



Institute of Policy Analysis
and Research - Rwanda

Improving Policy, Impacting Change.

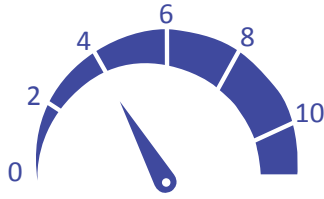
A stylized illustration of a construction site. In the foreground, there are several blue cranes of different sizes and orientations. Behind them, there are grey silhouettes of buildings under construction, some with visible structural grids. The entire scene is set against a white background.

CONSTRUCTION SECTOR BAROMETER

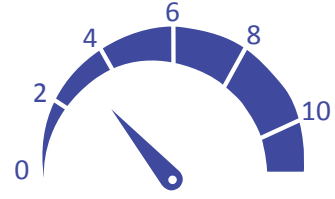
Quarter #3
September, 2017



IPAR CONSTRUCTION INDICATOR



This quarter **4%**



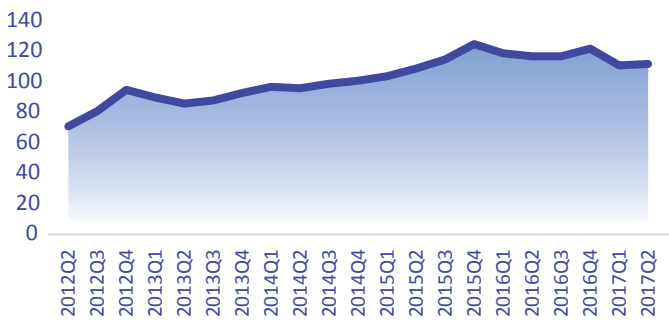
Next quarter **3%**

IPARs composite construction indicator suggests stable growth in the construction sector. According to our nowcast, seasonally adjusted construction activity has grown by around **4% in the third quarter of 2017**. Our forecast model, points to sustained growth in the sector. Construction is expected to expand by **3% in the fourth quarter**



VALUE ADDED IN CONSTRUCTION

(In Billion RWF)



Construction has performed worse than the whole economy since 2016, which is due to the completion of major construction projects (Convention Center, Marriott). However, the construction sector expanded by **1% the previous quarter**.



BUSINESS CLIMATE

Next Quarter



Bigger



Medium



Small

This Quarter



Bigger



Medium



Small

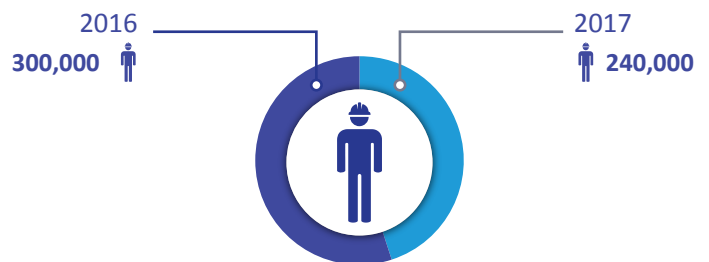
The current business situation is challenging for small companies, but good for bigger and medium sized ones. Business expectations, however, are good throughout the board. The main challenges that businesses are facing are **high competition, obtaining loans and high taxes**.



EMPLOYMENT



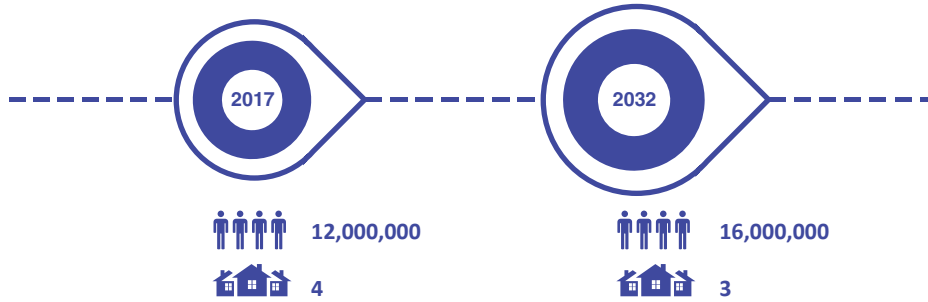
7.9% of the employed people work in the construction sector



Around **240,000 people** were employed in the construction sector in February 2017, down from **300,000 in August 2016**. Due to changes in the methodology of the labor force survey as well as seasonal effects the figures are not directly comparable.



