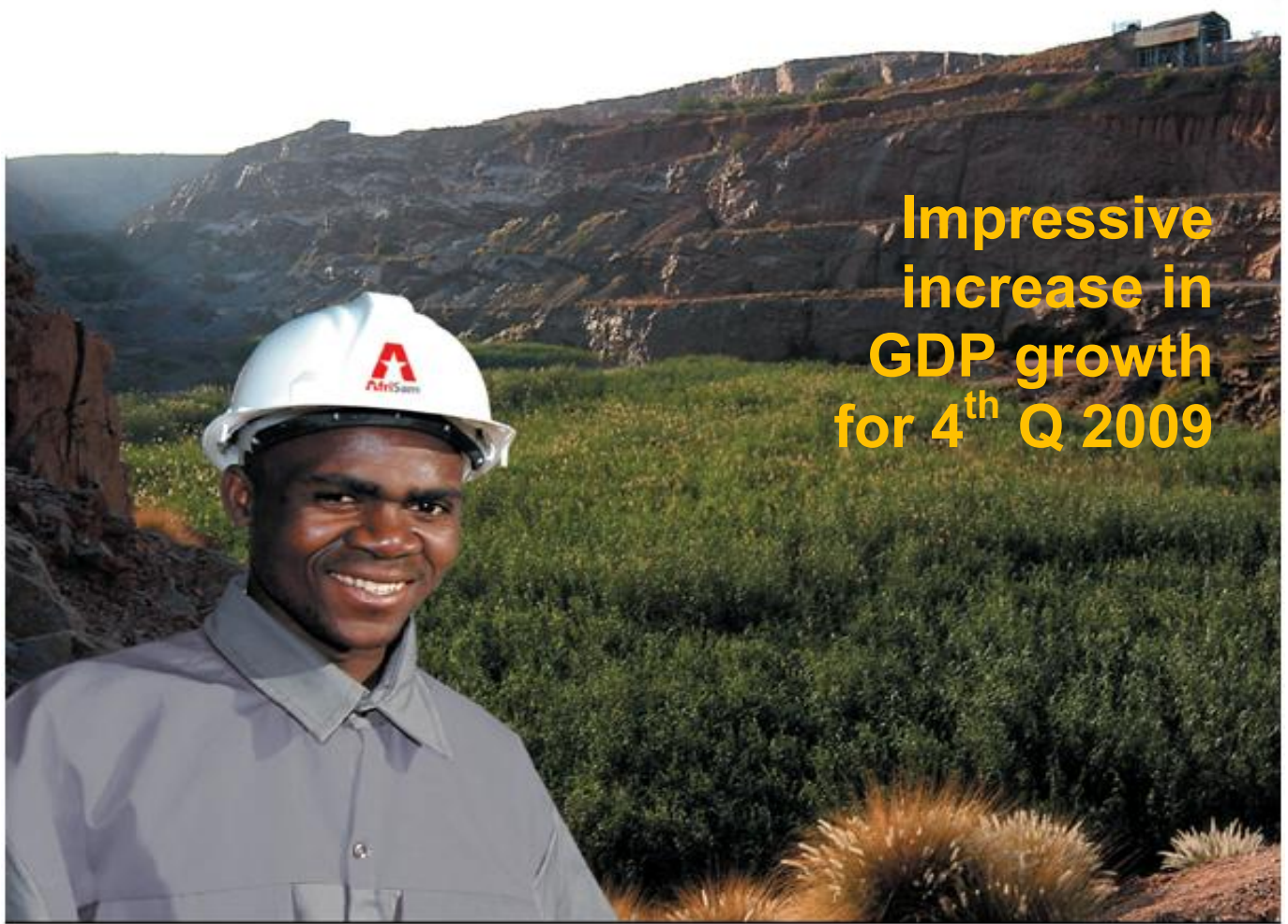


# Build Trends

February 2010 | Issue 114



**Impressive  
increase in  
GDP growth  
for 4<sup>th</sup> Q 2009**



*Electricity tariffs to increase by around 25% per annum over the next few years*



