

Build Trends

June 2010 | Issue 118



1stQ Employment loss bigger than expected



Exports of SA produced vehicles grew by 78% in May'10



Latest residential building plans passed show first positive growth in two years

Macro-economic trends impacting on construction industry

Leading policymakers recently expressed concern about the health of the world economy even as they closed ranks behind the euro zone's efforts to tackle a debt crisis that has rattled global markets. Speaking before two days of talks bringing together the world's top 20 developed and emerging economies, South

Concern about the health of the world economy.

African Planning Minister Trevor Manuel said he could not think of a more challenging time than the present for the Group of 20.

The meeting of G20 finance ministers and central bank governors was an opportunity to take decisions to banish the spectre of a double-dip recession, Manuel said.

"It's important that we all understand just how fragile the recovery is," he told reporters.

As well as a €110-billion bailout for Greece, the 16-member euro zone is slinging a financial safety net under other heavily indebted countries that use the single currency. Together with money from the International Monetary Fund, the support could total €750-billion.

Investors first responded enthusiastically to the rescue package, but the euro has since slumped on concern about the ability of not only Greece, but also countries such as Portugal and Spain, to plug holes in their budgets.

"First, I don't think the Greece problem is over yet. We are not out of the woods," Youssef Boutros-Ghali, Egypt's finance minister, told Reuters.

"Second, I don't think they got off lightly. The measures they have been required to implement are fairly tough. And there are in some areas doubts whether they are able to continue implementing such tough measures," Boutros-Ghali, who also heads the IMF's policy-steering committee, said.

World stock markets have also been shaken, fearing that Europe's woes could deal a new blow to growth.

"Just when we thought we had turned the corner there are clouds on the horizon," World Bank Managing Director Ngozi Okonjo-Iweala told Reuters.

But speaking en route to Busan, US Treasury Secretary Timothy Geithner expressed confidence that the global economy was strong enough to ride out Europe's troubles.

"The world economy came into this period of concern about Europe with stronger underlying momentum and growth than many people expected, and we're in a much stronger position to get through this," Geithner told CNBC television.

Geithner said the G20 shared a commitment on the need for common standards across global financial markets that will constrain some of the risk-taking that helped fuel the 2007/08 financial crisis, the worst since the 1930s.

Fierce opposition from Canada, among others, has torpedoed the idea of a global bank levy to pay for any future bailout. Rich-country taxpayers had to fork out

trillions of billions of dollars to rescue banks felled by the crisis.

Instead, finance ministers will work on a menu of options for their political leaders to endorse at a summit in Toronto at the end of June with a view to making more specific commitments at a follow-up summit in Seoul in November.

"Different countries' banking sectors are in different situations. So there won't be a one-size-fits-all policy," Sakong II, chairman of the presidential committee for the G20, told reporters.

G20 governments, with the support of the IMF, would assess the spillover effects of each member's proposed policies, Sakong said.

He acknowledged that this could make big global banks shift some of their business to take advantage of less onerous rules, a concern also expressed by Geithner.

"Risk doesn't respect national boundaries. It's going to move to where the constraints are weakest," he told CNBC.

"We all have an important stake in making sure we have a strong set of consistent standards in place across these global markets and institutions," Geithner added.

Source: Reuters, 4 June 2010

According to South African Finance Minister Pravin Gordhan the world has been suffering from an economic imbalance for years, and that South Africa would be pushing for a cure at the Group of 20 (G20) summit in Canada at the end of June.

"The world has been suffering from an imbalance for years, where extreme consumption and demand existed on the one side, and very little consumption and production existed on the other side.

"We have a world where much of the foreign direct investment takes place in a very narrow zone, and the potential of certain continents, such as the African continent, which hosts more than a billion people has largely been ignored," Gordhan told reporters, ahead of the G20 summit. He said that South Africa supported World Bank chief economist Justin Yifu Lin's view of creating a platform for multipolar growth where investment, job creation, poverty eradication and development must take place across the globe.

The World Bank stated in its latest 'Global Economic Prospects 2010' report that developing economies were expected to grow between 5,7% and 6,2% each year from 2010 to 2012.

While high-income countries, however, were projected to grow by between 2,1% and 2,3% in 2010, which would not be enough to undo the 3,3% contraction in 2009, followed by between 1,9% and 2,4% growth in 2011.

