SAFCEC

READY TO DELIVER

STATE OF THE SOUTH AFRICAN CIVIL ENGINEERING INDUSTRY

2017 QUARTER II

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

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EXECUTIVE SUMMARY

According to IMF's latest report (April 2017) on global economic developments, economic activity is said to be picking up with a long-awaited cyclical recovery in investment, manufacturing, and trade. The world economy gained momentum in the 4th quarter of 2016 (especially in advanced economies), and this pace is expected to continue. Although growth has shown some recovery in advanced economies (including the US and United Kingdom), economic performance amongst emerging economies has remained mixed. The outlook for the South African economy remains muted, but with some hope of a mild recovery in 2017, following an estimated growth of 0.3 percent in 2016. National Treasury expects the South African economy will grow by 1.3 percent in 2017, 2 percent in 2018, and 2.2 percent in 2019. Unfortunately, recent forecast released by the IMF suggest weaker growth of 0.8 percent in 2017, rising to 1.6 percent in 2018. Treasury pinned their forecasts on moderately stronger global growth, improved weather conditions to alleviate the adverse impact of the drought, reliable electricity supply, less volatile labour relations, a recovery in business sentiment and stabilizing commodity prices. Gross fixed capital formation fell by around 4 percent y-y in 2016 (in real terms), after reporting no real growth during 2015. Investment growth by government slowed to no change in 2016, from an increase of 21 percent in 2015, while investment by SOE''s recorded its 6th consecutive quarter of negative growth by the 4th quarter of 2016, down 2 percent y-y in 2016. Private sector investment also continued to contract, and fell by 6 percent in 2016 (-4 percent in 2015).

Survey participation increased by 38 percent in the 2nd Quarter of 2017, compared to the 1st quarter of 2017, due to an increase in participation by medium size companies.

Employment continued to contract and fell by 1.4 percent in the 1st quarter of 2017, mainly due to a cut in permanent employees by larger companies. The total value of civil engineering construction certified for payment contracted by 16.5 percent q-q in the 1st quarter of 2017, following the 10.7 percent q-q decrease in the 4th quarter, and the 4.3 percent decrease in the 3rd quarter of 2016. Alongside the q-q contraction in employment (-1.4 percent), the salary and wage bill fell by 12.1 percent. The overall value of the two-year forward order book fell by 0.7 percent q-q, following the increase of 5.9 percent q-q in the previous quarter. Medium size contractors were not as pessimistic regarding the outlook for order books in this survey, compared to last survey. The value of late payments increased during the 1st quarter, up by 14.3 percent compared to the 4th quarter of 2016, the strongest increase being reported by larger firms, up 17.3 percent.

The mostly negative market sentiment continued to prevail since 2009, and although the level of sentiment expressed by respondents reached new lows during the 2nd quarter of 2015 there was a marginal improvement in the last few quarters, but not enough to lift the overall sentiment out of the red. The outlook for the 2nd quarter of 2017 however has shown some improvement, largely due to a moderately more optimistic sentiment expressed by larger firms. The nett % satisfied with working conditions during the 1st quarter remained in deep negative territory, while competition for tenders remained fierce. Tender prices came under renewed pressure in this survey, while not only were fewer firms satisfied with profitability, an increasing number of firms expect profitability trends to deteriorate. None of the participating contractors reported better than satisfactory levels in terms of tender activity, while opinions related to award activity also deteriorated. The nett satisfaction rate related to orderbooks also showed a weakening in the current survey. Utilisation of plant and equipment capacity improved, and majority of contractors reported that less than 25 percent of plant equipment was standing idle. Overall, larger contractors reported a more pessimistic view in this survey, with 75 percent (majority) stating a poorer outlook on business conditions in South Africa. Medium size contractors were equally pessimistic, with 80 percent reporting on quiet to very quiet conditions expected. The overall confidence level therefore deteriorated to a nett negative satisfaction rate of -77.9 percent in the 2nd quarter of 2017 from -52.5 in the previous survey, and is the weakest level seen since the 2nd quarter of 2015.

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

ECONOMIC BACKGROUND

Global Outlook

According to IMF's latest report (April 2017) on global economic developments, economic activity is said to be picking up with a long-awaited cyclical recovery in investment, manufacturing, and trade. The world economy gained momentum in the 4th quarter of 2016 (especially in advanced economies), and this pace is expected to continue. Although growth has shown some recovery in advanced economies (including the US and United Kingdom), economic performance amongst emerging economies has remained mixed.

Global growth is expected to rise from 3.1 percent in 2016 to 3.5 percent in 2017 and 3.6 percent in 2018. Stronger activity, expectations of more robust global demand, reduced deflationary pressures, and optimistic financial markets are all upside developments. But structural impediments to a stronger recovery and a balance of risks that remains tilted to the downside, especially over the medium term, remain important challenges.

Growth in advanced economies is expected to remain at around 2 percent, on average over the medium term, while developing economies are expected to remain the main contributors to higher global growth projected for 2017 and 2018. Brazil and Russia are expected to return to moderate growth (following recessions in both countries), while growth in India is expected to remain above 7 percent. China's growth is expected to decelerate, but remain above 6 percent. The outlook for Sub-Saharan Africa (a major export destination for South Africa) has been revised down marginally by the IMF, to 3.5 percent for 2018.

Globally, the oil price has recovered somewhat with OPEC agreeing to cut supply, and other commodity prices have also picked up, which is giving more hope to economies based on exporting these goods. Overall, there is slightly more positive sentiment globally, coming off a low base however. The price of Brent Crude oil averaged $53.6/barrel in the first five months of 2017.

Table 1: GPD Y-Y percentage change (Source IMF World outlook April 2017)

	2013	2014	2015	2016	2017	2018
World	*3.4%*	*3.4%*	*3.2%*	*3.1%*	*3.5%*	*3.6%*
Advanced Economies	*1.4%*	*1.8%*	*2.1%*	*1.7%*	*2.0%*	*2.0%*
US	2..2%	2.4%	2.6%	1.6%	2.3%	2.5%
Eurozone	-0.4%	0.8%	2.0%	1.7%	1.7%	1.6%
UK	1.7%	2.9%	2.2%	1.8%	2.0%	1.5%
Emerging markets	5.0%	4.6%	4.1%	4.1%	4.5%	4.8%
Brazil	2.7%	0.1%	-3.8%	-3.6%	0.2%	1.7%
Russia	1.3%	0.6%	-3.7%	-0.2%	1.4%	1.4%
India	6.9%	7.3%	7.6%	6.8%	7.2%	7.7%
China	7.7%	7.4%	6.9%	6.7%	6.6%	6.2%
Sub-Saharan Africa	5.2%	5.0%	3.4%	1.4%	2.6%	3.5%
SA	2.2%	1.5%	2.0%	0.3%	0.8%	1.6%

Domestic Outlook

The outlook for the South African economy remains muted, but with some hope of a mild recovery in 2017, following an estimated growth of 0.3 percent in 2016. National Treasury expects the South African economy will grow by 1.3 percent in 2017, 2 percent in 2018, and 2.2 percent in 2019. Unfortunately, recent forecast released by the IMF suggest weaker growth of 0.8 percent in 2017, rising to 1.6 percent in 2018. Treasury pinned their forecasts on moderately stronger global growth, improved weather conditions to alleviate the adverse impact of the drought, reliable electricity supply, less volatile labour relations, a recovery in business sentiment and stabilizing commodity prices.

The economy slipped into a technical recession in the first quarter of the year, with a 0.7 percent decrease (quarter on quarter, seasonally adjusted and annualised rate), following the 0.3 percent decrease in GDP in the 4th quarter of 2016. The downtick was largely due to a decrease in more tertiary sector activities, which have been keeping the economy afloat over the last few years, while key sectors in the primary and secondary sectors such as mining, manufacturing and agriculture were stagnating. However, mining and agriculture provided a cushion to the current downturn in other sectors of the economy, the agricultural sector grew by 22.2 percent in the first quarter of the year, off the back of 8 consecutive quarters of decline, while an uptick in various commodity prices as well as increased global demand saw the mining sector expand by 12.8 percent in the first quarter, following the 11.5 percent decline in the fourth quarter. Unfortunately, these were the only two sectors to expand in the first three months of the year, and together they only make up roughly 10 percent of total GDP.

The first quarter data does come as a bit of surprise to economists and industry experts, against a consensus forecast of approximately 0.9 percent (positive). The data will not appease rating agencies who have continuously cited growth as one of the major issues when assessing South Africa's credit rating. It is now increasingly likely that we will see further downgrades. The last time the economy was in a technical recession was during the 2008/09 financial crisis, where we experienced 3 consecutive quarters of negative growth, and the 1997/98 Asian currency crisis. While global growth remains moderate, without much impetus for growth, some would argue that this remains more self-inflicted.

Headline inflation averaged 6.4 percent in 2016, from 4.6 percent in 2015, driven primarily by higher food and petrol prices. In an attempt to anchor inflation expectations, the Reserve Bank rose the repo rate by 2 percentage points since the beginning of 2014. Headline inflation is projected by Treasury to remain above 6 percent in 2017, before moderating to 5.7 percent and 5.6 percent in 2018 and 2019. Thus far, consumer inflation averaged 6.1 percent for the first four months of 2017, falling to well below expectations of 5.3 percent in April 2017.

In terms of investment, a revival in business confidence is critical to encourage higher levels of private sector investment. Business confidence averaged a dismal 37 percent in 2016, according to the FNB Business Confidence index, from 41.5 percent in 2015, well below the neutral level of 50 percent and significantly lower than the required 60 to 70 percent necessary to stimulate growth in investment. Business confidence recovered slightly to 40 in the first quarter of 2017 (from 38 in the last quarter of 2016), still suggesting critical investor constraints. The 2017 Budget promulgates greater private sector investment alongside a recovery in confidence as cornerstones for higher economic growth, but this is generally easier said than done and will require greater levels of political stability and policy certainty, something which has been lacking in the economic arena for some time.

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

Table 2: Macroeconomic performance and projections (Source National Treasury Budget Review 2017/18)

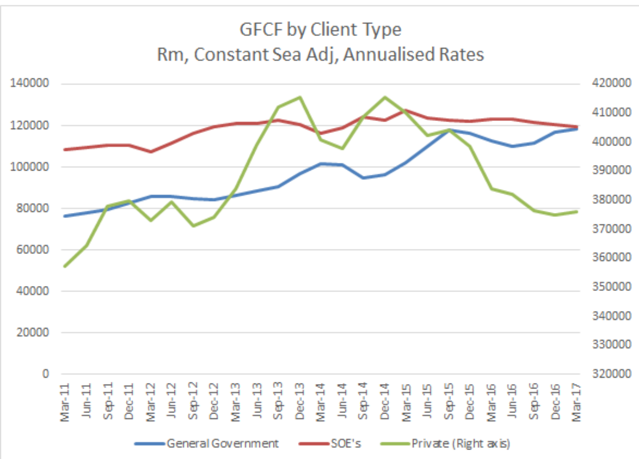
Calendar year	2013	2014	2015	2016	2017	2018	2019
Percentage change		**Actual**		**Estimate**		**Forecast**	
Final household consumption	2.0	0.7	1.7	0.9	1.3	2.0	2.3
Final government consumption	3.8	1.8	0.2	1.4	0.9	0.0	0.4
Gross fixed-capital formation	7.0	1.5	2.5	-3.6	1.5	1.6	2.8
Gross domestic expenditure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

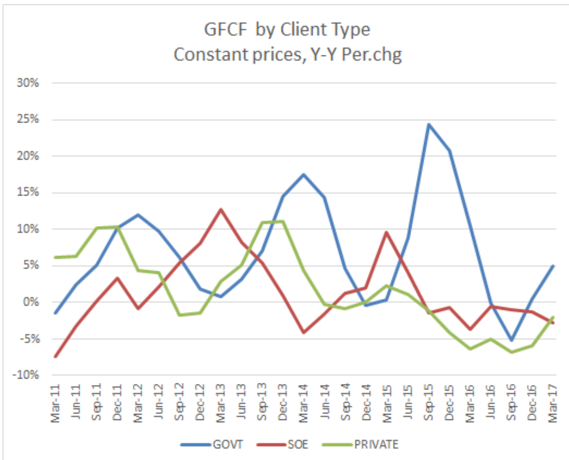
Source: National Treasury and South African Reserve Bank

Gross Fixed Capital Formation

Gross fixed capital formation fell by around 4 percent y-y in 2016 (in real terms), after reporting no real growth during 2015. Investment growth by government slowed to no change in 2016, from an increase of 21 percent in 2015, while investment by SOE''s recorded its 6th consecutive quarter of negative growth by the 4th quarter of 2016, down 2 percent y-y in 2016. Private sector investment also continued to contract, and fell by 6 percent in 2016 (-4 percent in 2015). According to National Treasury estimates, growth in fixed investment is expected to recover to an increase of 1.5 percent in 2017, accelerating moderately to 1.6 percent in 2018, before showing more meaningful growth of close to 3 percent in 2019. According to 1st quarter data, the rate of decline in gross fixed capital formation moderated from -4 percent in the 4th quarter of 2016 to -1.0 percent, largely due to a 5 percent increase in investment by general government. Disinvestment by SOE's escalated and was 3 percent lower in the 1st quarter of 2017, while investment by the private sector fell by 2 percent (seasonally adjusted annualised rates). Investment by the private sector is now on par with investment levels 5 years ago (2012), and as a major contributor to investment (contributing over 60 percent to total investment in the country), has a significant role to play to reach South Africa's full growth potential. Without higher levels of investment by the private sector it is unlikely that government will reach its NDP target of spending 30% of GDP on fixed investment.

