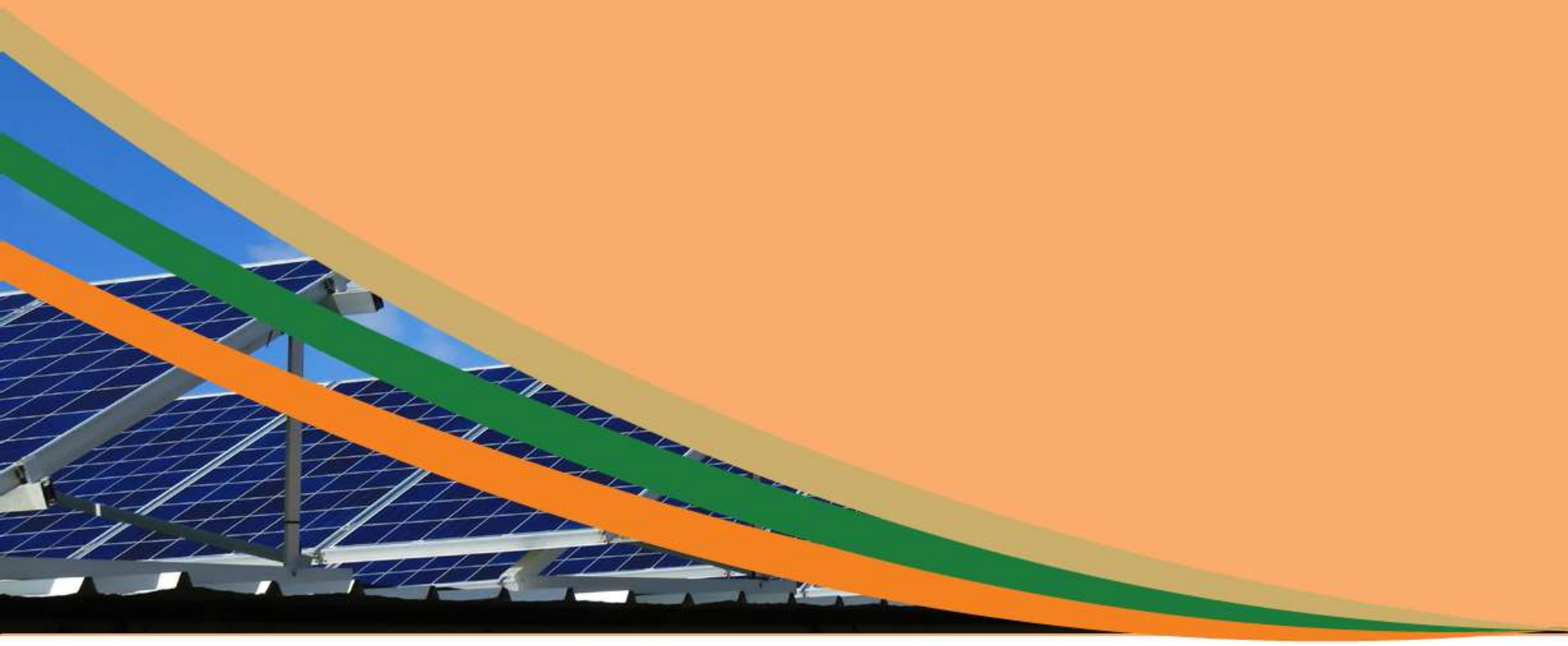
Opinion Piece

SOUTH AFRICA'S CONSTRUCTION SECTOR PERFORMANCE: WHAT COULD HAVE GONE WRONG?

Produced by Chief Directorate: ERPC



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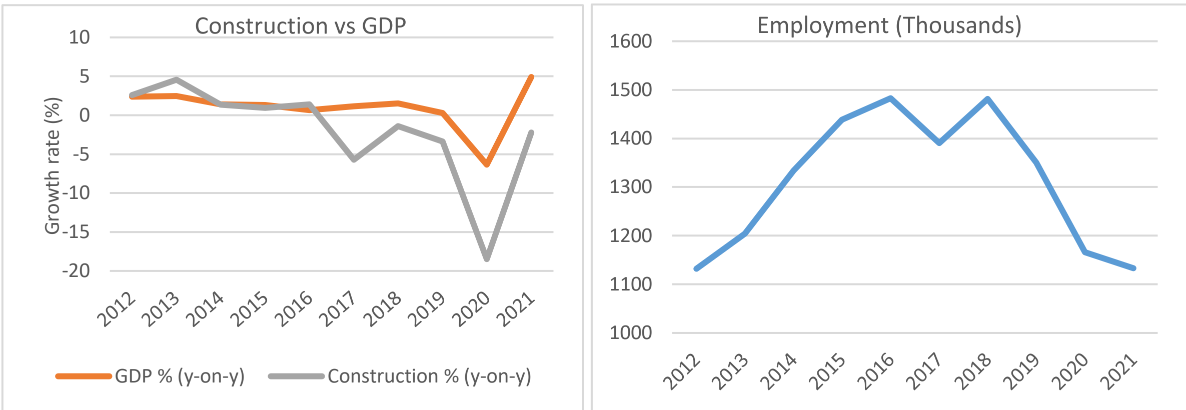
The construction industry is a driver of socio-economic development and a key employment multiplier, contributing 5.3% and 7.8% of South Africa's formal and informal sector employment, respectively.