Gordhan noted that South Africa needed to do things differently to promote sustainable growth into the future. "Currently, Europe is South Africa's biggest trading partner, while it is clear that emerging markets are now providing impetus for growth. We need to reorientate our trading structures to take advantage of these new opportunities."

"It is important for South Africa to identify other

nontraditional markets in which we become more competitive, have more markets that we can reach out to and increase and create job opportunities in the country." Gordhan pointed out that certain measures needed to be put into place to contribute to this drive, including a right balance between monetary and fiscal policy and certain microeconomic reforms.

"We need to focus on our educational system, the way in which we incentivise and promote businesses in the country, enhancing prospects for exporters to reach out to new markets, and finding new niche areas where South Africa could build on its competitive strength and explore on what the world has to offer."

At the same time, the Minister noted that it was important to enhance fiscal spending in the country, but added that it should be done in a growth-friendly environment.

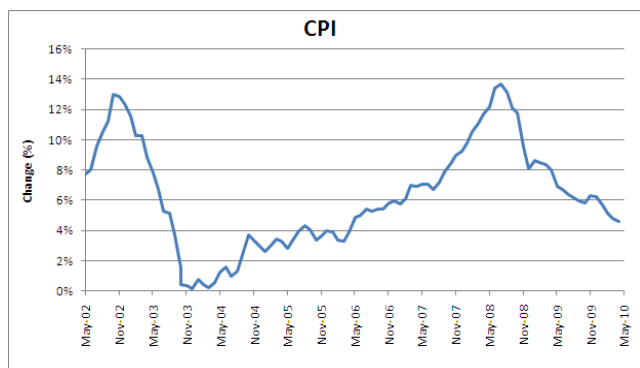
"The new energy and confidence that we have inspired in ourselves and the world in hosting the FIFA World Cup should be transferred to building a stronger and sustainable economy for South Africa.

"The World Cup has now brought South Africa, and Africa as a whole, to the fore and we should take hold of this opportunity at the G20 summit," he said.

Source: *Creamer Media Reporter, Loni Prinsloo, 23 June 2010*

The y-o-y CPI inflation rate declined for the fifth successive month, to 4.6% in May, from 4.8% in April and a recent high point of 6.3% in December. However, the decline in inflation in May was very much in line with expectations and therefore not surprisingly has not elicited much reaction on financial markets.

Analysis of the breakdown of the inflation figures show that inflation continued declining across a broad front, especially in respect of goods as opposed to services. The inflation rate of goods, which was 5.8% as recently as January, declined to 3.1% in May, from 3.5% in April. Several goods saw further declines in inflation in May, including food, beverages, clothing, furniture, appliances, vehicles and



recreational equipment. One suspects that a key factor driving inflation down in these goods has been the strength of the Rand which has enabled the rate of increase in input costs to be suppressed until recently.

Had it not been for a moderate increase in the inflation rate of petrol in May, on the back of a 14 cl increase in the petrol price, the inflation rate of goods would have fallen even

more steeply in May and the overall inflation rate would have been 0.1% lower still. Indeed, the fact that the petrol price fell in June and could fall further in July raises hopes that the downward trend in overall inflation will continue for the next couple of months.

However, one remains concerned that the inflation rate of services is still far more sticky in declining than is the case with goods. There was a slight decline in the inflation rate of services in May, but only of the order of 0.1%. Clearly, administered prices in the public sector, as well as the cost of many services in the private sector, keep escalating at rates well in excess of those of goods. By now one would have thought that the inflation rate of services might have started coming down much more steeply, but this has not been the case.

Unfortunately, the decline in the inflation rate of goods is unlikely to continue beyond the next few months. The acceleration in producer price inflation on the back of the rise in commodity prices over the past year is likely to cause goods inflation to bottom out in the 3rd qtr. Therefore, unless inflation of services relents more significantly in coming months, there is a risk that the overall inflation rate will begin to rise from the 4th qtr onwards. It is for this reason amongst others that one feels the Reserve Bank will refrain from further interest rate cuts notwithstanding the decline in inflation. At the same time the decline in inflation is of such a magnitude as to preclude any interest rate hike in the foreseeable future, i.e. not before well into 2011.

Source: *Econometrix, 23 June 2010*

Employment declined by 79 000 jobs in 1st Q.