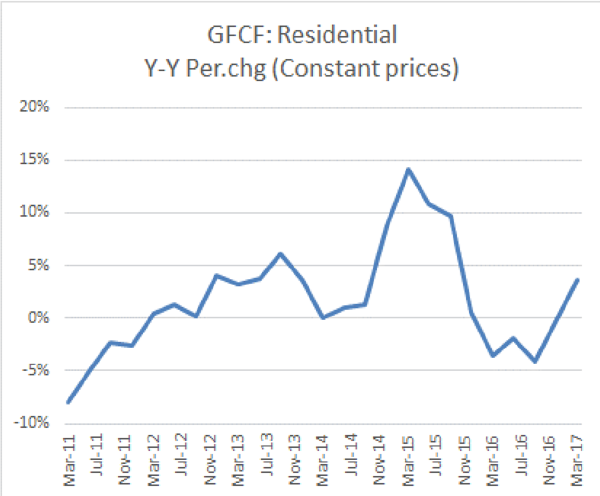
Economists are divided on the outlook for gross fixed capital formation, with some expecting a mild recovery while others project more severe downturns in the next two years. Investment is likely to contract further in 2017, and at best show a mild recovery in 2018 (increasing below 2 percent).

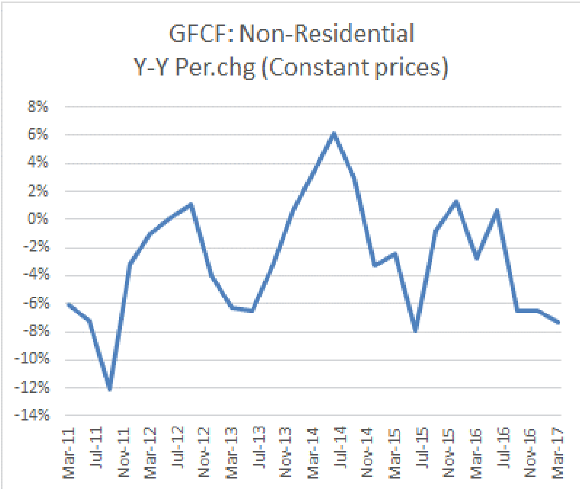


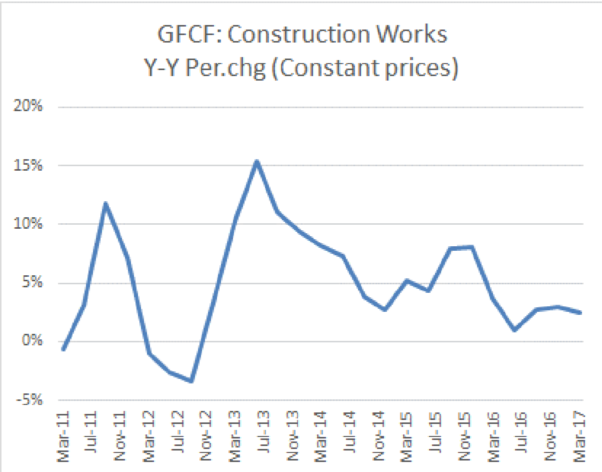


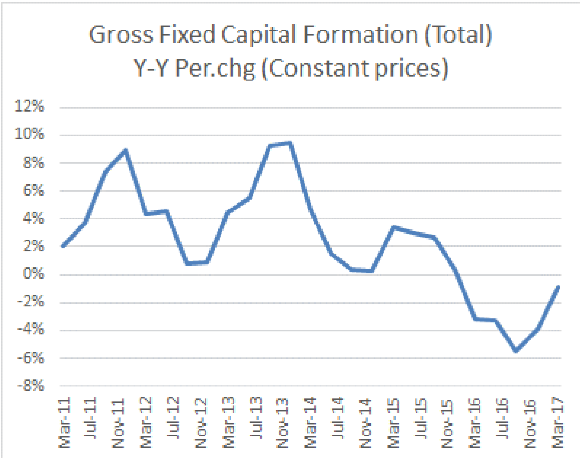
Following more robust growth of 8 percent in 2015, investment in housing contracted by 2.4 percent in 2016, but showed a mild recovery in the 1st quarter of 2017, increasing by 4 percent in real terms. Contractions in the non-residential sector however accelerated from -2.5 percent in 2015 to -3.8 percent in 2016, falling by 7 percent y-y in the 1st quarter. Investment growth in construction works also decelerated to 2.6 percent in 2016 from an increase of 6.4 percent in 2015, and increased by 2 percent in the 1st quarter.

According to Reserve Bank's latest estimates, a total of R104 bn was spent on construction (including costly importation of machinery and equipment used on construction) during the 1st quarter of 2017, with R21 bn spent on housing, R18 bn on non-residential building and R65 bn on construction works (including spending on transport, water and energy).









THE POSITION OF THE CIVIL ENGINEERING INDUSTRY

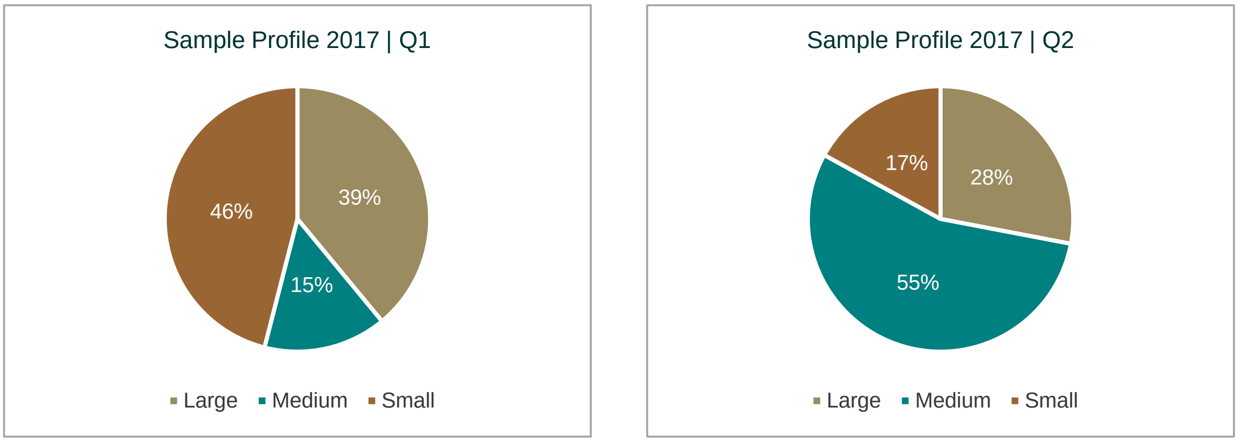
Background

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

Sample Profile

Survey participation increased by 38 percent in the 2nd Quarter of 2017, compared to the 1st quarter of 2017, due to an increase in participation by medium size companies. Larger firms contributed 28 percent to the current survey, medium size firms 55 percent, and smaller firms 17 percent. The profile of respondents is quite different compared to the previous quarter and will as such impact on survey results.

Figure 1: Profile of respondents



KEY OBSERVATIONS

Human Resources

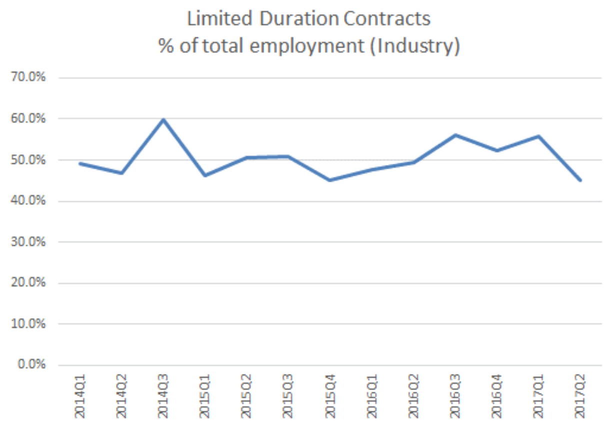
Employment continued to contract and fell by 1.4 percent in the 1st quarter of 2017, following declines of 5.6 percent and 7.5 percent in the previous two quarters. Medium size firms also reported a drop in employment, down 5 percent, after having consistently reported on higher levels of employment. Contractions in larger firms continued, down marginally 0.1 percent, following the 7.2 percent decrease reported in the previous quarter. Although the overall decrease was mainly due to a contraction in both limited duration and permanent employees, the strongest decrease was reported in employment of limited duration employees by medium size firms (down 11 percent q-q). Larger firms reported a 4 percent increase in the employment of limited duration employees, but dropped permanent employees by 3 percent.

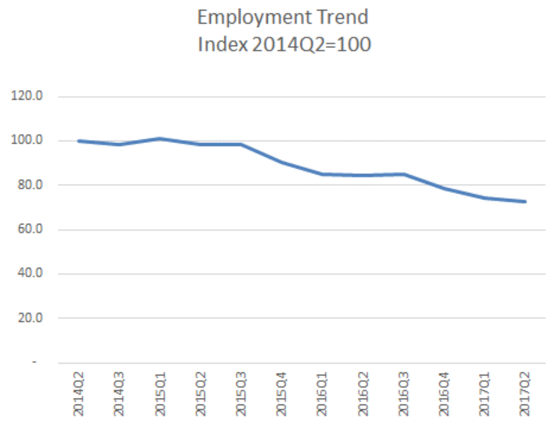
The use of labour brokers increased to 5.1 percent in the 1st quarter of 2017 after having slowed to just 0.3 percent in the 4th quarter and an average of 2.7 percent for 2016 and 6.0 percent in 2015.

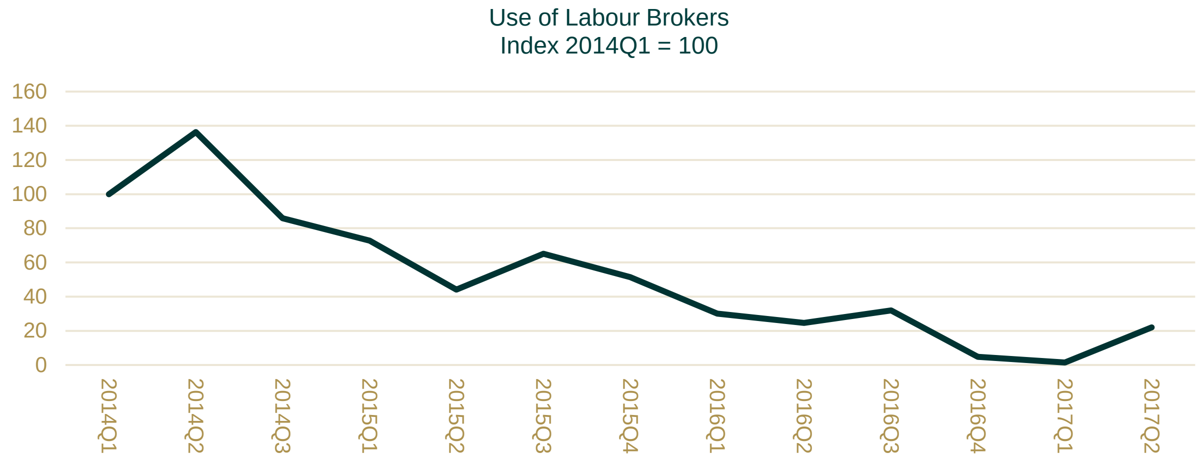
Table 3: Limited Duration Contracts; % of Total Employment

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	4%	-3%	0.1%	49.1%
Medium	-11%	1%	-5.1%	44.8%
Small	8%	5%	6.4%	61.2%
Total	0%	-2%	-1.4%	48.0%

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







Financial Statistics

Turnover, Wages and Order Books

The total value of civil engineering construction certified for payment contracted by 16.5 percent q-q in the 1st quarter of 2017, following the 10.7 percent q-q decrease in the 4th quarter, and the 4.3 percent decrease in the 3rd quarter of 2016. Majority of firms reported a slowdown in payments during the 1st quarter of 2017 (refer Figure 4: Q-Q Change in Payments).

The cumulative salary and wage bill represented 23 percent of total turnover, up from the 18 percent reported in the previous quarter.

Alongside the q-q contraction in employment (-1.4 percent), the salary and wage bill fell by 12.1 percent q-q, (following the 10.2 percent decrease reported in the previous quarter), across all firm size categories, the largest (again) being the 13.7 percent decline reported by larger firms. Medium and Small size firms also reported a drop in the salary and wage bill, down 8.3 percent and 1.8 percent respectively.

