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Treasury
PROVINCE OF KWAZULU-NATAL



KwaZulu-Natal Investment Monitor

October 2012

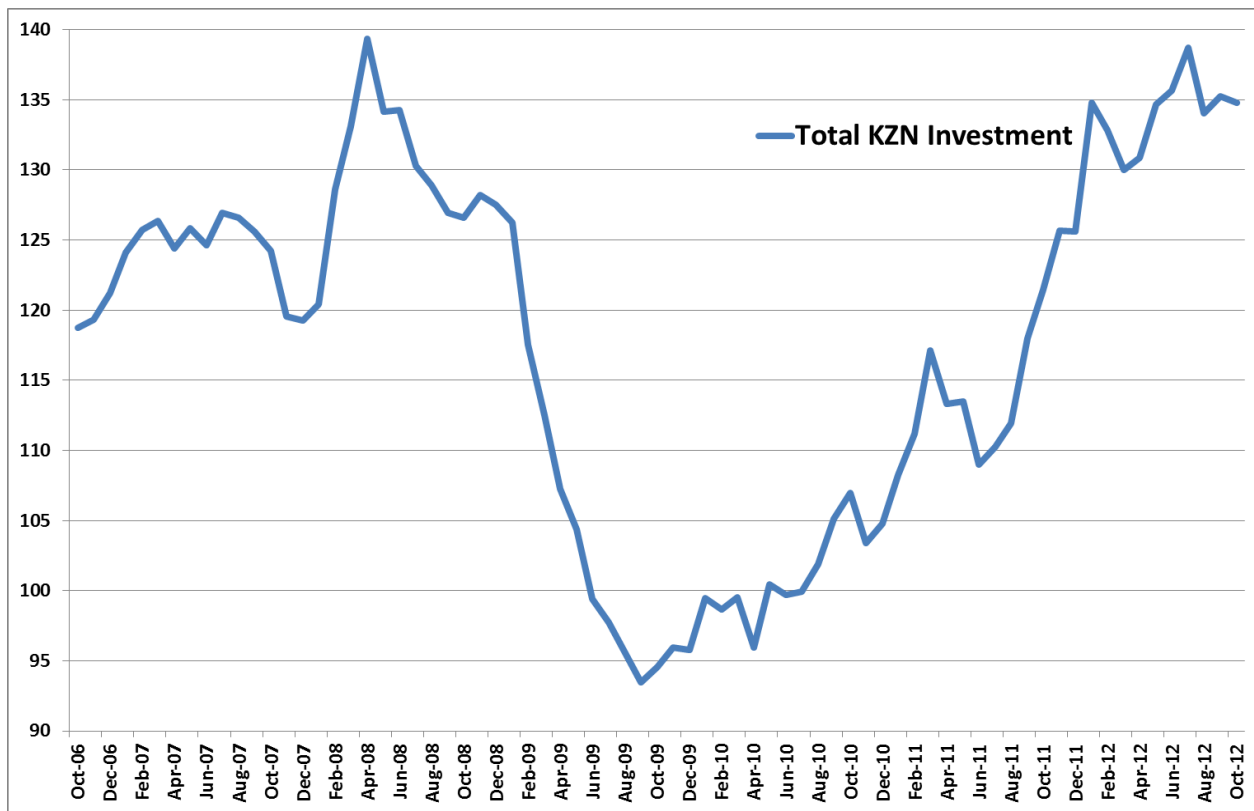
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KwaZulu-Natal fixed investment still in better position than in other provinces



Fixed investment in KwaZulu-Natal is still growing strong when compared to a year ago, but there has been some weakening in investment due to the weaker rand and declining confidence levels after the events at Marikana and other wildcat strikes across the country. Despite weaker investment growth, KwaZulu-Natal was one of the provinces that were least hit by these problems. The total investment index of the latest KwaZulu-Natal investment monitor, as compiled by Mike Schüssler of Economists.co.za, grew by 10.9% year-on-year. However, this was the slowest growth in a year. Quarter-on-quarter the index declined by 2.8%, the third consecutive decline.

Spike in transport equipment investment

Investment in transport equipment grew year-on-year for the first time in eight months, by 1.4%, and was up 25.9% quarter-on-quarter. The quarter-on-quarter growth was mainly driven by big imports of aeroplanes in September and October, most likely as part of Comair's extensive fleet upgrade. Investment in aeroplane equipment also increased sharply.

