

The impact of cheap cement imports on local construction sector

By [George Parrott](#)

23 Apr 2024

The South African construction sector is currently facing a crisis of confidence, reflecting wider economic and investment uncertainties. The FNB/BER Building Confidence Index, a barometer of satisfaction across six sectors within the construction industry, has seen a significant drop to 27 in Q1 2024, down from 43 in the previous quarter. This is the lowest level since mid-2020, indicating a deep-seated dissatisfaction among industry participants.



George Parrott is engineering division partner at King Price Insurance

In addition, Stats SA has reported a nearly 6% annual contraction in the real value of building investments in Q4 2023. This could be attributed to a slowdown in the deployment of solar panels and other energy investments by households and businesses.

However, amidst these challenges, the influx of affordable cement imports could serve as a potential stimulus for the beleaguered construction sector. These imports can ease cost burdens, spur infrastructure development, and enhance affordability and accessibility.



#SIDSSA24: ISA tackles infrastructure lag, eyes private investment

Lindsey Schutters 19 Mar 2024



Projects that were previously halted due to financial limitations or deemed economically unviable can now progress, fostering job creation, national growth, and economic revitalisation.

Nevertheless, it's crucial to understand the complex implications of replacing domestic cement production with imports. While these imports provide immediate cost advantages, they also carry substantial risks, including potential job losses and the erosion of economic value.

Cement industry is a critical employment provider

A study commissioned by local cement producer PPC and undertaken by the Centre for African Management and Markets (CAMM) underscores these risks.

It points out that over 2,200 jobs, primarily in disadvantaged communities where the cement industry is a critical employment provider, are potentially in jeopardy.

There's the added potential annual economic value loss of R2.6bn, and PPC's substantial GDP contribution of around R8.8bn across its value chain could be threatened.

Quality concerns also loom large in the debate. While cheaper alternatives may offer immediate financial benefits, they may also come with compromises in quality control.

Structural engineers and architects play a crucial role in ensuring the integrity and safety of construction projects, with meticulous planning and inspection required to mitigate risks associated with potentially lower-grade materials.

Despite assurances that lower-quality cement can yield durable structures, the importance of upholding quality standards remains paramount to safeguarding public safety and long-term investments.

Construction industry resilience

Most recently, the construction industry is showing signs of resilience and adaptability in the face of government having pledged more towards essential infrastructure projects.

In his keynote address at the 2024 Sustainable Infrastructure Development Symposium, President Cyril Ramaphosa underscored a pivotal commitment to bolstering South Africa's construction sector.

With over R230bn of projects currently under construction and an additional R170bn in procurement, the nation's infrastructure agenda appears promising. The government's 2023 allocation of R903bn to infrastructure until 2026 signals a clear intention to drive economic growth and address critical needs in, especially, water and sanitation, and transportation.

Water and sanitation projects, facilitated by simplified procurement processes and legislative changes, offer hope for infrastructure development and job creation. In the 2023 Budget Review, government prioritised 11 strategic projects with an estimated value of R115bn.

These projects span the entire country and are expected to create about 20,000 jobs during construction and 14,000 jobs during operation. Projects are at various stages of funding and are expected to be completed between 2026 and 2030.

In the meantime, municipalities are contracting smaller works out that will see improvements being made in the number of leakages in local water supply facilities.

Similarly, ongoing maintenance and refurbishment of roads, coupled with the emergence of smaller-scale retail and residential projects, reflect a semblance of momentum in the sector. While not without their hurdles, these initiatives underscore the industry's potential to drive economic recovery and social progress.

Insurance industry has a role

Insurers active in the engineering, construction and building sector should keep a close eye on developments pertaining to confidence in the sector, factors that affect projects, like the availability and price of raw materials, and the insurance needs of the contractors that are busy with projects.

The industry should recalibrate our offering to meet the immediate risk mitigation needs of smaller contractors and project owners and implement an approach that empowers businesses in the sector to tailor insurance policies that address their unique risk profiles.

By streamlining engineering products and providing comprehensive coverage options for risks at all stages of construction projects, insurers can bolster confidence and resilience across the construction ecosystem.

ABOUT THE AUTHOR

George Parrott is engineering division partner at King Price Insurance

For more, visit: <https://www.bizcommunity.com>