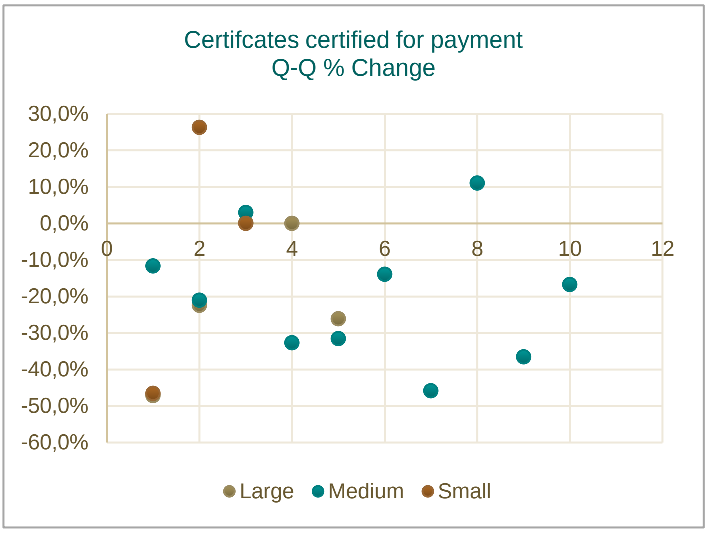
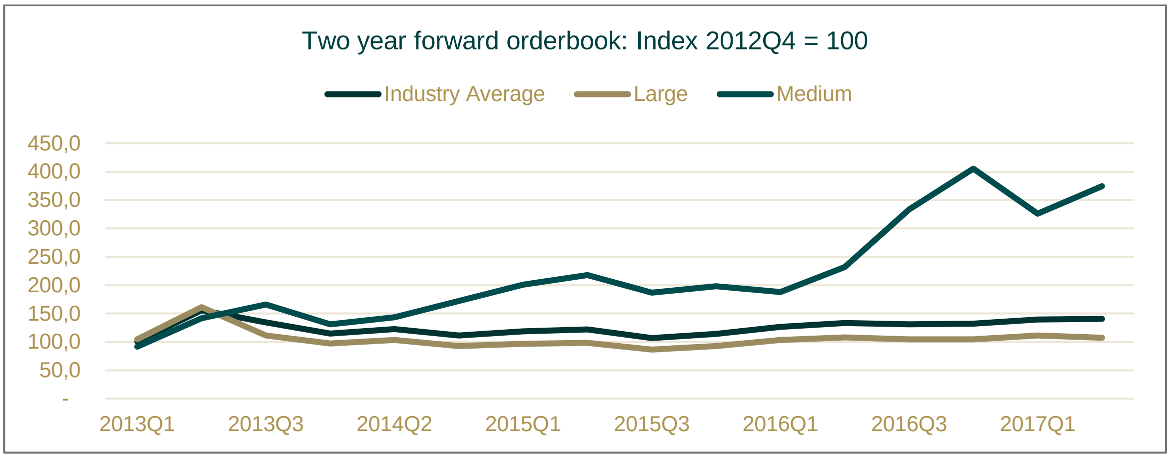
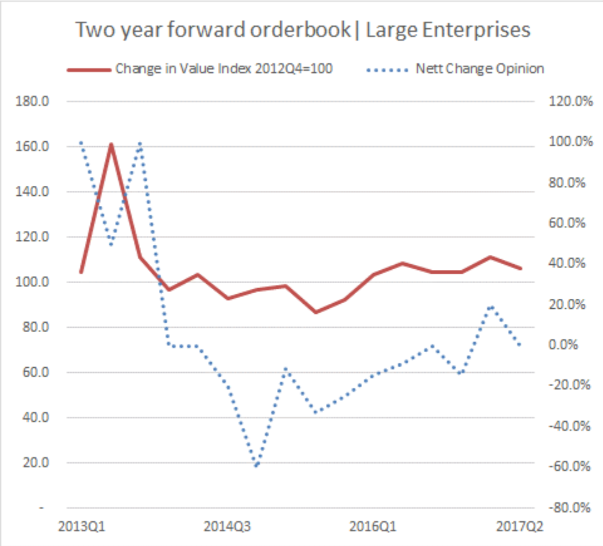


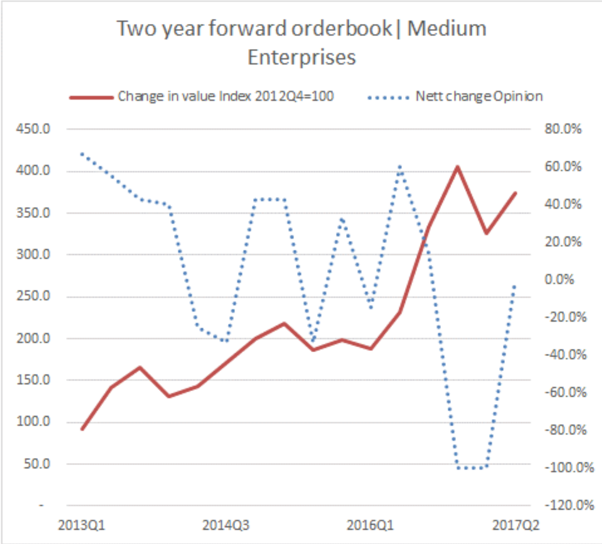
Figure 3: Q-Q Change in Payments

The overall value of the two-year forward order book fell by 0.7 percent q-q, following the increase of 5.9 percent q-q in the previous quarter. Medium size firms reported the strongest increase in order books, up 14.8 percent after having been more on the pessimistic side in the previous quarter, when value of order books reported to have dropped by 19.6 percent. The more depressed outlook on order books in the last survey, did filter through to some extent as medium size firms reported much weaker business conditions in the 1st quarter of 2017. Larger firms reported a 4.7 percent q-q decrease in the value of order books.

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







Medium size contractors were not as pessimistic regarding the outlook for order books in this survey, compared to last survey, when the nett satisfaction rate dropped to -100. The nett satisfaction rate improved to 0 as an equally number of firms reported low to satisfactory levels. The nett satisfaction rate amongst larger firms deteriorated to 0 percent, from a positive 20.0 percent in the previous survey. However, sentiment is somewhat volatile, but from the accompanying charts the gradual improvement in sentiment by larger contractors can be seen as order book have to some degree shown some stabilisation over the last 12 months, albeit at best showing a moderate improvement, while the more optimistic outlook of medium size contractors may be coming to an end as an increasing number of firms are starting to report a more negative outlook on order books,

Late Payments

There was a 14.3 percent increase in the value of late payments in the 1st quarter of 2017 compared to the 4th quarter of 2016, the strongest increase being reported by larger firms, up 17.3 percent. Medium size firms reported a 9.3 percent increase while smaller firms reported a strong decrease of 72 percent. The value of late payment for larger firms working across the border however showed some improvement and fell by 5 percent since the 4th quarter of 2016. The increase reported in late payments during the 1st quarter, follows several quarters of negative growth, and is evident of renewed pressure on clients in the industry.

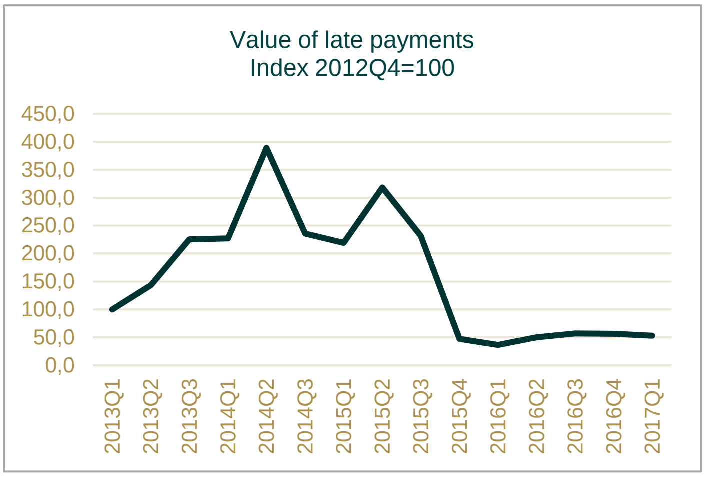
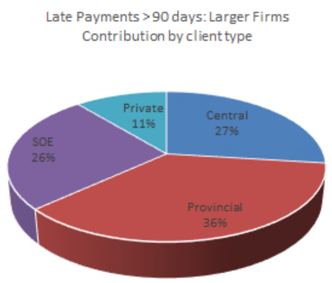
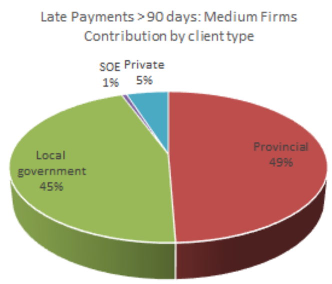


Figure 5: Value of late payments (Index)

Although the value of payments outstanding has decreased, in relation to turnover, it is showing a gradual increase. The value of late payments represented 38.3 percent of total turnover, a significant increase from the 24 percent and 23 percent reported in the previous two quarters. A more important indicator however is the ratio of payments that have been outstanding for longer than 90 days, as this can be financially debilitating to a construction firm. The value of payments outstanding for longer than 90 days dropped marginally to 7.0 percent of turnover from 7.1 percent in the previous quarter. This is still much higher compared to the 4.7 percent and 3.1 percent reported in the previous two quarters (3rd and 2nd quarters 2016). In this particular survey, smaller firms reported the highest rate of earnings outstanding for longer than 90 days, increasing to 25 percent of turnover, from less than 5 percent in previous surveys, largely due to late payments by the private sector, while larger firms reported on 3.9 percent outstanding and medium firms 13.3 percent.





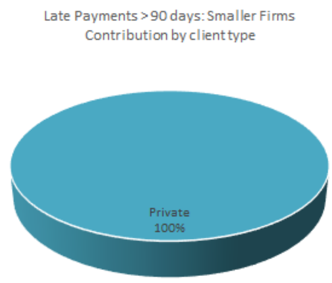
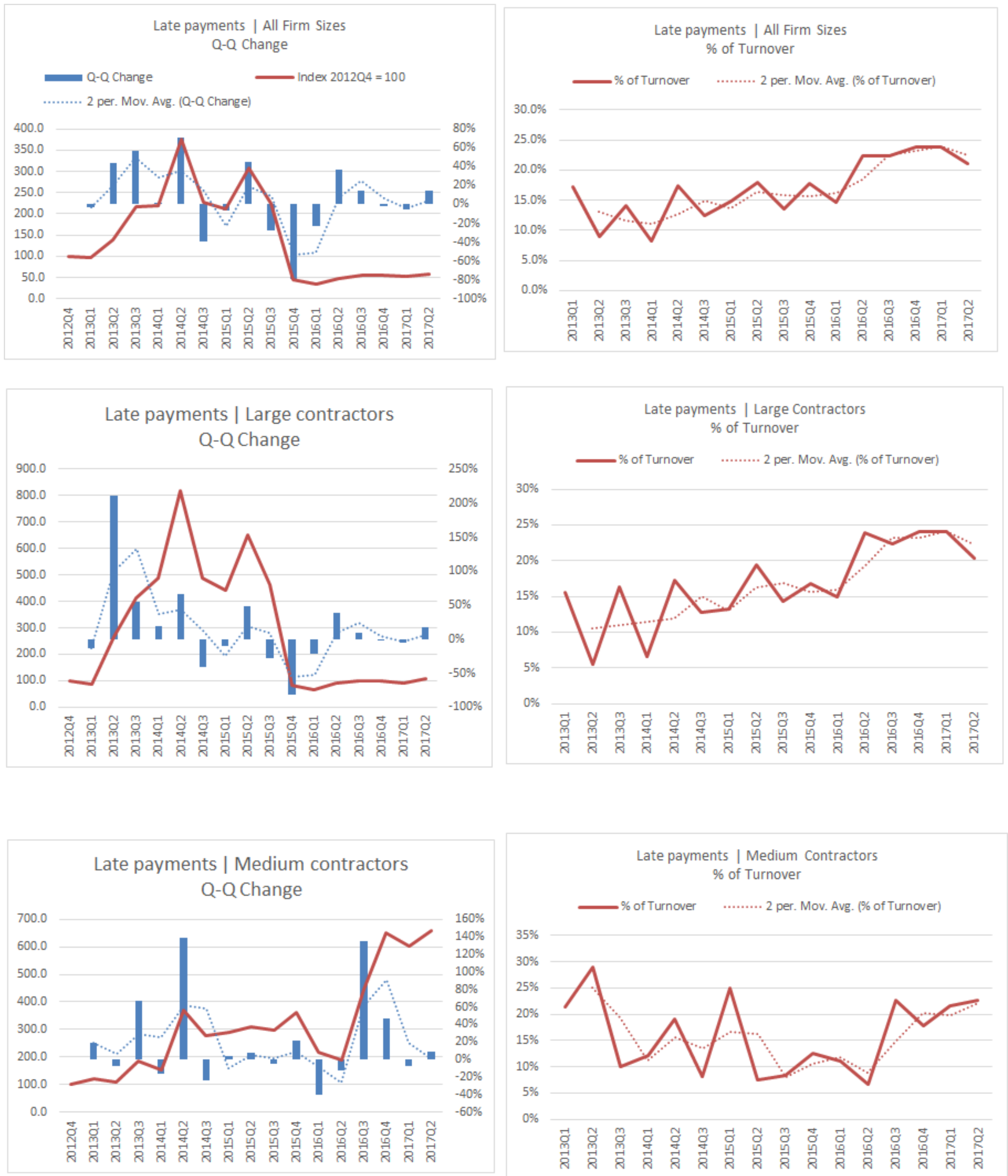


Figure 7: Late payments by firm size; Q-Q change; % of turnover



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 2017 (surveyed in the 2nd quarter of 2017). This is not necessarily representative of the entire industry, but again shows the significant contribution by the roads segment.

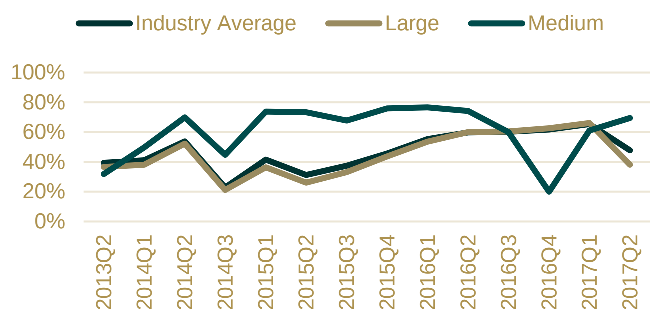


Figure 8: Percentage of Road Construction to Fee Earnings

Roads contributed 47.8 percent of turnover during the 1st quarter of 2017, compared to 65.4 percent and 62 percent in the previous two quarters. Large and medium size firms are highly dependent on road construction in South Africa, while smaller firms that participated in this quarter's survey seem to have diversified their exposure somewhat, with a large portion of turnover earned in water and sanitation.