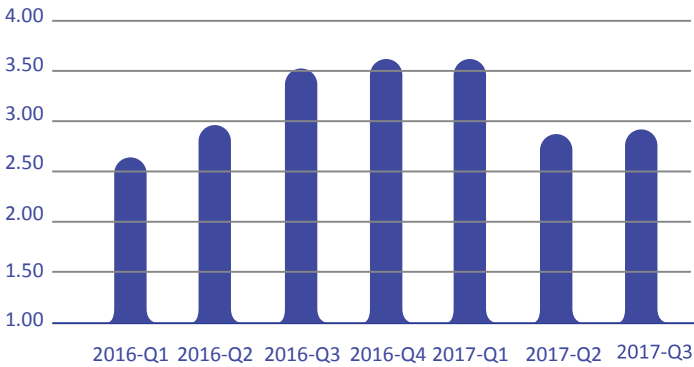
LONG-RUN HOUSING DEMAND



Housing demand is expected to remain strong as population grows **(from 12 to 16 million over the next 15-years)** and household size decreases **(from 4 to 3)**. Demand will be especially strong in urban areas where the number of household is expected to double over the next 15-years.



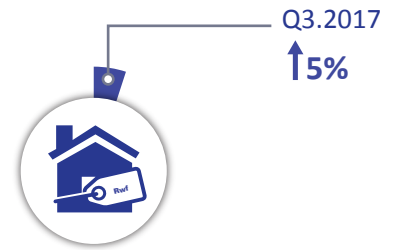
BUILDING PERMITS



The number of building permits issued by City of Kigali was roughly the same in the third quarter as in the second quarter of 2017. Permit data for October and November, however, points to an increase in the number of building permit issued in the fourth quarter.



PRICES FOR HOUSING



Prices for “Housing, water, electricity, gas and other fuels” increased by **5% in October 2017** compared to October last year. Inflation was only **3% in the third quarter 2017**.



CONSTRUCTION MATERIALS



Production ↑6%



Imports ↑3%

Production **(plus 6%)** and imports **(plus 3%)** of construction materials (cement etc.) increased in the third quarter 2017 relative to the second quarter 2017. However, the increase was slower than in the second quarter. Over the past two years, cement imports have been increasingly substituted by cement production within Rwanda.

Background

In Rwanda the data on economic activity is available officially in national accounts; however national accounts data are not well suited to reliably assess economic activity in real-time. Albeit, it is important for policy making and evaluation to have timely information to be able to react on its trends or even better be able to anticipate them in advance, this at least for the data on the production of important branches of activity. It is thus against this background that the macroeconomic programme of GIZ in collaboration with the Ministry of Finance and Economic Planning MINECOFIN commissioned IPAR with the cooperation of RWI located in Germany to construct a single comprehensive business cycle indicator for the construction sector in Rwanda. The calculation of this indicator is expected to serve as a benchmark for future business cycle indicators in other activities, namely in the areas of: agriculture, tourism and trade.

Approach

This indicator was constructed using data compiled from national data and as well quantitative data from construction companies. The reference variable selected was the value added in the construction sector because of its accuracy and low volatility. Dependent variables were selected based on their fit to the value added of the construction sector, their economic relevance and timeliness. Accordingly, the relevant variables retained were: credit to the private sector, loans for the construction sector, import prices of construction materials, and the evolution of rents. Furthermore, we weighted these variables based on their forecast performance measured by the root-mean-square error (RMSE) and by giving more weight to longer time series. Thus, we end up with two indicators: a “Plain” bridge model and an “Autoregressive” bridge model. Moreover, given the importance and fit of cement to the construction sector we also considered the cement indicator. The three indicators were then averaged to one single comprehensive indicator.

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