INFLATION

1987

JAN - DEC.
Sugar price rise likely to have ripple effect

Inflation received an early 1987 boost with the announcement of a 15 percent increase in the domestic price of sugar — expected to have a ripple effect on the prices of many food lines.

The increase, due to be sanctioned in today’s Government Gazette, will lift the price of a 2.5 kg packet of white sugar by around 35c. The last price increase of 12.5 percent was in March.

The rise will further boost costs of the bakery, confectionary, ice cream, brewing and food processing industries after a year in which food prices rose, on average, by 22.9 percent.

The Government’s 15 percent announcement applies only to prices of industrial sugar (retail and wholesale prices are not controlled) but a South African Sugar Association (SASA) spokesman estimated that retail prices on the reef could rise by about 14 percent.

The industrial price of white sugar rose by R1.15 a metric ton, from R7.58 to R8.73, while brown sugar increases by R0.99 a metric ton, from R9.98 to R7.97.

Mr Peter Sale, General Manager of SASA, said local prices were determined by the Government on a formula based on domestic costs.

He went on to say that although local consumers were in no way subsidising export prices and contracts, the increase would assist an industry which had experienced increasing difficulty in its export drive (the American Government recently removed SASA’s export quota and allocated it to the Philippines).

Mr Sale says he hopes that increases will now take place in January and that future increases will be smaller. Consumers would probably prefer smaller more regular increases, as these required were less of an adjustment.
Revvving up?

Motor vehicles were responsible for much of the 1.3% monthly increase in inflation in November last year. Prices rose by 7%, on a weighted basis contributing 0.4% to the total monthly addition to the CPI, now standing at 242.4. No wonder the month proved disastrous for the industry.

Food price increases ran at 1.7% — compared with 2.8% in October. Meat was the major single component at 0.5%. But because of a decline in the price of vegetables, food as a whole, on a weighted basis, constituted only 0.4% of the monthly total.

The 1.3% total rise compares to 1.1% in October, 1.9% in September and 1.3% last November. Year-on-year, inflation is still running at the 19.2% recorded in October, after a drop from 19.7% in September. This compares with 16.9% in November 1985.

Though inflation is still running at dangerously high levels, the latest figure is vaguely encouraging. At least CPI increases have not breached the psychological 20% barrier since the 20.7% reported in January last year.

For the next two months, the outlook is fair. This is partly for statistical reasons, because unusually high monthly increases were notched up in December 1985 and January 1986 (2% and 3.1%).

But, more importantly, there may be a pause in meat price increases. Senekal, Monton & Kusshoff economist Leon Steenkamp points to prices on fresh meat markets in Johannesburg and other major centres.

After an increase between the first week in September and the first week in October of 24.6%, they declined 8.7% to November and a further 2% to December. These declines have still to be reflected in both CPI and the producer price index (PPI).
Inflation must be curbed to avoid disaster, says Old Mutual economist

Runaway inflation could bring the economy to its knees in the next year or two, warns David Mohr, chief economist of the multi-billion rand giant, Old Mutual, the country's largest insurance group.

Many of the conditions for hyper-inflation have already emerged, says Mr Mohr. The Government will have to give high priority to defusing the situation if a price explosion is to be avoided.

The warning is contained in a leading article in the latest issue of Old Mutual's quarterly publication, "Mutual Forum".

He points out that of a sample of 20 major commodity exporters (like SA), 13 have suffered higher inflation in the eighties than the seventies and, "like South Africa, many of these countries are also struggling with huge debt burdens."

"With the gold price having declined by almost 50 percent since reaching a peak of more than 800 dollars in 1980, South Africa fits neatly into this category."

"Although gold has recovered moderately, the recent fall in the oil price and the favourable inflation outlook in the Western World do not suggest any significant relief from this source in the future."

He argues that a depreciating currency (like the rand) is "supposed to assist in correcting balance of payments problems by promoting exports and discouraging imports."

However, in South Africa, informal "indexation" (in which wages and salaries follow increases in prices) is widely practised as most wage claims are effectively indexed.

This is important, he says, because "in an inflation-ridden economy, widespread indexation may lead to a general increase in the overall level of prices."

"It is of the utmost importance that we avoid a repetition of the exchange rate behaviour of the last two years if we are to escape the very high inflation that has befallen many developing economies."

Severe pressure on government finances is also linked to a worsening inflation rate, he says.

"In such a situation the authorities are often loath to increase the tax burden on an already suffering country. They therefore opt for monetising the resulting Budget deficit."

"Increases in government spending originate not only from defence efforts. Changes in government priorities and electoral needs can also lead to sharp escalations in spending."
Sugar rise ‘will boost inflation’

Mercury Reporter

THE increase in the sugar price did not bode well for the inflationary spiral this year, Mr Harry Schwarz, FFP spokesman on finance, said yesterday.

He was commenting on a statement from the South African Sugar Association (Sasa) that the industrial sugar price has been increased by about 15% from yesterday.

Consumers were given another shock yesterday with the announcement that the price of cheddar and gouda cheese was to rise by 11%.

The statement from Sasa said white sugar would increase by 30 c for 2.5 kg.

A spokesman for the association said the increases were well below the current inflation rate, although the consumer did not bear the burden for export prices and contracts, the increases were expected to aid an industry which had encountered increased difficulties in its export activities.

Mr Schwarz said, “This is a bell of a way to start the new year.”

The Government will probably try to restrain the inflation rate before this year’s general election, but after the election we may enter a period of very high inflation.”

Mr Schwarz forecast an increase in the price of various commodities — soft drinks, sweets and chocolates — which used sugar.

Prof Gawn Maasdorp, director of the economic research unit at the University of Natal, said the sugar price increase added to the inflationary spiral.

He added, “If we are going to trade with third parties to beat sanctions, it means the costs of imports are going to be up and the proceeds of exports are going to be discounted.”

A spokesman for Checkers said the prices of gouda and cheddar cheese at their stores would only rise on January 19.

A spokesman for Pick n Pay said the company was holding down the price of gouda temporarily but would be forced to increase the price of cheddar cheese immediately.

A spokesman for OK Bazaars said prices of gouda and cheddar in these stores would rise as from January 19.

The cheese price increase becomes effective to the general trade today. However, spokesmen for some chains in Durban said they would hold the old price as long as stocks lasted.
Soaring meat prices set to fuel inflation

IN what is seen as the start of a deadly inflation spiral, an acute shortage of red meat now seems certain to send prices of lamb and beef rocketing in 1987.

The price of super beef is expected to breach the 550c/kg mark — now at 410c/kg — and lamb is expected to retail at around 650c/kg and higher.

Spokesmen say supplies will dry up after drought-stricken farmers slaughter off hungry stock. As well, many farmers will be restocking depleted herds. And many farmers have seemingly abandoned stock farming, saying cyclical price movements make it uneconomical to continue.

The industry now fears prices will soar still higher with a resultant stiffening of consumer resistance.

Farmers and retailers have been warned the consumer backlash will be coupled with fierce competition from poultry, fish and cheese.

A spokesman says “These products will be poised to grab a larger share of the total protein market”.

Sheep herds have been over dspelled since 1982 and cattle numbers have been falling since 1976, with only a brief respite in the boom years of 1981/82.

The December issue of Effective Farming says “Such is the price that farmers (and consumers) must pay for economic policies that retard national growth”.

“Farmers’ organisations have been foremost in demanding that government impose production quotas, restrict ac-

Meat prices set to rocket

cess to market through single channels and divert scarce supplies of land, labour and capital to sub-optimal use.”

Meat Board deputy GM Franz Pretorius says all indications pointed to sharp increases.

He says “We must expect that for 1987 beef prices will go higher, especially in the second half of the year. In the case of lamb and mutton, the situation should not be as critical as it is easier and quicker to restock depleted herds.”

He says market prices paid for lamb just before new year had shocked the industry and adds “We are worried. In Pretoria, the trade paid 70c/kg for lamb. We don’t know the reasons yet but it could be butchers were without supplies for four days over Christmas.”

And Pretorius says if wool prices rise farmers will be tempted to withhold sheep from slaughter.

The industry is also anticipating a dramatic increase in SA’s population and says that, as of now, there are 15% more mouths to feed than was the case during the last red meat boom of the early ‘80s.

Effective Farming says “Had living standards not been slipping steadily the demand for meat would have been much greater now than it is.”

“Even if poultry had continued to gain at the expense of red meat in percentage terms, it is probable consumer expenditure on red meat would have been between 10% and 30% greater than it is now.”

The industry expects the gross value of meat sales to rise by 20% on average in each of the next three years.

But with supplies shrinking, spokesmen say prices will have to rise sharply between now and Christmas 1988 to keep supply and demand in balance.
Lower-income groups will be hard hit

Sugar price hike to raise cost of foods

Prices of hundreds of food products are expected to increase within the next month as a result of the recently announced 15% hike in the price of sugar.

The chief executive of supermarkets at Checkers, Lionel Blakeman, yesterday predicted price increases ranging from 4%-15% depending on the sugar content of the products.

Industries directly affected by the increase include tinned fruit, jam and cold-drink producers and confectioners.

"We will start feeling the effects of the sugar increase in February," Blakeman said, adding that prices would be kept down until their existing stocks were purchased.

Thelma Tuch

He said this increase was the first of a number of increases in the pipeline for 1987.

Jean Tatham, vice-president of the Housewives League, said lower-income groups — dependent on sugar as a source of energy — would be particularly hard hit by the increase.

The Housewives League said it had little confidence in industry or the government to control food prices.

Peter Sale, general manager of the South African Sugar Association (Sasa), said the price increases had occurred only to keep in line with local production costs in an era of a 20% inflation rate.

The last increase in the price of sugar was a 15.5% in March last year.

Sale said the sugar price increase had nothing to do with the US government's announcement in November last year that its approximate annual 35,000-ton sugar quota to SA would be dropped and diverted to the Philippines.

He said the hike was also unconnected with the inclusion of Sasa on the US classification of about 130 South African organisations as parastatal organisations and thereby targets of disinvestment.

Sasa, he said, was a private organisation and was in the process of appealing to the US to drop its name from such a list.
Deadlock in OK Bazaars strike

By Langa Skosana

THE two-week-old OK strike continued yesterday after the company and union both refused to give ground.

OK Bazaar employees want R160-a-month wage increases against an R85-a-month offer by management.

A spokesman for the Commercial Catering and Allied Workers' Union of South Africa, Mr Salm Vally yesterday said that delegates from all Ccawusa branches throughout the country who met at the weekend decided to continue with the strike and not yield on any of their demands.

Pamphlets

Yesterday thousands of pamphlets were distributed to the community and various organisations calling for support for the strikers.

One of the pamphlets said workers were suffering hardships as a result of the strike.

It said 10 000 workers in more than 100 OK Bazaar stores across the country were demanding better wages.

Offer

A spokesman for OK Bazaars, Mr Richard Blackwell yesterday said his company was not prepared to yield on its present offer.

He said the R160-a-month demand was out of the question because it would put his company out of business.

"You can't pay anyone more than what you have," he said.
PRICES of up to 2,000 consumer items will increase in the next two months and, by June, 10,000 will have gone up, retail officials say.

Increases in meat, sugar (15%), pasta (8-10%) and wine (1%) are the main products affected but the list includes peanut butter, milk powder, detergents, toiletries, paperware, packaging materials and gouda cheese.

Products directly affected by the sugar price increase will be sweets and chocolates, soft drinks, biscuits, confectionery, canned fruits and jams.

Large supermarket chains foresee an initial resistance to the increases. But once the increases have been accepted, sales will be as before.

Prices will remain the same until old stocks are depleted, so most increases will only be effective from the start of next month.

Pick 'n Pay director Richard Cohen said sugar was a commodity consumers had to have.

And although an initial resistance was expected, sugar sales would not decrease significantly in the long term. He said, "As prices increase, packaging sizes decrease and consumers do not notice extreme increases."

"The government has encouraged consumers to be positive about the state of the economy, concerning sanctions and an inflation rate of 29%, and now we have this 15% increase in the price of sugar.

"Even though the sugar increase is below that of the inflation rate it is the biggest in years."

Checkers’ chief executive of supermarkets Lionel Blakeman said they expected price increases ranging from 5-15% depending on the sugar content of the various products.

He said, "The impact of the sugar price rise will begin to be felt next month. Prices will remain as they are until old stock is cleared."

Confectionary and soft-drink wholesalers do not foresee any drastic drop in sales.

Sweet and chocolate manufacturers, the industries worst affected by the sugar increases, are optimistic and do not anticipate a drop in sales in the long term."
Food prices put bite on '87 shopping lists

Own Correspondent

DURBAN — Nearly 2,000 items on supermarket shelves will rise by up to 20 percent in the next few weeks and wine prices are set to increase by 17 percent, despite the country "drowning in wine".

And that's only the start. Durban North Hypermarket manager Mr Martin Rosen predicted yesterday that by June 1, about 10,000 items will have gone up and that inflation on all foods could reach 20 percent by mid-year.

THE LIST

Mr Rosen said products directly affected by the recent 15 percent sugar price rise included tinned fruit and vegetables, jams and other spreads, soft drinks, sweets, most confectionery and syrups.

He said these products would go up in the next few weeks.
- Sugar by 15 percent
- Mineral drinks and squashes 10 percent

Sugar price rise helps fuel inflation

- Pastas by between eight and 10 percent.
- Canned fruit and vegetables by five percent.
- Peanut butter by at least 20 percent.
- Biscuits around eight percent in March.
- Milk powder and associated products 10 percent.
- Detergents 12.5 percent, including soap powder and liquid dishwasher.
- Paperware by 10 percent.
- Toiletries by eight percent.
- Chocolate and sweets, hit by the sugar price rise and increases in the cost of labour and packaging, could be expected to jump 20 percent by next month.
- Gouda cheese by 10 percent (and cheddar is almost unobtainable).

Checkers' chief executive of supermarkets, Mr Lionel Blake- man, said the chain expected price increases ranging from five percent to more than 15 percent, depending on the sugar content of products.

"The impact of the sugar price rise will begin to be felt next month. Prices will remain as they are until old stock is cleared," he said.

Mr Rosen said Pick 'n Pay had bought in massive supplies at the old price to cushion the blow to consumers and would phase in the increases.

Strategic items had been stockpiled but, Mr Rosen said, some products had been difficult to obtain as manufacturers were without stock.

Mr Rosen said suppliers had informed him that increases in the price of wine of 17 percent could be expected soon despite the country "drowning in wine."

A five-litre carton now selling for R5.99 would jump to R7.83 after GST.
Dire warning about inflation

THE rampant inflation rate would shatter SA's economy, Consumer Council director Jan Cronje warned in Pretoria yesterday.

It was clear the inflation monster had to be tamed at all costs — and urgently, he said.

Recent price rises painted a bleak picture for 1987.

Cronje said that a large store chain had indicated that the next round of food price rises would average out at about 19% — and would include a peanut butter hike of 60%.

Vital commodities such as meat and sugar have risen drastically in price, and motor industry sources have warned of increases of 40% in the year ahead.

Many of the increases in food and household products are expected before the end of this month.

The 15% jump in the sugar price is expected to have a ripple effect on products including jam, condensed milk, biscuits and soft drinks.

Detergents and toiletries will cost up to 12% more.

The price of dairy and dairy-related products, such as powder milk, yoghurt and baby food, are expected to rise about 12%.

The price of cheese has already been increased.

Cronje claimed the only way to curb inflation was to declare a freeze on prices and salaries.

The private sector and wage-earners could not continue to claim more and more from the economic system.

The rising rate of inflation caused a decrease in the consumer's real purchasing power, which meant that he was forced to buy less and less, said Cronje.

"The government is blamed by the private sector for excessive spending, but by constantly increasing prices the private sector must share the blame," Cronje asked why, when the price of maize decreased by 25% and the price of cement remained unchanged, other manufacturers and traders could not follow suit.

On the issue of school uniforms, Cronje said parents who complained about exorbitant prices should take up the matter with their local parent committees.

"Uniforms will, of necessity, be more expensive where schools insist on individual colours and styles," he said.

Cronje said prices could only be lowered if styles and colours were rationalised.

Manufacturers producing specific uniforms for schools would obviously charge more.

The Bureau of Standards (SABS) had for years been working on the rationalisation of school uniforms: Schools had been advised to contact the SABS for more information.

Cronje stressed that the final decision on school uniforms was made by parent committees. Hence, the ones laying on parents themselves to obtain cheaper uniforms.
Rand drops 20c over 18 months

By DEREK TOMMEE
Finance Editor

The value of the rand has been shrinking for several years, but the rapid increase in inflation in the past year or so now seems in danger of pushing it from sight.

According to official figures, it has lost more than 20c in purchasing power in the past 18 months — and has left a lot of South Africans much poorer.

The figures show that a basket of goods that cost R10 in May, 1965, now costs almost R12.00 — an increase of 20 percent.

It means that today’s rand is worth less than 80c in May 1965 terms.

Many factors are responsible for the most recent steep rise in prices and the fall in the rand’s value.

These include the slump in the rand in the foreign exchange markets which has greatly increased the cost of imports and especially of motor vehicles. The ending of the drought has played a role as it has led farmers to start rebuilding their cattle herds and hold back cattle from the market.

And wage increases in areas where skilled labour shortages exist have also contributed to the price rises.

LAGGED BEHIND

However, only a small number of people have seen their incomes rise in line with inflation. Most people’s salaries and wages have lagged behind the rise in prices and they have become a somewhat poorer as a consequence.

Some may not have realised this yet as they may have been able to exist on their past purchases. But they will know it when the time comes to buy another car (up 61.8 percent in price over the past 18 months), or domestic appliances (up 32.8 percent) or have to embark on a course of medicines (up 26.6 percent).

The high rate of inflation during the past 18 months and the resultant slow, but steady impoverishment of most South Africans helps to explain the lack of consumer demand in real terms during the past Christmas shopping season. Some retailers say that sales figures, after adjustment for inflation, were lower than a year ago.

It also helps to account for the continued drop in interest rates in the face of extremely high inflation.

The fact is that money is a commodity like any other good and subject to the same laws of supply and demand. If the user cannot afford to pay the going price, the rate of interest being charged will obviously make the case at the present, the price of money must come down.

And as long as this present situation persists, interest seem more likely to fall than rise.

The table below shows the percentage price increases in various categories of consumer goods and services in the 18 months ended November:

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage Increase</th>
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</thead>
<tbody>
<tr>
<td>Food</td>
<td>20.9</td>
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<tr>
<td>Beverages</td>
<td>21.2</td>
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<tr>
<td>Clothing</td>
<td>22.8</td>
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<tr>
<td>Furniture</td>
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<td>Housing</td>
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<tr>
<td>Clothing and footwear</td>
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<tr>
<td>Total</td>
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**Table:**

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<thead>
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<th>Category</th>
<th>Percentage Increase</th>
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<tr>
<td>Car running costs</td>
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<tr>
<td>Fats and oils</td>
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<td>Public transport</td>
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<td>Sugar</td>
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<td>Vegetables</td>
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<td>Cigarettes</td>
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<tr>
<td>Alcoholic beverages</td>
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<tr>
<td>Communications</td>
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<tr>
<td>Services</td>
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<tr>
<td>Fuel and power</td>
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<td>Milk, butter, eggs</td>
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<tr>
<td>Low income living costs</td>
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<tr>
<td>Food</td>
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<td>Medical</td>
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<td>Fruit</td>
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<tr>
<td>Recreation, entertainment</td>
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<td>Fish</td>
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<td>Meat</td>
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<td>Coffee, tea</td>
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<td>Cleaning materials</td>
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<td>Vehicles</td>
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</table>
Inflation warning

THE economy could be shattered by rampant inflation. The monster must be tamed at all costs — and urgently — warns Consumer Council director Mr Jan Cronje.

Speaking in Pretoria, Mr Cronje said that a large chain store had indicated that the next round of food price rises would average out at around 19 percent.

The prices of some items, like peanut butter, would rocket by as much as 60 percent.

Recent price rises painted a bleak picture for 1987, he noted.

Essentials like meat and sugar are rising drastically in price, and the motor industry has warned of increases of 40 percent this year.

Many of the hikes in food and household goods will become effective before the end of the month.

The 15 percent jump in the sugar price is expected to have a ripple effect covering products like canned fruit and vegetables, confectionery, certain breads, biscuits, certain medicines, jams and marmalades, condensed milk, fruit juices and soft drinks, products of the ice-cream industry and instant puddings, sweets and chocolate products.

Toiletries and detergents will cost up to 12 percent more.

The price of dairv and dairy-related products, like powdered milk, baby foods and yoghurts are expected to rise by about 12 percent, while the price of cheeses has already been increased.

Mr Cronje claims the only way to curb inflation is to freeze prices and salaries.

The private sector and wage-earners cannot continue to claim more from the economic system, he is reported as saying.
Johannesburg — The present high inflation rate is a result of government mismanagement of the economy by allowing a buying spree on credit when the gold price rose in 1980, says the director of economic consultants Econometrix, Azar Jammie.

He also suggests that the formation of huge conglomerates was an inflationary factor.

A report from Econometrix forecasts that the real value of the rand — with a buying power nearly half that of seven years ago — will have shrunk to $5c by the end of 1987.

Jammie is reported as saying that the results of his organization's studies underscore the mounting concern of economists over S Africa's failure to follow the lead of its Western trading partners in finding solutions to rampant inflation.

He believes that, because of hotly debated weaknesses in the composition of official statistics, the full shrinkages in the rand's value may be even worse than those reflected in the Consumer Price Index (CPI).

He says that even the CPI concedes that a basket of household items that cost R100 in 1980 now costs around R240, with the annual rate of inflation running close to 20%.

The result is that the purchasing power of the rand has plunged from R1 in 1960 down to 4c, with a deeper slide threatened as economists despair about the inflation spiral and its impact on living standards.

Jammie blames government mismanagement of fiscal and monetary policies as the main cause of inflation.

The way the private and public sectors allowed wages to gallop higher without any commensurate increase in productivity is also to blame, he says.

The ambition to start closing the wage gap between white and black employees was "commendable" but government's error was "the failure to find simultaneous remedies for SA's dreadful productivity record."

"The numerous structural faults in the economy are well known. But the private sector must carry part of the blame for our present inflation headaches."

Jammie explains that the temporary boom at the start of the 1980s set in motion "a massive movement towards bigness in business, with large corporations growing even larger through a succession of takeovers of smaller companies and the emergence of massive concentrations of corporate power."

"It's a conventional issue but I'm convinced the sheer size of business enterprises can cause hiccups in classical economic theory."

"Unhappily, it is obvious that many giant corporations, rather than reduce prices, have simply resorted to reductions in production, hoping high prices will balance lower sales."

"However, they have caused more unemployment and loaded the problems elsewhere." — Sapa
Car price hikes to be less than inflation — VW head

By Jeremy Sinek

Motor vehicle prices should increase by less than the local inflation rate, says VW SA managing director Mr Peter Searle, in reaction to a reported statement by Mr Ian Cronje, director of the consumer council, that car prices would increase by 40 percent this year.

"If the exchange rate holds steady against the German mark, VW/Audi will be doing its utmost to hold price increases to between 10 and 12 percent this year," Mr Searle said.

There is similar optimism in the case of Japanese-sourced cars. "With a little bit of luck increases won't be much more than 12 percent for the whole year," said Mr Colin Adcock, managing director of Toyota.

Already there has been some slackening of the price rise spiral. So far only Nissan, with a modest three percent hike, has posted the normally expected turn-of-the-year increase.

The below-inflation rate of price increases should be possible, because the worst of the exchange-rate onslaught (which inflated the cost imported components) had already been absorbed by the end of last year.

Mr Adcock said: "The large increases up to the end of the year covered a 44c rand, so we won't be in bad shape if it stays at 45-46 cents."

STABLE RAND

With the Reserve Bank looking able to maintain the rand steady at least until mid-year — helped by a downward trend for the dollar and a possible weakening of the yen — Mr Adcock predicted no major price increase to cover currency factors on imported components.

Similarly, the cost of local components would rise at less than the inflation rate because the cost of their own imported content would remain stable.

Mr Searle predicted that the swing towards smaller cars in 1987 would continue and that this, combined with low interest rates and readily available credit, would lead to a revival in the new car market.

Toyota's Colin Adcock predicts a modest five percent gain in car sales for 1987, while light commercials "might be a surprise, as farmers are feeling better and there could be some stimulation of the building industry."

But he believes the passenger car forecast could prove unduly pessimistic in view of the bond rate war.

"This could be a critical and interesting factor, as from April many people will benefit from a two percent drop in the bond rate.

"If this holds through the year, as it should, there is the potential for growth considerably better than five percent."

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**SUPPS**

**MATHEMATICS**

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**ECARE**

**OR THE MONTH AT IN-STORE YOU WILL BE**

**IRONS 379.95**
LOST TARGET FOUND

This graph corrects a story in the FM on December 26, headed “Where’s the target?” Unfortunately some details were omitted.

The accompanying corrected graph shows that November 1986 growth in M3, the broadest monetary aggregate, was persistently below the Reserve Bank’s target band of 16%-20% Preliminary figures for November put M3 growth at 9.71% year-on-year to R78.3 billion, compared with the revised figure for October of R78.5 billion, a growth of 10.37% year-on-year

![Graph showing Money supply growth]

INFLATION

Food snags

The average rate of inflation for 1987 should not exceed 17%, according to many economists, in spite of hefty food price increases announced for the new year.

The price of industrial sugar was increased by 15% Although wholesale and retail sugar prices were not included, the follow-on will affect not only these prices, but also related food products such as baking and confectionery items.

Meat prices also surged in December. Koos du Toit, chief economist at the SA Agricultural Union, says there was “unusually high demand for meat over the Christmas period” — one reason meat prices rose. But he does not expect any easing of prices until farmers rebuild depleted herds as they recover from the drought. For cattle, he says this could take some 18-24 months.

As Adam Jacobs, economist at Volkskas, says “The price of red meat will have a significant impact on inflation for 1987.”

Predicting an average inflation rate of 17% for 1987, he warns that the main problem is the threat that growth will be stilled by factors such as increased labour costs, the delayed effects of the rand depreciation and administered price increases, especially food.

But growth will not be threatened by inflation in 1987, according to Leon Steenkamp of stockbroker Senekal, Morten & Kittoff, though he fears this could happen in 1988, especially if excess capacity is absorbed by growth this year and business is forced to invest in expensive capital stock.

Steenkamp predicts a marginally lower inflation rate of 16.75% for 1987, which, of course, “is still very high.” He suggests relief could stem from the slightly better performance of the rand and the recent cut in maize prices (see Business).

He adds, however, that meat and other administered prices will contribute significantly to inflation, while wage and salary increases are likely in both the public sector, with the forthcoming election in mind, and the private sector, striving to make up for real earnings declines in 1986.

Lous Geldenhuis, consultant to stockbroker George Huysemer, will be surprised if inflation in 1987 is less than 16%, and expects a slightly lower average than 1986’s 19%. But his big fear is that inflation may have become institutionalised and endemic.

“The most disturbing point is that inflation is so widely distributed that you can’t point to any one cause. It’s like a cancer.”

Without a serious attempt at a comprehensive anti-inflationary policy the debilitating effects of inflation will continue to be felt in 1987, if in a somewhat milder form.

The underlying concern of economists is that inflation is the volatile demon! A serious anti-inflation strategy could help diminish volatility and restore fragile business confidence.

FINANCIAL MAIL JANUARY 1987
Food hikes to hit soon

CONSUMERS have been warned to prepare themselves for across the board increases of over 10% in thousands of food and household products in the coming months.

Many of the increases were expected before the end of this month. The 15% increase in the sugar price was expected to have a ripple effect on products ranging from jam, condensed milk and biscuits to soft drinks, the SABC said.

It said detergents and toiletries would cost up to about 12% more, while a 15% increase in the meat price included canned and processed meat.

The price of dairy products was expected to rise about 12%. Many would have to forego peanuts and peanut butter as drought had pushed the price up by 60% – Sapa.
By David Southey

INFLATION shudders are once again rippling through the economy.

In spite of most economists' predictions of a slightly lower average inflation rate in 1987 than in 1986, reports that prices of many foods are soon to be raised by between 10% and 20% have set alarm bells ringing among consumers.

The consumer-price index rocketed in the first two months of last year, but expectations were for much lower increases early this year.

Although Meat Board officials do not think the price of red meat will rise by much more than 15% this year, others are pessimistic.

Supply

Standard Bank agricultural economist Theo Potgieter says: "Meat prices are influenced primarily by what happens to supply. At the moment supply is being checked by farmers who are re-stocking extensively after good rains. This could force meat prices up for some time to come."

Economists say there is little the control boards can do to alleviate the shortages other than to import large quantities of lamb and beef. Given the limited supply at the meat auctions — scarce demand, a demand which must be met from bulk buyers, such as hospitals, hotels, schools and restaurants — prices look set to edge up for some months.

Old Mutual economist David Moore has received widespread publicity after his warnings that conditions in SA could be ripe for hyperinflation in the next two years or so.

However, Mr. Moore tells Business Times he was merely warning that SA had certain preconditions in common with nations that had experienced excessive inflation rates — a weak currency, foreign debt problems of one kind or another, disproportionately large public sectors among others.

Warning

He nonetheless believes SA's inflation rate for 1987 will be "no higher than in 1986 — and could be even lower."

Mr. Moore says that SA's ability to avoid even higher inflation will depend on how the government reacts to the current adverse circumstances.

In the July 1986 edition of its Economic Monitor, Old Mutual concluded: "In the last few years the government has clearly financed the Budget deficit without undue money creation there is no clear evidence that increased Government borrowing was the main factor behind the sharp run up in capital rates."

Old Mutual found that the Budget deficit, expressed as a percentage of gross domestic savings, had declined from an average of 16.4% for 1979-1980 to an average of 13.3% since 1981.

Mr. Moore says: "Given the extent of the rand's decline, I am surprised that the inflation rate was not above 20% in 1985 and 1986. This testifies to the fact that there is still a lot of discipline in the business environment despite what people think and that fiscal policy has been a lot tighter than what we have been prepared to admit."

Flexibility

Another positive factor in the fight against inflation, says Mr. Moore, has been the "remarkable flexibility in recent years in real wages."

Except for a brief spell in the 1970s, real — inflation adjusted — wage increases have consistently fallen short of the inflation rate.

Of course, there is no guarantee that economists will be right in their predictions of a slightly lower inflation rate for 1987, but there is insufficient evidence available for them to revise their views.
THE SHARP decline in the value of the rand and distortions in the free-market system are the major reasons for SA's continued high inflation rate, says Trustbank's latest Economic Report.

It also said year-on-year inflation was expected to decline further in January, mainly for statistical reasons.

Monetary authorities seemed to be in control again as far the rand was concerned and the inefficiencies in the economy were gradually being addressed in some areas.

This could be seen in efforts by the authorities to deregulate and privatise, and the activities of the Competition Board.

The Report said: "We are, however, concerned about the progressive concentration of power in the private sector with large groups increasing their control in certain sectors of the economy. This limits competition and lessens cost-consciousness, causing considerable distortions of free-market principles preventing the consumer from participating in the price-making process."

"In order to come to grips with our inflation problem and ensure long-term economic growth, something will have to be done about the increasing crowding out of the private sector by the government sector. The main Budget following the election may indicate some progress in this direction."

It also criticised government's plans for a separate tax system for the regional service councils, on the grounds that it penalised labour-intensive businesses and businesses operating on a high turnover and a low profit margin. The administration of the system would also be expensive."
SALES of new cars are at their lowest level for 10 years — while truck and bus sales have plummeted to a 24-year low.

Motor industry figures released today confirm that 1985 was the year motorists finally gave up the unequal struggle against spiralling prices.

Industry officials say car prices have risen by between 85% and 95% in three years — more than double the rate of most pay increases.

National Association of Automobile Manufacturers (Namusa) director Nico Vermeulen says that in an average year between 8% and 9% of the car population — currently estimated at 3.2 million — is replaced. In 1985, this fell to around 5%.

He says: “Vehicle manufacturers are conscious of the fact that new car prices have escalated to a level out of reach of most private buyers and it is recognised that a sustained pace of recovery in demand for new motor vehicles will have to reflect positive trends in real income.”

The latest figures show that car sales in December fell to 12,674, the lowest monthly performance for 10 years. The total number of cars sold in 1986, 174,453, was also the worst for 10 years and 44.6% down on the previous year’s 304,090.

Only two manufacturers — Volkswagen and BMW — actually increased car sales in 1985, both by just a few hundred.

The big losers were General Motors, which saw sales crash from 19,000 to 14,000, and Satmcor, with a drop from 42,000 to 38,000.

Sales of bakkies and mini-buses held up relatively well — light commercial vehicle sales last year totalled 79,000, against 85,000 in 1985 — while medium commercials continued to struggle.

Truck and bus sales, however, were a disaster — the total of 6,859 was the worst since 1962 and over 34% down on 1985.

Bad as the figures are, industry officials believe things can only improve. And they point out that with most manu-

New vehicle sales plummet

ufacturers already operating at minimum staff levels, the figures are unlikely to lead to further lay-offs.

Instead, they say sales, which have lagged behind the recovery in other consumer sectors, will pick up as a result of lower interest rates, a slow down in prices rises and the fact that many vehicles are in need of replacement.

Vermeulen says manufacturers hope to keep car price increases this year to around 12%, although this depends on the rand retaining its value against the yen and Deutschemark. Industry officials point out that the rand’s performance against the US dollar is largely meaningless in determining the price of imported vehicle parts.

Nevertheless, they expect sales in all sectors to increase during 1987.
Inflation rise looms as oil prices firm

By Lee-Ann Louverdis, Barclays Bank international economist

AFTER a cheerful inflation picture for 1986, analysts are turning their attention to prospects for 1987.

The US consumer-price index for last year is expected to have risen by 2% from 1985. The main impetus for the lower trend has come from lower oil prices. Cheaper energy lowers inflation for oil-importing nations.

The outlook for 1987, however, is not rosy. OPEC is achieving some success in re-establishing its dominance in the oil market by simultaneously cutting output and fixing prices. Energy prices have begun to firm.

By implication, higher oil prices raise the fuel import bill of energy-importing nations. Domestic manufacturing costs are driven up and inflation is given new life.

This in turn could cause a decline in consumer spending, and have a negative effect on growth rates. Higher oil prices have a positive effect in that they relieve pressure on both the US oil-producing sectors and oil-importing nations.

US banks have large debt exposures to both of these communities, so the banking system welcomes the relief offered by higher energy prices.

But more important, international investors are becoming increasingly nervous of inflation prospects for 1987. Rising oil prices, rising bond yields, higher metal prices and a declining dollar are making the investment community jittery.

Interest

Furthermore, it appears that the US Federal Reserve is in a quandary as to its next step on interest-rate policy. Does it ease rates further in the face of poor US economic performance and pressures from the banking system to keep rates low so as to facilitate easier debt repayment?

Or does it tighten rates to ward off the inflationary pressures of a growing money supply and rising import prices which are the result of the dollar's depreciation?

The markets expect the Federal Reserve to adopt an easier monetary policy. It appears that all the major factors are in place to effect an upturn in international inflation this year.
Continuing high inflation is SA’s most pressing economic problem. As part of the debate on this important issue, Business Day has commissioned the views of several prominent economists on the causes of SA’s double-digit inflation and their suggested solutions. This is the first article in the series, to be published over the next few weeks.

The crucial cause of inflation lies in the fiscal field

LOUIS GELDENHUYS of George Huysamer and Partners

It is not easy to change this characteristic and it tends to neutralise major successes on the inflation front. What may be true of behaviour today may not necessarily hold tomorrow. Moreover, behaviour could be substituted by a different set of circumstances at some point in time.

There is every reason to conclude that considerations such as the balance of the wage gap, the stage of trade subsidies or SA’s a shortage of skills and skilled labour which are important barriers for almost eliminated under-employment in the price of employed labour.

The shocks of administered and agricultural prices I think that increases in these prices cannot be prevented in an inflationary environment. The problem is that the system tends to result in build-ups and consequent price shocks, which in turn act as important shocks in the process of price formation.

The climate inflation has reached such a stage in SA that is not only accepted by most, but has in fact become institutionalised.

It is only when we can learn from others and the costs of inflation are more easily understood by all that we can expect to see a genuine reduction in inflation.
Car prices already on the way up

A BATTERED motor industry has begun increasing the prices of cars and light commercial vehicles.

Price increases of 33% last year and 30% in 1985 led to a plunge in sales last year. They were the lowest in 10 years. All manufacturers have raised prices by up to 6% by the beginning of February.

However, the January increases will be lower than the average last year. Manufacturers fear that even if increases are held well below the inflation rate, it will be 16 months before the average person's disposable income will be sufficient for a new car.

First time

An indication of manufacturers' concern comes from a marketing director who says that is the first time in the industry's history that all motor companies have not raised prices on January 1.

But car-makers have no option but to increase prices because they have lost millions of rands in the past two years.

A popular 1.3l car today costs R15 499. A buyer has to pay R433 a month for four years after a 10% deposit. In addition, comprehensive insurance costs about R100 a month.

To meet those payments, a buyer must have a monthly income of R1 025 a month before tax at 40%.

Last year's car sales were the lowest since 1975, at only 174 453 units, and down 14.5% on the 204 242 in 1985.

Light commercial vehicles (LCVs) were also at a 10-year low at 15 534 units and 7.4% off the 16 261 units sold in 1984.

By Don Robertson

Luxury manufacturer Mercedes-Benz will raise the price of all its models by 5% tomorrow. Prices of the Honda Ballade, made by Mercedes, will be increased by 2.5% for the 130 model and 5% for the 150.

Although December's total car sales fell by 7.9% from November, Mercede-Bese recorded a 10% increase to gain its best-ever market share of 3.9%.

The improvement came largely from Honda Ballade and Mercedes 124 sales. Its share of the car market last year rose by 0.5% to 11.2%, and it dominated the heavy-truck market with 35.5%.

Nissan lifted prices by an average of 3% on January 1. Marketing director Sven Terhege says, however, it may be possible to hold increases to about 4% below the inflation rate this year. But even if this is achieved, it will be 18 months before the average person will be able to afford a new car.

New Skyline

Nissan should benefit from the new Skyline, which will be introduced in the second quarter of the year. A new Langley will follow Finance for tooling, estimated at R140 million, has been negotiated.

Toyota continued to set records in market share last year with 22.8% of the total—26% of cars and 37.1% of light and heavy commercials. Its Corolla alone held 17.5% of the car market. It held almost 40% of the LCV market.

Toyota will raise prices on February 3. Marketing director Brand Prentorius, although not disclosing the.

To Page 3

By David Carle

Rob Abrahamsen, disposed chief executive of Nedbank, is returning to his native Netherlands to take up a banking job.

Mr Abrahamsen starts new career as an adviser to the Nationale Investrew Bank, an investment house headquartered in The Hague, at the end of this month.

Since leaving Nedbank last year, he has worked as stockbroker at Frankfurter Securities. He sought to assess loans between metal and bond companies and industrialists outside the United Kingdom.

Profitable

He says "It was an overseas assignment, but which was potentially thwarted here by a decline in interest rates and a stock market which was not trying enough for the firm, giving me an opportunity to return to South Africa, where I think I am a bit more than a broker."

Mr Abrahamsen chose this new career offer because of its potential for growth in SA and other countries, including the US. He will not elaborate on the other offer.

"I thought this offer consisted of the most interesting and challenging opportunities. I am not sure if I will return to the UK, but I am sure I will not stay in South Africa for long."
Brighter outlook for inflation-battered construction industry

By Frank Jeans

The outlook for the civil engineering industry which has been battered by recession is looking brighter, and if inquiries by private and public clients materialise the year ahead should result in a higher level of work volumes.

Giving the spark to improvement are the figures from the South African Federation of Civil Engineering Contractors for work awarded in December.

ROADS SECTOR

The 40 new contracts, amounting to a total of R65 million boosted the value of work for 1988 to 1,155 contracts worth a total of R1,586 million.

"As a result," says Safcec, "even after adjusting for the inflation of construction costs of 15 percent or more last year, the total for 1988 in terms of volume of new contracts is on a par with the total of R1,350 million (350 contracts) record in 1985."

The major gains were in the fourth quarter of last year, with awards hitting well over the R400 million mark compared with the R290 million for the same quarter in 1985.

It was the roads sector again, which boosted the new work intake in December, with R238 million in National Transport Commission contracts.

The big one was the R29 million reconstruction of the N1 from the Paarl interchange to the Berg River - a joint venture by Concor Construction and Basil Starke and which is scheduled for completion in 17 months.
Inflation rate down slightly in December

Finance Editor
The rate of inflation declined slightly in December when the consumer price index (1980 = 100) had its smallest increase for six months.

The index rose 1.0 percent to 244.9. This followed a rise of 1.3 percent in November. Central Statistical Services reports.

It led to a reduction in the year-on-year increase to 18.1 percent — from 19.2 percent in the 12 months ended November.

Prices of gilt-edged stock rallied on the capital market on news of the drop in the inflation rate, reports Reuters. It resulted in yields on Government stock dropping to 15.17 percent from 15.28 percent.
December drop in inflation rate

INFLATION, as measured by the consumer price index (CPI), remained above 15% in December 1988, dropping marginally from a year-on-year increase of 19.2% in November.

The December rate of 18.1% made for a 1988 average rate of 18.6%, compared with 16.2% in 1987 and 11.7% in 1984.

Economists said the December drop was expected, especially in view of a stronger rand. Further declines, for "technical reasons" could be expected for January and February, owing to large increases in the index for those months in 1988. However, hikes in administered prices are expected to filter through in March and April.

Consumer prices rose 1% from November to December, after rising 1.3% from October to November and 1.1% from September to October. Expressed at annual rate, the increase over those months was an encouraging 14.7%.

The lower-income group experienced worst inflation in December, with an 18.5% increase. The price index of the middle-income group rose 18.3%, while the higher-income group experienced a rise of 17.8%.

Food prices rose 1.7% in December, giving a year-on-year increase of 20.9% compared with 22.9% in November.
Petrol prices may increase again later this year.

STOCKPILING fuel reserves is slowing down because the country can no longer handle the rate of fuel coming in. The slowdown is only temporary, however, and stockpiling will build up again later this year.

David Furlonger, Industrial Editor

Once supplies are up, an increase in petrol prices may not be far behind. Pressure is building up on the "slate". An equalisation fund that keeps petrol prices steady Retailers and wholesalers are asking government for bigger profits.

Mineral and Energy Affairs Director-General Lous Alberts says although fuel stockpiles remain below levels the government wants, fuel has been coming in too fast.

"We have not yet got our basic reserves to the point we would like. But you can't suddenly buy up a whole load of oil at once, "

The present slowdown is the reason why the 5c "stockpile" levy on a litre of petrol is being withdrawn. Government sources told Business Day this week the 5c was being transferred to the slate to prevent an immediate increase in petrol prices.

Alberts says no final decision has been made on the levy but fuel industry sources say the 5c has already moved to the slate. They say a breakdown of the latest fuel price shows government is over-recovering by nearly 4c on a litre of petrol.

Alberts says part of the 5c may go to the slate to keep down prices. "There has been increased pressure on the slate, particularly on the petrol side. We are under-recovering petrol, and over-recovering diesel. Probably part of the 5c will go to compensate for petrol.

Retailers currently receive a 5c profit margin on each litre of petrol sold, and wholesalers 4.55c. Alberts says retailers want "a few cents more" and wholesalers "a fraction of that."

"Their margins have been constant for a long time," he says. "With wages and expenses going up, they may have a valid argument. We want to look very carefully at their needs."
Government must lead to curb the price/wage spiral in SA

SA’s most pressing economic problem is continuing high inflation. As part of the debate on this crucial issue, Business Day has commissioned several prominent economists to explain the causes of inflation and give their suggested solutions. This is the second in the series.

JOHAN CLOETE/Former chief economist at Barclays

Product markets are at a considerable degree imperfectly competitive

Government must lead to curb the price/wage spiral in SA

It is crucial that such a process is self-discipline should be encouraged by government in the form of a disciplined (price-wage) spiral, which must be supported by a disciplined (price-wage) spiral.

In the absence of such a process, it is likely that the spiral will continue and that the rate of inflation will remain high. This is why it is important to ensure that the spiral is self-disciplined and that it is not allowed to continue unchecked.

**The article continues...**
The race to get in front in the wage battle must stop

GEERT L de WET

As part of the debate on continuing high inflation in SA, Business Day has commissioned the views of several prominent economists on the causes and the suggested solutions. This is the third article in the series.

GEERT L de WET

Professor and head of the Department of Economics
at the University of Pretoria

M Y VIEW on inflation in South Africa is based on an extensive study which I conducted last year at the RAU, in co-operation with some colleagues and students of mine for the AIJ. The study covered the literature and empirical studies, abroad and locally, before proceeding to analyse the situation in SA.

Worldwide, and inflation escalated between the mid-Sixties and the beginning of the Eighties, since when it has been declining, but in South Africa, like in every other major trading partner — SA is still faced with an inflation rate which pushes upwards.

Sixties countries that succeeded in bringing down inflation had to go beyond monetary and fiscal discipline. The US and Britain have been remarkably successful in bringing down inflation by, among other things, turning away from socialism and socialist practices towards a free market.

They also applied some measure of monetary and fiscal discipline, but have not been completely successful in this respect. What about SA?

Excess demand factors, including positive monetary expansion in general and money creation financing of the Treasury deficit in particular, have played a role in causing inflation over many decades in SA.

However, empirical research showed that the inflationary influence of these factors is of a cyclical nature. No matter how strong and how persistent the inflationary impact of these forces may be in one period, it invariably subsides in a subsequent period and eventually becomes deflationary.

But if it were only for these factors, which are traditionally controlled by monetary and fiscal measures, inflation in SA could not have departed on a long-term upward trend ever since the middle Sixties.

Yet other forces are present in causing such a trend. Starting at well below 5% in the mid-Sixties, the rate touched 10% in 1980. Along the way the rate accelerated and decelerated in cyclical fashion, as the cyclical forces revived and faded alternatively, but the upward trend was unmistakably present.

Empirical research showed that there are factors which propel inflation upwards, even when demand factors are deflationary.

First, there are cost-push factors. Wage-per-unit-output, which is not only the source of inflation and secular acceleration but also the base of the upward trend factors is much more useful, and in this context even endogenous variables become more important than the usual factors. The more cost increases there are, the more inflationary pressure there is.

Second, there are excess demand factors, such as government expenditure and monetary expansion.

A second set of upward trend factors comprises market disturbances and structural factors. Under normal market conditions, these prices would not have been able to cause inflation, but being controlled the way they are they form a set of factors which constitute initiating and propagating forces.

Also part of market disturbances is the wide range of monopolistic conditions. There is no evidence that bigger concentrations cause more inflation than smaller ones, but empirical research shows that the higher the share of profits the higher the inflation rates.

In the short run, these forces can only be controlled if they are kept in line with market forces. Over the long run, the only solution is privatisation and deregulation, so that all prices, wages and rates are determined through decentralised bargaining.

The third upward trend factor is the way in which wages and prices are linked. Over the short run these prices, wages and rates at which have been controlled up to now.

Over the short run, these prices, wages and rates are already determined and controlled, and the way in which have been controlled up to now.

Agricultural prices and the other prices referred to above are important examples. In some cases, such as the maize price, transport tariffs, the petrol price and electricity prices, important progress has been made recently.

The race between the various sectors to get in front in the wage battle should also be halted.

The wrong way to do it would be government to freeze wages. The right way would be for every employee organisation and every employer to get around the table and find a way to halt the effects of this race and then to find a way to halt it.

There are a few possible ways to do it, but since once again does not work.

If we don't act, inflation may soften somewhat in 1987, but over the medium term it will go up and in the long term it will be heading for 3% and higher.
Sanlam pessimistic over prospects

Pay demands are fuelling SA inflation

WAGE demands have become a core element contributing to structural inflation in SA, says Sanlam in its January economic report.

It warns that the public will have to realise anew that it is contributing to this cost spiral, especially if it demands more for the same levels of production.

"Wage discipline is of the utmost importance if we wish to rid our economic system of this (inflationary) cancer."

Although SA's inflation rate could ease over the next year, Sanlam remains pessimistic about longer term prospects, identifying wage inflation as a core problem.

Sanlam notes that labour remuneration represents close on 60% of the total production of goods and services in the economy.

Any changes in this remuneration would, therefore, have a significant effect on the underlying costs per unit of production.

Former Wits Professor of Business Economics Roger Godlow says in the Bank of Lisbon's latest Economic Focus that SA needs to broaden its export base if a meaningful upswing in the economy is to be sustained.

He says, however, that manufactured exports are unlikely to be the source of sustained growth. Rather, it is in the mining industry that SA has a comparative advantage.

"In the context of sanctions, the country can be expected to become more dependent on mining exports. Given these circumstances it would be unfortunate if any economic distortions in the economy prevent the underlying comparative advantages of the mining industry from being fully exploited, even if these advantages are concentrated in specific sectors of mining."
Inflation in SA: obstacle to growth and stability

RONNIE BETHLEHEM

Inflation in SA must do two things. It must examine SA inflation in global perspective and it must examine it in the perspective of the SA socio-political situation.

To pretend that SA inflation and monetary policy can be sensibly discussed in purely universal terms (e.g., monetarists vs Keynesians), as if inflation here had nothing to do with local political development, is to delude oneself.

In the two decades after the war, SA experienced an average rate of inflation of around 3%. Although this was low, inflation in the world was also low, and so no remarkable conclusions can be drawn.

Towards the end of the Sixties, but particularly after 1973, world inflation rose sharply. As a result, inflation in SA rose also, and through the Seventies South African inflation mirrored what was happening elsewhere.

Particularly interesting of the Eighties is the fact that there has been a major downward correction in world inflation, but inflation in SA has remained high. Contrary to this, it has actually increased.

This requires explanation, especially as much that was true of SA socio-politically in the Sixties, Seventies and early Eighties continues to be true today. It also needs to be said that some observers have now added a new dimension to the inflation problem and this has to be taken account of in offering policy prescriptions.

It is necessary to say at the outset that inflation in SA does have a monetary dimension, as previous authors in this series have pointed out, and it has also been the result of exogenous cost-push shocks stemming from the oil crises of 1973/74 and 1979/80.

There are however, three aspects to SA inflation that require special identification. These are:

1) The role played by changes in the gold price; and
2) The oligopolistic structure of the SA economy; and
3) The influence of structural rigidities peculiar to SA.

This article concentrates on these, although it also recognises that to get rid of inflation, or significantly reduce it, requires that official policy be right also.

There can be little doubt that the increase in the gold price after 1973 was a major factor breaking with the past of very low inflation. Briefly, the increase in the gold price was a windfall and it led, quite inevitably, to a general increase in the cost structure of the whole economy.

The trouble was that, when the gold price eventually fell, the cost structure did not fall also, for reasons we are aware of. This necessitated adjustment via the rand exchange rate, and that inevitably fed back into the system as cost-push inflation.

So we are driven to an interesting mix of phenomena in the gold price, not just gold price increases, has been a major contributor to inflation in SA.

The limited size of the South African economy does not permit the full exploitation of economies of scale. To exploit these there has to be some form of export orientation in industry, but this inevitably weakens competition.

Prices cease to have desired elasticities, the maintenance of profit margins becomes a dominant corporate concern and reciprocity in the accepting of price increases weakens competitive processes.

Structural rigidities exist in all economies. In SA, attention needs to focus on those structural factors which contribute to inflation.

Space dictates that they be mentioned only:

1) Political pressure for closing wage gaps faster than productivity would otherwise have allowed;
2) The large rise in energy and the large rise in energy and the high cost of coal to GDP;
3) The growing economy and the growing non-productive public sector, and
4) The role of administered prices.

The treatment of SA inflation must begin with an explanation of non-controllable factors. There is nothing government can do about the fluctuations of the dollar price of gold or about overseas exchange rate changes.

Treaty of Rome, must be concerned with those variables the authorities can influence. It must also begin with a clearing of misconceptions.

For example, price increases are not in themselves inflationary, as Aubrey Dickman pointed out. They only become part of an inflationary process in special macro-economic circumstances — e.g., when supported by accommodative monetary policies.

Briefly, treatment must be specified in two ways in terms of the above analysis. First, it needs to focus on measures that will promote the competitiveness, internal and external but excluding currency depreciation, of the South African economy.

Second, it needs to focus on the approach and content of monetary and fiscal policy. However, the formulation has to take place in a realistic context. If that is now being made more complicated by sanctions and the need to shift resources into the export sector.

Measures to promote the competitiveness of the economy need to differentiate between the public and the private sectors.

PUBLIC SECTOR. Here the setting of public service salaries is especially important. Increases have to be market-related on grounds of fairness.

Public servants should not be discriminated against. But increases need to reflect productivities improvements and, from a macro-economic point of view, consideration has to be given to the size of the total salaries bill.

This must be reduced, and a way ahead would be provided by freezing the total bill, thus providing for per capita increases through attrition and retraining.

As far as administered prices are concerned, the problem will be amenable to solution through privatisation and deregulation. Privatisation, however, needs to be extended to Escom, Iscor, SAR and SAA — even the SABC — and these bodies can be made to compete more effectively with private sector concerns.

The real question has to do with whether government, given the political crisis it faces and its natural inclination to control everything that makes its political job easier and secures its political power, will be prepared to do such a route.

PRIVATE SECTOR. Accepting the problems linked to the limited size of the South African economy and the need to achieve scale economies, especially in manufacturing, the only way to increase competitiveness effectively is to expose domestic industry to outside competition, especially the competition of imports.

This presents problems in view of sanctions, so a prerequisite for solving the inflation problem is the solving of the political problems that have given rise to them.

Again, economics and politics are inextricably mixed. Thus the government must acknowledge and the public must be made aware of our inflation problems can be solved at least in part, but is the political cost one we are prepared to bear?

All are agreed that proper monetary and fiscal policies are essential for inflation control. The problem in the past in SA has been that monetary and fiscal policy have often been at odds with one another because government has not been clear in its own mind about its priorities.

Often, economic objectives are contradictory and a framework is needed to give overall policy coherence. As a result, problems have been tackled in an ad-hoc fashion and, very frequently, inflation has been put to the bottom of the policy "in basket", as more pressing short-term matters have required attention.

That is why what SA needs now is a comprehensive medium-term financial strategy (MTFS), like the Thatcher government adopted in Britain, only designed specifically to SA's needs.

An MTFS requires (1) that monetary and fiscal policy be harmonised with each other and with other aspects of economic policy, such as tax reform; (2) that policy objectives be made explicit; and (3) that the authorities identify the instruments they propose to use to realised policy goals.

In this way the setting of targets is made real, which has not been the case with Reserve Bank monetary target-setting until now. Only thus can credibility be restored to policy.

Of course, an MTFS has also to be fitted into the context of a broader, long-term strategy for the promotion of economic development. An MTFS for SA may well specify guidelines for the rand price of gold and the deficit before borrowing, in addition to guidelines for monetary growth.

If these things are done, the possibilities of dealing with inflation effectively will be increased. If the challenge they present is met, the hope of getting down the adverse inflation gap between SA and its main trading partners will be frustrated, with all that that implies for a further collapse of the rand exchange rate.

SA's growth requirements and the fear of socio-political destabilisation both foster the belief that measures that could contain inflation effectively cannot be afforded. So inflation comes to be seen as a necessary consequence of adjustment — i.e., money illusion is required to obscure unpleasant effects or policy errors.

The empirical evidence is that there is no trade-off between unemployment and inflation in the long run. On the contrary, in the long run inflation is both an obstacle to growth and the achievement of internal stability.
Perils of applying an economic state of emergency

PHILIP P J MOHR

The most pressing economic problem facing SA is continuing high inflation. As part of the debate, Business Day has commissioned the views of economists to determine the reasons for double-digit inflation and their solutions. This is the fifth article in the series. Mohr (left) is Professor of Economics at Unisa.

In August 1984 a harsh package of restrictive monetary measures was applied, primarily for balance of payments purposes. The hope was, however, also expressed that it would succeed in lowering the inflation rate as well. The subsequent events have well known.

The problem, of course, is that such a policy is extremely selective and also destroys some of the national product (as firms become bankrupt and unemployment increases).

As I see it, there is thus a real danger of being too worried about inflation, especially if restrictive monetary and fiscal policies are regarded as the only available policy instruments.

If social, political and economic developments should result in runaway hyper-inflation in SA, there is still a further option to declare an Economic State of Emergency and apply emergency measures.

The authorities can, for example, attempt to shock the system (albeit temporarily) by a price and wage freeze.

Until such time, however, it is better to err on the permissive side, rather than to apply inappropriate policies which could cause greater damage than the inflation which they would be supposed to combat.
JOHANNESBURG. — The Department of Finance was involved in a "top-priority" study of inflation, the Minister of Finance, Barend du Plessis, said at an investment conference here yesterday.

He said inflation was a complex problem, and one should guard against any over-simplification.

Its main causes could change from time to time.

"The remedial measures applied to combat inflation should therefore be adjusted from time to time and the same emphasis should not always be placed on each of these measures."

There was some consensus on the present status of inflation in South Africa.

It was accepted that the present inflation rate was dangerously high and that all safeguards should be taken to avoid further escalation.

Secondly, inflation now was not caused by excess demand or by any over-spending in the economy.

Thirdly, while it was recognized that the delayed effects of the relatively large depreciation of the rand from the second half of 1984 to the middle of 1986 were still being reflected in the present trends of consumer prices, other factors "of a cost nature" also played an important role.