*Finance minister impresses with his first budget speech*



*Signs of improvement in growth of retail sales*

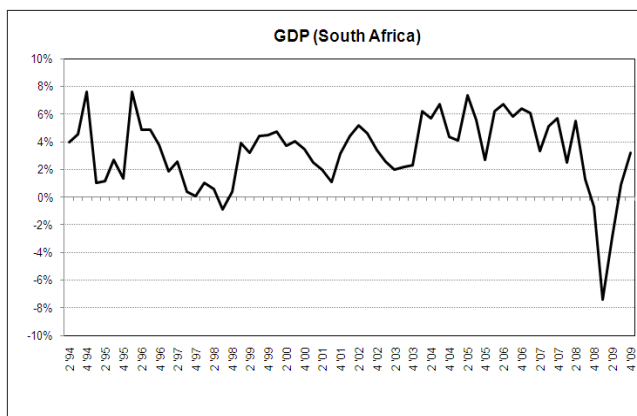
## Macro-economic trends impacting on construction industry

As anticipated, q-o-q seasonally adjusted annualised growth in GDP rose to 3.2% in the 4th qtr of 2009, compared with 0.9% in the 3rd qtr. The principal driver of the improvement

*GDP declined by -1.8% for the whole of 2009.*

appears to have been the increase in demand for South African mineral and processed mineral exports as a result of the recovery in the global economy, especially in China. This is reflected in the fact that much of the improvement in GDP growth can be attributable to the mining and manufacturing sectors. Nonetheless, with the exception of the construction sector, all the other sectors of the economy recorded an improvement in growth as well, albeit not as dramatic as in mining and manufacturing. This suggests that the benefits of the improvement in the global economy are filtering through to the other sectors of the domestic economy as well.

The exception, in the form of a continuing fall off in growth of investment in construction, suggests that trends in fixed investment are lagging behind those in the rest of the economy. Businesses cancelled projects in response to recessionary conditions last year and are only likely to increase demand for investment goods once they perceive the domestic economic recovery to be more entrenched. For 2009 as a whole, economic growth plummeted to -1.8% from 3.7% in 2008 and 5.6% in 2007. Although the recovery is set to deliver growth of around 2.5% this year and possibly 3.5% or so in 2011, the high level of indebtedness of households, together with rising public debt levels arising out of the dramatic increase in the budget deficit, are likely to prevent growth from returning to the 5%-plus levels experienced between 2005 and 2007.



From a monetary policy perspective, confirmation of the relatively robust recovery in economic activity serves to act as a deterrent to further interest rate reductions as a means of stimulating economic activity, because additional stimulus

is not called for. If the problem is that economic recovery is not accompanied by commensurate job creation, the solution lies not with the structure of the economy, but rather with the poor level of education and skills in such a high proportion of the population.

Source: *Econometrix*, 23 February 2010

South Africa municipalities will not be able to simply pass on the full nominal power price increases approved for implementation by national utility Eskom, with the energy regulator announcing guidelines that should hopefully prevent municipal distributors from unfairly milking their residential and business customers.

*Guidelines set for municipalities regarding electricity tariff hikes.*

The National Energy Regulator of South Africa (Nersa) confirmed average nominal tariff increases of 24,8% from 2010/11, 25,8% for 2011/12 and 25,9% for 2012/13, which would raise tariffs from 33c/kWh currently to 41,57 c/kWh this year, 52,3 c/kWh in following financial period and 65,85 c/kWh in 2012/13.

But chairperson Cecelia Khuzwayo also indicated that guidelines had been set for the municipal increases that could be instituted from July 1 this year, as well as for the subsequent years of the multiyear price determination period that ran until March 31, 2013.

She indicated that, for those municipal distributors who implemented the 34% increase in the 2009/10 financial year, a municipal guideline increase of 15,33% had been approved for implementation with effect from July 1, followed by 16,03% from July 1, 2011, and another 16,16 % from July 1, 2012.

For those municipal distributors who implemented a different increase, Nersa would consider applications on a case-by-case basis.

A deadline of April 30, 2010, had been set for submission of municipal tariff applications.

Full-time regulatory member for electricity Themrani Bukula said that the guidelines, which were far lower than the increases approved for Eskom, would not place an undue burden on the municipalities, owing to the fact that electricity generally comprised about 67% of their costs.

"An increase of 25% from Eskom does not necessarily result in an [commensurate] increase at the municipalities," Bukula explained, adding that there was, therefore, alignment between the lower guidelines for municipal increases and the higher increase approved for Eskom.

He also stressed that it would not be the case that bulk users would have to take on a disproportionate share of the Eskom increase.

