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READY TO DELIVER

STATE OF THE SOUTH AFRICAN CIVIL ENGINEERING INDUSTRY

South African Forum of Civil Engineering Contractors
www.safcec.org.za

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EXECUTIVE SUMMARY

According to the IMF's latest world economic outlook report for January 2019, the global expansion has weakened. The global GDP growth forecast was increased by 0.2 percentage points to 3.5 percent in 2019, and down by 0.1 percentage points to 3.6 percent for 2020 as the risks mount. This is compared to projections made in October last year. The reasons for the downgrade include the trade war between the US and China, who are the world's two biggest economies. The biggest risks to the South African economy from a global perspective include a slowing China, as well as a slowing European economy, and the spill over effects there-of. Brexit also poses a risk, with high levels of uncertainty.

With the latest GDP data released by Stats SA, we now know that the economy barely moved forwards in 2018, with annual **GDP growth of just 0.8 percent overall in 2018**. The economy bounced back somewhat in the 2nd half of the year, with quarterly GDP growth of 2.6 percent and 1.4 percent in the 3rd and 4th quarters respectively. This was after a torrid start to the year in which the economy found itself in a technical recession after two consecutive quarters of negative growth in the 1st and 2nd quarters of the year, the economy declining by 2.7 percent and 0.5 percent respectively. **Over the last 10 years, the economy, in terms of the GDP numbers, has grown just 1.8 percent on average, which is barely above the average population growth over the period. Essentially a lost decade in real terms,** and it will take a concerted effort by the likes of the government and the private sector to get the economy out of the rut it currently finds itself in.

The construction industry **continues to underperform the rest of the economy**, with the sector contracting by 1.2 percent in 2018, in terms of the GDP figures. This is off the back of a 0.6 percent contraction, suggesting recessionary levels with two consecutive ***annual contractions***, the industry is certainly on its knees. Civil construction is currently in survival mode, with downsizing, job cuts and retrenchments the name of the game, in a market that may now be somewhat saturated. Massive pullback in infrastructure spending by government is mainly to blame. The building industry is also under severe pressure, which can be characterized by a more sideways moving environment. The residential market has been relatively buoyant, but it may be unrealistic to continue to expect this to continue into 2019.

Data from the 1st quarter 2019 survey, supported by Industry Insight data, show that 2018 was an extremely difficult year for the construction sector as a whole. Although the downturn started gaining momentum in 2014, last year (2018) was the year where everything seemed to fall apart. Confidence of civil engineers remained at rock bottom in this survey, with little to be positive about and recently, Group 5, once construction giant, entered business rescue. They are the 3rd listed contractor to do so, out of a total of nine listed companies. (include names of the other 2 listed contractors that have applied for business rescue)

Looking ahead to 2019, the election poses a major risk to the overall outlook for the South African economy, with many investors and businesses adopting a wait and see approach, the outcome could be key at determining the overall direction of the political economy. Many political analysts are however sceptical that Cyril Ramaphosa will be able to consolidate his power post-election, due to in fighting within the ruling party, as he fights for support within his own party. He will struggle to implement the 'market friendly' reforms that have been spoken about, such as reforming SOE's and reducing the size of cabinet. We are not expecting any sort of big turnaround in the civil construction sector in the next 12-18 months, we do however expect the bleeding to slow somewhat as the market stabilises and adjusts to what is probably the new normal in the South African construction industry and economy for the time being.

Key observations:

- Employment decreased in the current quarter after two consecutive quarters of increase. Employment was down by 7.3 percent (8.0 percent?) on a quarter on quarter basis. The civil engineering industry has now shed more than 35 percent of its total work force just over the last 5 years, from 2014.
- The total value of civil engineering construction certified for payment decreased by 5.6 percent q-q. Large and medium sized contractors reported decreases of 6.5 percent and 4.9 percent respectively, while smaller firms collectively reported an increase of 6.0 percent.

- Overall conditions in terms of the two-year forward order book remains poor, and deteriorated in the 4th quarter, with a decrease of 3.7 percent. This is off the back of a 0.3 increase in the 4th quarter. Medium sized firms reported the strongest decrease in order books, down 25.4 percent q-q, following a decline of 7.8 percent in the previous quarter.
- Value of late payments decreased by 29.1 percent in the 1st quarter of 2019, down from an increase of 3.8 percent in the previous quarter. The data is somewhat erratic and differ within the different sized firms. Large firms reported the biggest decrease in late payments, down by over 37 percent which is quite significant. Smaller firms also reported quit a big decline of 18.7 percent. Medium sized firms didn't see much change, with only 0.1 percent decline in late payments.
- Liquidations of construction companes increased by 8.7 percent y-y (as at January 2019), according to to Stats SA. This is compared to an overall decrease of 5.1 percent in the whole of the South African economy,which shows that the construction sector is generally harder hit by liquidations compared to the economy as a whole.
- **Competition for tenders** intensified in the 4th quarter of 2018, as 99.3 percent of companies reported that there were more than 11 bids per contract, compared to 98.0 percent and 90.8 percent in the previous two surveys. Overall 91.2 percent of firms said that there were between 11 and 25 bids per project.
- **Tender prices** climbed to a more elevated level, with 75.6 percent of contractors reporting keen tender prices, which is the highest level since the first quarter of 2015, but this trend however does not fully correlate with some of the other opinions in the survey. None of the respondents (across all firm sizes) reported reasonable or good tender prices in the current survey, on par with the previous surveys.
- On the upside, almost 83% of contractors expect **profitability** trends to stabilise, which has been on the rise and is up from 69.8 percent in the previous survey, while 16.9 percent still expect margins to recede, which is also fewer than previous survey, which could hint at some stabilisation, although it would be too early to tell.
- Interestingly, there was a big improvement in opinions around tender activity, with 41.6 percent of respondents reporting satisfactory levels of tender activity, up considerably from the previous surveys and is the highest in a few years. Only 0.2 percent of respondents reported good levels however, and the improvement in the satisfactory level could be attributed to contractors adjusting to the market somewhat, having potentially scaled accordingly. With the run up to the elections, we are always cautious to the sustainability of perceived levels of increased tender activity.
- Majority of firms (44.2%) reported capacity utilisation in terms of general plant and resources at between 51 and 75 percent, and more firms reported lower levels of capacity utilisation in general. On average, utilisation levels were down in the 1st quarter, with 30.9 percent of firms saying that they were operating at between 0 and 25 percent.
- Input costs dropped significantly to an average annual increase of 4.4 percent in the 1st quarter of 2019, from an average (revised) increase of 7.9 percent and 7.8 percent in the 3rd and 4th quarters of 2018. The largest drivers of the big drop currently are fuel prices, which have dropped quite significantly after record increases towards the latter parts of 2018.
- The overall confidence level remains at rock bottom, with all of the respondents in the survey reporting either very quiet conditions, or quiet conditions, for the second quarter in a row. A total of 80.7 percent of respondents reported quiet conditions, while the rest (19.3 percent) reported very quiet conditions.
- Several key issues continue to affect the local civil industry, mainly the poor roll out of government projects/lack of infrastructure spending, which was significant to most contractors, there seems to have

been a serious slowdown in projects coming out to tender again this quarter. Other issues include delays, skills shortages which was quite prominently mentioned, as well as the cancellation of projects, and payment issues. Fierce competition, as well as low tender prices and corruption were also prominently mentioned. Corruption was also mentioned prominently in the current survey.

ECONOMIC BACKGROUND

Global Outlook

According to the IMF's latest world economic outlook report for January 2019, the global expansion has weakened. The global GDP growth forecast was increased by 0.2 percentage points to 3.5 percent in 2019, and down by 0.1 percentage points to 3.6 percent for 2020 as the risks mount. This is compared to projections made in October last year. The reasons for the downgrade include the trade war between the US and China, who are the world's two biggest economies. The effect of the tariffs is expected to be negative for both the Chinese and American economy. The IMF also cite softer momentum in the second half of the year due to new car emission standards in Germany, as well as the fact that sovereign and financial risks have weighed on Italy's economy. Turkey has also experienced weakening financial market sentiment and the contraction there is expected to be deeper than initially thought.

Some further risks to the forecast were cited including a potential no deal Brexit between the UK and Europe, as well as a greater than envisaged slowdown in China. The Chinese economy posted their worst growth figures in almost three decades, and many are worried about the impact this will have on the rest of the global economy The IMF largely downplayed the slowing growth in China, and also downplayed fears of a global recession, which have been making the rounds.

Growth in advanced economies is estimated to slow from an initial expectation of 2.3 percent growth to 2.0 percent growth, which is a relatively considerable slowdown, and this is mostly driven by downward revisions in the Euro Area. Growth in the Euro area was revised downwards to 1.6 percent from 1.8 percent for 2019. This is largely due to weaker performances of the German, Italian and French economies. There is uncertainty about the economy of the UK regarding a potential no deal Brexit, and the US economy is expected to growth by 2.5 percent in 2018, slowing to just 1.8 percent the following year. In terms of emerging markets, the growth forecast was only revised downwards marginally, from 4.6 percent to 4.5 percent for 2019. This is due to a slowing China, and the effect the tariffs will have on their economy. Emerging and developing Europe have also taken a bit of a knock, driven downwards by a large projected contraction in Turkey. In Sub-Saharan Africa, growth was revised downwards by 0.3 percentage points, and this was mostly due to a softer oil price, which are expected to negatively affect the likes of Nigeria as well as Angola. The IMF have forecasted growth of 1.4 percent for the South African economy, from an estimated 0.8 percent in 2017.

Table 1: GPD Y-Y percentage change (Source IMF World outlook January 2019)

	2015	2016	2017	2018	2019	2020
World	3.2%	3.1%	3.8%	3.7%	3.5%	3.6%
Advanced Economies	2.1%	1.7%	2.4%	2.3%	2.0%	1.7%
US	2.6%	1.6%	2.2%	2.9%	2.5%	1.8%
Eurozone	2.0%	1.7%	2.4%	1.8%	1.6%	1.7%
UK	2.2%	1.8%	1.8%	1.4%	1.5%	1.6%
Emerging markets	4.1%	4.1%	4.7%	4.6%	4.5%	4.9%
Brazil	-3.8%	-3.6%	1.1%	1.3%	2.5%	2.2%
Russia	-3.7%	-0.2%	1.8%	1.5%	1.6%	1.7%
India	7.6%	6.8%	6.7%	7.3%	7.5%	7.7%
China	6.9%	6.7%	6.8%	6.6%	6.2%	6.2%
Sub-Saharan Africa	3.4%	1.4%	2.7%	2.9%	3.5%	3.6%
SA	2.0%	0.6%	1.3%	0.8%	1.4%	1.7%

Domestic Outlook

With the latest GDP data released by Stats SA, we now know that the economy barely moved forward in 2018, with annual GDP growth of just 0.8 percent overall in 2018. The economy bounced back somewhat in the 2nd half of last year, with quarterly GDP growth of 2.6 percent and 1.4 percent in the 3rd and 4th quarters respectively. This was after a torrid start to the year in which the economy found itself in a technical recession after two consecutive quarters of negative growth in the 1st and 2nd quarters of the year, the economy declining by 2.7 percent and 0.5 percent respectively. Over the last 10 years, the economy, in terms of the GDP numbers, has grown just 1.8 percent on average, which is barely above the average population growth over the period. Essentially a lost decade in real terms, and it will take a concerted effort by the likes of the government and the private sector to get the economy out of the rut it currently finds itself in.

Looking from sectoral level, the main antagonists over the last year include the likes of the primary industries. The agriculture sector as well as the mining industry contracting by 4.8 percent and 1.7 percent respectively. This is relatively surprising on the mining front with stabilizing commodity prices, but global trade frictions have certainly played a role. The economy has become extremely reliant on consumer spending, with the tertiary industries keeping the overall economy afloat. The finance, business services and real estate sector grew by 1.8 percent in the year, with the wholesale and retail trade sector growing by 0.6 percent. Consumers are expected to come under pressure in 2019, which is worrying for the overall economy going forward, with local and foreign investment nowhere to be seen, it is difficult to build productive capacity to move the economy up onto a higher growth path.

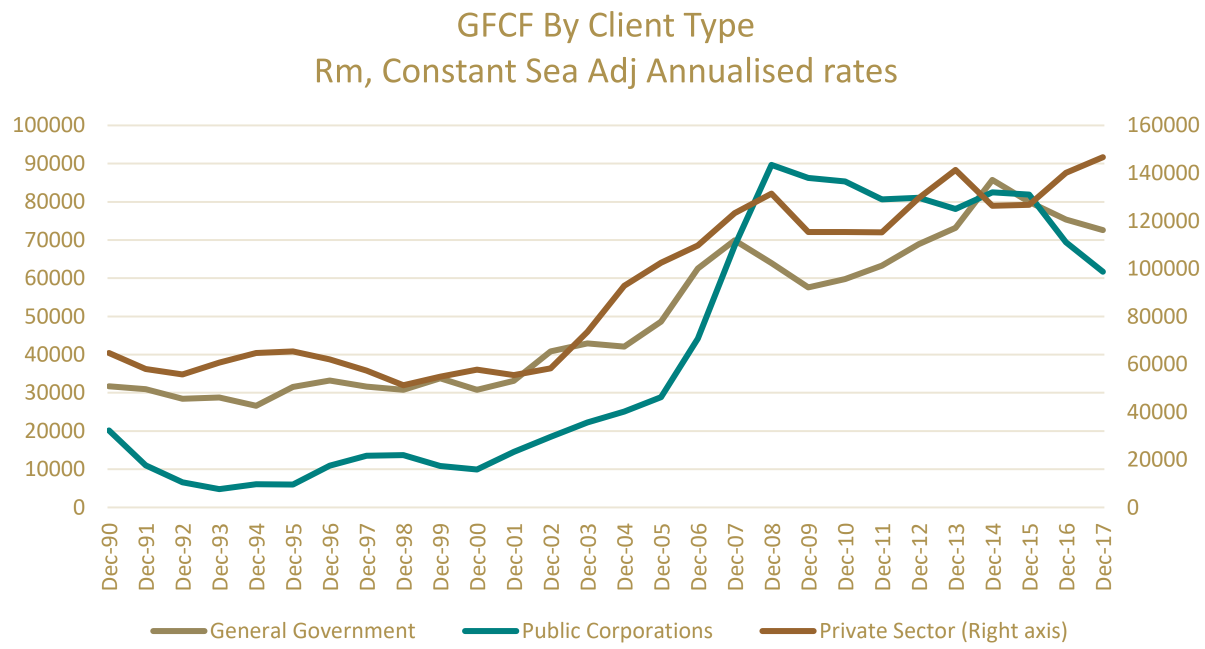
The construction industry continues to underperform the rest of the economy, with the sector contracting by 1.2 percent in 2018, in terms of the GDP figures. This is off the back of a 0.6 percent contraction, suggesting recessionary levels with two consecutive annual contractions, the industry is certainly on its knees. Civil construction is currently in survival mode, with downsizing, job cuts and retrenchments the name of the game, in a market that may now be somewhat saturated. Massive pullback in infrastructure spending by government is mainly to blame. The building industry is also under severe pressure, which can be characterized by a more sideways moving environment. The residential market has been relatively buoyant, but it may be unrealistic to continue to expect this to continue into 2019.

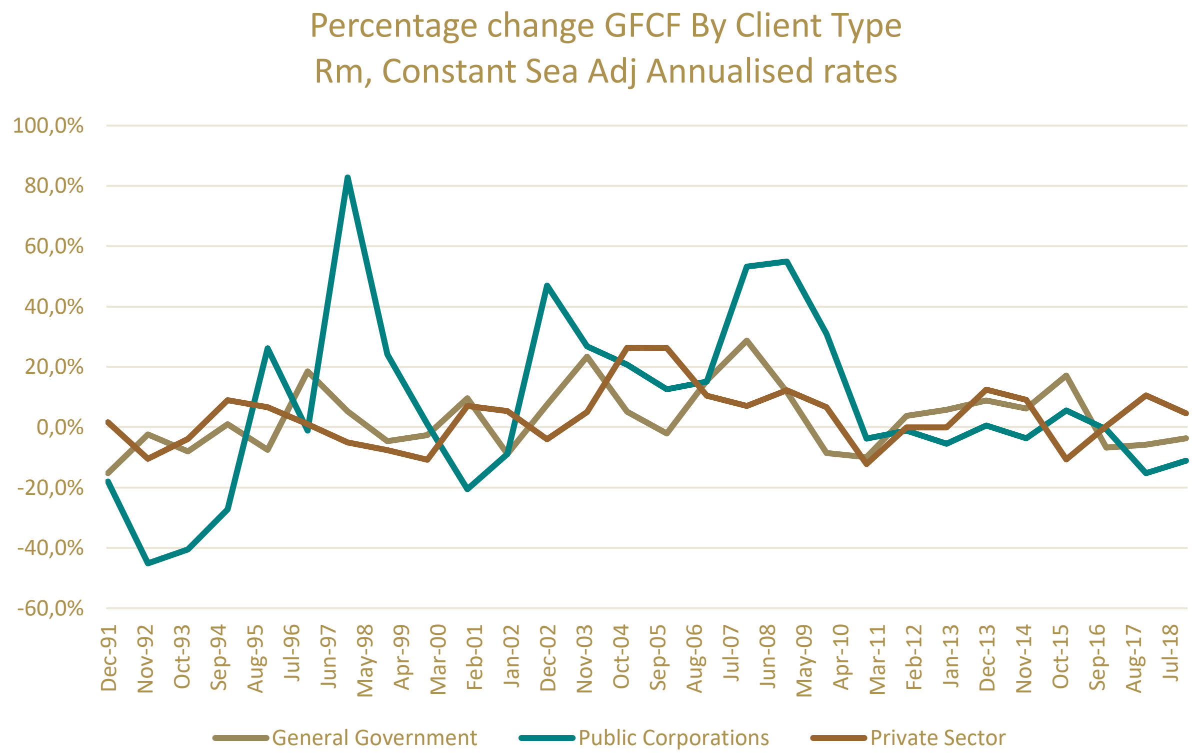
Table 1: Macro economic growth projections (Industry Insight Forecast Report 2018Q3) (2018Q4?)