"Fourthly, whatever remedial measures might be applied, it remains a precondition of any successful campaign against inflation that we shall at all times apply sound financial discipline in the implementation of monetary and fiscal policy in South Africa."

The application of financial discipline does not, however, require a rigid restriction of demand at all times.

"Finally we do not believe that the solution for the South African inflation problem lies with an introduction of direct controls over prices or incomes," Du Plessis said. — Sapa
Power concentration 'fuelling inflation'

The progressive concentration of power in the private sector is one of the major factors for the continued high inflation rate in South Africa, says Trust Bank in its latest Economic Report.

Large groups are increasing their controls in certain sectors of the economy and this is leading to fundamental distortions of the free-market system, Trust Bank writes.

"Despite the valiant efforts of the Competitions Board, this concentration of power limits competition and lessens cost-consciousness, causing considerable distortions of free-market principles and preventing the consumer from participating in the price-making process."

Referring to the second major influence on the inflation rate, Trust Bank says that as far as the rand is concerned, the monetary authorities now seem to be in control again. They note that the rand has firm ed in a controlled manner recently.

Outlining possible methods of controlling inflation rate, the bank says: "Money supply has been kept in check from 1985 up to the most recently released figures, yet despite this control the South African inflation rate reached record levels in 1986."

They add that this does not, however, prove that rapid monetary expansion has little effect on inflation. "It just seems that monetary control is not really relevant in the current high inflation scenario in South Africa."

In the long run, however, it could become very important. Concluding their analysis, Trust Bank say they expect the inflation rate to be lower again for January, although this decline will be mainly statistical, as the sharp rise of January 1986 will then fall away from the index.
Economists dismiss prices and income policy

GOVERNMENT is likely to make short shrift of a proposal to introduce price and income policy to combat high inflation, Finance Department sources say.

The proposal by Board of Trade (BoT) chairman Lawrence McCrystal has also been dismissed by most economists as impractical and likely to aggravate rather than repair conditions in the long run.

Officially, the “McCrystal Option” is one of a number government is considering as a means of reducing the inflationary spiral. Unofficially, however, it has already been discounted.

CHRIS CAIRNCROSS

Although such a policy may have worked in countries such as Israel and Brazil to bring inflation down from the 300%-plus ruling at the time, it is not considered a measure likely to slice 10% or even 5% off SA’s inflation rate of 20%.

Government is more in favour of adopting a multi-disciplinary approach to an ill that is being viewed with grave concern. Officials stress finding a solution is a high priority, they add.

Economists concur that they are in favour of price and wage restraints, but believe the private sector should merely be encouraged to adopt such practices on a voluntary basis through self-interest.

“McCrystal’s proposal is certainly not in line with government thinking,” says Stanlam’s chief economist Johann Louw.

In any event, the introduction of wage restraints now would be politically ill-timed and difficult to enforce.

Government should, instead, concentrate on attempting to convince the various participants to exercise restraint, other economists agree.

And, in practice, it should worry more about determining what elements are needed to generate economic growth.

GERALD REILLY reports FPF finance spokesman Harry Schwarz reacting to McCrystal’s call, said government should negotiate with trade unions and employer organisations on voluntary restraints on salaries and prices.

He warned however “any attempt to restrain wages and salaries, and to leave prices unrestrained would cause serious problems, including labour unrest”.

See Comment Page 4
Public pay hikes will fuel inflation

Economists warn of consequences

The R1.5bn expected to be paid out in pay hikes to nearly a million public sector workers from April would give inflation a powerful punt, economists warned yesterday.

They said with FFP finance spokesman Harry Schwarz's support that unless the increases were accompanied by a compensating increase in work output they would accelerate the price spiral.

Recently, a report commissioned by the Afrikaanse Handelsinstituut said curbs on increases for public sector workers and the mining industry were basic to an effective fight against inflation.

And earlier this week, Stellenbosch Bureau of Economic Research economist G E Moore cautioned government against buying votes with salary increases at the cost of rekindling inflation at a later stage.

Schwarz said yesterday as a result of government's inability to inject the needed confidence into the economy, and because of the strengthening rand, the CPI had shown a downward trend.

That would continue in the months immediately ahead, but when the expected big increases, and other government election-winning extravagances hit the economy, the trend would come to a juddering halt.

The increases would have to be paid for by taxpayers, just as it was expected the same increases for railway and post office workers would be recovered through higher tariffs.

SAFA reports that SA's public servants would hear whether their demand for pay hikes had been met by government when the Budget was tabled around March.

Public Servants' Association (PSA) GM Hans Olivier said no further discussions would be held after the PSA's meeting with three Ministers in Cape Town yesterday.
INFLATION

Still kicking

The rate of increase in the annualised CPI slowed marginally in December to 18.1%, compared with the November 19.2%. This brought the 1986 average to 18.6%, still significantly higher than 11.7% in 1984 and 16.2% in 1985.

Food prices rose at an annualised rate of 20.8% and were a major contributor to the December rate. Food is weighted at 25% of the CPI. Month-on-month meat increased 3.4%, coffee and tea 2.1%, fruit 2.4% and fats and oils 2.4%. However, overall the month-on-month increase slowed to 1%, compared with 1.3% from October to November.

On the other hand, sugar prices rose by only 0.2%; the effects of the January sugar price hike will be felt in the next few months.

Vehicle prices were surprisingly stable between November and December, but increased on average by 35% in 1986. The average cost of housing increased in 1986 by 16.8%, less than the 1985 average of 17.1%. This is reflected in generally lower house prices and falling interest rates.

Of all consumers, the lower income group experienced the worst inflation, with an annualised increase of 18.5% in December. The middle and higher income groups were not far behind, with 18.3% and 17.8%, respectively.

Although this slowing in the annualised rate was not unexpected, reflecting among other things the lagged effects of a strengthened rand, Louis Geldenhuyss, of stockbroker George Huyseman, explains that "the CPI increase also eased for technical reasons. Large increases were recorded in the indices in December 1985 and early in 1986."

So once again, as with the November producer price index, statistical quirks exaggerated the downward trend, and may continue to do so for the next few months. Geldenhuyss warns: "The monthly rate of increase is still disturbingly high, emphasising again that inflation has become entrenched."

He stresses that inflation cannot be explained simplistically as it stems from many factors, which vary in importance from time to time. This has created an environment of inflationary expectations, another reason why reducing inflation will take time and perseverance.
Five traders control 74% of market

Supermarket giants in inflation row

Willy Stern

SA's supermarket industry is the most concentrated in the Western world—causing a major row among retailers as to whether this has caused prices to rise.

Checkers MD Clive Weil says the concentration of power has led to "structural inflation" from which return is virtually impossible.

He points to the latest retail statistics compiled by A C Nielsen market research, which show SA’s five largest traders today control a maximum 74% of total turnover, with a trend towards even greater concentration.

Meanwhile, Pick ‘n Pay, and OK Bazaars admit the industry is highly concentrated but say vigorous competition and low margins have kept prices down. Weil, and smaller retailers, disagree.

A combination of price wars and a squeeze on suppliers, they claim, "led inescapably to greater concentration and monopolies and near-monopolies in many product categories".

Nielsen says the concentration is a "two-headed sword", as competition has kept prices down but also forced suppliers into unhealthy cartel-like situations.

Several retailers say with increasing power in the hands of fewer players at the retail and supplier ends, the direct result has been a concentration of negotiating power, leading to "inflationary pressures".

Supermarket giants in row

While cartels have certainly developed in some supplier markets, Trade Opinion Panel GM Neil Ross says high levels of competition exist in major consumer categories.

Many manufacturers admit privately they are selling at full capacity without expanding, content in the knowledge that new competition is unlikely because these industries are capital intensive and rely on expensive imported plant and machinery.

And, with political uncertainty blunting new investment, manufacturers continue to operate at present levels while raising prices.

Retailers say this concentration of power in the retail and wholesale sectors is further exacerbated by the control a few major non-trading institutions exercise over the SA economy.

But Pick ‘n Pay MD Hugh Herman says there is nothing unique or worrying about the SA situation. He says vigorous competition among suppliers and retailers has benefited consumers.

This theory is supported by OK Bazaars director Allan Fabig, who points out a Competition Board (CB) analysis shows retailers "were guilty of nothing but giving the consumer the best deal".

The CB has come under fire for not taking a harder look at the supermarket industry, allegedly because of the vested interests involved.

A CB spokesman denied that claim, saying an investigation in the early 1980s revealed strong competition among the large firms.

Although there are no plans to investigate further, if more information is uncovered or pressure applied, the CB will re-examine the supermarket industry.

Weil has little faith in the SA economy to set matters straight. He says: "This highly concentrated, pseudo free-enterprise capitalist environment has within itself a penum-up cost-push component which must in future lead to greater inflationary pressures."

Much of the concentration of power has come in the last five years. Who Owns Whom author Robin McGregor says what was once a healthy oligopoly at the retail level has unwittingly and unfortunately forced suppliers into a cartel-like situation, where prices keep being forced up.

Spar executive-director Sidney Matus says his chain of 464 independents is one of the last foils to total concentration.

Meanwhile, each recent retail price war has inevitably resulted in less competitive suppliers being forced out of business.

Grocery Manufacturers’ Association executive-director Jeremy Hele says: "When one major customer can do 25% of a manufacturer’s total business while accounting for less than 1% of that retailer’s trade, there is a terrible imbalance of power in the negotiating situation."
Inflation, bond rate hit builders

Post Correspondent

JOHANNESBURG — The high inflation rate and the still relatively high mortgage rate were making it difficult for people to invest in building — factors which were militating against the recovery of the economy and the growth of building activity in South Africa.

The annual report for 1986 of the Master Builders' Association (Witwatersrand and Transvaal South) said affordability and lack of confidence also militated against the recovery of the economy.

"Unrest and political developments have had an adverse effect on the confidence of the potential investor," it said.

It also mentioned that the number of civil judgments and liquidations had increased further.

It added that the downward trend in the value of building plans had continued into 1986 and there seemed to be an oversupply of residential accommodation for the white population group.

The largest decrease in the value of building plans passed occurred in Durban urban areas. This was 53,8% compared with 25,5% in the Witwatersrand area.
Scrap taxes on cash investments, Government urged

The Argus Correspondent
DURBAN. — South Africa should make all forms of money investment tax-free to meet its burning need for capital formation, according to an editorial in the insurance industry journal Vitae.

Describing inflation as “a great swindle”, the journal says there is a desperate need to encourage savings in some positive form.

Tax is apparently unthinkingly imposed as a penalty on those prudent enough to save and produce investment income. Yet the Government’s arguments for such tax are tamely accepted as the “last word”.

Instead of tamely whispering about the need for increased retirement annuity allowances, the industry “should be thumping the desk and demanding it”.

In addition to all investment income being tax-free, there should be a further tax rebate on all new money invested in the year — to make the interest return beat inflation in total.

Vitae predicts the Government’s “knee jerk” reaction to its plea will be a warning that tax revenue sacrificed on savings will mean it must be regained elsewhere — perhaps through increased sales tax.

Such a response would not be factual.

“We can prepare an endless list of State activities which should be reduced or discontinued — things which are contributing to our persistent inflation in themselves.”

What other sane country, it asks, would tolerate such a large percentage of its population working for the State?

Warning that the issue is one of “dire urgency,” it says the cure for inflation “is to stop increasing money and credit”.

Unless this is done, South Africa will become known as a nation of spenders whose entire population will become indigent and dependent on world charity in later years.
Price and income policies do more harm than good

RUDOLF GOUWS
Economist, Rand Merchant Bank

But high inflation was, of course, much more likely. Most governments, faced by such forces and events, typically seek to ameliorate the impact of the by the removal of the monetary and fiscal policies. In doing so, governments do not lessen the problems created by these forces but merely add inflation to the list.

Some of the economists who attack least in part to monetary explanations argue, for instance, that the price-wage spiral has taken on a life of its own, and that government must act to break into the spiral. I see more economic and political dangers than benefits along this road.

Almost all people have greater needs and wants than resources to satisfy these. Economists, as a science or discipline, derive one of its oldest and most common definitions from this fact. It is, therefore, not very useful to ascribe economic ills, such as inflation, solely or predominantly to workers' desire for higher wages and economic profits. Except in those economies that are certainly planned, it is the very desire for higher living standards and high profits that makes economic woes more severe. The suppression of these urges through exhortation or decree will not remove economic ills such as inflation, but rather inhibit the creation of wealth.

Inflation is perfectly possible in economies with no trade unions or no cartels industry. Even an ambitious, disorganised and isolated consumer will discover inflation if one of them suddenly finds a large new cache of cowry shells or whatever is used as medium of exchange on the island. Prices of goods and services will rise to match the addition to the existing stock of the medium of exchange. Governments can, of course, produce the latter-day equivalent of the earlier mediums of exchange, and in modern economies the banking system can also create money — and therefore inflation.

During the Seventies and Eighties, SA had high inflation as well as rapid money supply growth. Because each time the money supply seemed to rise to accommodate the cost and wage pressures prevalent in the economy, it became dubbed by some as endogenous — i.e. something which was created automatically by the economic and banking system as a result of inflation.

But the extent to which banks can create money depends on the system of control over their ability to create credit, and the prevailing stance or attitude of the monetary authorities. The monetary control system with which the South African monetary authorities equipped themselves in 1963 (and which was maintained until recently) suffered from a number of inherent weaknesses and was, moreover, hardly ever adequately implemented.

With only a few brief exceptions, interest rates were kept artificially low since the early Seventies, and partly as a result of this bank credit to the private sector expanded enormously.

Not only was the system of liquidity base control inherently weak (banks could, for instance, to an important extent create their own liquid assets) but the inflationary financing of part of government's rapidly-growing expenditures also created liquid assets for the private banking system, which enabled the banks to increase their lendings to the private sector enormously.

This was especially true from 1969 to 1979 when, except for one year, there was consistent and large inflationary funding of the deficit. In stark contrast, during the preceding 14 years, there was, on balance, deflationary funding of the deficit (and hardly any inflation).

The point is that the choice of monetary control system, the manner of its implementation, the decisions to keep interest rates artificially low and the way in which government's deficit was funded were all policy decisions. The extraordinary monetary expansion that resulted is therefore not part of an automatic monetary accommodation of other (more important) inflationary forces, as economists who prefer direct intervention in the process of price and wage formation would have it.

Because inflation appears to be such an intractable problem, and the cost of "classical" methods of reducing inflation so high, consumers, workers and businessmen are again being exhorted by some to ignore their own short-run earnings expectations, to be more modest with wage demands, to rather absorb than pass on costs, and so on.

The point was made in my earlier article (Business Day, November 10, 1983) that these exhortations of a "prices and incomes policy" have come from the chairman of the Board of Trade, who helped draw up the earlier "Manifesto".

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. It would create expectations and major economic distortions.

SA should now, more than ever before, try to make the most of scarce resources. The general price level (as measured) may be artificially constrained with some short-term success, but the costs to the economy at large in terms of lost flexibility and efficiency will be very great indeed.

SA cannot bring its inflation rate down by monetary and fiscal means overnight without destroying its economy — a sharp policy-induced rise in interest rates and higher tax rates now would be wholly inappropriate.

The inflation rate must have to be wound down slowly over a number of years through a basically conservative monetary and fiscal policy.

In the meantime we should continue to do what other contributors to this series have also suggested, and put the running of State-owned businesses on sound business principles, privatise as much of this sector as we can, and rapidly deregulate the economy, introduce market principles to the pricing of more agricultural products and try to avoid repeating the circumstances that gave rise to the massive capital outflows of 1984 and 1985.
Govt handling of inflation, unemployment under attack

Political Staff

The main thrust of opposition attacks in the House of Assembly on the mini-budget was that the Government had failed to come to grips with inflation, unemployment and instability.

While tax cuts and other concessions were welcomed, the Government's handling of the economy came under fire from all the opposition parties.

Mr Harry Schwarz (FFP Yeoville), the chief opposition spokesman on finance, accused the Government of using "unethical methods" to lure voters before the coming election.

He said the Government was offering voters "sweets" now that was saving the "medicine" till after the election.

This was "an immoral thing" that the Government had done.

"IMMORAL"

Mr Schwarz was ordered by the chairman, Mr Rex le Roux, to withdraw the word "immoral".

After withdrawing the word, Mr Schwarz said the Government had done "unethical".

He moved an amendment that the House decline to pass the second reading of the Part Appropriation Bill because the Government had failed to administer the economy effectively.

The proposed amendment also said the Government had failed to apply appropriate fiscal and monetary policies and "by reason of its blunders has seriously contributed to high inflation, unemployment, instability and debasement of the country's currency".

Mr Schwarz said there was no enthusiasm, not even on the Government side, for the mini-budget proposals from the Minister of Finance, Mr Barend du Plessis.

The Minister had underestimated the intelligence of voters.

He had made promises to the effect that public servants would be granted salary increases "if they are good and vote for the NP".

The Minister had also underestimated the intelligence of women.

"The women of South Africa cannot be bought. They can be
Wages/prices spiral should be priority, most economists agree

Michael Chester

Economists in the private and public sector may squabble about the precise order of priorities that should be set to tackle chronic inflation, but all agree the wages/prices spiral must be included as pay packets and the consumer price index chase each other in a vicious circle.

Overseas countries have managed to strike anti-inflation pacts between government, business and trade unions. But South Africa has never made progress towards such tripartite agreements.

There were grandiose noises about it in the 1970s when dozens of signatories were pledged to an anti-inflation manifesto that promised a national crusade to bring inflation to its knees. But the noises faded into silence — and inflation seemed to floss even bigger muscles.

"Government may have been able to sit down and iron out an accord with business and union leaders in countries such as Israel and Australia," says one senior economist. "But there is little chance of such round-table agreements in South Africa when there is such antagonism between the three sides."

"Nor is there much chance of success until there are radical improvements in the socio-political climate."

"Even then, we must write-off any notion that the black trade unions would even entertain the idea of wage controls while they get moving to close the black/white wage gap."

And all hell would break loose if there were any attempt to impose a unilateral edict, especially in the existing socio-political climate."

Nevertheless, Professor Gerhard de Wet, head of the Department of Economics at Pretoria University, insists the stalemate must be broken somehow.

"The race between the various sectors to get in front in the wages battle has simply got to be halted," he says.

"The wrong way to do it would be for government to freeze wages. The right way would be for the various employee organisations and the employers to get around the table and face up to the consequences of failure to find solutions."

The intensity of opposition to direct controls was demonstrated when the notion of a price and wage freeze was mooted a few months ago in the lure of lower inflation for the civil service.

Members of the Association of Chambers of Commerce gave an audible sigh of relief when the Finance Minister, Mr Barend du Plessis, stood in Parliament with his mini-budget in February and said "We do not believe that the solution for the South African inflation problem lies with an introduction of direct controls over prices and incomes."

The sigh of relief escalated to applause when Dr Gerhard de Kock, Governor of the Reserve Bank, followed with a condemnation of mandatory incomes policies in the form of direct wage and price controls.

The notion of a prices and incomes policy as a solution is also viewed with suspicion by Dr Rudolf Gouws, group economist at Rand Merchant Bank. "Apart from raising the spectre of long queues, shortages, black markets, a larger bureaucracy and so on", he argues, "it would be an inappropriate policy to follow for a country facing sanctions and major economic dislocations."

But Dr Johan Cloete, doyen of the bank economists, will argue in an article that it is the wages/prices spiral that holds the key to the entire problem, and that there are no easy ways of breaking it.
There has been nothing unusual about recent inflation in South Africa. The increases in consumer prices were an entirely predictable and unavoidable response to the increase in import and export prices that followed a major devaluation.

Indeed, the devaluation worked in a classically effective way. It reduced the volume of domestic spending on imports and increased the volume of exports. A devaluation is supposed to do that.

The criticism one can make is that the reduction in demand was, if anything, too severe and monetary accommodation was called for.

The devaluation of the rand, against the currencies of our trading partners which began in 1984, and continued after we crossed the Rubicon in July 1985, was continued through most of 1986.

The volatile performance of the trade-weighted foreign exchange value of the rand is illustrated in Fig. 1. Had the rand held its gains of early 1986, the inflation would have been substantially lower by the end of the year.

Unfortunately, we had to suffer further substantial devaluation in mid-year. The rand fell back to where it was in early 1986 and the benefits of this recovery for the inflation rate are still to be seen.

The devaluation has increased the prices of imported goods, rising rapidly and almost continuously between mid 1984 and November 1985, the last month for which import price statistics are available. Import price declines were recorded in only three months — April 1985, May and June 1986.

There are very strong links between import and commodity prices and inflation and they are best illustrated graphically, as in Fig. 2.

Inflation is defined as the percentage change in prices over the previous 12 months. In Fig. 2, the inflation rates are drawn to the same scale for the periods 1981-1986.

Fig. 2 illustrates the relationship when some of the variability of the year-on-year inflation rate is seen in smoothing. It should be noticed that import price inflation since 1983 has been much faster than consumer price inflation, but that recently consumer price and import price inflation have moved in opposite directions, a movement which can be attributed to relatively fast price inflation in the latter half of 1986.

Such food price behaviour is also not exceptional and occurred normally before 1981, when the economy was enjoying boom time conditions and when food processors could expect a substantial demand and the absence of direct competition.

It is this competition that other producers face, and which explains the links between exchange rate, import prices and domestic inflation.

Unless the economy recovers strongly, it is unlikely that food prices will continue to rise faster than other prices.

The recent devaluation in the prices of yellow maize was a reaction to poor demand and came despite rising costs of production. It was a stronger pressure on the demand forces that restrain the prices set by producers with monopsony power.

Inflation in 1986 also had nothing to do with excesses of money and the demands associated with monetary growth. The money supply grew much slower than prices as is illustrated in Figs. 4 and 5 and helped restrain price increases and, if anything, too much.

The relationship between money growth and inflation generally in 1986 is not a close one, as may be seen in Fig. 4. The relationship between money growth and spending is much closer.

The increase in prices in 1986 served to depress the demand for goods and services and the price of labour wages grew significantly more than prices, so depressing real disposable incomes.

The devaluation of 1985 and 1986 acted on prices in the same depressing way as would a substantial increase in sales taxes. The expected effect of higher prices — the result of a devaluation or a tax increase — is to reduce the value of goods and services consumed.

Lower demands and higher prices for imports and exports — coupled with wages and salaries rising much slower than inflation — meant more profitable production for exporting and import replacing and more freely available supplies of export and import replacement goods.

Inflation is defined as the percentage change in prices over the previous 12 months. In Fig. 2, the inflation rates are drawn to the same scale for the periods 1981-1986.

The growing surplus of exports and imports provide the foreign exchange to meet demand for capital withdrawals. The monetary authorities, as indicated by relatively slow growth in the money supply (see Fig. 5) seemed unable or unwilling to offset the depressing effect of higher prices on domestic demands.

They naturally welcomed the export surpluses with which to repay foreign debts. Unfortunately, the decline in real consumption power and the exports did not occur without relatively low unemployment and much excess capacity.

The outlook for inflation in 1987 and beyond will be determined approximately as before by the performance of the rand against other currencies and world inflation. There are three major political and economic factors that influence the exchange rate and the rand. They are:

- Political shocks like and their effects on capital withdrawals;
- Changes in the terms of trade, particularly in the price of gold, is another major influence, and
- Money supply growth, by affecting the demand for goods and for exports and, in turn, trade surpluses, also affects the exchange rate and so prices.

The monetary influence on prices works mainly through the effects of money on demand and, therefore, on the trade balance and, in turn, the exchange rate in what may be a highly lugged way. It is possible to have an appreciable exchange rate and fast money supply growth, as may happen when the gold price rises rapidly. However, should the gold price reverse itself or stay rising, the exchange rate will fall, as the trade balance deteriorates because import demands remain at high levels, the result of the previously rapid growth in the money supply.

It is in the nature of the SA economy, subject as it is to shocks in the form of gold price changes and political developments, to have to put up with more variable inflation rates than that of more diversified and politically stable countries.

What is completely avoidable is the additional instability caused by highly variable money supply growth rates. If the money supply growth rates were stable, as they should be stabilised, the authorities would be doing as much as they could to help stabilise the economy.

Any attempts to interfere further with the necessary adjustment of prices to any of the real or monetary variables would work to be highly counterproductive. The monetary causes of inflation can be treated and the real factors causing prices to rise are best understood for what they are, and tolerated accordingly.
**PARLIAMENT**

**MINI BUDGET**

**Barend apologises for loan levy interest error**

By FRANS ESTERHUYSE
Parliamentary Staff

THE Minister of Finance, Mr Barend du Plessis, has admitted an error in his mini-budget speech which could have meant a half-percent less in loan levy interest for taxpayers.

Mr du Plessis admitted the error and apologised to the House of Assembly after an opposition threat to take the Government to court.

The incorrect figure given in the Minister's mini-budget speech meant that the interest on the 1983 loan levy of R210 million to be repaid to taxpayers would have been a half-percent below the interest rate promised by the Government.

The issue was raised by Mr Harry Schwarz (PFP Yeoville), chief opposition spokesman on finance, during yesterday's third-reading debate on the Appropriation Bill.

**Promised figure**

Quoting from Hansard, Mr Schwarz said the Government had promised in 1982 to pay eight-percent interest on the 1983 loan levy.

Yet the figure given by the Minister in his recent mini-budget speech was only 7.5 percent — a half-percent less than the promised figure.

"Why is he taking away a half percent? If he tries, we will take him to court," he said.

He added that the Minister would not make a mistake in favour of taxpayers.

Replying, Mr du Plessis said Mr Schwarz was right — the interest rate was eight and not 7.5 percent as stated in the mini-budget speech.

A "very senior official of absolute integrity" had been responsible for the mistake.

"I tender my apology to the House and to the public at large. It was a bona fide mistake Nobody intended to pinch anything from anybody," Mr du Plessis said.

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**Sats 'notes the needs of its clients'**

Parliamentary Staff

THE South African Transport Services took into account the "needs and preferences" of all its clients, said the Minister of Transport Affairs, Mr Eli Louw.

He was responding to opposition criticism that there was either too much or too little apartheid in Sats.

He said South Africa was in a process of reform Sats monitored the situation and adapted accordingly.

Reacting to a call by Mr John Malcomess (PFP Port Elizabeth Central) for the removal of racial discrimination from Sats passenger services, Mr Louw accused Mr Malcomess of being "a white radical liberal".

Mr Louw said "We have direct channels for negotiation with all groups."

**TAKEN BY CAR**

Reacting to Conservative Party complaints about the "crowding-out" of whites at railway stations, Mr Louw said adaptations were made to ensure that racial clashes would not occur.

Earlier Mr Jan Hoon (CP Kuruman) said there had been racial friction and clashes since Sats did away with apartheid at railway stations.

He told of an incident where whites refused to travel on a Sats bus from Kuruman to Kimberley because there were coloured people on board.

The whites were then taken by car.

Mr Hoon said Sats should go back to its old policy of racial segregation and not prevent racial friction.

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**Govt denies having manufactured inflation**

IT was unfair electioneering to accuse the Government of "manufacturing" inflation, the Minister of Finance, Mr Barend du Plessis, said.

Replying to third-reading debate on the mini-budget, he said there was no clear-cut policy that could address the issue of inflation and eradicate it without causing an enormous number of unpleasant side effects.

"We can kill inflation but we will kill the economy in the process," he said.

**SOCIAL WELFARE**

If South Africa had a more comprehensive social welfare system the Government would be able to embark tomorrow on a programme to kill inflation, it would have been able to cope with a much larger unemployment figure.

"I'm prepared to accept the criticism levelled at us for the relatively high rate of inflation But what are our choices?"

"My problem in this job is to reconcile the demands for equalisation now or in the near future, and the ability of the economy in terms of growth to pay for it."

Mr du Plessis denied that the mini-budget was a "blank cheque" for Government spending. Opposition members should not be too sure that the Government was not getting departmental expenditure under firm control.

Earlier, Mr Derek Wotton (NRP Umhlobo) said he wondered whether inflation was "deliberately being maintained" by the Government for its own purposes.

One advantage of such a move to the Government was that inflation eased the balance of payments situation by making imports expensive and exports more attractive to overseas buyers.

Mr Wotton said he believed there was no hope of inflation decreasing under the present "bloated bureaucracy" which would increase with the new Regional Service Councils — Sapa.

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**Squeegoe affair harms SA**

Parliamentary Staff

THE Squeegoe banning incident and the "local option" it represents have been condemned as 'ridiculous' in the House of Representatives.

The Rev Allan Hendrickse, chairman of the Ministers' Council for the house, said the banning of Nkululeko Skwewya from the school athletics at Mentlo Park would harm the relationship among all South Africans and destroy existing goodwill.

It gave "credence and ammunication to our critics who say reform is meaningless."

He commended the Minister, Mr Steffel Botha, for his statement condemning the action.

"But I also want to draw the attention of the National Party to the ridiculousness of what they term the "local option."

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Hefty pay increases ‘will affect all sectors’

JOHANNESBURG — The fattest pay increases in five years are likely in all sectors and at all levels in the coming year, according to a survey by the remuneration division of P-E Corporate Services.

The survey covers all projected salary and wage increments for 1987 and was conducted among 467 companies with more than 11 employees.

It shows that the overall projected increase for all races and all categories of staff is 14%.

‘Inflation’

This is more than 20% up on last year’s actual increase of 11.1%. It is also the highest projected rise since the tail-end of the mini-boom in 1982 when employees last received increases above 14%.

Manager of P-E’s salary surveys, Naomi Brehm, warns however that, while there is room for cheer, the “frighteningly high inflation rate will offset most of the benefits these increases may bring.”

“The downward spiral in living standards will continue.”

She notes that there are two main factors which have contributed to the higher projections.

“Firstly, a revival of confidence in the economy started filtering through in the fourth quarter of last year.

“In line with this, companies projected higher increases in anticipation of a mini-boom.”

“Secondly, the restructuring undertaken by most companies in the past five years because of the recession is now complete and most organizations are now carrying the bare minimum of staff to operate profitably.”

“These employees have had to contend with low increases while watching inflation soar to unprecedented heights.”

“Employers are now trying to compensate for the ravages of the past by offering higher increases this year,” says Brehm.

The industry sector in line for the highest increases this year is industrial equipment manufacturers and suppliers with an overall projected hike of 15.2% for all categories of staff.

According to P-E, these are the first industries to be affected by an upswing and already there are signs of a revival in anticipation of increased consumer demand.

‘17.5% increase’

The lowest projected increase are for service industries where an overall 12.2% has been predicted. Included here are hotels, public relations companies and management consultancies.

Specialist personnel such as data processors and investment analysts in the financial institutions should do well.

According to the survey, these categories stand to enjoy a 17.5% increase in 1987.” — Sapa
Inflation can turn your last days to misery

Weekend Post Reporter
PEOPLE happily approaching retirement and thinking their future is secure could be in for a shock in the years ahead.

Inflation is constantly eroding their nest egg, and one expert warned this week that a pension of R2 000 a month today could be worth only about R500 in buying power in 12 years' time.

Mr Francis Maytham, manager of Old Mutual in Port Elizabeth, sounded this warning in response to complaints that insurance companies were "hounding" prospective retirees and trying to sell them unnecessary additional investments.

He and other financial institution executives said they did approach prospective retirees — but only to offer expert advice.

"With the present escalating inflation rate a pensioner should bear in mind that if he retired now with a monthly pension of R2 000, it will probably be worth R1 655 in six years' time and only R480 in 12 years," he said.

"Most people reaching retirement age may consider they have carefully planned their investments and security for the future, but the ever-escalating inflation rate could catch many badly in the near future," he said.

And financial experts agreed that once the "money game" was explained to them, due-for-retirement, they sometimes became "dead scared" of what lay ahead and were only too pleased to take advice.

Despite perceived careful planning, many people approaching retirement failed to take several factors into account.

Experts said these include:

- Not being aware of what proportion of their pension was taxable.
- Leaving their financial planning for retirement far too late.
- Deciding to retire when experts estimated about 50% of men retiring could not afford to do so and would have great difficulties in keeping up their living standards.

Mr Maytham said the awareness of the high inflation rate, even by Government, was evident from the fact that the amount of the tax-free bulk payment of pension had recently been increased from R60 000 to R120 000.

Managers agreed that while most of the men might initially consider advisers a nuisance, they soon realised how much room for improvement there was for their future security.

Mr Peter Atkinson, individual life marketing manager of Southern Life, said that clients should get full professional advice.

That was why a retirement planning campaign had been launched focusing on the need to provide for this period of one's life, analysing the individual's unique circumstances and coming up with the best solution for particular needs.

Dr Zach de Beer, honorary president of the Retirement Association, stressed the importance of financial planning to ensure a happy retirement, enjoying the "golden years" without hassles.

Mr E du Plessis, assistant manager of Saambou Building Society, said many men left the final investment discussion and decisions about their bulk pension pay-outs till about two to three months before their retirement date. In addition, they then relied on the advice of children or family. This could prove a serious mistake.

"They must get away from a narrow vision and rather speak to the experts who can give them a complete picture," he said.

When you dream about retirement, remember what inflation could be doing to your nest egg.

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"They must get away from a narrow vision and rather speak to the experts who can give them a complete picture," he said.
Savings thwarted by 18% inflation

Own Correspondent

SOUTH AFRICANS are saving more than they did last year but nowhere near enough to counter the erosion of an 18% inflation rate.

Statistics revealed by Nedsfim Bank show that at the end of December, South Africans held R3 381.1m in savings accounts with banks, almost 4% more than a year ago.

This suggests either that South Africans are dipping into their capital to make ends meet or are diverting their savings to alternative investment media.

An analysis of the BA9 figures compiled by Nedsfin shows that in the December quarter, savings with the banks grew by R186.5m or 3% over the previous quarter.

"This increase against an inflation rate of 18% supports the view that South Africans are seriously discouraged from saving when offered negative interest rates," says Nedsfin's managing director, Ron Rundle.

He said: "Our figures show that although the nation's savings rate has declined steadily over the years, people are disinclined to 'save' when they are not offered 'real' returns.

Predictably the selected liabilities of the country's banks declined slightly during the December quarter - for Christmas spending from R47 652.5m to R47 338.5m. On a year's basis this represents an increase of 2.2%.

Looking at the total selected liabilities market, the Standard group holds the largest share with 27.5% of the total market. This is 1.4% higher than the previous quarter.

The Barclays group is not far behind, holding 26.8% (September 26.7%) of the market.

Bankorp holds 17.4% (16.8%) of the market. Nedbank holds 15% (14.6%) and Volkskas 13.5% (14.6%).

Because of new legislation to better reflect the actual amount of bank credit extended to the public and corporations, the banks are no longer reflecting the interest cost in their total receivables figures, rendering comparison with previous quarters meaningless.

However, for the record, the Nedsfin analysis shows total receivables at December 31 amounted to R12 455m.

Of this figure about R5 342.5m arises out of hire-purchase contracts and R4 112.5m out of lease agreements.

For the December quarter the Barclays group was by far the most dominant group, holding 39.6% of the market, followed by Standard with 26.2%, Bankorp 19.5%, Nedbank 11.7% and Volkskas 6.9%.
Savings not enough to counter inflation

By Sven Linsche

South Africans are saving more than they did last year, but nowhere enough to counter an 18 percent inflation rate.

Statistics revealed by Nedfin Bank show that at the end of December, South Africans held R5.5 billion in savings accounts with the banks, almost four percent more than a year ago — and in the December quarter savings grew by R85.5 million or three percent over the previous quarter.

Says Nedfin's managing director, Ron Rundle: "This increase against an inflation rate of 18 percent supports the view that South Africans are seriously discouraged from saving when offered negative interest rates.

"Our figures show that although the nation's savings ratio has declined steadily over the years, people are disinclined to save when they are not offered real returns."

However, the low rate in savings also suggests that the majority of personal savings have recently moved into pension funds and retirement annuities so that the R5.5 billion growth only have a limited effect on boosting savings with the banks.

Individuals are also benefiting from the recent boom in stock prices on the JSE. Forty percent of the investors on the JSE are private investors, and as witnessed by the recent listing of UBS, they are benefiting enormously from the boom.

As far as the banks' receivables are concerned, because of new legislation to better reflect the actual amount of bank credit extended to the public and corporations, the banks are no longer reflecting the interest cost in their total receivables figures — comparisons with previous quarters are therefore meaningless.

For the record, however, the Nedfin analysis of the BA9 figures shows that total receivables at the end of last year amounted to R12.5 billion. Of this figure some R8.3 billion arises out of hire purchase contracts and R4.1 billion out of lease agreements.
Inflation rate drop welcomed but food three points higher

By Susan Pleming

Consumer groups welcomed yesterday an announcement that the inflation rate had dropped two percent in January, but they were concerned that food prices were still high.

The Department of Central Statistics announced in Pretoria yesterday that the inflation rate had dropped by two percent to 16.1 percent in January. Food prices continued their steady rise of the last few months and the index rose at an annual rate of 19.3 percent.

The national president of the Housewives’ League of South Africa, Mrs Lyn Morris, was pleased the inflation rate had dropped; but said steadily increasing food prices were a cause for concern.

“We must examine the food inflation rate. It is three points higher than the actual inflation rate and this problem must be addressed,” she said.

The Department of Central Statistics said the rand’s exchange rate against major overseas currencies had been stable and the price of most imports had remained at reasonable levels, notably for the motor industry.

Although she welcomed the steady prices of imports, Mrs Morris pointed out that people could do without them.

The chairman of the Consumer Council, Professor Leon Weyers, said the drop in the inflation rate was good news.

“If this trend continues, but I am pessimistic about food prices, which increase all the time. I do not think the man in the street would agree that the inflation rate has dropped when he goes shopping,” he said.

Professor Weyers said the inflation rate was unacceptably high, “but if this drop is a trend, then it is a positive step.”

The president of the Consumers’ Union, Mrs Lilibeth Moodi- man, expressed concern about high food prices. “There is a continual upward spiral of food prices and people are finding it difficult to cope.”

Mrs Moodiman said all commodity prices should be frozen. “Prices should be stabilised.”
CPI inflation rate drops 2%

HELENA PATTEN

INFLATION, as measured by the consumer-price index (CPI), dropped by 2% to 16.1% in January, Central Statistical Services said.

This was the lowest year-on-year increase since July 1985, when the increase was 15.6%.

The increase was 18.2% in December and 19.2% in November.

The CPI rose 1.4% in January to 246.3 compared with a 1% rise in December to 244.5, indicating that inflationary pressures have not yet eased.

The lower year-on-year rate was mainly because of the above-average monthly 3.1% increase in the CPI in January 1986, when inflation reached its peak of 20.7%. This year's increase, therefore, was taken off a high base.

Between January 1986 and 1987, the rate of increase in the price index was 16.3% for the lower income group, 16.4% for the middle income group and 13.8% for the higher income group.

Food prices contributed to more than half the 1.4% increase in the CPI last month, rising 3.1% - the highest since January 1986, when they rose 4.4%. 
**Price indigestion**

Inflation in January as measured by the consumer price index (CPI) slowed to 16.1% on a year-on-year basis, compared to 18.1% in December. This figure is the lowest since July 1985's 15.9%. However, there is still little reason to rejoice in the latest Central Statistical Service figures.

For a start, this decline should not be taken at face value. Once again statistical factors exaggerated the slight downward trend. A large monthly CPI increase of 3.1% was recorded in January 1986, which pushed that month's year-on-year increase to 20.7%. So the January 1987 figures are calculated from a very high base, the real slowing in inflation may be less dramatic.

The month-on-month rise of 1.4% is up on December's 1%. Once again food prices made certain that the inflationary push did not abate. Meat rose on a monthly basis by 4.6%, fruit 4.8%, vegetables 6.5%, and other food 2.1%.

The food component of CPI weighting is 25%, often having a volatile effect on the overall index.

Food prices, as measured by CPI, rose at an annualised rate of 19.3% for January 1987, for the past three months, the average annualised rate is even more alarming, at 22.3%.

For the past six months the food-only inflation rate has consistently been above CPI.

This has serious implications for lower income groups, which spend a larger proportion of income on food than middle and higher income groups.

The effects of inflation are widespread, but worst on those least able to avoid them. This is yet another reason (of if one were needed) why the reduction of inflation should be a policy priority.

Sanlam's January Economic Survey suggests that as a result of recession and continued high inflation, the traditional six- to 12-month lag between the production price and consumer price changes has been shortening. It explains: "As a result of exceptionally low inventory levels, and the contraction of profit margins, companies have wasted no time in passing higher production costs on to the consumer."

Economists have noted that in the past year or so the lag has shortened to two or three months.

Sanlam believes it has been "all but eliminated. The turning points in the two price series now occur almost simultaneously."
GOVT PLANS ANTI-INFLATION DRIVE

JOHANNESBURG — President P W Botha has asked his Economic Advisory Council (EAC) to investigate the causes of inflation and submit practical proposals to combat it.

This was announced yesterday by C J F Human, chairman of the EAC.

He said "Because of the serious concern of the government on the matter, the State President last week requested the EAC to take appropriate steps to collect and collate reports on the subject from all parties concerned.

Submissions would be called for from all organizations already studying the problem — such as the heads of department of the Minister of Finance, Barend du Plessis, the Treasury and the Reserve Bank — as well as from the Federated Chambers of Industry, the Associated Chambers of Commerce, the Afrikaanse handelsinstituut and others.

No firm timetable could be fixed for the probe, but a "flexible" target of early May, shortly after the general election, had been agreed.

The special sub-committee of the EAC hoped to have reported to the EAC at its plenary meeting in May so that the latter could expedite final recommendations to the cabinet.

Human said he did not see the investigation as a pre-election ploy.

"It is true that there have been a variety of programmes in the past aimed at stemming inflation, that there are many current investigations by different organizations and that, so far, no national, concerted concrete plan has emerged or been fully implemented as a result.

"But this time things are different. We have never had inflation at such consistently high levels before. Virtually every government report and every economic analysis, now includes its own warning about the dangers of inflation.

"The new anti-inflation committee will be chaired by Joe Stegmann, of Sased repute, but the names of other committee members have not yet been disclosed.

"Human said "The sustained high rate of inflation in our country is highly undesirable. It has a detrimental effect on economic growth by contributing to a misallocation of scarce resources and by undermining business and consumer confidence."

"The EAC is aware that the Minister of Finance, his heads of department and the Reserve Bank are examining inflation intensively while the Economic Affairs Committee of the President's Council intends undertaking a broad investigation of productivity.

"The necessary consultation will take place among the respective bodies in this connection."

The announcement of the new programme to fight inflation was generally well-received but the FCI, Asooom, the AHFI and others — said they would be unable to offer informed opinions until it was clear whether this latest attempt was substantially motivated and supported, unlike some of the previous anti-inflation programmes — Sapa.
Government sets up inflation probe

JOHANNESBURG—The State President, Mr P W Botha, has asked his Economic Advisory Council (EAC) to investigate the causes of inflation and submit practical proposals to combat it. Dr C J P 'Kernels' Human, chairman of the EAC announced yesterday: 'Because of the serious concern of the government, the State President has asked the EAC to collect and collate reports on the subject from all concerned.'

Because inflation is highly undesirable, it has a detrimental effect on economic growth by contributing to a mis-allocation of scarce resources and by undermining business and consumer confidence.

Burden

'Inflation places a particularly heavy burden on certain groups such as pensioners.

'It is a complex problem, with causes so interwoven that it is difficult to distinguish cause and effect. It is accepted that inflation cannot be contained painlessly, and our investigation will take proper cognizance of the realistic South Africa and possible solutions against this background.

'The EAC is aware that the Minister of Finance, the heads of department and the Reserve Bank are examining inflation intensively while the Economic Affairs Council of the President's Council intends undertaking a broad investigation of productively.

The announcement of the new programme to fight inflation was generally well-received, but most of those questioned, the PCI, ASCOM, the AHG and others, said they would be unable to offer informed opinions until it was clear whether this latest attempt to "play the inflation dragon was substantially motivated."

Supported, unlike the previous anti-inflation programmes (Sapa).

Stepping

'It is true that there have been programmes in the past aimed at stemming inflation, that there are now many investigations by different organisations and that, so far, no national concerted concrete plan has emerged or been fully implemented.

'But this time things are different. We have never had inflation at such consistently high levels before. Virtually every government report and every economic analyst now includes its own warning about the dangers of inflation.

'We are not formulating just one programme to work against inflation. Our job will be to gather the wealth of previous experience and opinions on the subject.

'The uniting committee of closest to 18 committee members is chaired by Mr. Stegmann of SABAP, but the names of other committee members have not yet been disclosed.'
In his mini-budget the Minister of Finance promised, as a measure of relief to pensioners whose savings have been severely eroded by the current high level of inflation, to increase the amount of tax-free investment. There was no mention, though, of the strategies that are to be adopted to curtail the high level of our inflation rate.

As our inflation problem appears to have a structural foundation conventional anti-inflationary measures may not do much to bring it down. It would appear that unless South Africa's structural imbalances are reduced there is no hope of a sizeable reduction in our basic inflation rate.

High

With unemployment at a high level, and with the manufacturing sector operating at a low capacity level (78%), South Africa's economy is not suffering from excessive demand inflation. Demand management policy as was used in 1984 is therefore not appropriate under the present circumstances to effect a decline in the inflation rate.

Another policy is to impose or propose voluntary control on wages and price increases in the form of broad guidelines that suggest limits on the extent of price and wage increases. It says the guidelines suggest that everyone limit his increases to 10%, then nobody would be worse off. Inflation should fall accordingly as cost-push pressures eased for all producers in the economy.

Unfortunately because this would be voluntary the success of such a persuasive policy would depend on everyone co-operating. Getting co-operation on a national basis would not be an easy task. There would always be a temptation to try and cheat on the system. It has been suggested that such a scheme could be coupled to some incentives e.g. tax incentive programs in order to entice great co-operation.

Under a tax incentive plan companies would be given tax breaks for limiting wage demands to a certain level. In the South African situation, though, the labour market is very much imperfect. Trade unions are only now broadening their base, and is very much driven by a agenda of its own. On the one hand it is addressing industrial issues, whilst on the other hand it is also entwined in politics. An attempt at voluntary wage and price control is unlikely to succeed under these circumstances.

Freezer

In his mini-budget, the Minister of Finance appeared to intimate that a wage and price freeze is specifically not under consideration. Much hope appears to be focused on the recent stabilisation of the rand, and how this has contributed to reducing the inflation rate from 18.1% in December to 16.1% in January. However more than just watching the rand will be necessary to tame the widespread expectation of higher inflation.

NCEDO Milano, an economist with Barclays Bank, says that it will take much more than just watching the rand to tame inflation.
High inflation in SA could become endemic - bank MD

By DENISE BOUFTALL

HIGH inflation in South Africa could become endemic and was in danger of degenerating into hyperinflation, the group managing director of Standard Bank, Dr Conrad Strauss, warned today.

Delivering the keynote address at the Midland Chamber of Industries' seminar on economic prospects for 1987, Dr Strauss proposed three measures that might help to fight SA's inflation.

He suggested:

- South Africa should address its political problems and again become a nett capital importer.
- South Africa should remove all obstacles in the way of economic growth.
- The government should conduct its monetary and fiscal affairs in a responsible manner.

Dr Strauss dismissed the imposition of a price/wage freeze as unworkable.

Outlining the causes of SA's inflation, he said it was accepted that as a society became more democratic, there would be more demand by people for a greater share in the economy.

In the early 1970s this had been seen in the demand for greater pay increases by blacks.

This was accompanied by a rapid rise in government expenditure through the proliferation of apartheid structures such as the independent homelands, the tricameral system, defence spending and forced removals and influx control. Besides, there had been a deliberate and costly channelling of industry away from the established-industrial areas through the decentralisation policy.

Dr Strauss also warned that self-sufficiency such as the Agulhas Bay gas project also had its costs.
'Largest debtor has most to gain'

Govt to blame for inflation, says bank chief

PORT ELIZABETH — SA was moving into the company of hyper-inflation-riddled Latin America and Africa, Conrad Strauss, MD of Standard Bank, said yesterday.

He told an economic seminar of the Midland Chamber of Industries in Port Elizabeth that inflation was peculiarly threatening in SA. Social cohesion was dubious and solutions to the problems of population growth and a more equitable distribution of income had been made difficult by sanctions, disinvestment and lack of confidence in the rand.

He said governments allowed inflation to occur because it disguised their own efforts to get more of the national output. "By facilitating inflation, governments automatically increase tax revenue while, at the same time, reducing their future real debt burden."

"Government is the largest debtor in the economy and thus benefits most from the erosion of the real value of its debt. Companies, as net debtors, also benefit from erosion of debt, but the impact on government debt is particularly important because institutions are forced, through the imposition of prescribed asset requirements, to invest in government paper whose real value will be considerably lower when repaid."

"This amounts to legal expropriation of wealth in favour of government and away from individuals."

He said the currently advocated prices-and-incomes policy would be politically disastrous, quite apart from economic considerations. Such a policy would probably be construed by the black labour force as yet another attempt to maintain white economic privilege and power.

The currently falling inflation rate was merely technical and future demands would encourage renewed inflationary pressure.

Monetary policy should allow for a disciplined rise in aggregate demand, while fiscal policy should be directed at ending existing wasteful and unproductive expenditure, he said.
High inflation rate studied

BLOEMFONTEIN — The tendency of the inflation rate to remain high in spite of favourable underlying circumstances was receiving attention at government level and was being analysed by a sub-committee of the Economic Advisory Council of the State President, Chris Stals, Director-General of Finance, said at the annual congress of the Afrikaanse Handelsinstituut here yesterday.

Stals said the 1986 balance of payment figures reflected the sluggish passage of the domestic economy. Although imports were lower than expected as a result of the lower level of internal expenditure, exports were particularly good and showed a volume growth of 9%.

Stals said the sluggishness in the recovery of the SA economy in 1986 had had its benefits. It had allowed the country to consolidate its position in relation to overseas countries and to lay a better foundation for a more permanent revival in the total economy.

The expansionist monetary and fiscal measures of the past two years had played an important role in the improvement of the general business climate.

At present there was the important question as to whether or not the economy needed further encouragement of this nature or whether there was not already a danger that a too-speedy extension of it could quickly bring an end to the revival phase.

Stals said that South Africa had tackled the tricky problem of the repayment of foreign loans in the difficult but honourable way by showing the world that it could face and deal with its foreign debt problem without the help of the International Monetary Fund, the central banks of the world or governments as represented by the "Paris Club."

SA’s hardship in recent years had not been fruitless, Stals said. The low growth rate in the domestic economy had made the surplus on the current account possible and had enabled the country to reduce its repayable foreign debt — measured against the value of the US dollar of September 1, 1985 — from 24 billion dollars on August 31, 1985 to 20.4 billion dollars on December 31, 1986. By June 30, 1987 when the second interim debt arrangements come into effect, the figure would be still lower.

Return won’t be easy

Stals said that South Africa’s return to the money and capital markets of the world would not be easy and would not be determined by the internal political process of reform.

It would depend to a great extent on the economic policy that the country would follow in the next few years.

In the circumstances it was important that South Africa should follow a sound economic policy, based on the principle of private ownership and initiative and which functions in a milieu of effective markets. The application of strong economic disciplines in these circumstances was essential, said Stals — Sapa.
Fixing bonds

In a major departure from traditional home loan lending, Allied Building Society has launched a fixed rate bond. As from Thursday, clients will be able to borrow for three years at a fixed 15%, or five years at a fixed 16%.

Though these rates are much higher than the 12.5% mortgage rate available from Standard, Barclays, Trust or Volkskas, Allied is at least offering home owners some certainty in the uncertain world of interest rate movements. Potential homeowners will be able to calculate more accurately the longer-term cost of owning a home, bearing in mind average bond life is about seven years. On conventional bond business Allied charges 14%.

The success of Allied's move will depend on whether buyers are prepared to sacrifice immediate advantages of lower interest rates for the medium-term security of a fixed rate. Says AGM marketing William Wolke, "We are pitching the offer towards first-time home owners and other clients who need to know precisely what their monthly commitments will be for the next few years.

Many who suffered from the steep climb in rates from about 9% in 1980 to over 20% in 1985 would perhaps see the advantage. When rising property values and increasing incomes moved ahead or in tandem with interest rates, the homeowner knew the investment was sound. But when values and employment opportunities shrank and interest rates climbed, owners were often hard put to meet their bonds, as the large increase in the number of properties in possession over the past two years demonstrates.

Inflation, though down for the moment, is expected to put upward pressure on interest rates as soon as there is significant improvement in consumer demand.

Allied's innovation is a compromise between the variable rate bond and the fixed rate bonds which created havoc among savings and loan institutions (S&Ls) in the US. Locked in for the life of the bond, S&Ls were badly hit when stringent monetary policy sent interest rates up to godly heights. Forbes magazine, for example, estimates that in 1981-1982, they lost a total of $12 the S&Ls, in shrinking margins by paying out more on deposits than they earn in interest revenue.

Whatever the hazards of exploring unknown territory, innovation is essential. With so many institutions attempting to expand into a limited market, survival may depend on getting the right idea at the right time.
Food prices continue to soar

Finance Staff

The inflation rate for February rose slightly to 16.3 percent, 0.2 percentage points up on January's 16.1 percent. However, food prices continue to soar. On an annual basis, prices for food products have risen by 21.8 percent, while on a monthly basis, they have increased by 1.5 percent from January to February.

This is the eighth month in succession in which food price increases were above those of all other commodities.
Kritzman in 1982 when the accused became his client.

Mr Lang's firm represented Mr Kritzman in a case where the accused and his company were sued by the QwaQwa Government.

On September 25 Mr Kritzman and his son approached Mr Lang in a public parking garage near his offices in Twist Street, Johannesburg.

He said Mr Kritzman accused him of becoming rich as a result of the QwaQwa case.

Mr Kritzman asked Mr Lang for a lift to his uncle's video shop.

Once near the shop, Mr Lang said: "I saw his son reaching for the door. At that moment I felt a tremendous heat within my face. It was as if there was an explosion. I did not hear the shot, felt no pain and lost consciousness."

The hearing continues.
— Sapa

Inflation continues to creep upwards

PRETORIA — The inflation rate as measured by the consumer price index had increased slightly to 16.3% in February, from 16.1% in January, the Central Statistical Service said in Pretoria yesterday.

It was 18.1% in December 1986 and averaged 18.6% last year.

From February, 1986, to February, 1987, the indices for the lower, middle and higher income groups increased by 16.8%, 16.7% and 16% respectively.

The monthly increases (February, 1987, compared with January, 1987) were 0.9%, 1.1% and 1.1% for the lower, middle and higher income groups respectively.

Food prices increased by 1.6%, down from 3.1% in January.

Fish prices increased by 2.5%, milk and eggs by 2.9%, vegetables by 3.9%, sugar by 5.8%, cigarettes and tobacco by 4.9% and motor vehicles by 3.6%.

3 killed in IRA terror

BELFAST — A civilian employed in the prison service and two police detectives were killed last night in a gun and bomb attack in Londonderry.

In a message to Belfast news organisations, the Irish Republican Army has claimed responsibility. It has declared police and prison staff legitimate targets in its guerilla war to drive the British from Northern Ireland. — Sapa-AP

Aged home poisoning death toll reaches 18

CARACAS, Venezuela — The death toll in a mass poisoning in an old peoples' home rose to 18 yesterday and authorities said another victim tried to commit suicide.

A total of 126 old folk were taken to hospital after the incident last week at the San Pablo geriatric home in San Cristobal, 850 kilometres west of here. They drank masato, a fermented brew holding lethal levels of parathion insecticide. — Sapa-Reuter

Landslide kills man

ISCHIA — A mass of rock and cement crashed on to a restaurant on the island of Ischia in the Gulf of Naples yesterday, killing one man.
HOME LOANS
Entering secondary markets

Now that building societies are moving from the comfortable world of friendly societies into the demanding environment of big business, it is not surprising to find them seeking new types of funding. Traditionally, housing finance has come from small investors. In the past few years this has increasingly been supplemented by corporate funds. Now societies plan further moves from conventional sources of funding.

At least one, the Allied, is looking at ways to tap secondary markets through securitisation of mortgages. This means packaging and selling loan portfolios as mortgage-backed securities. The society (bond underwriter) channels both principal and interest payments to the purchaser, while retaining responsibility for administering and servicing the loan.

An essential element is the sorting and selling of similar loans. Fixed instead of variable interest rates would make the process far easier. Allied, of course, is already experimenting with fixed rates, offering loans for three to five years at 15% and 16%.

It was fixed interest rates that launched securitisation in the US. When interest rates rose to unprecedented levels in the Seventies, leaving societies with seriously mismatched assets and liabilities, the thrift industry desperately needed to restructure balance sheets. This it achieved by bundling and selling non-productive assets at a discount.

Secondary markets in home loans had existed in the US since the late Forties, but in 1970, the process was refined to broaden the market and make loans more saleable. So successful was the move that Euromoney estimates mortgage securities worth $1 trillion were traded last year alone.

In SA, the idea has a long way to go. Not all building societies share Allied's interest. That it could require changes to the Building Societies Act is seen as a considerable obstacle by some, while others believe it cheaper to raise funds via Negotiable Certificates of Deposit (NCDs) and other existing instruments.

However, stockbroker's analyst Richard Jesse considers the concept attractive in principle. "It's another form of negotiable paper into which institutions can invest, backed by the security of appreciating property."

From the building societies' perspective, there is good reason for exploring new avenues of funding. While financial institutions continue to press money on reluctant consumers, they remain acutely concerned about future fund flows. Liquid as they are now, they are very aware of the need to build up longer-term funds to match longer-term commitments. Building societies are particularly vulnerable. With limited access to the money market, while lending for periods of up to 30 years, they are firmly locked into the longer end. So their reliance on medium- to long-term money is greater than banks', which have considerable term flexibility in both borrowing and lending.

