging 81 percent compared to 16 percent for larger size firms. Medium sized firms reported a contribution of 25 percent.

Overall conditions in terms of the two-year forward order book remains poor, and fell by 16.9 percent q-q, following the 7.4 percent decrease in the previous quarter. Large firms reported the strongest decrease in order books, down 17 percent q-q, following a decline of 9.7 percent in the previous quarter. Medium sized firms reported slightly better but still negative figures, with their order books decreasing by 9 percent, following a 0.8 percent increase in the previous quarter. While there hasn't been much movement in the value of order books for larger firms, the recent surge reported by medium size contractors (reaching an index value of 350.0 in the 4th quarter of 2017), has slowed to an index value of 200.3 by the 2nd quarter of 2018, suggesting a further weakening in the business environment for medium size contractors.

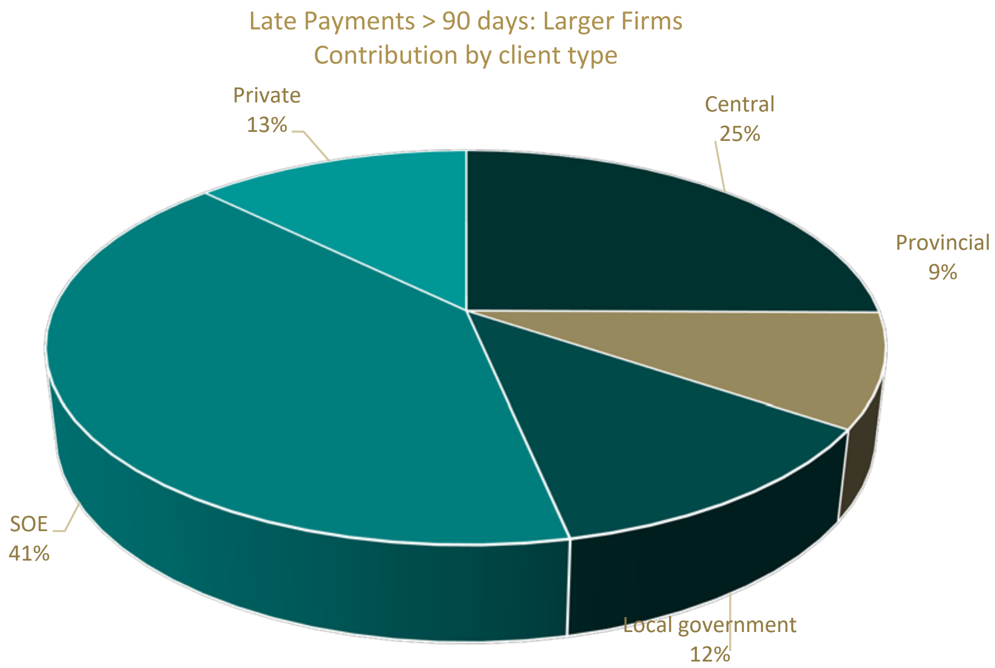
Figure 4: Value of two year forward order book, Index 2012Q4=100



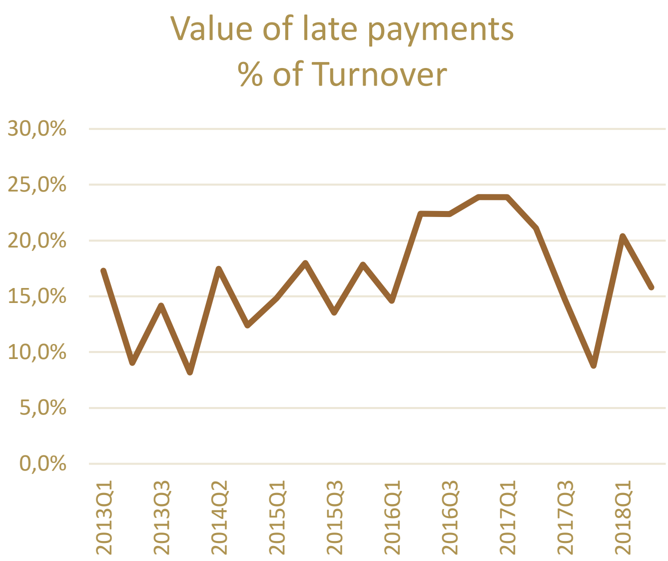




Analogous to the muted outlook for order books, 75 percent of the larger contractors reported low levels in the order book, while the other 25 percent reported a good level of satisfaction. Medium sized contractors remain largely pessimistic with 66 percent of the opinion that values are low. The nett satisfaction rate for medium size firms remain in the red, at -100 percent, very poor. The nett satisfaction rate amongst larger firms deteriorated to -50 percent from 0 percent in the 1st quarter. Sentiment is somewhat volatile, but from the accompanying charts the gradual improvement in sentiment by larger contractors can be seen as order books have to some degree shown some stabilisation over the last 12 months. The more optimistic outlook amongst medium size contractors has now come to an end as an increasing number of firms are starting to report a more negative outlook on order books.



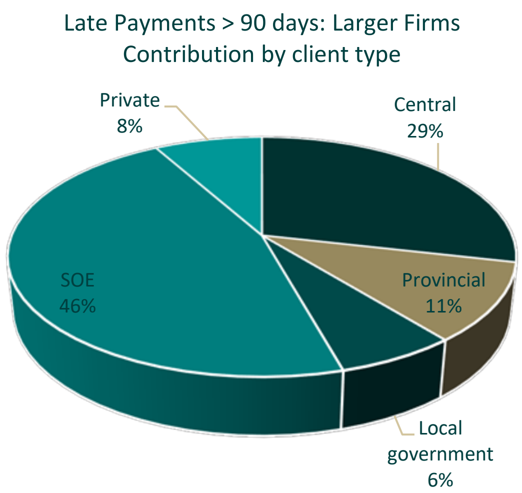
Late Payments



Value of late payments increased by 69.3 percent in the 2nd quarter of 2018, this is up from a 6 percent contraction in the previous quarter. However trends differ within the different size categories. While larger firms reported an 82.5 percent increase, medium size firms reported a 1.1 percent decline in late payments. This is more in line with the average, in that large firms generally bare the brunt of late payments.

Although **overall late payments increased**, the value of late payments represented 15.8 percent of total turnover, down from 20.4 percent (Q1) and a welcome improvement from an average of 21 percent in 2016. Fees outstanding for more than 90 days represented 25.9 percent of the **total amount outstanding**, which is above the average of 18 percent in 2016, but not much different from the previous quarter. Larger firms however reported a higher average outstanding, of 27 percent, while amounts outstanding for longer than 90 days (as percentage of total amount outstanding) for medium and smaller firms averaged between 0 and 10 percent.

The value of payments (outstanding for longer than 90 days) rose marginally to 4.7 percent of turnover, from 3.0 percent and an average of 4 percent in 2016. This current level is more in line with reality in our opinion, as late payment remains a major issue within the construction sector in general. Responses related to payment differs greatly from contractor to contractor and is subject to existing workflow and current contract conditions, while a poor response rate to late payment issues, could also be a contributing factor.



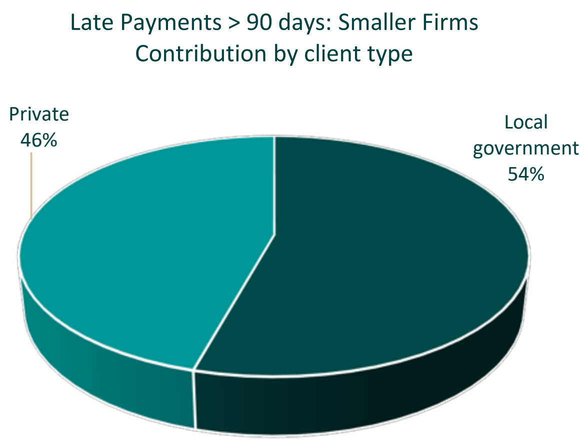
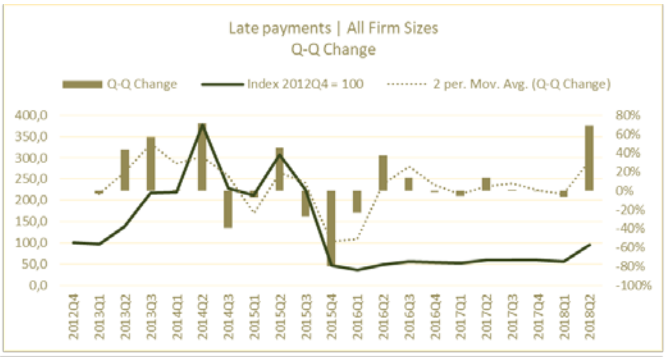
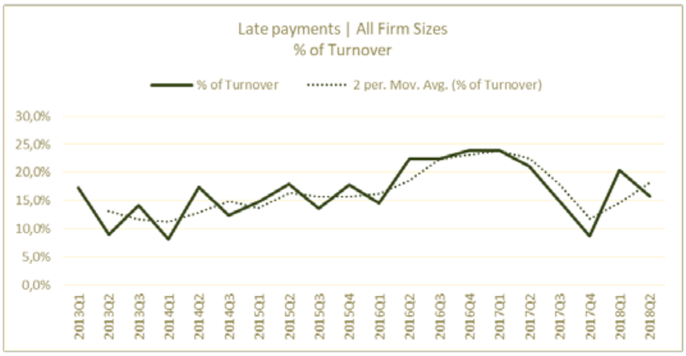
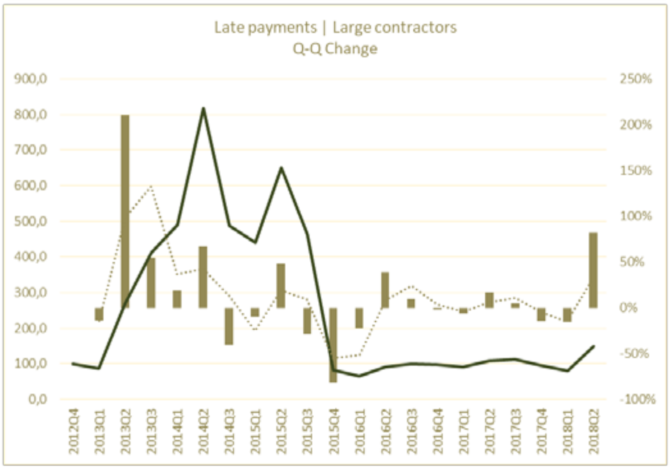
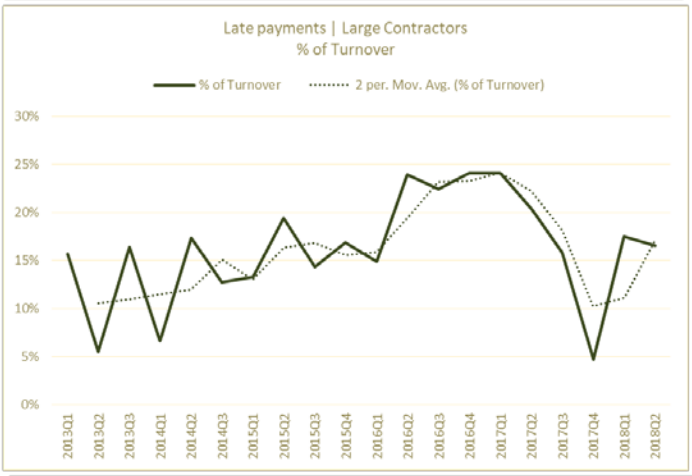


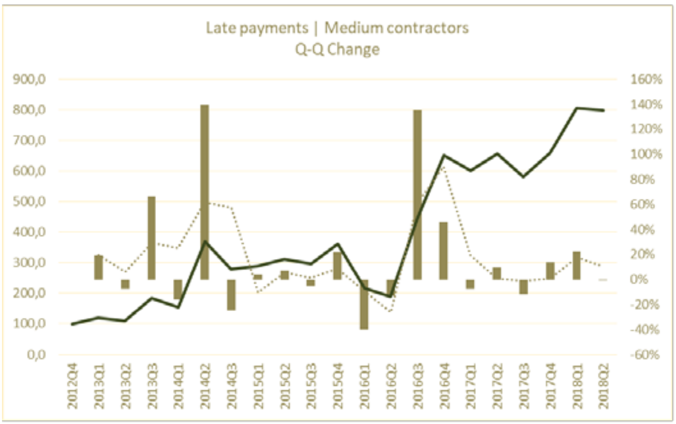
Figure 7: Late payments by firm size; % of turnover