Table 5: Turnover distribution by sub-discipline

Discipline	Large	Medium	Small	Total 2016Q1	Total 2016Q3	Total 2016Q4	Total 2017Q1
Roads	38.0%	69.6%	15.6%	38.0%	61.7%	65.4%	47.8%
Earthworks	2.0%	13.4%	0.0%	2.0%	2.0%	0.9%	5.5%
Water Bulk Infrastructure	6.4%	4.8%	0.0%	6.4%	4.6%	3.8%	5.9%
Water and Sanitation	8.7%	8.5%	52.8%	8.7%	2.5%	2.6%	8.7%
Rail	4.0%	0.0%	0.0%	4.0%	0.7%	0.2%	2.8%
Harbours	5.1%	0.0%	0.0%	5.1%	3.7%	1.8%	3.5%
Power (bulk)	21%	0.0%	0.0%	21%	10.7%	7.4%	14.6%
Power (services)	4.4%	0.0%	0.0%	4.4%	3.8%	7.9%	3.1%
Airports	-0.2%	0.0%	0.0%	-0.2%	0.0%	0.0%	-0.2%
Mining Infrastructure	2.0%	0.0%	0.0%	2.0%	2.5%	1.5%	1.4%
Mining (Surface earthworks)	0.0%	0.0%	0.0%	0.0%	0.4%	0.6%	0.0%
Other	8.4%	3.7%	31.7%	8.4%	7.4%	7.9%	7.0%
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 2016Q2	Total 2016Q3	Total 2016Q4	Total 2017Q1
Central	18.8%	0.3%	19.6%	17.7%	17.7%	11.9%	12.8%
Provincial	10.0%	43.3%	0.0%	10.4%	8.9%	10.4%	20.7%
District/Local/Metropolitan Councils	20.1%	24.0%	51.9%	11.6%	8.4%	14.1%	21.4%
Parastatals	33.9%	15.8%	0.0%	13.3%	25.1%	27.5%	28.0%
Private	17.3%	16.6%	28.5%	47.0%	39.8%	36.1%	17.1%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

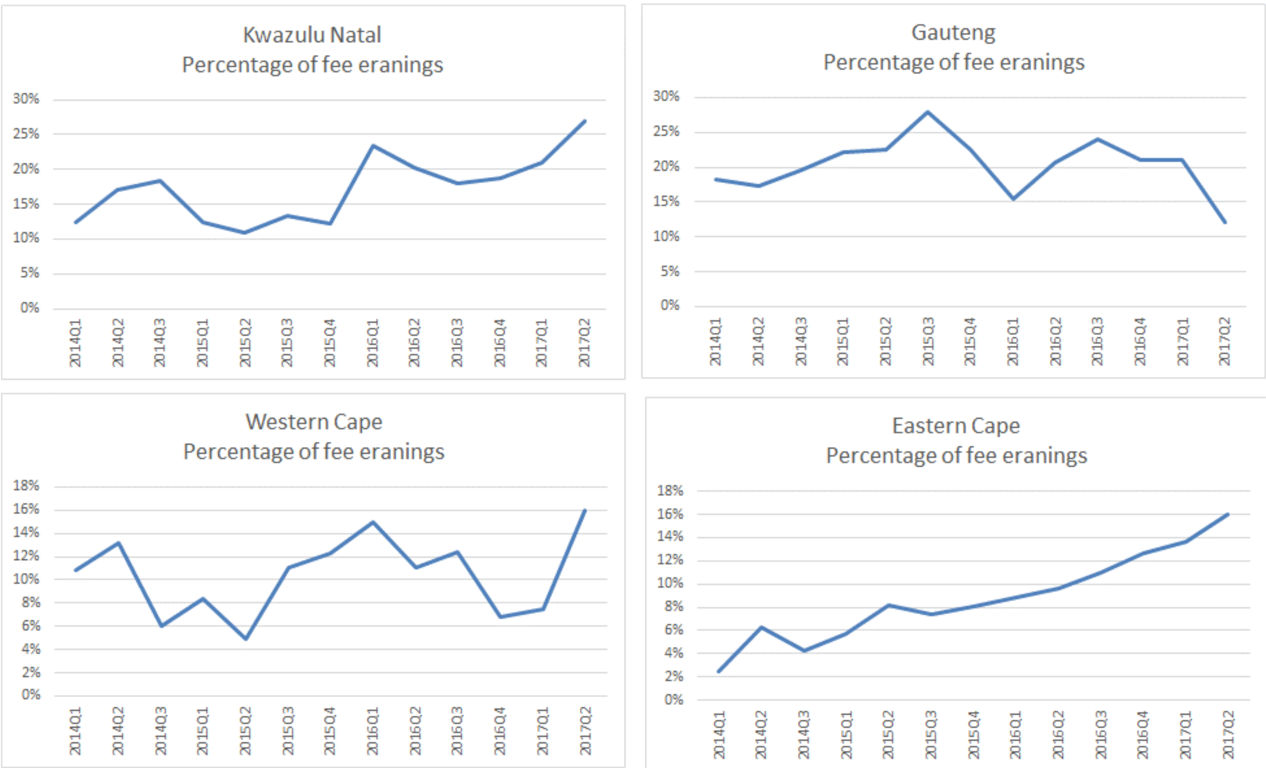
The contribution by the private sector in this survey fell to only 17,1 percent from 36.1 percent and 39.8 percent in the previous two surveys. Medium size firms earned 43.3 percent of turnover from provincial government, compared to just 10 percent by larger firms. Larger firms were most active with parastatals and earned 33.9 percent of their fee earnings from this segment. Smaller firms earned the highest percentage of earnings from local government reported at 51.9 percent.

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

Province	Large	Medium	Small	2016Q2	2016Q3	2016Q4	2017Q1
GAU	14%	9%	0%	24%	21%	21%	12%
WC	8%	34%	0%	12%	7%	7%	16%
EC	20%	7%	52%	11%	13%	14%	16%
NC	7%	1%	0%	6%	8%	7%	5%
MPU	7%	8%	0%	11%	10%	7%	8%
FS	2%	6%	0%	11%	14%	13%	3%
LIM	15%	2%	0%	4%	7%	8%	11%
NW	2%	3%	0%	3%	3%	3%	2%
KZN	25%	30%	48%	18%	19%	21%	27%
Total	**100%**	**100%**	**100%**	100%	100%	100%	100%

KwaZulu-Natal contributed 27 percent to earnings in this survey, followed by Western and Eastern Cape (at 16 percent each), and Gauteng at just 12 percent (compared to 21 percent in the previous survey). Activity levels in KwaZulu-Natal seems to be improving as this province played a significant role in earnings for all three firm size categories, contributing 25 percent to larger firms, 30 percent to medium size firms and 48 percent to smaller size firms. Eastern Cape also had an impact on earnings for larger firms as well as smaller firms, while medium size firms reported a higher contribution from the Western Cape at 34 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 outlook for the 2nd quarter of 2017 however has shown some improvement, largely due to a moderately more optimistic sentiment expressed by larger firms.

- The nett % satisfied with working conditions during the 1st quarter of 2017, remained in deep negative territory, deteriorating to -69.9, compared to -47.0 in the previous quarter, contradicting expectations in the previous survey that conditions are expected to show some improvement in the 1st quarter. The overall negative market sentiment persists for the 2nd and 3rd quarter of 2017, as larger and medium size firms expected the quiet conditions to prevail.
- Competition for tenders remain fierce, although a slightly lower percentage of firms (47.4 percent) reported that there were more than 11 bids per contract, compared to 73.4 percent and 75.0 percent in the previous two surveys. It is also further possible that pre-qualification could be a contributing factor to the reduced number of bids.

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	2014 Q3	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
Up to 5	0.0%	1.5%	3.5%	0.0%	0.2%	4.7%	0.1%	0.1%	0.9%	0.6%	4.0%
5-10	68.8%	49.2%	58.3%	32.0%	26.9%	23.2%	9.4%	23.8%	24.1%	26.1%	48.6%
11-25	29.3%	44.7%	36.2%	58.7%	67.6%	42.1%	53.4%	67.3%	73.0%	68.5%	30.0%
>25	1.9%	4.6%	2.1%	9.3%	5.2%	29.9%	37.1%	8.8%	2.1%	4.9%	17.4%
>11	31.2%	49.3%	38.3%	68.0%	72.9%	72.1%	90.4%	76.2%	75.0%	73.4%	47.4%

- Tender prices came under renewed pressure in this survey, with 52.6 percent of firms reporting very low tender prices (up from 37 percent in the previous survey). This sentiment was carried across all firm size categories. None of the respondents (across all firm sizes) reported reasonable tender prices in the current survey, on par with the previous survey.

Table 9: Tender prices (weighted response)

Values	2014 Q3	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
Very Low	33.1%	11.5%	29.3%	44.6%	48.7%	30.6%	28.5%	42.9%	57.2%	37.0%	52.6%
Keen	66.8%	87.5%	68.3%	55.4%	45.2%	53.3%	66.1%	49.6%	42.8%	62.8%	47.2%
Reasonable	0.0%	1.1%	2.3%	0.0%	6.0%	16.2%	5.4%	7.5%	0.0%	0.1%	0.2%
Good	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Keen & higher	66.9%	88.5%	70.7%	55.4%	51.3%	69.4%	71.5%	57.1%	42.8%	63.0%	47.4%

- Fewer firms were satisfied with profitability, with only 18.0 percent reporting satisfactory levels, (mainly amongst medium and smaller size firms) compared to 43.1 and 36.1 percent in the previous two surveys. Larger firms reported mainly on low (75 percent of respondents) to very low (25 percent of respondents) profitability in the industry. As a result, the nett satisfaction rate related to profitability deteriorated deeper into negative territory, from -13.8 percent in the previous survey to -64.1 percent.

Table 10: Profitability (weighted response)

Values	2014 Q3	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
Very Low	9.1%	11.9%	35.7%	13.4%	10.6%	10.7%	0.2%	12.2%	14.0%	35.2%	28.4%
Keen	72.0%	43.4%	52.8%	63.4%	40.3%	26.4%	36.5%	39.6%	49.8%	21.7%	53.6%
Reasonable	18.8%	44.8%	11.5%	23.2%	49.1%	62.9%	63.4%	48.3%	36.1%	43.1%	18.0%
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	-62.3%	-10.5%	-76.9%	-53.5%	-1.9%	25.7%	26.7%	-3.5%	-27.7%	-13.8%	-64.1%

- Majority of contractors (across all firm size categories) expect profitability trends to deteriorate, with 52 percent saying margins will recede, while 47.3 percent expect margins to stabilise. Concerning is that less than 1 percent (on par with the previous survey) expect any improvement.

Table 11: Trends in profit margins (Weighted response)

Values	2014 Q3	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
Receding	0.0%	52.9%	42.1%	65.7%	36.5%	33.2%	20.9%	33.7%	42.2%	35.8%	52.0%
Stabilise	99.9%	47.1%	54.4%	34.3%	57.9%	62.0%	76.8%	66.1%	52.5%	63.8%	47.3%
Improve	0.1%	0.1%	3.5%	0.0%	5.6%	4.8%	2.4%	0.1%	5.2%	0.4%	0.7%

Figure 10: Trend in profit margins

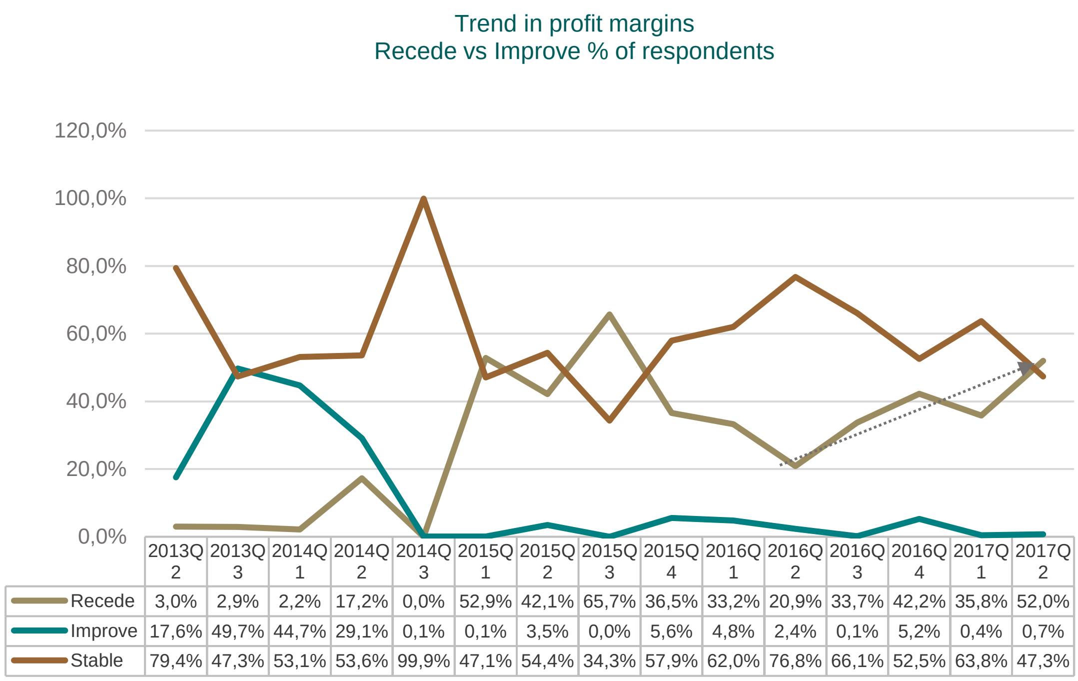
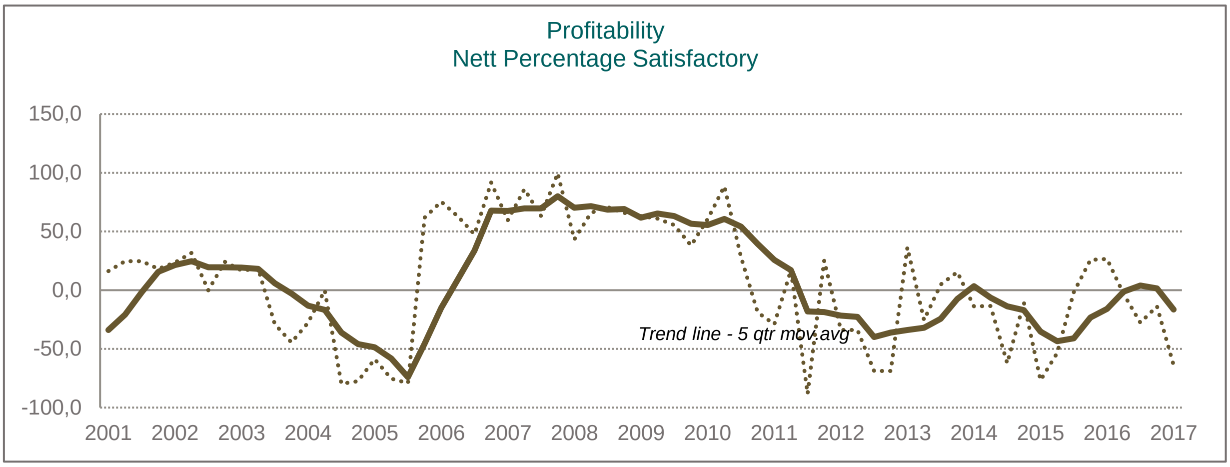