At least four building societies will have the added problem of an outflow of funds, originally attracted by the opportunity to convert traditional shares into equity as they converted from mutuals to companies.

There is no doubt that the opportunity to get a slice of action attracted investors to United Building Society, Allied, Natal Building Society and Saambou over the past few years. A substantial amount of this will soon move out. In fact, United, which announced its intention to list some years ago, must already be experiencing an outflow.

Not that securitisation is the instant answer to all funding problems. To start with, Allied is still investigating the legal implications of ceding bonds to a third party. Legislation may be needed.

Should this prove forthcoming, a viable market has still to be established. The only sure way to get this going would be for institutions to guarantee marketability by repurchasing if necessary. But, given the fluctuations in availability of money, this possibility is remote.

Instead they will have to resort to selling the bonds. Should they succeed, there are still several problems, including variable interest rates and the possibility that home owners will prepay debts or default. These can be resolved first through the introduction of fixed rates, the second if the purchaser of the security is willing to accept the risk.

So the problems — legal, practical and technical — are not insuperable. And secondary markets will prove a valuable source of future funding.

Food prices are still one of the main inflationary forces, the food index rising by 21.8% in the year to February against 19.3% in January.

The decline in the month-on-month increase in CPI from 1.4% in January to 1.1% is seen as encouraging by most economists. "This indicates that CPI should continue its downward trend this year, although individual monthly figures may deviate," says At Engelbrecht, senior economist at Volkskas. He expects inflation to average between 15.5%-16% for the year.

However, this decline, especially in the second half, will be due more to statistical reasons than to anything fundamental. Monthly increases in inflation in the second half of 1986 were much higher than the present figures for example, CPI rose by 2% in July and 1.5% in August.

"In the second half of this year, CPI will be calculated off a high base, implying a decline in the inflation rate on a year-to-year basis," says Peer Strydom, economist at San Dorp. He calculates that if the monthly increase in CPI remains at 1%, inflation this year would decline to 14.2% and the year-to-year figure for December would be 10.3%.

Sanlam's recent Economic Survey predicts that the CPI will rise slowly soon, to average between 16%-17% for the year. This suggests that inflation will continue to accelerate in excess of 1% monthly for the rest of the year.

Strydom says that if the rand maintains its present strong trend, the effect of import prices on inflation will continue to recede. However, it warns that increased economic activity could put pressure on prices later in the year.

Strydom agrees that inflationary forces will remain strong. "Items like food and motor vehicles will continue to rise, though some relief is expected on housing through lower interest rates."

INFLATION
Trend still down

Economists do not see the overall downward trend in inflation being halted, despite the slight increase in the consumer price index (CPI) in February to an annual 16.3% from 16.1% in January (1.3).
Sharp inflation rate fall is predicted by Matie economists

By DENISE BOUTAL

An inflation rate of 15% this year, substantially down on last year's 18.5%, and an even lower rate in 1988 have been projected by the University of Stellenbosch's Bureau for Economic Affairs.

The bureau has revised its projections for 1987 following the announcement last week of a favourable three-year agreement on the repayment of foreign debt.

It warns, though, that political stability and continued reform are essential if these projections are to be realised.

South Africans can look forward to a period of stable growth with moderate improvements in living standards and employment levels, the bureau says in a statement.

The agreement means that the outflow of capital is expected to be considerably lower than previously projected. As a result, the current account surplus is expected to exceed capital outflow.

This will allow the country to continue building its foreign reserves which will provide strong support for the Rand and prevent serious depreciation of the currency. As a result, import prices will rise at a much slower rate than in 1983-85. This trend will be reflected in the CPI which is projected at 15% for 1987, and a considerably lower figure in 1988.

Lower inflation and rising foreign reserves will increase the scope for consumer spending and economic growth. "Real GDP growth rates of 2.9% and 3.5% are now projected for 1987 and 1988, respectively."

Lower inflation and a rise in reserves would also neutralise pressure on interest rates.
Tariffs for standard mail go up from 14 to 16 c.

Postage tariffs on standard domestic letters, postcards and aerograms rise today from 14 to 16 c.

The increase was announced in the Post Office's mini-budget presented to Parliament in February. According to the Minister of Communications, Mr Stoffel Botha, mail services will still have the highest deficit of all post office services—R129 million.

50 G LIMIT

Insufficient postage stamps would lead to a delay in delivery and to the addressee having to pay double the shortfall, the Department of Posts and Telecommunications said in a statement yesterday.

Standard mail items must be between 90 by 140 mm. Their weight should not exceed 50 g and letters must be 5 mm or thinner.

Senders of non-standard mail items should consult their local postmaster should they have any doubts about postage rates.

Johannesburg enquires may be directed to Mr Kobus Laubscher, senior public relations officer at the Jeppe Street Post Office—(011) 222-0588.
Rising costs forcing new house prices ever higher

The cost of building the cheapest three-bedroom house is expected to soar by 30 percent as economic recovery gathers momentum.

This means the contract price of a new house will rise from the present R8 000 level to almost R80 000 over the next two years.

This prediction follows a meeting recently between leaders of the Building Industries Federation and representatives of related industries.

**FRANK JEANS**

The labour question will be one of the most contentious issues facing the industry in coming months and building leaders expect union problems. But Mr Davis emphasised that the unions so far had acted responsibly in pay demands.

Builders have seen their workforce shrink to crisis levels and margins have been slashed in the wake of recession. Inevitably, on the back of improved conditions, workers coming back into the industry will expect higher wages.

Aligning with this is what builders believe is the likelihood of "potential chaos" in the materials supply industry as the economy recovers and prices rise.

Mr Peter Jacobsen, president of Bifsa, said he had no doubt that conditions were improving but insisted the trend could be affected dramatically by any future increase in interest rates.

"Rates must not rise, for this could only kill growth," he said.

What is clearly evident, however, is the fact that the industry must accept what Mr Davis sees as a "total structural change." And thus infers a still greater involvement in the most crucial sector of building — low-cost housing in an area which has been virtually a life-saver during the prolonged slump.

This will mean, too, a wider acceptance by organised building of the growing importance of the informal sector into which, for instance, goes an estimated 50 percent of the brick industry's output.

"We should remember that blacks don't want something cheaper," said Mr Jacobsen. "And we should realise, too, that it is imperative that we incorporate the 70 percent of the rest of South Africa's population into the economic process."

My Davis, Bifsa director.
Water price rise comes into effect today

The 30 percent hike in the cost of water from the Rand Water Board (RWB) to the Pretoria-Witwatersrand-Vereeniging complex comes into effect today but it is not clear how much of the increase will be passed on to the consumer.

The increase, the largest in more than 20 years, was announced last month.

According to the RWB it had become necessary because, since the start of water restrictions due to the continuing drought, annual growth in volume of water sold had been limited to less than one percent.

Another factor was the 75 percent increase in the Government tariff for raw water from the Vaal River system, the RWB said.

At the time of the announcement, Johannesburg’s acting city treasurer, Mr Neville Olivier, said it was likely only 15 percent of the increase would be passed on to the consumer—pushing their monthly water accounts from an average of R11.38 to R13 for 20 kl of water.
Rising costs hit owner builders

By RAYMOND HILL

FREQUENT rises in material and labour charges are costing the Eastern Cape's home-building industry thousands of rands.

And with the latest price hike in cement and bricks has come a warning for "do-it-yourself" builders to look out for the pitfalls along the way.

People who think that they could save money by doing the work themselves are wrong, the experts say.

Those in the know have pointed out that "self-builders" could lose money in the long run, and even abandon the project halfway through the "cost-saving" exercise because of the lengthy operation.

But a Gelvan Park man, who did not want to be identified, said he had saved thousands of rands in building his own home, and knew of other "self-builders" who had also saved considerable amounts.

It was definitely worthwhile to do your own home building, provided you had the necessary skill, he said.

Rising costs of building materials were highlighted this week with the announcement that the price of cement at the only cement factory in the Eastern Cape, Pretoria Portland Cement, Port Elizabeth, was to rise by more than 5% from R4.65 to R4.93 for 50 kilograms.

There is an extra charge of 50c for "bagging" the cement.

Anybody can buy direct from the factory — provided a minimum of 100 50kg bags are bought for cash. Customers must provide their own transport.

Rail delivery charges are added where necessary.

This is the third increase since December, 1985.

Mr Berry Pavey, general manager of Cement Distributors, said there was no price control.

The price of facebricks, manufactured by a Port Elizabeth company, went up 4.2% from R240 to R250 a thousand this week. Prices previously went up in November, 1986.

Mr Johan Grotsius, executive director of the National Association of Home Builders, said the ability of the industry to produce something "worthwhile" was affected whenever labour and material costs went up.

The home building industry had had "quite a few" increases in recent months.

He advised "do-it-yourself" builders to beware of the pitfalls involved.

Home-building was a "costly and complicated exercise", and expertise was "absolutely necessary".

"Self-builders" mistakenly thought it was cheaper to do the work themselves.

They could, for example, spend more money than necessary because they did not have bargaining power when dealing with suppliers and sub-contractors, said Mr Grotsius.

Mr Keith Miller, a partner in Arctic Construction, Port Elizabeth, said his firm would be losing between R15 000 and R25 000 a month because of the increase in the price of cement and bricks.

He said timber prices rose in January, resulting in a loss of R200 on every home built by his firm.

Mr Miller explained that the extra costs could not be recovered on contracts undertaken before price increases were announced.

The necessary adjustments had been made for contracts undertaken after April 1.

Labour costs, he said, were "astronomical", and there had been a 7.5% increase in all work categories recently.

Mr Miller also discouraged people from building their own homes because of the high costs and time involved.

The self-builder often never completed the job because of a lack of time and money, he said.

Experts could construct a house within eight to 10 weeks, whereas the self-builder took between three months and six months to do it, Mr Miller said.

Mr Victor van Rensburg, managing director of Wonderworings, said his company tried to absorb price increases...
Skirmishes, stranded commuters, a bomb and arson all raise a burning question

Is station unrest strike related?

By Jo-Anne Collinge

The South African Transport Services strike which began quietly on March 13 with about 600 workers and is now said to involve 22,000 strikers has become associated with images of burning coaches, stranded commuters and skirmishes at stations.

What has brought this labour dispute to the point of dramatic public disturbance? In all recent unrest at stations in fact strike-related?

For instance, early this month Mr Johannes Senning of Tembisa died when he jumped from a moving train after police threw a grenade into the carriage. Another 13 passengers were injured. The incident at Kasiolokwe near Tembisia was not linked explicitly to the strike, but passengers were reported to have been singing freedom songs when police intervened.

Strike-related violence

There are many other more certain, officially reported instances of strike-related violence and conflict.

• Gautrain's at least 11 trains have been burnt in Johannesburg and Soweto over the last week.
• A bomb exploded near Dube station on March 22.
• About 200 strikers were dispersed by police using teargas in Park Station as they met to discuss grievances early in the conflict.
• Days later 205 strikers were arrested near Ongwed in the Eastern Transvaal.

The Bureau for Information said the 205 had 'gathered illegally' while the South African Railways and Harbour Workers Union (SARWU) said the riot was an attack on its members at meetings with East Rand workers.

• This week about 2,000 people were dispersed with teargas at Oakbrook station on the East Rand.
• Passengers have been burnt in the stoning of trains — for instance on the Trans-Suid trains on Monday.

• Civilians have been hurt in police action at stations. The Bureau for Information said such incidents were illegal since spontaneous strikes are not lawful and where emergency powers have been used for the summary firing of workers.

The events stemmed from the question of whether.s the clearly identifiable actors include co-SARWU strikers, commuters and members of the security forces.

But when it comes to the question of who is responsible for the violence at the stations, the so-called SARWU strikers, the security forces are no longer clearly identifiable.

In its latest unrest release, the Bureau for Information accused the railway of sparking of its own violent actions yesterday in "ridiculous vandalism".

SARWU has vehemently rejected speculation that it has been involved.

Civil and worker organisations have distanced themselves from such violence just as SARWU has done but they have acknowledged their members might have acted beyond their formal membership.

In relation to the Dube Station blast last night, it is worth noting that in recent years there have been several attacks on the property of management locked in dispute with unions or those who have taken punitive action against their members.

The most recent of these was the bomb planted in the managing director of the OR Tambo early this year during a protracted strike. No organization claimed responsibility for the blast.

Finally in discussing the creation of the dawning of public disorder from the failure of a strike we must look at the backdrop and the people behind the scenes.

The context of burgeoning demands for democratic control in every walk of life and the current pressures to resist the employer.

The question of recognition of SARWU — an affiliate of the unimpressive Congress of South African Trade Unions — has been the focus of the strike and the issue of grievances which occurred on the dismissal of a single worker.

Finally, the SARS strike is taking place in the context of burgeoning demands for democratic control in every walk of life and the current pressures to resist the employer.

Appeal for return to work

The black 'sweatheart' trade union in the South African Transport Services today appealed for striking railwaymen to return to work before the Government implemented its threat to dismiss those who do not.

The strike by 13,000 men of the South African Railways and Harbour Workers Union (SARWU) is in its fifth week.

Mr S.M. Malavika, general secretary of the Blaauw Planning and Harbour Workers' Union (SARWU), said yesterday that a number of strikers had not yet been dismissed because Blaauw had argued against this.

"I once again appeal to them to return to work for the sake of the country and return to work," Mr Malavika said.

Although both SARWU and Blaauw have expressed a willingness to resolve the strike, the two parties have been playing for time.

The councils of strike at the SARS to negotiate with Blaauw.

A spokesman for the SARS strike committee said that the situation was being held up because the governments were not prepared to negotiate.

Yesterday, the Congress of South African Transport Unions (COSATU) to which Blaauw is affiliated repeated its willing to settle the dispute if the state will return to work.

Civil and worker organisations were warned that they must adhere to the decision of the workers to return to work.

Queueing for return to work

The workers outside the Conners House, which was occupied by a 'laboratory' this morning, were demanding the return of workers to work.

"The week's work was finished," one of the workers said, "and now we are being held to ransom by the state.

The workers were said to be preparing to return to work once the strike was over.

Picture by Alf Kemelo
Call for use of shock tactics on inflation

MICK COLLINS

ORGANISED agriculture and the Consumer Council have called on government to use urgent shock tactics to reduce inflation in a joint statement, the SA Agricultural Union (SAAU) and the Consumer Council said promises of co-operation to curb inflation had produced nothing. All concerned parties, especially government, would have to act.
The statement also called for more, rather than less, involvement by government in agriculture.
The call is in sharp contrast to government's stated policy of less involvement.

Urgent steps would have to be taken to prevent farmers from going bankrupt, the statement said.

"Agriculture, and by implication agricultural producers, are frequently singled out as the chief contributors to inflation. This is an unfair accusation which stems mainly from ignorance or the inability to distinguish between producer prices on farm level and food prices on retail level," said SAAU chief economist Koos du Toit.

The rise in the food price index in December 1986 was, for example, 20.8% higher than a year ago, compared with an increase of 18.1% in the consumer price index. It is evident that food prices in their own right contributed to the general rise in inflation during this period," he said.

Du Toit said a recent report by brokers Davis, Borkhum and Hare arrived at the conclusion agriculture was a follower rather than a leader in the inflation process, and that the biggest contributors to inflation were the sector for processed agricultural products.
Food prices push up consumer index

By AUDREY D'ANGELO
Financial Editor

THE CONTINUING rise in the cost of living and a slight fall in the gold price and the rand as the dollar strengthened gave a damper to growing optimism about the SA economy yesterday.

Gold closed $3.50 lower on the day in London yesterday — apparently due to profit-taking and to the strengthening of the dollar after encouraging US economic data.

The All Gold Index and Over All Index on the Johannesburg Stock Exchange closed lower.

But industrial shares closed mixed to firmer, pushing the industrial index to a new high of 1 694 shortly before the close, compared with 1 786 on Tuesday.

More disturbing news was that the consumer price index — expected by many to drop — continued its gradual rise to 16.8% for the 12 months to the end of March, compared with 16.3% in February and 16.1% in January.

The food only index rose to 293.1 in March from a base rate in 1980 giving a monthly rise of 1.3% and year-on-year gain of 24.3%.

The continuing rise was due mainly to food prices the director of the Stellenbosch Bureau for Economic Research, Ockie Stuart, said, suggesting that higher meat prices were a major factor.

This was due to farmers rebuilding herds reduced by the drought. He expected the rise to "abate in a few months' time."

There were no fundamental reasons why the inflation rate should go on rising, since the stronger rand meant less imported inflation, Stuart said.

Recent research by the bureau showed that retailers and wholesalers expected the inflation rate to decline.

But, he pointed out, the mood of rising confidence was creating an environment in which some businessmen "might use sanctions as an excuse to put up prices."

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*Note: This text is a combination of Natural Language and some OCR data.*
Inflation to dip as incomes rise

By AUDREY D'ANGELO
Financial Editor

The Stellenbosch Bureau for Economic Research (EBR) foresees a two year period of steady improvement with real personal incomes rising and the inflation rate falling — provided there are moves towards reform after next month's election.

In its latest survey of economic prospects it forecasts that spending will "accelerate" as the consumer price index falls from an average of 16% in the first half of this year to 13.6% in the second and 11.2% in the third.

It foresees average wage increases of 15.5% this year, moderate tax relief in the June budget and continuing low interest rates.

Joint taxation

"Married couples can expect further relief in terms of lower joint taxation, and savers should be rewarded by further reductions in the taxation of interest incomes," the report says.

Pointing out that the real spending power of the average individual fell by 30% between 1980 and 1988 to the lowest level for 17 years, the bureau forecasts that it will rise by 2.3% in the first half of 1989 and more than 3% in the first half of 1990.

"Although high personal debt ratios and the large-scale drawing down of savings in recent years will constrain consumer spending, low interest rates and the continued relatively free availability of credit will play a supportive role.

"Real consumer spending is expected to rise at an accelerating pace."

It forecasts that sales of durable goods, in particular will benefit from the improved financial position of the individual and from higher levels of confidence.

They will also be boosted by pent-up demand in recent years.

Forecasting real Gross Domestic Product growth of 4.4% in 1987, rising to 5% in the first half of 1988, the bureau says "The recent healthy upsurge in car sales provides an effective illustration of the improved poten-
Who's to blame?
The inflation rate could have taken an upward turn if March figures are anything to go by. The trend is strongly against expectations.
The March Consumer Price Index (CPI) reflected annualised growth of 16.8%, up on February’s 16.3%. Food prices alone rose 24.2% for the year to March, and remain the major component of inflation. The overall monthly increase was 1.6%, compared to 1.1% in February. Food accounted for over

30% of this
Yet Koos du Toit, economist at the SA Agricultural Union (SAAU), believes agricultural producers have exerted a “braking” effect, “contrary to the popular view which singles them out as the chief contributors.” He bases his argument on comparisons of consumer and producer food prices “Last year producer prices of food increased by only 11% while the all-commodities index food component rose by 20.8%.”
Du Toit blames the difference on the agricultural business sector, and those involved in the distribution, processing and retailing of food and food products. He admits that all parties, including food producers, are guilty to an extent, but questions whether the intermediaries are simply passing on cost increases.
Living costs climb again

Post Correspondent

JOHANNESBURG — The latest cost of living figures, released yesterday by Central Statistical Services, show an increase in the inflation rate to 16.6% as compared with 15.3% in February. After a slight drop at the beginning of the year, the inflation rate is climbing again.

And of the different income groups, the largest annual increase was March, 1987, compared with March, 1986 — was for the group which could afford it the least, the lower income group.

For them the overall inflation rate jumped by 17.8% in the past year.

The annual food increase was 24.2% which was the highest increase since June, 1981, when the rate was 25.7%.

A basket of groceries which cost R100 only seven years ago now costs nearly R300.
Plan to fight inflation approved

Drastic steps were needed to fight inflation, representatives of the South African Agricultural Union (SAAU) and the Co-ordinating Consumer Council decided at a meeting in Pretoria yesterday.

The consumer council pledged its support for a SAAU programme to combat inflation.

The meeting agreed that the immediate fight against inflation through a multifaceted strategy called for a re-orientation of economic thought and policy with the co-operation and support of all interested groups.

The SAAU also gave a detailed account of the critical situation of producers in summer crop areas.

The council was told about short-term problems, of plans to avoid widespread sequestrations in the agricultural sector and of attempts to restore the profitability of agriculture in the long term.
INFLATION had become a deep-rooted structural feature of SA's economic system, amounting to an inflationary psychosis, for which there were no "quick-fix" solutions, Assocom economist Bill Lacey said yesterday.

He said the public and private sectors should be involved in breaking the "psychosis", although the public sector should lead by making a clear commitment to combating inflation.

Lacey said the restoration of government's credibility would require strict adherence to expenditure budgets, periodic reviews of "bracket creep" on marginal tax rates, a reduction in costly First World standards and a continuation of efforts to improve productivity.

"The fiscal authorities must act very circumspectly in considering indirect tax rates because every indirect tax is automatically absorbed into the cost of goods to the ultimate consumer," he said.
INFLATION

Banking up?

Enormous inflationary potential lies in the banking sector's ability to create credit, says Davis Borkum Hare analyst Richard Lombberg. He calculates that banks, given demand, could increase lending by 50%.

He fears that a significant revival of credit demand would create a real danger of hyperinflation. Lombberg attributes the situation to the low priority accorded cash reserve requirements as a tool of monetary control, and questions whether the present level of cash reserve requirements will effectively contain inflation.

“The ratio was reduced in 1986 from 8% of short-term liabilities and 5% of medium-term, to 5% and 2% respectively. The result is that banks can lend 68% more than they would have been able to under the cash reserve system proposed in the De Kock Report.”

Leon Steenkamp, of Senegal Mouton & Kitshoff, does not see this situation as necessarily inflationary. “What Lombberg has forgotten is that the cash reserve ratio is not the only factor. Availability of cash is also crucial.”

As banks extend credit, they have to put cash into reserves. There is an effective shortage. So, notwithstanding banks' ability to create credit, in terms of statutory liquid-

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Senskal's Steenkamp ... reserve ratios not only factor

ity and solvency standards they won't necessarily be able to lay their hands on actual cash.

Indeed, the Reserve Bank is going out of its way to facilitate bank shortages. Contrary to the spirit of the new tender system in the money market, banks seem to be using money from the Corporation for Public Deposits to balance daily requirements. Many banks have run down liquid asset and cash surpluses.

Then, as Gill Raine of Frankel Kruger says, “As long as banks have liquid assets, they can also get more cash at the discount window — but at a price.”

Price is not a negligible factor. By raising interest rates the authorities could reduce the value of liquid assets, reducing a bank's willingness to trade in these assets for cash.

Says Steenkamp “It could be argued that the authorities are being too restrictive, mopping up liquidity in open market operations at a time when demand for credit is still low. In view of underlying liquidity, the B.A. rate, for instance, should be considerably lower. The fact that it isn't is testimony to the Bank's intervention.”

In the previous era — prior to the De Kock Commission — the authorities controlled the supply of money via the availability of liquid assets. These were strategically influenced by changes in net foreign reserves and by the way the deficit on the Exchequer account was financed.

Now official policy is to manage short-term interest rates by controlling the amount of money in the banking system.
It may be bad news on PO and Sats tariffs next week

By PATRICK CULL
Political Correspondent

Some of the post-election medicine forecast by the PFP's Mr. Harry Schwarz is likely to be handed to the consumer next week when both the Post Office and South African Transport Services (Sats) budgets are presented.

The Post Office budget will be presented by Mr. Stoffel Bohn, Minister of Communications, on Monday. Mr. Bohn will present the Sats budget the following day.

A wide range of increases seems inevitable, particularly in the light of the 32.5% increase given to all Government employees this week.

The two part appropriations (mmi-budgets) presented in February this year were particularly mild and the only increase announced was a 2c rise to 16c in the standard letter rate.

But there were hints at the time that more increases would be announced later - after the election.

In February, Mr. Botha said that the current cross-subsidisation of services could not continue at current levels and would have to be phased out.

Just how he is going to do this will be disclosed on Monday.

Across-the-board increases in postal tariffs seem likely. Bearing in mind the R130-million loss projected for this year, it is likely that telephone tariffs will also rise.

A warning of further increases in this area was given in last year's budget.

A general round of increases has also been predicted when the Sats budget is presented on Tuesday.

Again a mild mmi-budget was delivered in February prior to the election. And, safely back in power, the Government can now hand out the medicine.

The main budget will be tabled on June 3.
The inflation-buster

A PLAN to protect pensions against spiralling inflation—introduced by Old Mutual more than a decade ago—has proved itself a real long-term inflation-buster as the pensions industry, says the Mutual. Under the Mutual’s “Pension Plus” system, pensions in excess of a ceiling of 15% a year during the past five years—a higher increase than anywhere else—has proved itself a real long-term inflation-buster as the pensions industry, says the Mutual.

“The inflation-buster” is Van Norker’s “Pension Plus” system. It was designed to protect pensions against inflation. “The essential feature of the system,” Van Norker says, “is that it is a major mechanism to protect pensions against inflation.”

The Income Gap

The Income Gap at Retirement

R 50.00

R 40.00

R 30.00

R 20.00

R 10.00

R 0.00

Income

Aged 40

Aged 50

Aged 60

Aged 70

Aged 80

Source: N.M.F.

One of the worst

There are already 3,504 pensioners participating in the “Pension Plus” scheme. These amounts are from a total of 1,964 pensioners, which is a record number of the scheme. The total amount of amounts is R1,964, which is a record number of the scheme.

Augmentation, says Federated

ONE WAY to protect yourself against inflation during the period of employment is to seek through augmentation of your corporate pension scheme. Corporate pension schemes are designed to protect pensioners during the period of employment. The period of employment is the period of time when you are employed by an employer.

Evidence

By the time the pension plan matures, says Federated, most members have forgotten about their retirement and “it is not the insurer’s interest to do anything to prevent the member from accumulating large amounts of money.”

Pension vs deferred compensation

But the resources made available through the pension plan are often more than enough to finance a moderate lifestyle in retirement,” says Federated. “There is no one-size-fits-all solution to deferred compensation. It depends on the individual’s situation.”

Pension schemes also have the advantage of not exhausting the value of the individual’s resources. “If the scheme is well designed,” says Federated, “it can provide a greater return on investment, thereby increasing the amount of money available to the individual.”

Pension schemes are also not subject to the same level of taxation as other forms of investment. “This can make them an attractive option for individuals who are looking to save for retirement,” says Federated.

DIFFERENT compensation while sometimes superficially similar can be very different in practice. “A deferred compensation plan, for example, is designed to provide a certain level of income in retirement,” says Federated. “A pension scheme, on the other hand, is designed to provide a certain level of income in retirement.”

Individuals who might consider a pension scheme over a deferred compensation plan include those who have a low-risk tolerance or who are looking for a guaranteed income stream in retirement. “A pension scheme may be a better choice for individuals who are looking for a guaranteed income stream,” says Federated. “A deferred compensation plan may be a better choice for individuals who are looking for a higher level of income in retirement.”

ACKNOWLEDGMENTS: Liberty Life, whose research is based on a survey of 1,000 pensioners, emphasizes that these findings should not be used as a substitute for professional advice. “These findings should be used as a starting point for discussions with a financial advisor,” says Liberty Life.

The selection of a pension plan is important and can have a significant impact on a person’s retirement income. “It is important to carefully consider the features of each plan and to consult with a financial advisor before making a decision,” says Liberty Life.

Differences in how pension schemes are funded and how they work can also affect the amount of income a pensioner can receive in retirement. “It is important to understand how a pension scheme is funded and how it works before making a decision,” says Liberty Life.

The benefits of a pension scheme can vary depending on the specific plan offered by the employer. “It is important to understand the benefits offered by each plan before making a decision,” says Liberty Life.

Conclusion

In conclusion, pension schemes are an important consideration for individuals planning for retirement. “It is important to carefully consider the benefits offered by each plan and to consult with a financial advisor before making a decision,” says Liberty Life.

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INDIVIDUALS about to retire should consult a pension bureau or other adviser for much clearer information about selecting a pension scheme. “There are many factors to consider when selecting a pension scheme,” says Federated. “It is important to carefully consider the benefits offered by each plan and to consult with a financial advisor before making a decision.”

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Pensions bureaux — a vital service

But the resources made available through forced retirement from a pension fund or voluntary retirement from an RA fund can be deployed most effectively at this juncture. One possibility is to deploy a portion of the pension to purchase the pension on which the pensioner is entitled and to spend the proceeds on a retirement home.

On the death of the pensioner, the proceeds of the life insurance policy become payable to the surviving spouse and can be used to purchase a pension for the duration of the survivor's life. As the survivor will be older, the rates obtainable will be higher than when the surviving spouse acquired the original pension.

Another possibility — depending on the circumstances — is to invest in an RA scheme (i.e., while there is earned income to justify the deduction (for the contributions). When the survivor reaches the age of 75 or actually returns from economic activity, the proceeds of the RA will augment the original pension.

MD OF Vantage Pension Administrators Lionel Zulberg says that the factor "most likely to have an influence on the state of health of the pensioner is the importance of health in determining rates" is that any payment will be made against sick leave if the pensioner is off work. Under these circumstances, "which make good business sense" for him to opt for a form of payment of pensions on death.

Care needed over their joint lives will pay R51 per month against R24 per month over the life of the retirement income. Zulberg argues that the small difference makes the joint life pension far preferable.

Another attractive option for the retiree whose health is questionable is to buy a "back-up" life policy funded out of the pension without evidence of health, as recommended also by Pope. On the other hand, if the retiree is in apparently robust health, especially if he has few personal responsibilities, he might decide to "take the highest possible pension" and ignore any form of guarantees or back-up arrangement.

Three case studies show disparities

A male attorney aged 75, with a credit of R321.500 available, was offered pensions for life ranging from R350 to R3.570 per month — a difference of some 125% measured against the higher amount.

An ex-male executive aged 60 was offered monthly pensions ranging between R309 and R3.296 — a difference of about 10%.

A male executive aged 64 was offered pensions between R4.000 and R4.050 per month, showing a disparity of about 10%.

Pension fund vs deferred compensation — be warned

DEFERRED compensation schemes, while sometimes superficially attractive, are not nearly as well protected legally as a properly guaranteed corporate pension fund.

As Mutual Life's assistant GM (pensions and group schemes) Joe Gates warns of many pitfalls in deferred compensation schemes. "Beware," he says, "the gift-bearing employer." An employee offered such a scheme — usually funded
DEFERRED compensation schemes, while sometimes superficially attractive, are not nearly as well protected legally as a properly constituted corporate pension fund.

AA Mutual Life's assistant GM (pensions and group schemes) Joe Gates warns of many pitfalls in deferred compensation schemes. "Beware," he says, "the gift-bearing employer." An employee offered such a facility -- usually funded by way of a salary sacrifice -- must beware its "hidden potential flaws".

A pension fund is constituted as a separate legal entity, distinct from both employer and employee. Its assets are secure from the "fortunes and failure of both parties". The employer may not benefit from the fund, and the only claim against its assets is "in terms of the registered rules".

Creditor

In the case of deferred compensation, all that the employee has is what the lawyer would call "a personal claim" against his employer. The assets underlying the service agreement belong to the employer, who may deal freely with them even with the employee's knowledge.

If the employer becomes insolvent, the employee will be no more than a concurrent creditor for the amount of salary sacrificed to the scheme, for what that may be worth in the particular case.

Gates says that, "restrictive as the Income Tax Act and the Pension Funds Act may be," they protect members in ways which deferred compensation schemes cannot. Thus contributions must be paid to a fund within seven days.

And as a pension fund does not have to meet the requirements of a "complying" or "standard" policy under the 6th Schedule of the Income Tax Act, flexibility in benefit design is readily achieved. There is also relative certainty that the earnings of the fund itself will remain untaxed.

There is also no risk of a defective or even nonexistent service agreement -- "an important ingredient" making for the tax efficiency of a deferred compensation scheme.
THE AIM SHOULD BE TO CUT INFLATION

The main instrument which lays down the government’s fiscal policy is the annual budget. The fiscal policy can be viewed as an attempt on the part of the government to influence the economy by means of changes in expenditures and/or taxes in such a manner as to have an impact on aggregates such as unemployment, inflation and economic growth.

The budget has therefore to be drawn up within the framework of what the key objectives of the economic policy are, and appropriate targets must be set.

This year’s budget will be tabled against some positive economic developments. The favourable debt rescheduling agreement has helped to ease the perceived strain on the capital account of the balance of payments.

The relatively high gold price is providing the authorities with the much-needed currency reserves to protect the now fairly stable rand exchange rate. Inflation seems to be on a downward trend, due to the appreciated rand.

Economic growth which in 1985 was minus 1.5 percent, marginally improved to 0.7 percent in 1986, suggesting that recovery, albeit still very weak, was getting underway.

AS South Africa waits with bated breath for the Government’s budget for this year, our columnist, Neoletu Mlamela, an economist with Barclays Bank, points at the direction he thinks Mr Barend du Plessis, the Minister of Finance, should be taking.

All these variables which broadly reflect the core of the economy, seem to suggest that if there could be an economic stimulus by the authorities, sustained growth can be achieved.

It has been said many a time that what is lacking to really boost the economy is vibrant consumer spending. This is probably one aspect on which the budget should focus.

Spending

Consumer spending is primarily a function of real wages and employment in the economy. Real wage increases have been negative over the past two years, mainly because of the high inflation rate. Unemployment is still a problem.

This lack of consumer spending is further clouded by the sociopolitical perception of the consumers. The authorities should approach this problem by channelling more funds into investment spending. This could alleviate unemployment and boost incomes.

In other words, the budget should really focus on long-term solutions. Current spending should be limited to a specified reasonable target, which would be in line with the stated manifesto of deregulation, while also taking cognisance of the current socio-political problems.

The current decline of the dollar suggests a possible rising trend in the inflation rate of our partners. Curbing our domestic inflation would therefore aid our exporting sector without eating the burden on households.

Burden

Although unlikely to be exhaustively addressed by the budget in the light of the fact that the Maro Commission report on taxation has not been tabled as yet, the government, especially on individuals, should be considered.

The increasing tax burden has been a constraint on increased investment spending by corporations. With ordinary individuals the tax burden has served to restrain their consumption spending.

The tax relief should at least be of such magnitude as to offset the tax creep effect (taxpayers move into higher income brackets because of inflation and are subsequently taxed accordingly).

In turn this increases the share of income that is taken by the government. Such an approach could do well in stimulating the economy.
Rail or plane about the same

Dispatch Correspondent

CAPE TOWN — Whether travelling by train or plane, it now costs just as much to travel from Cape Town to Johannesburg and back.

The increases announced in yesterday's Transport budget mean that the previous first class single train fare has gone up by R33, from R197 to R230 (or R460 return), a South African Transport Services spokesman said.

A call to South African Airways established that the return economy class airfare to Johannesburg is also R460, while the "midnight flight" fare stands at R230 return.

The Sats spokesman said the average 15 per cent increase in main line fares followed a decrease of 32 percent in use of these trains over the last year.

"We attribute that decrease mainly to cheaper, alternative forms of transport—the midnight flight and the new inter-city buses run both by private companies and Sats," he said.

He added that the increase was necessary because at the moment only 30 per cent of the cost of running main line trains was recovered by passenger fees.

"The increase is also accompanied by an ongoing process of rationalisation of the main line service," he said — DDC
THE Minister of Transport services, Mr Eli Louw, yesterday announced that a wide range of tariff increases would come into effect on July 1.

Introducing the SA Transport Services budget for the second reading, he said that the increases, calculated over 18 months since the last tariff increase, equated an annual rate of slightly over six percent, well below the prevailing rate of inflation. They will average 10 percent.

Among the higher rates of increases he announced were parcels and post, livestock and intercity passengers (15 percent), empty containers (20 percent) and wood traffic and road transport goods (16 percent).

Road transport tariffs, including goods and passengers, were being increased by an average of 13.9 percent with goods rising by 16 and passenger fares by 12.5 percent.

Here are the new first-class passenger fares between Naledi and Johannesburg: The old prices are in brackets.

- Single R2,10 (R1,90)
- Weekly R16 (R14,50)
- Monthly R60 (R55)

The fares between Dube and Johannesburg are:
- Single R1,50 (R1,40)
- Weekly R11,50 (R10,50)
- Monthly R43,50 (R39)

New third-class fares will be:
- Single R80c (76c)
- Weekly R4,50 (R4,10)
- Monthly R17,50 (R16,50)

Mr Louw said that as far as rail fares were concerned, intercity train services were being rationalised to improve the financial position.

Costs were also being kept to a minimum by enhancing productivity and curtailing labour costs and expenditure on material and energy.

"In spite of all these efforts the loss on passenger services remains unacceptably high and it is necessary to adjust fares," Mr Louw said.
Most Sails Tariffs set to increase by 10 per cent

FROM NICK WINTER
Every which way

Mixed fortunes are reflected in the latest inflation figures.

While the Producer Price Index (PPI) went up to 15,8% in March from 14,5% in February, the Consumer Price Index (CPI) fell to 16,2% in April from 16,8% the previous month. CPI traditionally lags PPI by two months, suggesting an uptick in the rate of inflation in the months ahead.

Economists, however, always warn of the danger of reading too much into monthly figures, often distorted by statistical hiccups. For instance, since the monthly rate for May 1986 CPI was only 0,4% next month will see an increase for this reason alone. Similarly, the PPI increase for March was largely technical, as it compares with a negligible increase in March 1986.

More significant is the underlying trend. Monthly increases these days are rarely below 1,3%.

Says Louis Geldenhuys, economist for George Huysamer: "This suggests a worrying trend. In the past one could usually determine a specific source of inflation. Now it is difficult. If you break down CPI, you find upward pressures across the board."

He says the pressure on inflation is "still vast." He cites the exchequer position and government spending, sanctions, the labour position in terms of wage demands and disruption of production, and general uncertainty.

"This last factor," he says, "means a shortening of time horizons, so people try to recoup investments sooner."

On the positive side, he does not believe RSC levies will have much impact. Another heartening pattern is the reduced unit costs of production as manufacturing volumes increase. But in the long term, given the stalemate on confidence, there is the danger government will go too far in an attempt to get the economy off the ground. Sanctions will continue to underpin the shortage of capital, while exporters will continue to press for a relatively cheap rand. These factors could continue to promote the need in the eyes of the authorities for an undervalued currency.

In detail, the local component of PPI rose from 16,9% to 18,1% in March, the imported component from 7,3% to 8,7%. The highest monthly increases were in fishing (9%), clothing (7%), and textiles (5%).

Ockie Stuart, of the Stellenbosch Bureau for Economic Research, believes higher oil prices and international inflation accounted for the import rise.

In CPI the food index increased 2,9% in April, up from 1,9% the previous month. Meat prices, which have a weighting of 9%, rose by 1,8% (1,6%) and vegetables by 13,3% (8,8%).

SA Agricultural Union economist Koos du Toit expects meat prices to continue rising. He points out that large price rises at this time of the year are seasonal, with vegetables in short supply.

Azar Jamine of Econometrix says: "The monthly increases are a reflection of structural factors which prevent the rate of inflation falling rapidly." These include administered prices in the public sector, the increased concentration of industry in the private sector and the narrowing of the gap in inter-racial wages without compensating increases in productivity.

Though Stuart expects CPI to continue falling, to average 15% this year and 12% for 1988, he warns "The inflationary cycle continues to peak and bottom out at increasingly higher levels," suggesting the longer-term trend is upwards.
Hospital fees to rise 8 per cent

By Melanie Gosling

Private hospital fees will go up by eight percent on July 1.

The increase will be restricted to ward fees, and will not apply to theatres or intensive care units, the chairman of the National Association of Private Hospitals, Mr Dick Williamson, said in Johannesburg yesterday.

The present rate for private hospital ward fees is R62.30. It will increase to R69.10.

Mr Williamson said his association is worried about the private hospital industry because fees have not kept pace with the rate of inflation, nor the increase in the cost of living. It has negotiated an increase with medical aid schemes.

"The man on the street compares our prices with those of provincial hospitals, which are subsidised by the Government. We're not cheap, but when you compare our rates with those of private hospitals overseas, we are certainly not expensive either," Mr Williamson said.

In Australia the daily ward rate is nearly R400. The intensive care unit's daily fee in South Africa is R163. In Britain it is R163 and R194 in Australia.
THE ECONOMY

Inflation’s victims this year aren’t born equal

By HILARY JOFFE

The good news is that the inflation rate is likely to be lower this year than last year’s record 18.6 percent. The bad news is that it’s still likely to be around 16 percent this year.

Latest Central Statistics Office figures show that the yearly inflation rate, as measured by the consumer price index (CPI), ran at 16.2 percent for April. And all are not equally affected. The cost of living was up more for the poor than for the rich, with “low income groups” experiencing a 17.8 percent inflation rate, compared with one of 15.4 percent for “high income groups.”

When prices of luxury goods are rising fastest, inflation rates for those with high incomes run ahead of the average.

But when food prices soar, it is the poor, who spend a large proportion of the household budget on food, who experience greatest inflation. In the year to April, food inflation was almost 25 percent. Without food, price increases would have been a mere 13.3 percent.

Food prices were the main culprit in rising prices between March and April this year, contributing over half of the month’s inflation. Some of the biggest monthly increases were in the price of vegetables, meat, milk and eggs. In the past year, the price of meat has gone up by almost 33 percent, while vegetable prices have increased by 45 percent.

Whether things will improve will depend partly on the weather, since drought and a shortage of commodities such as fruit and vegetables are in part responsible for recent food price increases. Government financial support for farmers, for example the R1.6 billion voted in the recent budget to those farmers facing bankruptcy, tends to keep unproductive farmers in business and to fuel inflationary tendencies.

On the other hand, government subsidies do help to limit rises in some food prices, such as the bread price. This year’s maize subsidy to farmers is, however, expected to run out before the end of the year, so that prices may rise again.

For all that, it was not the farmers or the food producers who were the main inflationarily culprits over the past 18 months.

Last year’s huge price increases were mainly due to the fall in the value of the rand, so that imported goods were costing more. With the rand stronger this year, it’s expected that the rate of increase of prices will slow somewhat. Where consumer prices were rising by 21 percent in the first three months of last year, the figure for the same period this year was just over 16 percent.

The inflation which South Africans have been experiencing in the past couple of years is not the “demand pull” type, characteristic of economic conditions when too much money, or too much demand, chases too few goods. Rather it has been of the “cost push” variety, with costs rising in 1986, especially as a result of the exchange rate.

What this meant was that prices of imported goods were pulling the inflation rate up. The increase in the production price index (PPI) for imported goods was 22.9 percent last year, whereas that for South African goods was 18.7 percent. Overall, prices as measured by the PPI index increased by 19.6 percent. The fact that consumer prices went up by slightly less than in 1986 reflects the lesser rise in the cost of services last year.

The PPI measures the wholesale prices of local and imported commodities. It excludes services, such as housing or medical care, which are included in the consumer price index. The effects of rises in wholesale prices tend to be reflected in retail price rises, as measured by the CPI, about two months later.

The annual increase in the PPI for all goods for South African consumption to March this year was 15.8 percent, lower than the April CPI annual increase of 16.2 percent, and thus relatively encouraging for the inflation outlook.

CPI figures for March also reflect the change in inflationary pressures compared with last year. Whereas last year prices of imported goods increased by more than the average, this year the prime inflationary push is coming from local production. In the year to March, wholesale prices of goods produced in South Africa rose by 18 percent, while the cost of imported commodities rose by only 8.7 percent.

The outlook for consumer prices this year looks a little better than it did last year, although the effects of recent increases in rail and post office tariffs have still to be felt. Sanlam predicts an average inflation rate of 16.5 percent for 1987, while Old Mutual’s economists forecast a figure of between 15 and 16 percent.

Not that this is anything to cheer about.

Consumer spending power will have decreased by the end of the year to only 84 percent of what it was at the beginning of the year. Particularly hard hit will be those who can least afford it.

Price rises may be compensated for to some extent by wage and salary increases. But in the last two years these have not kept pace with inflation. While inflation ran at close to 19 percent last year, average wage and salary increases outside agriculture were an estimated 14 percent.

In addition, rising unemployment means that the wage packet has to stretch to support more people. High inflation also means less saving and thus it ultimately has serious consequences for the level of investment and employment creation in the economy.

The rate of inflation in South Africa is presently running way ahead of the rates of its main trading partners. Britain’s inflation rate last year was 5.3 percent, while that of the USA was between three and four percent. This makes it difficult for exports, with South African products becoming steadily less and less competitive on the international market.
INFLATION eased substantially in the developing countries in 1986, according to the International Monetary Fund's International Financial Statistics (IFS).

The overall decline was paced by steep decreases for the Western hemisphere and African countries, with negative inflation experienced by a several nations.

Consumer prices rose by an average of 33.9% in 1986—the lowest annual rate since 1982 and well below the 50.3% of 1985. Inflation moderated in both oil-exporting and non-oil developing countries in 1986, but the non-oil nations showed the sharper fall.

Inflation in non-oil developing countries averaged 42.5% compared with 44.6% in 1985. The rate was 3.2% for the oil exporters against 4% in 1985.
Sanlam warns on high inflation rate

By Magnus Heystek
Finance Editor

It is particularly disappointing that the country has had to enter the present economic upturn with an inflation rate much higher than most of its important trading partners, says Sanlam in its latest economic review, predicting an average inflation rate of 16.5 percent this year.

It also warns that the danger of demand inflation should not be under-estimated, bearing in mind the cumulative effects on pent-up demand of lower taxes, higher remuneration levels, increased government spending and greater employment as the economy expands.

In this respect Sanlam sounds a note of caution on the apparent surplus in the economy, warning that a great deal of capacity was lost in the last recession as a result of many companies going under. Moreover, much equipment is outdated and will have to be replaced at significantly higher costs.

Sanlam's warning on the dangers of high inflation comes barely a day after it was announced that the consumer price index (CPI) jumped from 16.2 percent in April to 17.3 percent in May.

Sharp increases in food prices remain one of the major obstacles in efforts to force the inflation rate down to lower levels. Owning to the large weight of food expenditure in the total spending of consumers, representing roughly 35 percent of the consumer price index, increases in food prices have a ripple effect on the total CPI.

Consumer prices, excluding food, have eased perceptibly during the past few months as inflationary pressures from abroad have subsided due to the relative strengthening of the rand against the dollar.

Sanlam expects that the relatively sharp acceleration in food prices, particularly of meat which represents more than 9 percent of the total CPI, will continue to have a negative effect on inflation.

On prospects for economic growth Sanlam points to several factors which are hampering the upswing at present, including:

- The slow growth trend in foreign economies which has led to a sluggish demand for South African goods, indicating that the country cannot depend on a continued, export-led recovery in the near future.
- The fact that the higher spending by consumers has not been bolstered by an increase in real disposable income as yet. The recent salary increases for public sector officials, which will almost certainly be followed by the private sector, should nevertheless lead to a marked rise in the total buying power in the country.
- The fact that a considerable portion of the funds set aside during the past financial year for public sector capital projects has not been spent.

Sanlam, however, is fairly confident that the country can experience a real growth rate of between 2.5 and 3 percent after last year's dismal 0.7 percent.
Jump in inflation rate worries economists

South Africa's inflation rate as measured by the consumer price index (CPI) last month rose sharply to an annualised rate of 17.3 percent - up from 16.2 percent in April - and economists are concerned about the underlying inflationary pressures and warn of even higher inflation to come.

According to the Central Statistical Services (CSS), people in the lower income groups were hardest hit by increased costs last month with prices increasing at an annualised rate of 18.7 percent.

The sharp increase of 2.5 percent in the price of food was the highest since April 1981 and contributed largely to the inflation rate not dropping to lower levels as forecast in some economic circles.

People in middle-income groups experienced an inflation rate of 17.9 percent with high-income-earners having an inflation rate of "only" 16.5 percent.

Commenting on these figures the head of the CSS, Dr Treurnicht du Toit, expressed his concern at the inflationary forces prevalent in the economy.

"Although increases in foodstuffs are playing a major role in forcing the CPI higher, the past couple of months have seen the prices of other goods and services increasing steadily across a broad spectrum."

Mr Adam Jacobs, economist for Volkskas, warned that inflation could be heading higher in the months to come as the economy moves into higher gear with consumer demand for goods and services increasing.

Consumer spokesmen have expressed dismay at the jump in the inflation rate. Past chairman of the Consumer Union, Mrs Betty Hirzel, said: "We cannot accept that the Government is taking the problem of inflation seriously."

Consumer Council spokesman Mr Paul Roos said: "The increase is disconcerting for all consumers."
Inflation major threat to exports

VENICE — The high rate of inflation was a major threat to the country's export industries, and had an adverse impact on the cost of production of the gold mining industry, the Director General of Finance, Dr Chris Stals, said here.

Addressing the World Gold Conference in Venice, he said although the inflation rate declined from more than 16% last year to an adjusted annual rate of slightly below 15% in the first third of 1987, it remained unacceptably high, when compared with the relatively low rates of its major trading partners.

In the House of Assembly in Cape Town the PFPP spokesman on finance, Mr Harry Schwarz, said the figures announced yesterday of 17.3% for the general inflation rate and of 25.3% for food should be of great concern to every South African.

He said in the committee stage debate on the own affairs budget that inflation was "strangling our people, the poor, the low income groups".

Sapa
Inflation hits 17.3% in May as food prices rocket

INFLATION in May, as measured by the CPI, rose to 17.3% from 16.2% in April, following several months of lower rates of year-on-year inflation.

The return to higher rates was fuelled particularly by an "alarmingly high" 25.5% rise in food prices during the year ending May, says Central Statistical Services. This was the highest year-on-year rate of increase for food prices since April 1981, when it reached 27%.

Pick 'n Pay CE Raymond Ackerman

HELENA PATTEN and DAVID McKay

says the figures are "exorbitant", although there are reasons why such inflation in food prices could have taken place.

These include the effect of the drought on suppliers (particularly of meat and chickens), union pressure for increased wages, the drop in the rand-dollar rate and the fact that suppliers are trying to make too much profit to compensate for the adverse exchange rate last year.

"We are fighting tooth and nail against supplier increases," he says.

Government might contribute towards the lowering of food inflation if it came up with an improved plan on privatisation, which could reduce the inflation level to 12%, he says.

Economists, however, are quick to say the apparently higher inflation rate is really a technical aberration because of unusually low rates of monthly price increases in May 1986.
Germiston rates expected to go up 15.4 pc

Germiston ratepayers face a 15.4 percent increase in the average monthly household bill.

This was announced at the 1997/98 estimates meeting yesterday when the city council approved a record R254 million budget.

Mrs Wanie Haveloh, a member of the opposition group, rejected the budget and launched a scathing attack on the management committee for "irresponsible spending".

"Assessment rates are up by 20 percent, sewerage fees by 17 percent and refuse by 41 percent. Water goes up 8.9 percent for each 26 kl and electricity by 12.2 percent."

On the rebate of 39 percent approved for homeowners, Mrs Haveloh said the council had made provision in 1994/95 for a 40 percent rebate, which had never materialised.

On the R80 000 allocated for the replacement of parking meters at R300 each, she said: "Alberton has no meters in its business area and it is thriving. Ours is dying."

Management committee chairman Mr Stan van Riezen highlighted a strategic plan, already/approved in July last year, parts of which are to be financed in this budget.

The plan includes the Knox Street Mall which is nearly complete, interlocking paving blocks and upgrading and beautifying industrial areas.
Fearful factors

1986 was only 0.2%, thanks largely to a petrol price cut.

For similar reasons, in June the annual inflation rate should increase slightly as the rise in that month last year was also relatively modest, at 0.8%.

The 17.3% rate is for the average consumer. Lower income earners are not so fortunate, with an annual increase of 18.7%

Prices for those in the upper income bracket rose on average by 16.6%.

This is little surprise given that food, now rising at an annual 26%, is yet again the major factor. Excluding food — which is a quarter of the basket — the index would have risen just 14.4% over the year.

Perhaps more significant is the underlying inflation rate. Central Statistical Service calculates that for the FM that, annualising the index over a three-month period, the seasonally adjusted increase for January-March was 14.6%, while for the latest period it shot up to 17.7%.

Taking a longer-term view, Rand Merchant Bank’s Rudolf Gouws calculates that over the first two months of 1987 CPI increased by an annualised 16.7%, compared to 19.3% in the second half of 1986. “So the underlying trend of rising prices is gradually slowing.”

The May figures reflect rises in the prices of meat, motor cars, fats and oils, vegetables, clothing, housing and fuel and power. The only decline was fruit (mainly pineapples and oranges).

The average consumer now pays 35% more for meat than a year ago, 12% for grain products, 26% for fish, 21% for milk, milk products and eggs, 14% for fruit, 19% for sugar and 18% for coffee and tea.

Administered price increases for milk and eggs were announced last Monday in particular, milk was said to be “in short supply”.

The Bank Bulletin says that food price rises “to some extent represented the effect of relative undersupply of items such as meat and vegetables.”

Some economists say that rising prices are now a consequence of battered companies restoring balance sheets through higher profits and lower debt ratios, instead of passing the benefits of a firmer rand on to the consumer.

This has been aggravated by increasing pressure from unions for higher wages as

Still high

Consumer price index (Annual % increase)

Source: CSIR
Food for thought

Year on year % increase

18
17
16
15
14
13
Non-food inflation

Consumer price index

Food prices to come off the boil by yearend

By Stephen Rogers

price increases.
Red meat lost out heavily
in the market to white meat
in the past decade. Now red
meat is trying to make a
comeback in market share
and efforts are being made
to keep it price competitive.

On the production side
economists do not expect
major increases although
some items, such as red
meat and vegetables, are
still in short supply.

This augurs well for the
food index which rose at a
record year-on-year rate of
23.8% in May.

Easing

Dr Louw predicts the index
will fall to about 17% by
the end of the year. Lower-
icome earners spend more
than 50% of their money on
food.

Economists expect the de-
cline in food index to be
shown in the July CPI fig-
ures. The high monthly in-
creases in the second half of
last year will limit the rise in
the index over 12 months.

But what effect will lower
food inflation have on the
CPI?

In January this year the
food index, which has a 25% weight-
ing in the overall index,
nrose by 18.8% on the
year before and added 1.1
percentage points to the
CPI. In May the food index
rose by 25.6% and lifted the
CPI by 2.9 percentage points
to 12.3%.

The graph on the left
shows the effect of high food
inflation on the CPI. Non-
food inflation fell from 18% at
the beginning of the year to
14.4% in May, but the rise in
food prices more than negat-
ied the fall, lifting the CPI
from 16.1% to 17.3%.

The expected decline in
the food index will ease the
pressure on the CPI.

Margins

Retailers have been re-
building their profit margins
after a three-year decline.
For instance, the consumer
price of certain cuts of meat
has risen faster than the au-
tion figure.

However, most experts
say that price increases will
be kept to a minimum. Con-
sumer resistance, compet-
tion and changing patterns
of consumption have per-
suaded retailers to limit
INFLATION dropped sharply in May as measured by the country's producer price index. The year-on-year producer price inflation fell to 14.6 percent after rising to 16.1 percent in April.

This could result in the consumer price index falling this month because the effect of producer prices usually takes about two months to show up at retail level.

A year ago, producer price inflation stood at 19.6 percent.

The consumer price index, currently at 17.2 percent, could fall to 13.2 percent this time next year, the Stellenbosch Bureau for Economic Affairs said.

IMPORT PRICES

The reduced rate of increase in import prices this year will have a significant effect on the producer price index and, in turn, the consumer price index.

The bureau sees the rand worth R0.4550 in a year's time, fractionally lower than today's R0.4564.

'South Africa should be able to look forward to lower inflation rates (14.4 percent) in the second half of this year and the first half of next year (13.6 percent), say bureau economist Mr. Glen Moore and deputy-director of the bureau Dr. Okkie Stuart.

'The most recent bout of consumer price increases has been characterised by large increases in food prices, particularly meat prices. It is hazardous to predict likely food price increases due to the conditions in agriculture,' the bureau said.

WARNING

Interest rates are expected to stabilise, with the banks' prime lending rate rising only 0.5 percent to 13 percent over the next 12 months.

But the economists warn that inflation could get a boost next year from:

- High risks attached to business in a country plagued by political problems, which result in 'short-term profit maximisation attempts.'
- The 'belligerent attitude' adopted by trade unions in wage negotiations.
- Costs attached to economic sanctions and financial isolation.
- The fact that government spending has consistently overshot budget estimates.
Inflation takes a tumble

YEAR-on-year producer price inflation dropped sharply to 14.6% in May from 16.1% in April, Central Statistical Services figures show.

The decline is partly technical because the PPI jumped 1.72% between April and May last year, which means this year's came off a relatively higher base.

However, month-on-month figures have this year shown a decline in their rate of increase. Between April and May this year, the PPI increased by 0.45% compared with a month-on-month rise of 1.2% in April and 1.14% in March 1987.

For imported commodities, the month-on-month increase between April and May was only 0.2%—substantially lower than the increase of 1.3% recorded between February and March last year, 0.5% between January and February.

The index advanced to 227.6 in May from 224.5 in April and 212.5—a year earlier.
Chain store to slash meat prices on Monday

By DEBBIE MARCH
PORT ELIZABETH consumers can look forward to a meat price war, following the announcement today by a major chain store that prices would be slashed by up to 32% from Monday.

Family butchers, however, are unlikely to enter the price war contest as their prices are apparently already well below those now charged by chain store butchers.