Though some may regard the sector as one of the smallest in the South African economy, it contributes a significant 3.4% to total output. Furthermore, it serves as a facilitator and enabler of higher economic output and enhanced growth rates. In light of this role and positioning within the economy, the sector's underperformance is screaming at those with economic ears, begging the questions of what could have gone wrong in this high linkage sector, and what focal areas need to be a point of departure in the diagnosis.

The last positive growth rate posted by the construction sector was more than five years ago, i.e. 1.4% year-on-year in 2016. Thereafter, the sector has consistently and gradually been shrinking. With negative gross value added (GVA) growth rates, sectoral employment could not withstand the heat; and so began its descent in 2017. The onset of the COVID-19 pandemic only exacerbated the situation as the sector was caught in an anemic state. From 2016 to 2021, the sector plunged by an average of 5% in terms of GVA, while the rest of the economy edged up by 0.4% over the same period.

Figure 1: Construction sector performance (2012-2021)



Source: StatsSA (2022)

The struggles of the construction sector in South Africa cannot and should not be downplayed. The sector is an employment engine due to its high labour intensity. Even the advent of the Fourth Industrial Revolution, as disruptive as it can be, has not been able to wipe this sectoral uniqueness from the construction space. From 2018, the number of people employed in the industry entered a downward spiral mode, declining by 2.9% in 2018, before further tumbling by 16.1% in 2019 and 18.5% in 2020. Although 2021 saw an improvement, as reflected by the employment loss rate of 2.2%, employment numbers have not been able to reverse or halt the trajectory.

Table 1: Average labour intensity: Jobs created per R1bn in real value add (selected quarters)

	Q1 2009	Q1 2010	Q1 2019	Q1 2020	Q1 2021	Q3 2021
Agriculture	8 574	7 808	8 739	7 137	6 482	7 394
Mining	1 760	1 597	1 878	2 054	1 842	1 605
Manufacturing	4 080	3 424	3 141	3 123	2 790	2 754
Utilities	964	855	1 380	1 109	1 113	915
Construction	8 969	7 886	9 395	9 918	9 578	10 450
Trade	6 787	6 244	5 948	6 025	5 660	5 462
Transport	2 647	2 583	2 686	2 715	2 817	2 878
Finance	2 348	2 265	2 546	2 371	2 393	2 250
Government	9 849	9 808	9 802	10 169	9 611	8 602
Private households	2 322	2 120	1 932	1 943	1 659	1 615
Total Economy	4 164	3 866	3 966	3 950	3 706	3 546

Source: Stats SA (2021)

Although we cannot dispute the impact of the COVID-19 pandemic on the construction sector, its ailing performance remains strikingly worrying, signalling that there could be more to its downtroddenness. Other sectors have notably shown signs of recovery, with green shoots reported in manufacturing, trade and telecommunications.

As the sector is both a leading and following/lagging indicator of the economy's overall performance, it could be understood that the ills of the economy – epitomised by low sectoral output, consistently chronic gross domestic product (GDP), and low and dwindling investment – may have to shoulder the blame for the construction sector's performance, or lack thereof, as the lagging indicator. However, the missing part of the puzzle is what could be internal impediment within the construction sector, leading to poor performance.

A number of views, with respect to the poor performance of the sector, have been flying around for some time now, ranging from construction mafias, corruption, low markups, procurement inconsistencies and delays to specilalised skills shortages compromising productivity, disruptions in the international supply chains due to COVID-19, the oligopoly nature of the sector (characterised by a few big names stifling competition), and 'local' service providers that are often not as skilled and lack the financial support to pay for their independence (skilling workers and capitalising their companies).

It remains to be seen whether there is any substance to the above views or claims. What is known now, however, is that the construction sector is labour-intensive, and resolution of its performance issues could result in improved employment in the industry in particular and the economy in general.

There is, however, no certainty on what is weighing down sectoral performance, which calls for research to guide policy in reviving the industry. Revival of the construction sector would have positive implications not only for the country's employment narrative, but also the performance of various facets of the economy, as the sector has both strong forward and backward linkages.

Despite the sector's negative performance, prospects remain optimistic. Several construction markets and segments still have a pulse, showing positive signs of growth in the near future, supported by government initiatives and the private-sector response to the crowding-in of public investment. Prospects lie in the following:

- Mining infrastructure activity that is expected to grow strongly at the back of strong commodity prices, as well as significant activity in the renewable-energy space.
- Energy and utilities construction market that would be driven by the government's plan to create 4.6GW of new energy-generation projects in the current fiscal year. The government's goal of diversifying its energy mix will also support the sector's growth.
- Commercial construction sector growth that would be driven by the government's tourism recovery plan, along with new investments in data centre and logistic building projects.
- Industrial construction sector growth that would emanate from the government's focus on developing special economic zones (SEZs) to attract private investment and transform the economy into a globally competitive industrial economy.
- Infrastructure construction market supported by the government's plan to invest a hefty amount in public transportation infrastructure between 2023 and 2025.

Whether these prospects would be sufficient to overturn the downward trend faced by the sector is immaterial for now. What is pertinent is how these prospects can be efficiently and effectively realised to revive the sector and maximise its impact on the economy. The answer lies in proposed research into the causes of the sector's prolonged poor performance; for when the causes are known, tailor-made solutions that are both efficient and practical can be identified and designed – strengthening the agenda for research and evidence-based policy-making in South Africa.