inflation

Feb- July 86
Sharply higher pay rises seen

Financial Editor

Because of the four-year-old recession and the sharp devaluation of the rand, most South Africans have seen prices rising far faster than their incomes—which has led to a steady erosion in their standard of living.

The 1985 pay rises are a particularly glaring example of what has been happening. Although inflation at the end of 1985 was running at around 16 percent to 17 percent, and is now up to 18 percent, salary and wage surveys by personnel consultants indicate that few workers received more than a 10 percent increase.

However, this is likely to change says Professor David Rees of the University of Cape Town and economics consultant to the stockbroking firm of Mathison and Hollidge.

Writing in the firm’s latest newsletter he contends that the present situation of pay rates lagging behind inflation is anomalous and that there will be substantial pay increases later this year.

The argument that this is unlikely to occur in a recessionary economy such as ours carries some weight, but not much he says.

“The major export sectors—mining and agriculture—are booming and unlikely to put up stiff resistance to wages increases.

Professor Rees says there is an astonishingly close relationship between wage patterns in different sectors of the economy and the pay increases in the export industries can be expected to filter through quite rapidly to the rest of the economy.

Analysing the effects of this on the economy, he says that those export sectors now booming as a result of the weak exchange rate are likely to find their advantages being rapidly eroded.

On the import side, those sectors which are struggling are likely to find the going ever tougher, but mitigated by the reappearance of consumers as they recover some of their lost real income.

As a result he expects the value of real assets to rise more rapidly than the inflation rate and labour, while temporarily cheap, to be a good deal more expensive by the end of the year.
Real wages are down in every sector of economy

REAL wages measured in 1980 terms fell in every sector between the third quarter of 1984 and the third quarter of 1985, the latest figures from Central Statistical Services, Pretoria, show.

This is consistent with the findings of P E Corporate Services surveys, which show that almost all pay increases have been below the rate of inflation.

The largest fall was in the retail and wholesale trade sector where there was a deterioration of 6.1%, including an 8.1% decline in black wages.

Whites suffered most in the construction sector, with a fall of 4.2% in real wages.

The mining industry remained the most lucrative for whites, with an average income of R2 215 a month. But it was the second-most-poorly-paid industry for blacks, with wages averaging R80 a month.

Only the retail and wholesale trade paid less at R302 a month.

P E director John Cole says there is still a great deal of job reservation in the mining industry and that many of the blacks employed have a low skill level.

Banking was the best-paid area for blacks, at an average of R611 a month, while it was the second-worst-paid for whites at R1 440.

Cole says the banking sector has led the way by opening up to blacks.

The manufacturing sector continued to be the biggest employer (1 344 200 employees), although the civil service was catching up with 1 064 110.

Cole says there is a preponderance of civil servants in the SA economy, especially with the triennial parliamentary system.
inflation is too high but unlikely to reach 20%, says Santamtrust

By Stan Kennedy

Santamtrust says in its latest Market Opinion that it is difficult to be optimistic that there will be any sharp decline in the inflation rate in the near future. This is because of the recent increases in the import costs of certain goods and the only positive aspect, in its view, is that there is a reasonable likelihood that by mid-year the annual inflation rate will not reach 20 percent level and will be around 17.5 percent.

Market Opinion says that although there is currently a greater threat from abroad, it cannot, summarily be expected to continue to go strong. As such, any optimism is on the "cautious" side, although less so than a few months ago. Reasons for the underlying weakness are:

- The dollar will probably remain relatively weak and could even come under further downward pressure.
- The possibility of an acceleration in the US inflation rate.
- The extent to which the oil price is under pressure should result in sustained uncertainty regarding the stability of the international financial system.
- The probability of a sustained strong interest in the metal from the Far and Middle East.

These and other factors could result in the demand for gold experiencing enough momentum to carry the price to even higher levels, even if Russia enters the market as a seller," it says.

Although there is still great uncertainty on the foreign loan position and the local political situation, Market Opinion says the rand could maintain its recent stronger levels and that it may even tend to improve further.

As for a realistic level for the rand today, it says that given the surplus on the current account of the balance of payments a value of R1 equals $0.60 would not be too far off the mark.

"If, however, the longer term future of the rand is viewed, it appears as though this is less promising.

"If it is assumed that South Africa and the US experience average inflation rates of 15 percent and 6 percent respectively during the next five years, the rand could, purely as a result of the weakening of its relative purchasing power, depreciate by 37 percent against the dollar during that period.

"This means that the rand, even in the absence of negative political influences, could be worth only $0.30 in early 1991.

"This exercise is highly artificial but still serves to illustrate what our high inflation rate can do to the exchange rate of the rand.

The conclusion is clear: something will have to be done to reduce our inflation rate," it says.
A DOMESTIC sugar price rise is expected soon.

The South African Sugar Association (Sasa) is likely to apply for the industry price rise in the next few days, say sources.

Sasa GM Peter Sale declined to confirm this. "We keep the Department of Trade and Industry informed on a regular monthly basis of the fluctuating factors in the sugar industry," he said.

"The price rises we ask for once a year are to keep the domestic sugar price in line, with our production costs, including a return on capital on the local market portion."

The last sugar price increase at industry level — this is still controlled, although the retail price is not — was on March 15.

Sources say cost increases in the past year have thrown the domestic price out of line with formula costs.

The expected application for a price rise was "not a minute too soon," said one source.

The industry has a R327m debt and sources said interest payments were "crippling".

A senior executive of a sugar company said: "Despite the end of the drought, we are still faced with the low international sugar price over which we have no control."
How long must you work to earn a litre of milk?

By Jackie Unwin

Despite the recent rises in the price of milk, butter and cheese, dairy products have become less expensive in relation to income patterns, compared with 10 years ago, says Mr Eddie Roux, general manager of the Dairy Board.

The wholesale price of butter went up by 8 percent and cheese by 3 percent on Saturday. Distributors raised the price of milk by 6c a litre last month.

Mr Roux said that in 1975 the average person would have had to work about 14.6 minutes to earn the cash to buy a litre of milk.

"To earn that same litre of milk, even now after the recent distributors' price increase, he would have had to work only 13 minutes. So, in fact, milk has become cheaper," said Mr Roux.

It was calculated in 1975 that the average worker worked 93.9 minutes to earn 1 kg of cheese. Last year he would have had to have worked only 85.5 minutes.

"This is just an indication," said Mr Roux. "I know the saying that if a man is lying with his head in the oven and his feet in the refrigerator he is, on average, comfortable. But one should not be carried away with the feeling that these dairy products are expensive and cannot be afforded."

The Housewives' League has called for price control to be reintroduced on milk, but Mr Roux said, "We believe that once we have started on the road to no price control and freer enterprise, it should carry on. Although that option is open, I don't think there is sufficient evidence to bring back price control."

"I also feel the cry that price control be brought back on dairy products is not based on fact but emotion."

Mrs Jean Tatham, vice-president of the Housewives League, said, "Regrettably butter is now a complete luxury. Cheese has gone up so much in the last few years that although people would like to swap to cheese as a source of protein, they don't think about it any more."

Commenting on the calculations of how long an average worker would have to work to earn a litre of milk or kilogram of cheese, she said, "In South Africa, in particular, there is no such thing as an average worker. While I appreciate these facts, they do not really tally with reality."
around his membership of Lloyd’s and association with one of its most colourful personalities.

Archer is backing the return to the market of former underwriter Ian Posgate. Once reputed to be the highest paid underwriter at Lloyd’s, earning up to R300 000 a year, Posgate was administratively suspended in 1982 for an initial period of six months after disclosures made as a result of the Howden inquiry. (This took place after a US insurance company, Alexander & Alexander, took over the Howden syndicates and discovered £45m allegedly misappropriated by former executives.) He was re-suspended thereafter, for six months at a time, while disciplinary proceedings were in progress.

The disciplinary committee asked for his expulsion, but the appeals tribunal, under Lord Wilberforce, last year commuted this to a further suspension of six months, making a total of three years.

The suspension ended last month Posgate has released a public apology, saying he was not aware of the allegations. He is now backing Posgate.

Glover, an agency currently applying for re-registration. It is normal practice for aspirant underwriters to be sponsored by three existing members, says Lloyd’s press officer David Larner. He is not prepared to reveal the identity of the other two sponsors.

“It is not Lloyd’s policy and we much regret that Archer’s name was leaked in this connection,” says Larner.

PENSION FUNDS

Disclosing deficits

There’s no point in giving people information they don’t want. Shareholders and investment analysts have, until recently, shown little interest in unfunded pension costs. Although retirement benefits take a big slice of total payroll costs, companies have not had to disclose pension fund deficits.

“Now the issue comes up as one of the major accounting topics,” says Nina Curtis, director of accounting of the SA Institute of Chartered Accountants (Saica).

Saica’s accounting practices committee has issued an “exposure draft” calling for disclosure of retirement benefit information in financial statements. The document was circulated to members of Saica and constituent bodies of the Accounting Practices Board (APB) for comment last year.

Their comments will be reviewed during the month and necessary changes made. When the document has been fully discussed and approved by APB, it will become a standard for generally accepted accounting practice.

Saica first looked at the topic more than six years ago. It was shelved because of “lack of understanding of all the problems involved and because of controls incorporated in the Pension Funds Act,” says Curtis. Companies did not perceive the need for disclosure of unfunded deficits, which she feels was unrealistic.

In the US the issue is even more controversial. Whereas here the proposal is to disclose any unfunded deficit as additional information in the annual financial statements, there the Financial Accounting Standards Board has proposed that it be recorded as a liability in the balance sheets.

“That means it’s charged against income and affects distributable profits and dividends,” says Curtis. “And it will change gearing ratios, which may create problems should they need external finance.”

This has not been proposed in SA as there is substantial question as to whether unfunded deficits constitute true liabilities.

GST

Growing avoidance

The 200% increase in GST rate since its introduction in 1978 is inspiring tax avoidance schemes. Importantly, the Sales Tax Act, unlike the Income Tax Act, has no general anti-avoidance provisions.

The main way to reduce GST is to change...
the nature of a transaction, from a taxable to a tax-exempt category. This says Arthur Andersen's Richard Rubin, has encouraged a "good deal of innovative fiscal thinking," though he advises care where an income tax saving has the additional effect of saving GST. For if the purpose of a scheme is to save either income or any other tax, it may be vulnerable from an income tax viewpoint. In such a case, says Rubin, the entire structure can be ignored, but schemes to save only sales tax are not subject to attack.

Ways of avoiding GST are boundless. Evasion is criminal and subject to fines and other penalties, but taxpayers may structure their affairs to minimise tax. Perhaps the main problem is that unlike income tax avoidance, a vendor who has to collect GST sees little incentive to reduce his liability since the tax is paid by the consumer.

For the same reason, vendors have little incentive to force clarification of grey GST areas; in the face of doubt, they collect the tax and hand it over. Inland Revenues, by the same token, is not under the same pressure as with the Income Tax Act to clarify grey areas in amending legislation.

Rubin notes that despite the 200% increase in GST rate, and the tendency to limit available exemptions, the effective GST rate may actually have decreased in certain enterprises. Innovative techniques have developed on the back of a tax which taxes (or exempts from tax) on an ad hoc basis.

Arthur Andersen’s Rubin ... carefully saving tax

The term “sales tax” is a misnomer. In addition to sales, GST seeks to tax rental agreements, financial leases, taxable services, the importation as well as so-called “application” of goods. Exemptions — broadly — depend on the nature of a transaction and the method used in registering an enterprise.

So, for example, a particular exemption available to a printing enterprise may not apply to a mining enterprise, and vice versa. Similarly, an exemption relating to a taxable service may not apply to a sale or importation of goods.

Rubin says it is often possible to implement a structure which will move a transaction under the umbrella of an exemption. This is usually achieved without radical change within an enterprise because the alteration is legal, not physical.

GST potentially hits profitability of an enterprise at two levels:

- It may be liable on materials, services or leases employed by an enterprise, and as a cost of production, and
- It may also be collected by an enterprise from customers on its turnover.

An efficient structure aims to reduce GST payable at both levels. By reducing GST payable by customers, an enterprise is made more competitive.

Rubin says that, assuming a transaction has substance and is based on a correct interpretation of the law, there is little danger that the structure will be set aside for GST purposes, or that the transaction will be taxed as though it had not been implemented.

But, he points out, absence of a general anti-avoidance provision does not preclude the legislature “plugging loopholes.” The best advice, on precedents in recent years, is to embark on tax avoidance schemes and wait for the taxman to react.

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**Short cuts to economic revival**

**KANTOR COMMENTS**

**Brian Kantor is a professor of Economics at the University of Cape Town**

The economy could do much better in the short term were short-term thinking effectively translated into short-term action, without inhibition by government policies.

A number of important government interventions in the economy impose time horizons on SA economic actors that have always been unimaginistically long but are, in the short term, particularly damaging — because they intentionally reduce current standards of living in exchange for future benefits.

Such interventions are quintessentially nationalist. Savings of current consumption are forced for the benefits of the “nation”, that is to say, future generations. What should be recognised is that without economic recovery, without an improvement in present standards of living, the nation may not survive in its present form.

A few examples will illustrate the issues.

Government policies have always attempted to extend the lives of the gold mines. The higher after-tax profits of the mines, the lower the grade of ore mined and the less gold produced in the short term. As a result, the life of mines is intentionally extended and potential output of gold over a mine’s full life increased. Such policies have little to commend themselves today. SA would benefit from producing more gold in 1986 with which to regain foreign creditworthiness.

South Africans as well as foreign investors attach little present value to profits from extra gold to be produced 30 years from now. What is urgently required is more gold now for the benefit of the balance of payments, the Receiver of Revenue and therefore current taxpayers.

Escom’s financial policies also have the long term very much in mind. Higher charges for electricity are intended to provide more internal finance, less borrowing and a stronger balance sheet. They also mean less consumption of electricity and thus a lower current standard of living, and discourage energy-intensive exports. Future-conscious policies have encouraged Escom and other public corporations to overcharge and underborrow. Such actions are totally unsuitable for current conditions.

In the interests of economic recovery, the government sector generally should be borrowing more and taxing or charging less right now. More government borrowing will not crowd out private borrowers who, given their lack of confidence, are unwilling to borrow or spend more.

The alternative to allowing economic actors to make their own adaptations to changed circumstances and perceptions is to impose further controls on their economic freedom. Such actions, however, do not alter economic fundamentals. They serve to weaken the economy further by directing creative energies towards overcoming controls, so encouraging inefficiency and corruption.

The circumstances of SA fundamentally strengthen rather than weaken the case for economic freedom. The economy can simply afford much less rather than more inefficiency. The economy is the battleground over which the future of SA will be decided. Disinvestment and trade embargoes are among the weapons being used.

A freer economy, with fewer regulations, and fewer charges and taxes levied by the public sector, more government borrowing and increased output of gold and other exports, would constitute a most effective defence.
Davin report could change wheat sector

GOVERNMENT acceptance of Davin Commission recommendations would drastically transform the wheat industry in a year or two, says a Wheat Board document tabled at the Agrocon conference in Pretoria yesterday.

The Davin commission recommended:
- Price controls on wheat, meal and standard bread should be lifted from October 1.
- Restrictive registration in the milling, baking and food processing industries should lapse from the same date.
- Subsidies on bread should also lapse from October 1.
- In its comments on the recommendations, submitted to government, the Wheat Board said that if the total subsidised wheat was cut from 57% to 25% after October 1, the price of brown bread at the present level and subsidy would rise immediately by 24%.
- It should be accepted that bakers and millers would adjust prices, as they had been making representations for an increase in cost margins, the board said.
- Reddy's offered to support about 600 fully-equipped bakeries manufacturing bread and confectionery.
- It was also likely that most of the 1 500 registered confectioners would enter the bread-making segment, the board said.
- Quality control would be further handi capped. A considerable increase in the price of bread would have a detrimental effect not only on wheat consumption, but also on spending by a large section of the population in whose daily diet bread was an indispensable item, it added.

Backlash to debt standstill

GERALD REILLY

THE abnormal steps of imposing a debt standstill and remitting exchange control on non-residents from September were necessary but, until January, counterproductive, said Reserve Bank Governor Gerhard de Kock.

These steps focused so much attention on South Africa's liquidity problems that they contributed to a large outflow - or non-inflows - of various types of capital and credit.

"Loans which might otherwise have been rolled over, possibly at a higher interest rate, had to be repaid."

Foreign credits for many imports suddenly dried up, and importers had to pay cash "upfront."

"The unexpected that the rand would depreciate produced unfavourable lead and leads in foreign exchange payments and receipts."

Capital left the country in other ways which were perfectly legal.

De Kock said South Africa was able to accommodate the outflow of funds because the exchange control policy of the year before had helped to bring about an exceptionally large current-account surplus.

"However, in spite of the debt standstill and the strictest exchange control in the country's history, capital and credit for a while drained out of the country, suffocating the current surplus, and placed the rand under downward pressure on the foreign exchange market."

Inflation 'the enemy'

GERALD REILLY

THE economy was in the early stages of a new cyclical upswing, Reserve Bank Governor Gerhard de Kock said in an optimistic address to the Agricultural Outlook Conference (Agrocon) in Pretoria yesterday.

De Kock said measures taken to support the mone tary authorities when they applied market-orientated policies to bring about an optimal rate of increase of the money supply and total spending.

He told farmers their true enemy was not temporary high interest rates - "your true enemies are the twin evils of inflation and economic instability."

To combat these, the monetary authorities had to create and stabilise the growth of the money supply.

De Kock warned if the new upswing developed momentum faster than expected, and if the same time the money supply showed signs of rising excessively, the Reserve Bank would have to take action and interest rates could rise again.

If the inflation rate could be reduced to any material extent, interest rates would probably fluctuate at significantly lower levels than in recent years.
21% PPI jump fuels inflation fears

INFLATION fears will not be soothed by the December production price index's year-on-year 21.3% increase, although the monthly increase is a little more positive.

Compared with the October to November PPI increase of 4.2%, prices increased 1.7% from November to December.

The all-commodities index - incorporating both imported and domestic goods and services - rose by a year-on-year 21.3%.

Increases in producer prices will filter through to the consumer price index (CPI) in the months ahead. The CPI increased by a record 18.45% in December, and the latest PPI figures suggest the CPI could breach the psychological 20% barrier early this year.

The decline in the external value of the rand and the 10% import surcharge dramatically affected the price increases of imported and locally produced commodities with an import content.

Imported goods, which represent about 23% of commodities used in the index, rose 30.7% in price over the year to December. The monthly increase was 2.5%, representing an annual rate of over 30%. Prices of locally-produced goods increased by an annual 18.7% and a monthly 1.8%.

Of the individual commodities food, machinery, electrical machinery and transport equipment were largely responsible for the increase in the producer prices of all commodities over the 12-month period.

There was a 19.2% increase in producers' sales prices for total output.

PRICE MOVES AT A GLANCE

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Price increases: views differ

By Jackie Unwin

Consumer bodies are in disagreement over the rate of supermarket price increases. The Consumer Council claims it has slowed while the Housewives' League says this is an oversimplification.

Consumer Council surveys conducted between last September and January showed that there were only slight price increases on 101 items in 39 stores in the Pretoria area.

Housewives' League vice-president Mrs Jean Tatham said that while the overall total of the surveys showed that prices appeared to be stabilising, prices of individual items swung up and down. Prices were inconsistent, indicating possibly more deals being negotiated by supermarkets.

Mrs Mienie Viviers, in charge of the council's research department, said the survey list had been in existence for two years and was not now representative enough of what was on offer. The list had not been treated as confidential and it would have been possible for supermarkets to maintain prices of items known to be on it.

So the council is in the process of drawing up a new list of survey items to make it more representative. It will be confidential.

The council’s survey of 101 consumer items showed Pick 'n Pay prices decrease by 0.88 percent during the period.

The research figures showed Pick 'n Pay to be the cheapest supermarket — 3.8 percent cheaper than OK Bazaars, 3.7 percent cheaper than Checkers and 0.7 percent cheaper than Spar.

OK Bazaar was 9.1 percent cheaper than Checkers and 5.9 percent cheaper than Spar. Checkers was 5.8 percent cheaper than Spar.

ÖK Bazaars' prices increased by an average of 2.5 percent. Checkers' by 1.3 percent, Spar's by 3.1 percent, Pick 'n Pay Hypermarket's by 4.1 percent and Hyperama's by 3.3 percent.

The average price increase of the 101 articles was 2.3 percent. Groceries increased by an average of 2.1 percent, cleaning agents by 5.8 percent and toiletries by 3.4 percent.

Miss Vita Palestrant, consumer affairs manager of Checkers, said, “The fact that the list was not representative and the council is in the process of drawing up a new list and wishes to keep it from now on as confidential, speaks for itself.

“The results of the council’s survey do not tally with the results we are getting from the price surveys of the internationally-respected market research company, Nielsen.”

Mr Richard Cohen, director of Pick 'n Pay, said, “We would not purposely get hold of a list and keep prices down but there is a lag between what generally happens in supermarkets and what happens at Pick 'n Pay. Faced with price increases in September to November, we moved heaven and earth to postpone them until after Christmas.”

Mrs Joy Hurwitz, president of the Housewives' League, said, “Prices have never ever increased at such a tempo as during the past few months. That is why consumers are so desperate.

“One has only to be a housewife to know the catastrophe that has hit us with the rand/dollar exchange. I find the council’s statement extremely odd. You have only to think of the astronomical increase in the price of meat in the last three months.”

Mrs Hurwitz said over the 10-year period during which the Housewives' League had conducted surveys, Pick 'n Pay was the cheapest throughout.
Taxes on petrol come under fire for fuelling inflation

GOVERNMENT taxes on petrol, which reap it nearly R3bn a year, have come under fire for fueling inflation and depressing the motor industry.

The SA National Consumer Union has urged the Margo Tax Commission to investigate ways to reduce the high taxes on petrol because of the “ripple effect on prices of virtually every commodity and service”.

The Progressive Federal Party has now come out in support of the Consumer Union’s statement.

The statement will add impetus to the Automobile Association’s campaign for a review of the taxes and levies that motorists pay to government each time they fill their tanks.

The AA has in the past recommended a number of steps, including:
- Abolishing or reducing the Equalisation Fund Levy of 1.3c/l.
- Reducing the National Road Fund Levy from 5c to 2c/l.
- Pegging customs and excise at 8c/l.
- Reducing general sales tax on petrol from 12% to 8%.
- Abolishing GST on pipeline charges.

PETER WALLINGTON

Reducing the wholesalers’ margin by 2c/l.

Union chairman Betty Hirzel said in a letter to the tax commission that petrol price increases were often used by certain sections of commerce and industry as an excuse to put up prices beyond the actual impact of a rise in the price of petrol.

She said the union wanted the commission to investigate an alternate form of taxation which would not be so inflationary.

PPF energy and economics spokesman Brian Goodall said yesterday that when the petrol price was increased by 6c/l last year it ultimately boosted inflation by at least 2%.

“Transport costs have a great effect on the economy. Each time they go up, prices on almost everything else are also raised. If the prices were to be reduced by 6c/l, we could expect a reduction in the inflation rate, which would certainly boost the economy.”

Goodall said government got nearly R3bn from taxes on petrol sold each year, and this was R1bn more than government expected to get from the gold mines in the 1985/6 tax year.

AA director-general Peter Elliot said a reduced petrol price would breathe new life into the ailing motor industry, which has just experienced its worst year ever.

Losses in the vehicle and component-manufacturing industries were more than R1,6bn last year, he said.

Both the AA and the PPF have repeatedly called for a review of the system of charging tax on tax (charging GST and customs and excise) and a sharp reduction in the pipeline charges that inland motorists pay.

Petrol industry sources said changes were likely to result from last month’s petrol price structures symposium in Cape Town.
18% inflation is ‘here to stay’

By Stan Kennedy

Stockbrokers Simpson, Frater, Stone & Strong forecast that the average commercial rand will be about $0.89 in the current year and inflation will remain at a high of 18 percent.

They add that if the trend in world inflation continues, it will not bode well for the investment demand for gold.

Taking into account South Africa’s special circumstances, the key to future trends in inflation rests with the external value of the rand. This affects not only the prices of imported items but also the local prices of most internationally tradable goods.

“Fortunately, the rand has stabilised recently and this has helped to subdue widespread fears of hyper-inflation, that is, over 25 percent,” they say in their February Economic Alert.

Among the reasons put forward for the inflation rate remaining at a high level are:

- The recession has forced many producers to absorb numerous cost increases which may be passed on to the consumer;
- Government attempts to stimulate the economy;
- A plethora of anticipated price and wage adjustments as well as an expected increase in public sector wages;
- The stability of the rand is by no means secure.

On the rate of the rand exchange this year, the 25 percent appreciation over the past eight weeks is noted.

“However, this has been due to an improved gold price, the tightening of exchange controls, as well as the unwinding of leads and lags. Although the unwinding of leads and lags has been an important factor affecting the rand’s improvement, leads and lags are a temporary phenomenon. There will come a time when most delayed export receipts will have been repatriated and the rand will then have to rely on more fundamental factors for support.”

They believe the authorities would not like to see the rand appreciating significantly above current levels for a number of reasons.

It would make sense for the authorities to use any excess supply of dollars to build up foreign exchange reserves rather than to bid up the value of the rand.

An appreciating rand would tend to discourage certain exports and encourage further imports, leading to a decrease in gross domestic product and an increase in unemployment.

If rainfall continues, certain farming products will have to be exported irrespective of international prices or the rand/dollar exchange rate. Given the current international maize price of $100/ton and an exchange rate of $0.82, maize can be exported only at a loss.

This loss could be funded only by an increase in the local price of maize which would increase the inflation rate.

Lastly, unless political confidence is restored, an appreciating rand would tend to aggravate capital outflows and further encourage emigration as an economically viable option.
Over 50,000 have signed petrol petition

By Jackie Unwin

The “Jack and Jill” petrol petition has snowballed to more than 50,000 signatures and will be presented to the Chief Director of Energy, Dr D C Neethling, on March 3.

The petition was launched by pensioner Mr Jack Huber and housewife Mrs Jill Purkiss (24), who were angered by the January price increase.

It calls on the Government to help combat inflation by using the massive profits of the oil pipeline to reduce the cost of petrol.

Mrs Purkiss said the public had given tremendous support and encouragement.

“I have been receiving beautiful letters from people returning the petitions, but some are very sad. Some people have had to sell their cars because they cannot afford to drive them any more.”

Mr George King of Queensburgh, Natal, wrote: “I have read of your wonderful stand against the petrol hike which is happening every month. I am an old ex-serviceman, in Flame Lily Park. I have an old car which often breaks down, but I manage with a struggle to keep it going for that little bit of independence that I have left.

“But with the R10 that I put in the tank getting less and less there is coming a time when it will not bring me back to the Park.”

Anybody wanting a copy of the petition should phone Mrs Purkiss at (011) 447-2765 or Mr Huber at (011) 849-5371.
PPP — a popular illusion

Purchasing power parity must be one of the most misunderstood concepts in economics. The view is widely taken that if SA’s inflation rate is higher than elsewhere, then the rand can go nowhere but down.

Even now, popular thinking is that, while the rand has become undervalued in terms of purchasing power parity, it can only appreciate to the so-called PPP level estimated at around US$0.80.

Let’s look at the concept in a deeper way. PPP implies that an identical good should have the same price worldwide, adjusted only for shipping costs, if the world had the same currency of exchange, and countries had similar economic conditions, there would be no problem.

A cup of coffee in Durban would cost the same as a cup of coffee in New York, except for the difference in the cost of shipping coffee beans from Brazil to the respective countries.

This is not the case — a number of problems exist aside from different currencies and different economic conditions. Free movement of goods is restricted, not only by quotas and other artificial means, but also by the fact that it would be impractical to commute from New York to Durban for an early-morning cup of coffee. In addition, economies of scale can change prices fairly substantially.

Purchasing power parity measured by absolute price differences — i.e., comparing, say, the price of a month’s groceries in the US with that in SA — could nevertheless be a fairly good measure of theoretical currency relationships. It is, however, a difficult comparison to make given different living standards.

Guideline

In order to overcome all the problems associated with absolute purchasing power parity, economists, in their wisdom, came up with the Relative PPP concept. In this instance, the inflation differential is taken as the theoretical measure of currency relationships.

This is fine — it is easy to calculate and can be as good a measure as the Absolute PPP concept. The problems of economic conditions, economies of scale, living standards, etc., remain, but as long as the measure is recognised as being imperfect, it can still be used as a guideline.

The problem with popular economic thinking today is that there are too many amateur economists who take Relative PPP as gospel. The root of the problem is not that it is an inaccurate measure (it is), but that relative inflation differentials are taken over too short a period of time. You cannot in your wildest imagining think that you can compare just the latest inflation numbers.

Ideally, you should go back to some time in the dim and distant past when goods were equally priced and compare price changes since that time. This is impractical, so perhaps 50 or 100 years back would be a better comparison.

Who is going to do the exercise? I am not; it would tell me little other than that the rand is grossly undervalued and I know that anyway. It would be a futile exercise because, in any event, the PPP level only prevails for very short periods of time. The actual exchange rate always overshots and undershots the PPP level — hence the cycle in balance of payments surpluses and deficits.

Right now the rand is undervalued in terms of PPP — ask anyone who has been overseas lately. Just compare the cost of a cup of coffee, in that instance the rand should be around R1 = US$2.00. Hotel accommodation, magazines and even a bottle of Coke all give much the same answer.

Concern

Forget about our current inflation rate — most of the rise has been exchange rate-driven anyway. The rand is rising to catch up with the PPP level, wherever it is, and will almost certainly overshoot.

Now is not the time to postulate on where that level is — it is high enough above the current rate not to be of concern to importers and it is compulsory for exporters to cover anyway. Ride the wave and forget the occasional hiccups — they are a normal and essential market feature.

David de Kock is MD, Fortisk Currency Management (SA)}
to an insurer in the consortium for a free token. That insurer will handle claims (Specified companies will handle claims against drivers who have no token).

Thereafter, the procedure should be simpler, says Honey. "Parties are now required to disclose their evidence and there must be early exchange of statements on the merits of claims. This will promote early settlement as litigating parties discover the strengths and weaknesses of each other's case at the start, not several years later in court."

Honey has hopes for an even more radical change. He has suggested to the Minister of Justice the establishment of a special MVA court. "Once you take it out of the jurisdiction of the Supreme Court you won't have to wait two or three years for a trial date."

So much for the claims side.

There are well-aimed arguments for and against funding the scheme by a levy. But there is no doubt that some way had to be found to raise more money.

Cornelius Oosthuizen, chairman of the SA Insurance Association (Sia), believes premiums would have had to be more than doubled. Honey puts the needed increase considerably higher because premiums had been kept artificially at 1964 levels."

Why had the authorities pegged premiums for 22 years? "It's a question of approach," says Oosthuizen. "Private insurance companies make provision for coming years and for claims still to be met. Government's philosophy might be to view claims payments on a short-term and immediate-cash-needed basis rather than on a long-term-provision basis."

"So is there enough money to meet the fund's obligations?"

"Not if you take an actuarial calculation," says Oosthuizen. "But there is enough money to meet present claims."

#### Inflation

**153**

More from the PPI

As expected, the production price index (ppi) leapt further for December. For all items it was 21.3%, year-on-year. This compares to 20.4% for November.

More alarming, but expected nevertheless, was the import component which was 30.7% up, year-on-year, compared to 28.5% the previous month. A year before, the 1984 figures were just 14.9% for November and 15.6% for December. Locally produced items experienced a relatively small increase, from 18.1% in November 1983 to 18.7% in December. Obviously the plummeting rand is the villain, the 10% import surcharge added insult to injury. The currency's most recent plunge began in mid-1985, when it stood around US$1.50. Within a few months ppi began shooting up. Imported prices have almost a 23% weighting in the ppi. Given the lag effects, as one observer put it, "We'll see a few more months of big increases, even with the rand now appreciating."

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A major boost for December was the jump in the petrol price by almost 60c/l. The 2c/l increase this January has still to be recorded in the cpp.

Jim Buys, economic consultant to Anglo American, says: "The inflation rate is therefore likely to rise above December's 18,4% as imported costs have still not fully worked their way through."

Volksskas adds in its latest Economic Spotlight: "It is particularly disturbing that the sharp rise in prices of imported goods reflected in the cpp for November did not appear to contribute much to the sharp rise in inflation for December 1985. It will not be surprising if January's rate for inflation, therefore, indicates a further acceleration."

Looking further down the road, Buys comments that, of course, if the petrol price does come down soon, it should deflate the upward price spiral over a two- to three-month period. Says Volksskas, combating inflation should be priority at all times, since high inflation is obviously detrimental to economic growth.

FOREIGN DEBT

Final solution?

Mediator Fritz Leutwiler this week circulated his proposal for solving the foreign debt problem. The proposals, delivered to SA's foreign creditor banks and the Standstill Co-ordinating Committee (SCC), will no doubt be studied in detail before both parties present a firm reply at the next talks in London on February 20.

This will be Leutwiler's first attempt, and probably his last, at striking a compromise between what until now have been two intractable and seemingly incompatible bargaining positions.

According to sources, Leutwiler will hold a press conference immediately after the meeting. "It should be clear to both sides then if his proposals are not accepted, there will be little point in his continuing," says a London source.

Presumably, this means that the posturing and heated rhetoric which characterised earlier negotiations will cease as both sides seriously weigh up the pros and cons of the Leutwiler package.

"He has had written comments from creditor banks and knows what is acceptable to them. He has also taken into account SA'S economic realities. It is in everybody's interest to return to a situation that is as normal as possible," says a source close to the Swiss mediator.

Officials remain tight-lipped when questioned about Leutwiler's proposals. "At this stage, the less said, the better," says one.

But it is understood that recent negotiations have taken place in a different attitude from that which prevailed last year. "That was a very bad patch," says a senior banker.

SA had proposed to begin repaying capital in 1990. Now, it is believed, Leutwiler will deliver a message that SA will probably put a certain amount of money up front as a gesture of goodwill to appease edgy foreign bankers. Also, it is believed, it has offered to raise the rate of interest paid on what in effect are short-term loans that have been converted to long-term loans.

One South African official sketches an air of geniality. "Basically, he will say to the creditor banks that you and I know SA does not need a standstill on financial grounds, if they come up with some payments to set the ball rolling, let us all agree to be gentlemanly and not rock the boat."

But it is highly unlikely creditors will be required, or will agree, to sign a formal agreement. Rather, they will merely give the nod to the amount SA offers up-front and the interest rates to be paid.

The recent sharp drop in the oil price could work in favour of early agreement. For international bankers there is little doubt that loans to Third World countries granted in the expectation of a high oil price are the real nightmare. "These days, when bankers think of a debt problem they barely consider SA. With a falling oil price, there is no way these debtors can continue with existing arrangements," says a senior source.

Meanwhile, the reason for the withdrawal of credit to SA has been much debated. "The central question is whether US banks withdrew credit lines and recalled debts deliberately -- as a political act -- or because they were genuinely worried about the safety of their money. Although most like to believe the latter, some say there was a more sinister motive. What is certain, however, is that it was not done because South Africa was overborrowed," says a senior official source.

It is believed the Reagan administration was particularly upset by Chase Manhattan's decision, which set the ball rolling.

"Once banks start to panic, the situation can quickly get out of hand. A run on a country's banking system can be counter-productive," says a source. "By comparison, Reagan's sanctions measures have been carefully formulated and are not irreversible, for example, the ban on Krugerrand sales in"
Beer matches to cost more

The price of beer is to increase by an average of 9.7 percent, on Monday, SA Breweries announced yesterday.

"The increase was a "mild one," taking into account that the inflation rate is running at 18 percent," the managing director of SAB's beer division, Mr. Pete Lloyd, said.

"The company has again cushioned the blow on the working man's choice, the 750 ml 'quart' bottle, by keeping the increase down to only 7.2 percent." 

Mr. Lloyd, who said it was the ninth year in a row that SAB had "kept its price" increase below the inflation rate, added that the company had no control over retailers' pricing policy.

Matches are going up in price by 3c to 4c a box, an increase of 33½ percent.

The increase, the first in four years, will filter through to the market place by the end of March, says Mr. Burt Heilbron of Lion Match, with headquarters in Durban.

It results from increases in wages and in the cost of paper, board and imported chemicals.

Mr. Heilbron said "last night that his company had a long history of 'keeping prices' well below the inflation rate. It was now engaged in a modernisation programme which becomes seven more cost-effective and this would enable the company to continue linking further price increases."
The MINISTER: How can we have a reserve if we showed a loss of R400 million this year? There is no reserve. I do not argue that inflation does not exist, but we do not have a reserve to cover inflation. It is a reserve to cover the ordinary deterioration of stock.

Mr R SIVE: Mr Speaker, further arising out of the hon the Minister's reply, surely the provision of double depreciation instead of single depreciation that everybody allows, is for the purpose of combating inflation?

The MINISTER: We can argue this point in the Budget next week, and I think I shall then explain it to those hon members because they do not seem to understand it.

Mr W V RAW Mr Speaker, further arising out of the hon the Minister's reply, may I ask him whether there is a higher replacement cost fund in the SATS accounts or not?

The MINISTER: The replacement provision made on Boeing aircraft for instance is based on 20 years, but it takes 40 years to replace a railway truck. It varies from commodity to commodity and it is quite a complicated matter to work out the replacement value in something according to the amount of wear and tear it has been subjected to.

Mr D J N MALCOMESS: Mr Speaker, further arising out of the hon the Minister's reply, there are two depreciation costs. As I understand the situation, the one is the 20% per annum he was talking about on a Boeing 747, but in addition to that there is a further depreciation cost which in fact allows for a higher replacement value reserve. This is a depreciation reserve which is not allowed in the private sector's accounts, and I want to know what is the amount of this reserve and how much is being taken for that reserve in this financial year?

Mr D J N MALCOMESS: Mr Speaker, further arising out of the hon the Minister's reply, I must ask him if prices would go up if inflation did not exist? Surely we would not need the reserve that we currently have?

Mr R M BURROWS: Mr Speaker, arising out of the reply of the hon the Deputy Minister, if that is not the case how is it possible that the hon member for Sandton has already indicated in this House that an application has been granted?

The DEPUTY MINISTER: I want to ask the hon member to please Table the question as I am acting on behalf of the hon the Deputy Minister.

Mr R M BURROWS: Mr Speaker, arising out of the hon the Minister's reply, surely the provision of double depreciation instead of single depreciation that everybody allows, is for the purpose of combating inflation?

Mr R SIVE: Mr Speaker, further arising out of the hon the Minister's reply, surely the provision of double depreciation instead of single depreciation that everybody allows, is for the purpose of combating inflation?

The DEPUTY MINISTER: I can spell that out. The hon member is perfectly right, it has nothing to do with inflation. The question dealt with inflation. Why does this hon member take up this matter? The hon temporary member for Sandton asked this question. Why does this hon member now ask all these questions?
People 'punch-drunk' over worsening plight

PEOPLE entered 1988 punch-drunk and confused because, despite assurances that monetary and fiscal policies were working, their plight was worsening, says Stellenbosch University's Bureau for Economic Research (BER).

Consumers faced rising unemployment, bankruptcy and prices despite the insistence that stringent economic policies had effectively cooled the economy, said BER acting director Ookie Stuart in the monthly news survey The South African Foundation News.

"What consumers were told did not correlate with what they were experiencing or perceiving. I am not implying that they were deliberately misled but, due to leads and lags inherent in economic policies, they might have thought so."

The facts were that inflation was rising — and still is — at an alarming rate. Latest official pay figures for the first nine months of 1985 show an average rise of 9.3% compared with a 15.8% increase in the cost of living.

This means that inflation-adjusted pay decreased by about 6%.

Various polls conducted by the BER have indicated that, while the financial situation of households, especially of blacks, is tight, it will become even tighter as consumers are forced to cut back further on spending.

The savings ratio has gone up during recent months, although high interest rates have probably prompted this move. But, with inflation clearly on an uptrend and interest rates falling, less money will be saved to help households maintain their standard of living.

For the less fortunate already living on or below the breadline, further price increases would make living unbearable and create a climate suitable for social unrest and discontent with the economic system, Stuart said.

"The government probably has no option but to stimulate the economy in such a way that jobs can be created to accommodate these people."

"At this stage the plight of the consumer is such that he cannot absorb further increases in inflation without having a reasonable chance of finding a job."

LESLEY LAMBERT
SATS fares to rise up to 15 pc

By David Braun
Political Correspondent

PARLIAMENT — Rail and air fares are to be increased by between 10 and 15 percent within the next few weeks, the Minister of Transport Affairs, Mr Hendrik Schoeman, announced yesterday afternoon.

Table the annual South African Transport Services (SATS) budget at a joint session of Parliament, Mr Schoeman also announced that owing to the prevailing economic situation and the financial position of SATS, he regretted it was not practical to increase staff salaries by more than 10 percent.

The new SATS budget provides for a record income of R9322 million and working expenditure of R9420 million, leaving an estimated deficit of R180 million.

Domestic airfares are going up by 10 percent on March 1.

The first class return fare Johannesburg to Cape Town goes up from R544 to R598. Business class goes from R460 to R566. Second class rises to R530 (from R480), and economy class R460 (R418). The R210 (late night economy class) is cheapest.

Return airfares between Johannesburg and Durban rise to R320 (R296) first class, R238 (R262) business class and R250 (R228) economy class. The R130 (late night economy) is cheapest.

Rail passenger fares on inter-city services go up by 15 percent and on commuter services by 12.5 percent from April 1.

An inter-city first class rail fare between Johannesburg and Durban (one way) rises from R88 to R102, and to Cape Town from R171 to R197.

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Decision on petrol price not likely before mid-March

A DECISION on a petrol price reduction is unlikely before the middle of March.

Mineral and Energy Affairs director-general Louw Alberts told Business Day yesterday the effects of reducing the lead content of petrol, the rand/dollar rate, crude prices and the impact of deregulating retail prices were under urgent study.

"When the results of the studies were put together they would be submitted to the Cabinet for a decision on the petrol price."

"But this won't be for a few weeks. We cannot change the petrol price every second day. This would be too disruptive for oil companies and retailers," Alberts said.

However, he said, motorists could rest assured that any over-recovery because of the more favourable rand/dollar rate and lower crude prices would be stashed away in the Equalisation Fund.

Other sources said it was likely a fuel price reduction would be announced in the main budget.

In the Assembly this week Finance Minister Barend du Plessis said Mineral and Energy Minister Danie Steyn had struggled for two years to stabilise the petrol price.

In the process reserve funds totalling R1.4bn had been drained away to avoid drastic price rises.
Agriculture may use Sats services even less

Rail increases seen as further aid to inflation

GENERAL dismay has greeted the tariff increases announced yesterday by Minister of Transport Affairs Hendrick Schoeman when tabling the annual South African Transport Services (Sats) budget.

Organised agriculture claimed the cumulative impact of the 15% increases, combined with the structural adjustments, would lead to further increases in farm costs.

PFP spokesman on transport, John Malcomess, said the budget had confirmed Sats' position as one of the foremost creators of inflation.

President of the SA Agricultural Union Kobus Jooste said the budget provisions could also result in agriculture making less use of Sats' services.

Jooste said the phasing out of uneconomic services, and tariff increases aimed at improving the costs recovery basis of socio-economic services, held particular problems for agriculture.

He pointed out it was counterproductive to shift traffic from rail to road, because of tariff structures, because the state also had the primary responsibility to develop and maintain roads.

Economists warned that the tariff adjustments would add significantly to inflationary pressures and push the rate towards the 20% barrier.

Volkskas chief economist At Engelbrecht said although the increases, and those imposed at the beginning of the year, were below the current 18.6% inflation rate, they would filter through the economy leading costs throughout commerce and industry.

The Transport Consultative Committee, which represents 19 private sector interests, including the Afrikaanse Handelsinstituut, Association of Chambers of Commerce and Federated Chamber of Industry, said the phasing in of a more market-related transport system would have given Sats room to avoid further tariff increases.

The committee regretted the further tariff hikes "at this delicate stage of the economic upturn."

However, it praised steps taken to curb expenditure and increase productivity during the recession.

Malcomess said the latest increase, following hard on the heels of the last, are made against a background of an appreciating rand and a dropping crude oil price.

He added, "What is more, the estimated loss of R350m for the current year is not a loss at all in private-sector terms."

This was, he said, because apart from a normal depreciation reserve being deducted from profits, a further reserve for higher replacement value of about R500m would be deducted in the current year.

"Thus, in private sector terms, Sats made a profit of some R200m."

The increases were regrettable and bound to cause hardship among the poor, spokesman for several parties said yesterday.

Labour Party leader Allan Hendrickse said he regretted the increases.

Mohanal Bandulalla, Solidarity spokesman for transport affairs, said the increases were bound to cause hardship among black communities most of which relied on rail transport.
'Rail tariff increase is inflationary'

CAPE TOWN — The South African Transport Services has confirmed its position as "one of the foremost creators of inflation", according to Mr John Malcomess (PFP, Port Elizabeth Central).

Mr Malcomess, transport affairs spokesman of the PFP, expressed his party's criticism of the SATS budget in a statement yesterday.

He said the latest increases in rail tariffs were unnecessary and highly inflationary. They had been made against a background of an appreciating rand and a decline in crude oil prices.

"The estimated loss of R286-million for the current year is not a loss at all in private sector terms.

"This is because, besides a normal depreciation reserve being deducted from the profits, a further reserve for higher replacement value of some R600-million will be deducted in the current year.

"In private sector terms, SATS made a profit of some R200-million," Mr Malcomess said.

Passenger service will lose R1.100-m

Political Staff

CAPE TOWN — Rail passenger services will lose an estimated R1.100 million in the next financial year, in spite of the April increases in mainline and commuter fares which will net an extra R272 million.

Minister of Transport Mr Hendrik Schoeman said in his SA Transport Services budget speech in Parliament that R698 million of the deficit would have to come from the State and R402 million from the profits of harbours and pipelines.

The estimated surplus of harbours in 1986/87 is R133 million and for pipelines, R20 million.
Rail and air tariffs rocket in budget

RAIL and domestic air fares, along with goods tariffs, will increase 10%-15%, it was announced in Parliament yesterday by Transport Minister Hendrik Schoeman.

Coming on top of sharp increases in January, Schoeman's SA Transport Services' budget was described by Opposition spokesmen as likely to be devastating for lower-paid workers and the unemployed.

PPP transport spokesman John Malcomess said "Sats has confirmed its position as one of the foremost creators of inflation."

A number of business leaders said the tariff hikes were likely to be self-defeating, and Sats could be pricing itself out of the market.

The increases announced yesterday included:

- Domestic airfares go up by an average 10% from March 1. This means first-class return airfares between, for example, Cape Town and Johannesburg go up from R544 to R590, business-class from R480 to R530, and economy-class from R418 to R460.
- Structured increases in rail-goods tariffs go up in a range from 2.2%-15% from April 1. In the case of high-rated traffic, tariffs are being adjusted by percentages varying from 2.2% over short distances to a maximum of 10% over 4,000km.

Schoeman said that cross-subsidisation was made possible only by surpluses realised from pipeline and harbour charges. The estimated surplus for harbours is expected to be R538m for 1986/7 and R200m for pipelines.
Post Office needs an extra R300-m

PARLIAMENT — The decline in the value of the rand and general cost increases were mainly responsible for the 6,6 percent increase over the original Post Office Budget, Minister of Communications and Public Works Dr LAPA Munnik said yesterday.

Introducing the Additional Post Office Appropriation Bill, he said the Bill provided for an additional appropriation of R297,4 million, bringing the total spending for the financial year to R4,674 million.

Giving a breakdown of the figure, he said the following sums were required for operating expenditure:

bullet R18,58 million for international commitments.
bullet R4,1 million for the hire of overseas telecommunications circuits.
bullet R4,30 million for payments to other countries for telecommunications and postal traffic.
bullet R4 million towards the development of communications satellite systems.

Total expenditure for 1986/87 was estimated at R261,1 million — R51,492 million more than the original appropriation.

Savings of R32,91 million on other items were being used to partly defray additional expenditure, leaving a sum of R18,58 million to be appropriated.

An extra R124 million was needed for the cost of loans and interest payments, of which nearly R168 million was for higher interest payments on foreign loans because of the lower rand/dollar exchange rate, high level of rates, and the debt standstill.

The balance of R18 million was needed for interest payments to the public resulting from a “higher than expected” inflow of money to the Post Office Savings Bank.

Capital expenditure of an additional R13,61 million was needed for telecommunications. This was caused mainly by the less favourable exchange rate and higher GST.

Dr Munnik said cost increases in telecommunications equipment were running at 21 percent a year, and this would increase further as the effects of the rand’s depreciation filtered through.

The standard stock capital would have to be raised by R40 million to R229 million to defray increasing prices, and to increase stock levels of catalogue items for the maintenance and extension of the telecommunications system.
Inflation 'disaster' PFP

Weekend Argus Political and Financial Staff

The jump in the inflation rate to 20.7 percent last month is a disaster not only for consumers but for the recovery of the economy, said the Progressive Federal Party spokesman on finance, Mr Harry Schwarz. "The Government appears to have surrendered completely in the fight against inflation, and South Africa is paying the price. In any other Free World country, the Government would have felt obliged to resign."

The Minister of Finance, Mr Barend du Plessis, said there was no need for panic. There was no suggestion that inflation was out of control.

He said the good news was that the inflation rate increase should start levelling off soon because of the recovery of the rand, and other factors which had contributed to inflation had been brought under control. The money supply was under control, interest rates were lower, production volume was up and transport tariff increases had been kept below the inflation rate.

"Consumer groups have de-
PETROL PRICES

Cash guzzlers

Plummeting world crude oil prices and a strengthening rand are not the only reasons why the domestic price of petrol should fall. The way the price is determined has little to do with the free market.

We calculate that, even by conservative estimates, South Africans are paying around 20% too much for their petrol. So for Reef 93 octane, currently priced at 102c/l, they should be paying about 80c/l. This would slash over 5% off the rate of inflation within nine months, giving us a cpi of 13.4% on current figures.

Any price above 80c/l would amount to a premium being paid by the consumer for securing strategic supplies of fuel. This should be clearly stated, leaving the rest of the price structure open to market forces.

The fact that it isn’t the means the consumer is overruled by the various financial beneficiaries of fuel sales – ranging from oil companies and garage dealers to the government – who negotiate behind closed doors.

Since the demand for petrol is relatively inelastic, there’s little reason for anyone to negotiate in favour of the consumer. Already in a year he’s paying 57% more for petrol. Our proposals to reverse this cost impact are no doubt speculative, but consider this comment from an oil company. “Perhaps you’ve got a good argument here, but imagine all the chaos that would follow if we had a complete free market.”

Another spokesman, who also declined to be named, claimed that the Department of Mineral and Energy Affairs had got them hook, line and sinker. “Bear in mind the industry has to report to the department, we must check with them before we send you anything, otherwise we’d get tarred and feathered.”

In the accompanying chart we use Reef 93 octave fuel, currently priced at 102c/l, to illustrate the sorts of cuts that could be made to reduce the price to 80c/l.

The landed cost, rated at 65,15c/l has risen 83% since July 1984. The rand then was worth US$0.71. It is now worth over US$4.6c, amounting to a depreciation of 33%. The past 18 months has also seen a fall in oil prices of over 25% from around US$27.50/barrel for Arabian light. (We don’t know what SA is paying, but the cheapest around is at the moment is below $15/barrel for future delivery.) But even at $23.75/barrel, our landed cost should be around 49.9c/l – a big saving of 15.2c.

As Louwe Alberts, director general of the Department of Mineral and Energy Affairs, says “The determination of local fuel prices is based on the international market prices, or ‘postings’ for the refined product. And there is a lead and lag period before changes in the spot price are reflected in the postings. These currently reflect an average crude price of around $22-$24 per barrel.”

But there are other factors confusing the landed cost picture. It’s certainly calculated in a rather peculiar way, based on the average cost of purchasing not crude oil (as would seem logical), but petrol from four refineries in Singapore and the Persian Gulf. To this is added freight at over 4.3c/l, plus insurance, leadage, landing and wharfage totalling another 1.3c or so, for a cif delivery of 65.15c/l to five SA ports.

Stan Booth, fuels marketing GM of Sasol, defends the method, saying the principle was established many years ago so the South African consumer was kept in the same position as if petrol had to be imported. “The landed cost is very competitive since it is based precisely on world market prices. There’s also a very tight control on the system to ensure the oil companies don’t make too much money.” He adds, the margin between finished petroleum products and crude these days has narrowed considerably.

Indeed, it is believed all the crude oil refineries are running at little more than 40% utilisation. So how can the landed cost basis be market-related if the refineries still make a profit on poor utilisation?

Sasol is also guaranteed an ex-refinery price equivalent to the landed cost for its synthetic oil-from-coal process. Various estimates suggest, therefore, we only need to import around 85%-90% of our requirements. Yet all petrol is sold on the theory it is imported in its refined state.

The transport cost is about 7.5c/l for Reef consumers. It must be a complicated arrangement because, claims a Sats spokesman, “some of the transport funding we don’t get in our pockets.”

The pricing theory is that petrol is transported from Maputo, Durban, East London, Port Elizabeth and Cape Town. But, as the Sats spokesman says: “In practice, crude oil is piped up, and we are paid according to what is actually conveyed,” adding, “We don’t want to get into any argument here.”

Sasol also refines its own. It has a pipeline from its inland Natref plant, and supplies all inland users, accounting for some 50% of total SA consumption. Apparently some of the refined petrol is pumped back to the coast, while oil companies also exchange fuel to save transport costs.

It all seems a bit of a mix-up. At the very least, transport costs should be evidenced out for all consumers. Slashing the cost by 4.5c/l to 3c/l, but charging it on all petrol sales, would probably earn Sats the same revenue.

The third item is the oil company wholesalers’ margin of 5.06c/l. It is already being reduced under a five-year government plan, and we just round it off to 5c/l.

The retail profit margin at 5.2c/l is probably one of the most inequitable items in the schedule, ignoring the basic pricing mechanism of the free market.

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**Notes:** Dec 95 for diesel (figures are approximate)
"It is a considerable expense to run and staff this operation," said one, "and unless it is guaranteed for five years — with built-in provision for inflation — I can see it being a problem." The Department of Transport envisages a two-year trial period, says Elssteen. After that, performance will be reviewed and companies will be offered a further contract — for a period still to be decided — "if approved by the Minister."

DEPOSIT RATES

Longer terms higher

Following the latest round of rediscount rate cuts in January, most building societies and banks are actually increasing deposit rates for periods fixed for more than 12 months. However, 12-month rates have come down by between 50-100 points to 14%.

For most of last year, shorter fixed deposit rates were higher than longer-term rates. 20.5% compared to around 16% for the long end. Now, rates range from 14% for the shorter end to 16% on long-term deposits.

In other words, the yield curve for the one to five-year area has steepened to a more "normal" shape reflecting higher rates at longer periods. The curve has steepened since January when rates were virtually the same for all fixed deposit categories (around 15%).

Says SA Perm senior GM Keith Gibbs: "The correct pattern has been re-established. The longer period, which carries more risk, is now rewarded with higher interest."

Nedbank GM Merton Dagut notes that declining 12-month rates indicate expectations of a liquidity build-up before the Budget and increasing confidence in the economy. These factors are creating demand for funds.

Allied deputy GM Alan Tindall points out that virtually no deposits are fixed at over 12 months: "Longer rates are basically irrelevant."

When 12-month deposit rates were at their highest last March-April (20.5%), mortgage bonds for over R60 000 were around 22% This 50-point differential has widened to 450 points (bonds for over R60 000 are 18.5% and 12-month rates 14%)=

Savings rates, which constitute 20%-25% of total funds, have dropped across the board since the Reserve Bank cut rediscount rates. It thus appears that societies are in a position to cut bond rates (the last cut announced in November came into effect in January). Indeed, they are facing strong pressure to do so (FM January 24).

INFLATION

Hope and despair

Given the looming spectre of hyperinflation, pronouncements that "positive fundamentals of the economy are firmly in place" sound distinctly off-key to most people.

True, there's been a lot of promising developments: burgeoning BoP surpluses and slower growth in money supply, for example, but there's also a lot to be anxious about.

Few economists pretend to understand what's going on, which is quite an admission. And in rare consensus, they all express grave concern about the amount of propellant still left in the inflation rocket.

At Engelbrecht, chief economist at Volkskas, is not alone when he says "There are so many contra forces we don't yet know which way we're going. I'm as confused as you are. But I agree inflation will tend to rise further in the near future."
World disinflation should act as a damper on domestic price increases.

Geldenhuys believes the handling of the situation in the first half of 1986 will be crucial to the inflation outlook for 1987. Vital factors will be the exchange rate, handling of fiscal affairs, monetary policy stance, and the levels of increase in wages, salaries and food prices.

TAX HUNTERS

Chancing abuse

The small but hot storm which broke out when the FM reported that Inland Revenue is using bounty payment tactics to reward inspectors continues. The practice is reputed to be widespread, but officials insist it is confined to the Johannesburg area. Details are unknown, but tax inspection units are allegedly paid performance bonuses based partially on the amount of tax collected.

In broad terms, nobody can object to a remuneration policy based on performance; such practices are widespread in the private sector. Observers question, however, whether it does not open the road for potential abuse in favour of Inland Revenue.

Tax inspectors’ powers are as broad as the big blue sea. They exercise wide discretion.

Once a taxpayer is under suspicion, the inspectors may oblige any person to produce records they see as relevant. Any person can be examined under oath regarding a taxpayer’s income — including professional who provided advice.

On authorisation from commissioner Carl Sweppehanso, inspectors may enter premises and search for books, money, accounts, records and other documents. The manner of a taxpayer for details of his assets and liabilities on a particular date, income derived during a particular period, expenditure and details, and other information to help paint a taxpayer’s profile.

If details are missing, the taxpayer’s income may be estimated: failing to prove the contrary, he must cough up. Judgment can be taken against him, his estate sequestrated, or an “agent” appointed to collect moneys from the taxpayer, sourced from salary, commissions, pensions, and so on, and hand them over to Inland Revenue. An employer is the most likely agent, or a bank where the taxpayer has cash invested.

To what extent these powers are used is unknown, the point is that the procedures are fully laid down in law.

But the law provides extensive remedies for taxpayers who have not been naughty. In many cases a taxpayer can object to an Inland Revenue assessment, which is then reviewed by a senior official. If the objection is disallowed it can usually be taken to the Income Tax Special Court, and then on appeal to the Provincial and Appellate Division of the Supreme Court.

But chances of abuse do exist. Taking a small amount on review, appeal et al, may not justify objection in money terms (It does not help that tax consulting fees are not tax-deductible). Each amount which the inspector says is to be taxed has to go through the legal process on its own merits, each as added up, the total may be considerable.

The general advice from tax consultants is to disclose all relevant matters the attitude “they will never find out about this” is self-defeating.

A recent case heard by the Transvaal Provincial Division, CIR vs Suikerkorporasie, illustrated that full disclosure of material facts is the best line. The company did not disclose an accrual it thought to be of a capital nature — and hence not taxable. But details were fully available in its financial statements. The court held that no reasonable man could say there had been non-disclosure.

Another important case which may assist taxpayers was recently handed down by the Appellate Division in CIR vs Di Cosa. The court resolved a long-standing controversy by ruling that a Special Court can substitute its own penalty, if any, where the commissioner has acted bona fide.

Revenue’s Sweppehanso — looking for non-disclosure

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TAXATION

Pipping the post

When the tax year ends on February 28, it will be too late for a taxpayer to take any action to reduce tax liability for events during the year. But with a week to go before deadline, taxpayers — particularly those concerned with the record tax burden — can take some remedial steps.

For one thing, taxpayers should note that a personal visit to an income tax assessor is not a visit to a cash-hungry dragon. These officials are also taxpayers and lend a ready ear to any case with merit. Usually an assessor can give an answer to a situation in minutes if the taxpayer is still not satisfied, it can be referred to a more senior official.

Such a visit can often yield a greater return, since it carries the weight of authority. Tax returns completed by one of the many tax boutiques that have sprung up in recent years, and if a taxpayer spends a few hours studying one of the many basic books and booklets on tax he will be prepared to ask questions showing that he is interested in how to save cash.

The potential value of a visit to an Inland Revenue official cannot be overestimated. As many consultants note, the department’s doors are open to all taxpayers.

Revenue will readily give an answer to the tax consequences of concluded transactions. Officials will not as a rule advise on hypothetical situations, not yet transacted. But generally Inland Revenue’s attitude, especially to non-corporate taxpayers, is benevolent. It is sensitive to taxpayers’ perception of it, officials are humans, which tax return forms are not, and the Inland Revenue policy is to follow the contra fiscum rule — any hazy tax law is interpreted against the fiscus.

And hazy tax areas abound. Many taxpayers who invest in shares know how they will be taxed on dividend receipts but have no inkling how profits on share sales will be treated. This is one of the most vexed issues. In tax law profits are either taxed at a taxpayer’s marginal rate, if he is classified as a “shareholder,” if the gain is deemed to be capital, it is zero taxed.

More taxpayers are probably shareholders rather than long-term investors. But just as shareholders can be taxed on profits, they can claim losses against taxable income to reduce the overall tax burden. But they need not actually sell shares to claim a tax deduction.

Arthur Young’s David Clegg says that an individual who “trades” in any commodity is entitled to bring it to account at year-end at the lower of cost or then-realisable market value. “The market value of quoted shares is easy to ascertain. If they are showing a loss at February 28, that loss is effectively deductible for tax purposes.”

Clegg notes that if an individual deals in shares through a company, it cannot write down below cost the value of shares it holds at year-end. However there is nothing stopping it selling those shares on the last day of the tax year and repurchasing them on the first day of the next year.

By adopting this method a loss would be realised, reducing the company’s tax liability. The cost — brokerage and stamp duty — may be outweighed by the tax saving.

Clegg points to another method of saving tax, effectively by deferral, by making use of what has been dubbed the timing of income recognition. Individuals who carry on business in their own names invariably have significant expenses due periodically — for
Surplus sold at loss but now there's a...

Warning of milk shortage, price rise

By Jackie Unwin

The Dairy Board — which disposed of the milk powder surplus at a loss of R37.7 million to its stabilisation fund — faces a possible milk shortage, and warns that this could lead to a price increase.

Yet at the end of last year the board issued an official, circular warning that the surplus of 12,809 tons of skim-milk powder was expected to rise to 32,428 tons by February 1986.

The Dairy Board’s general manager, Mr Edu Roux, told The Star that the surpluses of dairy products had, with the exception of butter, been cleared.

The dairy surplus built up in difficult times when other farming sectors switched to milk production, but now, with good rains, milk production had dropped.

"Milk production has dropped 5 percent for the country as a whole, and in some individual cases by 30 percent."

Mr Roux added that the producer prices of milk would have to be increased if a shortage of dairy products arose.

The Dairy Board had not yet considered any price increase, but, demand and supply would be monitored carefully over the coming months.

Food schemes

He said the surplus stock of skim milk powder at the beginning of the board’s financial year in March 1985 — as well as the surplus produced during the financial year — was 10,500 tons.

Most of it, 11,500 tons, was exported as stockfeed to countries in the Near East at a loss to the board’s stabilisation fund of R18.5 million.

The remaining 8,000 tons of the surplus was channelled into the South African market and allocated.

Bigger loss

The total cost of removing the surplus was R37.7 million, of which R19.2 million was in respect of powder consumed locally, and R18.5 million in respect of exports.

"At the moment, we are exporting between 5,000 and 6,000 tons. It is the last of the older surplus, which is not suitable for human consumption," said Mr Roux.

"Our experience has proved that reducing the price locally creates a bigger loss than exporting."
Inflation soars to new high

Dispatch Correspondent
PRETORIA — Inflation has exploded through the 20 per cent barrier to the highest rate for 50 years, according to the consumer price index released here yesterday by Central Statistical Services.

The index jumped by a record 3.1 per cent during January to a year-on-year figure of 20.7 per cent. For the year to December the figure was 10.4 per cent.

The food index, a major reason for the 20.7 per cent rate, surged by 4.4 per cent in January to a year-on-year level of 19 per cent.

Commodities showed an increase of 23.7 per cent and services an increase of 14.7 per cent.

For the lower income groups the index reflected an increase of 3.8 per cent in December to a year-on-year figure of 18.7 per cent, for middle income group 3.3 per cent and 20.7 per cent, and for the higher income groups 2.8 per cent and 21.3 per cent.

The FPF’s finance spokesman, Mr Harry Schwartz, said it was obvious the government had no control over the price spiral, and that its economic policies were a complete failure.

Despite government promises that inflation would be curbed it had continued to surge.

The current level represented a threat to the stability of the economy and the country. It could be expected to rise further when the rail tariffs hikes, the expected postal tariff increases and other pending administered price rises were taken into account, he said.

He believed that the effects of the battered rand were only now starting to impact on prices and it would take time before the strengthened rand had an effect. The high rate would have a disastrous effect on people living on fixed incomes and on pensioners.

However, Professor David Rees, of the University of Cape Town Graduate School of Business, said the rise in inflation, although unfortunate, did not change general opinion that inflation would fall in 1986.

"This high rate of inflation is imports and is the result of the foreign exchange rate in the past few months. It may ease off quite quickly. I think it will be down in the teens in the next two months."

Bankers said the rand’s rise to 0.4980 yesterday had erased doubts of its ability to weather the outcome of the talks on South Africa’s debt and it should strengthen further with the pressure temporarily off.

They said the rand’s steady rise throughout the week was a vote of confidence which was not likely to be quickly repealed.
Cost of living rises by 20.72% 

By AUDREY D'ANGELO

The cost of living rose by 20.72 percent during the 12 months ending in January, compared with the previous record of 18.45 percent in December, figures released by the Statistics Office show.

The cost of food alone rose by 4.37 percent during January and the all-items index by 3.09 percent.

But economists say the steep rise was due mainly to the rand's weakness. Now that it is strengthening, they expect the inflation rate to start coming down.

Professor David Rees, of the University of Cape Town Graduate School of Business, said: "This rise was a bit higher than most people expected. It does not change general opinion that the inflation rate is expected to fall in 1989."

The consumer-price index figures show that the lower-income group was the hardest hit.

The lower-income group index for January was 3.62 percent higher than in December. The middle-income group index rose by 3.25 percent and the upper-income group index by 2.79 percent.
Inflation rate at its highest for 66 years

By Jackie Uwin and David Braun

The inflation rate shot through the feared 20 percent level in January. It rocketed to 24.7 percent — the highest for 66 years.

Increases were spread across the board, with food rising 44 percent in January against December. This hit poorer people the hardest.

Unemployment is also rising, and many salaries are stagnant, and the inflation rate is double the new 10 percent pay rate for public servants.

In Cape Town, Minister of Finance Mr. Barend du Plessis said there was no need for panic. He said the good news was that the increases in the inflation rate should start leveling off soon.

This would have been because of the "normalization of the rand." And other factors such as rising wages, and other factors such as rising oil prices, have been brought under control, the money supply was under control, interest rates were lower, production volumes were up and the latest transport tariffs increase had been kept well below the inflation rate.

The Progressive Federal Party spokesman for finance, Mr. Barry Schwarz, said the inflation news could be regarded as a disaster not only for consumers, but for the recovery of South Africa's economy. And there were still price increases in the pipeline.

"The Government appears to have surrendered completely in the fight against inflation, and all of us in South Africa are paying the price," he said. "In any other Free World country the government would have felt obliged to resign.

Calls for cut in petrol price

South African economy is up in the air at the increase, and said it was expected. It reflected the depressed value of the rand and the petrol price.

Consumer groups were angry, and demanded an immediate drop in the petrol price.

Black Consumer Association president Mrs. Ellen Koeva said that the government was "inflating" petrol prices. "People are starving and children are dying, but those suffering, don't understand what this inflation figure means.

"But leading economists were hopeful that the ups and downs in the inflation rate would be moderated by higher growth and the cost of living figures.

"The petrol prices should be reduced immediately," said Mr. Paul Roos, chief economist for the Department of Agriculture.

"If they are not, the Government should consider doing away with petrol prices altogether," he added.

Surprise for TV awards

By Janine Walker

At the Tungsten TV Awards ceremony in Johannesburg yesterday, some winners were overcome with emotion — and one had good reason to be elated.

Patrick Sial won an award as "best actor in a single drama" on TV2/TVC for his role in "Jason Moletrill," and was astonished to find that it was not his photo on the presentation plaque. An ABC gromlins resulted in the wrong photo being sent to The Star for the ceremony.

He had the audience crying when he said, "I had the audience crying with laughter at his goaded acceptance.

- Best single drama: TV2; "Grey Skies"
- Best actor in "Jason Moletrill" TV2: Patrick Sial
- Best actress in "Tungsten" TV2: Cheryl Johnson
- Best performance by an actor in a film: TV2: "The Heritage"; "Father and Son"
- Best performance by an actress in a film: TV2: "Tungsten"; "The Heritage";
- Best performance by an actor in a TV series: TV2: "Grey Skies"; "The Heritage"
- Best performance by an actress in a TV series: TV2: "Grey Skies"; "The Heritage".
Expert expects sharp CPI drop

THERE should be a sharp drop in the consumer price index (CPI), when the February figures come out, and the average rate for 1986 will be 16.5-17%, according to Rudolf Gouws, new group economist at Rand Merchant Bank.

All economists have been surprised by the January rate of inflation, which at 20.7% was at least 1% higher than expected, Gouws adds.

He believes that there is little that government can do as there is not much scope for tax cuts, although lower rates of personal tax are possible.

Assocem chief executive Raymond Parsons believes that there is a possibility that the strengthening of the rand will mean a stabilisation, and eventual reduction, of inflation, but it may not be wise to let it strengthen too much, in view of its impact on foreign debt.

"If inflation is not managed," Parsons says, "we could see the next economic upturn last not for three years as before, but for 18 months. The inflationary expectations could lead to wage inflation."

He says the next budget will be crucial, as the right tax cuts could defuse expectations as greater take-home pay would make people feel better off.
Pick'n Pay says it will test petrol order

By Jackie Uawin

The Government has turned down proposals to deregulate the sale of petrol and Pick'n Pay has been told to stop discounting fuel at its Boksburg hypermarket at the end of the month.

But supermarket chain chief, Mr Raymond Ackerman, said last night he would challenge this by three methods, which he could not disclose yet.

"He had had a meeting with the Government yesterday. The meeting followed a symposium last month when the Minister of Mineral and Energy Affairs, Mr Danie Steyn, considered representations for the abolition of retail price maintenance on petrol by Pick'n Pay and other interested parties."

"Now they have turned down our proposal and those of consumer groups - to deregulate petrol in favour of protecting the wealthy oil companies," said Mr Ackerman.

He said with a strengthening rand and the drop in the world oil price from $30 to $15 a barrel, the money flowing to the oil companies was "absolutely laughable".

"I personally am shattered that the Government would make this decision with our inflation rate so high," Mr Ackerman said.
More pension funds regulate increases

By AUDREY D'ANGELO

MOST employers realize how inflation is eroding the value of company pensions and now review them regularly.

The average annual increase granted to pensioners is more than 8.5 percent — but this still lags well behind the current inflation rate of 20.7 percent.

These are among facts emerging from the third biennial survey of South African pension funds carried out by Sanlam.

Another is that there is a shift towards bringing the retirement age for women into line with that of men.

Two years ago, 72 percent of men and 27 percent of women retired at 65. Now, 77 percent of men and 40 percent of women work until 65.

Trend

"The trend towards equal treatment, makes a common retirement age for both sexes more desirable," said Sanlam's general manager, Mr Desmond Smith.

Results of the survey, based on replies from 417 companies and institutions out of 888, who were asked to take part, show that there is little discrimination on grounds of sex or colour.

"About 68 percent of the pension funds analysed allow all employees to become members of the same fund," the report says.

"Of the remaining 32 percent, all but three funds have separate arrangements for those categories of employees excluded from the main fund, usually for practical rather than discriminatory reasons."

Discussing inflation, the report says: "Pension fund sponsors are much more aware these days of the effect inflation has on the income of existing pensioners. No less than 90 percent of the participants review the benefits of their pensioners regularly."

Contributions paid by employers vary widely: from 3.5 percent to 25 percent of the employee's salary.

But the majority — about 70 percent of employers — contribute amounts equal to between seven percent and 15 percent of the salary to the pension fund.

However, Mr Smith points out that little attention is being given to the preservation of benefits or transferability of accrued rights for employees who leave before reaching retirement age.

"This is probably due to the additional cost of such amendments."

"It is, however, an area which will have to receive attention over the next few years."
Car prices to go up — again

Stand by for another round of automotive inflation. As predicted in Star Motoring two weeks ago, Toyota is set to lead off with a 5 percent car price increase on Saturday.

Other car makers are likely to follow suit, except for BMW and Audi whose price adjustments usually lag one month behind other companies.

If this latest rise seems surprising in view of the rand's recent performance against the dollar, part of the answer is that the rand has not improved to the same extent against the important currencies in the South African motor industry — the German Deutschmark and the Japanese yen.

Manufacturers say new vehicle prices still lag well behind the increases in the prices of imported components.
BP hits at Ackerman over ‘oil protectionism’

Petrol giant clamps down on Pick’n Pay

A MAJOR oil company has told Pick’n Pay it will no longer supply the rebel discounter with petrol.

There is also an indication other oil companies might follow suit.

It could not be determined last night which oil company had cut off supplies.

This dramatic move brings to a head a long-running dispute, between Pick’n Pay and the one hand and government and oil companies on the other, in the group’s battle to discount petrol at its filling stations.

It also comes on the day Pick’n Pay defied government and dropped its petrol price by 8c/l and 10c/l, four days before the scheduled date.

Earlier, a spokesman for the Department of Mineral and Energy Affairs (DMEA) said the department was monitoring the situation and was in “the process of determining our best course of action”.

Pick’n Pay executive director Alan Gardiner had told Business Day the Boksburg hypermarket site would continue to discount petrol tomorrow despite a government order to stop at midnight tonight.

This means petrol at Boksburg hypermarket will be sold 12c/l and 14c/l cheaper than other filling stations until they drop their prices on Monday.

Gardiner said if all oil companies refused to supply Pick’n Pay filling stations with petrol he doubted they would still be in business next week.

He said Pick’n Pay would attempt to continue negotiations with the DMEA and the oil companies.

Government told Pick’n Pay earlier this week proposals for deregulating the petrol price had been rejected, as had any form of petrol discounting.

Gardiner said Pick’n Pay filling stations around the country had been jam-packed yesterday and this indicated a consumer demand for cheaper petrol.

In other developments yesterday:

- FPF energy spokesman Brian Goodall said it appeared the oil industry was doing the DMEA’s dirty work for it.

- He added it was time organisations that tried to reduce the cost of items to the consumer were encouraged instead of having obstacles put in their way.

- DMEA director-general Louw Alberts said last night his department did not exert pressure on oil companies.

- He said he did not want to discuss the matter further at present because the department was in the middle of dealing with retail regulations.

- BP Southern Africa has rejected Pick’n Pay chairman Raymond Ackerman’s criticism of government that it was continuing to protect oil companies by not reducing petrol prices further.

BP chairman Ian Sims said petrol prices and oil company margins were controlled by government.

Petrol price controls operated against a slate balancing "over and under recoveries" stemming from fluctuations in international market prices, he said.

Sims said it was puzzling that Ackerman did not seem to understand that the slate was a balancing mechanism, not a source of extra profit for the oil companies that had, until now, actually been funding a slate deficit of substantial proportions.

He said the recent appreciation of the rand against the dollar had brought the slate into equilibrium, and controlled prices had been reduced.

Should the rand continue to appreciate and international oil market prices weaken, further reductions in the prices of products controlled by government — beyond those now announced — would be feasible, Sims added.

"From this it should be quite clear that Ackerman’s allegation is totally unfounded,” Sims said.
CAR prices are going up by another 5%.
Market leader Toyota confirmed yesterday that its prices would go up on Saturday by an average of 5%—except on the latest Cressida model.
Other manufacturers said they would follow Toyota's lead within days.
Saturday's increase is the first of the year. The last increase, 8%, was at the end of December. Further increases, also of about 5%, are expected on quarterly bases.
The latest increase means that in the past 12 months car prices have risen as much as 28%.
Commercial vehicle prices are also expected to rise 6%-7% next week. Manufacturers say prices, especially in the heavy vehicle sector, will increase about 33% this year, with four more phased increases at two-monthly intervals.
Manufacturers say they cannot increase their prices until the market leader moves.
"There is no price-fixing. If there were prices would be even higher. We all need substantial increases but are restricted by what Toyota decides to do," one manufacturer said.
While input costs have soared in the past 18 months, manufacturers say price increases have lagged far behind and they are still trying to close the gap.
They believe the price increases will be balanced by easier hire purchase terms and lower interest rates.
However, the timing of the increase leaves no room for pre-emptive February market. Indications are that the February market will be between 16,000 and 16,500—an up January's disastrous 13,659—but still below the encouraging monthly sales in the last quarter of 1985.
The latest price increases are expected to deal a blow to passenger car sales in March. However, recovery might be stimulated by traditional factors such as the delivery of government vehicles.
MPs urge Govt to cut rail fares and tariffs

Political Staff

PARLIAMENT — The Government has been urged by MPs to reduce rail fares and tariffs in the wake of the cut in fuel prices.