From Monday, Pick 'n Pay butchers throughout the country will start dropping their prices in an attempt to "get meat sales going again".

"It's going to be an ongoing campaign that will see different lines of meat drop week by week. We want to get the public to buy red meat again," Mr. Ian Crooks, butchery manager at the Pick 'n Pay Hypermarket in Port Elizabeth, said.

"We expect other chain stores to follow suit."

The first price cuts will be introduced on Monday and will be made on regular sirloin, stewing steak and brisket.

These would drop by between 15% and 32%, Mr. Crooks said.

On Wednesday, more prices would be cut, with regular cuts every few days thereafter.

Chairman of the Meat Traders Association in Port Elizabeth, Mr. Peppy Leenhof, a family butcher, described the campaign as "a big publicity stunt."

Speaking in his personal capacity he said "It's no big deal, really. Any family butcher can compete with these cuts. Our prices are generally R2 a kilogram cheaper than those charged at supermarkets."

However, as chairman of the MTA, he welcomed any drop in the price of meat.

At the moment there was a chronic national shortage of beef. Within a week the price of beef had risen by 20%.

"Super beef had escalated from R3.90/kg on Monday to R4.40/kg on Thursday."

Today no cattle had come in for a month, Mr. Leenhof said.
INFLATION

Producing lower prices?

The latest production price index (PPI) figures from Central Statistical Service (CSS) are remarkable — some say unbelievable. Compared to April's 16.1% annual increase, the rate for May is just 14.6%.

Even more remarkable is that the locally produced component went up just 0.5%, on a month-on-month basis, "I haven't seen such a low figure in months," comments one economist. The annual rate was down from 17.9% to 15.8%.

The imported component rose by just 0.2%, month on month. The annual rate of increase here rose from 10.2% to 10.9%.

A CSS spokesman can't remember when he had seen so many zero or minimal increases. "Prices on a tremendous number of items haven't gone up, while many have increased by less than 1%." The biggest monthly drop was in agricultural products, down by 1.7% — partly through the lower maize price, but probably also because of cheaper vegetables and fruit, according to CSS.

Certainly good news, and there's no doubt inflation is on a downward path. The big question is how far will it drop? And, comments Louis Goldenhuyse, economic consultant to George Huysamen: "One must be careful about reading too much into monthly figures."

He says price volatility is a factor. And he questions the reliability of the returns, suggesting an uncertain economic environment is likely to confuse respondents assessing cost increases. Nor are all items reviewed each month.

Economists also talk of "statistical noise." The very low increase in the local component is based on a relatively high May 1986 figure, which leapt by almost 2.1%. On the other hand, the imported price component dropped by 0.8%, in May 1986, making the latest figure look even better.

"I still believe inflation will be down for this year, at 14%-15%," says Goldenhuyse. Last November he was expecting between 16%-18%.

"Overall, these seem positive figures," says Leon Steenkamp, economist at Senekal, Mouton & Kitshoff. "But it remains to be seen whether the trend is maintained. Bearing in mind the long list of zeros, it could just be a month in which people held prices. I'd be surprised if we see inflation below 15% for the year."

He expects higher price increases as manufacturers make up for margins squeezed during periods of slack demand. He says businesses will be inclined to push prices up a bit, given:

- Improving demand,
- Shortage of skilled labour,
- Union wage pressures,
- The danger of a deprecating rand.

The economy is concentrated, so it lacks sufficient competition to ward off general price increases, he adds.

Future wage increases are indeed a major concern for inflation watchers. Checkers recently agreed to substantial pay increases for July and next January — an unusual step, pointing to the growing bargaining power and militancy of unions.

Behind all this lie some confusing trends. Comments another economist: "I'm puzzled by the picture suggested by the latest PPI statistics. I wouldn't be surprised if the 0.5% increase for May was a one-off thing. I haven't seen evidence elsewhere of price increases softening."

He also believes that the benefit of a strengthening rand has run its course, and that the imported price component will pick up. Dangers leading to higher imported prices include rising inflation rates of our trading partners, higher oil prices, and sanctions busting costs.

"My hope, that the rand will go over US$3.0c, has gone. It's significantly down from US$5.0c — where it held for several months — to around US$4.50c. Coal exporters, in particular, are complaining about squeezed margins, having cut prices in dollar terms to compete on international markets.

Exports are generally becoming only marginally profitable, he believes. "Also, increased rail tariffs have pushed up costs to exporters."

Another puzzle is the strangely seasonal pattern of food prices. Normally fresh producer prices decline at the end of summer, and increase in autumn and winter. Instead the opposite has happened, with the latest fall in agricultural product prices.

Other research shows a different story.

Robin McGregor recently found the cost of many food items has risen twice as fast as the inflation rate. Over 1978-1984, against total inflation of 15%, margarine rose by 584%, mealie meal 327%, eggs 278% and chicken 253%, for example.

Supermarket chains are continually accused of profiteering. They have been successful in modifying purchasing habits. Now most consumers expect to buy every food item under one roof. But with daily price adjustments both up and down on items on the shelves, it's impossible for a consumer to know what he should really pay for a given item. It adds to the confusing picture presented by various inflation statistics.

Indeed, there seems as much confusion as clarity in economists' understanding of current trends. It is perhaps to be expected when economic upsizing is moving so slowly that sometimes seems to be stalling, or not moving at all.

LIFE ASSURANCE

Guarantee trouble

The Registrar of Insurance is on the heels of life assuranceers who are "round-tripping" bank borrowers' investments back into financial markets by offering guaranteed investment returns. Some R500m is thought to be involved.

The registrar is rightly concerned over the accidental soundness of the guarantees, once, for one thing, they could encourage assurers to mismatch investments in a bid to meet promised returns.

A related problem is the use by non-taxpaying institutions, especially municipalities, of life assuranceers to earn higher returns on long-term investments than is available from building societies. Again, some R500m is thought to be involved.

The Life Offices Association (LOA) rushed out a telex on July 1, asking members to suspend the sale and issue of all policies with guaranteed cash values within the first five years and annuities to non-taxpaying bodies with terms of under five years, "pending the outcome of negotiations with the Financial Institutions Office (FIO)."

It adds "We believe the issue of such policies may be deemed an undesirable practice from July 1 1987 unless we demonstrate self-regulation."

The LOA also asked the FIO two weeks ago for details of an alleged instruction by Minister of Finance Barend du Plessis through provincial administrations to municipalities to cease purchase of annuities from...
Survey: food prices shot up

JOHANNESBURG — Prices of basic food items have increased by 230 per cent in the last decade and products like cheese, bacon and apricot jam are over 300 per cent more costly than they were 10 years ago, says a Housewives' League of SA survey.

The 22 items monitored during the 10-year period, beginning in 1978, ranged from washing powder, which increased in price by 213 per cent, to cornflakes — up 314 per cent.

A kilogram of first grade cheese, R1.70 in 1978, now costs R7.47 — an increase of 339 per cent. Tea bags, sugar and margarine are among many other staple dietary products whose prices have shot up.

Ten years ago, sliced peaches sold at 42c. They have increased 214 per cent. Rice was the most economical item surveyed and the only one not to double in price. — DDC
Inflation and poor pay packets are fuelling militancy of workers

THERE seems to be a widespread surge of worker militancy throughout the country.

Not only are the National Union of Mineworkers poised for a legal strike, so is the Food and Allied Workers' Union (Fawu) and the National Union of Metalworkers of South Africa has just backed off from a national strike.

Then there is the local action by cleansing workers in the Cape Town Municipal Workers' Association, a strike by Johannesburg's Fidelity Guards, and the Electrical and Allied Workers' Trades Union is refusing to sign the industrial council agreement with the employers.

And that's not nearly the end of it.

The Paper, Wood and Allied Workers' Union (Pwawu) says that their members have had five strikes in recent weeks.

One of the most basic causes of this is inflation, where pay packets are simply not keeping up with rising prices — especially food prices which have increased at rates well over inflation.

Pwawu says that their members' actions were directly related to rising food prices and other unionists point out that food is the major component of worker spending.

Fawu, which is threatening a national strike over a wages dispute with Premier and Saks, points to a major contradiction in the food industry.

According to their figures, Saks' profits increased by 31 percent to more than R50-million last year, while Premier's profits rose 22 percent to R152-million.

"The huge profit increases have been accompanied by spiraling food prices," the union said in a statement.

What they're saying is that while profits have been rising, workers are increasingly unable to buy the staple foods which they produce.

"However, we are not talking here about a real wage increase. What we are talking about is a situation where workers are being forced to pay more for the same goods," the union said.

The union called on workers to fight for a fair deal, and for the government to take action to bring down prices.

For the workers in the food industry, the solution seems plain: the companies are making lots of money out of our labour, so let them share some of it with us.

They can cut profits in one of two ways — drop prices or raise wages.

Lower prices, the argument goes, would enable the poorest sections of the community to feed themselves better, in the more affluent sections it would free money to spend on other goods and thus help to stimulate demand and create employment.

Raising their wages would have the same effects, although perhaps not quite as widespread, unless it is extended to workers in all sectors.
Inflation and poor pay packets are fuelling militancy of workers

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Fawu, which is threatening a national strike over a wages dispute with Premier and Sasko, points to a major contradiction in the food industry.

According to their figures, Sasko profits increased by 31 percent to more than R20-million last year, while Premier's profits rose 22 percent to R152-million.

"The huge profit increases have been accompanied by spiraling food prices," the union said in a statement.

What they're saying is that while profits have been surging, workers are increasingly unable to buy the staple foods which they produce.

Whichever way you cut it, this is rather strange.

But the pressure on worker pay packets does not end there.

With unemployment still rising, more and more people are becoming dependent on the wages of those still in employment.

Nick Henwood, regional secretary of the Congress of South African Trade Unions, in a recent talk to a UDF meeting, said that there were now nine people dependent on every person employed.

It's thus a double bind for the worker—food prices have gone up 27 percent nationally (and a massive 32.7 percent locally) while there are more mouths to feed on what you earn.

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Raising their wages would have the same effect, although perhaps not quite as widespread unless it was extended to workers in all sectors.
Year-on-year inflation dips

INFLATION, as measured by the consumer price index, dipped slightly to a year-on-year rate of 17.5% in June, from 17.3% in May, Central Statistical Service's figures show.

But the 0.7% increase from May to June this year was the lowest monthly increase for the past year. The monthly index increased by such a marginal percentage because food prices, which have a weighting of about 25% in the index, were up by only 0.3% from May to June.

Economists cautioned against becoming too optimistic about the low month-

Warning against optimism over inflation

on-month increase. Old Mutual's Dave Mohr said: "Postal tariffs, transport and medical costs increased in July. This means we will probably see a higher increase from June to July."

Meanwhile, capital market rates eased on the back of the lower inflation rate. The RSA 13% 2005 dipped to 15.34%, compared with Friday's rate of 15.72%. Dealers said they had expected a higher inflation rate.
Danger signs in the economy

Inflation forecast to soar above 20%

Finance Staff

Complacency over June's marginal dip in the inflation rate — to 17.2 percent from 17.3 percent in May — is misguided and dangerous. Indeed, the prospects for a marked reduction in inflation in the next 18 months are remote, contends Old Mutual's chief economist, Rob Lee, who warns that inflation could well soar above 20 percent by the end of 1988.

He points to the following inflationary factors as particularly disturbing:

- Rapidly rising government spending, which was 23 percent up in fiscal 1987-88 and probably close to 20 percent higher again in 1987-88.
- Significantly higher budget deficits as a percentage of gross domestic product — probably above 5 percent in 1987-88.
- Probability inflationary financing of the deficit.
- Markedly negative real interest rates.
- Rapid growth in the narrow monetary aggregates.
- Black trade unions increasingly flexing their muscles.
- The vulnerability of the rand exchange rate to a decline in current account surpluses, given the requirement to pay foreign debt.

According to Mr Lee, "Inflation in SA is by now deeply rooted and endemic. We have had double digit inflation for over a decade. Experience the world over has shown that in these circumstances a significant and sustained reduction in inflation can only be achieved by the prolonged application of disciplined fiscal and monetary policies.

Such policies inevitably result in painful short-term consequences for economic growth and employment, but if carried through lay the foundations for longer term sustainable economic growth.

Politicians

"The reason that inflation remains so deep-seated is that it is difficult to persuade politicians to take the prescribed medicine long enough for success to occur.

Mr Lee suggests that countries which have succeeded in dramatically lowering their inflation rates have done so — at least in democratic societies — because politicians become convinced that their electorates wanted lower inflation more than any other political or economic objective and understood that this would require short-term sacrifices.

Regrettabley, says Mr Lee, these electoral conditions manifestly do not exist in South Africa.

"In 1986 we had the highest average inflation rate — 18.6 percent — since 1929. Despite the best efforts to control inflation, a spectre hangs over the economy. Policy priority number one is quite explicitly the promotion of short-term economic growth. It has been for some time and is likely to remain so in coming months.

"The authorities' reasons for giving growth priority are obvious and understandable, and arguably unavoidable in current socio-political circumstances. However, this does mean that the prospects for a marked reduction in inflation rate in the years 1987/88 are remote."
‘Outlook bleak for inflation drop’

Finance Staff

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**STATE SPENDING**

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“Experience the world over has shown that in these circumstances a significant and sustained reduction in inflation can only be achieved by the prolonged application of disciplined fiscal and monetary policies.

“Such policies inevitably result in painful short-term consequences for economic growth and employment but if carried through lay the foundations for longer-term sustainable economic growth.

“The reason that inflation remains so deep-seated is that it is difficult to persuade politicians to take the prescribed medicine long enough for success to occur.

"This is an understandable, worldwide phenomenon, since strict anti-inflation policies require governments to forgo spending which its own constituents constantly demand of it.

“It is, after all, such socio-political pressures which cause governments to follow inflationary policies in the first place.”

Mr Lee suggests that countries which have succeeded in dramatically lowering their inflation rates have done so — at least in democratic societies — because politicians become convinced that their electorates wanted lower inflation more than any other political or economic objective and understood that this would require short-term sacrifices.

Regrettably, says Mr Lee, these electoral conditions manifestly do not exist in South Africa.

“In 1986 we had the highest average inflation rate — 18.6 percent — since 1970.

**HORRIFYING SPECTRE**

“Despite so horrifying a spectre hanging over the economy, policy priority number one is quite explicit: the promotion of short-term economic growth. It has been for some time and is likely to remain so in coming months.

“The authorities’ reasons for giving growth priority are obvious and understandable, and arguably unavoidable in current socio-political circumstances.

“However, this does mean that the prospects for a marked reduction in inflation rate in the years 1987-88 are remote”
INFLATION

Down for some

The good news is that the year-on-year increase of the overall consumer price index (CPI) fell to 17,2% in June from May's 17,3%. The June 1986 monthly increase was only 0,8%, so observers were surprised by this June's 0,7% damping the year-on-year increase. The May month-on-month increase was 1,2%.

But for the lower-income earner, prices are rising by an annual 19,2%, against 17,9% for middle-income and 16,3% for highest earners. This is in stark contrast to last June, when the lowest group's cost of living (then a year-on-year 16,5%) was pulling down the overall index (16,9% up).

Since 1980, middle-income earners have borne the brunt of price increases. The index for this group has now hit 267,3 (1980=100). The lower-income index, at 261,2, will soon pass the upper-income group's (now 261,3). The overall index is 263.1.

Rand Merchant Bank's Rudolf Gouws calculates that the underlying rate of price increases slowed to an annualised 15,4% in the first half of 1987 from 19,3% in the last six months of 1986. And in the past three months the annualised rate of price rises is only 13,3%.

The major factor behind June's overall rise of 0,7% was a 4,5% increase in clothing — contributing 0,3% of the 0,7% rise, and attributed to a change in seasons. Other rises include housing at 0,6% (0,1%), fish at 4,8% (0,1%), furniture at 2,8% (0,1%), and appliances at 4,1% (0,1%). The only significant decline was coffee, at 2,3%.

But, as is often the case, prices that have not risen much are probably more revealing.

Food, a major factor behind high inflation — comprising a quarter of the CPI basket — still rises year-on-year at 25,7%. The monthly increase, however, dropped to 0,2% from May's 0,9%. The impact of food prices has not been as marked over the past few months.

This relatively modest rise in food prices is largely attributed to meat prices which did not, on average, rise in June. This appears seasonal last June meat prices fell 0,3% and in June 1985 rose 0,6%. Meat comprises almost 36% of the food index and 9% of the total index.

Vegetables, a 3,5% weighting in the index, rose "only" 0,7%. In perspective the picture is not nearly as comforting. Meat has risen 35,3% over the year and vegetables 44%.

Though many prices rose in the first seven days of July and will thus be reflected in the July CPI, the total increase is not expected to be near July 1986's 2%. The overall year-on-year CPI increase should thus drop below 17%.

This month wide-ranging medical tariffs rose, as did building society bond rates (bonds, including banks, comprise some 3,4% of the index), municipal tariffs (under 2%), postal tariffs (1%), public transport (3,2%); milk, milk products and eggs (2,7%). Depending on area, petrol both dropped and increased.
Inflation: what most economists fear most

LONDON — What is it economists fear when the US, the world’s biggest debtor, is unable to balance its books and an American consumer spending boom keeps factories abroad humming?


For the moment, say economists, the world economy is in balance. The money Americans spend on imports is reinvested by foreigners in US government bonds.

But the strain is beginning to show — the world economy is slowing down. The dollar is weak, squeezing the export-led economies of Japan and Europe. The Third World has to scramble for dollars to make payments on its $1-trillion debt.

Wilford says printing more dollars will be one way of addressing all these problems — because more money gives an economy a kick and because, when prices are rising, it is great to be a debtor.

It eases the pain of paying last year’s bills, if the money you pay your creditors is worth less than the money you borrowed.

That is what Bolivians discovered when their annual rate of inflation hit 23,000% in 1986.

Wilford says inflation means “the impact of Third World loans will fade into nothing.”

Even at an annual rate of 15%, a rate the Spanish government has set as its target, the value of money halves in 14 years. — Sapa-Reuters
Average wages in the big seven OECD countries increased by only three percent last year, compared with an average annual rise of 11 percent during the 1970s.

The typical American worker has had a pay rise of little more than two percent during the past 12 months—the smallest increase since the second World War. In real terms, his pay packet is now worth almost eight percent less than in 1978.

Despite rising inflation this year and falling unemployment, there are few signs that American wages are about to take off.

The rate of increase in both nominal and real earnings throughout the OECD has fallen sharply. The slowdown is particularly marked in Italy and France.

Italy's annual rate of wage increases declined from 23 percent in 1981 to 5 percent last year. Only in Britain and West Germany have wages bucked the trend. The average British worker has had a real pay rise of 20 percent in the past five years.

In West Germany, despite negative inflation last year, workers have stuck out for wage increases of three percent at least. This has brought them a big gain in real terms.

In Japan, where consumer prices have also fallen, the growth of nominal earnings has fallen too. This is partly because profit-related bonuses are a big chunk of Japanese workers' total take-home pay. The appreciation of the yen has cut profits, and thus in turn has squeezed wages.

The wage moderation of the 1980s is partly explained by heightened monetary and fiscal policies. Tight monetary policies have reduced inflationary expectations and meant that the money to pay much higher wages is simply not there.

But the slowdown in pay rises also reflects a fundamental shift in the pattern of wage setting. The effect of microeconomic measures to make labour markets more efficient is visible in a new study. The OECD has examined the progress which governments have recently made in loosening labour market regulations and other institutional drags, it reports.

- Social security benefits have become less generous. During the 1960s and 1970s, replacement ratios (unemployment benefits as a percentage of average wages) rose steadily. Since the beginning of the 1980s, they have fallen in nine of the 16 countries considered by the OECD.
- Minimum wages have been frozen in nominal terms in some countries, implying a cut in real terms. America's minimum wage has fallen by about a fifth in real terms since 1980. But France's has risen by roughly the same amount over the same period.
- Trade unions are on the defensive in most countries. Fewer days have been lost by strikes in the 1980s, even in the 1970s. West Germany and France have given businesses more leeway in changing their hiring and firing laws.
- Almost all governments have tried to squeeze public-sector pay. Governments have been prepared to cut out prolonged strikes rather than give way to union demands—e.g., in the dispute involving air traffic controllers in America in 1981 and British coal miners in 1984-85.
- Indexation of wages to prices has been scrapped or weakened in several countries, including Italy, France and Holland. In America and Canada, fewer workers are now covered by cost of living agreements.
- Incomes policies have become less popular, as governments have instead attempted to deregulate labour markets and to encourage a closer link between pay and the profits of individual companies or industries. Yet France, Spain and Australia all still have incomes policies.
- Wage-setting practices have become more flexible. In America, in particular, workers have accepted pay freezes or even pay cuts. Some industries have introduced two-tier wage levels—e.g., France, with new workers doing the same jobs being paid less than existing employees.

How have these microeconomic changes affected wage developments? Most analysts agree that in the short run there is a trade-off between unemployment and wage inflation (known as the Phillips curve), but there is a short-run Phillips curve that is not acceptable to unions. Weak trade unions and less generous unemployment benefits might make wages more responsive to unemployment—i.e., the short-run Phillips curve would become steeper, resulting in a bigger decline in wage growth for a given rise in unemployment.

Alternatively, the policies might lower inflationary expectations, or influence other variables which determine wage rates, this would shift the short-term Phillips curve rather than change its slope.

It is hard to test directly for the influence of microeconomic policies on wage growth—e.g., how can an economist measure the deregulation of markets or trade union militancy?

The OECD finds that, with the exception of West Germany, equations which just relate wage movements to variables such as inflation, unemployment and international variables have tended to over-predict the rate of increase in wages in the 1980s. These errors may reflect the effect of the microeconomic changes on wages.

The OECD concludes that some micro-economic measures have helped to moderate wage growth—for instance, by lowering inflationary expectations, but it finds little evidence that they have altered the way wages respond to unemployment and inflation.

If the OECD is right, the short-term trade-off between unemployment and wage inflation is no better today than in the 1970s. A fall in unemployment would probably be followed by faster wage rises.

But because most countries' current unemployment rates are well above those of the 1970s and the pre-crisis level of unemployment, which is consistent with stable inflation, the risk of a big pick-up in wage inflation is limited.
PRETORIA — Inflation stood in the way of greater economic momentum and the creation of more jobs, Volksas chairman Albert Marais said in Pretoria on Friday.

Speaking at the banking group's AGM, Marais said the fact that an answer for inflation had not been found, in spite of economic stagnation, was a cause for grave concern.

Economic developments for the beginning of the year indicated business momentum was starting to run out of steam, although there had been signs of reasonable recovery during the first six months.

Signs of the economy losing momentum focused attention on government fiscal policy. The economy, Marais said, needed greater support than provided for in the Budget.
June producer price inflation up to 14.8%

and 1.14% in March 1987.

Prices of imported commodities did not increase at all from May to June, after recording an increase of only 0.2% between April and May.

Local commodities showed an increase of 0.7% from May to June following an increase of 0.5% between April and May.

Rand Merchant Bank economist Ru-

dolf Gouws said yesterday that the monthly increases for the first half of this year were annualised, the producer price inflation rate would be 11.3% compared with an annualised rate of 13.4% for the last half of 1986 Gouws said the PPI held a promise of improved Consumer Price Index figures in months to come.
Britain defends minesweeper decision

We'll attack, Iran warns UK, France

The Star Bureau

London

Iran warned Britain and France yesterday that their ships might now be attacked in the Gulf following the decision of the two governments to send minesweepers to the region.

However British Prime Minister Mrs Margaret Thatcher defended her government's move, and Minister of State in the Foreign Office Mr David Mellor warned that Tehran would not be getting its own way in the area.

US Defence Secretary Mr Caspar Weinberger was also unbowed, saying Iranian threats would not force President Reagan to disband the United States naval force in the Gulf.

Tehran radio said yesterday that if England and France want to stand back-to-back with American forces to implement the aggressive policies of the Reagan administration, we are ready to repeat the events of Lebanon which resulted in their flight (from there).

Britain's small contingent to the multinational force in Lebanon was the first to abandon Beirut in 1984, four months after pro-Iranian sundeib bombers had destroyed the US marine and French military headquarters in the city.

The Tehran radio broadcast clearly adds Britain's name to the list of "Satame" enemies with which Iran sees itself in conflict in the Gulf.

It came only a few hours after Iran's Prime Minister Mr Hassan Moussavi had himself warned that Britain and France had raised tensions by deciding to increase their presence in the region.

The Tehran radio broadcast made a direct link between the decision on minesweepers and what it called "Iraqi trouble-making", an apparent reference to the resumption of Iraqi air attacks on Iranian oil installations three days ago.

'Mischief'

"Iran is determined to respond decisively to this mischief if the trouble-making of the Iraqi regime continues", the broadcast said.

Mr Mellor, who is standing in for British Foreign Secretary Sir Geoffrey Howe, said he hoped other countries would support Iran's minesweepers in the Gulf.

The Iranian government, he said, was "capable of doing a whole number of unattractive things. We cannot allow them to have their way in the Gulf because in the end our interest is getting oil, the interests of the West, our commercial and historically friendly ties with the Gulf would be threatened at Puck's.

United States and British vessels are likely in the foreseeable future to avoid the anchorage at Fajjarah where yet another mine was discovered yesterday, the fifth to be recorded in the area within three days.

Tanker captains say they are fairly certain the Iranians laid the mines, although they agreed that "this does not account for the mining three days ago of the American-owned Texaco Caribbean ship which was carrying Iranian crude oil.

13/8/87
FORECASTS of short-term inflationary prospects tend to converge in a rather confused picture. A mixture of signals are sending price expectations up, down and sideways. Inflation has been hovering between 16 percent and 17.3 percent since the beginning of 1987 compared with 18.6 percent in 1986.

It is likely to stay around these levels this year although a decline is possible in the very short term. There is more unanimity among analysts concerning long-term inflationary prospects which are generally expected to rise. Food prices will continue to rise while militant trade unions will be increasingly successful in enforcing real wage increases for their members. This, together with high prices of imports and rising capital replacement costs will contribute to a higher inflation rate which may rise above 18% by the end of 1988.

Prices

Meanwhile, the short-term seems brighter. Changes in producer prices index (PPI) usually precede consumer prices by two months. There has been a noticeable slowdown PPI rates of increase in recent months. The year-on-year PPI increased in June to 14.8% from 14.6% in May. The monthly increase in June continued only 0.5% from the May figure which itself increased 0.5% from the April figure. This slight increase compared favorably with a month-to-month rise of 1.2% in April and 1.14% in March, 1987.

Prices of imports, the major impetus to an increased PPI in 1986 contributing as much as 35% to the overall producer price rises, did not increase at all from May to June. This followed a slight increase of 0.2% between April and May since the beginning of 1987, import volumes have been cut back considerably. Local commodities, however, showed a rise of 0.7% from May to June following an increase of 0.5% between April and May. It is clear that the major impact on producer prices seems to be arising out of rising costs (capital and labour) in the production process itself.

Thus, following PPI trends, an inflation rate lower than our current 17% is a possibility. Provided retailers do not push up their profit margins instead of passing the benefit onto consumers. Unfortunately there is evidence this is already taking place.

Bleak

The longer term inflationary picture is bleaker. The enormous economic power wielded by trade unions today is a clear indication that policies are going to have to move in favour of labour. There is little doubt that real wages will rise. This, together with higher capital replacement costs will put upward pressure on prices especially when considering that retailers will probably try to retain present profit margins.

Yet, whether an increase in costs is avoidable is in itself debatable. When comparing labour's productivity which is averaging a positive growth rate of approximately 1% per year with the productivity of capital which is severely declining, one wonders whether rising costs could not be offset (at least to an extent) by increasing the efficiency of capital. This becomes an extremely crucial issue when considering our chronic potential shortage of new capital and the escalating costs of replacing it.

The rising oil price has also rekindled inflationary fears domestically and abroad. Although the $20 a barrel today is a far cry from the $10 a barrel of 1986, there is little reason to worry in the near-term.

Politics

The oil price, particularly the spot price is inflated by the political instability in the Gulf. The OPEC nations have been cheating on their quotas leading to a surplus in supply, the effects of which are being well hidden by the current Gulf tensions.

The demand-supply fundamentals point to an oil glut which, when tensions subside, will tend to depress the oil price. As SA is tied into oil agreements, it is the contract price, not the spot price that really matters. We are still receiving supplies bought in late 1986 at cheaper prices. Fuel sources have confirmed that there is little reason why petrol prices should increase during the duration of this year though a long-term inflationary impact due to rising energy costs is probably inevitable.

Although inflation may benefit some in the short term, inflation ultimately, either indirectly or directly, hurts all. Unfortunately the pain is not uniformly distributed. Lower income groups who spend a relatively higher proportion of their income on food and clothing have been hardest hit.

Foods

The prices of twenty-two staple foods and basic products have increased over 230% in the past decade. Cheese, cornflakes, and washing powder, for example, have increased over 300%. While non-food items may be experiencing increases of less than 1% annually, the food component of inflation is advancing at over 25% and as yet is not showing signs of reversing its trend.

Thus, inflation this year can be expected to move sideways, perhaps even decline for a short while, but an increase in 1988 above current levels certainly seems probable.
Inflation eases as food price rise slows

Business Editor

INFLATION eased sharply last month, according to the latest consumer price index

The rate dipped almost a full point to 16.3 percent from 17.2 percent in June, Central Statistic Services said today.

The monthly rate of increase as measured by the index was 1.2 percent compared with a full two percent in July last year.

A slowdown in food price increases was the main reason for inflation easing. Food prices rose by only 0.5 percent.

Food price inflation soared by 2.8 percent in July last year.

MILK, EGGS UP

Though July was the third consecutive month in which food prices rose by less than one percent the annual rate of increase remained high at 23 percent, the department said.

In July, milk and egg prices increased by 5.7 percent but vegetable prices dropped by 3.8 percent.

There were relatively high monthly price increases in soft-drinks (10.2 percent), clothing (2.2 percent), housing (2.5 percent), medical care (6.1 percent), public transport (2.5 percent) and communication (18.3 percent, because of the July 1 tariff increases).

The inflation rate for the lower-income group — 18.2 percent — was still higher than for the middle and higher income groups, at 16.8 percent and 15.5 percent respectively.

Economists upswing predicted, page 2.
INFLATION, as measured by the year-on-year change in the Consumer Price Index (CPI), fell sharply to 16.3% in July from 17.2% in June, Central Statistical Services figures show.

Between June and July, the index increased by 1.2% compared with a monthly increase of 0.7% from May to June.

The high monthly rate of increase can be ascribed to increases in postal and transport tariffs as well as medical costs which come into effect in July.

Other significant price increases between June and July were for cold drinks, clothing and housing.

Although July was the third consecutive month in which food prices increased by less than 1%, the annual rate of increase was still high at 22%.

Milk and egg prices increased 5.7% from June to July, but vegetable prices decreased 3.8%.

Economists welcomed the lower year-on-year inflation rate, but cautioned against complacency.

Said Volkskas economist Adam Jacobs: "The year-on-year rate is often misleading."

He said the inflation rate declined for largely technical reasons, as the rate was measured off an already high base.

Jacobs pointed out that the index increased by a significant 2% in July last year from the previous month.

Rand Merchant Bank economist Hofmeyr Gouws said although the year-on-year rate was still very high, he believed the underlying trend in inflation was downward.
SA's inflation rate for July takes a dip

South Africa's year-on-year inflation rate for July decreased to 16.3 percent from 17.2 percent in June, the Department of Central Statistics said in Pretoria.

The monthly rate of increase as measured by the Consumer Price Index was 1.2 percent, compared with 2 percent for the same period last year. The decrease, which was largely attributable to food prices.
INFLATION

Maintaining trends
The 1.2% rise in the consumer price index (CPI) in July is in line with the trend of the past few months — indeed, this is the average monthly increase for the first half-year.
This is well below last July’s 2% increase, and the rate of increase in the overall index (the inflation rate) has dropped from 17.2% in June to 16.3%. The index itself, with a base of 100 in 1980, reached 266.2.
The slowdown is largely due to the lower pace of food price rises (food comprises a quarter of the total basket). In July food prices rose by 0.5%, bringing the annual increase to 23%. More encouragingly, the underlying rate of food price increases is slowing — from a seasonally adjusted annualised 13.2% in the first quarter to 13.7% in the second quarter and 14.9% in the three months ending July.
Excluding food, the overall index is 14.1% up on a year ago.
In July vegetable and fruit prices dropped by 3% and 1% respectively. The largest monthly increases were for clothes (2.2%), housing (2.5%), medical care (6.1%), milk, milk products and eggs (5.7%); and communications (18.3%) — thanks to the postal telephone tariff hikes.
The annual increase on this item is 20.3%.
Though the gap is narrowing, lower income earners still suffer the largest CPI increase — 18.2% over the last year compared to 16.8% for middle income earners and 15.6% for top earners.
Over July CPI rose by 0.8% for the lowest group, 1% for the middle group, and 1.4% for the highest group. This is explained by the slower food price increases, which comprise a larger portion of the lower-income basket.
If August CPI increases by 1987’s monthly 1.2% average, the overall inflation rate will drop to 16% — the lowest since July 1985.
Factors which will militate against this include bond rate rises and hikes in cinema tickets, property insurance, motor cars and parts, and further rises in water and electricity (still to filter through from some areas).
Before being too hopeful over short-term prospects, it is worth noting Standard Bank’s concerns, in its August Review, that the labour-business conflict “could lead to a severe wage-price spiral” if economic policy is accommodative.
“Only if government adopts a consistent and credible demand management policy will SA avoid a dangerous wage-price spiral.” Policy, it says, should make trade-offs between wage rises — fewer jobs and price rises — lost sales inevitable, otherwise “growing industrial relations conflict will aggravate an already difficult inflation problem.”
For its part, the Reserve Bank’s Annual Economic Report notes that the “marked strengthening” of the rand from September 1986 “contributed materially” to lower inflation this year. It adds that “further filter-
It depends on what you earn, how you spend and where you live

The uneven bite of inflation

By Michael Chester

While most Western nations have forced down their rates of inflation into low single digits, the South African consumer price index goes on rising between 15 and 20 percent every year. A series of special articles will spell out the implications not only for the consumer but for the whole economy — and will explore possible solutions. A first article delves behind the simple official figures that are released each month.

'Shave-nots'

Official statistics show that it is, in fact, the have-nots who carry the heaviest burden of inflation. Price increases have pushed the cost of living of families in the lower-income bracket, with earnings under R135 a week, to at least 18.2 percent more than a year ago.

Families in what CSS call the middle-income group, earning between R7,000 and R8,000 a year, are being hit by price increases of 16.8 percent on the package of items that go into their household budgets — perhaps with a few non-essentials mixed in, with basic necessities

Yet the official inflation rate for the higher-income bracket, which covers anyone or annual incomes above R18,000, is trailing behind at 15.6 percent.

Since, oddly enough, the CSS allow more than half of the overall weight of these increases to fall on the relatively small higher-income group, it is no wonder the poorer families find it hard to match the 16.3 percent average to their own experience.

The next set of anomalies lies in spending patterns — the proportion of family budgets spent on basic needs compared with items that reach deeper and deeper into the luxury bracket.

The first is that while the average inflation rate is said to be 16.8 percent, increases in food prices — which account for a much bigger slice of lower-income budgets — are a startling 23 percent.

Worst of all, vegetables cost 29.5 percent more than a year ago and meat prices are 32 percent higher. Fish is up 25.3 percent.

The cost of clothing and footwear, which hits the under-privileged relatively harder, as these basic items snatch bigger proportions of their budgets than those of people higher up the income scale, is 20.5 percent more than 12 months ago.

Domestic servants

On the other hand, the cost of employing domestic servants is up only 14.6 percent. The cost of running motor cars is up by a mere 4.9 percent. Recreation and entertainment costs are also far below the average at 13.9 percent.

But, whatever the size of incomes and patterns of spending, the inflation picture is also coloured by where you live.

To match the 1982 inflation rates with 1980 prices:

Lower income Middle income Higher income

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But the hottest inflation spot of all in the past 12 months has been Klerksdorp, where, on average, prices have zoomed by 21.7 percent.
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The House of Assembly on 17 August 1987 approved the following

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Drop in producer price inflation

YEAR-ON-YEAR producer price inflation fell to 14.1% in July from 14.8% in June. Central Statistical Services figures show the monthly increase in the index was 0.8% from June to July — slightly up on the 0.5% between May and June.

However, the month-on-month increase is still low — it was the third successive month the rise in the overall producer price index was below 1%.

The stronger rand is one of the main reasons why producer price inflation has remained stable. This is clear from the small monthly increase in the imported component of the index — it was up by only 0.2% from June to July, after not increasing at all the previous month.

Local commodities prices increased by 1% from June to July, compared with the previous month's 0.7%.

Rand Merchant Bank economist Rudolf Gouws described the latest inflation figures as "heartening."

Gouws pointed out that if monthly changes in the first seven months of this year were annualised, the producer price inflation rate came to 11.1% — much lower than 18.4% for the second half of 1986.

GERTA STEYN
Increased payouts from October 1 ‘too little — too late’

Old-age pensioners in parlous plight

By Michael Chester

Mr Laure Starfield, director of the Johannesburg Association for the Aged, has no problem in finding a concise summary of reaction to across-the-board increases the Government will pay on October 1 to people who depend on state social security old-age pensions for their survival.

He says the increases are “Far too little — far too late.”

The problems start with explaining to visitors how the association happens to be housed in a building named Happiness House — in Braamfontein.

Sounds paradoxical.

The business address sounds paradoxical as Mr Starfield talks about the growing problems of pensioners battling to make ends meet.

The October 1 round of increases will nudge the social security pensions of nearly 146,000 white males aged over 65 and white women over 60 from R118 to R218 a month — as long as they have taken a means test to prove the pension is their only source of income.

Pensions of retired coloured and Indian pensioners nearly 150,000 of them — will be lifted from R147 to R167 a month.

Black pensioners will move from R97 to R117 a month — hardly enough for groceries for one week in more affluent households, yet still supposed to pay the bills for rent, clothing, coal and electricity, occasional bus rides and other items taken for granted in the homes of still-active breadwinners.

“The imagination abounds when one reflects on how far a State social security pension can run against the tide of sky high inflation,” says Mr Starfield.

“True, there are numerous organisations, such as Meals-on-Wheels, which try to cushion the blow. But the fact remains that old-age pensioners are losing out in the battle against inflation more and more every month that passes.”

The real losses in the battle are camouflaged by official figures on the average movements of the consumer price index. When one examines the real base necessities for pensioners, almost invariably one finds the very worst instances of inflation.”

Purchasing power

Examinations behind the overall flat rate of inflation presented by Central Statistical Services begin to yield the answers. First off, the purchasing power of R1 in 1960 has shrunk to only around R0.30, and still goes on shrinking.

The cost of housing has soared since 1960 by 183 percent, transport by 147 percent, furniture by 153 percent, clothing and footwear by 153 percent. Beverages and tobacco by 177 percent. Fixed prices have jumped by 181 percent.

Financial expert Mr Nic Nel reveals the impact on pensioners in new studies. The buying power of social pensions now 42 percent behind the increase in inflation since 1960 — even allowing for the October 1 increases.

The hunt for solutions is not new. Three years ago, Professor Joubert Botha, head of the economics department at the University of the Witwatersrand, wrote the foreword to a survey into the plight of aged whites in Johannesburg, which he found “disturbing.”

Contrary to earlier global analyses he found that pensioners without outside income of any sort were being forced to spend on much as 50 percent on food alone. Until then, it was always supposed that the biggest item in the budget was rent.

Hard to understand

“Breadwinners who can de battle to keep salaries and wages more or less in line with inflation may find it hard to understand that even the increase in the price of bread, expected next month, may break the back of the weekly shopping budget of many pensioners.”

It was, he wrote, an “ominous figure”, leaving no allowance for spending on recreation whatsoever.

The author of the survey, Mr W A Pringle, a lecturer in economics, called pensioners “the forgotten members of society.” And Professor Botha feared that many of them will operate a living under incredible conditions.

Three years later “the situation is worse,” says Mr Starfield.
Inflation overseas is under control — but it took tough action

By Neil Behrmann, The Star Bureau

LONDON — Inflation in the United States, Europe and Japan is beginning to rise again, but all signs indicate that the powerful Western industrial nations are keeping the beast well in control.

West German, Swiss and Japanese inflation is almost non-existent, while the United States and the UK authorities are already tightening credit and raising interest rates to check any acceleration in price rises.

Some economists fear that a surge in credit growth at the beginning of the year and a revival in oil and commodity prices imply that the disinflationary era is over.

But latest statistics and projections indicate that these fears are exaggerated.

With the exception of the United States, inflation rates of the major industrial nations are currently at levels last seen in the early sixties. (See table below.)

Western nations were successful in conquering inflation because they applied tight money policies from the late seventies to the mid-eighties.

But that medicine was nasty.

Real interest rates surged to record levels.

Unemployment soared as businesses failed.

Even though major industrial economies have recovered slowly since the deep slump in 1982, some 29 million people or 8.25 percent of the workforce are without jobs in North America and Europe.

In poorer countries many more are looking for work.

But the good news regarding the anti-inflationary medicine and subsequent recession is the curbing of trade unions' awesome power.

Meanwhile, the recession, combined with production increases in Africa, South America and Southeast Asia, forced commodity prices downwards.

Even Opec, the powerful oil cartel, could not cope with free market forces. So the slump in oil, coal, uranium and other energy and raw materials prices in turn helped pull down inflation in the industrialised world.

The fall in inflation, however, is far from uniform.

Prices of grain, sugar, metals and steel are still relatively depressed even though they have rallied this year.

Retailers continue to offer discounts on consumer items such as cars, computers and television sets. Prices have remained stable or have even fallen.

On the other hand, the UK and United States in particular have encountered virulent house-price inflation. That inflationary increase is not regarded as too serious because an increase in the value of houses raises the net wealth of home-owners. Yet first-time house buyers and house-holds with growing families either must borrow much more money to buy bigger houses or move out of London.

A three-bedroomed house that cost £20,000 in a good London area four years ago is now trading around £250,000 to £300,000 (about R320,000 to R1 million).

Fearful that a sharp decline in the dollar and a revival in oil and other commodity prices will set off another bout of inflation, the United States and UK authorities are tightening the credit noose. US and UK short-term interest rates have risen about 1 percent during the past six months.

High real interest rates are expected to keep inflation in check and a wage spiral is unlikely.

Wage increases of the seven largest OECD countries rose by only 3 percent last year, compared with 11 percent in the seventies.

In real terms, the pay packet of an American worker is 8 percent less than 1978, according to the Economist, and in the past twelve months the typical American worker's pay rise was around 2 percent. In a paper the OECD says that trade unions around the world are on the defensive. Minimum wages have been frozen in several countries, social security benefits are less generous and governments are squeezing public sector pay. Indexation of wages to prices has been scrapped or weakened and workers in depressed industries, notably in America are accepting wage cuts.

But the Western world is gradually beginning to prosper in a low inflationary environment. Employment is increasing and standard of living is improving.

AVERAGE INFLATION RATES

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(Source: Organisation for Economic Co-operation and Development)
US licks inflation ogre, but fears remain

The United States has held inflation at less than a quarter of the South African rate for five years. But even Uncle Sam is finding that the battle never really seems to end.

By Ramsay Milne,
The Star's Foreign News Service

NEW YORK — With an average inflation rate of under four per cent in the last five years of expansion — what some economists have described as “livable” inflation — the United States might be considered one industrialised nation to have licked the ogre. Indeed it has licked it, if an inflationary rate as low as 3.7 per cent and as high as 4.1 — four times lower than South Africa’s now declining rate of 16.3 percent — over so long a period is a true measure of total victory over such an elusive foe.

Economists, of course, never talk in absolutes and none suggests the battle is over. Indeed, the Fed’s recent raising of interest rates has brought new warnings of a climb in inflation, one of the factors that has in recent days induced a bad attack of jitters among investors and sent the Dow to a succession of tumbles.

Chief architect of the sustained growth in the US economy since 1982 when the upsurge began — and chief slayer of the inflation dragon when expansion, with which inflation customarily goes hand in hand — was the former chairman of the Federal Reserve, Mr Paul Volcker, who had an Olympian reputation as an inflation fighter.

INFLOW OF FOREIGN INVESTMENT

Most informed economists agree that it was the Volcker policy of tight monetary control, rigidly holding down interest rates to modest levels, that helped set in motion an impressive upsurge in the industrial economy. Thus not only reduced unemployment, but created millions of new jobs — and, for once, with rapid expansion not pushing inflation ahead of it or leading to widespread wage increases.

Not all the credit goes to Mr Volcker. For years he had unchallenged control of Fed policy. But as the unfolding Reaganesque began to bite in 1983-84, he was criticised for his obsession with fighting inflation instead of spurring growth.

By the time he retired earlier this year, he, too, had been won over in favour of an easier monetary policy and, with four Reagan appointees on the Federal Reserve Board to do Reagan’s bidding, no-one expects his successor, Mr Alan Greenspan, to get as tightfisted as Mr Volcker once was.

One effect of the economic upturn and a climb in the dollar in the early 80s was an impressive inflow of foreign investment, notably Japanese, British and West German, that has all but altered the face of modern America, without sending costs soaring.

But inflation remains an ever-present fear.

The vice-chairman of the Fed, Mr Manuel Johnson, said recently that it was fears of revived inflation that led to the Fed’s recent decision to raise interest rates, a move recognised as posing some risk to housing and other rate-sensitive sectors in the economy.
In the end, who'll have the bread for the bread?

By Michael Chester

As consumers brace themselves for an October announcement on yet more increases in the price of standard loaves of white and brown bread, the mechanism that fixes bread price levels has again come under attack from retailers.

Pick 'n Pay chairman Mr. Ray Ackerman has repeated urgent appeals to the Government to allow supermarkets to produce their own bread in their own bakeries — hopefully at lower selling prices.

The request might sound simple and reasonable. But it opens a whole Pandora's box of controversy on the role played by monopolies and cartels in the inflation spiral — inside the private sector as well as State control boards.

Bread prices make a classic example of what the hubbub is all about: It starts when the Wheat Board lays down the law to the millers and registered bakers on the price of flour. The government listens to the recommendations of the control board — and lays down the law to retailers on new minimum selling prices.

What irks Mr. Ackerman is that the only bakeries permitted by law to produce the standard loaves that are the staple in shopping baskets — as compared with fancier kinds of bread — are the ones with special licences.

Huge power concentrations inside both the private and public sectors — monopolies to control boards — are often accused of fuelling the inflation spiral.

MICHAEL CHESTER reports

The looming increase in bread prices has rekindled fresh passions about who must share the blame for sky-high inflation.

"Administered pricing by public corporations and agricultural marketing boards have been a source of upward bias in the price system for years," says Dr. Azar Jammie, director of the Econometric research.

"Whether it is the Wheat Board, the Egg Board, the Milk Board, the maize Board, or Escom, the Post Office or Iscor, prices have been set with little regard for market forces.

"Exploiting their monopolies, they have been setting domestic prices on a cost-push basis irrespective of levels of demand for their products or services. The outcome is that prices are flexible upwards, but inflexible downwards."

But blame should not be confined to the public sector, says Dr Jammie. "Over the past decade there has also been an enormous increase in the level of power concentration in the private sector as well."

"And, as with public corporations, the majority of private sector companies of any significance nowadays frequently have sufficiently market share and financial backing to resist market forces when setting prices."

"Nowhere is the distortion of market forces more evident than in the food sector. At a time when food prices worldwide are at record low levels and surplus production abounds, food price inflation in South Africa is soaring well above the average rate."

"The fault lies in the fact that all three tiers in the food industry — production, processing and distribution — tend to be controlled by a handful of powerful organisations employing monopolistic or quasi-monopolistic practices."

"There is little point in arguing that inflation can be combated by acting against such monopolies. They are only a symptom of underlying causes which are driving corporations to acquire such power."

Inflation Inferno
Wage demands seen adding to inflation rate

By Sven Lunsche

The year-on-year inflation rate remained unchanged at 16.3 percent in August, compared with July, but economists are now asking whether a forecast drop well below 15 percent by the end of 1988 is possible.

Just when soaring food prices seem to have been brought under control, clouds are forming on the horizon in the form of increasing wage demands from the burgeoning union movement.

"There is a chance that inflation will decline below the 15 percent mark by the beginning of next year, but wage increases will make a further drop very difficult," says Rand Merchant Bank's Rudolf Gouws.

Although the annual rate of increase in food prices remains high at 22 percent, a pleasing development was that for the fourth successive month food prices rose at a noticeably slower rate than the other items in the consumer price index.

"A positive aspect of the 14 percent overall monthly increase from July to August was that 40 percent of this was due to premium rate increases in household policies, which rose by 6.7 percent over the year," says Dr Treurnicht du Toit, head of the Central Statistical Service in Pretoria.

He says the monthly 1.2 percent rise in food prices can be attributed to only one source - a sharp 2.6 percent increase in the price of red meat, which on an annualised basis has soared by over 32 percent.

For almost a year, soaring food prices have been the major contributor to double-digit inflation, thereby replacing the high cost of imported products.

With an improved outlook in agricultural conditions as a result of encouraging rainfall, economists are looking at a gradual drop in the rate - an average of 16 percent for 1987 has been generally forecast.

Now they might have to revise their estimates. Wage increases in the mining and manufacturing sector have been on average well above 20 percent and the increasing clout of trade unions could ensure this trend will continue.

"The recovery in profits over the past year has not escaped the notice of organised labour, while the corporate sector wants to protect its return on capital," Standard Bank said in a recent economic review. It said the conflict between labour and business could lead to a severe wage spiral.

Trust Bank's Ulrich Joubert agrees: "Wage and salary increases will inevitably push up costs and although some companies can afford it in the wake of improved profits, the question remains whether the economy can stomach it."

Mr Gouws says: "We are not facing runaway inflation yet. Tightening the money supply and higher interest rates will prevent inflation from keeping pace with expected high-wage increases."

Standard Bank calls for conservative and credible demand management to prevent the wage-price spiral from getting out of control and that the best policy for South Africa would be to aim for steady growth in its total expenditure on goods and services produced.

Most economists agree that there should not be a trade-off between economic growth and higher inflation, but pragmatism seems to prevail.

As Mr Joubert puts it: "We have to bear a high inflation rate until the economy adjusts.

"The short-term focus must be on economic growth, but in the long run we will have to do something about the high inflation rate, otherwise the political and economic costs will be too expensive to carry through to the future."
Train fares up 10%

SA TRANSPORT services yesterday announced that fares on commuter train journeys will be increased by 10 percent from October.

This follows an announcement on May 26 that increases in commuter fares twice a year would be more acceptable than one big increase.

It was also announced in May that SATS intended to again increase commuter fares in October.

To help compensate for the shortfall in fares against the general increase in expenses, first and third class commuter fares will be increased by 10 percent.

For example, the new price of a monthly ticket between Johannesburg and Pretoria, which was R107, will now be R118 while that of a third class monthly ticket between Mabopane and Bell Ombre which was R20 will become R22.

A SATS statement says it has to be borne in mind that a monthly ticket is valid for unlimited travel between the two stations for which it was purchased.

The total increase in fares for the financial year 1987/88 will be 13 percent for first and third class commuters.

SATS says that, just as any other enterprise, it is subject to increases in costs over which it has no control, and has to compensate for this.

On this basis, a fare increase of at least 13 percent would have been necessary for the 1987/88 financial year on top of the shortfall in the...
‘Govt can show way to beat inflation’

By Michael Chester

A leading economist yesterday challenged the Government to set the pace for a crackdown on the inflation syndrome with a public announcement of fixed targets to limit the wages/prices spiral inside the massive public sector and thus provide guidelines for the entire economy.

"If the Government orders discipline in its own sphere of influence — the size of civil service pay packets to price levels pegged by public corporations and all the control boards — it will set an example that the whole private sector will follow in an automatic reaction," said Dr Johan Cloete, doyen among bank economists and a regular lecturer at the University of the Witwatersrand.

"South Africa has been intimidated by the dimenstions of inflation problems, wringing its hands in despair and dreading that solutions must necessarily entail still higher unemployment and the agonies of recession.

"There are too many myths tossed around by pseudo-economists when inflation comes under discussion, too much emphasis on the negative aspects of various text-book formulas.

"SOLUTION UNDER GOVT’S NOSE"

"Yet the solutions are under the Government’s nose. If it quite simply decreed that wages and prices under its command would increase by no more than say 10 percent next year, 7.5 percent the next year, 5 percent the year after that, it would set a pattern that would spread quickly to all corners of the economy.

"It would set a pace that would discipline everyone, big business to trade unions, and, equally important, it would destroy the anticipation of future inflation that has allowed the wages/prices spiral to feed upon itself.

"The private sector would be able to carry smaller price increases because its labour costs would be all that much lower. Labour would be able to cope with smaller pay increases, because consumer prices would be in check.

"At the moment, no one — employer or worker or housewife — has a credible guideline to follow. Action by the State could set realistic targets — and prove by example that they can work.

"The aim must be to generate confidence in solutions. The ball is in the Government’s court."

"TWO COURSES OF ACTION."

Dr Cloete argues there are only two ways to break a wages/prices syndrome once it has taken firm hold:

- Depress demand, and thus sales, by means of restrictive monetary and fiscal measures — meaning production cutbacks, unemployment and business insolvencies, with the likelihood of disastrous social and political consequences.

- Action by the fiscal and monetary authorities to persuade the country’s main-prize and wage decision-makers to follow the example of the Government in the exercise of discipline.

"Disciplined wage increases generated in the public sector, which also implies discipline over Government expenditure in general, would encourage such behaviour in the private sector too."

"Moreover, in view of the massive size of the public sector, moderation of pay increases here alone would force the private sector into moderation of the price spiral."

"The first step has to be taken by the Government with a public commitment to a set of targets — not only for wages and prices but also for monetary growth, State spending and economic growth in real terms."

"It would provide the private sector with a far clearer picture of the macro-economic scenario likely to prevail at least, one year ahead and set out the guidelines that had to be observed to hit the targets."
SA inflation outstrips the West

When the mandarins of the civil service released the news a few days ago that the annual inflation rate had stood at 18.3 percent for two months, it was widely regarded as a sort of triumph. At least it hadn’t worsened.

**PUNCH DRUNK**

The reaction mirrored the way sky-high inflation has come to be accepted by many. South Africans, punch-drunk by the repeated blows of price increases, inflation had not stood still at all, of course. The consumer price index was still rocketing at a speed that economists see as disastrous.

The “Inflation Inferno” series in The Star has shown that all the leading Western economies have listed the problem. While inflation in SA has stoked up to 11 percent in 1986 to the current 18.3 percent, the rate has been slashed in the United States from 13.5 percent to 4.8 percent, in Britain from 18 percent to 4.4 percent, in Italy from as high as 21.2 percent to 4.2 percent. In West Germany and Japan, it has been virtually wiped out completely.

Economists have a wide variety of views on how to kill the dragon. But there is unanimous agreement that unless solutions are found, SA will be in dire straits as exports crumble because of constant increases in production costs that whittle away any price advantages in overseas markets, as the costs of imports soar because of weak rand exchange rates, and as any domestic economic headway is gnawed away by inflation.

Several economists point out that when inflation is taken out of the equation, South Africa needs an economic growth rate of at least 4.5 or 5 percent a year – twice the current pace in which is supposed to be a recovery period even to hold the lid on an intolerably high unemployment rate.

The only chance of achieving such a tempo, they say, is to extract the teeth of inflation and limit the size of the bite it takes from the economic pie.

Blame for the dilemma has been heaped on to a variety of issues – monetary and fiscal fumbling, the wages/prices spiral, the tax system, lack of progress with privatisation, government inertia and silent complicity over the way inflation keeps increasing the cash revenues to fall into the State coffers.

Dr Johan Cloete said the Government should set an example in breaking the wages/prices spiral syndrome by exercising stern discipline and fixing specific annual targets for all State expenditure.

Such a Government lead would avert the imposition of a wages/prices freeze, which almost everyone agrees would be a disaster, and provide an example that the entire private sector could follow.

Moreover, argued Dr Cloete, inflation would be rattled without any encounter with the sort of unemployment problems often associated with assaults on the problem.

There were also particularly warm rounds of applause for exposures of the degree of persistant Government overspending and the recommendations for sweeping tax reform going beyond the Margo proposals.
World's Economic Giant Japan Spawns the New Poor

An Inflation Budget

Another Way to

The New Commission Failed to Go for the Inflator
Private sector angry as studies reveal overexpenditure

State policies blamed for high inflation rate

Studies by the Econometrix research unit reveal that budgeted State expenditure of R46 319 million for the current fiscal year is 194 percent higher than only five years ago — yet still looks certain to be overshot by R2 billion or more.

Even the record-breaking climb of 140 percent in revenue, boosted by Government reliance on inflation to increase tax income via the wages/prices spiral, has failed to cope with the surge in spending.

Dr Azar Jammie, director of the Econometrix think-tank, forecasts that the current fiscal 1987/88 year will provide another example of failure by the Government to stay within the national budget, with predictions that the gap between revenue and actual expenditure will widen to at least R8 400 million.

The anger of the private sector over Government profligacy is also reflected in the latest business review of the Association of Chambers of Commerce (Ascom).

It launches renewed attacks on the level of government spending and voices annoyance that the Margo Commission into Tax Reform was not accompanied by a Commission of Inquiry into State Expenditure.

"Unless excessive government spending is curbed," says Ascom, "the hoped-for post-Margo dawn of a new era will never break."

More criticism comes from Mr Louie Geldenhuys, chief economist at stockbrokers George Huysamer and Partners, who criticises not only the excessive level of spending but also the unusual pattern of the distribution of spending.