Source: *Engineering News*, Terence Creamer, 24 February 2010

The projected rebound in Government's infrastructure spend programme of R846-billion over the next three years, as highlighted in Finance Minister Pravin Gordhan's recent budget speech, should see between R160-billion and R220-billion filter down to the construction sector, according to Sanyati CEO Malcolm Lobban.

He adds that the debate now circles around how quickly the money will start flowing, and if there is sufficient skills capacity, especially at municipal and parastatal level, to implement the planned infrastructure programmes.

He points specifically to the leadership vacuum that exists at Eskom and Transnet, still without CEO's, while holding the South African National Roads Agency Limited (Sanral) up as a "shining example" of a professionally managed State body. "We need more Sanrals."

Lobban also notes that margins remain under pressure in the construction industry, with competition intensifying. He says this has been, to some degree, brought on by the major construction groups pulling back from failing markets such as Dubai to seek opportunities on the home front. Better news is that he also believes that there are signs of life emerging in certain markets, with the number of tenders up for grabs picking up, specifically in the government infrastructure and mining sectors.

Source: *Creamer Media's Engineering News, Irma Venter, 19 February 2010*

Key Indicators	2006	2007	2008	2009	FC2010
GDP	5.6	5.5	3.7	-1.8	2.3
GDFI	13.2	16.3	10.2	4.6	0.8
Residential	7.7	-0.3	-5.7	-9.8	2.2
Non-res	13.4	20.2	12.6	6.8	4.7
Construction	21.9	42.7	24.9	39.7	8.9
CPI	4.6	7.1	11.5	7.2	5.4
PPI	7.7	10.9	14.3	0.2	1.3
Interest rate	11.2	13.1	15.2	11.9	10.8
Exchange Rate (R/\$)	6.77	7.05	8.3	8.4	7.7
Exchange Rate (R/Euro)	8.52	9.66	12.1	11.7	11.6

Source: Econometrix, Stats SA, Reserve Bank  
GDFI is actual for Ytd September 2009

Tax relief in the recent budget was largely an illusion, according to Azar Jammine, the chief economist at Econometrix.

Finance Minister Pravin Gordhan announced R6.5 billion in relief to individual taxpayers in the 2010/11 tax year. But according to Jammine, inflation will lift the combined tax bill

of individuals by R22.6bn, "so basically he will be returning only about a quarter".

Jammine gave the budget an overall thumbs up and said the market responded favourably to the minister's proposals. But he pointed out the budget did

not adequately adjust tax brackets to take account of inflation. Jammine calculated that someone who got an 8 percent pay rise on last year's earnings of R200 000, will have an average tax rate of 16.1 percent this year, compared with an average tax rate of 15.5 percent last year. This is because South Africa has a progressive tax system which imposes higher tax rates on people who earn more. So, unless brackets are adjusted in line with inflation, people effectively pay more.

*Tax relief in recent budget speech is mostly an illusion.*

Although the budget relief was targeted mainly at lower income earners, people who earn R2 million or more a year will benefit most. The reason is that most of their earnings are already taxed at the top marginal rate of 40 percent, which kicks in on earnings of more than R552 000.

For someone earning R2m last year, an 8 percent pay rise would leave the average tax rate at 36.7 percent.

Jammine said the government avoided increasing the top marginal tax rate because the country already had one of the "steepest marginal tax curves" in the world.

But he said "by far the biggest increase in taxation emanates from the steep 25.5c a litre hike in the fuel levy. On its own, this is set to increase the inflation rate by about 0.13 percentage point."

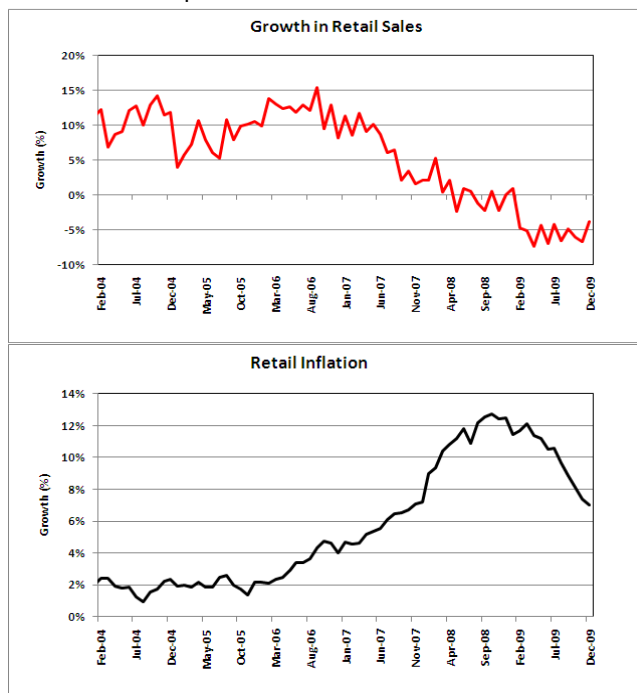
As a percentage of gross domestic product (GDP) the tax bill is growing. "Overall budget revenue is set to rise from 26.8 percent of GDP in 2009/10, to 27.3 percent of GDP in 2010/11 and to increase further, to 28 percent by 2012/13," he said.

