Impact Of The Economy On The Construction Industry

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Abstract

The construction industry plays a significant role throughout the world and, as a result, holds a given proportion of some countries' gross domestic product and gross national product. Some scholars argue that the construction industry's role is beyond this; it also plays a crucial role in the economic growth of a given nation because it is one of the biggest industries in the world. Although the construction industry is this important, its aspects towards the facilitation of the economy are scarce, as previous research has not emphasized the same. At the moment, the aspect of economic growth is of great concern, and most industries across the world have found it difficult to balance the two. Therefore, this research seeks to establish the dependence on the economy and how it influences the construction industry. It provides qualitative analysis of data and compares two countries, a developed and developing nation.

Introduction

From a broader perspective, the economy is defined as the state of a given country or region in terms of the production of goods and services as produced in the country and the overall monetary value within the assigned area. Furthermore, the economy of a given country can be described using the careful management of the resources possessed within the given state. Whereas some aspects such as productivity, population growth, and ease of carrying out business play a significant role in the betterment of an economy, the role played by industrialization cannot be underestimated. Also, with an increase in the industrial sector, there is an increase in the supply of goods and services for internal and external markets (Anaman & Osei, 2007, pp.951-957).

With industrialization, whereby the construction industry happens to be one of the constituents, there is sufficient production of goods and services and the generation of new employment opportunities. With the increase in industrial production, as past studies reveal, exports and revenues of a given country are likely to increase.

Research indicates that there is a very close link between aspects of the construction industry and the growth of the economy of a particular country or nation. Such is because of the diversification of the construction industry. The construction industry, according to credible sources, is significant and responsive. Furthermore, construction has a powerful connection with other sectors, which depend on it either directly or indirectly for survival (Anaman & Osei, 2007, pp.951-957).

Other scholars argue that although the construction industry has some impacts on the economy, vice versa can also be achieved, hence creating the notion that the economy holds some given aspects of influence on the construction industry (Bielsa & Duarte, 2017, pp.314-321). This is the reason why there is a significant disparity regarding the growth aspect in the construction industry between developed and developing nations.

Previous studies, as mentioned at the beginning, have established a very close and positive relationship between construction output and the aspects of economic growth, especially in developing nations across the world. Therefore, it is essential to understand the contribution of the economy towards the growth of the construction industry. As a result, this result seeks to establish the role played by the impact of the economy in the construction industry. Several aspects, ranging from the construction industry in developed nations, whose economies are stable, and in developing countries, whose economies are unstable, are analyzed in this research. Such will provide a clear understanding of the sector and its related factors.

Literature Review

This literature review discusses findings from other studies that have reported on the aspects of the role of the economy in the construction industry. This section covers two aspects: the construction industry in developed nations and the construction industry in developing countries. Such is an essential aspect because the economies of the said countries differ in many aspects. Furthermore, it discusses the role of the construction industry in the economy and economic development.

Industrialization In Developing Nations

Several attributes characterize developing nations across the world. Some of them are low per capita real income, which results in small savings and low investments. On the other hand, they are also characterized by high population growth, which is due to free planning options (Dlamini, 2012, p30). Furthermore, such countries suffer from high rates of unemployment, and as a result, their economies depend on the primary sector. Past researchers indicate that almost 75% of the populations in these nations are rural-based. Lastly, such countries depend on the exports of primary commodities since much of the input depends on the primary sector.

Lukunami(2013) sought to identify the rate of industrial development in African nations, considering small and medium-scale enterprises(SMEs). From his study, he identified several aspects that made it difficult for the growth of the industries from a general perspective. As such, lack of essential social amenities, poor infrastructure concerning good roads, rails and other aspects that could facilitate easy transportation of construction materials from the ports to final destinations were also unavailable. The results from his research indicated that there was a lack of special techniques employed to manage the situation and record profitability. He recommended that respective governments should ensure that they create a positive atmosphere that would facilitate industrial and business development (p5). Furthermore, he urged the government to provide necessary infrastructural facilities that would promote active industrial growth.

Characteristic Aspects Of Industries In Developed Nations

One of the most significant differences between developed and developing nations lies in the aspect of the economy. As mentioned at the beginning, Industrialisation and economic development are related to different elements. Therefore, they are interdependent. Europe, America, and other developed nations across the world are characterized by less corruption, adequate infrastructure, economic stability, and effective transportation mechanisms, which are factors that promote industrialization.

Also, developed nations are characterized by the presence of technological innovations and experienced workforces that facilitate efficient industrial growth. Data obtained from an industrial development report indicated that technology played a crucial role in the effectiveness and development of industries across the world. A surprising aspect of this revelation is that, unlike developed nations, developing nations are characterized by inferior technologies, which does not create the right environment that facilitates industrialization.

The aspect of technological requirements remains relevant since it's one of the elements shaping up the construction industry. Comparing its availability in developing versus developed nations, technological innovation is well supported and embraced in developed countries as compared to developing countries across the world, like Kenya, Tanzania, and Uganda.

In contrast to developing nations, industrialization is much more useful in developed countries than in developing nations. Developed countries have been known to set sound strategies that promote manufacturing, innovation, and related aspects. Furthermore, their societies are characterized by the presence of suitable infrastructure, encompassing roads. Railways, seaports, and airports. Therefore, the movement of goods and services, either for manufacture or sale, is done effectively and efficiently. Furthermore, as previous results indicate, their governments strive to minimize any obstacles that might deter industrial growth.

