



## KwaZulu-Natal Investment Monitor

**June 2014**

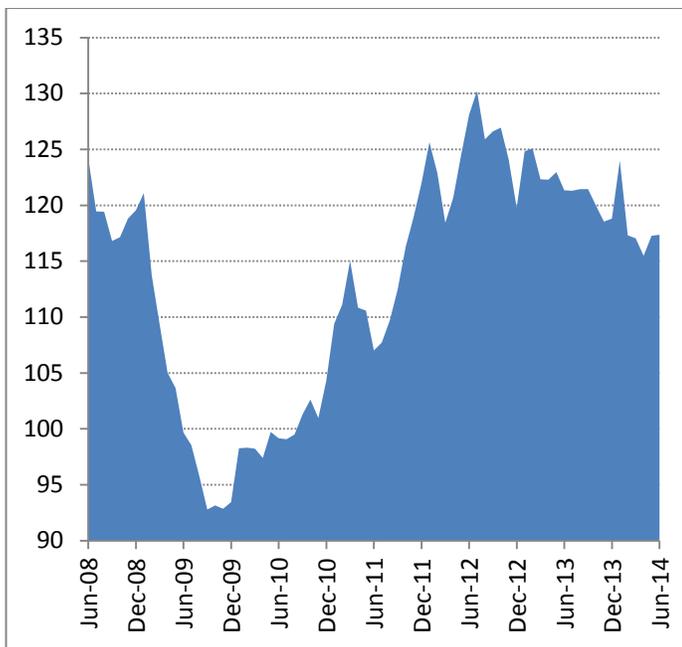
Ex-Joshua Doore building  
270 Jabu Ndlovu Street  
Pietermaritzburg  
Tel: +27 33 264 2500  
Web: [www.kznded.gov.za](http://www.kznded.gov.za)

Treasury House  
145 Chief Albert Luthuli  
Pietermaritzburg  
Tel: +27 33 897 4200  
Web: [www.kzntreasury.gov.za](http://www.kzntreasury.gov.za)

Trade and Investment House  
Kingsmead Office Park  
Kingsmead Boulevard, Durban  
Tel: +27 31 368 9600  
Email: [info@tikzn.co.za](mailto:info@tikzn.co.za)  
Web: [www.tikzn.co.za](http://www.tikzn.co.za)

Gauteng Office: +27 12 346 4386

## Fixed investment in KwaZulu-Natal continues to decline



Fixed investment in KwaZulu-Natal is still suffering from the generally weak economic environment, but is showing tentative signs of revival in some industries. The total investment index of the latest KwaZulu-Natal investment monitor, as compiled by Economists.co.za, declined by 3.3% year-on-year. While the index has now been in decline for 14 consecutive months, the drop in June was the smallest since January. Quarter-on-quarter fixed total investment increased by 0.3% after declining for four months.

The fact that fixed capital formation in the province remains negative is not only due to weak economic fundamentals but also because of low confidence which has been hampered by prolonged industrial action and capacity constraints, as well as the recent credit ratings downgrade.

### Transport investment turns positive after sharp falls earlier in the year

Investment in transport equipment grew by 4.1% year-on-year, the third consecutive month of increase. Quarter-on-quarter, the index increased by 6%, the best performance in 10 months. The increase in the transport index was due to a 64% increase in the purchase of airplanes and sea vessels. This is, however, a very volatile part of the index as these

large purchases do not happen every month and usually have to be ordered months in advance. The recent purchases are probably the result of delayed replacement and maintenance of air and sea transport equipment.

Investment in land transport equipment declined by 8.8% year-on-year as aging commercial fleets are not being replaced while business confidence is low. Purchases of medium and heavy commercial vehicles declined by 12.1% and 35.1% year-on-year respectively. Light commercial vehicles increased by 1.5%, while extra heavy commercial vehicles increased by 9.4%, on a year-on-year basis. Businesses are still struggling and are uncertain about the future and therefore delay purchases of equipment. The increase in purchases of light commercial vehicle points shows that small businesses are coping and may be bringing forward their purchases because they anticipate future price increases in these vehicles. It is probably also the case that where a small-to-medium business needs to acquire additional commercial vehicles, they will consider used vehicles as they may feel that it offers better value for money in these difficult times.

### Buildings investment flat year-on-year

Business and consumer confidence that is influenced by higher inflation and higher interest rates are still affecting investment in buildings in KwaZulu-Natal. The buildings index increased 0.2% year-on-year and declined 1.6% quarter-on-quarter. Investment in residential buildings was down 11.6%. On the non-residential side investment increased by 5.6% year-on-year in June, off of a very low base, after a steep 41.6% decline in May. Despite the increase in June, the double-digit declines in non-residential buildings over the past year show there is an oversupply of retail and office space as businesses close down or restructure and downsize.

Lumber sales provided some positive news, increasing by 15.3% year-on-year, indicating that some informal building and renovations continues.

### Civil construction substantially up

Investment in civil construction grew by 19% year-on-year and 16.2% quarter-on-quarter. Government expenditure on road works increased substantially on the previous year. Imported civil construction material, which increased 16.7% and was the main contributor to the increase in the civil construction investment, is widely used in the construction and maintenance of road networks.

### Machinery investment falls sharply

Many businesses in KwaZulu-Natal are sticking to the machinery they have because confidence is too low to make new and expensive purchases. They also pre-empted the decline in the rand and bought much of the machinery they needed to upgrade between 2010 and 2012 in an attempt to get ahead of the depreciating currency. This meant many upgrades have already been done. The current weak rand is not conducive to fixed investment growth, particularly machinery investment.

Investment in machinery fell by 19.3% year-on-year in June. Quarter-on-quarter investment in machinery was down 6.5%. The recent labour problems in the metal and engineering industry in KwaZulu-Natal and the rest of the country had a very negative effect on domestic producers and the manufacturing sector is certainly shrinking. This is clear from

the sharp decrease in investment in machinery used for production purposes. Machinery investment has been negative on a year-on-year basis for more than a year now and this also reflects in the employment figures for the sector.

### ICT investment much slower

The general slowdown in investment is even affecting investment in ICT equipment, which has been the best performing sector of investment in KwaZulu-Natal in recent years. While investment in ICT equipment was still positive on a year ago, the 1% growth was the slowest since October last year. Quarter-on-quarter investment in ICT equipment continued to fall, this time by 11.8%. Investment in ICT equipment has slowed in the past three months. However, the sector is expected to remain stronger than most others due to the increase in data usage and unique browsers in the country.

### Transfers less costly than new building

It seems to be cheaper to buy an existing building rather than to build from scratch. This seems evident from the fact that building transfers are still taking place despite the flat buildings investment performance. Year-on-year transfers increased 6.3%, but quarter-on-quarter it was down 5.3%, possibly as a result of interest rate increases.

Results Table: June 2014

Main and sub indices of the Kwa-Zulu Investment Monitor	% Change on a year ago	% Change from a quarter ago
Transport Equipment	4.1%	6.0%
Buildings	0.2%	-1.6%
Civil Construction	19.0%	16.2%
Machinery	-19.3%	-6.5%
ICT Equipment	1.0%	-11.8%
Transfers	6.3%	-5.3%
Total Investment Index	-3.3%	0.3%