They said in the Assembly yesterday that such a move could help to bring down the country's high inflation rate.

The issue was raised during the debate on the South African Transport Services budget.

Mr John Malemosa (FFP, Port Elizabeth Central) called on the Minister of Transport Affairs, Mr Hendrik Schoeman, to pass on to the consumer the expected saving of at least R100 million in the SATS fuel bill.

He said that besides the “massive” saving to SATS as a result of the fuel price cuts, the organisation would not pay the third party insurance levy on fuel to be introduced soon.

The Minister should give an assurance that the tariff increases announced for March and April would not be implemented.

Mr Malemosa said SATS would be one of the biggest beneficiaries of the fuel price cuts announced by the Minister of Mineral and Energy Affairs, Mr Danie Steyn.

A similar plea came from Dr Piet Welgemeed (NP, Primrose), who called for a review of certain transport tariffs.

He said Mr Steyn's announcement was to be welcomed as it would enable SATS to “break even” and possibly make a profit.

If SATS were to reduce certain tariffs, organised commerce and industry could play a role in seeking a reduction in consumer prices in the private sector.

Earlier, Mr Myburgh Streicher (NP, De Kruif) said SATS had to increase tariffs because of “external factors completely beyond its control.”

He said SATS would like to balance its books without increasing fares, but it was a “victim of inflation.”

Mr W Vaace Raw (NRP, Durban Point) said the SATS budget was “a disaster” which would hit every South African.

It was a repudiation of the Minister's optimism in his budget speech and of the optimism expressed by the Minister of Finance, Mr Barend du Plessis.

The budget had been based on a rand-dollar exchange rate which was 10¢ below the current rate. One of the “ogres” presented in the budget was the high price of fuel, now to be reduced by up to 10¢ a litre.

EXPECTED

Another energy factor in the SATS budget was an expected rise in electricity tariffs, and yet Eskom had announced that its expenses were to be cut by multions of rand.

Moves called for by the NRP in an amendment denouncing to pass the budget included steps to counteract the effects of rail tariffs increases on inflation.

Mr Brian Goodall (FFP, Edenvale), a FFP spokesman on mineral and energy affairs, said the cut in fuel prices would help to contain inflation.

It should, however, be the first of many downward adjustments.

“I query, however, if it is necessary that over 30¢ a litre of the new price will go in taxes, duties and levies of various sorts. They now account for over 40 percent of the petrol price,” Mr Goodall said.

Dr Piet Welgemeed... to break even

Mr Brian Goodall... help contain inflation
Post Office rates likely to increase

PARLIAMENT - Postal, telephone and other post office rates will almost certainly be increased in the Post Office budget on Monday.

The Minister of Communications, Dr Lapa Mamabolo, is to ask Parliament to approve a record R5400 million budget for the Post Office for the coming year.

Because the Post Office is largely self-financing, the increase in its enormous expenditure caused by high inflation is almost certain to lead to an increase in service charges.

According to the Post Office Appropriation Bill tabled in Parliament today, the total expenditure for the Post Office for the year ending March 31 1987 will be just over R5400 million.

Staff expenses will take R1500 million, financing costs R650 million and capital expenditure on telecommunications R1400 million — Political Staff
PARLIAMENT

Govt puts Ekangala incorporation on ice

GOVERNMENT has backed down on its controversial decision to transfer the black township of Ekangala to the KwaNdele homeland on April 1 - all though the move could take place later.

Deputy Minister of Constitutional Development and Planning, Fred Masala, yesterday told the House of Assembly that the incorporation of Ekangala into KwaNdele "in the near future is not under consideration".

This confirms with statements earlier this year by the Commissioner-General for KwaNdele, Jerome van der Merwe, that Ekangala would be transferred to the homeland on April 1 this year.

The proposed transfer of Ekangala into the homeland has been opposed by residents of the township and has been strongly criticized by a number of anti-apartheid groups.

It also led to a row on American television network's ABC's Nightline series on 5A last year, when Black Sash president Gloria Duma clashed with Minister of Development Aid, Dr Geert Vomp, on the issue.

However, Masala said in reply to a question raised by Peter Soal, PFP, Bloemfontein, that "possible incorporation of Ekangala into the homeland has not been finalized".

He said it now seems unlikely incorporation will take place before KwaNdele's scheduled independence in December this year.

Fuel price cut could have been far more

OPPOSITION parties yesterday criticized government for not reducing the petrol price by more than the 6c and 10c a litre.

SPEAKER for the Progressive Federal Party, the Conservative Party and the National Party were unanimous in their criticism but could not come to a conclusion in the same time.

Bruce Goodall, PFP, said: "With the price of oil in dollars down by a third and the rand up by over 40% from its low point, it now seems unlikely incorporation will take place before KwaNdele's scheduled independence in December this year.

Barend stonewalls question about bail for banks

UYS CARACROSS

FINANCE Minister Hendrik du Plessis has refused to disclose whether the Reserve Bank recently had to bail out any commercial banks.

Replying to a question put to him in the House of Assembly by SFP, Bernard Conservative Party MP for Langeberg, Du Plessis said he was not prepared to reveal whether the Reserve Bank recently advanced money or paid certain debts on behalf of any banking institutions in SA.

In accordance with "accepted rules of confidentiality", no details were divulged regarding transactions between the Reserve Bank and individual banks, he said.

However, du Plessis did note in his reply that the Reserve Bank regularly provided financial accommodation to banking institutions to redounding government funds, bankers' acceptance, government stock and other financial assets for them, or by extending loans against the security of such assets.

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Pass on your fuel-price saving. Sats told

Sats to PS Min. Renderal

Sats was challenged to pass on its savings to the consumer the minimum of 60c and 10c. That Sat's Transport Services (Sat's) would save in a year as a result of the price cut was announced earlier yesterday.

John Malcolmson (PFP Port Elizabeth Centre) said the second reading of the Finance Bill was "a challenge to the Minister to reduce rail freight and tariffs now," Malcolmson add.
it would break through the 20% barrier, into the banana republic league.

But late last week the announcement came that the cpi for January, year-on-year, had rocketed through that psychological barrier, to 20.7%. Comparing this to 15.4% for December and 16.9% for November, consumers will be forgiven for panicking, but “take heart,” economists generally believe that most of the weak rand cost pressure has worked through the system.

Says Andre Hamersma, chief economist of Standard Bank: “One suspects the inflation rate will probably remain high for the next two months-three months, then should surely come down. We know the cause — the depreciating rand last year — and, of course, that cause has changed, bearing in mind the rand has appreciated rapidly since the tail-end of last year.”

From its trough around the end of August, it has risen no less than 46.9%.

Rudolf Gouws, group economist for Rand Merchant Bank, believes the cpi will drop in February, “largely for technical reasons,” since it will be compared with that of February 1985, which contained a massive 43% increase in the petrol price.

By the same token, in March it may rise further again, compared to the low March 1985 increase. “After this the cpi should finally come off its peaks.” He says that apart from promising developments with the foreign exchange rate, the relatively modest civil service pay increases and anticipated increases in the private sector ranging from 9%-14% should keep costs down. In time, this will be reflected in more modest price increases.

Gouws firmly rules out any form of wage controls, as suggested by a number of people. He points out that there are already quite enough distortions in the economy that make transmission of market signals difficult. Controlling wages will simply interfere with the basic bargaining tool for labour through the wage mechanism.

Hamersma says that the figure must be seen as the “sins of the past,” and the price we’re paying for the weak rand. “But the benefits will now start to come through. A petrol price cut may be the first response to the stronger rand.”

The moral? If you mismanage an economy and face a rapid currency depreciation, don’t be surprised if you get a massive acceleration in the inflation rate. It has been an expensive lesson: let’s hope it’s been worth it.

Economists are now left hoping that capital outflows associated with the debt repayment programme won’t push the rand back to under US$50c.
INFLATION has severely dented export performance in the past year but there is hope that structural changes have taken place in some export sectors.

An analysis of January's preliminary trade statistics shows that export receipts were 20.33% higher in January than the same month last year, once the nominal effect of the rand's change in external value has been accounted for. However, prices within the economy increased by 20.7% over the same period. The nominally higher export receipts have made no real contribution to the economy.

Increases within certain categories of exports offer some hope that there has been a structural change in the export sector.

Imports seem, as expected, to have been dampened by the rand's value. The jump in January to R2.96 from last January's R2.35, is almost wholly accounted for by 'unclassified' goods, probably oil and arms.

In January last year the average value of the rand was $0.4634. Last month the average value had climbed back to $0.4846 from the depths it had reached in the second half of 1985. However, during this period the dollar shed 25% of its value.

"Unclassified" exports, which include gold, diamond, uranium and arms sales, accounted for 47.8% of exports last month.

Europe is the largest importer of SA goods. America accounted for only 9.4% of total exports.

Together with a large slice of unclassified exports - gold is sold in dollars - this suggests that more than 50% of total exports is denominated in currencies other than dollars.

The fact that most goods are sold in third currencies, and that the dollar has slipped 25% against most of them over the year has helped to cushion the effect of SA's rampant inflation rate on SA prices abroad.

Industries classified under a variety of precision manufactured goods - including TVs, radios, optical equipment, medical equipment - have increased export sales, after the effect of the lower rand/dollar rate is considered, by 159%.

Industries involved with wood have boosted foreign sales by 119%.

Other successes include cement, stone, asbestos and glass, up 148%, animal and vegetable fats, up 122%, vegetable products, up 90%, vehicles, aircraft and their parts, up 22%, prepared foodstuffs, up 84%.
INVESTMENT AND FINANCIAL PLANNING '86

Effect of inflation on housing prices in Port Elizabeth

"THE horrific inflation rate of 20.7% will have an affect on housing prices throughout the Republic and Port Elizabeth.

"However, a decline in inflation can be expected. "But we will be lucky if we can contain inflation within 18%," said Mr R E Munford, Managing Director of the EP Building Society.

"The cost of building new dwellings will increase with the rate of inflation, and this factor alone will push up the general depressed market prices on houses.

"The economy is entering an upward phase with the increase in overall confidence which again will have a positive effect on the price of dwellings," he said.

"The only real negative areas which would effect the price of dwellings is if political reform is not seen to be happening, and if inflation continues at rates of 18%, investment and bond rates must increase adequately to ensure the investor of a real return on his savings.

"Since the Head Office of the EP Building Society came to Port Elizabeth it has been gratifying to note the positive attitude of the Port Elizabeth citizens, and the way in which they are accepting the challenge of today's financial climate.

"With the increased demand for bond finance, building societies will once again have to ensure that valuations are realistic and that prospective home owners are able to afford the type of property that they wish to purchase.

"Building Societies do, therefore, have a real social responsibility to ensure that clients do not over-extrude themselves.

"The EP Building Society is proud that not only does it give 24-hour service, but also carries out its responsibility to its clients," Mr Munford says.

"The black housing market is taking on an ever increasing role, and will, in years to come enjoy greater support from financial institutions when political stability returns and a genuine market is established in these areas.

"We look forward to the day when people in the financial world look at the whole black housing problems on an overall basis for the entire country where the standard of housing enjoyed will depend on income alone."
Newspaper rise might trouble publishers

Sharp increases in the price of newsprint are

likely to hit the economy hard in the coming months. The National Newspaper Publishers Association (NNPA) has called for a meeting with newspaper industry representatives to discuss the issue and potential solutions. Publishers are concerned about the impact on their costs and the sustainability of their operations. The NNPA is urging the government to investigate the high newsprint prices and take necessary action. Meanwhile, some publishers are considering reducing the size of their print editions or increasing their online presence to offset the cost increase.
"Jack and Jill", Mr and Mrs Everyman, have had enough. They are not prepared to accept the latest petrol price rise. Pensioner Mr Jack Huber and a young housewife and mother, Mrs Jill Purkiss (holding baby Daniel) are launching a petition asking the Government to fight inflation and drop the petrol price.

PFP sees anger over 'fictitious' hike

By Jackie Unwin

Mr Brian Goodall, PFP spokesman on energy affairs, says he found the reaction of consumers to the latest fuel price increase to be the most angry since an income tax issue raised public wrath 18 months ago.

He described it as a fictitious transport levy placed on inland motorists to subsidise other services and said it was time the consumer demanded a fair deal — "particularly in this case where there is a complete monopoly".

Mr Goodall said: "Many people were unaware, until now, of the way the petrol price was determined for the Reef and that 6,4c is added to the coastal petrol price for transport costs.

"They didn't know that the pipeline was running at a considerable profit and that the inland motorist was being forced to subsidise other less-making South African transport services.

"Their feeling is: 'Why just pick on the inland motorist?'" 

"People were also unaware the pipeline doesn't pump up much petrol — it is mainly diesel.

"We don't know what percentage of inland petrol comes from the Sasol plants because in terms of the Petroleum Products Act, this information is not fully available.

HIGH PERCENTAGE

"But we believe that a very high percentage of the petrol used inland actually comes from the Sasol plant in the Free State and the Transvaal and transport cost for this fuel would be relatively cheap.

"It is a fictitious levy.

"People see the oil price overseas coming down and are asking why we are paying more for petrol in South Africa."
Surprise overnight increase in fuel price shocks motorists

By Maud Motanyane and Jackie Unwin

The overnight increase in the price of petrol — as much as 4c a litre in some areas — shocked motorists at the pumps this morning.

On the Reef, the cost of premium (93 octane) has risen by 2c a litre, bringing the price to R1,62 a litre.

Other places farther inland, motorists will pay as much as R1,12 a litre for premium — 4c up on the 1985 price.

And this shock may well be followed by another blanket increase next month which could raise the cost of petrol by another 5c a litre.

Consumer organisations fear that poor people and pensioners will be pushed to the brink of starvation when the prices of basic items soar this year.

Retailers said that, although today's increase would not have any further effect on prices, the year would open with massive price rises based on the previous increase and the recently imposed 10 percent import surcharge.

Foodstuffs would go up by as much as 25 percent, they said.

Mrs Hetty Hillier, chairman of the Consumer Union (CIU), said, "As much as we understand the reason for the increase, the question we are asking is whether it is not possible for the Government to find other sources for the money they need for petrol?"

Mr Gordon Hoeff, general manager of Pick 'n Pay supermarkets, said the price of toiletries, soap powders, coffee, tea and other goods would probably rise during the first months of the year. Bread, meat and milk were also expected to increase.

Mrs Bli Perlin, a member of the National Consumer Council, said the problem would spread among all retail businesses if petrol prices were allowed to escalate.

Mr Richard Jacobs, president of the National Empowerment supermarket group, painted a grim picture.

"Consumers have not been the full effect of the rand/dollar exchange and the 10 percent import surcharge. It is frightening what things will be like this year," he said.

"Because of the surcharge, margarine prices have gone up by 10 percent and manufacturers say that prices will increase as a whole of the offer change.

"There is already speculation that the price of petrol will go as much should the Government not subsidize the higher farming costs resulting from fuel rises. Bakers have already asked the Wheat Board for such an increase.

Mr Owen Dunsdale, managing director of Barlow Manufacturing, said 'departmental orders' would be affected because of the number of imported components.

Mr Chriss Balmaison, of Sunbeam Appliances, predicted that the rand/dollar exchange rate would lead to more and more importers considering the establishment of local manufacturing companies.

"Pharmaceutical companies have been hit particularly hard because of the adverse economic conditions and increases in the price of raw materials.

"Bottle stores have tried to keep liquor prices down until after the Christmas and New Year holidays."

But the full impact of prices increases on imported wine and spirits would be felt in the first few months of this year, retailers said.

New Year petrol blow

Motors should have had more warning

By Sue Leeman

Pretoria Bureau

With little time to warn the public about the impending petrol price increase from either the Department of Transport or the Department of Mineral and Energy Affairs spokesmen said today that there had been no agreement by the Minister, Mr Danie Steyn.

The Minister of Transport, who recently announced a 10 percent increase, said at the time, the cost of petrol could be affected, but did not elaborate.

Head of the Motor Industries Federation, Mr Danie van Heyst, said today that the news had made petrol prices increase "insufferable."

However, he said, the consumer should have received more warning about the price hike.

"We were told that the relevant Government departments had been more forthcoming," said Mr van Heyst.

Mr van Heyst also confirmed this morning that the department will be reviewing the petrol price at the end of this month, which the possibility of a further increase.

"I must say that there has been no warning from the Department of Transport," said Mrs Steyn.

"It is not an increase, but a 10 percent increase."

Mr van Heyst said that the price increase was due to the changing currency rates, which became effective from April 1.

Mr van Heyst said that the price increase would be between 10c and 15c.

He also said that the government would be reviewing the petrol price at the end of the month, which would be increased.

Mr van Heyst also said that the government would be reviewing the petrol price at the end of the month, which would be increased.

"It has been decided that the price increase should be between 10c and 15c," said Mr van Heyst.

"This is due to the changing currency rates, which are now effective from April 1."

"It is not an increase, but a 10 percent increase," said Mrs Steyn.
Fuel price rise shocks transport industry
Petrol price rise provokes Govt departmental squabble

By Sue Leeman and David Braun

Two Government departments are at loggerheads over the reasons for the surprise New Year petrol price increase and the confusion it has created.

The Department of Transport says that higher tariffs are not the reason for the increase. The Department of Mineral and Energy Affairs, which fixed the price, said the increase was caused by tariff hikes.

The Department of Mineral and Energy Affairs, which must approve all price increases, has said little during the debate, prompting criticism.

A spokesman confirmed today that there had been no official statement.

However, the department's Director of Energy, Mr. Laurens van der Berg, defended the increase.

Firstly, he said, Sasol was not only producing petrol from coal, but also from crude oil at its Pretoria refinery. There was a component of crude brought from the coast to the Refinery.

It was the department's policy to have one price at all costs which would result in separate prices for petrol from coal and that produced from crude oil.

Mr. van der Berg also added that Sasol was an import-replacement industry (as people buy foreign products) and that there was a price control on petrol. Sasol would be able to increase its prices when the cost of petrol produced from crude oil rose.

Undertaking

Thirdly, he said, Sasol had received the undertaking when it increased prices that the price of Sasol petrol would be the same as that produced from crude oil.

The Minister of Transport, Mr. Hendrik Schoeman, has questioned the increase and denied that the Ministry of Rail tariffs had made it necessary to raise the price by 10 cents a litre. Increased rail costs, he said, should have necessitated a much smaller rise of around 6.5 cents.

Transvaal motorists were the victims of government subsidies and pricing policies, the Progressive Federal Party said today.

Mr. Brian Goodall, the party's spokesman on energy affairs, said that the Transvaal consumer was expected to contribute to the vast profits of the Government-owned pipeline which pumped petrol from the coast. However, Transvaalists were not given any benefit for the vast quantity of Sasol petrol produced in their province.
New calls for fuel price probe

The petrol price increase announced yesterday has brought renewed calls for an urgent investigation into South Africa's fuel pricing structure.

The Automobile Association (AA) and consumer bodies have called on the Department of Mineral and Energy Affairs to hold an open discussion on "all relevant aspects affecting petrol to see where we can help the consumer who is already batting".

On the Reef, the cost of premium (95 octane) increased to R1.02 a litre.

Places in the far Northern Transvaal will now pay R1.06 a litre for premium and as much as R1.10 if they want superboosted 98 octane.

Botswana residents will pay R1.06 for a litre of 97 octane — 4c up on the 1985 price.

"An inflationary increase such as this one has the effect of causing people to cut back on essentials," said Mrs Joy Hurwitz, president of the Housewives' League.

The AA expressed grave concern at the price rise, which has been attributed to increased transport tariffs.

"This latest increase and the resultant confusion to the public once again highlight the need for an urgent investigation into the fuel structure," a spokesman for the AA said.

The Consumer Union has suggested that the Government remove the high tax on petrol and instead add it to, for example, personal tax.

The AA has recommended that a formula be designed which would:

- Provide for the application of appropriate levies.
- Apply any taxes such as GST on the actual cost of production rather than before the addition of levies.
- Clearly identify exemption and subsidies and ensure that these were appropriately funded and clearly accounted for.
- Review the principles applied to wholesale and retail profit margins.

Mrs Hurwitz said the South African consumer had always expected Sasol to assist in times of crisis such as these.

Mr Paul Roos, public relations office for the Consumer Council, said his organisation was concerned about the price increase.

He said it would adversely affect the already high inflation rate and would have a ripple effect on various other products.
Pumps idle as motorists digest shock of increase

By Estelle Trengove

Motorists seemed to be so shocked by yesterday's petrol price increase of 2c a litre that they could not immediately face tanking up again.

Attendants lollent at their petrol pumps as business idled at several Johannesburg garages during the afternoon peak hour.

Apparently the latest rise in fuel prices caught many people unaware. A Mayfair garage owner said he learnt of the increase only when somebody phoned him at noon. So motorists who filled up at his station early yesterday received a 2c/l bonus.

Many of them might, however, not even have realised they were getting some petrol as a present. Like Mr Peter McPherson, they too might not have known of the price rise.

Mr McPherson said he was horrified at the latest increase. "My car is too heavy on petrol already," he said.

Another motorist, Mr David Nicoll, said he had a motorbike and he would be using that more in future.

Mr H A Wallace described the price hike as ridiculous. Shrugging, he added "But what can you do?"

Some motorists seemed sceptical about the reason given for the latest increase, namely that it was unavoidable due to increased rail tariffs. One ascribed it to the poor state of the rand, while another said he suspected the extra money would be used to finance the search for oil off the coast near Mossel Bay.

Asked how motorists had reacted to the new fuel price, one garage owner said: "They're all feeling lousy."
Fuel price in rands 'cheap'

Staff Reporter and The Star Bureau

The rand price of South African petrol still ranks among the cheapest in the world despite the poor exchange rate of the rand against the dollar and major European currencies.

In South Africa the poor exchange rate is the main reason for the recent spate of petrol price increases as all bulk fuel sales transactions are conducted in US dollars. This includes petrol produced locally by Sasol.

In rand terms we have the most expensive petrol in Europe at R1.79 a litre followed by Italy (R1.75), the Netherlands (R1.65), France (R1.60) and Norway (R1.57).

The cheapest petrol in rand terms in Europe is to be found in the socialist state of Yugoslavia where it costs R1.68 a litre.

The prices are for one litre of high grade (four star) petrol and are based on figures supplied by the AA.

• The Department of Mineral and Energy Affairs and the South African Transport Services (SATS) yesterday released the following joint statement to Sapa:

"The recent increase in the fuel price is linked to the following factors:

Transport cost

"(1) The increase in transport cost as determined by SATS and as announced previously on November 26, 1965 by the Minister concerned.

(2) Additional sales tax on the above increase as determined by Treasury.

(3) An up or down adjustment at the pump with a view to the unavoidable temporary rounding off of the price and where such adjustments flow to or from an effective savings fund (slate) which belongs to the consumer.

• There was an urgent need for an inquiry into the latest fuel price increases and the country now needed a Consumer Affairs Minister, the Progressive Federal Party spokesman on consumer affairs, Mr Harry Schwarz, MP for Yeoville, said yesterday.

Broker predicts tax cuts, less fiscal control

The South African economy will be stimulated by tax cuts in March and a further relaxation of Reserve Bank monetary and fiscal controls, forecasts Mr Max Borkum, a leading stockbroker on the Johannesburg Stock Exchange.

Mr Borkum told The Star yesterday he was optimistic and expected the present upward trend in the share market over the past six months — where share prices have spiralled almost twice the inflation rate — to continue.

Although Mr Borkum does not see an easing in the inflationary trend, he predicts a further lowering in the interest rates and a resultant increase in the money supply. The lower dollar and the drop in US interest rates should improve the income for the gold mines and there should be improved prospects for some industrial companies and improved profits generally on the market," he said.

The overall exchange index rose by 33 per cent last year.

• The rand has started 1966 on a firm note and is testing the 49c US mark. The latest rand-dollar rate on the JSE was 39.5c US, the gold price on the London Stock Exchange was $226 and the JSE industrial overall index reached a new high of 1,099.5.

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Battery of price increases coming, says Hirzel

The latest milk price increase is only the first of an array of price increases which will send inflation rocketing, Consumer Union chairman Betty Hirzel has warned.

Hirzel said yesterday that government's efforts to stimulate the economy would spark further price increases and push up inflation beyond the power or control of the consumer.

"The idolatrous increase by milk distributors is just the beginning," she said.

Supermarkets yesterday slated the 6c-a-litre increase passed on by distributors.

"This is just further proof of the pathetic financial state of the country," said Pick n Pay food director Sean Summers.

Milk distributors announced on Saturday that the price of milk in the Transvaal would rise by 6c a litre from today, raising the price of milk delivered by dairies to 83c a litre and the supermarket price to 85c.

Although the suggested price for cafes will be 94c a litre, many have been selling milk at prices well above this since price control was dropped.

Distributors said the latest petrol price increase and the rising cost of imported milk cartons forced them to raise prices.

However, many attribute the 7% price adjustment to dairy zoning and lack of competition between distributors.

Another problem is the hefty overheads incurred from door-to-door deliveries.

"At the moment, supermarkets are subsidising home delivery," said Summers. "To prevent further increases, we will have to look at abolishing this. However, dairies know that if they do so, consumption will drop."
Back to school could mean tears for parents too— in a uniform shop

By Janet Heard and Jackie Uwin

It could well be a tearful first day at school this week—not only for those youngsters taking the giant step to "big" school, but for the parents who have to kit out their youngers.

Stockists report that uniforms, as with everything else, have risen in price by an estimated 10 to 12 percent during the past year and are expected to rise again in mid-January. The next increase is expected to be between 12 and 15 percent.

But they say the mark-up on school uniforms is far less than on other clothing.

BUYING LESS

"Consumers are buying far less than in previous years," reports one stockist.

"Instead of taking three of each item, they are taking one or two.

"But parents realise that their children have to have uniforms and so they are prepared to buy."

He said a survey had been conducted at a German school on whether school uniforms were considered necessary, and 82 percent of parents had said "yes."

All stockists agreed it was virtually impossible to conduct a survey on average school uniform prices as qualities varied so much.

But they pointed out that school clothing had to work hard and had a long life if looked after carefully.

FASHIONS

They felt parents would have to dig even deeper into their pockets if schools were to dispense with uniforms and pupils tried to compete with each other wearing fashions.

One retailer suggested a move be made to persuade the Government to dispense with the 12 percent general sales tax on school uniforms.

The trend toward tracksuits replacing traditional school uniforms in many private and Government schools is continuing. And many schools, particularly primary schools, have dispensed with blazers to cut costs. Tracksuits cost between about R21 and R35, and replace the blazer and dress or trousers.

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Coastal period pricing led the way.
Inflation undercuts increases

Meager rises trim living standards

PRIVATE sector wage increases in the last few months mean the average South African's standard of living will decline again this year.

Increases were from 0% to 12%, with larger corporations paying closer to the top figure. Small firms' payouts varied considerably, but those under severe pressure granted no increases at all.

With the rate of inflation for 1986 expected to be at least 15%, workers will be lowering their standard of living for the second year in a row.

Major industrial and commercial groups claim to understand the needs of employees and do their best to accommodate them.

JOHN TILSTON and STEPHEN CRANSTON

But this is within the constraints of a severely depressed economy.

Among major groups awarding increases was Barlows, which employs a vast number of people. It awarded 16% towards the end of last year.

The Chamber of Mines reports that miners received 11%, staggered over the year.

A large insurance company granted increases of 12%.

Pick 'n Pay awarded staff 13% to 14% last June and a spokesman surmised that increases this year would be about 12%.

Similar increases are being forecast for the current year by employment analysis.

Smaller organisations will mostly pay less.

A building firm in the housing market decided against granting its traditional December increases last month.

The hard-pressed newspaper industry granted journalists about 4% on average in December.

The inflation-battered increases will be further dented by fiscal drag.

As wages increase, so earners are pushed into higher tax brackets.

On a broader front, any growth in the economy as a whole will have to come from the export sector.

There is no chance of a recovery led by consumer-spending.

The latest Reserve Bank bulletin details the poor progress of wage increases. It reports that the recessionary state of the economy was particularly noticeable in the growth of nominal wages.

At a seasonally adjusted annual rate, total remuneration of employees increased by 13.5% in the second half of 1984.

However, the subsequent slowdown in employment growth, higher unemployment rates and lower rates of wage settlement, caused it to rise at a seasonally adjusted annual rate of only 5.5% in the first half of last year and by a meager 3.5% in the third quarter of 1985.

With inflation last year topping 16%, the squeeze has been on consumers.

At the same time, labour productivity, as measured by real gross domestic product (GDP) a worker in the non-agricultural sectors, started to decline in the fourth quarter of 1984.

In the first half of 1985, productivity was 1.9% lower than in the corresponding period of 1984.
By Coleen Ryan

**6c milk price rise**

The chairman of the national dairy council, Mr. J. T. Smith, has warned that the increase in the price of milk will have a knock-on effect on the cost of living.

The increase, which is expected to be 6c per litre, will be effective from Monday, January 2.

Mr. Smith said the increase was necessary to cover the higher cost of production.

The national farmers' association, which represents the dairy farmers, has supported the increase.

According to the association, the increase is necessary to keep up with rising costs.

The association has also announced that it will be increasing the price of butter by 6c per kilogram and the price of cheese by 5c per kilogram.

The price of powdered milk will remain the same.

The increase in the price of milk will also affect the price of other dairy products, such as yoghurt and ice cream.

The government has welcomed the increase, saying it will help to support the dairy industry.

However, some consumers have expressed concern about the increase, saying it will put an increased strain on their budgets.

The dairy council has assured consumers that the increase is necessary to sustain the industry and provide a fair profit for dairy farmers.
Bread is in line for a price rise

DEALER bread is likely to follow the milk price rise announced at the weekend.

Fuel price increases will effect the cost of bread and its price will have to be increased because no provision has been made for higher petrol and diesel costs in this already-stretched bread subsidy.

The entire cost structure of the milling and baking industries will be affected by the petrol price increase, according to industry sources.

In November petrol increased by 30c/l and last week by 2c for 93 octane on the Reef. Rail tariffs also increased by 15c from January 1.

"Since it is a controlled industry, government has no option but to compensate for increases in input costs," says Wheat Board GM Dennis van Aarde. "It is very unlikely that government will not increase the subsidy out of its own funds."

Pressure for an increase in the producer price of fresh milk is growing, say Pretoria sources.

LINDA ENSOR and GERALD REILLY

A demand by the dairy committee of the SA Agricultural Union in October was rejected by the Dairy Board because of the big skim milk powder surplus.

A new demand is expected before the middle of the year.

This will not be the only bread price increase this year; the Davin Commission recommended to Minister of Agriculture Greyling Wentzel last year the bread subsidy should be phased out altogether.

First indication of whether the minister has accepted the recommendation will be in Finance Minister Du Plessis' Budget speech in March.

The 1984 budget, which made R200m available for the bread subsidy, will be cut by an estimated R63m.

It provided for one-price increase of 5c, introduced on July 1.

Increased input costs made a further 5c increase (representing R63m of the subsidy) necessary and at the beginning of October producers, and the milling and baking industries each contributed R6m to increase the subsidy fund.

In addition the Wheat Board paid in a further R16m out of its reserve fund.

At the end of October, despite this additional R63m in the fund, there was still an estimated shortfall of R20m and no account had been taken of petrol price increases.

Another aggravating factor is the anticipated 300 000-ton shortfall in the 10½/6½ wheat crop which will necessitate importing wheat at a cost, at current exchange rates, of about R129m.

Fresh milk producers were last granted an increase in July of 35c/l.

Towards the end of last year Wentzel authorised an industrial milk price rise.

"At the same time he imposed an additional levy of 6½c/l on both, fresh and industrial milk farmers.

This effectively reduced the July price hike to fresh milk producers to 3c/l.

Yesterday the chairman of the SAAU's dairy committee, Dr Vos Greyling, said, since July production costs had increased by between 15% and 18%.

The justification for a price hike was therefore clear.

On this week's announcement by distributors that they were raising their prices from 77c/l to 85c/l, Greyling said the distributors justified the increase on grounds of imported inflation and fuel price hikes.

"Imported inflation and higher fuel prices are also cutting into the shrinking profitability of milk producers."
Gap between pay and prices widens

There is an ever-increasing gap between the consumer price index and pay, according to Ces Deuglemans, Barclays Bank chief economist. He said: "If we read the Reserve Bank graph that goes up to mid-1985, we can extrapolate that the decline since late 1984 has not been reversed but has continued.

"It is now uncomfortably large and inflation seems to be carrying its own momentum."

A Standard Bank economist said that gross domestic product was unlikely to keep pace with the population growth, while there would be increasing demand for social and infrastructural services.

The extent to which different groups would suffer, he said, depended on the political situation. "If there was a right-wing backlash, then the whites would be protected.

"On the other hand, if we continued to muddle through, unorganised blacks would benefit, as would skilled whites, while there would be severe unemployment among unskilled whites and unorganised blacks.

"If the brain drain continued, good managers might receive greater remuneration because of their scarcity value, but it would have to be much more severe."
Petition fuelled by petrol price rise

By Jackie Unwin

A pensioner and a young housewife who are fuming about the latest petrol price increase say "We've had enough."

They are to petition the Government to drop the price of petrol and are calling for other consumers to join their protest.

Mr Jack Huber (66) of Benoni and Parkhurst mother Mrs Jill Purruss — "just call us Jack and Jill" — are drawing up the petition and Mr Huber says he is prepared to go to jail over the issue.

"I am damned angry if a person like Mr Hendrik Schoeman, Minister of Transport Affairs, says he doesn't know why the petrol price has gone up as much as it has, who does?" Mr Huber said.

"The Department of Mineral and Energy Affairs cannot explain why the price of fuel is going up at an alarming rate now the rand is getting stronger and there is a glut of fuel."

"I understand a very large percentage of fuel comes from Sasol. So why must the Reef motorists get clobbered?"

"I am a poor pensioner. If they want to put me in jail they can. The farmers had a big enough protest — maybe motorists should get together and have a protest meeting."

Mrs Purruss said "We normally all just sit back and accept things, but I am absolutely furious I am starting a petition and will send it to the Ministers of Mineral and Energy Affairs and Transport."

"The Government should help us stop inflation. If it is making a profit from its pipelines — as I understand it is — it should decrease the price of petrol."

"The petrol price affects everybody in this country. It has a ripple effect on the prices of all products such as bread and milk, which especially affects the poor."

Mrs Purruss is asking anybody interested in the petition to contact her at (011) 447-2766. Mr Huber's phone number is 849-5971.

The petition reads "We, the undersigned, object in the strongest terms possible to the fact that Reef motorists have to pay more for their petrol because of transport costs when the oil pipeline generates a massive profit. The Government should help to combat inflation by using these profits to reduce the cost of petrol to inland motorists."

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Picture on Page 3
Barclays Bank predicts higher inflation rate

JOHANNESBURG. — The real income loss of the recent past will be remembered by labour as something that will need to be recouped in a future recovery, says Barclays Bank in its latest Business Brief, released yesterday.

In the two years, 1985 and 1986, that the Consumer Price Index will probably average 16 percent, non-agricultural remuneration may increase only at an average of 10 percent. The "recoupment" which labour would seek, when taking place from an already historically high inflation rate, could only imply a further rate-etching up of wage demands and CPI inflation in the recovery period ahead, strengthening the argument in favour of a voluntary and therefore reasonably flexible incomes policy.

Inheritance

"Similar to the inflation inheritance has been the realisation of the foreign debt burden in rand terms. This debt will have to be serviced and amortised by a gross domestic product that has essentially stagnated in real rand terms since 1980, even while the debt has increased nearly three-fold in real rand terms since then." The interest burden associated with this debt has also increased exponentially to some $2 billion or nearly R5 billion in 1985," says Barclays.

There could be no possible defence for the mix of macro-economic policy that has been responsible for injecting such profound instability into the South African economy in the past four years.

To claim that all of these results were un-capable due to external or natural reversals was a fallacy. The entire adjustment period has been far too prolonged by relying on incorrect policy measures.

Weaknesses

"Even at this late stage it does not appear as if a beginning has been made with correcting those structural weaknesses that continue to keep the economy highly exposed to a deteriorating external environment.

The debt standstill of September 1985 finally lowered the curtain on what could have been a range of "normal" economic options for the post-adjustment period.

Most destabilising was probably the un-restrained rise in real government consumption spending, which contributed greatly to the excess demand condition throughout this period.

"This sustained inflationary conditions, which in turn reinforced the consumer's rational defence of acquiring real assets as fast as possible, irrespective of the financial exposure that was so being incurred.

Stabilization

The absence of stabilization policy was greatly worsened by the decision to freeze the foreign exchange market in the manner in which it was done.

"The consequent increase in the amortisation burden of the foreign debt has been an unnecessary penalty on South African society.

"The impact of import inflation has also been unduly harsh, while the related distortion of sectoral performance has similarly been overdone without achieving permanent benefits," says Barclays. 

Sapa
Outlook grim as production costs soar

Mercury Correspondent

PRETORIA—Hopes of even a moderate decline in the rate of inflation this year were dashed yesterday by the release of the November production price index, which increased by a year-on-year 20.4 percent.

This has effectively guaranteed that price increases to be faced by consumers, as measured by the Consumer Price Index, will jump to more than 20 percent later this year.

The All-Commodities Index, incorporating both imported and domestic goods and services, rose by a year-on-year figure of 20.4 percent, with an increase in November over October of 4.2 percent.

On a yearly basis, the monthly increase represents a staggering rate of inflation of 64 percent.

If such a rate were sustained, South Africa's economy would rapidly slide into hyper-inflation.

'More shocks'

The decline in the external value of the rand and the import surcharge have badly affected the rate of price increases, but even the year-on-year figure for locally-produced commodities rose by 18.1 percent, with a 2.8 percent jump during November.

Imported commodities increased by 28.5 percent November-on-November, and by a huge 8.8 percent (which annualises to well over 100 percent) in November.

Volkskas economist Adam Jacobs said the 8.8 percent rise was due mainly to the first effects of the 10 percent import surcharge.

'The index indicates there will be many more shocks for consumers in the months ahead.'
Suicide syndrome marks the hard times

By Colleen Ryan and Glenda Spiro

Economic hardship and political instability are fuelling family violence, suicide and aggression, among all South Africans. Counselling services are hard pressed to meet the demand for help and at least one group, Suicides Anonymous, is planning to expand its operations because of the situation.

A spokesman for Radio 702's Helpline said the number of distress calls was steadily increasing.

"Two years ago we were receiving 800 calls a month and now we are receiving at least 1,400 a month on average," he said.

At least 150 white South Africans have died in family killings in the past three years. Socio-political problems are also responsible for a big increase in crime and aggression in the black community.

The emergency counselling service, Life Line, has noted an escalation in threats of family violence in both Transvaal and the East Rand area.

The clinical director of Life Line for the southern Transvaal, Mr. Santie Pretorius, said there was a growing number of people with economic problems calling for help.

She said breadwinners who tended to suppress emotional problems often reached breaking point when they lost their jobs and some threatened suicide or family killings.

Ms. Pretorius said one positive development was that after counselling, some families were now working together to overcome their material difficulties.

"Mrs. Femke Snyman, director of Life Line on the East Rand, said there had been a marked increase in the number of desperate callers.

Soweto social worker Mrs. Ellen Khuzwayo said problems of depression and poverty had become a way of life for many blacks. Most people did not consider seeking help and suppressed their anxieties.

"Many people suppress their emotions and finally become very angry. In some cases the problem is manifested in crime or other forms of aggression."

Mrs. Khuzwayo said the increasing number of family break-ups and the abandonment of old-age pensioners by their families was also a symptom of the political and economic pressures.

Suicides Anonymous is planning to expand its operations to all major cities in the country.

Mr. Sam Bloomberg, founder of Suicides Anonymous, said the number of suicide threats was growing.

He said that black people were joining the suicidal pattern.

Meanwhile, the centre, which is funded by Mr. Bloomberg personally, has plans for expansion and hopes to hire counsellors.
Cost of living: up, up and away

ARAMANT price hikes are widely expected to turn 1988 into one of the worst years people have known. (See graph)

Not all economists agree, however, that inflation is set to top 20% despite the massive increase in November's production price index.

Old Mutual economist Rob Lee agrees that (annualised) inflation will exceed 17% for the next few months, as the effect of the weak rand continues to filter through the economy, but says it will settle at 16% to 17%.

This assumes the external value of the rand will average US$0.40, he adds.

Hard-pressed consumers can draw some solace from this forecast but, as the figures show, increases in a wide range of goods and services have already eroded spending power.

Lee says it should also be borne in mind that measuring inflation is an exercise in statistics.

The CPI increases recorded in the first half of 1985 will not be as substantial during the same period in 1986.

GST is not expected to feature in this year's Budget and, although higher electricity tariffs will fuel inflation, increases in the petrol price are not expected to emulate last year's 45% leap.

The economy is showing signs of turning but the initial pick-up in domestic demand will be slow and the price increases that normally accompany a healthier economy, will probably be sluggish, Lee says.

Consumers have good reason to remain cynical, however, as the price of essential items continues to soar (see graph).

New consumer resistance to higher prices could help the progress of runaway inflation hit a lull.

Consumer bodies have strongly moti-
SA torture scene described in UK

The Star Bureau
LONDON — South Africa and Namibia have been listed with countries such as El Salvador, Haiti, and Libya as places where prisoners are tortured during interrogation.

The claim came in a grungy four-long documentary on Thames Television yesterday, a programme described by one reviewer as coming “danglessly close to being a video nasty.”

The programme consisted mainly of interviews with torture victims from around the world. It also contained an interview with an El Salvadoran Treasury policeman.

After calmly describing techniques such as removal of one eye with a pencil followed by a threat to the second, and the removal of genitals, teeth and fingers, the policeman was asked what effect his work had had on him.

ELECTRODES

It had put him off eating meat, he said.

A black South African described how he was forced into a crouched position with electrodes attached to metal handcuffs and leg-ropes. Electrodes were also attached to his head, and a damp towel was wrapped round it. He was then given electric shocks.

A human rights expert said he believed the reason torture had increased in so many countries in the 20th century was many of those who assumed authority had strong inner doubts about their own legitimacy.

Growing support for ‘Jack and Jill’ petition

By Jackie Unwin

Consumers are so incensed about rampant inflation and the cost of petrol that over 1,000 people have now asked for copies of the petition calling for a decrease in the price of petrol.

The “Jack and Jill” pair who started the petition — pensioner Mr. Jack Huber and 24-year-old housewife Mrs. Jill Purkiss — spent all weekend writing and typing out envelopes.

Mr. Huber said there were now 1,000 copies of the petition in the post. “If each copy generates just 50 more copies containing 20 signatures we will have up to a million votes of support in no time,” Mr. Huber said.

The success of the campaign is now in the hands of those who contacted us with such enthusiasm,” Mr. Huber said.

The petition has the support of consumer organisations.

Mr. Robbn Scholitz, controller road traffic affairs of the Automobile Association, commented: “The more people who make their feelings known to the Government the better.”

“We as a unit are looking after the interests of our 650,000 members and have submitted strong representations and recommendations to the Government.”

Mrs. Purkiss said many of her friends had helped her type envelopes over the weekend.

She has also distributed copies to cafes in the area — “and they report that customers are eager to sign.”

‘PRICE FREEZE’

In response to criticism by a Johannesburg man that the petition was a waste of time and should call for a price freeze, she replied: “Thank you for taking so much interest Please waste two minutes to sign a form. “This is just the beginning.”

About 75 percent of the callers don’t want us to stop after the petrol petition,”

The petition reads: “We, the undersigned, object in the strongest terms possible to continual increases in the fuel price. The Government should help to combat inflation by using the massive profits of the oil pipelines to reduce the cost of petrol.”

Anybody who would like to help with the petition should phone Mrs. Purkiss at (011) 447 2765 or Mr. Huber at 849 5371.
Wine price set to rise by 13 pc

PAARL — Wine prices are expected to increase by at least 13.6 percent this year.

A statement issued by KKV yesterday announced an increase of 13.6 percent in the minimum price to be paid by wholesalers to wine farmers during 1986.

"This is for both good and distilling wine," the statement said.

The minimum price for good wine is now R46.36 a hectolitre. Last year's price was R42.48. This represents an increase of 4.3c a 750 ml bottle.

About 50.5 percent of the total wine harvest can be sold on the South African market as good wine, the statement said.

The minimum price of flavoured wine remains unchanged.

The minimum price for distilling wine is now R31.54 a hectolitre compared to R27.50 last year.

This is an increase of 3.7c a litre.

BRANDY

Thirty percent of the total crop will be required for the production of brandy and other distilled products for the South African market.

The surplus has been estimated at 19.4 percent of the total vintage and is earmarked for the export market.

The wine farmers' share in the final price of his product remains small, the statement said.

"In view of this sacrifice it is hoped that the wholesalers and retailers will also adjust their prices in a moderate manner.

"This year's wine crop surplus will be sold on the highly competitive overseas commodity market as the KKV had succeeded in doing in the past few years," the statement said.
Surcharge on books slated

Municipal Reporter

The 10 percent import surcharge on printed works could price many books out of the reach of Johannesburg readers.

This is the opinion of the Johannesburg City Council’s Library Consultative Committee, which maintains that the exemption from the surcharge granted to State and provincial institutions should be extended to local authorities.

Combined with the unfavorable exchange rate, the surcharge placed a heavy burden on libraries, which would seriously affect the city’s cultural and educational amenities, said the committee.

Only books valued at less than R20 and received by post were exempt from the surcharge.

Private sector pay increases lag 5pc behind inflation

Pretoria Bureau

Most private sector pay increases in 1986 are expected to continue to lag about five points behind the inflation rate, a management consultants' study has found.

It found that for the year from July 1984 to July 1985, average overall increases were 10.8 percent. The inflation rate for that time was 16.4 percent.

Blacks got the largest percentage increases, 12.3 percent, followed by Asians (10.7 percent) and whites (9.9 percent).

The highest increases among whites was in the data processing field, where pay rises averaged 13.2 percent. The highest rise for blacks was in the clerical and secretarial sector (13.3 percent), for Asians and coloureds in administration, 12 and 12.9 percent respectively.

Among all population groups, the lowest wage hikes were in the manufacturing sectors which saw an increase of 8.3 percent for whites, 9.4 percent for blacks, 8 percent for coloureds and 7.5 percent for Asians.

The latest Reserve Bank bulletin says the total remuneration of employees increased by 13.5 percent in the last six months of 1984. But as the economy continued on its downward slump, salaries only showed an increase of 8.5 percent in the first half of last year and 3.5 percent for the third quarter of 1985.
Too little cash in kitty and...

Inflation will erode buying power of R450m roads fund

THE Department of Transport is preparing its 1986/87 road-building and maintenance programme, but there is too little cash in the National Road Fund (NRF), says director of planning Ed Petzer.

NRF income increased twice last year. The increased fuel levy gained at 5c/l in January and a further 2c/l was added in July.

"With these, we were able to budget for about R420m for the present programme, and we will have spent about that by the end of our year in March," Petzer says.

"We shall be budgeting on about R450m for 1986/87. This is an increased income of just over 7%. But allowing for the inflation rate, we actually lose in purchasing power."

John Hodgson, chairman and CE of Group Five and D&H, is disturbed at this continuing loss in road-building and maintenance funds.

"With the best will in the world and despite the highest level of competence, nothing can be done for our roads without adequate finance. And the funding has been steadily eroded in recent years," he says.

"Expressed in 1975 terms, funds declined by 18% for 1984, as against 1979. At no time in between were the 1979 figures exceeded or even matched. In 1983, for example, the figure fell by 25%.

The situation is partly remedied by the proposed introduction of private toll roads. The planned programme is estimated to cost about R2bn which, Petzer says "takes some of the weight off the shoulders of the NRF".

Hodgson, whose Group Five is a member of one of the two private toll road consortiums, agrees.

"If the private sector is to own and operate sections of the national road system, and provide the full financial requirements, this will be incremental to all the work financed by government."

"As a result, government funding will go much further, being committed to overhauling the backlog."

ALAN PEAT
Newsprint cost to rise 16.5%.

NEWSPRINT prices for the first half of the year are to rise by up to 16.5%.

Newspaper Press Union members have received notification that ex-mill prices have increased by 14.25% (Mondi) and 16.5% (Sappi).

Industry sources estimate the effective price for NPU members will be about R1 060 a ton, an increase of 17.7%.

Sappi’s ex-mill price is up from R788 a ton to R918 and Mondi’s from R877 to R1 002. The ex-mill price for higher quality off-set newsprint will be R1 094.72 a ton.

The last price increase — in the second half of 1985 — was 1%. January to June last year saw an effective increase of 14.96%.
Inflation warning

CHRIS CAIRNCROSS

The possibility of SA becoming trapped in an inflation/depreciation spiral has become a real threat that cannot be ignored by authorities, warns Old Mutual chief economist Rob Lee.

In the OM's latest Economic Monitor, Lee says it is worrying that the new upswing is starting from such a high inflationary level.

Previous warnings that the real challenge confronting authorities is to prevent inflation moving higher — to about 20% — have been reinforced by recent events and policy directions.

Lee notes factors that have recently led to a worsening in inflation expectations include the continued weakness of the rand — the current improvement is seen as a short-term aberration — big electricity and transport tariff increases and petrol price increases.

In addition, the economy seems to be close to the bottom of the inventory cycle and restocking, of which a substantial portion is imported, will have to occur at much higher prices.

Lee believes that although the further drastic fall in the value of the rand during the second half of 1985 might well have been caused by non-economic factors, the inflationary impact is the same as if they were economic.

"The recent moderate growth in the money supply was one of the favourable trends providing some justification for the reductions in short-term interest rates, given the always pressing need for this economy to generate additional jobs.

"However, there are some grounds for arguing that the pace of decline in interest rates has been too rapid," says Lee.
CPI spiral will hit consumer

GERALD REILLY

THE inflation rate as measured by the Consumer Price Index (CPI) spiralled to a year-on-year peak of 18.4% in December, according to figures released in Pretoria yesterday by Central Statistical Services.

Sharp rises in food and fuel prices pushed the CPI to its highest level since the 1970s.

The December CPI is 1.5% up on the November-on-November increase of 16.6%. It rose by 2% (annuallyised increase of 24%) with a sharp surge in the food-only index of 3.5% (annuallyised 4%).

Meat prices rose sharply by 6% in December, fruit by 5.4% and vegetables by 5.2%. During December, too, the running costs of vehicles increased by 4.7% (annuallyised 56.4%), mainly because of the November increase in the fuel price.

Economists warned that the country was on its way to 20% inflation unless drastic measures were made by government.

During December the rate for lower

Soaring inflation hits consumers

Income groups rose by 3.3% to a year-on-year 16.3%, that for middle income groups by 2.2% to 18.8%, and the higher income group by 1.8% to 18.5%.

Volkskas economist Adam Jacobs said the increase would have a shock impact on consumers. It would also be a further blow to confidence in the economy.

He said there was a danger that inflationary expectations would become entrenched feature of the economy and consumers would spend today in the belief that prices of goods and services would continue to rise and the purchasing power of their money would continue to shrink.

"Inflation feeds on itself and to control it is becoming more difficult by the day."

Like other economists, he warned of new inflationary pressures just ahead.

These include the threat of further tariff increases in the Sats budget on February 13; higher postal tariffs from April; the probability of two bread price hikes before mid-year; and a maize price rise from the start of the new season in May.

Moves by government to stimulate the economy could add to the pressures.

United Building Society economist Hans Falkena forecast an easing of the CPI in the next two quarters, for purely technical reasons, followed by an acceleration in the last two quarters.

The position would be greatly aggravated if the government failed to keep a tight rein on administered prices and on the money supply, he added.
Inflation hits record 18.4 pc

PRETORIA — The inflation rate, as measured by the Consumer Price Index (CPI), spiralled to a year-on-year peak of 18.4 per cent in December, according to figures released here yesterday by Central Statistical Services.

Sharp rises in food and fuel prices pushed the CPI to its highest level since the 1960s.

The December CPI is 1.5 per cent up on the November-on-November increase of 16.9 per cent. It rose by 2 per cent (an annualised increase of 24 per cent) with a sharp surge in the food only index of 3.5 per cent (annualised 42 per cent).

Meat prices rose sharply by 6 per cent in December fruit by 5.4 per cent and vegetables by 5.2 per cent. During December the running costs of vehicles increased by 4.7 pc, rent (annualised 36.4 per cent), mainly because of the November increase in the fuel price.

Economists warned the country was on its way to 20-plus inflation unless drastic moves were made by government.

During December the lower income group's rate rose by 2.2 per cent to a year-on-year 16.3 per cent, middle income group by 2.2 per cent to 18.8 per cent and upper income group by 1.5 per cent to 18.8 per cent.

Volkswagen economist Adam Jacobs said the increase would have a shock impact on consumers. It would also be a further blow to confidence in the economy and there was a danger that inflationary expectations would become an entrenched feature of the economy.

Consumers were afraid today that the prices of goods and services would continue to rise and the purchasing power of their money would continue to shrink.

"Inflation feeds on itself and to control it is becoming more difficult by the day."

Like other economists he warned of new inflationary pressures ahead.

These included the threat of further tariff increases in the State budget on February 19, higher postal tariffs from April, the probability of a bread price hike before mid-year and a maize price rise from the start of the new season in May.

The moves made by the government to stimulate the economy could add to the pressures.

- Sapa-Reuters reports that the US dollar fell against all major currencies except the British pound and the Canadian dollar in European trading yesterday. Oil prices rose.

In Johannesburg, the rand traded at 44.2 US cents, up from 43.8 on Monday.

Gold prices were up in nervous trading. Dealers in Zurich, Europe's biggest market, said there had been some fairly heavy professional buying of the precious metal.

In New York, the Wall Street stock market fell sharply with oil and bank shares leading the retreat.

Traders said investors were worried about the rapid drop in crude oil prices, which would cause problems for the international financial system.

An hour before the close of trading, the Dow Jones average of leading industrial shares was down nearly 20 points at about 1,510.

Gold futures prices continued falling.

On the spot (immediate delivery) market, US oil, which brought $32 dollars a barrel in November, fell 70 cents to $21.30.

In London, Brent North Sea crude oil to be loaded in April, which had fallen to a six-year low of $19.20 on Monday, was up slightly at $19.30, but still below the psychologically important $20 level.

Sterling, which is heavily dependent on the price of North Sea oil, fell to a record low against the West German mark on European currency markets yesterday, and the Prime Minister, Mrs Margaret Thatcher, hinted that a rise in interest rates might be on the way.
The 18.45 percent annual inflation rate in December caught economists on the hop and had them revising estimates for 1986. The food index alone rose virtually seven points on November (3.5 percent) giving rise to fears that the cost of eating could increase 41.5 percent in 1986 if the trend continued.

Food prices rose an annualized 16.68 percent in December. The index increased from 108.8 in November to 105.7 in December. Central Statistical Services figures put the index for lower income earners at 201.6, or 16.33 percent higher than last December. Corresponding figures for the middle and upper income groups were respectively 209.3 (18.79 percent) and 206.0 (18.92 percent).
CPI at highest level since 1920s

Soaring inflation hits consumers

JOHANNESBURG — The inflation rate as measured by the Consumer Price Index (CPI) spiralled to a year-on-year peak of 16.4 percent in December, according to figures released in Pretoria yesterday by the Central Statistical Services.

Sharp rises in food and fuel prices pushed the CPI to its highest level since the 1920s. The December CPI is 1.5 percent up on the November-on-November increase of 16.9 percent.

Food rose by 2 percent (an annualized increase of 24 percent) with a sharp surge in the food-only index of 3.5 percent (annualized 4.5 percent).

Meat prices rose sharply by six percent in December, fruit by 5.4 percent and vegetables by 5.2 percent.

In December, too, the running costs of vehicles increased by 4.7 percent (annualized 5.6 percent), mainly because of the November increase in the fuel price.

Economists warned that inflation was on its way above 20 percent, unless drastic moves were made by government.

In December the rate for lower income groups rose by 2.2 percent to a year-on-year 15.3 percent, that for middle income groups by 2.2 percent to 13.8 percent, and the higher income group by 1.8 percent to 10.9 percent.

Volkskas' economist, Mr Adam Jacobs, said the increase would have a shock impact on consumers. It would also be a further blow to confidence in the economy.

He said there was a danger that inflationary expectations would become entrenched further, with a sharpening of the economy and consumers would spend today in the belief that prices of goods and services would continue to rise and the purchasing power of their money greatly aggravated if the government failed to act on administered prices and on the money supply, he added.

The chief economist for the Old Mutual insurance group, Mr Rob Lee, said the December CPI was pushed up partly by seasonal price rises, but the main increase was due to domestically-produced meat and vegetables.

South African agriculture has been hit by drought.

"We were expecting the rate to go up quite significantly, but not that much," Mr Lee said.

"It is pretty disturbing." He and other economists said the rate was ominously high for an economy which is just beginning to bottom out of recession and should be headed for recovery in coming months.

"The higher the level of inflation, the recovery starts from," Mr Lee said.

The threat is that the rate may rise once the economy gets going, and therefore the more sustainable that recovery is going to be," Mr Lee said.

He predicted that such a recovery would last 18 months at most, compared with three to four years in previous cycles.

Previous recoveries were sustained by foreign borrowing when the current account of payments ran into deficit, Mr Lee said.

"This time we won't be able to do that," he said.

Unless otherwise stated, all financial news in this issue was compiled by Paul Gold and sub-edited by Godfrey Heynes.
The "real" exchange rate and forecasting inflation and

JOSEPH
Consumers angered by high cost of living

Petrol decision could be crucial

By Jackie Unwin

Consumer bodies, angry and alarmed at the runaway inflation rate announced yesterday — at 18.4 percent, the worst in 66 years — are appealing to the Government to help the man in the street.

The Government's decision on an increase in the price of petrol in February could have a crucial effect on whether the inflation rate will drop or go even higher.

The Government is coming under mounting pressure to decrease rather than increase the petrol price.

President of the Housewives' League, Mrs Joy Hurwitz, said: "We are expecting the price of petrol to drop now the rand is in a better position."

"Tax on petrol is about 20 percent of the price. We feel it is unfair to tax us on such an important commodity when it costs so much."

The league plans to ask the Government to remove the 12 percent GST from all food.

Mrs Hurwitz said she planned to arrange a meeting with the Minister of Agriculture to discuss:

- The increase in the price of milk;
- Statements that meat prices will remain high;
- The maize price rise which is in the offing;
- A possible increase in the price of bread related to petrol costs.

Mismanagement

"It has been a crisis situation for a number of years and yet our inflation rate continues to escalate," said Mrs Hurwitz.

PF, MP Mr Brian Goodall said: "We now begin to pay the price for political and economic mismanagement."

"The Government has not taken its exhortations to the public about inflation seriously and has allowed administered prices to rise at very rapid rates.

"We are beginning to find ourselves in a vicious inflationary cycle. If our inflation rate is 18 percent while that of our major trading partners is between 2 and 4 percent, the rand will depreciate even further in value in the long term."

"This makes the cost of imported goods more expensive, which, in turn, leads to even higher inflation in South Africa."

"I think it is vital the petrol price does not rise. The Government should use the massive surplus on the pipeline to help contain the petrol price."

"Unless the Government sets an example by restricting its own expenditure we will end up with a considerably lower standard of living than we enjoy now," he said."
Inflation will dip soon — Barend

By David Braun, Political Correspondent

CAPE TOWN — South Africa can look forward to a downward trend in the inflation rate within a few months, says Minister of Finance Mr. Barend du Plessis.

And there is good news for those who live on fixed incomes and investments. Mr. du Plessis has indicated that there could be further tax relief on individual savings and investments during the year.

Dismissing talk of hyper-inflation as unfounded, he said in an interview yesterday that he expected the effects of the rand's depreciation — a major contributor to the current inflation rate of 18.4% — to peter out soon.

"Since one cannot say that all the forces which have contributed to the present inflation rate have peaked, it may still move marginally higher, but then, after a few months, one may expect a downward trend," he said.

He added that the challenge to the Government in managing the economy was to make sure that demand did not increase so rapidly that it outstripped supply, or that people did not enter too many credit transactions.

Both of these could contribute to demand-led inflation.

He dismissed the possibility of a price and wage freeze, on the basis that it had never proved to be successful in combating inflation over a period.

"It merely bottles inflationary pressures that sometime or another have to be released."

Referring to savings, he said that last year he had indicated that he favoured greater tax advantages for those who saved, by allowing tax-free interest.

Last year this concession had been very modest, and although expensive in terms of lost revenue, had certainly been worthwhile.

"We would like, if at all possible, to pursue this line further."

There's a lot of scope for comet watchers

Helley-Mann has hit hard here and is rigging up their own telescope when it becomes clear. Star-gazer, Mr. Ian Tripney of Rondebosch, has his home-made telescope in his sconce himself as "strictly on aim in astronomy for some time a telescope for the past five years."
Inflation will keep SA interest rates high

By Dave Canning

DURBAN — The latest inflation increase will tend to keep interest rates relatively high, with costly implications for house owners with mortgage bonds and consumers. It will also hurt pensioners and people on fixed incomes.

Inflation of 20.7 percent also erodes the international competitiveness of South African business, and in turn will further depress the rand which now is struggling to break above the 50 US cents.

The latest inflation figure means that South Africa’s cost of living is 10 times greater than that of major trading partners like West Germany and Japan, which last year recorded increases of two percent.

In 1982 Britain’s inflation rate was six percent, United States’ 4.4 percent, Australas’ 8.5 percent, France’s 4.8 percent and Italy’s 8.3 percent.

In sharp contrast, South Africa has had a full decade of double digit inflation.

Today’s rand has the same purchasing power as 25c in 1970, and it takes R1 to buy what could be had for 10c in 1960.

The latest inflation figure is bound to lead to renewed calls for a wage and price freeze — a policy which the government has steadfastly rejected. Instead it is said Pretoria will rely on strict monetary and fiscal policy which critics claim has had little impact.

Critics also say the danger is that South Africa could face runaway inflation when the economy begins to pick up.
Gov't challenged to cut fuel price

Political Correspondent

CAPE TOWN — Opposition finance spokesman Mr Harry Schwarz called on the Government today to reduce the petrol price immediately as a contribution to bringing down the rate of inflation.

"The most important step the Government can take now in its fight against inflation is to reduce the petrol price," Mr Schwarz said.

"This will demonstrate to the public that prices can go down and it will have a ripple effect throughout the economy. I believe it could account for an immediate reduction of about 1 percent in the inflation rate."

Reacting to yesterday's additional budget in which Finance Minister Mr Barend du Plessis asked Parliament for an extra R1 000 million in funds for the Government in the current year, Mr Schwarz said it was "clear inflation had affected the Government."

"Once again, promises to keep control on government expenditure have not been kept," said Mr Schwarz. "To blame the need for relief of the poor and the unemployed is not valid because we warned the Government at the time that the budget did not adequately provide for this."

"In any case, the amount of money devoted to these issues has been a relatively small proportion of the overall extra spending."

See Page 8.
Aspects of SA life add to inflation
PARLIAMENT — Aspects of South African life made certain "unique contributions" to the rate of inflation, Mr Pat Poovia-lingam (Solidarity, Reserve Bank) said yesterday.

He was speaking in the debate on the Transport vote in the Additional Appropriation Bill.

"It was true that inflation was a major reason why the State required an additional R24.5 billion for the current year, he said. However, aspects of South African life made unique contributions to inflation.

Clerks administering the Group Areas Act were earning money without productivity and, due to duplication and triplication in Parliament, money was spent unnecessarily. — Sapa
Tucsa slams high inflation rate

GERALD REILLY

THE Trade Union Council of SA yesterday condemned the authorities' inability to control inflation.

The criticism came after an announcement this week that inflation hit a record 16,4% last month.

Tucsa stressed the progressive impoverishment of workers in a situation where pay adjustments fell far short of compensating for the price spiral. It added that it was "horrified" at the statistics.

"The figures represent a catastrophic decline in living standards, and workers can no longer have any confidence in the financial management of the country," Tucsa said.

Artisan Staff Association general secretary Jan van der Merwe said the record inflation level would strengthen the railway unions' struggle for adequate pay rises. SA Society of Bank Officials assistant general-secretary Graeme Rowan called for urgent action to slow down the inflation rate.
Is inflation the most sinister tax invented?

Perhaps the most sinister form of taxation ever invented is that comprehensive economic measure - inflation. With the latest inflation rate in excess of 18%, the inflation tax has assumed alarming proportions in a country paying its highest tax bill ever.

One of the more basic concerns is that yields from savings - interest, dividends, rent - are taxed at the taxpayer's marginal rate without any recognition of inflation whatsoever. The results are reflected in chronic low national savings levels.

Historically, tax systems have come to benefit in countless different ways from inflation. Because most taxes are expressed as a percentage of the tax base, the higher the inflation rate, the greater the cash flow into government coffers. Seen in a broad context, it is not only tax law which has failed to recognise the incidence of inflation in SA. The legal system as a whole is as fault. By implication, of course, the legislature. There is also a dreadful dearth of academic or official research on the matter - despite double digit inflation since 1974.

Erosive inflation allows for higher tax collections without an official increase in tax rates. That is very good for government revenues and very bad for taxpayers.

Distorted

Fisher Hoffman Streit's Salty Gerber, in a paper prepared on behalf of the SA Institute of Chartered Accountants for submission to the Markson Commission on tax, drew the following conclusions on SA inflation:

1. Inflation pushes more taxpayers into the top marginal rate of the income tax bracket.
2. Inflation increases substantially the value of tangible assets, making greater numbers of taxpayers liable to pay estate duty - which previously affected only the wealthy.
3. Inflation forces taxpayers to pay an increasing proportion of their pre-tax income in tax, and
4. Inflation distorts tax collection patterns by placing an increasing proportion of the tax burden on individuals.

The most effective way for a government to profit from inflation in the tax system is to express tax in percentage terms. This way tax is levied as a proportionate, as a fixed percentage of the tax base. This method is self-adjusting as regards inflation.

Examples in the SA tax system abound. The 12% GST, the 5% transfer duty for company property acquisitions, the 50% company tax rate, the 15% non-residents shareholders tax, the 10% non-residents tax on interest, and the stamp duty on shares transferred.

When the tax rate varies according to amounts expressed in nominal monetary terms, distortions increase disproportionately as the inflation rate increases. SA examples of this nature are the personal income tax table, the tax rates on dividends, the tax rate on capital gains and the stamp duty on immoveable property bought by natural persons.

Examples of taxes extracted as a fixed amount of a transaction or item - where the taxpayer pays a constant amount until rates are adjusted by Parliament - are as rare as hen's teeth in SA. As inflationary pressures increase retail prices, so proportional taxes - such as GST, in deeper into the taxpayer's pockets. Over the past year the petrol price has increased by 60% (January-June), with the extra flow into state coffers from GST measured in terms of hundreds of millions of rand.

In the personal income tax arena, inflation is a slippery concept to grapple with - hence, perhaps, its continued use by the authorities. Its effect on tax liabilities is known either as fixed drill or bracket creep. These catchphrases mean that as prices are increased to compensate for inflation, the tax table takes a bigger proportionate bite of pay as the taxpayer moves into a new bracket.

Governments also benefit from the effect of inflation on the corporate sector. When an allowance is claimed on the depreciation of capital equipment, for example, the main cash-flow benefit may only be noticed 18 months down the line - substantially eroded by inflation.

Generally speaking, examples of foreign experience in legal systems show that there are no legal impediments to adopting the law to the revaluation of money. Australia and New Zealand have indeed various tax rates to inflation new or in the past. In Switzerland the obligation of government to adjust federal income tax for individuals is entrenched in the constitution although it must be implemented in each canton. West Germany and New Zealand, like SA, mainly ignore inflation.

The graph (above, right) shows the effect inflation would have had on tax receipts in the Federal Republic of Germany in 1974. Income tax collections increased for inflation would have been DM5. The actual take was 20% more than that in DM5. But no raid is possible without the public will on the part of government to acknowledge the inflation problem.

The solution, according to the graph, is to adjust tax rates and increase salaries. (For example, 10c on each 25ml beer sold and tax rates expressed in percentage terms are indexed to the inflation rate.

Regarding the effect of inflation and tax on savings yields, Vito Tanta, in the 1984 "Transition, Inflation and Interest Rates" released by the International Monetary Fund, concluded that interest should only be taxed to the extent that it exceeds the inflation rate - for obvious reasons.

Incentive

With an adjustment scheme for the impact of inflation on many problems, would social policies be altered and what would be the financial effects? How would the government adjust for inflation?

Taxpayers are encouraged to spend. GDP and government needs a further incentive to tackle the inflation problem, since tax collections decrease in real terms without an increase in rates. The responsibility of indexing tax rates lies exclusively with the legislatures. Hirschberg argues that smoothly transitional method, but that only a few reforms in the long term. The turnover tax will decline, and that a price revolution will take place. That implies a tax revolution, or something close to it.

Indexing tax rates is a very realistic approach to the inequities caused by high inflation rates. This indexation of the tax/inflation factor contribute to the severity of monetary crises. With the inflation rate set to continue its gallop in the year ahead, the curative must be introduced.

BARRY SERGEANT
23,000 jobs axed in metal industry

By Mike Siluma

About 23,000 metalworkers lost their jobs in 1986, underlining the continuing downturn in an industry battered by depressed demand, inflation and reduced spending.

This is according to the Steel and Engineering Industries Federation's (Seifsa) review of economic activity in the metal industry last year.

It said the number of jobs in the industry had dropped from 454,000 at the end of 1981 to 352,000 last year.

Seifsa said the political and social situations in South Africa had aggravated the strong recessionary conditions in the industry, leading to a decline last year in production volumes of 6.4 percent compared with 1984 and 17 percent in contrast with 1981.

The industry's automatic components sector was expected to record a drop of 30 percent compared with 1984, the machinery sector 22 percent, transport equipment 20 percent and electrical machinery 13 percent.

It was expected, however, that the reduced production would be offset by increased export efforts in the iron and steel industries.

The Seifsa review predicted depressed conditions would continue to plague the construction engineering sector through most of 1986, with heavy engineering experiencing a recovery only in the second half of the year.

No recovery in shipbuilding was expected this year.

Turning to labour relations, the review said the recession and inflation had hindered stable collective bargaining and made annual wage negotiations extremely difficult.

It said taking into account the instability associated with political and social change, the slowing down in public and private sector expenditure and the high inflation rate, Seifsa did not anticipate a turnaround in the metal industry's overall performance until late in the year.
Price shocks for consumers in 1986

SHOCKS galore await consumers during the course of 1986. And motorists in particular can expect their costs to escalate at an even greater rate than last year.

The year ended for them with a 6c petrol price increase in November.

They were hit with another shock increase of two cents from January 1, and unless there is a swift and dramatic improvement in the exchange value of the rand, another increase of between 4c and 6c can be expected within the next six weeks.

Department of Mineral and Energy Affairs has put the "break even" exchange rate level at 43 US cents to the rand.

And although the rand has slipped through the 40c barrier it is still a long way from the 43c under current market conditions, say economists.

Director-General of Mineral and Energy Affairs Louw Alberts told Business Day if the rand continued to strengthen a reduction in the expected further price hike might be feasible - or it might even be possible to avoid an increase altogether.

The department was watching the performance of the rand closely, together with the international oil market where a price reduction seemed to be in the offing.

Another factor which had to be taken into account when determining the next price rise was that oil companies were still under-recovering.

However, if the rand continued to improve against the dollar, and oil prices continued to sag, the under-recovery could disappear, Alberts added.

And from May 1 the petrol price is expected to be loaded with another 2c a litre when the third party fuel levy system is introduced.

Yesterday Deputy Director of Transport Ronnie Meyer said a plan for the handling of claims in terms of the proposed new scheme had been submitted to Transport Minister Hendrik Schoeman.

Economists expected pressure on all consumer goods prices to continue unabated.

Still to affect prices were the higher fuel price, the 15% hike in rail tariffs and the effects of the battered rand on imports, as well as the 16% surcharge on certain imports.

They expected, too, that the inflation rate as measured by the CPI would rise above 17% for December.

It reached a record level of 16.9% in November.
Unions 'horrified' by 18.4% inflation

Labour Reporter

ORGANISED labour today added its voice to the outcry about the inflation rate reaching 18.4 percent—its highest level in 66 years.

The Congress of South African Trade Unions and the Trade Union Council of South Africa, which represent about 700,000 workers, both blamed Government policies.

Tusca said it was horrified. The statistics demonstrated that the workers of South Africa were being impoverished by the day.

"CATASTROPHIC DECLINE"

"The figures represent a catastrophic decline in living standards and workers can no longer have any confidence in the financial management of the country," said Tusca.

"The public sector cannot delegate its corporate responsibility to the whims and fancies of individual decision-makers who have narrow sectional interests and are functioning in an economy as concentrated and regulated as that of South Africa."

Mr. Jay Naidoo, general secretary of Cosatu, said the inflation rate was a symptom of a crisis directly attributable to a mess created by the Government and big business.

"There can be no superficial solutions, the only solution is a fundamental change," he added.
Postal rise increases scepticism

The latest increase of 20 to 50 percent in postal tariffs has increased the market's scepticism about the authorities' attempt to combat our high inflation rate, according to Trust Bank economists. "All eyes are now on the Minister of Finance to see whether his budget can come up with a credible formula to curb the accelerating growth rate of government expenditure, which is essential to halt the spiralling inflation rate," says the bank's latest rand report.

The rand, supported by the Reserve Bank at current levels, is forecast to maintain its current stability. It traded very steady at around 50.46 US cents yesterday against $52.26c for most of last week, and should maintain its level, says Trust Bank.

In the longer term, the rand can come under further pressure because of uncertainty about our balance of payments and the tumultuous political situation, says the report.

The economy improves, however, and inflation is brought under control the rand may well strengthen in the medium term.

The liquidity eased in the market as the shortage narrowed to R1,733 billion. The R500-million repurchase aid to the market was extended yesterday.

The key BA rate remained at Tuesday's level of 12.25 percent against the 12.40 percent of a week ago.

The market is thin and no cut in the bank rate is anticipated before the budget speech on March 17.

The capital market is quiet but it seems that the President's speech earlier this week and the former gold price ($342.60) improved the sentiment as rates were softer on Tuesday morning.

The 2003 RSA traded at 17.07 percent against the 17.34 percent last week.

Deposit rates (percentages): Call 12.50, 60 days — 12.50, 32 days — 12.25, 88 days 12.75, prime — 12.50 — Sapa.

Stalemate in strike at Noristan

CLAIRE PICKARD-CAMBRIDGE

A STALEMATE in negotiations between Noristan Pharmaceuticals in Pretoria and 290 dismissed workers has not yet been resolved, with workers claiming management cannot prove its claim of irregularities in the packaging section.

Most of the black workforce was dismissed nearly two weeks ago after staff went on strike to demand the reinstatement of 60 workers fired for allegedly tampering with labels.

Noristan set a deadline of March 21 for the SA Chemical Workers’ Union (Sacvu) and the workers to propose terms by which an acceptable working relationship could be restored.

But a union spokesman said little progress had been made, because workers were demanding their unconditional reinstatement and believed the dismissals were unfair. The union said community organisations had agreed not to buy Noristan products.

Management said it was essential that workers acknowledged that the dismissals were fair, in the interests of protecting the future quality of Noristan products and the safety of the public.
Petrol: Too little but not too late

By SINNAB KUNENE

THE GOVERNMENT'S announcement of the 8c to 10c cut in the petrol price has received a lukewarm reaction from commuters, motorists and taxi operators.

Energy and Mineral Affairs Minister Danie Steyn announced in Cape Town this week that 93c octane petrol (super) would cost 10c less from midnight on Sunday, while 87 octane (regular) would cost 8c less.

Steyn said the actual reduction in the petrol price was 15c, due to the firmer rand and cheaper oil. He said the Cabinet had agreed that 10c be passed to the consumer, while 5c a litre would go to fuel levies - including the new Third Party insurance system.

He called on the private sector to pass on the fuel price reduction to consumers by lowering the prices of goods and services "because fuel prices have always been cited as a reason for price increases".

- Soweto Taxi Association spokesmen B Xulu warned consumers not to get too excited about the reduction because "it is minimal".

He added, however, that the news had come when the association was considering an increase in taxi fares. The last increase was in July 1983.

- Pick 'n Pay executive director Alan Gardiner criticised the Government for "protecting" oil companies and added that the drop in price could have been greater.

He said his company would continue its fight to have the petrol price deregulated.

- National Federated Chamber of Commerce treasurer Sy Kutumela said he hoped the price of goods would go down.
Hikes will negate fuel cut benefits

Inflation stays as prices rise again

IMMINENT government-administered price rises would, economists predict, more than cancel out any anti-inflationary benefits from the 10c/l petrol price cut.

Price rises threatening are
☐ Higher across-the-board postal tariffs, expected to be announced by Communications Minister Lapa Mummik in Parliament today;
☐ A maize price increase of at least 10% from May;
☐ A bread price rise likely to be announced in the Budget on March 17 by Finance Minister Barend du Plessis;
☐ A sugar price jump within the next two months.

The impact of higher SA Transport Services (Sats) tariffs from April 1 will further add to inflationary pressures.

Acting head of the economic Research Bureau (ERB) at the University of Stellenbosch, Ockie Stuart, estimated the direct and ripple effect of the lower fuel prices would knock a maximum 1% from the consumer price index — provided benefits are passed on to consumers.

The impact of the expected administered price rises, however, would more than neutralize this limited benefit, other economists claimed.