Source: *Business Report, Ethel Hazelhurst, 22 February 2010*

As was the case with December wholesale trade statistics, December retail sales statistics turned out to be somewhat stronger than was anticipated even though some improvement had been expected. Y-o-y growth in retail sales at constant prices rose quite sharply, to -3.7% in December, from -6.6% in November.

*Substantial improvement in latest retail figures*

December's -3.7% growth rate was the best since January 2009 and comfortably exceeded the -4.9% overall growth for retail sales in 2009 and the -5.3% growth recorded for the whole of the 4th qtr.



The improvement in retail sales growth goes hand in hand with other real economic indicators published in recent weeks for December, including mining, manufacturing and electricity production and wholesale trade sales. Whilst one should not pay excessive attention to a single month's data, it does appear as though the impact of the global economic recovery and the lagged effect of sharply lower interest rates might finally be starting to provide some traction to consumer spending.

The improvement in the growth of retail sales has been biggest amongst dealers in interest-sensitive sectors, such as those activities related to residential building and durable goods. These segments were hardest hit during the height of the recession and now are beginning to reflect the benefits of lower interest rates. In contrast, the improvement in growth in sales of dealers in non-durable goods has been modest at most. One suspects that sales in these product lines remained weighed down by the high level of job losses amongst poorer sections of the community.

Measuring retail inflation crudely as the difference between growth at current prices and growth at constant prices, the retail inflation rate declined quite nicely again in December, to 7.0%, from 7.4% in November. This was the lowest such retail inflation rate since October 2007.

Source: *Econometrix*, 17 February 2010, *Stats SA*, *Global Insight*

It seems transport parastatal Transnet would have more business knocking on its door were it able to provide more capacity to industry. Around 80% of companies which took

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*Survey shows that SA companies would use rail if capacity and service levels were adequate.*

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part in this year's Barloworld Logistics supplychainforesight survey said that they moved less than 10% of their goods by rail. However, if adequate rail capacity were available, 46% of companies indicated that they would move more than 20% of their goods by rail. Just under 50% of

respondents felt that there were insufficient capacity and service levels available to them in the country's rail infrastructure.

Barloworld Logistics marketing GM Kate Stubbs said at the survey's launch to the media that Transnet certainly had a multibillion-rand investment plan, "but that no-one was seeing a huge step-change" in rail infrastructure and operations. The survey also indicated that most of the 377 respondents, of which 16% were MDs or CEOs, and 13% GMs, strongly agreed that there was an urgent need for public-private cooperation in the freight rail sector at a strategic and decision-making level, and that private sector direct investment was needed in this sector. "There is a huge, desperate need for public-private cooperation to improve infrastructure," noted Stubbs.

Transport, in general, appeared to be the black sheep in this year's survey.

Just over 20% of the respondents indicated that they spend more than 10% of the cost of their goods on transport.

Respondents also noted that the South African National Road Agency's provision of freight route capacity on major roads was insufficient to cater for future growth in demand.

This year's survey also indicated that the three leading short-term objectives of the respondents – in coping with a recessionary environment – were to lower procurement costs, to align their supply chains with their business strategies, and to reduce inventory.

The three biggest supply chain challenges companies identified were waste and inefficiencies across the supply chain, implementing efficient planning and forecasting tools, and optimising the distribution network.

The 2010 survey also indicated that suppliers had a tough time during the recession.

The top three strategies companies implemented to fight the economic downturn were negotiating price and volume reductions from suppliers, sourcing products locally, and renegotiating contracts with suppliers.

Source: *Engineering News*, Irma Venter, 16 February 2010

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The proposed carbon dioxide (CO<sub>2</sub>) vehicle emissions tax, which will come into effect on 1 September 2010, would now be implemented as a specific tax and not as an ad valorem tax.