Figure 11: Opinions Related to Profitability



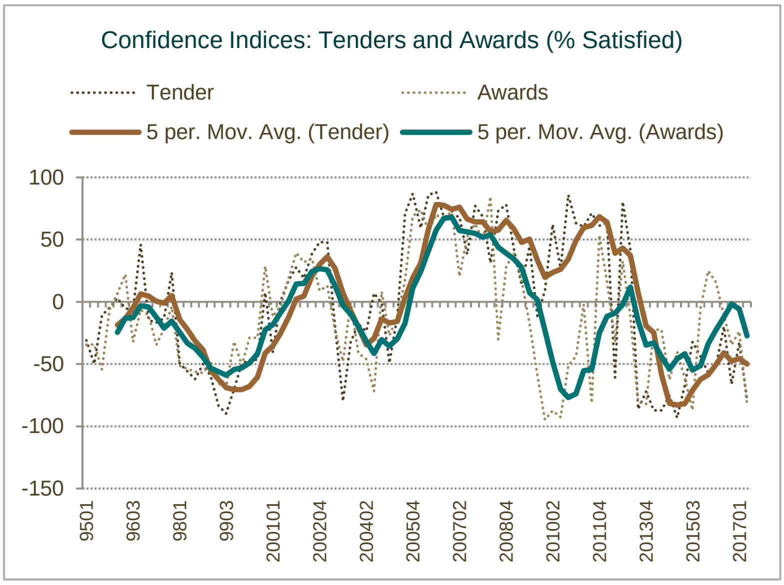
Opinions Related to Tenders, Awards, Order Books and Turnover

Tender and Award Activity

None of the participating contractors reported better than satisfactory levels in terms of tender activity, while a higher percentage reported low levels, up from 66.4 percent to 89.2 percent. Only 10 percent felt tender activity levels were satisfactory down from 33.0 percent in the previous survey. This typical low tender environment has persisted since the downturn in 2009, and remains a serious concern for the sector.

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.

Figure 12: Opinions of new work tendered for



As a result, the nett satisfaction rate deteriorated to -78.3 percent from an average of -49.5 percent in the previous two surveys. 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.

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

Values	2014 Q3	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
Nil	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.9%	0.0%	0.0%
Low	87.7%	96.5%	83.2%	66.1%	71.8%	78.4%	75.9%	59.9%	82.2%	66.4%	89.2%
Satisfactory	12.2%	2.5%	13.8%	27.5%	27.2%	8.0%	21.4%	38.1%	16.9%	33.6%	10.8%
Good	0.1%	0.9%	3.1%	6.3%	1.0%	13.5%	2.6%	2.0%	0.0%	0.0%	0.0%
Nett % satisfied	-75.3%	-93.0%	-66.3%	-32.3%	-43.7%	-57.0%	-51.9%	-19.9%	-66.2%	-32.7%	-78.3%

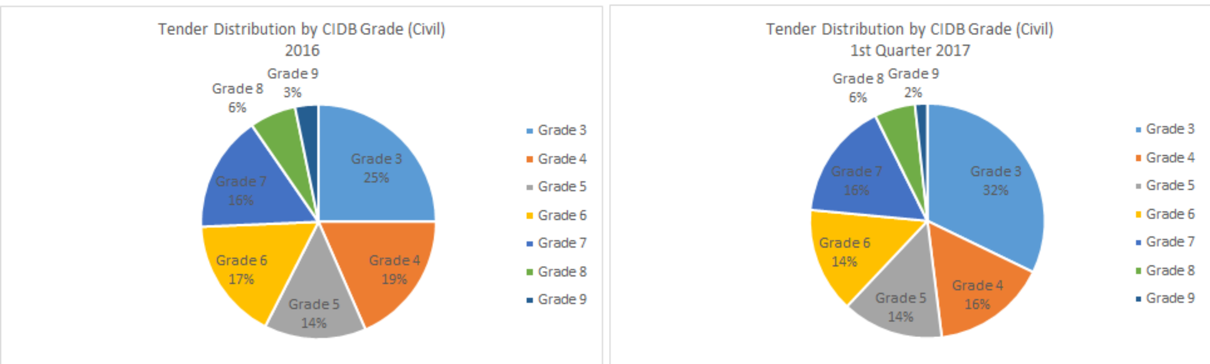
Opinions related to the awarding of contracts also deteriorated in this survey, with majority, 67.1 percent, reporting low levels (compared to an average of 48.3 percent in the previous two surveys). Less than 10 percent were satisfied at the pace by which contracts are being awarded, a significant drop from the previous six surveys, boosted by higher levels of confidence amongst the medium size firms).

Table 13: Opinions related to awarding of contracts (Weighted response)

Values	2014 Q3	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
Nil	0.0%	7.6%	3.8%	2.7%	1.8%	1.8%	6.6%	0.0%	16.8%	15.6%	24.1%
Low	81.2%	62.5%	76.6%	90.8%	50.7%	35.7%	35.5%	55.5%	50.4%	46.3%	67.4%
Satisfactory	18.8%	29.9%	7.0%	0.2%	42.0%	47.3%	54.4%	44.5%	32.8%	38.1%	8.6%
Good	0.0%	0.0%	12.6%	6.3%	5.5%	15.1%	3.5%	0.0%	0.0%	0.0%	0.0%
Nett % satisfied	-62.3%	-40.3%	-60.8%	-87.0%	-4.9%	24.9%	15.8%	-10.9%	-34.4%	-23.7%	-82.9%

The number of civil projects out to tender fell by 18 percent y-y in 2016, but with a surprising increase in the number of Grade 9 projects out to tender (Projects with an estimated value of more than R130m), which increased by 100 percent. However, these projects represented only 3 percent of total tenders, but this was a welcoming improvement from representing only 1 percent of tenders in 2015. Concerning though is the slow pace of projects awards. The number of projects awarded in the civil industry rose by 28 percent y-y in 2016, yet the number of projects awarded towards Grade 9 projects fell by 14 percent during the same period. We have seen some improvement in the awarding of grade 9 projects in the first quarter, and are hopeful that this trend will continue. Majority of projects out to tender relate to Grade 3 contracts, representing 25 percent of total civil tender activity. The awarding of Grade 3 projects increased by 66 percent in 2016 and increased by 25 percent y-y in the 1st quarter of 2017.

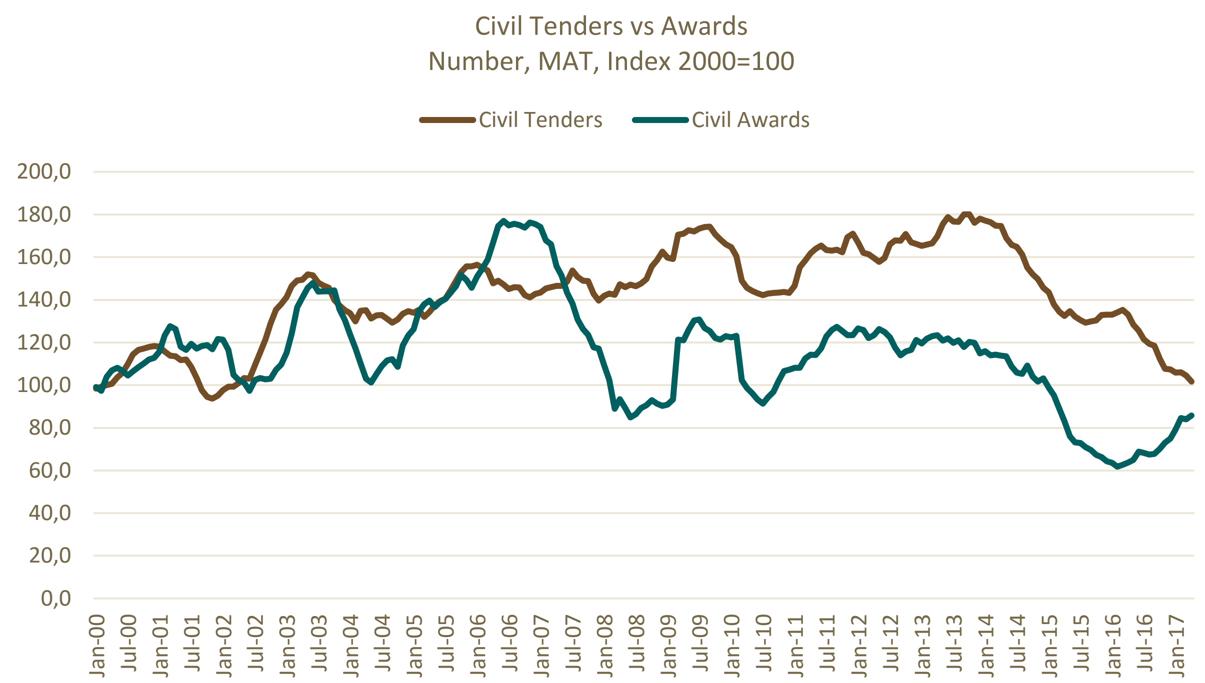
Figure 13: Tender Distribution by CIDB Grade

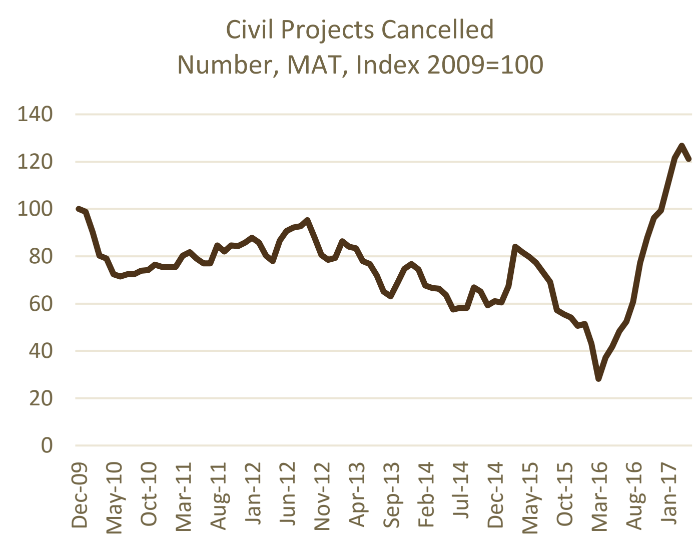


Source: Databuild / Industry Insight

Dissatisfaction related to the poor or slow awarding of contracts is supported by independent research based on project information supplied by Databuild, which clearly shows the growing disparity between the number of civil tenders and projects awarded, particularly from 2012/13 onwards. Although there has been some improvement in the awarding of contracts in the last few months, activity levels remain at near record lows.

Figure 14: Civil Tenders vs Awards





There has been a notable increase in the number of civil projects cancelled. The index increased from an index value of 28 in March 2016 (based on a running twelve month total), to 126.7 twelve months later (March 2017). The cancellation rate (the number of projects cancelled in relation to the number of projects out to tender), increased from an average of 9 percent in 2016 to 19 percent in the first four months of 2017.

Figure 15: Civil projects Cancelled (Index)

The overall nett satisfaction rate related to order books has been positive in the last four surveys (after having reported negative nett satisfaction rates between 2014 up to the 2nd quarter of 2016), but moderated rather significantly to just 2.0 percent in the current survey, from an average of 26 percent in the previous two surveys, mainly due to more a depressed outlook expressed by both larger and medium size firms. None of the firms reported satisfactory or better levels in terms of their current orderbook, suggesting depressed conditions to be maintained.