Mr Geldenhuys argues that weaknesses in monetary and fiscal policies must carry much of the blame for the inflation dilemma — especially the stop/go indecisiveness that switches from accelerator to brakes and punctures any confidence about the command that the Government exercise over strategies to deal with the South African economy.

"If one looks at economic history around the world," says the Econometrix study, "one sees that in nearly all instances where inflation has gone into three or even four digits, the underlying cause has been persistent over-spending by the State sector."

"In South Africa, in particular, this threat is ever present because of a socio-political environment which requires that Government keep spending large amounts on defence and security — and social upliftment of the black population.

"The sad part of such special brackets of expenditure is that the direct stimulatory effect on the rest of the economy is muted, especially expenditure on defence, where broader multiplier effects are limited.

"What is particularly disturbing about Government expenditure in recent years is not only the rapid pace at which it has been increasing but that it has also continuously overshot budget estimates.

"In the shorter term, such deficits and spending overruns need not be disastrous in themselves, but if they continue year after year at such high levels they stand to lead the economy either into recession or hyper-inflation."

The single biggest threat to the long-term economic future is that South Africa will be driven into a state of hyper-inflation because of constant Government spending, according to new studies by the Econometrix research unit. MICHAEL CHESTER reports.

THE GOVERNMENT'S SPENDING SPREE

Inflation Inferno

Noteworthy

The single biggest threat to the long-term economic future is that South Africa will be driven into a state of hyper-inflation because of constant Government spending, according to new studies by the Econometrix research unit. MICHAEL CHESTER reports.
Executive salaries not keeping up with inflation rate

By Michael Chester

The average basic salary increases awarded to company executives over the past 12 months have fallen short of the inflation rate for the fourth year running - but at least the gap has shrunk.

An annual survey by PE Corporate Services shows that the salaries of bosses in the executive suite have been hoisted by 14.9 percent compared with the 16.3 percent climb in the consumer price.

Perks that were added to improve their full remuneration packages managed to lift the increase of average value of their pay scales to 15.8 percent, better than the overall 13.7 percent raises they had in 1985/86 yet still behind the inflation rate.

The chronic shortage of skills in specialist jobs was reflected in the fact that data processing executives topped the league table of pay package increases with a 17.1 percent jump.

They were followed by personnel executives, now enjoying far higher status in corporate hierarchies as they fill key roles in handling delicate labour relations affairs.

Pay and perks went up 16.3 percent for finance executives, 15.8 percent for personnel executives, 14.3 percent for marketing executives, 14.6 percent for manufacturing executives and 14.5 percent for sales executives.

Also towards the tail end of the packing order in salary rises were executive assistants, only 11.9 percent in increases of earnings.

PE Corporate Services points out that bigger pay packets are given to these executives and doctors, in line with inflation and technological advances.
Inflation rate of 15% predicted for 1988

By KEITH ROSS

EAST LONDON — An average inflation rate of about 15% was today predicted for South Africa next year by Professor A J M de Vries, of the Business School of the University of Stellenbosch.

Professor de Vries made his prediction in East London when addressing the Congress of the Association of Chambers of Commerce.

He said that with the rand remaining fairly stable throughout the forecast period, the price of imported goods should remain fairly static.

"This, together with a better utilisation of productive capacity should put a break on the rate of price increases," he said.

"Against this, the private sector will try to recoup some of its losses.

"The biggest single influence on the outlook for inflation in 1988 will be the action of labour. It has been argued that labour too, will try to recoup.

"In all, the inflation rate should decelerate further from its present levels but the average for 1988 will probably still be about 15% which will again be appreciably higher than that of South Africa's major trading partners.

"Eventually this must put downward pressure on the rand exchange rate or exports will be priced out of the market.

"The expected further improvement in the overall growth rate should lead to some improvement in the unemployment situation but not to the extent that it will have a significant positive impact on domestic political tensions."

Earlier the congress heard an address read on behalf of Mr Owen Horwood, chairman of Nedbank.

Mr Horwood predicted a growth rate of about 2% for South Africa this year and next.

See Page 7
Johannesburg — Consumer price inflation for the year to September dropped to 15.5 per cent from last month's 16.3 per cent, but high food prices continue to exert inflationary pressure.

The current drop in inflation is largely the result of the relatively stronger rand, which, economists say, may be a spent force.

Last year, the weak rand caused significant increases in the inflation rate, so that the base from which price increases are measured is high.

Thus the lower rate this year can be seen as a "technical correction" — and not necessarily a sign that inflationary forces have abated.

Food prices rose by 22 per cent between August and September. — DDG.
LOW POINT FOR INFLATION?

Hitting its lowest rate of increase since March 1985, the September inflation rate dropped to 15.5% from August’s 16.3%. The consumer price index (CPI) for all income groups now stands at 236.7, a monthly increase of 1.3% compared to August’s 1.4%.

The main reason for the fall is statistical, given that last September’s increase was a steep 1.9%.

However, this was the last of 1986’s large monthly price rises, so again for statistical reasons this month could see a reversal of the downward trend.

October 1986, for instance, saw a 1.1% rise, which is likely to be exceeded this October, thanks largely to a 10% rise in meat prices — which alone will add almost 1% to the inflation rate. Certain rail tariff increases and higher bread prices could add to renewed upward pressure.

Last November and December saw rises of 1.3% and 1% which will not be easy to beat this year. So inflation could well exceed 16% again by year-end.

Again, food is the major contributor to the monthly jump. The 13.4% vegetable price increase contributed 0.5% towards the 1.3% overall rise. Tomatoes (49.1%), potatoes (19.5%), and onions (16.7%) were the main causes. Milk, milk products and eggs, fruit; clothing; housing; and personal care, all contributed 0.1% to the overall increase and furniture 0.2%.

Overall, food rose 2.2% over September, which means it has risen by 22.8% over the past year with the food only index hitting 236.9.

More disturbingly, the rising cost of food shows little sign of abating. Central Statistical Service notes that this 2.2% monthly rate of increase in food is the highest since April and the third time this year that it has exceeded 2%.

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**Spiral slowdown**

**Consumer prices**

[Diagram showing consumer price changes from 1984 to 1987]
Perks become more popular executive pay loses to inflation

Financial Staff

EXECUTIVE salary increases still lag behind the annual inflation rate of 15.5% — although the gap is less than last year — according to the bi-annual survey by PE Corporate Services renumeration division.

This shows that the average basic salary increase for all executives has been 14.5%. But the gap has been partly off-set by fringe benefits, which have become more popular in spite of legislation meant to phase them out.

Benefits

The survey points out that this reflects "the current concern with improving the after-tax effectiveness of top executive packages through the introduction of non-cash benefits."

"This trend — which took off in 1984 — underlines the fact that better perks are still preferable to cash increases."

"The fringe benefits legislation has further strengthened this trend, instead of phasing it out, because the defined values on benefits are still lower than their true value. To be taxed on perks is still preferable to being taxed at cash source."

Executives with scarce skills have done better than others. And the increasing importance of industrial relations is shown by the fact that personnel officers are among those who have received the largest increases while marketing executives, who, in the past, were among the best rewarded, have done less well.

The average increases for data processors were 15.6%, and those for personnel executives, financial executives and chief executives 15.3%.

Naomi Brehm, who heads the salary survey team, says these figures underline the fact that the economy has not yet fully recovered from the recession.

Recognized

"It is interesting to note that for the first time personnel executives are coming into their own. They are finally being recognized in the job market as performing a valuable service."

"Such positions are now being taken by tough-talking, highly qualified people with specialist skills in industrial relations, wage negotiations and manpower planning — their brief being the optimization of the organization's people to meet its strategic objectives."

"Decreased productivity or wildcat strike action can make or break an industry, especially in a sanctions-ridden and racially torn SA."

Executive general managers and manufacturing executives have received average increases of 14.9%.

Those lagging behind were administrative executives with 5%, marketing executives with 9.4% and assistant chief executives with 9.6%. 
PUTCO is to increase its fares on all its routes in the Transvaal by an average 14 percent from December 14.

In a statement yesterday, the bus company said the increase, set to come into effect on November 2 but that the date had been shifted because time was needed for administrative procedures.

Putco applied to the Department of Transport in March for fare increases and the department has now approved the application.

A spokesman for Putco said the increases would affect all bus routes in the Transvaal and the details about the fares hike would be announced at the end of the month.

Yesterday, Mr Simon Hanyane, a member of the Sats Consultative Committee, said Putco should not only care about its self-interests but should also care about the welfare of the commuters.

The Sats Consultative Committee is a body made up of delegates from municipalities, trade unions, business organisations and other parties including Putco.

Mrs Ellen Khuzwayo, speaking on behalf of the Sats Consultative Committee, said Putco's increase of fares should be viewed against:

- The escalating cost of living and inflation.
- The stagnant wages of the majority of black workers who commute on these buses.
- The alarming unemployment figures in the black community.

The weekly tickets must be valid for the whole week because there are people who work on Sundays.

"Putco's monthly tickets should also be valid on Sundays because they are valid on holidays. Railway tickets are valid to Sunday."

Speaking to Putco's announcement, president of the Black Consumer Union, Mr. Ellen Khuzwayo, asked how a caring company could raise fares when its commuters were battling with bread and butter issues.

She said Putco's increase of fares should be viewed against:

- The escalating cost of living and inflation.
- The stagnant wages of the majority of black workers who commute on these buses.
- The alarming unemployment figures in the black community. 

By NAT DISEKO
PUTCO's intention to increase bus fares by 14 percent from December 14, could create "an explosive situation" and might result in boycott action, the Black Consumer Union said yesterday.

The union's executive director, Eldridge Mathebula, said the increase, which has reportedly been "approved" by the National Transport Commission, was not justified and "way overboard".

He said the BCU would fight the increase.

"If Putco goes ahead (with the increase), we will advise commuters to resist.

Inflation

"Putco is Government subsidised, inflation is above 16 percent and black salaries remain stagnant there is just no way the consumer is going to absorb this increase."

He said Putco had gone ahead with the increase without consulting - either the Black Consumer Union or commuters.

Boycott action in event of the increase "was a likelihood", said Mr Mathebula, "but should be avoided."

Commenting on the National Consumer Council's reported approval of the increase, Mr Mathebula said "They have approved it for themselves, the commuters have given no approval!" — Sapa
Rise in personal incomes seen

By AUDREY D'ANGELO
Financial Editor

IMPROVEMENTS in real wages and salaries are expected to continue over the next 18 months, with personal disposable incomes rising by 23% in 1988, compared with an inflation rate of 17%, says the United Building Society's chief economist, Hans Falkena.

"Higher income levels will mainly result from successful trade union demands, the improved bargaining power of skilled staff owing to the massive emigration of highly qualified persons, and politically-induced wage increases," he writes in the UBS Economic Monitor.

As a result, he thinks that by the end of this year consumers will have spent 13% more on durable goods than they did in 1986. And he expects spending on such goods to rise by a further 10% in 1988.

But he expects high unemployment to continue throughout the year.

"Although the government will continue its special training and job creation programmes during the foreseeable future, we do not foresee this will have any material impact on South Africa's job situation over the next 18 months."

He thinks the country will "remain burdened by several structural employment problems."

These include high population growth, large numbers of illegal job seekers from neighbouring states, accelerating black urbanization, disruptions in the black educational system and emigration of skilled staff, which will make it harder for firms to expand.

"As long as the money supply (M3) is growing well below the top range of the money supply target of 18%, no increase in short-term interest rates must be expected, which to us seems unlikely until the second quarter of 1988."

"At that point in time, credit demand may start to rise more meaningfully, supported by factors such as reduced grey market activity — and thus a lower income velocity of money — and a declining surplus on the current account."

"Real economic growth will remain the primary determinant of monetary policy over the forecast period."

"Working on an average economic growth rate of some 2.5% for the next 12 months, we foresee the bank rate rising by only some 2% to 3% to about 12% during 1988, leaving it at roughly minus 6% in real terms."

"Underlying our forecast is the expected acceleration in inflation, the possibility of higher funding requirements by the government sector in the 1988-89 fiscal year and the pick-up in short-term rates expected later in the year."
DIRECT control measures to combat inflation, such as wage and price controls, were not usually capable of being applied successfully, the State President's Economic Advisory Council said in a report today.

Its Proposed Plan of Action for Combating Inflation said unavoidable cost increases must necessarily be allowed, because it was virtually impossible in practice to distinguish between avoidable and unavoidable cost increases.

"If rigid regulations, aimed at forcing down the rate of inflation are adhered to, this will lead to a misallocation of production factors — not only to the disadvantage of economic growth and employment, but it will also give rise to the building up of inflationary pressure."

The report says in SA's relatively small economy attempts to force down inflation could well hamper the efficient operation of the market and price mechanisms and reduce the number of parties involved in the market.

Another argument that applying measures strictly and long enough will eventually force wage and price rigidities to yield as unemployment and bankruptcies increase, is only worth considering when there is reasonable certainty that unemployment will not assume unmanageable proportions in the process.

Inflation is 'feeding on itself'

INFLATION is largely institutionalised in SA, feeding on itself as a result of expectations based on experience.

So says the report released today by the State President's Economic Advisory Council on a proposed plan of action to combat inflation.

The report says there is a "ripple effect of specific wage, salary and price increases".

Price increases in one sector of the economy lead to price increases in other sectors of the economy. The same interaction seems to take place between wage and price rises.
Curb spending urges report on inflation

Daily Dispatch Correspondent

JOHANNESBURG — The government has been urged to impose strict discipline on its spending to fight South Africa’s high rate of inflation.

A report by the State President’s Economic Advisory Council, commissioned by President P W Botha before the May general election to recommend action to reduce inflation, was released today.

It says:

- State departments should be held to their budgets and overspending should be financed by reductions in other programmes.
- Growth in public spending should be curbed in the long term. This could be done by establishing spending guidelines set by the State President’s Committee on National Priorities and the cabinet.
- Cuts by the government should focus on current spending, mainly on wages and salaries, rather than capital spending. This can only be achieved by imposing restraint on manpower increases.
- The government should finance its spending in a non-inflationary manner, that is, without the creation of money.

The document has been presented as the cornerstone of anti-inflationary policies are being discussed and should strengthen the hand of the Treasury to keep increases to a minimum.

It urges that a balance be struck between monetary and fiscal discipline. Monetary measures should not be relied on alone.

"The maintenance of monetary and fiscal discipline with a view to keeping a balance between the demand and supply of goods and services, and to avoiding conditions of surplus demand should, therefore, form the corner-stone of any anti-inflation policy strategy.

Further increases in the tax burden should be avoided "at all costs" and the aim should be to relieve the tax burden as far as possible.

The government should limit increases in administered prices and its remuneration policies should be modelled more on market principles.

The report rejected more direct control measures to fight inflation such as a wage and price freeze or incomes policy.

"Experience has shown that such measures are hardly able to be applied successfully in order to force down the rate of inflation," it said.

Other measures to fight inflation recommended by the report include:

- Implementing the government’s deregulation and privatization programmes.
- Applying the new policy directions of the Competition Board to promote competition.
- Promoting the informal and small business sectors.
- Encouraging competition in the labour market.
Drastic moves urged to fight SA's inflation

PRETORIA. — South Africa's potentially "explosive" inflation rate could be slashed by half within three years to 9% if far-reaching and sometimes drastic measures recommended in a blueprint "inflation combat plan" are accepted and implemented "without fear or favour" by the government.

The recommendations, with an analysis of the cause and effect of inflation, have been compiled by the Economic Advisory Council of the State President.

The State President's office yesterday said the government had noted the report's contents, and found that it had implications, directly or indirectly, for every facet of South African society.

The EAC has urged government to impose strict discipline on its spending to combat SA's high rate of inflation. It says:

- State departments should be held to their budgets and that overspending should be financed by reductions in other programmes;
- Cuts by government should focus on current spending, mainly on wages and salaries, rather than capital spending. This can be achieved only by imposing restraint on manpower increases.

It urges a balance be struck between monetary and fiscal discipline.

Further increases in the tax burden should be avoided "at all costs" and the aim should be to relieve the tax burden as far as possible.

Other measures to fight inflation recommended by the report include:

- Implementing government's deregulation and privatization programmes;
- Promoting the informal and small business sectors;
- Encouraging competition in the labour market;
- Avoiding linking wages, salaries and prices to the official consumer price index.

The report was presented to government in September and has now been made available for public comment which will be examined by a working group under the Director General of Finance, Mr Chris Stals. — Sapa and Own Correspondent

Guidelines to fight inflation — Page 8
Year of growth for industries in the Border

by Matthew Moonley
Business Editor

EAST LONDON — It was a year of great development for industry in the Border, it was revealed here last night.

The results of an economic survey by the Border Chamber of Industries were released in the presidential report at the sixth annual meeting last night by Mr. John Rich and showed an upturn in several sectors in 1987.

- Koech electricity demand up 10 per cent.
- Textiles up 10 per cent.
- White goods, printing and packaging up five per cent.
- Furniture up 20 per cent.
- Electronics and certain engineering operations up 25 per cent.
- Steel sales from Iscor's Berlin depot up nearly 50 per cent.

Mr. Rich said unfortunately certain industries had remained static.

"These include chemicals and pharmaceuticals as well as the building trade which always lags in economic activity," Mr. Rich said. "The only sour notes are the well publicised strike at our local motor industry and harbour industry that is down a further 25 per cent year on year."

He said a more interesting trend according to the survey was that Border beer drinkers had increased consumption at the expense of wine drinkers.

"The net result is that there has been an increase in overall employment within existing industries and that is encouraging for all of us," Mr. Rich said.

Other points made in Mr. Rich's address were:

- An urgent appeal to the government to start with the construction of the proposed new black town in East London to accommodate 150,000 people.
- Concern by the chamber that the Mosgas project would draw artisans away from industry here to Port Elizabeth.
- A call on the East London City Council to remove its perceived internal political division and get on with the job of running the city.
- A warning that "unrealistic" wage demands by unions were landing industrialists in a Catch 22 situation of fuelling inflation or cutting down on job creation.

More reports page 9
Bold plan to slash inflation to 9% by 1990

The Argus Correspondent

PRETORIA — A plan of action to slash inflation to nine percent by 1990 has been proposed by the State President’s Economic Advisory Council.

The council emphasised that inflation could not be solved overnight and envisaged cutting South Africa’s inflation rate by 2.1 percent to 14 percent next year and by 2.5 percent in each of the next two years.

It said it was possible to reduce the rate of inflation gradually to more-acceptable levels by means of “a cohesive package of policy measures, as well as the will and the ability to apply the relevant measures in a continuous, consistent and purposeful manner without fear or favour.”

The council says the rate of inflation could be systematically reduced through the consistent implementation of their recommended measures and said the Government should set clear and quantified objectives to combat inflation for the current and ensuing year.

TWO PROVISOS

The council had two provisos for the success of the plan of action.

These were that factors beyond the country’s control did not again cause the prices of imported goods to rise sharply and that it was, ensured that the prices, wages and salaries determined by the public sector increased at lower rates.

It totally rejected wage and price control, stating that experience had shown that “such measures are hardly able to be applied successfully to force down the rate of inflation.”

Recommendations focus largely on combating inflation through monetary and fiscal discipline and implementing measures to promote the improved operation of the market and price mechanism.

Among the recommendations are:

- Ensuring that State departments adhere to their budgets and authorisations to exceed budgeted expenditure be financed by concomitant reductions in other programmes,
- Endeavouring to finance Government spending in a non-inflationary manner by not financing it by merely creating money, and,
- Avoiding at all costs further increases in the tax burden and aim to relieve the tax burden.

To promote the improved operation of the market, the council recommendations include:

- Implementing comprehensive short and long-term economic policy strategies recently accepted by the Government and aimed at promoting economic growth and employment,
- Implementing the deregulation programmes of the Government, the continued and further implementation of affordable building norms for the entire public sector, determining minimum norms and standards in the building, construction and other industries by revising existing specifications, and, revising the standards applicable to Government services to allow for what the country could afford.
Inflation of 9% 'is ambitious'

THE target of 9% inflation by 1990 set by the Economic Advisory Council is ambitious — but not impossible, Rand Merchant Bank economist Rudolf Gouws said at the weekend.

Gouws said this goal would be attained only if the authorities followed consistently conservative monetary and fiscal policies. "It is implicit in the report that the monetary and fiscal policies of the past were the major contributors to the high inflation rate."

In his view, many of the recommendations in the report, while positively affecting growth, would not necessarily have a substantial effect on the inflation rate if they were not coupled with conservative monetary and fiscal policies.

Gouws was especially pleased that the report dispelled fears of direct government intervention to curb inflation in the form of a formula prices and incomes policy.

Stellenbosch economics professor Szilie Terreblanche, though welcoming the intention to reduce inflation, said it was "highly unlikely" the 9% target would be achieved within three years, given the "chronic stagnation in the SA economy."

Terreblanche notes the per capita income of South Africans has decreased by almost 1% in real terms every year since 1974. "How will we succeed in curbing inflation against this backdrop?"

Assocon, reacting to the EAC's report, said issues such as government spending, the burden of taxation, deregulation and privatisation would require urgent attention.
THE Economic Advisory Council has fingered excessive State spending as a major cause of inflation. Wages and salaries paid to the tens of thousands of public sector workers are part of the problem.

And Central Statistical Services figures highlight the enormous costs of a still expanding bureaucracy.

They show that this financial year nearly R15bn will be paid to 1,008,224 workers in central government, provincial administrations, Sats and the Post Office, when the July 12% pay hikes are taken into account.

This is 3% more than were employed at the end of last year.

When the executive institutions for general and own affairs, the civil services of the self-governing states, local authorities, parastatal institutions, universities and technikons, control boards and public corporations are added, the total employed is 1,626,455.

At the end of June, government and the provinces employed 712,224, 5.2 per cent more than the number employed at the end of 1985.

Total salaries and wages paid to these workers amounted to R2.5bn-million for the second quarter.

This is 19% more than paid in the second quarter of 1986, and 17.4% more than for the last quarter of 1986.

Total wages paid to whites have increased by 16.6% since the second quarter of 1986.
PRETORIA — SA's inflation problem could not be solved by cutting back on public servants' pay and numbers, the Public Servants Association (PSA) said in its response to the Economic Advisory Council's finding that State spending was a root cause of inflation.

The PSA said cuts by government should focus on current spending - mainly on salaries and wages - rather than capital spending.

This could only be achieved by imposing manpower restraints.

PSA GM Hans Olivier said SA had a complex political system which had to be serviced, and this demanded an adequate staff complement.

A majority of voters and taxpayers voted for a trimmer system of government "and they must be prepared to pay for it," Olivier said the PSA kept clear of politics, but it was not public servants who were responsible for an expanding public service.

"We don't prescribe the system," Olivier said.

And he stressed that to ensure quality of service, government workers had to be paid salaries compatible with the private sector.

Efforts had recently been made to close the gap between private and public sector earnings - but the gap remained a wide one in many areas.

Olivier said the Commission for Administration had launched a staff shrunk programme about two years ago.

In some departments, staff complements had been cut by as much as 50%. 
Inflation set to stay high

ECONOMISTS paint a mildly encouraging picture for next year, with real growth at more than 2% and the JSE slump not causing too many problems. But inflation is expected to stay high, while interest rates remain negative in real terms.

Nedbank economist Edward Osborne forecasts growth for next year at 2.1%, with perhaps a percentage point or two as a result of the JSE crash.

"There is no strong reason to expect that growth will be affected significantly by the crash," Osborne says. He also does not foresee a serious recession developing internationally. "We are eight years away from the Thirties," he said.

In his view, inflation will remain high — in the range 16.5% to 17.5%. Osborne is sceptical that the Economic Advisory Council report on inflation will have any effect on the inflation spiral. "There is nothing in the EAC report which will put a damper on the inflation rate," he says.

Factors he believes could fuel inflation include a weaker rand, strong trade union action and companies' desire to maintain high levels of profit.

GRETA STEYN

first six months of 1986, coupled with a strong trade surplus boosting liquidity.

Mildly optimistic about inflation, he sees the rate declining moderately to average at about 14.5% to 15.5% next year — based on the assumption that the exchange rate will remain stable and assuming a normal agricultural season.

Joubert, too, believes the JSE slump will not have a significant effect on the economy, despite a negative impact on sentiment. In his view, there will be little effect on consumer confidence, as the majority of consumers had not invested heavily in the JSE.

"It is the rich who have become less rich, not the man in the street who has suddenly become poor," he says.

However, the international situation could affect SA through the balance of payments — but only if there is a world recession. "A world recession is not likely — we will probably only see a weakening of world growth," Joubert says.

Joubert sees real growth in the region of 2.5% to 3% next year. However, this outlook is based on the assumption that there will be a moderate increase in the gold price and, again, a normal agricultural season.

Old Mutual's David Mohr, while stressing that he does not like to be tied to a specific figure, is quite bullish for growth next year. "The 3% we should have reached in 1987 we are likely to see next year," he said. In this growth scenario he sees inflation at around the same level as in 1987.

Higher levels of economic activity should lead to increased imports and, consequently, a narrowing of the trade surplus and tighter liquidity. Interest rates should then rise — but the difficult part is predicting when and by how much, Mohr says.

In the wake of the JSE crash, interest rates should rise later rather than sooner, Mohr said.

Pressure

Frankel Kruger's Gillian Raine sees inflation increasing to 17% next year — above this year's expected 16.5%. Raine notes that money supply growth is accelerating and, if government funds its deficit with bank credit, there should be upward pressure on the inflation rate. In addition, she expects a weak rand to feed imported inflation.

Along with higher inflation, Raine forecasts moderate growth of 2.5%. In this scenario, she sees a narrowing trade surplus and tighter liquidity. In her view, the prime rate should be 14% at the end of next year "or even as high as 15%.

But TrustBank economist Ulrich Joubert sees prime rate dropping marginally in the first half of next year before the rate starts edging up in the second half. This would be the result of a still-dragging upswing in the
SA house prices up about 11% on 1986

MICK COLLINS

Despite slack demand, house prices on average have risen by 11% during the third quarter of this year, compared with the same period in 1986. However, says the United Building Society (UBS) in its quarterly review, on a quarter-to-quarter basis there was virtually no price movement since the second quarter of 1987.

"The average price of a medium-sized house currently amounts to approximately R77 000.

Smaller houses cost on average some R65 000 (up 12% on last year), while larger dwellings currently trade at about R107 000 (7% up on a year ago).

"The price differential between new and existing houses remains relatively large, which can mainly be attributed to the combined effect of relatively low demand for existing housing and the continuous increase in building costs -- running at 16% a year, more or less in line with the general inflation rate."

As an example, the UBS gives the average price of a new house (medium-sized) at R88 000, while an existing house of the same size sells at about R75 000.

"In all the regions average house prices were higher than a year ago, although on a quarter-to-quarter basis some regions experienced lower prices during the third quarter of the year."

These were Johannesburg (-5%), east Rand (-1%), Pretoria (-2%) and western Cape (-1%).

In contrast, noticeable increases were recorded in the Vaal Triangle (7%), Free State and northern Cape (9%), eastern Cape (8%) and the rest of Natal (6%) between the second and third quarters of 1987."
Govt excesses set to boost inflation — Econometrix review

By Michael Chester

Government over-spending threatens to torpedo attempts to curb inflation and to hamstrung all ambitions to spur the economy into a crucial faster pace, a leading business think-tank's forecasts say.

Dr Azar Jammie, director of the Econometrix research unit, has warned that the annual rate of inflation looks set to surge into the danger zones of hyperinflation unless the Government changes course and slashes the size and cost of the swelling ranks of bureaucrats in the civil service.

Econometrix fears the Government lacks the political will to pursue the recommendations of the State President's Economic Advisory Council about ways and means to tame inflation and reduce the prices spiral from around 16 percent to 9 percent inside the next three years — largely by more discipline over State spending.

Instead, inflation looks likely to ease down to about 18 percent next year and then recover upwards to 20 percent and higher by 1990 because of relentless trends in excessive government expenditure on bureaucracy.

Dr Jammie believes the tell-tale signs are embedded in key indicators showing that the economy already looks unable to sustain the momentum of growth that emerged a year ago and appears incapable of growing any faster than a relatively feeble 2.5 percent a year, not even keeping pace with the population explosion.

"The primary reason why growth cannot accelerate would appear to be the manner in which the inexorable rise in government expenditure is bleeding the economy of scarce resources which could have been employed more profitably in the private sector," he writes in a year-end review.

"Still heavier taxation — camouflaged by inflation and its impact on fiscal drag pushing everyone into higher tax brackets — looks inevitable to finance government excesses.

It is the high rate of State expenditure, "particularly on salaries and wages of public servants," that threatens the outlook for next year and beyond.

While State expenditure roars ahead, the level of fixed investment has been in a dangerous non-stop decline since 1981 as a result of failure by the Government to match fixed investment by the private sector, says Dr Jammie in his review."
SA is a thorny issue

Facing Inflation in

BY AN ECONOMIST

The effects of inflation have been felt across the globe, with prices rising at an alarming rate. This has led to a decrease in purchasing power and a decline in the standard of living. In South Africa, the situation is particularly acute, with inflation rates reaching unprecedented levels.

Economic policies have been implemented to address this issue, but the results have been mixed. The government has increased interest rates, hoping to curb demand and reduce inflation. However, this has led to a slowdown in economic growth, affecting employment and living standards.

International factors, such as the global supply chain disruptions caused by the COVID-19 pandemic, have also contributed to the rise in prices. These disruptions have led to shortages of goods, pushing up prices and contributing to inflation.

The government has acknowledged the severity of the situation and is taking steps to mitigate the effects. However, it is clear that a comprehensive approach is needed to address the issue of inflation in South Africa.

The government has announced plans to introduce a new inflation-targeting framework. This framework aims to bring inflation back to target levels over the medium term, while maintaining economic stability and growth.

In conclusion, the battle against inflation is a challenging one, but it is necessary to ensure the sustainability of the economy. The government, along with the private sector and all stakeholders, must work together to find innovative solutions to this pressing issue.
Producer prices on the increase

Greta Steyn

Producer prices increased by more than 1% for the third successive month in October, indicating inflationary pressures could again be building up after a brief respite.

Central Statistical Services figures show the producer price index (PPI) rose by 12% between October and September, after increases of 1% and 13% the previous two months. Thus, the average for the past three months amounts to 11.12.187.

Inflation worry as producer prices rise 1%

1.2%, compared with an average of 0.6% for the previous three-month period.

October's figures show that domestic prices surged by 1.6% in October, compared with September. By contrast, imported inflation remained unchanged for the month, reflecting the stronger rand-dollar exchange rate.

But economists say the weakness of the rand against major currencies other than the dollar will start filtering through soon, which does not bode well for imported inflation.

Year-on-year producer price inflation fell to 12.7% in October, from 13.7% in September. But the decline is largely technical — the significant monthly increase of 2.2% between September and October last year fell away in the calculation of October's year rate.
Inflationary pressure up

Johannesburg — Producer prices increased by over one per cent for the third successive month in October, indicating that inflationary pressures are again building up after a brief respite.

Central Statistical Services figures show the producer price index (PPI) rose by 1.2 per cent between October and September, after increases of 1 per cent and 1.3 per cent the previous two months. Thus the average for the past three months amounts to 1.2 per cent, compared with an average of 0.6 per cent for the previous three-month period.

October’s figures show that domestic prices surged by 1.6 per cent in October compared with September.

By contrast, imported inflation remained unchanged for the month, reflecting the stronger rand-dollar exchange rate. But economists say the weakness of the rand against major currencies other than the US dollar will start filtering through soon, which does not bode well for the imported inflation.

Year-on-year producer price inflation fell to 12.7 per cent in October from 13.7 per cent in September. But the decline is largely technical—the significant monthly increase of 2.2 per cent between September and October last year fell away in the calculation of October’s year rate.
Food-only index up 0.7%

Inflation rate drops to 15%

By HELENA PATTEN

JOHANNESBURG — Inflation, as measured by the consumer price index (CPI), is continuing its downward run with figures for November showing year-on-year inflation at 15%. Central Statistical Services announced yesterday.

This compares with an inflation rate of 15.6% for both October and September, and is the lowest rate since January 1985 when the CPI increase was 15.9%.

The apparently persistent decline in inflation in the latter months of this year, tends to confirm Reserve Bank governor Gerhard de Kock's comments at a recent international investment conference to the effect that SA had better prospects for lower inflation and higher growth in the coming year than did many other producers of primary products.

The monthly rate of increase in inflation was 0.6% in November compared with a 1.1% rise in October, and compares only with June's 0.7% for the lowest monthly spot this year.

The food-only index showed a monthly increase of 0.7% for November, but the year-on-year figure is still very high at 21.4%.

Central statistics also shows the largest annual price increase occurred in the Pretoria, Verwoerdburg and Akasia areas — 16.1% — while the smallest annual price increase was in Bloemfontein, at 12.5%.

November's CPI is the first to be calculated on the new 1985 base, instead of the 1980 base. CSS said the change might perplex users in interpreting trends.

"It should be borne in mind that this change is merely a change in the level of the indices and does not in any way affect trends. Instead of comparing present prices with average prices for 1980, which were equated to 100, they are now compared with average prices for 1985, also equated to 100."
The fight against inflation goes on

Rudolf Gouws, chief economist with the Rand Merchant Bank looks at inflation in our continuing series on what's in store next year.

Having fallen from nearly 21 percent in January 1986 to 15 percent in November 1987, the inflation rate will probably move in a fairly narrow band around this level in 1988.

This rather unexciting (but fairly common) view is based on a variety of factors, which are summarized as follows.

- The improvement since 1986 of the rand's weighted average exchange rate has contributed markedly to the slowdown in inflation. The rise and subsequent stability of the rand is not merely a flash in the pan, but reflects an important improvement that has occurred in the Balance of Payments.

For most of next year, the state of the Balance of Payments should be such that the exchange rate should hold at least at its present levels. We should therefore continue to see very low rates of increase (and occasional decreases) in the average price of imports.

- As has always been the case in the past, this should have an important restraining effect on domestic price rises. International inflation should also remain low, while the renewed decline in oil prices will also help.

When, as I expect, the exchange rate starts declining late next year, we shall again have to contend with some acceleration in import prices. While this should not be a sharp acceleration, it will pose a challenge to policy-makers to ensure that it does not translate into generalized inflation in 1989.

- Two important clues to official thinking about inflation will be given early in the new year. One will be the Reserve Bank's announcement of its 1988 targets for money supply growth.

Even if these are set only one percent lower than the 1987 targets of 14 to 18 percent (as I expect will be the case), they will reaffirm the authorities' intent slowly to wind down the rate of growth in the money supply.

- As there is bound to be upward pressure on the money supply in 1988, the authorities would then have to allow interest rates to rise, and I think they will be ready to do so.

Some upward pressure on interest rates is likely to emanate from the Balance of Payments, on the one hand, and the growth in domestic demand for credit, on the other.

Much of the reason for earlier rises in the South African inflation rate can be found in attempts to restrain interest rates from doing what they are supposed to do.

I am hopeful the authorities are sufficiently committed to long-term money supply targets so that earlier mistakes will not be repeated.

The second clue will be given by the official response to the report of the inflation subcommittee of the State President's Economic Advisory Council. Even if the targets of inflation suggested in the report (1988, 14 percent; 1989, 11.5 percent; 1990, 9 percent) are not accepted explicitly, they will probably be accepted implicitly.

Acceptance will bring with it a commitment to conservative monetary and fiscal policies. This will be crucial for two reasons. The first is that further wage pressures will be building up in the economy at large as the economic upswing continues in the new year, with potential inflationary side-effects.

The second reason relates to the state of government finances. There are warning signs in the figures for the first half of the present fiscal year, when about one fifth of the (rapidly growing) budget deficit was financed through the monetary banking sector.

As the 1988/89 deficit will probably exceed R14 billion, there is a danger that this being funded in an inflationary way.
Crash ‘will affect inflation and growth’

THE recent global share correction has ramifications for worldwide inflation and growth, says Merrill, Lynch, Rosenburg and Co in its latest report on the outlook for precious metals.

The two principal factors influencing the prices of precious metals are inflationary expectations in the Western world and the global level of economic activity. The price of gold is dominated by the need to hedge against inflation whereas platinum and diamond prices are more dependent on industrial demand.

LISE BOSMAN

The report says there are three scenarios for the future after the global stock market crash.

- A large-scale snowballing credit contraction and consequent severe recession, with people reluctant to borrow money for fear of being caught out a second time on the stock exchange.
- Prevention of a downturn in the US economy by the American government before the presidential elections, with people running up new credit.
- Co-ordination of global economic policies by using gold and a basket of commodities as early-warning indicators of inflation, thus reducing the volatility of movements in precious metal prices.

The report says a substantial rise in the gold price will result in a tightening of monetary policy. A drop in the gold price would see a loosening of credit. It would, therefore, be unlikely that the gold price would rise astronomically for the rest of the decade, as it did in the seventies.

“Any one can say conclusively is that there is a significant probability of the gold price and other precious metals continuing their bull trend in the year ahead.”

The report says that movements in the gold price may provide a lead for either a period of inflation or deflation.
INFLATION - 1988
Impaired inflation rate can be influenced by 'new weights'  

Own Correspondent

JOHANNESBURG — The implied inflation rate can be influenced to some extent by Central Statistical Services' (CSS) revision of the "weights" — or relative importance — of the items that make up the Consumer Price Index (CPI) basket, CSS says.

To determine the influence of the new weights on the rate, CSS calculated the inflation rate for October 1987 using both the old and new weights, with 1965 as the base year. The "new" rate of 13.6% for October is significantly lower than the "old" rate of 15.6%.

This may prompt a response of "there are lies, damn lies, and statistics", but there is no sleight of hand to conjure up a lower inflation rate.

CSS explains in a news release: "The revision of the weights can influence the inflation rate to some extent, especially if the weight of an item changed relatively much while the trend in the price of that item at the same time differs from that of the other goods and services — as happened with mortgage bond rates."

An example the weight — or relative importance — of the item "housing" rose from 17.60 to 21.21, based on a survey of spending patterns in 1986. But mortgage rates have dropped significantly since 1965, so that the "price" of housing was down while other prices had risen in general. At the same time, the item's relative importance to the inflation rate had increased from 17.60% to 21.21%.

The weight of food in the index was revised downwards from 24.98 to 22.72, based on the 1985 survey. The survey found, among others, that South Africans were spending less on food (2.4%), furniture and equipment (1.8%), clothing and footwear (1.5%), while more was being spent on housing (2.6%).

CSS intends undertaking a survey of SA spending patterns every five years in future to pin down accurate weights for CPI goods. The last spending survey before 1985 was done in 1975 — clearly, the CPI basket was not an up-to-date reflection of consumer spending.

The new-look CPI not only includes new weightings, but the base year was also changed from 1980 to 1985.
for Inflation Calculation
New Weights, Introduced

Survey shows South Africans' spending habits
Policy choices and inflation

Brian Kantor is a professor of economics at the University of Cape Town.

The best leading indicator for inflation in SA is the trend in import prices. Import prices lead inflation in a consistent way, recent figures are no exception (see graph).

Inflation accelerated from the end of 1983 with the depreciation of the rand and increase in imported inflation. The latter peaked towards the end of 1985 and inflation, as measured by CPI, then began to fall.

In 1980-1981 food prices rose much faster than prices in general, as they have again recently, though they rose relatively slowly in 1985. I have calculated that in the period since August 1986, the exceptional increase in food prices has added between two to three percentage points to the inflation rate.

But even subtracting this food price effect, inflation would still be very high and unfortunately, 1986's decline in import prices has been reversed. Import prices started increasing faster from early 1987 because the rand, while holding its own against the dollar, lost ground against our other major trading partners.

What was required to sustain the decline in imported inflation in 1987 was a higher, perhaps 10% higher, dollar/rand exchange rate. But on a trade-weighted basis, the rand lost ground while the authorities accumulated dollars and gold. The desire to increase foreign exchange reserves from very low levels and help exporters meant sacrificing the opportunity to reduce inflation.

The price of gold in other currencies naturally performed much less strongly than in dollar and rand terms in 1987.

The authorities in recent months have been stabilising the transactions-weighted value of the rand. The US$ accounts for between 45%-50% of all transactions. Thus for every one percentage point fall in the dollar against the strong currencies, the rand has only been allowed to appreciate by about half a percent against the US$.

The official desire for increases in foreign exchange reserves and, perhaps of greater importance, sensitivity to gold mining and other exporters, is to the heart of persistently high South African inflation.

The era of exchange rate flexibility has given an inflationary bias to economic policy. When the gold price rises in dollars, the dollar/rand exchange rate lags, providing exporters of gold with higher rand receipts.

The political advantages of a falling exchange rate are real and temporary, because high inflation and thus higher costs of production catch up with higher receipts in the export or import replacement markets.

The penalty of an appreciating exchange rate is also real and would also be temporary if inflation declined in response to a genuinely stronger rand. However, producers carry more political weight than consumers.

Very recent increases in the dollar price of gold and other commodities may herald faster dollar inflation. Stagflation rather than deflation may be the prospect for the US. It would suit SA even better if higher US inflation spread to the rest of the world.

This would mean a higher price for gold in all currencies, not only in the weak ones. But unless the higher price of gold were accompanied by a rand stronger against all currencies, inflation in SA will not fall.

Should the Reserve Bank, as it did in the past, wish to accumulate dollar reserves and so hold back the appreciation of the rand, the real forces in SA's favour will be accompanied by rapid growth in money supply and domestic expenditure. In turn, higher levels of domestic expenditure will bring much greater imports. As in the past, even a sharply increased gold price may not avoid a deterioration in the balance of exports and imports and, in turn, a weaker rand.

In my simulations, it is impossible, on past behaviour, to escape the conclusion that economic recovery through 1988-1989 will bring a weaker dollar/rand exchange rate for 1989. Avoiding inflation would require genuine monetary stringency now.

But for a number of good reasons officials will seek to avoid such stringency. The uncertain effect of the stock market crash woldn't be easy. The difficulty in assessing the true state of our economy is another.

Uncertainty about the price of gold and the value of the dollar remain a constant in their calculations. Reducing inflation at the expense of economic growth, which would mean higher interest rates, would not be a popular choice. Thus monetary growth will turn out to be too fast rather than too slow. The months to come and the rand will come to weaken rather than strengthen.

In fairness, the choices between more or less inflation are not easy. Probably the best that could be done to reduce the rate of inflation in the immediate future, given the unwillingness to tolerate a strong currency, was to integrate domestic agriculture with world markets. But such choices also do not come easily.

It should, perhaps, be recognised that, given the likely policy choices, inflation may not come down though it will accelerate only if government expenditure comes to be financed by printing money.

My judgment is that SA is not about to embark on such a disastrous course. Policymakers are likely to remain fiscally conservative to the degree and the blame for inflation will continue to rest with exchange rate and monetary policies, rather than inflationary methods of financing government expenditure.

Leading the way

Import prices have been smoothed.

<table>
<thead>
<tr>
<th>Year</th>
<th>Import prices</th>
<th>Domestic inflation</th>
<th>CPI</th>
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<tr>
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Financial Mail January 8, 1988
Inflation — SA still on the rack

HOPES that South Africa’s embryonic economic recovery would be given new impetus this year by falling inflation are fading.

Although the President’s Economic Advisory Council has set its sights on an inflation rate of 9% for 1990, there is little chance of much improvement this year.

Reserve Bank Governor Gerhard de Kock’s warning this week that fiscal discipline by the Government is imperative comes in the wake of increasingly pessimistic views on inflation.

**Key areas**

Officials are still predicting that last year’s hesitant falls in the inflation rate should continue, at least for the early part of this year, but cost pressures are mounting in key areas.

Manufacturers are warning that increases in basic input costs could result in sharp commodity price rises this year. Eskom rates increased by 10% from January 1, and higher Sats tariffs are feared. Increases in such basic costs have a multiplier effect on consumer prices.

In the expectation of better times, manufacturers are also trying to return their profit margins to more normal levels, and wage increases in the light of greater trade union militancy will also have to be covered.

A factor re-emerging in the economy is stock shortages — could also have a profound effect on inflation in the months ahead. Shortages have already occurred in consumer durables and the motor industry.

The revival in the demand for credit has also led to forecasts that interest rates will move up again.

Scraped food prices have been the

**Business Times Reporters**

Driving force behind inflation, which has now been into double figures for more than a decade.

The ordinary man has already been hit this year. Meat prices, which contribute 7.7% to the overall consumer price index, have increased by 30.6% in the year from November 1988. Super bills, which was selling at a wholesale R3.29 a kilogram before Christmas, now costs about R5.30.

That is not the end of the meat spiral, either. Vegetable prices have also increased sharply and a sugar price rise of 11.5% comes into effect on February 1.

**Mark and yen**

Although motor manufacturers believe they will be able to keep increases below the general inflation rate, some prices will rise by 10%.

They have been particularly badly hit by the fall in the rand against the mark and the yen. If imports pick up on the back of the consumer spending upswing, imported inflation will become increasingly important in SA.

Many economists expect the rand to continue drifting lower against the currencies of SA’s major trading partners.

**Senbank’s Economic View** says all three sources of inflation — the exchange rate, foreign prices and import volumes — could well exert upward pressure this year.

“International commodity prices and inflation rates have passed their lower turning points and are rising and a deflationary force from this angle should therefore not be expected,” it warns.

Assicoopa believes that inflation, as measured by the CPI, is not likely to be much lower than last year, and could run at the same level.

**Trade balance**

A senior bank economist believes that the fall in the inflation rate — in November it was down to 15% — has already bottomed out.

The University of Cape Town’s Brian Kantor, who sees a deteriorating trade balance as investment picks up in the durable- and investment-goods sector, says that will put downward pressure on exchange rates and upward pressure on short-term interest rates.

Professor Kantor says the chances of any reduction in the inflation rate are over.

“Inflation is likely to continue at high, but not necessarily higher, levels.”
Good signals on inflation outlook

By Sven Lunsehe

The inflation rate is expected to fall below the 15 percent level in the wake of the decline in the producer price index (PPI) to a three-year low.

The year-on-year PPI for November last year dropped to 11 percent, one percent lower than the 12.7 percent yearly increase recorded in October, and the lowest since December 1995’s 11.4 percent.

Of more importance is the news that the rate for locally produced goods amounted to 12.7 percent, the lowest rate since January 1995.

The 0.6 percent rate for imported goods was a continuation of the relatively low rate which had been in evidence since the beginning of last year.

On a monthly basis the PPI showed an increase of only 0.6 percent in November, compared with October’s 1.2 percent, and is a strong indication that costs are being effectively controlled.

Changes in the PPI usually precede the consumer price index (CPI) by about three months, a trend which has been evident during 1987, despite a general rise in profit margins by retailers.

The decline in the PPI bodes well for the State President Economic Advisory Council’s plan to bring inflation under control and is the latest in a number of financial trends and developments expected to push inflation below the 15 percent level this year.

The major contributor to the lower inflation rate has been the strong performance of the rand — as witnessed by the low increase in the imported component of the PPI.

This factor should continue to exert downward pressure on inflation as the dollar is forecast to remain at its current low levels for some time to come, although the rand has been falling gradually against other currencies.

Soaring food prices have been almost solely responsible for what remained of the large inflation price increases, but technical factors could help to reduce their impact on the inflation rate.

Since November 1987 the Central Statistical Office has been publishing the CPI with a new base, namely 1985, while also introducing new weights for the various products and services.

These new weights are what provide a substantial difference as they do not provide an indication of the relative shifts in spending patterns of the "average consumer" and since 1976 (the base year for the previous CPI) expenditure has moved away from commodities, especially foodstuffs, while that of services has increased accordingly.

The 15.6 percent rate of inflation (on an annualised basis) recorded in October 1987 would have read only 13.8 percent had the new weights been used, as the weight of food commodities in the new CPI is only 22.7 percent of the total, compared with almost 25 percent previously.
AHI taking aim at inflation

FIGHTING inflation and stimulating exports are among the priorities identified by the Afrikaanse Handelsinstituut (AHI) for 1988.

And AHI executive director Donald Masson adds that cuts in government expenditure and political security should also receive urgent attention.

Masson blames the high inflation rate on the fact that people are earning too much in comparison with their productivity, and says salary increases this year should not be linked to the Consumer Price Index (CPI) which will have the effect of indexing inflation.

"Salaries have gone up far beyond increases in productivity. While I do not go so far as to recommend a wage freeze, major employers such as the state and the mining companies should take a lead in keeping down salary increases,"

Masson attacks some trade unions for what he terms their "irresponsible" wage demands and believes some companies will be experiencing "major knocks" this year if wage increases are not linked to productivity increases.

He also considers it of prime importance for government to devise new methods of stimulating exports in order to maintain a surplus in the balance of payments and earn foreign exchange.

At the end of 1988 the tax allowances on exports will be abolished and the AHI will be taking an in-depth look into alternative stimulatory measures which government can adopt.

Masson believes government should subsidise exports to a greater extent because foreign investment has all but dried up. He suggests a direct payment to exporters, rather than tax concessions, as this has the advantage of being both measurable and identifiable.

Masson says government must cut its coat to suit its cloth, must make provisions for the political aspirations of the black community, and must provide businessmen with a politically secure environment.

But if 1988 seems fraught with problems, Masson is optimistic that major initiatives on the privatisation/deregulation front will occur.

"From discussions I have had with government officials, I think things are starting to gain momentum and I can see such a lot happening in the next six months that vested interests may even start getting worried. I am quite excited by what I know is being done."

Masson suspects the crash on the stock market somewhat delayed the flotation of major public enterprises.

His private crusade in the next few months will be to urge local authorities to do more to privatise and deregulate.

"The time has come to slaughter some holy cows; if only so that we can see that something is being done," he said.
Inflation ensures market investment

THE cumulative effect of high inflation over many years on the rand's buying power means the stock market will remain a viable channel for investors' funds if 1969, says the Unit Trust Monitor (UTM) in its latest issue.

UTM says it expects to see stock market investment continue to flourish until the inflation rate has been around 10% for at least two years — a "pipe dream at the moment".

It says "as buying power will continue, for the foreseeable future, to be halved every five years and the JSE will move up accordingly."

UTM devotes considerable space to a demonstration that short periods of sharply rising inflation do not coincide with stock market booms. In fact, the biggest rises in inflation occurred in 1963-1965 and 1969-1975, when the JSE experienced sluggish, if not negative growth, and even bear markets.

"The large growth spurts on the JSE have occurred when the rate of inflation has either fallen substantially or moved into a sideways trend. Thus we have the halving of the inflation rate in 1966 leading to the JSE boom of that year and the first half of 1969. Since 1975, the inflation rate has moved into a well-defined sideways pattern and the JSE has boomed."

"It is not the sudden three or eight-fold jumps in inflation which are the ultimate dangers but the frighteningly dramatic effects on the loss of buying power during the last 17 years due to the cumulative and compounding actions of high inflation."

Despite a positive outlook for the JSE, UTM warns of likely wide divergences in the performance figures of different unit trusts this year. "The investor will be forced to be clinically selective."

UTM foresees a commodity boom for 1988, including gold, and thus advises investors to remain heavily in the metals & resources funds. On the industrial front, "UTM believes a complete change in market leadership will take place, with the go-go motor, transport, electronic and tobacco sectors being replaced as the front runners by the more stable financial sectors such as banks, insurance and property."
Some continued trimming in interest rates are likely to add 2% to 3% to the growth rate of consumer purchases. The outlook for the economy in the near term does not suggest a return to the high growth rates of the past year. A 3% growth rate for the economy is the minimum needed to sustain the current rate of job creation. The need for increased productivity remains, despite the recent improvements in the labor market.

Exports

A year ago, exports were significantly lower than expected. The current account surplus is likely to decrease as a result of the lower export volume. The surplus will be reduced by 2% and 3% as exports decline and the supply of capital is reduced. The trade deficit is likely to continue to widen as imports increase and exports decrease.

The need for increased foreign investment remains, with the surplus in the current account exceeding $5 billion. The surplus will be reduced by 2% as the current account surplus is likely to decrease further.

The outlook for the economy in the near term does not suggest a return to the high growth rates of the past year. A 3% growth rate for the economy is the minimum needed to sustain the current rate of job creation. The need for increased productivity remains, despite the recent improvements in the labor market.
Inflation drops to lowest in 3 years

By Magnus Heystek, Finance Editor

The rate of inflation dropped below 16 percent last month for the first time in nearly three years, and economists are hopeful that the average rate could be as low as 14 percent this year. According to the latest figures from Central Statistical Services, the annualised rate of increase in the consumer price index was 14.7 percent last month, bringing the average for 1987 to 16.2 percent. This compares with an average inflation rate of 18.6 percent in 1986.

Reasons for the gradual decline are to be found in the relative strength of the rand against the dollar and other major currencies, which has had the effect of reducing imported inflation. In addition, the heightened domestic activity in the third quarter of last year had the effect of reducing unit labour costs, thereby reducing upward pressure on locally manufactured goods.
Inflation slows to 14.7%

CONSUMER inflation for December slowed to 14.7% as measured by the Consumer Price Index (CPI), compared with December the previous year, according to Central Statistical Service's figures.

The CPI has dropped by 6% in two years from its high of 20.7% in January 1996. In November it was 15% and has trickled down another 0.3%.

It reflects the trend in other indicators, like the dropping Production Price Index which presages the CPI by two months, a stronger rand, stable fuel price and low home bond rates. But food prices still put an upward pressure on the rate.

The monthly rate of increase, after eliminating seasonal variations, is about 0.8% — slightly lower than the 0.9% in November.

Annualised, this monthly rate brings to 10.4% the rate of inflation — substantially lower than the 15.7% reflected, the CSS says in its summary.

The Bank's Reserve Bank Governor Gerhard de Kock's view that inflation in 1998 could be lower on average, compared with 1997, and growth higher.
Consumer inflation slows down to 14.7 per cent

JOHANNESBURG — Consumer inflation for December slowed down to 14.7 per cent, as measured by the Consumer Price Index (CPI), compared with December of the previous year, according to figures released by the Central Statistical Service.

The CPI has dropped by 6 per cent in two years from its high of 20.7 per cent in January 1986.

In November it was 15 per cent and has trickled down another 0.3 per cent.

It reflects the trend in other indicators like the dropping Production Price Index, which presages the CPI by two months, and other indicators such as the stronger rand, stable fuel price and the low home bond rates.

But food prices continue to put upward pressure on the rate.

The monthly rate of increase, after eliminating seasonal variations, is about 0.8 per cent — slightly lower than the 0.9 per cent in November.

Annualised, this monthly rate brings to 10.4 per cent the rate of inflation — substantially lower than the 14.7 per cent reflected, the CSS says in its summary.

This strengthens the view of the Reserve Bank Governor, Dr Gerhard de Kock that inflation in 1988 could be lower on average compared with 1987 and growth higher.

Economists believe inflation at around 15 per cent is still too high compared with South Africa's major trade partners.

A Rand Merchant Bank economist, Mr Rudolf Gouws, says the downward curve will bottom later this year.

He expects inflation to be back on the incline by the end of the year.
PUBLIC service salary increases will be low this year, in an effort to fight inflation, some leading economists believe.

It is widely thought that inflation will be one of the major problems discussed at the meeting between the State President, P.W Botha, and leading businessmen in Cape Town on Thursday next week.

But economists do not believe that a wage freeze will be suggested. Instead, they think an effort will be made to stop spiralling inflation and limit imports by keeping salary increases at a low level.

Volkskas chief economist At Engelbrecht said: “I think there will be a heavy constraint on salary increases. The government will probably take the lead by giving low increases to public servants.”

“But a lot depends on how strong the economic recovery is. With the world economy weakening we cannot hope for an export-led recovery. We must have a consumer-led recovery with increased spending.”

However, Engelbrecht pointed out, SA cannot afford to ignore the balance of payments situation. “The authorities may want to keep wages down to keep imports down.”

UCT economics lecturer John Whittaker said suggestions that inflation was the major problem to be fought usually meant that the Reserve Bank intended to push up interest rates.

He thought it would be difficult to convince everybody that the government was serious about tackling inflation because of its previous record. “Although it comes from the State President I suppose it is a good start.”

“But the people to convince are the price setters — the people in SA Transport Services (SATS), Escom and the control boards.”
Plan to cut inflation to 9% by 1990

INFLATION will be the main topic of discussion at the economic conference President Botha has called in Cape Town on February 4.

A statement from his office says 165 people have accepted invitations to continue the discussion on reports submitted to the President last year by the Economic Advisory Council.

The council has prepared a plan of action to slash inflation to nine percent by 1990.

It envisages cutting the inflation rate by 1.1 percent to 14 percent this year and by 2.5 percent in the next two years.

Wage restraint, but not a total wage freeze, is proposed.

The council, whose report was issued in November last year, had two provisions for the success of the plan of action.

These were that factors beyond the country's control did not again cause the price of imported goods to rise sharply, and that it was ensured that prices, wages and salaries determined by the public sector increased at a lower rate.

Unrelated wage and price control, saying experience had shown that such measures were hard to be applied successfully.
Inflation Index

Weighting the odds

Each month, the cost of a basket of goods and services is calculated and released in the form of the consumer price index (CPI). In the year to December — the most recent figure — the index rose 14.7%, according to Central Statistical Service (CSS).

But what exactly does this mean? It doesn't mean that everybody's cost of living went up 14.7% in the year. People can counteract price increases by substituting cheaper goods. The CPI cannot take such habit changes into account each month.

Also, we don't all buy goods in the same ratios, the cost of living of people who buy a lot of items whose prices don't go up fast will go up more slowly than the CPI suggests.