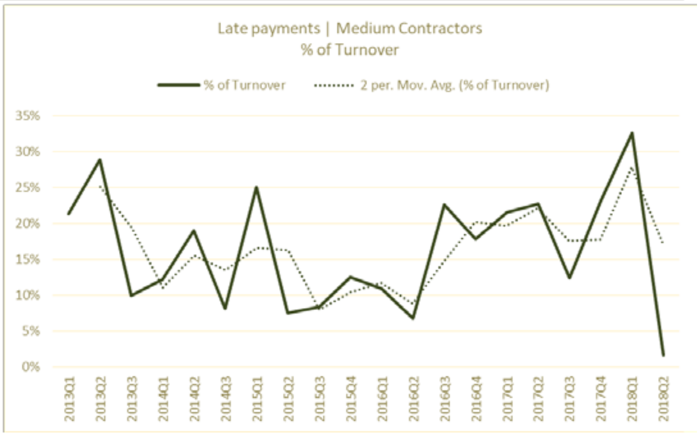




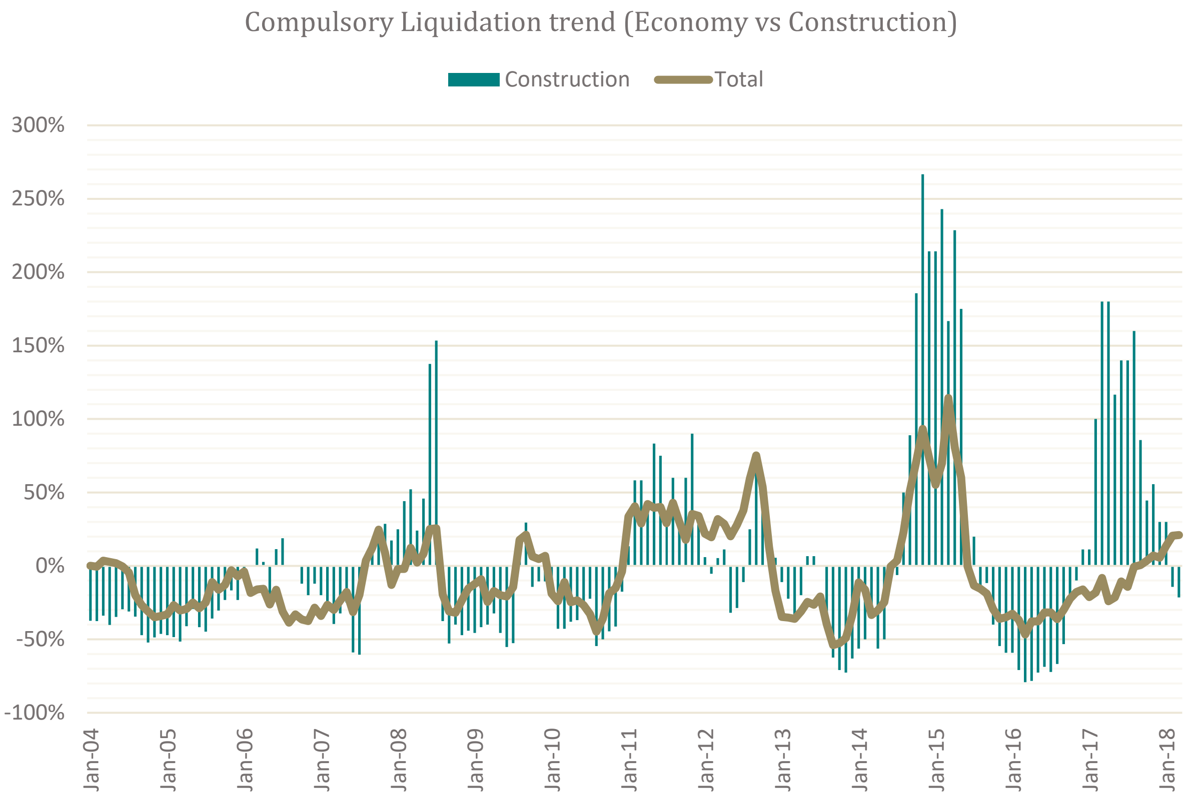








Liquidations **in the construction sector** were unchanged over the last year (until April 2018), compared to an overall marginal decrease of 0.4 percent in the total economy. There is however some contrast between compulsory and voluntary liquidations, as compulsory liquidations declined by 21.4 percent over the last year, while voluntary liquidations increased by 4.0 percent. Compulsory liquidations make up less than 15 percent of total liquidations reported in the construction sector, which is nonetheless higher than the national average. Compulsory liquidations in the economy have increased by 42.4 percent over the last 12 months. An increase in compulsory liquidations is generally a sign of tough economic and business conditions as businesses are unable to continue operations due to financial constraints and an inability to honour debt repayments, which makes it interesting that there have been far more voluntary liquidations within the industry.



Source: Stats SA

Industry Profile

The following section provides a snapshot view of responding firms' turnover earned by project type, client and province during the 1st quarter of 2018 (surveyed in the 2nd quarter of 2018). This is not necessarily representative of the entire industry, but rather a profile of respondents. However, the road segment has consistently came through as a major segment for the civil industry, and averaged 60.9 percent in the 1st quarter, down from 65.1 percent in the 4th quarter (and an average of more than 40 percent in the two previous surveys). Small firms were less exposed to the road segment as they reported a contribution of 12.2 percent (from 22.0 percent in the previous quarter). The contribution by water and sanitation remained at very low levels of just 5.9 percent in the current quarter, a concerning trend given the ongoing water supply threats across the country.

Table 5: Turnover distribution by sub-discipline

Discipline	Large	Medium	Small	Total 2017Q2	Total 2017Q3	Total 2017Q4	Total 2017Q4
Roads	63,2%	36,0%	12,2%	39.4%	43.8%	65.1%	60,9%
Earthworks	0,0%	6,8%	0,0%	11.1%	8.3%	2.3%	0,5%
Water Bulk Infrastructure	2,4%	39,4%	4,9%	10.9%	2.4%	3.0%	5,4%
Water and Sanitation	4,7%	17,8%	68,0%	3.4%	12.0%	3.0%	5,9%
Rail	0,5%	0.0%	0.0%	0.2%	0.4%	0.1%	0,5%
Harbours	0,0%	0.0%	0.0%	2.6%	0.0%	0.0%	0,0%
Power (bulk)	13%	0.0%	0.0%	11.8%	8.8%	6.6%	11,5%
Power (services)	1,7%	0.0%	0.0%	2.3%	0.1%	0.9%	1,5%
Airports	1,6%	0.0%	0.0%	0.0%	0.0%	1.5%	1,5%
Mining Infrastructure	5,7%	0.0%	0.0%	6.4%	9.6%	6.9%	5,2%
Mining (Surface earthworks)	2,6%	0.0%	0.0%	1.3%	0.8%	1.3%	2,3%
Other	5,0%	0.0%	14.9%	10.5%	13.8%	9.2%	4,7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 6: Turnover distribution by client

	Large	Medium	Small	Total 2017Q2	Total 2017Q3	Total 2017Q4	Total 2018Q1
Central	16,2%	0,0%	4,9%	13.7%	3.2%	12.0%	14,9%
Provincial	5,3%	11,0%	4,9%	15.7%	16.0%	7.5%	5,7%
District/Local/Metropolitan Councils	9,6%	79,1%	68,0%	15.9%	20.2%	13.7%	15,3%
Parastatals	55,5%	0,0%	0,0%	26.1%	32.5%	27.4%	50,9%
Private	13,4%	10,0%	22,2%	28.6%	28.1%	39.4%	13,1%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

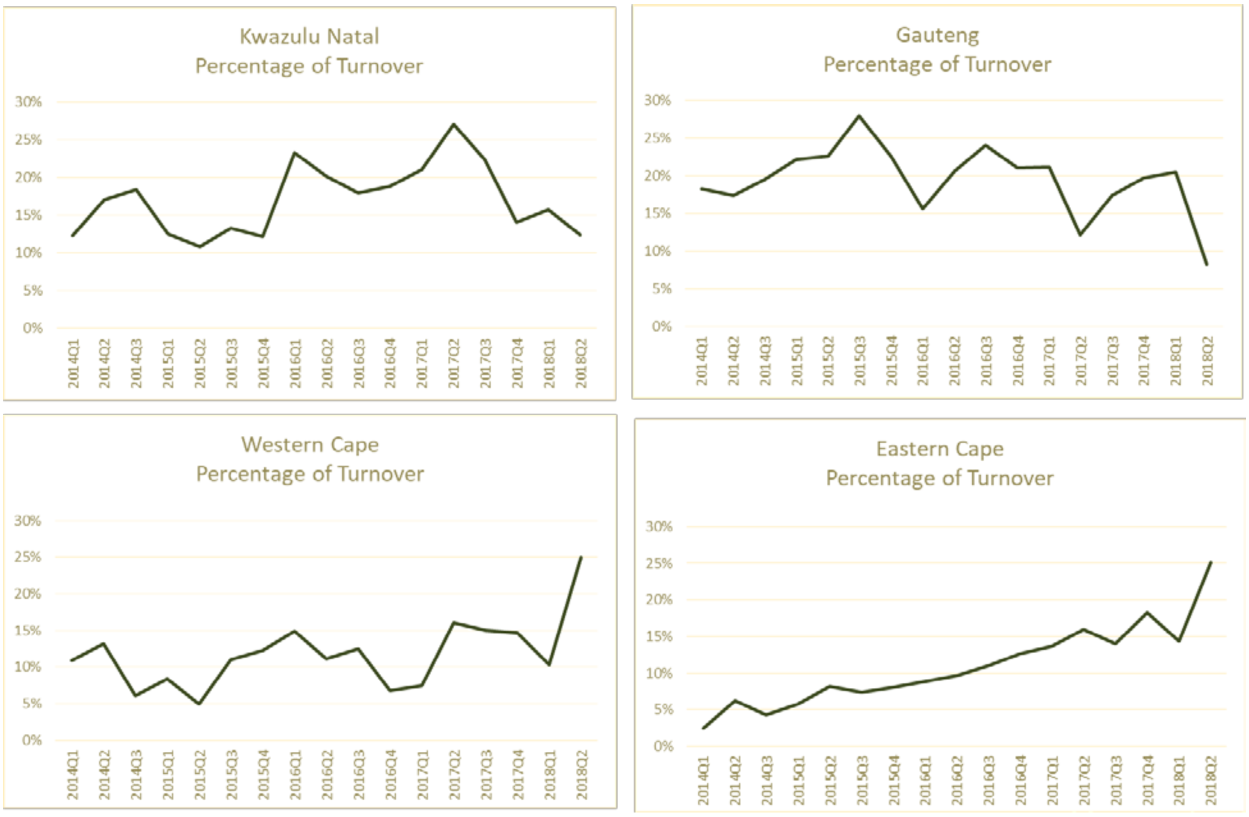
The contribution by the private sector in this survey decreased to just 13.1 percent, from under 40 percent in the previous quarter. The contribution from parastatals increased markedly in the current quarter, up to just over 50 percent, largely from the larger contractors. Larger contractors did very little work with the private sector in the current quarter, with the contribution to turnover decreasing to just 13.4 percent, from 42.6 percent in the previous quarter. Medium sized firms mostly did work for District and other local municipalities, with a contribution of 79.1 percent in the current quarter. Overall, there was a small uptick in the overall contribution of local municipalities, from 13.7 percent, to 15.3 percent.

Table 7: Geographic distribution of the value of civil engineering construction work (turnover)

Province	Large	Medium	Small	2017Q2	2017Q3	2017Q4	2018Q1
GAU	9%	0%	0%	17%	20%	20%	8%
WC	20%	78%	0%	15%	15%	10%	25%
EC	26%	14%	0%	14%	18%	14%	25%
NC	3%	7%	0%	5%	0%	2%	3%
MPU	12%	0%	76%	8%	10%	8%	11%
FS	0%	0%	0%	6%	5%	14%	0%
LIM	16%	0%	0%	11%	16%	10%	14%
NW	0%	0%	0%	1%	1%	4%	0%
KZN	14%	0%	24%	22%	14%	16%	12%
Total	**100%**	**100%**	**100%**	100%	100%	100%	100%

The Western as well as the Eastern Cape, saw the biggest overall contribution to turnover in the current quarter at 25 percent each. The contribution from Gauteng declined from the highest in the previous quarter (20 percent), to just 8 percent in the current quarter, which is interesting. Small contractors were centralised around Mpumalanga, while medium sized contractors did most of their work in the Western Cape (78 percent).

Figure 9: Percentage of Fee Earnings per Province



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 (2nd 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 more optimistic outlook reported in the last survey has largely subsided, with contractors on balance, now more negative going forward, as government spending stalls and other negative factors intensify.

- The nett % satisfied with working conditions during the 2nd quarter of 2018, went further into deep negative territory, down from the previous quarter with a nett satisfaction rate of -88.4, compared to -49.8 in the previous quarter. Synonymous with the overall negative market sentiment persisting for the 1st quarter and 2nd quarter of 2018, nett % satisfaction rate deteriorated to -45.7 and -91.6, and none of the firms expect conditions to be anything more than just "satisfactory".

- Competition for tenders was less fierce in the 2nd quarter, as 45.2 percent of companies reported that there were more than 11 bids per contract, compared to 84.8 percent and 80.3 percent in the previous two surveys. Pre-qualification could be a contributing factor to the reduced number of bids, however his could not be substantiated through the survey. Medium sized firms reported the highest level of competition, with over 33.3 percent of firms saying bids exceeded 25 per tender. All of the larger firms reported an average number of bids of between 5 and 25 bids per tender, an improvement from the previous report.

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.

Table 8: Competition for tenders (weighted responses)

Values	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
Up to 5	0.2%	4.7%	0.1%	0.1%	0.9%	0.6%	4.0%	2.9%	0.2%	2.1%	0,4%
5-10	26.9%	23.2%	9.4%	23.8%	24.1%	26.1%	48.6%	17.2%	19.5%	13.1%	54,4%
11-25	67.6%	42.1%	53.4%	67.3%	73.0%	68.5%	30.0%	74.7%	70.5%	76.3%	41,9%
>25	5.2%	29.9%	37.1%	8.8%	2.1%	4.9%	17.4%	5.2%	9.8%	8.5%	3,3%
>11	72.9%	72.1%	90.4%	76.2%	75.0%	73.4%	47.4%	79.9%	80.3%	84.8%	45,2%

- Tender prices reached new lows in this survey, with 91.8 percent of contractors reporting very low tender prices (this is compared to an average of 44.4 percent in the previous 12 quarters). This sentiment was largely carried across all firm size categories. None of the respondents (across all firm sizes) reported reasonable or good tender prices in the current survey, on par with the previous surveys. With the industry at historically low levels, this is to be expected.

Table 9: Tender prices (weighted response)

Values	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
Very Low	48.7%	30.6%	28.5%	42.9%	57.2%	37.0%	52.6%	55.2%	57.4%	48.7%	91,8%
Keen	45.2%	53.3%	66.1%	49.6%	42.8%	62.8%	47.2%	44.8%	42.6%	51.3%	8,2%
Reasonable	6.0%	16.2%	5.4%	7.5%	0.0%	0.1%	0.2%	0.0%	0.0%	0.1%	0,0%
Good	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0,0%
Keen & higher	51.3%	69.4%	71.5%	57.1%	42.8%	63.0%	47.4%	44.8%	42.6%	51.3%	8,2%

- There was a large deterioration in levels of profitability according to responses. 61.4 percent of contractors said that profitability was very low. This was down from 24.9 in the previous survey, and much lower than the 23.9 percent recorded 2 surveys ago. There was also a decrease in the number of contractors that said profitability was reasonable, down to just a quarter of respondents, down from 59.0 percent.

