Non-residential contractors pessimistic as building confidence slips in 1Q2021

According to the latest FNB/BER Building Confidence Index, more than 70% of respondents are dissatisfied with prevailing business conditions. After rising to 29 in 4Q2020, the index shed two points to register a level of 27 in 1Q2021.

Image source: www.pixabay.com

Main contractor confidence edged one index point lower to 20 in 1Q2021. In contrast, sub-contractor confidence fell by 11 index points to 19, erasing almost all the gains of 4Q2020. This drop in confidence was underpinned by a deterioration in building activity growth.

“Looking closer at the results, it is clear that the divergent performance of the residential and non-residential sector seen last quarter - this is the combined results for both main contactors and sub-contractors - persisted. Although it declined to 27, from 33 in 4Q2020, so in itself still struggling, residential builder confidence in 1Q2021 was noticeably higher than non-residential contractors,” noted Siphamandla Mkhwanazi, property economist at FNB.

Rise in tendering price competition

Furthermore, this disparate performance is also observed in the level of activity which continued to contract more significantly for non-residential contractors. This resulted in a rise in tendering price competition to its highest on record. According to Mkhwanazi, “there are many factors working against non-residential building demand, including an oversupply of office and retail space, which was exacerbated by the Covid-19 pandemic. Discouragingly, this oversupply is very likely to persist through 2021 at least”.

Further adding to the woes, main contractors are increasingly concerned about the shortage of building material supplies.

The weak demand in the non-residential sector also weighed on upstream activity. “Architects in particular have struggled this quarter with low activity. This is, however, not only due to the state of building demand, but also due to the slow pace of municipal approvals,” stated Mkhwanazi. In contrast, quantity surveyors saw a rise in activity. This lifted confidence to 17 in 1Q2021.

GVK-Siya Zama CEO urges construction industry peers to remain positive

22 Feb 2021

Rise in production, domestic sales

The confidence of building material manufacturers gained five points to register a level of 36 in 1Q2021. Supporting confidence was a continued rise in production and domestic sales. “It is unlikely that the increased demand experienced by building material manufacturers comes from main building contractors given their results this quarter. More plausible is that this is due to still strong retail hardware sales, albeit slowing, and potentially also from the civil construction sector. Additionally, the rise in production could also be due to firms trying to make up for lost production last year,” remarked Mkhwanazi.

Hardware sales growth slipped somewhat in 1Q2021 but remained reasonably robust. As such, the business confidence of hardware retailers declined to its long-term average of 49 in 1Q2021, from 64 in 4Q2020. Mkhwanazi cautioned that “most of the positive effect of working from home and increased disposable income - for those that managed to keep their jobs last year and did not take a pay cut- on hardware sales is likely behind us. Going forward, growth may come under pressure here too”.

2021 sees return of MBSA Regional Health and Safety Competition

8 Mar 2021

Worsening non-residential building activity

In conclusion: After increasing to 29 in 4Q2020, the FNB/BER Building Confidence Index slipped to 27 in 1Q2021. Although only marginally lower, the index still suggests that a vast majority of survey respondents are dissatisfied with prevailing business conditions.

Of concern is the continued worsening in non-residential building activity. “Non-residential building demand will only improve once the economy reopens fully and we make greater strides toward population immunity against Covid-19. However, even then, the oversupply of existing stock, especially in the office segment, will take a very long time to correct. In the meantime, other parts of the building supply chain will continue to be negatively affected,” concluded Mkhwanazi.

The fieldwork for the first quarter survey was conducted between 10 February and 1 March 2021.