The number of people employed in the formal sector declined by 1%, or 79 000 employees, during the first quarter of this year, compared with the fourth quarter of 2009, according to Statistics South Africa's (Stats SA's) latest Quarterly

Employment Statistics.

Year-on-year, the number of employed persons fell by 2,9%, or 242 000 employees, in the quarter ended March 31, 2010.

Stats SA noted that just under 8,1-million people were estimated to be employed in the formal sector at the end of the quarter.

If any consolation can be drawn from these figures it is that the bulk of job losses in the 1st qtr were recorded in just two sectors, the retail and hospitality sector and the financial services sector. Arguably, both of these sectors are characterised by seasonal increases in employment in the 4th qtr, followed by declines in employment in the 1st qtr of the subsequent year.

The mining and quarrying industry increased employment by 3 000 employees, or 0,6%, quarter-on-quarter, but the number of employees declined by 9 000, or 1,8%, year-on-year.

On a quarter-on-quarter basis, the manufacturing industry also increased its employment levels by 3 000 employees,

or 0,3%. However, it recorded a year-on-year decline in employment of 51 000 employees, representing a 4,1% decline.

With many construction projects having been completed for the 2010 FIFA World Cup, the construction sector shed 50 000 employees, representing a 10,9% decline, year-on-year and 7 000 employees, representing a 1,7% decline, on a quarter-on-quarter basis.

Employment services company Adcorp's latest Employment Index also showed a marked decline in employment in the construction and trade sectors during April and May. Between April and May, the Adcorp index recorded a 6,2% decline in employment, with employment in the construction sector dropping by 10,2% and in the trade sector by 9,2%.

Adcorp CEO Richard Pike noted that the sharp decline in these two sectors reflected the maturity of public infrastructure projects and the continued weakness in consumer spending.

"We have seen employment fall across all job types and particularly among low-skilled and semi-skilled workers, who are typically employed in the construction and trade sectors, which saw a 10,1% and 7,4% fall respectively," he added.

Full-time permanent employment also fell by 7,2% month-on-month.

Meanwhile, Adcorp highlighted that unemployment for highly skilled professionals in South Africa stood at just 1,4%.

Source: *Creamer Media Engineering News*, 22 June 2010; *Econometrix*, 22 June 2010

Exports of South African produced vehicles during May saw an improvement of almost 78% compared with export sales last year, which had been particularly depressed as a result of the global economic crisis, according to statistics released by the National Association of Automobile Manufacturers of South Africa (Naamsa).

South Africa exported 24 179 vehicles during the month of May, which was a gain of 10 586 units, compared with the 13 593 vehicles exported during May last year.

Naamsa president David Powels said that 2010 was turning out to be a year of robust growth, with export sales projected to grow by about 32% and domestic aggregate vehicle sales expected to expand by 15% for the year.

The association reported that aggregate industry sales of new vehicles had registered an improvement of 35,3% or 39 176 units, compared with the 28 952 vehicles sold during the corresponding month in 2009.

Powels said that the revival in the sales of new cars and commercial vehicles since the beginning of the year suggested that the industry had moved into a growth mode.

"It is encouraging that aggregate industry sales for the first five months of 2010 remained 24,6% ahead of the corresponding five months in 2009. Higher automotive sector production would contribute to further revival in the South African economy."

Naamsa explained that the 5,5% decline in interest rates since end-2008, relatively stable new vehicle prices and an improvement in loan finance approval rates, as well as pent-up replacement demand, had all contributed to the strong

recovery in domestic sales. Strong demand by the car rental industry during the early part of 2010 had also supported the growth in sales.

Powel said that the positive factors that would support domestic sales included: a gradual improvement in the financial position of consumers, improved consumer sentiment and business confidence, as well as projected further recovery in economic activity levels.

"On the downside, however, the adverse consequences of recent widespread industrial action and uncertainty about the sustainability of the global economic recovery, could impact on volume growth over the medium term," he concluded.

Source: *Creamer Media Reporter*, Loni Prinsloo, 2 June 2010; NAAMSA

*Toll fee
announcement
expected in
October.*

Gauteng motorists should know by October exactly how much they would pay a kilometre to travel on Gauteng's new and improved freeways, said South African National Roads Agency Limited (Sanral) Gauteng Freeway Improvement Project (GFIP) project leader Alex van

Niekerk.