Table 10: Profitability (weighted response)

Values	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
Very Low	10.6%	10.7%	0.2%	12.2%	14.0%	35.2%	28.4%	42.5%	23.9%	24.9%	61,4%
Keen	40.3%	26.4%	36.5%	39.6%	49.8%	21.7%	53.6%	22.8%	13.0%	16.1%	12,9%
Reasonable	49.1%	62.9%	63.4%	48.3%	36.1%	43.1%	18.0%	34.7%	63.1%	59.0%	25,6%
Good	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0,0%
Keen & higher	-1.9%	25.7%	26.7%	-3.5%	-27.7%	-13.8%	-64.1%	-30.6%	26.1%	18.0%	-48,7%

- More than two thirds of contractors still continue to expect profitability trends to deteriorate, with 68.3 percent saying margins will recede (up from 48.2 percent in the previous survey), while 31.7 percent expect margins to stabilise. There are no expectations that margins will show any improvement. The first quarter figures were worse than the 2017 average. In 2017, on average, 51.4 percent of contractors thought profit margins were to recede, while 48.3 percent thought they would stabilise.

Table 11: Trends in profit margins (Weighted response)

Values	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
Receding	36.5%	33.2%	20.9%	33.7%	42.2%	35.8%	52.0%	60.4%	57.4%	48.2%	68.3%
Stabilise	57.9%	62.0%	76.8%	66.1%	52.5%	63.8%	47.3%	39.6%	42.6%	51.7%	31.7%
Improve	5.6%	4.8%	2.4%	0.1%	5.2%	0.4%	0.7%	0.0%	0.0%	0.1%	0.0%

Figure 10: Trend in profit margins

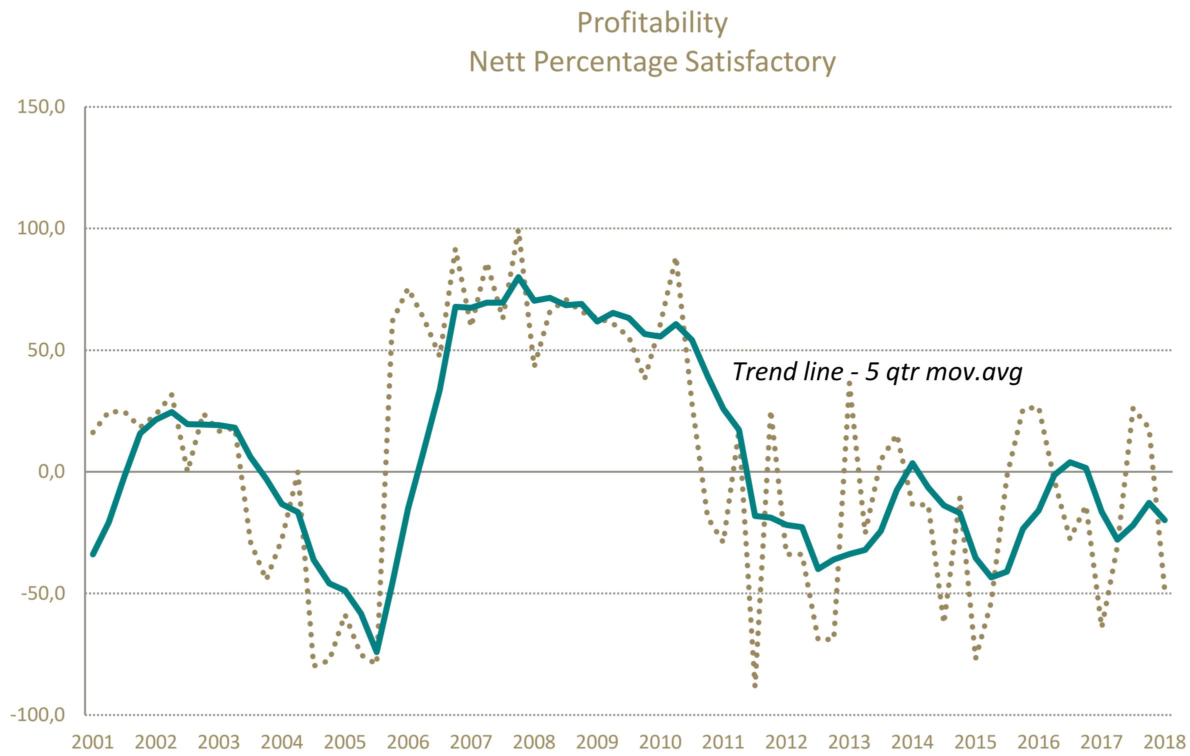
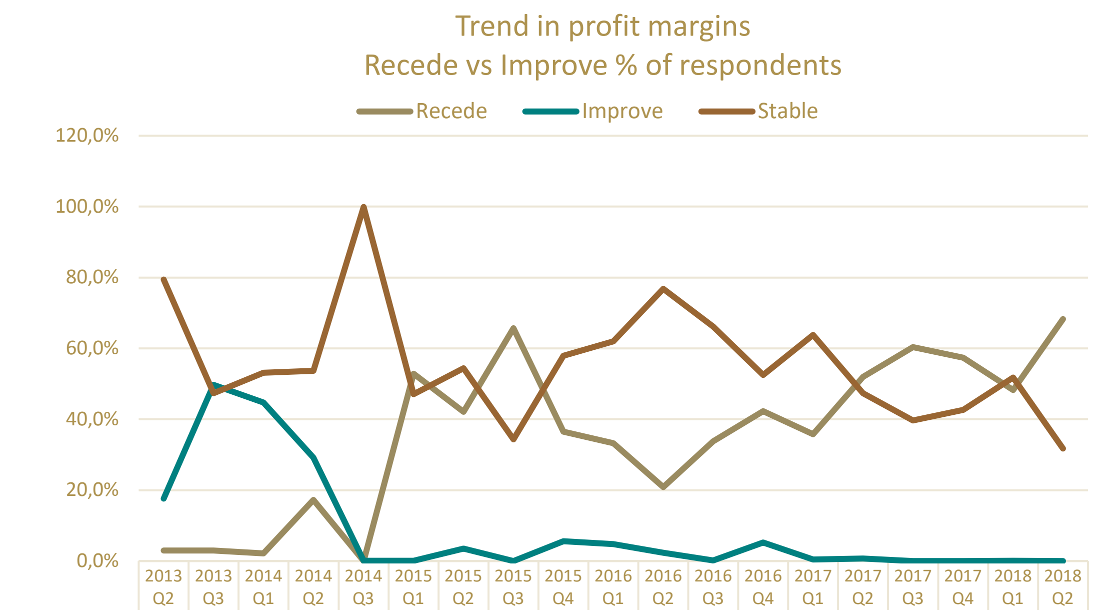


Figure 11: Opinions Related to Profitability



	2013 Q2	2013 Q3	2014 Q1	2014 Q2	2014 Q3	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
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%	52,0%	60,4%	57,4%	48,2%	68,3%
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%	0,7%	0,0%	0,0%	0,1%	0,0%
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%	47,3%	39,6%	42,6%	51,7%	31,7%

Opinions Related to Tenders, Awards, Order Books and Turnover

Tender and Award Activity

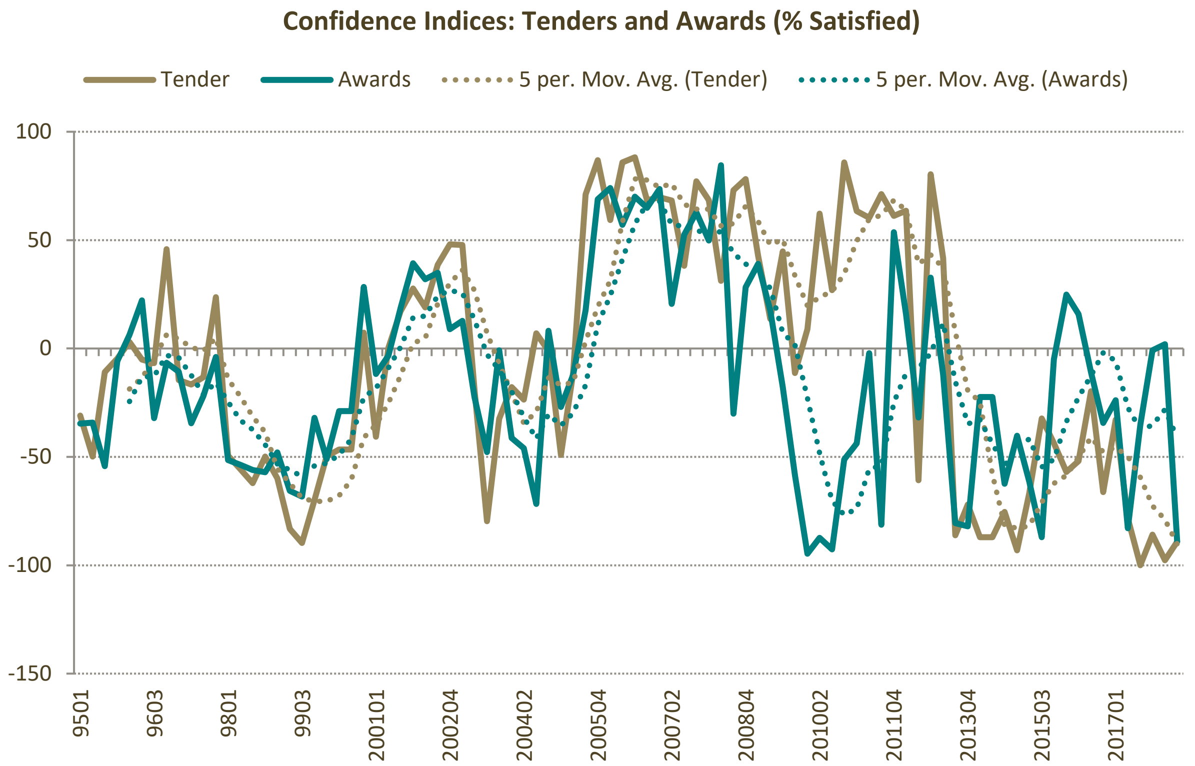
None of the participating contractors reported better than satisfactory levels in terms of tender activity for the seventh consecutive quarter, while similar to the previous quarters, a high percentage reported low to very low levels, down slightly from 98.8 percent to 94.6 percent. Around 5.4 percent did however feel that tender activity levels were satisfactory (compared to 1.1 percent, 7.1 percent in the previous two surveys). This typical low tender environment has persisted since the downturn in 2009, and remains a serious concern for the sector.

As a result, the nett satisfaction rate improved slightly (and remains deep in the red) to -89.3 percent from -97.7 percent (Q1) and an average of -74.2 percent in 2016. Opinions are relatively volatile from a survey to survey basis, but the overall trend based on the last five quarters remain deep in negative territory, suggesting a serious long-standing constraint. The last time contractors felt more optimistic regarding tender volumes was in 2013.

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.

Table 12: Opinions related to tender volumes (Weighted response)

Values	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
Nil	0.1%	0.0%	0.0%	0.9%	0.0%	0.0%	1.6%	2.0%	1.3%	2,1%
Low	78.4%	75.9%	59.9%	82.2%	66.4%	89.2%	98.4%	91.0%	97.5%	92,5%
Satisfactory	8.0%	21.4%	38.1%	16.9%	33.6%	10.8%	0.0%	7.1%	1.1%	5,4%
Good	13.5%	2.6%	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0,0%
Nett % satisfied	-57.0%	-51.9%	-19.9%	-66.2%	-32.7%	-78.3%	-100.0%	-85.9%	-97.7%	-89,3%

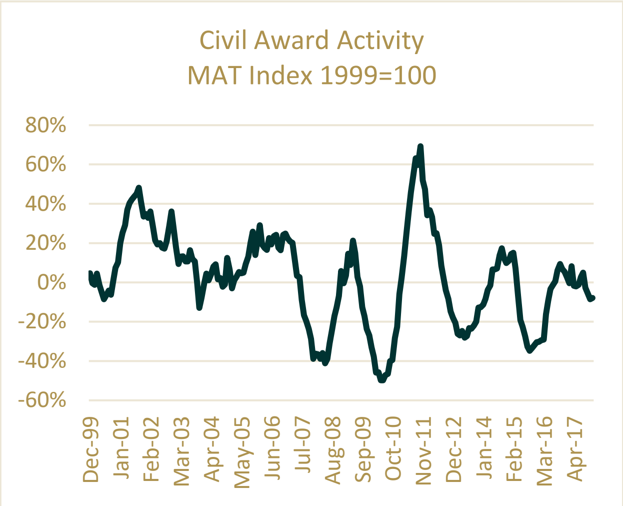


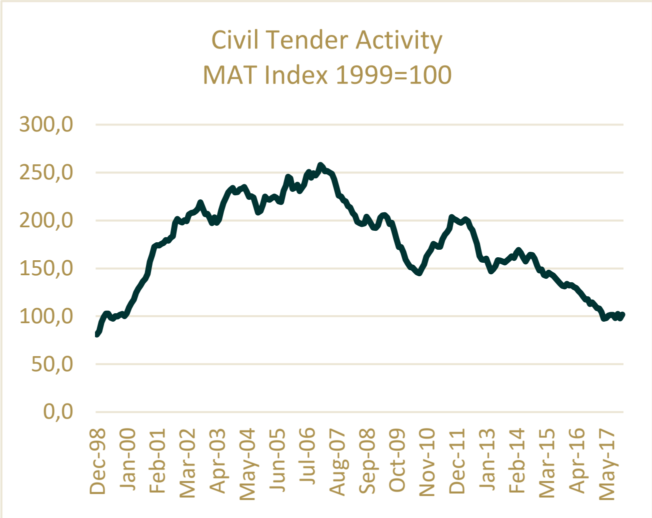
Opinions related to the awarding of contracts has improved significantly in the *previous survey*, but in the current survey, these opinions turned much more negative. The vast majority of contractors reported extremely poor levels of contracts being awarded. The nett satisfaction rate deteriorated significantly to -89.3 percent, from the first positive figure in a while in the previous quarter. This is synonymous with the over inflated confidence indices for the economy, in which people got slightly over excited about the change in administration, and then very poor GDP figures for the first quarter were released.

