

Build Trends

August 2010 | Issue 119



SA's GDP growth slows to 3.2% in Q2



Public sector strike is costing economy billions



Signs that the early peak in residential property market had been reached



Four Setas being placed under administration

Macro-economic trends impacting on construction industry

2nd Qtr GDP data recorded a q-o-q seasonally adjusted annualised growth rate of 3.2%, down from 4.6% in the 1st qtr. However, the figures were somewhat lower than consensus forecasts for an outcome between 3.6% and 3.9%.

Y-o-y growth rose to 3.0% for the 2nd qtr, from 1.6% in the 1st qtr and a low point of -2.7% in the 2nd qtr of 2009. This was in fact the best y-o-y growth rate in GDP since the 3rd qtr of 2008.

There are some positive and some negative interpretations of these latest figures. On the positive side, six out of the 10 sectors of the economy saw an improvement in growth. However, with the exception of agriculture, these were all service-oriented knowledge intensive areas of the economy where there is a shortage of skills. One suspects that the holding of the World Cup helped to boost growth in the services sectors in the 2nd qtr. On the negative side, the declines in GDP growth were in respect of mining, manufacturing and construction, all of which tend to be proportionately more labour-intensive and able to absorb more easily persons drawn from the multitude of uneducated and unskilled sections of society.

In conclusion, even though GDP growth excluding agriculture and mining actually rose to its best level in three years, at 4.3% in the 2nd qtr, from 3.7% in the 1st qtr and a low point of -5.9% in the 1st qtr of 2009, the kind of growth was not geared towards creating large-scale employment opportunities. Part of this can be attributable to the fact that the labour-intensive sectors are geared towards global demand for minerals and processed mineral products in an environment in which the momentum of global economic recovery has been progressively lost. However, one is also left to ponder on the impact of labour market laws and the strength of industrial action in dissuading employers in the more labour-intensive sectors from taking on new workers. The result is what has come to be known as "jobless growth", which in turn leads to growing inequality with the associated implications for crime and social unrest.

The slightly weaker growth in the 2nd qtr implies that the economy will do well to achieve the 3% growth rate many analysts have been hoping for, for 2010. With the World Cup out of the way, more momentum in the economy might be lost in the second half of the year.

From a monetary policy perspective, the decline in growth is not of such a magnitude as to create undue pressure on the Reserve Bank to reduce interest rates, especially given the realisation that it is structural factors rather than just high interest rates that are contributing towards economic underperformance. Nonetheless, pressure is being brought to bear on the Bank to reduce interest rates and the chances of such a rate cut are significant.

Source: *Econometrix*, 24 August 2010

Public sector strike is costing the economy an estimated R1-billion plus a day.

Government is seeking an urgent resolution to the crippling public sector strike, which is costing the South African economy an estimated R1-billion-plus a day, Finance Minister Pravin Gordhan said last week.

While workers had a right to strike, he criticised striking employees for the accompanying violence and

intimidation.

About 1,3-million unionised employees walked out in a standoff last Wednesday, crippling health and education services.

Gordhan, who was awarded the Rotary Club 'Achiever of the Year' award on Thursday night, said that government and unions were both actively seeking a settlement that would be fair to all.

"One of the big problems in South Africa is the fact that such large gaps exists between the base salaries of workers and that of top executives, especially in the private sector, this causes a lot of dissatisfaction and is an issue that needs to be addressed."

The R5-billion unplanned expenditure that would arise from the government's higher-than-expected wage offer of 7% and R700 monthly housing allowance, would place a burden on the country's fiscus and would result in a carry-through effect of a further R2,7-billion in the 2011/12 financial year.

Unions are demanding an 8,6% salary increase and a R1 000 a month housing allowance.

Gordhan said that South Africa needed sustainable growth of around 7% for the next 20 to 30 years to relieve poverty and create higher levels of job creation.

The government is busy devising a labour-absorbing economic growth strategy, and hopes that business and labour will commit themselves to it later this year.

South Africa achieved lower-than-expected growth of 3,2% during its second quarter and the Minister said that this reconfirmed that the economic environment was still experiencing great uncertainty. "It is like a roller coaster ride and we will have to wait and see if it will do a double-dip."