In the 2010/11 Budget, the Treasury highlighted that subsequent to further consultation since the tax was first announced, the tax would be converted into a flat rate CO<sub>2</sub> emissions tax.

New passenger vehicles will be taxed based on their certified CO<sub>2</sub> emissions at R75 per g/km for each g/km above 120 g/km. The CO<sub>2</sub> emissions tax was expected to encourage South Africans to move towards more energy-efficient and environmentally friendly vehicles.

Tax advisory firm Deloitte pointed out that this tax could add between R5 000 and R10 000 to the price tag of the average new passenger vehicle.

The emissions tax has been heavily criticised by the already struggling local automotive sector, which said that it could not import or produce certain vehicles with lower CO<sub>2</sub> emissions, given that South Africa's fuel specifications were not yet up to standard with such vehicles.

The local automotive industry has also expressed concern that the tax, which was being implemented as the country is still recovering from its first recession in 17 years, could impact on new vehicle sales and curb job creation.

Deloitte tax director Duane Newman said that this tax could raise R1-billion a year in revenue for the National Treasury. But many have criticised the implementation of the tax, saying that there has been no indication that the revenues to be gained from the tax would specifically be spent on environmental issues.

The CO<sub>2</sub> emissions tax would be in addition to the current ad valorem luxury tax on new vehicles.

The National Treasury was planning to eventually extend the emissions tax to commercial vehicles also, once agreed CO<sub>2</sub> standards for these vehicles were set.

Source: *Engineering News*, Chanel Pringle, 17 February 2010

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## 6.2% CPI for January 2010.

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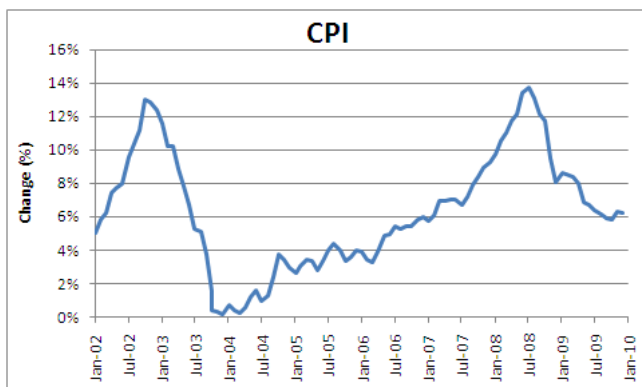
Declining inflationary pressures across the board in most goods and services resulted in the January CPI inflation rate coming in slightly lower than December, at 6.2% versus

6.3% respectively. Traditionally, the month of January is characterised by fairly substantial price increases for both goods and services. However, this did not materialise to any marked extent in January this year. Presumably, the strength of the Rand over the past nine months helped to subdue the inflation rate of goods. Secondly, tough times have persuaded the providers of services, who had increased prices quite sharply last year, to temper such price increases this year.

Coming off a much lower base for inflation in January than had been expected, already in February one should see the inflation rate falling back to within the 3% to 6% inflation target. The figures also imply that inflation could decline to lower levels in the medium term than one had anticipated. It might well now decline below 5% during the course of the year.

Undoubtedly these latest figures have heightened the chances that the monetary authorities will decide to reduce interest rates in coming months. Furthermore, the fact that NERSA has decided to raise electricity tariffs by around 25% per annum over the next few years, which is in line with the magnitude of tariff hikes of recent years, will leave inflation unchanged from that angle, which might also be construed as being favourable towards an interest-rate reduction. However, longer term concerns about inflation and interest rates globally will linger with the authorities and therefore it is expected interest rates will remain unchanged, but possibly for a longer period than what had previously been anticipated, possibly even into 2011.

Source: *Econometrix*, 24 February 2010



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## Building and construction trends

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Premier Nomvula Mokonyane announced in her State of the Province address that the Gauteng Provincial Government would, in addition to spending R34-billion on infrastructure development in the next three years, seek additional funding for new projects, as the budgeted funds would “not be

sufficient to fund Gauteng’s infrastructure needs”. “We have decided to seek alternative funding to cater for new infrastructure projects including hospitals, schools, roads, bulk services and human settlements. In this regard, we have mandated the

Department of Finance to raise R20-billion from the private sector to meet the demands,” the premier said.

Further, while the continued investment in infrastructure was expected to boost job creation in the province, more would have to be done as Gauteng’s unemployment rate reached 25,7% in the fourth quarter of 2009.

