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KwaZulu-Natal Investment Monitor

June 2013

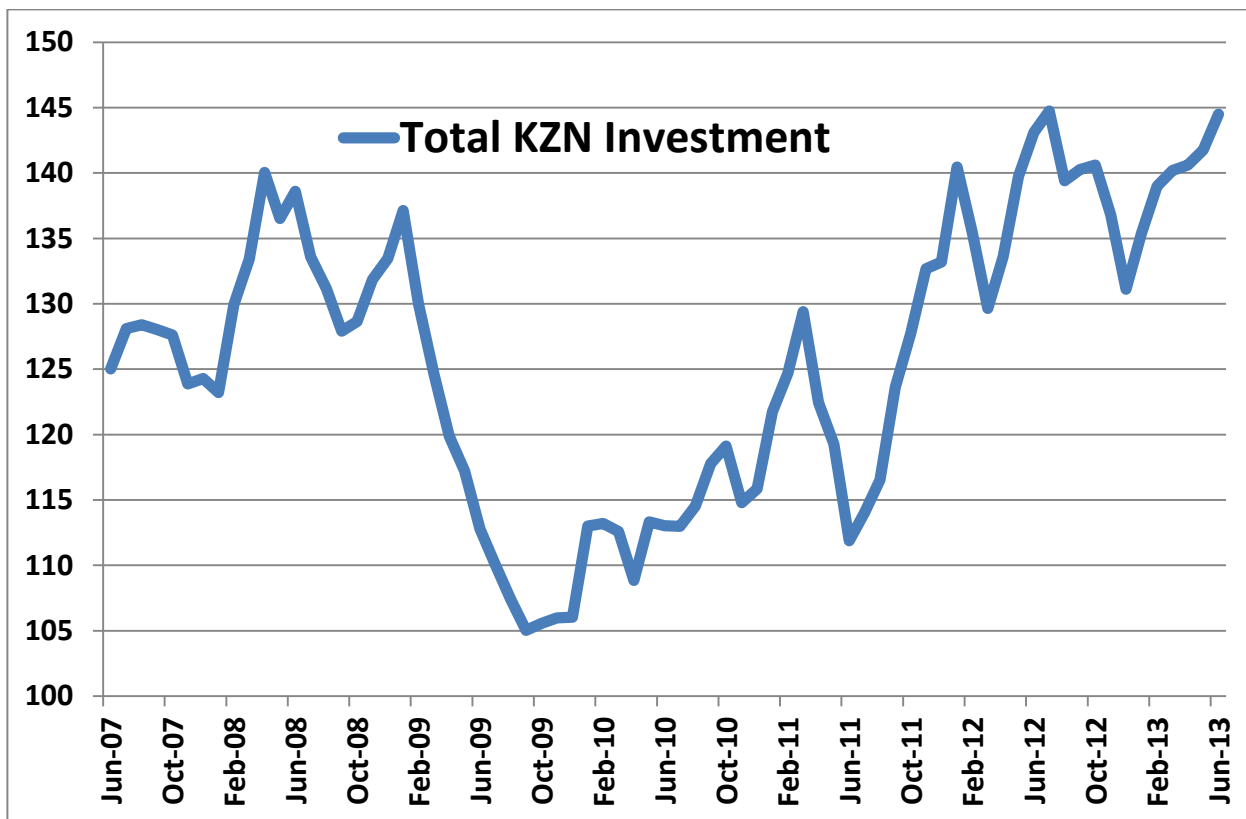
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KwaZulu-Natal fixed investment slows



Fixed investment in KwaZulu-Natal seems to have slowed down. The latest KwaZulu-Natal fixed investment monitor, as compiled by Mike Schüssler of Economists.co.za, shows that most of the variables that contribute to fixed investment in the province did not perform very well in June. Although the total investment index grew for the fifth consecutive month, year-on-year growth slowed to only 1% after it reached a high of 8.1% in March. Quarter-on-quarter the total investment index was still up 3.1%. The slow investment climate in KwaZulu-Natal will only be exacerbated if the current round of strikes in various sectors of the economy continues.