Figure 16: State of Orderbooks

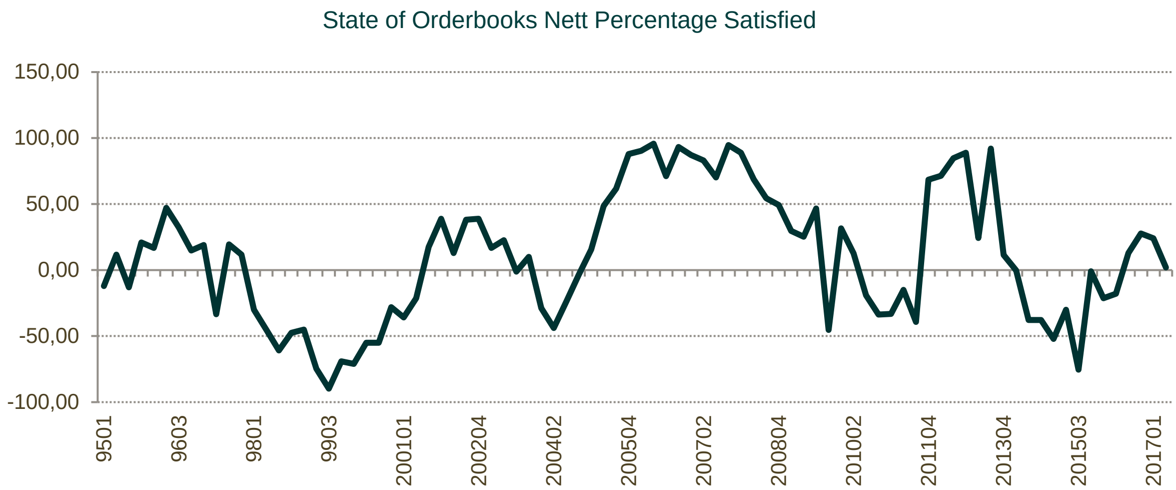
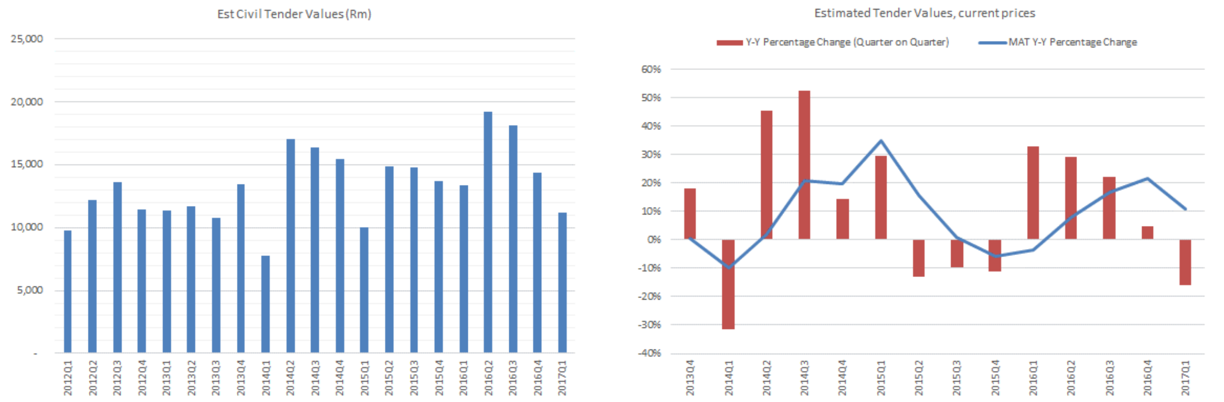


Table 15: Opinions related to order books (weighted response)

Values	2014 Q3	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
Nil	0.0%	0.0%	0.0%	0.0%	0.2%	0.1%	0.3%	0.0%	1.3%	0.5%	0.8%
Low	68.9%	76.1%	64.6%	87.6%	50.3%	60.5%	58.6%	43.5%	34.8%	37.4%	48.3%
Satisfactory	29.2%	23.9%	35.4%	6.3%	42.4%	34.5%	40.2%	56.5%	63.9%	62.1%	51.0%
Good	1.8%	0.0%	0.0%	6.0%	7.1%	4.8%	0.9%	0.0%	0.0%	0.0%	0.0%
Nett % satisfied	-37.8%	-52.2%	-29.2%	-75.3%	-1.0%	-21.3%	-17.7%	13.0%	27.7%	24.2%	2.0%

According to an analysis of project lead information, supplied by Databuild, the annual increase in the estimated nominal value of civil projects out to tender during 2016, averaging 22.3 percent, deteriorated and fell by 16.1 percent y-y in the 1st quarter of 2017. This is due to a combination of weaker tender activity as well as lower value projects being put out to tender during this period. After having increased by an average of 55.6 percent y-y in 2016, the value of road contracts out to tender fell by 13 percent in the 1st quarter. Considering the high contribution of road construction to the civil contracting industry, this could have a profound impact on turnover in the industry. The value of water projects out to tender continued to decrease and fell by 34 percent y-y in the 1st quarter, following the 9.3 percent decrease reported in 2016. Please note that this does not include mining infrastructure or bulk infrastructure projects.

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%

Capacity Utilisation and Plant Equipment

Figure 18: Capacity Utilisation Percentage breakdown of respondents

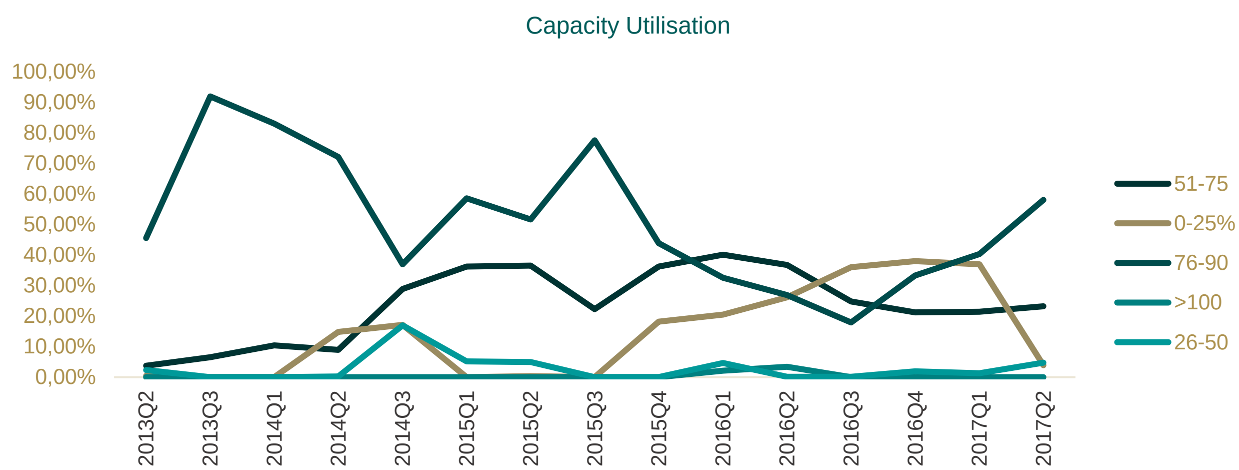


Table 16: Capacity Utilisation

	2014 Q3	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
0-25%	17.2%	0.0%	0.3%	0.0%	18.2%	20.5%	26.2%	36.0%	38.0%	37.0%	3.9%
26-50%	17.0%	5.2%	4.9%	0.0%	0.0%	4.6%	0.1%	0.2%	1.9%	1.3%	4.8%
51-75%	28.9%	36.2%	36.6%	22.3%	36.3%	40.1%	36.7%	24.8%	21.2%	21.4%	23.2%
76-90%	37.0%	58.6%	51.6%	77.6%	43.9%	32.5%	26.8%	17.9%	33.3%	40.3%	58.0%
91-100%	0.0%	0.1%	6.6%	0.1%	1.6%	0.1%	6.7%	21.1%	5.5%	0.0%	10.2%
>100%	0.0%	0.0%	0.0%	0.0%	0.0%	2.1%	3.4%	0.0%	0.0%	0.0%	0.0%
Capacity >90%	0.0%	0.1%	6.6%	0.1%	1.6%	2.2%	10.1%	21.1%	5.5%	0.0%	10.2%

Majority of firms (58%) reported capacity utilisation in terms of general plant and resources at between 76 and 90 percent, a relatively strong recovery from an average of 36 percent in the previous two surveys. Fewer firms reported on utilisation levels below 50 percent, while 10 percent said utilisation was above 10 percent. None of the contractors are surpassing their existing capacity levels.

Majority reported that less than 25 percent of plant and equipment is standing idle (76.4 percent), which could also be a factor of companies having to downsize in view of tough market conditions. None of the companies reported that more than 50 percent of plant is currently standing idle, an improvement on the 14.5 percent and 8.8 percent in the previous two surveys.

Table 17: Percentage of plant and equipment standing idle

	2014 Q3	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
0-25%	100.0%	56.7%	77.3%	86.5%	65.0%	61.1%	57.4%	88.1%	89.9%	72.7%	76.4%
26-50%	0.0%	43.3%	16.3%	10.2%	28.0%	36.6%	31.3%	11.8%	1.3%	12.8%	12.4%
51-75%	0.0%	0.0%	6.4%	0.0%	4.6%	2.3%	8.4%	0.0%	8.8%	14.5%	0.1%
75-90%	0.0%	0.0%	0.0%	3.3%	2.4%	0.0%	2.9%	0.0%	0.0%	0.0%	11.1%
90-100%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.1%	0.1%	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	0.0%	0.0%	6.4%	3.3%	7.0%	2.4%	11.3%	0.1%	8.8%	14.5%	0.0%

Figure 19: Tender Volumes

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

Figure 20: Working Conditions Next Quarter

Performance of the Listed Sector

Several construction companies released their financial results in the second quarter of 2017 (as at 1st week in June) including Stefanutti Stocks, Aveng, Calgro M3, Raubex and Esor.

Stefanutti Stocks released results in May, and reported a 6 percent nominal decrease in revenue, and an operating loss of R106.4 million, with no dividend declared. Stefanutti Stocks cited a challenging construction sector as the overall reason for the decline in revenue, but remained relatively upbeat about the future of the sector. This positive outlook supports the fact that there are still plenty of pockets of growth within the economy, as Industry Insight has continued to communicate, such as residential and mixed-use building projects and water and sanitation. Further potential lies in mining surface infrastructure and marine petrochemical tank farms.

Group 5 did not release any financial results but experienced some difficulties related to board members during the past month, which seems to be resolved with a new CEO appointed with immediate effect, Mr Themba Mosai. An announcement was also made that the company would be splitting up their loss (consisting of the engineering and construction division) in an attempt to restructure, as well as lay off and offer retrenchment packages to several staff, which is expected to be concluded by the end of June. The size of the company is being trimmed to what they believe is suitable to the current economic environment, which has been detrimental to the higher end of the market over the last few years.

Calgro M3 released results in May which were largely positive. Calgro has traditionally focused on the residential market, specifically in affordable and low cost housing, but has since ventured into lifestyle estates as well as memorial parks in an attempt to diversify their prospects, given the current economic environment. It was reported that revenue increased by 29.1 percent, while gross profit margins also rose, to 21.5 percent, from 20.9 in the previous reporting period. These results can be interpreted positively, as conditions in the residential market (as a whole) remain relatively dire. The contractor/developer remains relatively optimistic about weathering the economic storm ahead, and have strategically repositioned themselves in anticipation of tough conditions. The repositioning they variegate into consists of other sectors within the overall residential market, advancing their memorial parks business, as well as establishing a residential real estate investment trust (REIT) in partnership with SA corporate real estate. This follows similitude of residential only REIT's; Balwin and Indluplace, both of which are performing relatively well financially.

Raubex released a strong set of financial results on the 8th of May, for their year-end of 28 February 2017. Revenue was up by 12.6 percent to R9bn, and gross profits were up by 9 percent in nominal terms. Operating profits did however decrease marginally, as well as headline earnings per share.

The Road Construction division had a good second half of their financial year where they were able to make up some ground lost in the first half of the year, in terms of increasing their order book. The contractor cites some increases to SANRAL's budget as positive going forward. Data from the budget documents indicate that there is to be a renewed focus on the maintenance and refurbishment of the South African road network over the Medium Term Expenditure Framework. Raubex further expects some large civil projects to come to the market in the medium term. The infrastructure division order book has shown growth in the affordable housing sector, while the renewable energy sector continues to offer prospects, although the order book has come under pressure. The group's secured orderbook moderated to R8.03bn (from R8.27bn), with 23.7 percent representing contracts outside of South Africa.

Industry Turnover

According to responding contractors, nominal turnover based on certified payments received, fell by 7.6 percent q-q in the 1st quarter of 2017, compared to the previous quarter, following the 3.2 percent y-y decline in 2016 (in nominal terms), or a decline of 9.2 percent in real terms, allowing for an average cost inflation of 6.7 percent in 2016.

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

As expected turnover contracted in the 1st quarter of 2017, as government departments are still in the final phases of their financial years, and awaiting the release of allocations in the 2017 Budget. Turnover generally increases at a stronger pace in the 2nd quarter as funds have been allocated towards infrastructure allocations for the next financial year, following the release of the budget in February each year. This combined with some spill overs following a stronger increase in the estimated value of tenders during the last six months of 2016 may support some improvement in turnover, although this outlook is challenged by higher levels of pessimism as expressed by respondent in this survey.

