

Price movements in the building and construction industry

Activity in the building and construction industry gained considerable momentum from 2003. As shown in the accompanying graph, this was reflected in a rise in building costs beyond the overall pace of inflation in the economy, as the buoyancy of activity plays a pivotal role in price movements in this cyclically sensitive industry.

When price changes are analysed for the building and construction industry, a distinction may be drawn between changes in the cost of building materials and the cost to the client, i.e. the homeowner or property investor, of the completed building. The cost to the client (or so-called tender price) allows not only for building materials but also for items such as labour, fuel and the profit margin of the contractor. The building cost index of the Bureau for Economic Research (BER) is an indicator of tender prices.

According to the BER building cost index *tender prices*, or the cost of newly completed buildings, rose by around 85 per cent in the past six years. It thereby outpaced the general price level, as proxied by CPIX or by overall production prices, by a considerable margin. Factors accounting for the difference between these rates of change include the degree of competition in the tendering process as well as the availability of labour and material inputs, and are strongly related to the stance of the business cycle. When conditions are booming in the building industry, tender prices rise more rapidly than input costs as building contractors find themselves in a better position to widen their profit margins. Inversely, during a recessionary phase in the building industry, tender prices rise less rapidly than input costs.

The prices of *building materials* are also sensitive to demand conditions, although not necessarily to the same extent as building contractors' margins. According to the production price index for building and construction material as published by Statistics South Africa, the prices of building and construction materials rose by around 60 per cent from January 2000 to September 2005, while the prices of new buildings completed, as already mentioned and indicated by the BER building cost index, rose by around 85 per cent over the same period. The increase in the production prices of building and construction materials of 60 per cent from January 2000 to January 2006 was well in excess of the rise in the all-goods production price index of around 40 per cent over the same period. Increases in the prices of individual materials varied around the average rise of 60 per cent over this period. Examples exceeding the average include stock bricks, with an increase of 99 per cent; face bricks, 87 per cent; cement, 99 per cent; structured steel products, 75 per cent; and cement building blocks, 108 per cent. By contrast, the production price of glass rose by only 6 per cent and that of floor and wall tiles by 9 per cent.

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Building and construction cost