Macro-Economic Forecasts	*2016*	*2017*	*2018*	*2019*	*2020*
GDP	0,6%	1,3%	0,8%	1,5%	2,1%
Household consumption	0,7%	2,2%	0,9%	1,4%	1,6%
Government consumption	1,9%	0,6%	1,9%	1,2%	1,4%
Gross Fixed capital formation	-4,1%	0,4%	0,1%	1,2%	2,1%
Imports	-3,7%	2,1%	4,3%	4,2%	4,2%
Exports	-0,1%	1,4%	5,0%	4,4%	4,4%
Prime Lending rate	11,00%	10,25%	10,25%	10,50%	11,25%
ZAR/US$	13,20	12,50	13,55	12,90	12,75
CPI Inflation	6,00	5,30	5,80	5,50	5,50
Current Account Deficit	-3.0	-3.9	-3.0	-3.9	-3.9

Gross Fixed Capital Formation

Gross fixed capital formation (GFCF) decreased by 2.4 percent y-y? in the 4th quarter of 2018, off the back of a surprise expansion in the 3rd quarter of 0.9 percent. This marks a 1.4 percent decline in investment in the South African construction industry in 2018 overall, on the back of a 1.3 percent decline in 2017. If we look at the contribution of the decline from the different segments, the civil (construction works) was the "less weak" performer with a decline in investment of just 0.1 percent in 2018. The residential and non-residential investment saw declines of 3.2 percent and 3.3 percent respectively.





THE POSITION OF THE CIVIL ENGINEERING INDUSTRY

Background

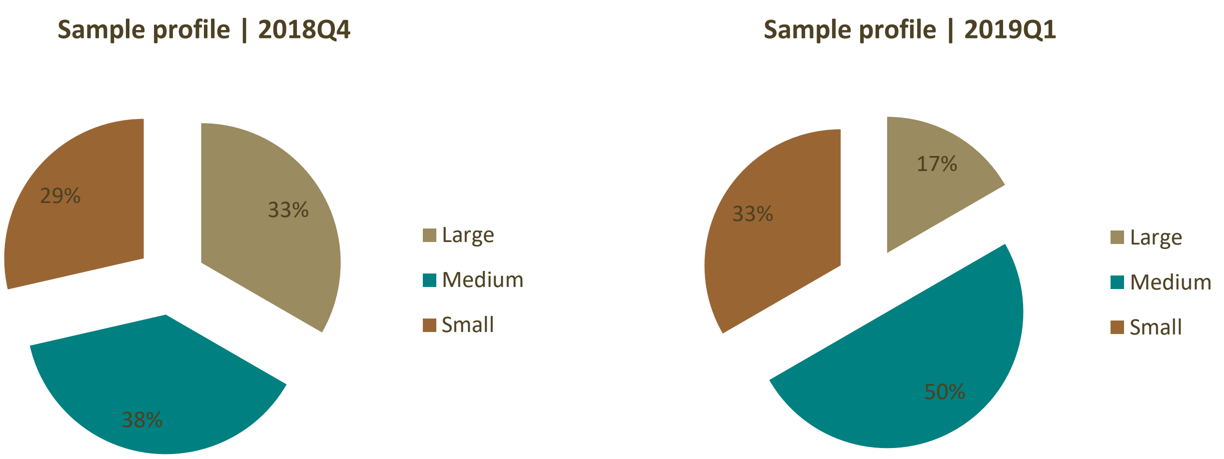
- Questionnaires were distributed to all SAFCEC members during **February 2019.**
- It is important to increase the usability of the industry report for all SAFCEC members, including small, medium and large enterprises. For this reason, more focus is given to the developing trends within the defined 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 more or less the same in the 1st quarter of 2019, compared to previous surveys undertaken in 2018. Larger firms contributed 17 percent to the current survey, medium size firms 50 percent, and smaller firms 33 percent, adding good variation to the sample.

Worth noting is that as large companies are retrenching and downsizing staff, they have moved into the medium size (between 100 and 1000) segment, for example Group Five and Aveng Grinaker.

Figure 1: Profile of respondents



KEY OBSERVATIONS

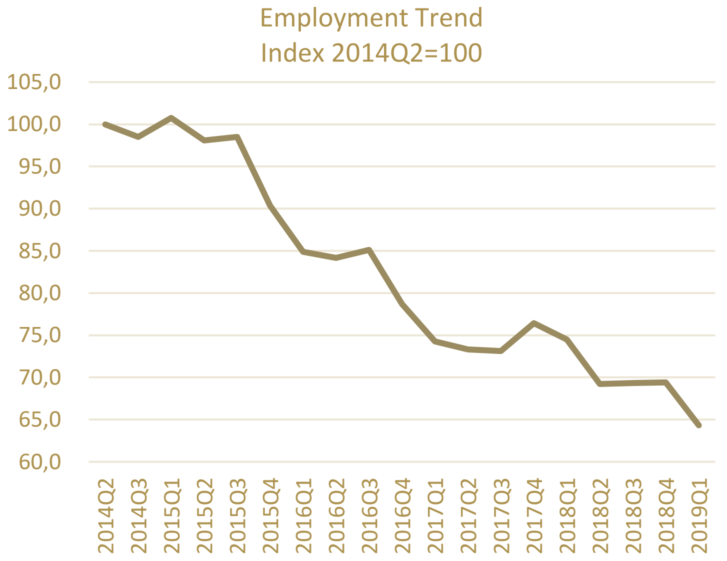
Human Resources

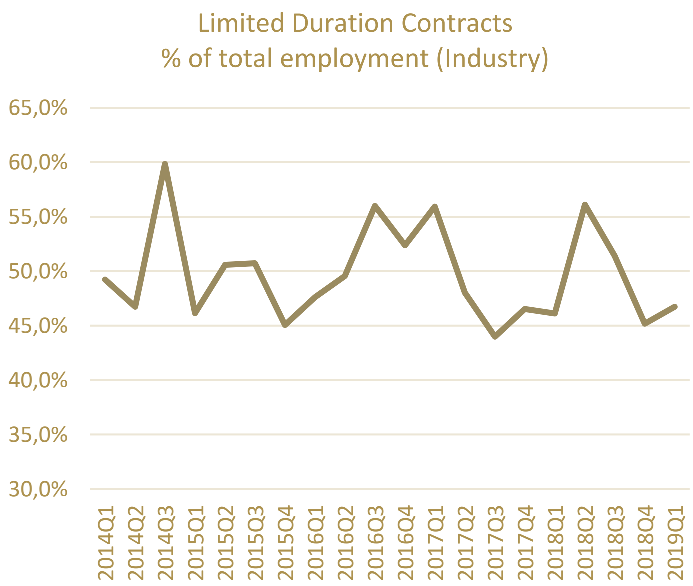
Employment decreased in the current quarter after two consecutive quarters of increase. Employment was down by 7.3 percent on a quarter on quarter basis. The civil engineering industry has now shed more than 35 percent of its total work force just over the last 5 years, from 2014. Large firms did however report trivial decreases, with the overall figures driven downward by sharp declines in employment in both medium and small firms. Employment was down on a quarter on quarter basis by as much as 34.9 percent for smaller firms, and down 16.7 percent for medium sized firms. Large firms only reported a 2.8 percent decline in employment. This goes to show that the slowdown in the industry has really hit all segments of the market.

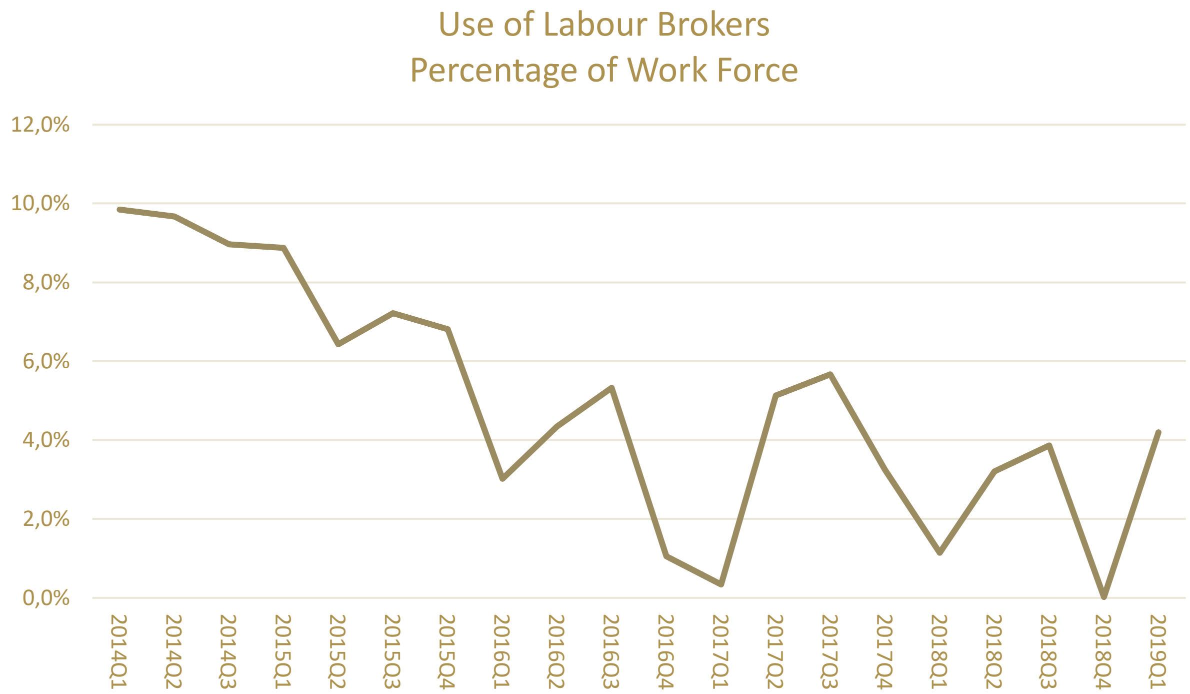
Table 3: Limited Duration Contracts; % of Total Employment

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	-3%	-2%	-2.8%	44.3%
Medium	-14%	-20%	-16.7%	55.3%
Small	-71%	-5%	-34.9%	19.7%
Total	-8%	-7%	-7.3%	46.7%

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







The use of labour brokers increased in the 1st quarter, averaging 4.2 percent of the total workforce, from just 0.02 percent in the previous quarter. Allowing for some fluctuations recently, the overall trend has improved from close to 10 percent in 2014 to between 2 and 4 percent in recent surveys. Large firms had 3.2 percent of their employees procured through labour brokers, relatively unchanged from last quarter, with the medium sized firms reporting 7.1 percent of employees, and none for smaller firms.

Financial Statistics

Turnover, Wages and Order Books

The total value of civil engineering construction certified for payment decreased by 5.6 percent q-q. Large and medium sized contractors reported decreases of 6.5 percent and 4.9 percent respectively, while smaller firms collectively reported an increase of 6.0 percent.

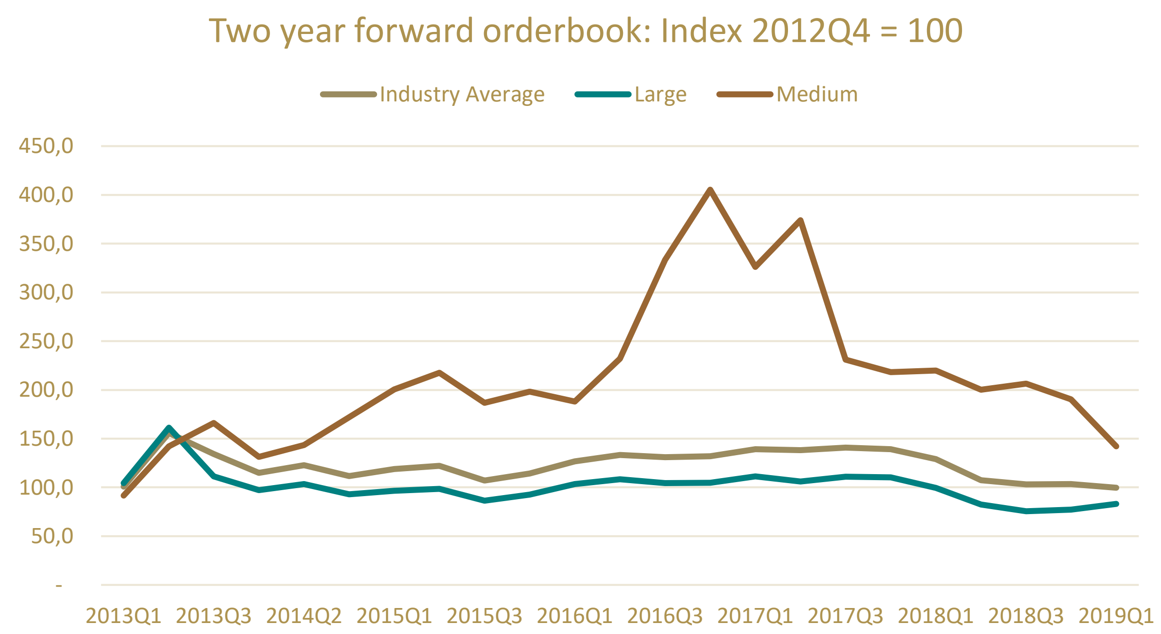
Year	Qtr	Turnover, nominal	Q-Q Per.Chg	Y-Y Per. Chg	MAT (12 months total) Y-Y Per.chg
2014	1	9,255,630,385	-11.0%	17%	7.08%
	2	10,643,974,943	15.0%	-4%	3.96%
	3	10,111,776,196	-5.0%	7%	7.02%
	4	9,929,764,224	-1.8%	-5%	2.62%
2015	1	10,525,550,078	6.0%	14%	2.43%
	2	12,209,638,090	16.0%	15%	7.61%
	3	12,270,686,281	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%

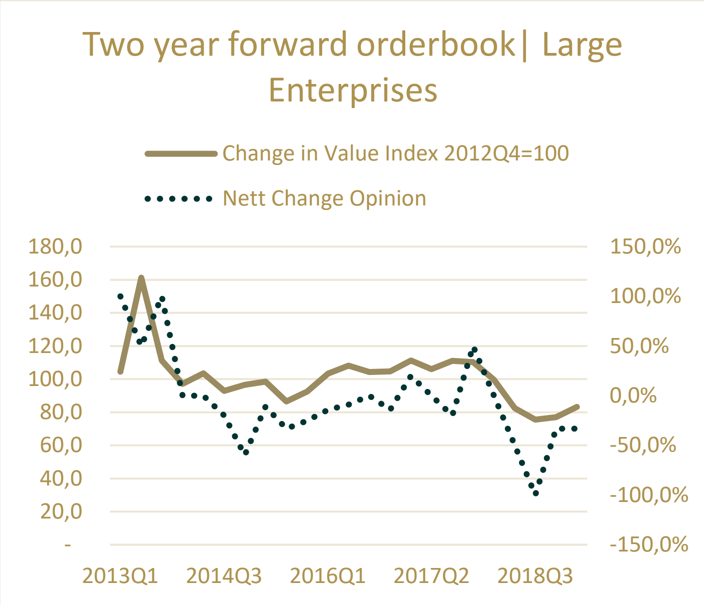
	4	10,534,020,960	-10.0%	-5%	-3.17%
2017	1	8,848,577,606	-16.0%	-13%	-5.26%
	2	10,264,350,023	16.0%	-16%	-9.45%
	3	10,623,602,2749	3.0%	-9.0%	-10.7%
	4	9 593 112 853	-9.7%	-9%	-11,11%
2018	1	11,032,079,781	15%	25%	-4.08%
	2	11,583,683,770	5%	13%	3.58%
	3	12,776,803,199	10.3%	20%	11.71%
	4	12,776,803,199	-5.6%	26%	20.66%

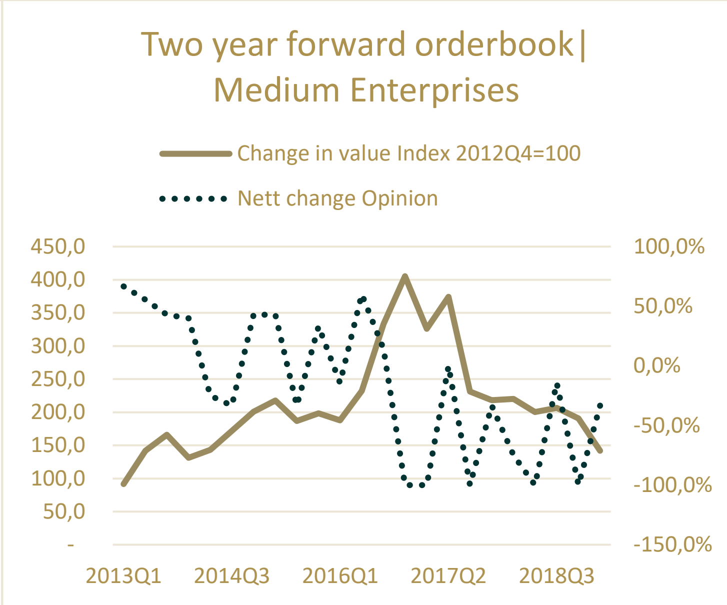
The cumulative salary and wage bill represented 25 percent of total turnover, which is down by 3 percent compared to the 4th quarter survey, which either/or suggests some job losses, or firms having to devote resources as well in tough times. The contribution of the salary and wage bill is still higher for larger firms with 30 percent of their total turnover. Medium and smaller firms on the other hand, their salary and wages only make up 17 and 20 percent of their total turnover respectively.

Overall conditions in terms of the two-year forward order book remains poor, and deteriorated in the 4th quarter, with a decrease of 3.7 percent. This is off the back of a 0.3 increase in the 4th quarter. Medium sized firms reported the strongest decrease in order books, down 25.4 percent q-q, following a decline of 7.8 percent in the previous quarter. Large firms did however report a good increase of 8.1 percent in the 1st quarter, which is somewhat positive. Small firms also reported improved order books, up by 12.9 percent. So the big contraction in the medium sized firm's order books drove the overall decline of 3.7 percent.