The country's slowing recovery and lower inflation data for July, has increased speculation that its Reserve Bank would cut the repo rate from 6,5% at the next Monetary Policy Committee meeting.

"The continuing downwards trend of inflation is interesting, and it would be taken into account, together with growth numbers that could necessitate further monetary support."

However, he pointed out that the above 3% growth indicated that South Africa was showing stable and consistent growth that was satisfactory for the short to medium term, but added that higher growth and production was definitely needed in the longer term.

The Minister said that government would be looking at restructuring the country's economy to put it on a new growth trajectory. "An important aspect of this would be an effective industrial policy plan and removing blockages that prevent the private sector to capitalise on its potential."

Gordhan emphasised that it was important for government and small business to work together and that each sector of the country's economy provided huge opportunities for such collaboration.

"But we have to stop debating about policy and go out there and start trying a few things, create a new momentum of initiatives that will provide a stronger output," he concluded.

Source: *Creamer Media Engineering News*, Loni Prinsloo, 27 August 2010

The CPI inflation rate declined by much more than expected in July, to 3.7%, from 4.2% in June, taking the figure to its lowest level in more than four years.

Bigger than expected decline in CPI for July.

The most significant contributor to the decline in CPI inflation was, as expected, petrol, whose price has declined in recent months compared with

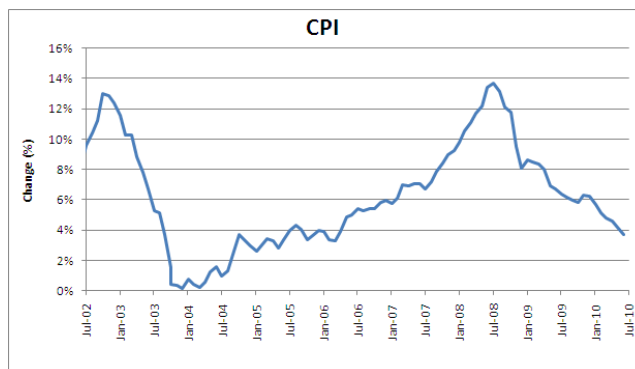
increases in the corresponding months a year ago.

However, the combination of broadly based declines in inflation of many other goods and services, added to the downward pressure on inflation. In many instances, the costs of goods and services declined in absolute terms, whilst in other cases where there was no change in price, this compared with an increase in price a year ago. Inflation of both goods and services declined substantially.

The fall in inflation would have been still steeper had it not been for a sharp rise in the price of vegetables, presumably linked to the shortage of potatoes as a result of frost.

The steeper than expected decline in inflation is likely to be interpreted as a further sign of disinflation in the domestic economy associated with relative weakness in economic activity. Consequently, given the build-up of economic indicators released in the past few weeks reflecting a loss of momentum in the economic recovery, one is now compelled to suggest that interest rate prospects have come to favour a decline in the repo rate in a fortnight's time, as opposed to the prospect for unchanged interest rates which we had held for so long. Nonetheless, there is a good chance that the 3.7% July CPI inflation rate will turn out to be the low point in the current downward trend of inflation. For one thing, the statistical factors contributing towards falling inflation will begin to dissipate from now onwards. Secondly, food inflation could continue increasing from now on in the face of shortages of red meat and vegetables, higher international grain prices and the potential for shortages of maize arising out of reduced plantings. Thirdly, one is far from convinced that the full effects of the 25% overall electricity tariff increase have been fully reflected in the CPI figures thus far and so a nasty surprise on this front could be in the offing. Finally, the bigger than expected drop in inflation in July can be attributable to the fact that hotels, which had hiked prices in June due to the World Cup, appear to have reduced their prices back to original levels in the aftermath of the tournament. Consequently, the window of opportunity available to the Reserve Bank to reduce interest rates further in September might not be available later in the year, especially if the Rand begins to weaken, as

is possible, in the face of deteriorating global financial sentiment.



Source: *Econometrix*, 24 August 2010, Stats SA

Trade barriers, poor infrastructure and corruption are holding back efforts to boost and diversify Africa's trade, US Secretary of State Hillary Clinton said recently.

Vowing to help Africa overcome poverty, Clinton said the Obama administration's trade and development strategy stressed "fostering regional markets within Africa, boosting trade and aid effectiveness and working with partner governments to promote structural reforms and gradual market liberalisation."