Basically the index tries to give a reasonable estimate of how much prices rise on average for all consumers. CSS collects by post the prices of 600 items at 2000 outlets across SA and from municipalities, government departments and bodies such as the Post Office.

Some prices are more important than others, thus getting a bigger "weighting" when the index is calculated.

Until November, CSS based the index on how consumers spent their money in 1975. Food accounted for 24.98%, followed by housing (17.6%), transport (14.94%), clothing and footwear (8.77%), furniture and equipment (5.98%) and many smaller categories. Obviously, a large increase in food prices would increase the index more than, say, an increase in the price of shoes.

But spending habits don't stay the same. To make the CPI a more accurate reflection of what people spend their money on these days, CSS took another survey in 1985 (and plans to do new surveys every five years). It determined that food would now account for just 22.72% of the index, followed by housing (up to 21.21%), transport (up to 17.23%), clothing and footwear (down to 5.98%) and furniture and equipment (down to 4.72%).

Now the trouble begins. New weights change the inflation rate. CSS demonstrated this by calculating the October year-on-year increase using both the old and new weights. It found the increase was 15.5% using the old weights and 13.8% using the new.

Why the big difference? Much of it was accounted for by the sharp decline in home mortgage rates in the 12 months to October. In the 1975 weighting, mortgage rates accounted for just 3.4% of the overall index, so the drop in rates had only a mild effect. Under the new weighting, however, mortgage rates account for 9.4% of the index, so changes will have a big effect.

CSS will stick with the 15.5% figure for October and will not revise its previous figures. "If we were to revise the figures back to 1985, there would be chaos because of all the contracts and financial agreements linked to CPI," a spokesman explains. November is the first month in which the year-on-year increase reflects the 1985 weightings. The reported 15% is a blend of the old and new weightings. It is derived by totalling 11 months of increases based on the old weighting and one month of the new. The year-on-year figure for December was derived from 10 months of increases on the old weightings and two of the new.

After November 1988, the year-on-year increases in CPI will be derived strictly from the new weightings.

Though the CPI is released monthly, CSS cautions about over-reacting to any one report. "You shouldn't put too much emphasis on a given month's change," the spokesman says. A large increase in one month could be the result of several major sectors coincidently raising prices. One has to look at figures over several months to see the real picture.

"In statistics, we distinguish between signal and noise. There is a lot of noise in monthly inflation-rate figures. To eliminate noise, look at the smooth curve, the underlying trend. Then you see the real signal."
Planning for your ‘golden’ years was never more urgent

This illustrates a typical situation where a man retires at the age of 60 after 20 years with his company. As most pension funds provide 2% of final average salary for each year of service, he will immediately suffer a 60% drop in income and an annual salary of R60 000 becomes R24 000 overnight. Six years later his income is down to 20% (using a conservative 12% inflation rate).

- 45% of two-person income (including maintenance income and the husband’s and wife’s income)
- R3 000 minus your pension fund contribution
- R1 250 = year where one is a member of a pension fund

Of the four examples, two are on mortgages and the other on R1 293 or R4 500. The rest of years is summarized on a previous fund is tax free. The pension fund is tax paid at 6.4%. The fund is in the age of 70. Yes, it’s true.

Case studies

- Two examples of a low-income and a self-employed husband. The latter example shows the need for a pension fund.
- A pension fund is a good investment and can be used to save for the future.
- The pension fund is a tax-free investment and can be used to save for the future.

A retirement annuity which is contributed to at the age of 40 and is paid out in the future. This annuity may be tax-free.

Various intervals

- The income gap can be closed by an increase in income or by a pension fund contribution.
- The retirement fund is a good investment and can be used to save for the future.

Although based on savings, the retirement fund can be built up at a rate of 12% per annum when the interest rate is 4% or 12% per annum when the interest rate is 7%

- 45% of the two-person income (including maintenance income and the husband’s and wife’s income)
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SA analysts say inflation rate set to rise

JOHANNESBURG — Despite all the government's predictions of a slowing inflation rate, economists point to a price spiral on essential commodities which could push inflation up over the 16 per cent mark towards mid-year.

The government's proposed plan of action for combating inflation indicates that by 1989, South Africa's inflation rate should be running at 9 per cent.

However, prices hikes on essentials like sugar, tyres, meat and bricks could have a ripple effect across the economy.

Steel is set for a 12 per cent jump later this year.

Paint prices have already been pitched up by 8.5 per cent in January and timber has been hit by 16 per cent.

Industry spokesmen say most of the timber prices used in housing have risen by 30 per cent and more.

There is also the possibility of a rise in rail rates to compensate for the South African Transport Services' (Sats) budget deficit.

Although an increase in petrol prices has been discounted in some quarters, analysts still point to the precarious "slate" balancing act brought about by under-recovery in fuel prices.

The government defends its position by citing low world prices on crude oil and a stronger rand which could offset any deficit.

"South Africans have become complacent about the inflation rate," says one Diagonal Street analyst.

"Government appears delighted with December's 14.7 per cent level, but when compared with the rates of our leading trading partners, it is pitiful."

The US annual rate of consumer price inflation fell to 4.4 per cent in December, while that of the UK eased to 3.7 per cent. Canada recorded a rate of 4.2 per cent and West Germany 1 per cent.

Japan has just announced an inflation rate of 0.1 per cent. This, says one export house, could upset South Africa's exports.

"Local manufacturers will become uncompetitive. They will be out of the running when fresh business is struck," said a Johannesburg merchant banker.

"Although inflation has dropped it will start to go up again as a result of the increasing demand for wages and salaries."

The advice given by the Economic Advisory Council of the State President is to release information of impending wage and price hikes ahead of time, said one analyst.

"While this is admirable, it will only become possible with the absolute co-operation of public and private sectors."

"Taking into account 1987, South Africa has had double digit inflation since 1974. 14 years until such time as government spending is brought within reasonable control, we may have no chance of getting below the 10 per cent level," he said.

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Deregulation was another weapon that could be used against inflation, but there had been too much talk of it and too little action, he said.
Predicted inflation drop unlikely

Own Correspondent

JOHANNESBURG — Despite government predictions of a decreasing inflation rate, economists are pointing to a price spiral on essential commodities which could cause an escalation to over the 16% mark about mid-year. Government's proposed plan of action for combating inflation indicates that by 1980, SA's inflation rate should be running at 9%.

But in the latest round of price rises, essentials such as sugar, tyres, meat and bricks have increased by more than 16% which will have a ripple effect.

Steel, which rose by between 15.2% and 19.3% last year, is set for a 15% jump this year, says industry sources.

Paint prices have already been pitched up by 8.3% in January while timber, which accounts for about 6% of the cost of a new home, has shot up by 16%. Industry spokesmen say most of the timber sizes used in housing have in fact risen by 20% and more.

Also hanging over the economy is the possibility of a rise in railway rates to compensate for the SA's budget deficit. This in turn could spur higher costs to be passed on to consumers.

Although an increase in petrol prices has been discounted in some quarters, analysts still point to the precarious "slate" balancing act brought about by under-recovery in fuel prices.

Government defends its position by citing low world prices on crude oil and a stronger rand which could offset any deficit.

"South Africans have become complacent about the inflation rate," says one Diagonal Street analyst.

"Government appears delighted with December's 14.7% level. But when this is compared with rates of our leading trading partners, it is painful."

The US annual rate of consumer price inflation fell to 4.4% in December, while that of the UK eased to 3.7%. Canada recorded a rate of 4.2% and West Germany 1%.

The star performer with whom SA has increased its trade dramatically was Japan, which has just announced an inflation rate of 0.1%. This, says one export house, could be the turning point in the year ahead and could upset SA's exports.

"Local manufacturers will become uncompetitive. They will be out of the running when fresh business is struck," says a merchant banker.

Added to this, he says, is the rand's two-month drop against major currencies, except the dollar, which will put pressure on import prices.

A tougher line by unions could also see wages and salaries rocket, which in turn would add to SA's inflationary trends when manufacturers and producers are forced to raise prices.

Professor of managerial economics at the University of Stellenbosch's Graduate School of Business, Attie de Vries says further increases in interest rates are in store in the second half of the year.

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Price spiral to boost inflation

MICK COLLINS

Despite government's predictions of a decreasing inflation rate, economists are now pointing to a price spiral on essential commodities that could cause a sharp escalation to over the 16% mark towards mid-year.

Government's proposed plan of action for combating inflation indicates that by 1981, SA's inflation rate should be running at 9%.

But the latest round of price hikes has seen essentials such as sugar, tyres, meat and bricks all rise over the 10% level, which in turn will have a ripple effect across the economy.

Steel, which rose by between 15.2% and 19.5% last year, is set for another 12% jump later this year, say industry sources.

Paint prices have already been pitched up by 8.5% in January, while timber, which accounts for about 6% of the cost of a new home, has shot up by a massive 16%. Industry spokesmen say most of the timber sizes used in housing have in fact risen by 30% and more.

Also hanging over the economy is the possibility of a rise in rail rates to compensate for the Sats' budget deficit. This in turn could spur heavier costs to be passed on to consumers.

Although an increase in petrol prices has been discounted in some quarters, analysts still point to the precarious "slate" balancing act brought about by under-recovery in fuel prices.

Government defends its position by citing low world prices on crude oil and a stronger rand, which could offset any deficit.

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The cut in inflation comes down the rate of price increases in core consumer price measures, which softened growth in the economy. This is in line with the expectation of the ECB's Governing Council to cut interest rates if necessary. This is to encourage borrowing and spending, which will boost economic activity. The ECB's decision to cut rates is in line with the expectations of the markets, which applauded the move as a signal of further economic stimulus.

However, the cut in inflation also comes with risks. The softening of inflation may lead to deflation, which can have negative consequences for the economy. It can also lead to a decrease in the value of the currency, which can make exports more expensive and imports cheaper. This can hurt the competitiveness of the domestic economy.

Overall, the cut in inflation is a mixed blessing. While it can help to boost the economy, it also comes with risks that need to be managed carefully.
ORGANISED commerce and most economists have rejected the idea of an incomes and price policy saying it holds little potential to combat inflation.

On the topic, expected to be high on the agenda at today's business meeting called by President PW Botha, Assocom says: "Wage and price restraints address the symptoms rather than the underlying causes of inflation."

Not only did such restraints require mechanisms to ensure cooperation, but their inevitable withdrawal resulted in the emergence of suppressed inflation.

Economist at Old Mutual Dave Mohr said one of the reasons for high wage increases was the shortage of skilled labour. "And a wage and price policy is not going to change this."

He said the skills shortage, together with the fact that the economy is beginning to show some sign of life, would make it difficult for the private sector to abandon freedom to determine competitive wages and prices.

Southern Life's Mike Daly said even if the private sector agreed to co-operate, unless the consensus of unions was sought, an incomes policy would spell disaster for industrial relations.

He said the attack on inflation had to be multi-faceted, launched via a monetary and fiscal policy.

Economist at Santam Johan Louw, however, did not share the prevailing scepticism.

He said that while a monetary and fiscal policy had to be the cornerstone of any attack on inflation, a price and incomes policy certainly had a role to play in the SA economy.

"In SA there are certain markets in which there is not enough competition to keep prices at realistic levels. As a result, certain firms have the freedom to set wage and price levels without regard to market forces."
Motsuenyane: inflation threatens peace

JOHANNESBURG — Unemployment and inflation remain disturbingly high and constitute a significant threat to stability in South Africa, says Dr Sam Motsuenyane, chairman of the African Bank.

In his review of the annual report, he said excessive inflation killed incentive and stunted capital formation.

"In South Africa the major casualties are invariably the disadvantaged black community, who are often not in a position to take adequate adjustment measures," he said.

The food component of the Consumer Price Index had in recent years outstripped that of other items. Food inflation was currently running at about 24 per cent.

Of unemployment, he said estimates differed widely, with Central Statistical Services putting the figure at 1.2 million, while University of the Witwatersrand researchers estimated it at around six million people nationwide.

"The growing hardships experienced as a result of rising unemployment contribute to the tensions now prevalent in black areas. The authorities must give top priority to the promotion of economic recovery, the development of job-creating programmes and the stimulation of black business ventures," he said.

The role of black businesses could not be over-emphasised, as they provided a sure way of both accelerating the process of job creation and "fulfilling the need to bring more and more black people into the realm of ownership."

"The role the government and the larger corporations have played in expanding the scope for black participation in private enterprise deserve every praise and encouragement, but much more needs to be done," Dr Motsuenyane said.

One of the more pleasing aspects of the African Bank's operating results during the year to September 1967 was the growth of more than 16 per cent in the issued ordinary share capital, he said.

Dr Motsuenyane was cautiously optimistic about the current year, saying "We have budgeted for improved results." — Sapa
Hardliners call for action

Is money supply growing too fast? Many free-market economists think so - and hope the Reserve Bank will announce strong steps this month to counter it.

"It should be obvious that the money supply is growing too rapidly because it's generating such a high rate of inflation and disturbing the economy," says Wits business economist Dan Leach. "It's time to do something drastic.

The broad aggregate M3 - which the Bank targets - grew by a preliminary 18.3% in the year to December, following year-on-year rises of 16.9% in November and 13.1% in October. The narrow M0 increased by 17.3% in the year to November.

This month, Governor Gerhard de Kock plans to announce new growth targets for M3. He told the FM last month that he hopes to set a lower range than last year's 14%-18%. He also said he re-aims committed to a long-term reduction in money supply growth to control inflation and promote sound economic growth.

"Ideally, you want money supply to grow in line with real GDP," De Kock says.

Some economists want De Kock to take a firmer stance. Rather than announcing a target only for 1988, they suggest he set progressively lower targets for several years until money supply growth is checked.

Leach wants the Bank to focus on the narrow, controllable M0 - banknotes, coins and deposits at the Bank, also called the monetary base - and set the target at 12% this year, 8% in 1989, 4% in 1990 and zero thereafter.

He says rates may initially rise as the Bank becomes less accommodating in the money market. But, as the market becomes convinced of the Bank's resolve, inflationary expectations - and inflation itself - would be reduced and nominal rates would fall.

"Such a policy would be gradual, yet changes would be large enough to be credible," says Leach. "The only way inflationary expectations will fall is if the public is convinced the Bank means business.

When money supply growth charges ahead far faster than an economy is growing - as is happening in SA - price inflation is guaranteed. But higher consumer prices are only one of the more visible problems of runaway money supply growth.

Economists say injections of new money into the banking system also distort interest rates, savings and investment - and eventually cause cycles of booms and busts.

To see the problem, consider how some of the Bank's newly printed money enters the banking system at the discount window. A financial institution presents a Treasury bill in exchange for new money. In effect, the institution gets money at an artificially low rate and government monetises its debt.

In the past 15 years, the Bank's rediscount rate was only positive, in real terms, in 1983 and from mid-1984 to mid-1986. United Building Society economist Hans Falkena, writing in The Securities Markets, slams this policy of negative real interest rates.

He complains that arguments in favour of negative rates always ignore the position of the creditor: Special interests - farmers, capital-intensive businesses - can be bailed out by artificially low rates. But what of small savers, such as pensioners?

Falkena is not just theorising. Imagine you won R10 000 today. Where would you invest it to guarantee a return above the inflation rate a year from now? There is no safe place - so South Africans consume rather than invest in the future.

A tighter monetary policy could boost savings. If the Bank did not pump money into the money market to subsidise lenders' interest rates, banks that want to lend more would have to offer savers more attractive rates.

Now consider investors. Supporters of artificially low rates say the authorities must promote capital spending because it is essential to economic growth. But Falkena argues that positive real interest rates - such as in the US, Germany and Japan - stimulate new investment far more effectively than negative rates, particularly if they restore confidence.

"SA is not really creating new employment opportunities by following its current negative real rate policy," he says. "Instead, it is creating a climate of economic uncertainty and collapsing inefficient industries and, possibly, poor management."

Wits business economist Richard Grant says some confusion stems from the fallacy that all investment is necessarily good, so must be encouraged by government at all costs. "There is a proper level of investment, but only the market can determine it. Expecting government to set interest rates - the price of credit - without there being adverse effects is as futile as expecting it to set the prices of wheat, trousseau or housing - and we know what's happened with price-fixing in such areas. No government can know the "correct" level of rates.

What typically happens worldwide is that a central bank, as part of its monetary policy, tries to promote growth with artificially low interest rates by pumping money into the system. That lures businesses into making unsound investments.

Then the central bank halts growth by jacking rates up, because it fears inflation will soar if it continues to print money to keep rates low. This leads to cycles of booms and busts.

"Wild swings in interest rates are a function of government policy, not of the market," says Leach.

The main argument in defence of injections of new money into the economy is that they fuel economic growth.

Grant disagrees. "The Bank's injections of money into the economy encourages real growth no better than injections of counterfeit money would."

Increased real incomes make people wealthier - not simply holding more rands. "Too many people make the mistake of thinking the numbers on money are what count, when actually it's what the money can buy."

SA's experience shows that monetary inflation does not ensure growth. The monetary base was R1,9bn in 1979. In the next seven years, government printed enough money to nearly triple the monetary base to about R5,4bn - but the economy grew by only 10%

So why does money supply increase? Economists say it is government, not the economy, which benefits Pretoria continues to spend more than it is willing to pay for with visible taxes. So it depends on the Bank to finance the deficit by creating rands to buy government stock and Treasury bills - which we all pay for through inflation.
Restrict

In a move to

Government leaders have announced a package of measures to address the economic problems. The package includes measures to increase tax revenues, reduce public spending, and stimulate economic growth. The government is also considering the implementation of a new currency to stabilize the economy.

President Biko said at a meeting with business leaders:

"The government is committed to restoring the economy. We will take all necessary steps to ensure that the package of measures is implemented effectively."

Economic problems are a concern for many people in the country. The government is working hard to address these issues and ensure the stability of the economy.

PW's attack

PW's attack
PW may reveal inflation battle plan

CAPE TOWN — A major onslaught on inflation, including a package of far-reaching restraints aimed at undercutting the spiral of cost increases, is expected to be announced by President P.W. Botha when he opens parliament today.

However, he is expected to exclude the possibility of introducing price and income freezes about which some businessmen have recently been speculating.

Instead, it is expected that the emphasis will lie on Mr Botha's appeal for moderation from all sectors of the community in setting prices and making wage claims —possibly accompanied by a promise that similar restraints will be imposed in the public sector as a means of setting an example.

Mr Botha's secret but much-observed briefing to a select group of business leaders in Cape Town yesterday afternoon lent weight to the likelihood that his opening address is to focus on these issues and the economic problems facing the country in general.

The fact that the entire cabinet attended the briefing seemed to emphasise the importance which the government attaches to the measures Mr Botha is expected to announce today.

The briefing is to be followed by a similar meeting with financial journalists and foreign diplomats early this morning, prior to the delivery of the address.

Delegates who attended yesterday's briefing, including newspaper editors, have been requested to keep silent on what was said until after Mr Botha has addressed the nation. They refused to be drawn on the specifics of the meeting.

However, it emerged from what could be gleaned that one of the major elements in the government's new battle plan against inflation could be the more effective implementation of policy measures announced some time ago but never implemented.

The anti-inflation package may, therefore, reflect promises of greater fiscal restraint — such as contained public sector spending and less government borrowing.

The Minister of Finance, Mr Barend du Plessis, thought to have had a substantial hand in deciding the emphasis of the State President's address has already announced that the government has made substantial progress in developing plans to cut back on spending.

It is generally expected that more details of these plans, including the possible setting of expenditure priorities, may be revealed today. Plans to give effect to the government's declared policies on deregulation and the privatisation of key state enterprises may also form part of the package.
African Bank chief deplores inflation and joblessness

Unemployment and inflation constitute a significant threat to stability in South Africa today, says Dr Sam Motsuenyane, chairman of The African Bank Limited (African Bank).

In the bank’s annual report, he says inflation and unemployment in South Africa remained disturbingly high against a background of continued socio-political unrest.

He calls on the Government to give priority to promoting economic recovery, developing job-creating programmes and stimulating black business ventures.

The role of small, black-owned businesses in improving the economic situation cannot be over-emphasised as they provide a sure way of job creation. They also bring more black people into the realm of ownership.

"Although the Government and private corporations have done much to expand black participation in business, much remains to be done."

The growing hardships experienced as a result of rising unemployment contribute to the tensions now prevailing in black areas," Dr Motsuenyane says.

A significant proportion of South Africa’s population exists in a Third World context and spends an inordinate portion of its income on food.

Food inflation is currently running at 24%, compared with the overall inflation rate of 17% in South Africa and double-digit inflation among its major trading partners.

"The major victim of inflation in South Africa is invariably the black community, which is often not in a position to take adequate steps to adjust to circumstances," he says.

"Unless significant strides are made in the political area, the prevailing unrest is likely to continue and, in these circumstances, South Africa has little hope of ever attaining the vast economic potential for which there is ample scope," Dr Motsuenyane says.

"The reforms implemented by the Government thus far have not brought about significant attitudinal changes among blacks, largely because these reforms all too often come too late or are not far-reaching enough to resolve the present impasse."

Dr Motsuenyane says one of the more pleasing aspects of the bank’s operating results is the growth of more than 16% in the issued ordinary share capital. Total growth over the past two years was just over 26%.

"This is a clear indication that the black community has begun to appreciate the value of share ownership and supports the African Bank on an increasing scale," he says.

Income after tax and transfer to internal reserves for the year ended September 30 1987 was R689 000, compared with R83 000 the previous year. After preference dividends, reserves available for distribution to ordinary shareholders are R276 000.

An ordinary dividend of 4c per share, absorbing R133 000, has been declared, leaving a retained income of R143 000.

"We have budgeted for improved results in the current year," Dr Motsuenyane says.
Boon or bust

Political Staff

PRESIDENT PW BOTHA yesterday announced a bold inflation-busting plan for South Africa which could mean a new era for the country — or end in disaster.

His sweeping economic package, with its built-in pay freeze, has already sparked an outcry among the huge and politically sensitive public service.

But it has been greeted with qualified optimism by economists and the business community.

A number of unions yesterday declared war on the government's austerity drive. The far-right political groupings also made it clear that what they saw as a government-sponsored erosion of white earning power would mean trouble for the Nationalists in coming elections.

Mr Botha's moves on the wage issue caused Nationalists to rule out the possibility of a snap general election this year.

While critical of President Botha's failure to address political reform

Table: PW Botha's plan

AMONG the key measures unveiled by Mr Botha yesterday were:

1. The total abolition of VAT
2. A nationwide public and private sector wage freeze
3. A widespread, government-sponsored erosion of white earning power
4. A thorough review of state finances and a reduction of the State's functions and services "where at all possible."

More reports, pictures

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in his Opening of Parliament speech, opposition spokesman Mr Harry Schwarz and Mr Wynand Malan reacted to the far-reaching economic initiative with guarded praise.

Calling for discipline and restraint from the public and private sectors, Mr Botha said the new policies demanded "a willingness to make sacrifices".

But nurses, teachers and public servants expressed shock that they would be denied access...
INFLATION as measured by the consumer price index fell to 14.7% last December. But most housewives continue to experience great difficulty in exploiting this joyous news at the supermarkets.

There are good reasons for this, in addition to which the official index can be expected to fall a little more, only to rise Phoenix-like later this year and in 1990-91.

The CPI's downward trend is being helped by marginal changes in high food prices (notably wheat, 22.7%), further falls in already-low housing costs (weighted 21.5%), deanchoring import-sensitive inflation (weighted 18.5%), and suspended by a stable weighted rand. But increases in transport running costs and public transport (weighted 11%), aided by a high dollar-rand and declining dollar oil price

However, the change in weighting from a 1980 to a 1985 base has been the single most important factor behind CPI inflation of 14.7% in December. The weighting changes for 70% of the CPI base of goods (covering food, clothing, housing, furniture and transport) caused the December CPI number to fall by a one-off 6.7% on the 1980 weightings compared with what it would have been on the 1985 arrangements. On the old base, the December CPI inflation rate would have been about 19.4%.

It is interesting to note that all the "low" inflation items gained in weighting, and all the "high" inflation items lost. Although the weightings are traditionally, changed at the beginning of every decade and mid-decade, it would appear that 1985 had a bad year for new weightings as the exceptional and rare occurrence of that year caused major distortions which, one hopes, will sort out to have been temporary.

Food actually lost importance in household spending relative to 1980 as personal incomes fell drastically, lead to an unprecedented trading down in day-to-day expenditure, especially as the interest burden on household debt and the tax take reached record proportions.

Furniture, domestic appliances and motor vehicles experienced an unprecedented collapse in sales volumes in 1985. Their loss of CPI index weighting was partly neutralised by the steep cost increases caused by imported price inflation after the rand's collapse, which ensured that nominal sales values of these products were actually kept up.

TAX BURDEN

On the other hand, total services increased their CPI index weighting from 15% to 25.5% (and total commodities fell accordingly from 67% to 60.5%) because of record high interest rates and a rising tax burden in 1985. The former is a financial "servicing", the latter translating itself into a rising level of government "servicing".

Housing, being counted as part of services, in particular increased its weighting from 17.6% to 21.2%, mostly because of record high mortgage rates, the still-high white residential rents, and the increase in black housing rents (relatively to the composition of housing expenditure in the previous base year 1980).

Running cost of vehicles (weighted 7%) experienced "negative" inflation earlier last year, and a low figure of only 4% at the end of 1987. Even though the dollar price of oil increased substantially from 1986 to 1987, the rand recovery was even faster against the dollar that year.

WORRYING

The exceptionally large decline in the weighting for clothing (from 7.5% in 1980 to 4.8% in 1985) defies an easy explanation, except to suggest that clothing and textiles, which experienced the same boom as durables and suffered in a bad 1982 recession, are now less affected in the weighting stakes on sales volumes alone.

In addition, this sector experienced lower inflation than the overall CPI for most of 1980-1985, and thus is probably the main explanation for the fall in relative sales "values" and therefore CPI weighting.

All these special factors are worrying as they have given the CPI inflation rate a downward bias for 1980-1989 merely because 1985 was an exceptional year in the sense of monumental structural dislocation in incomes, spending patterns and product costs. One early observation is that 1% of the total may turn out to have a significant distorting effect when the CPI weightings are changed.

The fall in the CPI inflation rate to 14.7% in December has caused the overall inflation rate to fall to 28.9% in December, compared with 39.1% in December 1984. The fall in the CPI inflation rate has caused the overall inflation rate to fall to 28.9% in December, compared with 39.1% in December 1984.
Deflation fears remain strong

Base metals boom 'likely to falter'

By Tegue Payne

Old Mutual's Economic Research Unit does not believe that the recent boom in base metal prices will be sustained, and takes a bearish view long term view of them.

The unit says in its quarterly report that whether the recent rise in base metal prices is sustained will depend on future world economic growth, supply factors and inflation prospects.

On world economic growth, the unit says the deterioration in prospects following the collapse of financial markets is likely to impact negatively on the already paltry growth in base metal commodity demand of one percent since 1980. Although base metal prices are still very low in real terms, growth in demand is likely to remain very sluggish.

On the supply side, utilisation among base metal producers remains low. Producers, says the unit, are generally keen to raise output levels and have in some cases already reacted to the tightening supply/demand conditions.

Overall, it says, prospects for weak demand growth and substantial excess production capacity mitigate against any major long term bull market based on supply/demand fundamentals.

Lower world growth

On inflation as a possible source for higher base metal prices, the unit says expectations have been dampened in line with the prospects for lower world growth. Deflation, rather than inflation, now appears to be the main concern and could act negatively on commodity prices.

To understand the dynamics of base metal prices, the unit traces the modern history of base metal prices.

Following the price collapse during the Great Depression, base metal prices recovered strongly during the lead-up to the Second World War, and in its early years. They were later controlled, but in the two decades following the war, reconstruction and booming trade, and the Korean War, resulted in rising demand.

Prices rose sharply in the second half of the 1940s, but in the Fifties and early Sixties, production was expanded and prices tended to move in a sideways band.

Between 1963 and 1980, metal prices rose rapidly. Initially, robust world economic growth and trade, and the Vietnam War, were the reasons, and between 1964 and 1973, prices almost trebled.

Trend reinforced

Thereafter, the end of fixed exchange rates in the Seventies, and the consequent decline in the dollar, sent prices upward. The Club of Rome's predictions that reserves of technologically important metals would be exhausted before the end of the century, and rising oil prices and inflation, reinforced the trend.

After a brief easing in prices in the mid-1970s, the upward trend was resumed, spurred by the second oil crisis. In the second half for the 1970s, dollar commodity prices rose 450 percent — almost trebling in real terms.

These rapid increases in price resulted in big expansion of production, which shifted from high-cost first world to low-cost Third World producers.

During the Seventies, the rise in prices was not accompanied by a growth in physical demand. The reasons were a slowdown in international economic growth and trade, increased conservation and substitution, and structural changes in maturing economies.

These factors extended the slowdown in demand into the Eighties, when many commodity markets were also faced with rapidly rising output from projects started in the previous decade. The Third World debt crisis encouraged some countries to produce no matter what prices prevailed.

A major reconstruction and rationalisation among producers ensued. However, prices did not revive because production capacity and inventories were in excess.

Prices fell 50 percent in dollar terms between 1980 and mid-1986, when a gradual upturn developed. This upturn gained momentum in 1987.

Reasons for last year's upturn were that demand for most metal products held up well during the year — contrary to the expectations of most producers, who had lowered output.

Also, expectations that inflation would raise because of sharply rising money supply and better energy prices rekindled investor interest in commodities. The decline of the dollar and the bull market in precious metals magnified the trend.

The unit concludes that because of the large potential production capacity, development of a longer term bull trend in base metals appears remote.
Inflation's 25 years are time for havoc outlined

Own Correspondent

PRETORIA. — The spiralling living costs of the past quarter-century and oil, the havoc caused by inflation have been dramatically outlined in a Unisa survey.

A food basket, it was found, that cost R35 in 1960 cost R400 last year. A single salaried person who earned R200 a month in 1960 would have needed about R1964 after tax last year to maintain the same living standards.

The prices of all expenditure items rose 20% from 1960 to 1970, but from 1970 to 1980 jumped 177%, and from 1970 to 1987 an incredible 649%.

The price of reading matter was 16 times higher last year than in 1960. Education costs rose 16 times more and household operations 14 times more. Food was 12 times more expensive.

A consumer whose meat bill was R157 in 1960 could have bought the same quantity and quality of meat for R10 in 1980. Fish which cost R10 would have cost R135 last year. A basket of vegetables rose from R10 to R127.

The average price rise in all items was 832%.
Inflation pushes up funeral costs

Generations ago, one could buy a funeral policy for 25 cents a month premium and be guaranteed a burial in true stagecoach and six white horses-style. But times—and inflation rates—have changed.

Today, funeral policies do not provide the funeral service but choose to make policy returns in the form of lump sum payouts, and, in some cases, the chance of a discount on such services.

But for an individual who is not aware of the change in policy benefits or the effect of inflation, a funeral policy does not always secure peace of mind.

"The need to educate policyholders has never been greater," said Mr. Marius Smith, general manager, marketing of an assurance company.

Investigations showed funeral costs had increased by 8.8 percent since 1978 and an adult burial could cost as much as R3,200, which many funeral policies, even with accumulated bonuses, could not cover, he said.

The situation was caused mainly by the Insurance Act, which restricted maximum benefits of funeral policies, for example, to R200 in 1961, R300 in 1976 and R1,000 in 1980, without anticipating inflation levels.
Sanctions have failed — De Kock

THE West's economic sanctions against South Africa have failed, the governor of the Reserve Bank, Dr Gerhard de Kock, said yesterday.

The South African economy, far from collapsing under the strain of sanctions and withdrawals by foreign companies, was buoyant, he said.

A cheerful Dr De Kock, who said his golf handicap had gone down as the economy had picked up, gave a bullish assessment of the South African economy in a briefing to foreign reporters.

He said sanctions had not brought the country to its knees or forced the government to end apartheid.

"Sanctions have not turned out to be the quick fix that people thought they would be," he said.

Dr De Kock said he respected the sincerity of people who wanted to end apartheid, but their methods had been counter-productive.

If anything, sanctions had helped slow down the cautious apartheid reforms implemented by the government of President PW Botha in the early 1980s, he said.

The South African economy had been seriously buffeted by a combination of factors this decade, including a wave of black rebellion in the townships, but prosperity was returning after a deep recession, he added.

**Growth rate**

"We are not going to shatter any growth records. We are not going to do a Taiwan or a South Korea.

"But we have done much better than I thought we would."

He said South Africa's real economic growth in 1988 was likely to be around 3% and this could be sustained in coming years. The economy recorded inflation-adjusted growth of 2.6% last year, up from 0.5% in 1987.

Although his overall tone was optimistic, he conceded that a three per cent growth rate was not enough to keep pace with rising unemployment, which is far higher — at least 30% — among the country's black majority than among whites.

He said inflation would decline to about 14% this year from its current level of 14.7%. In a speech to Parliament last Friday, President Botha pinpointed inflation and government overspending as key problems.

Foreign perceptions of South Africa had improved, Dr De Kock said. Fewer people were convinced that this country was about to be engulfed in revolution.

"Confidence is improving every single day," he told reporters. — Sapa-Reuters
Inflation curbs could cut price pressures

CAPE TOWN — Government's intensified action against inflation, which might also include a less accommodating monetary policy, could temper the current upward pressure on prices being experienced because of increased demand for goods and services, says Sanlam in its latest economic survey.

"A further positive factor is the indication that food prices may rise at a slower rate owing to more favourable climatic conditions," said Johan Louw, chief economist. He expected the inflation rate to fall below 15% in 1988, compared to the 16,1% of 1987 and the 18,5% of 1986.

Louw said that the additional steps against inflation instituted by the State President could possibly result in the expected growth rate of 5% not being reached this year.

As regards government finances, Louw anticipated a total revenue of R38,6bn in the current financial year (13% up on 1986/87). State expenditure should total some R48bn, (about 19% more than in 1986/87), compared with 16,2% projected in the main budget. That would leave a shortage before loans of some R9,4bn.

It was no easy task to curb current expenditure of the government substantially in the short term, because of the large amounts required for votes such as education and training, defence and interest on government debt, he said.

Consequently, the emphasis of stricter financial discipline fell in large measure on controlled increases in labour costs. Louw anticipated that the Minister would budget for an increase in total expenditure of no more than 12% in the new financial year.

A deficit before borrowing of some R10,5bn was forecast. That would allow the Minister only limited elbow-room for tax reductions, and he would not doubt consider it advisable to stimulate spending at this stage. Yet some tax reduction for individuals in the form of lower personal income tax should not be discounted, said Louw.

"In our view, it would have several advantages if the minister spelled out more clearly his assumptions in respect of certain important economic variables on which his budget is based. This would place the business sector in a better position not only to determine the possible implications of his budget proposals, but also to put forward deviations from, and adjustments to, the budget into perspective," he said.

Owing to a fairly good export performance and continued low imports, the foreign trade account was showing sustained surpluses. This year's surplus should yield between R8bn and R9bn in comparison with about R6bn for 1987.

"Thanks to the reasonable terms of the second standstill agreement with overseas bankers, the balance of payments as a whole is not yet a serious problem. The difficulties which might arise because of a too rapid growth rate in domestic demand for goods and services must nonetheless be guarded against," Louw said.

However, the ultimate success of these reforms in the economic sphere would depend largely on the co-operation between the public and private sectors — Sapa
Lower personal taxes this year?

CAPE TOWN — The inflation rate this year will probably be kept down to around 15 per cent, but it is unlikely that the economy will achieve the official growth target of 3 per cent, says Sanlam’s chief economist, Mr Johan Louw, in his economy survey for February.

He also predicts that the main burden of containing government expenditure will depend on holding down labour costs.

The government’s intensified action against inflation — which would possibly also include a less accommodating monetary policy — could help to temper the upward pressure on prices, resulting in inflation being brought down to under 15 per cent this year, he says.

“A further positive factor is the indication that food prices may rise at a slower rate owing to more favourable climatic conditions.”

The additional steps against inflation instituted by the State President, Mr P W Botha, could result in the expected growth rate of 3 per cent not being reached this year.

As regards government finances, Mr Louw anticipates a total revenue of R38.8 billion in the current financial year — 13 per cent up on 1986/87.

State expenditure should total some R48 billion, representing about 19 per cent more than in 1986/87, compared with 16.2 per cent projected in the main budget. That would leave a shortage before loans of some R9.4 billion.

“However, to cut back on current government expenditure is not an easy task, in view of the large sums needed for education and training, defence and interest on government debt.”

Mr Louw anticipates that the Minister of Finance, Mr Barend du Plessis, will budget for an increase in total expenditure of no more than 12 per cent in the new financial year.

He foresees a deficit before borrowing of about R10.5 billion. This would allow the Minister only limited elbow-room for tax reductions.

“Yet we believe that a slight tax reduction for individuals in the form of lower personal income tax should not be discounted,” he says.

“In our view, it would have several advantages if the Minister spell out more clearly his assumptions in respect of certain important economic variables on which his budget is based.

“This would place the business sector in a better position not only to determine the possible implications of his budget proposals, but also to put later deviations from and adjustments to the budget into perspective.”

Owing to a fairly good export performance and continued low imports, the foreign trade account was showing sustained surpluses.

This year’s surplus should yield between R3 and R4 billion in comparison with about R6 billion for 1986/87.

“Thanks to the reasonable terms of the second standstill agreement with overseas bankers, the balance of payments as a whole is not yet a serious problem.”

The difficulties which might arise because of a too rapid growth rate in domestic demand for goods and services must be guarded against.

The steps announced — aimed at reducing the role of the government in the economy, bringing about a fairer tax burden and curbing inflation — could be a great help in increasing the growth potential of the economy,” — Sapa
PRETORIA — South Africa’s inflation rate, as measured by the consumer price index for January, is 14.2 per cent, the lowest rate since January 1986, the Central Statistical Service said here.

The monthly rate of increase was 0.6 per cent, down from December’s 0.8 per cent.

The annual rate of increase in food prices slowed to 18 per cent — the lowest since June 1986.

Meat and vegetable prices showed a monthly increase of 2.4 per cent and 1.2 per cent. Large monthly increases were recorded for footwear (2.7 per cent), medical care (3.8 per cent), and vehicles (4.3 per cent) — Sapa.
Inflation plea by accountants

A plea for inflation accounting to be more widely adopted by South African companies was made by Institute of Chartered Accountants president Rick Cottrell this week.

Presenting certificates to successful companies in the annual Institute of Chartered Accountants-Business Times Reporting Awards competition, Mr Cottrell said SA had lived through double-digit inflation for more than a decade. 'The more we learn about the qualitative characteristics of financial statements, and in particular about relevance and reliability and the trade-off between the two, the question whether SA's reporting entities can continue to justify the absence of information.'

He said only about 15 companies judged this year carried sufficient information on the effects of inflation.

The winner's certificate for Anglog Alpha was presented by Mr Cottrell to Trevor Wagner, the company's director of finance and administration.

Other successful companies were Adcock Ingram, Associated Furniture Companies, Barlow Rand, Malbak, Power Technologies, Premier Group Holdings, Pretoria Portland Cement and SA Breweries.

The award for the best report from a non-listed organisation went to Eskom.
DESPITE relatively lower inflation rate figures in the past few months, SA's double figure inflation is unacceptably high, and the impoverishment of the consumer continues.

Salaries are not keeping pace with the rapidly-rising cost of living, and unemployment statistics are reaching disconcerting proportions.

Food inflation is still one of the biggest culprits and needs to be addressed urgently in view of its major contribution to the erosion of living standards.

The recent (slight) drop in the inflation rate to 14.2%, as measured by the Consumer Price Index, is heartening to a degree, but consumers are understandably sceptical and do not see any improvements in their budget balance sheet at the end of the month.

The moderate improvement in the economy and the recommendations of the Margo Commission have, however, stimulated consumer confidence. People are aware that methods of tax avoidance can be employed in the business sector which are not available to the average salary earner. Margo's recommendations have created the hope that a broader tax base will be established.

Many consumers have already accepted that a wider business tax, separate taxation for married couples and a lower sales tax rate will be instituted. They believe the business sector now has "no way out" but to contribute its rightful share to the tax kitty.

The recently-announced Value Added Tax (VAT) will have to be
Retailers agree to help govt cut the inflation rate

CAPE TOWN — Big business, particularly the retailing sector, is cautiously prepared to take government's promises at face value and do all it can to assist in reducing the inflation rate.

Spokesmen for several large corporations canvassed for reactions to government's calls for both the public and private sectors to fight inflation, said they were encouraged by the example displayed by the pegging of wages at 3½% in the '82 budget.

"Government, for once, seems prepared to back up its rhetoric with action," commented OK Bazaars director Allan Fabug. But he warned that government still has a long way to go in narrowing the credibility gap it has with taxpayers over its expenditure promises.

Similar observations came from Premier deputy chairman Peter Wrighton.

He said Premier would do all in its power to assist in reducing the rate of inflation. At the same he warned that it was necessary to be realistic and acknowledge that there was no quick fix.

Wrighton noted that a salary freeze was necessarily only part of a short-term solution and other concerted steps would be necessary.

Executives remained vague on whether any similar form of price and wage pegging was also likely within the private sector.

Fabug, for example, noted that the retail sector was extremely competitive, and both prices and wages were determined by market forces.

Salary and wage scale changes were also not uniformly determined in the private sector, but were tied to the financial year ends of the various corporations.

Pick 'n Pay's Hugh Herman confirmed that price controls were already so tight that retailers had little room to manoeuvre.

"No thought has yet been given to salaries, as these were only reviewed in June prior to the year-end, he said.

Wages levels were also linked to industrial agreements and negotiations between unions and employers.

Disunity

Business is therefore unable to make any unilateral decision on pegging wages as government has done with the public service.

Organized commerce and industry failed last week to agree to a common strategy or response to wages and prices, and this "disunity" is also certain to be reflected in the manner in which different corporations respond to government's anti-inflation appeals.

Public servants and other parastatal employees, who are now threatening to renew their wage demands in July if the private sector does not make similar sacrifices, are unlikely to be in a position to clearly decide by then whether they are alone or not.
Producer inflation rises

PRODUCER inflation rose by 0.4% in January to 11.8% from 11.4% in December. According to figures supplied by the Central Statistical Service the inflation was due to a 1.8% increase on imported goods ranging from 6.7% in December to 8.5%. The index for locally produced goods remained unchanged at 12.7%.

Indications in the Production Price Index (PPI) usually precede the Consumer Price Index (CPI) by two months. The rise in the PPI could mean that consumer inflation measured in March would rise to correspond with the current increase. The increase takes the PPI 0.1% above the figure for November last year. It was lower than January last year when it reached 14.9%, however.

Materials which showed large annual price increases were wool (69.3%), plastic bulk forms (29.5%), stock and face bricks (about 30%).
PRETORIA — The production price index inflation rate for January increased to 11.8 per cent from December's 11.3 per cent, the Central Statistical Service revealed here yesterday.

It was, however, lower than January 1987's 14.0 per cent.

The inflation rate for locally produced commodities was 12.7 per cent — unchanged from November and December.

The index for imported commodities showed an 8.5 per cent increase, compared to December last year's 6.7 per cent.

Materials which showed large annual price increases were wool (59.5 per cent), plastic bulk forms (29.5 per cent), and stock and face bricks (about 30 per cent) — Sapa
Study traces rapid decline of the rand

By Michael Chester

There are wags in economic circles who make the waspish remark that if the Government fails to break the inflation spiral fairly soon, a solution will have become of no more than mere historical interest.

This is because the rand is shrinking so fast it may have disappeared as a problem anyway.

Smiles freeze when one sees the bitter realities behind the quips in a closer study of a new batch of tables prepared by the Central Statistical Service.

Mr APT du Toit, head of the CSS, follows the drop in the purchasing value of the rand and shows how the buying power of R1 at the start of 1988 was 14c compared with 100c in 1970.

An even sharper perspective is given to the dilemma when the statisticians work out the fall of the rand over a couple of generations.

They work out the equivalent of the rand in great-grandpa's days — when its predecessor was in the form of a 16-bob note — and track its demise in purchasing power from 100c back in 1910 to a miniscule 3c today.

The table also follows the acceleration of inflation. It took 20 years — from 1910 to 1930 — for the 100c to erode to 72c. And it was another 20 years before its 1910 value was down to 47c.

By 1970, when the inflation storm clouds started to gather on a global scale, the 100c of 1910 had wilted to 25c.

As an academic exercise, the CSS mandarins restructure the 1970 R1 to restore its purchasing power to a theoretical fall 100c again.
Inflation hits a three-year low

By Sven Lunsche

The year-on-year inflation rate for February 1988 dropped to 13.7 percent, its lowest level in over three years, but economists are sceptical about whether it will fall further over the rest of the year.

February's inflation rate, as measured by the consumer price index (CPI), compares with a rate of 14.2 percent in January this year. The monthly rate of increase from January to February was 0.6 percent, which is the same as that from December 1987 to January 1988, figures released by the Central Statistical Services show.

Food prices showed a significantly lower rate of increase in February, the annual rate of increase for food products was 17.1 percent (18 percent in January).

Food, which was the main impetus for high inflation rate in 1986/7, has since the middle of 1987 been directly responsible for the corresponding declining tendency of the inflation rate.

Analysts expect food prices to continue decelerating over the next few months and to reach below inflation levels next year. But this trend is not expected to bring down the overall rate of inflation.

"It is unlikely that the average for the year will be below 14 percent. The inflation rate could bottom out in March or April and I expect it to rise from then on," says Southern Life economist Mike Daley.

"This is in line with the economic upswing we are experiencing and would also reflect higher producer costs evident in January," he says.

Producer-price inflation rose from 11.3 percent in December 1987 to 11.8 percent in January, thereby halting the slide of declining producer-price increases, leading economists to feel consumer-price inflation will follow this trend.

On the increase in consumer demand over the last year, Old Mutual's Dave Mohr suggests this rise acts with a lag on prices and will eventually push up prices.

He adds "After the re-weighting of the CPI, bond rates make up about 9.5 percent of the index. While higher interest rates are deflationary in the long run, in the short term the recent rise in the bond rate is expected to exert upward pressure on inflation."

But the major source of inflation is likely to be the weakening rand, which could fall further as the monetary authorities allow it to drop in order to boost the balance of payments.

Mr Daley says the cost of the representative currency basket over the last year has risen by about eight percent and is likely to rise further.

"The depreciation of the rand against all currencies will inevitably lead to higher inflation from this source," says Mr Mohr.

Interest Rates On...
Further drop in inflation

CONSOMER inflation in February continued its declining trend with a year-on-year rate of 13.7% compared with 14.2% for January.

But the seasonally adjusted figure shows the year-on-year rate obstinately sticking to a rate of 14% — the average rate of consumer inflation forecast by several economists for 1988.

Annualised, the rate of the past quarter (December to February) arrives at an inflation rate of 9.8%, substantially lower than the year-on-year rate with changes in the month-to-month annualised rate going to 9.8% from 11.2% in January.

February summer sales should have been the reason for the dip in the February consumer price index (CPI). But clothing and footwear increased on a month-on-month rate from 19.8% in January to 19.8% in February — showing a resistance to move from the 20% level it has averaged in the eight months to February.

The same is true for meat prices, which showed an upward tendency from 24.8% in January to 24.8% in February.

Food, which showed a decline in the year-on-year rate to 17.1% compared to 17.9% in January, increased according to the year-on-year rate and from 1% to 2.4% in the short and 30.7% to 32.8% in the long run.

Inflation still on a gradual downward path

the medium term indicator. The main culprits in keeping the rate high is attributed to condiments — pepper rose by 15.1% and jam by 8.4% while fruit and vegetables decreased by 4.4% and 2% respectively.

Housing was stable, with no change in the month-on-month average of 0.3% in January and February. But when the bond-rate increases that came into ef-
Inflation rate down but high food prices cause for concern

Political Staff
GOVERNMENT and Opposition spokesmen expressed their pleasure at the latest fall in the inflation rate today, but said they were concerned about the high rate of increase in food prices.

They were reacting to official statistics which showed the annual inflation rate drifted down to 13.7 percent last month.

The food price index was 17.1 percent higher than a year ago — down slightly from the 18 percent rise in January and the 21.8 percent rise in February 1987.

Finance Minister Mr Barend du Plessis said today he was obviously pleased that the downward tendency of inflation was continuing.

He said: "But I am disturbed by the fact that the rate of increase in food prices remains stubbornly high, even though that has to be understood in the present agricultural circumstances."

Mr du Plessis said the Government hoped that through the necessary fiscal and monetary discipline it would be able to continue its contribution towards bringing the inflation rate down further.

ANTI-INFLATION

Although it was too early to say, the Government's recent new anti-inflation policy had contributed to the fall in inflation, Mr du Plessis said. The latest figures underscored that it had acted at the most opportune time to bring inflation down.

CP spokesman on economic affairs Mr Clive Derby-Lewis said: "While it is encouraging to see the general rate of inflation moving down slowly, the inflation of food prices, which particularly hits under-privileged people, is coming down too slowly."

"We want the Government to launch an inquiry into the reasons for the unreasonable increases in food prices and any possible price collusion in the food industry."

PFP spokesman on consumer affairs Mr Harry Schwarz said: "Unless the Government's anti-inflation initiative continues I do not think inflation will continue to come down."

"There is a real risk that things can go wrong, especially if the rand weakens and the prices of imported goods go up."

"I do not think the man in the street has yet felt the effect of inflation coming down because food prices are still rising substantially. The price of accommodation is also going up at a high rate."

Mr Schwarz urged consumers to be especially careful of the greatest trap in the market place — loss leaders in supermarkets.

He said supermarkets enticed consumers into their shops with the lure of cheap prices on a few loss leaders, then shoppers wound up spending somewhat more on a range of other products which they bought on the premises for the sake of convenience.
Inflation Down

By Lawrence Tottle

LAST MONTH SAW A MARKED

INCREASEMENT IN EARNINGS

BECAUSE OF A DIRECTLY

RELATED TO THE TURNOVER

OF MANUFACTURING.

CONSUMERS PLEASURES

SHOULD BE INCREASED IN THE

NEXT MONTH, THE BUDGET

PRINTS A 10% INCREASE IN

THE COST OF LIVING.

According to the latest figures, the cost of living increased to 10% in the last quarter, marking a significant rise in consumer prices. This is due to the ongoing economic conditions and the rising costs of goods and services. Inflation rates have soared, affecting the purchasing power of the average consumer. With wages lagging behind the increase in prices, it becomes challenging for individuals to maintain their standard of living. The central bank has been monitoring the situation closely and is likely to adjust monetary policies to mitigate the effects of inflation. As a result, individuals and businesses are urged to plan accordingly and adapt their strategies to overcome the challenges posed by rising inflation rates.
SA inflation rate down

from 11.3 per cent in January
eight months to February.

The same is true for meat prices which showed an upward tendency from 24.5 per cent in January to 24.9 per cent in February.

The Reserve Bank's targeted growth in money supply should keep the variance in consumer inflation within the 14 per cent range — at least within the first half of the financial year — DDC
CPI: EL inflation rate one of lowest in SA

PORT ELIZABETH — The inflation rate of the Port Elizabeth-Uitenhage area, as measured by the consumer price index (CPI), last month moved above the weighted average of the 12 major urban areas monitored by Central Statistical Service.

The CPI annual increase for the Port Elizabeth-Uitenhage area last month was 14.7 per cent after a monthly increase of 0.9 per cent from January to February. The weighted average increase was 13.7 per cent after a monthly rise of 0.7 per cent.

While the weighted average annual increase was down on the previous month's 14.2 per cent, the annual increase of the Port Elizabeth-Uitenhage area was up on January's 14.4 per cent.

The area's inflation rate would have been higher had it not been for the inhibiting effect of slower rising housing costs. The index for all items except housing, rose at an annual 16.5 per cent, boosted by a 20.3 per cent increase in food prices, the second highest after the 26.3 per cent of the Klerksdorp goldfields.

Bloemfontein recorded the lowest inflation rate—10.9 per cent, followed by the Cape Peninsula and Pietermaritzburg each with 13.1 per cent after a monthly rise of 0.6 per cent.

The third lowest increase was the 13.2 per cent in the Vaal Triangle, followed by 13.6 per cent in East London, and 13.8 per cent on the Witwatersrand.

The highest inflation rate of 15.3 per cent was on the Free State Goldfields, followed by 14.8 per cent in the greater Pretoria area, 14.7 per cent each in Port Elizabeth and Kimberley, and 14.1 per cent on the Klerksdorp goldfields.

The CPI cannot be used to compare living costs between various areas— it only shows price increases in each area which operate independently of other areas — DDC
SO accustomed have South Africans become to double digit inflation that when the inflation rate falls below 14 percent it's greeted with some joy.

Some of South Africa's major trading partners would regard a figure of five percent with consternation.

But in this part of the world an inflation rate of 13.7 percent — the February figure released last week by the Central Statistical Services — compares favourably with the average 18.6 percent increase in the consumer price index recorded for 1986 and the 16.2 percent last year.

Chances are though that inflation won't keep dropping for the rest of 1988, although it may continue to decline over the next couple of months. Economists are predicting an average inflation rate of between 14 and 15 percent for this year — and that assumes no major shocks to the economy.

Increased domestic demand as the economy grows, and a fall in the rand's value, are likely to push up prices later this year.

Souring inflation two years ago was caused in large part by the sharp fall in the value of the rand against foreign currencies. As the rand has stabilised over the past year, so price rises of imported goods have slowed.

Wholesale price inflation on imported goods was 9.7 percent last year compared with 22.6 percent in 1986, while the wholesale prices of locally produced goods went up by 13.9 percent last year compared with 19.6 percent in 1986. Wholesale price inflation, reflected in the producer price index, stood in January at 11.8 percent — a slight increase on the December figure.

But the rand's value has been falling and downward pressure is likely to continue this year.

The rand has fallen against the dollar from 52c to 46c (using the old way of quoting it) in the last three months — a decline of 10 percent.

Increases in other administered prices have also been held back: railway tariffs and petrol, for example.

February was the fourth month in which the CPI rose by less than one percent over the month, the fall in inflation neatly coinciding with the government's intensified anti-inflation drive.

It also coincides with the change in the way the CSS has calculated the CPI since November, which makes it difficult to assess how much inflation really has slowed down. Food's weighting is down in the new index.

The government is presumably trying to curb the vicious cycle of inflationary expectations which breed more inflation, so it's sure to be pleased with the latest inflation figures.

Indeed, the government is already using the figures, saying it's had some sort of success in curbing inflation.

The government is also trying to show the public that inflation is under control.

However, there are still many sceptics who believe that inflation is still too high and that the government is not doing enough to control it.

The government has come under pressure to do more to control inflation, and some economists believe that the government is not doing enough to control inflation.

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The government is also trying to show the public that inflation is under control.
The fall has been marked against the currencies of other major trading partners. In the six months to the end of February the rand had fallen by 11 percent against the Japanese yen, nine percent against the British pound, 8.5 percent against the Deutschmark, and 2.2 percent against the dollar.

It could fall further as South Africa’s balance of payments position worsens, which it definitely will if exports are falling because of a decline in world demand. Imports are rising, as a result of increased domestic demand. The trade surplus, which was R5-billion last year will be closer to half of that this year.

The government’s concern to pay off its foreign debts in terms of the deal done after the 1985 debt crisis requires an estimated surplus of at least R7.5-billion (even if this means sacrificing economic growth).

Another key factor will be the course of the gold price, always an risky thing to predict. But world gold production has been rising and manufacturers’ demand for the metal decreasing. Gold is not greatly in demand as an investment at present. And it probably won’t be in great demand as a hedge against inflation either, since inflation prospects for the big industrial countries do not look too bad.

All of this is not good for the gold price and therefore doesn’t make the rand a very desirable currency.

The question is how far down the rand will go. Predictions range from 46c down to as low as 40c.

It is likely though that the price of imported goods will be going up and so will inflation. More expensive imports push prices up for all consumers, not just those who buy imported luxuries, because so much of South Africa’s plant and machinery are imported, as are some of its raw materials.

Domestic demand for goods and services, expected to continue growing this year, will also put upward pressure on prices as shortages develop. One example is motorcar prices: vehicle prices rose by 23.8%
There IS a chance to control inflation

So accustomed have South Africans become to a high and rising inflation rate, that dramatic drops in that rate are discarded by economists as "untrue and unbelievable", as reported by a major financial magazine this week.

Further distrust is found in the country's capital market, where rates refuse to come down despite the drop in the Consumer Price Index to 13.7 percent in January. At present, most major capital market rates are around 16.5 percent, with analysts predicting further rises.

Some cynicism over South Africa's inflation rate is understandable, but this time around I give a little credence to Government's determination to bring it down.

I think the State President has finally been convinced that we cannot afford a higher inflation rate than that of our major trading partners.

For nearly nine years South Africa's inflation rate has tended to be higher than that in Britain, West Germany and Japan.

The only way to protect our exports to these countries was to reduce our exchange rate. But this was only a short-term measure. Ultimately, the root cause had to be addressed.

Inflation can be reduced in various ways, but socio-political costs would have been inordinately high in our context.

To tackle the high inflation rate during the turbulent years of 1985 and 1986 would have been tantamount to feeding the flames of unrest.

To cut Government expenditure while the private sector was cutting back would have steepened the downturn and boosted unemployment and bankruptcies.

However, the improvement in the economy now presents Government with the opportunity to reduce the State's share in the economy.

As a contribution to reducing inflation, the Government has decided against a general increase in wages and salaries. Private sector leaders have also been asked to temper salary and wage increases.