The numbers banded about since 2007 varied between 50 c/km, to the more recent 65 c/km. The tolling model included a discount for frequent users.

"The Minister of Transport has to approve the toll structure," said Van Niekerk.

Construction on the first of the overhead toll gantries of the open-road tolling system – no stopping required – had already started, with one such gantry nearing completion near the John Vorster off-ramp, in Centurion.

Tolling on the 185 km of road which made up the first part of the GFIP would start in April, next year, and would make use of 42 gantries.

"Motorists can start registering for using the system in January," noted Van Niekerk.

Motorists using Gauteng freeways would, for example, be required to buy an electronic toll tag off the shelf at a major retail chain or at a dedicated kiosk. They must then register this tag, by phoning a call centre or going on-line, and load money onto this tag before they enter the road system.

Van Niekerk said that Sanral did expect an increase in traffic volumes on secondary roads once tolling was implemented, but added that this situation was not expected to persist.

"Yes, there will be an initial diversion, but then people will realise the benefit of not sitting in traffic, and they will return to the system."

The GFIP would see vehicles being tolled not according to the number of axles, as was the norm, but on vehicle volume, which would be determined by equipment on the overhead gantries.

Van Niekerk said that the roll-out of the first phase of the GFIP was likely to be followed up by the implementation of urban tolling in some parts of Cape Town, and also Durban

and Pietermaritzburg.

The first phase of the GFIP was to be followed by more phases, which would see the construction of new freeways as it progressed.

Source: NewsWatch; Engineering News, Irma Venter, 24 June 2010

Key Indicators	2006	2007	2008	2009	FC2010	Ytd May-10
GDP	5.6	5.5	3.7	-1.8	2.7	4.6
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	5.3
PPI	7.7	10.9	14.3	0.2	3.2	4.4
Interest rate	11.2	13.1	15.1	11.8	10.1	10.3
Exchange Rate (R/\$)	6.77	7.05	8.24	8.28	7.80	7.50
Exchange Rate (R/Euro)	8.52	9.66	12.13	11.50	10.77	10.14

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

Building and construction trends

Improvement in residential building plans passed.

The April building plans passed figures are conspicuous in the widely divergent patterns they reflect between the trends of residential as opposed to non-residential.

The encouraging feature relates to residential building plans passed. Here, m-o-m

seasonally adjusted growth was a healthy 5.2% and assisted in raising y-o-y growth for the second successive month, from -10.7% in February and -1.3% in March, to a positive 9.6% in April. The latter was the first positive y-o-y growth in residential building plans passed in more than two years.

In part this is a function of comparison against a very low base of plans passed in the same month last year. However, one suspects it is also an indication of the benefits of interest rates having fallen to their lowest level in 31 years and having remained at such lower levels for an extended period of time.

Even though households are heavily indebted still, their financial position appears to be improving based on the decline observed in indicators such as insolvencies and the growth of civil summonses and judgements for debt.

The progressive improvement in house prices over the past six months has also created an environment in which the rationale for investing in a new home has been enhanced. Furthermore, one suspects that the surplus of residential accommodation generated by the buy to let residential investment boom in the middle of the last decade, has been gradually taken up over the past year as the economy has recovered. For all these reasons, one should not be unduly

surprised with the improvement in the residential building outlook suggested by the pickup in the growth of residential building plans passed.

There is therefore no doubt that the extraordinary deterioration in residential building plans passed has been levelling off in recent months. Growth is admittedly coming off a low base, but should be seen as a positive indication of gradual improvement.

Historically, the trend of building plans passed for additions and alterations has tended to mirror that of residential building plans passed. When residential plans passed have been weak, plans for additions and alterations have been that much stronger and vice versa. One has interpreted this to mean that when households have felt to be under pressure financially, they have opted to refurbish their existing homes rather than to embark upon buying or building new homes. However, April plans passed for additions and alterations fell by -19.8% on a seasonally adjusted m-o-m basis, taking y-o-y growth in such plans down to -55.2% in April, from positive levels of 35.5% in February and 25.1% in March.