To provide some relief for those who were unemployed, the province planned to launch a community works programme in the 50 poorest wards. “This will provide a critical employment safety net for our people. Through these programmes, we will provide each household in the poorest communities with a job for 100 days,” stated Mokonyane.

Meanwhile, the premier highlighted that the province would continue to pursue the expanded public works programme (EPWP) and that 56 new projects would be implemented during the 2010/11 financial year, as part of the second phase of the EPWP. The projects would include new roads, schools, hospitals, clinics and community centres, waste management and craft hubs.

About 4 000 young people would also be given the opportunity to receive training in the engineering services and project management areas, under the second phase of the EPWP.

A further 4 000 young people would be enrolled in training in information technology, electrical work, plumbing and life skills through the provincial government as it aims to expand its learnership and internship programmes.

Further, the provincial government planned to provide more than 3 000 bursaries for young people to study in critical skills areas, such as engineering and medical sciences.

“These direct interventions to create job opportunities will be complemented by actions to place our province on a new growth path. Our focus will be on industrial policy, strategic economic infrastructure and the green economy. These interventions will create more long-term and sustainable jobs,” added Mokonyane.

Source: *Creamer Media’s Engineering News*, Chanel Pringle, 22 February 2010

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Recorded building plans passed at constant 2005 prices in South Africa during 2009 are -21,7% year-on-year (y/y) from -5,8% for 2008. The data showed that the value of recorded building plans passed by larger municipalities during 2009 decreased by 21,7% (-R17,265m) compared with 2008.

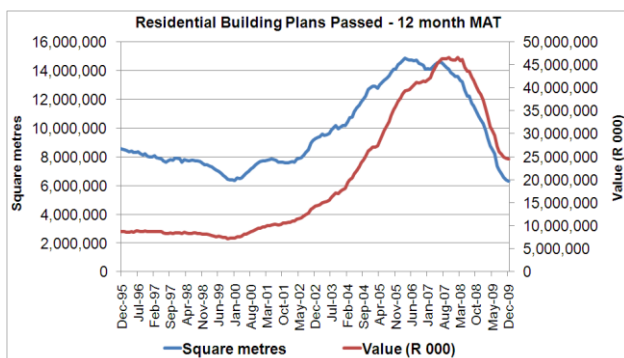
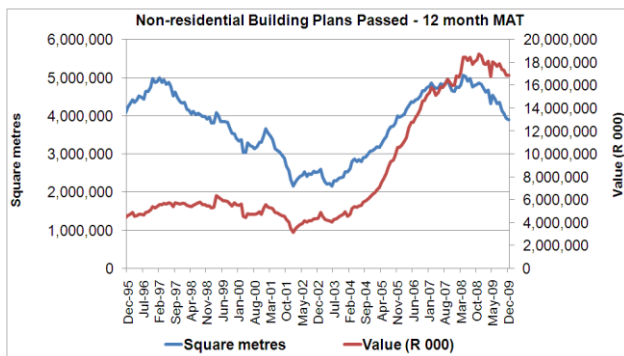
The largest decrease was reported for residential buildings (-36,5% or -R14,077.3m), followed by non-residential buildings (-9,2% or -R1,709.3m) and additions and alterations (-6,5% or -R1,478.4m).

Eight provinces reported decreases in the value of building plans passed during 2009. The biggest contributors to the decrease of 21,7% were Gauteng (contributing -8,2% or -R6,576.3m), Western Cape (-5,8% or -R4,641.4m) and KwaZulu-Natal (-4,7 or -R3,779.3m).

Building completions were reported to be at -3,3% y/y during 2009, from 12,4 y/y in 2008.

The decrease of 3,3% (-R1,785m) in the value of buildings reported as completed during 2009 was due to a decrease reported for residential buildings of 18% (-R5,588.1m).

However, growth was reported for additions and alterations (17,8% or R1,914.9m) and non-residential buildings (14,8% or R1,888.1m).



Source: I-Net Bridge, 18 February 2010, Stats SA, Global Insight

## Domestic and international cementitious industry sales trends and news

JSE-listed aggregate and cement producer Pretoria Portland Cement (PPC) would look to expand into other African countries, as demand for its product slowed in South Africa.

Speaking at the group's annual general meeting (AGM) on Monday, PPC CEO Paul Stuver said that for the company to achieve a similar growth rate to that experienced over the past few years, it would have to focus its attention further afield.