They pointed out that most manufacturers and retailers would use the reduced fuel price benefit to compensate for other cost rises in their operations.

Economists forecast it would take more than a 10c/l fuel price cut to make a significant dent in SA's record 20.7% inflation rate.

Pick 'n Pay boss Raymond Ackerman agreed fuel price benefits would be negated by administered price increases.

Psychologically, however, the fuel price decrease was important. It gave consumers some hope that other prices would come down, he said.

Ackerman said suppliers were quick to raise prices in line with fuel price increases, and he pressed them now to pass on benefits of the lower price to consumers.

A few had responded, but benefits to consumers would be marginal, he said.

Meanwhile, National Maize Producers' Organisation GM Piet Gous said it was clear consumers would get little benefit from the fuel price cut.

There was also justification for further cuts in diesel and petrol prices, he stressed.
Milk price set to rise

Gerald Reyli

An increase in the producer milk price is expected to be approved by the Dairy Board next week. The fresh-milk price was last raised — by 3.5c/l — in June.

The SA Agricultural Union's National Dairy Committee chairman J H Grey claims a huge backlog has developed in producers' prices. Fresh-milk producers are averaging 39c/l, before transport costs, which is virtually a break-even price.

Most farmers are getting no return on their production, Grey claims, and the committee has asked for an increase of about 10%.

The lower petrol price would save the industry only 0.1c/l, it is claimed, but a firmer rand could lower the cost of importing materials for making milk cartons.
Steel prices rise again

STEEL producers have increased the price of their products by up to 11% — the second time they have put up prices since controls were abolished in July.

The increase will cause a price ripple throughout the industrial sector.

Toyota chairman Albert Wescoe said the rise would increase the maker's production costs by between 2% and 3%. He estimates the effect would hit car prices about mid-year.

Essar, which controls 78% of the local steel market, confirmed yesterday that it had raised prices in stages since the beginning of the year.

Official spokesman Piet du Plessis said the corporation had increased the price of its flat-rolled products, such as steel plate and sheet, by an average 9.5% on March 1. Prices of other products had increased on January 1 and March 1.

Highveld Steel marketing GM Robert Herbertson said his company had also increased flat-rolled product prices on March 1 by between 9.5% and 10%, and other products between 9.5% and 11% on February 1.

Customers, however, claimed that prices rose by up to 10% in the second half of last year — producers insist the increases were less — and that by abandoning the old system of discounts and rebates, Essar and its competitors had effectively pushed up prices by as much as 30% since July.

Essar officials were still absorbing the increase last night. Duck Drolinger, MD of mining equipment manufacturer Harnischfeger, said the increase would harm his company's ability to export to its US parent.
Big postal tariff increases shock consumer groups

By Maud Mentayane and Jackie Unwin

Consumer groups expressed surprise, shock and disillusionment at the announcement of a 30 per cent increase in postal tariffs.

"After the good news of the petrol price reductions, this comes as a cruel blow to consumers in the service sector," said Consumer Council director Mr Jan Crouse.

The council feels that inflation cannot be combatted in this way. According to Mr Crouse, a general price freeze now seems to be the only answer.

Price increases of "this nature are exhorbitant" and did not bring the solution to the economic problems any closer.

"It is clear that there is no question of supply and demand and heavy competition in this instance and the time has now arrived to seriously consider privatization of this industry," he said.

Mr Hidriek Mathhead, director of the National Black Consumer Association (NCA), said: "It is shocking to learn that, in spite of the ever-souring cost on basic items, the Minister of Communications, Mr J. A. P. Mosium, will increase the postal rates on April 1.

"After the 10 per cent reduction on petrol, we expected to see prices of basic items being cut down. To our amazement we are still being hounded with more increases on essentials. The NCA is much disturbed by the increase in postal rates.

"We are particularly disturbed about workers, who are the first from home and have to communicate regularly with their families through the post."

Inflation rate

Mrs Jozi Hearn, president of the Housewives' League, commented: "We are never going to bring our inflation rate down if administered price increases are not contained.

"We thought the Post Office department was to have introduced a new productivity scheme. It must have over-extended somewhere to require these massive increases."

"The Government seems to have forgotten its battle against inflation. There doesn't seem any effort to contain it at all.

"Mr Clive Wali, managing director of Checkers, said: "It is just a matter of The Government should be sending the right signals to the consumer of this kind of thing."

Mr Richard Coles, director of Post 'n Pay, said: "The increases will affect us like everyone else. But they will not be passed on to the consumer.

"An increase of 30 per cent seems to be a very big figure - especially when the Government is trying to deflate the economy. It is another aspect on which we are coping with.

"The postal authorities use a lot of tricks. Have they passed on the impact of the lower petrol price?" he asked.

"Too big"

The National Consultative Committee on Post Office Affairs described the increase as excessive and inflationary.

Mr Brut Pegg, the National Public Postal Affairs spokesman, said: "It is and 30 per cent increases can standard mail and telephone tariffs, coupled with overseas increase, would aggravate the inflationary spiral.

If you save money it will soon be cheaper to telephone from a public call box instead of a private telephone box. The unit base rate of a private telephone goes up to 5c from 4c. But the unit base rate from a public telephone remains unchanged at 10c centre. A spokesman for the Post Office said to change the call box rates, it would have been necessary to increase the call on public telephones to 20c.

"It was a 50 per cent increase of 50 per 100c. Which would have hit people not having access to a telephone was not right," he said.
Pensions reviewed on regular basis

By Frank Jeans

Pension fund managers are becoming more and more aware of how much inflation is eroding the income of existing pensioners, with no fewer than 90 percent of participants reviewing benefits regularly.

The average annual increase granted to pensioners is more than 8.5 percent.

These facts emerge from the Sanlam group's biennial survey of pension fund structures.

Other points revealed by the survey are:

- There is a shift towards bringing the retirement age for women into line with that of men;
- There is little discrimination on grounds of race and sex regarding eligibility for membership.
- About 88 percent of pension funds allow all employees to become members of the same fund;
- Many employees give little thought as to how much money is actually spent on their behalf by their employers. No matter how good benefits are, they cannot be appreciated if they are not understood by the members.

Mr Desmond Smith, general manager of Sanlam, says: "A retirement age of 65 now applies to 77 percent of the men and 40 percent of the women (two years ago, it was 72 and 27 percent respectively).

"The trend towards equal treatment for all makes a common retirement age for both sexes more desirable."

On the communication aspect, Mr Smith believes employers should be made aware of the value of their benefits and so create a better employee attitude towards the employer.

"The one area which does not appear to be receiving much attention is the preservation of benefits or transfer of accrued rights," he says.

"This is probably due to the additional cost of such amendments. It is, however, an area which will have to receive attention over the next few years."
MD says glass prices are now at a realistic level

By Jackie Uwin

Glass has risen in price by 46.3 percent over the past 13 months. Independent glaziers and glass merchants blame a monopoly in the flat glass industry after the merger in 1983 between Plate Glass and Pilkington.

But the managing director of Glass SA, the holding company of the merged operation, Mr Rod Fehrsen, claims the price levels have recovered in rand terms to the levels they were at in 1984 before the glass war, which forced prices down.

Dr Stef Naude, chairman of the Competition Board, said although the board had conducted a preliminary investigation into aspects of the glass industry, "investigating the supply of glass is not on the programme. Breaking up a monopoly is a drastic action which has never been taken in this country," he said.

Mr Fehrsen told The Star that in 1984 the glass industry was embroiled in a vicious price war. European suppliers had dumped large quantities of glass in South Africa because of the world surplus.

"We were forced to drop the prices to meet imported prices and protect our market share," he said.

He said the situation had changed. There was little surplus in Europe, the rand had weakened significantly and glass was no longer available from Europe at low prices.

"Pilkington has used the opportunity to let prices recover to proper economic levels," he said.

But glass merchants complain there is a monopoly.

One merchant said: "There was a monopoly. When the merger was allowed, Minister of Trade Dr Dawne de Villiers said he would control the situation by removing the 20 percent duty that had to be paid on imported glass. But instead a further 10 percent surcharge was imposed by the Minister of Finance."

Situation unfair, say angry merchants in wake of merger

Government criticised for allowing a ‘monopoly’

By Jackie Uwin

Glass merchants have expressed anger over an alleged monopolistic situation which they claim the Government has done nothing to prevent in the industry.

Prices for flat glass have risen by 46.3 percent since December 1984.

Some merchants who have contacted The Star say they are not happy with the Competition Board’s findings on the glass industry.

However, the managing director of Glass SA, the holding company of the merged operation involving Plate Glass and Pilkington, Mr Rod Fehrsen, has defended the price increases. He said soaring inflation, wage increases, the poor rand-dollar exchange rate and the effects of the price war involving imported glass had resulted in artificially low prices. These prices were now recovering to normal marketing levels.

One irate merchant said: "Everybody in the industry grapples about the situation," he said. "It seems anomalous," said another. "There is a profitable local monopoly and the Government should still require protection from import competition, despite the present low value of the rand."

With regard to increased costs, he asked: "'What price the much-publicised rationalisation and retrenchment of staff resulting from the merger?'"

He said the structure in which the one company which manufactured glass, had a wholesale division, retail stores and also glass operations — thereby competing with everybody — was wrong. The Government did not allow it with the liquor industry. "They could squeeze the independent guys out," he said.

An angry glazier told The Star: "I have been forced to raise my prices — the increases have been extremely unreasonable, but I want everybody to know why."

"When I fit even the smallest piece of glass, the minimum I can charge is R48, and people say: 'You are mad, mister.'"

He said that just over a year ago, a small opening window sized 436 mm by 150 mm would cost R33.40 to replace, plus R13 transport costs. Now it would cost R34.80, plus transport charges of R15.

The retail price of glass cut, but not fitted, was now R36 a square metre, excluding GST. This was retailing at about R22 just over a year ago.

Commenting on the fact that Plate Glass competed throughout the industry, Mr Fehrsen said he had made it a "point of faith" to have an open door to all of his competitors in the glass industry — particularly in areas of what they consider unfair activity. They should come forward and make clear specific allegations and I am sure we could solve their problems.

Mr Fehrsen said the fact that some people had lost their jobs had nothing to do with the merger, but the economy. "It is a fact of life in South African industry," he added.

Dr Stef Naude, chairman of the Competition Board, said: "We have had preliminary investigations into various aspects of glass. Investigating the supply of glass is not on the programme."

He said the building industry would be affected "very significantly" by the prohibition of collusion, market sharing and collusive tendering which comes into effect on May 2.

"There is a fundamental difference between a cartel on one side and a monopoly on the other," said Dr Naude. "Where you have one supplier, it is an entirely different situation."
Dealing With Inflation

Your Money
Postage and telephone calls to cost more

**PO Budget slammed as inflation booster**

Political Staff

PARLIAMENT — Moans, groans and mocking interjections from opposition MPs greeted Dr L.A.P.A. Munnik's announcement that Post Office tariffs were to be increased.

Dr Munnik, the Minister of Communications, announced increases of up to about 20 per cent in telephone, postal and other communications tariffs when he introduced a record Rs 400-million Post Office Budget.

The Budget was introduced at a joint sitting of the three Houses of Parliament yesterday afternoon.

In a statement afterwards, Mr Alf Widman (FFP, Hulbrow), Opposition spokesman on communications, said he was "shocked and disappointed".

"The Minister and the Government are obviously insensitive to the economic situation in the country," he said. The current 20,4 per cent inflation rate was the highest for more than 60 years. Notwithstanding this, the Minister had seen fit to increase Post Office tariffs by a considerable amount.

Postage of 1c for ordinary letters was a 16,5 per cent increase. Telephone calls at 12c a unit was a 20 per cent increase.

Mr Widman said the substantial across-the-board tariff increases would affect trade, commerce and industry as well as the private individual. It would increase the rate of inflation further.

It was appreciated that the Post Office rendered a vital service to the public, but nevertheless its expenditure should be kept down to a minimum.

It was now the third successive year that there had been tariff increases. Last year there was a 14,8 per cent across-the-board increase. The year before there was a 9 per cent across-the-board increase, and this year the average increase was about 15 per cent.

The New Republic Party's communications spokesman, Mr Brian Page (NRP, Umhlanga) said in a statement: "The Minister shows little imagination in again increasing tariffs to balance the Budget."

The increases, coupled with various other rises, would aggravate the spiral of inflation.

The cause of the inflation spiral had to be laid "fairly and squarely at the door of this Government's misadministration of the political and economic affairs of our country," said Mr Page.
The Board Water Board has announced a 10 percent increase in water rates from April. The statement was released at the meeting of the Board of Commissioners on Tuesday, April 10th. The increase is due to rising costs of electricity, coal, and chemicals. The Board's statement released said that the increase in rates is necessary to cover the rising costs. The statement was presented to the commissioners by Mr. Oberlander, the Board's spokesman, who explained that the increase in rates is necessary to maintain the quality of the water supply.
Coffee drinkers had better begin hoarding because prices of ground coffee could double in the next few months.

The primary cause is the protracted drought in Brazil, which has halved the harvest to 15m 60 kg bags. Auction prices rose at one stage to $2,60/lb in New York and the London futures market has quoted £2 200/ton for delivery in March. These are the highest prices since 1977. The price of Robusta has jumped by between 120% and 180% since October last year.

Johan Cronje, chairman of the SA Agriculture Union's National Coffee Committee, tells the FM that the potential for SA producers is strengthening. Annual production is 1 800 t — mainly Arabica in spite of the fact that the bulk of SA's demand is for Robusta.

Liptons MD Derek Varnals says price increases have been exacerbated by the fall in the rand and SA's non-membership of the International Coffee Organisation (ICO).

Under normal circumstances SA can buy at 50%-70% of the ICO member price, but with supplies under strain, a premium is now being demanded. Thus, prices on the shelves have climbed more than 25% in the last nine months. Brands such as Nescafé, which is pure high grade Arabica, make up 10% of the market and will be hardest hit. Some 90% of SA coffee drinkers make do with lower grade chicory blends, which will blunt the blow.

Varnals says the industry is keen to increase the use of SA Arabica now that production costs are in line with world prices. This could benefit Kofkor and its Barberton pulping plant.

Lionel de Roland-Phillips, a director of tea and coffee brokers I & M Smith, believes consumer prices are likely to rise until June. Although ICO coffee exports soared from 12,3m bags to 15,5m bags in the December quarter of 1985, a stock shortage is forecast because of the low crop. Last year's global crop was 96,6m bags, against world consumption of 93m bags.

The ICO decided in London in January to suspend export quotas from February 19 because the price had stayed above $1,50/lb for 45 consecutive days. The price subsequently rose to $2,24c/lb, but has settled around $2/lb. If the price falls to $1,33/lb, quotas will be re-imposed, but this looks unlikely.

I & M Smith is forecasting a 100% increase in the price of Arabica ground coffee in SA which would take the cost of a 250 g pack to R7-R8. Good quality 50/50 mix instant are set to rise 60%, but the rise in lower quality blends will be lower.

De Roland Phillips says the SA coffee industry has treated the consumer unfairly. The full impact of rising prices has been partly absorbed, but price rises in combination with exchange rate factors and doubled finance costs for raw material stock has made the burden unsustainable.
The drop in petrol price by almost 10% from March 3 was welcome — though it's no surprise that juggling with the books left the consumer well short of his due. Reef 93 octane, for example, was reduced by 10c/l to 92c/l. Yet landed cost, the basis for price calculations, fell no less than 21.6% to 51.1c/l! That would imply a saving of just over 14c/l.

So who got the difference?

The national road fund received an extra 2c; the third party insurance levy was introduced, at 2c, while another new item titled "fire protection," amounting to 0.6c, crept in.

Otherwise, the consumer would be benefiting from a fuel price of 86.2c/l And there's still the little matter of applying gst to all the tax and levy items. As it is, the lower pump price also reflects a saving of 1.1c/l on gst. Applying the tax more equitably would save another 1.7c/l.

No less than 20 items now make up the petrol price structure, many decided not in the market place, but behind closed doors. It's strange government has augmented existing levies by further imposte, given its desire to reduce inflation.

The government’s heated scrap over Pay's attempts to offer discounts on petrol must also support growing scepticism (see box).

Tony Twine, consultant to Econometrix, says a 10% cut on the pump price should reduce inflation by almost 2.5 percentage points over a one-month period. "This assumes the multiplier effect following lower running costs for transport and so on. The multiplier works when prices are on the up, but may not when prices are falling. The problem is you get ‘ratchets’ behind prices. I doubt, for example, if Payco would now reduce its prices, while things like bread prices are unlikely to go down."

The petrol price cut is a weak response to dramatic events over the past few months. The rand has appreciated no less than 45% since August, while the crude oil price has collapsed. Compared to a ruling rate of around $27/barrel last year, prices for delivery this April are quoted at $13.

The landed cost reflected in the new pump price assumes an average rand-dollar exchange rate of US$47c and, it is believed, an average crude oil price of $23.50. So if favourable trends continue, consumers can look forward to further and large cuts in the petrol price.

But, alas, there are still a few administrative snags. Just over half a cent saved from the lower landed cost seems to have gone to reduce the "under-recovery" rate. This refers to the industry "slate," a price-balancing mechanism.

In co-operation with the authorities, the oil companies use it like a bank account to absorb minor fluctuations in landed cost. During December, for example, the oil companies were owed around 6.2c for every litre sold. It is apparent from the latest pricing structure that there is still an under-recovery of some 5.6c/l.
PETROL PRICE FIASCOS

Symptom of a broader malaise

When Energy Affairs Minister Danie Steyn said he hoped businesses would react as quickly to the (inadequate) cut in petrol prices as they did to earlier increases, he displayed a naivete that may be deplorable but is hardly surprising in a Cabinet whose grasp of economic reality is hazy at best.

The objective of business is not to cut prices for the sake of cutting prices — even Raymond Ackerman doesn’t do that — but to maximise profits, which, in a competitive capitalist society, are considered the mainspring of social welfare. Whether lower cost inputs are passed on to the consumer depends, firstly, on competitive pressures within particular sectors and, secondly, on firms’ needs (and ability) to restore their own profit margins.

Considering the battering corporate profits have taken in the recent past (not least because of government’s economic mismanagement), it is not surprising that so many firms consider the latter point more important right now. Having said that, it has hardly been edifying to watch the procession of businessmen lining up behind the apologia that, of course, a lower petrol price won’t actually enable us to cut our prices, but we will be able to delay or moderate the next increase.

Interestingly, virtually the only sector that claims lower cost inputs will be reflected in lower retail prices is the liquor trade, which remains highly competitive despite government’s misguided efforts to curb its market power (motivated by the excessive political clout of the wine lobby).

But why should the private sector react any differently from government itself? Have any prices in the State sector been cut as a result of lower fuel prices? Has Sats announced downward adjustments to its recent round of price hikes (the second this year)? Has the Post Office, which less than a week after the petrol price cuts announced a swingeing average 20% increase in tariffs?

The Postmaster-General himself has admitted that his tariff increases will add 0,5% to the overall inflation rate. While administered prices are rising at such rates, what chance can there be of a significant fall in inflation?

The trouble is, too much of our price-fixing mechanism is immune to market forces. When times are hard, the private sector draws in its horns and may be forced to run at a loss for a while. Even De Beers passed its dividends for several years after the slump in the diamond market in the Thirties.

Our State and parastatal enterprises do not accept that discipline. True, they may strive to cut back on uneconomic services and use labour more efficiently. Sats is a good example. But, enjoying monopoly or near-monopoly market control, and feeling the need to avoid losses at all costs, their pricing policies fly in the teeth of market realities.

Even apart from the general question whether the public sector absorbs too great a share of productive resources, there can be no doubt that its pricing policies alone are a significant contributor to endemic inflation and retard the revival of activity in the private sector. They do not help to smooth out the adverse fluctuations of the economic cycle; they exaggerate them.

If our privatisation policy ever gets off the ground, it is to be hoped that it will be accompanied by the realisation that a measure of genuine competition is vital. Otherwise, we will just be replacing harmful State monopolies by equally harmful private monopolies.

A high degree of price determination is incompatible with an efficient market economy. Because it not only affects everybody’s pocket, but is highly visible, the petrol price is one of the most obvious manifestations of this. All power, therefore, to Raymond Ackerman’s continuing efforts to compete.

But the succession of economic blundering over the past week must be put in a broader context. SA’s economic problems do not reflect the failure of the market mechanism. As is coming to be increasingly understood, they reflect far more our political masters’ failure ever to allow that mechanism to work properly.

Ambassador Herman Nickel, from a speech delivered at the Industrial Relations Seminar of FSA:

Our (United States) policy rests on a number of fundamental propositions (which include):

☐ Apartheid is not only a moral affront. It is a prime source of internal and regional instability in an area of great importance which opens up targets of opportunity for our global adversary;

☐ We oppose violence from whatever source. This goes for official repression as it goes for terrorist activity. It was the Washington Post which put it well in a recent editorial: “A

new rule needs to be engraved in everybody’s mind: Nobody who uses terrorism as a means is entitled to have his political purpose taken seriously as an end.”

☐ We realise that South Africa is inextricably intertwined with, and indeed is, the powerhouse of the rest of the southern African sub-continent. Therefore, we recognise the need for regional stability and security in southern Africa. Improved relations between South Africa and her neighbours and the internal reform process are mutually interdependent;

☐ We realise that the principal impetus for change in South Africa is and will continue to be internal...
Inflation snag for the Budget

Ronnie Bethlehem

Ronnie Bethlehem is group economics consultant at JCI.

Before the publication of the January cpi figure, I had felt that room existed for a measure of relaxation in the forthcoming Budget.

This was because the Leutwiler rescheduling agreement had solved — at least for the time being — the problem of foreign debt repayments; the balance of payments was still in substantial surplus on current account, and the domestic economy was sufficiently depressed for the Minister not to have to worry too much about any destabilising or troublesome resurgence of internal demand.

But January's inflation rate of 20.7% must weaken the position to such an extent that more caution is called for. If the Minister now signals too strongly in the direction of stimulation, all the good work directed to the solution of the foreign debt problem and in effecting an internal economic adjustment so painfully could be wasted.

The last thing that SA can afford is a rerun of the 1983-1984 mini-boom, which resulted in the total wiping out of our net reserves.

The trouble is the high linkage between changes in domestic expenditure and imports. There can be no significant increase in such expenditure without imports increasing also, especially when anxieties about future inflation are high, and rising. They are likely to remain high despite the petrol price decrease, because most of this will go towards improving corporate profit margins and will not work its way through to prices at the retail level.

My calculations, before the cpi disclosure, indicated that, assuming no material changes in taxation, the Exchequer deficit in 1986-1987 would have been in the region of R3 900m, or 2.6% of nominal gdp. This would have compared with about R3 360m in 1985-1986, or 2.7% of nominal gdp.

If one assumes that private sector spending in real terms is going to be subdued this year for reasons already given, then for real gross domestic expenditure (gde) to grow by around 3% would require a fairly high rate of increase in real consumption spending by general government of about 6.5%.

In nominal terms this would translate into an increase of such spending of around 21.5%.

What happens to real gdp in 1986-1987 will depend on the change in both real gdp and the real balance of exports and imports, including payments for investments and non-factor services. Assuming an unchanged average gold price of $335/oz and an average exchange rate of US45c, surplus on BOP current account should be about R5 billion. This gives an increase in real gdp around 3%.

While one can still look to a surplus on BOP current account for 1987-1988, if growth is going to be surplus will get smaller. Indeed, the main factor in growth is likely to be the domestic economy rather than the payments surplus. The constraints on the Finance Minister, therefore, are fairly well defined.

For these reasons I would argue that the March 17 Budget must be a holding operation. But there is another reason why the Minister will be cautious. He will be thinking of structural adjustments to the tax system to improve the economy's efficiency and also to improve revenue gathering. However, the Margo Commission will not yet have reported.

Enough of a breathing space has been created for him to await its recommendations and ponder them before coming to Parliament in March 1987, or perhaps a bit earlier, to announce carefully considered and significant reforms. These comments are of particular relevance to whether gdp is going to be cut and whether a capital gains tax should be introduced.

In the long run, SA must move towards a tax system biased towards indirect rather than direct taxes. This would spread the tax burden better, improve tax collection, and assist in controlling inflation. For the Minister to submit no evidence of short-term expediency to calls for a cutting of gdp would therefore be inappropriate.

It would also be unfortunate if short-term political expediency were to result in his announcing a tax on capital gains. There are well-founded objections to such a tax in a country in which risk-taking and entrepreneurship require encouragement. It is not an efficient tax. It is unfair to the extent that it taxes gains resulting solely from inflation, and it reduces the efficiency of capital markets because it discourages the sale of assets whose prices have been distorted upwards.

Given that something has to be done about unemployment and the limitations made clear above that exist with respect to fiscal policy, what then should be the approach of the Minister?

I would argue that now is the time for a switch in emphasis towards monetary policy. The time is before borrowing is to be held to the 2.6% of nominal gdp, the burden on the capital market would not be excessive and scope would exist for a further reduction in interest rates.

But here the January inflation rate returns to spoil our calculations. It must be a factor which will hold back any decline in rates at the long end. However, if I am right that private sector demand for credit is going to remain weaker than most people expect, and if the BOP current account can be relied upon to remain in substantial surplus, short-term interest rates will fall. They should be allowed, if not actively encouraged, to do so. In time, and if I am right, too, in believing that inflation will peak during the first quarter and then start declining, long-term interest rates will fall, albeit only slowly. A lower interest rate structure is what is needed to encourage the economy cautiously back to recovery and the authorities must not be deterred by what happens to money supply.
High tariffs hurt development

High tariffs slow technical progress, hamper the expansion of exports and make the SA consumer put up with inflated prices and lower quality says economic adviser to the Development Bank, Manfred Reichardt.

He said that protectionism had existed for several decades in SA and had some of its roots in the educational system. Knowledge as presented by teachers had to be accepted and often memorized so that children were not encouraged to analyse or criticise and were largely protected against ideas and influences outside the classroom.

Similarly, he continued, industry had been protected against outside competition. Protection could be justified in the early stage of an industry's development. However SA was experiencing an on-going protectionism. Without equal foreign competition firms became complacent and little faults crept in.

Reichardt said that although lower tariffs meant lower revenue this could easily be recovered by higher direct sales tax.
and Federated in an unusually complex arrangement. The first phase was to split the relevant companies under Kirah Industries into three major components: AAMI, AA Mutual Life and AA Mutual International (the UK-based short-term company).

Explanations from Johannes Hamman, MD of Federated Investments: "Both sides agreed a price for each of the three. Since neither knew who would buy what at that stage, it was a very fair method of valuation." AAMI lost R26m on underwriting for the year to April 1985, while Federated Insurance lost R21,6m to December 1984. By all accounts, Federated will report much higher losses for 1985. The new company will have a common year-end for December 1986.

Federated-AA now embarks on the difficult task of rationalisation, though Hamman stresses there won't be any lay-offs. Federated's bits and pieces are being moved to the new Diagonal Street office where staff will begin the costly and lengthy process of adding Federated's records to the sophisticated computer system run by AAMI. In time, full computerisation should give the enlarged group a superior expense ratio.

The advantage for Kirah is that he has been able to shed a cash-strapped short-term insurer which will benefit from the expansion in capital as a result of the merger. The shareholding of the new group is Federated Life (30%), Federated Investments (40%), the AA (20%) and staff (4%).

Growth rates

Says Hamman: "Some five years ago we split our life and short-term operations as we felt that growth rates, management and capital needs were diverging. Through this transaction we went one step further by pushing our short-term company more to the side, so to speak, rather than directly subject to control by the life company."

Before the merger, Federated Life owned Federated Insurance 100%. The authorities had "intimated a preference for the two to be more at arm's length."

In the next phase of the merger, apparently, more rationalisation is to take place, as it is "still not a neat structure".

Federated decided to purchase only the local short-term company, AAMI. Says Hamman: "All life companies are capital hungry animals, and we felt that we had enough on our hands with our existing life company, Federated Life."

The cash that changed hands is a closely-guarded secret and will probably remain so until Federated-AA publishes its first annual report. In referring to a recent press report suggesting Kirah ended up with R10m in cash, however, a market source says: "He got a lot more out of it than that."

This is in addition to Kirah now holding AAM Life and AAM International. He also still has Constantia, a little-known and often-forgotten acquisition dating back to 1981. But according to sources, this small short-term company, "on the basis of a gentleman's agreement, won't be expanded as a competitor over the next three years."

One area of difficulty could be the Automobile Association connection. Though Federated-AA now has access to 600 000 motorists as a marketing opportunity, so has AAM Life. It could become a little tricky if Federated Life begins to nudge its short-term brother to tout for long-term business.

PETROL PRICES

Short change

The drop in petrol price by almost 10% from March 3 was welcome — though it's no surprise that juggling with the books left the consumer well short of his due Reef 93 octane, for example, was reduced by 10c/1 to 92c/1. Yet landed cost, the basis for price calculations, fell no less than 21.6% to 51c/1. That would imply a saving of just over 14c/1.

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But, alas, there are still a few administrative vices. Just over half a cent saved from the lower landed cost seems to have gone to reduce the "under-recovery" rate. This refers to the industry's "slate," a price-balancing mechanism.

In co-operation with the authorities, the oil companies are like a bank account to absorb minor fluctuations in landed cost. During December, for example, the oil companies were owed around 6.2c for every litre sold. It is apparent from the latest pricing structure that there is still an under-recovery of some 5c/1.

DISCOUNT BATTLE LINES UP

Raymond Ackerman's Pick 'n Pay, the oil carrel, and government are about to conclude head-on following the chain's latest attempt to bring free market forces to play in petrol retailing.

Neither the oil companies nor Ackerman seem certain whether any law is broken by Pick 'n Pay's offer of a 4c food discount at its stores for each litre of petrol bought at its pumps. But government thinks the deal is a contravention of the Petroleum Products Act.

Sources at the Department of Energy Affairs (DEA) quote amendments to the Act, intended to stop petrol discounting, effective March 1, as prohibiting any refuelling arrangements.

Ackerman, however, says the scheme is in line with an appeal by Agriculture Minister Greyling Wenzel for commerce to pass on savings related to lower fuel prices to consumers. Ackerman adds that
Confidence in currency needed to counter leads and lags

Stronger rand could help in the battle against inflation

By Roger Gidlow

The rand's dramatic improvement against other currencies since about mid-December has been a welcome development in some ways. It could help to moderate imported inflationary pressures and in due course could serve to initiate a meaningful decline in inflation.

The extent of the rand's rise has been surprising, but the reversal in the downward trend of the currency should not have been a surprise since the monetary authorities had consistently argued that the rand should start to improve around the beginning of this year.

One comment on the rand's recent performance is that the improvement can be mainly ascribed to the tightening in the exchange control measures which were introduced last December. But such a conclusion is entirely wrong.

The proximate cause of the resort to a partial standstill on foreign debt repayments by the authorities last year was the downward pressure on the rand which was exerted by large capital outflows.

Leads and lags

One short-term aim of the standstill was to relieve these pressures.

Indeed, it was widely expected that the value of the rand would rise in terms of other currencies in the wake of the standstill arrangements.

This did not happen chiefly because of the incidence of leads and lags.

Far from reversing the adverse leading and lagging by importers and exporters which had been present, the debt standstill arrangements made matters worse in the sense that foreign credit facilities became even more restricted.

As a result, many importers were called on to pay cash for foreign suppliers.

At the same time the flow of dollars into the spot market were reported to have remained somewhat limited. This could partly have reflected the practice by some exporters of keeping their dollars offshore by means of an extension of credit terms.

The authorities repeatedly emphasised that these negative leads and lags influenced should have worked themselves out of the system by early 1986, and in the process remove a major source of downward pressure on the rand.

That's exactly what happened with the improved sentiment in the market also aided by a substantial decline in the value of the dollar against other currencies, a higher dollar price of gold, and signs of improved conditions in the agricultural sector, and therefore higher exports of maize.

Exchange control measures introduced in December 1985 were designed partly to furnish a demonstration effect on the foreign exchange market. Against a background of vague but persistent misgivings concerning malpractices by certain foreign exchange dealers, the Reserve Bank wished to make it clear that it was determined to ensure, as far as possible, that the existing exchange controls were fully complied with by the foreign exchange dealers and their clients.

The new measures were also designed to emphasise the concern of the Reserve Bank with the relatively low value of the rand at that time.

Restore confidence

It was recognised that the new exchange control measures by themselves would exert a very limited impact on the market. Any benefits which could be derived from such measures, apart from being marginal, would most probably prove to be temporary if the root problems surrounding the rand remained unchanged.

The only way adverse leads and lags can be completely countered is by restoring confidence in the currency, a task rendered onerous as the rand's predicament is largely a political phenomenon.

Any reversal in adverse leads and lags which helps the rand could quickly be negated by new adverse influences.

Among measures enacted the restrictions on position taking by foreign banks were largely symbolic since these banks had in any case considerably scaled down their involvement in the local foreign exchange market in the aftermath of the debt standstill.

The decision to pay the mining houses in rand rather than in dollars for gold bullion exports made no difference at all to the total supply of dollars which emanated from that source.

The decision to compel exporters, who conduct business on a credit basis, to sell their future foreign currency proceeds in the forward rand-dollar market within seven days of shipment of the goods has exerted some influence.

It has accentuated the upward movement in the rand, but it can be argued that new distortions have been introduced into the market since importers are under no compulsion to buy dollars in the forward market.

Nevertheless, even the control measures affecting exporters have limited applicability since the bulk of the country's exports are sold on a spot basis, and the foreign currency proceeds therefore sold in the spot rand-dollar market.
PARLIAMENT — South African postal tariffs were too low compared with those of the country's trading partners, Mr Con Botha (NP, Umlazi) said yesterday.

Speaking during the debate on the Second Reading of the Post Office Appropriation Bill, he said the low tariffs in South Africa could only be justified by the large percentage of the population that was still developing.

Tariffs had to generate enough income to provide the required level of postal services and there was no alternative to increasing rates, he said.

A Government subsidy was not a reasonable alternative as this would seriously curtail the post office's ability to determine its own policy.

Another suggested alternative was privatisation but indiscriminate privatisation would limit expansion in all but the most profitable areas.

This policy worked in major Western nations, where the necessary infrastructure had already been supplied and additional requirements could be met from tariff income.

In South Africa, however, the basic infrastructure still had to be provided in many rural areas and strategic communications had to be installed and maintained in the border areas.

Mr Botha said the Post Office Savings Bank should aim to increase its share of domestic savings to between five and 10 percent but that substantial tax incentives would have to be offered to encourage savers — Sapa.
By Jackie Uwin

Consumers hoping food prices will come down following the petrol price drop and strengthening of the rand, face expected hikes in the cost of sugar, maize, flour and milk.

Nanupi meets today with its price recommendations for maize. Sugar price increases are usually announced in March. The Dairy Board this week considers its recommendations for the producer price of fresh milk. Flour prices are traditionally announced in September. All these have ripple effects on other foodstuffs.

Price rises due on milk, maize, flour

Supermarkets are fighting — without much success — to bring the prices of goods down. However, they are hopeful the brakes are on price hikes.

"Nobody can afford to put prices up now and manufacturers who do are totally unfeeling," said Mr. Richard Cohen, director of Pick 'n Pay.

Mr. Ralph Horwitz, director of OK Bazaars, said he had received a unanimous "no" from his buyers when they were asked whether there were any decreases in products because of the lowered petrol price.

Mr. Clive Weil, managing director of Checkers, said "We have seen very few drops in prices. A tea company and a cereal manufacturer have dropped prices because of the improvement in the exchange rate and this should be an example to all other manufacturers."
Milk and bread price hikes loom

GERALD REILLY

The price of milk and bread is expected to rise soon.

And a maize price increase is certain from May 1.

The Dairy Board will meet in Pretoria this week to discuss a pressing demand from producers for a higher price.

Producers claim their costs have risen by at least 10% since the last price rise of 3.6c/l in June.

Half a cent was levied to reduce losses on surplus exports, and the levy for the board's administration costs was raised leaving producers with less than a 2c/l increase.

SA Agricultural Union dairy committee chairman J H Grey says most producers are merely recovering costs at the current price of fresh milk.

The Dairy Board will make its price recommendation to the national marketing council later this week.

Meanwhile Finance Minister Barred du Plessis will announce in his budget speech on Monday the extent to which the Cabinet will subsidise the bread price.

The original R200m subsidy ran out in October, and the additional R45m subsidy will run out at the end of this month.

The Wheat Board estimates that it will cost at least R300m to maintain the bread price at current levels for the rest of the year.

Next week the Maize Board meets to consider a price increase. The National Maize Producers Organisation is expected to recommend a 15% increase.
Police to investigate Tuesday’s shootings

POLICE are to investigate the shooting incident at Kabokweni, near White River, in which at least one person was killed and 80 injured.

A senior police spokesman said yesterday it was normal police policy to have an inquest and an investigation when a person was killed during police action.

The police statement followed yesterday’s call by KwaZulu-Natal Premier Sósu Mabiza for a full investigation into Tuesday’s shooting incident outside the Kabokweni Magistrate’s Court.

The Progressive Federal Party’s director of special projects Peter Saal said a party official had conducted an on-the-spot investigation yesterday. Saal said he expected to receive the report today.

A police spokesman in Middelburg said none of the injured pupils was in hospital, as was previously reported. A spokesman at Nelspruit’s Rob Ferreira hospital said one or two pupils were still being kept for observation. They had suffered birdshot wounds.

GDP has risen 1.1% in five years

The low level of economic activity since 1981 is reflected in an increase of only 1.1% in the real GDP in the five years to 1985, according to Central Statistical Services (CSS).

After decreases of 0.8% and 2.4% in 1982 and 1983 respectively, total real GDP increased by 1.9%.

A drop of 1.5% in the real production of the non-agricultural sector in 1985 was caused mainly by a decrease in domestic demand.

BOLD action needed

BOLD action is needed to contain the inflationary pressures of the poor rand and widespread price and wage increases, Old Mutual economist David Mohr says in his assessment of what Monday’s budget should address.

He adds that failure to address inflation will materially damage the longer-term prospects for the South African economy.

The authorities should attempt to restrict the rise in overall government spending to below the annual growth rate of 16%-17% rate of inflation, to allow more room for expansion of the private sector, Mohr says.

In attempting to restrict government spending, careful consideration should be given to the increase in the salary bill of the central government.

“While some rise in government wages seems inevitable, the authorities must recognise the central role of public-sector wage levels and pay rises in the South African economy.”

Rapid growth in government spending has been the main reason for the consistent budget-overshooting in past years, and has led to a rapid rise in the government’s share of the economy over the past five years.

Mohr adds that longer term targets for the public sector’s share of the economy must be reviewed.
Production costs up 22.2% up

HOPES for a decline in the inflation rate soon received a severe setback yesterday when Central Statistical Services released figures showing the Production Price Index was 22.2% higher in January than a year earlier.

The PPI measures costs faced by producers and manufacturers and increases are only felt by consumers two to three months later. Producer prices have increased rapidly since November 1984, when the annual rate of increase was 11.4%.

This continued in January, when it rose by a year-on-year 21.3% in December. The January monthly increase of 2.1% (1.7%) represents an annualised increase of over 25%.

The year-on-year increase for locally produced commodities was 19.2% and for imported commodities a huge 33.7%, the latter reflecting mainly the unfavourable rand exchange rate.

Volkskas economist Adam Jacobs said the index was “bad news”. He said about 60% of the products in the index were included in the Consumer Price Index.
Barend's Budget is certain to make John Citizen pay more

By David Braum, Political Correspondent

CAPE TOWN — The man in the street is almost certainly going to be asked to pay more towards the running of the country when Minister of Finance Mr Barend du Plessis tables his Budget in Parliament this afternoon.

But the good news is that personal income tax levels, particularly for the higher-income bracket, are likely to be reduced in order to counter the ravages of inflation.

The Government will also be trying to stimulate the economy. If this works, it can only benefit the public eventually in terms of economic growth and more job opportunities.

President Botha met his Cabinet in Cape Town this morning in an extraordinary session to give last-minute approval to the Budget.

Most observers expect that Mr du Plessis will not be announcing any major changes to the taxation system because the Government is still waiting for the Margo Commission to report. But the Minister is likely to increase the extent of rebates, particularly for the elderly.

He is also expected to make it more attractive for people to save, most probably by increasing the amount of interest which can be earned tax-free from R250 a year to R350 or more.

Increases in social pensions will also be announced, and for the second year running the Government expects to announce equal increases for all the population groups. This means white pensioners will receive lower percentage increments than their coloured, Indian and black counterparts.

The Government is under enormous pressure to increase its social and security spending.

Education services, housing and welfare are likely to get above-inflationary boosts in what should amount to a total Budget of at least R36 000 million.

In order to pay for this, Mr du Plessis will be looking at precious few options. His ability to borrow abroad is almost nil, while if he takes up too much money from the domestic market, interest will be under sharp pressure to go up again.

Observers believe that the Minister will have no choice but to raise revenue from taxes, which means that he is likely to look at GST and duties on tobacco and alcohol, among others.

Full details of Mr du Plessis' 85-page Budget speech will be carried in later editions of The Star today. Tomorrow The Star will publish a special 20-page Budget Supplement.
Anti-inflation policy needed to boost rand

By Frank Jeans

An effective anti-inflation policy by the government is imperative if the rand is to strengthen against world currencies and while the prospects of recovery this year are bright, in the long term, inflation along with continuing political instability remain the obstacles.

In its latest Economic Outlook, the bank says:

"A firm and stable rate of exchange requires two major conditions — a stable political environment and effective economic policies.

"South Africa has a long road ahead before these conditions can be fulfilled."

The bank also maintains that the South African foreign exchange market can be characterised as a speculative market, which is highly unstable and, therefore, not conducive to the development of our foreign trade unless it is efficiently managed.

While the bank has no doubt that the weakness of the rand lies primarily with the country's poor inflation performance and balance of payments problems, it still sees good potential for improvement.

"The rand is the most undervalued currency in terms of real effective exchange rates," it says.

"Moreover, the rand value has recovery potential because the spot rate against the dollar is trading below the purchasing power parity rate.

"The present recovery phase of the rand has probably not run its full course and exporters are therefore encouraged to sell their long-term dollar proceeds forward against the rand.

"Exporters are, of course, compelled to sell their foreign currency proceeds forward against the rand.

"Importers, on the other hand, will be wise to delay the forward buying of dollars."

purchaser furnishes the seller with a declaraton on the prescribed form (Form VBS2). This measure was aimed at tightening up control in regard to the application of the exemption relating to the sale of goods which are exported from the Republic. In addition, the matter of motor vehicles sold in the Republic to purchasers who allege that they are ordinarily resident in Bophuthatswana was the subject of discussions on an inter-governmental level and certain measures have been proposed in order to put a stop to malpractices in that regard.

Whether his Department exercised any control over the actual gold production of gold mines in the period before exchange and export control in respect of gold, if not, (a) why, and (b) whether agency exercised such control, if so, (i) what was the nature of the control and (ii) how did he determine (aa) when and (bb) at what price gold was sold?

The MINISTER OF FINANCE.

The function of buying bullion from the gold mines in South Africa was delegated by the Minister of Finance to the South African Reserve Bank as early as 1925. This gold becomes the property of the South African Reserve Bank, and is sold on overseas markets in an orderly manner to the best advantage of South Africa in terms of the policy which has been in force for a number of years.

Any profits or losses incurred during such transactions are for account of the Treasury, as provided for in section 17A of the South African Reserve Bank Act, 1944 (Act 29 of 1944) as amended.

A detailed statement of the "gold price adjustments account" is furnished to Treasury monthly in which are also set out the prices at which the gold transactions have taken place.

The South African Reserve Bank itself exercises a strict control on purchases and sales of gold, and a computer printout containing full particulars regarding each individual transaction is furnished daily both to the Governor and to the Deputy Governor in charge of gold and foreign exchange transactions. The daily price of gold is determined by supply and demand on the different markets and there can thus be no meaningful average price for the thousands of transactions taking place over the years.

Whether he will furnish the items making up the so-called basket used in the calculation of the consumer price index, if so, (a) what items make up the basket, (b) how was the basket adjusted over the latest specified period of 10 years for which information is available and (c) how is the course of inflation calculated on the basis of these data?

The MINISTER OF ADMINISTRATION AND ECONOMIC ADVISORY SERVICES (Reply laid upon the Table with leave of House):

Yes. The so-called basket of items (i.e., the different goods and services together with their relative importance as weights) which is used in the calculation of the consumer price index was published as a special article in the September 1978 issue of the Bulletin of Statistics and copies of this article are freely available on request.

A summarised form of the basket is in fact published in each Statistical News Release on the consumer price index. These news releases are issued free of charge on a monthly basis.

(a) The basket contains those consumer goods and services purchased by an average urban household. As the consumer price index is separately calculated for the lower, middle and higher income groups as well as for all income groups, virtually four baskets exist.

In a summarised form, the basket for all income groups comprises:

- Food: 24.98%
- Clothing and footwear: 8.77%
- Housing and household fuel and power: 19.67%
- Transportation: 14.94%
- Recreation, entertainment and reading matter: 4.16%
- Medical care: 2.08%
- Education: 0.82%
- Other consumer goods and services: 5.41%

(b) The consumer price index is calculated on the basis of the Laspeyres method of index calculation, which means that the relative importance of the goods and services or the weights is kept constant for a number of years. Up to now, the weights of the consumer price index have been revised approximately every ten years without interim adjustment. The weights currently in use are based on the 1975 survey of household expenditure which will be revised on a basis of the 1985 survey. I have already approved the revision of the basket (i.e., including the weights) on a five yearly basis in future.

(c) The consumer price index measures the change in prices of consumer goods and services over time. The rate of change of an annual basis of this index is usually defined as the annual rate of inflation. It is calculated by expressing the increase in the consumer price index of a particular month since the same month of the previous year as a percentage of the value of the index for the month concerned in the previous year. In calculating the average inflation rate for a year the arithmetic mean of the indexes of the twelve months is compared to that of the previous year.

Johannesburg, Wolmarans Street: building purchased.

*6 Mr D J N MALCOMESS asked the Minister of Transport Affairs:

(1) Whether the South African Transport Services purchased a building in Wolmarans Street, Johannesburg, if so, (a) from whom, (b) at what price and (c) when?

(2) Whether the South African Transport Services did a valuation of the building at the time of purchase, if so, (a) what was the valuation, if not,

(3) Whether a valuation of this building was done by a body other than the South African Transport Services, if so, (a) on what date, (b) by what body and (c) what was this valuation?

The MINISTER OF NATIONAL EDUCATION (for the Minister of Transport Affairs):

(1) Yes.

(a) Netherlands Properties (Pty) Limited

(b) R11.75 million

(c) 31 January 1986

(2) Yes R13 million.
De Kock says new targeting system aimed at inflation

CAPE TOWN—The new targeting system introduced yesterday was an attempt by the Government to control the money supply and to keep inflation under control, the Governor of the Reserve Bank, Dr Gerhard de Kock said.

Dr de Kock, who was chairman of a Commission of Inquiry into the Monetary System, said at a Press conference that the targeting system was designed to prevent inflation exceeding the present level of 21 percent and to force it to a lower level.

He said that while it was accepted that an increased money supply caused inflation, the increase last year had to be attributed to other factors such as ‘capital flight and political perspectives’.

He said the targeted margin of 16 to 20 percent in the money supply had been deduced upon to ensure a freeze and eventual decline in the inflation rate while at the same time establishing an increase in the growth rate.

While not predicting an inflation figure for 1986 he said 15 percent would be ‘reconcilable’ with the targeting system. Other factors such as the value of the rand and capital withdrawal from the country would, however, affect this figure.

Central to the new targeting system will be a newly defined M3—a comprehensive aggregate consisting of all bank notes and coins in circulation plus all deposits (including building society shares) of the domestic private sector with banking institutions, building societies and the Post Office.

The target for 1986 is set in the form of a tolerance range for the rate of increase in M3 of between 16 percent and 20 percent between the fourth quarters of 1985 and 1986.

Thus, Dr de Kock said, the fourth quarter 1985 total for M3, R71,2 billion, would be targeted to grow only to a lower limit of R82,6 billion or upper limit of R85,4 billion by the last quarter of 1986.

The Commission recommended the redefinition of the monetary aggregates M1, M2 and M3 and added a new concept, M1(a) for which aggregates would be published for the first time in the June edition of the Quarterly Bulletin.

Deposits

According to the redefinition, M1(a) would consist of coin and banknotes in circulation, cheque and transmission deposits with banking institutions, building societies and the Post Office Savings Bank.

M1 would add to M1(a) other demand deposits with banking institutions, M2 would add other short-term deposits and all medium-term deposits (excluding savings deposits and shares) with banks, building societies and the Post Office Savings Bank.

M3 would add to M2 all long-term deposits with these institutions.
Money supply target set

IN a move to curb inflation, a money supply target for 1986 has been set by the Reserve Bank for the newly-defined monetary-aggregate, M3.

The target range is based on an increase in the money supply of between 16% and 20% from fourth quarter of 1985 and the fourth quarter of 1986.

This sets the lower limit of the new M3 this year at R82.6bn with a ceiling of R95.4bn.

Money supply target, recommended by the De Kock Commission, was formally accepted by Finance Minister Barend du Plessis in his Budget speech yesterday.

Reserve Bank Governor Gerhard de Kock said in a full explanatory statement that, although the fourth quarter of last year might be a relatively low base from which to start the exercise, it should be compared with the growth of money supply between the fourth quarter of 1984 and the target range set for the fourth quarter of 1986.

On this basis, it provides for a growth rate of 15% to 16% a year over the two year period.

Targeting, which will have an influence on both interest rates and foreign exchange rates, will be applied, with a measure of flexibility.

The monetary authorities will decide what combination of money supply, interest rates and exchange rates is suitable in any given set of circumstances.

In order to keep M3 growth within the target limits, monetary policy will involve public debt management, open market operations, discount policy and intervention in the foreign exchange market.

These "tools" may be supplemented by varying the cash reserve requirements of the banks and the building societies.

The rationale for the introduction of monetary targeting is

To curb inflation by controlling an ex-

To Page 6 →
Cosy living in the 21st century: a modest home for R4m

Finance Minister Barend du Plessis has come under attack over the failure of the Budget to launch a major assault on the inflation rate, now running at its highest in 40 years. Michael Chester looks at what might happen if the consumer price index stays in orbit at 20 percent or worse.

You were shaken right when young Peter started high school, a couple of months ago, and you discovered that the bill for the current annual 20 percent increase in school fees is R32.50 for milk, R10 for colour TV, R20 for small car, R30 for 20 CIGS, R40 for 1 DOZ EGGS, R50 for house, R60 for 1 KG STEAK, R70 for 1 KG HAKE, R80 for newspaper, and R90 for matches. The total cost is now R400.

If inflation stays wedged at the current annual 20 percent level, the identical uniform will carry a price tag of more than R500.

Of course, contraceptives are now more expensive, and inflation has helped to keep down the cost of other goods, such as beef and chicken. The price of a chicken is now R2.50, compared to R1.50 last year.

But it is depressing to note that the cost of living has increased by more than 20 percent in a year. Twenty years from now, young Peter may think about marriage and branching out to save up for a house in the suburb of his own.

Today, the cost of a modest suburban house is R50 000. A modest suburban house may be a reality for only a few families who have saved enough for a down payment. But it is not impossible. When young Peter talks to the estate agent, the price will be more like R32 500.

And a TV set will be needed as well, of course, though it will be more like R12 500. Naturally the young couple will want their own car in the driveway. Nothing extravagant, just a small, simple car like the type that would cost R12 500. Peter and his wife will pay R15 000 for a modest suburban house, which will be a blessing.

In case you decide it is a fantasy too far — or improbable — to think about possible alternatives to facing the calamity, if you buy a 30 Special now it will cost about R780. A small box of wine will be R125.20.

Don't delay buying until Peter and his bride are out of the house. Buy them a gift. By then, the gift will cost R325.20.
Cosy living in the 21st century: a modest home for RAM

- Newspapers
- Cans
- Bottles
- Plastic
- Glass
- Wood
- Paper

In an environmentally conscious world, recycling and disposing of waste properly is crucial. This diagram illustrates the flow of materials from production to disposal. Each item shown represents a different type of material that can be recycled. Proper disposal helps minimize environmental impact and promotes sustainability. For more information, visit the website at [www.recyclingwebsite.com](http://www.recyclingwebsite.com).
Blacks attack Budget

BLACK political organisations and trade unions have slammed the budget announced by the Minister of Finance, Mr. Barreda de Plessis, in Parliament, this week.

The organisations include the United Democratic Front (UDF), the Azanian People's Organisation (Azapo), the Congress of South African Trade Unions (Cosatu), the Azanian Confederation of Trade Unions (Azactu) and the Council of Unions of South Africa (Cusa).

The UDF's publicity secretary, Mr. Murphy Morobe, slammed "the attack on the budget without any consultation with the democratic majority and will be unable to solve the economic, social and political chaos into which the government has plunged..."

Cosatu's general secretary, Mr. Jay Naidoo, in a statement said that the budget was drawn without any consultation with the democratic majority and will be unable to solve the "economic, social and political chaos into which this government has plunged our country..."

Bread

He said the provision of R235 million to alleviate unemployment would be "as effective as a drop in the ocean".

The decrease in the bread subsidy would "hit hard at the millions of under-paid workers and erode their already declining standard of living," while the increase of 13.7 percent in the defence budget meant a "diversion of vital resources of our country to bolstering the repressive organs of the apartheid regime."

The allocation of a sixth of the total education budget to blacks, "makes no step to meeting the basic demands made by millions of black students," he said.

In a joint statement, Azactu and Cusa said until such time that blacks were able to make decisions in Parliament, "this type of meaningless charade will continue to govern the people."
A statement on a possible bread price increase is expected from Agriculture Minister Greyling Wentzel before the weekend.

Sources pointed out yesterday the R150m bread subsidy announced by Finance Minister Benno du Plessis would have to be supported by a price rise if it was to be stretched to the October start of the new wheat season.

Last year's R200m subsidy was exhausted by October and had to be supplemented by a further R180m.

The R160m would thus run out before October and the wheat price was also expected to increase then.

Sources said government would "lean over backwards" to avoid a price increase, but having committed itself to the R50m subsidy cut, there appeared to be little alternative to an early price adjustment.

All car hire companies take you from A to B.

A  
B
Prodding inflation

The January figure for the production price index (ppi), a record 22.2% year-on-year, continues to store up shocks for inflation. Growth in ppi has increased every month since 1984, the plunging rand bringing acceleration since October.

The prime culprit, of course, is the cost of imported goods, as has already been pointed out (for example, FM February 14). For January the year-on-year increase in imported price component of ppi was 32.7%, following a previous record 30.7% for December 1985.

It is clear, however, that the lag effect on the inflation rate is getting shorter. Says one economist: “The lag has shortened because of much-reduced stock levels. Going back a few years, one expected a six-month lag between ppi and inflation. Now the lag is

INFLATION BACK-LOG

was caused by the collapse of the rand with the mass exodus of capital (R8 billion in the last two quarters of the year) and the foreign debt standstill.”

A key to the policy is that the Bank will be able to operate directly on the money supply to control inflation. M3 will be the controllable throttle influencing the variables of inflation, GDP growth, and the rand exchange rate through: public debt management, discount policy, forex intervention, and possible variation of bank and building society cash reserve requirements.

“We won’t allow demand inflation to get up steam,” De Kock says. He emphasises, however, that he does not envisage hands-on instant reaction on monthly M3 variations as was the case in the US a few years ago. Obviously, if the targets are not being reached over a sustained period of several months, policy will have to be adjusted or the target changed. The onus is on the Bank to come up with explanations for what it is doing. M3 growth has already dropped below the planned “tunnel” which should keep it in a 16%-20% band for the year — but this is no cause for concern at this stage.

A relatively high inflation rate (say in the vicinity of 15%) is implicit in the tunnel growth parameters, but the alternative would be too little growth in GDP. Adjustments will be gradual with an eye to expectations that inflation is about to decline. The 16%-20% tunnel should allow for a calendar year GDP growth of 3% to 3.5%.

down to around three months.”

Although the rand has been rising since December, it is not yet deflating the imported price component. The rand has appreciated across all currencies, but the rate of appreciation against the dollar has not been matched elsewhere.

For example, savings on imported costs of luxury hi-fi equipment and videos, costed in Yen, have been limited. Retention of the import surcharge in the Budget will also affect the future course of ppi.

The inflation rate is likely to go below 20% for February, however, since the year-on-year rate will be based on a high increase in February 1985. But any downward trend will only be maintained if the rand holds above US$50c, reversing the trend in ppi — and that is by no means certain. Initial reaction to the Budget took the currency below that barrier again.
Inflation is eroding the profitability of the mines

By Stan Kennedy

With endemic inflation at more than four times that of its main trading partners, South Africa's mineral exporters are in danger of pricing themselves out of the market.

Since the early Sixties, many Third World countries, with an abundance of cheap labour, had entered the export market. Consumers of minerals, finding the political situation in South Africa a handy excuse to diversify their purchases, were now buying from these countries.

In addition, selective sanctions and threats of disinvestment were other factors they had to contend with.

CURB INFLATION

Dr PJ Hugo, chief director, Minerals Bureau, told the Capex in Mining conference in Johannesburg yesterday that if trade unions persisted with their "exorbitant and even illogical demands", employers' resistance was sure to follow and capital intensive mining would come sooner than expected.

To remain competitive, the eroding effect of South Africa's inflation must be curbed at all costs, he said, and he pinpointed the inflation elements as electricity, transport, stores and personnel.

"The industry can contribute to lower electricity cost by applying more efficient mining methods and, hence, the lower price of coal used by Escom.

"By increasing the added value component of mineral exports, the producer will be partly relieved of the costs of transporting unbeneftiated minerals over long distances.

DRAMATIC CHANGES

"The cost of labour has been soaring during the past 15 years. Unfortunately, wage hikes have seldom been accompanied by increases in productivity."

To cut costs, many labour-saving practices had been introduced in the past 20 years and it was reasonable to expect there would be dramatic changes in the labour/capital ratio in the gold, coal and platinum industries in the near future.

With the depth of the Witwatersrand gold mines going to more than 4,000m, revolutionary mining methods would have to be introduced to limit the extremely high operating costs.

He foresaw the day when labour-intensive conventional stoping would be replaced by remote-controlled continuous robot miners. These would eliminate costly drilling and blasting and rockmoving procedures.

UNSKILLED

Strenuous physical labour would be phased out and a small team of highly skilled equipment operators would be responsible for the entire underground operation.

With their 34 percent share of total production dropping to 20 percent by the year 2000, and as mechanised underground mining increased, opencast coal mines would see a continuous reduction in demand, for unskilled labour.

On platinum mines, where costs of labour were on the increase, Mr Hugo said the industry would soon step up mechanisation in its underground operations.
Can reality face the Barend challenge?

FINANCE Minister Barend du Plessis's Budget seems to have side-stepped the inflation trap ...

Economists say the Budget coped with the problem of trying to breathe life into the economy and of increasing spending on necessary social services like housing, in the face of South Africa's foreign debt crisis and the prospect of further boosting already high inflation.

However, Progressive Federal Party MP Harry Schwarz has criticised the Budget for "the almost total absence of measures designed to combat inflation".

Then too, the government has in the past been consistently over-optimistic about its ability to stay within its Budget Why should spending estimates match reality this time round, ask sceptics?

In the Budget, Finance Minister Barend Du Plessis said the aim was to keep the deficit before borrowing to R3 944-billion, or 2.7 percent of the gross domestic product.

Total estimated spending for this financial year is 13.9 percent above the final level for 1985/86.

This is well below the worryingly high inflation rate of around 20 percent — too low to be true, say critics, who feel Du Plessis will be forced to increase spending during the year.

But with the Budget comes an important new anti-inflationary device: the adoption of money supply growth targeting.

The implication of this, in brief, is that the Reserve Bank will be, in a sense, indirectly monitoring government spending.

If government spending exceeds the estimated amount, pushing money supply growth up, interest rates will have to be allowed to rise to bring money supply growth within the 16 to 20 percent target limits set for 1986.

And high interest rates, in turn, are generally unpopular with voters.

The Budget is "reflationary" rather than inflationary, according to Nedbank economist Ian McFarlane. and "seeks to rekindle economic activity, albeit in the context of the current account restraint and inflation".

The stress is on modest stimulation. "In itself the Budget will not aggravate inflation. It's a cautious Budget."

The issue of only R893-million (R1 566-billion in 1985/86) of new government stock means that the feared "crowding out" in the capital market of both public and private sector borrowers will be avoided.

It had been feared that interest rates would soar as the government and public and private sector borrowers competed for scarce money, in the light of the drying up of foreign finance.

Faced with high capital market interest rates public sector borrowers like Escom, which would previously have gone overseas to raise loans, would be forced to raise tariffs instead — fueling inflation.

Bill Lacey, economist of the Associated Chambers of Commerce (Assocon), agrees Du Plessis did not address himself specifically to the inflation problem.

"The prime objective was to get the economy off its back, and to address unemployment."

"On the other hand, he could not afford to go on a spending spree while foreign bankers were waiting at the door to be paid,"

Du Plessis did this by "putting more cash in consumers' pockets with tax concessions."

Disappointment has been expressed that General Sales Tax was not reduced, a move which would aid the lower income group and the unemployed.

And a bread price hike seems unavoidable after the R50-million cut in the bread subsidy from R200-million to R150-million.

Moreover the maize price subsidy has been more than halved — from R250-million to R120-million — this year, and this may translate into a higher price for that basic foodstuff.

Still, the Budget, while it is no fireworks display, is largely non-inflationary and, as Lacey points out, its aim of 3 to 3.5 percent growth will supply overseas bankers with one of the signs they want to see.

It is up to President P W Botha to supply the political reforms they are pressing for, if he can...
Inflation rate eases to 18.5%

By AUDREY D'ANGELO

The cost of living is not going up quite as fast as it did at the beginning of the year, according to figures just released by the Central Statistics Office in Pretoria.

The inflation rate for the 12 months ending in February slowed to 18.5 percent compared with 20.7 percent in January - the highest level since 1994.

But the director of the University of Cape Town Graduate School of Business, Professor John Simpson, said he did not expect any further drop in the inflation rate for some time - "or if it does go down it will soon come up again to its present level".

Unemployment

He said the government could not tackle the inflation problem without causing higher unemployment, "which would be both socially and politically unacceptable".

South Africa's main trading partners, which had bigger and stronger economies and lower than normal unemployment rates, had been able to tackle inflation firmly.

"But there are parts of South Africa where the normal rate of unemployment among black people is 40 percent or 50 percent."

Professor Simpson pointed out that even an inflation rate of 18.5 percent was high compared with that of South Africa's trading partners, which had inflation rates of about three percent.

He said it was only the weak rand which made South African exports competitive on world markets, but this weak rand also pushed up the price of imports.

It could, by increasing the price of imported inputs, make exports less competitive.

The President of the Cape Town Chamber of Commerce, Mr Andrew Pelle, said he hoped that the inflation rate had peaked and would not rise above 18.5 percent again this year.

He thought one reason for the drop since January was that the big increase in the petrol price in February 1985 had now worked its way through the system.

Other reasons were the fall in interest rates and the rise in the value of the rand in February this year.

But Mr Pelle feared the fall in the value of the rand in the past few days might push the inflation rate up again.

The mildly expansive budget might have the same effect.

Economy

"You cannot inflate the economy and at the same time reduce the inflation rate."

According to the Central Statistics Office figures the higher-income group was hit hardest by inflation in the 12 months ending in February.

The inflation rate for the higher-income group was 18.2 percent, for the middle-income group 18.1 percent and for the lower-income group 17.3 percent.
Increase in inflation rate slows down in February

By Gareth Costa

The drop in the year-on-year inflation rate from 20.7 percent to 18.1 percent to end-February is a technical distortion and not really worth getting excited about, but the mere 0.9 percent increase in February over January’s rate is promising, say leading economists.

The large year-on-year reduction is misleading because in February last year there was a massive 40 percent increase in the petrol price which caused the index to rise by over three percent. That no longer figures in the index.

These technical distortions occurred frequently throughout last year whenever price rises were instituted, as in April when GST was increased by two percent, and they will continue to appear throughout this year as well.

The index is going to fluctuate throughout the year, as old price increases of the previous year are dropped, forcing the index down. Conversely, when there are price rises the index will follow suit.

Mr Mike Brown, economist for brokers DAVIS Borkum Hare said that the index for the year to end-March was expected to rise because of the increase in transport tariffs but will fall in April when the effects of the GST increase last year fall away.

In May the index will be forced up because of an expected rise in the maize price and that will be the pattern for the rest of the year.

Distortions could arise from new price increases if, for instance, in the corresponding month last year, there were few if any significant drops in the rand/dollar exchange rate will certainly cause a major distortion.

January this year was another example of a distorted month, when the month-on-month increase was 3.1 percent, but the February increase of 0.9 percent over January is the smallest since July last year. This could indicate that there is an underlying slowdown in the inflationary spiral but it is still too early to confirm.

One economist said that this sort of comparison was somewhat futile and an “exercise in semantics” and a more accurate way was to annualise the figures.

The way to do this was to compare, say, two-month periods by annualising the inflation rates and then plotting them on a graph. The trend over the last six months was up until January, but it has started to move down after peaking that month, although it has not fallen at the same rate as it has increased.

Mr Ian McFarlane, economist for UAL, believes the type of inflation will change from cost-push to demand-pull around about the second half of the year. At present cost increases are forcing inflation upwards out of control.

On the other hand later in the year when the man in the street has more money to spend because of the expected uplift in the economy and income tax reductions, demand will be increased.

Mr Brown believes that the inflation rate will be about 16 percent for the year, as long as the exchange rate “does not fall out of bed.”

However, he said that food prices could have a significant affect on inflation, since up until last September food price increases were lagging behind those of the Consumer Price Index. He expects rises in the prices of meat, wheat and vegetables.

“The maize price must increase because it is exported at a loss and so the South African consumer must pay the loss,” he said.

Mr Rudolph Govwes, group economist for Rand Merchant Bank, said that the 0.9 percent increase for February was encouraging and possibly we would never even 21 percent again. He said that a low of 15 percent was now within reach.
Big mid-year food price rises feared

ALL government-administered basic-food prices would be substantially higher by mid-year to load living costs of poor people intolerably, consumer organisations have warned.

The increases would be due partly to slashed government food subsidies.

The maize subsidy has come down by R10c to R120c, that for bread by R5c to R15c and for sugar by R17c to R2c.

On Friday SA Sugar Association GM Peter Sale announced a white sugar price rise of 13.5% and 15% for brown.

This week — probably today — Agriculture Minister Greyling Wetzelaar might announce a bread price increase of about 6c a loaf.

Wheat Board sources in Pretoria said it was possible the increase could be delayed until later in the year.

GERALD REILLY

Also on the minister's desk are demands from maize producers for a price rise from May 1, and from the Dairy Board for a milk price rise — almost certain to be granted from June.

Sale said the price of a 2.5kg pack of white sugar would rise from R4.15 to R4.44, and a 1kg of brown sugar from 60c to about 92c.

Sale said the increases were partly due to the subsidy cut from R21m to R1m.

On the bread price issue, sources said the R10-a-ton decrease in flour and meal prices and a remainder from last year's R24m subsidy could avert an immediate price rise, however.

However, a big increase was certain in October when the "paw" and higher producer wheat price would be announced.
Announcement on bread price

CAPE TOWN — The bread price is due to go up in terms of an announcement expected today (13). Government officials were preparing the announcement this morning.

A price rise was heralded in the Budget last week when Finance Minister Mr Barend van Plessis cut the bread subsidy from R200 million to R150 million.

Brown bread could increase in price by between 5c and 10c a loaf.

White bread is not likely to be affected as its subsidy has already been removed — Political Staff.
Inflation drops but caution stays

THE sharp decline in the rate of inflation in February to 10.0% from January's record 20.7% was largely a statistical phenomenon and should not yet assuage fears about SA's high inflation.

But there was some comfort from the significant fall in the monthly increase in the consumer price all-items index (CPI) to 0.9%. It was the lowest month-on-month increase since July last year. January's monthly increase was 5.0%.

On an annualised basis the February increase represents an inflation rate of just under 12%.

One reason for the slowdown in the increase was lower food prices in February, which Nedbank economist Ian McFarlane said was one of the most encouraging aspects of the latest figures.

But the economy is certainly not yet out of the grip of the upward inflationary spiral. Some statistical variations need to work their way out of the CPI calculations. McFarlane expects the year-on-year inflation rate in March to increase again, if only because the corresponding increase in March last year was a low 0.4%.

With the rand again under $0.50, cost-push pressures are still present and the moderate stimulation of the economy in last week's Budget may cause some rekindling of domestic demand-pull inflationary fires. The latter will be moderated, though, by the money-supply targeting announced by the Reserve Bank.

But the only possible short-term effect of the targeting will be on inflationary expectations, which may now have been curbed slightly.

Sasa reports that the index for food reached 213.5, down from 214.7 in January, and above the 140.2 for February 1985, while the commodity index rose to 212.3 compared with 211.2 in January and 177.5 in February 1985.

The year-on-year inflation rates by income groups for February are:
- Lower income group: inflation rate of 17.3% (CPI: February 210.4, January 210.3, February 1985, 179.3).
- Middle income group: 18.1% (CPI: February 218.0, January 216.1, February 1985, 184.6).
- Higher income group: 18.2% (CPI: February 216.1, January 213.0, February 1985, 162.8).
Earnings increases outstrip the cost of living

Public sector pay rate zooms

PUBLIC-SECTOR pay is growing at a much faster rate than that of the rest of the economy.

This is despite claims that there has been no increase in public-sector salaries and wages since January 1984.

In the two years to September 1986, the average public-sector pay packet increased by 39.6% compared with general price increases over the same period of 30.7%.

With the recently-announced 10% pay increase, the average public-sector pay packet will be R656.10 a month, 53.3% higher than in September, 1985. The full restoration of annual bonuses for public servants will boost average remuneration levels even further.

These figures emerge from calculations based on data published by Central Statistical Services. They include all races.

By comparison, the private sector has generally not managed to beat inflation.

Average pay in the commercial sector increased by 24.6% to September last year. Similar increases were recorded by the construction and manufacturing sectors of the economy.

Even average wages in the buoyant mining sector have increased by only 31.11% over the same two-year period.

Nevertheless, public-sector pay still lags behind that of the rest of the economy in absolute terms. The average wage in the private sector - excluding agriculture - was R1 012.10 a month in September. This is likely to increase by 12%, the most common estimate of private-sector pay increases this year, to R1 353.50.

A sectoral analysis shows that the highest-paid sector of the economy is commerce, where the average wage is

Public pay rate grows

R1 226.60 a month, twice as high as average public-service rates.

Commercial pay rates have grown by only 31.6% in the two years to September, way below the rate of inflation, and by 15% less than public-sector pay. Average monthly pay in the manufacturing sector was R280.40, in the construction sector R320 and in the mining industry R362.

Between September 1985 and September last year the number of people employed by "public authorities, the Post Office and SA Transport Services (Sasate)" declined by 37.7% to 1,182,552.

During the same period the total wage bill, the gross remuneration of employees but excluding any payments in kind, increased by 36.6% to reach R3 210.38 a quarter. The average wage, therefore, is R983.52 a month. The recently-announced 10% increase takes this figure to R983.52.

The higher average pay rates in the public sector and in commerce (R2 262.30, assuming the generally-supposed 12% increase), than in other sectors of the economy, are the result of significantly higher proportions of whites in them.

Of the total workforce in each of these sectors, 62% are whites. In the construction (15%), mining (16%) and manufacturing sectors (23%) the proportion of white to other employees is much lower.

Despite the decline in employment, the public sector is still the largest employer of whites at 34% of the total. Employment of all races in the construction industry dropped 3.85% over the two-year period, in the manufacturing sector it declined by 6.5% and commerce shed 1.9% of its workforce. Only the mining sector took on more people (6.16%).

In last Monday's Budget speech Finance Minister Barend du Plessis said that 21% of State employees earned less than R10 000 a year (R2,500 a month) in 1985, and 94% under R20 000 (R5000,00 a month).
Funds staye off bread price rise

A BREAD price increase has been averted — for the present — Agriculture Minister Greyling Wentzel said yesterday.

Last year's R220m bread subsidy had been reduced to R180m, but it was possible to avoid an immediate price increase because of funds made available by the Wheat Board.

The price-rise reprieve is expected to last until the start of the new wheat season on October 1, according to Pretoria sources.

Wentzel said government's aim remained to keep the bread price as low as possible during the economic slump.

The phasing out of the bread subsidy was in keeping with government's initiative to grant more direct assistance to those suffering hunger.

The reduction in interest rates was taken into account in the payment of the Wheat Board's financing costs on stocks. Millers' and bakers' margins would also be reduced from April 1 because of lower interest rates.
Car prices to beat CPI

CAR-PRICE increases will stay slightly ahead of the consumer price index this year, despite optimistic noises from some car manufacturers.

"We expect car prices to rise slightly higher than a CPI average of 21% for this year and we would not be surprised to see price increases of 25%," says Tony Twine of economic research consultants Econometrix.

Last week market leader Toyota issued a statement saying that "runaway increases in car prices are at an end and increases for the rest of the year could be held at between 8% and 10%.

Toyota's Bert Wessels based his prediction on "an improvement in the value of the rand and production structures that have been implemented." However, on his estimate for the rest of the year, Toyota's increases for the December 1985 to December 1986 period would be 21-23%.

Toyota's prices increased at the end of December and at the beginning of March. Twine, however, does not hold out a great deal of hope for the rand and says it will not maintain a level of 8.50 to the year-end. He says the recent gains of the rand have been largely offset by the strengthening of the yen against the dollar and Japanese-sourced car manufacturers have experienced little relief.

Toyota, as market leader, does have a large influence over other manufacturers' price increases, but Twine says most manufacturers suffer from roughly the same cost pressures and it is unlikely that Toyota could avoid increases required by other manufacturers.

Sluggish sales in the first quarter of the year have also put a strain on manufacturers' cost structures and unless volumes pick up significantly, that strain will increase and could affect car prices.
**INFLATION FEAR (153)**

**Down but not out**

As expected, the year-on-year inflation rate for February was considerably below the previous month's record. At 18.05%, CPI may give the distinct impression it's on its way down, being almost three percentage points below January's 20.7% peak.

However, as already pointed out, the latest figure was bound to fall for technical reasons. Last year the inflation rate leapt from 13.9% in January to 16% for February, after the record 43% rise in the price of petrol.

Looking at the index itself does reveal a sharp drop in the rate of inflation. In February the index reached 215.8 (1980 = 100), just 0.93% up on the previous month. January's index at 213.8 was 3.00% up on December, suggesting a sharp fall-off in the acceleration of price increases for February.

There is little consensus on the outcome for average CPI for 1986. According to the March FM Blue Chip forecast, economists' expectations range between 14% and 18%, and for 1987, 16.5% and 20%.

Says Leon Steenkamp, economic consultant for stockbroker Senekal, Mouton & Kitshoff: “I believe the general trend will be down, though I don’t see it much below 17% by mid-year”

He says March's CPI could increase, again because of technical factors, being compared with a low March 1985 increase. “But the decrease in the petrol price will come through next month, while I expect there will be a softening of food prices. Last week farmers in the eastern Transvaal were giving vegetables away.” He believes food prices have risen too sharply in recent months, probably through seasonal factors; now, for the same reason, he doesn't expect the same degree of acceleration.

But there are more “ifs” because administered prices are still in the pipeline. Last week sugar went up by as much as 15% and bread could go up 6c a loaf.

Steenkamp says the first R500m foreign debt repayment next month is undermining the rand. Vulnerability on this score may add to the upward pressure on CPI, while it puts further cuts in the petrol price in doubt.

Writing in George Huysamer's *Economic Perspectives* for March, Louis Geldenhuys says “Should the exchange rate not suffer any severe setback, a modest deceleration of inflation will set in during 1986. The Budget will not add to inflationary pressures” However, “an average of less than 18% for 1986 is unlikely.”

The actual for 1984, incidentally, was 11.7%, and for 1985 18.4%. The average for the past 10 years was 12.7%.
Post Office tariffs increase today

POST OFFICE tariff increases of up to 50% come into effect today.

The increases, ranging from 10% for telegrams to 50% for post office box rentals, are intended to head off an expected R111m Post Office deficit in the 1986/87 financial year by bringing in an additional R476m.

Here is a list of the new charges you will be paying from today:

TELEPHONES: Calls — basic rate up 20% from 10c a unit to 12c.
Public phone box rate unchanged at 10c.

Rentals — residential services up 20% from R5 a month to R11; business services up 20% from R10 to R12; shared services up 20% from R7.50 to R9; weekend services up 21% from R7 to R8.50.

Installation charges — up 20% from R7.5 to R9; indoor extensions up 25% from R40 to R50.

TELEX AND TELEGRAMS: Telex and teletex — call-unit rate up 20% from 10c to 12c.

Telegrams — handling charge up 15% from R1.15 to R1.30; rate for first 10 words up 33% from 60c to 80c.
MAIL: Letters — inland postage rate for standard letters and postcards up 15.6% from 12c to 14c; non-standard letters up to 100g increase 15.8% from 18c to 22c.
Parcels — parcels up to 100g increase by about 15c each; 1kg parcel up 18% from R1.25 to R1.45.
PO boxes — rentals up 50% from R10 a year to R15.
By John C Given

NEW YORK — Oil prices hit their lowest levels in eight years yesterday (Monday), plunging more than a dollar a barrel to less than $11 on the New York Mercantile Exchange.