Transport equipment boosts investment monitor

Investment in transport equipment was one of the better performers in fixed investment of the KwaZulu-Natal, it grew 4.9% year-on-year, the best growth rate in seven months. Quarter-on-quarter investment in transport equipment was down 1.9%, but this decline is minor after three months of double-digit declines.

The improvement in investment in transport was mainly due to several area developments in KwaZulu-Natal, like the revamping of hospitals and energy projects for which transport equipment is required. Over the shorter term, preparations for the Vodacom Durban July, which took place the first weekend of July, also boosted investment in transport equipment in June.

Investment in sea and air transport fell by double digits for the fourth month in a row. This was partly because the rand's weak exchange rate makes the imports of these big ticket items very expensive. The decline in air passenger numbers also means that airlines are not making the kind of money that would justify big investment purchases. Although the planned new airline, Skywise, will not initially fly to KwaZulu-Natal, it would mean increased competition in the South African domestic airline space, which could lead to lower ticket prices and increased use of air transport, which would eventually require airline companies to invest in more aircrafts.

Buildings investment dropped

Investment in buildings in KwaZulu-Natal fell 7.7% year-on-year, the worst performance since December 2011. Quarter-on-quarter investment in buildings was down 5.3%, the third consecutive month of decline. The fall in investment in buildings was mainly due to a 62% drop in the completion of non-residential buildings, which shows there are no large investments being made in commercial buildings. A lot of smaller businesses have cut back on such costly investments. Investment in residential buildings was down 1% and lumber sales, usually an indicator of informal building activity, were down 13%. Compared to this June's 7.7% drop in investment in buildings, the investment category grew 14.8% in June last year, showing there was simply a lot more big projects being completed last year than there is now.

Civil construction disappoints

Investment in civil construction seems to follow the same trend as investment in buildings. The civil construction index was down 2% year-on-year, its worst performance since March 2012. Quarter-on-quarter investment in civil construction has also been negative for three months. It declined 3.9% in June. One of the reasons for the drop in investment in civil construction was the 8.9% decline in structural steel. Imported civil construction material increased by 20.7% and roadwork activity declined by 20.3% after the numbers for roadworks in the investment monitor were updated. While the current strikes in the construction sector has not yet affected investment in civil construction in KwaZulu-Natal, the negative effects will become visible in coming months. June was the first month this year that investment in civil construction was negative, showing that the on going negativity in sectors like mining is starting to trickle down and affect civil construction. Projects in the areas of mines have lost steam and some companies are cutting back on costs, which could also mean job losses.

Transfers suffer while buildings investment is under pressure

The drop in investment in buildings is clearly reflected in the performance of transfers. Investment in transfers was down 13.8% year-on-year and 16.4% quarter-on-quarter. Once buildings decline by double digits, transfers are bound to feel it. The two indices go hand-in-hand and unless buildings turn positive or decline by a much smaller number, transfer numbers will not improve soon.

ICT equipment's growth slowing down

Investment in ICT equipment continued to grow year-on-year, but the 4.9% growth was slow compared to the usual double-digit growth in this category. The slowdown could be due to some temporary recess as businesses wait for new technology before they spend a lot of money on new ICT equipment. Quarter-on-quarter investment in ICT equipment was up 4.5%.

Surprising growth in machinery investment

Investment in machinery in KwaZulu-Natal surprised as it grew 3.7% year-on-year and 11.6% quarter-on-quarter. Increased investment in radio equipment, which was also reflected in the manufacturing index of the most recent KwaZulu-Natal Barometer, and investment in general purpose equipment helped boost investment in machinery.

Results Table: June 2013

Main and sub indices of the Kwa-Zulu Investment Monitor	% Change on a year ago	% Change from a quarter ago
Transport Equipment	4.9%	-1.9%
Buildings	-7.7%	-5.3%
Civil Construction	-2.0%	-3.9%
Machinery	3.7%	11.6%
ICT Equipment	4.9%	4.5%
Transfers	-13.8%	-16.4%
Total Investment Index	1.0%	3.1%