The cumulative effect of the general tariffs standstill by the Department of Post and Telecommunication, Eskom and the Department of Transport must not be underestimated.

Furthermore, the slowdown in food price increases in recent months will add to the disinflationary climate, making an inflation rate of below 12 percent a strong possibility.

A year ago many economists predicted higher inflation.

A top economist Mr. Louie Geldenhuys this week said an average inflation rate of below 14 percent for the next two years was likely.

Not so long ago he was warning against "hyper-inflation".

South Africans should all welcome this slowing down in the inflation rate, but is it possible to get the rate below 10 percent?

This depends on a myriad factors, some not entirely under control of Government or the Reserve Bank.

A strong and rising exchange rate would help shield the South African economy against "imported-inflation". This would help make imports cheaper but would threaten exports.

We could improve national productivity, but that is a long-term route.

The answer for Government to maintain discipline when spending taxpayers' money is to reduce the growth of the public sector's share of the economy.

Government expenditure has looked uncontrollable. Now, however, there seems to be a fresh breeze in the corridors of power. State President Botha has committed himself to reducing the inflation rate.

Finance Minister Barend du Plessis seems to have gained much political clout in recent months, which previous Finance Ministers seemed to lack.

He too can now crack the whip.

Events in this fiscal year will be vital to our inflation future. Not for a long time have so many favourable circumstances existed. The ball is in your court, Barend.
Govt wants inflation brought below 10%:

DURBAN — The government appears determined to reduce inflation to below 10% within the next three years, Alec Rogoff, president of Assocom, told a Chamber of Commerce meeting here last night.

"The national organization had talks with the State President, cabinet members and MPs and told their audience that the economy required stable growth and not a "stop and go" situation.

"The success of the budget will depend on government's ability to contain expenditure," Rogoff said.

"If government spending was not contained and the budget deficit rose above R10bn, there would be increased pressure on interest rates and inflation."

He hoped that the government's efforts were successful, as "this will be vital for stable economic growth."

Assocom had forwarded its views on deregulation and "privatization" and noted the phenomenal growth and impact on the economy of the black taxi industry. Kombi-taxi's were the forerunners of a veritable avalanche of small business enterprises that "are going to get it moving beyond the wildest dreams of our economic planners."

Rogoff said the Kwazulu-Natal and the JEA had to be seen together and "how logical it is that the two should join hands for efficiency."

FRIDAY, APR
Consumers have more to spend

SVEN LUNSCH

Consumers are back on their feet again, after their financial position took a serious knock during the recession, and their spending spree is helping to support the current economic recovery.

This is confirmed by statistics which show that the pay-pockets of the consumer improved considerably. Personal disposable income improved by 19.3 percent, or three percent in real terms last year, which is the biggest increase since 1980.

Remuneration of employees was up 17.4 percent; income from properties of households surged by 27.6 percent and the increase in direct taxes was lower than the increase in current income.

According to Volkskas economist Adam Jacobs the average propensity to consume remained constant at 96.7 percent in 1987, "which indicates that from a macro perspective individuals did not use additional credit to finance their expenditures on a net basis for the year."

"We suspect that credit could in fact have contributed to the large acceleration in expenditure by individuals in the last quarter of 1987," Mr Jacobs adds.

His proposition is confirmed by retail sales figures released recently. Much of the recent growth in sales came from a pick-up in spending on durables, with spending on furniture and household appliances rising by 10.5 percent and car sales soaring by 30 percent in February this year over February 1987.

Total bank credit extended in the 12 months to end-January was almost 16.3 percent up, with much of the growth coming from hire purchase credit — up 17 percent.

Says Adam Jacobs "Salaries of employees are unlikely to increase again by 17.4 percent. An increase of 13 percent, given a one percent increase in employment, would probably be closer to the truth bearing in mind the restrictions requested in respect of salaries and wages.

"Income from property, which benefited last year from the good performance of insurance company assets on the JSE and is regarded as income from property for individuals, is not likely to show such a large increase again," Mr Jacobs says.
799 Mr C J DERBY-LEWIS asked the Minister of Finance

What was the official inflation rate for each year from 1977 up to and including 1987?

The MINISTER OF FINANCE

\[
\begin{array}{|c|c|}
\hline
\text{Year} & \text{Rate} \\
\hline
1977 & 11.0 \\
1978 & 11.0 \\
1979 & 13.2 \\
1980 & 13.8 \\
1981 & 15.2 \\
1982 & 14.7 \\
1983 & 12.4 \\
1984 & 11.5 \\
1985 & 16.3 \\
1986 & 18.0 \\
1987 & 16.2 \\
\hline
\end{array}
\]

Salaries no longer market-related

801 Mr C J DERBY-LEWIS asked the Minister of Communications

Whether the research which showed that the salaries of certain employees of his Department were no longer market-related, as referred to in his reply to Question No 540 on 7 October 1987, was carried out prior to the granting of salary increases to employees who participated in illegal strikes shortly before, if so, (a) on what date (b) why and (c) what was the amount of the subsidy, in each case.

The MINISTER OF COMMUNICATIONS

Yes,

(a) (i) at the beginning of August 1987, and
(ii) 10 October 1987, and
(b) because it is not always possible in the system of job differentiation where evaluations are made periodically, to ensure that salaries continue to remain market-related

Printing contracts awarded to two companies

841 Mr D J DALLING asked the Minister of Justice

(1) Whether his Department awarded any printing contracts in 1987 to two companies, the names of which have been furnished to the Commission for Administration for the purpose of the Minister’s reply, or to their associated companies and printing operations, if so, (a) in respect of what publications or printed matter, (b) how many copies of each publication or item were ordered from each company and (c) what are the names of the companies concerned,

(2) whether these contracts were put out to tender, if not, (a) why and (b) what was the total amount paid by this Service in respect of each of these contracts, if so, what was the (i) tender price originally accepted, and (ii) total amount paid out in respect of each contract,

(3) whether this Service subsidizes any publications published by the above companies, if so, (a) which publications and (b) (i) why, and (ii) what is the amount of the subsidy, in each case,

(4) what total amount was spent by this Service in 1987 on printing and publishing involving (a) the above companies and (b) any other specified companies?

The MINISTER OF JUSTICE

(1) No

(a) (b) and (c) fall away

(2) Falls away

(3) No

(a) (b) (i) and (ii) fall away

(4) Falls away

Extension officers

114 Mr R W HARDINGHAM asked the Minister of Agriculture and Water Supply

(1) How many posts for extension officers are there in his Department?

(2) whether all of these posts have been filled, if not, (a) why not and (b) how many such posts were vacant as at the latest specified date for which information is available?

The MINISTER OF AGRICULTURE AND WATER SUPPLY

(1) 177

(2) No

(a) Training requirements and associated high demands put to the departmental extension service

(b) 52 on 1987-12-31
PPI shows a 12.2% increase

Prices on the move up again

HELOISE HENNING

Rises in producer prices are accelerating according to the latest producer price index (PPI) and will eventually filter through to consumer prices.

The PPI increased by 12.2% in the year to February according to figures released yesterday compared with 11.8% in January.

And monthly increases point towards an upward trend, with an increase of 1.6% in February from January coming after a rise of 1.2% in January from December's 0.5%, when a bottom was reached.

The high monthly increase for February stems from a 1.8% rise in SA-produced goods (1.3% in January) and a 1% upward movement in prices of imported goods (1% in January).

Economists say the rise in producer prices is calling concern, especially given that the rand-exchange rate has weakened in March, which points to even sharper future increases.

It was in March that the rand-exchange rate depreciated sharply against third currencies, especially the British pound.

Imported goods do not include only products which go straight on to the market but also raw materials and intermediate products used by SA manufacturers.

Although a large volume of SA's trade is dollar priced, other imported goods are priced in currencies such as the German mark, the Japanese yen, British sterling and the Italian lire, all of which have appreciated sharply against the rand.

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Prices are set to move up once again

The changes in producers prices usually lead consumer prices by two months. This could result in higher costs to consumers in the first half of the year whereas economists believed consumer prices would only increase nearer the end of the year.

The increases in the prices of locally produced goods are heavily influenced by the imported content in local manufactures.

These do not include only the motor industry and electronic components but also raw materials such as rubber, chemicals and textiles.
Money-supply growth ‘causes inflation’

GROWTH in money supply is the root of inflation, says Wits University economist Richard Grant. He believes inflation can be stopped only by the Reserve Bank holding back money-supply growth.

Grant says a growing money supply weakens the rand and distorts the economy with low interest rates.

The Reserve Bank's monetary policy is aimed at prolonging the economic upturn, but a burgeoning economy will drive up interest rates beyond the current rate of inflation and lead to an inevitable recession.

Grant, a disciple of the Austrian school of economists, says an early recession would be a necessary correction for the future good of the economy, as it would help it rid itself of a misallocation of resources.

"The sooner recession comes the better," says Grant. By trying to hold it back, the authorities only make matters worse in the end.

"Continuing to print money to boost...

HELIOSE HENNING

The Reserve Bank's monetary policy can show superficial GDP growth while the inner structure of the economy is being distorted.

"Low interest rates plus high inflation have induced malinvestment and have reduced savings. Consumers overspend, inducing suppliers to overstock or overproduce.

"When the economy reasserts itself, interest rates are pushed beyond the expected inflation rate.

"High interest rates make it unprofitable for investors to complete expansion projects. They lay off workers and scrap machinery, often imported at great capital expense. This eventually leads to recession."

He suggests the way out of high inflation and rising interest rates is to curb money supply more stringently and to deregulate the economy. Regulations distort the economy, preventing it from adjusting quickly to shocks, says Grant.

Grant says the growth in money supply automatically affects the exchange rate, the rand falling against major currencies. This depreciation is in effect caused by printing too many rands, and not by the strength of other currencies.

When the rand lost ground earlier this year, the Reserve Bank was protecting the current account surplus from being whittled away. A lower rand would also curb import demand and make exports more competitive. But, says Grant, it is detrimental to the economy and tantamount to paying exporters a subsidy.

Blaming inflation on imported costs or on the exchange rate comes from a misconception, says Grant. Price inflation follows and does not precede growth in money supply.

This year the Reserve Bank has targeted money supply — as measured by the broad measure M3 — to be between 12% and 16% above the previous year. Reserve Bank economists believe inflation should not rise above 14%. Grant agrees...
The consumer confidence index among whites jumped 10 points during the first quarter of 1988 to reach 120 — one of the highest levels since 1930.

However, Stellenbosch-based Bureau for Economic Research (BER) director Ocké Stuart said government's wage freeze on civil-service salaries was likely to impact on spending trends.

Commenting on the BER's latest analysis of consumer attitudes, Stuart said: "It is unlikely the powerful confidence being experienced will fade away, but the unavailability of additional disposable income must be taken into account.

"As a result, we can expect that more consumers are going to be willing to incur debt in the months ahead."

Stuart noted that in 1987 nominal disposable income increased by 19.3%, the

Consumer confidence index takes a jump

biggest annual increase since 1980. After-tax income for many consumers would probably decline in real terms in 1988.

He said: "However, there is a general expectation of a compensatory rise in public salaries to come next year; and this, with the fact that credit is still freely available, supports a swing to credit as a mode of consumer pay."

On a more sombre note, Stuart warned that prices were set to rise over a wide spectrum of goods in the next three months.

He was referring to another BER survey which polled wholesalers and retailers in industries ranging from textiles and food to electrical appliances and raw materials for agriculture.

Retail areas expected to experience the fastest price increases included furniture, household appliances, machinery and equipment.

Stuart said: "Respondents were almost unanimous in their expectation that prices would rise between April and June. The prices of building materials and hardware, in particular, are expected to rise fairly sharply."

There were also signs that non-consumer goods would show faster price increases than other sectors.

Sales had been lively across a wide spectrum of sectors in the first three months of the year.
COMMENT

Go for growth

The most worrisome feature of the South African political scene is that politics, after a decade of economic stagnation, is becoming increasingly a competition for resources.

This is not the place to cite all the evidence of emerging class conflict— to compound race conflict — but it is plain for all to see that tensions are rising between workers and capital, between trade unions and the unemployed, between public sector and private sector, between manufacturers and traders, between various classes of taxpayers, and so forth.

The reason is that they are all fighting for a bigger share of a shrinking pie. Politics has become to a large measure a debate about the redistribution of wealth, while the need to create that wealth is either taken for granted or dismissed as being impossible to achieve in the face of sanctions.

The case for seeking answers to social problems through rapid economic growth can be reduced to very simple terms: a growth rate of 7% a year sustained for 10 years would double the available wealth in the country. Without any redistribution at all, even the poorest classes might be twice as well off in 1998 as they are today. In theory, it is quite feasible for this country to grow at a rate of 7% a year. Other countries have easily achieved such rates, and Japan has managed 10% or more. So has Brazil. No analogy is perfect, but at least South African debate should begin with the assumption that this country can double its wealth by the end of the century.

The alternative argument — the argument which has prevailed in government circles for the past decade — is that social tensions must be defused by spreading the existing wealth as widely as possible. Government's attempts to do so through the tax mechanism, though partial and inept, have nevertheless — as Saambou MD Christus Kuhn remarked earlier this week — had a debilitating effect on the economy. The very poor have become poorer, the very rich have emigrated, and those in the middle have become angry. Except for odd individuals, hardly anybody has doubled his wealth in 10 years. We are not redistributing wealth, but poverty.

If the past decade has shown anything at all, it is that government cannot with the best will in the world reduce poverty, nor create jobs, nor build houses for the homeless, nor allocate resources effectively, nor create wealth. Government, by its nature, is a net consumer of wealth.

The time has surely come for a national symposium—a continuing symposium of quarterly meetings, perhaps, with a small secretariat to keep the debate moving — to identify the actions required to achieve a 7% annual rate of growth. If it does no more than educate South Africans to the political possibilities that would be unlocked by such growth, it would already offer an alternative to the bleak prospect of ever-intensifying squabbles for a bigger share of a diminishing pie.

Killing competition

Everybody knows that apart...
Lower rand fuels inflation fears

JOHANNESBURG — The position of the rand this year was far more tentative than during 1987 due to the worsening of the current account position, states First National Bank in its latest foreign exchange review.

It says the policy favoured a lower rand to discourage imports and encourage exports. The more constrained Reserve Bank intervention was evidenced by the lower rand/dollar exchange rate which could break through its major support at R2.1600 soon.

Since the changeover in the quotation system, the rand had seen a steady decline against the dollar as well as other major currencies.

The bank pointed out that the decline of the rand on the trade weighted basis was beginning to ring warning bells of rising inflation as the cost of foreign imports rose.

The trade weighted rand which averaged around R2.00 (35 US cents) during December 1987, was currently closer to the R2.800 (35 US cents) level. This represented a 30 per cent decline which must at some time impact on the inflation rate through the import component of the producer price index.

Medium-term sentiment towards the rand was bearish with most traders expecting the unit to lose more ground over the period from April to December 1988. — Sapa
PW threatens tough new action

Business fears confrontation with Government

By Michael Chester

Business leaders expressed fears last night that President Botha had set the Government on a new collision course with the private sector by accusing industry and commerce of ignoring his appeals for co-operation in the battle against inflation.

Mr Botha has threatened to retaliate with new legislation.

Businessmen were especially concerned about the methods planned in the implementation of the Control of Harmful Business Practices Bill that the Government has drafted with assurances it will increase competition between business rivals and, in turn, provide more protection to the consumer.

But a spokesman for the Consumer Council, Mr Paul Roos, welcomed the move and said the council had been looking for similar legislation for many years as consumers needed protection.

It is understood that the Government plans to impose fines as high as R200 000 and/or jail sentences of up to five years on businessmen found guilty of infringements.

The Association of Chambers of Commerce and Industry said business had been aware that the Government intended to push ahead with the new legislation, but was still in the dark about the final details.

Its preliminary reaction, said a spokesman, was to stress that while Assocom believed in the protection of the consumer, legislation should take care not to damage the high levels of business confidence that had emerged in recent months.

"We regard the proposed power to summarily restrict or even close down a business as drastic," he said.

Mr Hennie Vrijen, the new president of the Witwatersrand Chamber, said adequate consumer protection was already guaranteed under the existing Trade Practices Act, the Competition Board and other mechanisms.

The Chamber, he said, contended that the long-term interests of the consumer were best guarded by the free market system — not, as now planned, to empower the Government to fix and control prices.

The Congress of SA Trade Unions (Cosatu) said Mr Botha's suggestion was an attempt to "make the working class pay for the failures of the political and economic system".

Cosatu spokesman Mr Frank Mentejes said enforcing a wage freeze would be "disastrous".

"This has already led to widespread opposition in the public sector. Workers in the private sector will never accept a wage freeze.

Director of the Consumer Council Mr Jan Cronje said the council had long been pushing for similar legislation and was overjoyed that it had had positive results.

The council regarded the announcement as a positive move towards economic reform.

Mr Botha told Parliament yesterday that the business sector had ignored his appeals to co-operate in the fight against inflation.

As a result of the lack of co-operation, "other means will have to be considered to assist in combating inflation."
Business community accused of failing to fight inflation

Political Correspondent
CAPE TOWN — The State President, Mr P. W. Botha, has expressed his displeasure with the business community for failing to respond to his appeals for wage, salary and price restraint in an effort to combat inflation.

Mr Botha stressed that the government had no alternative but to consider imposing other mechanisms via legislation to compel the business community to tow the line.

He indicated that one such legislative instrument was the draft Control of Harmful Business Practices Bill, now being circulated for comment.

Mr Botha said during his budget vote in the House of Assembly that this legislation would make it possible to take fast and effective action against persons who make themselves guilty of harmful business practices, thus protecting the consumer against exploitation.

Mr Botha said the reaction from the private sector, since he made his appeal in February, was disappointing.

Although he had received a few letters of support for his economic initiative, it seemed from media reports that the private sector would be granting general increases of 13 to 16 per cent.

In what was seen as a clear reference to Pick ’n Pay’s chairman, Mr Raymond Ackerman, Mr Botha added, “It is also strange to receive a letter from a leading businessman in which he declares his wholehearted support for combating inflation and (then) to read in the financial press afterwards that he granted salary increases of up to 29 per cent.”

Mr Botha said that in letters he received from the general public, serious doubt was expressed about the willingness of the private sector to co-operate.

"An evident and concrete quid pro quo is demanded from the private sector in exchange for the sacrifice by, among others, public servants,” the State President said.

He concluded that it had become evident that this would not come about by means of persuasion or voluntary teamwork.
PW hits out at business community

Staff Reporter

President P.W. Botha yesterday expressed strong displeasure with the business community for failing to respond to his appeals for wage, salary and price restraint in an effort to combat inflation.

In view of the apparent absence of voluntary co-operation from the private sector on this score, Botha stressed government had no alternative but to consider imposing "other mechanisms" via legislation to compel the business community to toe the line if it would not do so through persuasion.

He indicated that one of these legislative instruments was the draft Control of Harmful Business Practices (HRP) Bill now being circulated for comment.

Speaking during his Budget vote in the House of Assembly, Botha said this legislation would make it possible to take fast and effective action against persons guilty of harmful business practices, thus protecting the consumer against exploitation.

Botha said that the reaction from the private sector since he made his appeal in February had been disappointing. Although he had received a few letters of support for his economic initiative, it seemed from media reports that the private sector would be granting general pay increases of 15% to 16%.

Botha added: "I also find it strange to receive a letter from a leading businessman in which he declares his whole-hearted support for combating inflation and then to read in the financial press afterwards that he granted salary increases of up to 28%"

"In spite of the positive letters received from businessmen, the question arises unvoluntarily whether this is all just lip-service?"

Botha said that in letters he had also received from the general public serious doubt was expressed about the willingness of the private sector to truly co-operate.

"An evident and concrete quid pro quo is demanded from the private sector in exchange for the sacrifice by, among others, public servants," Botha said.

"To my disappointment it is becoming increasingly evident that this quid pro quo will not come about by means of persuasion or voluntary teamwork," he concluded.
Price-control Bill worries big business

by DICK USHER
Weekend Argus Reporter

BIG business is deeply concerned about the possible introduction of price-control measures in proposed legislation.

Both the Federated Chamber of Industries (FCI) and the Association of Chambers of Commerce (Assocom) have reacted strongly to the proposed Control of Harmful Business Practices Bill and to remarks made by President Botha this week that the business sector had failed to co-operate in the fight against inflation.

Assocom said it had been "supportive of both the principle of consumer protection and the Economic Advisory Council’s anti-inflation plan.

"There also appears to be uncertainty in the business community as to the precise purpose of the proposed Bill,” said the association in a statement.

The president of FCI, Dr Hugo Snyckers, said the chamber had read Mr Botha’s parliamentary statement with concern.

"The chamber has already expressed support for the initiatives taken to combat inflation and it agrees with the role that competition plays in this," Snyckers said.

"We have deep concern, however, over the extremely wide-ranging and arbitrary powers conferred on the Minister of Economic Affairs in the first draft of the Bill, on the vagueness of many definitions and certain other aspects," said Dr Snyckers.

Beyond these official statements, it is understood that the proposed Bill is viewed with alarm in business circles as it could be an instrument for price control.

According to Mr Michael Boyes, president of the Cape Town Chamber of Commerce, it gives the Minister the power to fix prices, dissolve businesses and declare certain business practices unlawful.

"In his recent Budget speech, the Minister of Finance again reiterated that price control was not an acceptable option.

"We cannot understand how the Government can propose a new instrument for price control," he said.

Assocom and the FCI have been consulted on the Bill.

In an earlier statement, Assocom said although it believed in the protection of the consumer, legislative steps to achieve this should not damage business confidence.

"The proposed use of price control ran counter to the philosophy of deregulation, it said..."
ASSOCOM, FCI voice concern at PW's private sector attack

JOHANNESBURG — Both the Association of Chambers of Commerce and Industry (ASSOCOM), and the Federated Chamber of Industries (FCI), have expressed concern at remarks made by the State President in Parliament.

They were referring to Mr Botha’s statement that the private sector had failed to respond to his call for price and wage restraint in order to combat inflation.

The FCI said it had already expressed support for the initiatives taken to combat inflation and agreed with the role that competition plays in this.

“We do, however, have deep concern over the extremely wide-ranging and arbitrary powers conferred on the Minister of Economic Affairs in the first draft of the new Prohibition or Control of Harmful Business Practices Bill, on the vagueness of many definitions and of certain other aspects of the proposed legislation,” the FCI said.

Business confidence is not enhanced by uncertainty,” ASSOCOM said it had been supportive of both the principle of consumer protection as well as the Economic Advisory Council’s proposed anti-inflation plan.

“There appears to be misunderstanding as to both the implementation of the anti-inflation plan, as well as about the nature of the commitment from the private sector on prices and wages.

“There also appears to be uncertainty now in the business community as to the precise purpose of the proposed control of harmful business practices bill, which is still under discussion with organised business”.

It said it was seeking urgent interviews with the Minister of Finance and the Minister of Economic Affairs and Technology to clarify the situation as soon as possible.

“The association hopes that such discussions will promote a useful exchange of views on these important subjects.”

The chairman of Pick ‘n Pay, Mr Raymond Ackerman, has reacted to speculation that he was the businessman that Mr Botha was referring to as having written expressing support for anti-inflation measures and had then granted excessive wage increases to workers.

Mr Ackerman said that, if he was the person referred to through innuendo, he would like to meet Mr Botha face to face and discuss the matter.

He believed he had acted absolutely correctly.

Pick ‘n Pay’s recent wage settlement was responsible and reasonable.

He said Mr Botha should realise companies dealt with unions and, in any event, he was not prepared to have employees earning wages which did not allow them to live comfortably.

On Mr Botha’s stated intention to increase competition, Mr Ackerman said the best place to start would be to deregulate the sale of petrol and wine, the importation of TV sets, and the baking of bread.

“This would benefit the consumer immediately. He added he had spent his life fighting inflation, through fighting cartels and monopolies.

It was a great pity Mr Botha was putting up barriers between business and government in economic matters.

Economic growth was a key factor in resolving South Africa’s social problems and a united approach was necessary.”

— DDC-SAPA
Inflation coasts downhill, but a sharp rise looms ahead

THE inflation rate has dropped, but if trends in the money supply are an indication, we should expect it to rise again later this year.

Year-on-year consumer price inflation eased to 13.4 percent in March after falling from 14.2 percent in January to 13.7 percent in February. This looks good compared with March last year, when the year-on-year inflation figure stood at 16.8 percent.

A major reason the inflation rate has slowed is a slow-down in the rate of food prices. Food prices make up about 23 percent of the "basket" of goods comprising the consumer price index, if food is excluded, the CPI increased by only 12.1 percent in the year to March. But these figures should not lull consumers into believing concerns over inflation are a thing of the past.

This week also saw the release of the money supply figure M3: all deposits with banks and building societies as well as cash in circulation. The growth figure was way above the Reserve Bank's target range of 12 to 16 percent. M3 surged by 22.6 percent to R99.69 billion in March. February's increase was 19.35 percent.

In the words of the Reserve Bank (in its March 1986 Quarterly Bulletin): "An increase in the monetary base was followed, with a lag, by an increase in consumer prices, whereas a decline in the growth rate of the monetary base preceded a deceleration in the rate of increase of consumer prices."

The historical evidence implies in a few months' time we will begin to see this large growth in M3 begin to pull the inflation rate upwards.

This suggests a counter-argument to the idea that M3 should be controlled in an attempt to curb inflation. Because of the very nature of M3, the Reserve Bank can never exercise total control over it. M3 is really a reflection of choices in the financial market place; it reflects what people choose to do with their money (or their access to credit).

On the other hand, M0, which includes notes, coins and deposits at the bank, is directly controllable. If the Reserve Bank so wished, it could reduce the growth of M0 to zero.

But it is naïve to say no longer printing money one can reduce inflation. There are many factors in the structure of the economy which contribute to an inflationary climate.

Reserve Bank Governor Gerhard de Kock favours a policy of regulating money supply, controlling government spending and, if necessary, raising interest rates in order to cut the demand for credit. This policy is very much in evidence right now.
BUSINESS

Wage freeze ‘unlikely to help’ keep inflation down

DURBAN — The authorities have been urged to show caution before implementing any form of private sector wage or salary freeze.

This follows last week’s attack by President PW Botha on business leaders for failing to curb wage and price increases. Mr Botha said the Government now would consider other ways to combat the high inflation rate.

He announced a public sector wage freeze in February as part of a plan to bring down inflation, currently running at 13.7 percent. He told Parliament the private sector’s response had been disappointing. He appeared most businesses would grant general wage increases of 15 to 16 percent this year.

He said the Government had already decided to introduce legislation this year to strengthen consumer protection. “The proposed legislation would make fast and effective action possible against persons who make themselves guilty of harmful business practices.”

Miss Nadine Brems, manager of the FE remuneration division, commented that the February call had come too late for the 1985 salary year. Most increases had been granted in January and the tone set for the year.

She said the companies which did not give decent increases this year would find themselves in a difficult position to keep staff.

Many employees had fallen 30-40 percent behind the rate of inflation over the past few years and would be attracted away by competing firms which offered more.

She was not convinced any freeze would contribute significantly to keeping inflation down.

The group’s Zimbabwe survey survey, where top level salaries had been pegged for several years, showed indirect remuneration like “performance bonuses” in many cases now exceeded salaries.

Mr David Mohr, chief economist with the Old Mutual, said a number of factors militated against the ability of the private sector to meet the State President’s request, which certainly was not the first of its kind.

Back in 1976, for example, business had been urged to show price and wage restraint as part of the anti-inflation manifesto.

Skill shortage

Mr Mohr said appeals of this kind were far easier to meet in times of recession than during economic upswings when the private sector was subject to shortages of skilled labour and competitive pressures.

Curtain sectors — such as construction — had experienced a very long depressed period since around 1981. Employees had not enjoyed anything like the kind of salary increases seen in the public sector over this period.

Mr Mohr said there were a number of options open to the authorities — but a simple pay freeze would not work because there were many ways around it — to increase remuneration in kind, for example.

As the State President’s comments were made in conjunction with the new consumer legislation, he thought the authorities would begin by placing limitations on the price side because this was easier to implement.
Inflation rate keeps decreasing steadily

By AUDREY D'ANGELO
Financial Editor

THE steady decrease in the inflation rate is continuing, according to figures released yesterday by the Central Statistical Organization.

These show that the rate at which the cost of living is rising fell to 13.6% in the 12 months to March compared with 13.7% for the 12 months to February.

March's figure is a far cry from January 1986, when the Consumer Price Index advanced by 22.2% from the previous year. The rate of increase in consumer prices began to drift downwards from June last year, with interruptions in August and October, when the rates remained unchanged.

Food price increases, a major cause of inflation, have slowed in recent months — from 22.0% for the year to September 1987 to 17.1% in March. If food prices, which make up about 23% of the CPI basket, are excluded, the inflation rate for March is 12.1%.

Cheaper prescriptions

HOUSE OF REPRESENTATIVES

The statutory bodies controlling pharmacists and doctors had agreed that no profits should be made on prescription medicines. The Minister of National Health and Population Development, Dr Willis van Niekerk, said. Regulations to this effect were likely to be implemented this year, he said. — Sapa

Economists do not believe...
Housing backlog is still rising alarmingly

By David Braun, Political Correspondent

The national housing backlog continues to escalate alarmingly in spite of a huge effort by the private and public sectors to build homes involving billions of rands.

Statistics from various sources in Parliament this week revealed that the total housing backlog for blacks countrywide at the end of December 1987 was 702,750.

The shortfall for coloureds and Indians is believed to be at least 100,000 units.

Constitutional Development Minister Mr Chris Heunis told Mr Peter Soal (PFP, Johannesburg North) in the House of Assembly yesterday that the backlog in development region H, that is the PWV area, was 354,792 or more than half of the national total.

A few weeks ago Mr Heunis revealed that the official tally of squatters countrywide was near the one million mark, with 900,000 of these in the PWV. Against a problem of such magnitude, the following housing projects are underway:

- The South African Housing Trust Ltd, with R140 million from the Government and R800 million in loan bonds raised from the private sector, has already approved 36,757 new stands (worth R63 million), and erected 21,532 housing units (worth R304 million).
- The Urban Foundation announced yesterday it would make available about 13,000 developed sites and 8,800 houses to mainly lower-income communities this year.
- Government institutions, as employers, are making a considerable contribution in promoting home ownership among all population groups, according to the latest annual report of the Department of Public Works.

In the last six months of 1987, 15,506 loans were granted to public servants. Of these 7,816 were for new houses.

Inflation rate falls but food prices soar

By Sven Lünsche

The year-on-year inflation rate fell to a three-year low of 13.4 percent in March, compared with 13.7 percent in February, but food prices again showed comparatively high increases, rising by 17.1 percent over the year.

Economists say the decline in the inflation rate, which has been evident since June 1987, could be interrupted in the second half of the year as the lower rand exchange rate increases the cost of imported goods.

But there are many factors which could counteract upward pressures on inflation, not least of them the Government's declared wage and salary freeze and its attempts to make the private sector follow suit.
Inflation down

JOHANNESBURG — South Africa’s inflation rate fell from 13.7 per cent to 13.4 per cent in March this year.

The latest figures, released by the Central Statistical Organisation, show that the decline in the rate of increase in the Consumer Price Index started at the end of 1986 is still continuing.

Economists state, however, that while the rate could fall further in the next few months, upward pressures will make themselves felt in the second half of the year.

The two main factors are the falling value of the rand which will push up the costs of imports and the increase in interest rates which will affect both the consumer and the producer.

However, Standard Bank’s Nico Cypionka says that given a non-expansionary fiscal and monetary policy, any increase will be contained and the rate seen in the last cycle will not be reached.

Rand Merchant Bank’s economist Rudolf Gouws feels a decline will be seen in inflation again during the course of 1989.

According to the CSO, the seasonally adjusted rate of increase for the lower income groups was 13.8 and 13.4 per cent for the middle and upper income groups.

The decrease in the year on year figure in spite of the fact that the annual food index increase remained constant at the February level of 17.1 per cent. However, the monthly figure moved from 1.2 per cent in February to 2.6 per cent in March.

Other large increases were registered by alcohol (6.5%) clothing (1.8%) education (15.9%) and personal care (3%).

Of the urban areas, the largest increase was registered in the Klerksdorp area at 14.2%. — Sapa
THE Government is still opposed to wage and price freezes, in spite of President Botha's hints to the contrary in Parliament last week.

Department of Finance sources said yesterday that they believed such freezes could only be justified if inflation got completely out of control and then only for a very short while to break the "psychology of inflation."

They said this was unnecessary at the moment as inflation was already coming down as a result of the Government's tight monetary and fiscal policies.

The Central Statistical Organisation announced that the cost of living index fell to 13.4 per cent in the 12 months to March compared to 13.7 per cent for the 12 months to February.

The sources said that the Government's anti-inflation policy was still that spelled out in Minister of Finance, Mr. Barend du Plessis Budget speech. The gist of these measures was that the Reserve Bank would contain the overall money supply through increased interest rates and the Government would limit public spending.

Last week in Parliament, President Botha severely chastised the private sector for not co-operating with the Government's campaign to curb inflation.

He said that in spite of his earlier appeal to the private sector to show wage and price restraint to match his own denial of a price increase to civil servants, some companies were intending to grant average wage increases of 15 to 16 percent.

"An evident and concrete quid pro quo is demanded from the private sector in exchange for the sacrifice by, among others, public servants not to receive general salary increases this year," President Botha said.

"To my disappointment it is becoming increasingly evident that this quid pro quo will not come about by means of persuasion of voluntary teamwork. Other mechanisms will have to be considered to assist in combating inflation."
Govt is 'still against' wage, price freezes

The Government is still opposed to wage and price freezes in spite of hints to the contrary in Parliament by the State President, Mr P W Botha.

Department of Finance sources said yesterday that they believed such freezes could be justified only if inflation became completely out of control, and even then only for a short while to break the "psychology of inflation".

They said this was unnecessary at the moment because inflation was already coming down as a result of Government monetary policies.

In Parliament last week, Mr Botha chastised the private sector for not co-operating with the Government's campaign to curb inflation.

He said that in spite of his earlier appeal to the private sector to show wage and price restraint,

Attempts to control wages through price controls as envisaged by the State President would be rejected in every way possible by the National Congress of Trade Unions, a statement from Nactu said today.

"These attempts are a negation of the principle of voluntarism accepted by the Wiehahn Commission," Nactu said.

"We reject any attempt to control wages, directly or indirectly. We will fight this attempt at every factory in every industry."

Political Correspondent
Wage hikes likely in spite of PW's plea—consultants

DURBAN — Senior management was likely to receive salary increases of between 12 and 13 per cent this year in spite of the call by the State President, Mr P.W. Botha, for wage and salary restraints.

This is according to a South African management consulting group.

The managing director of PE Corporate Services, Mr Martin Westcott, said yesterday that, as South Africa remained short of management skills and companies continue paying a premium to attract talent, the call for restraints had to be seen in this perspective.

"Companies that have not reviewed salaries will find it difficult to compete in the labour market," Mr Westcott said, adding that legislation, such as that applied through the force of the Control of Harmful Practices Bill, was difficult to enforce.

He said the most effective means of controlling salary and wage inflation was to continue bringing down the inflation rate because as salary and wage increases were raised in order to follow the Consumer Price Index.

"Keeping wages static has to be balanced against need to stimulate growth and job creation as our economic recovery is far from fully-fledged." — DDC
BOND RATE ANNUAL INTEREST PAYMENTS
(COMPOUNDED MONTHLY)

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HIRE-PURCHASE REQUIREMENTS

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Brakes applied to trim growth

Political Correspondent

CAPE TOWN — The economy has been severely hobbled by the international financial isolation of South Africa, the Government’s latest monetary and fiscal measures have indicated.

Instead of being able to finance what could have been a growth of 5 or 6 percent this year, desperately needed to put millions of unemployed blacks in work, the financial authorities have had to apply the brakes “slightly” in order to trim growth to about 3 percent.

IMPORTS

If the economy grew at a greater rate, imports would outstrip exports and South Africa would have no foreign currency at all.

This is how politicians see the position of the South African economy today.

They are generally in favour of the Government’s latest credit curbs, although some warn that careful monitoring will be necessary to ensure maximum growth within the constraints of the economy.

PACKAGE

Mr JH Heyns, National Party MP for Vosloorus and chairman of the Parliamentary Joint Standing Committee on Finance, says he is in favour of the measures.

“I am pleased the Government has introduced a package of measures and not just resorted to increasing interest rates, which it did a few years ago and which nearly bankrupted the population.”

Progressive Federal Party spokesman on finance Mr Harry Schwarz says “The curbs were inevitable because of the way the economy is being allowed to run and also because of the balance of payments position.”
Weaker rand adding to inflation worries

By Sven Lunsche

One of the major aims of last week's economic stabilisation package by the fiscal and monetary authorities was to prevent excessive consumer spending from stimulating demand inflation.

Inflation has been on the downturn continuously since June last year and in March 1988 hit a three-year low of 13.4 per cent.

But despite this trend and major efforts by the government to curb wage and price increases, economists generally forecast that inflation will rise again in the second half of this year.

An average rate of 13 per cent is forecast for 1988 by the Bureau for Economic Research at the University of Stellenbosch (BER) in its latest issue of Economic Prospects, but the academics expect the downward trend to bottom out in the third quarter and increase again thereafter.

And once again the feeling is that the expansion of domestic economic activity, which BER says will continue well into the first half of 1989, will be largely responsible for this rise.

"In 1987 consumers received on average 2.2 per cent more income in real terms and disposable income will again rise above the inflation rate in both 1988 and the first half of 1989," BER writes.

The implication was that current income as a share of total income will continue to expand, creating a higher demand for consumer goods and services, leading to higher inflation.

The rapid growth in domestic demand, in conjunction with an expected 4.8 per cent rise in gross domestic fixed investment this year, will inevitably cause a sharp increase in imports, estimated by BER to grow by 26.6 per cent in 1988 — while export growth will be restrained.

The net effect will be a narrowing of the current account surplus, but the consequent decline in the exchange rate of the rand against all major currencies was likely to fuel imported inflation dramatically later this year.

The depreciation of the rand against the US dollar has already been in evidence over the last few weeks and by year-end the Stellenbosch economists fear the rand will have dropped by 6.3 per cent to about R2.25. A sharper 13.6 per cent fall against the Deutschemark is also anticipated.

"The depreciation forecast in the rand will result in import prices rising by 12 percent on average in 1988, while higher interest rates will increase the cost of debt servicing and thus influence corporate profits.

"Bond rates too are projected to rise, which together with rising building costs will put upward pressure on rents," BER writes.

Summarising, the Bureau says that the rise in economic demand, was likely to bring the balance of payments constraints to the fore.

Thus a lower exchange rate and higher interest rates will ensure and the resulting upward trend in inflation will eventually put a damper on economic growth towards the second half of 1988.
Inflation now main worry for bankers

BASLE — The world's top bankers are showing signs of unease about a possible spurt in inflation after months of worrying about a stock crash-induced recession, monetary sources said yesterday.

"They seem to be worried about inflation and that is new because in previous months the talk was about recession," said one official who emerged from the monthly meeting of central bankers of leading industrial countries at the Bank for International Settlements.

"I would not say we are talking about the immediate danger of inflation," another official said, "but we have a high level of liquidity growth which can motivate inflation."

Many central banks opened the money sluices after last October's stock market crash, pruning their economies with extra injections of cash. Now they are increasingly concerned the excess liquidity could stoke inflationary pressure.

INTEREST RATES

"People now see inflation as a possible feature on the scene in contrast to the possibility of recession, which was the danger six months ago," one central banker said.

But the officials said there was little talk of adjusting interest rates or concern about the recent rise in long-term US rates.

"We are in an intermediate situation," one central banker said. "The feeling is that interest rates are stable. We do not know if that is temporary or whether there will be a turnaround."

"We feel there was already a market tendency for long-term interest rates to go up, in the US in particular," another added. "This is not a new development."

The monetary sources said retail price inflation in most major industrialised countries remains low.

But a strong rise in prices of commodities and industrial raw materials over the past year has been flashing warning signals about the economic outlook. — Sapa-Reuters
Pressure on BoP unlikely to let up

By Teigue Payne

Of paramount concern for the economy at present is its serious balance of payments constraint, which has emerged much earlier and more swiftly than had been anticipated, according to the May edition of the Standard Bank Review.

It says the seriousness of the economy's current position is clearly reflected by out-of-kilter foreign trade, credit growth and money supply.

The net balance of the current account of the BoP in the first quarter is likely to have been small compared with the large surplus achieved in the last quarter of 1987, and was certainly inadequate to cover foreign loan repayment obligations. These must amount to well over R2 billion this year.

The result of booming imports and sluggish exports was that the merchandise trade surplus of only R1.69 billion in the first quarter of 1988 was 47 percent lower than the R3.6 billion in the same period last year.

The poor foreign trade trend means that in the absence of capital inflows, the authorities must tighten up on fiscal and monetary policy, impacting on liquidity and interest rates.

Reduction in the growth of credit despite strong demand for it will put further upward pressure on interest rates, the review says.

It says the money market's view is that the Reserve Bank's recent one percent increase in the repo rate was not an adequate response to the problems facing the economy, and that interest rates must rise further.

Thus financial institutions are now trying to borrow longer term, which will itself exert upward pressure on interest rates.

It says a large increase in the bank rate — by two or three percent, for instance — could have prevented a continuous upward creep of interest rates this year. But it would have been politically less acceptable because it would have resulted in much more rapid slowdown in credit growth and economic activity.

The economy may have to pay for this later.

The review says the trade surplus is unlikely to become a deficit this year given the recovery trends in certain export categories and the probability of an economic slowdown.

However, the situation will become very uncomfortable if South Africa's imports continue to rise faster than its exports.

Gold and forex reserves have already been declining slowly because capital outflows have exceeded the current account surplus. The Reserve Bank's gold and forex holdings now cover less than two months' imports.

To prevent serious pressure on foreign reserves the trade surplus must be increased through reduced imports and higher exports.

A clampdown on imports is difficult because about 80 percent are of capital or intermediate goods. And in the absence of higher prices for minerals, which comprise 88 percent of exports, it is also difficult to raise them.

The authorities thus have little alternative but to let the rand slide. Although this will push up inflation, there is no sense in wasting valuable forex propping up the currency.

A further softening of the rand would increase competitiveness of key non-gold exports, particularly coal, and help dampen imports by making them far too costly.

Inflation dipped last year largely because the appreciation of the rand reduced the cost of imports. But this trend is now beginning to reverse.

Higher local wage settlements add to the inflation pressure. The authorities' postponement of administered price increases will not be ultimately effective and could cause major problems in the future.

The review concludes that while inflation may decline a little further in the short term, it is likely to increase gradually in the second half of this year.
Importers warned about rand slide

by Matthew Moonierya
business editor

EAST LONDON — The rand was under severe pressure and importers should budget for a further slide, the chief economist of Standard Bank, Mr. Nico Cyponika, said here last night.

He told a closed meeting of businessmen that there were positive and negative aspects of the economy which was basically being tackled wrongly by the authorities in their quest to curb inflation.

"The capital outflow because of sanctions has cut the rand under pressure and the country is locked into the problem of foreign debt repayments.

"If we default now we will not have a second chance. We will be written off," he said.

Mr Cyponika said the authorities were dipping into the reserves which were down to R1,000 million and that the Reserve Bank was either selling off or pawning gold holdings to support the rand.

"This way of underpinning the rand is not actually successful and cannot hold," he said.

The slide of the rand would cause a ripple effect throughout the economy and the country would be saddled with greater import inflation.

Referring to the monetary policies adopted to curb inflation, Mr Cyponika said it would not work because the country had not adopted a consistent enough policy to contain inflation.

"Attacking credit availability is dangerous. The authorities were so slow down the economy but they don’t want to deflate it. This is a very dangerous act."

Mr Cyponika said the signals were for a similar trend for 1983-84 where the strong improvement in all the sectors was followed by a drastic recession.

"The parallel is close," he said.

He said the domestic segments of the economy were performing well and employment opportunities had been increased.

"This makes things difficult for the State President’s call for wage restrictions. You just have to pay if you want the skills."

Other solutions had to be found because the country was unsuccessful in creating jobs.

There was a major problem with the balance of payments as imports were rising. Consumers goods only accounted for 20 per cent of the rise. It was capital goods which was ripping a hole into the balance of payments and this could not be subjected to import control.

Cup for R10m loans

MDANTSANE — The Ciskei Building Society’s sub-branch here has been awarded the chairman’s floating trophy for the second time running for outstanding achievement in the last year.

The senior personnel manager, Mr. S. Hask...
Inflation fears fuelled by soaring commodity prices

A surprise surge in prices for many key commodities has revived money market fears of the spectre of worldwide inflation.

Dealer prices for some commodities are good news for debt-laden Third World producers. But economists worry about the dangers of recession if governments in industrial nations are forced to raise interest rates to dampen inflationary pressures.

Rubber prices hit eight-year highs in the past week on booming tyre demand and higher condom sales because people are worried about AIDS. Soybean, corn and wheat are up after dry weather across the US plains.

Many base and precious metals have risen, not only because the dollar is weak, but as a result of industrial economies picking up and stocks dwindling. And oil prices have held up, on prospects of stronger demand, despite failure in April by Opec to agree on new output curbs.

But some economists already forecast higher food and construction costs and a widely-watched US commodity price gauge rang inflation alarm bells in bond markets this week.

The independent Commodity Research Bureau's (CRB) index of 21 commodity prices rose more than four points on May 16, as soybean and other grains rallied, hitting a three-year high at 283.27 points.

Special factors in different commodity markets caused the gain, but some economists saw it as an inflation signal.

"Regardless of any special conditions, with inflation psychology picking up anyway, it gets reinforced by this huge jump in agricultural futures prices," said David Jones of Aubrey G Lamont in New York.

Among metals, London prices of aluminium, the most widely-used metal after iron, hit a record in April. Copper is also grabbing attention and there is a continuing shortage of nick- el as stainless steel demand burgeons and stocks are reduced.

The Economist Intelligence Unit, a London-based research group, recently published a report considered "bullish" for strategic metals platinum, chromium, manganese and cobalt.

It said these metals, referred to as the hostages of fortune, were indispensable but supply was at risk.

The Soviet Union and South Africa are the main suppliers of the first three and central Africa produces cobalt.
World markets sluggish as inflation fears mount

By Finance Staff

After rising almost constantly for two months, stock markets worldwide have been on the slide over the last week in the wake of renewed fears of higher inflation rates.

Both Wall Street and the Tokyo stock market recovered some of their recent losses but the spectre of higher inflation and interest rates continue to dominate the markets.

The currency markets have also caught the inflation anxiety gripping the stock and bond markets, and the dollar was slightly weaker in early trading in Tokyo.

It was unchanged at 124.88 yen in morning trading Friday in Tokyo, slightly down on the New York closing level.

But gold, which is a favourite investor refuge when inflation seems to threaten the value of other assets, advanced to its best levels in a month in early New York trading, which is expected to give the JSE a much-needed injection of confidence.

In Tokyo, the Nikkei Stock Average gained 25.57 points to finish the morning session at 27,402.81.

Yesterday it fell 304.34 points in its largest single-day fall this year.

The Dow Jones average of 30 industrials, which fell a total of 56.64 points on Tuesday and Wednesday, rose 7.63 points to close at 1,958.72 yesterday, but only after it had dropped by another 25 points at noon.

Brokers attributed the rebound to slightly lower yields in the bond market, which made bonds less alluring to investors.

London share prices also fell on Thursday for the second day running, with the FTSE 100 index closing 17 points lower at 1,760.5.

The sluggish mood on Wall Street was highlighted when Tuesday's release of the US trade deficit in March, at $9.75 billion, was far smaller than expected, suggesting an overheating economy.

Many dealers expected the US Federal Reserve to drive interest rates higher in an effort to rein in inflation. A move by the central bank toward higher interest rates would, however, tend to bolster the dollar.

The negative reaction in US financial markets to Tuesday's news of a substantial improvement in the US trade deficit in March has sent a worrying message to markets overseas.

This apparently contradictory behaviour highlights the extreme vulnerability of the mood in the US and provides evidence of a negative psychology which could prove destabilising and start to make policy decisions more difficult.

There is a propensity in financial markets to read higher inflation into every economic statistic and to paint only extreme pictures of prospects for the US economy.

In the wake of the uneasy financial markets, James Baker, the US Treasury Secretary, will today seek to give added impetus to efforts by leading industrial nations to strengthen the international monetary system with proposals for tighter co-ordination of their economic policies.

In a speech in Paris to the Council on Foreign Relations of the OECD, Mr Baker is expected to call for closer cooperation in economic and exchange rate management in the Plaza and Louvre accords and at the Tokyo and Venice world economic summits.
Economy seen in sombre light

BY AN ECONOMIST

The ultimate result is that the South African economy will have to temper its growth rate to around 2 percent from the 4.4 percent — 25 percent level.

This will obviously have a detrimental effect on the economy domestically as population growth alone increases at a rate of more than 3.5 percent a year.

It is obvious that the authorities are taking the politically expedient route. They are certainly not prepared to let the economy stagnate or go into recession with municipal elections just round the corner in October and general election next year.

Thus, combined with the weaker rand has caused the value of imports to rise at an alarming pace putting the current account of the balance of payments under pressure.

A surplus is needed on the current account in order to overcome the growing foreign debt, the simple reality is that we do not have the means to maintain our external balance while growing at the same time.

The measures they have introduced in the latest package will do little to both import and credit demand in the near term.

The will and capacity to increase consumer spending is far from exhausted. Yet, the authorities are reluctant to use visible and politically unavoidable.

The recent one percent rise in the bank rate and the consequential one percent increase in the prime lending rate is unlikely to cool the general overdraft demand.

The home loan 1.5 percent rise to 15 percent will probably have a greater impact as prospective homeowners will find it more difficult to secure bonds than in the past.

People paying off their home loans are likely to face substantial increases in bond repayments following the announcement of the interest rate hike.

In order to try and temper credit demand the authorities have decided to cut down on the easy availability of credit that they supplied to commercial banks who required the credit to meet the private domestic demand requirements.

The Reserve Bank has thus threatened to follow a less accommodative monetary stance than last year.

Other measures introduced by the Treasury to temper credit demand are:

1. Increasing interest rates
2. Making lending transactions subject to legislation governing credit extension
3. Phasing out the debentures allowance for general sales tax purposes.
4. Raising motor vehicle valuations for fringe benefit and tax purposes.

The choice taken by the authorities is clearly in favour of constrained growth.

Thus, in the absence of punitive interest rates, pressures the balance of payments and eventually relies on the rand to carry most of the adjustment burden.

Thus instead of placing physical controls on imports, one can let the rand fall to such low levels that it becomes extremely expensive to import.

Unfortunately, most of our imports today are intermediate goods used in local production. In addition, South Africans have shown an incredible insensitivity to price increases earlier on in consumer goods.

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Car

An indication of the rate of growth of consumer spending in the South African economy can best be understood by comparing some first quarter 1985 figures with the same data for the first quarter of 1987.

Gross domestic expenditure was up by approximately 10 percent in the first quarter of 1987.

New car sales rose by 35 percent, while money supply rose by 24 percent.

Total credit to the private sector rose by an annual rate of 26 percent.

Wholesale sales in constant prices rose by 14 percent.

Retail sales in constant prices rose by 12 percent.

Manufacturing production was up a seasonally adjusted 18 percent from the first quarter to the fourth quarter in 1987, and

Building plans in constant prices also rose sharply in the same time period.

Huge

The R1894 billion surplus on the trade account during the first quarter of 1988 was almost 30 percent lower than the R3300 billion of the first quarter in 1987.

Trade exports from January to March totalled R10573 billion and imports totalled R8640 billion.

The huge rise in imports comes as a result of buoyant consumer spending.

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This, combined with the weaker rand has caused the value of imports to rise at an alarming pace putting the current account of the balance of payments under pressure.

A surplus is needed on the current account so that South Africa can repay its foreign debt commitment as well as finance local infrastructure developments in the absence of foreign developments.

With a deteriorating export performance and the need to repay our foreign debt, the simple reality is that we do not have the means to maintain our external balance while growing at the same time.

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All this suggests continued import growth in the face of a falling rand and worsening current account pressures.

The rise in imports has implications for inflation as the higher price of the imported component of producer prices caused by the weaker rand, will tend to place upward pressure on consumer prices.

Thus, together with tighter labour markets and union demands for wage increases as well as the continued recovery in domestic demand points to the scenario of inflation approaching a bottoming out area soon.

As always, it is a matter of time until we see the true manifestations of policy measures today. The warning signals are all in place but the general public together with the government still appear to be in the denial phase.

Thus for the time being, expect things to continue to rise as they did in the last quarter with interest rates a bit higher, the rand a lot lower, the balance of payments under more pressure and inflation beginning to bottom out.

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Recovery
Food prices soar but the CPI shows inflation lower

By Sven Lunsche

The average housewife may well be shaking her head in disbelief at the news that the 13.3 percent inflation rate for April was actually 0.1 percent lower than in March.

And rightly so. Food prices have increased once again outstripping other commodity price rises, confirming economists' fears that year-on-year increases in the consumer price index (CPI) could well touch 15 percent again by the end of 1985.

On an annual basis food prices have been rising by 17.1 percent over the last three months, but it is the monthly rates of increase that are giving cause for concern.

From December food prices increased by a mere 0.3 percent by January but since then seasonally adjusted rises of 1.2 percent, 2.6 percent and 2.9 percent have been recorded in February, March and April respectively.

If prices continue to rise at this rate for the rest of the year, food prices will stand 20.7 percent higher than a year ago.

The Central Statistical Service, which released the CPI figures in Pretoria yesterday, put it differently.

"If the rate of increase in April was looked at for all items excluding food, the figure would be 12 percent on an annualised basis and the monthly rate of increase would be only 0.8 percent, instead of its actual 1.1 percent."

This says quite a bit for a sector whose weighting comprises only about 21 percent of the overall CPI.

The main culprits were meat with a monthly increase of 3.2 percent, fish and seafood with 2.5 percent, vegetables and sugar with 10.2 percent each.

Economists now fear that last year's pattern will repeat itself, when average food price rises were six percentage points higher than overall price increases.

All the evidence seems to support this assessment. Apart from soaring food prices, the declining rand exchange rate will boost the costs of imported goods.

A strong upturn in price inflation is also expected, just from the surge in money supply, which shows no sign of abating, while the recent increases in bond rates will also boost inflation.

Although the inflation rate has been declining, economists have said that the the figure is still close to its bottom, and hopes of an average inflation rate for the year of around 15 percent now seem premature.
Inflation eases slightly

JOHANNESBURG
The rate of inflation fell marginally in April with the consumer price index (CPI) showing an increase for the year of 13.3 per cent.
Rises in consumer prices have slowed from 16.2 per cent for the year to the end of April 1987, and 18.8 per cent to the year ending April 1986.
But, say economists, we could be seeing the end of the recent downward trend in price rises. The rate of increase in April of 1.1 per cent was the same as March.

Nedbank's chief economist, Mr Edward Osborn said: "We were perturbed by the monthly increase in March. I do not think we are out of the wood yet".

The official figures released by the Central Statistical Services show that the largest price increases were from food, with the food index rising 17.1 per cent for the year to the end of April and 2.9 per cent in April alone.

Meat showed a monthly increase of 3.2 per cent, fish and seafood products 2.5 per cent, vegetables 10.2 per cent and sugar 10.2 per cent.

There were also large monthly increases in alcoholic beverages (4.7 per cent) and cigarettes and tobacco (2.3 per cent).

Consumer prices, excluding food, rose 12 per cent for the year, and 0.6 per cent for the month of April.

"It was a decline in rises in food prices which brought the index down. I am surprised the increase in non-food products is as low as 12 per cent," Mr Osborne added.

But the producer price index has for some time been signalling a rise in non food items, and a trend of rising manufacturing costs is emerging — DDC
Wage negotiations in progress

Checkers will not retrench 1600 staff

By Mike Siluma, Labour Reporter

Checkers has decided not to retrench 1600 workers after protracted negotiations with the Commercial Catering and Allied Workers' Union (Ceawusa), says the union.

The retrenchments, announced in April, were said by management to have been necessitated by unsatisfactory profit margins.

A Ceawusa spokesman said that in dropping plans to retrench the company had stated that it reserved the right to re-consider laying off workers in the future, subject to progress being made to resolve problems with low profit margins.

"A number of problem areas were looked at during the course of negotiations. A major problem raised by the union was poor management attitude and the detrimental results to the company coming out of this.

"In the view of the union, the notice of retrenchment by Checkers was poor industrial relations practice and no solution to the problem," said the spokesman.

Checkers MD Mr Clive Weil, when asked to comment on the Ceawusa statement, confirmed that notices of retrenchment had been withdrawn and that negotiations were in progress with the union on wages.

● Annual wage talks between the Chamber of Mines and the National Union of Mineworkers (NUM) resume in Johannesburg today. NUM demands include a 40 percent, across-the-board increase and a R350 a month minimum rate, as well as various improvements to working conditions.

Mineowners have offered an across-the-board 10.5 percent increase on the minimum rates.
NUM declares dispute

THE National Union of Mineworkers has declared a dispute with the East Rand Gold and Uranium Company over wage increases and conditions of employment.

The NUM demands a 27 percent wage increase, transport for all workers and improvements to the company's housing scheme and shift allowance.

NUM's assistant general secretary, Mr Marcel Golding, said: "The company's offer, between 11.5 and 13 percent for categories A1 to B4, is no other improvement to the conditions of employment."

An Ergo spokesman said NUM's figures were "inaccurate", adding that the company's offer - in addition to service increase - ranged between 14.5 and 15 percent.

