

Building Industry Should Not Bear Brunt of Energy Crisis

Property economist Erwin Rode of Rode & Associates has strongly condemned Eskom's decision earlier this year to impose a six-month moratorium on all new medium- to large-scale construction projects across both the residential and non-residential markets.

Says Rode: "It is unfair to discriminate against new projects; surely the burden of electricity constraints should be shared equally by the country as a whole and not just within one sector?"

While existing long-term projects have yet to feel the full impact of the energy crisis, Eskom's recent decision is already having an effect on professionals throughout the building industry, says Rode, escalating a situation which began two years ago when interest rates began their steep and sustained rise, construction input costs rose and consumer demand fell. By February this year - well before the full impact of the energy crisis began to take its toll - year-on-year growth in overall building plans passed had already declined sharply by 22,9%. Cement sales, a good proxy for building activity, are for the first few months of this year already showing a decline of about 1%.

"Electricity prices in South Africa have been far too low for too long," says Rode. "With the exception of the mining industry, on which the South African economy depends for its exports, all other sectors, and not just the building industry, should bear an equal brunt of the current crisis - and this means, inter alia, a sharp increase in the cost of electricity across the board."

When asked what he considered to be a "sharp increase", Rode replied: "Think: doubling. Price is an important mechanism in an economy; it depresses demand and stimulates supply. However, as long as electricity in South Africa is too cheap relative to the cost of erecting a new power station or running an existing power station (such as a coal-powered one), we are not going to solve our problem."

It is an undisputed fact that the electricity crisis is going to reduce economic growth over the next seven years, but by just how much it is currently impossible to predict.

The South African economy now finds itself in what Rode terms “serious overdraft” and drastic measures should be taken.

“In light of the national power crisis,” says Rode, “the government should perhaps look to suspending, or at least ‘slimming down’, environmental impact assessment requirements for certain projects such as the construction of power stations and transmission lines so that these may proceed as rapidly as possible.”