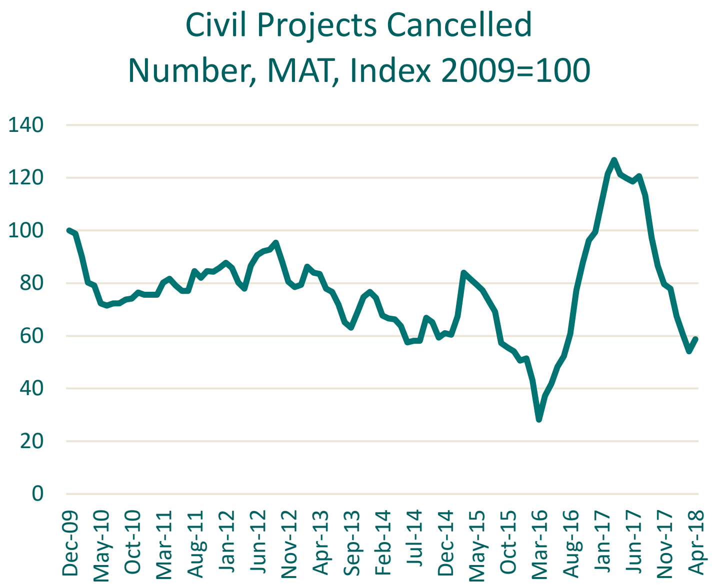
Table 23: Opinions related to awarding of contracts (Weighted response)

Values	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
Nil	1.8%	6.6%	0.0%	16.8%	15.6%	24.1%	41.4%	33.4%	28.9%	72,4%
Low	35.7%	35.5%	55.5%	50.4%	46.3%	67.4%	26.2%	17.0%	20.1%	22,2%
Satisfactory	47.3%	54.4%	44.5%	32.8%	38.1%	8.6%	32.4%	49.6%	51.0%	5,4%
Good	15.1%	3.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0,0%
Nett % satisfied	24.9%	15.8%	-10.9%	-34.4%	-23.7%	-82.9%	-35.1%	-0.8%	2.0%	-89,3%

According to an analysis of project lead information, provided by Databuild, the number of civil projects out to tender increased marginally by 3.0 percent y-y in the first quarter of 2018, overall, compared to the same quarter last year, following the 36 percent y-y increase in the previous quarter. However since 2013 the index has dropped by close to 40 percent, and is still currently on par with conditions experienced in 2001/02, prior the boom that the industry saw in the mid 2000's. While, there were more tenders out, there were less projects awarded in the first quarter, according to Databuild and Industry Insight aggregated data. There was a 23.0 percent decrease in the total nominal value of civil projects awarded in the first quarter overall, compared to the same quarter last year. This independent data analysis supports the qualitative feedback provided by contractors through this survey.







Towards the latter parts of 2016, there was a massive uptick in the number of civil projects that were being consistently cancelled. The index increased from an index value of 28 in March 2016 (based on a running twelve month total), to a peak of 126.7 twelve months later (March 2017). Since then there has been a good moderation, and the index is now at a more 'normal' level, currently at 58.7 representing a y-y decrease of 52 percent (In April 2017).

Figure 15: Civil projects Cancelled (Index)

The overall nett satisfaction rate related to order books improved for the 3rd consecutive quarter, from an average of 11 percent in the first three quarters of 2017 to 62.1 percent in the 4th quarter. However sentiment at best relates to satisfactory levels, as none of the participating contractors reported better than satisfactory (good) levels since 2013.

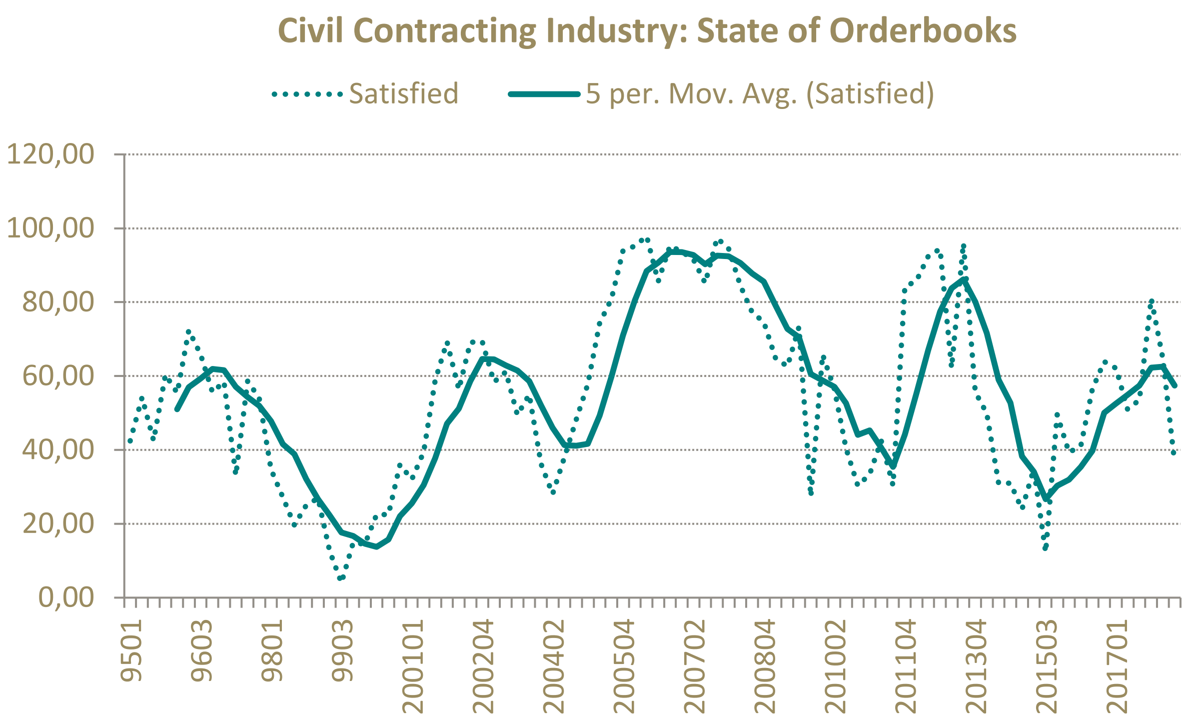


Figure 16: State of Orderbooks

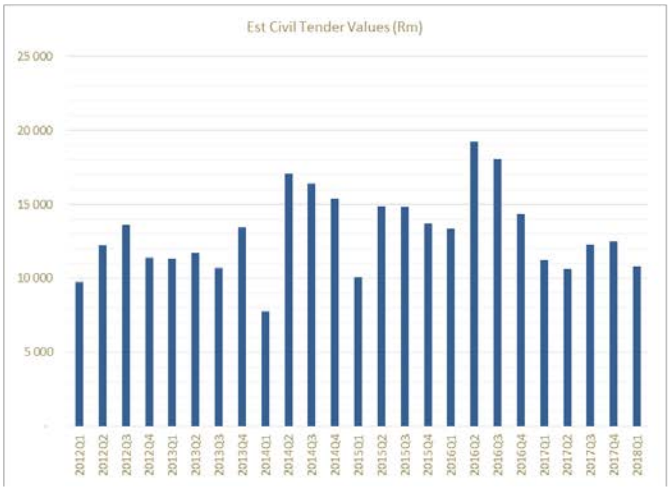
Table 15: Opinions related to order books (weighted response)

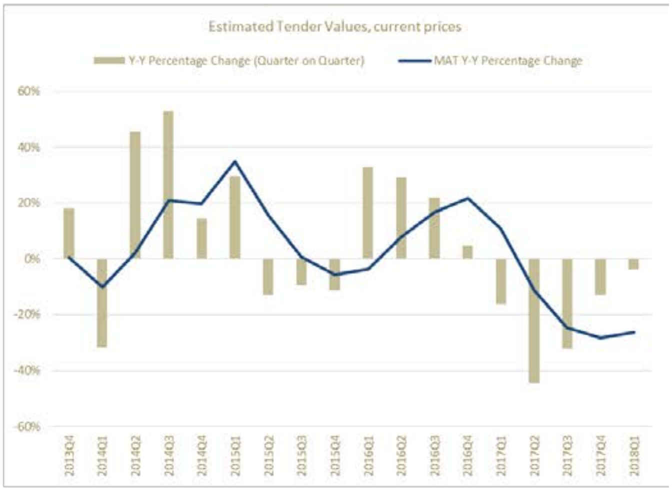
Values	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
Nil	0.2%	0.1%	0.3%	0.0%	1.3%	0.5%	0.8%	0.0%	0.0%	1.2%	2,1%
Low	50.3%	60.5%	58.6%	43.5%	34.8%	37.4%	48.3%	46.5%	19.0%	34.0%	61,4%
Satisfactory	42.4%	34.5%	40.2%	56.5%	63.9%	62.1%	51.0%	52.5%	81.0%	64.8%	0,0%
Good	7.1%	4.8%	0.9%	0.0%	0.0%	0.0%	0.0%	1.0%	0.0%	0.1%	36,5%
Nett % satisfied	-1.0%	-21.3%	-17.7%	13.0%	27.7%	24.2%	2.0%	7.0%	62.1%	29.6%	-27,0%

An analysis of civil tender activity for the 1st quarter of 2018, shows that the estimated value of civil tenders published during the quarter continued to decline and fell by 4.0 percent y-y. This is now the fifth consecutive quarter of decline. The increase in 2016 was mainly supported by an increase in Grade 9 projects out to tender during that year, but fell by 45 percent in 2017, and worsened in the first quarter. Overall, over the last 5 quarters, there has been a 35 percent decline in the nominal value of grade 9 projects coming out to tender. Marginal growth was reported in other Grade categories, as the current slump in the civil sector is broad based affecting all stakeholders in the industry.

Road and water projects in Gauteng, represented the bulk of Grade 9 projects out to tender in the 1st quarter, and also represented the highest value of grade 9 projects awarded. The Western Cape is now the only province to report an increase in the number of Grade 9 projects out to tender, over the last five quarters.

Figure 17: Estimated Civil Tender Values





Source: Industry Insight Project Database, Databuild

Table 15: 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)
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%
2017Q1	-	190	387	1,176	32	6,742	2,686	11,213	-16.1%
2017Q2	36	532	358	1,576	8	5,953	2,220	10,683	-44.5%
2017Q3	34	2104	899	1,340	283	4,001	3,638	12,299	-32.1%
2017Q4	10	997	623	798	31	4746	5319	12524	-12.8%
2018Q1	-	826	356	732	7	4839	4052	10811	-3.6%

Capacity Utilisation and Plant Equipment

Figure 18: Capacity Utilisation Percentage breakdown of respondents

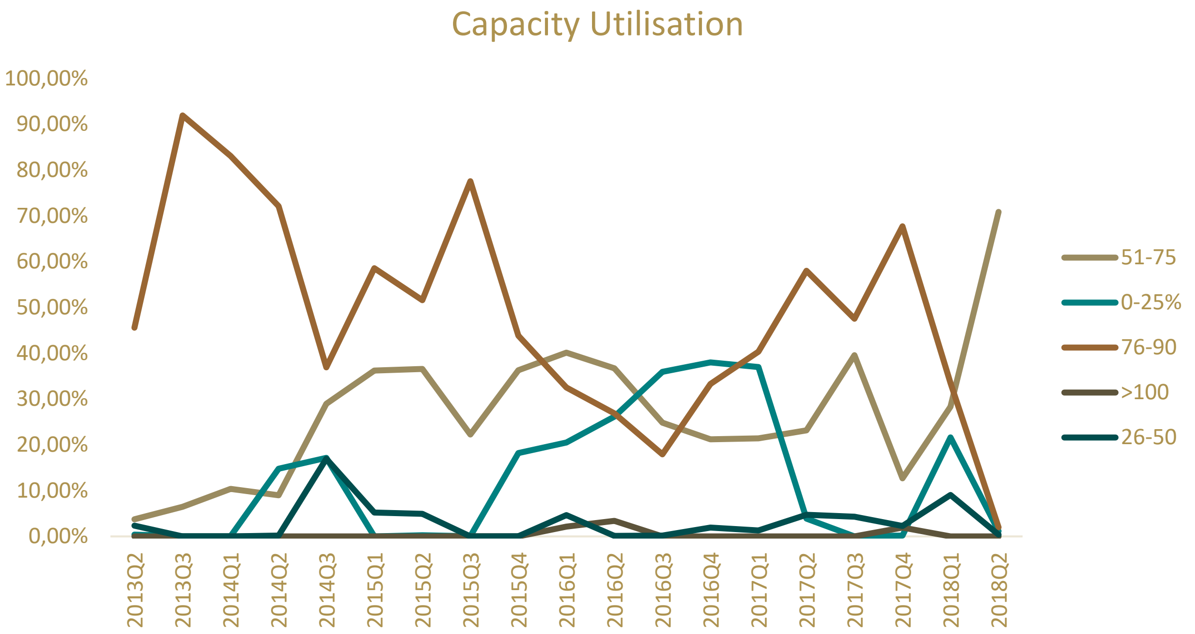


Table 16: Capacity Utilisation

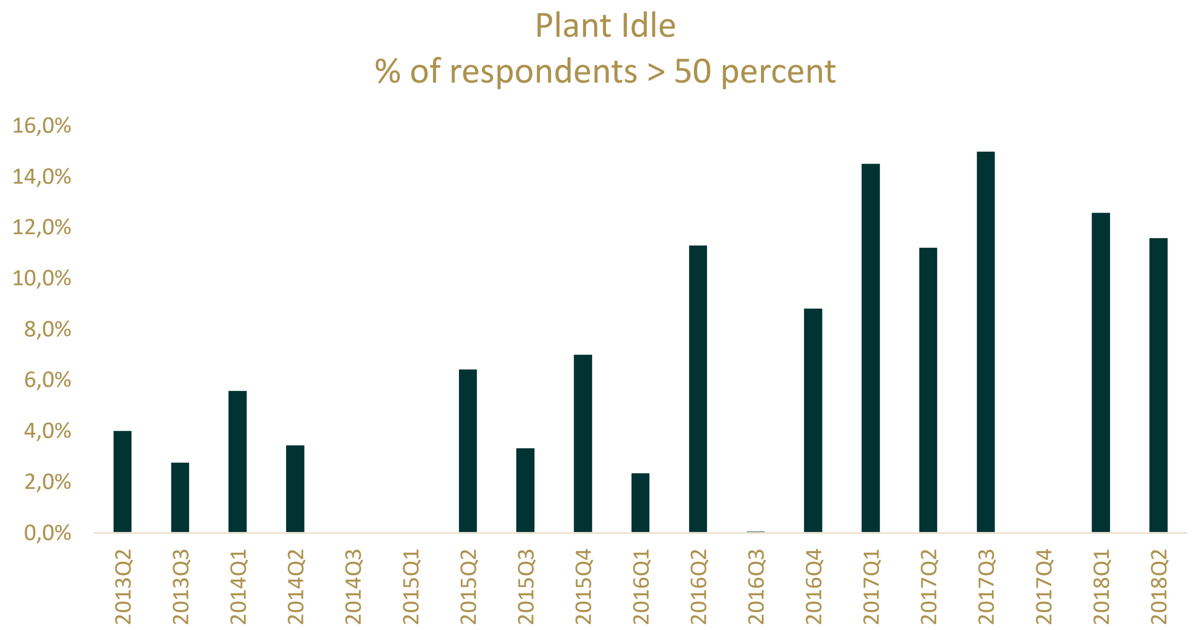
	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
0-25%	18.2%	20.5%	26.2%	36.0%	38.0%	37.0%	3.9%	0.0%	0.2%	21.7%	1,2%
26-50%	0.0%	4.6%	0.1%	0.2%	1.9%	1.3%	4.8%	4.3%	2.2%	9.1%	0,4%
51-75%	36.3%	40.1%	36.7%	24.8%	21.2%	21.4%	23.2%	39.6%	12.7%	28.3%	70,9%
76-90%	43.9%	32.5%	26.8%	17.9%	33.3%	40.3%	58.0%	47.5%	67.7%	33.5%	2,0%
91-100%	1.6%	0.1%	6.7%	21.1%	5.5%	0.0%	10.2%	8.6%	15.3%	7.4%	25,6%
>100%	0.0%	2.1%	3.4%	0.0%	0.0%	0.0%	0.0%	0.0%	1.9%	0.0%	0,0%
Capacity >90%	1.6%	2.2%	10.1%	21.1%	5.5%	0.0%	10.2%	8.6%	*17.2%*	7.4%	25,6%

Majority of firms (70.9%) reported capacity utilisation in terms of general plant and resources at between 51 and 76 percent, and more firms reported lower levels of capacity utilisation in general. Utilisation levels were down quite significantly, with almost three quarters of contractors reporting a utilisation of below 75 percent. Improving capacity utilisation however is part and parcel of internal restructuring often necessitating the need to cut costs, by means of retrenchment. There was however an increase in the 91-100 percent category, with 25.6 percent of contractors reporting these levels, up from 7.4 percent in the previous survey.