She told the annual forum on US trade with Africa that the African Growth and Opportunity Act (AGOA), a pact that allows Sub-Saharan African countries to export over 6 400 types of goods to the US without paying duties, had not delivered the hoped-for trade expansion.

"Petroleum products still account for the vast majority of exports to the United States and we have not seen the diversification or growth of exports that AGOA was supposed to spur," she told African officials and business leaders.

US Trade Representative Ron Kirk said that the AGOA will likely be renewed by US Congress before its 2015 expiration, though is unlikely to be made permanent. African trade groups have said that the program's temporary nature discourages long-term investment in the continent. Clinton said Sub-Saharan Africa's economy was poised to grow faster than South America, Europe or the United States this year. But she lamented that a region with 12% of the world's population produces less than 2% of global GDP.

"Many of Africa's major challenges - from inadequate infrastructure to political instability to corruption - also present opportunities for market-based solutions, creative partnerships, and responsible government action that could produce a surer foundation for Africa's development," she said.

The subcontinent needed to improve roads, speed up sluggish air travel and update an overstretched electrical grid to support trade and business, added Clinton, who made a major trip to Angola, Kenya, Liberia, Nigeria and other African states in 2009.

Corruption that costs Africa about \$150-billion a year "scares away investment, stifles innovation and slows trade," she said.

The top US diplomat also took aim at high tariffs, corrupt border officials and red tape that stifle intra-African trade and slow down regional economic integration.

She held up as an example of positive regionalism the East African Community that incorporates Kenya, Tanzania, Uganda, Rwanda, and Burundi in a market of 127-million people with combined GDP of \$73-billion. The grouping had increased trade by 50% since forging a common market in 2005 and cutting tariffs and harmonizing business policies.

Source: Reuters, 4 August 2010

There was life after the 2010 FIFA World Cup as new vehicle sales in July jumped 20% on sales in July last year. July sales were also 3,7% ahead of sales in June this year,

New vehicle sales in July increased by 20% on sales in July 2009.

the National Association of Automobile Manufacturers of South Africa (Naamsa) reported.

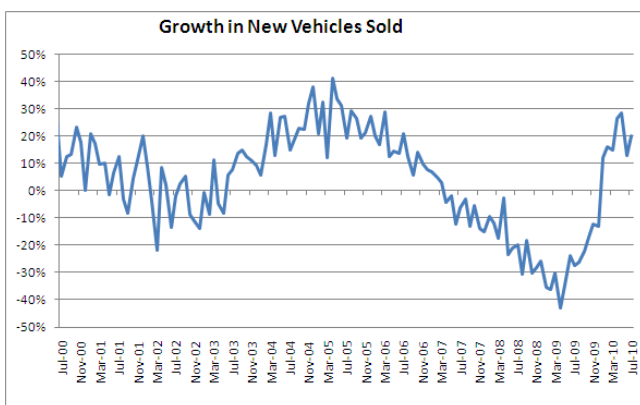
Passenger car sales drove the market last month, as it surged by 32,4% over July 2009.

However, sales of light commercial vehicles were down 2,9% compared with the

same month last year.

There was some good news in terms of new vehicle sales to businesses, as medium commercial vehicles were up 10,4%, heavy commercial vehicles up 3,3% and extra-heavy commercial vehicles up 31,1% compared with July 2009.

In the passenger car market, July sales were once again dominated by the new entry-level Volkswagen Polo Vivo, selling 2 176 units.



Another small car edged into the number nine spot on the list of top-selling cars, as General Motors South Africa sold 602 new Sparks. Ford's new entry-level car, the Figo, took the number ten spot, selling 598 units in the two weeks it was on the market in July, following its launch last month.

Ford Motor Company of Southern Africa national sales manager Gavin Golightly said that the local arm of the US manufacturer viewed the India-made Figo as a "volume vehicle that we want to grow. It is going to do good things for us".

He added that the sub-B segment of the South African market – small, entry-level vehicles – had grown by 302,6% for the first seven months of the year compared with the

same period last year.

However, this figure was only for Naamsa vehicle manufacturers.

There are two groups of vehicle manufacturers in South Africa.

