

CIDB 2021Q2 survey shows mixed sentiment among civil engineering, general building contractors

The results of the 2021Q2 CIDB SME Business Conditions Survey showed that while sentiment in the civil engineering (CE) sector increased for the fourth consecutive quarter, the business mood deteriorated among general building (GB) contractors. A further broad trend observed was the divergence in the confidence of smaller contractors, which moved decidedly higher in the quarter, and larger contractors, which was more restrained or even declined.



Source: Ivan Kruk © [123RF.com](https://www.123RF.com)

The survey is conducted quarterly among grades 3 to 8 CIDB-registered contractors (categorised into grades 3 and 4, grades 5 and 6 as well as grades 7 and 8), both for GB and CE sectors.

After edging higher to 20 in 2021Q1, GB confidence declined by two index points to 18. Higher confidence among GB in grades 3 and 4 (to 45, from 22 in 2021Q1) was offset by lower confidence among GB in grades 5 and 6, grades 7 and 8. In the case of GB grades 5 and 6, confidence is now at its lowest on record.

Improved activity

Confidence was lower even though activity improved across the board. “It is not surprising that activity was better, although much of this can be attributed to the base effect created by the sharp contraction in 2020Q2,” remarked Ntando Skosana, construction industry performance project manager, CIDB. Also weighing on sentiment is the rise in tendering price competition, which is now at its keenest since 2010. “With rising input costs, the more competitive tendering environment is further damaging profitability,” noted Skosana.

From a regional perspective, only the confidence of GB in KwaZulu-Natal declined, to 17, from 20 in 2021Q1. In contrast, GB in Gauteng saw a rise in sentiment to 29. Confidence among GB in the Western Cape and the Eastern Cape remained unchanged at a dismal 8 and 0 respectively.

While GB confidence is low, the business mood among CE, at 38, is at its highest since 2017Q2. Moreover, confidence for CE in grades 3 and 4 is at its best level since 2014 of 60. Additionally, confidence among CE in grades 5 and 6 was 20 points higher at 45 in 2021Q2. In contrast, CE confidence in grades 7 and 8 retreated to 12, from 33 in 2021Q1. This means that close to 90% of CE in grades 7 and 8 are dissatisfied with prevailing business conditions. These movements broadly mimic the changes in activity in the quarter. "CE in grades 7 and 8 saw a noticeable and consistent improvement in activity and confidence since 2020Q3 and we were hopeful that it was the beginning of a more pronounced uptick in the sector. This quarter's results have forced us to reconsider that likelihood. At the same time, we are heartened by the marked improvement in activity among smaller civil engineering firms," said Skosana.



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Regional perspective

From a regional perspective, the following changes in confidence were observed in 2021Q2; Western Cape (+20), KwaZulu-Natal (+16) and Gauteng (-8). CE confidence in the Eastern Cape remained at zero. In terms of activity, KwaZulu-Natal and Gauteng saw the biggest improvement.

The survey results once again point toward a better performing civil engineering sector relative to general building. This is true of activity, and confidence. However, a new development in this quarter's survey results is the underperformance of GB and CE in grades 7 and 8 (and to a lesser extent GB in grades 5 and 6). "We were aware of the difficulties among bigger GB, but the sharp reversal in fortunes of bigger CE is surprising," remarked Skosana.

Overall, the results of the 2021Q2 CIDB SME Business Conditions Survey suggest that activity in the construction sector is set to accelerate in 2021Q2 although at a more pronounced pace among smaller firms. Despite this, profitability, especially among GB, remains under significant strain.

The 2021Q2 survey was conducted during the period 12 May to 31 May 2021.

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