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

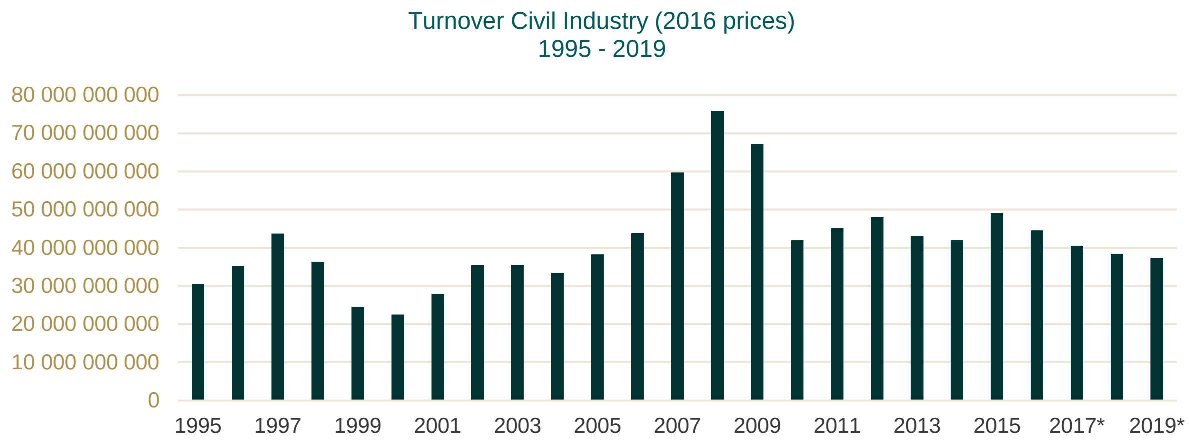


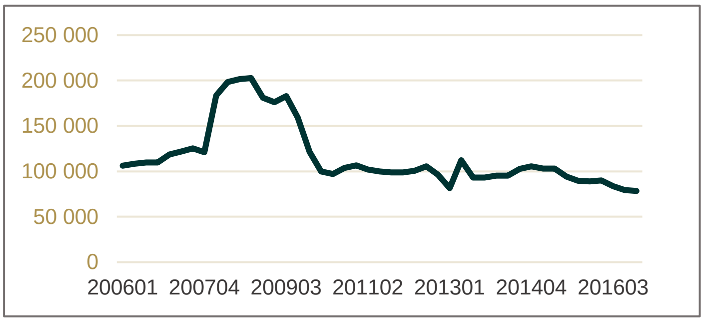
Table 18: Actual and Expected Turnover trends

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

Table 19: Employment, Contract Awards, 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	2,457,938,224
2016.4	79,561	10,534,020,960	2,212,144,402
2016	85,492	44,590,770,821	9,364,061,872
2017.1	78,447	9,733,435,367	2,044,021,427

Figure 22: SAFCEC Quarterly Employment Trend



Employment in the civil engineering contracting industry fell by 1.4 percent q-q in the 1st quarter of 2017, following the 4.8 percent contraction reported in the 4th quarter of 2016. Compared to last year, employment has fallen by 12 percent to an estimated 78,447. 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.

Confidence Index

The quarter on quarter movement in the index has been more erratic since 2010, with some improvement reported in 2014, brought about by a more optimistic outlook from medium size contractors. However, sentiment has returned to being more pessimistic in the last few surveys, with industry sentiment representing levels last seen in 2000. The overall confidence level deteriorated to a nett negative satisfaction rate of -77.9 percent in the 2nd quarter of 2017 from -52.5 in the previous survey, and is the weakest level seen since the 2nd quarter of 2015.

In this survey, larger contractors reported a more pessimistic view, with 75 percent (majority) stating a poorer outlook on business conditions in South Africa. Medium size contractors were equally pessimistic, with 80 percent reporting on quiet to very quiet conditions expected.

Explanatory Note

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

Table 20: Overall assessment of business conditions (RSA Only

Values	2014 Q3	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
Very Quiet	0.0%	36.3%	3.2%	17.7%	3.9%	4.8%	4.2%	0.1%	5.5%	25.2%	5.2%
Quiet	54.7%	33.4%	88.9%	62.4%	39.8%	55.2%	54.8%	34.8%	37.0%	27.7%	73.4%
Satisfactory	45.2%	30.3%	7.9%	11.0%	52.6%	39.0%	38.8%	65.2%	57.5%	46.7%	20.7%
Quite busy	0.1%	0.0%	0.0%	8.9%	2.5%	1.0%	2.2%	0.0%	0.0%	0.4%	0.7%
Very busy	0.0%	0.0%	0.0%	0.0%	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Nett %	-54.6%	-69.7%	-92.1%	-71.2%	-40.1%	-59.0%	-56.8%	-34.8%	-42.5%	-52.5%	-77.9%

Figure 23: Civil Engineering Contractors Confidence Index

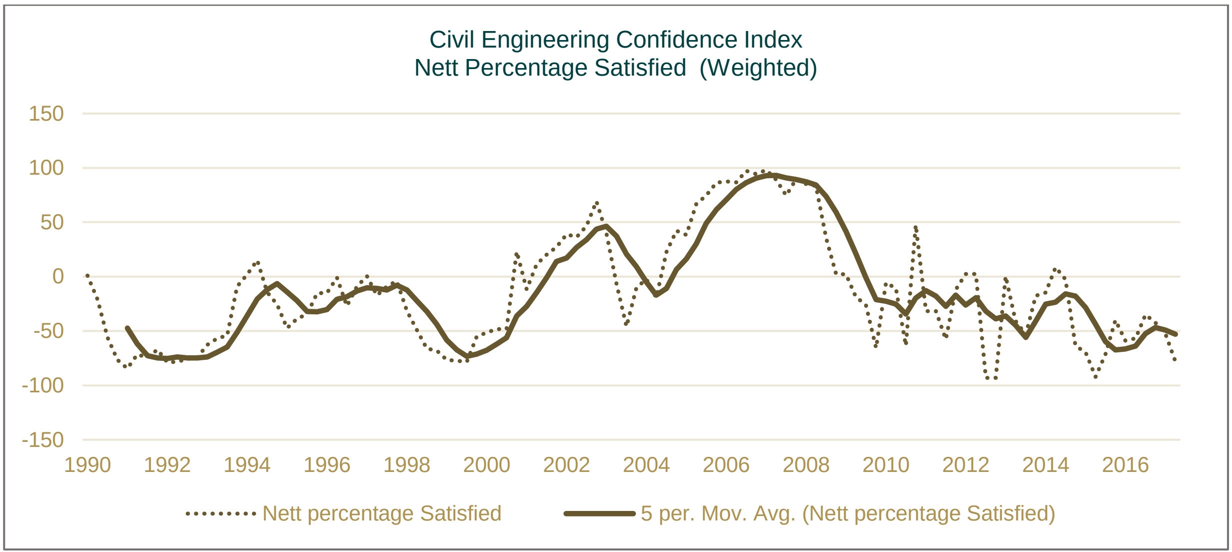
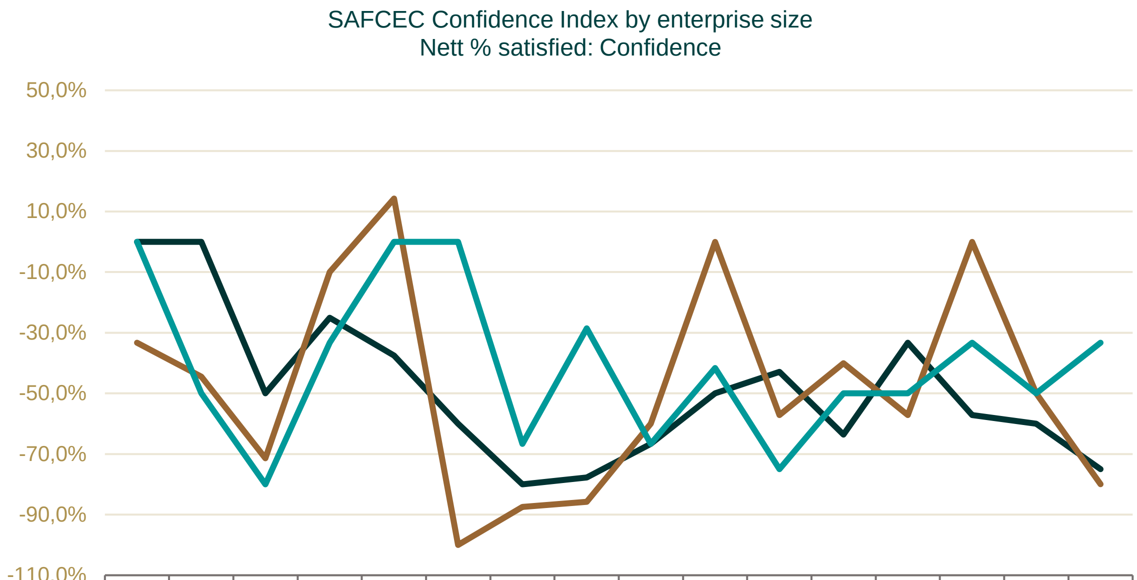


Figure 24: SAFCEC Confidence Index by Enterprise Size



	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
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
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
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

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

Values	2014 Q3	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
Very Quiet	0.0%	20.0%	11.1%	44.4%	12.5%	0.0%	9.1%	0.0%	0.0%	20.0%	0.0%
Quiet	60.0%	60.0%	66.7%	33.3%	37.5%	42.9%	54.5%	33.3%	57.1%	40.0%	75.0%
Satisfactory	40.0%	20.0%	22.2%	11.1%	50.0%	57.1%	36.4%	66.7%	42.9%	40.0%	25.0%
Quite busy	0.0%	0.0%	0.0%	11.1%	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%	-80.0%	-77.8%	-66.7%	-50.0%	-42.9%	-63.6%	-33.3%	-57.1%	-60.0%	-75.0%

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

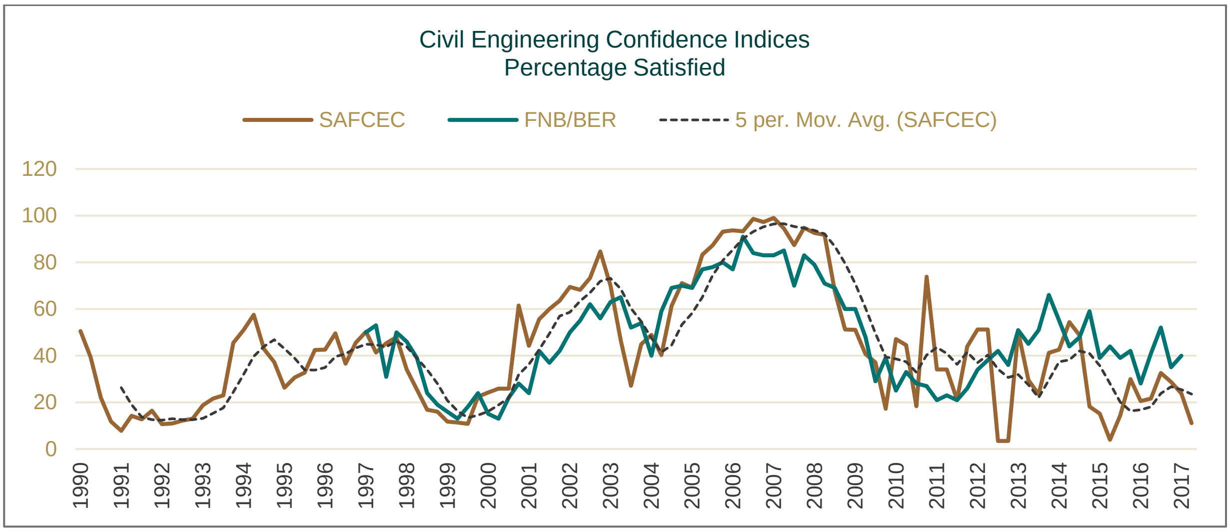
Values	2014 Q3	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
Very Quiet	0.0%	25.0%	0.0%	20.0%	0.0%	42.9%	20.0%	0.0%	0.0%	50.0%	10.0%
Quiet	100.0%	62.5%	85.7%	60.0%	33.3%	28.6%	40.0%	57.1%	0.0%	0.0%	70.0%
Satisfactory	0.0%	12.5%	14.3%	0.0%	33.3%	14.3%	20.0%	42.9%	100.0%	50.0%	20.0%
Quite busy	0.0%	0.0%	0.0%	20.0%	33.3%	14.3%	20.0%	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 %	-100.0%	-87.5%	-85.7%	-60.0%	0.0%	-57.1%	-40.0%	-57.1%	0.0%	-50.0%	-80.0%

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

Values	2014 Q3	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
Very Quiet	0.0%	0.0%	14.3%	66.7%	25.0%	25.0%	16.7%	25.0%	33.3%	50.0%	33.3%
Quiet	50.0%	66.7%	28.6%	0.0%	33.3%	50.0%	33.3%	25.0%	0.0%	16.7%	33.3%
Satisfactory	0.0%	33.3%	42.9%	33.3%	25.0%	25.0%	50.0%	50.0%	66.7%	16.7%	0.0%
Quite busy	50.0%	0.0%	14.3%	0.0%	8.3%	0.0%	0.0%	0.0%	0.0%	16.7%	33.3%
Very busy	0.0%	0.0%	0.0%	0.0%	8.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Nett %	**0.0%**	**-66.7%**	**-28.6%**	**-66.7%**	**-41.7%**	**-75.0%**	**-50.0%**	**-50.0%**	**-33.3%**	**-50.0%**	**-33.3%**

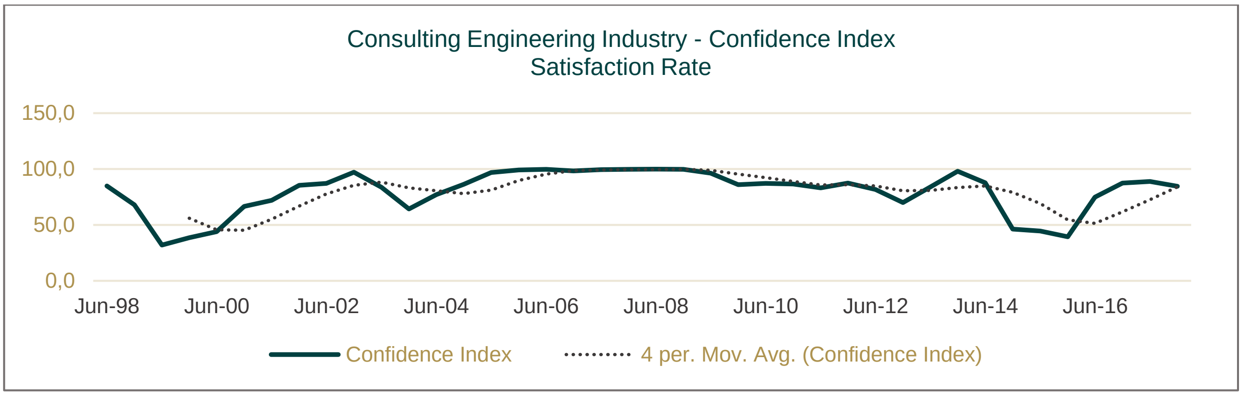
A comparison with FNB/BER's civil industry confidence index, shows a clear and distinct correlation between the two independently surveyed data sets, as both surveys depict weak sentiment amongst civil contractors. The satisfaction rate in the FNB/BER index has been below 50 since the 1st quarter of 2015, and recorded a level of 40 in the 1st quarter of 2017.