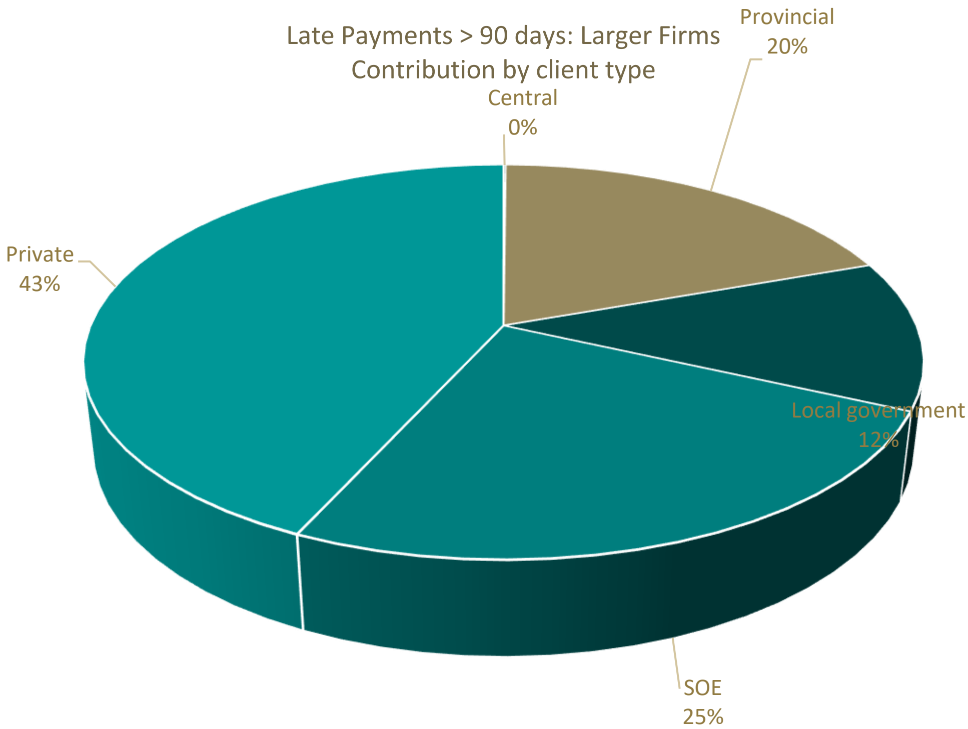
Figure 4: Value of two year forward order book, Index 2012Q4=100



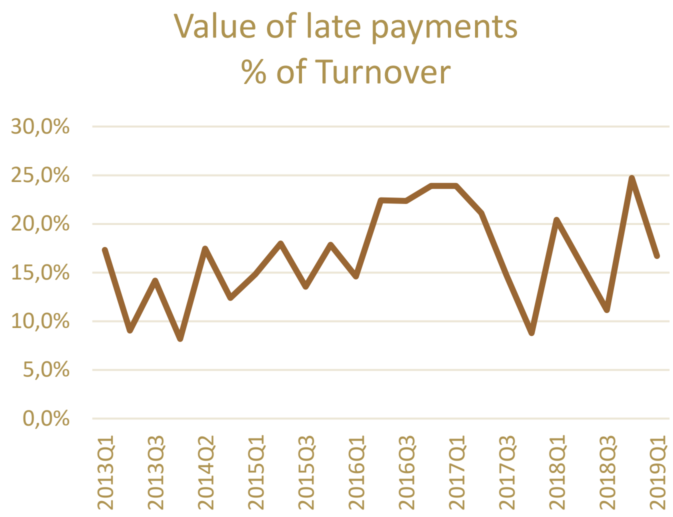




In terms of opinions and analogous to the muted outlook for order books, 66.7 percent of the larger contractors reported low levels in the order book, which is unsurprising given the standstill the industry has come to, the other 33.3 percent of respondents from large firms did however report a satisfactory level of their order book, which is up from. Opinions from medium sized firms were on par with those of the large firms, which is a slight improvement from the previous survey where 100 percent of medium sized firm reported low levels of their order book. This quarter, 66.7 percent reported a low level, with 33.3 percent reporting satisfactory levels. A total of 83.3 percent of smaller firms were very negative, reporting low levels, but 16.7 percent did however report a good level of their order book, showing some positivity.



Late Payments



Value of late payments decreased by 29.1 percent in the 1st quarter of 2019, down from an increase of 3.8 percent in the previous quarter. The data is somewhat up and down and differ for the different sized firms. Large firms saw the biggest decrease in late payments, down by just over 37 percent which is quite significant. Smaller firms also saw quit a big decline of 18.7 percent. Medium sized firms didn't see much change, with only 0.1 percent decline in late payments.

With the decrease in late payments reported by contractors this quarter, the value of late payments represented 16.7 percent of total turnover, down from 24.4 percent (Q4) which was the highest we have seen in some time, and the statistic is now below the average of 21 percent in 2015 and 2016. Late payments that were outstanding for more than 90 days represented 29.2 percent of the **total amount outstanding**, which is above the average of 18 percent in 2016, but is an improvement from the previous quarter where 34.6 percent was reported. Larger firms reported an average outstanding, of 19 percent, while amounts outstanding for longer than 90 days (as percentage of total amount outstanding) for medium and smaller firms averaged between 26 and a massive 55 percent for smaller firms, which seems to be quite a problem for the smaller firms who don't always have the cash flow to survive these types of non-payment.

The value of payments (outstanding for longer than 90 days) decreased marginally to 6.4 percent of turnover, from 6.6 percent and an average of 4 percent in 2016. This current level remains 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.

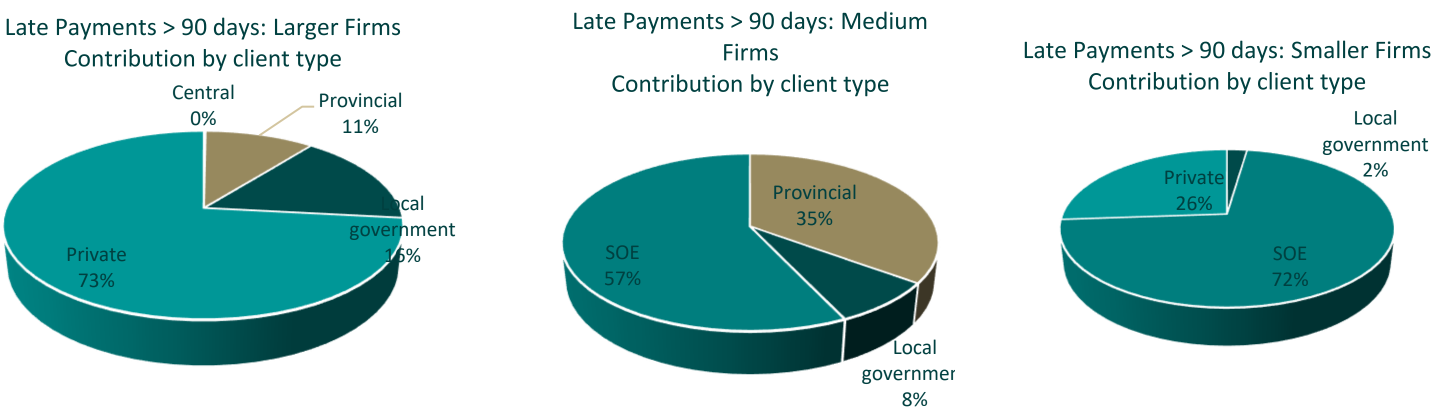
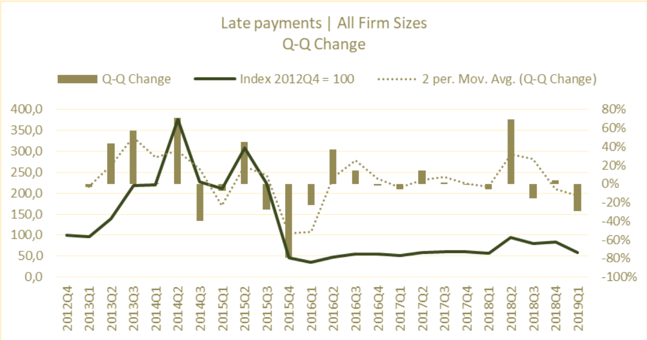
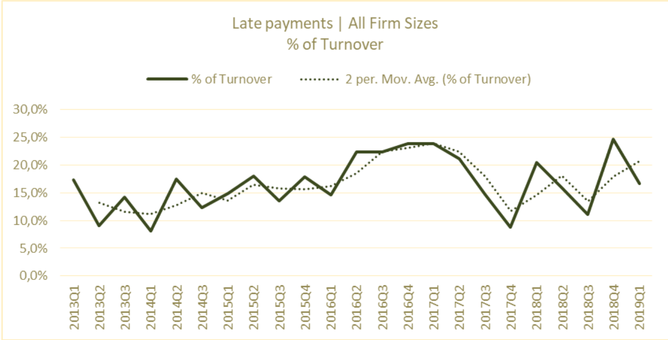
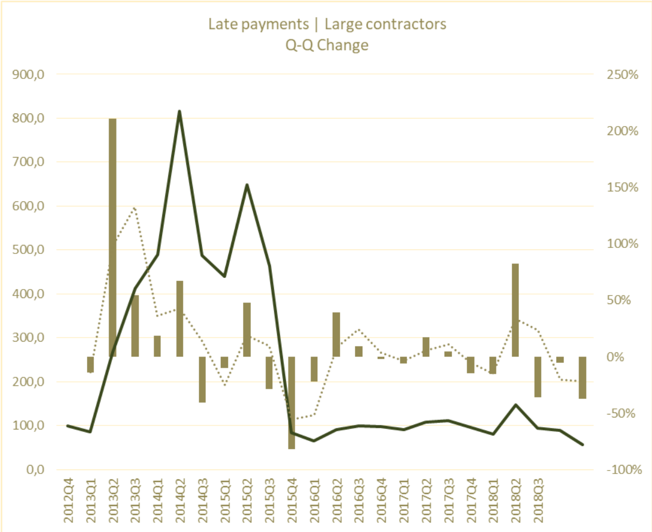
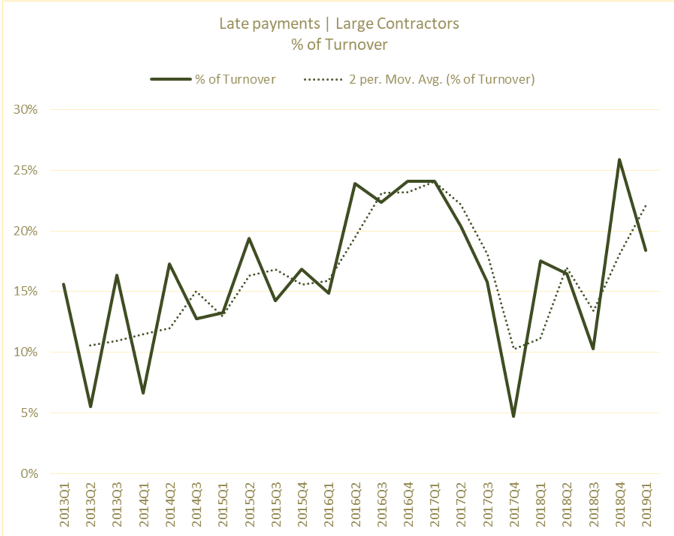


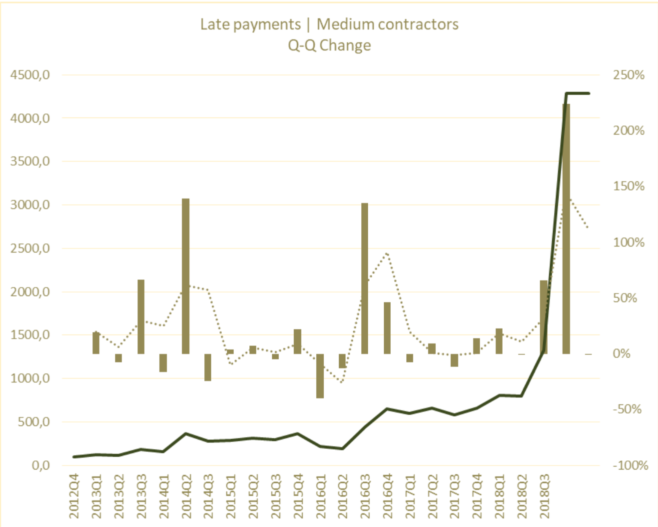
Figure 7: Late payments by firm size; % of turnover

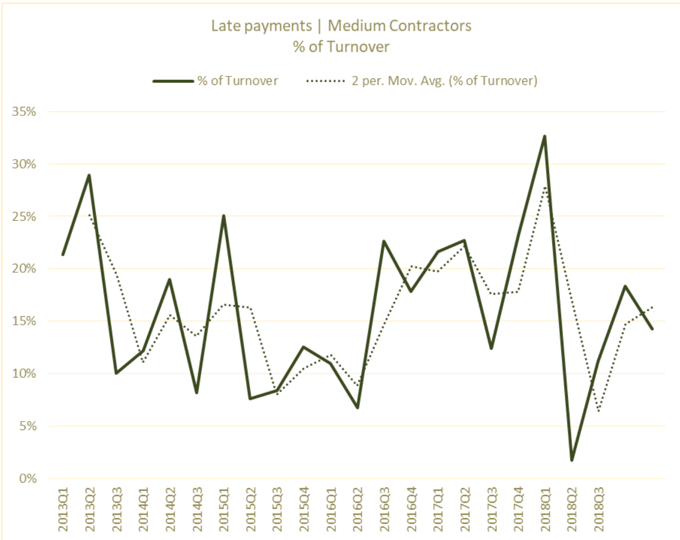






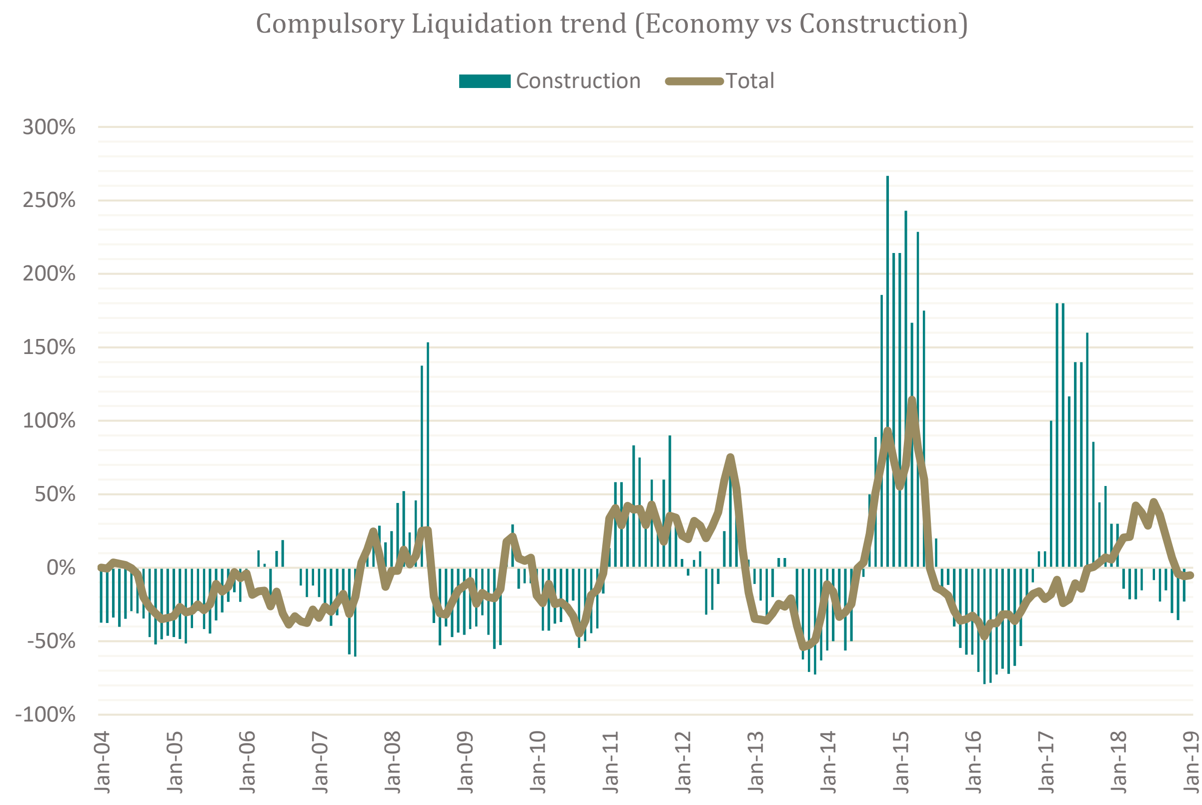






Liquidations of construction companes increased by 8.7 percent y-y (as at January 2018), according to to Stats SA. This is compared to an overall decrease of 5.1 percent in the whole of the South African economy,which shows that the construction sector is generally harder hit by liquidations compared to the economy as a whole. There is however some contrast between compulsory and voluntary liquidations, as compulsory liquidations are now unchanged over the last year, while voluntary liquidations increased by 10.1 percent. Compulsory liquidations make up less than 15 percent of total liquidations (and declining) reported in the construction sector, which is nonetheless higher than the national average. This is also quite surprising. 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.

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 4th quarter of 2018 (surveyed in the 1st quarter of 2019). 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 57.7 percent in the 1st quarter, down from 59.1 percent in the 4th quarter. In this survey, this was broad across firm sizes. This is also in line with the average size of the roads segment as a proportion of the overall civil construction environment, according to Industry Insight project data. The contribution by water and sanitation remained at very low levels of just 3.5 percent in the current quarter, a concerning trend given the ongoing water supply threats across the country, which has become less and less over the quarters. There has been an uptick in contractors reporting that they are working on mining related infrastructure, as well as harbours in the current survey.