Majority reported that between 26-50 percent of plant and equipment is standing idle (57.8 percent), which could also be a factor of companies having to downsize in view of tough market conditions. Around 11.6 percent of the companies reported that more than 50 percent of plant is currently standing idle.

Table 17: Percentage of plant and equipment standing idle

	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
0-25%	65.0%	61.1%	57.4%	88.1%	89.9%	72.7%	76.4%	27.3%	19.4%	32.3%	30,6%
26-50%	28.0%	36.6%	31.3%	11.8%	1.3%	12.8%	12.4%	57.7%	80.6%	55.2%	57,8%
51-75%	4.6%	2.3%	8.4%	0.0%	8.8%	14.5%	0.1%	15.0%	0.0%	12.6%	10,0%
75-90%	2.4%	0.0%	2.9%	0.0%	0.0%	0.0%	11.1%	0.0%	0.0%	0.0%	0,0%
90-100%	0.0%	0.1%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	1,5%
>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	7.0%	2.4%	11.3%	0.1%	8.8%	14.5%	11.2%	15.0%	0.0%	12.6%	11,6%

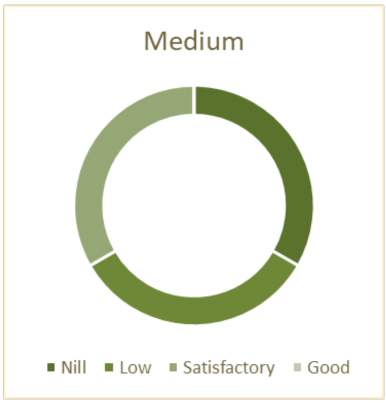


Firm Size Market Segmentation

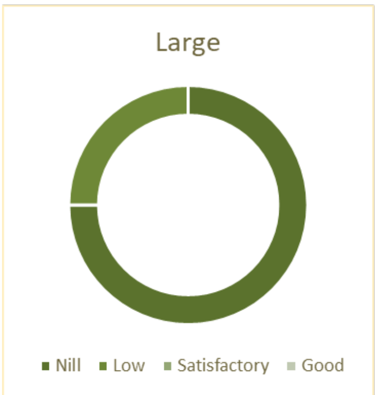
Opinions and sentiment are categorised by firm size, based on reported work force including permanent and limited duration employment. Results for various indicators are shown here, summarised by firm size.

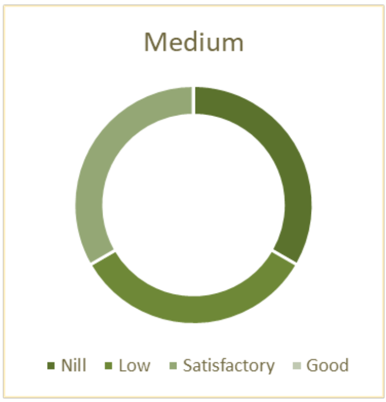
- Working conditions for next quarter
- Competition for tenders
- Tender prices
- Profitability
- Profitability – Trend
- Capacity Utilisation
- Plant Idle

