

THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

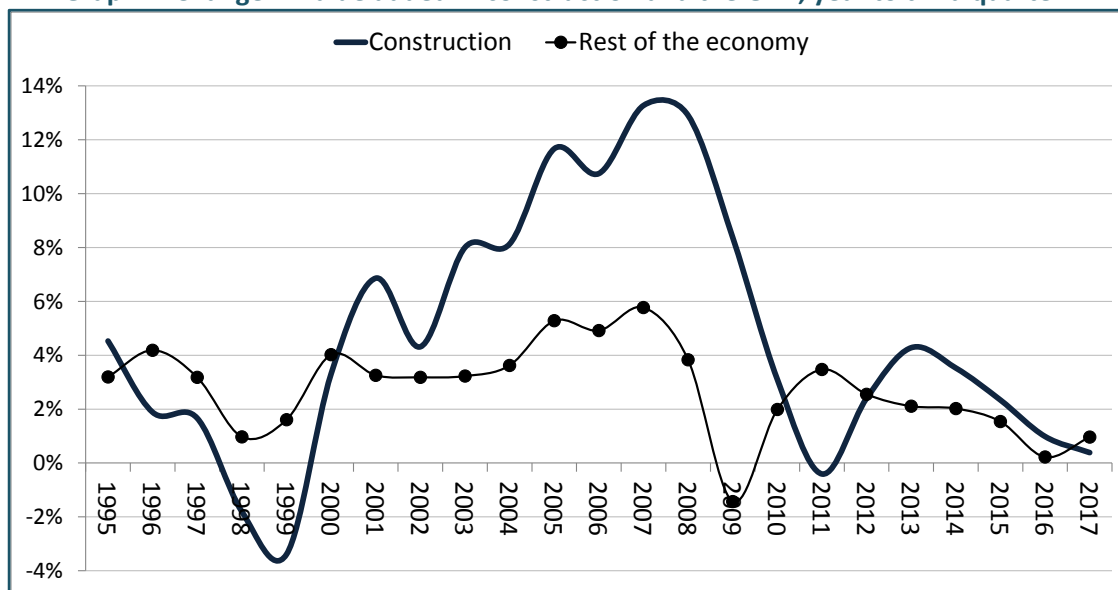
THIRD QUARTER 2017

Briefing Note: Slowdown in the construction industry

The construction industry saw a sharp slowdown in the past year, after being a key driver of growth in the South African economy for most of the last 15 years. The main factor behind its slowing expansion appears to be the flattening out of investment in buildings and construction works as part of the overall downturn in investment over the past two years.

As Graph 1 shows, before the 2008/9 global financial crisis growth in construction outstripped the rest of the economy. It rose to 13% a year in the year to the third quarter of 2008. As a result, it climbed from 2,2% of the GDP in 2002 to 3,5% from 2009. Although its growth fell sharply after 2009, it recovered to 4% in the year to the third quarter of 2013. In the year to the third quarter of 2017, however, the industry's growth fell back to near zero, below the national growth for only the second time since 2000.

Graph 1. Change in value added in construction and the GDP, year to third quarter