Interestingly, this pattern of additions and alterations contrasts with the pickup in plans passed for residential building. It raises the question as to whether or not the financial environment has improved sufficiently to encourage households to embark upon new building of homes and townhouses rather than to refurbish as they were doing a year ago.

In contrast with the positive trend of residential building plans passed, non-residential building plans passed plummeted in April. M-o-m seasonally adjusted growth fell dramatically, to -41.5%, dragging growth in overall non-residential plans passed down to -37.7% for April, from -9.0% in March and -2.7% in February. Even though negative growth of -5.1% was recorded for non-residential building plans passed in 2009, April's negativity was the most severe this sector has seen in recent years. Furthermore, the decline was fairly broadly based. Growth in plans passed for office and banking space fell from 50.7% in February and 155.0% in March, to -65.3% in April. In the case of shopping space, growth in plans passed rose from -33.8% in March, to 88.2% in April, but it is important to note that the m-o-m growth rate in such building plans passed was still heavily negative, at -61.9%, suggesting that part of the improvement in y-o-y growth was simply a function of comparison against a very low base for a year earlier. In the case of plans passed for industrial and warehouse space, growth may have improved to a still negative -30.7%, from -41.2% in March, but m-o-m growth was negative at -14.0%.

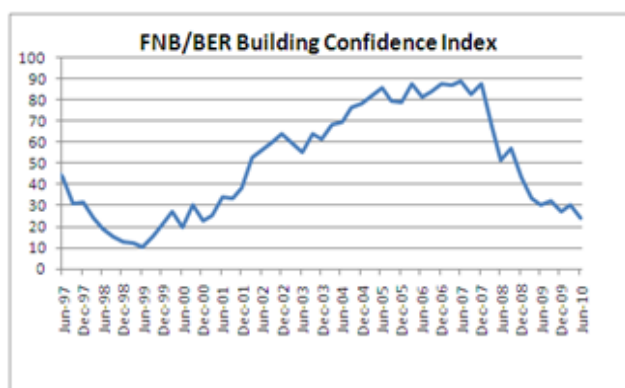
It is unclear as to what caused the sharp fall in non-residential building plans passed in April. It may be that many projects which had been planned ahead of the World Cup had reached completion by April.

Alternatively, it could be a lack of confidence on the part of the business sector in the ability of the economy to grow sufficiently after the World Cup to justify further non-residential building. Or is it simply a lagged response to the recessionary conditions which have prevailed over the past year? Be that as it may, it augurs ill for non-residential building prospects in the year ahead.

Bearing in mind the length of lags between building plans passed and actual building completions, then taking into account the gradual improvement in residential building plans passed, but the heavy deterioration in non-residential plans, one has to conclude that there cannot be a significant improvement in overall building activity before well into 2011.

Source: *Econometrix*, 15 June 2010

The FNB building confidence index fell to 24 in the 2nd quarter of 2010, from 30 in the preceding quarter and 30.2 in the same quarter of 2009. This is the lowest level in the index since the 4th quarter of 2000 when it was at an all time low of 22.7. Confidence levels in the building industry are affected by the sharp downturn in new projects, including a contraction in residential developments, commercial building activity as well as a delay in the implementation of government projects.



Source: *Industry Insight*, 17 June; *BER*, *FNB*

FNB's Housing Finance unit plans to grow the total value of loans granted to customers with monthly incomes of up to R15 000 by as much as 30% annually, and said this was a drop in the ocean in a market with an estimated demand of 600 000 housing units.

FNB plans 30% increase in affordable home loans.

At present, only about 24 000 housing plans are being approved annually. This highlights the gap lenders need to fill to meet the demand of those considered

to be in the affordable housing market.

Marius Marais, CEO of FNB Housing Finance, said if one was to average the cost of a house for this market at R300 000, it meant up to R180bn in finance would be needed.

"Definitely demand is exceeding supply and although we are playing our part, it would be great if other players came to the party," Mr Marais said.

FNB Housing Finance, which is part of FNB Smart Solutions, was established in 2002 following the acquisition

of the Saambou Affordable Housing book. It had grown its loan book from just R1bn then to more than R6bn.

"This last financial year we did around R1,8bn (and) the number has been increasing over time. We plan to further grow and expand and we estimate growth of between 20% and 30% a year. But of course, this depends on the supply side of the market," Mr Marais said.