Analysts think that a continuing fall into single-digit figures is likely.

"There's nothing holding the market up," said Andrew Lebow, an analyst at the Shearson Lehman Brothers Inc securities firm.

In Abu Dhabi, United Arab Emirates oil minister Mansour Oteiba was quoted yesterday, as saying that oil prices would drop to "eight dollars to five dollars a barrel" without cooperation among producers inside and outside the Organization of Petroleum Exporting Countries.

But US energy secretary John Herrington disagreed with that view.

"I think we're getting near the bottom," Mr Herrington told reporters in Washington.

"In November the price was over $30 a barrel."

Last December, Opec announced it would increase production to preserve its "fair market share," abandoning previous attempts to support the market price through restrained production.

The decision sent prices into a tailspin, leading Opec members to call for renewed cuts in output by both the cartel and non-Opec members such as Britain and Mexico.

But at a nine-day-long meeting in Geneva that ended March 24, members of the 13-nation cartel could not get agreement from non-members on production cuts and they failed to devise a strategy for cutting their own production.

The Opec members agreed that they would only reconvene April 15.

"Traders don't see anything to hold back prices from falling. There's just too much oil out there," said Peter Beutel, an analyst with Rudolf Wolff Futures Inc, a New York commodities futures firm.

CRISIS MEETING

"It looks like we're getting ready for an inferno here," said Nauman Barakat, an energy analyst in New York with Smith Barney, Harris Upham and Co brokerage house.

Saudi Arabia and other Gulf nations are trying to drive prices as low as possible by April 15, when Opec meets on the crisis, he said — AP
One bright light ahead: petrol price could drop again

Price rises hit today

Consumers take a hard knock today as stiff postal and rail tariff increases come into effect. The rises — from 10 to 50 percent — are certain to cause further price ripples through the economy.

But a sudden slump in world oil prices to almost $10 a barrel — the lowest in eight years — has raised hopes of another cut soon in the petrol price. Some believe such a cut is inevitable, even though the rand-dollar exchange rate has fallen again.

The Deputy Director of Mineral and Energy Affairs, Mr H T Burger, said the possibility of a further petrol price cut "in the near future" was becoming a very real possibility, but he could not predict a definite date.

It needs to be remembered that because of South Africa's need to ensure long-term supplies of oil in a hostile world, the country is probably having to pay a premium over the free market price for its imports.

Telephone calls

The detailed increases are

- Basic telephone call unit rate up from 10c to 12c; calls from public telephones are unchanged at 10c a unit
- Direct dialling overseas up to R4,20 from R4,10 a minute
- Telephone rentals (residential) up to R11 a month from R9
- Telephone rentals (business) up to R12 a month from R10
- Telephone installation charges up to R88 from R75
- Telex call units up to 12c from 10c
- Telex monthly rentals up to R10 from R5
- Postage standard letter up to 14c from 12c
- Non-standard surface mail up to 100g increased to 22c from 10c

So the prevailing world oil price cannot be related directly to the local market.

Besides the rise in postal and transport tariffs today, Public Service salaries and wages go up by 10 percent, with other factors pushing the increases even higher in some cases.

The postal tariff rises range from 15 percent for telegrams to 50 percent for post-box rentals. The average increase is about 20 percent.

Railway fares

Rail passenger fares on intercity services go up by 15 percent and on commuter services by 12.5 percent.

A first-class inter-city rail fare from Johannesburg to Nelspruit rises from R89 to R102, and to Cape Town from R171 to R197.

Monthly commuter tickets from Johannesburg to Nelspruit go up from R48.50 to R55, to Krugersdorp from R54 to R61, and to Pretoria from R88 to R99.

The increases are expected to net an extra R27 million for South African Transport Services (SATS), but rail passenger services are still expected to lose an estimated R1.09 million in this financial year.

Mr John Maloney, the Progressive Federal Party spokesman on transport affairs, recently criticised the increases as unnecessary and inflationary.

He said they were made against the background of declining crude oil prices.

SATS increased rail, road and harbour goods tariffs by about 15 percent on January 1, and last month fares on SAA's domestic services rose by 10 percent.

See page 12.
AFRICAN NON COMPANY ARD

& Co and the Wits Business School, the best non-listed company of 1986, to the Johannesburg Stock Exchange, has demonstrated creativity in the challenges facing business, factors as growth in sales, market share and Business School, the final selection will be made by Dr. Andy Andrews, Dean of the Wits School of Business Administration, University of executive president of the Johannesburg Investments and Toyota South Africa, and of Assocom.

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owned the business for at least three years financial statements, the company must have

the company to share in

Prices of wines pop up

CHERYL RITON

PRICES of local wine and spirits have been increased.

The latest adjustments, effective from yesterday, pushed locally-produced spirits up by between 4% and 6% and wines by between 8% and 25%.

- Prices of sparkling wines, sherry and noble wines have been increased by 25%, brandy by 13%, rum by 6%, and liqueurs by 7%.

Retail prices rises are expected to follow.

But the wholesale price of whisky is to drop by R16 a case.

This is the second time wine and spirits prices have increased in two months.

Wholesale wine prices rose between 10% and 14% at the end of January and prices of spirits by 8%, according to Benny Goldberg's MD Dave Brola.

All major suppliers are believed to have charged their prices, but all will be several days before new price-lists are released.

Union Wines and Gib- beys confirmed the price increases.

Rising input costs were blamed for the increases.

Rebel MD Trevor Pearman told Business Day the latest increase was unexpected.
THE STINGER DEBATE

Unita Stingers split US opinion

WASHINGTON — President Ronald Reagan's decision to send Stinger anti-aircraft missiles, and other US weapons, to Angola in Angola and Afghanistan has delighted conservative supporters.

Opponents fear it could intensify conflicts in those countries.

Provison of weapons to what Reagan describes as anti-communist freedom fighters also marks a shift towards a higher level of US involvement in those areas.

Opponents say the action threatens the remaining credibility of Washington's role as an impartial broker for a peaceful settlement in southern Africa.

Until now the US has tried to distance itself from the Afghan rebellion. It restricted arms help for the forces fighting the Soviet-backed government to simple weapons made anywhere except in the US and widely available on international markets.

Sophisticated weapons such as the Stingers, "have US fingerprints all over them", said one arms expert.

They dramatically increase rebel strength against modern Soviet equipment such as helicopter gunships.

In Africa, implications of the US policy change are clear as far as intensification of the conflict between the Soviet- and Cuban-backed Angolan government and Unita rebels is concerned.

A Senate aide said: "The more we pour in, the more the Angolans rely on Soviet and Cuban assistance."

Washington says the Angolan government is backed by about 36,000 Cuban troops and $200m in Soviet equipment.

Another House staff member said provision of such weapons to rebels in Afghanistan would intensify the fighting.

Conservative supporters of what has become known as the Reagan doctrine — the President's pledge to halt what he calls Soviet expansionism — welcomed the decision.

"I am very encouraged that President Reagan is giving flesh to his words," said Howard Phillips of the Conservative Caucus.

An aide to Congressman Mark Silberman, a Republican who supports open military aid to Unita, said: "It's going to equalise things and make a communist victory a whole lot more difficult."

Congressional and private sources said the administration made the decision to provide the US arms late last month, after a group of Republicans overcame objections by Secretary of State George Shultz.

The State Department has favoured the undercover supply of non-US weapons.

A House source said the Stingers "are definitely a step-up" from the level of supplies provided by Washington over the past few years to the Afghan Mujahideen rebels.

US groups supporting the Mujahideen have complained that the Reagan administration gave the rebels only enough weapons for fighting and dying and not enough to win the war.

On Angola, one Senate aide on the Foreign Relations Committee said Reagan's decision earlier this year, to resume military aid to Unita after a 10-year gap, had already encountered strong opposition from many African countries.

Raising the stakes by sending Unita sophisticated US weapons, the aide said, "only makes the signal already sent to black African nations worse."

The US decision to deliver Stingers to Unita would "certainly drive the Lusaka government further into the Eastern bloc," the Zamba Daily Mail said yesterday.

SAPA-Reuters-AP.

Sweden attacks US backing for rebels

STOCKHOLM — Sweden yesterday accused the US of resurrecting the Cold War era by backing Angolan and Nicaraguan rebels.

It said the rebels were deeply involved in terrorism and that they systematically attacked defenceless civilians.

Deputy Foreign Minister Pierre Schori said Sweden had documented proof of the killing of women and children by Unita guerrillas to which Washington has promised aid.

Schori, speaking at a monthly briefing for the Swedish Press, said: "The new US doctrine of giving support to so-called freedom fighters is a reflex from the Cold War epoch."

He warned that US military aid for the SA-backed Unita and for Contra rebels fighting the left-wing Sandinista regime in Nicaragua would only worsen the situation in those countries.

"The US clients in these countries are deeply involved in terrorism," said Schori.

"It is difficult to get the Angolan government to give information, but we have pictures documenting the terrorist methods of Unita, with its systematic attacks on defenceless civilians and the killing of women and children."

"The foreign ministry decided to release the pictures, apparently taken by Swedish aid workers and diplomats in Angola."

Schori said the Contras used the same methods as Unita, but enjoyed less popular support than their Angolan counterparts.

Sweden has long been strongly critical of US policy in Central America. Schori accompanied then-prime minister Olof Palme to Nicaragua in 1984 on the first visit by a Western head of government since the Sandinistas took power.

The Swedish government has traditionally balanced its criticism of the US role in Nicaragua with attacks on the Soviet presence in Afghanistan.

SAPA-Reuters
'No end to unrest' until unemployment is eased

CAPE TOWN—Inflation and unemployment are the two biggest problems facing the Government, according to the Parliamentary Standing Committee on Finance, which has been studying the Budget.

Expressing its concern at the high level of unemployment, the all-party committee says in its report to Parliament that until the problem is more effectively dealt with 'the ability to end the unrest will be severely handicapped'.

It recommends action to restore confidence in the population as a whole as a means of putting South Africa on the road to 'long-term solutions'.

Critical

Steering clear of political issues, the committee is critical of some Government departments for not fully co-operating with it. It calls for greater employment of all population groups in the public service, believes problems in the motor and jewellery industries justify further investigation and expresses concern at the effect the prescribed 2 percent cut in departmental spending could have on certain departments.

The committee was clearly concerned with inflation and unemployment.

Investors

'The committee expresses its concern at the high level of existing and projected future unemployment and it notes the measures being taken by the Government to alleviate the situation,' it says.

'Until the unemployment problem is more effectively dealt with the ability to end the unrest will be severely handicapped'

The committee is of the opinion that a growth rate of 3 percent in the GDP will not generate the necessary wealth creation, nor provide all the jobs required.

'It is necessary that there should be greater encouragement to severs and the creation of a climate which will promote investors' confidence.

'The need to repay foreign loans in the absence of new foreign capital places severe strain on the economy and the requirements to service the shortage on the capital account of the balance of payments on the current account acts as a serious restraint on growth.'

'Since the committee also expresses its concern at the high level of inflation, which, in spite of the absence of consumer demand and current low levels of increase in the money supply, continues and appears to be substantially due to cost pressure'

Important

It supported the introduction of a money supply target and believed this could play an important part in controlling demand inflation.

While accepting the necessity for cutting public sector expenditure, the committee says it is concerned about the effect the prescribed 2 percent cut will have on labour-intensive departments.

'The evidence of the Commissioner of Police that this could affect the strength of the police force by as many as 2000 men, and the evidence of the Minister of Foreign Affairs on the effect on his department supports this view,' says the report.

Surcharge

The committee has also suggested that the effect of the import surcharge on cost of materials used in local manufacture should be considered. It suggests it might be to advantage to distinguish between consumption imports and items used in local manufacture.

'There is general agreement that at existing growth rates and high levels of inflation together with the levels of unrest and unemployment, action to restore confidence is required to put South Africa on the path to long-term solutions,' concludes the report.
Another liquor price rise

CAPE TOWN — Wholesale prices of wine and spirits rose by an average of eight and five percent respectively on Tuesday, confusing retailers who were only told of the increase last Thursday and have not received new price lists.

Mr Riaan Kruger, director of the Cape Wine and Spirit Institute, said whisky, which had dropped R10 per case and was imported, was exempted from the increase due to the improved exchange rate.

The rises follow increases of 7,4 percent on spirits and about 10 percent on wines in February.

Mr Kruger said the increase was caused by high costs and inflation, and added "It was decided to introduce an early settlement discount of five percent — if the retailer pays his account within 15 days of receiving a statement he gets the discount." — Saph
Furniture prices to soar by further 20%

MICK COLLINS

FURNITURE prices are expected to leap by 20% before the end of July — with a further 10% increase to follow in the third quarter.

As soaring costs and shrinking markets take their toll — 450 furniture factories closed in 1985 — manufacturers say they are being forced to pass on price rises to retailers.

Industry sources say that the increase of 30% in the first quarter was long overdue. A projected 20% is forecast before the end of July, with a 15% hike expected in the third quarter.

This means that a lounge suite which cost R599 in January will retail at R1 074 before the end of the year.

"Last year, I forecast that prices would increase between 25% and 30% in the first three months of 1986," says Arthur Solomon, GM furniture and appliances at the OK BAZAARS.

"This has happened and the industry is now looking at further increases of between 15% and 20%.”

Solomon blames the increases mainly on rising imported timber and fabric prices.

"Most hard woods used in the manufacture of furniture are imported. Recently we have had increases in the prices of imbuia, oak and maple. Along with this, major overseas fabric manu-

Furniture price hike expected

ufacturers have been forced to hike the price of their products.

"Added to all this is a surcharge on imports, a weak rand and extra duty on fabrics,"

Solomon says despite manufacturers turning to local fabrics they are still faced with rising costs in the form of wage bills and overheads.

"Of the factories that closed down, many were faced with a tight cash flow situation coupled with forex problems.

"My advice to the consumer is to buy as soon as possible and buy wisely. Purchase from reputable companies and be selective in quality of product. Ask yourself if the company you intend doing business with will still be around next year.”

Grafton Everest marketing director said Billos says the plight of the industry is pitiful.

"We have had all these closures over the past year and expect many more. I envisage a situation where there won’t be enough manufacturers left to service market demands.

"We are looking at ways and means of increasing efficiency, but even that course has a limit. Prices have gone up and will continue to do so.”

Billos says prices of raw materials have gone up by between 25% and 120% over the past year.

"Prices of foam, fabric and wood have soared. If manufacturers continue to supply at current prices, then I foresee a lot more casualties.”
Coal price set to rise 15% 

Despite crashing international oil prices and a glut of world coal stocks, the authorities are expected to provide some comfort to local producers by increasing A-grade coal to about R20 a ton from the current price of R17.45 a ton.

Bottom-of-the-market D-grade coal is expected to enjoy a smaller increase, rising from R15.80 to R16.30 a ton.

SA uses about 11-million tons of coal, worth R174m, each month.

Mining houses operating Escom-tied mines have been complaining for some time that coal prices have fallen well behind the annual rate of increase in production.

Rand Mines coal division deputy chairman Alan Cook says the industry supplying the SA market is now on its

bones and that increases in the domestic price have been kept well below the inflation rate.

However, the latest increase will most certainly be borne by consumers of electricity, both domestic and industrial, with a resultant ripple effect throughout the economy.

Local users such as Escom and Iscor are determined to pass on any increase, which, conversely, will affect operating costs of large consumers such as the mining industry.

The increase will partly offset falling coal-export sales, with prices down from highs of $35 a ton to $27.50.

It is reported from London that the British National Coal Board, faced with the threat of a major consumer conversion to oil, has — for the first time since the early 1970s — agreed to cut the price of some power-station coal.
Win on inflation; lose on gold

NOT only JR Ewing had reason to
weep this week when oil prices
collapsed.
Gold bulls saw the gold price fall to
$330.50/$331.00
on Tuesday in the wake of oil's slip.
This compares to Thursday's
$346.75/$347.25, and around $350 just
before that.
The continuing oil price slide was
bound to hit the gold price, given the
by-now firmly held belief the two are
directly linked.
The theory is that lower oil prices
are deflationary, and that gold and
other commodities will do better if
inflation takes hold again in the West
—or at least if more people expect
inflation to rise, and buy hard assets
like gold to hedge against it.
Another theory has it that weak oil
prices will loom large, and gold
because it raises the spectre of heavily
indebted oil-producing nations
defaulting on loans and producing a
new world debt crisis, but until
potential buyers of gold buy this
theory as well, a weak world oil price
equals a weak gold price.
So whatever cause that oil prices
had fallen to $10 a barrel, gold was
sure to fall. It fell below $10 a barrel
at one point on Wednesday, but rose
when the US expressed concern at the
effect of the fall on its own oil
industry.
Oil had traded around $30 a barrel
last year.
The slight improvement in oil prices
on Wednesday helped gold recover it
closed at $335.00/50 in London.
Yesterday afternoon in London it
was fixed at $334.75.
And gold's fall pulled down gold
shares. The JSE's All-Gold index, the
index of all the gold shares on
London Street, fell by its biggest
one-day decline this year to 1251.5 on
Tuesday from 1288.7.
What made the gold price bad news..
Consumers fear inflation after coal price rise

By Jackie Unwin

Consumer organisations are concerned that the 19.9 percent pithead coal price rise will be inflationary and the deregulation of the industry might hurt the black community which uses coal for heating and cooking.

Mrs Joy Hurwitz, president of the Housewives' League, said today: "When price control was removed from milk, prices rose considerably. Coal is such a vital item that one would not want that to happen."

"It could also be inflationary for all industries that use coal as an input cost."

Mrs Betty Harzel, chairman of the Consumer Union, said: "We support deregulation wholeheartedly. But there is the worry that the black people will be in trouble."

DELIGHTED

Members of the coal industry are delighted with deregulation and feel that it will result in lower prices.

Mr Paul McNaughton, of Reef Coal, said: "It is probably the first step in implementing the recommendations of the Competition Board."

"The most efficient mechanism to control coal, or any other, prices is competition."

"Now the Government has taken this step it needs the encouragement to deregulate coal and petrol totally. These are two major inputs in our economy."

"Consumers are best served if the prices for both these commodities are dictated by market forces."

End
Hoteliers hit at liquor price hike

The latest liquor wholesale price increase is "once again a case of the little guy being hammered by the big guy," according to Mr Mike Kovensky, chairman of the Federated Hotel, Liquor and Catering Association's (Fedhasa) liquor committee.

The latest increases are eight percent for wines and five percent for spirits. Whisky, however, dropped in price by 10 percent.

Mr Kovensky said liquor retailers and hoteliers were dismayed by the price increases shortly after Easter, only eight weeks after previous increases.

They were announced by the Cape Wine and Spirit Institute, described by Mr Kovensky as a "cartel" of producers and wholesalers.

He said "I find it impossible to believe the Cape Wine and Spirit Institute got its figures so wrong eight weeks ago that unforeseen circumstances made it necessary to raise prices again, particularly with a petrol price decrease in the offing."
Budget fails on inflation, says Raw

Political Staff

PARLIAMENT — The Budget had failed to attack the crucial issue of inflation, Mr Vaune Raw (NRP, Durban Point) told the Assembly.

Speaking in the second-reading debate on the Budget, he said nothing in the debate had changed his party's view that the Budget had failed to go far enough in attacking inflation.

The two major threats to stability in South Africa were hunger and inflation.

Mr Raw said that even those who had originally praised the Budget were now beginning to express doubts about it.

The question being asked was whether the Budget would be able to produce an economy strong enough to attack the root causes of uncertainty in the country.

He criticised both the Conservative Party for its links with the Afrikaner Weerstandsbeweging, and the Progressive Federal Party for its 'equally dangerous' links with the United Democratic Front and the African National Congress.

He urged the Government to give concrete back-up support to responsible black leadership.
GOVERNMENT increased the price of pithead coal by 19.9% yesterday and announced immediate deregulation of price control at wholesale and retail level.

Industry leaders welcomed both moves, but the Federated Chamber of Industries expressed disappointment that the increase was higher than the rate of inflation.

The price increases — the highest in recent years — comes into effect today.

It is estimated the increase will contribute to an increase to the consumer of about 5.5% on the Reef and 3% in Cape Town. The pithead price is a small proportion of the retail price, which is made up mainly of transportation and distribution costs and retailers’ margins.

The Transvaal Coal Owners’ Association (TCOA) — the marketing arm of major coal producers in the province — welcomed the price rise, saying it would help ease the accumulated burden of unrecovered costs which the industry is bearing, with minimal effects on inflation.

"The erosion of coal prices over the past decade had been reducing the return on domestic coal sales to an unacceptable level," TCOA MD Les Weiss said, adding that major investments for the exploitation of new coal reserves had become unviable.

The new price would not, he said, compensate fully for the shortfall.

Mineral and Energy Affairs Director-General Louw Alberts said that unless the continuous lag of production costs behind price adjustments were rectified to some extent, the long-term availability of coal, and thousands of jobs, would be jeopardised.

He said the decision was taken after recommendations by the Coal Advisory Committee.

Over the past 10 years, said Alberts, production costs had increased by 16% on average — due mainly to rapid escalation of labour costs — while prices had increased by an average of 12%.

Government would monitor the situation closely, he added, and if consumers were being exploited, it would not hesitate to re-instate price control.

Another feature of the new price structure is the larger differential introduced between high and low grades, intended — said Weiss — to encourage greater use of the low grades. SA's reserves of high grade coal are limited, he added.

The price of low-grade coal, used basically for cooking and heating, will rise by less than 15% at the pithead.

Price increases for Natal collieries — determined on a colliery-to-colliery basis — amount on average to the 19.9% average granted for the Transvaal and OFS collieries.
Crackdown on workers: 14 quit chamber

NELSPRUIT — All the Indian and black members of the Nelspruit and District Chamber of Commerce have resigned as a result of decisions taken at an emergency meeting concerning a stayaway by black workers last week.

The meeting, attended by representatives of the Afrikaanse Hulpkamer, the Chamber of Commerce and large organisations such as municipalities and co-operatives, was held last week.

Among the decisions taken were:
- No employees, absent from work as a result of intimidation in the townships, will be paid for the time they were away.
- All persons intending to return to work must inform their employers to prevent them from recruiting new staff.
- In the event of another stayaway, all employees not reporting for duty will be fired.

The 14 Indian and black Chamber of Commerce members, however, did not agree to these decisions.

According to one of the former executive Indian members, Mr. Yusuf Vawda, the reason for the resignations was "the irrational attitude of the chamber and other bodies towards the workers who were faced with a situation completely beyond their control — who, despite the risk of losing their lives, were expected to commute to their places of work.

We wish to denounce categorically these decisions taken at a meeting where we and the black community were not represented," he said.
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Railmen to seek action on prices

GERALD REILLY

RAILWAY workers are to make demands for urgent government action to slow down the vicious price spiral.

The demands will come from the Federal Council of South African Transport Services Trade Unions — it represents 120,000 workers — and from the annual congress of the 24,000-strong Artisan Staff Association (Asa).

Chairman of the federal council and president of the Asa, Jimmy Zurich, told Business Day yesterday government had shown itself powerless to slow down the country's rampant inflation rate.

At the root of the problem was government-administered food and other price rises and excessive State spending.

Zurich said not only were the living standards of railwaymen depressed by inflation, but their overtime and incentive bonus earnings had also been severely trimmed.

It would be made clear that railway unions had not accepted this year's 10% rises as final.

They would seek further pay adjustments.
More airfare hikes likely

DAVID FURLONGER

INTERNATIONAL airfares from South Africa may soon increase again. Airlines are applying for increases of between 3% and 7% — at a time when the oil price is at a 10-year low and the rand has partially recovered from its previous depths.

A British Airways spokesman said yesterday an application to put up fares between SA and the United Kingdom in mid-year was "in the pipeline". Confirming this, an SAA official said there was also the possibility of a fare increase on the US route.

Officials of other major international airlines operating in SA would not comment on the possibility of increases on their routes.

International fares from SA rose 15% in January in a currency adjustment caused by the rand's weakness. The rand has since partially recovered and fuel, which makes up 40% of flight, is going for a song.

According to the SAA official, the previous increase did not absorb all the losses caused by the rand's weakness.

He said increases applied for ranged between 3% and 5% to Britain, and 3% to 7% to the US.
Big users rush to coal price rise

GERALD REILLY

Costs of the bigger players — Iscor, Escom and the SA TRANSPORT Services — are virtually unaffected by the 20% increase in the price of pithead coal.

It would have no effect on Iscor costs, a spokesman said. The corporation had its own collieries and contracts with private suppliers of coking coal.

Asked if Iscor price rise were in the pipeline, he said that since the pricing system had been deregulated, Iscor had raised its prices — some in January and others in February — by about 25%. Further rises were unlikely before July.

An Escom spokesman said they did not buy coal at controlled prices but from collieries contractually tied to supply specific power stations. Only real colliery cost increases affected the price of electricity, he said.

A Sats spokesman said Transport Minister Hendrik Schoeman had budgeted for the spending of R16m in the 1985-86 financial year on coal.

In 1985-86 coal cost Sats R15m.
General raises tyre prices from today

MOTORISTS celebrating the reduction in fuel prices were brought back to earth yesterday with the news that tyre prices are to be increased.

The shock announcement by General Tyres CE Tony Versfeld comes in the wake of petrol price reductions announced last week by Mineral and Energy Affairs Minister Danie Steyn.

Versfeld confirmed at the weekend that his company would raise tyre prices by 8.75% from today.

“Costs have increased by about 40% in the past year, but price hikes — including the present one — add up to only 30%,” Versfeld said.

MICK COLLINS

“Our suppliers are required to have strategic raw material stocks.

“All stocks now being held by these suppliers were bought at a rand price of $0.46 and exchange rate benefits since then have not had a chance to work through our system.”

He said a price reduction would be considered once the market had stabilized.

Firestone MD Peter Morum said his company would also have to raise prices by a similar amount soon.

“A price increase is very much on the cards. I can’t say that it is going to be next week or next month but increases are definitely in the pipeline.

“We have not got back anywhere near our investments in raw materials. And if we don’t get that back, we may as well shut up shop.”

For the past few months, we have taken cognizance of the depressed state of the market and we did not feel it right to increase prices in one major move.

“We felt that the consumer was already reeling from a soaring inflation rate and a sluggish economy. But now we will have to increase prices. I can’t say when, but it is coming.”

Morum said that the major reason for the price increase was the rocketing cost of imported raw material.
More tyre giants to raise prices soon

FIRESTONE, Goodyear and Dunlop are to follow the lead of General Tyre which announced a 9.75% increase in the price of tyres.

Lloyd Saagman, a spokesman for Dunlop Tyre in Durban, said: "Our prices will rise from May 1 and increases will vary from 9.75% to 10.7%.

"Even with the drop in oil prices, I cannot see any way of staving these increases off. Oil price benefits will only be felt when local suppliers pass them on to us and we in turn can allow the consumer to score."}

A spokesman for Goodyear said cost pressures would "force prices up fairly soon. Escalating tariffs of raw materials will force the price increase on us."

He said that over the past eight months, prices of raw materials had risen considerably. Synthetic rubber had risen 40%, carbon black 35%, lead 44%, nylon 32%, paraffin 23%, coal 13% and steel cord 42%.

"Added to this we have had considerable increases in wages, rail tariffs, fuel and electricity," he said.

A spokesman for a retail tyre outlet said prices had increased by 30% (see graph) over the past eight months.

"In April 1985 the price of a tyre for an average-sized family saloon was R60.54. Since then we have had an increase in May 1985 of 9.25% and another increase of 4.5% in September of the same year. This year we saw an increase of 8.4% in January, and with the latest hike of 9.75% the same tyre now costs R82.24." Firestone MD Peter Morum said: "Increases are on the way I can't say when but they're going to come."

He said in terms of price increases manufacturers were nowhere near recouping costs.

"It's impossible to expect the public to absorb all the cost increases. The only way manufacturers can survive is to improve efficiency."

General Tyre MD Tony Versveld said oil price movements, either up or down, had been taken into consideration.

*Comment: Page 6*
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Comment: Page 6
Inflation - the potent hidden tax

BARRY SERGEANT in the second of two articles

Inflation is the potent hidden tax

Parliamentary John Malcomess (FFP, FE Central) said that in 1985 government collected R1.66bn in tax from the sale of cars, petrol and other related to the industry. He bemoaned Inland Revenue collecting sales tax four times (on average) from the same vehicle, as it is subject to sales tax each time it changes hands.

And Mcalmoness raised that classic feature of many hidden taxes, the collection of tax on tax. This process (perhaps) just as sinister as inflation but its application can be said to be less arbitrary. It is argued by Mcalmoness, sales tax is calculated on retail price which already embraces one or more important.

Part of the petrol price before the 15% sales tax is imposed are customs and excises and levies for the national road fund, the central energy cost and the national road fund. The only same in collecting taxes we take is that more tax is collected, the process is imposed to justify or countrance in economic terms.

Tackle the inflation/tax issues any way you may, inflation is a tax. In their tax systems governments have come to benefit from inflation in countless ways. In increasing revenues, governments have a vested interest in not decreasing inflation. There are many simple solutions to the problem but the apathy for change in SA is low.

Michael Katz, a member of the Mango Commission on tax, has said that inducing inflation is a form of hidden tax, which would solve the inflation/tax problem would institutionalize inflation. He is saying, in other words, that by providing an excess that tax system to recognize that inflation actually exists but one that tax system to recognize that inflation actually exists or that tax system to recognize that inflation actually exists.

Perhaps inflation heads the list of hidden taxes but others are voting for the top policy less seen in

rates added by government. Secondly, deficit spending must be financed. As state debt accumulates, the interest bill grows and taxes are raised to discharge (at least part of) the liability. This particular form of hidden tax has now reached massive proportions in SA.

The third largest single items on this year's spending programme is for "state debt costs". The amount estimated in R3.2bn - more than the budget for welfare and health combined. Government also raises hidden tax from the prescribed set of requirements of financial institutions.

Although rates on prescribed assets are earning market rates, traditionally the yields have been low, and pensioners, life insurance policy holders and investors have lost out. And an unacceptably amount of hidden tax is raised by government via the extra-normal profits of government monopolies.

Some, SABC TV, Posts & Telecommunications and their ilk fall into the category of institutions (possibly) charging prices which are in excess of costs that would be charged were circumstances more competitive. The same token government-rationed services and oligopolies also eat into the taxpayer's pocket.

The so-called "TV industry" is a classic example, and to some extent at least, beer, tobacco, diamonds, glass, finished paper, all the commodities marketed by the single-channel fixed-price agricultural control boards, and so on. The tangible merits of the argument that monopolists and their close relatives are an impact on the taxpayer are, in the nature of man, open to sleepwalking disaster.

It may be of interest that Charles Sturt's study of the (very high-rid) Swedish tax system led him to a simple conclusion. "Increase an hidden taxes considerably the major portion of total tax income. The cry goes regular that the higher a country makes visible taxes, the more it will attempt to meet invisible taxes. Taxpayers may live with the perception of being taxed only by visible taxes. When they analyze further effects of total taxes on their earnings, they may wake up. If they can cope with pre-existing feelings, they should not review the size of SA's underground economy.

It is likely that high visible tax rates may pass while but look effect of invisible taxes have increased the underground economy generating the production of tax-free activities. The total amount of tax-free economic activity is worth billions of rand of sugar-nursed taxes.
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Comment: Page 8
Inflation seen to ease

JOHN TILSTON

The rate of inflation as measured by the producer price index eased in February to an annualised rate of 20.78% from January's 22.21%.

In the past, the rate of increase in the index has been a pointer to future price increases for consumers.

However, the extremely low level of inventories in the economy and the poor profit margins faced by manufacturers who immediately pass on price increases means that the index is soon reflected in consumer prices.

But the index is still uncomfortably above February's consumer price inflation of 16.6%.

Louw says the coming months should see the deceleration of increases in the rate continue, especially as the impact of lower oil prices is felt. He expects consumer prices to be increasing by 15% by the end of the year.

According to the Central Statistical Services figures released yesterday, the main impetus for the production price increase still comes from imported components.

In February, they imported commodities increased by a year-on-year 30.6%. But the trend appears downwards as the monthly imported component moved up by 1.5%, which gives an annualised rate of just over 25%.

The monthly rise in the index was 1.6% (which annualises to just over 20%), compared to the January increase of 2.1%.

Last February, producer prices increased by 14.9%.
Build-up in prices of aluminium, sand and steel

The prices of aluminium, sand and steel went up substantially between January and February this year, according to the Central Statistical Services. Aluminium sheeting went up by 13.9%, sand by 7.4% and mild steel angles by 9.3%. According to the Aluminium Federation of South Africa, the main components of the aluminium price increase were the increasing cost of imports of alumina and petroleum coat products, which are paid for in dollars, and the recent electricity tariff increases.

Stephen Cranston

The SA producer Alusaf spends R100m a year on electricity to produce 170 000 tons and is very sensitive to increased electricity prices. The sand price was held down between February last year and January this year to less than 2%, but the quarries were beginning to make substantial losses after the New Year increases in fuel, which accounts for 90% of costs to the retailer, it was decided to implement the 7.4% increase.

Sand quarries have large fixed costs, so profitability fell considerably with the fall in demand. The steel increases reflected Iscor's decision to raise some steel prices by about 9.5% on January 1, and others by the same amount on February 1. About 25% of Iscor's costs is accounted for by raw materials and 14% by refractories, which were the main component of the price increase.
White maize price goes up 13.9 percent from tomorrow

CAPE TOWN — The consumer price of white maize will be increased by 13.9 percent from tomorrow and that of yellow maize by 9.7 percent.

The producer price of white maize will be increased by 10 percent to R240.35 per ton and that of yellow maize by 5 percent to R225.27 per ton from May 1.

The Minister of Agricultural Economics and Water Affairs, Mr Greyling Wentzel, announced the increases today.

The increases are likely to affect the price of livestock feeds.

Mr Wentzel said maize producers have been experiencing sharp increases in the price of inputs. From January 1985 to January 1986 the prices of farming requisites increased by 23.1 percent.

The prices of some items such as tractors, trucks, fuel and pesticides had increased by more than 50 percent.

Mr Wentzel said the Government had decided to increase by R17 million to R129 million the subsidy on the selling price of the Maize Board.

After this subsidy had been taken into account the consumer price still had to be increased, he said.
Survey: salaries on a downward trend

JOHANNESBURG — Salary increases for South Africans of all race groups are still on a downward trend and continue to lag behind the inflation rate.

Figures published by the remuneration division of P-E Corporate Services in their April salary survey, show that the overall movement in basic salaries for all race groups from July 1985 to March 1986 was only 5.6 per cent while the movement in the Consumer Price Index from the start of the year to January 31 this year was 10.7 per cent.

"The economic recession continues to mitigate against companies awarding high increases," said Miss Jane Ashburner, manager of the division.

She added that whereas in the past the CPI was used as the primary measure to determine increases, this was no longer the case.

"Forces of circumstance have dictated that companies' financial results be the only determinant of salary increases," she said.

"From the employee's point of view," Miss Ashburner said, "high inflation has made a mockery of most increases received over the past year as they don't come near the inflation rate. In real terms, employees are worse off than they were five years ago due to the massive decline in the purchasing power of the rand in this country."

The survey, which uses data provided from more than 1,000 organisations employing 1.2 million staff of all race groups, shows that whites have once again received the lowest increase at 5.3 per cent against the average 5.6 per cent.

For the period January to December 1985, whites received a 9.9 per cent average increase against an average increase of 10.8 per cent.

Asians received the highest average increase at 7.0 per cent, blacks at 6.9 per cent and coloureds at 5.6 per cent. Although all three groups received higher increases than whites, they too come in significantly below the inflation rate.

For the five-year period from July 1981 to March 1986, the cumulative increase of 39.8 per cent awarded to whites lags behind both the cumulative CPI at 40.9 per cent and the cumulative increase awarded to blacks at 82.7 per cent.

For this period, whites are thus lagging behind the cumulative CPI by 23.1 per cent while blacks are lagging by only 4.2 per cent.

In terms of salaries, cumulative increases for whites are lagging 18.9 per cent behind that for blacks for the past five years.

The cumulative increase for Asians is 81.5 per cent and for coloureds 72.0 per cent. However, Miss Ashburner pointed out that the higher percentage increases granted to blacks could be misleading as the increases awarded are invariably on lower average salaries.

A 20 per cent increase on R300 a month will put an extra R60 in a man's back pocket while a 20 per cent increase on an average white salary of R1,200 is an increase of R240," she said, adding that the wage gap will realistically be closed only once non-whites move into better paid, higher skilled jobs and this is the direction in which companies' efforts should lie.

Among whites, highest increases went to sales and marketing staff who received a 7.4 per cent increase against the average 5.3 per cent. "This is encouraging as this category has received low increases over the past two years when companies were consolidating under the onslaught of the prolonged recession," said Miss Ashburner.

"The accent is once again moving towards capturing market share and pressure is being placed on sales and marketing staff to do this. They are being compensated accordingly," she said.

Lowest increases went to general administrative staff at 3.5 per cent and it is interesting to note that data processing staff are also low on the ladder at 4.9 per cent. "DP staff have received high increases over the past few years largely due to the continued shortage of qualified staff in an industry that is growing at a rapid pace. The recession, however, has forced companies to bring them more in line with the general market rates," said Miss Ashburner.

For the period January to December last year, DP staff received the highest increase at 13.2 per cent against the average 9.9 per cent.

Increases granted in the manufacturing and construction industries are also low with operations and management categories receiving an average 4.1 per cent increase. These industries have been hard hit by the recession and the increases continue to reflect this.

"South Africans must thus accept that they are going to have to live with low increases for some time to come, which will obviously have a negative impact on general standards of living," she said."
Employees worse off than five years ago

JOHANNESBURG—Salary increases for South Africans of all race groups are still on a downward trend and continue to lag behind the inflation rate.

Figures published by the remuneration division of FPE Corporate Services in their April salary survey, show that the cost-of-living movement in basic salaries for all race groups from July 1985 to March 1986 was only 5.6 percent while the movement in the Consumer Price Index from July last year to January this year was 10.7 percent (The CPI figure for March has not yet been released, making an eighth month comparison impossible at this stage).

'The economic recession continues to mitigate against companies awarding high increases,' said Miss Jane Ashburner, manager of the division.

She added that whereas in the past the CPI was used as the primary measure to determine increases, this was no longer the case.

'Forces of circumstance have dictated that companies' financial results be the only determinant of salary increases,' she added.

Mockery

'From the employee's point of view,' she said, 'high inflation has made a mockery of most increases received over the past year as they don't come near the inflation rate.

'In real terms, employees are worse off than they were five years ago due to the massive decline in the purchasing power of the rand in this country.'

The survey, which is the most comprehensive undertaken in the country with data provided from more than 1,000 organisations employing 1,400,000 staff of all race groups, shows that whites have once again received the lowest increase of 5.6 percent against the average 5.6 percent.

For the period January to December 1985, whites received a 5.9 percent average increase against an average increase for all race groups of 10.8 percent.

Increases went to sales and marketing staff, who received a 7.4 percent increase against the average 5.3 percent.

'This is encouraging as this category has received low increases over the past two years when companies were consolidating under the onslaught of the prolonged recession,' said Miss Ashburner.

The accent is once again moving towards capturing market share and pressure is being placed on sales and marketing staff to do this. They are being compensated accordingly,' she said.

Lowest increases went to general administration staff at 3.9 percent and it is interesting to note that data processing staff are also low down the ladder at 4.8 percent.

Manufacturing

'DP staff have received high increases over the past few years largely due to the continued shortage of qualified staff in an industry that is growing at a rapid rate. The recession, however, has forced companies to bring them more in line with the general market rates,' said Miss Ashburner.

For the period January to December last year, DP staff received the highest increase at 13.2 percent against the average 9.9 percent.

Increases granted in the manufacturing and construction industries are also low, with operations and management categories receiving an average 4.1 percent increase. The engineering industries have been hard hit by the recession and the increases continue to reflect this.

Among blacks, the highest increases went to clerical staff at 7.6 percent and this was also true for coloureds, where this category received an average increase of 7.2 percent.

'The post five years have seen an increasing number of non-whites moving into these positions and they are being compensated in line with their increased responsibilities,' said Miss Ashburner.

And if employees are looking to this year for any improvements, they can forget it.

Among the companies surveyed, 71 percent are predicting increases for the year of between 7.5 percent and 12.5 percent.

Standards

'Double-digit inflation will remain for some time to come and although it is almost certain to move down from its present high (February was 18.65 percent) it is clear that it won't come down much lower than 16 percent for the year,' said Miss Ashburner.

'This, combined with the fact that company profits will continue to be adversely affected by the prolonged recession, almost certainly means that increases will continue to lag behind inflation in the short term.'

'South Africans must thus accept that they are going to have to live with low increases for some time to come, which will obviously have a negative effect on general standards of living,' she said. — (Sapa)

Asians

Asians received the highest average increase at 7.0 percent, blacks at 6.6 percent and coloureds at 5.9 percent. Although all three groups received higher increases than whites, they too come in significantly below the inflation rate. For the five-year period from July 1981 to March 1986, the cumulative increase of 63.8 percent awarded to whites lags behind the cumulative CPI of 86.9 percent and the cumulative increase awarded to blacks at 82.7 percent.

For this period, whites are thus lagging behind the cumulative CPI by 33.1 percent while blacks are only lagging by 4.2 percent. In terms of salaries, cumulative increases for whites are lagging a massive 18.9 percent behind that for blacks for the past five-year period.

The cumulative increase for Asians is 81.5 percent and for coloureds 72.0 percent.

Marketing

However, Miss Ashburner pointed out, the higher percentage increases granted to blacks could be misleading as the increases awarded are invariably on lower average salaries and wages.

'A 20 percent increase on Rs 300 a month will put an extra Rs 60 in a man's back pocket while a 20 percent increase on an average white salary of Rs 200 is an increase of Rs 40,' she said, adding that the wage gap will only realistically be closed once non-whites move into better-paid, higher-skilled jobs and this is the direction in which companies' efforts should lie.

Among whites, highest in-
Inflation Rate up at 18.19%

The inflation rate increased to 18.9% in March, following its decline in February to 18.05% from January's record 20.7%.

The high rate continues to act as a drag on economic recovery.

Capital market rates, the most immediately sensitive to the rate of inflation, firmed only slightly on news of the higher Consumer Price Index. The bellweather RSA 15% 2005 closed at 17.35% after trading down to 17.25% earlier.

The CPI gained 1.16% in March (an annual rate of just over 14%). While that is encouragingly lower than the year-on-year increase of 18.5%, it is higher than the February monthly increase of 0.83%.

For the first time in over 12 months the food section index of the CPI was unchanged. It was largely food price increases that pushed January's inflation rate to 20.7%.

Old Mutual economist Rob Lee said the increase was as expected because of the small monthly increase in March last year, which effectively assured a higher March '99 rate.

The lower-income group index rose a year-on-year 18.12% in March, the middle-income group index rose 18.73% and the higher-income group index, 19.16%.
Another 8% rise in TV set prices looms

Cherylén Reton

The price of domestic appliances and television sets is set to rise again. Manufacturers warned yesterday that unless the dollar/yen cross rate improved these goods would go up by at least 8% in mid-year.

"Manufacturers are running about 8% behind on material costs and a mid-year price adjustment is expected," said Barlows manufacturing director Peter Dupin.

The retail price of a 52cm colour television set, which sold for R1 899 six months ago and was now selling for R1 799, was expected to sell at R1 699 by July, according to manufacturer Tek.

Tek MD Mike Bosworth criticised the share of costs he said were commandeered by government.

"Its take in white and brown goods is extremely high and has the effect of pushing up prices even more. Taking an exchange rate of $0.50, government's share of a set retailing at R1 799 is R343," he said.

Bosworth said the favourable rand/dollar exchange rate was countered by the rand/dollar/yen cross rate, which was not likely to improve in the foreseeable future.
THE Federated Chamber of Industries (FCI) has accused government of misleading consumers on the actual extent of the maize price increase.

Minister of Agriculture Greylng Wentzel announced this week that the white maize price would be raised by 13.5% and yellow maize by 9.7%.

But FCI agricultural sub-committee chairman L K Japhet told Business Day yesterday the actual increase to millers and feed manufacturers would be 23.1%.

GERALD REILLY

These higher costs would be passed on to end-users.

Japhet said the minister’s announcement ignored the fact that from June there would be a monthly price rise of R3/ton.

“Effectively, therefore, until the end of the season next April, there will be an additional increase of R27.50/ton on both types of maize.”

The main cause of the big increase, Japhet claimed, was that maize was still marketed through a fixed price mechanism that threw surplus losses and carrying costs on to consumers.

The SA Poultry Association and the Animal Feed Manufacturers Association (Afma) are also angry at the misleading information about the maize price.

After a meeting in Johannesburg yesterday, Afma’s Roger du Toit said the dramatic real increase would impact heavily on production costs and pricing of poultry and poultry products, including eggs.
Behind the inflation statistics

Treurnicht du Toit is head of Central Statistical Services (CSS).

FM: Can you explain the reason why you introduced an embargo on the CPI recently?
Du Toit: It is amazing how many people are suddenly interested in the consumer price index (CPI) and even the production price index (PPI). Many calls are received from brokers, lawyers and journalists on the day of the CPI's release, so we thought it better to embargo the figure.

Why do so many doubt the accuracy of the CPI?
The main doubts are based on the weights and price information. It can be proved statistically that even substantial weight differences have little impact on overall CPI. On price information, our sample of 600 items is much larger than other countries. In the US and UK, for example, only 400 and 350 items respectively are monitored. It must be remembered that the all-income group index — generally accepted as the inflation rate — measures the change in prices of goods and services for an average household and cannot be rigorously applied to a particular individual or group.

Independent studies, as those by Old Mutual and Volkskas, demonstrate that CPI reflects price changes accurately. Is there any political pressure to adjust the CPI?

None. CSS releases all figures independently and without the knowledge of any other party. I suppose I might notice an alarming figure and feel I should inform the minister — but this has never happened, not even when CPI went to 20.7%.

How does the CPI take discounts into account?
Because actual net selling prices are filled in on the questionnaire, discounts are taken into account. Prices are not indicated or quoted prices, but actual selling prices. Furthermore, discounts are generally negotiated on a regular basis, which means only substantial changes should significantly alter CPI.

What other categories are included in the CPI?
The CPI is published according to three income groups (less than R7,000, R7,000-R21,000 and over R21,000), 12 regions and over 40 product groups. The lower-income group naturally spends relatively more on basic needs and weights are adjusted accordingly. For example, 60% of their total expenditure goes on food, clothing, footwear, rent and public transport. Middle and higher-income groups spend 47% and 31% on these items.

Regional indices, of which the Witwatersrand has a weight of 41, do not reflect whether it is more expensive in one area, but indicate price changes in each area and enable a comparison of these since the base year.

Vox the index is almost the same for these income groups. Does this indicate the indices are not weighted properly?
Price changes over the past five years were similar for each group.

Why is direct tax excluded from the CPI?
The amount of tax paid is not connected to services used by the average household. Pension contributions and capital expenditure (such as housing loan capital repayments) are also excluded, but GST and other indirect taxes are included.

Are all prices collected monthly?
We try to stagger them. Grocery, fresh meat and fish, vegetables and fruit, milk, wood and coal, clothing and footwear are collected monthly. These change most often. Rent and domestic wages do not change that often, so are collected annually. All other categories are collected quarterly. For instance, cigarette and alcohol prices are collected quarterly from January, new car prices and petrol quarterly from February, and textile and furniture prices quarterly from March.

How are respondents chosen?
From a survey every 10 years. However, if big stores open we include them as they account for large trade and are thus important to CPI. If shops "die," they are replaced. It is, thus, flexible.

How are the basket and the various weights of goods and services established?
On the basis of an expenditure pattern in a 1975 survey. This is being revised following a survey last October-November of 5,200 white households in the 12 main metropolitan areas. A survey of other population groups (also about 5,200 households) is being undertaken by the Bureau of Market Research. New weights should be introduced later this year. The cost is around R500,000, so we cannot conduct a survey that regularly. However, we will revise weights every five years, instead of every 10, as in the past.
Consumer confidence at a low level

Real retail sales may drop again

INFLATION-ADJUSTED retail sales are expected to decline for the fourth consecutive month in April, highlighting the disappointing performance of the economy.

The optimism of the first two months of the year that rode on the back of the strengthening rand, apparently successful foreign debt talks and moderately promising political developments, appears to be dwindling rapidly. While it appears common cause that the economy bottomed in the final quarter of last year, it seems the economy is now moving sideways.

The expected real (ie inflation-adjusted) retail sales for April show a seasonally-adjusted decline of 2.8% compared with March and a 7.5% decline from the depressed sales of last April. Consumer spending must ultimately play its part in any meaningful upswing in the economy.

Southern Life economist Mike Daly says consumer confidence is still at a low level — lower than at the start of the economic recovery in 1978. Factors making consumers loath to spend money include inflation at record levels, a collapsed exchange rate (compared to 1976) which has raised import prices to prohibitive levels (see car prices as an example) and political uncertainty.

In his latest Economic Comment, Daly says that unless there is a significant increase in the gold price, an anaemic economic recovery lies ahead.
Retailers and consumers join protest

Growing anger at increase in price of maize

By Jackie Uawin

There is growing anger at the maize price increase—estimated by millers to be 25 percent by later this year—and what is claimed to be a Government cover-up to hide the extent of the increase.

Mrs Ellen Kurwayo, president of the Black Consumer Association, says a 15 percent increase in the maize price could result in death for many unemployed people.

But a spokesman for the Department of Agriculture demed the Minister’s announcement misleading.

He said the Minister of Agriculture had clearly stated on April 22 that the selling price of white maize by the Maize Board would increase by 13.9 percent and yellow maize by 9.7 percent the following day, and prices would increase by R5 a ton on a monthly basis to partially make provision for handling and storage costs.

“The eventual price increase for maize buyers will therefore depend on the time of purchase and quantity kept in storage.”

A similar system has been successfully applied in the marketing of wheat for many years.

“It must also be borne in mind that the prices of maize products are not controlled and consumers should shop around.”

The Housewives’ League has appealed to the Government to reconsider the price increase, although it supports the increase to the producer.

The Federated Chamber of Industries, the South African Poultry Association and the Animal Feed Manufacturers’ Association and major retailers have deplored the magnitude of the maize price increase and the “misleading way this has been conveyed to the public.”

Cover-up claim

A Press statement issued jointly by the South African Poultry Association and the Animal Feed Manufacturers’ Association states:

“It appears as if a new system was used to cover up the real size of the increase.”

Chairman of the FCI sub-committee on agriculture, Mr Lance Japhet, said the actual increased cost to the miller and feed manufacturer will be more than 25 percent.

These costs would have to be passed on to the end user.

He said the Government’s announcement this week that the consumer price of white maize has been increased by 13.9 percent and yellow maize by 9.7 percent ignored the fact that from June 1 there would be a monthly price increase of R5 per ton.

“As maize is a basic commodity in the diet of both man and beast, the substantial cost increases will have both a direct and spiral effect on the already unacceptably high consumer price index and in areas where they can be least afforded.”

The SA Poultry Association and the Animal Feed Manufacturers’ Association statement also said:

“The producer price was increased from R214.65 to R225.27 per ton. The difference between the producer price and the consumer price is, therefore, R11 per ton.

“This will be used to offset losses incurred in the export of surplus maize and the export of surplus maize and the consumers must now pay for this as opposed to the previous system where the producers carried this cost.”
No short-term upturn in sight, says BER

SOUTH AFRICANS will remain under economic siege this year, says the latest issue of Economic Prospects of the Bureau for Economic Research (BER).

Its author, Ockie Stuart of the University of Stellenbosch, expects consumers to come under pressure from declines in real wages and higher tax rates in July when higher levels of perks tax take effect. Private consumer spending will drop by 1% from last year's depressed level.

Real spending on durable items is projected to show its sixth consecutive annual fall and be at the level of such spending in the late seventies. It should fall 9.4% this year. Last year it fell 19.5%.

Spending on semi-durables should again be affected by boycotts. Savings will fall, reflecting the difficulty many consumers are having in making ends meet.

The personal savings ratio (personal savings as a percentage of disposable income) should fall to 3.7% in the first quarter from the first quarter's 6.9%.

Fixed investment should continue in the doldrums. It has fallen continuously since 1982 at an annual average rate of 4%.

This year it is likely to decline by 7.7%.

Not even the public sector will boost investment. On average, capital formation is expected to decline by 4%. Major cutbacks by public corporations will result in a fall of 14% in fixed investment.

Much of the private sector, heavily dependent on state spending, will, therefore, feel the pinch.
Milk price set to rise 3c

THE Cabinet is expected to approve an increase of about three cents a litre in the producer price of fresh milk from the beginning of June, according to Pretoria sources.

The producers’ last increase, granted in June last year, amounted to between 3.2c and 3.5c a litre.

Half a cent, however, was levied to help meet the costs of “surplus removal”.

Industrial milk producers’ last increase was in December last year — 4.3% or R1.42 for 100kg.

SA Agricultural Union (SAAU) national dairy committee deputy chairman Christie Burgers said yesterday that production costs in the industry had “gone through the roof”.

There were few if any dairy farmers operating at a profit, he said.

Many were registering big losses.

However, when the price was fixed cognisance had to be taken of the effect of an increase on consumption.

Agricultural economists agreed that the price of milk and milk products had reached a sensitive level where even a slight price increase could have a significant effect on consumption.

They said that when the new price was determined, the huge surplus of butter — estimated at between 6 000 and 8 000 tons — would have to be taken into account.

Recommendations on how to reduce the surplus, among them big price reductions, are now with the National Marketing Council.
Milk price increase in the pipeline.

A price increase in the producer price of fresh milk is in the offing but has not yet been approved by the Minister of Agriculture.

A spokesman for the Department of Agriculture said the Dairy Board has asked for an increase in the price of milk and the request is still being considered by the National Marketing Council. He could not say what the increase would be.

The last increase in the producers' price was in June last year of between 3.2c/l and 3.5c/l.
Many ratepayers just can’t pay

Paula Bontjeman

Many ratepayers in Port Elizabeth are finding it increasingly difficult to pay outstanding rates and service accounts.

Outstanding rates and service accounts are increasing at such a rate that the city treasurer might have to take on additional staff to deal with the workload.

The city treasurer, Mr. M. M. Nel, said that the number of summonses issued for outstanding rates was increasing, and that people were finding it difficult to make ends meet.

He said that people should avoid allowing matters to get to court because once judgment was obtained against them it affected their credit rating and might prevent them from gaining credit from a bank at a later stage.

Another symptom of the dire financial straits in which people were finding themselves was the increase in the number of liquidation cases in which the municipality was one of the creditors.

This had stood at 110 cases in December and had risen to 250 this month.

The municipality was also experiencing a lot of problems with people who failed to pay their water and electricity accounts.

"However, with them we have a lever because we can cut off the supply and mostly people do find the money to settle the bill."

The problem with disconnections was that, apart from the reconnection fee, people who might have paid their original deposits some years ago would find themselves having to pay substantial new deposits because these had to be twice the average monthly consumption.
Little to cheer

If GDP rises around 3% in 1986, South Africans should content themselves with only a subdued cheer. A sluggish 1.9% average growth rate between 1980 and 1985, including gold booms — does not presage a stimulating performance in the near future.

All last year's bag and rug bears are still with us — if not to a greater degree. High inflation, rising tax burdens, weak rand, socio-political upheaval, capital outflows, lack of investment spending, a bloated State sector, and weak confidence are hardly conducive to growth and wealth creation.

At constant 1980 prices GDP dropped 3.3% last year to R1,946 per capita, virtually the same as in 1972 and 8.5% lower than in 1981. Real gross domestic spending fell 7.8%. Only a rise in export volumes of 8.3% and a fall of 14.4% in import volumes prevented an even worse performance.

Standard Bank points out that “poor performance is directly related to a redistribution of resources in favour of low-growth alternatives.” A low rate of capital formation has impacted on the real fixed capital stock — which grew only 2.6% in 1985.

Scepticism abounds whether the slight “stimulatory” measures announced in the 1986 Budget will alleviate stagnation. Louis Geldenhuys, of stockbroker George Hayn, says, “[The Budget won’t do the trick. We are faced with a Catch-22 on growth.”

Geldenhuys cites two immediate stumbling blocks: lack of confidence and lack of consumption spending capacity.

Economists naturally disagree as to the remedial strategy.

Standard Bank’s economists take the line that “to embark upon a growth phase with an inflation rate near 25% would be courting disaster. It is necessary that monetary policy be tightened rather than loosened. If the present monetary stance were to be maintained, it would be conducive to too rapid a growth in credit and aggregate demand.”

Resort to another round of the stop-go disease can only exacerbate the problem. Andre Haines, the bank’s group economist, suggests a gradualist approach, with a prerequisite of interest rates 2%-4% above the inflation rate. In common with others, he believes polities is the key.

Geldenhuys is more of the interventionist school. He believes government should adopt a redistributory monetary and fiscal policy as a catalyst for greater capital expenditure. “Tax cuts only benefit the least disadvantaged members of society.”

But with real fixed investment having declined steadily since 1981 (it fell 2.1% in 1985), a substantial backlog has to be made up before the capital stock can sustain a recovery. There is also worrying evidence that because of new investment required to expand capacity since 1980, SA can expect little boost from this quarter.

A minimum of 5% real GDP growth is needed to support the growth in working population. Indeed, 1.6 new jobs will have to be found by the year 2000, according to Gavin Relfy, chairman of Anglo American.

With unutilised capacity in manufacturing running at 16%, there’s little chance of growth in employment there, either.

With the infant recovery so fragile, based mainly on psychological factors stemming from budget measures, the risk of it being aborted is high.

Privatisation

Timber!

Pretoria’s recent decision to dispose of its timber interests signals this year’s first major step to economic freedom. What were words for so long have become deeds. The timber decision, too, is the result of an investigation instituted by former PM and State President John Vorster.

The next moves? According to insiders these will be made in August by proclamation in terms of State President PW Botha’s recently announced executive deregulation powers.

Observers, however, remain uncertain of what is "politically achievable." Expect early proclamation to be on minimum standards of employment and building regulations. Another likely early area is licensing — where encouraging steps have already been taken in the liquor trade.

The first moves on Zebra (Zero Based Regulation Areas) could also be made. And transport — on a policy level — is set for deregulation over the next year. Another "obvious" area for privatisation is municipal transport.

Two international privatisation experts have arrived to present conferences hosted by the Soweto Chamber of Commerce and Industry.
Says At Engelbrecht, chief economist at Volkskas: "Uncertainty is very much in the limelight. The political situation and continuing unrest are clearly staking points for the economy".

Engelbrecht believes that because of this, only government is in a position to get the economy off the ground: "Our problem is a lack of final demand. With hindsight, I would have liked a larger deficit in the March budget, with higher government spending to help generate demand.

He says if economic activity goes down, then the deficit would go up anyway, so why not have more deficit first and try to boost the economy meanwhile? This must go hand in hand with stability. "But how do you handle unrest and so forth in such a way as to defuse uncertainty in the short term?"

It's an open question. What is clear, as he points out, is that SA must avoid the "vicissitude circle" of depreciating currency and increasing inflation.

Rob Lee, chief economist of Old Mutual, has warned in the latest Economic Monitor that SA could be on the brink of hyperinflation.

"Generally he takes a more optimistic view, in contrast to the Bureau for Economic Research (see Box) But some of his comparisons with countries that have trod the path toward hyperinflation hold a familiar ring. Hyperinflation has tended to happen in countries with:

- Small and open economies where "significant deterioration in the BoP outlook reduces scope for non-inflationary growth."
- Increased foreign debt commitments. The average inflation rate of some Latin American countries, for instance, leapt to 245% a year after the 1982 debt crisis, when they were required to repay some of their previous massive capital inflows.
- An export profile dominated by commodities, where "wide fluctuations in export prices can be very disruptive."
- A "depreciating currency is the likely outcome," raising the possibility of a vicious circle of depreciation and inflation egged on by indexation, and
- Severe pressure on government finances, particularly when associated with persistent underestimates of future demands on spending. Fearing unpopular tax hikes, such governments are tempted to monetize the resulting budget deficit.

Lee also points out that SA did not share the disinflation trend of the industrialized world in recent years. "Our inflation rate is four times higher than the average for the seven major Western economies.

"The eventual inflation outcome will obviously be determined by the policies followed by the authorities," says Lee.

Probably the key warning signal to hyperinflation would be the start of indexation. Lee says the danger comes as inflation tends to discourage monetary savings. A typical scenario would be, indexation of certain saving instruments to maintain sufficient cash flows to finance government, thereby broadened "officially" indexed, followed by skyrocketing interest payments, rapid increases in government spending, finally, the budget deficit is monetized.

So far, indexation in SA has reached no further than the informal level, mainly in wage bargaining. But SA does have some of the ingredients: it is an open economy, has a weak currency, relies heavily on commodity exports - especially gold - and has large foreign debt commitments. Government consistently underestimates its spending demands. Also, if the economy does pick up, our BoP surplus could disappear.

But what really concerns Engelbrecht is "that every time we move into an upswing, we also move into an upswing in CPI."

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**Inflation Rate**

The faltering economic upswing may frustrate businessmen, but patience may be the only chance of avoiding hyperinflation already danger signs are there.

It was around mid-1985 that the inflation rate rose out of the 10%-16% range where it had remained since 1970. Significantly, it was the time of the State of Emergency, the Ruben speech and the temporary closing of financial markets. Political instability had moved into higher gear — and so had inflation.

Now hovering around 20%, if nothing else it has made businessmen familiar with the term "hyperinflation." As if the political situation were not enough, hyperinflation could unshackle the most optimistic entrepreneur. So it is sad, but not surprising, that many businessmen and investors are sitting on the fence.
Pick 'n Pay sit-in pay strike planned

About 6000 members of the Commercial, Catering and Allied Workers’ Union (Ccawusa) were expected to stage a sit-in strike today at 60 Pick 'n Pay concerns around the country after wage talks between the union and the company deadlocked yesterday.

A Pick 'n Pay spokesman said today the group had received reports of work stoppages from stores, but that it was too early to gauge the extent of the strike. Contingency plans had been made and would swing into action immediately.

Housewives had phoned to offer help. School children, university students, casual employees and white monthly-paid staff would stand in for the strikers.

Those expected to go on strike included packers, till operators, cleaners and warehouse staff.

According to company estimates the strike is expected to affect 38 stores, warehouses and hypermarkets and will involve a maximum of 5,200 of its 13,100 Black employees.

The decision to stop work follows Pick 'n Pay's failure to meet Ccawusa's ultimatum to agree to a R90 a month across-the-board increase by yesterday afternoon. Pick 'n Pay has offered the workers a monthly increase of R60, backdated to March 1, or a split rise of R30 from March with a further R30 in July.
INFLATION AND THE RAND

Mirror, mirror...
The relationship between the rand and inflation has played a significant role in the economy and will continue to predominate for the coming year.

From the end of 1983 to the end of 1985 the exchange rate rose more than halved, mirrored by a doubling in the annual inflation rate. The massive depreciation is clearly seen in the import component of the production price index (PPI), which accelerated from 3.5% in May 1984 to 32.7% in January 1986. Factors such as the surcharge on imports, administered price rises and food price increases have contributed to the most severe recession for 50 years. Economists preface all forecasts with the proviso that stability of the rand is essential. With the currency around US$50c, inflationary pressures can be contained and could help restore confidence.

Conversely, high inflation makes exports uncompetitive. This will weaken the currency, leading to further cost-push pressure. Volkas' economist Adam Jacobs says that because of SA's "unique circumstances," emphasis must be placed on productivity to make South African goods competitive and justify a stronger currency. "Equally important is price stability, since experience has shown that few developments repress growth as much and have as adverse an effect on the BoP as an inflation rate consistently higher than that of one's major trading partners."

Of relevance to this is the structure of SA's "big business" and uncompetitive production runs in much of the manufacturing sector. Thus, together with government stress on import substitution, has built an inflationary bias into the economy.

The consensus forecast on the exchange rate is in the US$45c-US$50c range, with upside potential against sterling, the D-mark, and the yen. However, with pessimism on the sustainability of higher growth, the rand could weaken during 1987. Ian MacFarlane of Nedbank says "I am pessimistic on the prospects for the rand, mainly because of the differential in SA's inflation rate with that of its trading partners. Exporters are having to discount to remain competitive, so a lower exchange rate is likely in 1987." MacFarlane believes we can look to an inflation rate in the 16%-17% range this year.

A number of favourable factors will alleviate inflation, including high idle industrial capacity and low demand pressure, and the fuel price effect, cost-push factors working their way out, and diminishing concern over foreign debt, which will give some support to the rand. Observers also expect that long-term the dollar will continue to decline.

"A critical factor is the gold price, to give some leeway on BoP," says Adam Jacobs. "Any drop below $330/oz for long could be problematic for the rand and inflation, and pressure the BoP."

The Reserve Bank has ruled out a pegged rand. The new deal of prudent monetary and fiscal policy should be reflected in the rate of inflation and the rand during 1986.

Of course, one must avoid the misconception that a rand appreciation is necessary good and depreciation bad. As Reserve Bank Governor Gerhard de Kock says "The basic consideration is that the exchange rate must at all times be realistic and accepted as such by the markets."

Brian Kantor, of UCT, is optimistic on the outlook for the rand and inflation, as last year's supply-side shocks are unlikely to recur. He sees an exchange rate of US$50c for the year and an inflation rate of 15% at year-end, which he believes will fall to 10% or less in the first quarter of 1987.

Rudolf Gouws, economist at Rand Merchant Bank, forecasts a slight rise in the rand, but with limited upward potential, and inflation at 15%-16% at year-end, falling to 14% or below by first-quarter 1987. Like other economists, he stresses the importance of exogenous factors in determining whether tentative forecasts are realised.

But long term, most agree the rand is a declining currency. Economists generally feel that the authorities have no more than tinkered with the economy's underlying problems. Prices of primary commodities are going to deteriorate - a gloomy prognosis for the terms of trade. As things stand, a "realistic" exchange rate - a maximum of 50c - is in SA's best interests, since this should boost exports and discourage demand for high-cost imports.
CONSUMERS can brace themselves for increases in the price of bread and fresh milk within the next few months.

A Darry Board recommendation for a price rise for fresh-milk producers, now being processed by the national marketing council before being submitted to Agricultural Minister Grevling Wenzel, An increase of at least 3c/1 is expected to be approved by the cabinet food committee.

And the first move in what is certain to be a big bread price hike from October 1 will be taken early next month — a meeting between the Wheat Board and producers on the new wheat price.

The bread price was raised last October by 5c a loaf — white to 70c and brown 50c. Wheat Board funds were used to avert a price rise from April 1 when the 1985/86 R220m subsidy ran out and the subsidy for the current financial year was cut by R70m to R150m.

The R150m will be exhausted by October and unless government agrees to further substantial subsidisation — an unlikely move according to sources — a bread price hike of as much as 10c a loaf is likely.

The Davin Commission last year recommended that the bread subsidy be abolished from October.

The price of wheat was raised by 8,7% last October.
 Bomb blasts strike-bound Pick 'n Pay

By SINNAH KUNENE

STRIKE-RAVAGED Pick 'n Pay was hit by a bomb yesterday, which blew up part of its store near Sandton.

The bomb exploded on two floors of a fire escape at Benmore Gardens shopping centre, which houses a branch of Pick 'n Pay.

Four cars were damaged and three windows shattered by the blast, which went off at about 105 pm yesterday.

The blast concurred with a sit-in by over 140 Pick 'n Pay employees at the Benmore store, who heeded a Commercial Catering and Allied Workers' Union for national solidarity action over a wage dispute.

Nobody was injured in the blast. However, a witness said a white woman was almost hit by flying glass.

A woman was treated for shock.

"I was walking towards the building and I suddenly heard a loud bang and everything went dark," said the eyewitness.

"I saw a dark cloud from the fire escape, which is used by people in the office block above the shopping centre."

Late yesterday afternoon, ballistic experts and police were still searching the area and it was rumoured that there was second bomb in the building.

Police spokesman Li' Pierre Louw said they didn't know the cause of the explosion, or the make or origin of the bomb.

He said "extensive damage was done."

It is not known whether yesterday's blast had any connection with the Pick 'n Pay dispute.

A Pick 'n Pay employee said workers had sat-in inside the Benmore building, and those who were not on duty sat in the sun.

He said it was a peaceful sit-in.

About 5,000 workers at 60 Pick 'n Pay stores staged sit-ins throughout the country yesterday, threatening to go on strike for higher wages — demanding a R90 a month increase.

Although no-one has yet claimed responsibility for the blast, the African National Congress has — in the past — bombed companies involved in disputes with workers, including the Chamber of Mines.
After 10 years, the Housewives’ League has changed its leadership

By Jackie Uwin

The Housewives’ League has come a long way from the time its members were described as “economic terrorists” and scorned as a bunch of women who spent hours discussing the price of toilet rolls.

Now its opinions are respected and its voice powerful.

After 10 years at the helm, Mrs Joy Hurwitz has handed over the presidency to Mrs Lyn Morris.

Mrs Morris has been the League’s national treasurer since 1987 and vice-president for eight years. She intends combining the functions of president and treasurer until the end of the financial year.

Mrs Morris said: “We have been called names in the past. I think that initially people were suspicious and wary of us because they didn’t understand what consumerism was.

“They felt threatened and reacted accordingly.

“But over the years we have been particular to ensure that we have done our homework.”

The fight will still go on, vows Joy Hurwitz

By Jackie Uwin

Though Joy Hurwitz has retired as president of the Housewives’ League after 10 years in office, she has no intention of hanging up her gloves — and certainly not in the current recession.

She still enjoys a good battle and is willing to take on anyone she believes is exploiting consumers.

“I am tenacious and won’t let the bone go. When the battle starts it must continue. The League’s members are the same type of women — devoted to the cause of the South African consumer. We have taken up the cudgels and fought at every level we could.”

As immediate past-president and former vice-president, she will remain very active in the organisation.

BUSINESSLIKE BASIS

“I will never leave the League. It is part of my life, but I won’t be so heavily involved,” she said. “I have devoted my life to consumerism — so much so that it became a full-time job. I loved it and wouldn’t have missed it for the world.”

The first goal she set herself on becoming president was to put the League on a businesslike basis. The sale of the League’s first cookery book provided the capital to open a national office with paid employees to deal with the expanding work.

“The League’s strength comes from the backing of its members — the grass-roots system which gives feedback and has been there since it started in 1965,” she said.

Now an expanded businesslike consumerism was a term that was looked upon when the League’s work has put consumerism on the map, though it has been an uphill battle.

“Now most newspapers in the country have consumer reporters.”

A woman has to have some interests or she becomes a cabbage. I have always taken an interest in world affairs and feel it is very important to be up to date and know what is happening not only in one’s country but in the rest of the world.”

British-born Mrs Morris came to South Africa with her parents just before the war and later worked as a secretary in London, returning to work in Cape Town and Johannesburg before joining the British Colonial Service.

She served in Nigeria then Swaziland, where she met her husband, who was also in the British Colonial Service.

They left Swaziland 13 years ago when Malcolm joined the British Embassy in Pretoria.

Mrs Morris has three children and one grandson.

She has always enjoyed immunising herself in the League’s demanding work and the firm friendship of its members helped her withstand the shock of her husband’s death three years ago.

Radio has helped considerably, though I cannot say the same of TV, which has done little on the consumer front.”

FIRST CONSUMER-SUPPLIER CONFERENCE

Among the League’s victories she rates:

- Persuading Escom to rescind the recharge put on electricity bills — many consumers are unaware this was ever done
- Ensuring the improvement in the quality of bread
- Calling the first consumer-supplier conference at which consumers, suppliers, manufacturers and retailers talked together for the first time about the consumer price of all commodities
- A cheese and butter boycott in 1976, which achieved results.
- The “quite remarkable” change in big business towards consumerism and recognition of the customer.
- The standardisation of school uniforms, which was a direct result of a conference with the Minister of Education and manufacturers and retailers.

Only now reaching fruition is its appeal against retail price maintenance and collusion with the banning of these practices and the investigation into control boards — “I hope the League was instrumental in bringing it about.”

One of Mrs Hurwitz’s most vivid and exciting memories was “speaking to the 3 000 irate farmers in Maritzburg who wanted to join hands with housewives to do something about the cost of their products.”

“‘But it isn’t a total success story. She has failed to get a member of the League on a control board as a consumer representative or to get all food exempted from GST.”

But she’s working on it.

Mrs Morris “Consumerism is an ongoing way of life.”

When we talk to Government and business we have our facts behind us.

“We have conducted lots of intensive investigations.

“We have established for ourselves a reputation of knowing what we are talking about as well as of being fair.

“Consumerism is ongoing and it is not always easy to show progress. You achieve little bits which, when all added up, make a big picture.

“People say we haven’t brought prices down but it isn’t our function to bring prices down. It is the Government’s function to cut our inflation.”

“We are here to highlight and make the responsible authorities aware of what we feel is a problem in the marketplace — and we keep trying until we get the problem solved.”

She intends to visit all the League’s branches to get to know members better and would like to recruit more younger women.

“I know a lot of young women work and have hassles with children but I do feel the older members could pass on the benefit of their experience.

“We need younger women. They are our future.”

Mrs Morris believes “all women work — the difference is some get paid for it.”

She reads newspapers avidly and was encouraged to expand her interests by her late husband Malcolm, who signed her up as a League recruit.

“He was keen to encourage me to do things and I made sure his home ran smoothly.”
Two ways to beat inflation

This article attempts to illustrate two inflationary hedges available in the current market. Successive articles will discuss aspects of hedging other types of risk and a further article will discuss how these should be included in a portfolio. It should be noted that by definition a hedge implies that one is splitting the risk, such that if one "wins" on one investment it is almost certain that one will "lose" on the other.

Therefore the purpose of a hedge is to provide a degree of certainty and to protect capital. During an inflationary time, that is, during a period of sustained increases in prices, it is preferable to be in a geared position, that is, become a debtor as opposed to a creditor. However in doing so one must ensure that assets purchased are likely to be more positively affected by inflation and that the assets acquired are liquid — they must be easily traded when necessary.

At the moment the borrowing rate is less than the real rate after tax, that is, it is cheaper to borrow. So it is currently possible to achieve a positive real rate of return on an inflation-proof asset such as a rental property with indexed escalation, particularly if one could obtain a fixed interest loan for a matching period. You must however always ensure that you do not enter a negative cash-flow situation incurring liabilities.

Nor does an inflation hedge necessarily consist of a property itself, for it is a way to hedge inflation for the following reasons:

- Rental typically escalate
- Property is generally a good hedge against inflation over a long-term period
- A property trust is liquid as it is traded on the JSE
- A property trust relieves one of the burden of administration and management of the trust and the property investment expertise required
- The property trust is itself diversified in terms of location, nature of building and lessee
- A property trust is closed in that the number of units cannot be increased without a rights issue

This ensures that all units holders are treated equitably. This is due to the strict legislative control.

At present there is an aberration in the property market. Replacement cost is currently significantly higher than market value but this should not endure given a stable improving political environment.

Continued population expansion pressures plus natural economic growth should arbitrage this out. Normally a completed property carries a premium and that premium relates to the certainty of seeing the building without having to incur the risk of the building process.

To sum up, by borrowing funds to invest in a property trust one becomes a borrower of the property on the one hand, and has an inflation-hedged liquid asset on the other, both accepted inflation strategies.

In addition the cost of borrowing and the return on its investment in both
Our power's cheapest but . . .

**SA tops the list in electricity price increases**

Electricity prices in South Africa showed a massive average increase of 12.7 percent for the year ended March 31, according to the latest survey conducted by the National Utility Services (NUS), the international energy and fuel consultants.

This increase was nearly four times higher than the next highest percentage of 5.3 in Sweden, which last year led the tables in percentage increases.

Last year's 9 percent increase and this year's jump — predicted by NUS, stems directly from Escom's new financial planning.

"Although Escom have little choice but to pass on their own increased costs, consumers should surely expect some stabilization of tariff prices in order that they, in turn, can play their part in reducing the inflationary spiral," said Mr Peter Cornelius of NUS South Africa.

Of the 12 Western countries included in the NUS survey, only five countries — South Africa, West Germany, Sweden, Britain and the US — had average increases.

In the others, there was an actual reduction with the Netherlands taking the bouquet with a 22.5 percent reduction from 12.99 c to 10.76 c (US65.6c — 4.72c).

Despite the heavy increases, South Africa still maintained the lowest unweighted average of all the 12 countries. The average of the four major cities, Cape Town, Durban, Johannesburg and Pretoria, at prices ruling on April 1, this year, was 5.81 c/kWh (US2.73c).

The NUS survey, based on customer size of 1,000 kW and 450,000 kW per month, shows that Pretoria at 4.67 c is still the lowest non-hydro supplier in the world and is second only to Manitoba Hydro in Canada at 4.39 c. Cape Town is the highest in South Africa at 7.73 c, with Durban second at 5.59 c. Sapa

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**Top firm warns of price hike on home appliances**

A large distributor has warned the price of its domestic appliances and TV sets are to go up in June or July.

