



The Investment Monitor for the Province of KwaZulu-Natal

April 2011

Rand supports fixed investment in KZN

The strong exchange rate of the rand continued to encourage fixed investment in KwaZulu-Natal in April.

The total investment index of KwaZulu-Natal's latest provincial investment monitor, as compiled by economist Mike Schüssler, an economist at Economists.co.za, grew at 18.4% year-on-year, the highest growth rate in almost four years. The quarter-on-quarter fixed investment growth of 6.3% was substantially lower than the previous month's 13.3%, but still one of the best growth rates so far this year.

Aeroplane imports and strong rand boost transport equipment investment

The transport equipment index, which contributes 14% to the province's total fixed investment index, increased by 35.8%, compared to the previous month's growth of 44.5%. Although land transport investment increased by 12.5% year-on-year, the transport index growth was driven primarily by air and sea transport's 72.6% year-on-year growth. This was partly due to aeroplane imports of R900 million in April. Velvet Sky, the new airline flying between King Shaka International Airport and OR Tambo International Airport in Johannesburg, contributed to the air transport investment increase. As most transport equipment is imported, many transport businesses took advantage of the strong rand to import new, more fuel-efficient transport technology as high international oil prices are forcing them to cut back on fuel usage.

Machinery investment high driven by exchange rate and technology transfer

Machinery, the largest contributor to fixed investment in KwaZulu-Natal, also benefited from the strong exchange rate, as the rand continued to trade below R7 to the dollar for most of April. Investment in locally produced machinery fell by 16.2% year-on-year, but investment in imported machinery spiked by a massive 71.2% year-on-year. As most advanced machinery is imported, it reflected in the total machinery index with a whopping 43.2% year-on-year growth. On a quarter-on-quarter basis, growth in machinery investment was down from 16.2% the previous month to 4.1% in April.

Businesses striving to be internationally competitive need the best quality machinery, so they make use of the strong rand to import. Technological transfer and change is taking place across the world and KwaZulu-Natal's manufacturing industry is following the trend, prompting growth in machinery investment.

Many businesses also seem to prefer to upgrade machinery, a medium-term expense, than to upgrade their buildings – a long-term commitment.

This trend is partly seen in the continued decline in the buildings index and civil construction index.

Glimmer of hope for buildings investment

The 11% year-on-year decline in the buildings index came as no surprise, as the index has been on a downward slope since last July. The index also declined on a quarter-on-quarter basis and is expected to continue declining as investment in residential buildings and shopping centres will take some time to get back on track.

The 2.8% quarter-on-quarter decline was the smallest decline so far this year, indicating that the building sector might be showing slow improvement.

Bullish quarterly outlook for civil construction

The civil construction index declined by 8.7% year-on-year, the first single-digit decline in eight months. Civil construction was on a high before the world cup and therefore some decline must be expected on a year on year basis. On a quarter-on-quarter basis, investment in civil construction grew by 11.2%, building on the previous month's quarter-on-quarter growth of 11%.

Transfers following the lead of buildings and civil construction

Transfers, contributing only 2% to the total fixed investment in KwaZulu-Natal, grew by 2.4% year-on-year after seven months of double-digit year-on-year growth. On a quarter-on-quarter basis, the index declined by 9.8%. The slowdown in growth is no cause for concern as the transfer index usually moves with the buildings and civil construction indices.

ICT equipment still on upward trend

Investment in ICT equipment, which has shown strong growth for more than a year, increased by 4.4% year-on-year compared to 3% growth in March. On a quarter-on-quarter basis, investment in ICT equipment increased by 2.9%.

The demand for computers and similar equipment usually depends on price, which decreased thanks to the strong exchange rate and improved technology. Improved cell phone and internet technology and investment in cables by telecommunication companies also supported growth in the index. Whereas the ICT equipment index's growth could slow down over the shorter term, as some businesses wait for even newer technology, the growth decline will not be prolonged.

ICT equipment prices are falling internationally and one expects that part of this fall has to do with future technology which is likely to be available soon. This will increase growth rates in futures but in the meantime it may be a wait and see period for most installers. Cell C for example expect 4G to be available in real terms by the end of the year at which point network infrastructure budgets will rise rapidly again in our view.

Table 1: KZN investment changes per sector.

Main and sub indices of the Kwa-Zulu Investment Monitor	% Change on a year ago	% Change from a quarter ago
Transport Equipment	30.9%	35.8%
Buildings	-11.0%	-2.8%
Civil Construction	-8.7%	11.2%
Machinery	43.2%	4.1%
ICT Equipment	4.4%	2.9%
Transfers	2.4%	-9.8%
Total Investment Index	18.4%	6.3%

Source: Economists.co.za