The potential to grow this market was being constrained not only by the availability of affordable finance but also by the shortage of new houses and land for development, he said. But Mr Marais said developers were more likely to commit funds to projects if they were assured customers would be able to easily get mortgage loans.

This emphasised the importance of lenders finding solutions to serve the market, which includes public servants such as teachers and nurses.

"When we came into this market in 2002, our assumption was that we were getting into a risky business. Eight years later, we can reflect on what we have achieved and we can see that we have developed a reasonably-sized loan book which has proved to be robust even throughout the tough cycle last year."

FNB had been targeting those earning between R3 500 and R15 000 a month and was granting 100% loans with no transfer fees for new houses, while those buying in the secondary market would have to meet the cost of transfer. Mr Marais said the risk of defaults had been minimised by ensuring there was direct deduction of the monthly repayments from customers' salaries, while FNB Housing Finance had decided to fix interest rates to make sure customers would not have to adjust budgets when rates were increased.

"This is also a market where the house they are buying is their first and primary home, so there is stability there," he said. That contrasted with the buyer behaviour of middle- to upper-income customers who would typically be buying either a second house or even a holiday home.

Source: *NewsWatch*, 18 June 2010; *Business Day*, June 18 2010

Trade and Industry Minister Rob Davies has published amendments to energy efficiency regulations, which would make it compulsory for all new buildings to be designed to a standard that minimised the energy use.

The Department of Trade and Industry (DTI) invited interested parties to submit comments and input on the energy efficiency regulations for new buildings, which were published in the regulations section of Government Gazette No. 33265.

The DTI said that the regulations would form part of the deliverables of the National Energy Strategy that were identified in the Industrial Policy Action Plan to strengthen South African standards and regulations for energy efficiency, and would be finalised by the end of 2010.

The energy efficient regulations for residential and commercial buildings, places of learning and worship, certain medical clinics and other categories of buildings, would make it compulsory for all new buildings to be designed and constructed to a standard whereby the user

minimised the energy required to meet the functional requirements.

Through publishing the regulations, the department expected that significant energy savings could be realised by users as well as relieving pressure on the electricity supply grid.

The different elements of the building envelope, such as roofs and ceilings, walls, and windows, would have to meet minimum requirements for preventing heat loss in winter or heat gain in summer, in order to meet the energy efficient targets.

All buildings would also have to be fitted with renewable energy water heating systems, such as solar water heating systems.

Solar water heating systems will also have to comply with South African National Standards (SANS). The regulations require that buildings, heaters, air-conditions and mechanical ventilation systems will have to be energy efficient.

The DTI added that in partnership with the South African Bureau of Standards Technical Committee responsible for energy standards as well as the National Regulator for Compulsory Specifications, the DTI has been instrumental in the development of regulations and supporting the SANS.

Source: Creamer Media Reporter, Christy van der Merwe, 14 June 2010

South Africa's top construction companies remained financially sound, but Africa-focused ratings agency Global Credit Ratings (GCR) warned that there were some uncertainties facing the local industry.

GCR pointed out that while construction industries had reported strong operating results and net cash positions throughout most of 2009, this was largely due to contracts that had already been under way.

"The evidence of the downturn in the industry was only apparent in the declining order books, which is forward looking, and suggests uncertainty of adequate opportunities to sustain revenue growth, even at moderate levels," said GCR corporate sector head Eyal Shevel.

Shevel further pointed out that the construction sector was "highly reliant" on government's R850-billion infrastructure development spend coming to fruition.

"While the importance of these projects is beyond doubt, it is becoming increasingly evident that raising the money, either from already overburdened taxpayers or on the international financial markets, is far from certain."

However, Shevel said that the risks facing the industry were not uniform across all segments.

Groups involved in the more basic sectors of the construction industry, such as roads and bulk infrastructure, were expected to ameliorate some of these risks and outperform the industry, as funding constraints were less acute.

Meanwhile, GCR had reaffirmed Basil Reads' long-term rating at 'A-', given its strong position in road construction and robust results.

However, it placed the credit ratings for Murray & Roberts (M&R) and Group Five on rating watch, owing to their

exposure to complex engineering projects and with lingering concerns regarding the Middle East.

Nevertheless, both companies maintained strong ratings, with M&R at a rating of A+ and Group Five with a rating of A.