Mr Mike Bosworth, managing director of Tek Electronics, said although the improvement of the rand has seen prices on certain goods drop it was a mistake to think they would drop further.

Prices rocketed last year as the rand fell dramatically against the dollar.

Mr Bosworth said: "Prices have now stabilised and an increase can be expected in June or July on account of inflation which is running at an estimated 20 percent.

"For example, the retail price of a Telefunken 51cm TV set, six months ago was R1 699. The same set now costs R1 799 and we expect it to go up to R1 999 in July."

"Similarly, a Defy basic 419 stove was R799 six months ago. It now sells for R899 and will cost about R999 in three months' time."

He said the argument that a favourable rand-dollar exchange rate would bring down the prices was simplistic.

"It fails to take into consideration the adverse effect of the rand-dollar yen cross-rate which is working against South Africa's interest and is unlikely to improve soon. Nor does it take into account the mordid amount of money collected by the Government on each item."

**PANIC BUY**

"The Government's take in white and brown goods is extremely high and has the effect of pushing up prices even more."

"Taking a Telefunken 51cm TV as an example and an exchange rate of 50c, the Government's share is R543. The set retails for R1 799, GST is R216, import duty on imported content R83, the 10 percent surcharge on imported content R40, and ad valorem duty R254."

"Although the Government is to change the ground rules vis-a-vis the importation of white and brown goods at the end of the year, we question the wisdom of allowing wholesale imports which may be cheaper in price but which will offer the consumer no real service back-up and brand reliability."

Mr Fred Pearce, marketing manager (video) of SA Philips, said his firm did not envisage a price increase "just yet."

Retailer Mr Tony Factor said: "Consumers must let panic buy. Over the last 18 months we have heard about tremendous price hikes for TV and video. They have got to be five or six days old because of the lack of response prices were raised again."
Pick 'n Pay strike ends in agreement with R85 increase

The five-day sit-in strike by thousands of Pick 'n Pay employees has ended.

The strike, which cost the company at least R4 million in lost sales, ended today after agreement was reached in all-night talks between the company and the Commercial, Catering and Allied Workers' Union (CCAWUSA).

Company and union representatives agreed that workers would be given an R85-a-month increase, retrospective to March 1. The agreement would be in force until the end of February next year.

The strike, which began last Wednesday, affected about 6500 CCAWUSA members at more than 40 Pick 'n Pay concerns in the Transvaal, Free State, Natal and Eastern Cape.

At its peak, violence broke out in some of the affected areas with fights between customers and strikers.

Seba reports fists flew when irate shoppers clashed with strikers at the Kingsburgh Pick 'n Pay checkouts yesterday.

HUMAN CHAIN

Witnesses said the violence erupted after an irate customer barged through strikers who had formed a human chain at the checkouts.

The supermarket, in the usually busy Sanlam Centre, swarmed as management staff tried to pull about 25 customers away from 40 strikers.

Bottles of tomato sauce and chilli were smashed in the aisles by the strikers and one of the working staff was cut in the face by a polish tin.

The strikers eventually threw stones and bricks were thrown at management cars.

A rock was hurled through a skylight and narrowly missed customers outside the CNA.

A police action will be taken against the 40 or so Pick 'n Pay strikers who destroyed R100 worth of tomato sauce and chilli in a pitched battle with customers demanding service at Kingsburgh yesterday.

The regional manager of Pick 'n Pay in Natal, Mr. Derek O'Connor said today that it was difficult to pinpoint the main culprits.
Barclays sees inflation rate fall

INFLATION'S momentum has been reduced considerably, says Barclays Bank.

Its Economic Comment, a cassette tape produced by Barclays' economic staff, adds that things are firmly in place for a lower inflation rate in the early phase of the business cycle.

However, there will be only a slow erosion of the year-on-year rate of inflation this year.

Economic Comment adds that the danger of further cost-push inflation has been reduced by a more stable rand which is expected to trade between $0.45 and $0.52 for the year.

It predicts that it is unlikely the recent downtrend in oil prices will be reversed. A sluggish economy will dampen an early upturn in wages.

Although the overall picture suggests a drop in inflation, there are a few pitfalls.

Full benefit of recent appreciation of the rand might not be passed on to consumers as importers increase profit margins.

As the economy moves into a more mature phase of the business cycle, in 1987 and 1988, the balance of payments will be tighter. The Reserve Bank will have less control in the foreign exchange market and the rand might again come under pressure.

Demand for labour might cause wages to accelerate.
P'n P now counting the cost

ALAN BIRD

PICK 'N PAY must now count the cost of the six-day strike that affected 55 stores throughout the country, spilled over into violent confrontations between strikers and customers in Natal and forced management to close stores around the country.

PICK 'N PAY lost about R7.5 million in turnover, and the backdated R85 a month pay award will increase its wage bill by more than R25 million this tax year.

The strike ended in the early hours of yesterday morning after a marathon 18-hour negotiating session in Johannesburg. Pick 'n Pay and the Commercial Catering and Allied Workers' Union (Ocaswaco) agreed to an increase backdated to March 1.

A spokesman for the Ocaswaco said the strike was the "most widespread industrial action to have affected the retail trade and the largest stop-in to have been carried out in SA. We see the settlement as another step towards a living wage for workers."

Pick 'n Pay chairman Raymond Ackermann said the ending of the strike was "a victory for labour relations."

Director Peter Dove said the company "could have lost some customers because of the dispute — some people may have disagreed with the way we handled it — but we have to continue building good relationships with our staff."

He said the lost turnover would have to be made up through increased efficiency and productivity.
The price of meat is set to rise about 10 percent due to recent increases in the price of grain and farmers' input costs.

According to the Meat Board, however, the increase will be phased in gradually over the next year to 18 months.

A spokesman said the increase in the price of yellow maize was one of the major factors contributing to higher meat prices.

Livestock farmers also had to deal with soaring input costs which had to be recouped.

He added that the board had successfully sold off the 37,000 frozen carcasses it had recently bought up—without affecting prices.

Pretoria Bureau
Stores' prices to be probed

Labour Reporter

THE House of Delegates is to investigate allegations by unemployed people in Chatsworth that stores contracted to the Government to supply them with groceries have been overcharging.

Mrs Debi Moodley, a voluntary social worker in Chatsworth, told the Mercury yesterday that many unemployed people were issued with grocery vouchers up to a certain value by the House of Delegates, but because of the inflated prices the goods they could exchange them for were insufficient.

Citing examples of the high prices, she said one supermarket which is contracted to the Government, was selling 5l cooking oil at R11.99 (excluding tax) for those presenting the Government vouchers, while the same oil was being sold at R9.99 to its cash customers.

'Surely these people tendering vouchers are as good as cash customers — payment is guaranteed,' she added.

Defeated

She said that because of the inflated prices, many families of the unemployed were still facing difficulties.

'The whole idea behind the House of Delegates assisting the unemployed is actually being defeated. The only people who appear to be gaining are the businessmen,' she added.

Dr J W van Rensburg, chief director of Health and Welfare in the House of Delegates, said yesterday that he would order an immediate investigation into allegations.

'If this is in fact the case then the whole purpose of us assisting the unemployed is pointless,' he added.

Former clothing factory worker and mother of four Mrs L Reddy said she had been given a voucher valued at R104 which she took to one of the nominated supermarkets in Morningside but she received goods worth only about R96.

'I was not even given a cash sales slip. The vouchers are as good as cash and payment is guaranteed. I cannot understand why we are being overcharged,' she said.
Manco hoping to satisfy residents hit by rent rises

City Valuer’s break even point, says Mr Len Rabunowitz, a member of the group representing the 26 shareblocks on the North Beach. Under the proposed system those who cannot pay for conversion must pay rents equal to 6 percent of the market value of the land or lose their properties. Mr Rabunowitz said at the weekend that people could afford it.

City Valuer’s break even point, says Mr Len Rabunowitz, a member of the group representing the 26 shareblocks on the North Beach. Under the proposed system those who cannot pay for conversion must pay rents equal to 6 percent of the market value of the land or lose their properties. Mr Rabunowitz said at the weekend that people could afford it.

The price flat-owners will pay for the conversion from leasehold to freehold of their leasehold properties will be 65 percent of the market value of the land as assessed at the date of their application to convert. The land valuation will remain unchanged for six months from the date of the lessees’ application, and the 65 percent of the valuation which the lessees must pay will remain static until it comes up for review by council in five years’ time.

Waiting for council’s final verdict today, residents of Dunelands, who were handed a 1200 percent rent rise are (from left) Judy Olding, Margaret Tunnell, D H Baggage, N R Yorke, Bea Macintosh, Rhita Feitulberg, Lorraine Yeats, Jean and Jack Stroud, Denis Yeats, Victor Shirley, Eddie Mazor, and Louie Feitulberg.
Producer milk price rise seems imminent
GERALD REILLY

AGRICULTURE Minister Greyling Wentzel is expected to announce a producer milk price rise of between 3c-5c/l this week.

He is also expected to announce the strategy to get rid of the 5 000-ton butter surplus.

There are two options: either the surplus can be exported at a loss or disposed of locally at cut prices.

The Consumer Council's Lou van der Merwe said the only reasonable option was to give people the benefit and sell locally at reduced prices.

He said butter consumption was dropping and the sale of cheaper butter locally would also assist the Dairy Board in promoting sales.

The producer price of fresh milk was last raised in June — from 42.55c/l to 45.13c. However, the producer had to pay part of the increase into a levy to cushion export losses.

In February milk distributors raised their price to the consumer by 6c/l.
Bus fares to rise in June

Dispatch Reporter

EAST LONDON — Municipal bus fares, except for scholars' weekly tickets, will increase by 5c for all stages from June 2.

Scholars' weekly tickets will rise by R1 on the same date.

The municipal transport manager, Mr Dennis Jenkinson, said the fare increase for scholars was irrespective of distance travelled.

He said the budget had been reviewed and it was decided it was time for an increase. The last increase was approximately a year ago but the increases were not fixed on an annual basis, he said.

In spite of the huge fuel increases, which took place over a year ago, plus the subsequent additional fuel increase, the municipal bus fares stayed the same.

If the fares had been increased each time there was a fuel increase, the present fares would have been much higher.

He said although the fuel prices had come down, the tariffs could not be reduced because of the increasing costs of spare parts, particularly tyres, and maintenance costs.

This meant that the tariffs did not necessarily come down because the fuel prices were reduced, he added.
Rates, light, water all set for big hikes

Later this week the PE City Council will consider a 10% rates and electricity increase and a 13.5% water tariff hike.

The Policy and Resources Committee yesterday spent seven hours debating PE's operating and capital budgets for 1986/87.

Three options for the electricity increase were given to the committee by the City Treasurer, Mr Amandus Strydom, and the committee opted for a 10% increase from July 1 and a 10.5% increase from January 1.

Consolation for homeowners is that PE is the third cheapest of SA's eight major cities. Rates, sewerage, refuse, electricity and water cost R149.93 a month for a 222 square metre house on a 1550 square metre plot compared to costly Cape Town at R205.81 a month for the same formula.
Escom tariff increases for 1987 and onwards will be kept at about 1 or 2 percent below the inflation rate.

Speaking at an Engineers conference in Pretoria, Escom's senior general manager, Mr I C McRae pointed out that in the last 20 years, electricity tariffs have been constant in real terms.

Research shows that electricity usage in South Africa should be about three percent above the gross domestic product, which should be 1.5 percent more than the population growth, he said.

The present situation showed the GDP was not keeping up with the population growth.

Mr McRae said this situation was unacceptable and Escom had started a programme to supply sufficient electricity to support an acceptable GDP growth rate while keeping electricity tariffs reasonable.

These approaches include:

- Off-peak and interruptable tariffs,
- Promoting energy-efficient equipment,
- Extending the life of power stations, and
- Purchasing power from outside sources.

These measures, plus the new bulk and rural tariffs, will reduce electricity prices and stimulate growth, said Mr McRae.
Weaker rand could push up petrol price

There is speculation that the price of petrol could rise as a result of the fall in the rand which followed this week's SADF raids.

The rand slumped to about 42 US cents on Monday as a direct result of the raids but intervention by the Reserve Bank helped the ailing currency recover slightly to just over 40c.

A strong rand/dollar exchange rate is vital if South Africa is to buy oil at reasonable prices.

The authorities have been taking advantage of recent low oil prices to stockpile and a spokesman for the Department of Mineral and Energy Affairs said it was hoped that this would act, for a while, as a buffer against a higher petrol price.

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and Wonderboom.
Roodpoort, Spier, Vanderbijlpark, Vereeniging, Westrand, Krugersdorp, Nigel, Onderstepoort, Pretoria, Randburg, Randfontein, Boksburg, Brakpan, Germiston, Johannesburg, Kempton Park, Elizabeth, Simons Town, Wynberg, Durban, Alberton, Benoni, Pretoria, Port Elizabeth, Table Bay, Goodwood, Kilburn, Porterville,}

Area A: East London
Area B: Outshoorn
Area C: Bellville, The Cape, Goodwood, Kilburn, Porterville, Part

Supercalifying Wd. no. 341

39a - BRUSH AND BROOM MANUFACTURING INDUSTRY, CERTAIN AREAS
Inflation down, food prices up

By Jackie Luevin

The year-on-year inflation rate for April dropped to 18.6 percent from March's rate of 18.9 percent — but the drop was expected by economists due to technical reasons. Food prices, however, showed an above-average rise.

The statistical distortion was caused by 1985's monthly CPI for April rising 2.1 percent as a result of the increase in GST.

Figures released by Central Statistical Services in Pretoria yesterday show the food-only index rose to 213.7 from 213.5 in March and 182.7 in April 1985 — a monthly rise of 2.4 percent and 19.7 percent year on year. There were increases in grain products, meat and fats and oils during April.

Market comment was “The food index rise is probably attributable to the delayed effects of the non-appearance of the rains this year. Since September last year, the food index has shown a trend to accelerate.

“I don't think the food rise was caused by the rand, which appreciated in the first quarter. It was probably because of drought rather than excess demand.”

Mr Rudolf Gouws, group economist of Rand Merchant Bank, said: “The impact of the petrol price reduction of April is not yet included in the CPI. If it had been included, the fall in the year-on-year rate of change would have been quite a bit larger.”

The rise in the CPI was very broadly based among many subject categories, which shows that inflation is very much with us. But I do believe the basic trend of the inflation rate this year is slightly downwards. An average rate of about 17 percent is quite possible with the year ending at 15 percent.”

Dr Hans Falkena, chief economist at the United Building Society, said: “The April inflation rate is higher than expected. We have very low real interest rates at the moment. If you subtract the inflation rate from the ruling interest rates this must be extremely inflationary. I am not very optimistic. The inflation rates may come down for technical reasons, but we will have high inflation for quite some time ahead.”
Capital's rates to go up 15 percent

Pie termaritzburg
Bureau

Municipal rates in the capital are to go up by an average of 15 percent this year to enable the city council to balance a record budget of R170 million.

Presenting the estimates for 1986/87 yesterday, the chairman of the Finance Committee, Miss Pamela Reid, said steps would be taken wherever possible to save money, and this included the immediate freezing of all posts within the municipality.

Miss Reid said vacancies would be filled only after special motivation had been made by heads of departments. No

Severe restrictions are to be placed on all municipal departments and the worst hit will be the bus service, which is expected to run at a R2 500 000 loss this year.

Miss Reid said the city's Transport Director would be asked to look at ways of rationalising the service so ratepayers could no longer afford to keep subsidising the losses.

Apart from the overall rates hike, monthly service charges are to be increased. Domestic refuse removal charges will go up from R3.85 to R4.43 and domestic sewerage charges from R4.99 to R5.52.
Price of eggs goes up 12c a dozen

Egg prices in the Transvaal and the Free State are expected to rise by an average of 12 cents a dozen, with immediate effect. South Africa's largest egg producer, Golden Lay Farms, announced yesterday.

Golden Lay said the hike in price would follow higher costs it had incurred in the laying of eggs needed for cake - the source of protein in layer feeds - necessitated the increase in egg prices.

The company stressed that the increase had been delayed for as long as possible.

Executive secretary of the SA Poultry Association Mr Zach Coetzee described the increase in the egg price as "reasonable" but Housewives' League president Mrs Lyn Morris called it "massive".
Racial notice opposed

Dias Council votes for 15% rates increase

By KIN BENTLEY

THE Dias Divisional Council approved a 15% rates increase, from July 1, at a meeting held in Port Elizabeth today.

The increase was approved by 15 votes to one. The only Port Elizabeth representative, Mr J P Alberts, opposed the motion. He got no second for his proposal of a 10% increase.

Mr Alberts said due to the city's economic conditions — "10 to 15 businesses are closing every month" — its residents could not afford this additional burden.

The chairman of the council's Finance and General Purposes Committee, Mr D Saka, said the average rates increase over the past few years was still well below the inflation rate.

He said the total estimated operating expenditure for the 1985/6 financial year was R22.9 million, of which 56% was derived from subsidies, 28% from rates and 13% from tariffs. The total capital expenditure was put at R5.7 million.

Mr Saka reported that the Cape Provincial Administration had increased the council's nature conservation subsidy. For example, the subsidy for the Van Stadens Flora Reserve this year would be 44%.

He said it had also been decided not to increase tariffs at any of the council's resorts this year.

Mr Saka said that due to a lack of funds, "considerable problems" with the roadworks programme would be faced by the council this year. An action committee, which held its first meeting on May 13, had been formed, as a result.
THE year's third round of vehicle price increases is set for June 2, with market leader Toyota expected to up prices by 4.5%-6%.

National Automobile Dealers Association director Bob Thomas said he viewed the impending June increases with alarm. "It is vital government grants the industry fiscal relief in the current climate of low new vehicle sales."

A Toyota spokesman said the average June price increase "could be around 5% if the excise duty on imported motor parts is reduced". Ford yesterday informed its dealers of a 5%-6% rise in Sierra, Bantam, Husky and Triton prices from early June.

And MMI prices for the Mazda 626, Rustler and Mitsubishi L500 will rise by the same margin.

A Volkswagen spokesman said no definite price increase had been fixed.

General Motors marketing director Hal Carpenter said "we are waiting to see what the competition does, not government." Nissan has no plans to increase prices next month after a 5% hike on certain models this month.

BHP was working on new prices, unlikely to be implemented in June, a company spokesman said.

Car prices rose 5% at new year and 5% at the beginning of March, making total increases for the past 12 months to June nearly 30%.

Trade and Industry Minister Dawid de Villiers is expected to make a formal response to the industry's representation early next week. Board of Trade and Industry officials could not be reached for comment yesterday.
Dispatch Reporter

EAST LONDON — Residents can brace themselves for an all round increase in municipal tariffs when the city council holds a special meeting tonight to finalise the estimates for the 1986-1987 financial year.

Although the method in which the city's house-keeping account will be kept for the ensuing year is a closely guarded secret, municipal rates and tariffs are set to rise.

The city's 12 000 ratepayers face a possible five per cent hike while the 58 000 electricity users face a possible 15 per cent hike.

In view of the R20 million sewerage system under construction, increases for these charges are likely to be the highest and are expected almost to double.

The increases are set to come into effect on July 1.

Municipal housing scheme tenants can also brace themselves for a rent hike ranging from R1 a month to almost R6.
Help sought for Milner Estate rents

Dispatch Reporter
EAST LONDON — A total of 169 Milner Estate families face rent hikes of about 50 percent — but moves are under way to get a government subsidy.

The city council has agreed to the rent hike proposal from the property department with suggested subsidy relief measures to be submitted to the government.

The council has also decided to send a three-man deputation to Cape Town if necessary to outline the case for the sub-economic scheme.

The chairman of the action committee, Mr. Donald Card, said the increase was the result of extensions being built onto the houses.

"The area's rents were assessed against the background that the buildings cost about R800 each when they were built more than 30 years ago. Now kitchens are being built onto the old structures at a cost of about R6 000 each."

"This has necessitated a major hike in the rentals, but council realises that many of the occupants are pensioners and lower income earners. This is why council decided that some sort of government relief must be sought to try to ease the burden on the people of Milner Estate," Mr. Card said.

Mr. Card said a similar subsidy request for Buffalo Flats had been rejected and as a similar reply was expected, it had been proposed that as the existing rentals in Milner Estate were being subsised, application should be made to further subsidise the interest and redemption on the difference between the present rental and the new increased rental.

"It had also been proposed that the hikes be phased in to ease the burden."
Unhage rates, water up

Post Reporter

Rates, water and refuse removal charges are to be increased in Unhage, and sewerage tariffs are to be restructured.

The effects of the 1965-66 budget, presented to the Unhage Town Council last night, include:

- Rates will increase by 12.5%.
- Water tariffs will rise by 9% with householders paying 60c a kilolitre up to 50 kilolitres, an increase of 5c on last year.
- Refuse removal tariffs have been increased by an average of 97%.
Council to debate
the budget today

Post Reporter
THE Port Elizabeth City Council will have two meetings this afternoon — the normal monthly meeting as well as the special budget meeting at which it is expected to approve a 10% rates increase.

The budget meeting, at 4pm in the City Hall, is being held to approve the R267,21 million operating budget and a capital budget of R54,29 million for the 1986-87 financial year starting on July 1.

Apart from the rates increase it has also been proposed that the water tariff be increased by 13.5%.

Although the electricity tariff will not be increased, consumers' bills will increase by 10% in July and again in January, 1987, due to the withdrawal of the State subsidy and the reintroduction of the cost of energy surcharge which was suspended for April, May and June.

The monthly council meeting will follow the budget meeting, at 5pm.

The proposed 10% rate increase will mean that the rates on all non-residential property will be 4,3837c per rand of valuation. The 23% rebate on single residential and sectional title properties means that the new rate for these properties will be 3,5335c per rand of valuation.

The draft capital budget provides for R39,1 million to be spent on the rate and general service, including R14,15 million on roads. The capital provision for housing is R9,62 million, electricity R8,83 million, gas R197,000, marbel R25,000 and water R6,39 million.

The agenda for the monthly meeting proposes a number of tariff and charge increases, including:

- Surcharges ranging from 5,52 to 14,67% on the gas tariff to meet cost increases resulting from an increase in the pithead price of coal and in coal railage.
- Increased library charges, including increasing the fines for overdue books to 30c for the first week and 40c for every subsequent week up to a maximum of R5,50 a book.
- Increased hire charges for library halls.
- A 15% increase in the charges for sewer connections and clearance.

Other items up for consideration include:

- The expropriation of land in Cape Road and First Avenue, Newton Park, Aragen Road, Durban Road and Kempston Road for the proposed construction of Langenhoven Drive to link Kempston Road with Cape Road.
- The appointment of consultants to undertake the detailed design and preparation of tender documents for the construction of headland extensions at Humewood and Hobie beaches as a means of combating beach erosion.
Firms will face tougher demands

By Sheryl Rainie

Companies will face tough demands for salary increases this year due to the high rate of inflation and to militant trade unions, according to a leading industrial relations consultant.

Mr. Stewart Pennington of Stewart Pennington and Associates noted in the company's May 1986 wage negotiations pack that the relative sluggishness of the economy had been reflected in lower pay increases granted to salary and wage earners at the end of last year and beginning of this year.

Salary increases had lagged significantly behind the consumer price index of 18.8 percent for the 12-month period from February 1985 to February 1986.

INCREASES

Overall salary increases amounted to 11.1 percent. Artisan wages rose by 9.2 percent and non-white hourly-paid wages by 12 percent.

Predicted pay increases for this year included 11 to 12 percent for general staff, 12.5 to 14 percent for black hourly-paid staff and 12 to 15 percent for specialist or middle management.

The inflation rate for February was 18.1 percent and economic predictions indicated that it was unlikely to drop significantly. Companies would therefore be hard pressed to keep pace with increasing pay demands.

Information about the economy, wages, salaries, and cost of living factors would play a vital role in the bargaining process this year.

The wage pack is designed to assist management with wage negotiations.
### COMPARISON OF EXISTING TO PROPOSED INCREASED TARIFFS

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A table showing existing and proposed increased tariffs for East London's industrial and domestic consumers.
he proposed that the rate.

The general rate goes up to 33.3% in the coming financial year. Mr. Erasmus Luttig, the chairman of the council, said the past year had been traumatic for the municipality. Despite rigorous efforts to collect the outstanding expenditure, the council managed to recover a total of R1.5 million. However, the rate hike would contribute to the financial stability of the town.
Rates rise of 10% approved

In addition to the R1 million on the operating budget, R80,000 will be spent annually on capital works over the next three years for security.

However, the chairman of the Policy and Resources Committee, Mr H van Zyl Cillé, said it had been agreed at the committee meeting that the money would not be spent before details of the proposed projects were approved by the committee.

Mr Strydom pointed out that the original draft budget would have necessitated a 32% increase in rates. By trimming the budget down to a 10% rates increase, it meant cutting many essential items.

The budget also provides for a 10% increase in electricity charges on July 1 with another 10% increase likely to follow on January 1, 1988.

The water tariff will go up by 13.56% on July 1. The council expects to end the current financial year on June 30, with a surplus of R1,6 million, a saving of 1.5%.

The council's expenditure has been contained by strict control over staff levels, greater use of computers and general financial and budgetary discipline.

He said the decision to increase rates by only 10% had been determined primarily by what the council believed the ratepayers would be able to afford.

The budget provided for a 13.6% increase in staffing costs. However, no provision had been made for a general salary adjustment. Instead, salary grades would be restructured to bring them into line with the market related rates and remove certain anomalies.

Capital spending in the next financial year will amount to R84.3 million.
news

'Commonwealth group has no option but sanctions'

SADF raids destroyed EPG effort, says ANC

By Peter Sullivan

The Commonwealth Eminent Persons Group's hopes of initiating dialogue were shattered by the SADF's triple strike, and the only alternative left to the EPG was to recommend sanctions against South Africa, according to African National Congress headquarters in Lusaka.

Mr Oliver Tambo

June 16 general strike could 'get out of hand'

LUSAKA — A general strike called by the ANC to mark the 10th anniversary of the Soweto uprising on June 16 could get "out of hand" and continue indefinitely, according to an African National Congress spokesman.

He said: "June 16 is an explosive day at the best of times. We have called a general strike. We will appeal to our people to make it one of the biggest strikes we have had.

"Once it starts the momentum could carry it beyond June 16. If that is so, we wouldn't complain," the spokesman said.

In a series of interviews at ANC headquarters it became apparent a major fear of the banned organisation is losing the support of the aggressive township youth.

'NOT PEOPLE'S PUPPETS'

There was a feeling that the youth might find the ANC too mild or old-fashioned and be unwilling to obey ANC leadership.

One spokesman said: "We are not the people's puppets. They follow us because they believe we are showing them the right path to democracy.

"If, in their view, we abandon the right path, they will abandon us and follow whomever they consider to be the true leaders."

Mr Joe Slovo, Chief of Staff of the banned military wing of the ANC, Umkhonto we Sizwe, expressed fears of the organisation being hijacked by extremists to the Left of the communist party.

But ANC negotiators are still willing to talk to the EPG should the group return to Lusaka.

These ANC positions emerged after interviews in the Zambian capital with the banned organisation's president, Mr Oliver Tambo, ANC external affairs chief, Mr Johnny Makatini, and the number three in its military wing, Mr Joe Slovo.

MOMENTUM

All three — none of whom may be quoted in South Africa — feel the EPG initiative is doomed All believe the Commonwealth group has no option but to impose sanctions on South Africa when the six-month mandate given to the EPG ends in two weeks.

The major fear in the ANC is that the EPG will turn into some sort of Namibian Contact group, thereby derailing the momentum already achieved towards imposing Commonwealth sanctions on South Africa.

In Namibia the Western Five contact group was appointed to find an internationally-accepted solution. The appointment of the group temporarily halted a planned campaign for sanctions.

VIOLANCE

"The EPG is beginning to sound like a rerun of the Contact Group in Namibia where the whole process was deliberately protracted over a period of time so that the regime could be left free to deal with domestic matters on the pretext that international negotiations were taking place," an ANC spokesman said.

Meanwhile the South African Government is still apparently balking at promised ANC acceptance of a suspension of violence, insisting on the ANC totally renouncing violence.

The ANC view is that it cannot decide on a firm policy until its jailed leaders have been unconditionally released so that the party can take a joint decision binding on all its members.

NEW YORK — People aged 60 and over are finding it hard to fall in love in much the same way as the young, according to an article in The New York Times.

The researchers interviewed 45 people aged 60 and over in a study of "The evolution of the elderly".

The article quotes a 71-year-old woman: "You can talk about candlelight dinners, but I still think the most important thing is to go to bed with her."
Weak rand causes increase in air fares

Currency surcharges on air fares out of South Africa are to rise from July 1 — some by as much as 20 percent.

It was decided to raise the surcharges at a meeting in Johannesburg last week of all international airlines operating into and out of South Africa.

The increases will range from five to eight percent on normal fares, between 10 and 15 percent on promotional fares and, around 20 percent on certain special fares exempt from a previous surcharge.

South African Airways' statement yesterday said the adjustment reflects the fact that all tickets paid for in rands had become necessary because of the disparity between air fares to South Africa and similar fares out of the country.

The increase will not affect passengers who have tickets issued before yesterday for travel up to and including July 31.

The adjustment means an economy class Johannesburg-New York return flight, previously R3,765, will now cost R4,386 — up 16.40 percent.

An Apex Johannesburg-London return ticket will rise by 16.59 percent to R2,937, and a similar business class ticket to R3,977, an increase of just over two percent.
Beacon Bay
rates up
13.8 pc

Dispatch Reporter
BEACON BAY — Combined rates and tariffs here are to go up 13.8 per cent, the chairman of the town council's finance committee, Mr P G Cooper, has announced.

Delivering his budget speech on the 1986/87 estimates, Mr Cooper said sewerage would go up 9.71 per cent, refuse 9.1 per cent and rates 16.15 per cent.

"The combined effect of these increases will mean an average increase of 13.8 per cent and this must be seen against an inflation rate of 18 to 20 per cent."

Mr Cooper said it had been difficult to draw up the budget because of rising inflation and the effect on council's depleted accumulated funds of Main Road subsidy overpayments.

The R5 150 660 revenue and the capital estimates of R1 280 835 were within the state treasury limit of a 15 per cent ceiling.

Mr Cooper said the value of the electricity account had been demonstrated again by the fact that the service would make a contribution to the rates and general services account of an equivalent of six per cent of the rates.

"This enabled the council to restrict the tariff increases, to well below the current inflation rate," Mr Cooper said.
Petrol set to rise again

A PETROL price increase within the next two weeks threatens unless there is a spectacular improvement in the rand's dollar value.

PPP energy spokesman Brian Goodall says a situation has developed in which, under current price-formula conditions, another fuel-price rise could be unavoidable.

Much would depend on the extent of under-recovery by oil companies in recent weeks, the state of the Equalisation Fund, and whether government is prepared to reduce pipeline charges and forsake some of its tax revenue from fuel.

Goodall says there is little likelihood that the price of crude on world markets will fall to an extent where it could compensate for the higher costs of oil imports.

The crude price seems to have stabilised at about $18 a barrel, and there is little hope of relief from another decline on world markets.

Mineral and Energy Affairs spokesman Theuns Burger says oil companies are currently under-recovering. The department is watching the performance of the rand anxiously, and the next two weeks would be critical as far as price decisions are concerned.

The price has been cut twice this year: on March 3 from R1,60/l for 98-octane on the Witwatersrand to 92c, and from 92c to 63c on April 14.

— Claire Pickard-Cambridge

Union: No bid to talk 3M out of SA

THE Commercial, Catering and Allied Workers' Union (Ccawusa) has rejected claims that it had tried to persuade US firm 3M to close its SA operation.

Ccawusa member Joseph Mokoena said he had been invited to the US by the Oil, Atomic and Chemical Workers' Union, which was organised at the 3M company in New Jersey.

"I told people Ccawusa had not yet adopted a clear position on disinvestment and would discuss it at its conference in July," Mokoena said from the US.

"We were not considering a pullout.
Prices of electrical imports are set to soar

Mercury Reporter

THE prices of imported electrical appliances, including radios, VCRs and television sets, are to go up next month by between 12 and 20 percent. Some manufacturers have notified retailers of price rises averaging 12 to 15 percent from July 1, and others are expected to follow suit within days.

Manufacturers' new price lists show that video recorders now selling in the shops for R1 699 will go up to R1 800. Harder-hit will be fully imported products, with microwaves going up by R80 for the smallest, and R200 and upwards for the largest models.

TV sets are to go up by between 15 and 20 percent.

Mr Syd Trickett, joint managing director of Durban's Price Furnishers, announced yesterday that the chain intends spending 'millions' on a crash buying programme before the new factory prices take effect.

'We intend buying enough stock to enable us to hold current prices until September, and if the rand rises again by then, we might be able to slave off increases completely,' he said.

Mr Terry Millar, managing director of National Panasonic, yesterday blamed the Government, rather than the devaluation of the rand, for the spiralling cost of electronic home entertainment products.

His company claims 40 percent of the VCR market and a 30 percent share of the television market.

Mr Millar said the Government slice on a VCR, now selling for about R2 500, was close on R300.

This was made up of import duty, excise duty, an import surcharge and GST, and amounted to almost as much as the distributor and retailer earned together.

He said if the Government abolished excise duty and the import duty the retail price of the VCR would drop by R77 to R1 725, since the distributor's margin, the retailer's mark-up and GST would be proportionately reduced on each unit.

'Most consumers,' he said, 'don't realise that, in effect, they are paying GST on taxes levied at the point of entry or manufacture.'

The 10 percent surcharge on imports was 'madness' in the current situation as the rand was so weak that there was no longer any need for a punitive tax to discourage imports.

He said the Government should also reassess its attitude to the imposition of excise duty which was ruthlessly applied to certain goods deemed to be luxuries whether they were imported or locally assembled.
Tumbling rand threatens new price rises

Business Editor

The rand’s tumbling value will soon force up the price of a wide range of goods, especially those from Japan.

The currency was trading steadly at $0.60 today after a hectic time yesterday, but bankers believe that this slight strengthening could be brief and the currency could plunge below the $0.385 mark it reached at one stage yesterday.

Goods affected by the drop could range from cars to computers and from household appliances to petrol.

Japanese-sourced companies are hardest hit because not only is the rand dropping, but the US dollar is also tumbling against the yen, compounding the problem they face.

Since December the yen has appreciated 13.4% against the dollar, while the German mark has appreciated by 5.5%.

Mr Richard Perron, a director of a major supplier, Tek Electronics, said that although German-sourced products had been hit by currency depreciation, “the real problem has been the yen”, the Post’s Johannesburg correspondent reports.

“We have no option but to push up prices because we have no excess stock to cushion the rand’s fall,” he said.

“We costed for July at a rate of 75 yen to the rand and it is now 66.

“It’s almost impossible to do any long-term planning with such a volatile exchange rate.

“Foreign companies cannot get consistency from SA buyers and our reputation overseas has suffered.”

Spokesmen for the motor industry said they were facing mounting cost pressures because of the drop in the rand.
Bus fares to rise
17.5% in Durban

Johannesburg, Pretoria, KwaNdebele and Bophuthatswana, separate applications have been submitted to each of the respective boards, a Putco spokesman said.

Mr Cuthbert said the high cost on maintenance, increased costs of spare parts because of the rand-dollar exchange rate, and other expenses had to be passed on to the commuters.

Fares on most Indian-owned buses in the city were expected to go up as well, a spokesman for the Durban Bus Owners' Association said yesterday.

He said no decision had been taken on the percentage increase, but it would be done soon.

Trains

The timetable for commuter trains between Durban and Pinetown has been amended.

Pretoria—Seven South African Air Force servicemen were killed on the N1 near Hammanskraal yesterday when their car smashed into a bridge.

The accident occurred in the early hours of the morning and the wreck containing the bodies was only discovered next to the road 6 km south of Hammanskraal after day-break.

A serviceman who had miraculously survived the accident attracted the attention of passing motorists.

It is not known if the men were killed on impact or whether they died during the night in the freezing cold.

The car, a Volkswagen Passat into which the eight men had crammed, left the road and ran on the island in the middle of the highway for some distance before it smashed into the bridge at high speed.

Firemen had to prise the bodies from the wreck.

The injured serviceman is in a satisfactory condition at 1 Military Hospital at Voortrekkerhoogte.

An SAAF spokesman said the men's names could not be released until their next of kin had been informed.

—(Sapa)
Bread price set to rise

Gerald Reilly

Wheat-grower costs a major factor

The chances of government finding the money to avert an increase in the bread price from October are slim, say Pretoria sources.

Wheat producers meet in Paarl next week to recommend what is expected to be a substantial increase in the new season's wheat price.

The recommendation will be discussed at a Wheat Board meeting in Pretoria on July 23 before a final recommendation is made to government.

The last producer price increase of 8.7% to R325 a ton last October was well within the production cost rises of the previous 12 months.

Wheat Board general manager Dennis van Aarde said yesterday input inflation since then had been substantial and would be a major factor in determining the new price.

Last year's subsidy was R220m. Had it not been for R40m contributed by the Wheat Board and the trade, the price of bread would have risen far more than the 5c a loaf of last October.

To accommodate the expected wheat price rise and this year's fast dwindling R150m subsidy, a price increase is considered certain.

If government did raise the subsidy, it would be contrary to a commission recommendation that the subsidy be abolished from October 1.

Van Aarde said that of the 300,000 tons of wheat to be imported this year, 55,000 tons had been ordered from Canada and 90,000 from Australia.

Tenders would close on June 11 for another 90,000 tons.

He said that because of glutted world markets, SA could import wheat without less even at the current rand value of about $0.39.
Indices point to inflation climb

GERALD REILLY

THE production price index accelerated during April, triggering fears of a new spurt in the inflation rate.

According to Central Statistical Services, the all commodities index rose from 174 in April 1989 to 209.9 in April this year — an increase of 20.1% compared with 19.6% in the year to March.

The index for locally produced commodities rose from 175.5 to 205.9 — an increase of 17.7% against 17.1% in the year to March. The imported commodities index accelerated by 22.6% from 176.5 to 226.4 in the 12 months to April.

Volkswagen economist A. van Jacobs said that, against the background of the April figures, he expected the inflation rate to be between 17.2% and 18% at the year's end. "This is really bad news."
Reasons for spiralling costs of motor cars

NEW-car-buyers are paying up to 18% more for their vehicles today than they were at the beginning of the year — and 50% more than at this time in 1984.

The latest rounds of increases — introduced, say manufacturers, mainly to recover foreign exchange losses — have pushed the least expensive cars up to close to R12 500.

When general sales tax is added, this means that the man in the street will need just a few rands short of R14 000 to buy a basic economy model.

At the other end of the scale, a locally manufactured luxury car will cost R32 580 — or R43 210 when GST is added — with several costing twice as much as that.

Medium-sized cars — the norm in South Africa only a decade ago — start at about R19 500 (R17 920 with GST added) and go up to R22 000 (R24 640 with GST added).

Latest, manufacturers to increase their prices are Volkswagen and Samcor.

Volkswagen increased its Golf, Jetta and Passat prices by 4.6% last week.

Audi prices increased by 9% in January and 5.5% in April for a total of 13.5% — remained unchanged.

Samcor introduced "selective increases" of between 4.5% and 7% on several of its Ford and Mazda models on Friday.

Market leader Toyota also recently increased its prices by 5% on Corollas and 7% on Cressidas.

Other manufacturers — General Motors, Nissan, Mercedes and BMW — are expected to follow suit during the course of the month.

Reason for the increases, say manufacturers — who are anxiously awaiting a relief announcement from the Government after intensive lobbying — is mainly a plummeting value of the rand.

"Costs of imported components have doubled in the past two years, while local parts are costing 49% more," said the public affairs manager of Volkswagen, Mr. Ronnie Kruger.

"That means the industry's costs have risen by 76% in that period.

"But, price rises have been kept down to 60% as manufacturers have tried to absorb as much as possible and not pass all cost rises directly on to the man in the street."
Movie tickets will cost more

Cinema admission prices are to go up, Ster-Kinekor and UIP-Warner have announced.

Admission prices at UIP-Warner Metro outlets will rise from R4.50 to R4.90 on Friday Ster-Kinekor prices will go up to R5 from R4.50 on June 20.

Prices for students and scholars will rise from R3 to R3.50.

Pensioners still pay R1 at Metro outlets and Ster-Kinekor's weekday price for pensioners stays at 50 cents.

Saturday morning junior club showings will rise to R1.50 for children and R3.50 for adults.

Metro's Monday night budget scheme price of R2.50 remains unchanged.

The distributors are to seek an urgent meeting with the Minister of Justice, Mr. Kobe Coetsee, to ask him to review his ban on Sunday cinema.

On Friday Mr. Coetsee announced that he would not allow cinema on Sundays.
Questionable prospects

THE high inflation rate and intensified political unrest is impacting heavily on industry and contributing to inflated claims, as well as increased incidents of fraud and fire damage. This is the view of Protea Assurance chairman Cedric Walton.

"He says: "Political strength, expressed through trade union movements, is making it difficult for us to differentiate between politically motivated strikes and normal fire casualties."

And he says there is a new problem for insurers — the hijacking of motor vehicles, a growing trend among youths. Unfortunately, with their resources stretched to the limit, police involvement in crime prevention and investigation is wanting. Walton believes commenting on reinsurance, he says capacity has been and continues to be drastically reduced, allied to a tightening of underwriting requirements and commission levels.

Several large risks have been shown to the market recently and despite significantly increased rates and stiffer terms and conditions, substantial portions have been left unplaced.

On the collapse of AA Mutual, Walton points out that a company's solvency margin is the usually accepted standard by which the financial strength of a short-term insurer is judged — the ratio of net shareholders' or free funds to net written premiums.

"This is, however, by no means the only criterion," he says. The strength of a company's insurance funding, its premium and claims reserves or technical reserves, is of equal importance. "So, accepting the composition of portfolios differs from international norms, local reserving standards are still low."

From March 31, this year, Protea Assurance's technical ratio stood at 72%, one of the highest levels in the SA market. He concludes: "We do not believe market share should be sought at the expense of almost everything. We like to husband our resources and opt for a development philosophy focused on profitable growth."

TV licence hike 'a pity'

Consumer groups have expressed disappointment at the increase in TV licence fees from R45.50 to R60 from October.

Collected fees of R24 which applied to social pensioners and war veterans have been extended to include all people over the age of 70 as well as farm workers.

Mrs Betty Hirzel, chairman of the Consumer Union, said: "In this time of misery, depression and hunger, television is one of the few pleasures left to people and it is a pity the licence fees had to rise."

Mrs Lyn Morris, president of the Housewife's League, said the SABC should improve its services and "give listeners and viewers the type of programme they want"
PUTCO has applied for a 17.5 percent fare increase to come into effect from the beginning of November.

According to a statement by Mr Pat Rogers, the company's PRO, PUTCO has made applications to the Transportation Boards in Johannesburg, Pretoria, Durban, Kwa-Ndebele and Bophuthatswana where it operates its buses.

Once these have been published in the Government Gazette, anyone wishing to lodge an objection may do so within a period of 21 days, following which a hearing of the application will be held, said Mr Rogers.

He said the increase does not take account of any subsidy which might be paid by the Department of Transport on behalf of passengers. Essentially, should the increase be approved, any matching subsidy in excess of the figure mentioned would result in a lesser amount payable by the passenger, a lesser subsidy or none at all would increase the passenger contribution.

PUTCO effected a 17.5 percent increase in the Transvaal in November last year, and in Durban in February this year.

Mr Rogers said these were to cover cost increases.

He said the present application is to recover increased costs resulting from inflation experienced or anticipated for the period 1st July 1985 to 30th June 1986.
Inflation rate drops to 17.5 pc

The year-on-year inflation rate for May dropped to 17.5 percent from April's rate of 18.6 percent and January's record 20.7 percent, according to Central Statistical Service figures.

The monthly increase of 0.2 percent May on April was the lowest since November 1976.

The decrease in the inflation rate was mainly attributed to the fuel price drop and the incorporation of third party insurance into the price of fuel.
Price of milk set to go up at least 4c/l next month

Mercury Reporter

The retail price of fresh milk will rise by at least 4c a litre on July 1.

The Dairy Board announced in Pretoria yesterday that milk distributors would pay 4c a litre more while farmers would get 3c a litre more, the difference of 1c being a levy taken by the board.

Milk distributors last night said they would pass on the increase without adding any extra margin. But they warned that retailers might.

'I would say you will find the retailer will pass on a little bit more,' said Mr Eric Hornby, Natal general manager of Clover Dairies.

But both he and Mr Gerald Hunwick, general manager of Creamline Dairies, pointed out that since price control on milk had been abolished, different retailers charged a wide range of prices.

The nominal retail price was about 81c a litre.

The Dairy Board said in its statement that producer prices had to be adjusted to prevent shortages of milk and dairy products in the near future.

Milk production is declining at present and expected production this year will be 4% lower than last year, it said.

'The consumption of dairy products remains fairly constant and with the exception of butter, no surplus of cheese, milk powder or other dairy products exists at the moment.'
Milk price set to go up July 1

THE PRODUCER prices of fresh and industrial milk would be increased from July 1, the Dairy Board said in Pretoria yesterday.

The board said distributors of fresh milk and industrial milk factories would pay 4c a litre or 9% more for milk, while producers would receive 8c a litre more.

The difference of 1c a litre would be levied by the board.

The board said that although consumer prices of fresh milk, cheese, milk powder and other dairy products were not determined by it, such prices were expected to go up as well.

It said producer prices had to be adjusted to prevent shortages of milk and dairy products in the near future.

It said: "Milk production is declining and the expected production this year will be 4% lower than last year." — Sapa.
Days of lamb and coffee on the wane for most

Own Correspondent.

CAPE TOWN — Two South African traditions — lamb chops sizzling on the braai and mugs of steaming coffee — will be out of reach to all but the wealthy by the end of the year if trends continue.

Lamb chops are selling at between R8 and R11 a kg and are set to go higher.

Coffee is expected to cost R26 a kg by November.

“What happened to crayfish will eventually happen to mutton and lamb — only the rich will be able to afford them,” said Mr. A.L. Gaffoor, Press Secretary of the Chamber of Muslim Meat Traders (Comitra).

INVESTIGATE

Last month Comitra asked the Minister of Agriculture to investigate the meat industry and stop price-gouging.

This week the Meat Board wrote back but “failed to address the problems raised”, said Mr. Gaffoor.

Comitra wanted a maximum price “to protect the consumer”.

“The board said that we were experiencing our worst drought for 200 years, that we were importing 70 percent of our meat and that if necessary we would get this meat from overseas.”

DRASTIC DROP

Mr. Gaffoor said sales of whole and half lambs had dropped drastically with prices at almost R7 a kg depending on quality.

Beef, he said, was “not so bad”.

Super lamb chops, sold for R11.19 a kg and super leg of lamb for R9.29 at a city centre store today, were R19.19 and bulk lamb packs R7.69 a kg.

Fillet steak was almost a bargain at R10.69.

The coffee outlook was as gloomy. From about R9.90 a kg retail two years ago, it is now selling at nearly R18.

Mr. John Penfold, buyer for Coffee and Tea Importers, said “prices had rocketed because of a drought in Brazil, the world’s major supplier and the collapse of the International Coffee Organisation.”
MAGISTRATE TELLS OF BOP INJURIES

'I was concerned about number of people allegedly beaten by cops'

THE dismissal of 600 Metal Box employees and Putco bus fare increases were some of the causes of unrest in GaRankuwa, the Smith Commission of Inquiry heard yesterday.

A chief magistrate, Mr Abraham Carel Greylng, told the commission that most unrest related cases were brought before the courts after workers were dismissed from a Rosslyn can manufacturing factory and bus fares increased on the Pretoria/GaRankuwa route.

He said most of the accused were severely wounded and claimed to have been assaulted by the Bophuthatswana police.

"The victims were so seriously hurt that I had to report the matter to senior government officials," he said.

I informed both the Attorney-General, Mr Smith, and the secretary of justice, Mr Mothibe, that I was concerned about the number of people alleging to have been beaten up by the police in the region," said the magistrate.

The victims were children aged from 12 years. The majority resided in the GaRankuwa, Mabopane and Winterveldt areas.

Although he had instructed that some of the injured be referred for medical attention, he said others made second appearances without having received treatment.

Mr Greylng told the commission that the highest crime rate was under the control of the Winterveldt police station, after the killings.

According to him, 2,000 people were arrested on March 26. Scuffles with public violence and others released after playing an admission of guilt.

Violence among colleagues had led to a number of disruptions and squatters could break off unrest, particularly in Winterveldt.

Hawkers were told by the police to come to the main road and it was often difficult to take them off.
DURBAN TRANSPORT MANAGEMENT BOARD

FARE INCREASE

(Blue Line Service)

The public is hereby notified that the following new fare structure will be introduced on the Board’s Blue Line Service as from TUESDAY, 1 July 1986.

New priced coupons will be available from 25 June 1986 at the Transport Information Bureau, corner of Gardner and West Streets and agents sale outlets from 27 June 1986.

COUPON

(10 Journey Coupon)

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Child's Fare: R0,85 Cash or Stage 1 coupon irrespective of distance travelled

Colour of new Coupons as shown below:

- Stage 1: Turquoise
- Stage 2: Brown
- Stage 3: Pink
- Stage 4: Gold
- Stage 5: Mauve
- Stage 6: Yellow
- Stage 7: Green
- Scholars: Red
- Concession "P": Orange

Commuters are advised to pay particular attention to the validity period printed on the existing coupons, which are not refundable.

Old fare coupons are valid only up to and including Friday 29 August 1986.

M.G. Cuthbert
GENERAL MANAGER
DC rates to rise by up to 15 pc

Dispatch Reporter
EAST LONDON — Rates in the Divisional Council of Kafraba are to go up by as much as 15 per cent in some areas.

This emerged in the draft estimates of revenue and expenditure released at yesterday's monthly meeting of the council.

Expenditure of R3 757 121 is expected to be under the following categories:
- general expenditure R1 543 338
- roads R3 197 701
- public health R405 065
- ambulance R66 266
There is a surplus of R14 731.

Anticipated income of R3 26 022 is as follows:
- general administration R41 655
- roads R2 847 701
- ambulance R66 260
- public health R274 180

The general rate in rural areas is 0.340c in the rand while the rate in municipal areas is 0.115c in the rand.

The general rate on all property in the King William's Town municipal area is 0.065c (0.065c last year), in the Stutterheim area 0.060c (0.065c last year), Komga and Kei Mouth 0.105c (last year 0.065c), Beacon Bay and Gonubie 0.215c (last year 0.020c).

Local areas rates are as follows (previous in brackets):
- Kwelera 0.070c (0.65c)
- Eureka 0.31 (0.24c)
- Reeston 0.45 (0.34c)
- Macleantown 1.71 (1.53c)
- Kidd's Beach 1.57 (1.41c)
- Haga Haga 1.62 (1.47c)
- Morgan Bay 1.15 (0.58c)
- Sunrise-on-Sea 0.30 (0.25c)
- Uitsa 0.68 (0.48c)
RAU prof warns of inflation at 30-40% 

By Trevor Walker

The monetary authorities have failed dismally in their efforts to curb inflation, and unless some very unpleasant measures are taken soon inflation could well hit 30 or even 40 percent within the next year or two.

Speaking at a Martindale Stacey and Trollip seminar last night, Professor Geert de Wet of the Rand Afrikaans University said interest rates in South Africa were not market-related and in fact were yet another "controlled price" the mismanagement of which continued to bedevil the economy.

"Labour, or wages versus productivity, imported prices and controlled prices are the major causes of inflation."

By attempting to control inflation via the demand side for money rather than the cash or supply side, the authorities placed a great deal of emphasis on public reaction or response.

In 1983 and 1984 inflationary expectations led to an ever-increasing demand for money. Ultimately, in order to "kill" this off, basic interest rates were bumped up by no less than three percentage points.

The high rate of inflation and high level of internal interest rates led, with approval from the authorities, to high levels of foreign borrowings.

Professor de Wet said it was ironic that "the immediate factors which triggered off the debt problem may have been political in nature, but the fact that we were saddled with excessive short-term debt had to a large extent been caused by the high interest rates which finally did not succeed in bringing down inflation."

The pinnacle of the sledgehammer money policy was reached in August 1984 with interest rates at 22 percent.

"Yet in order to cause a decline in the demand for money, interest rates have to cool down the entire economy and the measures did it so well that we are still battling to revive the economy to this day."

According to the De Kock Commision, the ultimate task of the monetary authorities was to ensure price stabil-

But because interest rates have ceased to be normal economic variables, and have become crucial monetary policy instruments, tampering with them may involve the same dangers as those involved in other price manipulations.

"The roundabout way in which monetary control is being sought, and the fact that interest rates which are key market variables are used, may very well introduce wide interest rate fluctuations and much economic instability."

Professor De Wet said the single most important factor in the economy at the moment was a widespread lack of confidence. Because of this the latest package from the Treasury was on its own likely to be insufficient to really lift the economy.

He said more fiscal stimulation would probably be necessary. He hinted that the Afrikaanse Handels Instituut was in the process of preparing a paper for presentation to the Government in August.

He declined to elaborate, but did say that for example future wage increases would have to be tied much more closely to productivity improvements.

"Wages are controlled or at least are not totally free, so if we control them then lets control them in the right way."

"It is an open question whether the political instability would have grown to its present proportions if we had had a successful anti-inflation policy by the end of 1984 without high interest rates but with a buoyant economy."

"I am afraid we may have messed the boat, since exports have been doing well for a considerable period of time now and in another year or two they may turn down cyclically, dragging the economy into a normal cyclical recession even before it gets out of the present abnormal recession."

How the bank rate has fallen
Visions of more consumer spending have turned out to be a myth.

Breadwinners are worse off than ever.

Visions of more consumer spending power that were created by announcements of tax cuts in the 1986 budget have turned out to be myths.

Most breadwinners have found that in fact their income tax bills are still heavier — and nearly all of them find they are worse off than ever.

The cash harvest reaped by the Department of Inland Revenue from personal income tax in the current 1986/87 year will be the biggest crop on record.

The apparent tax cuts announced by Finance Minister Barend du Plessis on March 17 were illusionary," says Dr Azar Jammie, director of the Econometric research unit.

"While it was intended to sound like a R1 billion giveaway — with the abolition of the 7 percent tax surcharge and the introduction of a 5 percent rebate — in fact tax collections will be the heaviest yet."

Econometric research estimates that overall personal income tax will still soar by as much as 22.5 percent, hoisting the total from R2.82 billion in 1986/87 to R10.86 billion.

The sorrow at work is inflation and the way it causes what economic boffins call "fiscal drag" or "bracket creep" — the mechanism that pushes more and more breadwinners higher and higher up the tax ladder every time they win increases in salaries and wages in their vain efforts to try to keep pace with the cost of living spiral.

Econometric research takes as an example a taxpayer who last year earned R10 000 — about R633 a month. If he started 1986 with a 10 percent pay increase (little better than half the rate of inflation but the sort of increase that was better than average), even with the tax cuts his actual tax bill is up from R955 to R1 024.

Unaltered

The only scrap of consolation is that had the old tax rates stayed unaltered the taxman would have grabbed R100 more.

If the identical taxpayer was lucky enough to be given a 20 percent pay increase, the tax bracket would be worse — up from R556 to R1 230.

"True, if he received no pay increase at all his tax bill under the new tax rates would be lower, down from R935 to R877. But his spending power in real terms would be slashed by 18 percent.

Breadwinners who thought the 1986 budget would leave them better off may be in for a grave disappointment," Michael Chester reports.

or more by the vicious cut of inflation.

"So there was no escape from a shrinkage in living standards.

"Higher up the income brackets, a taxpayer who picked up a 20 percent pay increase to add to the R50 000 he earned last year is seeing his tax bill shot up from R17 662 to R20 702.

And even if the basic income tax rate is not quite as bad as it was, the odds are that a taxpayer on this sort of salary now also has to confront more cuts from the petrol tax on such items as running a company car or using company housing loans.

"The injustice of the tax system is magnified by trends that prove how fiscal drag is forcing private individuals to carry a more and more disproportionate share of the overall tax burden," says Dr Jammie.

Load

The proof is set out in a set of Econometric pie charts.

Five years ago, the share of total tax revenue shouldered by personal income tax payments was only 15.6 percent.

By last year, private individuals were carrying 25.7 percent of the load.

And this year — despite the tax-cut fanfare — they will be lumbered with as much as 32 percent of the burden.

"The time has arrived for a really dramatic round of tax reductions," argues Dr Jammie.

"No doubt the Government would argue the national economy cannot afford drastic tax cuts.

"The governments of nearly all the Western nations are in the process of selling more and more state enterprises to the private sector, which almost invariably do a better job with them.

"Their successes are enormous. South Africa must follow suit — or face calamity."
Waging a War

After April’s inflation figure of 18.6%, economists are getting “a little nervous about their projections,” as one put it. Compared with March, at 18.9% year-on-year, April does reflect a fall, but not as much as expected. Big increases came through for food and clothing, while the petrol price cut was too late to be included. Public transport, however, was also up significantly — new tariffs began on April 1.

Certainly, domestic cost pressures appear more important, as pressures from imported costs ease. The wage settlement at Pick ‘n Pay, which, for some, increased basic earnings by around 22%, could have far-reaching repercussions.

“It’s extremely difficult to pinpoint price rises following wage deals,” comments one economist. “But if the trend spreads across the board, there’s going to be upward pressure on CPI.” He says this is a major reason why economists are increasingly pessimistic about inflation.

The National Union of Mineworkers has asked for a 45% wage increase. Though costs here relate largely to export orders, it could have a “demonstration effect.”

Apart from this, the rand has weakened significantly this month and now makes a further petrol price cut unlikely. “It’s even possible we’ll get a fuel price increase,” suggests one.

Political events

Jim Buys, economic consultant to Anglo American, now looks for a 17% CPI rise for 1986 as a whole, slightly above his earlier estimate. “But political events dominate the situation, and we are living day to day.”

“Our forecasts assumed a fairly stable exchange rate for the rest of the year. The currency has not only lost ground against the dollar, but against the background of a weak dollar, the situation against other currencies, notably the D-mark and yen, is very unstable.”

Despite the apparent lower rate for April, the monthly index shows a significant jump. One has to be careful in looking at monthly figures in isolation, but the move from an all-income index of 215.8 in February to 218.3 in March and then a big jump in April to 222.2, is significant.

Annualising the February-March change gives 13.9%, annualising the March-April change 21%, a disquieting turn of events. The food-only index was static through February and March, then kept a monthly annualised rate of over 29%, presumably through a mix of statistical distortions and administered price increases.

In its Economic Survey for March, Sanlam also predicts an average CPI of 17% this year, but says it could fall to about 13.5% for 1987.
The imported component of PPI rose again in April to 28.3% from 27.5% in March, year on year. The all-commodities PPI increase rose to 20.1% year on year, up from March’s 19.6%. The most worrying aspect is that the locally produced commodity price index rose for the first time in three months. In April it stood at 17.7%, compared to 17.1% the previous month.

Says Jim Buys, economic consultant at Anglo American: “Last week there was another car price hike, reflecting the weak rand which has been pushing up the cost of imported components. Relative stability against the dollar for a while disguised our persistently underlying poor performance against third currencies. Ultimately the imported component of PPI must work through to local goods. Of total imports, about 18% comes from the US, but there are big chunks from Japan, West Germany and the UK.”

The index for all-commodities rose to 208.9 in April, up from March’s 206.9 — as it was also for February. But this again disguised underlying trends: the fall in the petrol price offset continual price increases in other commodities.

Clearly, our third-currency position is dreadful. And with the never-ending roll call of administered price increases — both Sats and the Post Office raised tariffs recently, while others look set to follow — there’s no hope for the consumer. Any tax concessions are likely to be mopped up by rising prices.
The Star Bureau

LONDON — The rand's recovery on foreign exchange markets was caused as much by the "quiet" passing of the Soweto anniversary as South Africa's "see-no-evil hear-no-evil information policy", says the Financial Times Lex column.

It goes on: "The selling pressure that drove the discount on the financial rand wider last week than at any point since Soweto in 1976 has abated for the moment.

"However, there were not many City fund managers slapping themselves for not buying last week into one of the better short-term punts available in global markets.

"At Tuesday's commercial rand rate — which is the rate in which dividends are paid — a gold share bought last Thursday could have been sold ex-dividend next month for a total return of over 20 percent.

"Leaning out of this particularly window is only for those with a head for heights. Leaving aside the wage negotiations at the mines, the momentum building up behind South Africa could well produce some sort of equal and opposite reaction in South African exchange control.

"For the moment, the South African authorities have no desire to deter foreign investors any further.

"The small package of financial measures announced yesterday shows that foreign capital is still first in the queue: Export-led growth is out while foreign bankers get all the export earnings, and it is the domestic economy that must be bashed.

"But with such cost pressures already built in the falling rand, a stimulation of domestic demand could well be a recipe for a nasty-looking cycle of inflation and currency weakness."
inflation would have held at 18%.

This is just the direct effect. Under "normal" circumstances consumers would also look forward to follow-on effects as lower transport costs filtered through to retail prices, slashing as much as another 1,5% off CPI over the next six months.

But this is doubtful. For one thing, the rand has shown extreme volatility over the past few weeks, plunging to around US$3.5 ahead of June 16, before rebounding no less than 7% in just six days. For another, government's latest stimulatory package relies on significant rapping of fuel sales levies garnered for its central energy fund. This could complicate fuel pricing strategy.

Says Louis Goldenbuys, economic consultant to stockbroker George Huyserman: "The fall was a surprise, given the environment we are living in."

More startling perhaps is that the monthly increase — 0.2% — was the lowest since November 1976. Goldenbuys, however, points to the extreme price volatility of some commodities. For example, the major fall, aside from fuel, was fruit, down 5.4% month on month — "I find this impossible to explain."

Overall, Goldenbuys feels that inflation is bound to rise. "Economic and political instability has escalated, time horizons are shortening, and there's the capital flight. While international pressures are still increasing."

Other month-on-month changes to May include fats and oils, down 2.5%. The main increases were new car prices, up 3.9%, sugar, up 2.9%, and books, up 2.5%. Third-party insurance is now included in the fuel price. Of course, from May 1, which means its separate weighting falls away. This also contributed to the statistical fall.

There are positive signs for inflation through lower interest rates, especially on bond accounts. Existing bond rates fall on July 1 and then October 1. On the negative side, the fuel price is based on a 4.7% rand, and will have to be increased if the rand remains below this. Milk prices are set to rise from July 1.

But the fresh fruit price fall is unusual. Maybe exports have gone down because of sanctions, increasing domestic supply. Iron-

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**Hope for consumer?**

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**Fruit puzzle**

It's rare these days for the sun to shine out of Central Statistical Services, but for the month of May it did. The consumer price index (CPI) dropped to 17.9% year-on-year, down from 18.6% in April.

Main contributors were the cut in fuel prices on April 14, which was brought into the May statistics, and a surprising fall in fresh fruit prices. Transport running costs, according to a spokesman, went down 6.1%, showing what a dramatic influence a fall in fuel prices can have on inflation. But for this,
Chronic inflation remains a very real danger for SA

WE ARE constantly reassured that demand in the economy is so low as to be of no immediate threat to the rate of inflation. Inflation is fuelled by higher costs and, now that the rand has recovered, prospects for some moderation in inflation are good.

A revealing study just completed by Old Mutual economist Rob Lee suggests that SA is treading a dangerous path very close to a precipice beyond which lies chronic inflation.

The inexorable increase in prices has decisively moved out of its 10% to 15% band within which it has traded for the past 12 years. Latest figures put it at 19%.

Though Lee expects the SA monetary authorities to stay this side of disaster, he projects inflation this year dropping to around 16% by year end, but this, he cautions, will be largely a statistical reduction.

The high increases of the last few months of 1985 will have the effect of reducing the year-on-year calculations.

For 1986 Lee sees inflation averaging just under 20%. The following year, he believes it will average just over 20%.

Lee's analysis identifies economic characteristics associated with rates of inflation of more than 20% in other developing nations. In relatively small economies heavily dependent on foreign trade the balance of payments is critically important to economic policy, and in turn inflation. A surplus on the BoP is essential for non-inflationary growth. If the surplus is imperilled, corrective policy measures to depress imports have to be taken.

But if there is a major setback to the BoP, such as a dramatic fall in the price of a dominant export commodity, then the cost of corrective action in terms of unemployment becomes too great. "In such circumstances," says Lee, "the inflation route is usually a more attractive alternative."

The classic BoP problem that has led to hyperinflationary situations is an increased foreign debt commitment, or a cut off in the flow of foreign funds into the country.

IMF statistics show SA had a debt service burden (interest and capital to be repaid in a certain period) of 15% in 1983. Says Lee: "The domestic situation still seems compatible with the inflation range experienced over the past decade. Events in 1986 however substantially worsen our potential debt burden and the ability to service that debt. Given our historical dependence on a net foreign capital inflow, particularly in achieving a satisfactory growth rate, the net impact of the debt standstill agreement, and the scant prospect of attracting a net inflow of foreign capital in the foreseeable future, may have damaged our inflation outlook materially."

A weak currency is another factor associated with high inflation. While a weak currency helps to "automatically" adjust BoP deficits, it can quickly feed inflation through to the domestic economy. Thus often sets up a vicious cycle of inflation and currency depreciation. Lee notes that SA has so far managed to avoid this, but he warns that it is essential that SA avoids a repetition of the exchange rate behaviour of the last two years.

High inflation has also affected countries when public finance is mismanaged. The most common problems usually stem from an abnormal escalation in the demands on government spending. Lee adds that "a rise in state spending becomes potentially even more inflationary when the size is consistently underestimated, and the appropriate financing policies are therefore not implemented."

Financing higher-than-expected spending can be easier when tax rates within the economy are low. The higher the tax burden, the greater the likelihood that the government will resort to the printing presses.

Lee also points to indexation within an economy as being critical to inflation. Indexation starts at an informal level with workers using the consumer price index in the wage negotiations to try and protect their real incomes and standard of living. Inflation really gets a bold and quickly climbs to chronic levels when there is political backing for indexation. In SA, according to Lee, informal indexation is widely practised as most wage claims are effectively indexed to the CPI. But, he stresses, there is no official backing for indexing and the authorities have in fact distanced themselves from such ideas.

"The informal adjustment process appears to be about 12 months, indicating that indexation is at this stage a factor keeping inflation at present levels rather than being a driving force behind a much higher rate," says Lee.
Milk price up by 4c

Consumers will have to pay an extra four cents a litre for milk — perhaps more.

The producer price of fresh and industrial milk went up today by nine percent (four cents) and major milk distributors are passing it on.

National Co-operative Dairies and Dairy Belle say they cannot absorb the rise because of inflation and higher operating costs, but the increase will be no more than the four cents.

However, the impact of the increased producer price on the retail price could vary from dairy to dairy as it is not controlled.

Major supermarkets, Checkers, Pick 'n Pay and OK Bazaars, have announced they will peg the milk price at old levels, for a period.
Shift in emphasis to fighting unemployment

Inflation rates crucial to a gold price recovery

By Dr Roger Gidlow

Six years of positive real interest rates in most of the western countries and sluggish economic growth have combined to bring about a marked fall in the rate of inflation. One by-product of these conditions has been a sharp decline in the dollar price of gold as investors downgrade the merits of the yellow metal as a hedge asset in a less inflationary world.

Most analysts take the view that a sustained recovery in the price of gold will only occur if inflationary pressures begin to increase again in western countries.

On this basis it is crucial to ascertain whether the very low level of inflation now prevailing in western countries is temporary or permanent.

Only time will tell, but some insight on this question can be gained from recent developments in the British economy where the success achieved in reducing the rate of inflation has been particularly pronounced. After rising above 20 percent in 1980, the rate of inflation as measured by the consumer price index fell to 2.8 percent in April this year, its lowest level for 18 years.

Keen debate

The British government now faces a major challenge in trying to convince the public that low inflation is beneficial and here to stay. The cost of bringing down inflation in terms of manufacturing output has not recovered to the levels prevailing back in 1979.

A keen debate is now emerging about whether the present anti-inflationary policies will produce long-term benefits and, if so, whether they will be enough to outweigh the costs incurred in bringing down inflation.

In Britain today there is in any case scepticism about the durability of the present low inflationary environment. Political pressures are perceived to be slowly inducing the authorities to shift their priorities from fighting inflation to fighting unemployment. This perception partly explains why long-term government stocks still yield 9.5 percent while the rate of inflation is below three percent.

This failure of long-term interest rates to follow in the same direction as inflation has been a disappointment. It not only indicates a lack of conviction that inflation can remain low. It has also deprived the public of one of the most important economic benefits expected from the low inflation.

High interest rates played a key role in the original formulation of anti-inflationary policy. Once inflation was conquered, the low interest rates which were to follow were supposed to be the main stimulative force which would restore full employment.

This has not occurred. The longer these potential benefits prove elusive, the greater the danger that political pressures in Britain will lead to a reversal in policy and, therefore, the adoption of more expansionary economic policies. This fear is deeply ingrained in British financial markets.

Scepticism about the chances of inflation remaining low is only strengthened by the present outcome of wage negotiations.

Wages are rising at an annual rate of roughly 7.5 percent, and thus is threatening to push up prices once the full effects of the recent fall in international oil prices have exerted their influence.

The experiences in Britain in the past few years have convincingly revealed that inflation can be curbed by appropriate monetary policies. Yet policymakers in Britain and elsewhere have failed to find the formula for rendering lower rates of inflation compatible with high levels of employment.

Negative impact

The presence of exceedingly high real interest rates in the face of a collapse in inflation in Britain has been especially crucial. If these rates do not fall the fears which sustain them may become fulfilled as the authorities resort to more expansionary policies and inflationary pressures become more visible.

High positive rates of interest are not confined to Britain even though they are especially marked in that country.

From the point of view of the gold market any continuation of such high rates of interest in western countries in general, although negative in the short term, may prove bullish in the longer term.

This is because policymakers could become more inclined to adopt less restrictive policies in an effort to counteract the negative impact of such high rates on employment in western countries as well as the Third World debt impasse.

The London gold price in dollars since 1979
The Dairy Board has slashed the price of butter in an effort to eliminate a 5,000-ton surplus. The price drops immediately by R1.45/kg to R4/kg.

Board manager Eddie Roux said, however, the cheaper butter might not be available at all stores immediately.

The butter price will be subsidised from the board’s stabilisation fund.

Because of the slump, and because the board was not in favour of exporting butter, it had decided to offer cheaper butter to the local market.

Butter consumption, said the board, had plunged from 54,000 tons a year in 1971 to 13,000 tons because of consumer resistance to the price and competition from substitutes.

This had resulted in structural changes in the industry and the closing of factories.

It was hoped the lower price would help butter regain its market share.

Retailers are expected to add only 3% to the wholesale price.

Consumers, said the board, should pay about R2.10 for 500g.

The price reduction was one of the recommendations of the Butter Working Group appointed by the board to investigate the marketing of butter.

Further recommendations were being considered.

The board said consumers would have noticed that certain supermarkets were already offering butter at reduced prices.

The board had gratefully taken cognisance of this gesture to benefit consumers and encourage butter consumption.

It was hoped consumers would re-discover butter as a natural, quality product.
Bread price rise on the cards

A WHEAT and bread price rise from the start of the new season on October 1 is considered a certainty.

Producers expect an increase of about 15%. Their recommendation will be discussed at a Wheat Board meeting next week, before the board submits its recommendation to the National Marketing Council.

Producers claim their input costs have risen by at least 15% in the past season. Last year government agreed to an increase of 0.7%, which was just more than half the inflation rate.

Consequently, producers say the profitability gap is closing. Whatever the producer-price increase is going to be, it will be loaded on the bread price.

This year's R150m bread subsidy will probably be enough to maintain current prices until the start of the new financial year, provided the wheat price and millers' and bakers' margins remain unaltered.

So, unless government agrees to supplement the subsidy, an increase in the bread price is inevitable.

The Denv Commission recommended that the subsidy lapses on October 1. However, the Wheat Board says if the subsidy is abolished, the price of brown bread will have to rise by at least 25%. 
Medical-fee jump of up to 41% suggested.
20% rise in doctors' fees is recommended

PRETORIA—The Medical Association of South Africa has recommended an average increase of 20.1% in doctors' fees as a guideline for medical practitioners.

Last night Durban doctors said that if the increase was accepted as proposed, a consultation in Durban would cost patients about R16.32.

One doctor said practitioners who did not charge tariff rates 'normally' charged about 25% more than the recommended fee.

In a statement in Pretoria yesterday, Masa said it regarded its latest annual adjustment of the tariff 'as reasonable compensation to doctors for their services'.

It emphasised the adjustment would not bring about an improvement in the real income of doctors.

'As in the past, the adjustment was based on the consumer price index, the reason being that practice costs will increase in accordance with CPI increases'.

One Durban doctor said doctors whose patients were from lower income brackets very often included medicines in the consultation fee.

'But your average doctor will probably charge the recommended tariff for the consultation only,' he said.

The recommended tariff increases are:

Clinical disciplines (general practitioners and specialists) 19.05%, anaesthetists 20%, radiologists 21.6% and clinical pathologists 30%.

'This is an average increase of 20.1% and represents an annual increase of 7.1% which is more or less 4% lower than increases in the CPI over the same period,' said Masa.

According to calculations by economists there had been a decrease of 3%-10% in the real income of the population over the past 16 months (since the last revision of the Masa tariff).

'It is therefore accepted that in order to maintain their relative position in the economy, doctors' incomes should also reflect this decrease,' Masa said.

Services which merited special consideration in the increases were anatomical pathology (27%), ultra sound (41%) and computerised tomography (41.7%) — (Sapa)
Paint price set to rise

JOHANNESBURG

Paint is to cost between 20 per cent and 30 per cent more in the next 12 months because of the present rand fluctuations, says Mr Billy Hart, marketing manager of AEC Paints.

"Many homeowners were expecting the reverse to apply when the rand strengthened against the US dollar and with the reduction in petrol prices," Mr Hart said.

"But these conditions have not been sufficient to offset the increase in costs of imported raw materials which account for a significant percentage of the domestic paint content.

"Of the balance of the content of paint manufactured in South Africa, most raw materials are import related.

"This, together with a 20 per cent inflation rate over the past year has made it impossible to contain prices, even though profit margins have been considerably reduced," he said.

He said raw materials are, in the main, imported from the US, the UK and Germany.
Massive Rise in Doctors' Fees

Massive Rise in Doctors' Fees

For many patients — and for patients who are insured by their employers — the opportunity to see a doctor is often seen as a luxury, if not a necessity. Increasing prices and the perception of a shortage of doctors are making the situation even more challenging. With the high cost of living and the rising cost of medical care, many patients are finding it difficult to afford the necessary medical services.

According to recent studies, the cost of medical services has risen significantly in recent years. This has led to an increase in the number of patients who are choosing to seek medical care online, where they can often find more affordable options. However, despite these efforts, the cost of medical care remains high, and most patients still rely on their insurance to cover the costs.

In addition to the cost of medical care, the lack of doctors is also a major issue. The number of practicing doctors has been decreasing in recent years, and this has led to longer wait times and decreased access to care. Many patients are finding it difficult to find a doctor who is willing to see them, and this has led to an increase in the number of patients who are choosing to seek care online.

The government has been working to address these issues, but progress has been slow. Many patients are still struggling to afford the cost of medical care, and the shortage of doctors continues to be a major problem. If the government does not take action soon, many patients will continue to face challenges when trying to obtain the care they need.
Higher medical fees proposed

Dispatch Correspondent
PRETORIA — An average increase of 20.1 per cent in the private fees of doctors has been recom- mendned as a guideline for medical practitioners from July by the Medical Association of South Africa (Masa).

Masa has issued a new set of private tariffs to be used by medical practitioners as a guide only.

"Because the private tariffs are meant to serve as a guide, it creates the opportunity for negotiation between doctor and patient," Masa said in a statement yesterday.

In considering the adjustments, Masa's federal council took into account the possible collapse of private medical services because of spiraling practice costs.

"Masa regards the increases as reasonable. It claims the adjustments, based on the consumer price index, would not improve the real income of doctors.

A Masa spokesman said the association realised everyone had to make sacrifices in the current economic climate.

"Doctors are, therefore, asked to take patients' financial circumstances into account when determining tariffs," he said.

The increases are general practitioners and specialists 19.05 per cent, anaesthetists 20 per cent, radiologists 21.6 per cent, clinical pathologists 20 per cent, anatomical pathology 27 per cent, ultrasound 41 per cent, and computerised tomography 41.7 per cent.

This is an average increase of 20.1 per cent and represents an annual increase of 15.1 per cent, which is more or less 4 per cent lower than increases in the CPI over the same period," said Masa.

The last three services listed were seen as immensely cost-intensive. They depend on imports of sophisticated equipment and costly materials and are thus vulnerable to the rand's deteriorating exchange rate.
Few doctors to ask maximum

Dispatch Correspondent

DURBAN — Very few doctors in general practice were expected to charge the maximum R22.50 consultation fee suggested by the Medical Association of South Africa (Masa), Dr Roy Davey of the General Practitioners' Society said yesterday.

The maximum rate increased from R18.60 to its new level with effect from July 1, the second increase this year. The last increase was on January 1.

Dr Davey said while many general practitioners had been discounting off the Masa tariff, they could charge what they liked on negotiation with the patient.