The members of Naamsa report their sales each month, down to the specific model. However, the Associated Motor Holdings group (AMH) reports only a bulk figure, making it impossible to tell the exact number vehicles the group imports and sells each month.

AMH is a big player in the small car market as it imports, among others, the Hyundai and Kia ranges.

Golightly noted, though, that the growth recorded in this segment was still likely to be more than 300%, even if AMH was included, as the company's sales numbers of vehicles with 1400 cc engines or smaller confirmed this.

Export sales of South African produced vehicles during July, at 23 246 vehicles, improved by 12 038 units, or 107,4%, compared with the 11 208 vehicles exported during July last year, when export sales had been depressed as a result of the global financial crisis.

Year-to-date new vehicle exports at 130 025 units reflected an improvement of 38 361 vehicles exported, or 41,8%, compared with the 91 664 export sales during the corresponding seven months of 2009.

Naamsa reported that the continuing uncertainty about the strength and sustainability of the global economic recovery could impact negatively on export sales going forward.

However, Volkswagen reported that it remained upbeat.

The company's Eastern Cape plant in July exported 7 728 new Polos to global right-hand drive markets.

"Our global markets are holding up well and we are on track to achieve the full year planned export volume of 75 000 Polos," said Volkswagen Group South Africa sales and marketing director Mike Glendinning.

Source: Creamer Media Reporter, Irma Venter, 3 August 2010; NAAMSA

Key Indicators	2006	2007	2008	2009	FC2010	Ytd Jul-10
GDP	5.6	5.5	3.7	-1.8	2.7	3.2
GDFI	12.1	14.2	11.8	2.4	2.0	-2.7
Residential	7.7	-0.3	-7.6	-9.3	2.5	-6.3
Non-res	13.4	20.2	7.8	2.0	5.7	-1.5
Construction	21.9	42.7	31.3	36.0	10.1	17.8
CPI	4.6	7.1	9.9	7.1	5.1	4.9
PPI	7.7	10.9	14.3	0.2	3.2	5.6
Interest rate	11.2	13.1	15.1	11.8	10.1	10.2
Exchange Rate (R/\$)	6.77	7.05	8.24	8.28	7.80	7.53
Exchange Rate (R/Euro)	8.52	9.66	12.13	11.50	10.77	9.95

Source: Econometrix, Stats SA, Reserve Bank
GDP is actual for 2nd Q 2010 and GDFI is actual for 1st Q 2010

Building and construction trends

House prices, adjusted for inflation, have increased by a cumulative 70.8 percent over the past 10 years, but it appears the latest "mini peak" in the residential property market has been reached.

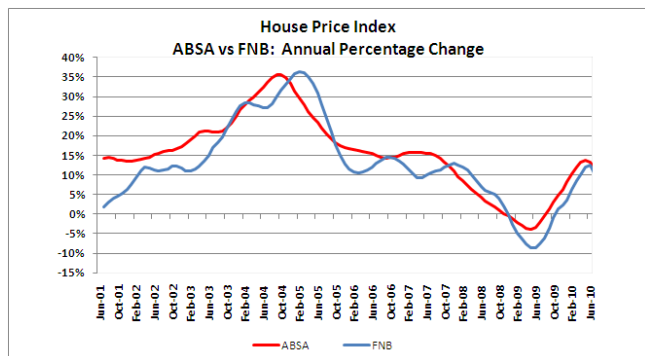
John Loos, an FNB Home Loans strategist, said that the cumulative growth in nominal house prices was estimated at 201 percent for the period from July 2000 to June this year.

FNB's latest house price index showed that annual house price inflation dropped to 10.6 percent last month from a revised 12.4 percent in June.

Loos said the slower rate of increase in nominal house prices last month could be a further early sign that the mini peak in the residential property market had been reached.

Although it was "early days", Loos said FNB believed the decline in the year-on-year house price growth rate did signal the start of a slowing trend in house price inflation, which was expected to last well into next year.

Loos said the slow pace of movement in interest rates by the Reserve Bank since August last year also made it unlikely that any further interest rate stimulus would be meaningful for the residential property market in the near term.



On a month-on-month basis the house price index declined by 0.6 percent in July following a 0.2 percent increase in the previous month.

But Loos said seasonal factors played a role in the month-on-month rate and there was a need to be careful about drawing conclusions regarding the month-on-month decline. The average house price last month was R787 694.