Source: Creamer Media Reporter, Mariaan Webb, 14 June 2010

Construction and engineering group Murray & Roberts is finding it hard to pull out of the economic slump, warning that it expected diluted earnings per share and diluted headline earnings per share for the year to June to be about 55% lower than the previous financial year.

The group, which is expected to release its year-end results on August 25, finds itself in a quandary after the global economic crisis took a toll on its order book and working capital as well as the financial performance of some operations for the six months to December.

Adding to the group's woes is the most recent available information on the estimated cost to completion of the Gautrain project infrastructure works indicating an increase of about R390m over the position on which the group's half-year accounts were prepared.

But the group said its operating margin would remain within its strategic range of 5% - 7,5%.

The board had resolved to take the group's share of any increased costs as a charge to the income statement in the current financial year, which would result in the dilution of earnings per share and headline earnings per share, the company said.

Murray & Roberts said Bombela Civils Joint Venture, in which it held a 45% share, had invested significant working capital to mitigate the effect of delayed land handover, higher-than-expected input cost inflation and adverse geological conditions.

"The mitigation measures taken by Bombela to date and a Herculean co-ordinated effort by all parties and people involved in the Gautrain project over the past few months, allowed Bombela Concession Company to successfully commission Gautrain operations on June 8, 19 days ahead of schedule in time for the World Cup," the company said.

Bombela is 66% South African-owned — with the local share-holding spread between Murray & Roberts, empowerment partner SPG and local investors.

Murray & Roberts's challenges were made worse by the fact that its order book was "heavily" weighted to major domestic long-term public sector projects, which have slowed significantly since the completion of the World Cup infrastructure projects.

The group order book remained stable at about R40bn with a solid long-term component in southern Africa.

The group said its global markets continued to offer increased levels of opportunity while there was a shortage of new workflow into its South African markets.

Source: Business Day, Thabang Mokopanele, 24 June 2010

Domestic and international cementitious industry sales trends and news

Cement production in Tanzania continues to grow. At present there are three producers of cement in the country, with the combined annual output of three million tonnes. There are at least four other investors planning to establish cement production ventures and the projects are at different stages of implementation.

One of the investors has already started building a plant in Tanga, while others are reportedly in the process of establishing world-class cement production units in Coast, Dar es Salaam, Lindi and Mtwara regions.

Tanzania is blessed with huge deposits of raw materials needed in cement production, which include limestone and gypsum. An expert recently said even if annual cement production reaches five million tonnes, it could take up to 150 years to exhaust current deposits of raw materials.

Officiating at the commissioning of a new production line at the Tanga Cement Company, President Jakaya Kikwete, urged the current cement producers to expand their production capacity, improve quality and offer the products at affordable prices.

The new mill at Tanga Cement has enabled the firm to increase the firm's production capacity from 700,000 tonnes to 1,250,000 tonnes annually.

The Industry, Trade and Marketing Minister, Dr Mary Nagu, noted that with the commissioning of the new mill at Tanga Cement, the country is now having a surplus of one million tonnes since the national annual demand is estimated at two million tonnes.

Other cement producers are the Tanzania Portland Cement Company based at Wazo Hill in Dar es Salaam and Mbeya Cement Company.

President Kikwete, however, contended that figures on the country's annual demand had been manifestly underestimated; taking into account that many people were still using wood, mud bricks and other materials for construction.

"Many of these people use wood and mud not as a matter of choice, but due to prohibitive prices and non availability of the product in some areas in the country," he said.

He urged cement producers to increase efficiency to reduce operational costs and consequently prices of their products. The president said much as the government was committed to continue creating an investor-friendly environment in the country, firms must also pull up their socks by operating efficiently and compete with imports.

He said the Tanzania Revenue Authority (TRA) and the Fair Competition Commission (FCC) would come in where there were cases of tax evasion and unfair trade practices, otherwise firms must adhere to the rules of the game. The rules, he said, include producing products of good quality,

offered at the right prices. "Don't expect an uncle called government to keep on protecting you," he added.

He said one of the strategies was improvement of the distribution network by establishing big depots at various centres upcountry. Producers could transport cement in bulk to the depots that are closer to wholesalers, retail outlets and ultimate consumers in remote places like Karagwe, Tarime or Newala.