Table 5: Turnover distribution by sub-discipline

Discipline	Large	Medium	Small	Total 2018Q1	Total 2018Q2	Total 2018Q3	Total 2018Q4
Roads	63,2%	36,0%	12,2%	60,9%	47,7%	59,1%	57,7%
Earthworks	0,0%	6,8%	0,0%	0,5%	3,2%	11,6%	2,2%
Water Bulk Infrastructure	2,4%	39,4%	4,9%	5,4%	5,6%	1,2%	3,5%
Water and Sanitation	4,7%	17,8%	68,0%	5,9%	4,6%	1,7%	2,2%
Rail	0,5%	0,0%	0,0%	0,5%	0,0%	0,0%	0,0%
Harbours	0,0%	0,0%	0,0%	0,0%	0,0%	1,5%	10,5%
Power (bulk)	13%	0,0%	0,0%	11,5%	3,5%	1,9%	1,8%
Power (services)	1,7%	0,0%	0,0%	1,5%	0,5%	1,0%	2,5%
Airports	1,6%	0,0%	0,0%	1,5%	0,0%	0,0%	0,0%
Mining Infrastructure	5,7%	0,0%	0,0%	5,2%	15,0%	5,1%	10,8%
Mining (Surface earthworks)	2,6%	0,0%	0,0%	2,3%	2,9%	10,1%	2,1%
Other	5,0%	0,0%	14,9%	4,7%	17,0%	6,9%	6,7%
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 2018Q2	Total 2018Q3	Total 2018Q4	Total 2019Q1
Central	8,7%	15,8%	0,0%	14,9%	15,8%	11,1%	10,9%
Provincial	7,6%	9,9%	44,0%	5,7%	7,3%	9,5%	9,4%
District/Local/Metropolitan Councils	3,3%	16,3%	8,0%	15,3%	12,5%	12,6%	8,0%
Parastatals	27,4%	30,1%	6,7%	50,9%	25,6%	23,4%	27,8%
Private	53,1%	27,9%	41,3%	13,1%	38,7%	43,5%	43,9%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

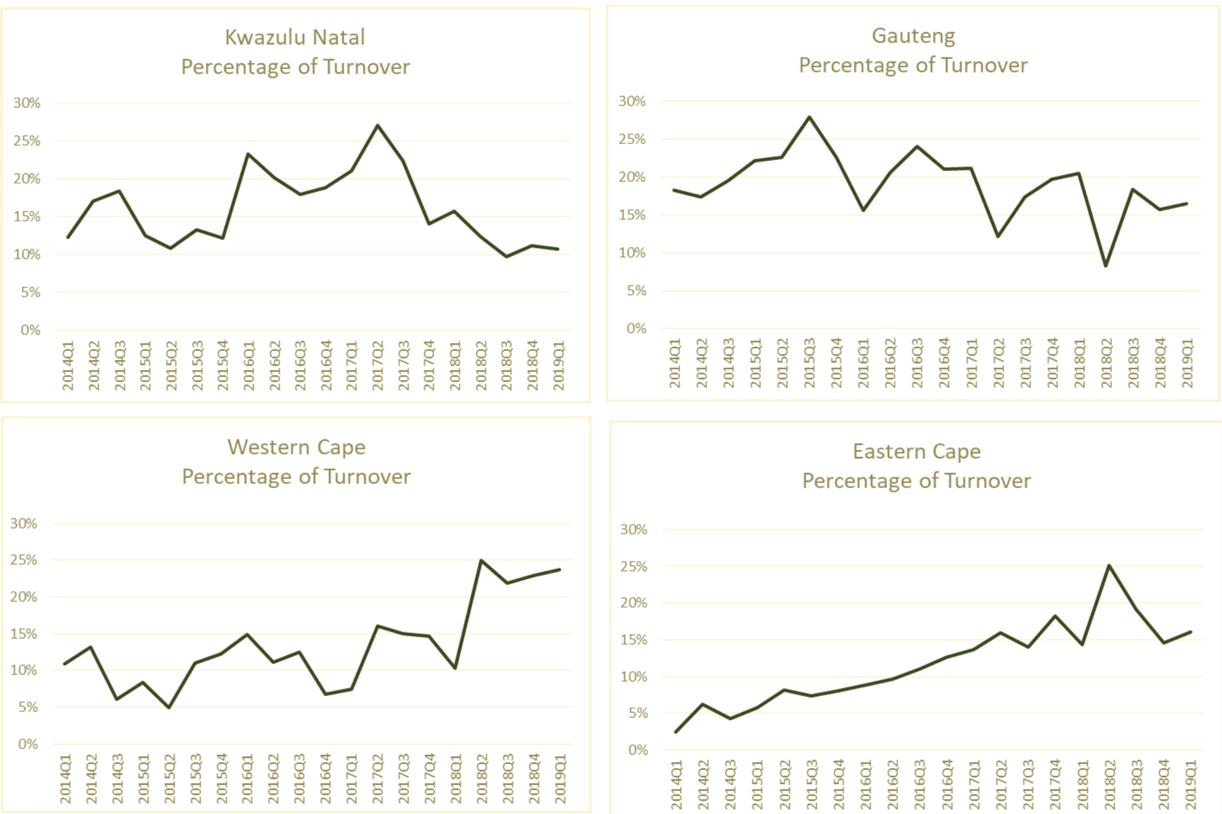
The contribution by the private sector in this survey increased to 43.9 percent, from 43.8 percent in the previous quarter. The contribution from parastatals saw an uptick to 27.8 percent from 23.4 percent, while to contribution from local municipalities dropped to just 8 percent in the current quarter. Larger contractors continued to have a greater exposure to the private sector, with the contribution to turnover increasing to 53.1 percent, as work from government continues to dry up. Medium sized firms mostly did work for parastatals, with a contribution of 30.1 percent while small firms mostly did work for local government.

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

Province	Large	Medium	Small	2018Q1	2018Q2	2018Q3	2018Q4
GAU	15%	17%	35%	8%	18%	16%	17%
WC	29%	14%	56%	25%	22%	23%	24%
EC	14%	19%	7%	25%	19%	15%	16%
NC	2%	5%	0%	3%	5%	2%	3%
MPU	10%	17%	0%	11%	13%	15%	13%
FS	14%	6%	0%	0%	6%	11%	11%
LIM	2%	3%	0%	14%	5%	3%	3%
NW	4%	4%	1%	0%	1%	5%	4%
KZN	9%	14%	0%	12%	10%	11%	11%
Total	**100%**	**100%**	**100%**	100%	100%	100%	100%

The Western Cape and Gauteng, had the largest overall contribution to turnover in the current quarter at 24 percent and 17 percent each. The contribution from Mpumalanga decreased from 15 percent in the previous quarter to 13 percent in the current quarter. Small contractors mostly worked in the Western Cape according to the survey, with a 56 percent share overall. Large contractors had the most exposure to the Western Cape as well at 29 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).

In the last two quarters, namely the 4th quarter of last year (2018) and the first quarter of 2019, confidence has pretty much reached rock bottom, with contractors very negative in the last two surveys. It goes to show that the more positive sentiment expressed in the 3rd quarter of 2018 was short lived, and these current figures are more in line with actual market conditions, with extremely depressed and difficult environment in the civil engineering industry that is in pure survival mode.

- The nett % satisfied with working conditions during the 1st quarter of 2019, improved ever so slightly but in reality remains at almost rock bottom, with a nett satisfaction rate of -96.5, compared to -99.7 in the previous quarter. Synonymous with the overall negative market sentiment persisting for the 4th quarter and 1st quarters of 2018 and 2019, nett % satisfaction rate also improved marginally to -99.9 and -95.5, which is also at almost the lowest it can be.
- Competition for tenders was fiercer in the 4th quarter, as 99.3 percent of companies reported that there were more than 11 bids per contract, compared to 98.0 percent and 90.8 percent in the previous two surveys. Overall 91.2 percent of firms said that there were between 11 and 25 bids per project. Large and medium firms reported the highest levels of competition for tendering, with all of the firms in the sample saying there were more than 11 bids per contract. The small firms reported the lowest level of competition for tendering, with 33.3 percent of respondents reporting 1-5 bids per contract.

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	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1
Up to 5	0.1%	0.9%	0.6%	4.0%	2.9%	0.2%	2.1%	0,4%	0,0%	2,0%	0,1%
5-10	23.8%	24.1%	26.1%	48.6%	17.2%	19.5%	13.1%	54,4%	9,2%	0,0%	0,5%
11-25	67.3%	73.0%	68.5%	30.0%	74.7%	70.5%	76.3%	41,9%	81,4%	95,0%	91,2%
>25	8.8%	2.1%	4.9%	17.4%	5.2%	9.8%	8.5%	3,3%	9,4%	3,0%	8,1%
>11	76.2%	75.0%	73.4%	47.4%	79.9%	80.3%	84.8%	45,2%	90,8%	98,0%	99,3%

- Tender prices climbed to a more elevated level, with 75.6 percent of contractors reporting keen tender prices, which is the highest level since the first quarter of 2015, but this trend however does not fully correlate with some of the other opinions in the survey. 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	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1
Very Low	42.9%	57.2%	37.0%	52.6%	55.2%	57.4%	48.7%	91,8%	43,5%	39,2%	24,4%
Keen	49.6%	42.8%	62.8%	47.2%	44.8%	42.6%	51.3%	8,2%	56,0%	60,8%	75,6%
Reasonable	7.5%	0.0%	0.1%	0.2%	0.0%	0.0%	0.1%	0,0%	0,5%	0,0%	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	57.1%	42.8%	63.0%	47.4%	44.8%	42.6%	51.3%	8,2%	56,5%	60,8%	75,6%

- The net satisfaction rate around profitability was slightly improved in the 1st quarter, with a nett satisfaction rate of -76.5 reported overall, which is a poor level overall. Only 8.1 percent of contractors said that profitability was very low, which is the lowest on record. However, only 11.8 percent of respondents said that profitability was reasonable, down from 37.5 percent in the previous survey.

Table 10: Profitability (weighted response)

Values	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1
Very Low	12.2%	14.0%	35.2%	28.4%	42.5%	23.9%	24.9%	61,4%	11,5%	14,1%	8,1%
Keen	39.6%	49.8%	21.7%	53.6%	22.8%	13.0%	16.1%	12,9%	22,3%	77,2%	80,2%
Reasonable	48.3%	36.1%	43.1%	18.0%	34.7%	63.1%	59.0%	25,6%	66,2%	8,8%	11,8%
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	-3.5%	-27.7%	-13.8%	-64.1%	-30.6%	26.1%	18.0%	-48,7%	32,4%	-82,5%	-76,5%

- A good improvement, is that almost 83% of contractors expect profitability trends to stabilise, which has been on the rise and is up from 69.8 percent in the previous survey, while 16.9 percent still expect margins to recede, which is also fewer than previous survey, which could hint at some stabilisation, although it would be too early to tell. There are no expectations that margins will show any improvement. These figures are overall, still not much of an improvement.

Table 11: Trends in profit margins (Weighted response)

Values	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q4
Receding	33.7%	42.2%	35.8%	52.0%	60.4%	57.4%	48.2%	68.3%	32,3%	30.2%	16,9%
Stabilise	66.1%	52.5%	63.8%	47.3%	39.6%	42.6%	51.7%	31.7%	67,6%	69.8%	82,6%
Improve	0.1%	5.2%	0.4%	0.7%	0.0%	0.0%	0.1%	0.0%	0,1%	0,0%	0,5%

Figure 10: Trend in profit margins

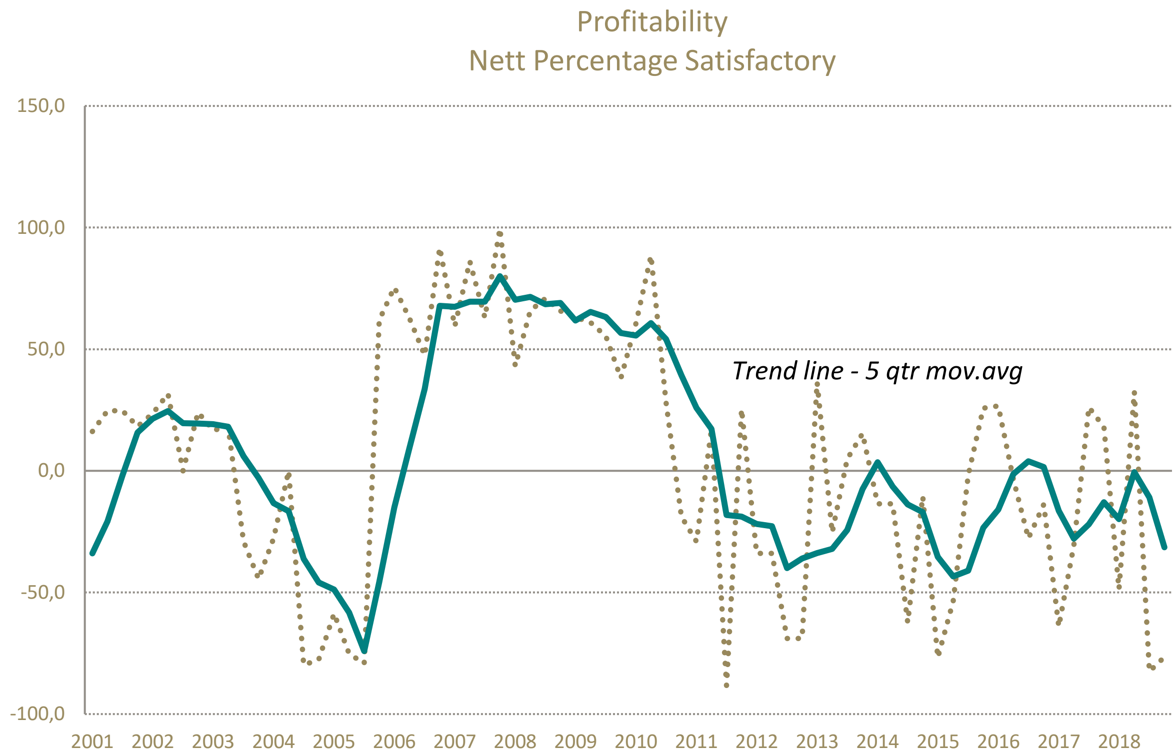
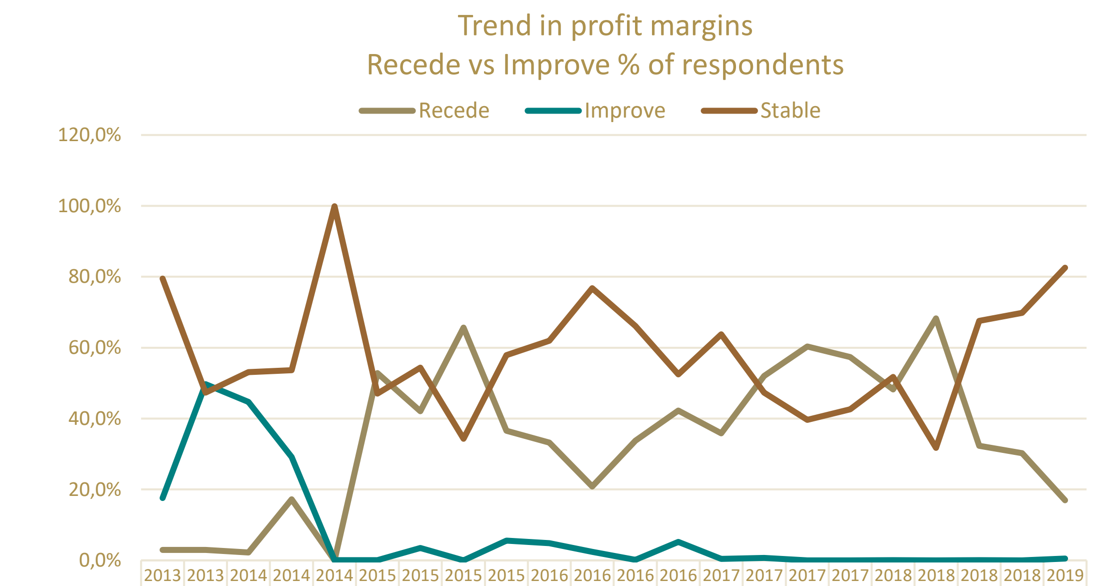


Figure 11: Opinions Related to Profitability



	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	2018 Q3	2018 Q4	2019 Q1
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	32,3	30,2	16,9
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%	0,1%	0,0%	0,5%
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	67,6	69,8	82,6

Opinions Related to Tenders, Awards, Order Books and Turnover

Tender and Award Activity

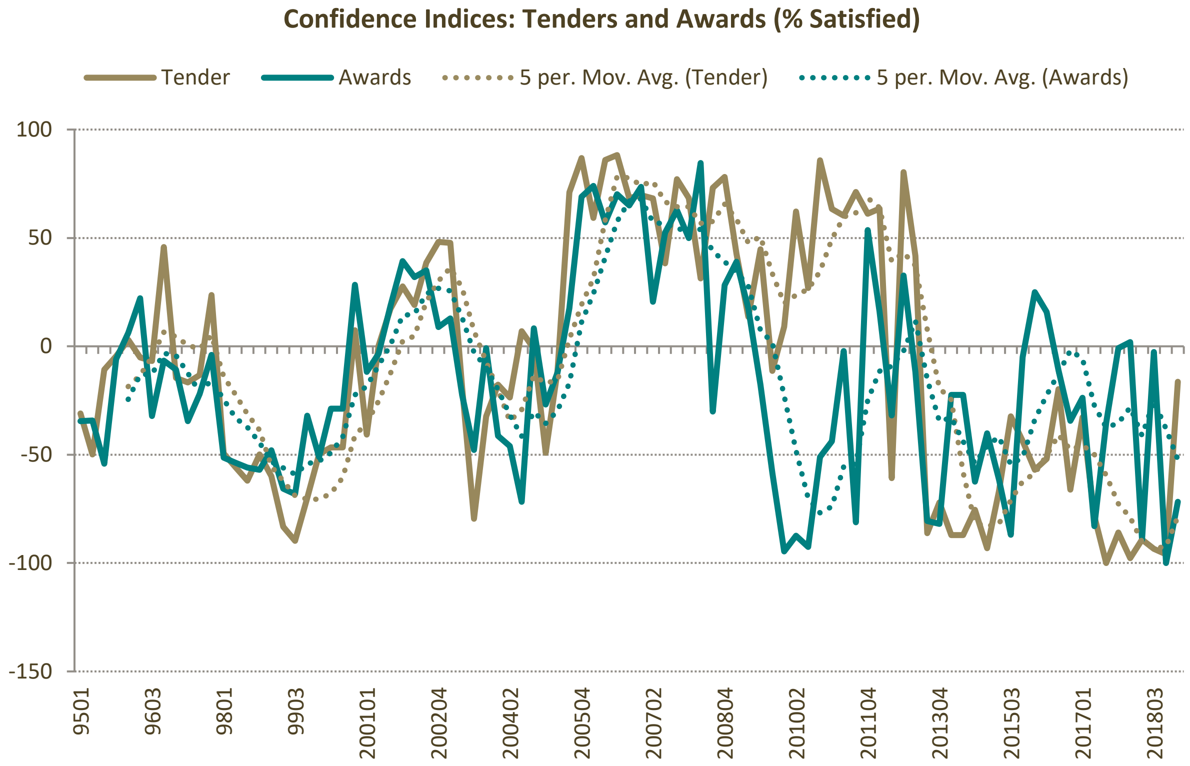
Interestingly, there was a big improvement in opinions around tender activity, with 41.6 percent of respondents reporting satisfactory levels of tender activity, up considerably from the previous surveys and is the highest in a few years. Only 0.2 percent of respondents good levels however, and the improvement in the satisfactory level could be attributed to contractors adjusting to the market somewhat, having potentially scaled accordingly.

