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KwaZulu-Natal Investment Monitor

December 2013

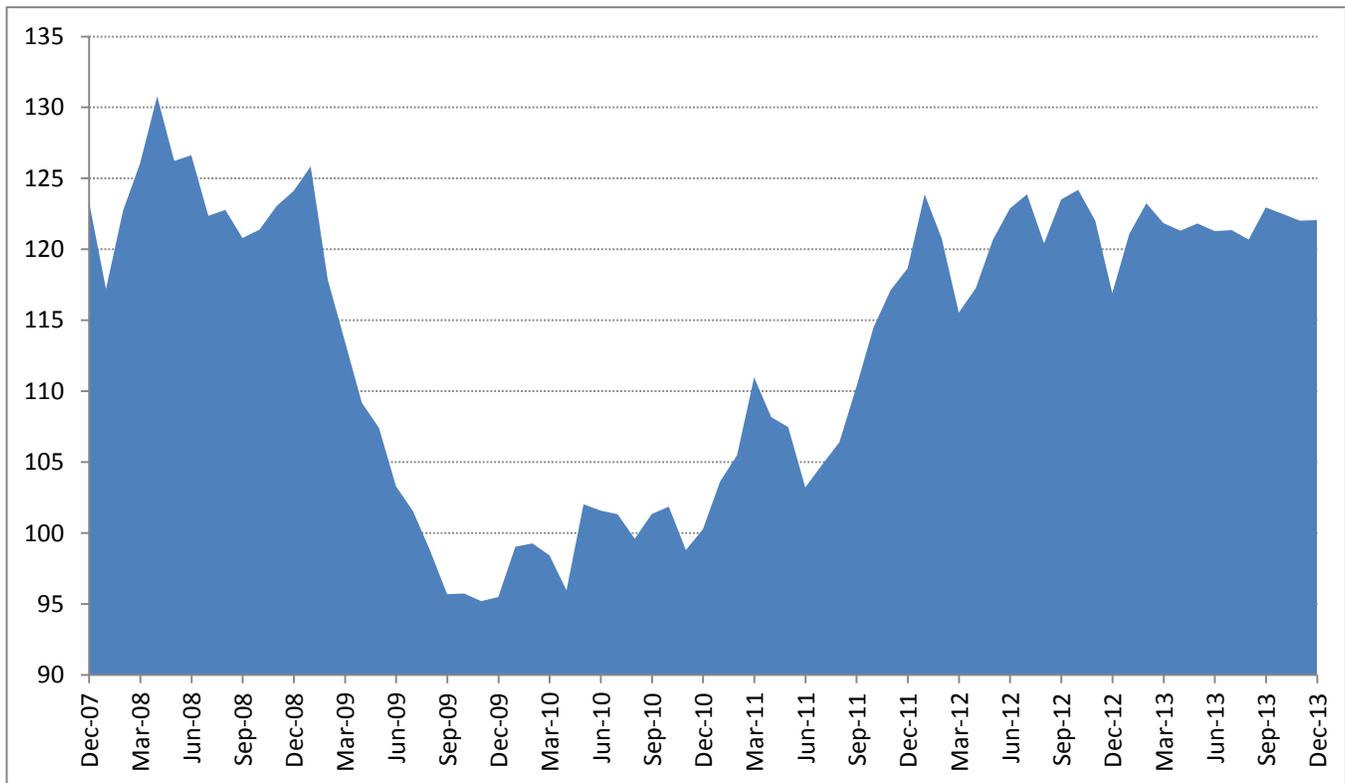
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KwaZulu-Natal Investment Monitor surprises in December



Fixed investment in KwaZulu-Natal fared surprisingly well in December after growth in some of the major fixed investment categories in the provinces spiked. The total investment index of the latest fixed investment monitor increased 4.4% year-on-year, the best growth in nine months and considerably better than the previous December's decline of 1.5%. on a quarter-on-quarter basis, the total fixed investment index continued its docile performance and was down 0.7%.