"Although Masa says we can charge R22.50, very few will charge that sort of fee, depending on time and the sort of examination," said Dr Davey.

He said while a lot of doctors charged the standard medical aid tariff of R13.60, those who did not had been charging about R15 a consultation and would probably increase this to about R18.

Specialist fees were roughly a third more than their GP counterparts, but were all different, said Dr Davey.

Regarding a possible increase in the medical aid tariff as a result of the Masa increase, the chairman of the Representative Association of Medical Schemes, Mr John Ernstzen said "We are obliged to review our scale within three months and have already started doing so."

But, he added, any increase would be determined on how doctors reacted to the increases and the state of the economy.

"Our decision will be determined on what we find is being charged and by the economy because our subscriptions come from the employers and members of industrial and commercial sector," said Mr Ernstzen.

Mr Ernstzen emphasised that the situation was "not quite as bad as it sounds" and that the 20 per cent increase granted was hypothetical since most doctors did not charge the maximum rate.

He pointed out that for all the services for which the medical schemes paid, more than 80 per cent were charged according to the scale of benefits as laid down by the medical schemes.

Mr Ernstzen appeared to find the real increase doctors would get a little high when it was compared with the 6 per cent average salary increase for the man-in-the-street whose real income was being eroded by inflation.
ment and semi-government sectors, only 15% are for new cars. During the same period in 1985 more than 30% of the 87,000 cars insured were new cars. The recession is evidently biting in many quarters.

Together with the trend to hold on to existing vehicles or buy second-hand rather than new, there is an increased demand for spare parts. But, say some sources, there is a shortage of imported parts.

"This could be because suppliers expect the rand to improve and therefore cut back on imported goods," says an authoritative motor industry source.

**Spare parts demand**

National Motor Spares and Equipment Association (NMSEA) chairman Oscar Taub blames the lapse on the weak rand and related import hikes. "This is causing increased demand for second-hand spare parts," he says.

But most part manufacturers don't see a shortage of spare parts either in the local or imported divisions. "There can't be a shortage of spare parts," says Nissan MD John Newbury. "We are supplying 92% of spare parts to the dealer on a first-call monthly basis," he confirms.

Most South African manufacturers are running near full capacity to meet demands for spare parts. Because of their competitive prices and easy availability they now experience better times than ever before. Some even consider the possibility of exporting.

"We are smiling all the way," says Toyota marketing manager Brand Pretorius. "Our parts service rate is running at about 95%.

National Association of Automotive Component and Allied Manufacturers (NAACAM) director Densell Vermooten agrees. He tells the IM that although manufacturers are running at below 50% capacity, some lines are doing well.

"Because motorists are not buying new cars, we are manufacturing many of the fast-moving components like spark plugs, which have to be replaced relatively often," says Vermooten. "But slow-moving components like engines, which usually last the car's lifetime, bring our total capacity down."

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**CAR PRICES**

**Keeping longer**

Dramatic car price increases in recent years are forcing South African motorists to keep their vehicles for longer. The average period of ownership is now seven years, already three years up on 1980's average, say industry sources.

Latest National Association of Automobile Manufacturers of SA (Naamsa) figures show that the average car price increase in the year from July last year to June 30, 1986 is 29.5%. "The reason for the sharp rise is the depreciation of the rand, compounded by local inflation," says a Naamsa spokesman.

Not surprisingly, Prestige Brokers' insurance statistics for July 1986 show that of 102,000 cars insured through them for white- and blue-collar workers from govern-
Inflation falls to 16.9%

The main factor in both reductions, he said, came from the small increases in food prices, which forms about 25% of the index.

He said it was not clear if the reductions were seasonal and could reverse, but he thought it unlikely there would be any further significant falls until December or early next year.

Trust Bank projected an average rate of 17% for the year in their Econome Report released yesterday.

It said the forecast was based on a recent sharp drop in the value of the rand, signs that the government sector will further increase its share of the economy this year and supply shocks to the economy which could be caused by limited sanctions.

According to Reuters the all items index (base 1899) rose a monthly 0.6% to 224.4 in June after a 0.2% gain to 222.6 in May.

A year ago the index stood at 191.9 and year-on-year consumer inflation at 16.4%.

The food only index rose to 219.4 in June from 218.8 in May and 187.3 in June 1985, giving a monthly rise of 0.3% and year-on-year gain of 17%.

The lower income group index rose to 219.2 from 217.7 and 188.2 respectively for respective gains of 0.7 and 16.5%.

The middle income group index rose to 226.7 from 224.8 and 183.9 for a monthly gain of 0.8% and a year-on-year gain of 16.9%.

The higher income group index rose 0.8% to 224.6 in June from 223.8 in May, giving a 17.1% rise from 191.9 a year ago.
Economists welcome drop in inflation rate

By Janine Simon

The year-on-year inflation rate has dropped from 17.5 percent in May to 16.9 percent in June this year.

But figures released by the Central Statistical Services yesterday show that the month-on-month consumer price index (CPI) has jumped from May’s record low of 0.2 percent to 0.8 percent in June.

Julie’s figure is still low compared to the monthly CPI for the past two years.

"Costs to industry and commerce, especially in wages and salaries, have risen at a slower rate," said group economist for Rand Merchant Bank, Mr Rudolf Geuws.

"The recession has created a highly competitive economy, making it difficult for the producer to pass on costly increases."

Chief economist for the Standard Bank, Mr Nico Sypjoukha, said pressures on the monthly price rates had not disappeared.

"This could be a hull before a storm — pent-up price increases are indicated in the producer price index and the impact of the renewed weakness of the rand is still to be felt."
Inflation rate drops to 16,9%

By AUDREY D'ANGELO
Assistant Financial Editor

The rise in the cost of living slowed down further in the 12 months to June, to 16,9% compared with 17,5% in May, according to figures released yesterday by the Central Statistics Office. But the director of the University of Cape Town Graduate School of Business, Professor John Simpson, said yesterday he did not expect this trend to continue.

"There is a downward trend but I think the government's recent attempt to stimulate the economy is inflationary.

"In the medium term the Consumer Price Index (CPI) may go down, but I cannot think it will go down much more and we may soon see it leveling off."

Professor Simpson said the government was obviously sorely tempted to reflate the economy.

"And if you do that it is difficult to keep the CPI down."

He said the present weakness of the rand meant that SA was still importing inflation.

The figures released by the Central Statistics Office show that the all items index has more than doubled since 1980, from the base rate of 100 to 204,4.

A year ago it was 191,9 and the year-on-year inflation rate was 16,4%.

The food only index has risen by 17% in the past year, to 210,4 compared with 187,5 in June 1985.

The upper income group has had the highest rise in its cost of living, of 17,1%, in the year to the end of June.

The cost of living for the middle-income group rose by 16,9% and for the lower income group by 16,5%.

In the month of June, the cost of living for the higher and middle-income groups rose by 0,8% and that of the lower-income group by 0,7%. 
Sharp increase in summonses and judgments

Consumers are losing ground, says Sanlam

By Stan Kennedy

Taking into account inflation and a population increase of 2.5 percent a year, real disposable income per capita has dropped by one percent a year over the last six years — and that is without GST, which has shot up by 36 percent a year during this period.

Consumers are still burdened with obligations incurred earlier, and which must be redeemed now, while their real income is shrinking. The weaker financial position of consumers and their inability to discharge obligations is leading to a sharp increase in summonses and judgments for debt since 1981.

For many, bankruptcy is inevitable.

In its July Economic Survey, Sanlam says the factors contributing to the decline in spending in the first quarter of the year include a general lack of consumer confidence, only modest increases in wages, high unemployment, except in high inflation, the increasing tax burden and organised consumer boycotts.

Political instability

Others are a strong rise in Government spending, a sharp decline in real fixed investment by the public and private sectors and a further depletion of inventories.

"It is against this background in the first quarter, and the signs that real economic activity most probably declined further in the second quarter, that additional stimulation has become extremely urgent. We consider that further fiscal stimulatory measures, more reductions in short-term interest rates, a stronger rand and more stable socio-political conditions are necessary to get the economy moving again."

Sanlam questions whether South Africans, in the midst of the current political instability, have the economic determination to ward off the sanctions onslaught.

"It goes without saying, that a general improvement in business and consumer confidence is a prerequisite for a sustained upswing."

"Considering the daunting problems facing the country, a continued high economic growth rate is all the more necessary now. Private consumption expenditure represents between 50 and 60 percent of the total domestic expenditure on goods and services and is an important incentive to growth."

To absorb all the new job-seekers, an average economic growth rate of about 4.5 percent a year is necessary — more than double the rate. South Africa has been able to attain since 1980. Unofficial estimates are that up to two million workers, or 18 percent of the available labour force, are either out of work or not fully employed.

The surplus on the foreign trade account rose steeply in May, bringing the total surplus for the first five months of the year to just over R4.9 billion. This compares with the R4.4 billion surplus for the same period last year.

However, Sanlam estimates that the current account of the balance of payments for the first five months will be down from R22.2 billion last year to R2 billion.

Large purchases of strategic goods, notably crude oil, in the first three months of the year, pushed up the volume of merchandised imports, at a seasonally adjusted annual rate, to 40 percent from 26.6 percent in the last quarter of 1985.

"However, there are indications that the programme of stockpiling strategic goods is almost completed and that, in future, the volume of imports will once again be more closely related to the general rate of expansion in the economy."

Although the depreciation of the rand is pushing up import prices considerably, Sanlam believes that the current account of the balance of payments will show favourable surpluses during the rest of the year. It estimates that there will be a surplus of between R4 billion and R5 billion for the year as a whole.
Call to cut red tape stifling small firms

Business Editor

INFLUENTIAL insurance company Saniam today put its weight behind calls to cut red tape stifling small businesses.

Calls for cuts in personal taxation and action to reduce the inflation rate were also contained in the organisation's latest economic report, which gave an "unofficial" estimate that 2 million — 18% — of South Africans were unemployed or underemployed.

Summing up current prospects, the insurance company said "In view of the proportions unemployment in South Africa is now assuming and the serious socio-political consequences this has for the country, there is an urgent need for a much faster growth rate than that of the past five years."

But, cautioned the report, this was unlikely in 1986 when only "marginal" growth was expected, although this would probably accelerate next year.

Giving what it called a "profile of impoverishment", the report said that taking into account inflation and an increase in the population of about 2.5% a year, real personal disposable income had dropped by almost 1% a year over the past six years — "and that is without GST, which has increased by 26% per annum in this time".

But the report said increasing salaries and wages was not the solution to the problem, as such increases without a corresponding increase in productivity could raise inflation.

"We believe it to be essential that the tax burden of individuals be reduced and the inflation rate lowered drastically. Consumers' willingness to spend depends largely on their sentiment — that is their confidence in the future economic and political situation."

It urged that the Government speed up the process of repealing laws hampering the growth of small businesses by accepting the recommendations made by the President's Council Committee on deregulation.

South Africa's "profile of impoverishment" ... a graph prepared by Sanlam using figures from Central Statistical Services and the Reserve Bank illustrates how, from 1980 to 1985, real personal income per capita has dropped by almost 1% a year, excluding the effects of general sales tax.
FALING PRICES

been forced to echo - and in West Germany it is falling - not only because labor costs are lower and one can now...
Many ask for tax extensions

Mercury Correspondent

JOHANNESBURG—Heavy demands are being made on receivers of revenue throughout the country for tax payment extensions, the chief director of the Directorate of Inland Revenue, Schalk Albertyn, said in Pretoria yesterday.

From Johannesburg alone, 60,034 requests for extensions had been received in the past six months.

"This is a reflection of the recession," Mr Albertyn said.

Unemployment, inflation higher than normal salary and wage increases, and shrinking disposable incomes all added up to making the tax collection operation more difficult.

However, the directorate's tax audit teams and its inspectorate were steadily gathering millions from tax-shy salary- and wage-earners and companies.

Since October 1984, Mr Albertyn said, R170 million in unpaid GST had been discovered.

Unpaid GST collections were averaging about R6,000,000 a month.

In the first six months of the year R49 million was netted compared with R43 million in the same period last year.

Inspectorate staff working on income tax and estate duty investigations found R16,5 million owed to the State in the first six months of the year.

Audit teams have discovered additional untaxed company and individual income amounting to R517 million so far in 1986.

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Area Magisterial Districts of Alberton, Kempton Park, and Bruggepsdorp.

Trade Union: Metal and Engineering Employees Union.

Change needed to meet housing crisis

Johannesburg—Inflation and bureaucracy were factors blamed for the housing crisis in South Africa at a housing conference here yesterday. Private sector delegates at the conference, presented by Unisa's School of Business Leadership and the Development Bank of Southern Africa, called for de-regulation, a lowering in building standards and other measures to tackle the backlog in black housing.

The managing director of LTA Construction, Mr J W Robinson, said the biggest demand for housing came from the black community, but only 10% of the required 80 000 units a year were being constructed.

He said the white housing demand was restricted to the low income groups as the market for middle and high income groups was 'saturated'.

Mr Robinson called for bureacratic controls to be re-examined and for authorities to take account of entrepreneurial contractors who were willing and able to help resolve the housing problem.

Financial institutions with huge sums of money had to be coerced into providing low-interest finance so that urban workers could purchase their own homes, Mr Robinson said.

Building regulation standards had to be dropped from first-world levels, he said.

Mr Nico Korsman of Kersman and Van Wyk, said inflation contributed to the low building rate of only 0.9 housing units for every thousand blacks during the period 1983 to 1985.

Dr T L Webb, of Unisa's Business Leadership School, said concern had been expressed that the various government housing agencies could lead to fragmentation, and that a single government agency would be preferable.

The head of the government department providing housing for whites, Mr Frank Gerber, said the private sector was mainly responsible for providing housing for whites.

Government support was given to whites who were in need of care, indigent, aged, or young.

In future the department's functions would be vested in regional functionaries and local authorities, Mr Gerber said, while its role would centre on policy determination. (Sapa)
'Reducing inflation rate in SA possible'

By GORDON KLING
Financial Editor

THERE is hope yet of SA reducing government spending and inflation if recent experience in Israel is anything to go by.

Chairman of the Department of Business at Haifa University and visiting Professor of Finance at the UCT Graduate School of Business, Nahum Biger, notes that inflation in Israel has come down to the vicinity of 16% per annum from 450% a year ago.

The swing was achieved by a new coalition government within two years of coming into power, Biger said in an interview this week.

It began with the implementation of a new economic policy in July, 1985, that entailed a 20% overnight devaluation of the currency, and a slashing of State subsidies on everything from bread, and milk to public transport.

Government met jointly with the country's trade unions and organized industry to keep them abreast of developments which also included a severe clamp on government spending.

The unions agreed to abandon indexation of wages against inflation and a three month wage freeze, which has since been extended.

Within weeks, the initiative had begun to bite until inflation last December became a negative 1.2% for the first time in 19 years.

"It was hard on a great many industries, particularly construction which is still at a standstill, but unemployment went up only marginally," said Biger. The jobless rate remains at a low 7% by Western standards.

Real wages went down by about 30% from June till December, 1985.

The balance of payments improved substantially in this period, before deteriorating somewhat in the first quarter of 1986, predominately because a weaker US dollar hit Israeli exports to the US.

Export business with Europe and Japan remains buoyant, however, and a new free trade agreement with the US promises major advantages.
MP warns of crisis

Dispatch Reporter
GRAHAMSTOWN - The protection of strategic industries was contributing just as much to the financial crisis facing South African farmers as inflation was, the Progressive Federal Party MP for Albany, Mr E K Moorcroft, said at the annual meeting of the Koonap Farmers’ Association at the weekend.

While industries such as the Atlantis diesel plant and fertiliser firms were receiving protection, farmers could not compete on the international market for inputs.

"The farmers are carrying the can. Several high input costs are a direct result of protecting local industries. You can’t buy cheap fertiliser, for instance, from Brazil, nor cheap tractors from Romania," Mr Moorcroft said.

"In 10 years, the average annual increase in gross agricultural income from maize, beef and so on had been 29 per cent. But agricultural costs had risen by 43 per cent.

"The farmer is in the horns of a dilemma. He has a vested interest in inflation because of the high land prices, but if land prices returned to market-related levels, his security would be destroyed," Mr Moorcroft said.

The South African Agricultural Union (SAAU) had already approached the government with a formal request to try and contain rising costs and inflation, which was now running at 18.2 per cent.

"The SAAU thinks that unless the government moves quickly and effectively we will be in deep trouble," he said.

Unless the government tackled inflation there would be a catastrophe.

"I have no difficulty supporting this appeal. Inflation is strangling us. The state has responded positively. Let’s see what the ministries of agriculture and finance can do. If they don’t act, we shall be in serious trouble."

MR MOORCROFT

THE
INFLATION

Problems ahead

Even though inflation continues to decline, structural problems persist, causing economists to doubt the likelihood of any significant drop. Referring to the recent downward trend, the June year-on-year increase in the CPI dropped to 16.9% (bringing the all-items index to 224.4) from 17.5% in May, 18.6% in April and 18.9% in March.

This is the lowest annual rate since October (it was 16.9% in November).

But, at 16.9%, the year-on-year rate is still alarmingly above those of SA’s main trading partners.

In Germany, for example, prices have declined by 0.2% over the past year, while annual inflation is running at 0.5% in Japan, 1.6% in the US and 2.8% in Britain.

With such huge disparities come all the associated foreign exchange and international trade problems, themselves inflationary.

Before inflation can be brought anywhere near these levels, administered prices must be curbed or determined competitively and the rand’s value at least steadied so that import price rises are contained.

Standard Bank’s Nico Czyzponka doubts that the declining rate reflects the full picture as far as short-term prospects are concerned. “At the production level, the low rand and attempts to restore margins will exert inflationary pressures down the line.” He sees inflation at 15% by year-end, “not a great base to start 1987.”

Stockbroker Benekal Mouton’s Leon Steenkamp also sees inflation around 15% by year-end (mainly as a result of the depressed state of the economy), but fears it could develop into a will of its own and shoot up when the economy improves.

Rand Merchant Bank’s Rudolf Gouws is more optimistic. “The latest figure shows May was not a hiccup, but a basic downward trend.” He points out that over the past five months annualised CPI has risen 12.3%, compared with 26% in the previous four months. He reckons inflation should be 14% by early next year.

However, Nedbank economist Ian MacFarlane is not as optimistic. Also citing the low rand and tight profit margins, he foresees year-on-year inflation at 18% by year-end, increasing to 20% early next year. “The June-July period is likely to be the last of the good months as far as inflation is concerned.”

CPI increased some 0.8% from May to June. Although not too much should be read into month-to-month moves, this is more than the 0.2% April-May increase (the lowest monthly increase since September 1976). The July index should reflect lower mortgage rates, which will be offset by higher milk prices.

Over the month, increases occurred in clothing (1.5%), footwear (1.4%), housing (1.2%), furniture (1.7%), medical care (3.8%), recreation and entertainment (2.6%), personal care (3.4%), domestic servants (1.4%), milk and eggs (1.9%), vegetables (2.2%), and coffee and tea (1.2%).

These were offset by declines in fruit (3.2%) and meat (0.3%).

The food index (25% of the total) rose a mere 0.3% over the month, bringing it to an annual 17%, down from May’s year-on-year 19%. Shoppers may find this hard to believe Czyzponka questions the behaviour of the food index, since it shows hardly any increase in the past few months.

The overall index for the lower-income groups is 219.2 (up 0.7% over the month), 226.7 for the middle-income group (0.8% and 16.9%) and 224.6 for the higher-income group (0.8% and 17.1%).

The steepest price increases over the past year have been in Pretoria-Verwoerdburg (18.9%) and the lowest in Durban-Pinetown (13.5%). Prices on the Witwatersrand have increased by 18.2% since June 1985.
The trade-off between unemployment and inflation, as suggested by empirical evidence, is one of the most important considerations for economic policy makers. In recent years, this trade-off has become more pronounced due to a number of factors, including a decrease in the world economy and a rise in inflation. This has led to a situation where the unemployment rate is higher than in previous years.

Inflation, on the other hand, has been relatively low in recent years. However, there is a concern that inflation may start to rise again in the future, which could have negative consequences for the economy.

The relationship between inflation and unemployment is complex and depends on many factors, including macroeconomic policies and global economic conditions. It is important for policymakers to understand this relationship in order to make informed decisions that will benefit the economy as a whole.
The Housewives' League has queried whether published figures relating to inflation rates and the consumer price index (CPI) are reliable "or just a good PR exercise."

Mrs Lyn Morris, president of the league, says in its magazine *Rands and Sense* "We do not see how the compilers of these figures can say prices have come down over the past month, resulting in lower rates."

"Do they conduct their surveys where the SA housewife does her shopping?" she asks.

"As far as inflation is concerned, what is wrong with us? Our trading partners and other countries have managed to reduce their rates of inflation and living costs. Why can we not do the same?"

"In the past few months, we have lost an insurance company and a medical aid society and have experienced problems and loss of confidence in parts of our banking sector."

"We have been getting into debt as never before, summonses and judgments against individuals are at the highest level in history, unemployment is also at a frightening level, and companies have been going into liquidation almost daily. Soon our rand won't be worth the paper it is printed on — if it is now."

**INTEREST RATES**

"Salary and wage increases have by no means kept pace with our totally unacceptable inflation rate."

"If they had, would we be able to afford the compensating increases in the marketplace?"

"Dropping interest rates are crushing those who live on investments — pensioners, widows and the retired. What is the point of trying to save?"

Addressing businessmen, Mrs Morris claims that many have lost credibility in the eyes of the consumer. She says to them: "Petrol and transport costs have been blamed consistently for price rises, but when we had two petrol reductions your response was 'Oh, no transport is such a small element of our costs the decreases will not make any difference to our prices' Can we believe anything you say from now on?"

Mrs Morris writes that interest rates were lowered to stimulate the economy, but consumers are afraid to buy on hire purchase. "In case interest rates go up again, as they did last year, it is catastrophic."

"The latest economic-stimulation package is being funded by borrowing from the Central Energy Fund. This smacks of borrowing from Peter to pay Paul — an exercise that any housewife can tell the Minister of Finance usually has catastrophic effects on finances."

Mrs Morris maintains there is no confidence in the marketplace. "If the Minister had dropped GST a percentage point or two, she says, consumers would have been aware of the move with every transaction and confidence would have been built up."

Turning to the political situation, she says housewives have had to shop in stores faced with strikes. "Some stores closed because they could not guarantee the safety of their customers. This is a totally unacceptable situation and must be addressed immediately."
Vaal council to raise rent

MORE rent increases would cause chaos in the Vaal Triangle townships, the Lekoa Town Council was told during its monthly meeting in Sehokeng yesterday.

The council has decided to increase hostel tariffs by R5 a resident from August 1.

Councillor Z.A. Jokoza warned that the rent hike could cause a tense situation.

However, the mayor, Mr Esau Mahlasa, said the council gave all residents a chance to raise objections to the proposed increases. So far, no objections were received and "we will go ahead with the increases."
INFLATION -

1986

AUG - DEC
SHORT-TERM INSURANCE

Criminal charges

Rates could go up by as much as 30% by the end of the year, as massive increases in the incidence of burglary and related crimes are forcing insurers to review premiums on personal lines business.

Recessions always bring an increase in crime, but the cycle this time has been particularly marked. Says one insurer: “Take January, for instance. Our claims for burglaries were 50% higher than for any other month in the history of the company. Part of it was seasonal, but overall losses are historically high.”

Apart from unemployment— even white unemployment is reaching record levels— inflation has pushed the price of luxury goods, in particular, out of reach of many. These are two main reasons why theft has become an attractive prospect.

The rising cost of insurance has also encouraged increased claims among consumers. Most people these days claim for any loss, however small, and chances are that amounts are inflated to circumvent underinsurance penalties.

This is where policyholders have claims reduced in proportion to the level of underinsurance. If, for example, household contents are valued at R50,000, but insured for only R25,000, the insurance company may reduce the payout to 50% of an agreed claim. It is difficult to do this for small claims, another reason why premiums are going up.

Says John Bull, MD of Aegon: “We are reviewing premium rates on householders’ We now charge around 1.5%, and will go up to about 2% in some cases. Of course, rating depends very much on the area.”

“But underinsurance is a big problem. We are increasing all sums insured by 15% from July 1, while we look at our statistics.”

He adds that his losses in crime classes “have been awful,” with a 119% loss ratio—that is, claims as a percentage of earned premiums. This doesn’t take into account expenses and commissions. He says the cost of claims on householders’ insurance has doubled since October. Such experience seems common to most insurers.

Bull says his company is working towards a R30,000 minimum sum insured. This should go some way to overcoming the underinsurance problem.

Although it will increase the apparent risk of the insurer, it will also boost premium income. This is significant since insurance companies often pay a claim in full, even though they suspect underinsurance.

As Bill Rutherford, MD of Commercial Union, says: “Sometimes, no matter how suspicious you may be that a claim involves fraud or underinsurance, it is difficult to prove, and you have to pay.”

Appreciably, all major insurers are considering increases in rates. Households in areas such as Johannesburg, the Reef generally, Port Elizabeth, East London and Cape Town can probably expect increases to 2%. On contents of R30,000, for example, that amounts to an increase in annual premium from R450 to R600.

Nor should policyholders try to save by failing to increase sums insured in line with inflation. Insurers are getting more strict in the way they handle claims, they have no choice, given the severe squeeze on margins from claims generally, reinsurance costs and lower investment returns.

And, as Bull says householders in the areas mentioned earlier have about a one in six chance of being burgled each year, they also have little choice but to pay up, or make a larger provision for self-insurance.”
Steel Steadily Up

Inc's price increases of 8% and 12% from August 1 for 12 of its steel products received a mixed reception in trading and manufacturing circles. However, the steel giant counters criticism of its second hike in six months by saying that only a selected number of products are being increased — while the average of the past two years is well below the rate of inflation.

Apart from round bars — going up by 9% — the following Incor products will be hiked by 12% from August 1: plate, floor plate, roller-quenched and tempered plate, billets, blooms and slabs, window sections, re-rolling billets, steel sections, special sections, rails and flange material.

Genrec MD Hendrik Esterhuizen says no price increase is welcome — especially when certain finished imports from Japan can be landed here at below South African steel prices. But the impact should be limited, he adds. A source in a major construction company says that some 25% of heavy civil engineering costs are steel-related — and with Incor leading the market, the 12% hike would lead to a 5% upward cost structure.

The impact should be considerably less in the building industry, leading to limited cost increases there. Bester Homes director Willem Bester says the increase of window frame prices is reasonable.

Incor spokesman Pieter du Plessis says that although the company's input costs are rising steadily, average annual steel price increases over the past 26 months were only 14.3% a year — against a much higher inflation rate.
More price increases on the way, say retailers

By Jackie Unwin

Consumers must brace themselves for more price increases at supermarkets, warn retailers.

"There will be increases of between 8 and 12 percent over a broad spectrum of products," said Mr Richard Cohen, director of Pick 'n Pay.

"Although the inflation index has dropped in June, it has only been a temporary situation which came about as the rand recovered in the middle of the year."

The pressure of the rand dropping again and other costs going up has caused another round of increases.

"If there are increases early in the year, suppliers usually come back after eight to nine months for a second," said Cohen.

The canning industry is increasing prices on a variety of products, from canned vegetables to canned jams, although it will manage to hold prices on some items.

Increases are envisaged in paper goods and disposable nappies. Toiletries, canned fish and biscuits will rise in price.

These increases will hit the consumer towards September.

Mr Cohen said: "Coffee prices would have to be eased up because replacement costs were "horrible". He said the replacement value of coffee now selling at under R6 was R7.50. Coffee has been hit by the exchange rate and the failure of the crop in Brazil."

"Mr Cohen said the inflation rate was the scourge of this country."

"Delay increases,"

"How the housewife and the fixed salaried person are coming out, I don't know."

His company had bought in bulk and would defer the price increases as long as possible.

An OK Bazaars spokesman said it would negotiate for the best prices and had bought stock in advance to enable it to hold prices.

Its managing director, Mr Gordon Hood, had promised R2 million to be used to cut prices over the next few months. Some of this would be used on staving off some of the impending price increases.

Checkers has also been buying-in wherever possible. Mr Brian Sacks, grocery buying director, said: "There is a huge discrepancy between the prices on the shelf today in relation to what the manufacturers' prices are because of our ability to buy in and hold prices down."

All three supermarket giants, Pick 'n Pay, the OK Bazaars and Checkers, have pledged to freeze the prices of some of their housebrand products until the end of 1996."
Inflation's downward trend not just a 'flash in the pan'

IT isn't often these days that there is good news to be found in the economic statistics—but the inflation figures are starting to look excellent.

In the two most recent months for which figures are available—May and June—consumer prices rose at an average annualised rate of only 5.7 percent.

Was that just a "flash in the pan"? I don't think so.

If you look at the usual way of measuring inflation—the increase in the consumer price index over the past 12 months—inflation peaked in January at 10.7 percent, and has been falling since.

The latest figure is 16.9 percent.

If you take the Personal Finance Index, which gives more weight to what has been happening in recent months, rather than what happened six to 12 months ago, the annual rate of inflation has fallen from 19.7 percent in January to 15.3 in the last month and is falling sharply.

There are strong grounds for arguing that the inflation rate will continue to plunge, and will be back down below 10 percent in a few months' time.

What are those grounds?

Firstly, money creating has stopped, leading to inflation.

Money supply growth is another factor that you can measure in several ways, but whichever approach is adopted, the growth rate is falling.

Money supply growth is important because it is widely regarded as being an important determinant of inflation in the past 12 months after it occurs.

The recent peak in money supply growth was in November last year, the growth rate has fallen significantly since then.

In fact, if you adjust the growth rate by deducting inflation, money supply has been contracting in real terms all this year.

This means that if inflation is being squeezed by a money shortage, and the recent sharp fall in the growth of consumer prices probably reflects that.

Although the slowing of the money "printing presses" reflects the depressed state of the economy more than anything (depressed demand for additional credit slows down money creating), it is good news from the inflation point of view.

The second reason for arguing that inflation is likely to continue to fall is that the exchange rate of the rand has stabilized.

It is no lower now than it was a year ago, although it is true that the rate has been much higher at times during the past 12 months than it is now.

This means that imported cost pressures are less than they were, and are continuing to lessen as prices adjust to past rand depreciation.

Your guess about what is going to happen to the exchange rate is as good as mine.

The rate is determined by many factors, some favourable (the large surplus on the current account of the balance of payments) and some unfavourable (the Reserve Bank's need to withhold dollars to build up foreign reserves as a kind of war chest in the face of sanctions).

But my guess is that the rate will tend to move sideways, and perhaps start to strengthen slightly which will have a favourable effect on inflation.

Few workers are in a position to bargain for pay increases even sufficient to match for inflation, and few employers can afford to be generous, so cost pressures generated in South Africa itself should continue to ease.

Finally, there is the sad fact that neither consumers nor businesses are in spending moods, and there is considerable excess productive capacity.

This means that there is no chance of inflation-stimulating excess demand emerging for some while.

The recent sharp fall in long-term interest rates on fixed-interest securities shows that the capital market is waking up to what is happening, and also expects inflation to fall.

That is good news for consumers, even if the reasons behind the decline in inflation aren't all welcome.

• Martin Sproeg is editor of Personal Finance Newsletter
Financial Staff

DURBAN — Medicine prices are rising constantly — and a pharmacists' claims underhand tactics and excessive promotion by manufacturers are the chief contributors to inflated medicine prices.

The Government also takes its slice through GST at point of sale and import duties on raw materials along the way.

Backhanders to doctors to use certain brands, subtle "reward psychology" used on general practitioners and pharmacists by manufacturers' representatives, combined with advertising costs, are adding 25 percent to the ever-increasing prices charged for medicines, says the Johannesburg pharmacist, who asked to remain anonymous for professional reasons.

A spokesman for the 50-member Pharmaceutical and Chemical Manufacturers' Association denounces the allegations and says the industry is "cost-containment conscious.

Says the pharmacist. "A GP friend of mine has showed me several hundred rand's worth of exotic liquor he has been given by visiting pharmaceutical reps. "He is just one ordinary doctor. Multiply that out over all the thousands of GPs in the country — many of whom must be treated in the same way — and you can see what sort of contribution this could make to medicine prices, which we are told will soar 50 percent this year."

In addition to alleged kickbacks to doctors to use their drugs — outside of which are being investigated by the SA Medical and Dental Council — the pharmacist claims the overseas producers increase the prices they charge their local subsidiaries for raw materials as a way of getting money out of the country.

"They pretend that the ingredients can be obtained only overseas — even though they may be far cheaper locally — and they push the prices up several-fold — which has a massive inflationary effect on medicines."

No-claim bonus

The pharmacist charges also that medical aid schemes benefit manufacturers by "anesthetising" patients against the direct full effect of price increases — not only for medicines, but also for doctor's consultations.

"We need a no-claim bonus scheme on medical aid schemes. There are people who run to the doctor for a prescription every single time they sneeze, and it's not doing the societies or the economy as a whole any good."

He says the 17.5 percent mark-up of drug wholesalers and the between 10 and 50 percent added on by pharmacists are not excessive given the overheads.

"Among the main culprits are doctors and private hospitals who obtain their supplies direct from the manufacturer, and prescribe them at the retail price, or higher."

"In some instances, the medical aid societies are regarded as fair game while they provide protection from undue resistance from patients."

A Durban medical aid society official has payment figures for medicines prescribed for members which point to about a 27 percent increase in prices between the second quarter last year and the same period in 1986.

The gulf between 1986 and that period two years ago is 73 percent.

In the second quarter of 1984, about 770 members cost the society R44 561, between March and June this year 535 members cost it R93 901. The figures do not take into account percentage levies charged to members, which also increased proportionately.

The pharmacist emphasises he considers not all manufacturers act improperly.

"At heart, they are probably an ethical bunch, but they are wary of losing market share and of sacrificing their vested interest, and they will go a long way in protecting themselves — including violating their code of conduct."

Last November, the manufacturers were successful in having the Supreme Court prohibit pharmacists from substituting brand medicines prescribed by doctors with generics — a move which was estimated could have brought savings of nearly half in the cost of medicines.

The Pharmaceutical and Chemical Manufacturers' Association spokesman says although a pharmacist has a better knowledge of drugs than a doctor, he is acquainted with patients' histories.

Liability

At the same time, no authority exists to legally determine that an unnamed concoction has the same formula as a branded product.

"Who would bear liability in the event of a generic variety having adverse effects that would have been avoided if the doctors' prescription had been abided by?"

He defends price rises in medicines on the basis of the widened exchange differential between the rand and other currencies, which has a multiplier effect on the imported cost of raw materials.

He disputes the suggestion that multi-national manufacturers connive to push prices higher, and use foreign supplies to export currency from the country...
Price hikes expected soon, warn retailers

By Jackie Ungwe

Despite the raging supermarket war and promises of low prices, retailers have warned of price rises soon to hit the consumer.

Langeberg Co-op has announced it will increase the price of its canned goods from August 25.

The increases, which affect canned jams, vegetables, salads, sauces and fruits, vary between four and seven percent.

Mr. Carol Stassen, chief executive of the Co-op, said the last rise was in February and the total of both increases is 11 percent — far below the inflation rate.

"The cost of cans has gone up by 14 percent and rail price increases over the past 10 months have been tremendous," he said.

"Agricultural products generally increase even higher than the inflation rate because of the cost of the input, which is mainly imported."

"In general, coffee prices will also rise due to the Brazil coffee crop’s failure and the exchange rate."

A Consumer Council spokesman said "Now more than ever, consumers must be discerning when they buy groceries."

"They must compare prices. We are monitoring prices on a weekly basis and suggest consumers do the same."

Mr. Richard Cohen, director of Pick ‘n Pay, advised consumers not to buy by brand name, but to compare and buy the best value.

OK Bazaars intends using some of the promised R2 million to be used to cut prices to stave off some pending increases.

Checkers has also stockpiled and will hold down prices as long as possible.

All three supermarket giants have pledged to freeze prices on some of their house brand products for six months."
Inflation in the world’s poor countries averages 55%.

WASHINGTON — Inflation decreased in poor countries last winter but is still much higher than in the world’s more prosperous industrial areas, the International Monetary Fund reported yesterday.

Areas that depend heavily on sales of oil, like Mexico, Venezuela and Egypt, were exceptions showing a small average increase. Inflation among the oil producers varies widely. Saudi Arabia has been reporting price decreases since 1984, while Mexico’s inflation rose to an annual 78.4 per cent by May.

With 84 countries reporting for the first quarter of 1986, the fund calculated an annual inflation rate of 55 percent in the poor countries that have to buy oil, compared with 59.9 percent in the fall of 1985 and 63.0 percent in the winter of 1985.

Asia’s average was also an exception, in large part because of rising prices in India. There inflation was down to 5.6 percent last year, but since February it has been running at an annual rate of more than 8 per cent. South Korea, Hong Kong, Pakistan and the Philippines all reported lower inflation, while in Singapore prices have been going down this year.

Data from Africa were not available.

Among the industrial countries there was a drop in the inflation rate from 4.2 percent last in 1985 to an average 2 percent in June.

With a few exceptions — Australia, Norway, Spain — the only reported increases last winter — many of these countries experienced sharp declines in inflation.

In one, West Germany, prices paid by consumers fell by 0.2 per cent from April until June.

Japan’s low inflation rate was declining, from 2 percent last year to an annual 0.9 per cent in April.

The poorer countries of Europe generally showed declines too. Turkey’s inflation was running 45 percent last year and 33.5 percent in April. Portugal had 19.6 per cent in 1985 and 11.7 percent in June.

Among the Communist-run economies in the fund’s membership, Yugoslavia reported inflation was up to 83.2 per cent in April from 74.4 percent in 1985, but Hungary said its prices were rising only by 5.2 percent, compared with 7 percent last year. China and Romania have not filed reports this year.

The fund does not give figures for the Soviet Union and most of its allies, which are not members.

Some of the Third World countries with the highest rates now show inflation declining, though still high by standards in heavily industrialised lands.

Bolivia, where prices last summer were rising at an average rate of more than 20,000 percent a year, got its figure down to an annual 2,156 percent in February.

Israel, which peaked at 386.1 percent last spring, was down to an annual 78.6 percent in May. Argentina dropped to 125.4 percent in April, after a high of 1,056.2 percent in the spring of 1985.

But booming Brazil showed an increase, from 227 percent last year to 235.7 percent this past winter — AP.
Toyota increase takes prices to new high

By Jeremy Sinek

New car prices are going into orbit again.

Toyota has put up the prices of its cars and light commercials by between six and eight percent — and it predicts that further increases are inevitable this year.

Once market leader Toyota moves on prices, most other car makers usually follow suit within one or two weeks.

This latest increase comes only two months after the last one, and means that today's Toyota costs around 17 percent more than it did in January.

Since August 1984 the prices of most models have risen by between 70 and 75 percent. The rises are blamed on the weakening of the rand against the currencies of the two countries from which most car components are imported, Japan and Germany.

The value of the rand has dropped from 90 yen in February, for example, to around 60 yen at present.

"The crux of the pricing problem," says Toyota Marketing company's executive director, Mr Bert Wessels, "is that although our imported content only accounts for 30 to 33 percent of the weight of a vehicle, the cost of these imported components accounts for more than half what the vehicle costs."

On a typical compact car, he said, the imported content by value had increased from 44 percent in February to 55 percent at the end of July.

Mr Wessels said that his company had tried to absorb as much of the increases as possible, and that retail prices had risen by only 17 percent since February while costs had risen by 24 percent.
The figures drop, the expenses soar

STATISTICS do not necessarily— but they can be difficult to believe.

The Housewives' League recently quoted one of their members, the Consumer Price Index (CPI), the official measure of inflation for May's year-on-year CPI as 18.6 percent (up from 16.3 percent in June). This is the highest rate since 1982.

The League's president, Mrs. Morris, took it upon herself to investigate the matter. She discovered that the CPI is not the only one to be blamed. Everyday shopping costs have risen sharply.

"It is not just the cost of living that is rising," she said. "The cost of transport, the cost of electricity, the cost of everything has increased." In fact, the year-on-year rise in the food index was 17 percent—a figure that is up 2 percentage points from May's year-on-year figure.

But if the rising cost of living is not the only one to be blamed, the government is also at fault. For instance, the CPI does not consider the impact of imported goods.

But aside from this, economists warn that the year-on-year inflation figure might come down, but inflation will not plummet.

"Inflation is not just a product of supply and demand," said one economist. "It is also a product of expectations. If people expect inflation to continue, they will demand higher wages and higher prices." This, in turn, will fuel further inflation.

In conclusion, while the figures might show a decrease in inflation, the underlying issues of supply and demand, as well as expectations, need to be addressed to achieve a sustainable decrease in inflation rates.
Car prices accelerate

DAVID FURLONGER
Industrial Editor

CAR prices are going up again — and further increases are on the way.

Toyota and General Motors raised car and light commercial vehicles prices by between 6% and 8% this week. Other manufacturers say they will follow suit.

General Motors and Nissan will increase prices on Monday — GM by 6% on its Opel Kadetts and Isuzu bakkies, and Nissan by an average 5.5% on its entire car-bakkie range.

Volkswagen officials met yesterday to discuss prices. MD Peter Searle said an increase was likely in a few days. BMW, which put up its prices on July 7, said it had no plans for a further increase at this stage.

Mercedes-Benz said it expected to put up prices by the end of the month. The increases are the fourth for most manufacturers since the end of last year.

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Car prices get into gear

— and there are more on the way.

Manufacturers predict a further round of price rises early in October and another at the end of the year.

Nissan's Peter Coetzee said yesterday: "It all depends on the rand, but prices will have to move at least once again. Probably in October, and again at the end of the year."

Toyota executive director Bert Wessels said: "Further increases before the end of the year are unfortunately inevitable."

The chief reason for the increases is the collapse of the rand against the yen and mark. Since February the rand has declined by 90% in value against the yen.

In pure cash terms, this is the effect of the latest price increases:

- A Nissan Langley 1500GL that cost R13,965 on January 1, and costs R15,460 today, will go up to R16,550 on Monday.
- An Opel Kadett 1300LS, R12,340 on January 1 and R13,385 today, goes up to R14,190 on Monday.
- A Mazda 1300L hatchback, R11,230 on January 1 and R12,769 last week, went up on Tuesday to R14,085.
- A Toyota Corolla 1600GL, R14,185 on January 1, went up to R16,580 on Monday.
Another round of car price increases

By Don Robertson

The third round of car price rises this year has been sparked off by market leader Toyota.

It has increased prices of the top-selling Corolla by 7% and the Cresta by 8%. Other manufacturers have either followed or will in the next few weeks.

Because the price increases are based on high figures, a small 1.3l car will go up by about R1 300, and a medium-sized 2.0l car by about R5 300.

The continuing weakness of the rand has added to the cost of components imported from the main source plants in Germany and Japan. Although the imported content of a car represents an average of only 34% by weight, the increasing cost of components has lifted this value to about 56%.

Manufacturers relying on components from Japan, for instance, have been hard hit by the rand's low exchange rate. Since January, the rand has declined in value from 90 yen to about 60 yen. The result being a 24% increase in the cost of components.

Toyota last raised prices in mid-June by 5% on the Corolla and 7% on the Cresta. The previous price increase was an average of 4% in February.

Increases by Samcor, which produces the Mazda and Ford range, are between 6% and 8%. The Mazda 323 is up by 5%, and the Mazda 626 by 8%. Light commercial vehicles have risen in price by about 6%. Medium and heavy trucks cost 10% more.

Holding

The new Ford Laser and Meteor cost 8% more and the price of a Sierra is up 8%. The Courier and Triton are up in price by 6% and 10% respectively.

Samcor last moved prices by between 4.5% and 7% in the middle of June.

Volkswagen raised its prices a month later than the others in mid-year, waiting until mid-June before announcing increases of about 5%. It has no immediate plans for a price increase.

Volkswagen models rose between 4% and 5% in price. The Audi range was increased by 5.5% in April after going up by between 4% and 6% in February.

General Motors will raise prices tomorrow, but their extent is not known. The last GM increase was 5% in June.

Nissan prices went up by between 8% to 6% in June, but it has not decided on the next round.

BMW is holding prices after an average increase of 5% on July. The previous increase was 4% in February.

Mercedes-Benz is reviewing its prices, but no date for a change has been set. The company last raised prices by 8% on the 300s and between 5.1% and 5.5% on the old Merc 123 and S Series.
Commodities consumption index shows only tiny rise

Import-price falls curb producer-price inflation

PRODUCER-price inflation, aided by far lower import prices, continued to slow in June, rising just 0.4% from May this year and 19% from June 1985.

Central Statistical Services say the index of all commodities for consumption rose to 213.3 in June — from 212.5 the month before and 179.2 a year ago. The year-to-year increase in June was the lowest since last December’s increase of 18.7%.

The monthly index rose 1.7% in May and 1% in April.

Prices of imported goods, which account for 25% of the total index, declined for the fourth consecutive month — to 221.7 from 225.5.

Rand Merchant Bank economist Rudolf Gouws says the annualised increase in import prices for the first six months of the year was just 6.6% — down from 35.9% in the last six months of 1985 — “really a remarkable slowdown.”

Gouws attributes the improvement in imports to the relative strength of the rand up to June. Its weak performance since then will probably show up in higher producer prices beginning in July.

Economists differ on whether the favourable trend in inflation will continue.

One says the June result, though somewhat surprising, will probably not be duplicated in the next few months because of pent-up demand for production.

Locally produced commodities rose in price by 1% in June from May and by 18.5% from a year before. The annualised rate of inflation for the January-to-June period declined to 16.7% from 20.4% in the July-to-December period of 1985.

The producer price index generally indicates how the broader measure of consumer price inflation will perform in the next few months.
Red meat will be scarcer and dearer

It can be expected that red meat will become scarcer and more expensive, the Deputy Minister of Agriculture, Mr Gert Kotze, said at a recent country meat retailers' conference in Johannesburg.

Mr Kotze said the number of sheep and cattle in the country had decreased between February 1985 and February 1986 - cattle by 229 000 to 7,99 million and sheep by 980 000 to 23,62 million.

Over the same period, however, the number of pigs had increased from 1,04 to 1,08 million.

"Seen against the expected population increases, these decreases in livestock numbers can be expected to lead to scarcer, more expensive meat supplies," Mr Kotze said.

SURPLUS BEEF

Surplus beef supplies were not as large as generally thought, he added.

For example, the Meat Board had a 6 000 ton surplus on July 24, but this was only enough to meet the country's needs for 4½ days.

Mr Kotze also said that, following an investigation, controls over abattoir tariffs would be lifted from October and abattoir owners would be allowed to determine their own prices.

A major issue discussed at the conference was the deregulation of meat hygiene in South Africa.
Past drought pushes up beef price

Mr Dawe said the increase in the price of beef at the city's abattoir during the past six

Journalist

EAST LONDON - Further meat price increases could be on the way for local consumers, the chairman of the East London Meat Traders' Association, Mr Ivan Dawe, said yesterday.

Mr Dawe said the price hikes were due to the effects of the drought of a few years ago, when farmers had to slaughter a large proportion of their stock because they were unable to feed them.

He said the situation would take a long time for stock to recover from this.

The East London area is short of 100 beef carcasses at present.

Some good news, however, is that the current escalation in the price of lamb (super to R5.46 per kg and first-grade to R5.10 per kg) and mutton (prime to R5.10 per kg and first grade to R5 per kg) should be reduced by next month, he said.

The prices are currently high because many farmers are shearing their sheep at present - and not selling them for slaughter.

Sheep and lamb take less time to mature than beef and last lambing season was exceptionally good, Mr Dawe said.

The Regional Manager of the Meat Board in the area, Mr Tom van der Merwe, said another reason for the shortage was the fact that the feeding pens in Bloemfontein, normally a large supplier of beef to the area, had not been supplying the usual number of carcasses.

He ascribed this situation to the drought that was felt throughout the country.

The branch manager of a meat co-op, Vleesensentraal, Mr Neil McKowen, said the present situation could worsen because rainfall in the area had not been sufficient this year.

He said although there had been good rains in September and October last year they had not broken the drought as far as stock farmers were concerned.

There had been no decent rains this year and the situation was drifting back towards that prior to the rains last year.

If the spring rains were good, the situation could improve.

The general manager of the Meat Board, Mr Frans Pieterse, could not be contacted for comment yesterday.

Conditions in the Queenstown area are also reported to be serious but this could not be verified yesterday.
ORGANISED transport is threatening tyre manufacturers with authority investigation if they do not justify the 10% increase in their products by producing a breakdown of cost components.

The increase by Dunlop, Firestone and Goodyear is the third since January and is deemed necessary because of the weak rand, which has increased import costs.

The first increase of 7.5% came in January and was followed by a 9.5% increase in April.

Public Carriers Association chief executive Jack Webster says tyre manufacturers should be asked to give a break-down of their prices or else "the authorities will have to be called in to look into the matter."

"When the price of crude oil — a considerable component of raw materials in tyre manufacturing — soared, nobody blinked an eye when manufacturers announced a tyre increase."

"Now crude oil prices are rock bottom and we haven't heard a word about the savings through that."

Mastertrucks' service manager Simon Mokoena says "Tyres are becoming a commodity out of reach of the average motorists."

"It will affect us badly. The market for new tyres will become even tougher."

Another retailer, among the five biggest tyre dealers in the country, has accused manufacturers of "ripping off the public."

A set of new car tyres (155x13) will cost close to R400 when the higher price of R7731 a tyre becomes effective in January, the same tyre would have cost R5304.

A truck tyre (1100x20-14ply) will cost R91055, compared with R410 in January.

National Association of Private Transport Operators chief executive Andre Jacobs says the higher tyre price will soon be reflected in the price of a wide variety of commodities arriving on shop shelves via SA's estimated 500 000 transport trucks.
INFLATION
Down, but not out

Scarcely did the De Kock Commission conclude that over the past 25 years virtually all SA’s inflation had been demand-pull generated, than the position changed radically. Deteriorating foreign perceptions of the political situation and the capital outflow (culminating in the debt standstill) nipped nascent economic revival in the bud; shot down the rand; and triggered a bout of cost-push inflation.

At last, money supply has been brought under control — and with a vengeance, the latest estimate for July showing an annual increase of only 7.6% (see Economy). Wage and salary increases are running well below the inflation rate, implying declining purchasing power. Yet inflation remains obstinately high, around 17%.

Why?

Well, in the first place, as Gerhard de Kock himself points out, that 17% may be misleading. He believes that in times of rapid fluctuations, the seasonally adjusted quarterly rate is a better indicator of the underlying trend. While for the consumer price index (CPI), this peaked at an annualised 27% in the first quarter of this year, the second quarter had dipped to only 12.8% — a remarkable turnaround. On this basis, the producer price index showed an even higher peak, but has fallen even more steeply.

De Kock believes that if the rand holds around US$3.50, quarter-on-quarter CPI should stay around this level. If that is indeed possible, then by early next year annual growth in CPI could also be down around 12%-14%, and possibly even lower.

That is still too high for comfort. Even at 14% inflation, the value of money halves in five years. Not only does this hit pensioners and others on fixed incomes, it redistributes wealth — often in the direction of those already well off. Anyone who has owned a house for 20 years, for instance, has acquired a valuable asset at little real cost. This wealth redistributive effect of inflation is particularly damaging in a society like ours.

Then there is the force known as fiscal drag. When money wages go up, even if their real value is only maintained, our “progressive” tax system diverts an increasing percentage of total income away from the (productive) private sector into the (largely unproductive) State sector. This is another unhealthy redistributive effect of inflation.

If all prices — including the price of money — went up at the same rate, inflation would be inconvenient, but harmless. The problem is that inflation brings changes in relative prices, and these distort the economy and cause all the problems.

But although the South African inflation rate has outstripped those of our main trading partners for some years, Rand Merchant Bank’s Rudi Gouws — whose minority view early this year, that inflation had peaked, now seems justified — stresses that we must not accept that SA is intrinsically prone to a high inflation rate. “We suffered all the rigdites now blamed as causes of structural inflation in the Sixties, when we didn’t have an inflation problem.”

(Nor did we then have wide fluctuations in oil and gold prices, nor increasingly militant black trade unions, nor were we the pariah of the world.)

Gouws points out that disinflationary pressures take some time to work through. We are still paying the penalty for previous lack of monetary discipline and the decline of the rand. He thus remains confident that the steadying of the rand and monetary discipline will keep the CPI in check for some time.

Virtually no economists believe there is much we can do to bring inflation down further, anyway. In real terms, manufacturing output is at its lowest since late 1979 [bar a blip in March], retail sales are still falling, and wage and salary increases are below the inflation rate. Any further measures would more likely choke economic activity still further, rather than cut prices.

In present circumstances, even though unproductive government current spending is excessive, attempts to bring it down may not be advisable. Right now, it is one of the few positive factors around.

Implementation of the new buzzwords — privatisation and deregulation—are desirable on general grounds, but would have little impact on prices. Wage and price controls would be downright counter-productive.

If there is a solution, it may be more political than economic. The cost is social order and business confidence, and get the rand back to an external value in line with its internal purchasing power. It is understandable that economists, qua economists, fight shy of these murky waters.

In any event, inflation is now less of an immediate problem than growth and unemployment. Inflation and growth may be in-compatible in the long run, equally, the old assumed trade-off between inflation and unemployment no longer applies. Unemployment and inflation have risen in tandem, showing that (at least in SA) the Phillips curve — one of economists’ favourite toys of the decade — doesn’t work.

However, JCI’s Ronie Bethlehem warns that in the long run we cannot solve unemployment and maintain a healthy balance of payments unless we can control inflation.

If economists generally feel that there is little more that can be done now to trim inflation further, many warn that the present
declining trend may not last.

A major bogey is the threat of sanctions. Anglo American's Aubrey Dickman says bluntly that it's "nonsense" to think that sanctions can be anything but inflationary. Import replacement industries may absorb spare labour; but their output, virtually by definition, will be more expensive than the imports they replace. The net effect must be a fall in real purchasing power.

**Negative factors**

Bethlehem adds two other negative factors. He is worried that world inflation (notably in the US) could pick up in 12-18 months' time, and believes that apprehension of this is one reason for the stronger gold price.

Then, he points out that the stronger (or, to be precise, more volatile) gold price itself is a mixed blessing. When the gold price firms, the revenue effect stimulates demand-pull inflation, when it falls, cost-push comes into play.

If these pessimistic pressures materialise, the second half of next year could see inflation start to build up again.

Perhaps we should count ourselves lucky that inflation has not reached Latin American or Israeli levels.

Perhaps, too, there is indeed little we can do to contain it at the moment, without creating even more damage to an already battered economy. But it remains a basic weakness which is not going to disappear; and if (when?) the economy ever does start to put on steam, it could become a serious problem again much faster than most would now credit.
Inflation rate still pulling ahead

The size of the increase is most surprising, especially as it comes after four months of increases, and that the one-month change did not indicate a long-term reversal of the trend, said a representative of the Bank of England. He cautioned, however, that the one-month change did not indicate a long-term reversal of the trend. A representative of the Bank of England said that inflationary expectations, while currently low, are expected to rise in the coming months due to the rise in commodity prices. The Bank of England, which has been raising interest rates to control inflation, has raised the benchmark rate to 1.75% in an attempt to cool the economy. Despite this, inflation has remained stubbornly high, and the Bank of England has been under pressure to raise rates further.

One trader, speaking on condition of anonymity, said that there was a marked impact on trading. "Wednesday morning's inflation figures were a shocker," he said. "The market is now digesting the implications of the higher inflation figures." Sources within the Bank of England said that the increase in inflation was driven largely by higher food and energy prices. The cost of living index, which measures the headline rate of inflation, rose by 0.6% in May compared to April, the highest monthly increase since January. The Bank of England has forecast inflation to rise to 2.5% by the end of the year, significantly above its 2% target.

Inflation-rate pulls ahead

The Bank of England's chief economist, Andrew Haldane, called the July inflation figures "disappointing," and said that they indicated a "deterioration in the rate of growth." However, he also noted that the Bank of England's inflation forecasts for the year ahead remained little changed, at 2.5% for the year. The Bank of England's deputy governor, Ben Broadbent, said that the inflation figures were "an important reminder of the risks we face." He added that the Bank of England would need to take action if inflation continued to rise.
Inflation rise has experts baffled

By Jackie Unwin

The leap in the year-on-year inflation rate to 18.2 percent in July has shocked consumer bodies and economists.

The jump followed a slow-down to 16.9 percent in June.

But some economists were hopeful that this did not represent a turnaround in the basic downward trend in the inflation rate.

The increase in the consumer price index, issued by the Central Statistical Service in Pretoria, was largely due to higher food and housing costs.

This rise was the first in the year-on-year rate since March.

Before July, the inflation dropped almost four percentage points from its high in January of 20.7 percent.

Housing costs showed the biggest month-to-month increase with a rise of 2.95 percent.

Meat rose by 3.4 percent, fish 3.6 percent and vegetables 7 percent.

Economists were startled by the size of the increase in housing costs when bond rates had dropped.

OPTIMISTIC

Mr Rudolf Gouws, group economist of Rand Merchant Bank, was disappointed at the rise in July, but optimistic that the downward trend will continue.

"I will be very surprised if we are not below 15 percent in January next year," he said.

"If you look at the monthly changes over the last six months and express those at an annualized rate, it is about 14.5 percent," he said.

Mrs Mary Morris, president of the Housing Consumers' League, was upset at the increase, which she puzzled by the moderation in housing costs in the month when house prices and rentals were dropping.

"It just doesn't make sense," she said. "She was also horrified at the food increases.

"I am unhappy about the way these figures are worked out and wonder where they get them from," she said.
After a declining trend, inflation rate surges to 18.2% from its peak in January of 20.7%.

The all-items index rose 2%, to 228.8, from 224.4 in June, according to Central Statistical Services, following monthly increases of 0.2% and 0.6% in May and June, respectively. The index stood at 193.6 in July, 1985.

The biggest month-to-month increases within the index came in housing costs, which rose 2.9%, and foods, which rose 2.5%. Economists were most surprised by the gain in housing costs in a month when mortgage rates dropped, and most rents appeared stable.

‘Disappointing’

Within the food category — which accounts for 25% of the total index — meat rose 3.4%, fish 3.6% and vegetables 7%. Most of the increases were larger than anticipated.

Standard Bank chief economist Andre Hamersma called the July inflation figure “disappointing” and “a bit of a surprise”. “The size of the increase is most surprising, especially as it comes after four or five months of a declining trend,” Hamersma said.

He cautioned, however, that the one-month disappointment did not indicate a long-term reversal of the movement toward lower inflation.

Volkskas economist Adam Jacobs said: “It is shocking that in a time of recession we have an inflation rate still climbing.”

Major cause

Jacobs blamed the battered rand as the major cause of the continuing high inflation, and said he could see no indicators pointing to a significant fall in the rate in the months ahead.

The lower income group index rose to 222.8, up 1.6% from June and 16.3% from July, 1985.

The middle income group index, meanwhile, rose to 231.2, up 2% and 18.6% from June and July, 1985, respectively.

The higher income group index rose to 239.1, up 2% and 18%, respectively.
Consumer confidence still sliding

Survey

Lesley Lambert

Confidence of most white consumers had declined further during the third quarter, according to the latest Bureau of Economic Research poll — which fell 20 points.

Despite tax cuts and further relief measures aimed at putting more money into the consumer's pocket, the majority of respondents expected their financial position to remain unchanged.

The BER said it was not surprising, given the more pessimistic outlook, that consumers were reluctant to buy expensive items such as furniture and domestic appliances.

The poll indicated that consumers also expected faster price increases — a reflection of the devaluation of the rand in the last three months, according to the BER.

Most consumers did not hope that inflation would fall below the current level. About 80% of the respondents expected prices to increase, either at the current rate or at an even faster rate than previously experienced.

The re-introduction of the state of emergency, continuing political violence, an economic package described as "too little, too late" and increasing international pressure for the imposition of further sanctions had played a major role in influencing the perceptions of consumers.
Food for thought
The most disturbing aspect about the rise in consumer price index (CPI) to a year-on-year 18.2% for July is the cost of food. Constituting 25% of the total basket, food increased by 20.8% on a year-on-year basis.

The overall index rose 2% in just one month to 228.8, the index for food alone jumped 2.8%. The month-on-month increase was the second highest this year (after January's 3.1%). In recent months things looked hopeful, with slow-downs in April (18.6%), May (17.5%) and June (16.9%), year-on-year.

The figures are up to July, too soon to reflect the "store wars" campaign (FM August 8). But will price freezes by major supermarket chains have any effect, anyway?

Checkers MD Clive Welz is not optimistic. "I am not surprised at this increase and do not see inflation easing. Pressure from suppliers is enormous. They continually request increases" He says smaller volumes also add to inflation "Higher price increases are needed to make up for lost volume."

Weil also warns that meat consumers are in for a tough time. "We are running into a terrible meat shortage."

Another ominous sign is that margins have been slashed. Weil says "Margins are significantly lower than a year ago. Such tightening cannot continue indefinitely."

The major increases for July were meat (up 3.4%), fish (3.6%), milk, milk products and eggs (4%), fruit (2.4%), vegetables (7%), coffee and tea (6.1%), cold drinks (7.6%), alcohol (2.9%) and recreation and entertainment (3.8%).

Weil explains that most of these are a result of statutory price rises "Sugar, maize and transport costs have all fed through to push up prices of other goods, such as eggs."

The other disturbing aspect is the 3% increase in housing, despite lower mortgage rates. This, Central Statistical Services (CSS) explains, is because costs such as assessment rates, refuse, sanitary and insurance rates, compiled annually, came through.

Only one category dropped in price over the month — fats and oils, by 5.5%. CSS explains this is a result of the fall in the butter price.

While most economists are surprised at the CPI jump, few are adjusting estimates for the year-end rate — between 15%-16% Senekal, Mouton's Leon Steenkamp says "15% is still possible by early next year but less certain," though he points out that the latest increase is not a result of imported costs.

Rand Merchant Bank's Rudolf Gouws believes "this is not the start of a new trend, the basic trend is still down." He points out that the annualised inflation rate of the past six months is 14.5%, and looks for 16% by year-end.

The Reserve Bank's annual economic report calculates that the quarter-to-quarter increase in CPI, at a seasonally adjusted annual rate, was 12.8% in the second quarter. This follows an increase from 13.6% in the third quarter of 1985 to 27.2% in the first quarter of 1986.

The report hopes that "although a number of further administered price increases stand to be effected in the near future, more favourable developments may exercise a restraining effect." Developments cited are the sharp drop in rates of increase in monetary aggregates, lower rates of increase in labour and other business costs, and abolition of the import surcharge on some raw materials and intermediate goods. But inflation is still a major concern. Says Steenkamp "If this is the rate when the economy is recessed, what will happen when demand and money supply pick up?"
Inflation: female office workers take strain

Inflation has outpaced salaries in most female office staff job categories, according to a salary survey covering the first six months of 1982.

The survey, data for which is drawn from the Kelly Personnel Group's 33 branches in the Transvaal, Natal and the Cape, also points to there being an oversupply of inexperienced staff identified as staff whose starting salaries fall within the Lower Quarter of the salary range) while experienced staff (Upper Quarter of salary ranges) are in shorter supply.

This is evidenced by senior staff who are, as a statistical group, seeking not to "job hop". In fact, senior staff still prefer the security of the employer they know, to a new employer who offers more pay.

This, according to the group is a phenomenon associated with a recessory market.

"With the current depressed business conditions and with inflation running at between 17 per cent and 20 per cent per annum, there seems little hope that salaries will keep pace with the cost of living," the survey comments.

"Indeed, every salary increase fuels the inflation trend. At this half-way point in 1982, there are few salaries which have risen anywhere near the 20 per cent inflation level".

The survey details seven job categories in each of seven different regions and reflects the actual starting salaries paid by employers with regard to female office staff.

The survey is based on placements made by the group during the period under review.

For the six months ending in June, the executive secretary/principal proved the highest paid female staff position. The job is specified as working for top management, responsible for confidential matters, with top secretarial skills including completing confidential correspondence and responsibility for duties including answering telephones, typing reports and making travel arrangements, organizing meetings and taking minutes.

In the Johannesburg region starting salaries of R1 650 per month were noted, compared to R1 500 in Durban. On the lower end of the experience scale, those positions were paid Johannesburg R1 450, Durban R1 100 and in Port Elizabeth, the Veal Triangle; the salaries range from R1 000, R1 200 and R1 300 respectively as starting salaries.

The lowest paid female office staff members included in the survey were the Durban-based receptionists who start salary ranged from R600 per month, with a Lower Quartile range of only R560.

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STARS

ARIES (Mar 21 - Apr 20)
Concentration on the job at hand can see you for more interesting work later on. Preoccupation with the logical conclusion of a project, before allowing yourself to be demoralized by that which would take you away from your goals, is important.

TAURUS (Apr 21 - May 20)
Be ready for appreciation rewords and love under these progressive Venus trends. Show your best smiling attitude as an example for those who tend to look on the negative side. The evening favours shopping, planning and thought for home and loved ones. Best relationship: Scopes and Scorpio. Number 106 - colour orange - opportunities, appreciation of events - time, 11.04 am.

GEMINI (May 21 - Jun 20)
Number 817 - colour, turquoise - opportunities, sound thinking - time, evening.

LIBRA (Sep 23 - Oct 22)
Don't deal in wishful thinking where earning power or money matters are at stake, but face up to limitations and quiet but practical ways of overcoming them. Best relationship: loved one - number 262 - colour orange - opportunities, winning new laurels in love matters - time evening.

SCORPIO (Oct 23 - Nov 22)
Excellent stimulation of mental powers causes a surge in creativity. You gain today where you smile, extend favours and show courtesy. Best relationship: the right person - number 631 - colour orange - opportunities, spreading cheer - time, late afternoon.

SAGITTARIUS (Nov 22 - Dec 21)
You tend to keep on the go more today than you had planned. Health admirably.
Fall in inflation rate has setback

JOHANNESBURG — Hopes of a continuing fall in the inflation rate have received a setback from the latest Production Price Index (PPI), which rose by 19.7 per cent year-on-year in July, compared with a 13.03 per cent jump in June.

This follows a decline in the index in the previous four months.

The overall index rose to 210.3 per cent from 213.8 per cent in June, showing a month-on-month increase of 1.4 per cent.

The upward thrust in the PPI appears to have come from locally produced goods. While the prices of imported goods increased marginally from 20.4 per cent to 20.9 per cent, locally produced commodities rose to 19.3 per cent from 13.03 per cent.
Inflation heading for 19 percent this year

By Sven Linsche

Many economists, who suggested the recent rise in the inflation rate to 18.2 percent was just a hiccup, may have to eat their words.

The year-on-year rise in the Production Price Index of 19.7 percent for July suggests the inflation rate could well approach the 19 percent mark once again.

The PPI, which measures prices at the wholesale level, was 216.3 for July and is usually a strong indication of future changes in the Consumer Price Index.

The rise in the PPI began in June, when the year-on-year figure was 19.6 percent, largely as a result of increases in the wholesale price of food. The subsequent rise in consumer prices for food was the largest contributor to July's high inflation rate.

While the prices of imported goods only increased marginally from 20.4 percent to 20.9 percent, largely as a result of the firmer rand exchange rate, locally produced commodities once again exerted upward pressure on the PPI, rising from 18.6 percent to 19.3 percent in July.
Economists remain very concerned over the future course of inflation. Considering we are still in recession with a year-on-year rate of around 18%, what will happen if and when an economic revival gets underway?

Economists are divided as to the future course of inflation, some believing it will move into hyperinflation, others expecting the rate in fact to ease down slightly on the basis that some upward forces will be counterbalanced by new developments.

By breaking new ground inflation has become a source of confusion. Take, for example, the accompanying graphs, which correlate the inflation rate, first with growth in money supply (M2), and second with the year-on-year rate of change in real gross domestic expenditure (GDE).

From 1973 to about 1985 they match nicely, as one would expect, less cash, reflected in money supply, implies less demand for goods and therefore reduced pressure on prices. GDE simply the other side of the coin.

But, says Leon Steenkamp, economic consultant to Senegal, Mouton & Kitshoff, the correlation has broken down. On past experience, the graphs would suggest an inflation rate of 11% for 1986, not 17%—18% as is the “actual expectation.”

To Steenkamp, this anomalous behaviour of inflation in terms of demand factors is most disquieting. He says inflation may have adopted a “will of its own” which could be the forerunner to a state of semi-hyperinflation.

The misbehaviour of the rand seems to have ruptured the neat order of things. Says Rudolf Goova, group economist of Rand Merchant Bank: “The exchange rate was an exogenous shock to the equation. The fall, largely for non-economic reasons through capital outflows, pushed up import prices, and therefore affected inflation.”

Certainly, looking at the situation in the conventional way has become dangerous. For three years the economy has plunged while inflation continued to soar.

Says UBS in its latest Economic Monitor: “Important reasons for persistent inflation are the high cost of imported goods and the increase in some administered prices. Demand-pull inflation has virtually disappeared, but cost-push inflation has remained very real.”

In recession, people lose jobs, get negative real increases in wages (as has been the case for six quarters now) and buy less, which means less demand for goods so demand-pull inflation disappears. But is cost-push inflation now the main cause, with increased manufacturing costs — largely the result of the weak rand — passed on to the consumer?

Steenkamp doesn’t think so: “It is difficult for companies to pass on cost increases if demand is depressed.” Nor does he think cost-push theories square with low international inflation and the decline in oil prices and domestic interest rates.

But these promising developments are of more recent origin. The inflation rate appears very high in the current environment of depressed demand, but reflects price movements, both domestically and externally. This can mean that the rand/dollar exchange rate, and particularly the trade-weighted rand, will remain highly exposed and could continue to feed through into a higher inflation rate.

Says Geldenhuyse: “The outlook for inflation next year is very worrying.” The economy should recover, but like Goova he expects a phase of strong union demands for wage increases.

Goova says salaries will also create cost pressures as employers search to replace skills lost by emigration. He expects inflation to average around 15% next year, depending on how sanctions affect supplies and how SA reacts.

INTEREST RATES

Nearing bottom

Was last week’s round of rediscount rate cuts the last? The general feeling is that rates are nearing bottom.

The Reserve Bank’s problem is that the economic picture is far from clear. While premature tightening could undermine any recovery, delaying too long could create inflationary and spending problems.

“The signal from the monetary authorities is to take it easy,” says Volkskas’s Dave Cronje, while his group’s economist, At Engelbrecht, feels “the Bank will sit back and see whether the upturn is taking place before acting again.”

With signs pointing to an increase in real economic activity, the Bank will be watching loan demand like a hawk before acting again — the last two drops of only 50 points reflect its caution.

So far, the Bank does not detect any upturn in credit demand. Nedbank’s Merton Dagut, Barclays’ Jimmy McKenzie, Standard’s John Lloyd and Cronje agree that demand is still slack. Only Lloyd notices a “slight improvement — at least the tendency to fall has disappeared.” Dagut feels people must first have more confidence that is translated into inventory spending, while McKenzie says demand is low enough to accommodate a further cut — “the upturn should be off a low base.”

This time round the Bank appears to have been pressured from both the money market and the banks. Market rates are still way below the new rediscount levels One bank indicated to the Reserve Bank that it was about to reduce its prime lending rate. This explains the almost immediate 50-point drop in prime to 13.5% (25% in May 1985) after
DE KOCK'S SCENARIO
Past and expected capital flows

<table>
<thead>
<tr>
<th>1986</th>
<th>1st half</th>
<th>2nd half *</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repayments in terms of the interim debt arrangements (“inside the net”)</td>
<td>R1 082m</td>
<td>—</td>
</tr>
<tr>
<td>Repayments in terms of the proclamation (“outside the net”)</td>
<td>K320m</td>
<td>R282m</td>
</tr>
<tr>
<td>Repayments to the IMF</td>
<td>R345m</td>
<td>R363m</td>
</tr>
<tr>
<td>Repayments by Reserve Bank</td>
<td>R1 004m</td>
<td>—</td>
</tr>
<tr>
<td>Other capital outflows (including repayments of trade credits and leads and lags in general)</td>
<td>R2 156m</td>
<td>R172m</td>
</tr>
<tr>
<td>Total capital outflow</td>
<td>R4 907</td>
<td>±R1 000m</td>
</tr>
<tr>
<td>Current account surplus</td>
<td>R2 900m</td>
<td>R3 000m ≤ R4 000m + R5 000</td>
</tr>
</tbody>
</table>

1 Using R1 = US$0.42
2 In July and August — for the rest of the year this is not expected to be large
3 Estimate

affected the rand, inflation and growth, he said that barring unforeseen developments, “the net capital outflow (including debt repayments) during the second half of 1986, should be substantially less than the expected current account surplus”.

De Kock estimates the current account surplus for the second half of 1986 at R3 billion—R4 billion, bringing the 1986 surplus to R6 billion—R7 billion.

A total of R1 billion is expected to be repaid in the second half of 1986 “To this must be added possible capital outflows in further repayments of trade credits and new unfavourable leads and lags, plus the usual errors and omissions.”

Finance Director General Chris Stals tells the FM that $2 billion of the expected $2.3 billion of foreign debt due by next June has already been repaid.

De Kock provides no estimate for total outflows in 1987, saying “the outcome will depend mainly on the behaviour of leads and lags in general, and trade credits in particular, and on any further debt repayments within the net that might be agreed during the round of debt negotiations scheduled for the second half of 1987.” Apart from their share in bearer bonds and notes, public corporations are not expected to make net repayments.

In the year to end-June, a net R9.5 billion flowed out of SA, of which a smaller portion (R2.6 billion) left in the first half of this year.

TOP JOURNALISM AWARD

Neil Jacobsohn, managing editor of Business Day and formerly the FM's Cape Editor, has become the 1986 Rossholt Fellow.

The award was made by Barlow Rand chairman Mike Rosshol at Barlow Park on Monday.

The fellowship, which is given academic expression at Oxford's Templeton College, aims at fostering understanding of business among those journalists who have the ability to become editors.

The five finalists for the award were interviewed by a panel chaired by JSE president Tony Norton.

Jacobsohn will spend the Hilary term at Templeton and then two weeks with an appropriate publication abroad. He began his career with the Pretoria News and spent some years working in Fleet Street. In 1985 he was moved from the FM to Business Day where he manages the day-to-day news operations of the paper.

RESERVES
Less flight

The August asset and liability statement from the Reserve Bank suggests that the capital flight is slowing. Foreign assets have almost doubled in two months — from R677m in June to R1.2 billion. More significantly, they nearly doubled in dollar terms — from $271 billion to $469 billion.

This supports comments by Reserve Bank Governor Gerhard de Kock in Cape Town on Monday. After talking about how “a substantial withdrawal of foreign capital and credits for more than a year and a half

the Bank’s announcement.

Marginal have now apparently improved Bankers then complained about being locked into higher deposit rates and declining lending volumes. Margins depend on the deposit mix, which varies from bank to bank (FM August 15).

Now, McKenzie says, margins are under less pressure.

Crofan adds “While gross margins are not under pressure, net margins are still unacceptable low.” Lloyd reckons, “it is necessary to drop deposit rates more than would be the case if credit demand was strong.” And Da- gaut talks about the cut “in itself not affecting margins.”

A noticeable aspect of the cuts is the relative indifference of the market, which was, in effect, “out of the Bank” throughout August. That is, the banking system was so liquid, that the market was barely reliant on the Bank for short-term accommodation (see Markets).

“Accommodation rates were not so critical. The market has seldom borrowed less and mining houses are flush with cash,” says Discount House’s Colin Dunn. This probably suits the Bank. The De Kock Commission noted that such reductions should be low-key, unless it wants to provide a clear message.

Lloyd is perturbed by negative real rates of interest, however, and feels liquid asset rates have overreacted and could be in for a correction to near their rediscount levels. Investors are being ignored and market rates cannot be justified at these levels.” He points out that liquid asset rates are artificial in the sense that banks have been chasing assets to meet final liquid asset requirements — in terms of the new Banks Act — by September 21.

Since May last year, the rediscount rate for Treasury bills — the Bank rate — has dropped from 21.75 to 10%. There is now pressure on other retail deposit and mortgage rates. Barclays has already reduced its mortgage rate to 15.5% from 16.5%. But societies are unlikely to follow suit. UBS economist Hans Falkena, whose society usually leads in reducing rates, says no further drop in mortgage rates should be expected this year.

FINANCIAL MAIL SEPTEMBER 12 1986
Pay rises far behind inflation rate

Staff Reporter

The gap between salary increases and inflation has widened to an all-time high. Pay rises for all races country-wide are lagging behind the inflation rate by 5.8 percent, according to a major survey released yesterday.

And according to local employment agencies, Cape Town employees are slightly worse off than the average.

The 1996 General Staff Salary Survey, undertaken by the remuneration division of P-E Corporate Services SA (Pty) Ltd, was based on data provided by more than 1,000 organizations employing about 1,200,000 staff of all races.

It showed that the overall percentage increase in basic salary levels for all races for the period June 30, 1995, to July 1, 1996, was 11.1 percent.

The Consumer Price Index (CPI) over the whole country for the same period was 16.9 percent, reflecting the countrywide 5.8 percent salary lag.

Mrs Cheryl Sharp, a manager of Drake SA, said salaries in the Peninsula area had gone up by ten percent on average in the past year.

And according to a recent six-month salary survey by Kelly Personnel in Cape Town, few salaries have risen anywhere near the inflation level.