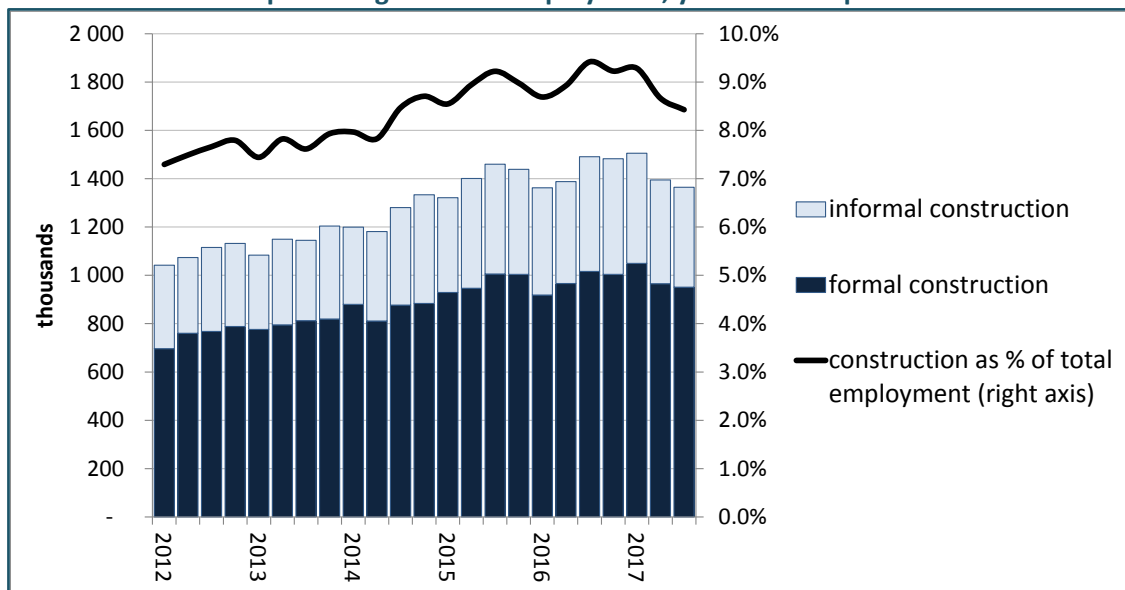


Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded www.statssa.gov.za in December 2017.

Because construction is relatively labour intensive, the slowdown has significant implications for employment. Construction provided 1,6 million jobs, or 8,5% of total employment, in 2017. Slower growth has brought significant job losses.

Construction lost 118 000 jobs in the year to the third quarter of 2017, even as the rest of the economy added 218 000 positions. Formal construction lost 53 000 jobs, or 6%, while informal construction saw 65 000 jobs or 13% of the total disappear.

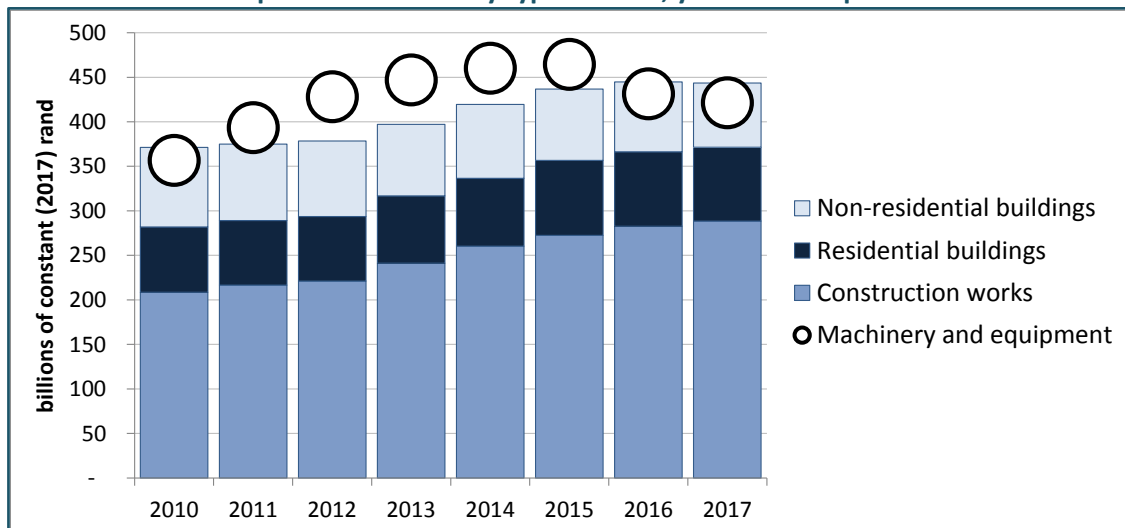
Graph 2. Jobs in formal and informal construction, in thousands of positions and as a percentage of total employment, year to third quarter



Source: StatsSA. QLFS trends 2008 - 2017 Q1. Downloaded from www.statssa.gov.za in November 2017.

The slowdown in construction appears to be related to the decline in investment. Around half of investment spend goes on residential and non-residential buildings plus construction works, which includes mining works as well as infrastructure. As the following graph shows, spending on these types of assets levelled out in the past two years after experiencing relatively rapid growth from 2010. Purchases of machinery and equipment, which constitute the rest of total investment, saw a substantially sharper fall, however (see Graph 3).

Graph 3. Investment by type of asset, year to third quarter



Source: StatsSA GDP quarterly figures. GDPp_Tables_2q_2017. Excel spreadsheet downloaded from www.statssa.gov.za in December 2017.

The decline in construction reflects both an initial response to the fall in investment, and a source of dislocation for tens of thousands of low-income households.