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KwaZulu-Natal Investment Monitor

March 2013

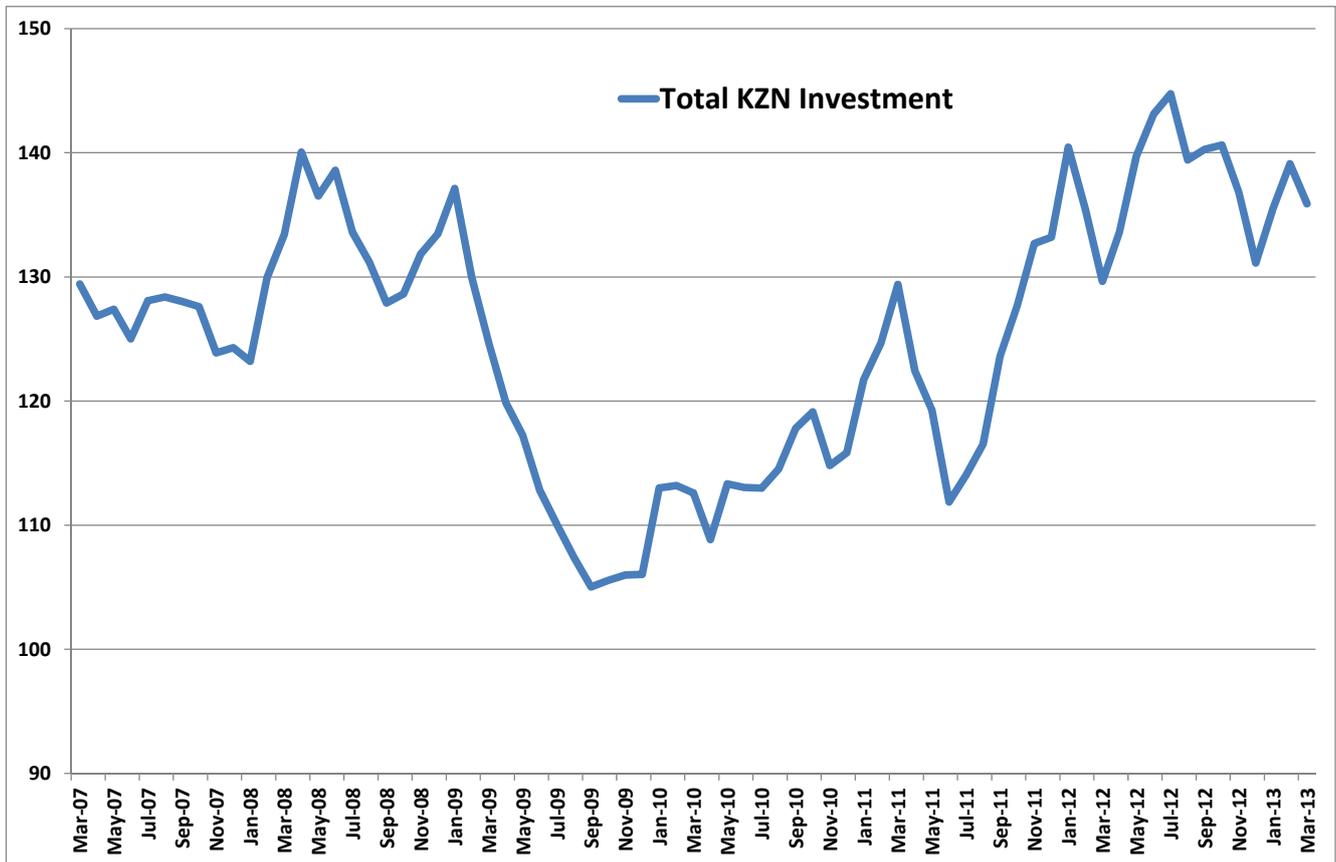
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Fixed investment in KwaZulu-Natal shows strength amidst tough times



Fixed investment in KwaZulu-Natal had a good first quarter in 2013 and showed strength despite a lot of negative economic news, according to the latest Fixed Investment Monitor as compiled by Mike Schüssler of Economists.co.za. Although there are several negative aspects in the KwaZulu-Natal economy and in the fixed investment sphere, the province's total investment index grew 4.8% year-on-year in March, its best performance in six months. Quarter-on-quarter total fixed investment in KwaZulu-Natal was up 3.6%.