The Research Methodology

This section aims to collect relevant information and data that is needed to make research decisions and draw relevant conclusions from the research. Therefore, this section explains the procedures involved in the data collection processes of this research. This research emphasizes the impact of the economy on the construction industry. For this research, the output from the statistical analysis of the construction industry of South Africa is considered. Emphasis was given to South Africa due to certain aspects owned by the country, which could facilitate useful comparison. Although it is supposed to be a developed nation, some argue that it’s still a developing nation due to the vast social gap between the rich and the poor. Furthermore, to facilitate the effectiveness of this research, data obtained from this research is compared with data from the United Kingdom since it is a developed nation.

The Research Design

The researcher, in this aspect, employed a descriptive research design. This method involves observation and description of the subject without any influence on it. Such was the most appropriate method for this research since it was nearly impossible to have data from different countries tested, as measuring large numbers of samples was required In the process. In this regard, this research employs the application and use of secondary information and data.

Data Collection

This research facilitated secondary data collection techniques, and this was enhanced by the analysis of data obtained from the electronic archives of Statistics South Africa. Also, more data was sourced from the South African Reserve Bank. This data included GDP details. The data obtained included annual, quarterly and monthly output reports that reflected real and nominal figures.

The data obtained from South Africa was compared against similar data from the United Kingdom. Such was to ensure the facilitation of balanced analysis. As mentioned at the beginning, both countries have different developmental aspects, with South Africa being a developing nation, whereas it is a developed nation.

Research Findings And Results

One of the notable aspects that would facilitate the effectiveness of this research is the realization of the political character of South Africa in 1990. Due to the political change that took place, the country experienced remarkable political stability, and the uplifting of the sanctions meant that the economy was expected to grow.

The Construction Sector Of South Africa

According to the facts gathered, the construction sector in the Republic of South Africa responded positively to the developments associated with the political changes explained at the beginning. Such facilitated the growth in the overall economy of the Republic of South Africa. The facts revealed that the construction output increased from the beginning of 1990 up to 1994 when the country held its first-ever elections. Such an increase in the construction output, as some economists argue, was due to the confidence the investors had in the economy of South Africa.

Since the country was under colonial rule years before 1990, there are no credible data sources that could ascertain the condition of the construction industry. Although such was happening, there is a common belief that the construction industry has suffered significantly, just like other sectors of the economy (Baloyi & Bekker, 2010, pp51-57). Such was due to the trade sanctions imposed on it. The worst of the construction industry, as some sources claim, happened between 1986 and 1988 when the economic sector was declining. Below is a chart that represents the same.

On the same note, the construction industry increased significantly, as an increase in construction output was recorded from 1990 through 1994 to 2010. This is shown in the figure below. At this period, the country had a new president who had promised significant political reforms, instilling confidence among the citizens. As a result, the nation experienced a positive annual change in the construction output. Furthermore, the release of Nelson Mandela from prison led to a gained momentum in economic growth(Baloyi & Bekker, 2010, pp51-57).

After the ANC was elected to power in 1994, the country's economy grew significantly. Data indicates that at this time, the construction output grew by 0.7% in 1994. The following year, the new government embarked on the improvement of the economy and other developmental projects, which saw the annual construction rate growing at 1.6%, as indicated in the figure below(Aibinu & Jabboro, 2002, pp.593-599).

However, there was a stall in the construction growth in the years 1997 and 1998 because the overall economic growth of the country decreased significantly. Such was characterized by dwindling exports and a drop in the price of gold, which is one of the country's commercial pillars. Furthermore, during this period, the nation was regaining from the initial state of the financial crisis when the world experienced a massive economic deterioration (Pollin et al., 2009, pp. 227-240). During this period, the country's GDP grew by 3.5 per cent, although the economy failed to pick up.

Furthermore, the data obtained indicate that there has been a sharp decline in the annual change in the construction industry from 2008 to 2010. Much of this is attributed to the financial crisis experienced across the world at this time. Since the economy of this country is beyond the maturity rate, this is expected to continue.

The United Kingdom Construction Sector

It can be inferred that there was an annual change in the construction output recorded between 1955 and 2010. Such is entirely different from what is expected in South Africa between 1986 and 2010. Information from such comparisons seems to be right when supported by Bon's (2010) views. According to him, the contribution of construction is expected to increase with a developing economy and, at the same time, decline when the economy reaches its maturity level.

Information Analysis And Synthesis

The relationship between construction output and the GDP has been studied, and its impact on economic growth has been observed. According to researchers, busts in the economy do not have a long-term relationship with the construction output and financial aspects regarding growth. Furthermore, it can be concluded from the above data comparison that a healthy relationship exists between construction output and the GDP of the mentioned nations. As such, from the South African perspective, construction output has a significant impact on production and growth.

Discussion And Conclusion

From the above observations, there is a very close relationship between construction activities and economic growth. Construction, therefore, impacts on a certain measure of short-run growth, hence it is regarded to be one of the components of investment programs. Furthermore, development, although being an important sector that facilitates economic growth, stimulates economic growth, primarily when spending on the same is increased. Some of the key factors that enable construction, like infrastructure, promote economic growth because the provision of infrastructure leads to employment opportunities and, therefore, impact the economy positively.

Lastly, as observed from the above sectors observations, the construction industry thrives well in stable economies, unlike unstable ones. This is the reason why there was recorded an increase in the construction output when the Republic of South Africa seemed to gain economic stability. On the other hand, contrary to the same, it was recorded when the country experienced a financial crisis and when the state experienced political instability.

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Program of Work

An example of the project schedule for the first year