The increase in aeroplane purchases was partly to prepare for South Africa's big tourist season in December and January. The aircraft had to come in well before the peak season to be operational when the peak season started. Companies would also have wanted to bring aeroplanes and equipment in before the rand's exchange rate weakened too much.

Investment in land transport equipment only increased by 0.2% on a year ago in October and was negative in September. Very little land transport equipment is being bought at the moment because the profit margins in an industry like trucking are squeezed. Some businesses also probably over-invested in trucks earlier in the year, so there has been a downturn in truck purchases in the last few months. Truck prices also started increasing because of the weakening exchange rate.

Double-digit growth in buildings investment

Investment in buildings in KwaZulu-Natal increased by 38.5% year-on-year and 9.9% quarter-on-quarter. Growth in residential buildings have been negative or at zero since the beginning of 2012 and is likely to stay close to zero for some more months because of the effect that Marikana and related events have on consumer confidence.

Lumber sales increased by 3.7%, which shows there is still some growth in informal building.

The big drivers of investment in buildings in KwaZulu-Natal were RDP houses and non-residential buildings. RDP houses, which is investment by the KwaZulu-Natal government, increased by 100% and non-residential buildings by 22%.

Transfers investment shows quarterly growth

Despite the lack of growth in residential buildings, investment in transfers in KwaZulu-Natal still looked slightly better than in some other provinces. Although transfers were down 4% year-on-year, it still grew by 2.9% quarter-on-quarter. The Marikana effect has had an impact on people's confidence and consumer spending. People simply bought fewer houses in September and October. December and January will continue to be soft months for the housing market, but hopefully growth will return thereafter.

Growth in civil construction investment is slowing

Investment in civil construction in KwaZulu-Natal grew by 6% year-on-year, but the growth rate is declining. Quarter-on-quarter investment in civil construction was down 2.4%. The declining growth rate might just be a temporary lull, because civil construction is the one area where growth is expected to continue as a lot of civil construction comes from government contracts. There could, however, be a slight delay in the implementation of some of these contracts. Imports of civil construction materials are still growing, although not at the rates of four or five months ago, but investment in local structural steel was down 2.7%. The civil construction sector is under some pressure and not performing quite as well as expected.

The weaker exchange rate also affected the growth of investment in machinery and ICT equipment. When the rand started to show signs of depreciating, a lot of businesses bought machinery and telephone and computer equipment in an attempt to avoid an even weaker rand later on.

Growth curve weakening for machinery investment

Investment in machinery in KwaZulu-Natal is slowing, as the economy – specifically mining and the part of manufacturing related to mining – is struggling. Investment in machinery still grew by 11.4% year-on-year, but only four months earlier it still grew at more than 40%. Quarter-on-quarter investment in machinery fell by 10%, the third consecutive month of decline.

Apart from the rand's fall being pre-empted, businesses are also a little reluctant to invest in the midst of problems such as the ones in the mining industry. There are talks that there will be less investment by mining companies, so many of the manufacturers of mining equipment are also going to invest less. That will probably have an effect on the KwaZulu-Natal economy even though there are not a lot of mines in the province. The businesses that provide equipment for the mines are under pressures and KwaZulu-Natal houses a number of those manufacturers.

Major dive in ICT equipment investment

Investment in ICT equipment grew by only 2.3% year-on-year and dropped by 16.8% quarter-on-quarter. The weakness in ICT equipment investment, and even in machinery, is expected to continue in the beginning of 2013, but should start improving by March or April. There is a lot of investment lined up in computers and cell phone technology, but some people are waiting for a little more clarity on which route technology will take. With 4G and LTE networks being developed, investment in ICT will pick up again and has already started to pick up in some cases. A lot of people are also still waiting for the first SP1 release for Windows 8, which will apparently only happen in February, to help make Windows 8 a bit more stable, before they will buy new hardware and software.

October 2012 Results Table:

Main and sub indices of the Kwa-Zulu Investment Monitor <input type="button" value="v"/>	% Change on a year ago <input type="button" value="v"/>	% Change from a quarter ago <input type="button" value="v"/>
Transport Equipment	1.4%	25.9%
Buildings	38.5%	9.9%
Civil Construction	6.0%	-2.4%
Machinery	11.4%	-10.0%
ICT Equipment	2.3%	-16.8%
Transfers	-4.0%	2.9%
Total Investment Index	10.9%	-2.8%