As a result, the nett satisfaction rate improved significantly to -16.5 percent from 96.0 percent (Q4) 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. We have to wait and see if this optimism can be maintained in the following surveys. Our expectation is that it won't.

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 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1
Nil	0.9%	0.0%	0.0%	1.6%	2.0%	1.3%	2,1%	0,6%	0,9%	0,0%
Low	82.2%	66.4%	89.2%	98.4%	91.0%	97.5%	92,5%	96,1%	97,0%	58,2%
Satisfactory	16.9%	33.6%	10.8%	0.0%	7.1%	1.1%	5,4%	0,0%	0,2%	41,6%
Good	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0,0%	3,3%	1,8%	0,2%
Nett % satisfied	-66.2%	-32.7%	-78.3%	-100.0%	-85.9%	-97.7%	-89,3%	-93,4%	-96,0%	-16,5%

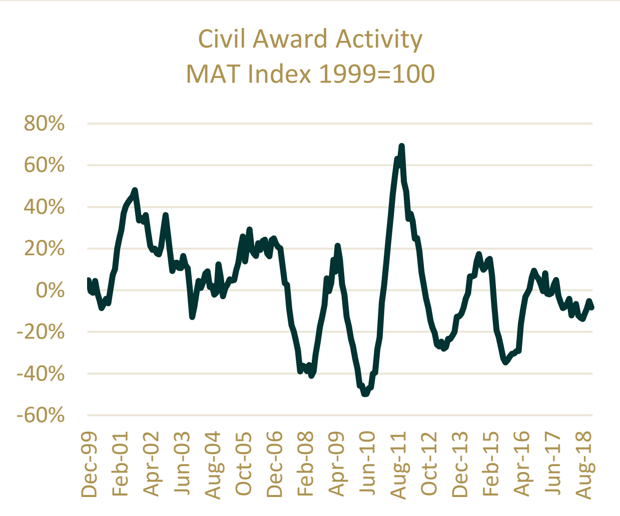


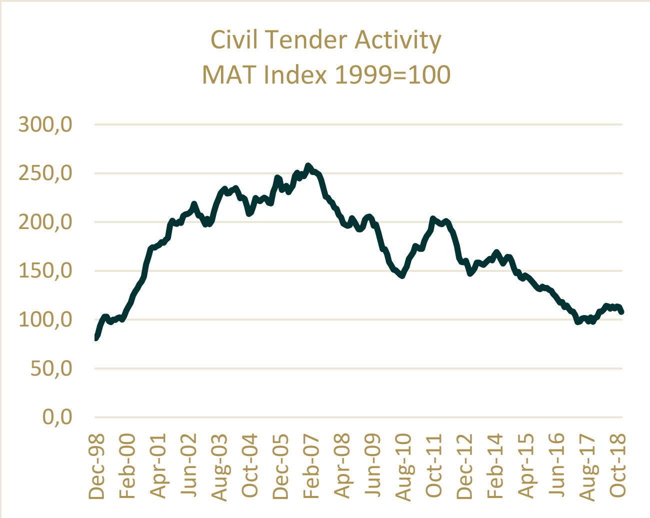
Opinions related to the awarding of contracts has improved slightly from rock bottom levels since the previous survey, in which not one contractor reported satisfactory or good levels of the awarding of contracts in the last quarter. The overall nett satisfied with the awarding of contracts improved to -71.7 percent, from -100 percent last quarter. An improvement but still extremely poor.

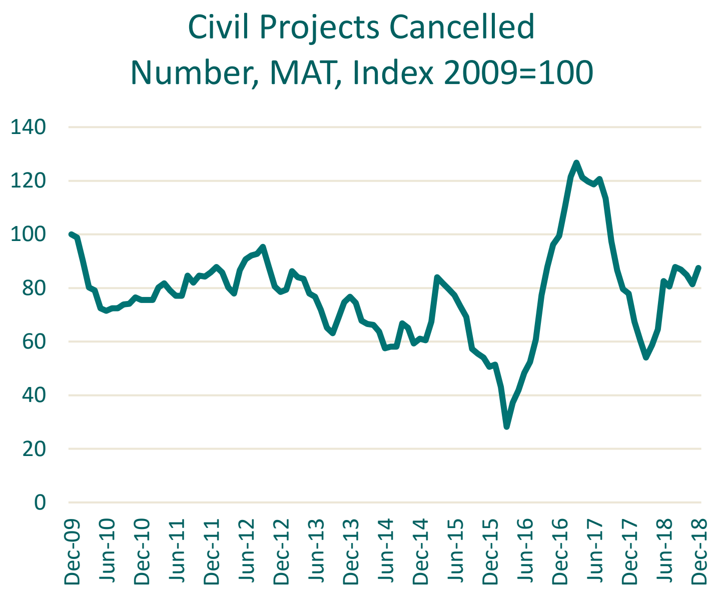
Table 23: Opinions related to awarding of contracts (Weighted response)

Values	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1
Nil	16.8%	15.6%	24.1%	41.4%	33.4%	28.9%	72,4%	22,2%	17,4%	7,0%
Low	50.4%	46.3%	67.4%	26.2%	17.0%	20.1%	22,2%	29,1%	82,6%	78,9%
Satisfactory	32.8%	38.1%	8.6%	32.4%	49.6%	51.0%	5,4%	48,7%	0,0%	11,9%
Good	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0,0%	0,0%	0,0%	2,3%
Nett % satisfied	-34.4%	-23.7%	-82.9%	-35.1%	-0.8%	2.0%	-89,3%	-2,7%	-100,0%	-71,7%

According to an analysis of project lead information, provided by Databuild, the number of civil projects out to tender decreased by 23 percent y-y in the 4th quarter of 2018, overall, compared to the same quarter in 2017, following the 9 percent y-y increase in the previous quarter. And overall for the year, this indicates a 1.6 percent increase. Also, since 2013 the index has dropped by close to 50 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. In terms of the awarding of these tenders, there was a 16 percent increase in the total nominal value of civil projects awarded in the 4th quarter overall, compared to the same quarter last year, but overall in 2018, there was a drop of 7.3 percent in nominal terms, in the awarding of civil tenders.







Towards the latter parts of 2016, there was a massive uptick in the number of civil projects that were being consistently cancelled (see graph on left), which was almost on par with coditions following the global financial crisis. 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 was a moderation, but over the past few months, as the civil industry had entered rather uncertain territory, there has been a spike in the number of projects being cancelled. The index has ticked up to 87.5 points, from below 60 points five to six months prior. The data is somewhat cyclical.

Figure 15: Civil projects Cancelled (Index)

The overall nett satisfaction rate related to order books remained at a similar level compared to the 4th quarter survey. In the current quarter, the nett satisfaction rate worsened slightly to 36.9 percent from 30.9 percent in the previous survey. The majority of contractors (66.9 percent) reported low levels of their order book. A total of 31 percent did however report a satisfatory level of their order book, which may indicate that firms have scaled somewhat to conditions in the current environment.

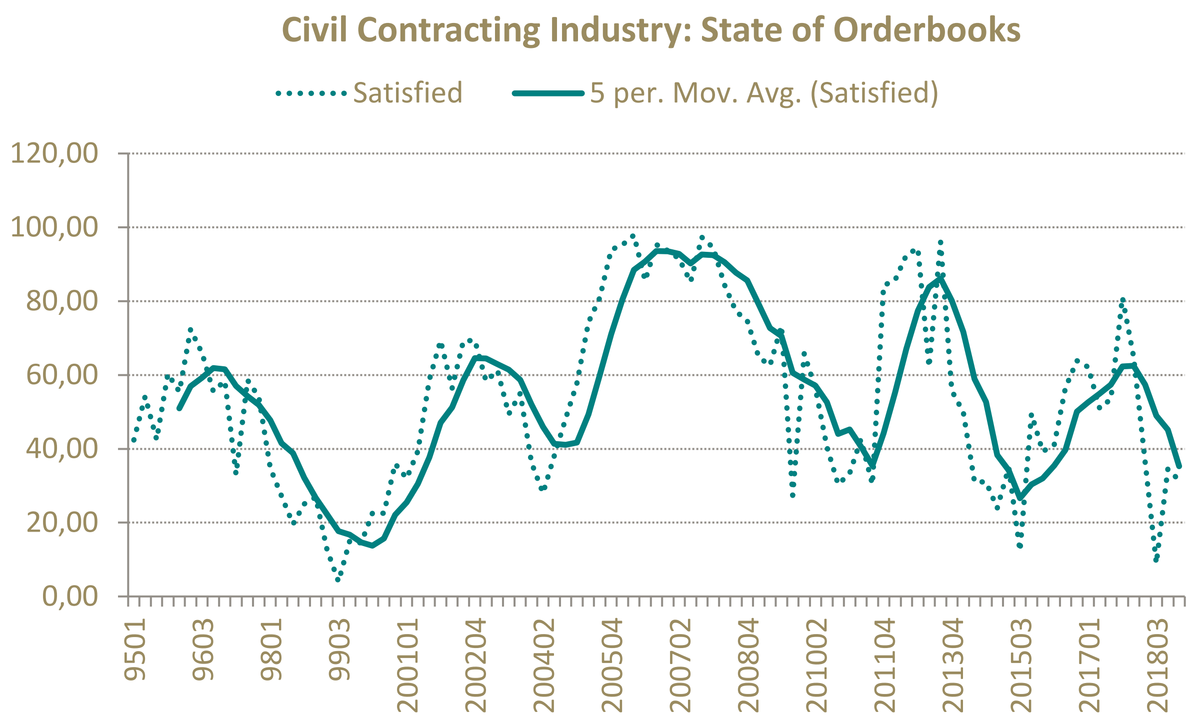


Figure 16: State of Order books

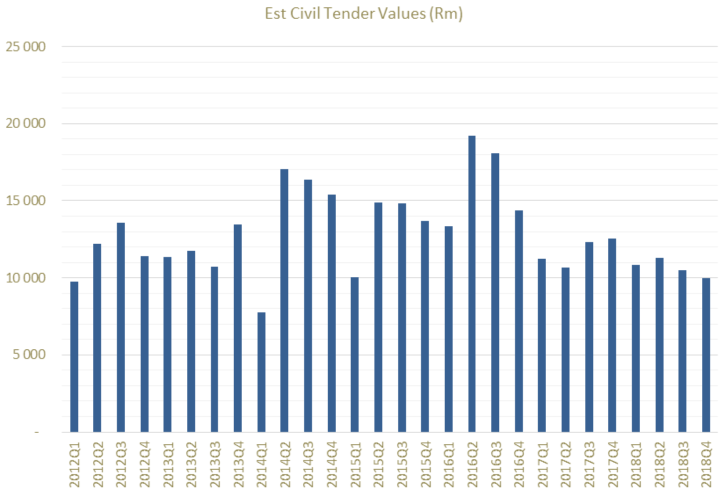
Table 15: Opinions related to order books (weighted response)

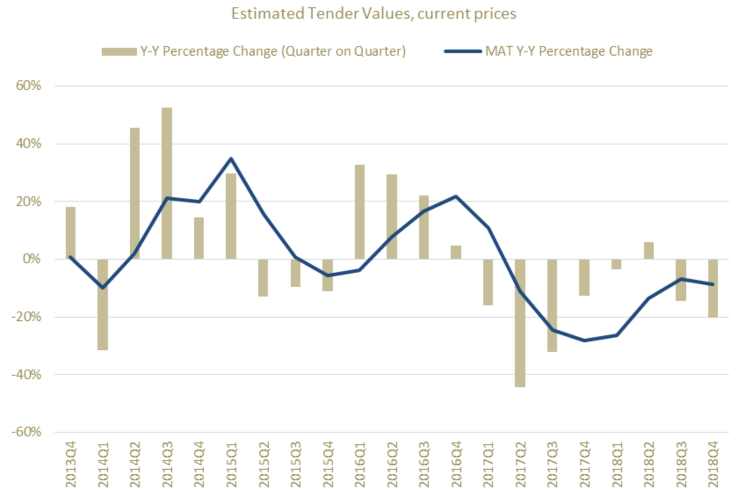
Values	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1
Nil	0.0%	1.3%	0.5%	0.8%	0.0%	0.0%	1.2%	2,1%	0,5%	0,2%	1,5%
Low	43.5%	34.8%	37.4%	48.3%	46.5%	19.0%	34.0%	61,4%	90,6%	65,3%	66,9%
Satisfactory	56.5%	63.9%	62.1%	51.0%	52.5%	81.0%	64.8%	0,0%	6,5%	34,5%	31,0%
Good	0.0%	0.0%	0.0%	0.0%	1.0%	0.0%	0.1%	36,5%	2,4%	0,0%	0,5%
Nett % satisfied	13.0%	27.7%	24.2%	2.0%	7.0%	62.1%	29.6%	-27,0%	-82,2%	-30,9%	-36,9%

An analysis of civil tender activity for the 4th quarter of 2018, shows that the estimated value of civil tenders published during the quarter is again on the decline, falling by 8.8 percent. This is more or less in line with the contraction in the total number of tenders that came out in the same quarter, showing that there were contractions across the different segments and different size projects. Big projects are seriously lacking, and**, over the last 5 quarters, there has been a 48 percent decline in the nominal value of grade 9 projects coming out to tender**. Growth is lacking overall, but the bigger companies have felt a lot of the pain with a substantial slowdown in higher value projects coming out to tender and being awarded.

The Western Cape is still the only higher capacity province to not report a decrease in the number of Grade 9 projects out to tender, over the last five quarters. But this has slowed to a sideways movement, with a change of 0 percent reported for the last 5 quarters, until the 4th quarter of 2018.

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)
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%
2018Q2	9	747	851	532	-	5607	3552	11299	5.8%
2018Q3	23	92	594	671	100	5256	3768	10504	-4.6%
2018Q4	68	194	523	1034	100	4004	4060	9983	-8.8%

Capacity Utilisation and Plant Equipment

Figure 18: Capacity Utilisation Percentage breakdown of respondents

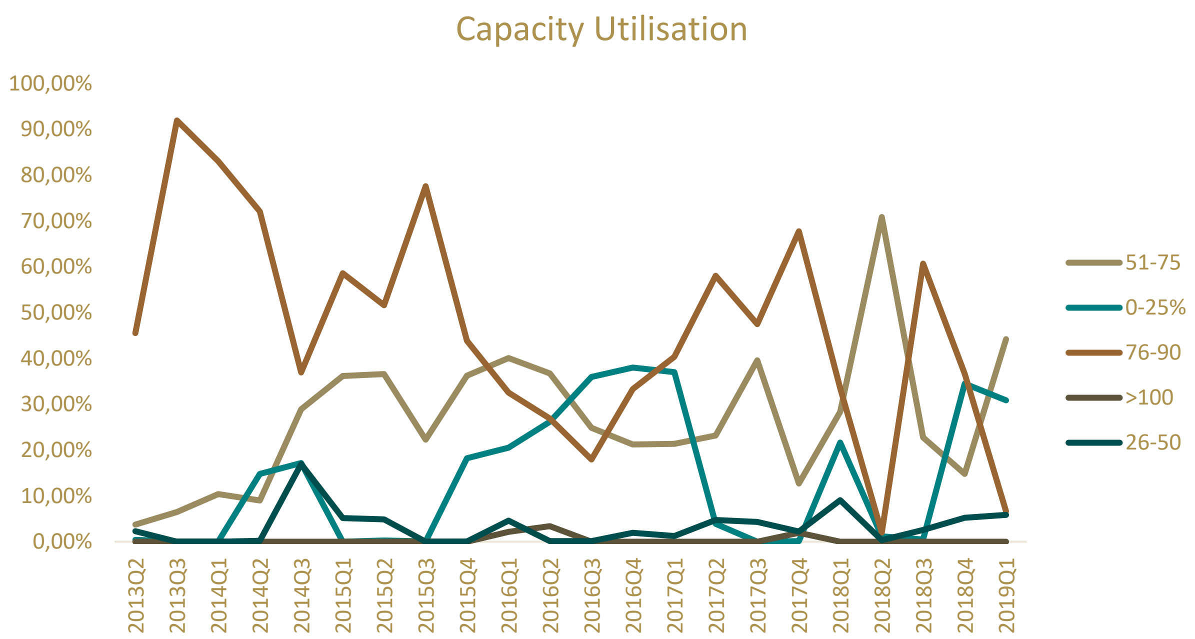


Table 16: Capacity Utilisation

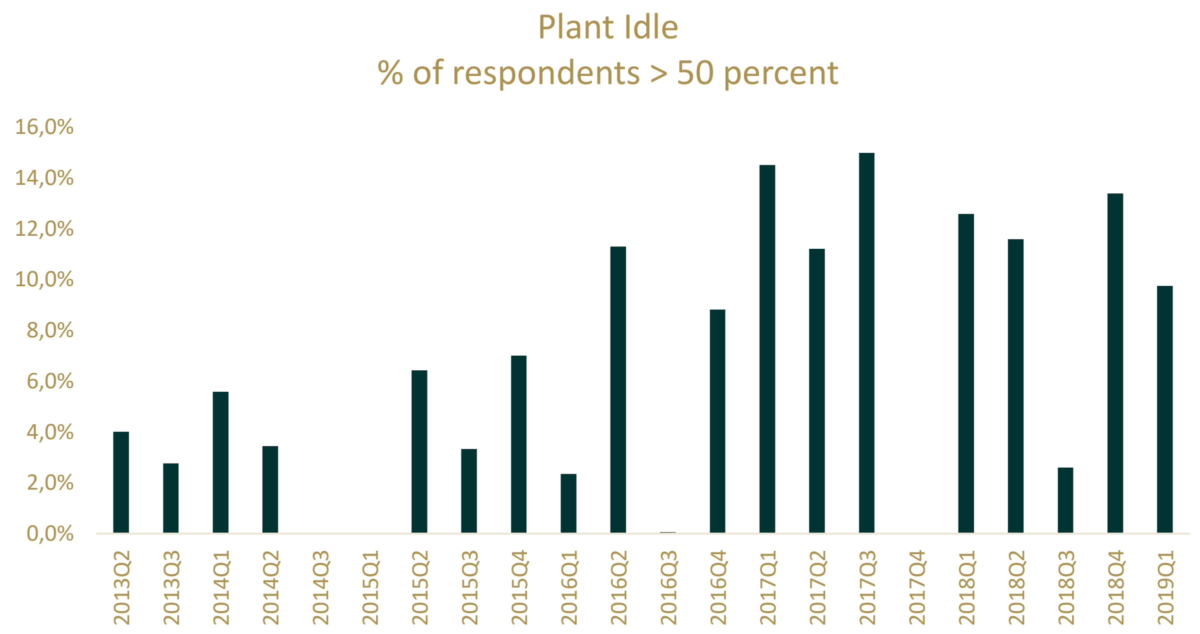
	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1
0-25%	36.0%	38.0%	37.0%	3.9%	0.0%	0.2%	21.7%	1.2%	0.5%	34.52%	30.89%
26-50%	0.2%	1.9%	1.3%	4.8%	4.3%	2.2%	9.1%	0.4%	2.6%	5.20%	5.83%
51-75%	24.8%	21.2%	21.4%	23.2%	39.6%	12.7%	28.3%	70.9%	22.8%	14.79%	44.18%
76-90%	17.9%	33.3%	40.3%	58.0%	47.5%	67.7%	33.5%	2.0%	60.7%	36.66%	6.66%
91-100%	21.1%	5.5%	0.0%	10.2%	8.6%	15.3%	7.4%	25.6%	13.5%	8.82%	12.44%
>100%	0.0%	0.0%	0.0%	0.0%	0.0%	1.9%	0.0%	0.0%	0.0%	0.00%	0.00%
Capacity >90%	21.1%	5.5%	0.0%	10.2%	8.6%	*17.2%*	7.4%	25.6%	13.5%	8.8%	12.4%

Majority of firms (44.2%) reported capacity utilisation in terms of general plant and resources at between 51 and 75 percent, and more firms reported lower levels of capacity utilisation in general. On average, utilisation levels were down in the 1st quarter, with 30.9 percent of firms saying that they were operating at between 0 and 25 percent. A total of 81 percent of respondents reported capacity levels of lower than 75 percent, with only 12.4 percent reporting levels of above 90 percent, which suggests that firms may not have fully adjusted to overall levels in the civil industry.

