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KwaZulu-Natal Investment Monitor

August 2013

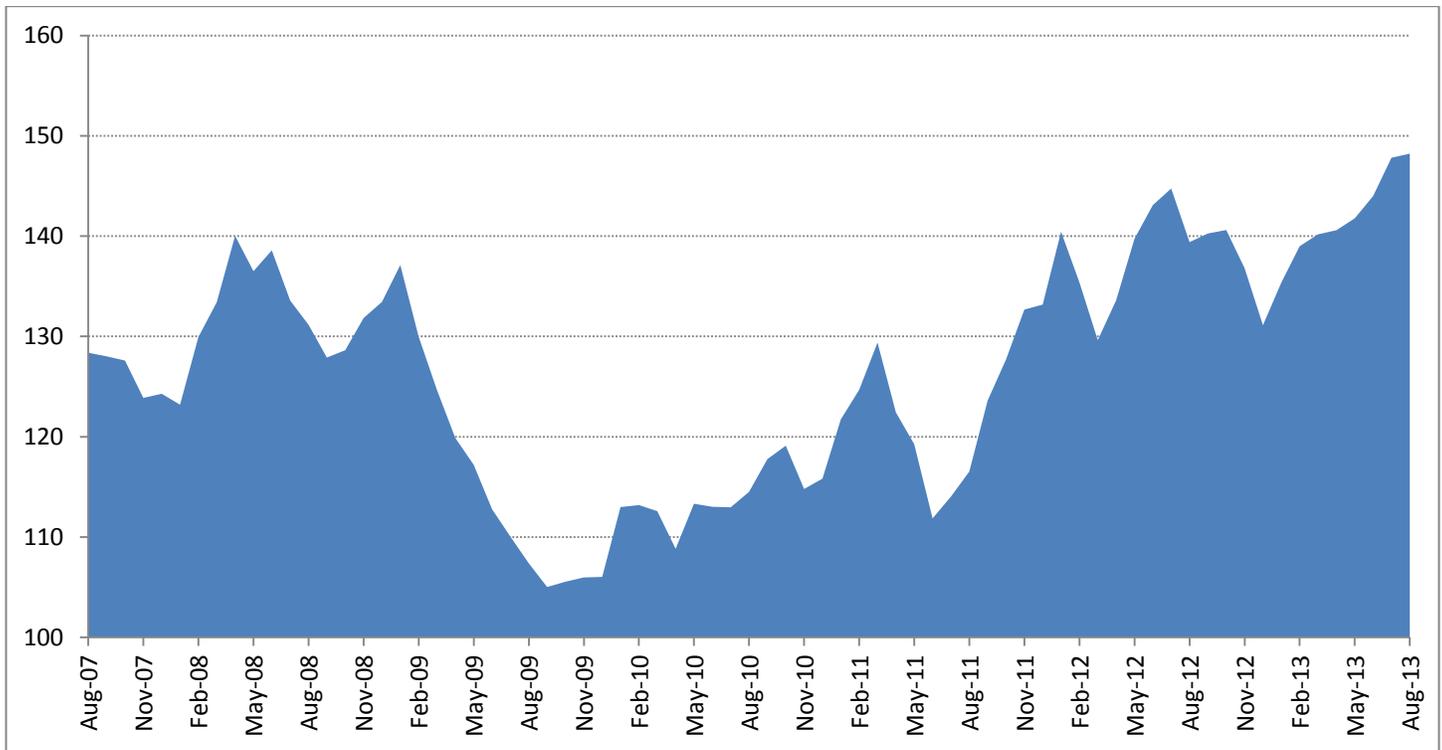
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Big projects help boost fixed investment in KwaZulu-Natal



Source: Economists.coza (2013)

Fixed investment in KwaZulu-Natal had a surprisingly good month in August thanks to certain big projects in the transport and energy sectors which started to take shape; these projects require equipment. The latest KwaZulu-Natal total investment index increased 6.3% year-on-year, the best growth in five months. Quarter-on-quarter the investment index was up 4.5%. Aside from some big projects which helped to boost the investment index, businesses were also starting to adjust to the weaker rand-dollar-exchange rate and started to invest in imports in certain sectors again. Despite the good news for overall investment in KwaZulu-Natal, the sectors which have been suffering for most of the year, like building and construction, are still struggling and growing at a marginal pace.