The Kelly survey showed "a phenomenon" of the recessionary market that salaries at the top end of the market tended to increase because it was difficult to attract qualified staff from their current positions, while other salaries stagnated.

Miss Jane Ashburner, the division manager of P-E Corporate Services, said the salaries-inflation gap was "the worst in memory" The picture became even more dismal, she added, when one considered that since the effective date of the survey, the CPI had risen to 18.2 percent.

This lag in salary increases started in 1983 and had continued at an alarming rate ever since, she said.
Gap between pay hikes and inflation hits an all-time high

JOHANNESBURG — The gap between salary increases and inflation has widened to an all-time high with increases for all race groups lagging the inflation rate by 5.8 per cent, according to the results of the 1996 General Staff Salary Survey.

The survey was released yesterday by the remuneration division of F-Cite Corporate Services SA (Pty) Ltd.

It was undertaken from data provided by over 1 000 organisations employing approximately 120 000 staff of all race groups, and showed that the overall percentage increase in basic salary levels for all race groups for the period June 30, 1995 to July 1, 1996 was 11.1 per cent.

"The Consumer Price Index (CPI) for the same period was 16.9 per cent, reflecting the 5.5 per cent lag.

"This gap is the worst in memory," said the manager of the division, Miss Jane Ashburner. The picture became even more dismal, she added, when one considered that since the effective date of the survey, the CPI had risen to 18.2 per cent.

The lag in salary increases started in 1993 and had continued at an alarming rate ever since. As inflation had been spiralling, companies had been restricted from granting significant increases by the severe financial restrictions they had been operating under.

Until 1982, the CPI had been used as one of the most important guides when determining salary and wage increases. "Forces of circumstance have now dictated, however, that companies' financial results be the prime measure taken into consideration when determining increases," she said.

The survey showed that whereas last year the lowest movements were recorded for whites, this year the lowest movement received the lowest salary increases at 10.1 per cent. However, the movement for whites was not far ahead at 11.0 per cent.

Blacks moved from the top position in the salary and wage increase stakes to second place behind Asians. The salary movement for blacks was 11.3 per cent while that for Asians was 11.6 per cent. Last year blacks received 12.3 per cent and Asians 10.7 per cent.

Miss Ashburner said the fact that increases for other races had come closer to those for whites indicated that the socio-political factors that had largely determined wage increases for non-whites in the past had generally been shelved and replaced by the hard economic realities brought about by the recession.

Looking at the cumulative increases against the cumulative inflation rate over the past five years, the survey showed that no-one has kept pace with inflation.

The cumulative CPI for this five-year period was 97 per cent. Blacks came the closest to this with a cumulative wage increase of 91 per cent, followed by Asians at 80 per cent, coloureds at 80 per cent and whites on the lowest rung at 73 per cent.

"Salaries have, in fact, not kept pace with inflation for the past 10 years in the case of whites," said Miss Ashburner.

The cumulative percentage pay increase for the past 10 years for whites was 199.3 per cent against a cumulative CPI of 255.0 per cent. — Sapa
**Inflation outstrips pay rises by 5.8%**

THE gap between salary increases and inflation is yawning wider with workers of all race groups — for the first time ever — trailing the inflation rate by 5.8%.

"This gap is the worst in memory," said Jane Ashburner, manager of the remuneration division of P-E Corporate Services.

The shock results emerged yesterday when P-E released its results of the 1986 general staff salary survey.

The picture becomes even more dismal considering that since the end of the survey in August, the Consumer Price Index (CPI) has risen to 15.2%.

The survey, undertaken from data provided from more than 1,200 organisations employing approximately 1.2-million staff of all race groups, showed that the overall percentage increase in basic salary levels for the period June 30, 1985, to July 1, 1986, was 11.1%.

The CPI for the same period was 16.9%, reflecting the 5.8% lag.

The cumulative CPI for this five-year period is 97% (see graph) Blacks came closest to this with a cumulative wage increase of 91%. They were followed by Asians at 99%, coloureds at 80% and whites on the lowest rung at 73%.

The cumulative percentage pay increase for the past 10 years for whites is 199.3% against a cumulative CPI for the same period of 255.0%.

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**$100m loan helps Escom projections**

THE recently negotiated $100m, four-year loan to Escom from the Public Investment Commissioners (PIC) is believed to have helped the utility cut its funding projections for 1987 by R1bn to R3.4bn.

A spokesman for Escom said the reduction also follows the deferral of several capital projects.

The PIC released the $100m to Escom after successful negotiations between Escom and SA's foreign creditor banks. Matters foreign loans caught inside the standstill are paid into the PIC account if offshore bankers choose not to roll the loans with local borrowers.

Escom recently disclosed that it had managed to obtain a loan from the PIC, but this appears to be the first time the utility has brought these funds on to its books.

Besides the PIC loan, Escom has obtained R375m in foreign capital this year in short-term European trade finance from export credit agencies. And, the public corporation has continued to apply a policy of requiring foreign suppliers of specialist capital equipment to put up the finance for projects involving their equipment.
Inflation has beaten ‘everyone’

Mercury Correspondent

JOHANNESBURG—The gap between salary increases and inflation is yawning wider with workers of all race groups, for the first time, trailing the inflation rate by 5.8%.

‘This gap is the worst in memory,’ said Jane Ashburner, manager of the remuneration division of PE Corporate Services, a large business consultancy.

The shock results emerged yesterday when PE released its 1986 general staff salary survey.

Since the date of the survey, the Consumer Price Index has risen to 18.2%.

The survey, undertaken from data provided from more than 1,000 organisations employing approximately 1.2 million staff of all race groups, showed that the overall percentage increase in basic salary levels for all race groups for the period June 30, 1985, to July 1, 1986, was 11.3%.

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Looking at the cumulative increases against the cumulative inflation rate over the past five years, the survey showed that no one had kept pace with inflation.

The cumulative CPI for this five-year period is 97%. Blacks came the closest to this with a cumulative wage increase of 81%. They were followed by Asians at 89%, coloureds at 90% and whites on the lowest rung at 73%.

‘Salaries have not kept pace with inflation for the past 10 years in the case of whites,’ said Mrs Ashburner.

The cumulative percentage pay increase for the past 10 years for whites is 195.3%, against a cumulative CPI for the same period of 255.0%.

Referring to the high cumulative increases for blacks, she said their averages were pushed up in the boom years of 1981/82 when abnormally high increases were granted in attempts to close the wage gap.
Cabinet ‘to decide on bread price’

Pretoria Bureau

The price of bread may rise soon. Reacting to speculation of an imminent price rise, a spokesman for the Wheat Board said it was “too early” to say whether the price would rise.

He said the decision on price increases would be made by the Cabinet, which would probably announce its decision next week.

Bread price increases depend on an increase in the price of wheat.

“Keep in mind that rising prices which farmers are experiencing at the moment when speculating on an increase in bread prices,” the spokesman said.

He said the maximum controlled price for standard 850 g loaves of subsidised bread is 50c for brown and 70c for white. The brown bread subsidy is at present about 11,2c per loaf.

South Africans eat 462 million loaves of standard white bread each year and 1,388 million loaves of subsidised brown bread.
B Bay electricity deposits shoot up

Dispatch Reporter

BEACON BAY — Electricity consumer deposits here have gone up by about 28.5 per cent.

Domestic deposits have risen from R140 to R180.

The town treasurer, Mr A. Dykers, told the town council that since the takeover of the electricity service from Escom on January 1, there had been no increase in the consumer deposits.

"In view of the steady increase in tariffs since January 1, 1985, approximately 30 per cent, I have had no alternative but to increase the consumer deposits," he told the council.

Mr Dykers said the "extended period consumers enjoy to settle their accounts, which the council decided on, makes it imperative that deposits be maintained at a level equal to the average of two months supply to minimise bad debts and delinquency."

For all other consumer categories, the deposit was determined by the distribution superintendent, in consultation with Mr Dykers.

The move was opposed by only one councillor, Mr C. Meyers.

He could not be contacted for comment yesterday.
10% rise in price of wheat looks on the way

GERALD REILLY

THE Cabinet is expected to approve a wheat price rise of about 10% at its meeting in Pretoria next Wednesday.

Informed sources believe the delay in announcing the new price and its impact on the bread price has been caused by the "political factor".

A higher price of bread, sources said, could aggravate the unrest situation in the townships.

The bread subsidy for the current financial year is about R190m — R150m from government, R15m from the Wheat Board, and R5m each from the baking and milling industries, plus a R16m carry-over from last year's subsidy.

However, if the wheat price is raised, and bakers' and millers' margins are increased, this would be insufficient to hold bread prices at current levels until the end of the financial year.
Jump in inflation rate, but blow softened by imminent bond rate drop

A JUMP in the inflation rate has been softened for home owners by the announcement that a major bank is to reduce its bond rate to 15%.

It is expected that the drop in Barclays Bank rates will be followed later by building societies and other banks, most of which offer rates of 16%.

Mr Adam Greaves, deputy general manager of the NSP Building Society in Durban, said today that there could be a general drop in bond rates "in the not too distant future".

Mr Trevor Oliver, assistant general manager of the Natal Building Society in Durban, said his society had already announced its rates would be dropping to 16% from October 1, and further drops were likely.

"We are slower to react than banks, but we are reviewing the situation continuously and, if at all possible, we will drop our rates further," he added.

Barclays said yesterday that the 6.5% cut, effective from October 24, made its home loan rate the most competitive available.

Its rates have dropped from 18.75% at the end of last year to the new figure.

Bad news for consumers was the announcement yesterday that the cost of living has increased by 18.7% since last August.

Economists believe the latest figures released by Central Statistical Services in Pretoria dash hopes of inflation this year being contained within the 15% level hoped for earlier in the year.
Weekend Post
Correspondent

JOHANNESBURG — The continuing recession has had a devastating effect on the lifestyle of the average South African, with 63% of blacks and 27% of whites having to make drastic cuts in expenditure this year.

In spite of some despondency, whites in particular are not quite as pessimistic about the country's economic future as they were last year.

These are findings of a study by the Markinor Research company into the effects of the recession on the expenditure patterns of black and white South Africans.

The survey found that blacks have been hardest hit, but all the low income earners have had to change their spending patterns drastically.

According to the survey, Afrikaners have been particularly badly affected.

Most of the whites affected believe the reason for the hardship is economic mismanagement of the economy, with the drought playing a part.

Conversely, blacks are almost unanimous that the problem and the solution is political.

Disinvestment is seen as a direct cause of much of their economic misery.

The survey also shows that 89% of blacks believe the country's economic situation will deteriorate in the short term.

Inflation has hit a whopping 18.7%, according to figures released yesterday — the third-highest figure since 1920.

And for low-income earners the rate is up to 19.1%, the worst on record. Middle-income earners' inflation is even higher, at 19.5%, while upper-bracket folk are better off with a figure of 18.3%.

But gold's leap yesterday to over $450 an ounce promises South Africa an additional R1.2 billion assuming the price stands for a year. Up nearly $20 an ounce, it closed in London at a 3½-year high of $430 to $431.
Hopes of strong recovery dampened

Inflation rises again to 18,7%

CONSUMER price inflation, fuelled by higher food costs, rose to an annual rate of 18,7% in August — further dampening the chances of a strong economic recovery in the near future.

The consumer price index (CPI) rose to 232,2 last month, up 1,5% from the July index, Central Statistical Services' figures show.

The increase followed a 2% jump in July, and pushed the year-on-year rate to its third-highest level since 1972.

Economists were disappointed by the latest data, after a decline in the CPI rate to 16,9% in June from its January record high of 20,7%.

An economist said "One would have hoped the declining trend of a few months ago would have continued. It may be difficult to restart economic growth with that high a level of inflation."

Some indicated, however, that September and October inflation figures might improve as the stronger rand reduced the cost of imported goods and food prices stabilised.

As well, the CPI grew exceptionally fast during the end of 1985, so year-on-year increases for those months this year should be lower.

Rand Merchant Bank economist Rudolf Gouws said inflation should slow to a 16% annual rate by year-end, declining further in the first quarter of 1987.

The food index, which accounts for 40% of the total, rose 2% in August to 230,0, after a 2,6% monthly jump in June. The year-on-year food increase was 22%, the highest rate since January 1981.

Vegetables provided the largest increase in the food category, up 6,4%, followed by a 5,6% fish increase and a 2,2% rise in fresh meat.

Prices for low-income earners rose 19,1% from August 1985 — the highest year-on-year increase on record for that wage group. The middle-income group faced a 10,2% increase, and upper-income earners a 18,3% jump.
Du Pressiss warns on inflation

BUSINESS DAY, Tuesday, September 24, 1966

STEPHEN ROGERS

Du Pressiss warns domestic capital coming

For sufficient domestic capital coming

And price is a dollar shortage situation

Is a leading capital shortage. The economy is a dollar shortage situation

And price is a dollar shortage situation.
Inflation boosts
gov't's tax bite

By Reg Romney

Wage earners, white and black, are feeling the pinch as inflation outstrips pay increases.

Inflation, as measured by the Consumer Price Index, has almost halved the value of money over a five-year period.

The cumulative inflation rate for the last five years, to the end of last year is 93 percent.

If you earned R2,000 five years ago, you would need to earn R3,860 just to equal your pre-tax income then.

After tax, however, you would be far worse off, in spite of your raise, because of "fiscal drag" or "bracket creep."

Tax expert Mr Costa Dvaris of Dvaris, Stein, says few senior management have had real increases over the past five years to cater for the effects of inflation and fiscal drag.

The tax tables have been changed three times over the past five years, but this, says Mr Dvaris, "is nothing like the fundamental change needed to make recompense."

EMIGRATION

While the number of taxpayers is being decreased by emigration, the size of the collection is growing, he says.

The increase in income tax collections over the last five years has grown astronomically, as illustrated by the following table:

- 1981: R2.1 billion
- 1982: R3.2 billion
- 1983: R4.3 billion
- 1984: R5.7 billion
- 1985: R7.4 billion
- 1986: R8.5 billion
- 1987: R10.3 billion (estimated)

Example of slightly artificial exercise, shows the power of fiscal drag to cut into your pay raises.

If you were married and were earning, say R4,000 a month at the beginning of 1982, your tax was — without deductions — R1,309 a month that year.

Assuming that inflation stays at its current high level of 18 percent, the cumulative inflation rate between then and the end of this year will be almost 200 percent.

You will have had to...
Bread price shock for consumer, feeding scheme organisations

By Colleen Ryan

The Government today announced an increase of 6c in the price of white and brown bread from October 1 — a move which has shocked consumer and feeding scheme organisations.

The President of the Housewives' League, Mrs Lyn Morris, said the 12 percent increase in the price of brown bread was excessive. White bread will increase by 8.5 percent.

She said the big jump in the price of brown bread would cause great hardship for the poor.

Mrs Ina Perlman, executive director of Operation Hunger, said the price increase was "horrifying" and would increase the need for assistance to the hungry in the urban areas.

White and brown bread will cost 70c and 86c a loaf respectively from next month, said a statement released by the director general of the Department of Agricultural Economics and Marketing, Dr D W Immelman.

The announcement of a higher bread price coincides with a statement from the Wheat Board of a 10.8 percent increase in the producer price of wheat.

In his statement, Dr Immelman said: "The Government has decided on this price increase in view of the increase in the price of wheat and also in the costs of the milling and baking industry."

He said the last bread price increase was a year ago.

"All increase in the price of bread, which would have become effective on April 1 was deferred by means of special measures taken by the Government as well as the financial contribution made by the Wheat Board and the milling and baking industries."
Fuel, vehicle licence fees set to rise

MOTORISTS face increased vehicle licence fees and petrol prices to pay for recommendations in a Transport White Paper being studied by government Transport director-general Adriaan Eksteen told an “Outlook for Trucks” conference in Johannesburg yesterday. The recommendations would cost motorists R283m a year.

And he said it was now accepted existing transport policies ran contrary to national economic policy.

The cumbersome road freight permit policy cost the country more than R6bn a year, while distorted tariff systems resulted in expensive and uneconomic transport.

The major recommendations were:

- An end to internal cross-subsidisation between SA Transport Services (Sats) activities, whereby uneconomic services are subsidised by money-making ones.
- Sats should be compensated openly for the financial burden of uneconomic services, by way of direct subsidisation.
- Uneconomic services should be paid for by whoever needed them — in the case of urban transport, by Regional Service Councils.

Price moves at a glance

- Fares and freight rates should become market-related.
- Provincial traffic ordinances be rationalised into a single National Road Traffic Act.

Eksteen said the direct cost of those changes must be borne by road-users.

He said “The Department of Transport has calculated that an additional R283m must be recovered annually from road-users. This can be achieved by increasing the licence fee for all vehicle classes as well as the levy on diesel fuel now going towards the National Road Fund.”
Latest bread price rise greeted with dismay

The 6c/loaf increase in white bread and brown bread from October 1 has shocked consumer organisations and black trade unions.

They warn of intensified hardship in the townships and an escalation of poverty and hunger.

The producer wheat price is rise by 10.8%, from R225/ton to R360.

However, producers are to be given an additional R15/ton from the Wheat Reserve Fund.

Announcing the price hike in Pretoria yesterday, Agriculture Department director-general D W Immelman said white bread (76c/loaf) would rise by 8.5% and brown bread (66c/loaf) by 12%.

Brown bread is subsidised by 11c/loaf and white by 1.8c. Immelman said the total subsidy for the current financial year would amount to R193m — R150m from government, R12m from profits on imported wheat, and R31m from the Wheat Board and the baking and milling industries.

Despite the subsidy, government had found it impossible to stave off a price rise, he said.

National Union of Garment Workers general secretary Lucy Mnyabela said the higher price would come as a shock to thousands of struggling black families.

Consumer Council director Jan Cronje, while welcoming the R193m subsidy, said the increase in the producers’ price of wheat and the bread price would add to already expensive shopping baskets.

Checkers MD Clive Weil described the increase as “moderate”, although a slightly greater increase could have been applied to white bread in order to keep down the price of brown bread.

Wheat Board chairman C D Cilie also announced price hikes in barley, by 11.5% to R300/ton, and rye, by 15.1% to R235/ton.
INFLATION

Drought dirge

For the second consecutive month, sharp rises in the prices of food items have boosted the CPI. At 18.7% the August year-on-year rate is the third highest since 1920. It was 20.7% in January and 18.9% in March.

But prices for the lower income group have the "distinction" of setting an all-time record. The year-on-year 21.1% is the "highest rise observed to date," according to Central Statistical Services. The 2% rise in the food index from July to August follows its previous 21.8% monthly increase. Food prices have now risen 22% over the year ending August, the highest since January 1981. This is despite, for example, the so-called price freeze on "own brand" items marketed by the supermarket chains.

And both Checkers MD Clive Weil and Pick 'n Pay chairman Raymond Ackerman say margins reflect the tough competition. Weil cites higher packaging, electricity and wage costs as contributing to the rise.

Ackerman says he is "fighting suppliers tooth and nail." He adds that the drought has understandably affected certain fixed producer prices. The weak rand working through higher agricultural inputs has also played an important part.

SA Agricultural Union economist Koos du Toit says the rise in food prices is not the fault of producers. "The increase in producer prices has been slower than the food index. Some producer prices have actually declined."

Pointing out that the April year-on-year food basket at the retail level rose 19.7%, while prices at the farm level rose 8% (only producer meat prices rose more than at the retail level), he says companies, including supermarkets, are under pressure to maintain turnover with declining volumes and therefore charge more.

But the meat exception, comprising 31.5% of the food index, seems to be a major factor in the overall food price rises, mainly because of the drought. In July it accounted for 43% of the total food price rise. In August, both vegetables and meat accounted for 33% each.

Monthly rises include fresh meat which went up 2.2%, bringing the rise over the year to 27.8%, fish (up 5.6%), and vegetables (up 6.4%). Another 40% of the monthly 1.5% increase came from household fuel and power and vehicles.

Over the year coffee and tea increased 34.1%, cleaning materials 36.3%, vehicles 35.2%, education 24.5% and recreation and entertainment 30.9%.

Even so, economists are not rushing to change estimates of the year-on-year CPI for 1986, which vary from 16.5% to 18%.

From what passes Weil's desk, "there is no easing in the trend." He notes that already this month there has been a 30% rise in coffee, while household cleaning materials have risen 20%.

Ackerman is more optimistic. "Despite the negative inflationary impact that sanctions will bring about,"

Du Toit fears rain will not help reduce the rate of price increases. "Farmers will now hold back supply to replenish their badly depleted herds." And Volkswagen economist At Engelbrecht says companies presently absorbing costs will push them through to consumers when demand picks up.

Ackerman does not foresee retailers taking a similar opportunity of any economic upturn to replenish tight margins. "The market is still too competitive," he says.
Ackerman

Bread shock avoidable

DURBAN - The sudden announcement this week that another increase in the price of bread could have been avoided if the Government and small bakeries had been allowed to take a price rise, is causing the Government and the small bakeries to look inward for the solution.

Mr. Ackerman, the MP for Durban, has been critical of the Government's decision to raise the price of bread, saying that it could have been avoided if the Government and the small bakeries had been allowed to take a price rise.

He said that he had been in contact with the Minister of Agriculture, who had assured him that the Government was working on a solution to the problem. However, Mr. Ackerman said that he was concerned that the solution would not be implemented in time for the new year.

The Minister of Agriculture had said that the price rise was necessary to cover the higher cost of bread and to ensure that the small bakeries were not being undercut.

Mr. Ackerman said that he was concerned that the small bakeries were not being adequately supported and that the price rise was not being adequately distributed.

He said that he would continue to work with the Government and the small bakeries to ensure that the solution was implemented in a way that was fair and equitable.
Car prices up soon and worse to come

MOTOR manufacturers will increase prices again in a week or two — and for several it will be the fourth rise this year.

But worse is on the way A fifth price increase is likely before the end of the year in spite of the improvement in the rand in the past four weeks

Nissan and Toyota have indicated that prices will rise soon. Volkswagen will follow later in October — and the rest of the pack will not be far behind.

The average increase for the year to date is about 24%, but some manufacturers insist that because of the weak rand in previous months they are still under-recovering by between 10% and 15%. The only way to return to profitability is another round of price increases shortly before the year-end.

Prices of cars and commercial vehicles rose by an average of 20% last year.

Manufacturers of Japanese cars are under more pressure than the Germans. Japanese content of cars has risen to about 50% of retail value in spite of the fact that imported components represent about 54% by weight.

Waiting

Cars being built now use components ordered at least three months ago when the rand was much lower against the yen than now.

Toyota will increase prices by between 6% and 8% across the range soon. This follows increases of 4% in February, 5% to 7% in June and 7% to 9% in August.

Nissan's increases will average about 6%, but the next price move is unlikely until the beginning of next year.

Volkswagen will lift the price of Audis by about 6% this week. A similar increase in Volkswagen prices will be made before the end of October. The company hopes that if the rand improves, another price rise before January will be avoided.

Volkswagen raised the price of cars in February by between 4% and 6% and by 5% in July and August. Audi prices went up by 5.5% in April.

Surprisingly, Sancor — manufacturers of Ford and Mazda — has not decided on a price increase. But it is almost certain to charge more — as is General Motors.

Mercedes-Benz will decide on pricing strategy in the middle of October. BMW, which last lifted prices by 6% in September, will probably hold off until December.
More price shocks on way in wealth drain

South Africa's inflation

BY DAVID SOUTHEY
Power costs to go up by 12%

ELECTRICITY costs will rise by 12% on January 1 — making a 35.5% increase since the start of this year.

Escom chairman John Maree and yesterday the increase would be the only one in 1997.

Maree and Escom intend to impose single increases in 1998 and 1999, each of 10%.

The 1987 increase will allow Escom to reduce its borrowing requirements on local financial markets next year.

Finance GM Larry Harper said borrowings were expected to total $2,792bn, down from the 1986 figure of $2,932bn.

He estimated requirements for 1988 and 1989 at $2,643bn and $2,663bn.

Much of the cash will go towards fi-

Power costs to go up by 12%

of an economic and industrial recovery.

Escom's planners decided that to defer or cancel construction of the new stations, each costing R3,5bn, would be too expensive. Penalty clauses and other factors would cost more than R1bn.

Escom's cost-cutting programme is likely to cause the loss of 10,000 jobs.

Early retirement and other incentives have already reduced the workforce from 68,000 of last year. Maree hopes to bring this down to 50,000 in the long term.

Management expects to reach agreement with unions on Friday on a re-

reduction package for workers whose jobs have been made redundant by the cost-cutting. Sources say that although talks will continue on the definition of redundant jobs and how to implement a retrenchment plan, there is broad agreement on a financial package.

Escom, the 12 unions and staff associations said yesterday redundant employees would be identified from November 1. A source said it was hoped the retrenchment programme would be almost complete by February.
Escom runs into resistance

The 12 percent increase in electricity rates will spark price rises in all areas in the economy, said the president of the Housewives' League, Mrs Lyn Morris, last night.

She was reacting to yesterday's announcement from Escom that it will raise its tariff by 12 percent from January 1 — the third price rise in 12 months.

"This price rise will affect everything," said Mrs Morris.

"South Africa's inflation rate is unacceptably high. Most of our trading partners have single-figure inflation rates.

"If everyone gears their price rises just below the inflation rate we will never get our prices down."

The Federated Chamber of Industries and the Afrikaanse Handelsinstituut congratulated Escom for keeping its increase below the inflation rate.
No end to Escom shocks

ESCOM's announcement that it is to raise prices by 12% from January next year — the third increase in 12 months — is yet another setback for consumers.

It has also provoked protest from some of the country's leading economists, who argue that Escom's policy of building up a reserve cushion — similar to shareholders' funds in a private-sector company — is inappropriate for semi-government bodies, particularly in the present economic climate.

UCT economics professor Brian Kantor has long castigated parastatals such as Escom for "milking" consumers through tariff policies designed to bolster capital funds.

He argued "If they want to run it like a private-sector company incorporating shareholder funds then the Government should privatise it and sell off its assets."

Escom communications manager Chuck Thal says the corporation has been forced to fund itself locally because of SA's debt standstill. After discussions with economists and Treasury officials, it was agreed that Escom should raise no more than 25% of its requirements on the local capital market.

But this means it has to find the balance from tariffs Escom has had to trim R2.5-billion from running and capital costs over the next three years. Its projected capital-market borrowings are R2.5-billion in 1987 and R2.3-billion the next year.

Tariffs went up 10% in January and another 10% in July.
THE WARNING by private hospitals that they may pull out of the medical aid system is the latest shot in a protracted dispute between the hospitals and medical aid societies.

Regularly accused of over-charging the sick and dying, the hospitals in turn accuse the medical aid societies of denying them the cash they need to remain profitable.

Caught in the middle, meanwhile, is the patient. One way or another, he is going to have to pay more for his medical care.

If the societies buckle in to the hospitals' threat and allow them to charge more, it will mean an increase in medical aid contributions.

If the hospitals pull out of the system, the patient himself will have to pay the difference between what he is paying now and what his medical aid is prepared to pay.

The argument is between two central bodies — the Representative Association of Medical societies (Rams) and the Representative Association of Private Hospitals (RAPH).

RAPH officials are due to meet tomorrow to discuss pulling out of the medical aid system in response to Rams' decision to grant private hospitals an average 7% increase in benefits.

RAPH had asked for a 20% increase in the scales, which are the maximum medical aids will pay for members' treatment.

Ultimatum:

Hospitals say the 7% follows a 12% increase last year, 10% in the year before that, and 6.25% in 1984. During the same period, they claim, actual costs rose faster than inflation.

The dispute boils down to a difference in philosophy — between non-profit-making medical aid societies and hospitals determined to achieve maximum returns for investors.

The private hospital sector is dominated by three groups — Rembrandt, Afrox and Clinic Holdings. Although there are several smaller investors, all are motivated by the profit factor and interests of their shareholders.

According to RAPH, hospitals have been happy "returns on capital are declining and margins are coming down substantially."

He says the average cost of building hospitals is up to R120,000 a bed — with about 35% of this needed to break even. That, added to increasing costs such as nursing salaries, water and power costs and imported equipment costs — have dampened profitability.

Profitable remains, however, as the recent surge in new private hospitals indicates. And Williamson admits that bed occupancy is over the 85% mark. "So we are profitable."

Medical aid societies, while conceding hospitals might be entitled to bigger increases, are themselves short of cash. The only way they can boost their coffers is through higher contributions from members. "We have our own cost problems," says Rams chairman Jan Frenshott.

Adding to the argument is the belief among many medical aid societies that hospitals are sometimes less honest in the way they seek profits — by billing for drugs that were not used; by charging for reusable syringes or even for something as simple as a bandage or tape after using only a short strip.

"Every time we have quizzed a private hospital account we have always got a refund," says the head of a leading medical aid society. "The hospital's excuse is either 'wrong patient' or 'wrong drug quantity'. Over-charging can be as high as 20%. Hospitals get to know who is checking accounts. They will 'try it on' with a scheme which doesn't check properly."

He adds: "I can't get away from the conviction that it is deliberate."

Williamson rejects this and says: "The hospital provides basic items of equipment. That's what we pay for it and that's what we should get back."

Surely it's better to provide one set of equipment for doctors than have the need for several sets.

"If one can get away from the conviction that it is deliberate."

In any case, if Rams doesn't want to, it shouldn't let doctors charge for the equipment they don't have. And remember — Rams has allowed doctors no increases at all for next year."

Where the two sides do agree is on the idea that most problems are caused by the existing health care system. Two main problems emerge — lack of incentive for patients to be cost-conscious and the cover-all system of medical benefits.

To most patients, their only link with health care is the monthly medical aid contribution. Beyond that, prescriptions, hospital bills and even visits to their GP mean only the receipt and handling-over of pieces of paper for others to pay.

The patient doesn't care, therefore, that any private establishment he may enter has facilities — and charges — far in excess of what he may need.

"There's no need to be so luxurious," says the medical aid society head. "I want a system of maximum payment per day. Tell the doctor I can't afford this, get me a cheaper rate. Patients have been spoiled; there is no incentive to save costs."

Williamson agrees that a system encouraging cost consciousness would be "no bad thing."

The second complaint — that there's no variety in medical aid coverage — may be rectified next month, when the Brown Commission on health care is officially translated into a White Paper.

Both societies and hospitals want a system whereby people have the choice of medical cover — the option of comprehensive cover, cover for major operations or cover beyond a certain base-line.
Is the sky the limit?

With the producer price index (PPI) growing by more than 20% for the third month this year, and the consumer price index (CPI) by 18.7% and rising, everybody is asking: what now?

Will the two indices, which represent percentage price changes over a one-year period, move past a point of no return — and on into the realms of hyper-inflation?

There is a view that, once inflation exceeds 20%, triple-digit inflation is only a hair's breadth away. SA's CPI, the official inflation rate, was only 1.3 percentage points short of this measure in August, theoretically, it could follow the path of PPI, which was 20.3% that month.

After a promising drop in the first half-year, both indices have been rising since June, when the CPI was 16.9% and the PPI 19.0%.

Given the potential higher prices of imported components (owing to the fragility of the rand) and the stimulatory effect of lower interest rates, important preconditions for runaway inflation are in place.

Fortunately, life usually provides economists with the opportunity of hedging their forecasts. In this case, it is the absence of many other characteristics of high inflation economies.

Says Old Mutual economist David Mohr: "The fact that inflation hasn't been higher — given the depreciation of the currency since mid-1984 — shows that important disciplines are still operating. One is wage increases, which have been barely 10%. Another is the decreasing growth of M3. Growth of 9.13% in August was way below the target 16%-20%.

Another factor which will hold down inflation is excess capacity. In the manufacturing sector, this averages about 20%.

Mohr also questions the validity of looking at any particular level as a take-off for hyper-inflation. "It's true that the higher inflation gets, the greater the risk of it feeding on itself. But whether this happens depends entirely on a given set of circumstances and the policies followed at the time.

"When a government introduces index-linking, the inflation risk increases astronomically. This often happens when the capital market is threatened. To get it going, you

have to introduce some certainty by guaranteeing investors a real return on assets."

But index-linking can also reduce inflation, because it acts as a discipline on government spending. High inflation sends up the cost of borrowing funds, which provides an incentive to governments to reduce it. "In Britain, for instance, it seemed to play a role in anti-inflation strategy. They introduced index-linking in a limited form in 1975, when inflation was 24.2%, reaching a high of 26.8% in August. It dropped to 14.6% the next year and went on to fluctuate as various governments experimented with controls.

"When Mrs. Thatcher applied a free-market approach, it went to 18.4% in 1980. As her policies took effect, it dropped as low as 4.6% in 1983. After moving up to 6% in 1985, it is now tending downwards to only 2.4% year-on-year in August."

Nor is there necessarily a link between the CPI and the PPI. "There is a broad correlation," says Mohr. "But, having studied the relationship over 10 years, I haven't seen much evidence that CPI inevitably closely follows PPI."

Core inflation

These arguments aside, hyper-inflation could be described as a state of mind. "Core inflation comes only when inflationary expectations are so entrenched that there is no stopping the tide of rising prices," says a banking economist. "The only way to determine whether this is happening in SA would be to survey public opinion.

In the economies of our major trading partners, where inflation is negligible, a rate of 12% could be considered hyper-inflation."

— while the Argentinians would heave a gigantic sigh of relief if their triple-digit inflation rate ever showed signs of reaching this level.
Salaries don't match the CPI

WORKERS at all levels are still way behind in the money stakes, compared with their US counterparts.

And, overall, salaries for all race groups are not keeping pace with the consumer price index (CPI).

Taking US salaries as a 100% base, gross salaries in SA for foremen, supervisors and sales representatives amounted to 64%, and net salaries to 56%.

Figures sourced to the SA-German Chamber of Commerce and Industry show that on the senior executive/director and general-manager level, gross salaries were 64% and net salaries 50% less than those paid in the US.

Salaries in SA increased from July 1, 1986 by 11.1% over a one-year period. However, the CPI increased by 16.9%, leaving a gap of 5.8%.

Cumulative increases in the CPI over the last five years amounted to 97%. In this period, black wages increased by 91%, Asian by 96%, coloured by 80% and white by 73%.

The lower-income group showed an inflation rate of 19.1% for August, the middle-income group 19.2% and the higher-income group 18.3%.

As a reflection of falling living standards and lack of confidence, consumer spending continued to drop in August.
Govt dismay as rate of inflation increases

The Argus Correspondent

PRETORIA — Government sources today expressed surprise and dismay at the latest surge in the inflation rate — which at 19.7 percent is the second highest in South Africa's history.

They said that the problem remained a high priority and that everything possible was being done to bring the inflation rate down. They expected it to fall again next month.

The one percent rise in the inflation rate at the end of September, bringing the annual rate to 19.7 percent (18.7 percent in August and 18.2 percent in July) is attributable mainly to an increase in food prices and the lingering effects of the devalued rand.

BODES ILL

Mr Harry Schwartz, Progressive Federal Party spokesman on finance, said today the latest level was very serious for South Africa because the Government had forecast that the rate would drop this year.

"Now, instead, the rate has risen and this bodes ill for future rises," he said.

Mr Schwartz said that although the Government had said it intended to reduce inflation it had in fact done very little about it. Now there was a danger the authorities would overreact and that this could cause other problems.

"SHOCKING"

Mr J B van Zyl, Conservative Party spokesman on finance, said the latest inflation level was "shocking".

"It seems the Government is not in the slightest bit concerned about this, nor does it care that it is impoverishing the people of South Africa. "The Government is itself the biggest creator of inflation, and it does this even at a time when the level of unemployment is at its highest in the country's history," he said.
Inflation fears in upswing

CAPE TOWN — It is highly disturbing that the South African economy should have to enter the present upswing with an inflation rate of nearly 19 per cent, according to Sanlam's latest economic survey.

The survey says that although next year's inflation rate is likely to be slightly lower than the 16-18.5 per cent this year, there will be upward pressure on prices as the surplus capacity in the economy is worked off and demand increases.

"Against this background an average increase in the consumer price index of less than 16 per cent in 1987 can hardly be expected."

An average gold price of over 400 dollars an ounce is forecast for next year. The higher gold price, the quieter conditions in the black townships, the stronger rand and continued firm trend in share prices on the Johannesburg Stock Exchange have all contributed to an improvement in business sentiment, says the report.

However, there are four factors which cast doubt on the extent of the revival and whether it can be sustained:

- Prices of goods and services are rising faster than salaries and wages,
- People are still reluctant to incur additional debt,
- Businesses are extremely careful as regards stockpiling,
- There is still no sign of a revival in fixed investment by the business sector.

"Against this background we expect a moderate and gradual improvement in business conditions in the next few months," the survey says, adding that a more marked revival will occur from early 1987 as the favourable effects of the higher gold price become evident and the fiscal action of the government starts to exert a more expansionary influence on general economic activity.

The survey predicts that if the gold price stays at its present level of about $425 dollars an ounce for the rest of the year and the rand maintains its former trend, the current account of the balance of payments for 1986 will yield a surplus of about R6000-million.

Sanlam's economists believe that extra liquidity caused by a higher gold price and the expectation that there will be no material increase in demand for credit could put renewed downward pressure on rates in the short-term. — Sapa.
Sharp rise in inflation

JOHANNESBURG—Following a rise of 24.5% year-on-year in producer price inflation in August, year-on-year consumer price inflation rose sharply to 15.7% in September (13.7% in August).

Trist Bank's latest economic and currency report says the monthly gain in the all-items index was 1.9% to 236.7, after a 1.5% rise to 232.2 in August.

Consumer price inflation is continuing to be fuelled by higher food prices. The food component of the consumer price inflation index rose 22.3% year-on-year in September (22% in August), the highest level so far.

The average inflation rate for the first nine months this year is 15.7% compared to 15.7% in the same period last year — (Sapa)
Food for thought

The bad news about inflation is not that the consumer price index (CPI) rose to 19.7% in September, but that worse is to come. The latest increases in meat prices, which contribute 9% of total CPI, are ominous — but not reflected in the September figures.

The biggest increase came in transport costs, the price of vehicles rising, year-on-year, by 45.1%. Of the 1.9% overall month-on-month increase in CPI, to 229.7, vehicles comprised 0.4%, meat “only” 0.2%.

CPI is measured in the first week of the month and the price of meat has risen substantially since September 7,” says Leon Steenkamp, economist consultant to stockbroker Senekal, Mouton & Kitshoff. “This is partly seasonal.”

Ironically, rains in the next few months will push prices higher because they relieve pressure on farmers to dispose of stock. So the chances of CPI topping 20% for the second time this year are high.

“Our earlier optimistic forecasts have had to be tempered,” says Rand Merchant Bank economist Rudolf Gouws. Both CPI and PPI have increased from respective lows in June of 16.5% and 19.0%.

But pessimistic projections for the immediate future must be seen against positive medium-term indications. While drought, the rand’s poor performance and inflationary expectations will continue to fuel prices, there are powerful restraining factors.

These include the slide of interest rates (prime has declined from a high of 25% in May 1985 to 13.5%), the drop in world oil prices from between US$25-$30 a barrel in 1985 to between $9-$16 in 1986, depressed consumer demand, wage and salary increases, running at about 10%, M3 growth consistently below its target of 16%-20%, and encouraging prospects for agriculture.

Recently the rand has improved against the basket of currencies. Says Gouws: “The rand’s strength between mid-June and the end of August was exaggerated by its performance against the dollar and sterling. Only when the gold price improved did it pick up against the currencies of our other major trading partners.”

Subsequently, the picture improved considerably. The September Reserve Bank Quarterly Bulletin records that “On September 15, the effective exchange rate was 17.9% above its low point of June 12.”

But, because the damaging effects of meat price increases will emerge first, the rate of inflation is bound to go up before it goes down. The good news may only come in the December-January figures, says Gouws.

And, he points out, these will benefit from “a statistical phenomenon — comparison with...”
More car makers to put prices up soon

Most car makers are now falling into line with the round of car price hikes initiated by Toyota at the beginning of the month.

Mazda passenger car prices will go up on November 1, by around six percent on the 323 range and by as much as 20 percent on some models in the just-revised 626 line-up.

On the same day Ford's Laser and Meteor light cars will go up by around six percent and Mercedes-Benz W124 and Honda Ballade models will rise by seven and 5.5 percent respectively.

General Motors prices are up as of yesterday, while VW says it plans to move next week.

LATEST ROUND OF RISES

The latest round of rises has been rather less orderly than is usually the case. Toyota moved first on its Cressida and commercial vehicle ranges, followed quickly by Nissan with an across-the-board increase which it says will be the last this year.

Later in the month Ford lifted its prices on Sierra mid-size sedans and on commercial vehicles, as did Mazda and Mitsubishi on commercials.

Toyota's Corolla small cars went up on October 21, and were followed yesterday by an all-model increase for General Motors.
Govt has no answer to inflation

"And the disappearance of hampering factors through deregulation would simplify development of the informal sector," he said.

On the massive training programme launched by the Manpower Department, Du Plessis said in the current financial year 32% of the department's budget was earmarked for training.

SAPA reports from Bloemfontein that an extensive training programme for unemployed blacks who do not have their own homes has attracted 300 people.

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GERALD REILLY

THERE was no solution in sight for SA's inflation problem, Manpower Minister Pietie du Plessis said yesterday.

The Minister, who was speaking at the Roslyn Training Centre, said a sound foundation had been laid for economic growth.

"The lower interest-rate structure would make a further contribution to the economic revival.

"However, a solution to the inflation problem with its negative influence on the domestic-costs structure, and international competitiveness, was not yet in sight."

Since the low point in total economic activity in 1995, the economy had shown a slight upward, long-term movement.

The Minister said the SA economy would be unable to provide jobs for all those entering the labour market in the years ahead.

Therefore, workers had to receive training so they could find employment in the informal sector.
ACTIVITY is picking up in the motor industry, but the rising cost of SA and imported components continues to exert pressure on prices.

Higher prices will be the likely deterrent to vehicle buyers retuning to the market at more acceptable levels.

The National Association of Automotive Manufacturers of South Africa (Namasa) shows that capacity use in the car sector rose to 0.5% in the three months to September compared with 0.6% in the quarter to June.

Increased use was noted in other sectors. Light commercials (LCVs) rose to 0.6% from 6.3% in the quarter to June. Use was also up 0.5% in medium and heavy commercials from 4.7% to 6.6%.

However, buses and heavy trucks continued to reflect the reduced demand for public and private investment and capacity use fell in the third quarter in a row – to 42.8% from 56.7% in the second and 62.2% in the first.

Capacity use for the industry as a whole rose to 65.7% in the third quarter from 61.7% in the second.

Spiral

Sales improved in the September quarter – cars up 6.5% on the previous three months, LCVs up 15.2% and medium and heavy commercials up 9.4% on sales totalling 122,285.

Sales of 15,000 for Car Sales, the leading company in the September quarter, were their highest sales of the year in the quarter. But the price spiral continued to reflect the reduced demand for public and private investment and capacity use fell for the third quarter in a row – to 42.8% from 56.7% in the second and 62.2% in the first.

Prices of imported components rose by between 3.5% and 5.5% and LCVs component prices increased by 4.5% in price. SA component prices fell by 3.0% to 5.0% to provide benefits in the last quarter of 1980 and in the first three months of 1981.

Spiral buying about 70% of the total sales is expected to return to more favourable prices because of the fuel tax. Namasa estimates car sales for the year at 178,000 and 182,000 for 1980. LCV sales are forecast at 78,700 and 79,200 for 1980 medium at 8,500 and 8,900 heavy at 2,000 and 2,200.
Thursday, November 6, 1986

SOUTH Africa's structural imbalances are the foundation of our country's present economic turmoil. Unless these imbalances are corrected, the economy will always have an ailment of some sort.

The Department of Statistics recently released the inflation rate figure for September. As may well be expected, this figure points up by a percentage point to 19.7 percent, compared to the August figure.

In economic affairs, as in any other discipline, problems arise that often correct themselves. However, when economic events threaten an irreversible breakdown, with unwanted social and political outcomes, policymakers should rightly choose to intervene or at least provide some guidelines to be adopted by the private sector to prevent the realization of this event.

The nature of our inflation is of the cost-push type. One of the characteristics of developing countries is to have relatively high cost structures, because the industrial sectors in these economies are on the lower level of the learning curve. In our case, the high cost structure is further aggravated by the notion of granting wage and salary increases mostly on the basis of social and political factors.

Productivity plays a minor role. If any, in the granting of these increases. Social factors tend to be the overall focus when wages and salary increases are granted, particularly to blacks.

The reason may well be that companies (through events) have lately come to realize the economic and social plight of this particular segment of their work force.

To redress this imbalance against blacks, increases far in excess of productivity levels became the norm of the time.

On the other hand, the Government being the single largest employer, is more willing to grant wage and salary increases in excess of productivity levels purely for political reasons.

Next, understanding the economic ramifications of such a move, the Government will ascend to salary and wage demands of its white employees if it feels there are political gains to be derived.

If what is being said about the general election next year is true, then at least some of the wage and salary demands made by white trade unions representing the public sector are likely to be realized.

Problem

If we add the general dimension of trade unionism to this scenario, the pressure of costs becomes even stronger. This is the situation that characterizes our economy's inflation problem.

Unfortunately, such a situation of continuing rising prices can no longer be downplayed.

If the rate of inflation was 19 percent in September, it boggles the mind as to what it will be in January next year if this trend continues.

We cannot afford to host the argument that the market mechanism will correct this feature, since the sanctions issue, to this steam on its own is bound to add fuel to the general price level, it becomes apparent that the authorities believe that the mechanism will correct this feature, is certainly asking too much from this mechanism.

The South African economic scenario has dramatically changed and new approaches are needed to control the price increase.

The freemarket approach which our monetary authorities so tenaciously adhere to is not adequately geared to deal with this kind of dilemma.

Irony

Our inflation track record bears this out. To cement this record, the South African Transport Services has decided to link its rail tariff for export traffic to the producer price index.

This virtually means that the part of our inflation that is contributed by SATS will not go down. The irony of our inflation dilemma is that the Government has the means to control it. The Government exercises considerable direct control over wages and salaries (the Government is the single largest employer) and also over the prices of major goods and services.

This control provides the authorities with a powerful and direct tool to combat inflation. If they (the Government) were to put a ceiling on the increase in prices and wages that fall under its control, that would contain our inflation rate to a controllable extent.

The private sector would be likely to follow the example by holding down wage increases to the same extent.

Freeze

A general wage-price freeze as used in other countries with similar problems would not be acceptable in the South African context. A general wage-price freeze would be perceived by black-oriented trade unions as keeping or holding down the standard of living of their members.

In any event, in the case of a general wage-price freeze, wage negotiations are done away with.

In South Africa's particular case wage negotiation serves also as a political value, that is a lot of politicians are let go of at these negotiations.

The situation has now become critical that the Government has to take positive action to curb the rate of inflation, because of known unpleasant effects, and before the SA population gets to accept high inflation rates as part of their lives.

A situation which, once it is psychologically cemented, is hard to reverse.

The Media Council

118 South African Media Council is an independent body established to deal with matters affecting media reporting and comment.

One of the council's functions is to receive and act upon complaints from members of the public who have not been able to get satisfaction by approaching a newspaper or other news media directly.
PFP warns as CPI slows slightly

CONSUMER price inflation slowed slightly in October, meeting the expectations of most economists who had forecast some moderation in price increases.

The consumer price index (CPI) rose at an annual rate of 18.2%, to 239.3, down from 19.7% the previous month. The monthly increase was 1.1%, from 1.9% in September.

PFP finance spokesman Brian Goodall said SA was threatened by hyper-inflation, and government had to accept most of the blame.

The whole massive apartheid structure and the political system which had spawned it had created grave distortions and the country was now paying the penalty, he said at the weekend.

He forecast the rate would rise above 20% in the months ahead.

"With the inflation at its current peak, and the fact that we are about to rise from the bottom of the recession, inflation can only go up."

Goodall said a contributory factor to the inflation scourge was that there was too great a concentration of economic power in too few hands.

Economics Reporter

The food-only index, which comprises one-quarter of the total CPI, rose at an annual rate of 23.2% last month, with a month-on-month increase of 2.0% — representing 60% of the overall increase. It jumped by 1.6% in September.

Grain products increased in price by 4.5% in the month, while meat rose 4.0% and fruit 7.7%.

The food index is notoriously unstable, however, and difficult to forecast.

And manufacturers of white and brown goods have said prices of their products would increase by an average of 10% in January and February.
THREE Putco buses were petrol bombed, at least one completely destroyed, and six others were hijacked in Soweto as rioters went on the rampage yesterday, the first day of the bus boycott in protest against the new fare increases.

The increases, which came into effect at the weekend, are 17.5% in the Transvaal and 15% in Natal.

A Putco spokeswoman told Business Day that 15 bus tyres were slashed and 100 windows broken during the storings. The official said that by yesterday morning the number of Soweto commuters using Putco buses was down to 40%.

A number of incidents took place at the Baragwanath Hospital bus terminus at the weekend, when attempts were made to petrol bomb four buses.

Ticket sales in the PWV western area, including Soweto and Wembley, had dropped to between 10 and 15%.

However, according to the spokeswoman, buses had not been withdrawn from Soweto despite the heavy damage.

The spokeswoman added that in the Wemblems area buses were 50% full in the Wynberg/Edenvale/Boksburg/ Springs areas, and in Pretoria and Natal, services were normal.

Thousands of pamphlets were distributed in Soweto at the weekend calling for a bus boycott.

Meanwhile SAPA reports that a Putco official said the company had met the government regarding an increase in its subsidy and "got the best we could"
Buses run empty as boycotters use trains, cars, taxis

Putco buses continued to run empty this morning as the boycott against the 17.5 percent fare increase in Soweto entered its second day.

With taxis unable to cope, commuters flocked to use the trains this morning. The number of private car owners offering to transport workers increased, at fares lower than taxis.

Taxi operators in some areas have reduced their fares.

Putco increased fares at the weekend by 17.5 percent in the Transvaal and by 15 percent in Natal.

In protest at the increases, three buses were petrol-bombed and six hijacked in Soweto between Sunday night and yesterday morning. Fifteen bus tyres were slashed and 100 windows broken. One bus was completely destroyed.

Thousands of commuters were without transport this morning, and there were long queues of stranded workers in Johannesburg yesterday afternoon. Taxis operated until late in the night.

One commuter said: "The taxi associations must directly call upon private car owners — some of whom who fear the wrath of taxi operators if they ferry passengers — to join in and take us to work. No car should go to the city half empty. Otherwise, commuters may feel frustrated and go back to the buses."

The Dlamini and Senaane Residents' Association chairman, Mr. Steven Sangwani, appealed to car owners to use their vehicles to ferry workers.

Mr. Sangwani called on commuters to stop buying Putco coupons in order to avoid clashes and injuries.
SAA fares in double price hike

Transport Reporter

South African Airways is to increase international air fares by up to 16 percent from January 1.

The airline informed travel agents of the increase, which is the third this year, by telex yesterday.

"Due to the unstable performance of the rand against foreign currency, the increased currency adjustment factors listed below will come into effect on January 1 1987, and, in addition, all air fares specified in the rand selling currency will be increased by 16 percent," the telex stated.

This means there will be two increases — a currency adjustment and a general revenue increase — which could push fares up by as much as 19 percent.

An SAA spokeswoman, who refused to release details of the increases, said "We are not the only ones who will raise fares".

The increases are the third this year. Fares went up by about 15 percent in January. In July economy class fares rose by 10,5 percent to the United States, by three percent to London and by five percent to Australia.

First class fares rose by as much as 22 percent on flights to New York, 16,5 percent on flights to London and by almost 10 percent on flights to Australia.

In addition, there was a further increase of about 10 percent on flights to Australia in April.

All tickets sold after yesterday will be subject to the new increase.
Govt pay rises "outstrip" CPI

PUBLIC servants have enjoyed pay increases higher than the inflation rate over the past 10 years, an Assocom survey indicates.

The survey, "taken among all races," says the average monthly earnings of central government employees increased to R1:393 in 1986 from R286 in 1976. This gives an average annual earnings increase of 15.4% compared with an average rise of 13.7% in the consumer price index (CPI) over the same period.

Over the last five years the differential is even greater, with earnings increasing 18% a year against a rise of 14.5% a year in the CPI.

The number of people employed by central government has increased to 397,227 this year from 295,462 in 1976.

Although international markets displayed relative calmness, gold made further advances yesterday. It closed at $410.79 in London after a morning fixing at $408.28 yesterday. The New York market pushed the price up to $411.9 in early trading after an opening of $410.5.
SA inflation stems from regulations

SOUTH AFRICA'S inflation rate is now about five times higher than the average of its main trading partners. It also stands at more than 10% to 15% of the past 12 years, and there is a general perception of much worse to come.

The acceleration in July, August and September (to an annualized rate of nearly 13%) surprised most analysts as well as the policymakers, as most factors had pointed to a continuation of the downward trend that had commenced in February.

Among these is the fact that the rate of increase in remuneration has been much lower than the rate of inflation, there has been a levelling out, and then a rate in the rand's effective exchange rate, inflation abroad is low, domestic demand has been slack, the demand for bank credit is weak, and the growth of the money supply consequently very slow.

The budget deficit is being financed relatively more by the sale of dwelling prices and rentals, as well as mortgage bond rates and other borrowings, costs, have been declining.

The rapid re-escalation of prices in the face of these contradictory factors that the inflationary pressures are more complex, and more difficult to turn around than has been appreciated.

There are, however, increasing and understanding factors that put the authorities to "doing something" to keep prices from running away. Some Government officials have recently been calling for larger consumer, workers and businesses to fight price rises, however modest as wage demands so far have been.

These arguments — however convincingly put across — will have no direct or indirect effect.

Consumers have cut back on luxuries and are buying agreements at today's prices because they know everything will be more expensive tomorrow.

Having already suffered a major decline in real living standards, wage and salary earners can do nothing but negotiate for as much as they can get.

Commerce and industry are passing on cost increases (where demand conditions allow this), since they are in a profit and cash squeeze.

The impression, nonetheless, again seems to be gaining ground that, if these calls on the different parties could be formulated in a kind of "social contract," they could be persuaded to act in unions in a way that would halt inflation.

In 1975, in spite of the failure of similar "consensus" elsewhere, an "Anti-Inflation Manifesto" was implemented in SA, but that also was unsuccessful and parties in the practice, and so on.

The chances of reaching new agreement about matters so close to the bone are very slim.

This being so, arguments are again being raised that prices and wages should be frozen by decree, even if only for a short time, while basic causes are being addressed.

Apart from raising the spectre of long queues, shortages, black markets, a larger bureaucracy and so on, this would be an inappropriate policy to follow for a country facing tax sanctions and major economic devaluations.

SA must now, more than ever, try to make the most of scarce resources and relative prices (which today have really come to mean different rates of price increase for different goods, services and skills) must be allowed to reflect relative scarcities.

The general price level may be artificially constrained with some short-term success, but the cost of economic growth in terms of lost flexibility and efficiency will be very great indeed.

It is certainly true that the South African economy has an inflationary bias which to my mind stems mainly from the political factors and which, in turn, translated to rapidly rising prices.

The monetary authorities should continue to construct monetary policy on a basis of price control is maintained over the growth of the money supply.

But because the money supply (as is the case when price intermediate variable is subject to many disturbing forces, the monetary authorities should (and, I am sure, will) be watching a wide variety of other factors, such as the pace of economic activity, the state of Government's finances, the balance of payments, and so on.

When, on balance, these factors start pushing market interest rates up, the general interest rate structure should be allowed to rise. The responsibility for avoiding another 1975-style price run-up will come with fiscal authorities and the politicians as with the Reserve Bank.

The risks of very much higher inflation are great. The economy is on the borders, the charters. The economy and political impact of sanctions, the economic policy response to sanctions, the response of consumers, businessmen and investors, are all open questions.

Inflation is only one of many variables that can react in a virtually inde terminant way to an interplay of all these factors.

The policies and procedures must therefore give the authorities the only chance of avoiding a continuing microeconomic collapse.

I am more confident than most that, in very trying conditions, they will endeavour to do this and that we are not facing the risk of higher inflation in 1987.
Inflation outlook grim, leading economist says

The Argus Correspondent
DURBAN — Prospects on the inflation front look grim — at least until the economy really starts to pick up.

Speaking at a Mercabank seminar here South African Reserve Bank adviser Dr D W Goedhuys said monetary policy makers faced an “awful dilemma” — they were conscious of the dangers of hyperinflation, but the priority was to maintain business activity.

“Our hand is forced by the circumstances of the economy,” he said. “We have to give the growth impetus full play.”

UNUSUAL PRESSURES

Once the economy turned, however, policy emphasis could be shifted to inflation.

Dr Goedhuys said current inflation was due to unusual pressures. South Africa was experiencing “import price push inflation” — which stemmed from depreciation of the exchange rate following capital withdrawals for political reasons.

Policy was to accommodate this by making credit cheaper.

“We are acquiescing to inflation to safeguard business.”

University of Durban-Westville economist Professor A J Arkin told delegates that the economy needed a systematic reduction of Government controls.

He warned that excessive control in a siege economy would exacerbate bottlenecks of labour and materials — and would reinforce the effect of sanctions.

Professor Arkin said accelerated deregulation and privatisation were necessary to counteract the sanctions drive.

The seminar marked publication of an analysis of direct and indirect economic controls, sponsored by Mercabank and produced by University of Pretoria economists.

Presenting the report senior lecturer Mr J P van den Heever said direct controls were good in the short term but tended to politicise issues in the long term.

Indirect controls tended to have an unfavourable reception — but they proved themselves with time.

South Africa is the victim of creeping economic socialism by the big private sector conglomerates, with serious implications for future job creation and the distribution of wealth in the country, says Mr Jan Erasmus, executive chairman of Prestani Brokers.

Addressing a gathering of businessmen in Johannesburg, Mr Erasmus said that the concentration of economic power should be broken, that new entrepreneurs should be encouraged and that any planned privatisation of Government functions should be effected by means of creating trusts in which South Africans of all races could become shareholders.

Mr Erasmus warned that South Africa should not exchange Government monopolies for economic monopolies controlled by a few large private sector conglomerates.

The voter can, to a certain extent, exercise an influence on Government monopolies, but cannot obtain any say in conglomerate monopolies.

Economic power in South Africa was concentrated in the hands of four or five large companies, including a mining group, two Mutual Life insurance companies and two banking groups.

“Some conglomerates are even overlapping Government departments in size, thus creating private sector bureaucracies with little difference from the traditional public bureaucracies except that voters have no say over them.

“This is one of the most serious limitations on the development of entrepreneurs.”
Introduced at the beginning of the month, the new fare increases have aroused a great deal of resistance, particularly in Soweto and townships within the KwaNdebele homeland, where many buses have been damaged. Financial losses have been substantial.

Fares were raised in the Transvaal by 17.5% and in Natal by 15%. Because of black commuter opposition, the company has suspended fare increases on routes between the Reef and the distant KwaNdebele townships east of Pretoria.

At the weekend, two Soweto bus depots were bombed, causing R10 000 damage to ticket offices.

Apart from the two depots rocked by petrol mines, four buses have been petrol-bombed, seven others hijacked and 1 000 bus windows smashed, according to a Putco spokeswoman. She estimates total damage since the current bus boycott began at more than R70 000.

According to Putco, a Durban South depot has been closed "temporarily" following dismissal of 200 drivers who did not collect fares from passengers on October 24. Action against the drivers was taken as a "disciplinary" measure, meanwhile, the company is looking for new drivers. Areas affected by the closure are Umhlazi, KwaMakhutha, and Umbumbulu.

Soweto Fares

In Soweto, fares from Emde (the most distant point) to Bree Street have risen from R1.60 to R1.80 for a single cash ticket, weekly from R7.50 to R8.80; and monthly tickets from R39 to R45.80. From Baragwanath (the point closest to town) to West Street, fares have risen from 75c to 90c, a single cash ticket, from R5.10 to R5.80 for weekly tickets, and from R26.50 to R30.20 per month.

Explaining the increases, Putco's assistant MD Vic Coetzee said: "If you don't put up fares, you go out of business. We are sympathetic, but cannot do much unless the government pays (a higher subsidy)."

The company also explained that the 17.5% and 15% fare increases are intended to cover cost increases between July 1985 and June this year. They include a 37% rise in maintenance and spares, a 13.3% rise in wages, and 20% increases in insurance, licensing, rentals and depreciation costs.

The feeling at Putco is that the company cannot be expected to provide a social service if it is expected to do so, then government must subsidise fares far more substantially than at present.

Among proposals made by Putco — together with another bus company, Tollgate Holdings — to government is that regional services councils (RSCs) buy the companies' assets, then appoint the companies to run the bus services on an agency basis for RSCs (see Business, November 7).

A Putco spokesman tells the FM that there has been no movement from government on this suggestion.

☐ See Companies.
INFLATION
Twisted by lags

Like an unidentified virus, a mysterious force is at work in the economy, keeping inflation over 20%. In spite of a number of restraining factors, prices move implacably upwards, confounding economists and defying policy makers.

Low consumer demand, low demand for credit, low money growth, low oil prices, wage and salary increases well below the inflation rate, and an appreciating rand should have tamed inflation — but it have not.

Some economists expect even worse to come if these restraining trends are reversed.

The picture has become confusing. Perhaps traditionally expected lags in the pricing mechanism have been distorted by exceptional external and political circumstances.

However, the producer price index (PPI) for September does bring some hope, if only because it reflects a pause in the acceleration.

In some countries, West Germany and the US for instance, inflation has been so low that disinflation has become a possibility. In SA, where prices appear to be headed irreversibly upwards, discussion of inflation is complicated, at a purely semantic level, by the need to talk not of increases or decreases in the rate of inflation — but of increases or decreases in increases.

Trends can be gauged only by whether the latest leap compares favourably or unfavourably with the preceding one.

September’s PPI at least compares favourably with August.

The all-commodities index increased by an annualised 20.1%, two points less than the August increase of 20.3%. Analysis shows a fractionally bigger decrease (in the increase) in the cost of imported components (21% against last month’s 21.3%) than in local (19.8% against 19.9%).

The cost of total output of South African industry increased by only 20.5% (against 21.1%).

Month-by-month comparisons can be useful in identifying trends, and these show even bigger decreases. The all-commodities index stood at 221.9 in September against 220.3 in August. An increase of 0.7%, significantly lower than August’s increase over July of 1.8%. On this basis, there was actually a drop in the item “mining and quarrying, other” of 4.1%, from 126.8 in August to 121.6. Once again the fall in the rate of increase was more apparent in imported goods (0.6% against 2% in August) than in local (0.8% against 1.8%).

What do the PPI figures portend for the consumer price index (CPI)?

For October, figures for October will be released later this month. It is generally held that there is a broad correlation between the two, with CPI lagging PPI by about two months. This would indicate that, by the end of the year, CPI growth should show signs of slowing.

A PPI drop of 1.8% for fresh meat is an encouraging sign. It indicates that, by November, recent seasonal and structural increases in the meat price should work their way through the system.

Says Leon Steenkamp, economic consultant to stockbroker Senekal, Mouton & Kuitshoff: “They are old comfort given the fact that inflation is running around 20%. One must remember that an improvement in demand can turn existing restraining factors into pull factors.”

Unisa economics professor Philip Mohr questions the relevance of a one-month year-on-year figure.

“I prefer to work on a 12-month moving average, which eliminates technical factors. If you look at these, you will see a steady movement upwards of about 0.2% a month. Since June, it has moved form 17.7% to 17.9% for July, 18.1% for August and 18.3% in September.”

Earlier hopes for a lower inflation rate were certainly premature, as Reserve Bank Governor De Kock says, “We’ve underestimated the time lags” (see Leaders). Let’s hope the lagged effects of the rand’s depreciation have now completely worn out, and benefits of the more recent appreciation of the currency are still to be felt.

GOVERNMENT SPENDING
Deficit widens

Finance CE (Policy) Gerhard Coetzee is now talking of a deficit before borrowing around 4% of GDP for fiscal 1986-1987 — not

INSURERS TAKE LICENCE

Hard-pressed insurance companies have tightened up policy conditions to rid their books of unlicenced drivers or those with forged documents.

From now on, any motorist submitting a claim will have his licence status vetted. No licence, no repair. Legitimate drivers involved in accidents with unlicenced drivers will not be affected. Their claim will be handled in the normal way. Nor will they lose any no-claims bonus where they are not at fault.

Insurers have long recognised the problem of unlicenced drivers, a major reason for one of the highest accident rates in the world. There were 33 204 road traffic accidents in August 1986, according to official statistics — over 1 000 a day. In the first nine months of this year, more than 250 000 accidents were reported.

Says Rodney Schneeberger, CE of the SA Insurance Association (SAIA): “There are probably more than 900 000 unlicenced drivers on our roads.”

He says insurance companies have gained access to the “central register of drivers’ licences,” established by the Department of Transport, which holds records of some 3,9m licence holders. It is intended to incorporate data from the TBV countries in due course. Also a “central traffic offence register” and an “accident register” are being prepared.

Insurers now have their own microfile records — their Licence Register — and it will be updated by the authorities once a month from central records.

“The main function of the insurers’ licence register will be to identify drivers or claimants who are uninsured or have invalid licence documents,” adds Schneeberger. Claims procedure will now include a check of the microfile records. If an insurer cannot find the claimant’s name, enquiries will be made about whether a licence has been issued within the past month. If a valid licence cannot be produced, the claim will be rejected.
IMF LOAN REPAYMENT

Last week's R240m (SDR100m) repayment to the International Monetary Fund (IMF) was the fifth since the SDR795m loan was taken out in November 1982 and brings repayments to SDR400m.

The first repayment was in May 1983, amounting to SDR50m. The next four repayments were all this year February (SDR80m), May (SDR80m), August (SDR90m), and the latest this month, equivalent to a total of R801m.

The final four repayments will be SDR100m each, quarterly until November 1987.

In 1982 the IMF granted SA a SDR1 billion facility though not all was drawn down. SDR159m was drawn in terms of the Normal Standing Facility, against a SDR364m entitlement. The rest was fully drawn under the Compensatory Financing Facility. Interest varies between 6% and 7% and has been paid quarterly.

because of declining revenues, but because of increasing expenditure.

This is considerably above the 2.75% (R3.9 billion) budgeted in March. Many economists considered this too conservative anyway, given the boost needed to get the economy going. The 3% maximum to which the government committed itself in 1985 has come under criticism in recent weeks (Economy October 24).

Croser notes that only the mining sector is investing "substantial amounts in capital development," one reason tax revenues are lower than otherwise suggested by higher gold and platinum prices.

There is no danger of extra spending overheating the economy or exerting upward pressure on capital market rates, "crowding out" the private sector. Indeed, government has already borrowed more than it budgeted for 1986-1987.

And the deficit is still within the De Kock Commission guidelines, that the deficit before borrowing "should at all times be restricted to an amount that can be financed without undue money creation by the banking system or undue upward pressure on interest rates."

However there is, rightly, disquiet how government is spending the money.

Louis Geldenhuys, of stockbroker George Huysamer, for example, is "not happy with government's mix between capital and current expenditure. More capital expenditure is needed," whereas much expenditure has gone into security and socio-economic areas.

Capital expenditure

Old Mutual's Rob Lee agrees that too little is being channelled into capital expenditure. He points out that increased government expenditure is counter-cyclical (higher spending during a recession) and therefore appropriate. "In the past, fiscal policy has tended to be pro-cyclical rather than counter-cyclical. This has exaggerated economic up- and downturns."

Latest Treasury figures for the first six months of the fiscal year, to end-September, show that revenues rose 11.7% to R14 billion, against a 19% rise in expenditure to R19 billion. Expenditure was budgeted to rise by 13.9% and revenue by a smaller 13.1%.

Geldenhuys expects the deficit to end up between R5.7 billion-R6.2 billion, considerably more than the budgeted R3.9 billion. Lee talks about a larger R6 billion-R6.4 billion deficit.

Historically, Lee calculates that between 1960-1975 the deficit was on a broadly rising trend, increasing from an average 1.5% to 6.5% of GDP in 1975. Subsequent years, however, have seen this trend reverse against a background of relatively low growth.

TAX EVASION

A township sport

Non-payment of GST is common in black areas, with looters estimated to run into millions of rands. Tax evasion is an act of defiance associated with the rents boycott and is said to be between R60m-R80m a month.

Inland Revenue refuses to comment on tax evasion, while its inspectors refuse to go into black areas to monitor it.

Revenue's most direct reaction to the phenomenon was this year's removal of GST-exemption certificates from businesses generating less than R50,000 a year turnover.

As part of a recently conceived programme Revenue also started an investigation into GST being paid "closer" to the manufacturer.

For example, Revenue has circulated draft guidelines in the beer, liquor and wine industries concerning the payment of GST closer to the manufacturer, possibly by the wholesaler.

Implementation of the rules would speed collection of GST in the industry. But more important, large amounts now evaded would be collected. The liquor rules were set to come into effect on December 1.

The FMI understands that Revenue is looking at other sectors, notably wholesaling, with the same intentions. The system of collecting GST from any party other than the final consumer is based squarely on the precept of the value-added-tax system (VAT).

VAT is said to be one of the recommendations in the still unpublished report of the Mango Commission. VAT's gradual phasing-in, say initially in the liquor and wholesaling industries, would mean that GST, where evaded, would be lost only on the final retailer's mark-up.

AUDITORS CATCH

Companies sailing close to the wind are usually found out first by angry creditors. But the Public Accountants' and Auditors' Board (PAAB) is now receiving up to 40 reports a month from auditors who have uncovered material irregularities in businesses.

It is obligatory for auditors to make such reports under section 26 of the PAAB Act. An irregularity means any thing that would prejudice creditors or others affected by a company's conduct, including contraventions of the Companies Act, reckless trading in insolvent conditions, fraud, and so on.

The PAAB must decide what to do with each report, and may hand it to creditors of the business, or a public servant such as the Registrar of Companies, an attorney general, or the Commissioner for Inland Revenue.

A PAAB spokesman says it is not clear whether the increase has to do with auditors becoming more pernickety, or with sharp trading associated with adverse economic conditions. But not one report forwarded to the authorities from auditors' referrals has resulted in a prosecution.

Beer halls . . . inspectors are steering clear.
Cost inflation squeeze threatens SA gold mines

By Stan Kennedy

All the symptoms are present on South Africa’s gold mines for the average costs a ton to rise to $185 an ounce in the next six years, with serious implications for the gold mining industry.

Alternatively, the commercial rand would have to fall to $0.19 to maintain the present cost/revenue relationship. For the overseas shareholder, the alternatives are squeezed profits or a drastic fall in the value of the rand dividend.

In its latest review of SA gold mines, Warburg Securities, a division of the financial services group Rowak, points out working costs in the last quarter rose by 5.5 percent to give an increase over September last year of 18.2 percent.

“This is no real problem in the short term,” it says, “because the high rand gold price has more than compensated. But a quick look at the last six years will show that the longer term implications of this sort of annual price increase are very serious.”

Between the third quarters of 1980 and 1986, average costs a ton have risen from R36.19 to R81.93, an annual compound rate of 14.6 percent. Another six years at this rate and costs an ounce will be more than the current price of gold.

“Obviously much can happen to gold and other things over the next six years but it is difficult to see how inflation on the mines can be curbed, particularly as the black/white pay gap is still substantial.”

The ability of the mines to raise grades to compensate is also becoming limited. The South African gold mining industry faces serious pressures on results from rising costs over the next few years, which will be to the detriment of overseas shareholders, whatever happens.

Labour unrest has yet to affect the mines significantly, it says. Most companies have enough stockpiled ore on surface or “rainy day” gold in the strong room to get over minor stoppages of the sort that has happened so far.

The potential for more serious disruption in the future is, however, growing as the black union changes better organised. In the near term, a high rand gold price will outweigh rapidly rising costs and sporadic labour unrest and rand profits and dividends will stay high.

Judging by the Johannesburg gold share index and rand gold price movements since the last quarter of 1984, Johannesburg prices have not run ahead of gold and should hold present levels if gold stays above $400.

On the other hand, a quiet gold price and the present stream of adverse news from South Africa will continue to exert downward pressure on the financial rand and therefore on overseas prices.

“We remain optimistic that gold’s next major move will be up but it could consolidate in the $400-$440 region for some time and overseas prices therefore look likely to weaken further in the near term or, at best, move sideways.”

It says yields do not look particularly attractive now, except on short-life mines like Blyvoor, Bracken, Grootvlei, Leslie, Venterspost, Stilfontein, Durban Deep and East Rand Prop, and it regards the shares mainly as trading counters on sharp gold price moves.

The outlook for a continuing strong rand gold price looks good. The SA Reserve Bank is not going to allow the commercial rand to rise much above R4.50, principally to protect the rand value of the dollar-denominated exports like gold.

“The other hand, any weakness in gold will undoubtedly be accompanied by a fall in the rand and the rand gold price may not fall very much. In broad terms, therefore, we expect the rand gold price to hold at least in the R26 000 to R30 000 region for the time being.”
Inflation to stay high says United

Johannesburg — Inflation is at its second highest level in almost 60 years, the United Building Society says in its Economic Monitor.

It notes "In contrast with the steady decline in the inflation rate (as measured by the Consumer Price Index) from a level of 20.7 per cent in January to 16.9 per cent in June, the third quarter witnessed a sudden reversal in the trend, pushing inflation up to 19.7 per cent, the second highest level since 1920."

The rise in the CPI came after a 20.3 per cent increase in the producer price index (PPI) in August, which tends to lead the CPI.

The imported goods component of the PPI rose at an annualised rate of 21.3 per cent in August, while prices of local commodities rose by 19.9 per cent.

The Monitor says "The impact of the weak rand during the first half of the year is thus still evident. Also contributing to the higher inflation rate were food prices (up 22.5 per cent for the year to September) and new vehicle prices (up 45 per cent in the same period)."

"Inflation prospects remain far from rosy for the foreseeable future. Despite the absence of demand pull inflation — credit demand is still well below the growth target set for M3 money supply — cost push factors seem to be stronger than ever."

"Such factors include the ripple effect of the weak rand, increases in administered prices and the need of many companies to increase their profit margins."

"This sustained high inflation rate, expected to be some 17 per cent in 1987, creates a poor environment for economic recovery owing to the lack of business confidence, its adverse effect on investment and the distortion in production factor allocations."

Sapa
bank's Merton Dagut adds that "banks are accustomed to move in line with the Reserve Bank."

Standard's John Lloyd, whose bank recently increased long-term deposit rates, explains that banks are locked into fixed deposits at higher rates "Margins might be wide, but the average cost of funds is not that low. Banks are now getting margins into line," he says.

This rise in the cost of funding, says Volkskas's Danie Cronje, is in anticipation of rates rising next year, and "normal when the ratio structure nears bottom, as it is now."

The reluctance to drop lending and rediscount rates is more puzzling when it is considered that the market is awash with funds. One banker describes how his "foot is held against the door to stop money coming in."

The market shortage, absent for a few days, reappeared on Tuesday (reflecting Monday's business) — when the Corporation of Public Deposits (CPD) had R50m in deposit with discount houses. Thus — probably a temporary blip until nearer the month-end when the shortage is not expected to exceed R500m — surprised dealers who expected a cash injection into the market. "The outflow is baffling," says a dealer. (It could have been from dollar sales that the Bank entered into in support of the gold-pressured rand.)

To avoid a surplus and balance the market, the Bank sold up to R200m of the CPD assets to discount houses on an overnight basis at market (call) rates. Positions have, thus, been unwind during the day and no margin is being forced.

Both weekly tenders were sharply down and well bid. Friday's Treasury bill (TB) rate fell by 33 points to 9.11% (now 122 points below its rediscount rate — Bank rate) and Monday's Land Bank dropped by 50 points to 8.8% (65 points below its rediscount rate). The TB attracted a huge R215m (R131m) for the small R40m (R50m) on offer. More was offered at Monday's Land Bank tender which drew R170m (R120m) for R100m (R100m) on offer.

In line with the TB result, the three-month bankers' acceptances (BA) rate dropped 25 points below 9% on Friday (following a 10 point drop on Thursday) and five points lower on Monday to under 9%. By Tuesday, as the shortage returned, BA firmed 10 points to 9.15%. The weight of funds available also pushed LIBOR down to 8.5% — 0.5% below 9%. This also hardened slightly on Tuesday.

The liquid situation (lack of credit demand) is reflected in a report by Barclays based on BA9 returns of the five largest banks. It notes that in the third quarter, total funds committed to HP were nearly 5% lower than a year ago (R9,6 billion), itself lower than the R10,1 billion employed in the second quarter — compared to R10,1 billion and total deposits more than 6% higher (R47,9 billion, from R46,9 billion in the second quarter and R45,1 billion a year ago.)

There was an even steeper decline in leasing — over 9% from a year ago to R4,6 billion. Going against the trend, total fixed deposits fell from R17,2 billion in the second quarter to R16,5 billion. "This indicates," says Barclays, that retail investors were switching from long-term to short-term instruments in anticipation of rising interest rates sometime next year. Also in anticipation of rising rates, the volume of negotiable certificates of deposit grew from R3,3 billion to R3,6 billion.

Current accounts
The total amount held on current accounts rose to R10,3 billion from R8,9 billion in a year ago and R9,7 billion in the second quarter.