Fixed investment drives job creation in an economy, so this growth in fixed investment could help improve KwaZulu-Natal's employment situation in the medium term. South Africa is importing more than it is exporting at the moment, and this is evident in the provincial investment monitors. However, as long as it is capital goods which are being imported (which is used in fixed investment), this is not a big concern.

Buildings investment performing well

The two biggest drivers of fixed investment growth were investment in buildings and investment in ICT equipment and infrastructure. The buildings index was up 17.3% year-on-year, compared to growth of 6.2% the month before. Quarter-on-quarter buildings investment was up 9.8%. A sharp increase in office buildings completed, most likely in one big project or development, helped to pick up the buildings index.

Overall investment in buildings have not been doing too bad in KwaZulu-Natal since the start of 2013, but lumber sales have been in decline, which cooled down the overall performance of the index. On the other hand the firm increase in RDP houses in the first quarter boosted the buildings index too.

Transfers' spike short-lived

The increase in the buildings index and especially the completion of the big office building project helped to pick-up transfers. The KwaZulu-Natal transfers index has been negative for seven months, but recovered and grew by 3.1% year-on-year in March. The increase in transfers will, however, be short-lived as it was mainly due to the completion of one big project. Quarter-on-quarter transfers were still down 0.6%.

Double-digit growth in ICT equipment

Investment in ICT equipment continued to grow. The KwaZulu-Natal ICT index was up 17% year-on-year and 9.1% quarter-on-quarter. The competition between ICT suppliers and service providers drives down prices and this means more and more people are able to afford ICT products. This has been increasing demand and suppliers of ICT infrastructure are feeding into that demand. The continued growth in investment in ICT is not only limited to KwaZulu-Natal, but is occurring all over South Africa. The growth in investment in ICT equipment is also more sustainable than the temporary growth of investment in buildings.

Civil construction making headway

Investment in civil construction in KwaZulu-Natal also picked up strongly as road works increased on a year-on-year basis and imports of civil construction materials grew. Year-on-year investment in civil construction was up 16.7% and quarter-on-quarter it increased by 7.8%. Even if road work projects are completed, there should still be some activity in civil construction due to on-going maintenance.

Transport equipment can't live up to expectations

Investment in transport equipment in KwaZulu-Natal was down 2% year-on-year and 13.3% quarter-on-quarter. This investment category has not been doing too well from January. This is partly because of the high base that was created early last year when Comair was still busy with its fleet renewal programme and imported several new aeroplanes. Currently most South African airline companies are in debt and cannot purchase new aeroplanes on the same scale as before. The drastic and unexpected weakening of the rand's exchange rate is also preventing further purchases. Investment in sea and air transport equipment was thus down 23.9% on a year ago.

Purchases of most commercial vehicles categories were down on a year ago, which just shows lack of confidence in business activity. One of the factors keeping the transport index in negative or low-growth terrain is the fact that business owners are not really purchasing in more vehicles at the moment.

Machinery investment takes yet another plunge

Investment in machinery in KwaZulu-Natal has also been affected by the weaker exchange rate. Year-on-year the machinery index was down 3.1%, the fifth consecutive negative month, while the index increased by 4% quarter-on-quarter. KwaZulu-Natal is one of the only provinces which had a decrease in machinery purchases compared to a year ago. In most other provinces the growth investment in machinery is slowing down, but is not yet negative. In KwaZulu-Natal, however, there was a lot of pre-emptive buying of machinery last year as businesses expected a somewhat weaker currency. That means these businesses now do not have to import as much machinery as they would have had to. At the time, businesses in other provinces that did not do as much pre-emptive buying now simply have to make do with whatever machinery they have as the weak exchange rate makes it too expensive to import a lot of big-ticket items.

Results Table:

Main and sub indices of the Kwa-Zulu Investment Monitor	% Change on a year ago	% Change from a quarter ago
Transport Equipment	-2.0%	-13.3%
Buildings	17.3%	9.8%
Civil Construction	16.7%	7.8%
Machinery	-3.1%	4.0%
ICT Equipment	17.0%	9.1%
Transfers	3.1%	-0.6%
Total Investment Index	4.8%	3.6%