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PROVINCE OF KWAZULU-NATAL



KwaZulu-Natal Investment Monitor

February 2013

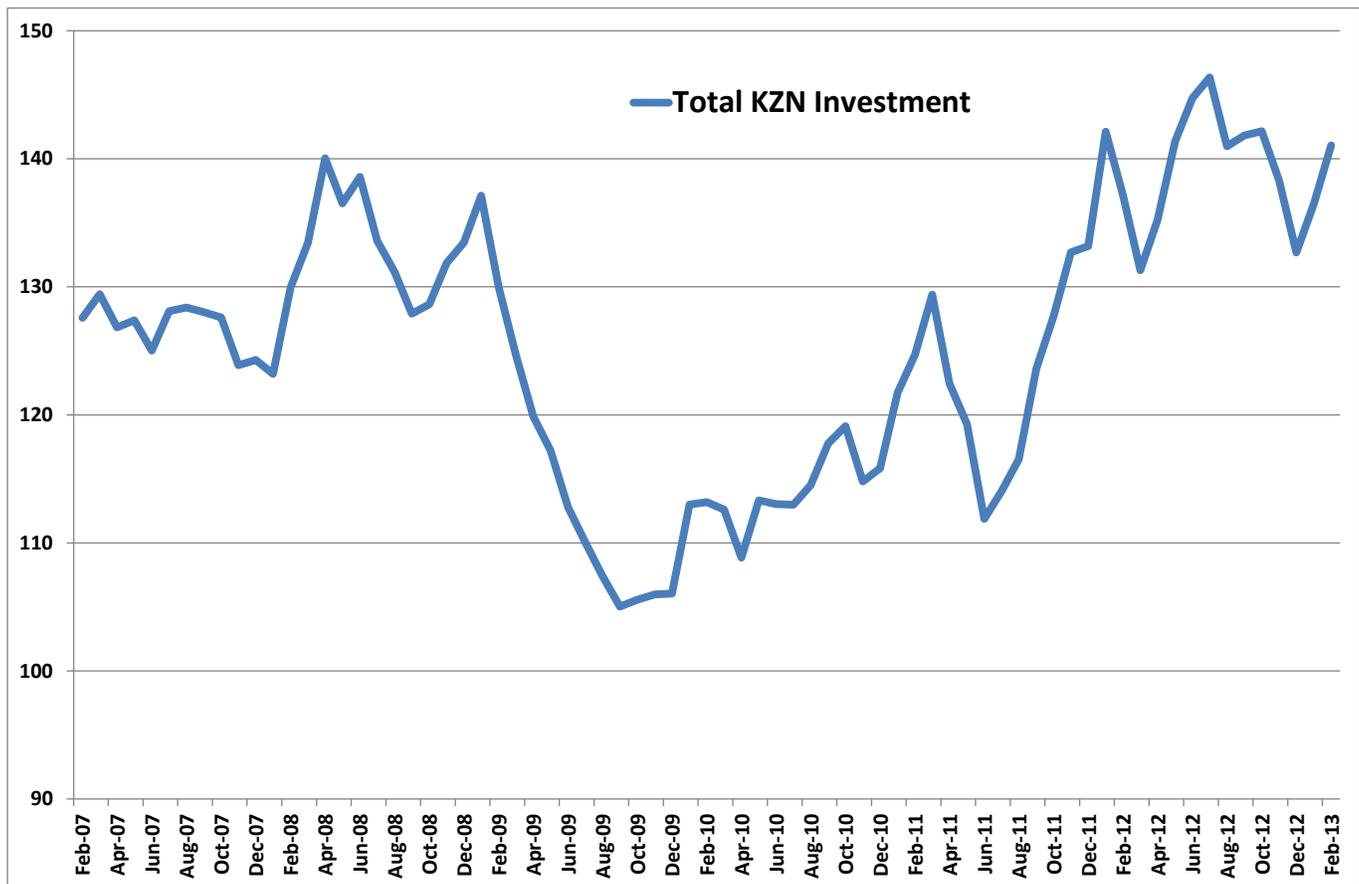
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Fixed investment in KwaZulu-Natal makes a comeback



Fixed investment in KwaZulu-Natal made a mild comeback in February despite the investment climate in the rest of the country still not being very good. The total investment index of the latest KwaZulu-Natal investment monitor increased by 2.9% year-on-year after two months of decline. Quarter-on-quarter the index was up by 2% after six months of decline, which could point to more positive news in coming months.