While the positive outcome for the total investment index was encouraging, it was partly due to some one-off spikes in key categories of fixed investment, like ICT equipment and civil construction. The effect of the recent cutback in electricity usage by some factories and smelters, on Eskom's demand, and the

power outages which followed, would start showing in the investment monitor in the next two months and will probably lead to a decline or slowdown in the total investment index.

The Up

Double-digit growth in ICT equipment investment

While it contributes only 7% to the total investment index in KwaZulu-Natal, the 29.6% year-on-year growth in investment in ICT equipment played an important role in the growth of the total index. This was the best year-on-year growth in 22 months, although a base effect from a weak number in the previous December also played a role. Quarter-on-quarter investment in ICT equipment was up 13.4%.

December is usually a good month for ICT investment as companies try to upgrade their systems before the end of the year.

Civil construction investment impresses

Investment in civil construction was another big driver of total fixed investment in KwaZulu-Natal as it grew 18.8% year-on-year and 3.5% quarter-on-quarter. The growth was most likely due to the completion and recording of a few big projects in December and will be affected in coming months by the recent power shortages and outages. Investment in civil construction contributes 23% to total fixed investment in the province. The increase happened despite very slow growth in structural production, which was up by only 2%. In the rest of the country, structural steel showed strong growth, which shows a country like China is still importing steel from South Africa. Investment in imported civil construction material grew 18.8% on a year ago and road works in KwaZulu-Natal was up 36.8%.

Big projects drive buildings investment

The buildings index also showed the effect of the completion of some big projects. Investment in buildings was up 4.7% year-on-year, the best growth in nine months. Whereas non-residential buildings have been struggling over recent months, completion suddenly increased 34%. Most of the non-residential building projects that were taking place in KwaZulu-Natal, probably 80%, were completed in December. What makes this more exceptional is that, in the building industry, December is a very short month. The 5.8% growth in lumber sales shows there is still some informal building projects and maintenance happening. Residential buildings were down 27%, the worst performance in three years.

The Cautious

Transfers investment declines, but looking up

Investment in transfers still followed investment in especially residential buildings and was down 1.1% year-on-year and 0.7% quarter-on-quarter, reflecting a decline in property transactions. Although it was still a decrease, it was the smallest decrease in four months, which is a sign of some progress as far as activity in the housing market is concerned.

And the Down

Transport continues to slide

Investment in transport equipment in KwaZulu-Natal continued to slide and was down 4.7% on a year ago. Quarter-on-quarter it grew 3.1%. The decline in the transport equipment category was due to a 30.8% decline in investment in air and sea transport equipment. After 2011, which was a very good year for purchasing boats and aeroplanes, South African businesses are simply in too tight a spot to be investing more on a grand scale. While these businesses probably still do maintenance on their fleets, it is not enough to even reflect in the investment monitor.

The one positive movement in the transport equipment category was investment in land transport, which was up 9%, the strongest growth in four months. This was driven by strong growth in investment in medium commercial vehicles, heavy commercial vehicles and extra-heavy commercial vehicles, which show mines and other big industries are spending money on capital equipment.

Rand not solely to blame for machinery investment drop

Investment in machinery dipped again; it was down 3.9% year-on-year and 7.4% on the previous quarter. The decline in machinery investment was partly due to the weaker rand exchange rate which makes imports more expensive. Imported machinery was

down 1.1% year-on-year, the 16th consecutive month of slow or no growth. On average, imported machinery was down 0.4% in 2013. The exchange rate is, however, not the only culprit when it comes to the decline in machinery investment as locally manufactured machinery was down 5.5%, showing a general reluctance to invest.

Results Table: December 2013

Main and sub-indices of the Kwa-Zulu Investment Monitor	% Change on a year ago	% Change from a quarter ago
Transport Equipment	-4.7%	3.1%
Buildings	4.7%	-1.5%
Civil Construction	18.8%	3.5%
Machinery	-3.9%	-7.4%
ICT Equipment	29.6%	13.4%
Transfers	-1.1%	-0.7%
Total Investment Index	4.4%	-0.7%

Note: All data ... rebased to the year 2010