Loos said the slower house price inflation was not unexpected, adding that FNB's estate agents' survey for the second quarter indicated that demand for residential property had slowed.

"We believe this is due to the combination of a slowing economy as well as a lack of further interest rate cutting since August 2009."

After adjustment for consumer price inflation, the index showed there was a further acceleration in real year-on-year price inflation to 7.8 percent in June from 7.3 percent in May.

Loos said this increase was assisted by a further decline in consumer price inflation from 4.6 percent year on year in May to 4.2 percent in June.

"We believe June was probably the real house price inflation peak as well as the nominal house price growth peak."

Loos said the apparent arrival of a residential property slowdown so soon after the start of a strengthening phase, as recently as early last year, may have surprised some.

However, he stressed that an era of mediocre "mini-cycles" would probably be a reality for a few years to come because of the need for a few big "structural" changes, many of them outside South Africa's borders.

In the near term, a double-dip recession appeared more of a risk to global economic forecasts than any likelihood of growth "surprising on the upside" and made any strong economic growth phase for South Africa less likely in the

foreseeable future.

Loos said the Reserve Bank was providing little in the way of short-term stimulus for residential property and looked unlikely to do so in any significant way in the near term.

FNB has revised its house price inflation forecasts and now anticipates an average 8.2 percent growth in nominal house prices this year and 3 percent next year.

Source: Business Report, 3 August 2010, ABSA, FNB

Encouragingly, both residential and non-residential building plans passed shot up in June. Non-residential plans passed were particularly strong. It is difficult to account for why in June specifically the figures improved so much. Statistical reasons played some role. However, it almost seems as if

Both residential and non-residential building plans passed increased in June.

there was a rush to get plans passed complete prior to the World Cup.

No doubt, the late benefits of lower interest rates are having some beneficial impact.

In contrast with the improvement in building plans passed, both residential and non-residential building completions fell sharply in June. Presumably this was in

lagged response to the erstwhile decline in building plans passed in earlier months. More importantly, one suspects that the disruptions caused by the World Cup slowed down building activity markedly during the course of the month. Accordingly, one perceives the magnitude of the decline in building completions during June to be a passing phenomenon.

Despite the sharp fall off in building completions in June, for the 2nd qtr as a whole there was a substantial improvement in building activity coming off a very low base in the 1st qtr. Q-o-q seasonally adjusted growth in building completions shot up to 9.7% in the 2nd qtr, from a horrifically negative -38.7% in the 1st qtr. Even though the building industry is relatively small in the context of the overall economy, this turnaround has been so dramatic that it will neutralise to some extent the downward pressure on 2nd qtr GDP growth emanating from reduced growth in mining, manufacturing and electricity production and declining growth in retail sales.

Source: Econometrix, 19 August 2010

The built environment industry requires an "igniting vision" so as to develop it more fully as an engine for growth and wealth creation, BMI Building Research Strategy Consulting Unit (BMI-BRSCU) principal consultant Dr Llewellyn Lewis has argued.

"This can make South Africa a winning nation; and a repetition of the subprime crisis will not catch a co-operating industry unawares," says Lewis.

He adds that, to realise the vision for the industry, a collaborative culture is required based on trust, cross-

boundary networking and dynamic public-private partnerships that can deliver on infrastructure, housing, health, education, safety and security to make the country a world model of nation building and reconciliation.

The 'golden triangle' of government, the private sector and labour working together for the good of the country will make the impossible achievable – as the World Cup demonstrated.

He argues that the industry collectively must be accountable for developing an igniting vision of nation building through home ownership; property, as a preferred investment; and building as an engine for growth and wealth creation.

"We envision that every major organisation in the industry, from development to manufacturing, distribution, contracting and finance, should adopt this overarching vision and customise it."

Lewis advocates a high-road scenario, which can be described as a type of South African capitalism that recognises the responsibility of the rich to help the poor, but also acknowledges that this can only be achieved through economic growth.

It is based on the dualistic principle of growth through redistribution and redistribution through growth, where government policy accentuates competitive market solutions.

Policies that allow market-based solutions, though initially painful, produce the quickest and most stable results. Real cost and values are allowed to play out.