Transport equipment investment surprises

Investment in transport equipment was one of the big drivers behind the improved growth in total fixed investment in KwaZulu-Natal. After some recent months of

decline the transport index grew 7.2% year-on-year, the best growth in nine months, and was up 6.9% quarter-on-quarter.

Investment in land transport equipment grew 10.9% after not growing in double-digits for four months. Some projects, like energy and mining, in KwaZulu-Natal are making use of heavy trucks and machinery as investment in extra-heavy vehicles grew almost 20% from a year ago. However, while businesses and investors in big projects seem to be doing well, the same cannot be said for smaller businesses, judging from their vehicle purchases.

Investment in light commercial vehicles fell 12% from a year ago, which shows small businesses are not doing that well and are still feeling the pressure in the economy, whilst big businesses are investing.

Investment in air and sea transport equipment was down only 2.5%, which was a welcome improvement after five months of double-digit decreases.

Double-digit growth for machinery investment

Machinery investment in KwaZulu-Natal was another driver of total fixed investment and was up 10.5% year-on-year, the first double-digit increase in 10 months. This was also thanks to various big projects, which use all types of machinery. Quarter-on-quarter investment in machinery grew 8.2%. The biggest increase in the machinery sector came from investment in local machinery, which grew 16.6%. While it is positive that businesses are supporting the local industry, imports are still at the order of the day, growing by 9%.

Buildings investment on downward slope

Investment in buildings is one of the categories which have been struggling for months and still is struggling. While the buildings index grew 3.3% year-on-year after two months of decline, the index was down 8.4% quarter-on-quarter, the fifth consecutive month of decline. The reasons behind the increase in the buildings index were the 20% increase in RDP houses completed and an unexpected 4.5% increase in lumber sales, the first increase for this year. While lumber sales are mostly an indication of informal building activity, the increase is a good sign for the building sector, boosting the index.

Civil construction investment shows slight growth

Civil construction investment in KwaZulu-Natal improved marginally to grow 1.1% year-on-year after two months of decline. Quarter-on-quarter the index was up 0.8%. The year-on-year increase was mostly due to a 17.7% increase in imported civil construction materials. Investment and

structural steel and road works declined. The strain on the civil construction sector of having to import great quantities of material is limiting growth in the sector and it will take a while to get back to the double-digit growth of a few months ago. However, some of the bigger transport and energy projects in the province fall in the scope of civil construction and progress with these projects will support civil construction going forward.

Major decline in transfers' investment

Investment in transfers did not directly follow the small improvement in buildings and fell 27.6%, the biggest year-on-year drop in almost four years. Quarter-on-quarter investment in transfers was down 21.5%. The declines show that despite the completion of some buildings, the property market is still struggling in KwaZulu-Natal.

ICT equipment

Investment in ICT equipment was the star of the KwaZulu-Natal investment monitor at one stage, but has been negative year-on-year for two months now, most recently declining by 1.3%. This comes as a lot of smaller businesses are not doing that well anymore and as a result are not investing in new computer equipment. This means there is a bit of a slowdown in businesses selling or buying the ICT equipment. The smaller businesses struggle due to the state of the wider economy and also the weak rand. However, part of the bad ICT equipment figure is due to the base effects created by last year's phenomenal double-digit growth.

Results Table: August 2013

Main and sub-indices of the KwaZulu-Natal Investment Monitor	% Change on a year ago	% Change from a quarter ago
Transport Equipment	7.2%	6.9%
Buildings	3.3%	-8.4%
Civil Construction	1.1%	0.8%
Machinery	10.5%	8.2%
ICT Equipment	-1.3%	0.8%
Transfers	-27.6%	-21.5%
Total Investment Index	6.3%	4.5%

Source: Economists.coza (2013)