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 the last six months of 2016, increasing to a satisfaction rate of 87 percent. 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 six months, may suggest an uptick in projects at planning stages which, if executed, will support growth, albeit marginal, in the general contracting industry.

Figure 26: Consulting Engineering Industry Confidence Index



Key Issues Affecting Current Confidence Levels in the Industry

- Global economic stabilisation, but weighed down by political risks in developed economies and slowing growth in China's economy continue to pose a risk.
- Domestic economic woes intensified in the first quarter of the year, as the country finds itself in recession, and fears of a credit rating downgrade became a reality. Increased risks associated with currency developments, political tension and practical implications associated with more radical economic transformation, as promised in the 2017 Budget, are now more profound.
- Project cancellations and delays in project implementation remains a serious concern and constraint affecting the construction industry. Project cancellations more than doubled in the first four months of 2017 compared to last year.
- Skills related to engineering is becoming a more serious constraint largely aggravated through continued client interference which creates an environment whereby agents are being disempowered. This leads to project implementation delays and is a contributing factor to the increase in payment delays, through delays in certification.
- Slow roll out of public sector infrastructure projects, including the delays to implement the targets as set out in the National Development Plan, aggravated by cuts in projected infrastructure expenditure allocations which were announced in the 2017/18 Budget, has resulted in marginal nominal growth projected over the medium term expenditure framework period (2017/18 – 2019/20).
- Award delays are also becoming more significant. Contractors have a quarter of the time to prepare and submit tender document, compared to the time taken by clients to adjudicate.
- Skills shortages in procurement which also include government's ability to implement proper project planning and implementation. It is also critical to shorten the delay between tender and awards which could take as long as one year.
- The inability of certain local and district municipalities to spend allocated budgetary allocations, which also suggest inadequate skills in planning and budgetary management.
- Low confidence in the mining sector and policy uncertainty, particularly also in the renewable energy sector is delaying private capital expenditure.
- The tendency by government to break what should be larger Grade 9 projects, into smaller grade projects, referred to as project fragmentation. 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, 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

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.

Input cost price movements based on the Baxter contract price adjustment formula (CPAF) averaged 6.7 percent in 2016, following an average increase of 15.8 percent in plant equipment, 5.2 percent in fuel, 6.2 percent in materials and 6.3 percent in labour (based on the CPI). The composite index escalated to an average increase of 7.4 percent in the first four months of 2017, largely due to higher fuel prices (average increase of 16.8 percent, within our forecast range) and an average increase of 10.0 percent in materials. Although currency volatility was higher than expected in the first quarter of the year, brought about by the axing of Finance Minister Pravin Gordhan and the subsequent downgrading of South Africa's sovereign debt credit rating, the currency is still within our forecast range and averaged R13.2/$ in the first four months. The price of Brent crude oil averaged $55/barrel, also within our forecast rage. The plant index escalated at a stronger pace than expected (averaged 3.3 percent in the first four months, against an expected 8 percent decrease), while the composite index for materials escalated at 10 percent (against a forecast of 7 percent). These two components are the main push behind the stronger than expected increase in the composite index.

Pending further developments in the oil price and currency vulnerability, and an adjustment to the project escalation in the plant index (from -8 percent to 3 percent) we expect the composite index to increase by an average rate of 6.7 percent (against an initial forecast of 3.3 percent) in 2017, and 6.6 percent in 2018. Our assumptions include a relatively stable oil price, although marginally higher compared to 2016, and some appreciation in the currency from an average of R14.7/$ to R13.5/$ in 2017. These developments and the impact on input cost construction will be closely monitored and adjusted accordingly.

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

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

Year	Material (SAFCEC)	Fuel (SAFCEC)	Plant (SAFCEC)	Labour (CPI)	Composite
2013	4.3%	7.2%	6.3%	5.8%	5.7%
2014	3.3%	3.1%	6.4%%	6.1%	5.6%
2015	-5.2	-15.5%	3.2%	4.6%	0.6%
2016	6.2%	5.2%	15.8%	6.3%	6.7%
2017*	7.0%	18.2%	3.0%	6.4%	6.7%
2018*	5.0%	11.2%	7.4%	5.7%	6.6%
2019*	5.0%	8.7%	6.9%	5.6%	6.1%

Figure 27: CPAF Y-Y Percentage Change

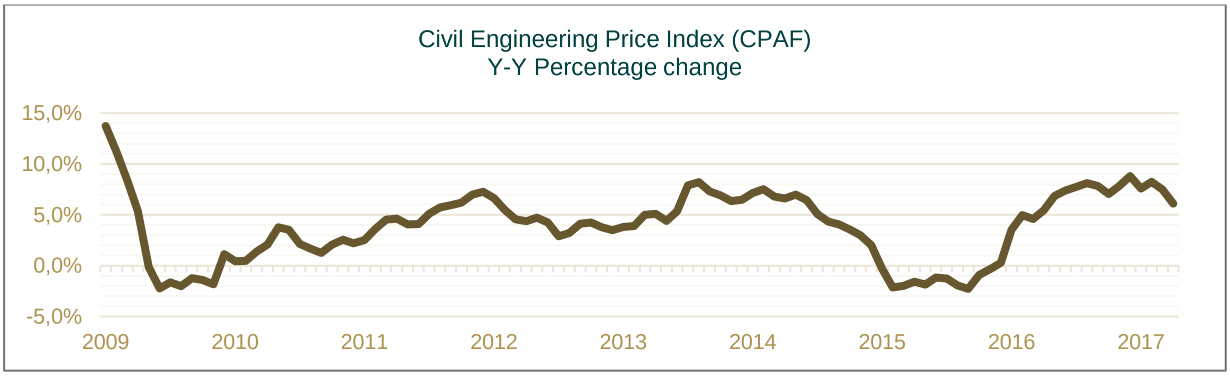
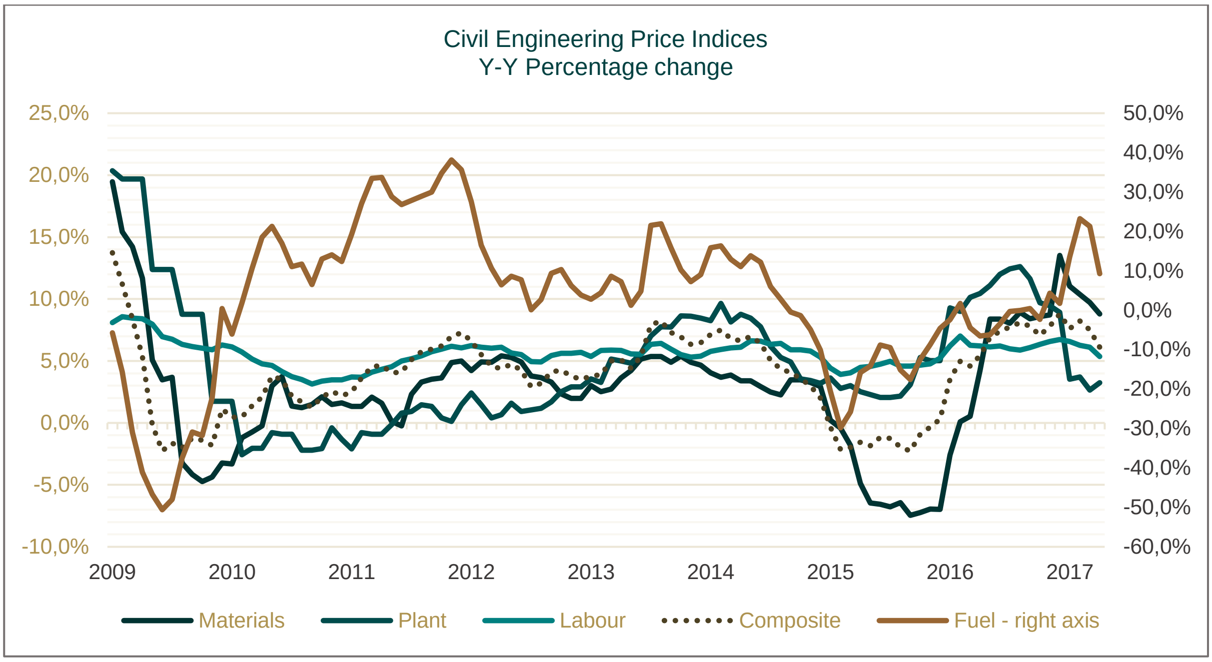


Figure 28: Civil Engineering Price Movements



Source: Stats SA

Table 25: Macro Price Assumptions

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

Table 26: CPAF Indices Forecast 2012-2017

Index 2012= 100	2013	2014	2015	2016	2017	2018	2019
Plant	81.8	87.0	89.8	99.3	102.3	109.9	117.4
Fuel	109.5	115.9	98.0	96.5	114.1	126.9	137.9
Materials	91.3	94.3	89.4	95.0	101.6	106.7	112.0
Labour	83.0	88.0	92.0	97.8	104.1	110.0	116.2
Composite	**87.8**	**92.4**	**91.2**	**97.3**	**103.8**	**110.7**	**117.5**
Y-Y Percentage Change							
Plant	6.3%	6.4%	3.2%	15.8%	3.0%	7.4%	6.9%
Fuel	9.4%	5.8%	-15.4%	5.2%	18.2%	11.2%	8.7%
Materials	4.3%	3.3%	-5.2%	6.2%	7.0%	5.0%	5.0%
Labour	5.8%	6.1%	4.6%	6.3%	6.4%	5.7%	5.6%
Composite	**5.9%**	**5.3%**	**-1.3%**	**6.7%**	**6.7%**	**6.6%**	**6.1%**

Table 20: CPAF Indices (Quarterly Average)

		CPAF Indices 2016=100					Y-Y Inflation				
Year	Quarter	Materials	Labour	Fuel	Plant	Composite	Materials	Labour	Fuel	Plant	Composite
2012	1	87.2	76.9	99.0	76.0	82.0	4.7%	6.1%	17.8%	1.4%	5.6%
	2	87.6	78.0	101.2	76.5	82.8	5.2%	5.8%	7.6%	1.1%	4.5%
	3	87.7	78.8	94.8	77.2	82.6	3.6%	5.1%	4.1%	1.3%	3.4%
	4	87.7	80.0	105.1	77.8	84.2	2.1%	5.6%	6.8%	2.8%	3.8%
2013	1	89.6	81.3	104.3	79.1	85.4	2.8%	5.7%	5.3%	4.0%	4.2%
	2	91.4	82.5	105.7	80.4	86.8	4.3%	5.7%	4.4%	5.1%	4.9%
	3	92.3	83.7	113.4	83.0	89.0	5.2%	6.2%	19.7%	7.5%	7.8%
	4	92.0	84.4	114.4	84.5	89.7	5.0%	5.4%	8.8%	8.6%	6.6%
2014	1	93.1	86.1	119.9	85.9	91.5	3.9%	5.9%	15.0%	8.7%	7.1%
	2	94.3	87.8	118.7	87.1	92.6	3.2%	6.5%	12.4%	8.3%	6.7%
	3	94.8	88.9	116.6	87.6	93.0	2.7%	6.2%	2.8%	5.5%	4.5%
	4	95.0	89.1	108.2	87.3	92.3	3.2%	5.7%	-5.4%	3.4%	2.9%
2015	1	92.5	89.7	89.5	88.6	90.2	-0.7%	4.1%	-25.4%	3.1%	-1.5%
	2	88.7	91.8	103.4	89.1	91.2	-6.0%	4.6%	-12.9%	2.3%	-1.5%
	3	88.3	93.1	100.2	89.7	91.4	-6.9%	4.7%	-14.0%	2.4%	-1.8%
	4	88.3	93.5	98.8	91.8	92.0	-7.1%	4.9%	-8.7%	5.1%	-0.3%
2016	1	91.9	95.5	87.9	97.0	94.1	-0.6%	6.5%	-1.8%	9.5%	4.4%
	2	94.9	97.5	97.8	99.1	97.2	7.0%	6.2%	-5.4%	11.2%	6.6%
	3	95.7	98.7	100.3	100.7	98.6	8.5%	6.0%	0.0%	12.2%	7.9%
	4	97.4	99.6	100.0	100.4	99.2	10.3%	6.6%	1.2%	9.4%	7.9%
2017	1	100.5	100.6	103.6	99.9	100.7	9.4%	5.3%	17.8%	3.0%	7.0%

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)