"We are fortunate that the countries around us are classified as emerging economies, which is an exciting place to be in

terms of the cement industry, when compared with more developed economies."

Stuver noted that PPC's further venture into Africa would be carefully thought out and deliberate, and would take into consideration the economic drivers such as the population, industries in the specific countries, as well as their gross domestic product.

"There are lots of opportunities and lots of irons in the fire, but there is nothing definite," said Stuver.

He added that PPC, which currently operates in South Africa, Botswana and Zimbabwe, would remain within the borders of sub-Saharan Africa, as European companies supplied into north Africa and the Mediterranean markets.

Lower sales figures during the past period, especially from the residential market, had necessitated PPC's expansion into the rest of Africa.

Source: Engineering News, Esmarie Swanepoel, 25 January 2010

South African construction firm WBHO posted a 19 percent rise in first-half headline earnings per share, and said it remained cautious for the next two financial years.

The company, which also operates in several other African states and in Australia, said headline EPS grew to 839.6 cents at the top of its forecast of a 15-20 percent rise.

WBHO said its order book stood at R13.1 billion at the beginning of 2010 versus R15.3 billion rand at June 30 last year.

South African construction firms have reaped profits in recent years thanks to a building boom before the 2010 soccer World Cup. But a slowdown in the global economy has raised concerns about future contracts as clients scrap projects and slash capital expenditure.

WBHO said revenue grew 12.1 percent to R7.64 billion.

"We remain cautious for the next two financial years, but believe that the group is well positioned to cope with the difficult environment we anticipate," the company said.

Aveng, Africa's biggest construction group by market value, expects to report a 30-35 percent drop in first-half headline earnings per share as its manufacturing unit suffers under the weight of lower steel prices.

Source: Business Report, Gugulakhe Lourie, 23 February 2010

Construction firm Murray & Roberts posted a 34 percent drop in half-year profit as the World Cup boom played itself out, and said earnings are likely to deteriorate further due to limited private sector investment. South Africa's second-largest construction firm, involved in building Africa's first rapid rail link in the country, said that diluted headline EPS fell to 200 cents in the six months to end December from 302 cents in the year-ago period. It said earnings were hit by limited private sector commercial investment, delays to South Africa's state utility Eskom power programme, reduced industrial and mining activity, costs of financing increased working capital and ongoing strength of the local currency.

Shares in the company were down 2.1 percent at 39.05 rand by 1540 GMT, compared to a 0.45 percent weaker Johannesburg All-share index.

"I think everyone (construction firms) is feeling the heat domestically," a Johannesburg-based construction analyst, said. "You want to try and move outside of South Africa, because basically government is issuing no tenders. So you are going to suffer, if you are around (South Africa)."

Rival WBHO, which has completed three stadiums for this year's tournament, said recently that it was eyeing new government infrastructure contracts and the Gulf to rebuild its growth.

M&R is also looking at the Gulf to rebuild earnings and had secured its first contract in the Saudi Arabia market.

*Source: Reuters Africa, Gugulakhe Lourie, 24 February 2010*

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The N\$2.5 billion Ohorongo cement project, the largest direct investment in Namibia by a Germany company, is set to stimulate the country's economic growth and is expected to contribute one per cent towards the country's gross domestic product (GDP) upon its completion, Ohorongo Cement Managing Director Hans-Wilhelm Schutte said at the recent roof-wetting ceremony.

"It is a big achievement, as the country came from net importer of cement to become net exporter of cement," he boasted.

The commissioning of the Ohorongo Cement factory is scheduled for the end of this year, with the sale and marketing of cement to commence in the first quarter of 2011.

Upon completion, the Ohorongo cement plant is set to create about 300 jobs directly and some 2000 more jobs indirectly as well as generating some N\$75 million in tax revenue to the government annually.

The marketing team of Ohorongo will target the local market and southern Angola.

The roof-wetting marked the final height of the pre-heater concrete structure.

The Ohorongo tower has a height of 109 metres, which marks it amongst the highest buildings in Namibia.

Construction of the plant commenced almost one year ago when President Hifikepunye Pohamba gave the symbolic starting signal for constructing Namibia's only cement plant during a groundbreaking ceremony then.

After completion, with a production capacity of 4 400 bags of cement per hour, the factory will produce more than double of Namibia's demand for cement of 700 000 tonnes, Schutte said.

*Source: Namibia Economist, 12 February 2010; The Namibian, 18 February 2010*

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