"This requires courageous political leadership to fund and build five-million affordable houses, eradicating the housing backlog by 2020 as envisioned by the Breaking New Ground strategy of the Department of Human Settlements and creating 300 000 new jobs yearly," says Lewis.

He adds that the strategy for Sustainable Integrated Housing Settlements is visionary and achievable. South Africa has demonstrated the prolific ability to succeed through the 2010 FIFA World Cup and can continue to do so, provided all the resources are deployed.

"The high-road scenario will not require a major miracle to be realised, but political will is essential."

Lewis believes that great potential lies in a collaborative culture and cross-boundary networking between all stakeholders in the 'golden triangle', and in interest rates falling further by 2% to 3%.

Source: Engineering News, Dennis Ndaba, 20 August 2010

Higher Education and Training Minister Blade Nzimande has decided to place four sectoral administration and training authorities (Setas) under administration, his department's director-general, Mary Metcalfe, said recently. Three of the Setas cover crucial areas of the economy — construction, energy and the public service.

Mr Nzimande had decided to place the Setas under administration even after considering their replies to his June letter indicating an intention to place them under administration, Ms Metcalfe said. Procedure required they be given a further chance to reply, she said.

The four Setas — the fourth covers the media, advertising, publishing, printing and packaging sector — were the only ones to receive qualified audits this year from auditor-

general Terence Nombembe.

Four SETAS to be placed under administration.

Construction Seta CEO Petrus Maoko said he had not yet received notification of Mr Nzimande's decision. Energy Seta spokesman Nkosinathi Mkhize said the authority was waiting for its board chairman, Nkrumah Kgagudi, to decide on a response. There was no

response from the other two Setas.

Ms Metcalfe said if Mr Nzimande made a final decision to place the Setas under administration, she would have to gazette the appointment of administrators who would take over the function of the authorities' boards.

Mr Nzimande's decision to place the Setas under administration is one of his first decisive actions since becoming higher education and training minister in 2008. It follows their poor performance over a period of four years. There was governance and financial mismanagement, general noncompliance with the Public Finance Management Act and the Skills Development Act.

There are 23 Setas that, collectively, have an annual budget of about R6bn.

Mr Nzimande in April proposed that the 23 Setas be reduced to 21 and that the amalgamation of some of the existing Setas should create six new Setas, with a new Seta system by the third quarter of this year.

Source: Business Day, Sue Blaine, 23 August 2010

Pervasive skills shortages have been documented across all sectors and at all levels of employment in both the private and public sectors.

Yet private companies feel they are bearing the brunt of basic skills development.

The government has identified priority sectors for skills development, yet the private sector believes not enough is being done at a time when SA's economic recovery is fragile and the country is becoming progressively less competitive globally.

The Joint Initiative on Priority Skills Acquisition and its successor, the Human Resources Development Framework, note the critical lack of skills in health, education, information and communications technology, manufacturing and industry.

The South African Qualifications Authority spends about R80m a year on sector education and training authorities (Setas), but companies' skills expenditure is greater still.

Leading cement manufacturer Pretoria Portland Cement (PPC) spent 7,2% (R31,5m) of its payroll on skills development last year. The group says 75% of this was spent on previously disadvantaged employees.

The increased investment is indicative of the overall skills shortage in the industrial sector, especially in the engineering and artisanal fields, says Vinnie Govender, PPC's head of organisational development.

Packaging producer Nampak spent R75m on training last year in a bid to address the "dire" shortage of technical skills.

"We would certainly hope that the government does more in facilitating a conducive environment for technical skills training. We have been seriously let down by the Seta in our sector," Nampak human resources director Fezekile Tshiqi says.

The sector's Seta is one of four that has been placed under administration.

PPC's Mr Govender says the group invests heavily in adult education, with a focus on literacy and numeracy, through the PPC Education Trust. The trust is funded by dividends.

"We have found that the level of very basic skills is low, which points to the broader lack of skills in SA."

Global paper and packaging group Mondi says effective training is vital when competition for skills is fierce.

"We have a need for engineers and artisans ... and have invested 2% of our total payroll in skills development, against our five- year target of 3%," Mondi says.

Diversified industrial company Barloworld says: "The availability of technical skills has been a severe challenge to the industry for the past 10 years, but the situation has worsened over the past four years.

