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## KwaZulu-Natal Investment Monitor

**March 2014**

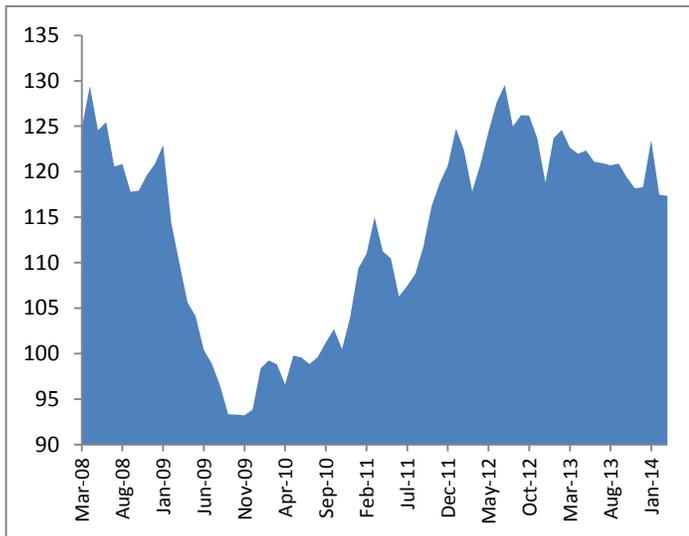
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## KwaZulu-Natal Investment Monitor suffering due to lack of confidence



Fixed investment in KwaZulu-Natal is suffering due to the lack of confidence in the South African economy as a result of the protracted strike in the platinum industry. The total investment index of the latest KwaZulu-Natal investment index, as compiled by Mike Schüssler of Economists.co.za, declined by 4.3% year-on-year, the 11<sup>th</sup> consecutive month of decline. Quarter-on-quarter fixed investment fell 0.8%.

### The Up

#### Transfers investment looking up

Transfers picked up 15.8% year-on-year and 13% quarter-on-quarter. Although transfers constitutes only 2% of the investment index for KwaZulu-Natal, the growth is really good news and shows there is something happening in the province's housing market. The signs of life probably mean that residential construction will at least not fall through the floor. It may decline when people feel a bit under threat, when confidence is not present and interest rates go up, but ultimately the residential market is not heading for the same train

smash as in 2008/09. There may be a bit of a decline in the housing market, but that has got more to do with the lacking confidence in the economy due to internal struggles.

#### ICT equipment investment showing double-digit growth

Investment in ICT equipment in KwaZulu-Natal continued its strong performance and increased 16.4% year-on-year and 5.2% quarter-on-quarter. South Africa and KwaZulu-Natal are major consumers of information technology, especially in the so-called L-shaped area that stretches from Pietermaritzburg to Richards Bay. Whilst cellphone towers are probably being put up in rural areas as well, most of the ICT equipment investment will be in the bigger cities. ICT is an industry that is growing despite the slowdown elsewhere due to the general technology shift. KwaZulu-Natal is benefiting from developments like the Dube trade port and the undersea cables that come to shore near Durban.

### The cautious

#### Civil construction investment increased

Although there seems to be quite a lot of construction on the roads of KwaZulu-Natal, investment in civil construction grew only 1.5% year-on-year and declined 4.9% quarter-on-quarter. Investment in structural steel declined 2.6% and imported civil construction materials increased 19.3%. Investment in road works declined 40% on the year before.

### And the Down

#### Transport equipment investment fell

Investment in transport equipment in KwaZulu-Natal declined 2.9% year-on-year and while this is an

improvement after six months of double-digit declines, investment in medium and light commercial vehicles fell, which is a sign that ordinary businesses in the province are not very confident about the future of the economy, even though the province's roads may look busy. While the strike is a contributing factor, some businesses probably purchased vehicles in anticipation of the rand's weakening. Even so, six consecutive months of decline in land transport equipment investment is not good news. The good news about transport equipment was that investment in boats and airplanes increased 10.5%, the first increase in more than a year. These big-ticket purchases are, however, very volatile as something like airplanes are not brought into the country every month.

### Buildings investment declines

Buildings investment in KwaZulu-Natal was down 4.7% year-on-year and 4.6% quarter-on-quarter. The worrying part of the decline in buildings was that the completion of non-residential buildings fell 44.2%. It seems that big building projects on the non-residential side have come to an end, and together with the transport sector declining, this is not a good sign for business activity. Residential buildings were down only 1.4% after declining by 37.1% the previous month. House prices indices show that coastal house prices are recovering after the

recession. There may be too little housing stock for people to buy and one can therefore see that house prices will probably not fall as far as they did during the last recession. However, it is all about confidence, when people feel that the future is under threat and as business and consumer confidence falls, the housing market is one element that will rise and fall with it, along with passenger cars.

Lumber sales provided some positive news, increasing by 15.6% year on year, indicating some home improvement projects may still be active.

### Machinery investment not looking good

Machinery investment declined 12.4% year-on-year. This was partly due to the high base created by pre-emptive machinery purchases as businesses prepared for an expected depreciation of the rand's exchange rate. Quarter-on-quarter investment in machinery increased 1.1% as the recent strengthening of the currency probably prompted some purchases.

Machinery accounts for 36% of fixed investment in KwaZulu-Natal, and together with the declines in buildings and construction investment it causes a declining trend in fixed investment in the province.

Results Table: March 2014

Main and sub indices of the Kwa-Zulu Investment Monitor	% Change on a year ago	% Change from a quarter ago
Transport Equipment	-2.9%	0.5%
Buildings	-4.7%	-4.6%
Civil Construction	1.5%	-4.9%
Machinery	-12.4%	1.1%
ICT Equipment	16.4%	5.2%
Transfers	15.8%	13.0%
<b>Total Investment Index</b>	<b>-4.3%</b>	<b>-0.8%</b>

Source: Economists.coza