Tender Volumes

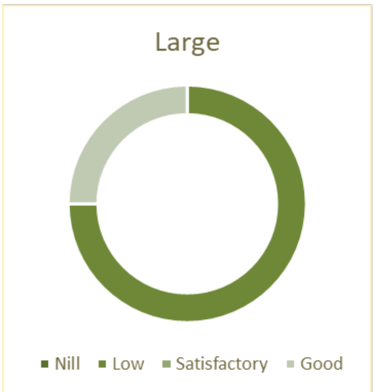


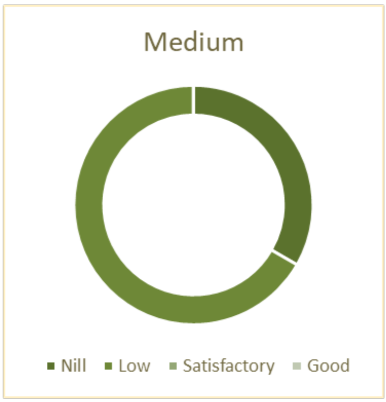
Contract Awrads



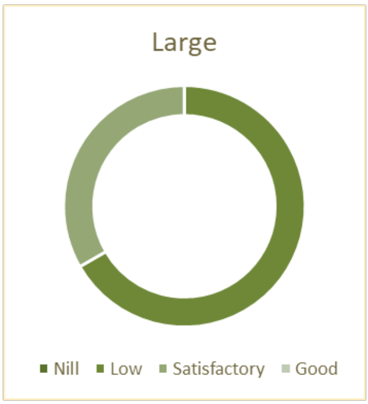


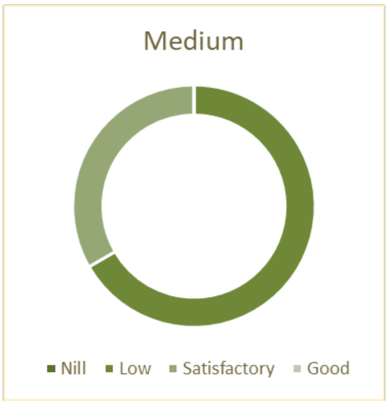
Order Book



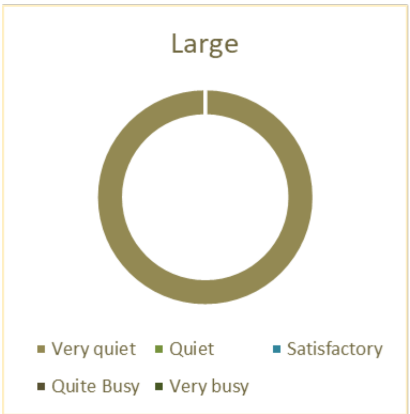


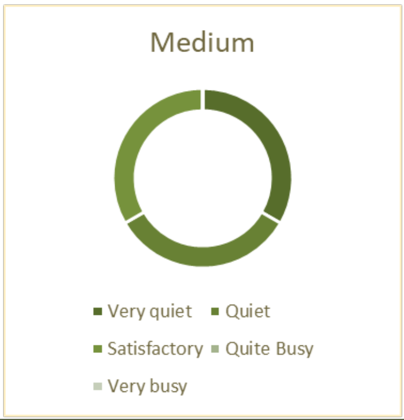
Turnover



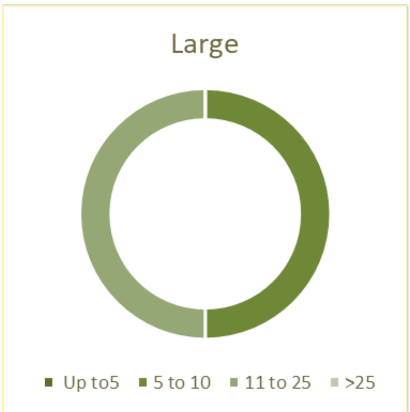


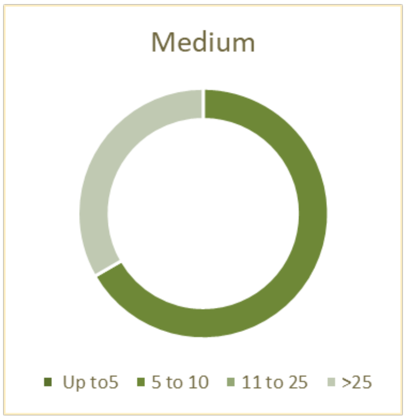
Working Conditions Next Quarter

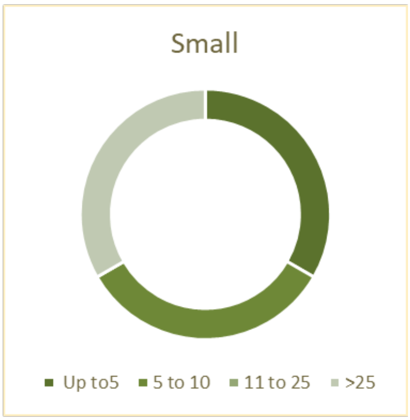




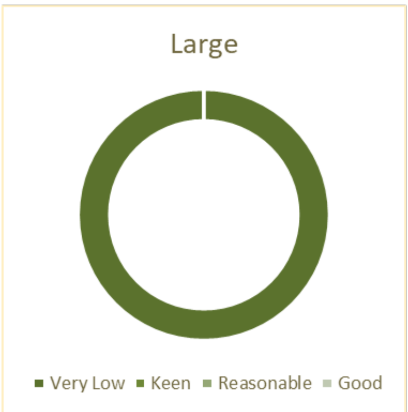
Competition for Tenders

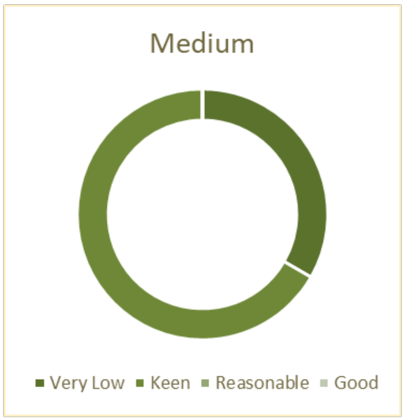


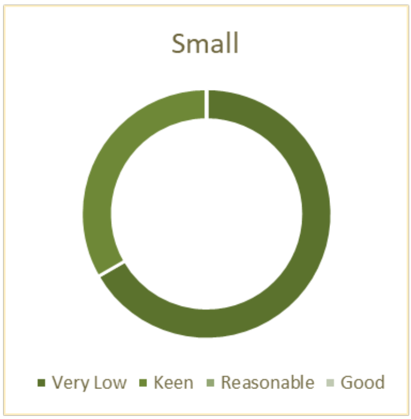




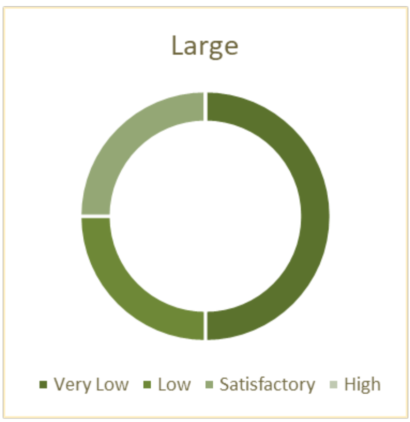
Tender prices

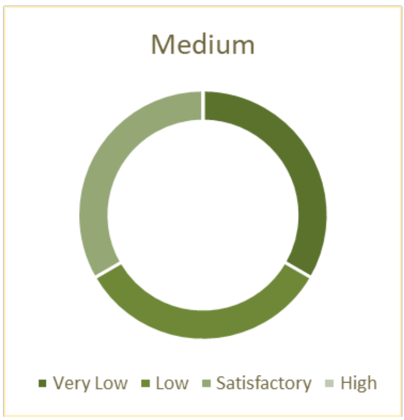


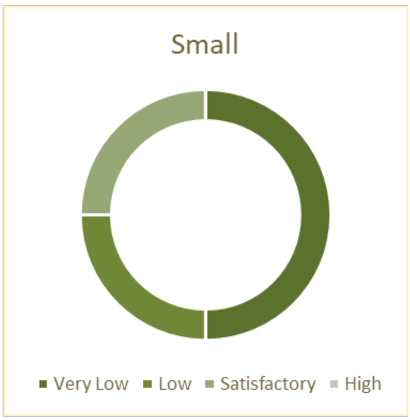




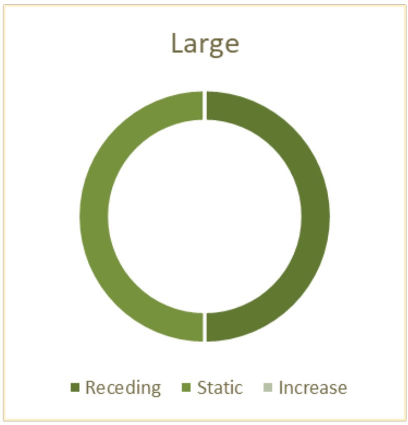
Profitability

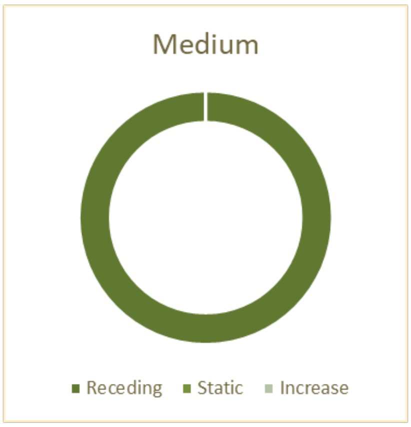


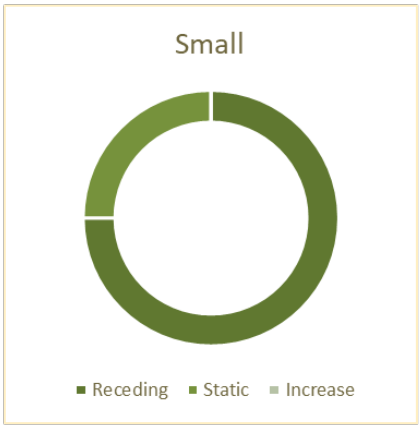




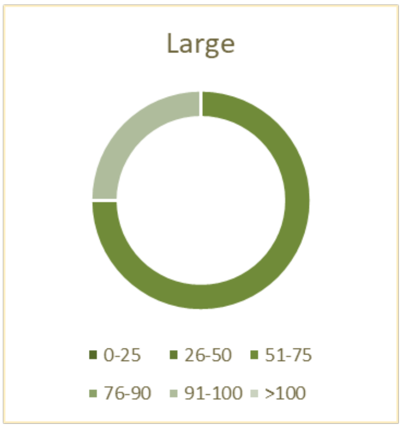
Profitability - Developing Trend

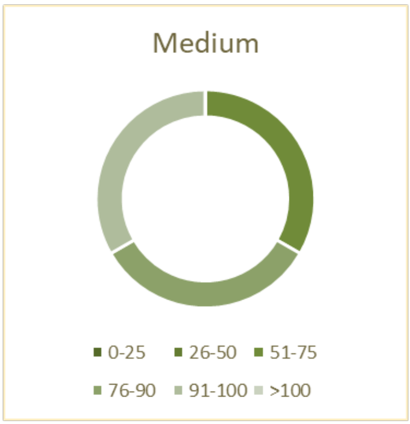


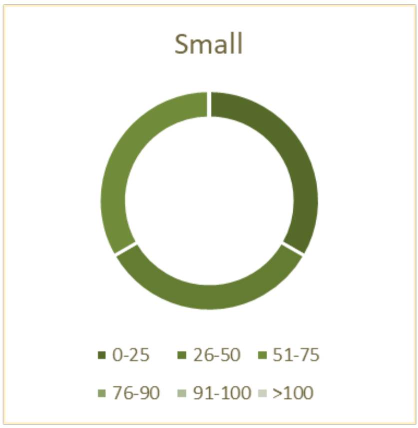




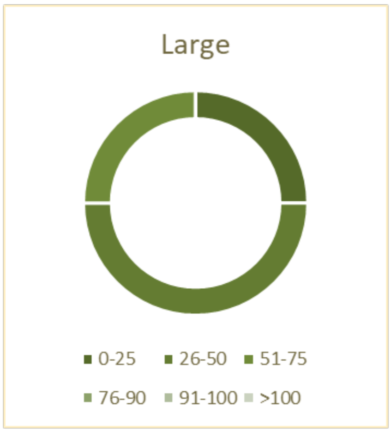
Capacity Utilisation (Plant and resources)

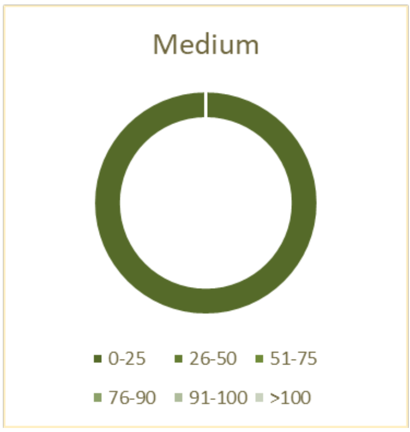


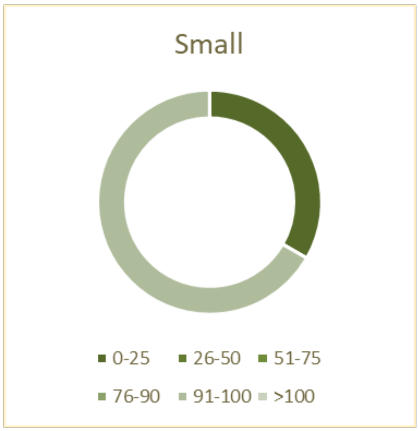




Plant Idle







Industry Turnover

According to responding contractors, nominal turnover based on certified payments received, increased by 15.0 percent q-q in the 1st quarter, following the 9.7 percent decrease in Q4. This gets the year off to a relatively good start, but we must caution that this data can be somewhat volatile. The outlook for the medium term remains bleak, with the prospect of further real declines in investment weighing heavily on the upside. Pending further developments in construction cost inflation (estimated at an average of 5.8 percent over the next three years), turnover is likely to contract by an average of 10 percent in in the medium term (2018-2020). Turnover in 2017 was constrained by poor economic growth, weak investor sentiment, policy and political uncertainty, and a slowdown in both government and

SOE's public sector infrastructure expenditure. Although 2018 kicked off with some hopeful expectations in the 1st quarter of 2018 that economic prospects will improve, there is still a long way to go to sustain higher levels of business confidence and to restore government's ailing financial position, to the point where it will result in a recovery in the civil industry sector. Business confidence averaged just 34.5 in 2017, compared to an average of 37 in 2016, which means a real improvement to above 60 or 70 (minimum required to stimulate higher levels of investment) may still be some time away. Investor sentiment may, and has already, show an improvement in the first quarters of 2018 as there is a broad approval (both locally and abroad) in the appointment of Cyril Ramaphosa as the newly elected ANC president.

Release of government projects remain a serious constraint for the domestic civil industry, and as companies are subject to radical transformation policies, government need to address the poor rollout of projects more urgently as any transformation policy will be meaningless without the supportive flow of work. Localisation should be key, as local contractors should remain preferred bidders on any government or SOE's tender (as opposed to foreign contractors), thereby adhering to regulated procurement policies. Disarray at SOE's also remains a pertinent issue within the sector, as SOE's are the biggest spenders of governments' infrastructure budget.

Please note turnover levels only depict SAFCEC estimates based on the participation of member companies, 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.

Figure 21: Civil Industry Turnover 2016 Prices

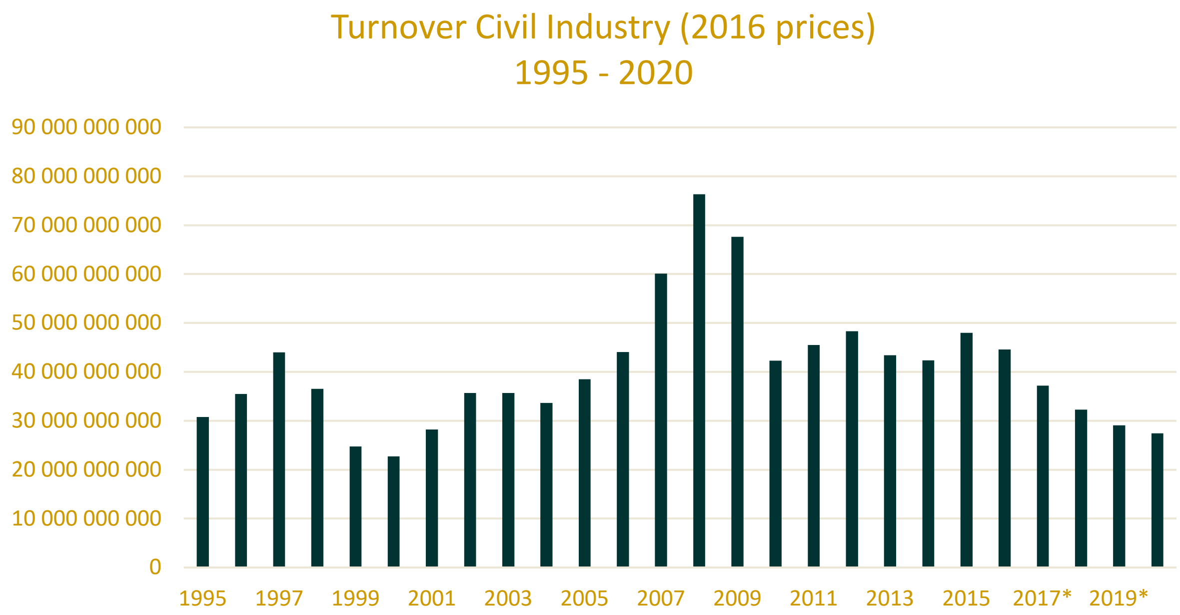


Table 18: Actual and Expected Turnover trends

	Turnover Nominal	% Change (Nominal)	Turnover 2016=100	% Change (Real)
1996	9,864,977,221	28.9%	30,765,538,576	15.3%
1997	13,282,356,448	34.6%	35,470,252,517	24.0%
1998	11,680,899,837	-12.1%	43,997,578,056	-16.9%
1999	8,600,472,761	-26.4%	36,552,117,048	-32.4%
2000	8,669,595,494	0.8%	24,715,662,958	-8.2%

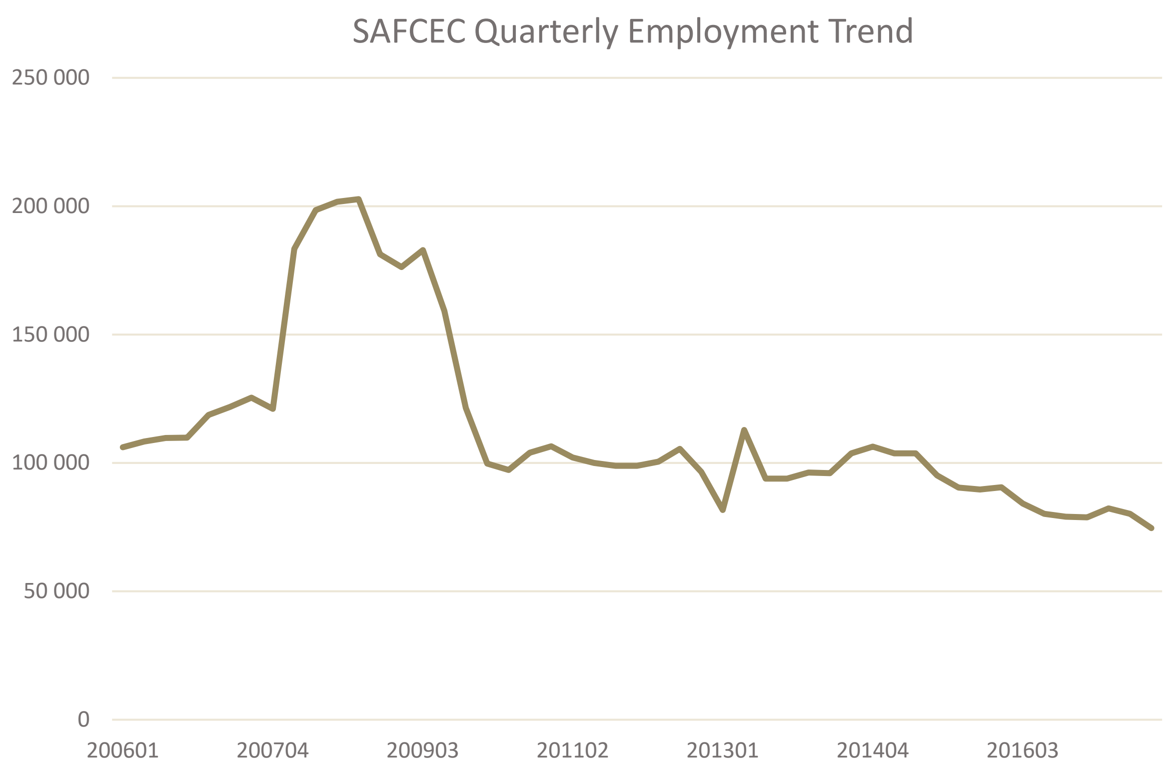
2001	11,723,000,614	35.2%	22,697,273,091	24.2%
2002	17,138,501,083	46.2%	28,186,951,013	26.6%
2003	17,701,840,728	3.3%	35,683,820,858	0.1%
2004	17,180,281,073	-2.9%	35,703,223,787	-5.7%
2005	20,999,901,277	22.2%	33,668,863,286	14.3%
2006	25,783,535,490	22.8%	38,490,172,824	14.5%
2007	38,084,310,982	47.7%	44,063,104,082	36.4%
2008	58,063,639,993	52.5%	60,111,184,856	26.9%
2009	51,147,261,584	-11.9%	76,297,238,718	-11.4%
2010	32,744,103,366	-36.0%	67,596,969,701	-37.5%
2011	36,888,136,573	12.7%	42,255,972,879	7.6%
2012	40,952,061,358	11.0%	45,466,867,919	6.2%
2013	38,920,982,014	-5.0%	48,302,298,517	-10.1%
2014	39,941,145,748	2.6%	43,431,100,340	-2.5%
2015	46,049,492,101	15.3%	42,326,191,325	13.4%
2016	44,590,770,821	-3.2%	47,983,570,769	-7.1%
2017	39,329,642,756	-11.8%	44,590,770,821	-16.6%
2018 (f)	36,183,271,336	-8.0%	37,208,744,329	-13.3%
2019 (f)	34,374,107,769	-5.0%	32,244,700,504	-9.8%
2020 (f)	34,374,107,769	0.0%	29,072,467,149	-5.6%

Table 19: Employment, Turnover and Salaries & Wages

	Employment	Turnover (nominal)	Salaries and Wages (nominal)
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	2,574,982,901

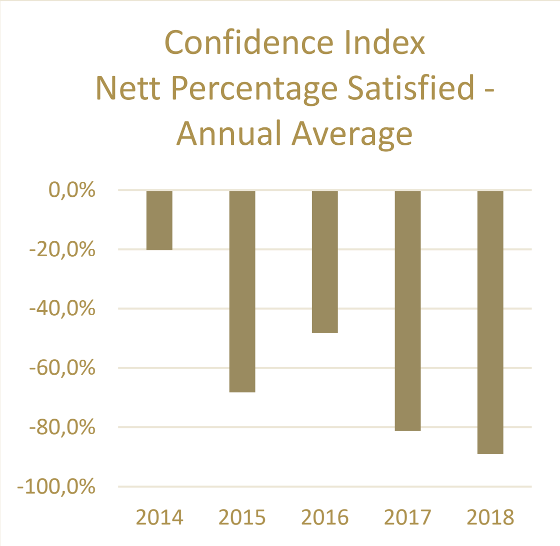
2016.4	79,561	10,534,020,960	2,422,824,821
2016	85,492	44,590,770,821	9,691,786,969
2017.1	79,070	8,848,577,606	2,389,115,954
2017.2	78,833	10,264,350,023	2,566,087,506
2017.3	82,302	10,623,602,274	2,974,608,637
2017.4	80,244	9,593,112,853	2,494,209,342
2017	80,112	39,329,642,756	10,424,021,438
2018.1	74,627	11,032,079,781	2,758,019,945

Figure 22: SAFCEC Quarterly Employment Trend



There was a decrease of 7.1 percent q-q in employment in the civil engineering contracting industry in the 1st quarter, after showing an increase in the 4th quarter of 2.5 percent. Compared to last year, employment has fallen more significantly. In 2017, employment totalled an estimate of 79 481, compared to 85 492 in 2016, a decrease of approximately 7 percent. 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. There has been a marked increase in the number of people that are self-employed, while employment in the industry, according Stats SA data, has gradually decreased over the last few years. Although these numbers include both the building and civil industries it is evident that the construction industry as a whole is not expanding job opportunities in the sector, due to the weak economic environment which is further challenged by weak investor sentiment and poor rollout of projects by the public sector. ***We can compare this to a total decline in the construction labour force of 1.5 percent in the first quarter of the year.***

Confidence Index



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.