The chairman of Tanga Cement, Mr Charles Naude, had earlier revealed that Tanzania is still the cheapest cement producer in East Africa at US\$160 per tonne, but ranked third in Africa, after Egypt US\$92 and South Africa US\$134. Ethiopia's cement is priced at US\$380 per tonne, the most expensive on the continent.

Tanga Cement is listed on the Dar es Salaam Stock Exchange (DSE) and represents one of the country's major privatization success stories. In 1996, Holcim, one of the largest cement companies in the world acquired 60 percent stake in the then parastatal organization and the government held the remaining 40 percent, before listing on DSE in 2002.

Today, the majority shareholder of Tanga Cement is AfriSam South Africa through its subsidiary in South Africa. Mr Naude says over the years Tanga Cement has performed well and to date it is a world-class manufacturer.

Tanzania has one of the fastest growing economies in the region and is rich in natural resources. "With specific annual cement consumption of less than 50kgs per capita, there is huge potential for growth in cement demand," Mr Naude pointed out.

Mr Kikwete advised producers to take advantage of the East African Common Market, with a combined population of closer to 100 million.

Mr Naude also expressed concern over erratic power supply to the company, poor roads and rail infrastructure.

He said energy and distribution costs adversely affect the firm's performance and called upon the government to implement its infrastructure development programmes.

Mr Naude said another challenge was the unpredictability of the government's investment policy in the context of the East African Customs Union. He cited the case of removal of suspended duty on imported cement in 2008. He said the move led to the influx of imported cement in the domestic market from countries where production costs were lower due to heavy government subsidies.

President Kikwete expressed his appreciation to the three cement producers in the country for investing heavily for the purpose of expanding their production capacity.

"This was done as the world was experiencing a recession. This is commendable," he said.

Source: DailyNewsOnlineEdition, 7 June 2010

Dangote Group will invest R779 million to more than treble its stake in South Africa's Sephaku Cement, from 19.8% to 64%, the latest move by Nigerian tycoon Aliko Dangote to expand his business empire.

The cash will help fund Sephaku's new 2.2 million tonnes a year cement plant scheduled to come on stream in 2012,

Nigeria's leading industrial conglomerate said in a recent statement.

Dangote had first invested 3 billion rand in Sefhaku Cement in 2008 to help finance the South African firm's plant that was originally expected to start production in 2010.

Aliko Dangote, Africa's most successful businessman, controls about two-thirds of the Nigerian cement market and seeks to expand his interests in the world's poorest continent.

"We need such international expansion to grow at a similar rate or outperform the BRIC nations of Brazil, Russia, India and China," Dangote was quoted as saying.

"Our aim is to achieve global operational excellence, enlarge our footprints through cross-border acquisitions, build a global brand and in five years, be the number one cement company in Africa."

Sefhaku Cement is a unit of Sefhaku Holdings Ltd, a South African black-owned minerals exploration, development and investment company.

Under the agreement, Dangote will provide guarantees that Sefhaku Cement needs to secure debt funding for the new plant, fund any over-runs on the project with a loan of about 265 million rand, and finance the company's limestone exploration programme in Western Cape and Limpopo Province, the Nigerian company said.

Dangote has also invested in Ghana's 1.2 million tonnes per year Tema Cement Factory, and other plants in Senegal, Zambia, Tanzania, Democratic Republic of Congo, Equatorial Guinea and Ethiopia.

Source: Business Report, Reuters, 4 June 2010

Information released by Databuild for the month of April 2010, shows several large multi million projects in planning stages.

At least 12 projects with a value of more than R100 million were published at planning stage, including a R1,2 bn sports development in Knysna, a R865m community centre (Thusong Centre) in Doornkop, several shopping centres (including Ruimsig, Letaba and an extension at Witbank), housing developments (Sandton, Groenheuwel), R400 million hospital in Bloemfontein, a new high rise office block in Cape Town and a couple of road and pipeline projects. The majority of these projects are in the private sector.

Whilst this is exciting news for the industry, construction of these projects is expected to only start late in 2010, possibly only 2011.

It is also important to take note of the increase in the rate of projects that are postponed and cancelled which represented 30% of the number of tenders published during the month of April 2010. This suggests that while the broader economic environment has improved, difficult conditions continue to prevail in the construction industry.

Source: Industry Insight, Construction Monitor May 2010

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