Majority reported that between 26-50 percent of plant and equipment is standing idle (50.7 percent), which could also be a factor of companies having to downsize in view of tough market conditions. Around 9.8 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

	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1
0-25%	88.1%	89.9%	72.7%	76.4%	27.3%	19.4%	32.3%	30,6%	27,9%	72,3%	39,6%
26-50%	11.8%	1.3%	12.8%	12.4%	57.7%	80.6%	55.2%	57,8%	69,5%	14,4%	50,7%
51-75%	0.0%	8.8%	14.5%	0.1%	15.0%	0.0%	12.6%	10,0%	2,6%	11,8%	9,2%
75-90%	0.0%	0.0%	0.0%	11.1%	0.0%	0.0%	0.0%	0,0%	0,0%	1,6%	0,5%
90-100%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	1,5%	0,0%	0,0%	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	0.1%	8.8%	14.5%	11.2%	15.0%	0.0%	12.6%	11,6%	2,6%	13,4%	9,8%

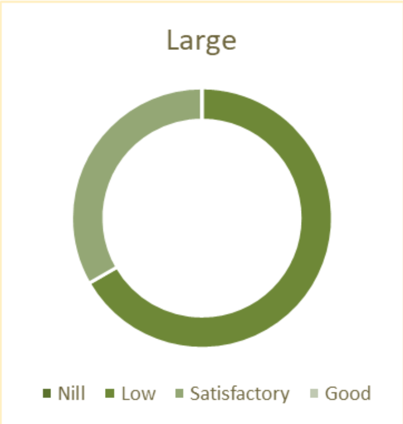


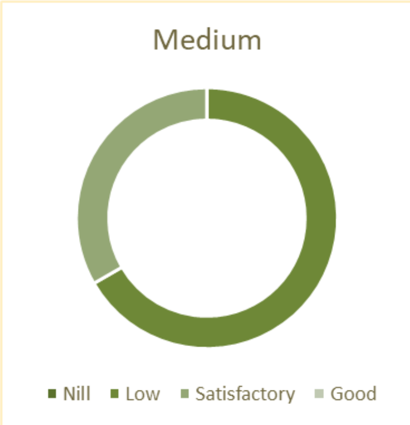
Firm Size Market Segmentation

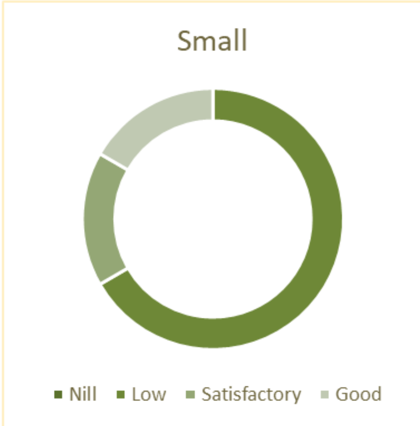
Opinions and sentiment are categorised by firm size, based on reported work force including permanent and limited duration employment. Results for various indicators are shown here, summarised by firm size.