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 much more pessimistic in the last few surveys, with industry sentiment representing levels last seen in 2000. The overall confidence level deteriorated to a nett **negative** satisfaction rate of -99.9 in the 2nd quarter, from -78.0 percent in the 1st quarter, and -99.9 percent in the previous survey. Majority of respondents reported quiet conditions.

In this survey, 100 percent of the larger contractors reported a poor outlook for the sector. Medium sized contractors all also reported a poor outlook for the sector however. Smaller contractors had more of a mixed outlook, with only 50 percent expecting poor conditions within the industry to prevail.

Table 20: Overall assessment of business conditions (RSA Only

Values	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
Very Quiet	3.9%	4.8%	4.2%	0.1%	5.5%	25.2%	5.2%	4.2%	7.8%	19.6%	45,5%
Quiet	39.8%	55.2%	54.8%	34.8%	37.0%	27.7%	73.4%	90.5%	92.1%	58.5%	54,4%
Satisfactory	52.6%	39.0%	38.8%	65.2%	57.5%	46.7%	20.7%	5.3%	0.1%	21.8%	0,0%
Quite busy	2.5%	1.0%	2.2%	0.0%	0.0%	0.4%	0.7%	0.0%	0.0%	0.1%	0,1%
Very busy	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0,0%
Nett %	-40.1%	-59.0%	-56.8%	-34.8%	-42.5%	-52.5%	-77.9%	-94.7%	-99.9%	-78.0%	-99,9%

Figure 23: Civil Engineering Contractors Confidence Index

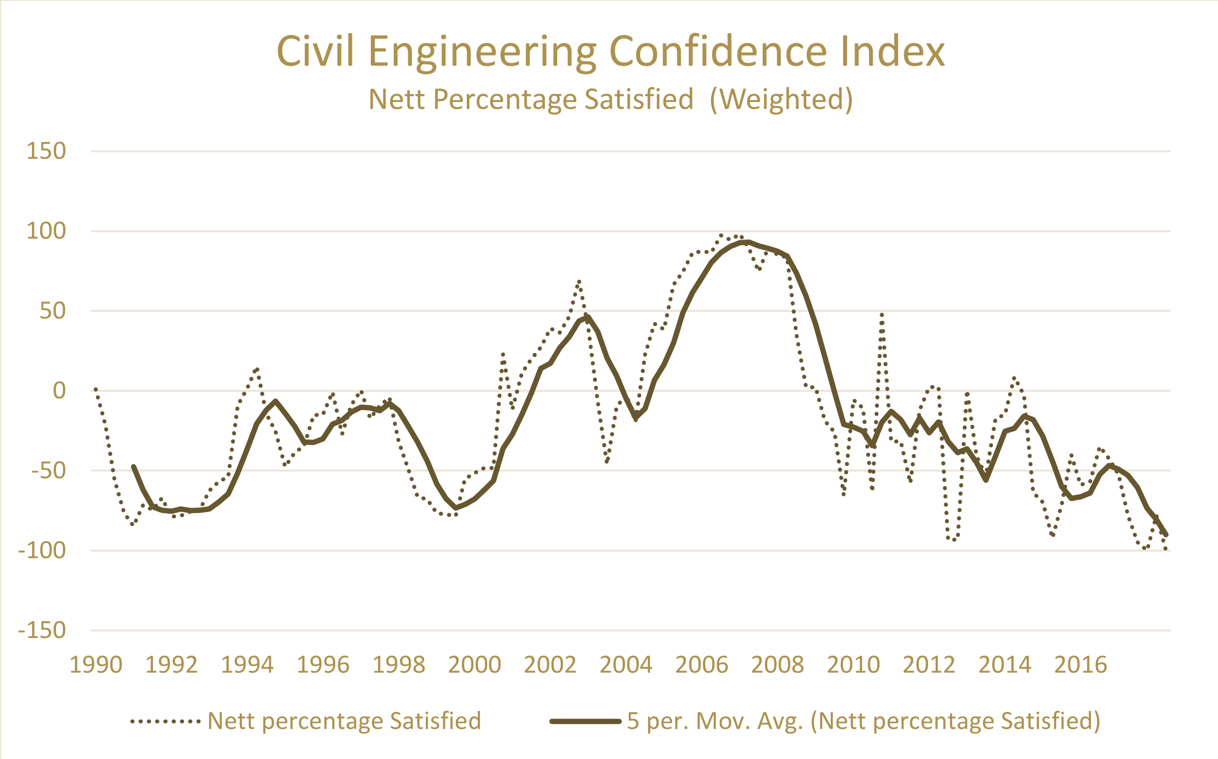
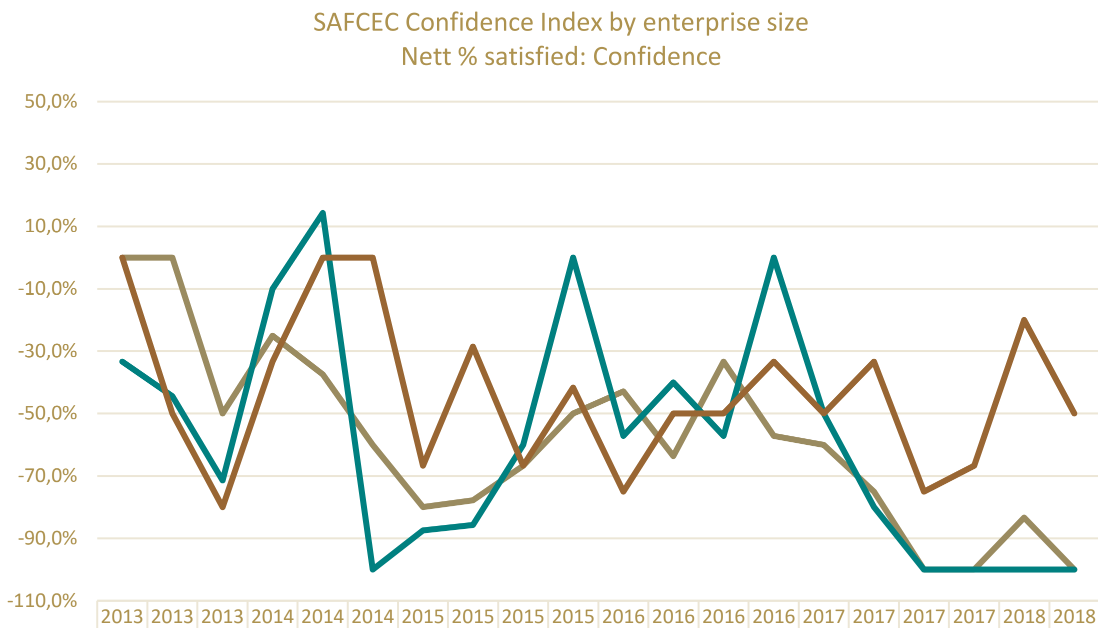


Figure 24: SAFCEC Confidence Index by Enterprise Size



	2013 Q1	2013 Q2	2013 Q3	2014 Q1	2014 Q2	2014 Q3	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
Large	0,0%	0,0%	-50,0	-25,0	-37,5	-60,0	-80,0	-77,8	-66,7	-50,0	-42,9	-63,6	-33,3	-57,1	-60,0	-75,0	-100,	-100,	-83,3	-100,
Medium	-33,3	-44,4	-71,4	-10,0	14,3%	-100,	-87,5	-85,7	-60,0	0,0%	-57,1	-40,0	-57,1	0,0%	-50,0	-80,0	-100,	-100,	-100,	-100,
Small	0,00%	-50,0	-80,0	-33,3	0,00%	0,0%	-66,7	-28,6	-66,7	-41,7	-75,0	-50,0	-50,0	-33,3	-50,0	-33,3	-75,0	-66,7	-20,0	-50,0

Table 21: Large firms - Overall assessment of business conditions (RSA Only)

Values	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
Very Quiet	12.5%	0.0%	9.1%	0.0%	0.0%	20.0%	0.0%	0.0%	0.0%	33.3%	50,0%
Quiet	37.5%	42.9%	54.5%	33.3%	57.1%	40.0%	75.0%	100.0%	100.0%	50.0%	50,0%
Satisfactory	50.0%	57.1%	36.4%	66.7%	42.9%	40.0%	25.0%	0.0%	0.0%	16.7%	0,0%
Quite busy	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0,0%
Very busy	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0,0%
Nett %	-50.0%	-42.9%	-63.6%	-33.3%	-57.1%	-60.0%	-75.0%	-100%	100.0%	100.0%	100.0%

Table 22: Medium firms - Overall assessment of business conditions (RSA Only)

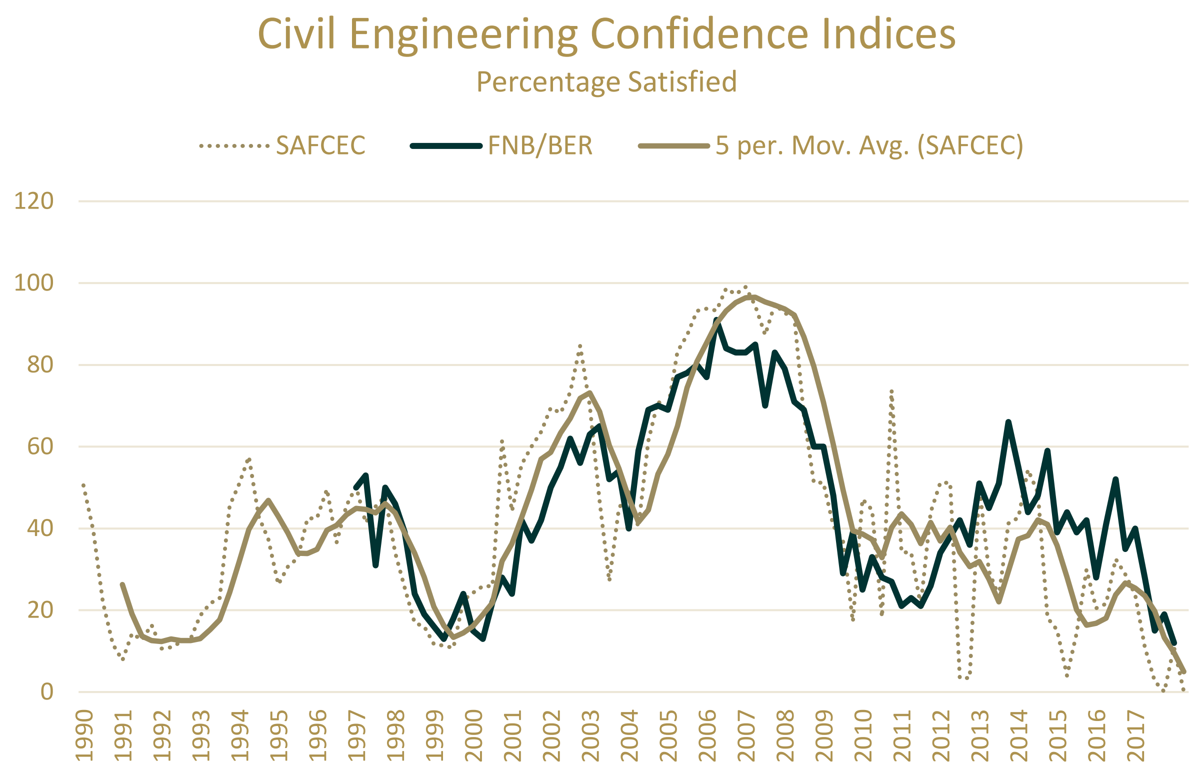
Values	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
Very Quiet	0.0%	42.9%	20.0%	0.0%	0.0%	50.0%	10.0%	25.0%	66.7%	25.0%	33,3%
Quiet	33.3%	28.6%	40.0%	57.1%	0.0%	0.0%	70.0%	75.0%	33.3%	75.0%	66,7%
Satisfactory	33.3%	14.3%	20.0%	42.9%	100.0%	50.0%	20.0%	0.0%	0.0%	0.0%	0,0%
Quite busy	33.3%	14.3%	20.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0,0%
Very busy	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0,0%
Nett %	-60.0%	0.0%	-57.1%	-40.0%	-57.1%	0.0%	-50.0%	-80.0%	100.0%	100.0%	100.0%

Table 23: Smaller firms - Overall assessment of business conditions (RSA Only)