The national investment climate is still partly affected by what is happening in the world economy, so the lack of fixed investment is not just limited to South Africa. In South Africa, things in manufacturing are not going too well and with exports still less than imports, the current account deficit will take a while to reduce, which upsets the country's investment climate. In KwaZulu-Natal, however, things are looking up.

Civil construction investment boosting KZN economy

Investment in civil construction was one of the categories that boosted the KwaZulu-Natal investment monitor. The civil construction index was up 13.4% year-on-year and 15.3% quarter-on-quarter. This follows on more double-digit growth in January. It is unclear what projects are driving the civil construction index, but it is clear that a lot of construction is happening. Road work projects in KwaZulu-Natal increased by 34.6%, which is good news for jobs and economic growth in KwaZulu-Natal.

Buildings investment disappoints

While investment in civil construction helped boost fixed investment in KwaZulu-Natal, investment in buildings dragged the investment index down. The buildings index declined by 3% year-on-year. This follows January's 4.7% decline after a full year of double-digit growth. Quarter-on-quarter investment in buildings was down 9.9%. Looking at the recently published Quarterly Labour Force Survey, it was clear that massive job losses occurred in the building sector countrywide, which is reflected in the investment monitor.

Completion of non-residential buildings, which is needed in any economy as it mostly includes commercial buildings, was down 13% on a year ago. The completion of residential buildings fell by 3%.

Lumber sales were down by 7.7% year-on-year. This shows there is also not much activity going on in informal buildings projects, which also affects jobs.

Transfers investment on a downward slope

Investment in transfers continued its decline – this time by 10.9% – the biggest decline in seven months. The decline in transfers is not surprising, given its link to the building/construction sector. Transfers refer to the transactions of transferring ownership of a property between two or more parties through lawyers. If transfers should start to pick up and turn the property market positive, it will ultimately support the building sector.

ICT equipment investment going steady

Investment in ICT equipment was another highlight in KwaZulu-Natal's fixed investment arena. This investment category went back to double-digit year-on-year growth with 16.2%. Quarter-on-quarter investment in ICT equipment grew by 26.6%. Imports of computers and cables were up by 23% on a year ago, which shows that businesses in ICT largely continue as normal, despite the rand's weak exchange rate. It may also say something about these businesses. While they are not booming, they seem to be quite flexible and cushioned against the impact of the economic downturn.

Transport equipment investment flying low

Investment in transport equipment in KwaZulu-Natal is, however, still affected by the weak exchange rate. The transport equipment index was positive year-on-year after two months of decline, but by only 2.9%. Quarter-on-quarter the index was down 3.2%. The slow growth was partly due to a slowdown in vehicle sales in KwaZulu-Natal, and also due to the poor growth of 0.6% in the purchases of ships and aeroplanes, which are usually big contributors to total investment in transport. The slow growth in purchases of air and sea transport equipment can be attributed to the weak rand, as well as the fact that a big purchaser like South African Airways is suffering financially and will thus not be purchasing more or extra aircrafts.

Machinery investment showing slower decline

Investment in machinery is still struggling, especially as this is the most expensive fixed investment category. A lot of buyers are waiting for the exchange rate to improve before making purchases.

The machinery index decreased by 2.2% year-on-year and 2.1% quarter-on-quarter. However, this was clearly better than January's double-digit declines.

The lack of growth in investment in machinery points to the less-than-ideal financial climate in the economy. However, South Africa and KwaZulu-Natal is not alone in seeing a decline or slowdown in the import of machinery, as other emerging economies are recording a similar trend.

February 2013 Results Table:

Main and sub indices of the Kwa-Zulu Investment Monitor	% Change on a year ago	% Change from a quarter ago
Transport Equipment	2.9%	-3.2%
Buildings	-3.0%	-9.9%
Civil Construction	13.4%	15.3%
Machinery	-2.2%	-2.1%
ICT Equipment	16.2%	26.6%
Transfers	-10.9%	-5.9%
Total Investment Index	2.9%	2.0%