Building update: Building plan approvals are down 8.9% y/y for the year to date (to May), with insufficient demand a major constraint

Thursday 18 July 2019

Figure 1: Growth in the value of total building plans passed, completed in South Africa – constant prices (y/y %)

<table>
<thead>
<tr>
<th></th>
<th>May 2019</th>
<th>Year to date (Jan-May2019)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total building plans passed</strong></td>
<td>-17.9</td>
<td>-8.9</td>
</tr>
<tr>
<td>Residential</td>
<td>-26.2</td>
<td>-8.4</td>
</tr>
<tr>
<td>Non-residential</td>
<td>-17.7</td>
<td>-15.0</td>
</tr>
<tr>
<td>Additions and alterations</td>
<td>1.2</td>
<td>-4.0</td>
</tr>
<tr>
<td><strong>Total completed buildings</strong></td>
<td>60.2</td>
<td>39.0</td>
</tr>
<tr>
<td>Residential</td>
<td>55.8</td>
<td>38.7</td>
</tr>
<tr>
<td>Non-residential</td>
<td>101.0</td>
<td>64.9</td>
</tr>
<tr>
<td>Additions and alterations</td>
<td>9.0</td>
<td>6.4</td>
</tr>
</tbody>
</table>

Source: Stats SA, Investec

- Building plans reported as completed grew strongly in May, climbing by a marked 60.2% y/y in real terms, following April’s 21.0% y/y lift, in turn boosting the year-to-date outcome. That is, completions between January and May 2019 grew by 39.0% compared to the same period last year, supported by a marked 64.9% y/y rise in the non-residential building segment and a 38.7% y/y increase in residential property completions.
- Notwithstanding the robust performance in buildings completed so far this year, which is partly the result of base effects, demand within the building and construction sector remains subdued. This is indicated by the drop in the pipeline of building work expected in the coming months. Building plan approvals in constant (real) terms slid by 8.9% y/y between January and May 2019 and is reflective of the tough domestic conditions businesses and consumers are facing.
- Results from the FNB/BER’s Q2.19 building survey point to a lack of new building demand as a significant constraint in both the residential and non-residential categories, with the SARB citing in their latest Quarterly Bulletin that “Growth in nominal residential property prices slowed further in the first five months of 2019 … below consumer price inflation”.
- Hopefully, the measures outlined by the President in his recent State of the Nation address, will bolster policy certainty and to some degree, consumer and business confidence, which is required to propel fixed investment.

Figure 2: Insufficient demand as a constraint for new building work

Source: BER
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In nominal terms, the value of total building plans passed dipped by 4.6% y/y, for the year to date, while the value of completions rose by 45.6% y/y, underpinned by strong growth in both the residential and non-residential segments of the market.

An analysis of the data on a provincial basis reveals that only three of the nine provinces, namely Gauteng, Northern Cape and Limpopo experienced growth in building plan approvals during the period, with the Western Cape area the primary detractor from growth. This important province, declined by 11.5% y/y, year-to-date (YTD), in turn slicing 3.6% off the headline result.

Furthermore, Gauteng and Kwa-Zulu Natal continued to be primarily responsible for the uptick in the value of completions, growing by 69.7% y/y and 64.2% y/y YTD, adding 30% (R7 746.5 mn) and 8.4% (R2 168.3 mn) respectively.
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