"This is simply a case of industry growth outpacing the skills development efforts of both government and business in the diesel and earth-moving mechanic fields."

However, in March this year, Higher Education Minister Blade Nzimande said: "The envisaged development and growth path for SA requires the participation of all South Africans in economic activity.... Quality education is needed in early childhood education, through the years of schooling and in post-school education and training if we are to achieve all of our goals."

For now, companies are not hopeful. "There are very few employees at PPC with 15 years' experience," Mr Govender says.

"We need to improve this so we have a viable succession plan in place."

Source: NewsWatch, Business Day, Beth Shirley, 24 August 2010

Public-private partnerships (PPPs), initiated between governments, could offer some new opportunities for construction giant Murray & Roberts in the next decade.

CEO Brian Bruce said projects of this type – where "sovereign engagement" created PPPs – could allow for increased private sector investment in South Africa.

He referred to President Jacob Zuma's visit to China, which had seen discussions around the possible implementation of several projects in South Africa.

Bruce said that examples of such PPP projects would be government's proposed high-speed rail link between Durban and Johannesburg, as well as a proposed new nuclear power plant, "which could not be done on government's fiscus".

He noted that no developing country could afford these projects "on its own account", and so it "needed partners".

"We believe this concept of a partnership will come into our space over the next decade, and we believe Murray & Roberts is a key player here," said Bruce.

He added that the Murray & Roberts' board had taken a "conscious decision" to take the company into the "major project space".

Bruce defined a major project as any project that exceeded the inherent capacity of a company.

"It will test you . . . and you need to find the appropriate partners."

Bruce also noted that the JSE-listed company was positive that the South African government was "committed to infrastructure spend".

He noted that some critics had said that they could "not see" government's promised R800-billion plus infrastructure spend, but that Murray & Roberts believed it was indeed happening, with Finance Minister Pravin Gordhan indicating that government would increase borrowings to fund the programme, if necessary.

Bruce added that the recent 2010 FIFA World Cup had delayed the South African construction sector's down-cycle in relation to the rest of the world, as the local industry worked to deliver the infrastructure necessary for the event, but that it was now suffering from "a bit of a hangover". However, he added that this situation would improve.

He said there was a higher level of action visible in the construction industry outside South Africa, which had started to recover from the global recession.

Around 33% of Murray Roberts' revenue came from outside Southern Africa in the 2010 financial year.

Source: Creamer Media Reporter, Irma Venter, 26 August 2010

Domestic and international cementitious industry sales trends and news

Lafarge South Africa, the cement and construction materials producer, anticipates that cement volumes in South Africa will decline for the third consecutive year this year and has devised a strategy to protect its market share in the face of increased competition from new entrants to the market.

Legrand said that there was a lot of expectation about the growth prospects of the cement market this year. But volumes had decreased further and year-to-date was 5 percent lower than last year.

He expected volumes to decline by about 8 percent this year compared with last year after declining 10 percent last year and 2 percent in 2008.

He said the reality was that Lafarge SA was not using all its cement production capacity.

But he stressed the recent investment of R1.2 billion in a new clinker line in Lichtenburg and grinding station in Randfontein southwest of Johannesburg were medium- to long-term investments rather than short-term money spinners.

He said there had not been any recovery in the residential building market.

This market would only recover in the second half of next year despite the "huge potential" in the affordable housing market. Legrand said there was potential in the construction market, especially roads projects, with about 20 percent of this market comprising new roads and 80 percent rehabilitation projects.

Lafarge SA had developed new products, such as Buildcrete and RoadChem - a new soil stabilisation product - to serve this market.

Legrand said Lafarge SA's strategy to protect its market share from new entrants was to have good products and good service to the customer. He said the company's new facilities and product innovations formed part of this strategy.

"We have taken notice of the intention of new competitors to enter the market. We think we are well prepared to face competition."

Source: Business Report, Roy Cokayne, August 2010

Pretoria Portland Cement (PPC) said that it would withdraw an environmental application for its Western Cape capacity expansion programme in light of low cement demand and poor economic conditions.

Before the economic crisis, PPC was operating over capacity and had to import cement in the Western Cape, where it was the chief supplier.

The original expansion project, known as Se Kika, involved building a 1,4-million-ton-a-year cement plant, which with a 40% drop in demand in the region was now not viable.

