

Sharp rise in prices forecast for SA construction sector in 2017

The South African construction sector will see a tender price growth of 7.4%, including 5.3% inflation, and an 8.8% increase in 2018, including 5.1% inflation. This is according to cost consultancy business MMQSMace and Stellenbosch University's Bureau for Economic Research (BER).



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Analysis shows that the construction sector in South Africa is suffering amid the country's wider economic turmoil.

The data has shown a sharp rise in construction prices of 9.5% in the first quarter of 2017 – good news for construction companies but likely to be balanced out with a restrained performance across the rest of the year. The strong increase in early 2017 has been driven by high national inflation pressure and a marked increase in input costs.

Optimism in the sector is low, with industry respondents reporting negative confidence levels not seen since the 2008/9 economic downturn.

Business plan permissions – a measure of the value of planning permissions granted in South Africa – fell significantly across all construction sectors in March by 16.3% and then more radically in April by 41.2%. Overall, the value of building plan permissions was down by 21.9% year-on-year compared to the same period in 2016.

Serious impact on non-residential construction

The economic turmoil has had a particularly serious impact on non-residential construction, which has seen a significant drop in both building plan permissions (down by 67.2%) and completions (down by 62.5%) year-on-year compared to 2016.

This is balanced out by a more positive outlook in the residential sector, which saw a significant upswing

(52%) in year-on-year completion value compared to 2016. However, the fall in the construction pipeline is beginning to bite here as well, meaning the sector cannot be relied upon to provide a steady stream of construction work.

Overall, the sector is likely to be looking forward to December, when there are hopes that the appointment of a new leader by the ANC will bring some political and economic stability.

“We’re seeing a strong rise in tender prices in South Africa in 2017 driven by significant input price growth and general inflation here compared to other markets. A lack of business confidence and an uncertain political and economic outlook has led to a stagnation in investment across both the commercial office and residential sectors this year, with increasing reliance on the planned infrastructure pipeline for our forecast of an improved outlook in 2018,” said Mandla Mlangeni, director of MMQSMace Cost Consultancy.

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