Values	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
Very Quiet	25.0%	25.0%	16.7%	25.0%	33.3%	50.0%	33.3%	50.0%	33.3%	20.0%	50,0%
Quiet	33.3%	50.0%	33.3%	25.0%	0.0%	16.7%	33.3%	25.0%	33.3%	20.0%	25,0%
Satisfactory	25.0%	25.0%	50.0%	50.0%	66.7%	16.7%	0.0%	25.0%	33.3%	40.0%	0,0%
Quite busy	8.3%	0.0%	0.0%	0.0%	0.0%	16.7%	33.3%	0.0%	0.0%	20.0%	25,0%
Very busy	8.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0,0%
Nett %	**-41.7%**	**-75.0%**	**-50.0%**	**-50.0%**	**-33.3%**	**-50.0%**	**-33.3%**	100.0%	100.0%	100.0%	100.0%

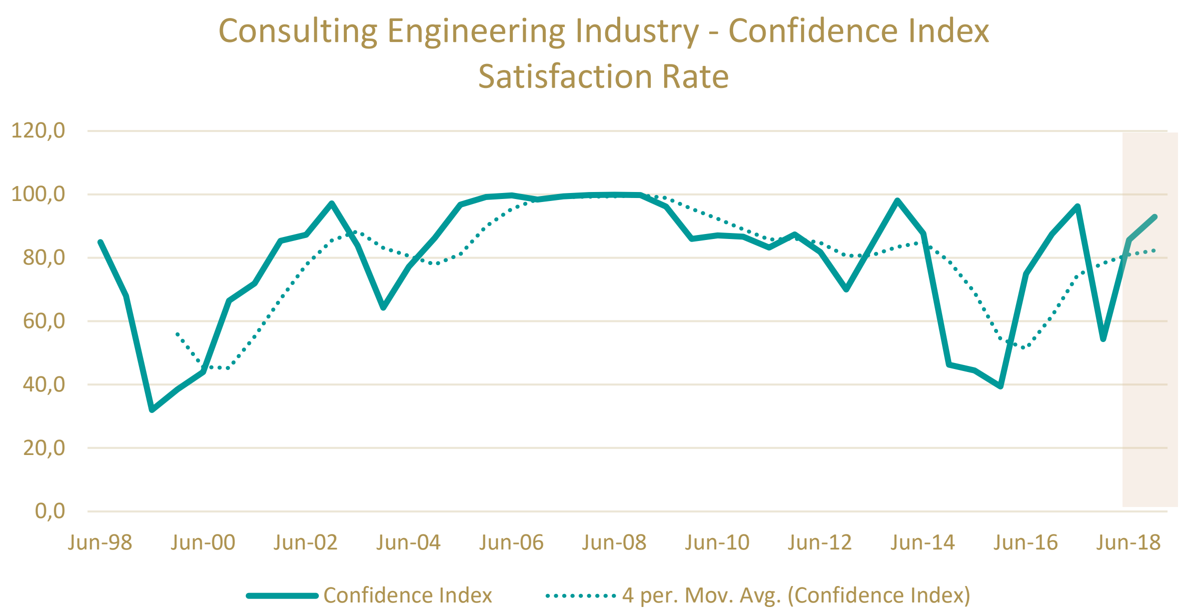
A comparison with FNB/BER's civil industry confidence index, shows a clear and distinct correlation between the two independently surveyed data sets, as both surveys depict weak sentiment amongst civil contractors. The satisfaction rate in the FNB/BER index has been below 50 since the 1st quarter of 2015, and recorded a much weaker level of 12 in the 1st quarter of 2018, from a level of 40 in the 1st quarter of 2017, and an average of 39 in 2016. This is the weakest level since 2000 towards the end of the 1998/98 Asian Crisis, and again is evident of extremely difficult and tough conditions experienced in the civil industry in particular. While conditions in the building industry are also under strain, confidence levels of building contractors (although weak) averaged a higher level of 35 in 2017, and improved to 43 in the first quarter of 2018.

Figure 25: Civil Engineering Confidence Indices



Confidence levels amongst consulting engineers (a leading indicator for construction works and compiled bi-annually by CESA), reached record lows during 2015/16, but showed a recovery over the last few surveys to a satisfaction rate of 85.7 percent in the first six months of 2017 and 92.9 percent in the last six months of 2017. Consulting Engineers in general are more optimistic by comparison to the highly depressed environment contractors find themselves in, primarily because projects may be in planning and designing phases but is slow to be put out to tender and awarded. The slowdown in confidence amongst engineers in 2015/16 was of great concern as this implies a slowdown in the project pipeline which will have an even more devastating impact on downstream suppliers and contractors. The more positive view expressed in the last 12 months, may suggest an uptick in projects at planning stages which, if executed, will support growth, albeit marginal, in the general contracting industry, yet the weaker longer term outlook is concerning.

Figure 26: Consulting Engineering Industry Confidence Index



Key Issues Affecting Current Confidence Levels in the Industry

Main issues raised by participating contractors related specifically to work flow issues. This has to do with the volume of projects that are coming out to tender, with a serious lack of infrastructure spending by government being felt by most of the contractors in the sample again. A significant 83.3 percent of contractors in the sample mentioned that they have felt a massive slowdown in government spending, some specifically pointed to the bigger projects. Other complaints included Delays, financial constraints by clients, and skills (including poor or low levels of labour productivity, tender compilation and adjudication by clients).

- Global economic stabilisation, which is good for South Africa. The outlook for advanced economies and emerging markets has improved over the last 3 – 6 months.
- The outlook for the domestic economy has improved quite significantly over the last 6 months, with a new president and renewed confidence, many economists are expecting 2018 to be better than expected. A greater degree of political stability and policy certainty will go a long way to aiding the recovery of the economy. Growth forecasts still however remain under 2 percent for 2018, which means the economy continues to lag behind population growth, and serious structural issues still persist. We will have to wait and see actual policy hit the ground.
- Project cancellations and delays in project implementation remains a serious concern and constraint affecting the construction industry, as noted in the report.
- 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. Other skills related concerns include lack of client capacity and experience in drafting and adjudicating tenders, which leads to poor project scoping and the re-awarding of tenders as projects are allocated to sub-standard contractors.
- 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).

- Changes to the Preferential Procurement Policy Framework (PPPFA) Act of 2000 took effect in March 2017, to further accelerate transformation through its procurement spend and deepened regulation of its tender processes. Implementation of the revisions has increased uncertainty and is likely to further deter investment.
- Award delays remain a serious concern. Contractors have a quarter of the time to prepare and submit tender document, compared to the time taken by clients to adjudicate. Of particular concern are the delays in the finalisation of the IPP programme affecting the implimentation of renewable energy projects. An investigation into why Eskom has been slow to sign contracts with independent power producers was again delayed in September 2017. A total of 37 contracts are still unsigned.
- 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. Grade 9 projects contributed only 2 percent of tender activity in the first quarter of 2017.
- 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 (albeit at a slower pace), 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

Stats SA completed a full revision of price indices, affecting various producer price indices used to compile the construction cost index. This led to an adjustment in the average input **cost price movements** based on the Baxter contract price adjustment formula (CPAF).

For further information on the calculations of the revised indices please contact SAFCEC.

Input costs moderated to an average annual increase of 5.6 percent in the 1st quarter of 2018, from an average (revised) increase of 6.1 percent and 4.2 percent in the 3rd and 4th quarters of 2017. The largest drivers of inflation currently are materials, up by 9.5 percent in the 1st quarter, and fuel which increased by 8.1 percent.

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.

Risks to the outlook for construction cost inflation are largely related to further developments in the exchange rate which has come under pressure due to dollar strength, and the impact of international oil prices on the cost of fuel and liquid energy. Our assumptions for the medium term, are based on a mild increase in the price of oil, averaging $75/barrel over the next three years, along some weakening in the currency, averaging R13/US Dollar. Construction cost inflation is expected to increase by 6.2 percent in 2018, 5.4 percent in 2019 and 5.9 percent in 2020. These developments and the impact on input cost construction will be closely monitored and adjusted accordingly.

Figure 27: CPAF Y-Y Percentage Change

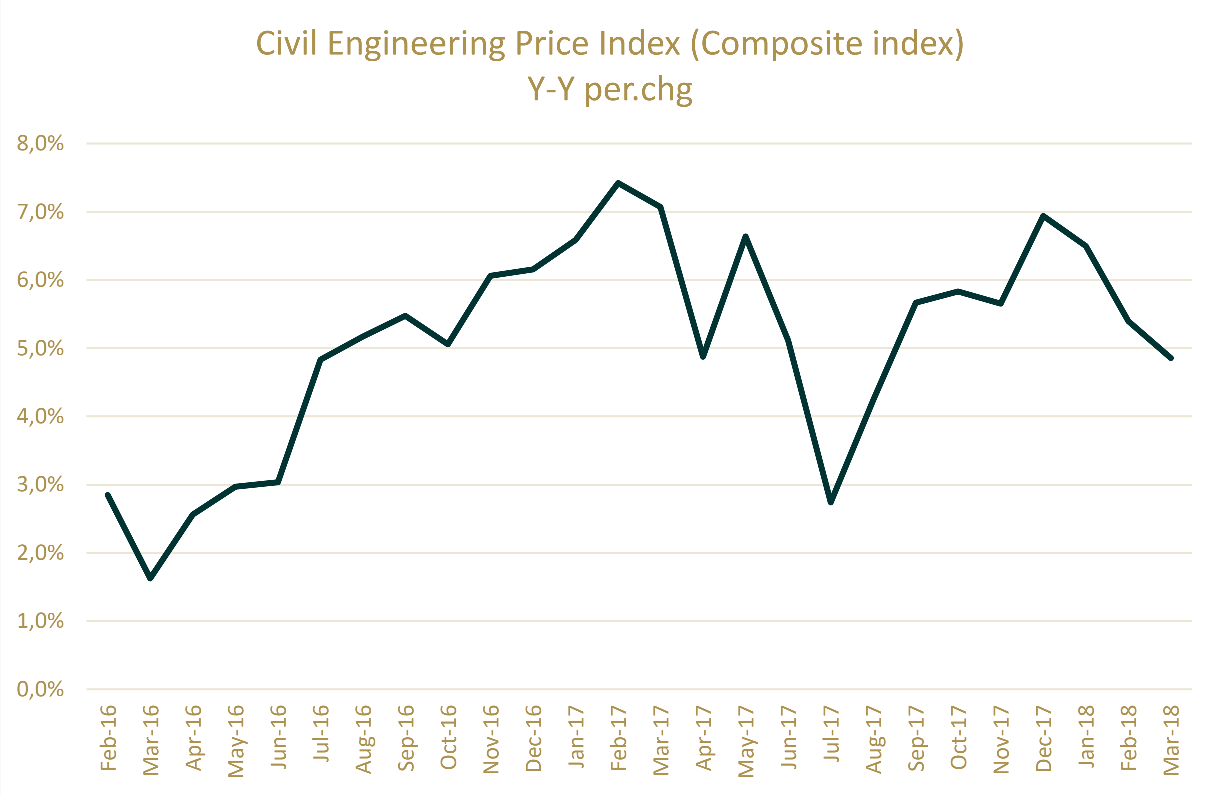


Table 25: Macro Price Assumptions

	2014	2015	2016	2017	2018	2019	2020
R/US$ Exchange Rate	11.3	12.8	14.7	13.3	12.5	13.0	13.3
Oil price ($ per barrel, UK Crude oil)	96.3	52.7	44.2	54.8	70.0	75.0	80.0
Oil Price (ZAR per barrel)	1088.2	672.1	650.8	730.6	875.0	975.0	1064.0
CPI (% change)	6.1%	4.6%	6.3%	5.3%	5.7%	5.6%	5.0%

Table 26: CPAF Indices Forecast 2014-2020

Index 2012= 100	2013	2014	2015	2016	2017	2018	2019
Plant	87.0	91.0	98.6	100.4	102.4	105.5	108.7
Fuel	115.9	98.7	96.5	106.6	127.6	142.2	155.2
Materials	94.3	97.2	97.6	105.9	112.2	117.8	127.3
Labour	88.0	92.0	97.8	103.0	108.9	115.0	120.7
Composite	92.4	93.9	97.9	103.4	109.8	115.7	122.5
Y-Y Percentage Change							
Plant	6.4%	4.6%	8.3%	1.9%	2.0%	3.0%	3.0%
Fuel	5.8%	-14.8%	-2.2%	10.4%	19.8%	11.4%	9.1%
Materials	3.3%	3.1%	0.4%	8.5%	6.0%	5.0%	8.0%
Labour	6.1%	4.6%	6.3%	5.3%	5.7%	5.6%	5.0%
Composite	5.3%	1.7%	4.2%	5.7%	6.2%	5.4%	5.9%

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	96.8	89.7	92.8	89.6	92.73	3.9%	4.1%	-22.6%	4.3%	-5.7%
	2	99.0	91.8	103.3	90.7	97.08	4.9%	4.5%	-13.0%	4.1%	-1.8%
	3	97.6	93.1	99.6	91.1	95.81	3.0%	4.7%	-14.6%	4.1%	-2.8%
	4	95.5	93.5	99.1	92.6	95.52	0.5%	4.9%	-8.4%	6.0%	-0.6%
2016	1	94.9	95.5	87.9	96.0	93.22	-1.9%	6.5%	-5.3%	7.2%	0.5%
	2	96.5	97.5	97.8	98.4	97.53	-2.5%	6.2%	-5.4%	8.4%	0.5%
	3	99.2	98.7	100.2	99.9	99.69	1.7%	6.0%	0.6%	9.7%	4.0%
	4	99.6	99.6	100.1	100.1	99.90	4.3%	6.6%	0.9%	8.1%	4.6%
2017	1	102.1	101.5	104.7	99.4	102.02	7.5%	6.3%	19.1%	3.5%	9.4%
	2	104.5	102.7	105.5	100.6	103.44	8.3%	5.3%	7.9%	2.3%	6.1%
	3	106.8	103.4	102.7	100.7	103.41	7.7%	4.8%	2.4%	0.8%	3.7%
2018	1	110.0	104.3	113.5	101.0	107.77	10.4%	4.7%	13.4%	0.9%	7.9%

INFORMATION SOURCES

- SAFCEC Membership surveys
- Databuild / Industry Insight project database of tenders, awards, postponements (www.industryinsight.co.za)
- IMF World Economic Outlook
- South African Reserve Bank, Quarterly Bulletins
- Global Insight
- Statistics South Africa
  - POO44 Financial statistics
  - P0141 Consumer Price Index
  - P0151 Production Price Index: PPI For Selected Materials
- FNB/BER Confidence Indices
- Estimates of National Expenditure Reviews (Treasury)