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

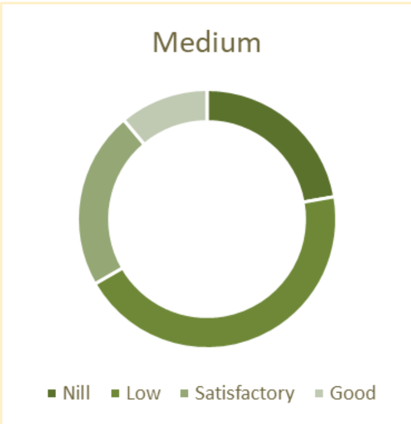
Tender Volumes

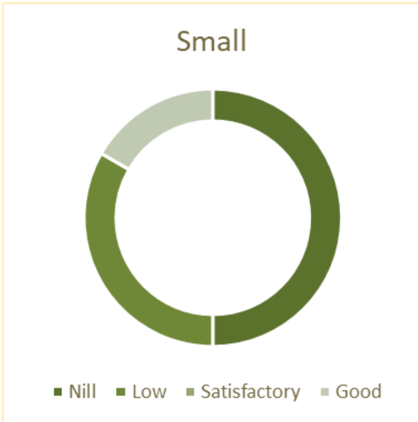




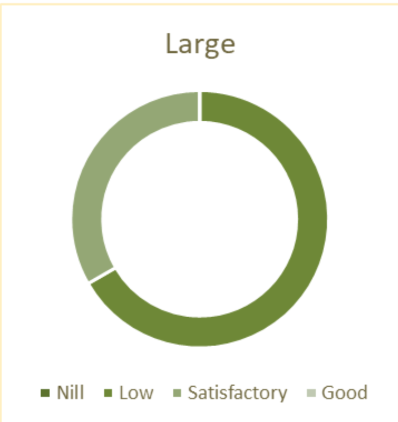


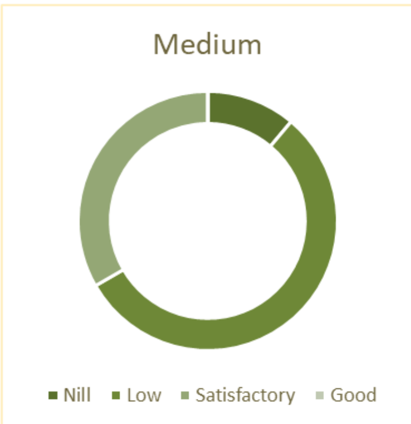
Contract Awrads

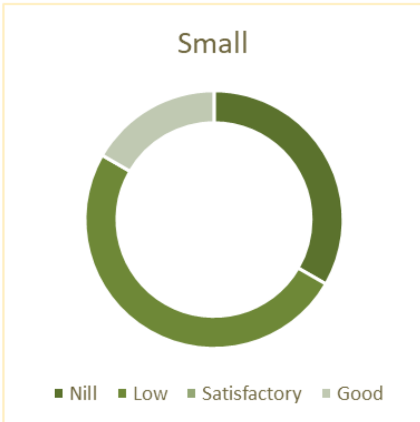




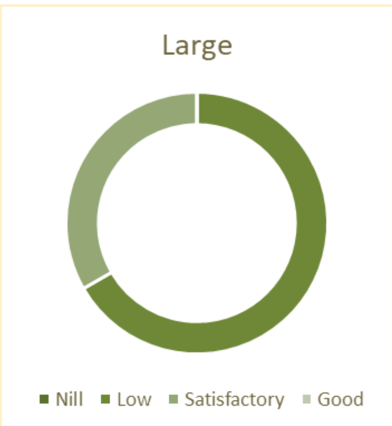
Order Book

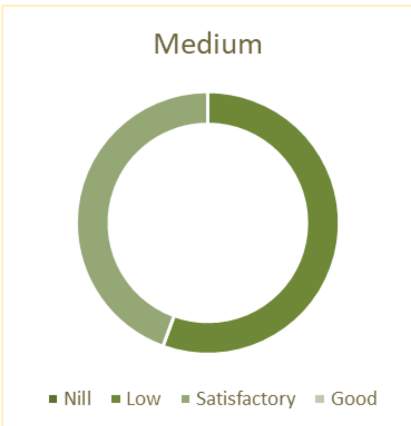




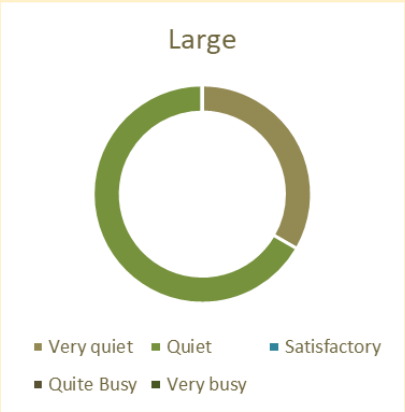


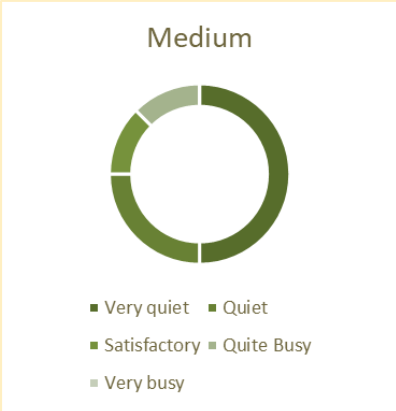
Turnover

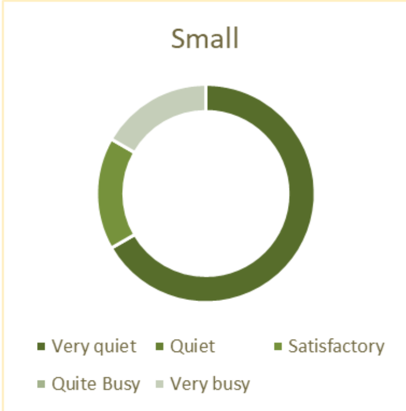




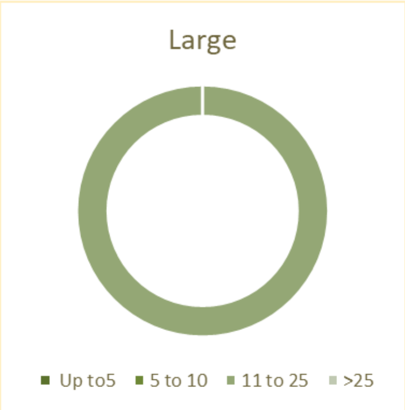
Working Conditions Next Quarter

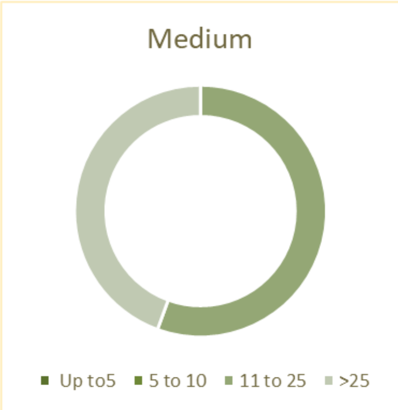


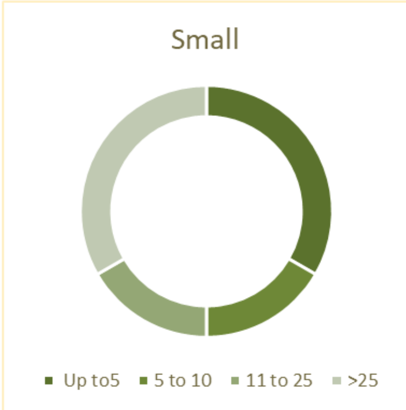




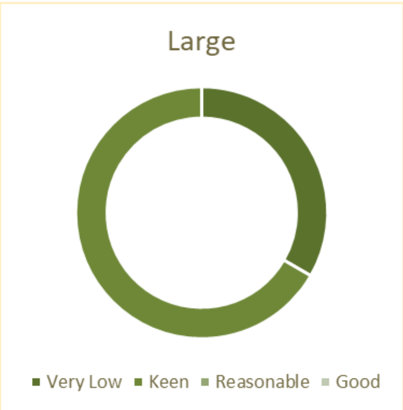
Competition for Tenders

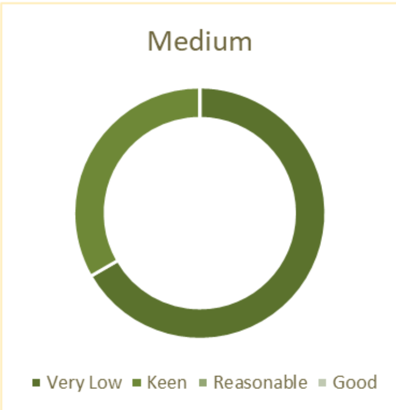


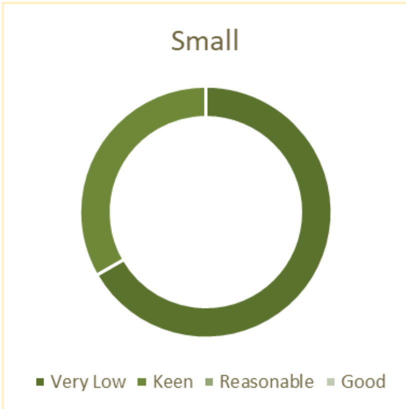




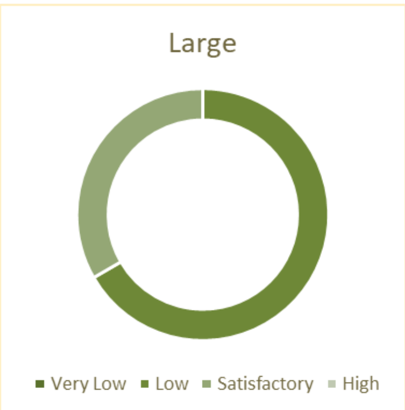
Tender prices

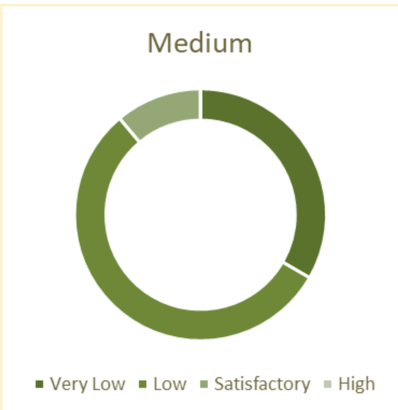


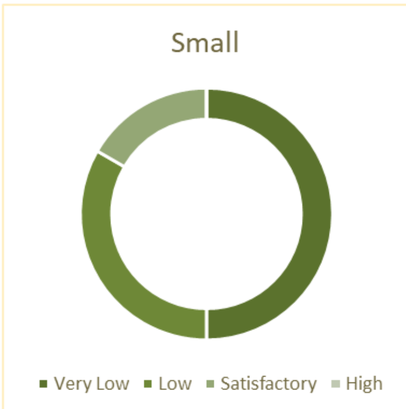




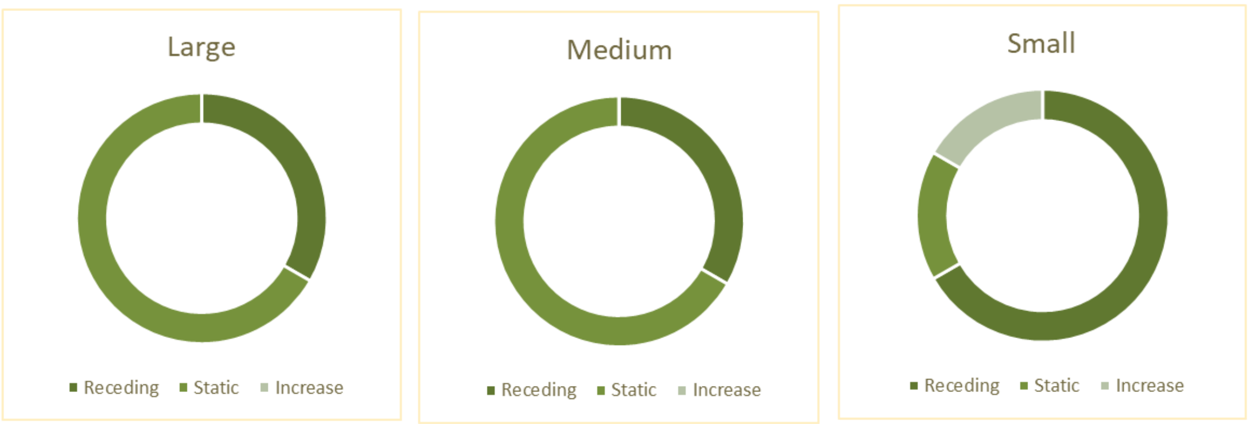
Profitability



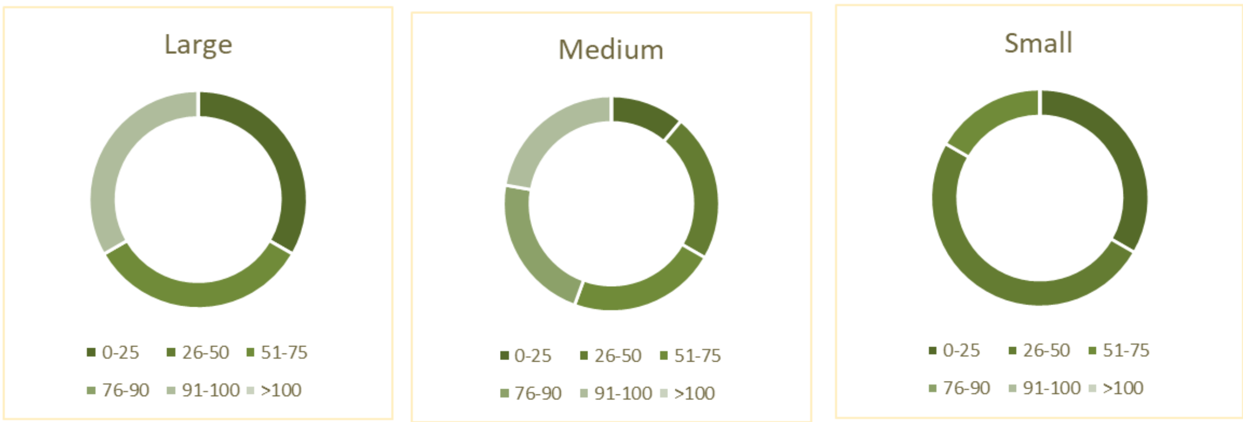




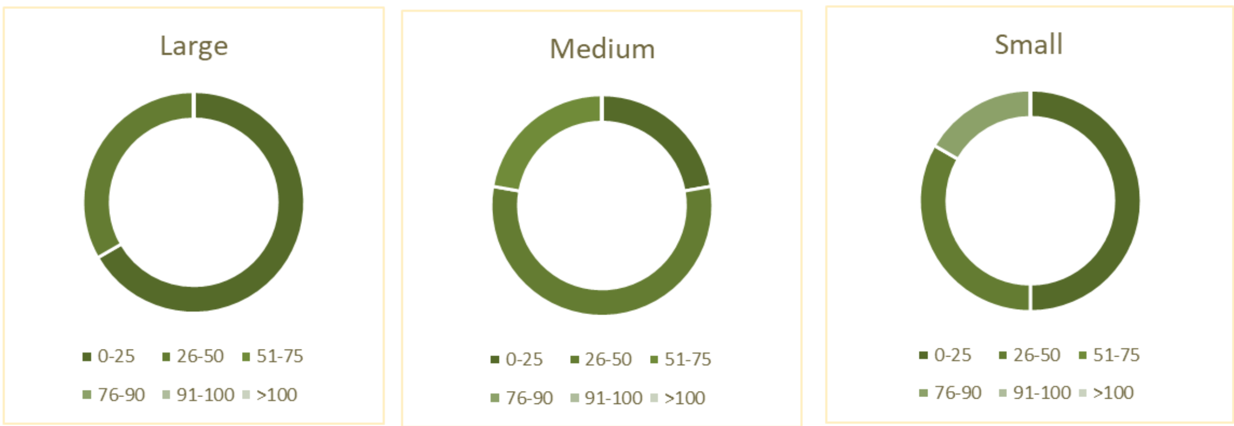
Profitability - Developing Trend



Capacity Utilisation (Plant and resources)



Plant Idle



Industry Turnover

According to responding contractors, nominal turnover based on certified payments received, decreased by 5.6 percent q-q in the 1st quarter, following the 10.3 percent increase in Q4, which was a relatively surprising increase. 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), we still believe that turnover is likely to contract by an average of 10 percent in in the medium term (2019-2021). Turnover in 2018 was better than expected, but was down by 3.9 percent in real terms, and was constrained by poor economic growth, weak investor sentiment, policy and political uncertainty, and a considerable slowdown in both government and SOE's public sector infrastructure expenditure. Growth remains historically low, and has been declining on a per capita basis for the last five years or so. Many investors and businesses in South Africa have adopted a wait and see approach in regards to the upcoming election, with uncertainty rife. Only after the election will Cyril Ramaphosa potentially have more political capital to implement some of the reforms he has spoken about, as well as the finance minister, but his power may be limited given the degree to which the ANC is divided as infighting ensues.

Release of government projects remains a serious constraint for the domestic civil industry as reported by almost all of the respondents in the survey, and as companies are subject to radical transformation policies, government needs 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

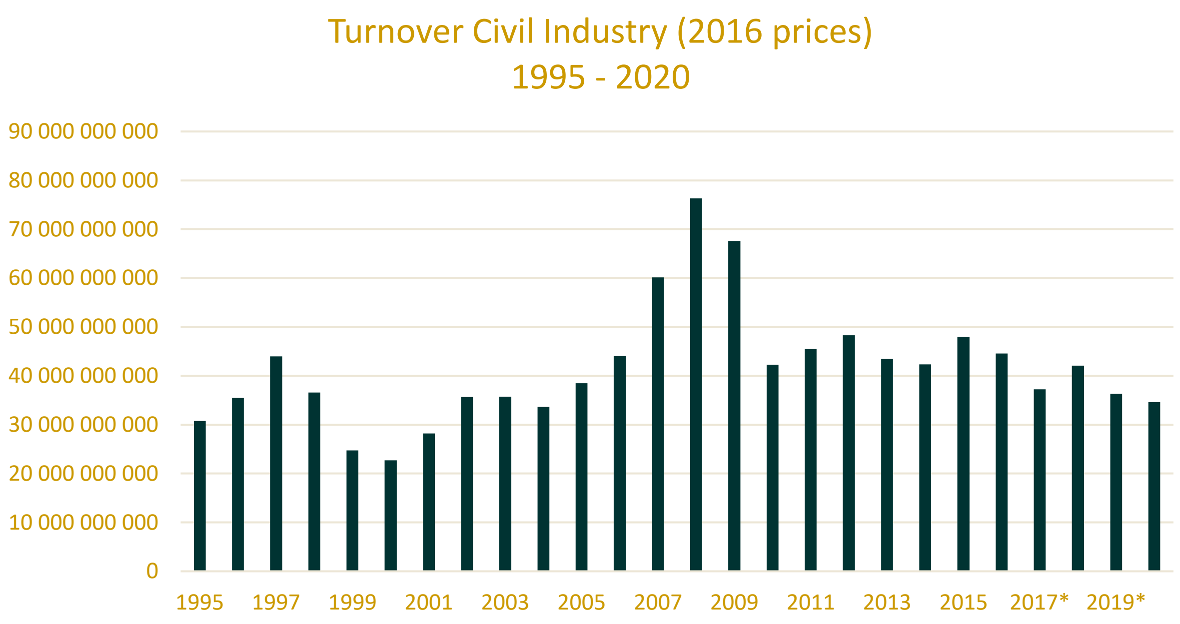


Table 18: Actual and Expected Turnover trends

	Turnover Nominal	% Change (Nominal)	Turnover 2016=100	% Change (Real)
1996	9,864,977,221	28.9%	35 470 252 517	15.3%
1997	13,282,356,448	34.6%	43 997 578 056	24.0%
1998	11,680,899,837	-12.1%	36 552 117 048	-16.9%
1999	8,600,472,761	-26.4%	24 715 662 958	-32.4%
2000	8,669,595,494	0.8%	22 697 273 091	-8.2%
2001	11,723,000,614	35.2%	28 186 951 013	24.2%

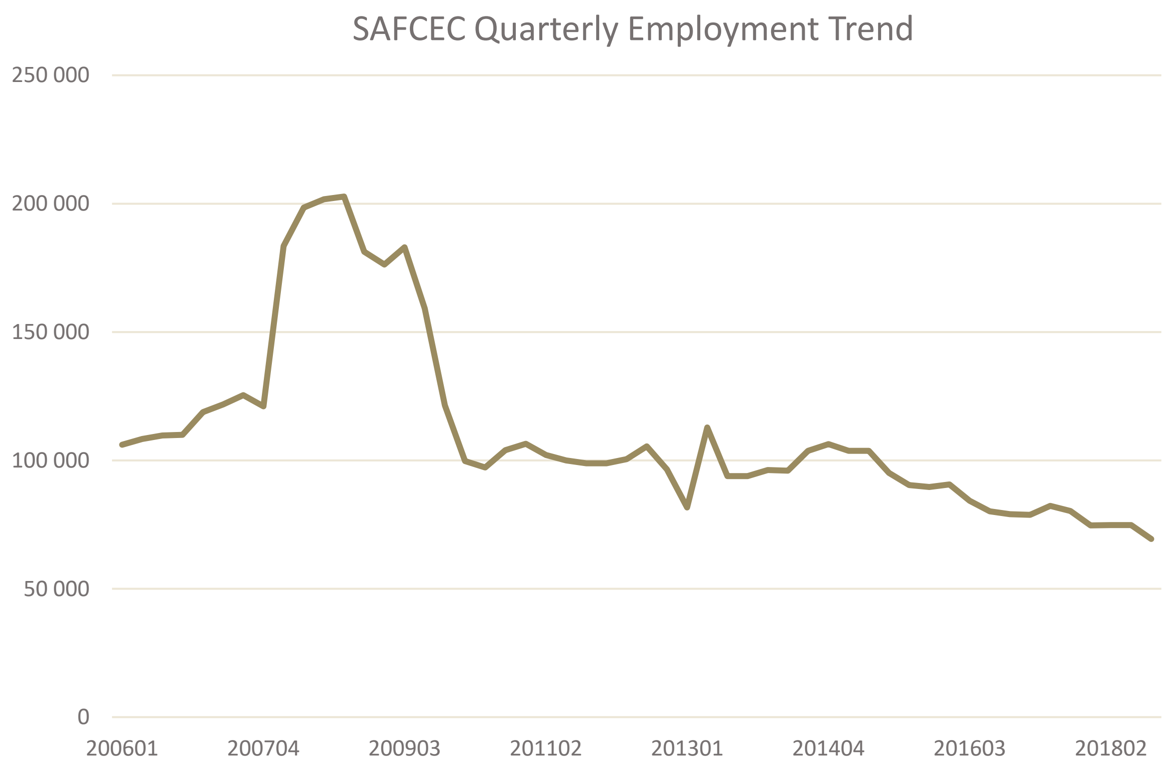
2002	17,138,501,083	46.2%	35 683 820 858	26.6%
2003	17,701,840,728	3.3%	35 703 223 787	0.1%
2004	17,180,281,073	-2.9%	33 668 863 286	-5.7%
2005	20,999,901,277	22.2%	38 490 172 824	14.3%
2006	25,783,535,490	22.8%	44 063 104 082	14.5%
2007	38,084,310,982	47.7%	60 111 184 856	36.4%
2008	58,063,639,993	52.5%	76 297 238 718	26.9%
2009	51,147,261,584	-11.9%	67 596 969 701	-11.4%
2010	32,744,103,366	-36.0%	42 255 972 879	-37.5%
2011	36,888,136,573	12.7%	45 466 867 919	7.6%
2012	40,952,061,358	11.0%	48 302 298 517	6.2%
2013	38,920,982,014	-5.0%	43 431 100 340	-10.1%
2014	39,941,145,748	2.6%	42 326 191 325	-2.5%
2015	46,049,492,101	15.3%	47 983 570 769	13.4%
2016	44,590,770,821	-3.2%	44 590 770 821	-7.1%
2017	39,329,642,756	-11.8%	37 208 744 329	-16.6%
2018 (f)	47,453,868,970	20.7%	42 063 391 805	13.0%
2019 (f)	34,374,107,769	-5.0%	36 324 952 998	--13.6%
2020 (f)	34,374,107,769	0.0%	34 625 301 951	-4.7%

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

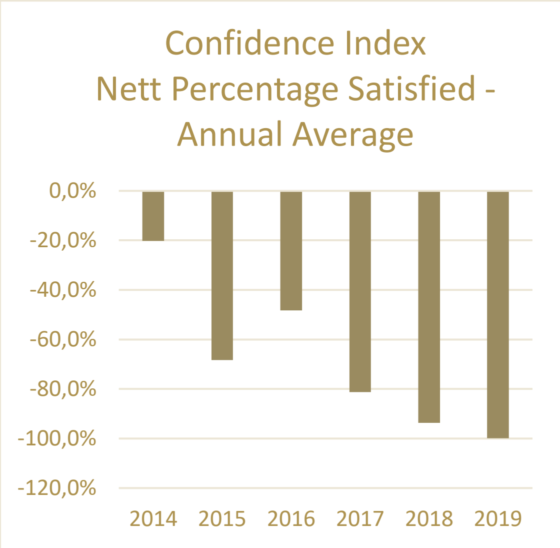
2017.1	79,070	8,848,577,606	2,389,115,954
2017.2	78,833	10,264,350,023	2,566,087,506
2017.3	82,302	10,623,602,274	2,974,608,637
2017.4	80,244	9,593,112,853	2,494,209,342
2017	80,112	39,329,642,756	10,424,021,438
2018.1	74,627	11,032,079,781	2,758,019,945
2018.2	74,776	11,583,683,770	2 895 920 943
2018.3	74 851	12 776 803 199	3 194 200 800
2018.4	69 387	12 061 302 219	3 015 325 555

Figure 22: SAFCEC Quarterly Employment Trend



There was an increase of 7.3 percent q-q in employment in the civil engineering contracting industry in the 4th quarter, after showing an increase in the 4th quarter of just 0.1 percent. Cumulatively, compared to last year, employment has still fallen more significantly. Over the last 12 months, there has been an 8.4 percent drop in employment for civil engineering according to the data from this survey. This is not as dire as 2016, and hopefully this is a sign that the downward trend may be stabilising.

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.

Post financial crisis, the confidence index has been relatively volatile, with medium sized contractors boosting the overall index over the last few years. 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 is now officially at rock bottom, with all of the respondents in the survey reporting either very quiet conditions, or quiet conditions, for the second quarter in a row. A total of 80.7 percent of respondents reported quiet conditions, while the rest (19.3 percent) reported very quiet conditions.

Small contractors remain the most positive, in that 16.7 percent reported satisfactory levels of activity.

Table 20: Overall assessment of business conditions (RSA Only

Values	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1
Very Quiet	0.1%	5.5%	25.2%	5.2%	4.2%	7.8%	19.6%	45,5%	24,6%	26,0%	19,3%
Quiet	34.8%	37.0%	27.7%	73.4%	90.5%	92.1%	58.5%	54,4%	72,0%	74,0%	80,7%
Satisfactory	65.2%	57.5%	46.7%	20.7%	5.3%	0.1%	21.8%	0,0%	3,3%	0,0%	0,1%
Quite busy	0.0%	0.0%	0.4%	0.7%	0.0%	0.0%	0.1%	0,1%	0,1%	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 %	-34.8%	-42.5%	-52.5%	-77.9%	-94.7%	-99.9%	-78.0%	-99,9%	-96,5%	-100,0%	-100,0%

Check formatting of all tables (same problem going through out)

Figure 23: Civil Engineering Contractors Confidence Index

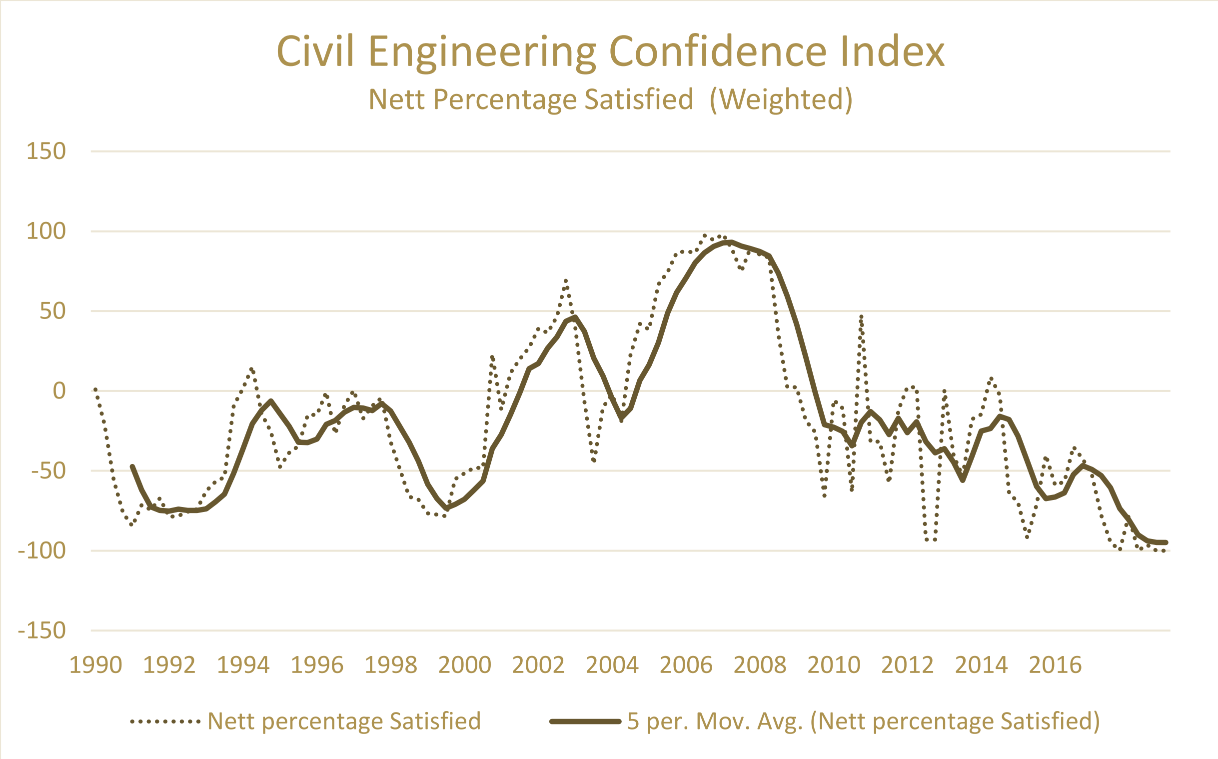
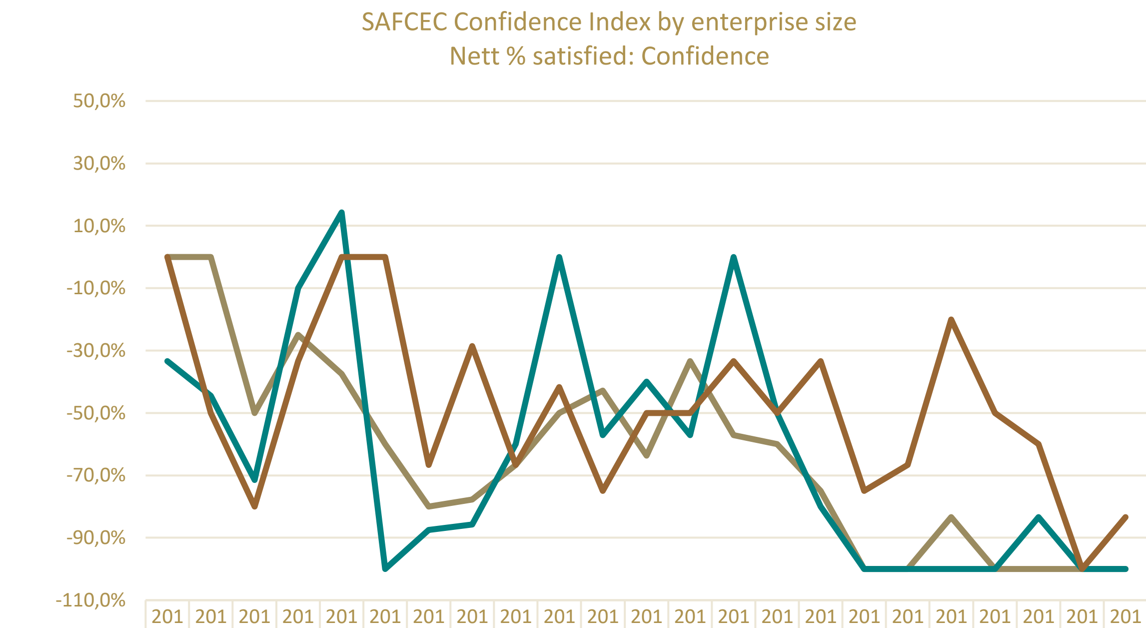