"Indeed, expansion plans were completed at a time of peak demand and cement shortages," PPC CEO Paul Stuiwer said. He also attributed the withdrawal of the environmental application to pending legislative changes that would make it onerous to withdraw applications in future.

Mr Stuiwer said a revised plan, of upgrading existing Western Cape facilities, would still achieve PPC's original objectives with regard to environmental standards, energy efficiency and capacity expansion in the region.

Under the revised programme, the company would upgrade its Riebeeck and De Hoek operations. The combined capacity of the two sites, after upgrading and expansion, would be the same as the original Se Kika project. "These (upgrades), however, would be in phases over a longer time."

PPC, in terms of its new plan, would have phased expenditure of R3bn over six years, as opposed to the original plan for R4,5bn over four years.

Mr Stuiwer said the upgrading of the plants would be sufficient to increase capacity in the Western Cape by 50% until 2016. "The upgrade plan would allow PPC to increase its capacity with lower impact on the surrounding communities and at a lower capital outlay," he said.

PPC said the expansion would not lead to any job losses, as labour would be absorbed into existing production lines.

It said in May that it had felt the effects of the recession and the slump in the residential property market.

PPC has 12 operating sites, in SA, Botswana and Zimbabwe.

Source: Business Day, Beth Shirley, 4 August 2010

The Ohorongo Cement manufacturing company has decided to invest in a satellite plant at the port of Walvis Bay to enter international cement markets along the shores of Africa and the Americas.

The company, which belongs to Germany's Schwenk Group, is currently setting up a N\$2,5 billion cement plant outside Otavi with a production capacity of 750 000 tonnes cement per annum. It says it is not content to supply only the Namibian and southern Angolan markets with cement.

"We want to expand our cement exports when production starts at the end of this year," Hans-Wilhelm Schütte, Managing Director of Ohorongo Cement, announced recently.

"We consider setting up a satellite plant at Walvis Bay. This satellite plant will be supported by the construction of sophisticated trans-shipment infrastructure needed to improve the efficient transport of cement to African countries and the Americas."

Namibia is currently a net importer of cement, with most of the cement imported from South Africa. "Since the Ohorongo plant near Otavi has a production capacity in excess of the present Namibian cement consumption, we are looking further for export," Schütte said in a statement. "Walvis Bay is the ideal place for this, being the gateway to the West African coast, the Americas and other potential cement markets."

With the proposed satellite plant and trans-shipment facilities in Walvis Bay, the ocean would open up important additional markets, he added.

"Through Ohorongo's export activities, the positive effect on Namibia's trade balance will be significant."

Preliminary negotiations between NamPort and Ohorongo had already started in 2008, with both partners appreciative of the advantages an operating plant would bring for NamPort, Ohorongo and the town of Walvis Bay.

An environmental impact assessment (EIA) was completed in 2008, including public hearings where Walvis Bay residents indicated support for this proposal.

Although the principle decision for the investment was taken, Ohorongo is not yet able to disclose how big the envisaged satellite plant would be and the financial dimension.

"This is the planning stage and no details about the costs can be made at this stage," Kirsten Günzel, personal assistant to Schütte, told The Namibian on enquiry.

Construction of the Ohorongo plant near Otavi started early last year, with production to start at the end of this year. It is said to be the most modern plant in Africa

Source: National News, Brigitte Weidlich, 9 August 2010

AfriSam (South Africa) (Pty) Ltd
Reg No: 2006/005910/07
PO Box 6367
Weltevredenpark 1715
South Africa
Tel: (011) 670 5721
e-mail: alet.vanstaden@za.afrisam.com

www.afrisam.com
Tel: 0860 141 141
e-mail: customer.service@za.afrisam.com

Main sources of information:

Industry Insight
Tel: (021) 557 4168
info@industryinsight.co.za
www.industryinsight.co.za

Econometrix
Tel: (011) 483 1421
macrohotline@econometrix.co.za
www.econometrix.co.za

Cement and Concrete Institute
Tel: (011) 315 0300
www.cni.org.za

Disclaimer:

AfriSam, its shareholders, employees and agents accept no liability for (or in respect of) any direct, indirect, incidental or consequential loss or damage of any kind or nature, whatsoever arising, from the use of or reliance on information provided in this publication.