

# New government to have significant impact on construction sector

By [Njombo Lekula](#)

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The country is currently experiencing a palpable positive mood of change since the recent changes in government. While it is too early for the new leadership to have introduced any meaningful economic changes, they are sending encouraging signals to the market.



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Will this have significant bearing for the construction industry? In my view, the answer is in the affirmative. The industry is poised to benefit in the medium to long term.

The construction industry is generally a good indicator of economic performance. According to PWC's report: *SA Construction 3rd Edition* (2017), the industry is a significant contributor to employment and economic growth. Last year it contributed an average of 3.9% to national GDP.

## Shift in cement consumption patterns

Following completion of 2010 Soccer World Cup projects, the industry slumped as major government infrastructure projects either dried up or tremendously slowed down. In fact, in the past few years we have seen a shift in cement consumption patterns. Demand has been driven by small projects and individual household consumption as opposed to big infrastructure projects which mainly required bulk supply. As a consequence of the shift in demand, cement companies have had to adjust their business models to cater for this new reality.

In addition, the South African economy has in the past few years been experiencing recessionary pressures and negative growth. As a result, the industry performance has been sluggish. The changes in government and the commitment by new leaders to focus on growing the economy present an opportunity to boost the industry. Investor confidence is said to be very high, the highest it's been since 2009.

## Commitment to a positive economic environment

The president and minister of finance, respectively in the State of the Nation Address (SONA) and the Budget Speech, committed the government to uproot corruption and create a conducive economic environment. In his speech, President Ramaphosa was emphatic when he said: “We are determined to build a society defined by decency and integrity, (one) that does not tolerate plunder of public resources, nor the theft by corporate criminals of the hard-earned savings of ordinary people.”

In economic terms, the current government leadership is committed to creating a positive economic environment that will attract higher levels of investment. Admittedly, the budget will restrain government spending, which may result in an initial contraction in the economy. Increased taxes and levies will, in the short term, affect people’s disposable income and ability to spend as they otherwise would, constraining demand for our products, mainly cement in our case. In my view, this period will not last long, especially if the leadership delivers on the pronounced commitments.

A conducive economic environment is not only positive for our industry, but raises the general level of economic activity. It heightens the possibility that firms will make positive investment decisions, including putting their money in fixed assets.



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## Industry to benefit from shift toward greater investment expenditure

Despite the budget being contractionary, a significant portion has been earmarked for investment expenditure as opposed to consumption. To this end, the minister of finance in his budget presentation said: “Government recognises the need to shift spending away from consumption towards higher investment.” The industry stands to benefit from this. A cursory look at the budget shows that close to R50bn is earmarked for infrastructure-related spending, including on schools, industrial and public infrastructure. Speedy implementation of these projects, and the removal of corrupt practices, will make a significant positive difference.

One of the key messages in the SONA was on job creation for the youth. Ramaphosa stated that, “At the centre of our national agenda in 2018 is the creation of jobs, especially for the youth.” What does this mean for the industry? The construction industry is labour intensive, and thus well placed to absorb large numbers of youth. We must be an active partner and contributor to this national agenda. For example, bursary programmes at companies like ours, PPC, should be expanded to cover more youth so that when the time to absorb them into our businesses arrives, they can hit the ground running and become productive immediately.

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## Help shape the conversation

The industry must actively participate in the proposed jobs summit and help shape the conversation, especially given the industry's labour absorption capacity. In addition, we need to support government's drive to expand tertiary education beyond the university system by providing meaningful alternatives such as artisan training. Through its Technical Skills Academy (TSA), located in North-West, PPC has the capability to develop artisanal skills required for the cement industry and beyond. Used efficiently, the TSA can make a meaningful contribution to skills development such as plumbers, electricians to the benefit of the broader community.

The government seeks to re-industrialise our economy on a scale and pace that will draw millions of job seekers into the economy. In South Africa's context, infrastructure investment and re-industrialisation will contribute to economic growth and generate the much needed employment. The construction industry will benefit directly from this. With more people working, it also increases the pool of households that are able to invest in fixed assets.



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## Addressing unfair competition

This brings me to the importance of supporting locally manufactured products, as touched on by President Ramaphosa. Over the years, several industries, including the cement industry, have increasingly faced unfair competition from imported inferior goods that are essentially 'dumped' in our country. While we welcome competition, unfair competitive behaviour has a negative impact on our economy, particularly on job security. We welcome the president's indication that government is committed to protecting the local manufacturing sector.

To expedite infrastructure project delivery, President Ramaphosa announced that he will assemble a team to oversee the implementation of new projects, particularly water projects, health facilities and road maintenance. The industry, as a significant economic contributor and a direct beneficiary, should avail its expertise and actively participate in the conversation. We cannot afford to be bystanders who wait for the government to propose solutions for us.

## Opportunity for transformation

As a beneficiary of government infrastructure spend, and a positive economic environment, there is also an opportunity for the industry to fully transform and become an active participant in building an inclusive economy. This we should do through such measures as procurement policies, skills development programmes and genuine partnerships with communities. We continue to demonstrate our commitment to extending "our strength beyond the bag", to achieve genuine transformation which seeks to bring into the formal economy those who were previously excluded.

Given all the positive commitments, and the confidence many investors have expressed, I am of the view that in the medium to long term, the construction industry is poised for growth, and will benefit from the current changes.

## ABOUT THE AUTHOR

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