Figure 24: SAFCEC Confidence Index by Enterprise Size



	201 3Q1	201 3Q2	201 3Q3	201 4Q1	201 4Q2	201 4Q3	201 5Q1	201 5Q2	201 5Q3	201 5Q4	201 6Q1	201 6Q2	201 6Q3	201 6Q4	201 7Q1	201 7Q2	201 7Q3	201 7Q4	201 8Q1	201 8Q2	201 8Q3	201 8Q4	201 9Q1
Large	0,0%	0,0%	-50,	-25,	-37,	-60,	-80,	-77,	-66,	-50,	-42,	-63,	-33,	-57,	-60,	-75,	-100	-100	-83,	-100	-100	-100	-100
Medium	-33,	-44,	-71,	-10,	14,3	-100	-87,	-85,	-60,	0,0%	-57,	-40,	-57,	0,0%	-50,	-80,	-100	-100	-100	-100	-83,	-100	-100
Small	0,00	-50,	-80,	-33,	0,00	0,0%	-66,	-28,	-66,	-41,	-75,	-50,	-50,	-33,	-50,	-33,	-75,	-66,	-20,	-50,	-60,	-100	-83,

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

Values	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1
Very Quiet	0.0%	0.0%	20.0%	0.0%	0.0%	0.0%	33.3%	50,0%	50,0%	33.3%	33.3%
Quiet	33.3%	57.1%	40.0%	75.0%	100.0%	100.0%	50.0%	50,0%	50,0%	66.7%	66.7%
Satisfactory	66.7%	42.9%	40.0%	25.0%	0.0%	0.0%	16.7%	0,0%	0,0%	0,0%	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 %	-33.3%	-57.1%	-60.0%	-75.0%	-100%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

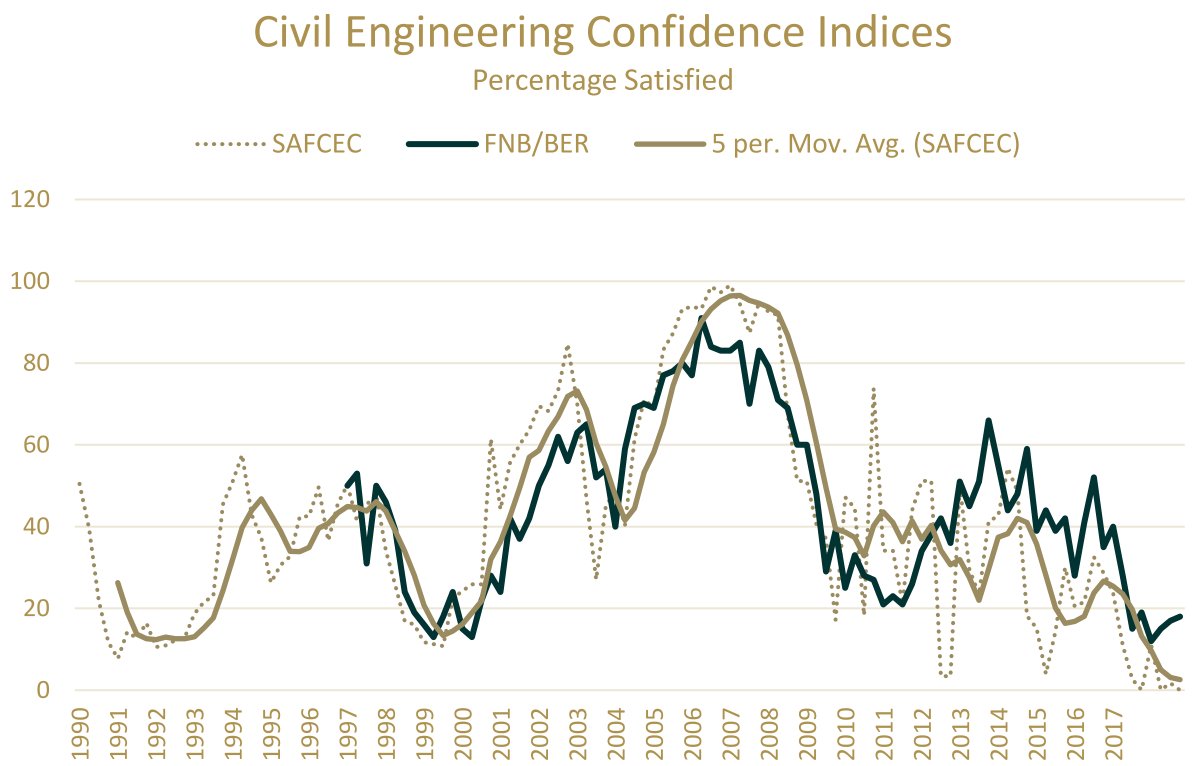
Values	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1
Very Quiet	0.0%	0.0%	50.0%	10.0%	25.0%	66.7%	25.0%	33,3%	16,7%	75,0%	44.4%
Quiet	57.1%	0.0%	0.0%	70.0%	75.0%	33.3%	75.0%	66,7%	66,7%	25,0%	55.6%
Satisfactory	42.9%	100.0%	50.0%	20.0%	0.0%	0.0%	0.0%	0,0%	16,7%	0,0%	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 %	-40.0%	-57.1%	0.0%	-50.0%	-80.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

Values	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1
Very Quiet	25.0%	33.3%	50.0%	33.3%	50.0%	33.3%	20.0%	50,0%	33,3%	60,0%	50.0%
Quiet	25.0%	0.0%	16.7%	33.3%	25.0%	33.3%	20.0%	25,0%	53,3%	40,0%	33.3%
Satisfactory	50.0%	66.7%	16.7%	0.0%	25.0%	33.3%	40.0%	0,0%	6,7%	0,0%	16.7%
Quite busy	0.0%	0.0%	16.7%	33.3%	0.0%	0.0%	20.0%	25,0%	6,7%	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%**	**-33.3%**	**-50.0%**	**-33.3%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

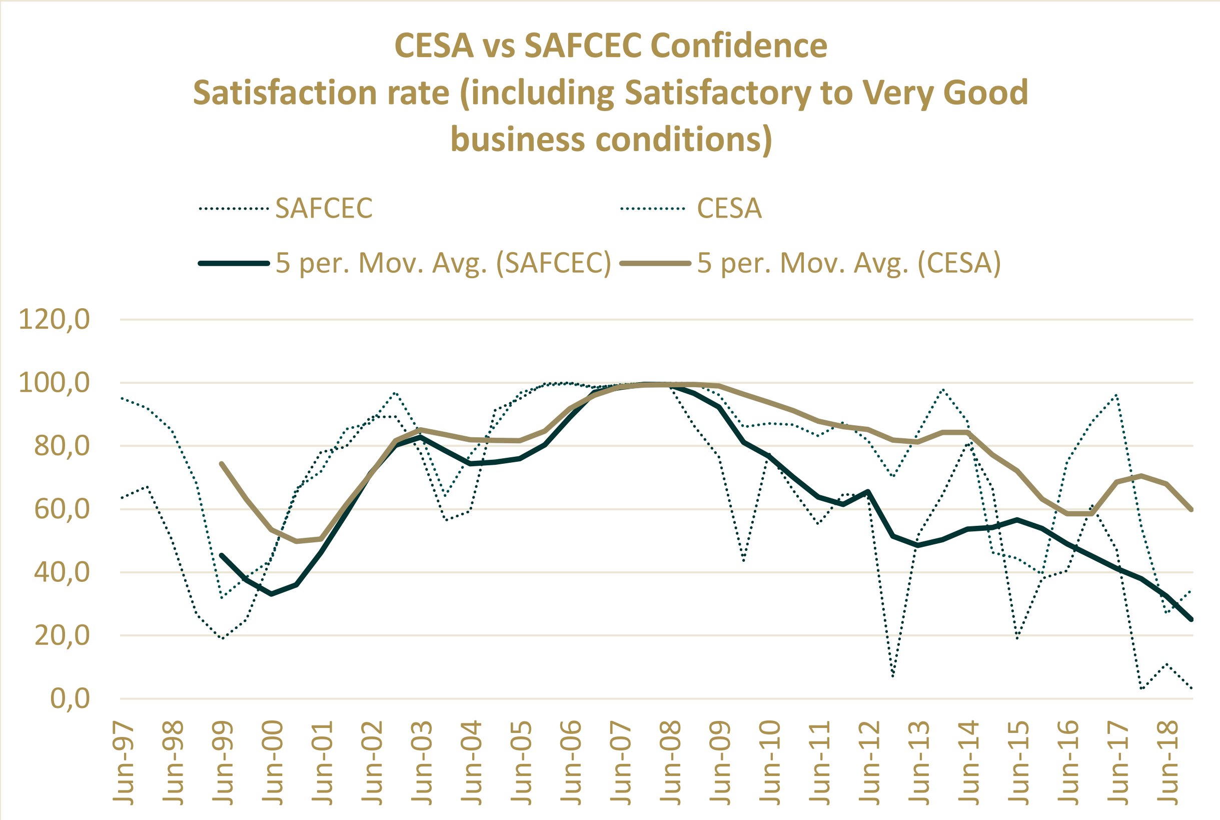
A comparison with FNB/BER's civil industry confidence index, shows a clear and distinct correlation between the two independently surveyed data sets, as both surveys depict very weak sentiment amongst civil contractors. The satisfaction rate in the FNB/BER index has been below 50 since the 1st quarter of 2015, and recorded a much weaker level of 18 in the 4th quarter of 2018, from a level of over 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. Our SAFCEC confidence index has now turned a lot more negative than the BER/FNB index, and has remained below it for the last few quarters again.

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 in late 2017 and early 2018. Confidence levels have however deteriorated again, with a marginal improvement in the second half of the year, with 34.5 index points reported in December 2018, off the back of the lowest number in many years (26.9) 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, which was in fact realised.

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 (especially SOE's and especially CIDB grade 9 projects) being felt by most of the contractors in the sample again, and this continues to be a theme survey after survey. A significant proportion of contractors complained about the lack of work. Other complaints included Delays, financial constraints by clients, and skills (including poor or low levels of labour productivity, tender compilation and adjudication by clients). Complaints about high levels of competition, low tender prices and corruption were also prominent in the current survey.

- Project cancellations and delays in project implementation remains a serious concern and constraint affecting the construction industry, as noted in the report.
- Liquidity of state owned entities puts massive risk on contractors.
- 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.
- Corruption is regularly cited as a constraint to growth in the industry.

CIVIL ENGINEERING PRICE MOVEMENTS

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.

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 dropped significantly to an average annual increase of 4.4 percent in the 1st quarter of 2019, from an average (revised) increase of 7.9 percent and 7.8 percent in the 3rd and 4th quarters of 2018. The largest drivers of the big drop currently are fuel prices, which have dropped quite significantly after record increases towards the latter parts of 2018.

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, which are expected to increase. 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 R14.60/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

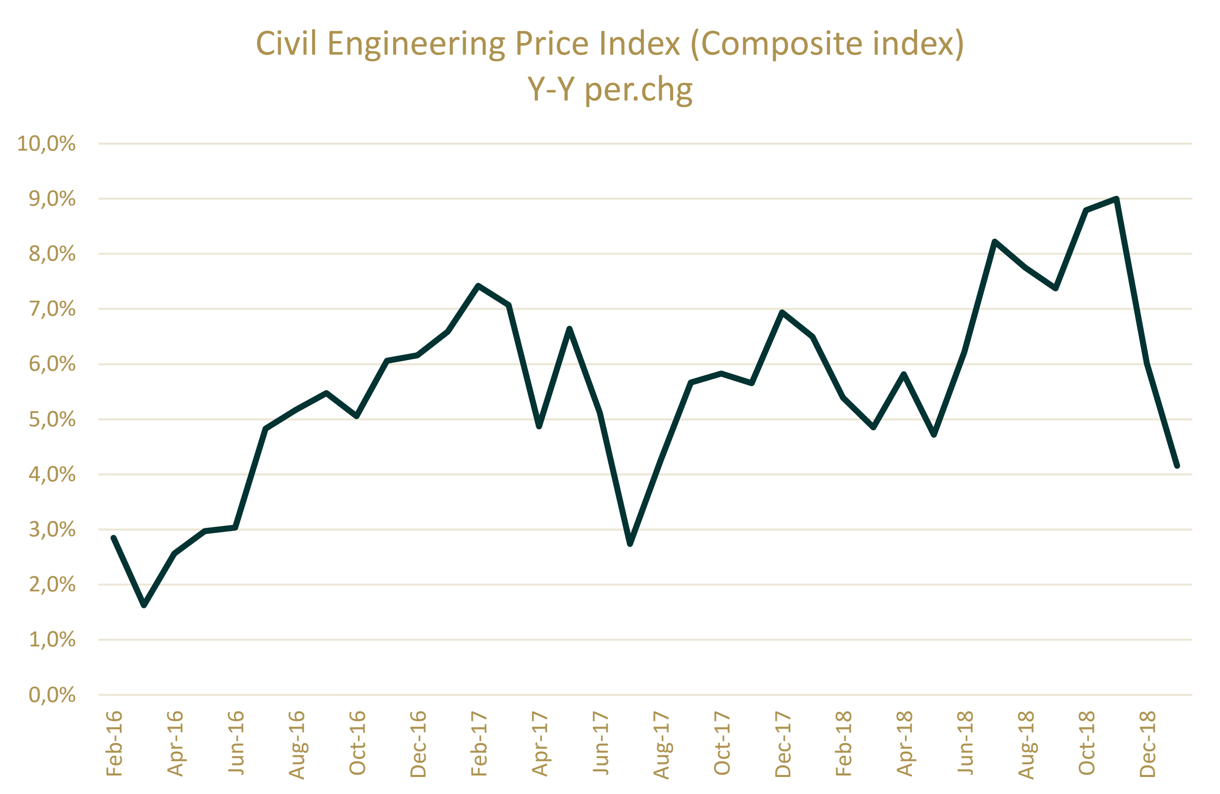


Table 25: Macro Price Assumptions

	2014	2015	2016	2017	2018	2019	2020
R/US$ Exchange Rate	11.3	12.8	14.7	13.3	13.80	14.60	14.20
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	2014	2015	2016	2017	2018	2019	2020
Plant	87,0	91,0	98,6	100,4	102,4	105,5	108,6
Fuel	115,9	98,7	96,5	106,6	126,5	124,4	127,2
Materials	94,3	97,2	97,6	105,9	115,7	123,2	131,9
Labour	88,0	92,0	97,8	103,0	107,8	113,4	119,5
Composite	92,4	93,9	97,9	103,4	110,4	115,1	120,7
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%	18,7%	-1,6%	2,2%
Materials	3,3%	3,1%	0,4%	8,5%	9,3%	6,5%	7,0%
Labour	6,1%	4,6%	6,3%	5,3%	4,6%	5,2%	5,4%
Composite	**5,3%**	**1,7%**	**4,2%**	**5,7%**	**6,7%**	**4,2%**	**4,9%**

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
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	99.80	4.3%	6.6%	0.9%	8.1%	4.6%
2017	1	102.1	101.5	104.7	99.4	101,4	7.5%	6.3%	19.1%	3.5%	9.4%
	2	104.5	102.7	105.5	100.6	102,9	8.3%	5.3%	7.9%	2.3%	6.1%
	3	106.8	103.4	102.7	100.7	103,6	7.7%	4.8%	2.4%	0.8%	3.7%
	4	110.0	104.3	113.5	101.0	105,9	10.4%	4.7%	13.4%	0.9%	6,1%
2018	1	111.8	105.7	113.2	101.7	107,0	9,5%	4.1%	8.1%	2.2%	5,6%
	2	112.6	107.3	121.9	101.6	108,6	7,7%	4,5%	15,6%	1,0%	5,6%
	3	117.1	108.6	130.6	102.9	109.5	9,6%	5.0%	27,2%	2,1%	7,8%
	4	121.5	109.5	140.1	103.5	109.2	10.4%	4.9%	23.5%	2.5%	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)