Breaking down market share shows that the Barclays group, Standard and Nedbank all gained in current accounts during the third quarter at the expense of Volkskas and Trust. Barclays' share grew to 34.9% from 32.4% in the second quarter. Standard's from 30.4% to 30.7%, and Nedbank's from 9.4% to 10.6%, while Volkskas fell from 18.9% to 17% and Trust's from 9.45 to 6.9%.

In an increased pool of savings (R5,9 billion, compared with R5,7 billion in the second quarter), four of the five banks increased their market shares, with Nedbank retaining a constant 11.6%.

MONEY SUPPLY
Slipping back
Growth in broadly defined money supply is turning down again. Provisional figures from the Reserve Bank show growth in M3 of 9.48% in the year ending October, to R77,8 billion, while the revised figure for September shows growth in that month of 10.8% (up from the provisional estimate of 10.4%).

The drop in growth, after two consecutive increases (9.6% in August and 9.4% in July), comes when the economy is perceived to be picking up.

This monetary aggregate has been substantially and consistently below the lower limits of the 16%-20% target. The latest figures confirm this trend is continuing and credit demand remains stubbornly low.

In the narrower aggregates, the trend is reversed. The latest figures for September show increased growth in all M1 (A) grew by 28.1% to R14,2 billion, compared with 20.3% in August; M1 by 24.1% to R24,2 billion compared to a decrease of 6.9%, and M2 by 6.4% to R53,3 billion (5.9%).

INFLATION
Does it measure up?
Economists lend itself to ongoing debate on any number of fine points. Like theology, it provides no definite situation and no ultimate answers. So one can argue endlessly on whether, for instance, the purchases people don't make should figure in the inflation rate.

Certainly, as economic realities force...
more people into financial awareness, with the looming threat of hyperinflation, the CPI is coming under increasing scrutiny.

To calculate CPI, the Central Statistical Services (CSS) surveys monthly the price of a representative sample of goods, each weighted according to its significance in household expenditure (see story headed “Inflation index”). But though independent surveys claim that CPI accurately tracks price changes, some economists believe there are better measures.

They compare inflation as measured by the CPI with the private consumption expenditure (PCE) “deflator,” derived by dividing nominal prices by real prices. “In the first two quarters of 1986, the deflator was substantially below CPI,” says Unisa economist Claude van der Merwe. “This reversed the trend of the previous two quarters.”

And there have been discrepancies from time to time. The two indicators were almost level in the second quarter of 1985. The deflator then rose above CPI for two quarters, dropping below CPI for the next two. The discrepancy last year was caused by a durable consumption boom when people tried to buy white goods and TV and electronic equipment before prices went up. The second phase was the result of a drop in expenditure on durables, presumably as people adjusted to a lower income or higher prices.

Van der Merwe points out that a similar situation arose in 1975, “after the oil crisis and a government-sponsored devaluation in the rand sent the price of durables up.”

Does the gap between the two indicators, which emerges in recessionary times, cast doubt on the validity of CPI as a measure of inflation?

There are at least two good reasons why the PCE deflator could be more accurate. It reflects actual expenditure, while CPI represents historical expenditure. PCE includes rural areas, which have a higher percentage of low-income groups, while CPI covers only 12 urban areas.

“So the deflator gives a clearer picture of what is actually happening,” says Van der Merwe. “But it has the disadvantage of being three or four months behind because it uses volume figures.”

Certainly CSS head Trevor du Toit is convinced that CPI should remain as the official measure of inflation. “It is preferred worldwide. The PCE deflator is only a derived indication of inflation.”

INFLATION INDEX

Weight problem
Apart from queries about the validity of CPI as a measurement of prices, its weightings are also questioned. Obviously, wrong weightings would distort the figure.

Many agree that CPI does not reflect the particular circumstances of any one person or family unit. Even a spokesperson for Central Statistical Services (CSS) says that the “average household” is as fictitious as the family with 1.6 children.

The problem really lies in the percentage weightings given to groups of commodities and services. Those used now were obtained from a survey of about 5,000 households in 1980. Patterns of expenditure have surely changed since then. For example, retailers have noted a steep drop in purchases of durable goods, and there has also been a fall in expenditure on entertainment. The weightings have not been changed to reflect a decrease in mortgage bond rates nor the failure of wages and salaries to keep pace with inflation.

Yet most economists agree that CPI is the best of several inflation indicators, if it is kept in mind that its compilers only hope to reflect price changes and not an increase or decrease in the “cost of living.”

This is evident in the method of compilation. There are 600 commodities and services in a “basket” of consumables monitored. The index includes GST but not income tax, as it is only a measure of real disposable income. Prices are noted in the first week of each month, so the price of any commodity that goes up later in the month will only be reflected in the following month’s CPI. Some prices are monitored even less often.

Of course, CPI can at best be only a guide to what is happening to the general level of prices. It cannot, for example, take into account discounts offered by retailers or prices of used goods. Sales at auction, for instance, have become significant in these hard-pressed times.

Another simple, but rarely noted, point is that CPI is only relevant to people who actually spend money on the commodities rated. For instance, the rising cost of a

Hard to digest

Inflation in the food sector (% change selected retail prices 1980-1986)

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Change (1980-1986)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grain products</td>
<td></td>
</tr>
<tr>
<td>Meat products</td>
<td></td>
</tr>
<tr>
<td>Dairy products</td>
<td></td>
</tr>
<tr>
<td>Cooking oil, butter, margarine</td>
<td></td>
</tr>
<tr>
<td>Vegetables</td>
<td></td>
</tr>
<tr>
<td>Fruit</td>
<td></td>
</tr>
<tr>
<td>Other food products</td>
<td></td>
</tr>
</tbody>
</table>

Source: Netbank Economic Unit

Making it up

% composition of the CPI

- Food 24.88%
- Housing 17.80%
- Fuel and power 2.07%
- Clothing and footwear 8.77%
- Cigarettes 1.69%
- Other 5.41%
- Medical care 2.08%
- Education 0.87%
- Transport 14.94%
- Personal care 2.95%
- Housing 1.11%
- Entertainment 3.05%
- Communication 9.59%

Source: Netbank Economic Unit

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motor-car is immaterial to a person who doesn't buy one.

A study by Old Mutual's Economic Monitor describes CPI, in its present form, as "a fairly accurate indicator of consumer price inflation." It points out, however, two important flaws: it does not include the rural areas, but does include GST which is a tax and not a price. Says Old Mutual Economist David Mohr: "Ideally, the weighting should be established over a period of years, to reflect an entire economic cycle."

CSSS has, however, taken note of changed spending patterns. It has conducted a new survey this year, and the basket and weightings are to be changed for 1987 to reflect the results. The base, by international convention, is to remain 1980 = 100.

INSURANCE COMMISSIONS

Break for brokers?

There's still a great deal of confusion over brokers' insurance commissions. One minute they were being cut across the board, next the plan was withdrawn, "finally" reductions were to be applied on an individual basis. But according to leading brokers, few insurance companies seem to be going through with previous agreements to cut commissions.

The rationale had originally been that since insurers were facing commission cuts from reinsurers, brokers should too.

Other cost squeezes include more stringent reinsurance treaty terms, larger net retentions, higher catastrophe cover costs, and rapidly increasing claims costs. Cutting insurance commissions would be just one of a number of ways for insurers to reduce costs.

Also argued

Insurers also argued, with some justification, that brokers should reduce commission rates since they would otherwise receive huge increases in remuneration on the back of sky-rocketing premiums, for no extra effort.

But arguments and counter-arguments have kept the pot boiling and little has been resolved. Bill Rutherford, MD of Commercial Union, says "As far as I know, any plans to cut commissions have died."

SA Eagle, for example, has withdrawn its letter which advised intermediaries of a reduction in brokerage on accident classes and personal lines, because of "lack of market support."

One broker instructed recently "Commission cuts still to be confirmed — no action or response from us meanwhile." Comments another "We told them we weren't going to agree to their commission cuts because none of the other big brokers were." Generally speaking, he says, larger brokers are "ignoring insurers' demands" for commissions to be cut.

He adds "In any event, brokers take great exception to reduced commissions just being announced in circulars. Since payment of
commission is an agreement between underwriter and broker, the least insurers should do is renegotiate face-to-face in terms of that agreement.

So insurers wishing to impose commission cuts are being given a hard time. They have little bargaining power, given the present system of remuneration where brokers collect premiums and deduct commissions before they are passed on to the insurance company.

As a result, insurers may well be taking the line of least resistance. Increases in premiums, notably for the man in the street, and adjustment of insurance excesses may be proving sufficient for hassles with brokers over commission cuts not to be worthwhile.

Says David Way, director of Willis Faber

Entwenned "Only Guardian National and SA Eagle, to our knowledge, are actually seeking to reduce commission or more than one class of business."

For example, from September 1 1986, Guardian National advised that it wished to reduce rates of commission from 20% to 15% on burglary, money, goods in transit, fidelity guarantee and domestic policies. American International reduced commissions on fidelity guarantee only, also to 15%, from July 1 1986, while General Accident cut commissions from 20% to 17.5% on bloodstock and livestock insurance.

Way explains that most other companies have been sitting on the fence, many saying "no across-the-board alterations at present.

This applies to Commercial Union, Federated, Protea and Standard General Other companies, like Cigna and NEG, have mooted changes but nothing has yet happened.

A few companies are negotiating commissions on selected business on the basis of claims experience and rating. Aegis and IGI are such, while Hollard is negotiating all commission rates.

Comments Rodney Schneeberger, CE of the SA Insurance Association (SAIA): "We started the ball rolling towards an industry cut in commissions around the beginning of the year. Although that initiative ran out of steam, individual companies began to negotiate with each broker in respect of fire and commercial risks. This has gathered momentum, and is spreading to personal lines business, including motor.

BOB GARNETT

Accounting for inflation

Bob Garnett, a member of the SAICA's Accounting Practices Committee, is a partner at Arthur Andersen.

The SA Institute for Chartered Accountants (Saicas) has just published a document entitled Disclosure of Current Value Information in Financial Statements (Exposure Draft 66 - ED66) if adopted as a standard, it will require financial statements to provide information on a "current-value" basis for certain assets. This will highlight the impact of both inflationary and real value changes.

Saica first issued recommendations on accounting for the effects of inflation in 1979 in a document, AC201, which encouraged businesses to report a supplementary current-cost income statement. These recommendations have not attracted substantial support, though a handful of companies have provided information about the current value of their economic resources.

We have been living with unusually high inflation long enough that everyone recognizes the shortcomings of "unadjusted historical-cost" information. For most of us, the concern is not whether we need to measure the effects of inflation, but how best to do it, and how changes will affect businesses.

ED66 proposes that financial statements should not merely disclose the cost of assets, but also their current value to the business. This current value can be arrived at in a variety of ways, depending on circumstances. While AC201 focused on adjusting net income to eliminate gains from inflation, ED66 focuses on reporting increases in the value of assets. The former approach is clearly divorced from economic reality. While many may disagree with some details, ED66 provides a starting point.

With inflation running near 20%, those who continue to resist ED66 are likely to find bad decisions flowing from bad information, because they will be based on historical costs. ED66 is imperfect but will be a milestone if it removes the millstone of historical cost data.

Management performance is increasingly judged on returns generated, whether cash or income, as compared to economic resources employed. However, if assets are not based on current value, performance indicators - such as return on net assets - will be misleading. A sensible and practical approach is to restate assets employed in terms of their current value to the business.

Examples include company premises at open market value, plant and equipment at depreciated replacement cost, marketable securities at JSE prices, and raw materials and finished goods at replacement cost.

The impact of inflation does not change management rules, but it will result in additional emphasis on some of them.

The following is a summary of some of the positive things a company can do to increase its returns during times of inflation:

- It can minimize monetary assets. Corporate treasurers have become sophisticated in this area and perhaps there is little room for improvement in things such as cash collection and the timely investment of available cash. However, customer receivables are also monetary assets. Some businesses carry these as part of a market strategy. This strategy should be evaluated in the light of current inflation.

- Credit limits, payment terms, deposit requirements, progress payments, discount availability and collection procedures require special consideration in times of inflation, as do policies on delinquent accounts. It may no longer be profitable to carry customers' receivables for 90 days or more.

- A company should also maximize its monetary liabilities. This is the one management rule that differs under inflation from traditional corporate financial management. Everyone understands the advantages of being in debt in times of inflation. In fact, inflation will help reduce bankruptcy because borrowings are paid back in cheaper rands. Debt also provides a hedge during times of inflation, although the benefits must be weighed against the risks of further leveraging.

- Inventories are particularly important asset during inflationary times. Inventory systems must provide current value information to permit proper product pricing. Obviously, escalation clauses should be incorporated wherever possible.

- Inflation becomes an important element of inventory carrying costs. These should be re-calculated since inflation is a negative carrying cost. Inventories, incidentally, may be a better investment than marketable securities if prices in an industry are rising faster than general price changes. But if they lag behind general price increases, inventories should be minimized and resulting cash flows invested in marketable securities.

- Projections and business plans should use current value data. Several assumptions about levels of inflation may be used to achieve flexibility. It will be necessary for management to face up to their company's actual performance on an inflation-adjusted basis. If it does not, the market certainly will.

- Decisions rejected in the past as of marginal benefit may have a positive impact on earnings because of inflation. Because taxes are paid on both real and inflation profits, the tax system really confiscates capital.

- Capital also needs to be carefully planned and evaluated in relation to capital availability. Leasing should be considered as an additional source of funds. Sale and leaseback transactions may free funds. Factoring receivables may provide a source of cash. Joint venture arrangements are becoming more popular for financially large projects. Dividend policies may also need reconsideration.
Cost of living set to spiral

High inflation here to stay

By AUDREY D'ANGELO
Deputy Financial Editor

THE SA inflation rate slowed by only a fraction in October, figures released yesterday by the Central Statistical Service showed.

Economists say they foresee no sizeable drop for months to come, with sanctions likely to push up prices, and the rising cost of living putting pressure on employers to give larger pay increases.

The inflation rate for the 12 months to the end of October was 19.3% compared with 19.7% at the end of September and 18.7% in August.

The monthly gain in the all-items index (base 1990) was 1.1% in October to 239.3 after a 1.9% rise to 238.7 in September.

A year ago the index stood at 200.8 and year-on-year consumer price inflation at 16.8%.

Yesterday's figures showed a particularly high increase in food prices, which rose by an average of 2.8% in October.

The price of wheat products climbed by 4.8%, meat by 4%, fruit by 7.7% and coffee and tea by 2.2%.

The recreation and entertainment category showed a 2.4% increase as a result of the rise in television licence fees on October 1.

The director of the University of Cape Town Graduate School of Business, John Simpson, said the inflation rate was still unacceptably high, compared with that of SA's major trading partners, but he could not see any prospect of it coming down.

"If the government stimuliates the economy - as it has to do - the inflation rate will stay high.

"But the government cannot instate strong measures to bring it down for socio-economic reasons.

"Employers will have no option but to increase wages and salaries as the cost of living rises.

"A rate of inflation in the high teens is something we shall just have to live with."

Importer and retailer Philip Krawitz, a past president of the Cape Town Chamber of Commerce, said such a "horrific" rate of inflation undermined attempts to raise the living standards of a large part of the SA population.

"This rate grossly exceeds wage and salary increases and means a reduction in standards of living which we are trying desperately to uplift."

Krawitz said the inflation rate would be aggravated by sanctions, which would reduce competition.

If local manufacturers filled a gap left by exports they would be able to push up their prices.

He suggested that inflation could be reduced significantly if government expenditure were pruned "not in vital areas like housing and education, but in areas where it could be avoided, such as public service pensions which are horrifically high in relation to what is paid in"
Rise in electronic, white goods

New Year to herald huge price hikes

MANUFACTURERS have planned big across-the-board price hikes — averaging 10% — for the full range of white and electronic goods.

Retailers are predicting that consumers will bear the full brunt of the increased prices as early as January, if Christmas sales are strong and stocks run low.

Otherwise, retail outlets say the costs will be passed along to the consumer later in February.

Among goods set to bear a higher price tag are refrigerators, stoves, washers, dryers, TVs, audio equipment and car stereos.

Internal inflationary pressure is the main cause of price hikes in the sector.

Foreign exchange woes have had a greater effect on the import-sensitive electronic goods.

Tek's new price list shows most increases in the 8% to 12% range.

Bryan Cope, Tek's trading division director, said videos were being held at constant levels. TVs, car stereos and audios were going up 5% while built-in cooking units would rise by 17%.

Barlow's Appliance Company MD Pat Gallagher said costs were currently being reviewed. He predicted increases of "slightly less" than 8% to 12% in the new year.

Peter Dupen, chairman of the Domestic Appliance Manufacturers' Association and a director of Barlow's Manufacturing, said the industry had to react to the rising cost of imports and to the upward price adjustments of components from local suppliers.

The 1987 price increases represent the third or fourth jump in the last year for most firms.

Industry figures show total price hikes for the last 12 months of 20% to 25% for major appliances, and 10% for TVs, car stereos and audios.

OK Bazaars marketing director Arthur Solomon said stocks had been increased in anticipation of price increases, but he predicted consumers would feel the effects in the new year.

Amalgamated Retail group marketing director Bob Hart said the appliance industry was already working at very low margins and the price hikes would be passed on to customers as soon as old stocks ran out.

But it might not be until February that consumers noticed the higher prices,Russells MD Ian Sturrock felt.

National Panasonic plans to raise prices across the board by between 5% and 10% in the new year. Assuming a stable exchange rate, the firm expects no further increases.

In fact, Panasonic MD Terry Millar said if the rand strengthened within the $0.46 to $0.48 range, and the yen remained unchanged, prices would drop.

SA Philips will jack up its TV prices by roughly 5% to 10% in the first quarter of 1987 but marketing manager for video display products, Fred Pearce, doubted the increase would take effect by January.

The television hire industry is mixed over the price hikes. Teljoy operations director Bernard Taffs said he expected reduction in the ad valorum tax in January would counter any price increases.

Visionhire had no plans to raise rates to new subscribers, but MD Graham Taylor said increases were possible depending on market conditions.

Big price rises in pipeline

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To Page 2
Govt blamed for massive inflation rate

SA pays penalty says PFP

Dispatch Correspondent

JOHANNESBURG — Consumer price inflation slowed slightly in October, meeting the expectations of most economists who have been forecasting some moderation in price increases.

The consumer price index (CPI) rose at an annual rate of 19.2 per cent, to 259.3, down from 19.7 per cent the previous month. The monthly increase was 1.1 per cent, from 1.9 per cent in September.

The Progressive Federal Party's spokesman on finance, Mr Brian Goodall, said South Africa was threatened by hyper-inflation, and government had to accept most of the blame.

The massive apartheid structure and the political system which had spawned it had created grave distortions and the country was now paying the penalty, he said at the weekend.

He forecast the rate would rise above 20 per cent in the months ahead.

Mr Goodall said a contributory factor to the inflation scourge was that there was too great a concentration of economic power in too few hands.

There had been a massive movement of resources from the private to the public sector.

Economists said on Friday the primary moderating force on prices was probably stability of the rand against foreign currencies.

Although the rand has stayed at levels constant with last year's for several months, they said, the indirect effects of price hikes had been reflected in the index until now.

"We expected a slight decline," said the Trust Bank's economist, Mr Ulrich Joubert. "But 19.2 per cent is still unacceptable high, especially given international trends."

Experts do not agree on whether inflation will continue downward. The United Building Society's economist, Mr Hans Falkena, predicted the annual rate would decline through the next six months, to as low as 16 per cent, before moving up again.

But others expect sharply rising food prices to keep inflation high.

The food-only index, which comprises one-quarter of the total CPI, rose at an annual rate of 23.2 per cent last month, with a month-on-month increase of 2.8 per cent representing 60 per cent of the overall increase.

It jumped by 1.6 per cent in September.

Grain products increased in price by 4.8 per cent in the month while meat rose 4.0 per cent and fruit 7.7 per cent.

The food index is unstable, however, and difficult to forecast.

And manufacturers of white and brown goods have said prices of their products would increase by an average of 10 per cent in January and February.

Because of the higher food costs, lower-income families were hit hardest in the latest month, with prices in that sector jumping 1.7 per cent from September and 18.9 per cent from October, 1995.

The middle-income index rose 1.3 per cent to 242.3, up 10.8 per cent from a year before.

And upper-income families paid prices 0.9 per cent higher than in September, and 18.6 per cent higher than a year ago.

Inflation was highest in the Port Elizabeth area, which recorded a 21.5 per cent year-on-year rate, and lowest in Bloemfontein, with 16 per cent.
Cost of living forces painful adjustments

WHITE urban South Africans are feeling the effects of a more frugal lifestyle that is forcing them to cut back on everything from entertainment to ice-cream.

In their bid to beat the rising cost of living, they are being forced to do without holidays, restaurants, cinema-going, clothes and liquor and to trim back spending on sweets.

The findings of a poll conducted by Omnichek Research Surveys, from a sample of 800 women and 500 men, shows "a level of deprivation and considerable lowering of the SA quality of life among whites" to a standard of living almost, but not quite, comparable to that of the black majority.

MD 'Bitch' Rice says: "If the whites are hard-hit, the penalties endured by the black communities must be surpassingly bad."

Responses show that 57% of urban whites say they have slashed spending on holidays and cut back on eating out. About 56% have reduced spending on clothes, 46% don't frequent the cinema as often as they used to and 44% say they have cut back on sweets and ice-cream.

A quarter of those interviewed have curtailed purchases of liquor, 32% have reduced hiring of videos, 32% have raised or cut back on house accommodations and 18% have lowered their accommodation standards.

The survey finds that five in every hundred do not spend as much on education as they used to and six in every hundred have reduced bond repayments.
Real hope or false dawn?

For corporate SA, the spring month of 1986 have brought relief to a bleak and parched landscape. Over more than three years, while inflation rocketed ahead, the profits of most industrial companies stagnated or fell. Many firms did not survive. But in a notable reversal of this trend, for week after week now, starting in early August, companies have been reporting rising earnings and, often, higher dividends.

There have been false dawns before — the mini-boom in 1984, which proved illusory, comes to mind. Yet, on the whole, we may be seeing the end of a dark period of more than 40 months, throughout which profits were squashed by the now familiar maladies: recession, a week bullion price, excessive debt, record interest rates, foreign exchange losses, political unrest, international isolation, and witling business and consumer confidence.

Our profits table published a year ago, covering the comparable reporting period, showed that some 80 of the 130-odd companies on the list had published falls in earnings; of these, about 30 had cut their dividends. This week, the table tells a different story. Of some 150 companies listed, around 75 produced higher earnings and more than 50 have increased their dividends.

A number of the large groups — the best-known cases include Barlow Rand and AECI — have at last climbed off protracted dividend plateaus.

Some analysts decided in the first half of the year that the tide could turn during 1986. Rosier prospects were heralded in the JSE Actuarial Industrial Index’s climb over the first eight months of the year (see graph). Initially, the more positive and often tentative forecasts were based largely on a few key economic fundamentals, particularly the surplus on the current account and the declining trend in interest rates that started in April 1985.

These circumstances usually favourably influence equity prices. A positive current account can be expected to presage economic growth. And any softening of interest rates from the dizzy levels of 1984-1985 was bound to benefit companies’ bottom-line earnings. Prime now stands at 13.5% against the peak of 25%.

There were, of course, many reasons for profit improvements across such a diverse range of companies. But two other events at mid-year provided unexpected and powerful fillips to profitability. One, curiously, was the renunciation of the State of Emergency. The other was the pick-up in the gold price, which had been almost dormant since dropping below R400/oz in late 1983.

Whether or not such perceptions prove sustainable, there is little doubt that the renewed emergency helped quell visibly worsening civil disorder and to reduce overall awareness of the problem. The resulting stimulus to business and consumer confidence was a pivotal ingredient needed to nudge the economy forward again.

Certain companies, particularly those which sell consumer products like furniture and semi-durables, noted an immediate improvement in sales to black areas after July. Not only were customers again able to make their purchases, but payments could again be collected.

In the ensuing months, confidence was further boosted by the leap of the gold price from around $340/oz to well above $400/oz. It has since dropped below $380/oz but, for many South Africans, faith in the yellow metal has been restored (at least for now).

For the economy, the price rise already seen will help to compensate for capital repayments to overseas creditors. All of which brightens sentiment.

But internal factors, such as rationalisations, recapitalisations and, simply, better management, have also been important — in many cases these were the real causes of turnarounds. Rationalisations have involved takeovers and subsequent paring down of operations — or, more frequently, sales, closures or other drastic actions to deal with under-performing assets.

Among groups which have been enjoying the benefits of such clean-ups are Dohry, Malbark, Safren, SAIC, China, Tongaat, Abercom, Murray & Roberts, Reunert, and Darling & Hodgson. These are only the more visible cases. Throughout South African industry, manageaments have been forced to scrutinise their own efficiencies. In more than a few cases, formerly respected executives (and some less respected ones) have shuffled off the stage, and not only because of retirement.

This is, of course, one compensation for such a long and deep recession. Survival demands that a new level of fitness is infused into industrial corporations. Cost structures have been reshaped and break-even points widely reduced with, unhappily, considerable human cost — unemployment has ballooned. But the potential for recovery and growth when an economic upturn does arrive is large. Much of the preparatory work was done by the first half of this year.

Balance sheets had also been strengthened.
Some groups, such as Tedex and Kanhy, had to be recapitalised through rights issues after the foreign exchange losses suffered in 1984 and 1985. For dozens of companies, simply the non-recurrence or the reduction of previous losses put an extra kick behind their latest profit figures. These included Premier, Federale Volkseigennusungen, Kohler, Sentrachem and Toyota.

The more heartening 1986 profit figures must be seen in perspective. They are being compared with the generally horrendous figures in the latter half of 1985. Thus, thanks partly to the return of consumer spending at mid-year, the SA Breweries (SAB) group companies interim earnings growth figures looked good this time. Amrel swung from a loss to earnings of 34c, Edgars raised earnings a share by 128%, Afof by 107%, OK Bazaars by 17%, and SA Brews by 56%.

But, in the year-ago period, Amrel was down by 160%, Southen Sun by 93%, Afof by 66%, OK by 46%, and Edgars by 39%.

On the whole, Barlow Rand industrial companies did not show earnings growth as strong as those under SAB's wing. But a number of the Barlow companies showed resilience in the previous year, and, of course, SAB's directly consumer-oriented businesses are normally the first to benefit from an upturn in demand.

The continuation of more active spending should lead to restocking of inventories. This means further profitability improvements could be in the pipeline for manufacturing and distribution companies — including those in the Barlow group, clothing, textile, and furniture manufacturers, packaging suppliers, wholesalers and certain engineering and chemical companies, particularly AECI.

Does all this indicate corporate profits are securely back on an uptrend? Analysts are hopeful. They are also well aware that key determinants like private consumption expenditure — up by an annualised 4.5% in the third quarter — have often proved brittle. For the present, though, conditions are propitious for a buoyant festive season. Consumer confidence is much brighter compared to the depths of the second quarter, although more improvement is needed.

Even with better activity, some sectors remain overshadowed by intense competitiveness. In the retail sector, the "store wars" led to some less than impressive figures from the large chains. Pick n Pay, Checkers and OK Bazaars. Competition in this market is expected to remain a drag on profits.

This also applies in the food sector, where margins have remained thin. A return of growth in fixed investment would be crucial for many companies whose fortunes are linked to this indicator. Among these are construction and civil engineering-oriented groups like LTA, Murray & Roberts, and Group Five. These, as well as firms like Ferby, Grinaker and E L Batemen, are still waiting for more substantive developments at Mossel Bay, on which major announcements were being hotly speculated a year ago.

Reserve Bank Governor Gerhard de Kok noted at the recent FM Investment Conference that real gross domestic fixed investment was estimated to have shown a marginal increase during the third quarter of 1986. "If this marks the end of the persistent downward tendency in this strategically important component of total spending since early 1982," he said, "it is a most significant and welcome development." But will it be?

Cynics would argue that capital will remain scarce, confidence is fickle, and the gold price has retraced.

There is some point in holding reservations. Both company profits and the economy need to do a lot of catching up after the past few years of stagnation. Returns on assets remain low, interest cover is often still thin, and it is questionable whether borrowings have yet been wound down far enough. Almost all JSE companies have reverted to the fifo method of stock valuation, inflation continues to undermine real growth.

Yet, one of the most positive trends running through these profits is that pre-interest profit margins have begun to improve again. Apart from enjoying stronger sales, as Winston Floquet, research director at stockbroker Martin & Company notes, many companies have not been scared to raise prices once conditions eased.

Floquet's view is that profits will show even greater improvement in the current six months. He believes that prices of industrial shares already largely reflect the reported earnings and dividend growth, but the growth still to come should trigger further price increases — although at a lower rate than the expected dividend increases. "Present indications are that the rate of profit growth is going to increase for the next six months and then level out and begin to deteriorate, unless we're saved by the gold price," he adds. But with gold fixed at $380/oz on Monday afternoon, analysts are talking rather cautiously about bullion again.

Andrew McNulty

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**CORPORATE PROFITS: RELIEF AT LAST**

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P = Preliminary | I = Internm | * = Includes foreign exchange losses

Continued on page 49.

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P = Preliminary  I = Interim  O = Includes foreign exchange losses

Continued from page 30

Continued on page 44

FINANCIAL MAIL NOVEMBER 28 1986
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FINANCIAL MAIL, NOVEMBER 28 1996
Inflation

Stomach ache

Food, comprising a quarter of the consumer price index (CPI), continues to eat into consumers' pockets. In October, food prices increased by 2.8%, bringing the year-on-year increase to 23.2%.

This compares to the overall year-on-year October CPI increase of 19.2%, down from September's 19.7%. The index increased by 1.1% to 239.3.

Central Statistical Services says that food prices have not risen at such a rate since early 1981. The difference, of course, was.

that SA was then in a mini-boom.

In contrast, demand is now weak. Competition among retailers is "tough." So why the strong upward thrust in food prices?

SA Agricultural Union chief economist Koos du Toit calculates that "at the farm level, price increases over the past decade are much more moderate than retail price rises." He explains that this is a result of attempts, at retail level, to recover losses and maintain turnover in rand terms in a market where volumes have been declining as a result of prolonged recessionary conditions.

The major food price rise is meat. It has a CPI weighting of over 9%. That it rose by 35% in October, year-on-year was a major reason behind the boost in the CPI.

Du Toit explains that this is because of "a decreasing supply of animals to the market as a result of the drought and bad droughts." Ironically, rain is an aggravating factor, as farmers are more likely to replenish herds than make further sales.

Graan and fruit were the other major items behind the inflation rate. On the other hand, prices of fats and oils, eggs, and fish declined over the month by between 0.4%-4%.

Premier's Peter Wrighton, whose company is one of the four large food manufacturers (the others are Fedfood, Tiger Oats and Tongaat), blames food prices rises primarily on maize. The millers' price will have risen 32% by the end of the year. "The more maize produced, the greater the exports and the larger the losses, since maize is exported at a loss. This loss is carried by consumers and impacts significantly on many other food products, even meat, chicken and eggs."

Wholesale red meat prices, however, are not up by as much as the CPI. Food processors face "pitiful profitability and a trading level only 15% up."

Nampo CEO Piet Gouws cites the maize millers' contract: "They cannot compete with one another. The free market is not working."

He reckons "farmers get 31% less for their maize than consumers pay — and the gap between input costs and output prices is widening."

Price fixing.

Du Toit concedes that price fixing on the basis of average cost of production has contributed to the problem, although he believes there is a move away from this. At the retail level — where Checkers, Pick n Pay and OK Bazaars dominate — Checkers MD Clive Weil quotes research showing that most prices increased by an average 14% over the past year. "The major chains were below this, with little price difference between them."

Food accounted for some 80% of the 1.1% monthly increase in CPI. The rest comprises housing, recreation and entertainment (thanks to a 30% increase in TV licence fees), cigarettes and tobacco.

Leon Steenkamp, of stockbrokers Senekal Mouton & Kittshoff, sees inflation-back above 20% next month. "Then it should drop before accelerating again from around March, especially if economic recovery is sustained."

Well is no more optimistic. "From present conditions and listening to manufacturers, I see no drop for the future."

Tradegeo's Mervyn King expects an easing "only when volumes are up."

Du Toit notes that it takes time to replenish animal stocks, especially cattle, where the reproduction cycle is lengthy. So he does not expect much easing in the rate of meat price increases, "especially during the coming festive season."

More optimistic is Rand Merchant Bank economist Rudolf Gouws. "After three large monthly jumps, CPI seems to be levelling off." He does not see the inflation rate breaking January's record 20.7%

"It should be lower earlier next year and then rise to average 17%-17.5% for the year."

Gouws says there are no precedents to assess the time lag of the rand's appreciation on the inflation rate. The currency's mid-year appreciation has clearly had little impact so far.

The Reserve Bank does, however, now have sufficient reserves to maintain the rand at present levels which should, Gouws says, "ensure that the currency will not be an inflationary factor next year."
Inflation: Experts divided on the prospects for 1987

"We remain convinced that inflation will continue on a downward path in 1987," they confidently state in the company's latest inflation monitor. "The effect of the rand depreciation in June, this year, has worked its way through as far as producer prices are concerned, while the positive effect of the September appreciation has yet to make itself felt."

They are stacking their necks out by forecasting only a 1.1 percent increase in November's consumer price index which is about the same as in October. If their forecast is right it means that at least for these two months the annual inflation rate would have dropped to under 14 percent.

They expect food prices to rise further this year owing to the normal Christmas influences. But by the end of January they expect the year-on-year increase in the consumer price index to have dropped to around 17 percent.

Year-on-year inflation excluding food is at 17.8 percent while for food prices it is 23.2 percent.
Economist predicts improved SA growth

Inflation expected to remain high in 1987

By Gareth Costa

The South African economy faces a mixed bag of forces next year, and although many will be conflicting they will result in real gross domestic product growth of three to four percent, says Frankel Kruger economist Gill Raine.

In her economic review, Raine says the bad news is that inflation will continue to be high and that current growth improvement is more consumption than investment-based.

Sanctions and a continued high rate of government intervention in the economy are also a negative factor.

Her analysis of the economy is against a background of gold prices rising to around $500 an ounce by the end of 1987, and oil prices rising to an average of $18 a barrel for the year. The rand will remain vulnerable due to a high relative inflation rate, with a depreciation of about 22 percent against the Deutschemark.

Real growth in GDP is forecast at one percent in 1986, which should increase in 1987 due to the rise in consumption expenditure, both private and government, and the increase in investment.

Unlike previous expansions, direction cannot be taken from exports due to sanctions pressure on exports excluding gold. It would seem to be based on consumption, similar to the 1983 mini-boom." Raine says that there is concern about sustaining the growth in 1988.

Real gross domestic expenditure is expected to rise by seven percent in 1986 and by six percent in 1987, after falling by 0.3 percent in 1985.

Consumption demand

The third quarter of 1986 is set to show a sharp increase of about 26 percent due to strong consumption particularly in durables.

"Inventory restocking has has also taken place and consumption expenditure by general government has risen seven percent in real terms in the second quarter of 1986," Raine says.

Consumption demand should be credit-based, due to the fact that since the second quarter of this year consumers have been "religiously" their balance sheets and are in a position to take on more debt.

Raine says gross domestic fixed investment should turn into positive growth in 1987 after five years of decline, with 1986 showing an eight percent fall.

"The expected repeal of the mutual investment allowance will mean rapid growth in the fourth quarter of 1986 and the first quarter of 1987 before the end of the tax year."

The biggest components of the consumer price index (CPI), and thus inflation, are food at 25 percent, housing at 17.6 percent and transport at 15 percent.

"Housing is expected to decline in 1987 as mortgage rates fall, but transport will rise due to the weak rand and the parity pricing of petrol plus the imported components of vehicles for which there is no domeestic substitute.

"Grain products, meat and milk all suffer from the control board syndrome and inefficient pricing, so cost pressures will maintain price momentum. Fuel and power will also rise with the Escom tariff increases."

In real terms, exports are expected to decline some three percent in 1987 because of sanctions on iron and steel, coal and agricultural exports. Due to domestic revival and the importation of heavy equipment, imports are expected to rise about six percent after showing negative growth of three percent in 1986," says Raine.

She predicts a rand dollar exchange rate average of $0.39 for 1987.

"Theoretically, the exchange rate is determined by capital flows and interest rate parity. However with the dual exchange rate, the financial rand, is determined by capital flows and the commercial rand by service and trade flows. Thus purchasing power parity becomes the relevant theoretical tool.

"On this basis, relative inflation rates and any physical trade restrictions determine the value of the domestic currency, hence the expectation of the decline in the rand against the weakening dollar, and against the Deutschemark, yen and sterling."

Raine expects a cut in the prime interest rate by the end of the year, which could be followed by a further cut early in 1987 if the economy still appears sluggish.

However, "once credit demand picks up the authorities will be forced to push up the bank rate to curb money supply growth in mid-1987, so by year end prime is forecast at 16 percent."

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Construction inflation ‘will rocket’

By Frank Jean

Price inflation in construction will rocket by 30 to 50 percent when conditions improve in an industry which has been hit hard by recession and a shrinking workload for the past four years.

This was the consensus at a media lunch of the South African Federation of Civil Engineering Contractors (Safecce) in Johannesburg yesterday.

Aggravating the plight of the “civils” business has been what one construction leader described as the “build-up of ever-diminishing portion of public work units to the detriment of the private contractor”.

Mr Brian Hackney, vice-president of the federation, said “When the industry shrank these government departments kept their units intact, consequently leaving us an ever-diminishing portion of the construction cake.”

He said “In 1976 the civil engineering industry employed about 135 000 people. By 1985, the workforce had dropped to 90 000 and by August this year the total was 83 000.”

“With a current inflation rate of at least 15 percent in the industry, the total amount of work by contractors during the year will further decrease in real terms by about 10 percent,” said Mr Hackney.

He said the future of the contracting industry was being built on a “precarious platform, and he saw little relief in the round of retrenchments, insolvencies and far from satisfactory company results.

On the brighter side, though, given a more stable economic base, there are big projects down the line, such as the Lesotho Highlands Water Scheme, and the Mossel Bay and Synfuels ventures.

Mr Con Roux, immediate past president of Safecce, called for a greater involvement by private enterprise in the economy.

Mr Roux said: “South Africa has now reached the stage in its development which demands changes in the way in which work is carried out with accompanying decrease in public sector participation in the economy.

“Work undertaken by public sector bodies represents the ultimate in monopolies, since the elements of profit and fair competition are entirely absent.”
inflation has depreciated by 62% against the CPI. If expenses such as household insurance, domestic electricity, water and rates are taken into account, his pension has halved in value. During the past year alone, expenses increased 15 times more than his pension.

Moreover, R300 worth of “real” money — savings made by “self-denial and frugal living prior to 1980,” as he puts it — has depreciated to just R125, and will be worth R30 in six years’ time. Not surprisingly, perhaps, he describes the decline in value of his savings and pension as common theft.

He says the facts depicted in the graph “foreshadow a grim future, characterised by a worsening and dehumanising decrease in living standards, and culminating in being inexorably forced into a dismal, cold and traumatic dive below the breadline.”

The professor quotes Theodore White: “Inflation is the threat that disorganised government always holds over those who try to plan, to save and to be prudent.”

Experience in leading industrial countries shows that it is patently possible to control inflation. SA could control inflation “if there were more real collaboration between the public and the private sectors, rather than posturing and lip-service,” he says.

This could be aimed at, for example, better resource utilisation, upgrading of training and education, creating more and better job opportunities, promoting productivity and selectively reducing government expenditure.

**A retiring nightmare**

The experiences of an erudite professor may serve as a microcosm of the general disease affecting SA — inflation. After retiring on a fixed income, he collated personal financial statistics, as reflected in the accompanying graph. This shows how his pension and savings have been battered, while general living expenses have skyrocketed.

The professor quotes John Maynard Keynes on Lenin “There is no subtler, nor surer means of overturning the existing basis of society than to debauch the currency.”

Classified as a senior public-sector employee, he retired in 1980, in time to experience the effects of “uncontrolled inflation.”

Since then, despite adjustments, his pen-
Inflation may hamper the consumer boost

Stephen Rogers

However, two of these sectors — motor vehicles and white and brown goods — have been subject to inflation rates far in excess of the present consumer price index. Prices of new cars have soared 31% this year, while white and brown goods prices have risen about 29% and 35% respectively.

This means that any increased expenditure that is channelled into these areas will initially finance these high price increases instead of creating any real growth.

Car sales are expected to increase by only 5.6% to 190,000 units next year and by 5.3% to 200,000 units in 1989 before declining again. Sales volumes of white and brown goods are predicted to rise by less than 5% in 1987.

The high level of inflation in these sectors — if spending is directed in their direction — will also reduce the potential income available for other sectors.

Furthermore, it will distort the perceived effect of an increase in consumer borrowing and consequent spending on the level of economic activity.

If consumer borrowing is to create real growth, it will have to increase by a sufficient amount to overcome the inflation levels in these sectors.

There is a considerable amount of pent-up demand in the economy, which should stimulate spending. Also, consumers have already reduced their level of hire purchase debt, thereby increasing their ability to take on new debt.

Negating these factors, however, is consumer reluctance to incur high levels of debt.

But economists believe that borrowing will increase sufficiently to create real growth.

Rob Lee of Old Mutual says this will be dependent on certain conditions prevailing in the new year.

Real growth

These include real growth in wages and salaries, allowance for fiscal drag in the budget, increase in the level of employment and a reasonable level of confidence.

"If these conditions exist next year, consumer borrowing should increase sufficiently to create real growth in these sectors," he said.

Nonetheless, the disparity in levels of sectoral inflation will still constrain the initial effects of higher spending on economic activity.
By Dave Edwards

PHARMACEUTICAL gladiator Adcock-Ingram is looking to continued growth in 1987

Executive chairman Norman Nossel says in the report for the year to September that he expects good results in 1987 in spite of the uncertain economic and political climate.

In the past year Adcock acquired the remaining 40% of Sabax, which makes and markets a diversified range of therapeutic medical-care products.

Sabax is now a fully owned subsidiary of Adcock.

Mr Nossel expects Sabax to have a beneficial effect on the group's earnings Adcock should maintain a growth rate in accordance with long-term strategic objectives, which are:

- Earnings increasing by at least 4% more than the rate of inflation
- To expand the base through growth and acquisitions
- Tax took a much bigger portion of profits in the past year than before, increasing by 43% to R12.5-million

As a result the increase in group income was reduced to 23%. With outside shareholders taking a greater share of profits, ordinary shareholders were left with R1.1-million, or 58c a share — up 17% from last year's 50c.

Mr Nossel says the nine-week strike at the company's plant in March this year was satisfactorily resolved through constructive discussions conducted in a cordial manner.

"Continual interaction and constructive meetings held with the shop stewards and workers had made the sociological environment in the company an important part of the culture of the workers."
THE weak rand and inflation are set to boost the price of domestic appliances and home entertainment equipment by between 5% and 17% in the new year.

A stove now selling for R1 200, will cost R2 300 compared with only R1 756 six months ago. A 51cm colour television set, which cost R1 599 in the middle of the year and now sells for R1 659, will be priced at R2 189 early in January.

Yen and mark

Mike Bosworth, managing director of the R350-million Tek group, says the increases will be caused not only by inflation now running 15%, but by the rand's weakness against the yen and mark.

"These currencies have strengthened considerably against the dollar. Although the rand-dollar exchange rate is steady, the cross rate between the rand and the yen and mark has weakened." In an effort to prevent prices from rising too fast, Tek intends to increase SA content in its refrigerators, stoves, television sets and audio equipment.

South Telecom's TV sets have a local content as low as 26%, but once additional expenditure of R1-million for producing six components has been completed, it could rise to 50%.

Appliances to cost 17% more in 1987

By Don Robertson

The East London factory was modernised towards the end of 1985 at a cost of R6-million. Production costs have fallen as a result.

Mr Bosworth says "Another example of our determination to hold prices is illustrated by the introduction of the Defy Duette refrigerator/freezer. It is the first SA-made side-by-side unit with a four-star rating. It will retail, depending on the model, at about R2 600 compared with similar imports which cost about R5 000."

The Duette was launched in the middle of November and its success has forced the East London plant to operate a double shift six days a week. The company is producing 150 Duettes a day and hopes to turn out 200 soon. It is expected that the double shift will be maintained.

Mr Bosworth says Tek will look for other opportunities next year of keeping prices stable. But inflation and the dependence on imported goods will mean price increases.

A major imported item in TV manufacture is the tube, but because of the small numbers required for the SA market, it is not profitable to make them here.

Tek sources tubes from various countries, sometimes at premium prices, in order to maintain supplies. The company will introduce a new model next year and it will incorporate a square tube which offers better styling possibilities and a wider viewing surface.

David Smith, general manager of Tek Refrigeration, says that rationalisation is essential if the industry is to survive.

"Because of the limited size of the market, rationalisation must happen or one of the big three — Tek, Barlows and Katz International — will have to go."

SUND.
EFFORTS by food chains to hold down prices have been thwarted by increases in the cost of red meat, chicken and toiletries.

The good news is there are unlikely to be any further increases until after Christmas.

The consumer-price index rose by 1.5% on an annual basis in October. However, the food index soared to 22.3% on a yearly basis, or by 3.5% in October alone. This compares with a 1.6% increase in September.

The big chain stores are holding prices on their own products, but other goods cost more.

Hugh Herman, managing director of Pick 'n Pay, says the rise in the food index was almost entirely due to higher prices for dry goods, such as detergents and toiletries.

A major factor has been the higher cost of imported packaging material because of the weaker rand.

Red-meat and chicken prices also rose in October, although they have been fairly stable for most of the year. The October increase resulted largely from seasonal demand and drought which initially encouraged heavy slaughtering and a consequent shortage.

Poultry prices have increased in sympathy with meat prices.

Mr Herman says: "However, Christmas prices are likely to be below those in October and remain there until January."

Pick 'n Pay's gross margins have not increased in the past few years, says Mr Herman.

Gordon Hood, managing director of OK Bazaars, agrees that the major increase came in dry goods.

Ten has risen by about 5% this year, but coffee is 50% more expensive. Canned foods and fresh vegetables also cost more because imports caused a shortage on the South African market.

Rice, turkeys and meats have risen in price, and sweets cost more because of the need to import cocoa butter.

Clive Wad, managing director of Checkers, is more pessimistic, saying: "Meat prices, which are a big component of the index, have gone through the roof and they could rise again before Christmas. We are living in a world of inflation and I don't see prices falling."

"We generally refuse to accept price increases in November because of the large trade at Christmas. But a large number of price increases can be expected in January and February."

Fruit and vegetable prices have taken off and potatoes now cost twice as much as a year ago.
New Year will ring in many price hikes ranging from 8-60%.

Supermarket chains are ready to abandon their price freeze of the last six months.

New Year shoppers will be greeted by price hikes of between 8% and 12% on many food and toilet items. Certain articles will rise by up to 60%.

Supermarket executives are playing down the significance of the increases, saying they are always expected in the new year when manufacturers review prices.

Retailers blame rising costs for labour, transport and packaging for the increases.

Products with higher price tags will include processed meats, detergents, tea, coffee, paperware, milk by-products, frozen vegetables and toiletries. At the top of the scale, nuts and peanut butter will rise by 60%.

A Spar spokesman says consumers should expect to see many psychological price barriers broken.

She said: "We would be surprised if there weren't sharp increases."

A survey of supermarket chains turned up — with some variations — these increases: detergents (12%), wine (16%-18%), tea and coffee (8%), paperware (10%), processed meat (12%), sugar (8%-14%), frozen vegetables (19%), cheese and milk by-products (8%-14%), toiletries (8%-10%), artificial sweeteners (20%), and shoe and furniture polish (10%).

A Checkers' spokesman said: "We expect price increases in January but it does not necessarily follow we accept every increase." Next year's price jumps come on the heels of a 21% average rise in all food and grocery products during 1986.

A C Nielsen's market research figures for the grocery industry are confidential. But a spokesman says retailers are "doing their damndest to hold price down. The margins are tight".
Inflation likely to rise

PRODUCER price inflation rose to 20.8% in October and the consumer price index could feel the pressure in months to come.

The all-items producer price index (PPI) rose to 228.8 (base 100 equals 1980) from 188.1 in October last year.

The monthly rate of increase at 2.3% is the largest since November last year, when it reached 4.2%.

Producer-price increases continue to be driven by import prices through the recent depreciation of the rand. The imported component of the index increased at an annualised rate of 22.4%.

The imported commodities index increased to 235.7 from 229.6 in September, giving a monthly rate increase of 2.7%.

Prices of local commodities rose at a slower rate to 20% in October. The local commodities index increased to 224.2 from 219.7 the previous month, giving a lower rate of monthly increase of 2%.
NATAL BUILDING SOCIETY

Following United

Capitalising on the euphoria surrounding the United (UBS) listing, Natal Building Society (NBS) — by assets, the fourth biggest building society — has decided to accelerate its JSE debut by five months.

In going for a listing on April 8, NBS has taken more than a leaf out of UBS’s book. Its listing is virtually a carbon copy of big brother UBS — right down to the R2 offer price, minimum allocation and retrospective cut-off point for qualifying depositors.

Though not constrained to follow UBS, NBS GM John Bennett points out the Registrar agreed the form for the UBS listing.

The company to be listed, NBS Holdings, is looking for share capital of R120m. Shares will be issued to depositors registered on May 31 this year in a ratio of deposits of 16% (against UBS’s 20%), subject to a minimum of 100 shares. A further requirement is that a minimum balance of R1 250 is maintained in the qualifying paid-up, fixed period and subscription shares until January 31 1987.

Bennett says it was decided not to encourage a flood of new money by having a pre-listing cut-off point because additional capital would only dilute the interest of existing shareholders, who might not have been able to increase their holdings.

Further, with a capital base of R120m, the R48m that can be used for discretionary investments in terms of the new Building Society Act was more than sufficient.

Like UBS, allocations to depositors not qualifying for the minimum 100 shares will be pooled and put out to tender. Depositors will then be paid out pro rata in accordance with the tender strike price. Shareholders will be called on to vote on the conversion on February 3 and have until March 6 to take up preferential allocations.

Bennett expects a comfortable premium on the offer price, but maintains that an accurate picture will only emerge once the full estimate of earnings to March is available in the prospectus, due early next year.

INFLATION

Beefing about PPI

Anyone who feels tempted to ask “Where’s the beef?” should pause and count the cost. For October’s producer price index (PPI) figures, released last week by the Central Statistics Service, show the price of fresh meat increased over the previous month by a staggering 11%. This is the steepest hike in meat prices since September 1980’s monthly increase of 17.4%.

The all-commodities index leapt to 226.8, a monthly rise of 22.2%, compared to 0.7% in September and 1.79% in October last year. This too was significantly higher than 1985’s year-on-year figure for October of 17.1%.

The leap in the price of meat is partly seasonal, partly a structural response to improved rainfall after four years of drought. Herds slaughtered when grazing was poor have to be replenished, creating a shortage of stock at abattoirs.

Other significant components of the monthly increase were mining and quarrying (other) at 7.3%, leather and leather products at 6.9%, rubber and plastic products at 4.1% and basic ferrous metals at 3.3%.

There was, however, a 6.8% fall in the price of agricultural products other than food — probably the result of a drop in prices of wool and cotton on international markets.

The all-commodities index surprised and depressed economists. Says Volkskas’s Adam Jacobs “I really hoped that by now we would see a lower figure for PPI. What surprises me most is the increase in cost of imported products, 2.7% compared to 0.6% last month, while local goods rose 2.6% compared to 0.8% last month. This came after the effective exchange rate of the rand, against the basket of trading partners’ currencies, had improved markedly.”

Next month may provide better news but for largely technical reasons, according to Leon Steenkamp, economic consultant to stockbroker Seetelk, Mouton & Kitshoff.

“Between October and November last year, all commodities rose 4.2%, because of an 8.8% jump in the imported component. We will now delete that 4% and should have a significant decline in the all-commodities year-on-year figure and an even steeper decline in the imported component.”

Whether or not a statistical quirk, a drop in acceleration of PPI will still be an encouraging sign in our high-inflationary environment. “It will result in a year-on-year increase significantly below the 20.4% for November 1985,” says Steenkamp. “We could realistically see it below 19%.”

This even though the local component will not be substantially lower. Any decrease in the increase of PPI will be due to the fact that imported components, which last November were 28.5% year-on-year, have decelerated markedly since early this year.

Says Steenkamp “I agree with Jacobs that one would have expected a greater deceleration in the cost of imports. Nevertheless there has been a significant decline. Inflation could increasingly be the result of relatively sharp rises in the prices of locally produced goods. I fear we are seeing producers taking advantage of improved demand to push up prices.”

“So anything which counters inflationary expectations will be valuable.”
Inflation taking its toll on banks

By David Southey

Inflation isn't only the scourge of little old ladies, widows, and pensioners. Big, rich bankers say it's also one of their most serious worries.

Fact is that inflation hammer's banks' capital ratios.

Explains Barclays deputy managing director Barry Swart. "Let's assume you have capital of R1-billion and inflation of 20%.

"Because your balance sheet grows automatically by the rate of inflation, that means you are suddenly faced with having to bolster capital by another 20% in order to keep in step with the statutory capital ratio requirements."

Erosion

"But what the authorities don't realise is that in order to boost our capital by another R200-million - just to keep pace with purely inflationary growth in our lending book and in our costs - we have to achieve profits of two or three times our additional capital requirements."

"That means that in order to pay dividends and tax at roughly the same level, Barclays (which earned roughly R100-million this year), is required to earn around R600-million to put us back where we were in the previous year."

"Anything less than that means that we are rapidly eroding our capital base vis-a-vis balance sheet growth."

"That's not the only headache for banks."

South Africa's burgeoning grey market is another and partly explains why banks haven't been able to lend as much money as they would have liked to sound corporate customers.

According to Mr. Swart, disintermediation (lending taking place directly between non-banking organisations) is probably at its most rife.

Reason non-banking institutions with spare cash, notably mining houses and assured, can lend money to triple A corporate customers at well below prime overdraft rate of 13.5% and still earn more than they would otherwise do by placing the funds on call or in short-term money market paper.

Banks are forming because they point out that these institutions are not subject to the same stringent capital and liquidity asset requirements, which is why they can lend so much more cheaply than banks.

It is virtually impossible to estimate accurately the extent of this type of grey market lending, but a figure of around R8-billion has been mentioned.
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Erosion

"But what the authorities don't realise is that in order to boost our capital by another R250-million, just to keep pace with purely inflationary growth in our lending book and in our costs — we have to achieve profits of two or three times our additional capital requirements.

That means that in order to pay dividends and tax at roughly the same level; Barclays (which earned roughly R100-million this year) is required to earn around R500-million to put us back where we were in the previous year.

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Banks are fuming because they point out that these institutions are not subject to the same stringent capital and liquid asset requirements, which is why they can lend so much more cheaply than banks.

It is virtually impossible to estimate accurately the extent of this type of grey market lending, but a figure of around R3-billion has been mentioned.
SA hyperinflation warning

By TOM HOOD

WARNING signals for hyperinflation in South Africa are sounded by Old Mutual economist David Mohr in the company's latest newsletter, Mutual Forum.

Domestic inflation reached the 20 percent level for the first time in 65 years in January and moved decisively out of the 10 to 15 percent range of the past 12 years, he says.

"This rapid rise in the inflation rate, which was as low as 10 percent at the beginning of 1984, has raised the question of potential hyperinflation."

One of the biggest dangers, he suggests, is that the Government might underestimate future demands on spending and overestimate its powers to keep it within reasonable limits.

"History has shown that such an underestimation of future spending can prove to be disastrous in terms of trying to accommodate such demands in a non-inflationary manner."

Judging from the severe domestic pressures on Government spending, including defence, social and physical infrastructural needs, the potential inflationary pressures from this area can only be considered high and not likely to recede in the coming years.

"Fortunately up to now, the authorities have succeeded in adhering to sound financing principles even in the face of continuous overspending year after year."

"In sticking to strict financing policies the tax burden, however, has risen rapidly in recent years and the question must be asked how much further it can rise."

"The Margo Commission, due to release its findings soon, should shed further light on this issue, says Mr. Mohr."

The scant prospect of attracting a net inflow of foreign capital in the foreseeable future may have materially damaged the inflation outlook."
How the public service pushes up SA's inflation

GERALD PROSALENDIS/Economics Editor

Many economists and officials argue that SA's persistently high inflation rate is the lingering consequence of cost-push pressures which have their origin in the depression of the rand. But SA's continuing high inflation rate is also due to price being paid for permissive monetary policy - largely up until 1985 - and years of fiscal profligacy.

And it has been nurtured by an over-regulated economy which lacks competitive depth to absorb and defuse cost increases arising from administered prices. It has been argued, for example, that administered prices - which last year made up more than 30% of the consumer price index - do not respond to market conditions of demand and supply.

The prices of many inputs and outputs to administered prices, and the SA economy in general, are controlled both for reasons of strategic importance and political expediency.

The upshot of this is that many producers do not respond to market demand but rather to production incentives. This means commodities have to be subsidised if they are over-produced, while producers are subsidised if there are shortages. Nor are they subject to competition, an important determinant of efficiency, and thus price level.

Two legacies of government's increasing share of the SA economy, then, are to increase inflationary pressures and punitive tax rates that are choking the talent out of the economy.

High inflation is also linked to government's increasing appropriation via the tax system, the productive wealth of the SA economy, which it increasingly uses to pay public servants' wages with no direct productive input.

Recent estimates (excluding the Post Office, Sita and State Enterprises) show that the public sector employs more than one million people, or 25% of all economically active South Africans outside the agricultural sector.

Consumption expenditure by general government, an important element of national income, increased from R3m in 1985 to R52m in 1988, or 17.4% of gross national product last year from 9.2% in 1989.

And because company taxes have not kept pace with the rate of inflation, progressively more of the tax burden to finance the spending has fallen on a smaller group of individual taxpayers, who now contribute more to the State coffers than gold miners and companies put together.

In this fiscal year individual taxpayers will contribute R12 22m in tax revenue - an increase of 38.4%, compared with last year's R8.5bn. This, however, was matched by an average increase in wages of about 11%.

Gold miners, on the other hand, are this year expected to contribute R22.8bn, down 7.4% compared with last year, and companies R6.3bn, up 15.1%.

On top of this, the State will collect a further R18.7bn from state enterprises, a large portion of this from individual consumers. And individually, each year we carry such a small part of the burden of the R1.8bn collected from these duties, the R0.8bn surcharge and R1.8bn cause daily.

Each year that government in excess of its minimal requirements and for a finite pool of available funds at a rate higher than inflation itself - is building an upward bias to inflation in the economy.

Put more simply - if revenue increases its spending at a rate the economy cannot accommodate, the result will be a residual rate of inflation.

But, some economists argue, government spending is not inflationary if funded by higher taxation.

Over the last five years government has increased the burden on individual taxpayers by lowering their standards of living. Taxpayers have had to borrow more to maintain their standards of living and this has been reflected in a ballooning money market. But the result is not inflationary.

Increases in the nominal terms of wages and increased government revenue because of higher inflation have fostered the myth in certain quarters that higher inflation is more beneficial, or even beneficial from inflation, the idea that the low, long-term future is not damaged by it.

But price stability is vital to an economic luxury - it is basic to social and economic growth.

Possibly - despite inflation's pernicious effects - government has a vested interest in continuing at high levels. In a sense, it has become a tool for the redistribution of wealth.

As inflation pushes up nominal taxable incomes, the rate of tax automatically increases and the State receives more income in distributable to its employees.

It appears that this high inflation, rising taxation and unitary political government spending are inexorably linked. As inflation increases, State revenue by pushing individual taxpayers into higher brackets, government is able to receive more on non-productive wages and salaries, which in turn fuels inflation.

Unlike the very worst year, government freezes both the size and funding of the public service and its grip on the economy, the prospects for lower inflation in SA are dim.
Heading for a crash?

Pity the poor South African motorist. The cost of a car increased by some 8% in the last three years — by 30% or more this year alone — and more hikes are in store. Manufacturers are not insensitive to price resistance. Indeed, the "price shock" which virtually drove the private motorist out of the showrooms is seriously debated throughout the industry, particularly after November's disastrous sales figures (Business December 12).

But after several years of heavy losses, or at best marginal profits, manufacturers are adamant that prices must continue to rise to recover the erosion of margins by local inflation. Car prices will probably go up next year in line with inflation — making the average car 17%-18% more expensive by next Christmas.

How is it that fierce competition for diminishing sales still allows hefty price increases from all manufacturers — most of whom are still below break-even point and, in even the best cases, have "unacceptable" returns on investment?

No doubt some of the industry's biggest problems are of its own making. In the good old days when anything sold, South Africans happily plumped for models and variants multiple times. But with the first shock of the current recession, some in manufacturers imposed the super tax on already shrinking sales figures. The inevitable dust-out saw the departure of Afia Rapido, Reitkerk and the current line-up.

Without doubt, the single biggest factor, as the car's decline affects the culture of Japan and West Germany, is the cost of the dollar. More than 50% of the vehicles sold is still imported, with the current share manufacturers have been bleeding heavily. As National Association of Automobile Manufacturers (Naamsa) director Nico Vermeulen says, "This factor alone puts massive price pressure onto manufacturers, and in the current climate they've been forced to pass it on."

Car sales had in fact already started to decline from their peak of 301,000 back in 1981, when the average car price after GST was R10 299. By 1984, when the rand started to lose, sales were down to 267,000 and average price climbed to R15 098.

Other important factors affecting car-buying patterns, says Vermeulen, are the persistent recession, sharp increases in the prime lending rate which peaked in August 1984 at a record 25%, the doubling of GST to 12% in March 1985, fuel price increases, and imposition of fringe benefit tax on cars, though on an extended phase-in basis.

Temporary measures, since abolished, which hit sales include the tightening of HP repayment periods between August 1984 and February 1985, and imposition of ad valorem customs and excise duties in the 1984-85 Budget.

All this when pressure on net disposable incomes was mounting. Real earnings of employed whites fell by 0.2% a year from 1981 and direct tax paid by which increased massively. In 1982 some 8.8% of personal incomes went in direct tax, by 1985 this had risen to 15.5%.

Markets research for a leading manufacturer has shown that in 1983 an average car price of R12,021 accounted for 61% of a white household's average annual income. In 1986 it's estimated that the average car price of R24,140 is absorbing some 88% of average household income.

So it's easy to understand why extremely strong price resistance has been generated; why car sales figures for the year are unlikely to top 176,000, and why manufacturers are operating at little more than 50% of capacity.

But in spite of all this, Vermeulen insists all is not gloom and doom. "There's an air of cautious optimism in the industry," he tells the FM. His view is supported by other industry leaders.

He says that in spite of November sales figures' distortion by heavier-than-usual October buying and the absence of private buyers, statistics show car sales bottomed out in the first quarter. His view is backed by Toyota marketing experts, who say that if October and November sales are combined they match the pattern for the rest of the year.

Vermeulen also points to signs that the heavy commercial vehicle sector, undergoing its worst patch in 20 years, bottomed out in October.

A number of factors lead manufacturers to believe overall sales next year will be a modest 5% increase for the year. Confidence in buyers is slowly returning and orders for Christmas have exceeded those of the same period last year.

Though some manufacturers are still staying at current levels of output, others are laying off staff. Production levels will be severely reduced until February and then we'll see what happens," Vermeulen adds.

Nissan's John Newbury also believes the industry has absorbed the effects of the falling rand, and providing it stays steady at the current rate, price increases next year should average 3.5% a quarter (or 14% for the year).

Fortunately, with inflation in West Germany virtually nil and just nominal in Japan, the cost of imported components is stable.

Another hopeful development is the fall in interest rates, important to motor manufacturers with their high capital investment.

Then, too, pre-election stimulatory measures, including civil service salary increases and higher government spending on development projects to boost employment, could start to trickle through from February. And a good agricultural season seems likely to create confidence.

The industry's tribulations inevitably raise speculation about further rationalisation. Every manufacturer would like to see some competitors depart, but all deny they're ready to pull out. A glance at interna-
tional car ownership figures shows the long-
term incentive to stay in 1984 it was esti-
mated that SA had 11.3 people per car
compared with 1.9 in the US, 2.5 in West
Germany, 3.4 in the UK, 2.3 in Canada and
2.4 in Australia.

Two years ago the industry manufactured
42 major passenger car lines available in a
number of variations. Today there are 22
major lines, with derivatives. The trend to
put the number of derivatives will probably
continue, but manufacturers say financial
advantages are very limited and a wide range
of options could have an important bearing
on market share.

More likely is another extension of the life
of car models on the local market. The cur-
rent recession has seen model life extended
from four to six years; for some models this is
likely to be stretched to eight.

This makes sense given the current cost of
tooling up for introduction of a new model. A
new small car line car costs at R40m-R70m,
most of it in variable-rate foreign exchange,
and a new line for a medium or large car
costs between R60m and R100m.

But adding to the industry’s small upsurge
of confidence is the very different shape it’s
in. “It’s leaner and fitter than it was,” says

Vermeulen. At least two big manufacturers
are in the black, even after the triumph of
1986. Others hope to join them in the near
distant future. But, as increased confidence in the economy
and sales continues, some argue there
may not be the same upsurge in the prin-
ciple of the local automotive industry.

And the upsurge in confidence is in the retail
sector.

The retail sector has seen a significant increase
in sales, with more consumers opting for
local brands. This has led to an increase in
employment, with more people working in
the automotive industry. The government
has also played a role in supporting the
industry, with tax breaks and incentives.

Since 1982, motor industry jobs have fal-

len from 50 300 to 29 000. Component manu-
facturers have cut employment from
75 000 to 50 000. Another 30 000 jobs have
been lost in the retail sector.

Despite their importance to the economy
and as a supplier of strategic equipment,
Vermeulen believes car builders can expect
little more help from the government.

He points to the direct relief from the 1985
abolition of the 1% ad valorem customs and
duty on vehicles, reduction of HP
deposits and longer repayment periods,
changes to local content provisions, benefi-
cial amendments to the 10% import sur-
charge regulations and the fringe benefits
tax relaxation for cars.

But a current review of the Phase V local
content programme, which applies to cars
and light commercial vehicles, could result in
some new benefits for manufacturers, par-
ticularly as the review aims at ensuring the
sound development of the industry.

It may be too late for some — the possi-
bility of one or even two manufacturers quit-
ting the market or merging can never be ruled
out, whatever they say for public consump-
tion. If the survivors bring prices under con-
rol through greater volume throughput, per-
haps it should even be welcomed.
PRETORIA — The inflation rate for Namibia remained at 19.2% the Central Statistical Service said in a news release in Pretoria yesterday.

The rate dropped to 19.2% in October from 19.7% in September.

Food prices continued to rise at a relatively sharp rate — Sapa
Waging war?

Prices and wage controls are always controversial measures to fight inflation.

In the South African context, recent proposals by the Afrikaanse Handelsinstituut (AHI) that administered price increases should be curbed and that public and mining sectors should voluntarily freeze wages for a specified period are particularly provocative.

The political implications of asking white voters (traditionally government supporters) and militant black miners to make sacrifices for the rest of the community are mind-boggling. Besides, are prices and wage controls effective in countering inflation anyway?

The AHI proposals are based on research by economist Geert de Wet, of the Rand Afrikaans University (RAU) De Wet, who is on his way from the chair of economics at RAU to that of the University of Pretoria, is convinced price and wage restraint is crucial to the fight against inflation.

"Wages have exerted upward pressure over the past 20 years because there is always a race between different sectors to keep on top. The result is that wages per worker have increased faster than output per worker."

Producer power, he says, has prevented prices from falling in recessionary times. Agricultural and administered prices have repeatedly inflicted price shocks.

The AHI report and recommendations have drawn criticism from several quarters. Says Chamber of Mines senior economist Henry Kenney: "The failure of incomes policies in Western Europe was so striking that any proposal to resurrect this kind of policy would be akin to recommending cold showers as a cure for excessive virility."

He points out such freezes were followed by a sharp upsurge in prices to accommodate pressures which had been bottled up — not eliminated.

"Freezing prices and salaries amounts to suppressing the price mechanism, which can then no longer do what it is supposed to — evaluate relative scarcities. Salary and wage increases are not acts of charity but a reflection of the need to attract and retain a certain kind of labour force."

While De Wet argues "wage restraint" would not violate the free market system because existing wages have come about as a result of negotiations, Kenney sees collective bargaining as a part of that system.

Criticism has also come from Pretoria's Afrikaanse Sakekamer (ASP). "After studying the report we have to say we don't agree with one single conclusion. The ASP describes the call for wage and salary restraint as inappropriate and predicts that such a step, if not accompanied by a general price freeze, would lead to outright depression in a city like Pretoria, for example."

De Wet, however, is adamant. He believes that, if implemented together with disciplined monetary and fiscal policies and other measures suggested by the AHI, price and wage "restraint" would not impair the market mechanism "because it applies to general increases and doesn't imply that individual wages and prices have to be pinned down."

"Everyone has focused on the wage and price measures we suggested, but we tried to address the whole spectrum of possible causes of inflation — without invoking additional government intervention in the system."

He points out the suggestions were generated by an exhaustive study — "and, what-
Cost of living rises by 19%

By AUDREY D'ANGELO

Deputy Financial Editor

THE cost of living is still going up at a rate of more than 19%, figures released yesterday by the Central Statistics Office show.

The consumer price index for the 12 months to November showed a rise of 19.2%, almost unchanged from the dismaying 19.7% for the 12 months to October.

And, although lower interest rates may help to bring it down, price increases in the pipeline together with the government’s plan to revue the economy by encouraging spending will be inflationary.

The new statistics show the monthly all items index (base 1990) rose 1.3% in November to 242.4 after a 1.1% rise to 239.3 in October.

A year ago the index stood at 203.4 and year-on-year consumer inflation at 16.5%.

The figures show that the middle income group was the hardest hit over the past year.

The higher income group index rose to 242.7 in November from 239.3 in October and 204.4 in November last year, giving a monthly rise of 1.4% and year-on-year increase of 18.7%.

The middle income group index rose to 245.1 from 242.3 in October and 204.8 in November last year, giving a monthly rise of 1.2% and year-on-year, increase of 19.7%.

The lower income group index rose to 236 from 233.6 in October and 197.3 in November last year, giving a monthly rise of 1% and a year-on-year rise of 19.6%.

The food only index rose to 244.3 in November, up 1.7% from 240.3 in October and up 22.9% from a year ago.

Frank Horwitz of the University of Cape Town Graduate School of Business said the figures made it certain that trade unions would press for pay increases which would at least keep pace with the rate of inflation and possibly exceed it.

Most recent wage settlements had been below this.
Severe price rises hit SA

Inflation claims high toll in 1986

INFLATION dominated the news headlines during 1986 as severe price rises swept through the economy.

The battered consumer was knocked by an accelerating consumer price index (CPI), which touched a high of 20.7% in January. This was a continuation of an upward trend in the previous year when inflation reached a twelve-month high of 10.4% in December.

The producer price index (PPI) also reached a high in January — of 22.3% — putting pressure on the CPI in later months.

The volatile exchange rate played havoc with prices. This was aggravated by SA traders having to pay "political premiums" for goods bought on the international market.

Spending on food swallowed a disproportionate share of lower and middle income group spending in 1986. Rising food costs — the component which has a 25.5% weighting of the index — also accelerated the upward drift in the CPI.

Central statistical services (CSS) figures show that meat, grain products and fruit accounted for more than 60% of the

CPI's 1.1% monthly rise in October

Economists, however, are tempering their forecasts for next year's inflation rate after the recent rises. Lower bond rates — which will increase consumer disposable income — has also led to greater optimism.

However, although inflation is expected to decline in the coming year, it is likely to remain at a high level with lowest estimates in the 15-17% range.

Several sectors of the economy are expecting large price increases in the coming year. The motor industry is predicting increases in the range of 17-20% while sugar price may rise 15% in January.

Heavy price increases were the rule in almost every sector of the economy last year. Tea and coffee prices increased a massive 52.2% while white and brown goods rose on average by 25% and 35% respectively.

Prices of few products remained static and a Business Day check found that only the cost of fertilizers — hit by a price war and oversupply — fell dramatically.

Air transport costs were hit by sanctions in the form of a US landing rights

SA's domestic ticket prices rose 10% and international fares by 15% to 15%.

Higher operating costs, a continuing weak rand, and dollar price tags on aviation fuel accounted for SA's air fare hikes.

SA Transport Services road tariffs rose 11.8% on goods traffic and 15% for parcels and livestock. Rail freight tariffs rose 13.8%.

Iscor's steel price increases — on paper, at least — stayed below the inflation rate as did cement prices on the Reef which rose 7% against an average countrywide increase of 13%.

SA's inflation rate in 1986 can be put in a proper perspective when compared with the rate of price increases experienced by our major trading partners. In some cases our inflation rate was ten times higher.

Should this degree of disparity continue, it will eventually erode what competitive advantage our exports presently enjoy from a weak rand.
SA is going great guns to boost exports

By Frank J넥스

South African mineral and metal exporters are emerging as aggressive marketers despite the efforts of other countries to take over those markets closed by sanctions.

This, together with South Africa’s reputation abroad for reliability in quality and delivery of its goods, is compensating for negative sanctions trends.

According to recent reports, South African mineral exports are making inroads in Asian markets.

South Africa is still the major source of minerals and has built up a record good delivery times.

In terms of price, too, South Africa is fairly competitive because of the depreciation of the rand.

South African traders enjoy strong advantage in world markets, particularly as the supply lines of newcomers to the minerals scene are often suspect.

“Some of these countries do not have the experience which the South Africans have built up over the decades,” says one minerals industry source.

“Strikes and other disputes in these countries often interrupt deliveries — and in today’s highly geared marketing scene, delivery is a vital component.”

Economists see a far from gloomy trend emerging in major countries such as those in the European Economic Community and the Far East which are apparently winning the fight against inflation.

There are strong growth vibes coming through, and this obviously means these countries will continue to present excellent market opportunities for South African traders in industrial goods and consumer products.

There is a groundswell, too, among South Africans to get trade going, particularly in the light of the sanctions and disinvestment campaign.

“Too often in the past, the export potential within South Africa itself has perhaps not been accorded the priority it should have received,” says Mrs Ann Moore, a general manager of the South African Foreign Trade Organisation (Safto).

“Over the past 12 months, however, this certainly has changed. One now sees more and more recognition both from the public and private sectors that exports are essential to the well-being of South Africa and are very much an integrated part of the economy.”

This recognition is extending to the non-traditional export field such as manufactured goods.

Indexation keeps SA inflation rate high - economist

By Reg Runney

Informal “indexation” of wages to the inflation rate seems to be keeping inflation at its present high levels, though it is not driving it to much higher levels, according to Old Mutual economist Mr David Mohr.

The surge in South Africa’s inflation rate this year raised the question of hyperinflation — that is, inflation that rages completely out of control and tends increasingly to make the money in circulation worthless.

Discussing this in an analysis of inflation prospects, Mr Mohr in Mutual Forum notes that inflation reached 20 percent for the first time in 65 years in January this year.

“In doing so the inflation rate moved decisively out of the approximate range of 10 to 16 percent of the past 12 years”

SA’s inflation has also broken with history in comparison with its main trading partners, which have been mostly in the industrialised world.

In the seventies it compared favourably with their inflation rates, but for 1985 the inflation rate at an average of 16 percent was roughly four times higher than the average for the seven major Western economies of 4.5 percent.

However, South Africa’s inflation rate still ranks favourably with that in the Third World, where the average for 1985 was 25.9 percent.

Looking at typical inflationary circumstances, Mr Mohr identifies two main categories — balance of payments and public finance problems — but adds that indexation also seems to be a factor.

“Indexation always starts at an informal level, with workers normally using the consumer price index in the wage bargaining process in an attempt to protect their real incomes and standards of living,” he notes.

Tax burdens are also sometimes passed on in workers’ calculations, particularly indirect taxes.

The impact of informal indexation depends on political backing of such schemes and the basis on which they are calculated.

If the political lobby is powerful and all price changes, tax increases and exchange rate changes are taken into account, the result is likely to be a multiplication of traditional anti-inflationary policies.

Since high inflation tends to encourage current spending, governments are tempted to provide inflation protection in the form of indexed savings, starting with index-linked government bonds, to ensure a supply of savings on which government can borrow.

This, says Mr Mohr, has often been the next stage in the inflation process, and “in the absence of addressing the underlying causes of inflation leads to rapid increases in government spending as interest payments, eventually skyrocket in line with inflation.”

“In the longer term the burden becomes unbearable and the budget deficit is usually monetised. This in turn leads to even higher inflation.”

Major Latin American countries and Israel, prime examples of price, have all moved away from official indexation in their efforts to halt inflation.

Giving some idea of the inflationary pressures associated with indexation, is the length of the period of official adjustment before the release of inflation figures. The shorter the period, the greater the inflationary pressure and the closer the economy is to hyperinflation.

“In most very high inflation economies (inflation rates of 100 percent plus) this adjustment period is normally around one month, the time it usually takes to update price indices.”

The local experience is still different.

“In South Africa, informal indexation is widely practised as most wage claims are effectively indexed, at least to some degree, to the CPI.”

“However, however, no real evidence of this at stage of automatic or official indexation, and the authorities have repeatedly rejected the assuage of indexed government stocks.

“The informal adjustment period seems to be about 12 months, indicating that indexation is at this stage a factor keeping inflation at present levels rather than being a driving force behind a much higher rate.”
Consumers battered by year of big price hikes