The NUM has applied to the Minister of Manpower to appoint a conciliation board to mediate in the wage dispute.
Back at work

THE 365 General Workers Union of South Africa members who were dismissed from Silverton Tanneries in Pretoria were this week reinstated by way of arbitration. According to a GWUSA spokesman, all the workers resumed their duties on Wednesday. The arbitrator ruled in their favour following a three weeks dispute which resulted in them being dismissed. They had gone on strike in protest against the suspension of some of their colleagues. This ended in deadlock as management refused to talk to trade union officials.
Organised Labour

Year ahead for unions looks more difficult
Employers threaten action against workers

Industry, union clash loom

By Mike Siluma, Labour Reporter

South African industry and the black trade unions are set to clash head-on next week, following the failure last night of urgent talks on a three-day protest action starting on Monday.

Employers have warned they will take disciplinary action against workers failing to report for work during the protest.

At yesterday's talks the Congress of SA Trade Unions (Cosatu) and the SA Consultative Committee on Labour Affairs (Saccon) failed to agree that the "peaceful protest action" called for by Cosatu — and endorsed by other anti-apartheid bodies — should exclude a rumoured work stayaway.

Employers rejected Cosatu's position that the Labour Relations Amendment Bill, which sparked the protest, was aimed at "blackening" unions and destroying rights won by labour during the past decade.

Individual action

Cosatu said employers had declined to say if they were planning to use action.

Cosatu chairman Mr Bobby Godsell, when asked what action employers would take during the protest, said it was up to individual employers to act as they saw fit.

A number of employers have already threatened to dock workers' pay, institute disciplinary action in terms of the present labour legislation and withdraw from wage negotiations with unions.

After the meeting, Cosatu general-secretary Mr Jay Naidoo said the protest would continue because the views of workers and "the democratic movement" had been taken into account in the formulation of the Bill.

Workers deprived of political power had no alternative but to stage the protest, he said.

Major employer associations such as the Steel and Engineering Industries Federation (Seifsa) and the Association of Chambers of Commerce (Assccom), while not giving directives to members, have warned that employers would take disciplinary action against workers who stayed away.

In a press statement, Seifsa appealed to workers not to stay away.

Cosatu has warned that such action would only heighten conflict.

Mr Naidoo said Cosatu had maintained its position that there had been no meaningful consultation with the labour movement on the amendments to the bill passed.

"Attack"

"We believe that the legislation very severely curtails unionists' rights and entitles employers to sue and bankrupt unions," he said.

The call for protest, he said, had followed "a major attack, not only on the unions, but on the whole progressive democratic movement in South Africa." Employers had been asked to commit themselves to ensuring that the protest is peaceful.

Mr Godsell said Cosatu had decided to show employers how the bill would undermine worker rights.

Saccol is today to meet the second biggest labour federation, the National Council of Trade Unions, which has also called for protest next week.
Economist: inflation must be wiped out

PRETORIA — Ever increasing government spending and continual spurt of excessive money supply growth would have to stop if progress against inflation was to be made, Pretoria University economics professor Gert de Wet said.

He told Unisa’s Business Leadership School conference on housing at the CSIR on Friday that “We also have to return to a situation where any increase in salary and wages is based strictly on production increases and not on increases in the cost of living.

“If we don’t succeed in this, cost-push pressures will remain and we will be unable to curtail either government spending or excessive expansion of the money supply.”

If a permanent inflation rate above 3% was accepted “we will have to devise rectifying measures on a continuous basis. In the end we may run out of steam.

“There is but one solution — inflation must be wiped out.”
Accounts must provide for inflation — Norton

THE accounting profession in SA was not meaningfully addressing inflation and it was, therefore, not really concentrating on what was relevant to our society, in which double digit inflation appeared endemic.

JSE executive president Tony Norton told the National Congress of Chartered Accountants in Durban yesterday there was a need for accountants to recognise that, unlike developed countries which normally led the way, SA continued to experience a high level of inflation.

"As inflation is a compounding phenomenon, the higher the average rate the more vicious its effects," he said, and it could not be pretended that things remained static in historical value terms.

In this context, the full and instructive cash flow statement proposed by the profession was urgently needed as the present source and application of funds statement was "relatively useless", he said.

Norton said he was aware the profession was looking to stating current values for major assets in the notes, and to other attempts to deal with the ravages of inflation, but this was happening far too slowly.

"Every effort should be made to do whatever can be done to give the user of accounts a true picture of what is going on and not a comfortable professional exposition of vastly irrelevant figures."

Norton said one could stay with historic cost accounting — providing a full cash flow statement incorporated assessments in the notes of the current real value of the assets and a current cost accounting income statement was set out on a memorandum basis.

This statement need not be audited, but would be a useful and invaluable tool to management and investors. In present times, it would also be a valuable document in pointing out to workers and their trade unions that the reality of the profits of the company were often not what they seemed to be.

"It is a sad commentary that at a time when inflation has been running at over 15% per annum for some time, less than 20 of the 700 or so non-mining companies listed include a CCA (Current Cost Accounting) statement in their annual audited accounts.

Norton said inflation gave rise to the question of accounting for deferred tax. Although the profession was giving continuing attention to this, the feeling on the outside was of "paralysis by analysis" with no clear direction forthcoming.

Even the latest attempts to live with partial deferred tax on an elective basis were confusing to the outsider. This was because they were elective and because the profession seemed trapped into classifying deferred tax either as a liability or as a reserve, when to the outsider it was neither, he said.

"Accounting is a gateway to good corporate knowledge and health and is the lifeblood of investment and savings in many regards," Norton said.

However, the profession's commitment to society appeared to be out of keeping with its enormous responsibility.

He said the profession tolerated a range of differential standards of ethics and did not seem to have the same number of public disciplinary actions as evident in the related professions of medicine and law.

Reinforcing the feeling that discipline within the profession was accommodating were incidents where reporting accountants in new issues on the JSE had taken blocks of shares in placings.

"Regrettably it was largely in these cases where profit histories were presented in the most favourable manner as a result of selective adjustments," he said.
Japanese option

Unless SA solves the inflation problem, the rand’s exchange value is fated to a steady decline to US$33c within the next four years.

This sombre prediction comes from Brian McCarthy, chairman of Durban-based motor retailer McCarthy Group.

Addressing the University of Durban Westville Economic Forum in Durban last week, McCarthy urged the private sector to look to Japan for inspiration in assembling an anti-inflation campaign.

The Japanese record outlined by McCarthy is impressive.

Before 1973 it imported 99.8% of its energy. A fourfold rise in the oil price and soaring commodity prices put the economy into reverse: the first negative growth (0.2%) was recorded since World War 2 and inflation soared from 4% to 25% in 18 months.

Business demanded tighter monetary policies from government, slashed oil bills (the steel industry cut consumption from 78.5m barrels in 1973 to 16.9m 10 years later) and payrolls, and raised productivity. By 1978 inflation was down to 4% and over the past three years has averaged 1%.

Other key ingredients in the drive against inflation included a government intent on creating conditions for commercial growth “and not interfering by introducing unnecessary regulations and legislation,” a low tax rate (average 16%); high rates of personal savings (16% for householders compared with 5% in the US and 2% in SA), and maximum privatisation.

In such an environment capitalism could flourish. The resulting prosperity and reduced inflation rate, says McCarthy, were due also to masterful manufacturing methods and an ability to raise productivity considerably faster than wages.

Putting a similar programme to work in SA might prove difficult, concedes McCarthy, but this does not relieve the private sector of an obligation to try.

First on businessmen’s anti-inflation list, he suggests, should be a commitment to support the policy guidelines outlined by President Botha on February 8. Until inflation is reduced to single digits, salary and wage increases should remain below the CPI rate. Such voluntary restraint in the private sector, he adds, should be paralleled by disciplined monetary policies from government.

Productivity also needs attention. Government could help by restoring the generous training allowances of the past. Finally, the private sector needs to encourage an acceleration of privatisation and deregulation.
BASEL — The less-developed Third World countries faced a tough financial year in 1987, leading to slow output growth of only 3%, the Bank for International Settlements (BIS) said.

Particularly low growth rates were recorded in Africa, the Middle East and the oil-producing countries, the BIS said in its annual report released yesterday.

"To some extent, the slowdown in output growth compared with earlier periods can be related to external debt problems, since heavily indebted countries were forced to adopt restrictive policies to reduce large external deficits," the BIS said.

These countries also suffered from low commodity prices in real terms, a slowdown in average growth in export volumes to 7% last year from 11% in 1986, sluggish capital formation, inefficient allocation of scarce resources and the burden of external adjustment.

Inflation

Improvement in Third World current-account deficits and terms of trade had come at a high price in reduced domestic investment and lowered potential future growth in output.

Inflation plagued developing countries more last year than in 1986, with the average rate rising to 45.8% from 32.1%.

The BIS surmised much of the increase may have stemmed from the initial inflationary pressures from tough fiscal adjustments by some governments.

At the same time, the failure of the heavily indebted countries to boost their export earnings reflected "serious shortcomings in the heavily indebted countries' adjustment strategy", the BIS said. — AP-DJ
House prices up an average 13% in first quarter of 1988

HOUSE prices rose strongly in the first quarter of 1988 to record an average increase of 13% from last year, the United Building Society (UBS) says in its latest quarterly Housing Review.

The UBS expects the upward movement to continue for the rest of the year. On average, house prices should rise by about 17% in 1988.

At the same time, the society foresees the possibility of rises in mortgage rates.

It expects a further one or two percentage point increase in banks' prime overdraft rates and says mortgage rates "could be expected to move in sympathy with the general pattern of interest rates".

Not only did house prices advance significantly in the first quarter, but volumes also increased considerably. This led the UBS to observe the danger of the economy overheating and thus jeopardising the country's balance of payments position seemed very real.

Against that background, house prices should continue to rise but at a slower rate towards the end of the year.

The only region which experienced a decline in house prices compared with the previous quarter was Natal. Johannesburg and the East Rand recorded strong increases, rising by 10% and 7% respectively in three months.

The price of a medium-sized house currently stands at about R84 500, while larger houses can be bought at about R118 000 and smaller houses at R61 000.

The price differential between new and existing houses had increased further and the comparative cost of building a new house of more than 140m² would be more than 20% higher than buying an existing dwelling of comparable size.

The effect of lower interest rates, which prevailed for the whole of last year, is clear from the UBS's analysis of monthly bond repayments. The monthly repayment on a R50 000 bond, repayable over a 20-year period, declined from a high of about R970 in the fourth quarter of 1984 to R690 in the first quarter of last year. The average repayment on new loans showed very little movement since then, but could be expected to increase to about R630 during the current quarter.
SA has third worst inflation

By Neil Behrmann

LONDON — The latest annual report of the Bank for International Settlements says that South Africa has the third highest inflation rate amongst industrialised nations.

In the 12 months to March, Turkey experienced the most rampant inflation of 69.8 percent, followed by Israel 15.6 percent, South Africa 12.4 percent and Greece 13.2 percent.

These were the only countries out of 24 that experienced double digit inflation. The average for the 24 nations which include the leading seven countries, United States, Japan, West Germany, France, UK, Italy, Canada, Australia, New Zealand and Portugal was 3.6 percent.

South Africa has been amongst the top inflation prone industrialised countries since 1985, even though its rate has fallen sharply from the 1988 peak of 18.6 percent.

The deceleration of Israel’s inflation from 30.5 percent in 1985 has been remarkable, particularly since the country has not experienced a widely expected slump.

On the contrary, Israel’s real gross domestic product rose to 4.6 percent in 1987 from 2.4 percent in 1986, says the BIS.

The report shows that Japan’s inflation rate at 0.7 percent is the lowest in the world while its growth rate at 5.3 percent last year was the highest.

Consumer price inflation in industrial countries reached a low point of slightly less than 2.5 percent at the end of 1986 before rising by more than 1 percent this year.

“Even so, with domestic cost inflation remaining well under control, there was little suggestion last year of any general risk of an early revival of inflation in the industrial world,” says the BIS.

WAGE GROWTH

A surge in commodity prices helped boost inflation in the past few months, but it is certainly not about to take off.

But the major factor keeping inflation low is the steadily declining path of wage growth that has been noticeable for several years.

Nominal wage growth of all the major countries is well below four percent, even a nation such as Australia, which has had consistent union problems over the year, experienced nominal wage growth of around five to six percent in the past year. This compares with wage increases of over 10 percent in the years 1979 to 1984.

South Africa’s wage growth rose to 15.2 percent in the third quarter of last year.
Higher interest rates don’t cause inflation

Greta Steyn

For the first time in two years, SA’s economic policymakers are worried about the inflationary effects of excess demand. Monetary policy aimed at curbing demand-pull inflation, interest rates are rising. But at the same time, economists are predicting that the inflation rate will hit its peak at about 13% and start a gradual climb upwards — despite higher interest rates.

It is this phenomenon of rising inflation accompanied by rising interest rates which led Reserve Bank Governor Gerhard de Kock to remark that “one of the oldest fallacies” of economics was the belief that higher rates cause inflation.

Quite the opposite is true, but it is not always apparent when one looks at the inflation rate as measured by changes in the Consumer Price Index (CPI). This is largely because inflation is caused by an interaction between demand-pull and cost-push factors. Action to dampen demand inflation is an attack on one front only:

Demand inflation became a worry as the economic upswing gained momentum this year and spending took off. As de Kock said in a recent speech, “There is now a danger of excessive money creation and new demand inflation.”

In strong domestic demand is accompanied by strong growth in the money supply, prices rise more easily. Simplified, the Bank believes that “too much money chasing too few goods” will make it easier for firms to raise prices. The Bank has made it clear that it will do its utmost to avoid SA having “too much money chasing too few goods” as it did in the mid-1980s and early 1990s.

But growth in the money supply has been overshooting the target range. The Bank’s determination to slow the rapid expansion of the money supply means it will not readily pump credit into the banking system, helping to finance the spending spree while interest rates remain artificially low. This less accommodating monetary stance has contributed to the upward movement in interest rates in recent months.

A credit squeeze package was announced in May to curb domestic demand, which was immediately followed by banks raising their prime overdraft rates to 15%.

Six months ago, the prime rate was still 12.5%. What effect will the rise in interest rates have on the inflation rate?

De Kock says a rise in interest rates is part and parcel of any policy to curb demand inflation. Higher interest rates are deflationary — excessive demand which is downgraded by “too much money” cannot be curbed without higher rates.

But will the rise in interest rates cause the inflation rate to remain stable — or even decline?

Paradoxically, its immediate effect will be to increase the CPI. Higher interest rates are included as an item in the CPI, so that a rise in interest rates will automatically lead to an increase in the CPI.

The question can be asked whether it is correct to include interest rates when calculating consumer price inflation?

Old Mutual economist David Mohr says “in the sense that interest rates are also a cost in the economy, it is correct to include it in the CPI basket. But there may be a problem with including mortgage rates in the housing category of the CPI, since housing can be seen as a capital item and not consumption spending.”

Ideally, higher interest rates should cause domestic demand to weaken, which, in turn, should cause prices to increase less rapidly. Allowing for a time lag, the effects of curbing demand inflation should be to neutralise the cost effect of higher interest rates.

As Mohr explains “When interest rates are raised, credit demand is curbed, which should lead to lower levels of real spending.”

The increase in demand should cause more discipline when it comes to price increases. As the market shrinks, firms will try to maintain market share and will exercise caution in raising prices.

The effects of higher interest rates on inflation will obviously be felt only after a period in which domestic demand has diminished. But while higher interest rates will certainly serve to curb demand inflation, they will not necessarily have any significant effect on the inflation rate, as measured by the changes in the CPI. Excess demand, accommodated by rapid expansion in the money supply, is not the only cause of inflation. Cost-push and “structural” factors also contribute to the vicious circle.

Demand inflation is created by a situation in which demand is strong and growth in the money supply is high. This can be caused by a number of factors, such as government expenditure, foreign investment, or a rise in the exchange rate.

In de Kock’s view, demand inflation is a problem that has been endemic since the mid-1980s.

The Standard Bank said in a recent review that the mortgage component of the CPI alone earned a weight of 9.47% thus an increase in mortgage rates from 12.5% to say, 15.5% (representing a 24% rise), would raise the CPI by more than 2%.

But one cannot argue that interest rates raise the inflation rate. De Kock believes the fallacy that higher interest rates are inflationary stems from the inclusion of interest rates in the CPI basket.

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De Kock says "The latter 'structural' and/or cost-push influences include autonomous rises in salaries and wages that are not caused by increases in either demand or prices but by factors such as pressure by trade unions or socio-political, or even political, developments, inflationary expectations and the tendency for 'marginal wage increases' to the CPI."

In de Kock’s view, there was no demand inflation in the period from 1983 to 1987. Rather, the soaring inflation rate was the result of exchange rate depreciation resulting from a capital outflow.

While a higher level of interest rates can go a long way towards restraining inflation, it is not necessarily the final solution. It cannot, for instance, solve the problem of informal indexing of wages and prices to the CPI or the effects on the exchange rate of a political speech.

But higher interest rates can and should — stop the demand-pull inflation.
WHEN releasing the consumer price figures last week, the Central Statistical Services commented that the average South African consumer did not understand what inflation meant.

It is acknowledged that inflation is indeed a complex subject. Even among those well-versed on the subject, no consensus exists as to what is the true cause of inflation or how to best measure it and what the best remedies for curing it are.

This article is the first in a series on the topic of inflation. The objective of this particular article is to provide a general overview of the traditional theories of inflation.

We will also examine inflation in the South African economy, particularly as we analyse the structural imbalances and part of our economic system.

Inflation is defined in the Economic Dictionary as a process of steadily rising prices resulting in decreasing purchasing power of a given nominal amount of money. Put differently, inflation shrinks the purchasing power of the rand in your pocket. Textbooks differentiate between various types of inflation. In the first instance there is monetary inflation. This type of inflation arises out of an increase in the country's money supply. It is for this reason that monetary authorities, namely the South African Reserve Bank, have made it their policy to stabilise the growth of money supply.

In the second instance there is price inflation, which results from an increase in prices. Here we can distinguish two further categories of inflation: cost-push inflation and demand-pull inflation. Cost-push inflation refers to situations where the cost of producing goods and services increases because the cost of inputs increases. This could result from a number of things: for example, there could be wage increases which are not accompanied by increases in output.

On the other hand, if we were looking at an article with a high unemployment rate, we could be looking at an article discussing the implications of high unemployment. In other words, inflation leads to increased supply and output of goods and services, which in turn leads to increased output and the purchasing power of money.

The Effects of Inflation

Why should the authorities and the public care about inflation? Because inflation reduces the purchasing power of money. There are significant effects for a number of people in the economy. More specifically, for people on fixed incomes such as pensioners and low-wage earners, inflation means that their purchasing power is decreased. This means that the real cost of goods and services increases. Therefore, there is a reduction in the value of money, which in turn leads to increased output and the purchasing power of money.

Inflation leads to serious distortions in the economic process. One of these distortions is linked to the tax system prevalent in the country. In South Africa, where inflation is high, the government imposes a progressive tax on income earned. Thus, in effect, it means that as higher incomes are earned, the higher the tax rate paid. Inflation leads to demands for higher incomes. As people's wages rise, so do prices in general. In other words, inflation leads to increased supply and output of goods and services, which in turn leads to increased output and the purchasing power of money.

Inflation leads to increased supply and output of goods and services, which in turn leads to increased output and the purchasing power of money. There are significant effects for a number of people in the economy. More specifically, for people on fixed incomes such as pensioners and low-wage earners, inflation means that their purchasing power is decreased. This means that the real cost of goods and services increases. Therefore, there is a reduction in the value of money, which in turn leads to increased output and the purchasing power of money.

Furthermore, inflation leads to serious distortions in the economic process. One of these distortions is linked to the tax system prevalent in the country. In South Africa, where inflation is high, the government imposes a progressive tax on income earned. Thus, in effect, it means that as higher incomes are earned, the higher the tax rate paid. Inflation leads to demands for higher incomes. As people's wages rise, so do prices in general. In other words, inflation leads to increased supply and output of goods and services, which in turn leads to increased output and the purchasing power of money.

The Structural Imbalances in the South African Economy

The structural imbalances in the South African economy are evident in the way that the country's economy is structured. External factors that contribute to the inefficiency of the South African economy include the following:

1. High levels of unemployment
2. Inadequate education and training systems
3. Poor infrastructure
4. Political instability
5. High levels of crime

These factors contribute to the inefficiency of the South African economy. For example, high levels of unemployment lead to lower productivity and lower levels of investment. Inadequate education and training systems mean that the workforce is not adequately prepared for the demands of the modern economy. Poor infrastructure means that the country is not able to support economic activities. Political instability and high levels of crime further add to the inefficiency of the South African economy.

In conclusion, inflation is a complex phenomenon with far-reaching consequences for the economy. It is important to understand the factors that contribute to inflation in order to address it effectively. By addressing the structural imbalances in the economy, it is possible to reduce inflation and promote economic growth.

A strong and stable economy is essential for the continued development and prosperity of South Africa. It is important to address the factors that contribute to inflation in order to ensure a stable and sustainable economic environment.

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Rand's decline fuels higher inflation fears

By Sven Lunsche

The rand fell to a 20-month low against the US dollar yesterday, increasing concern about imported inflation. A strong surge in the US dollar worldwide saw the rand's cost of dollars rising to R2.28 (43.56c in the old terms) with dealers expecting a further weakening of the local currency in the weeks to come.

Economists are unanimous that the rising costs of imported goods will push up the general inflation rate in months to come.

First evidence of this was provided by the production price index (PPI) figures for April, which showed that the declining trend in price increases of imported commodities had bottomed out over the month.

The PPI statistics, which were released by the Central Statistical Services yesterday, showed that the annual rate of increase in the cost of imported goods was 8.2 percent, which was the same as for March 1988, but halts the long-term decline evident over the last year.

prices of locally produced goods rose by an annual 13.7 percent in April, compared with 13.2 percent in March, which pushed the overall rise in producer prices to 12.5 percent in April, 0.5 percentage points up on the previous month.

On a monthly basis, the PPI rose by 1.6 percent from March to April, consisting of a 1.7 percent and 0.9 percent rise in the prices of locally produced and imported goods respectively.

While the prices of imported commodities have increased at a lower rate than local goods, economists said that the dramatic decline in the rand will inevitably push up this component of the PPI during the next few months.

With the exception of April, when the dollar was trading fairly steadily at around R2.15, the rand has declined steadily throughout the year.

On a trade weighted basis the value of the rand has decreased by over ten percent since January, with larger declines registered against most blue-chip currencies.

Yesterday alone the dollar surged by 2c to a closing rate of R2.28, the US currency's strongest close against the rand since about November 1986, following a similar rise on Tuesday. In old-style quotes the rand now stands at 43.56 US cents.

While much of this week's decline of the rand is due to the surge in the dollar following the release of a lower than expected April US trade deficit, underlying the currency's weakness is the country's deteriorating balance of payments situation and the authorities' attempts to make imports more expensive and exports cheaper through a weaker currency.
Clothing industry looking buoyant

Finance Staff

More clothes are being sold this year than last, despite an unexpected decrease in sales in February.

Hennie van Zyl of the National Clothing Federation (NCF) writes in the Clothing Industry News circular that major retail groups were selling between two and six percent more clothing in May than in the same month in 1987, and they expected to increase volumes in the following six months.

"The strongest growth segments during the next six months will be ladies' and children's wear and credit, as distinct from cash business."

And better news for shoppers is that future price increases are likely to be less than the current 20.5 percent a year rate.

EMPLOYMENT

Mr van Zyl says the rise in employment levels throughout the clothing industry has slowed down of late after almost two years of growth.

Numbers total about 120,000 now, compared with as little as 160,000, according to Industrial Council figures in mid-1986.

The number of clothing manufacturers in Natal has stabilised since July last year at about 440. Western Cape has a similar number, while there are about 350 in the Transvaal.

Mr van Zyl says that although fabric price increases slowed down to an annual figure of about 18.3 percent in March, they still threaten the well-being of the industry, being considerably above both inflation (13.5 percent) and the 13.5 percent a year rate at which garment manufacturers increase their prices to retailers.
Recessionary conditions on the way

Finance Staff

Recessionary conditions are expected to characterise the economy, late this year to halfway through 1990, Aloma Jonker and Heidi Vollmer write in stockbroking firm Frankel, Kruger, Vinderne's latest industrial report.

In a general scenario of rising interest rates, forecast slower economic growth, inflation and a declining rand, they recommend only shares fulfilling certain criteria.

These were a proven track record, high dividend yield stocks, shares of companies not largely dependent on imports, rand hedge stocks, low debt/equity ratio, shares expected to outperform their particular sector.

Jonker and Vollmer remain bearish on the industrial index. "We expect a further decline by the year-end due to declining corporate profits as the economy slows and interest rates rise. The current upward movement in the Industrial Index threatens to be a bull-trap and caution is advised.

Long-term investors should switch into blue-chip, non-cyclical shares, and hedging of market risk should be considered by sellers of futures."

They add the general effect of overseas disinvestment should be to increase opportunities for cash flush South African companies.

The report recommends the paper and packaging and pharmaceutical and medical sectors as worthwhile investment areas over the next three years.
Inflation slips to below 13%

CONSUMER price inflation eased to 12.9% in May from 13.3% in April, reaching below 13% for the first time since October 1994. The rate was sharply down from the 17.3% of May last year.

Central Statistical Services figures released yesterday showed the Consumer Price Index (CPI) advanced by only 0.6% between April and May compared with increases of 1.1% in April and 1.3% in March.

Food price rises continued to exert upward pressure on the rate of increase. Rand Merchant Bank economist Rudolf Gouws said the year-long downward trend could be bottoming out and should start moving upwards in the last quarter.

But the next upward movement could be only a temporary interruption before the downward trend resumed, he said.
A look at what causes inflation

By an Economist

To understand inflation, we must begin by understanding the role of prices. It is generally accepted that in a competitive economic system, prices perform two functions: Firstly, they allocate resources, and secondly, they signal income. In other words, changes in prices due to changes in market conditions result in the reallocation of resources from less profitable to more profitable industries.

In the same way, increases in prices throughout the economic system are not contained within their own industry, in other words, price increases move from being specific to being general, the general price system fails in its allocation and redistribution function and ultimately the result is a rather distorted economic system.

That is why inflation is a problem which is characteristic of most developing economies, namely, the shortage of capital equipment.

In other words, the constraint which faces our economy is one of a shortage of machinery which is required for production. In this type of environment, an increase in demand leads to a set of price increases which spread outside the industry in question. An increase in demand results in an increase in output, given that machinery is scarce, this increase in output results in an increase in the costs of production. The producer does not, however, bear this increase in costs but rather passes it on to the consumer as an increase in price.

This increase in prices means that real wages (money wages adjusted for inflation) have been lowered.

Capital

We will now examine a scenario in which a specific increase in prices becomes a general increase in prices and therefore inflationary. To do this, we begin by assuming that we are operating within a closed economy, or put differently, an economy where there are no imports and exports.

We will further assume that the increase in demand originates from an increase in government expenditure.

Profit

The capitalist on the other hand faces a very different set of circumstances. The higher demand means that he can sell more, and because he has passed the price increases to the consumer, his rate of profit has increased as a result of the higher demand. In this case, inflation has had the effect of redistributing incomes in favour of capital.

Furthermore, the increase in product prices relative to unchanged wages means that it is now profitable for capitalists to increase production and therefore, capital utilisation by means of overtime and a regime of shift work.

Also, the higher rates of profit allow the capitalist to invest further in capital equipment and in this way, the process of capital accumulation is enhanced.

Marxian

In the case discussed above, there has been a general increase in prices but no general increase in wages. Indeed, in this type of scenario, we also find widespread unemployment in the Marxian sense.

The shortage of capital equipment means that there is a shortage of tools with which to put labour to work.

There is also the fact that the movement to capital usage rationed some unskilled labour out of the labour market and into the pool of unskilled unemployed labour force.

Furthermore, the inflationary process leads to a redistribution of income in favour of capital.

It also adds to the unemployment problem. In part three of this series, we will drop some of the assumptions made in this article, so that we may create an economy which is closer to the real world.
Inflation dips below 13% for first time in 4 years

By Sven Lunsche

A surprisingly low increase in food prices helped the inflation rate to drop below the 13 percent mark for the first time since October 1984.

According to figures released by the Central Statistical Service (CSS) in Pretoria yesterday, the year-on-year increase in the consumer price index declined to 12.9 percent in May compared with 13.2 percent in April, while the monthly rate of increase in May was 1.2 percent.

The statement from the CSS notes: “It is encouraging that the annual rate of increase in the price index for food, which remained constant at 17.1 percent for the previous three months, dropped to 16.8 percent for May, the first time since December 1986 that the rate has dropped below 17 percent.”

Despite the latest decline, economists maintain that the inflation rate will bottom out towards June-July this year, as demand inflation and a lower rand exchange rate take their toll.

In a recent economic survey Sanlam’s chief economist Johan Louw said he expected an average rise in the consumer price index of 13.8 percent for 1988 as opposed to 16.1 percent in 1987 and 18.6 percent in 1986.

He listed two major factors which have been exerting upward pressures on consumer prices:

- Higher interest rates, as apart from the higher costs this involves for businesses, the rise in bond rates will initially have a detrimental effect on the consumer price index.
- Higher unit costs for producers have also been forecast and first evidence of this was provided by the seasonal adjustment increase in producer prices earlier this year.

The quarter-to-quarter change in the production price index fell back from 14.8 percent in the second quarter of 1987 to only 7.9 percent in the fourth quarter, but subsequently re-accelerated to 12.5 percent in the first quarter of this year.

As a result of the lower rate of increase in food prices in May, the inflation rate for lower income groups was less than that for the middle and higher income groups for the first time in months, as food has a larger weighting in the “basket” of this group.

Among food items, the largest monthly increase were seen in non-alcoholic drinks (15.5 percent), recreation and entertainment (3.9 percent), cigarettes (3.5 percent), vehicles (2.7 percent) and footwear (2.1 percent), while monthly decreases were registered by fruits (2.7 percent) and sugar (1.1 percent).
because of bad policies

• From page 28
which inflation would thrive
Firstly because of the strong exchange rate the practice of importing large quantities of capital equipment was encouraged and the bias towards capital intensive industrialisation was put in place

Secondly, the existence of subsidies and the protection offered by tariffs and other import controls attracted manufacturers to the protected sectors.

After all they were assured of large profits in these sectors Thirdly, government policy did not actively encourage exports, so that the net outflows of foreign exchange needed to pay for imports were not matched by net inflows from the sale of exports.

Policy
It must be noted that throughout the period under discussion the policy followed was one of direct controls and intervention. The rand was allowed to remain relatively strong. For what turned out to be mainly political reasons devaluation policies were not followed. Indeed it was only in the last six years that currency devaluation as a policy measure was introduced.

In fact in the last two years we have seen the rand devalue quite substantially against other major currencies such as the British Pound, US Dollar, Japanese Yen and German Deutchemark.

However, given the distortion in the economic system created by the misguided and politically motivated policies of the past this currency devaluation is itself inflationary.

South Africa remains a net importer of goods and services and as in the past booms are accompanied by rapidly growing imports. The weaker currency means that these imports are expensive. Given the high levels of demand during these boom periods, the higher costs of imports are quickly transmitted to higher domestic prices.

Problem
On the other hand the weaker rand makes our exports more competitive. The problem, however, is that past policies did little to promote exports. Therefore, even with a lower rand not enough export volumes are generated so that foreign exchange inflows from exports are at best inadequate.

Furthermore, South Africa has an inflation rate which is far higher than that of its trading partners. To remain competitive it therefore needs a lower rand to neutralise the higher output costs. However, given the structure of the economy, a lower rand has inflationary implications as discussed above. In fact the policy of currency devaluation followed in the last six years has resulted in a vicious circle where the over-valuing currency has caused a boom, which in turn fuels the need for an even lower currency.

Conclusion
In conclusion we can say that inflation is a structural problem in the South African economy. The policy prescriptions of the past have resulted in an economic structure which does not allow for growth without inflation. Unfortunately it is not sufficient to follow policies which theoretically and indeed given a different set of economic structures would have the desired results. Sound policies in a bad structure ultimately become unsound policies. Given the structure of the South African economy inflation is here to stay it cannot simply be willed away.
Inflation is here to stay

THIS is the last article in our series on inflation. In this article we will drop the assumption of a closed economy. Instead we allow our economy to participate in world trade. In other words we now have an economy which imports and exports goods and services.

By opening up our economy we also allow ourselves to become part of the international flow of funds. Because our economy is now "open" one of the major economic variables we have to contend with and indeed understand is the balance of payments.

The balance of payments in fact is the country's balance sheet. Essentially there are three sections in the balance of payments. The first section is called the current account and it provides a record of all trade related transactions i.e. imports and exports.

The second section is called the capital account and it is here that all capital inflows and outflows (inflow and outflow of foreign investment and foreign borrowings) are recorded.

The third section reflects the country's gold and foreign exchange reserves (this is a balancing item i.e. the current account minus the capital account).

As a Third World economy, South Africa is a net importer of goods and services. More specifically we tend to import large quantities of capital goods (machinery and equipment) at a faster rate than we export. This results in a structural problem arising out of the policies of import substitution, the increasingly sophisticated process of industrialisation, and some aspects of world post war inflation.

We now turn to a discussion of the historical developments which allowed inflation to become part and parcel of the economic structure.

Historical Perspective

During the 1930s and 1960s South Africa followed a policy of import substitution and inward industrialisation. In essence the objectives of this type of policy was to allow the local industries to develop while at the same time allow the country to become self-sufficient. To do this the State put in place a set of economic measures which favoured certain sectors of the economy.

Among the policies introduced to promote import substitution were:

- Provision of cheap foreign exchange, in other words the rand was relatively strong compared to other currencies.
- Direct State subsidies were paid to agriculture as well as to those firms which embarked on import substitution programmes.
- Legislation which prevented black workers from organising themselves into unions. White workers were, however, organised and politically strong. This had far reaching ramifications for education and contributed much to the skills shortages. The inflationary aspects of this were discussed in part one of this series.

The results of these policies were far reaching and indeed allowed for the development of an economic structure which would prove to be highly distorted and in

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LAST week we saw the release of sets of economic data, namely, consumer price inflation and money supply. Inflation is down to 12.9% for May from 13.3% in April. This is the first time since October 1984, that inflation fell below the 13% mark.

However, before we get too excited about such a low level of inflation a word of caution needs to be sounded. Firstly there is the fact that inflation is a year-on-year figure and we are coming off a relatively high base — inflation for May 1987, was 17.3%, the highest figure for that year.

We can expect this statistical distortion to impact on the inflation figure for June this year, as the June 1987 inflation figure remained relatively unchanged at around 17%. However, the second half of 1987, saw inflation coming down rather rapidly so that the statistical advantage of a higher base year will be absent in the second half of the year.

Negative

What this in fact means is that a higher inflation figure can be expected in the second half of the year. Furthermore, the way the inflation index is compiled means that there are certain items in the index, such as housing, transport equipment and motor vehicles whose prices are not measured on a month by month basis.

This could mean that there are price changes in these components which will only be reflected in the inflation rate in the second half of the year.

Another reason for not getting too excited about the lower inflation is that those things which constitute the bulk of the average person's expenditure, namely, food, clothing and footwear are still showing inflation rates of 16.8%, and 16.5% respectively.

Apart from the statistical quirks inherent in the inflation rate there are other economic fundamentals which point towards an inflation rate of around 13.5% — 14.5% by year end. In the first instance there is the balance of payments position which has been steadily worsening for the past six months.

Further evidence that the economy is not slowing down can be found in the higher money supply figures. Money supply as measured by M3 (the broad definition of money) was revised upward to 20.7% for April and the preliminary figure for May is 22.7%. These figures are well outside the 12% — 16% target set by the Governor of the Reserve Bank, Dr de Kock. It now appears that this target will be hard to meet by year end. A closer examination of the components of money supply show that there has been no real slow down in credit demand for hire-purchase, leasing, and commercial bank advances for April showed year-on-year increases of 22.5%, 32.8% and 29% respectively. Given the Reserve Bank's unwillingness to allow the interest rates to increase the outlook for inflation remains negative. After all the present economic recovery is consumers have access to relatively cheap credit the spending spree will continue.

Depreciation

All in all, the outlook for inflation is negative. The strong economic growth experienced in the first quarter of the year shows no sign of abating and therefore fears of demand pull inflation are not unfounded. Furthermore, money supply is growing at an alarming rate and the rand continues to depreciate against other major currencies, which given the growing import levels could add fuel to the inflation fire. At the same time the position of the balance of payments gets more precarious.

One thing is clear, South Africa cannot afford this type of growth.
INFLATION ACCOUNTING

The comforts of delusion

With persistent inflation, the problem of cost accounting remains pressing

The more often a company changes its accounting policies, as a general rule, the more cautious the investor should be about buying its shares. But that should not preclude attempts to adopt policies which recognise that inflation exists and that it is destructive.

Too few companies in this country, where inflation remains a major problem, are prepared to tackle this thorny accounting problem. It is easier simply to issue disclaimers on the grounds of imperfect techniques and pretend that it doesn't exist. But what is convenient to the corporate treasurer is mightily misleading to the investor.

South African accounting standards are a joint product of those represented on the Accounting Practices Board - Assocom, Sifa, the Chamber of Mines, the JSE and chartered accountants (CAs) in public practice. But it is users of financial statements - not preparers - who are voicing increasing concern over standards, especially as they apply to inflation.

For example, a company can in reality be financially unsound, despite its reflecting substantial profits - by showing sales at today's inflated rates over stock purchased at yesterday's prices. By not adequately taking the impact of inflation on earnings into account, companies are easily tempted to pay dividends out of capital. Also, as the value of the rand continues to erode, provision for replacement of imported goods needs to reflect harsh realities rather than static accounting concepts. And so on.

JSE president Tony Norton singled out the problem of inflation in accounting at the CA's recent annual congress. It is generally referred to these days as current cost accounting. He pointed out that we have to 'recognise that, unlike the developed countries which normally lead us, we continue to experience a continuing high rate of inflation.'

Less than 20 of the 700 or so non-mining companies listed on the JSE include a current cost adjusted financial statement in their annual audited accounts. To an extent this is understandable, the problem is worldwide. The International Accounting Standards Committee (IASC) has yet to find consensus solutions in many areas. For example, the committee is tackling the question of removing free choices (options) within a particular standard. There is controversy in areas such as deferred tax, consolidation (group) accounts, goodwill and current cost accounting.

There is a reason for the pressure to reach international agreement. In the words of the IASC's David Cairns, financial markets have been revolutionised to international level oversight - but accounting standards have remained rational. One of the aims of the committee, formed over a decade ago, he says, is 'to boost the formation of truly international capital markets by helping investors understand the financial statements of companies in any nation.'

In SA, with endemic double-digit inflation, current cost accounting - or rather the lack of it - offers probably the most fertile field for creativity and delusion. Higher the inflation rate, the more distorted financial statements can become. The typical accounting period of 12 months adds yet further distortions.

The preferred historic cost accounting method allows a company to overstate shareholders' profit before tax, retained income and EPS. Dividend cover is increased.

Moreover, if companies were taxed on current cost profits, they would generally pay lower amounts of tax. Thus is a crucial point, for, if Inland Revenue agreed to tax on current cost profits, adoption of a current cost accounting standard would be instantaneous.

Revenue's attitude - unofficially - is that current cost accounts would be yet another way of reducing taxes payable. But if the taxing of current cost profits was accompanied by reducing tax concessions for industry and commerce, overall tax receipts would increase. Indeed, the erosion of such concessions is exactly what was recommended by the Margo Commission.

Creative accounting is not limited to ignoring inflation - and manipulation of earnings and other figures is not limited to SA. Far from it. In the US and UK, financial statements are directed at existing and potential investors, thus tending to provide realistic estimates of earnings - as in SA.

German and Japanese accounts, on the other hand, are still drawn up with the tax authorities in mind, thus tending to underestimate earnings.

Perhaps the universal problem is the general level of disclosure, which is measured - in its broadest context - in terms of public interest. The IASC is seeking a solution by application of the principle of 'relevance.'

Any change in accounting standards, the argument goes, should be made with this as the overriding consideration.

That's a long way from where we are today. Some companies are forthright in totally disregarding current cost accounting. Says Barlows in its latest annual report: 'The group recognises that financial statements prepared on an historical cost basis do not disclose true profits, as they are unable to reflect the impact of inflation.'

'However, conventionally prepared financial statements still form the basis on which business decisions are made and the yardstick by which companies are judged.'

'Until a method of accounting for the effect of changing prices is developed which is meaningful, standardised, generally accepted and of benefit to users of financial statements, the group prefers to refrain from any attempt to disclose such effect.'

That would appear to summarise the attitude of the hundreds of JSE-listed companies which do not provide current cost adjusted accounts.

Does Barlows have a point? In recent years, the company's EPS has benefited from ignoring inflation, particularly in the treatment of stock. More recently, it adopted the partial method for deferred tax (linked closely to inflation concepts), which, coincidentally or not, significantly improved its EPS.

AC 201, issued in SA in 1978 and entitled 'The Disclosure of Effects of Changing Prices on Financial Results,' is a meaningful and 'standardised' reference point, though only a guideline, rather than a Generally Accepted Accounting Practice (GAAP) if AC 201 is regarded as insufficient, there is IAS 15 - 'Information Reflecting the Effects of Changing Prices' on the books of the IASC, and a board member, has agreed on a "best endeavours" basis, to implement International Accounting Standards wherever possible.
ble. In other words, when SA adopts a new accounting standard, it will at least comply with the relevant IAS.

So, whereas AC 201 is not a GAAP in SA — and, therefore, not compulsory, every company listed on the JSE could comply with it — or with IAS 15. On the other hand, as pointed out, IAS 15 is being reviewed because its implementation in the West has been unsuccessful. It has been withdrawn in the US and UK, where low inflation rates have taken the heat out of it.

Those companies which have implemented current cost accounting — SA Breweries, Premier Milling, Rubicon Portland Cement, Adecoek Ingram and Afrox (among others) — have shown it to be of benefit. Afrox, in particular, gives clear and unambiguous current cost accounts which show how dramatically figures change when reality is recognised. In a full current cost-adjusted statement, Afrox shows that, whereas historical profits after tax were R47m, current cost profits were 29% less at R36m (see table).

Afrox uses four main adjustments in recognising inflation:

- Depreciation. Fixed assets are revalued. The increase is reflected in a non-distributable reserve. A like amount for depreciation is used to reduce trading profit (a cash item, which has a direct impact on EPS).
- Cost of Sales Adjustment. This is identical to the change for fixed assets, relating to stock.
- Monetary Working Capital Adjustment. This recognises that inflation decreases the cost of debt. Paying yesterday's debt with today's inflated money gives a credit, and
- Financial Adjustment Gearing. This is similar to the working capital adjustment, but relates to long-term debt instruments.

In the result, Afrox's EPS for 1987 on historical accounting were 152.84c, against 117.57c on current cost — a difference of 30%. Historical dividend cover was 3.33 against 2.75 — a 21% difference. Profit on capital employed was 14.34% and 7.83% — a difference of 83%.

Of course, current cost accounting is more complicated than suggested here. Its impact varies depending on the nature of an organisation's business, showing greater differences with capital-intensive companies (such as Afrox) than with trading companies like Pick 'n Pay. And, of course, the higher the inflation rate, the greater the benefits of inflation accounting for companies which are highly geared.

In SA, there is currently a peculiar benefit that goes with current cost accounting. To quote Norton, such "figures are increasingly important in pointing out to workers and their trade unions that the reality of the profits of the company are often not what they seem to be."

What are the arguments against current cost accounting? These were summarised in a reply to Norton by Pim Goldby's Peter Wilmot, for SA's representatives on the IASC. Wilmot said CAS do not doubt that inflation is ravaging SA. "But experience here and elsewhere shows that current cost-adjusted financial statements may not be the answer."

Analysts, said Wilmot, were suspicious of current cost accounting because:

- Many of the values were subjectively calculated. They preferred to make their own adjustments.
- Companies see it as a costly exercise with limited benefits.
- There are competitive implications among account preparers, and
- There is a perception among preparers that there would be a down-rating of the market price, followed by the shares through the inevitably lower EPS.

Wilmot added, "The irony is that in times of high inflation, everybody acknowledges that historic cost financial statements are deficient, but there is no concentrated call from users for current cost accounts."

What is the answer, not only to the problem of current cost accounting, but also to making financial statements more relevant? The IASC's approach is to involve international organisations of financial analysts, stock exchanges, securities commissions, trade unions, lawyers, bankers (particularly the World Bank), financial executives and chambers of commerce — as well as intergovernmental organisations.

SA's governing accounting bodies follow a similar approach. They just don't seem to get enough done. In the meantime, perhaps Norton's suggestion, that an unofficial current cost statement should be issued with all accounts, provides a partial answer.

He believes SA can stay with historic cost accounting, providing there is also a full cash flow statement (on which GAAP will soon be issued), incorporation in the notes, assessments of the current real value of assets, and a current cost accounting income statement in a memorandum setting out the underlying assumptions.

This would "give the user of the account's reasonable assessment of the reality of the business and its profits and assets. This statement need not be audited, but it is useful and, in many cases, an invaluable tool for management and investors."

Our view is that until the tax authorities are prepared to tax current cost profits — and there is little hope of this while government is short of cash — those companies which can be persuaded to follow Norton's sound advice will soon tire of winning only Brownie points.

While the Exchequer benefits from inflation and government is devoid of vision, there is unhappily going to be no change for the better.

This is a pity. For it goes without saying that improved accounting standards are important to the fostering of adequate economic growth in a country where there is a real danger of atrophy. They are of themselves not enough to reverse that process, but they at least prevent reality from being masked.

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**Barry Segoviant**

**RECOGNISING INFLATION**

Afor accounts — 1987

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**FINANCIAL MAIL JULY 1 1988**
Hopes for lower inflation will be hit by two cold fronts in months to come — the rapidly declining rand exchange rate and cost increases for locally produced goods.

This was evident yesterday when the Central Statistical Services announced that the production price index (PPI) hit its highest level since 1967 in May this year, recording an increase of 18.2 percent compared with May last year.

The monthly increase for May over April this year was 1.2 percent.

The rate of increase for locally produced products was 14.3 percent in May, which was an increase of 0.6 percent up on the previous month.

The annualised rate of increase for imported products was 10 percent up on the figure for May last year and 22 percent on an annualised basis, on April 1988.

And the cost of imported goods is likely to rise as the rand continues its rapid decline, which was evident over the last two weeks.

At yesterday's closing level the rand-dollar exchange rate of R2.3855 was almost 1.5 percent down on the same level two weeks ago, while the crosses did not fare much better.

The rand registered declines of about two percent against sterling, one percent against the Deutsche mark and over three percent against the yen.

The trade weighted rand lost about 1.5 percent, while the furnand, at yesterday's close of R3.56, lost over two percent.

Writing in its latest currency report First National Bank says the rand was likely to continue declining. "With no significant capital account compensation for our loss of forex reserves, rand exchange rate stabilisation is not sustainable when the current account is constantly overshadowed by our foreign debt repayment and servicing commitments."

With this in mind Frankel, Kruger, Vandermees economist Dijan Raine says "It now appears that that inflation surge from 1986 to 1987, due first to the rand's decline and then food price increases, is now at a turning point and the core inflation excluding food will start rising again as the depreciation of the rand pushes up import costs."

She adds, however, that the extent of the increase was likely to be less than in 1984/85, as there had been substantial import substitution since 1984.
Inflation hits 13,3% in May

GRETIA STEYN

PRODUCER price inflation hit 13.3% for the year to May 1988 - the highest rate of increase in the Producer Price Index (PPI) since September last year, Central Statistical Services figures show.

The rate has been in an uptrend since the beginning of the year, apart from a slight downward hiccup in March.

The weak rand is starting to work its way through to the inflation rate. In May, the imported component of the PPI rose by 1.6% from April, after two small monthly increases of below 1%.

Economists expect imported prices to continue fuelling inflation, reflecting the battering the rand took this year.

The rand has dropped by almost 14% against a basket of currencies of SA's main trading partners since January. Imported prices contribute almost 23% to the overall PPI.

The prices of domestic goods increased by 1.1% between April and May, rising at a slower rate than imported prices for the first time this year. Domestic price rises reflect, among others, demand pressures in the economy.

The overall PPI rose by 1.25% between April and May - higher than last year's increase of 1.1% in the corresponding period.
BER surveys find economy is slowing down

Inflation set to rise as confidence dwindles

Greta Steyn

UPWARD pressure on the inflation rate was building up with retailers and wholesalers expecting prices to rise at a faster rate this quarter, Bureau for Economic Research (BER) surveys have found.

It was also found that business confidence, though still high, had started to dwindle in some sectors. At the same time, the mood of black and white consumers had deteriorated.

The BER surveys point to a slowdown in the economy at the end of the year accompanied by a climbing inflation rate. Retail price hikes were expected to accelerate by most retailers interviewed.

The BER said: "Retailers intend passing on the higher purchase prices to the consumer with the exception of durable goods, where a smallish number of participants intend to absorb some of the higher costs."

Among wholesale firms, 20% of respondents expected their purchase prices to increase at a higher rate during the third quarter, compared with only 5% in the previous survey.

The prices at which they sold their goods were also widely expected to increase at a higher rate than in the second quarter.

The survey on prices suggested profits could come under pressure.

On business confidence, it was found the retail sector was optimistic at the end of June but that confidence could deteriorate this quarter as a result of poorer business conditions.

Among motor-car dealers, the mood was decidedly more bearish with expectations that the rate of increase in sales from last year would slow down. The BER said although business conditions in the motor trade were still buoyant, signs of a slowdown were emerging.

However, wholesalers' level of confidence was high and was likely to remain so during the quarter.

The BER polled more than 800 traders in the surveys.
Inflation at lowest level in three years

By Sven Laasche

Most economists had predicted that the decline in the inflation rate would bottom out in June.

But yesterday's consumer price index (CPI) figures for June showed inflation fell to a year-on-year 12.4 percent from 12.9 percent in May, its lowest in over three years.

More importantly, the month-on-month increase was a mere 0.4 percent, or an annualised 3.9 percent. Food prices actually declined by 0.3 percent over the month.

On a yearly basis, the rate of increase in food prices was 15.6 percent, the first time since November 1985 that this rate was under 18 percent.

Most food articles recorded monthly decreases in June, including meat, which dropped by 0.3 percent, and which has the largest weighting in the food index. Over the previous 24 months, meat prices had increased by 64 percent.

Simpson McKie economist John Banos said yesterday it was inevitable that food prices would fall after increasing much faster than the CPI over the last two years.

Apart from lower food prices, economists had generally forecast that inflation would rise again towards mid-1989, given higher producer-price rises and the weakening rand.

Changes in the producer price index (PPI) usually preceede those in CPI by about two to three months, but the inflation rate has as yet to mirror the rising producer prices of recent months.

Central Statistical Services (CSS) said yesterday that while the PPI was running at 17.3 percent for the period December to May, the CPI had risen at an annualised 10.4 percent in the first six months of the year.

It said the rates had been diverging since the beginning of the year and that it should be borne in mind that the bases for compiling them differed vastly.

"The PPI comprises various products of which the prices are not directly reflected in the basket of consumer goods. It was specifically these products — coal, non-metallic minerals, electrical machinery and transport equipment, among others — which fired the recent annual rate of change in the PPI," CSS said.

Mr Banos saw other reasons why the PPI and the CPI need not necessarily correlate. "Weaker business conditions towards the end of the year could prevent companies from continuing to widen their profit margins. "Profit margins have widened since 1988 and it is not inconceivable that this process will stop once economic growth slows towards the end of 1989," he said.

"Consequently, producer prices may move up, but consumer prices remain largely unaffected."
Surprise greets fall in inflation

BRETA STEYN

THE inflation rate dropped to 12.4% in the year to June from the 12.7% in the year to May — impressing the capital market and surprising economists who had predicted a rise in the rate. Capital market rates softened on the news released by Central Statistical Services (CSS).

The interest rate on Eskom's long-dated stock dropped to 16.11% from Wednesday's 16.20% and the RSA 13% 2005 to 16.15% from 16.23%.

Economists have been sounding warnings on consumer price inflation ever since the rate of increase in producer prices started its upward climb in January this year.

Downward trend

Traditionally, inflation measured by the Consumer Price Index (CPI) follows producer price inflation with a lag of a few months.

However, the rate of change in the CPI has stubbornly stuck to its downward trend.

It has refused to take a lead from the moves of the PPI, helped mainly by a surprising drop of 0.8% in food prices between May and June.

The decline in food prices was attributed to favourable agricultural conditions and a price war between the major supermarket chains.

The Consumer Council reports OK Bazaars food prices, measured from a basket of 60 products, fell by 1% between May and June.
Inflation building up in top nations

By David Carte

BOOMING world commodity prices will not be enough to spur SA to fast economic growth unless gold starts moving with them.

This is the opinion of Southern Life's chief economist, Mike Daly, in his quarterly economic comment. In spite of the October stock market crash, the US economy has lasted 70 months. It has thus been one of the longest booms on record.

Mr Daly says inflationary pressures are building up in industrial economies.

"The recent exceptionally rapid price increases for agricultural and metal commodities are partly a reflection of those pressures and are a necessary (though not sufficient) condition for sustained price rises across goods in general."

Mr Daly says a world slowdown early in 1980 would not be conducive to growth in SA.

He is not happy about prospects for exports.

Platinum

"The sudden and sharp fall in the surplus on the current account of the balance of payments in the first quarter is a deficit was partly due to a fall of over 6% in export volumes. Sanctions which can only tighten are an added negative factor."

Mr Daly says only higher commodity prices prevented more of a slide in the balance of payments. The strength of demand more than supply disruptions accounts for a "tremendous" increase in commodity prices.

"In the year to the first quarter of 1988, the IGM commodity price index in dollars rose by 29%, with the metals index up 53% and the food index up 22%.

"What would impact directly and dramatically on the SA balance of payments would be a similar strong rise in the prices of gold and platinum."

Mr Daly sees some hope here. In the first place, he believes real rates of interest, currently near all-time highs abroad, are more likely to fall than to rise.

"Another positive factor for gold is that in terms of strong currencies such as the mark and yen, gold has maintained a steady trading band over the past two years Any improvement in investment interest by the West Germans or Japanese could see the metal's price sharply up from the $457 level reached at the end of the second quarter."

Pressure

Because households are under financial pressure after the recent spending spree, Mr Daly believes demand will cool off at existing high levels.

Fiscal policy has so far been surprisingly tight, the spending increase up by 10% compared with a budgeted 12.5%. Revenue has risen by 19%.

Mr Daly says it is too early for short-term interest rates to start falling, but it is possible that the interest-rate peak of May will not be exceeded this year.

Lower Government spending and a much deteriorated net export position will tend to undermine economic growth this year. Although it is not expected to rise from present frenetic levels, demand will remain strong.

"Capacity utilisation in manufacturing is currently at 81% the highest since 1964, and at a level where new fixed investment in capacity can be undertaken.

It is likely that manufacturing production can continue at current levels given that the high level of demand is not going to fall away this year and that the growth of fixed investment by the private sector will continue at a fairly strong pace."

Disposable

Mr Daly thinks overall investment expenditure will rise 8%.

Fanned by rising personal disposable income, private consumption expenditure rose by 4%. Spending on consumer durables grew by 13% in the first quarter. The expectation is that personal spending will increase by 4% this year.

"We have forecast a growth rate of 2.5% for GDP this year, which is still above 3%"...
Growing inflation crippling agriculture, says Nampo

PRETORIA — Inflation is crippling the agricultural industry, demanding a sustained counter attack and an identification of the root causes, the National Maize Producers Organisation (Nampo) says.

In its official journal, Maize/Mealsie, Nampo says experience had shown that holding down administered grain prices artificially could not halt the upward surge of inflation.

And Nampo economist Kit le Clus says attempts to manipulate prices can cause distortions on the supply side of raw products.

GERALD REILLY

For years, Nampo had pleaded for effective action against the continually rising costs of farming. Commissions and committees had been appointed to find answers but with little success. Nampo claims the maize farmer receives only 32c of every R1 paid for maize meal by the consumer, out of which he has to pay for his inputs.

Because of this farmers would plant less maize in the coming season, emphasising the devastating effect of inflation.

Nampo says a tractor of 53kW cost R5 758 in 1975 when the maize price rallied to R62 a ton. To buy the tractor, the farmer would have had to produce 92.9 tons of maize. A decade later the farmer had to deliver 169.9 tons of maize to buy the same tractor.

And, in June this year, he would have had to deliver 260 tons.

Le Clus said the financial plight of grain farmers continued to deteriorate.

Four years of drought had left their mark on hundreds of farmers. If government aid was summarily withdrawn at least 40% of them would be forced into liquidation.
Peace plan sabotaged, says Peres

JERUSALEM — Israeli Foreign Minister Mr Shimon Peres has accused his right-wing adversaries of prolonging the seven-month-old Palestinian uprising by sabotaging a US Middle East peace initiative.

Referring to the peace proposals of US Secretary of State Mr. George Shultz, Mr Peres said: “If it weren’t for the sabotage of the peace process of the Shultz initiative by half the government, then maybe we wouldn’t be in the middle of the intifada (uprising),” Mr Peres said.

©Israeli peace activists claimed a victory yesterday when Arab supporters of the Palestine Liberation Organisation (PLO) spoke for the first time at an Israeli-organised public meeting in Jerusalem.

Palestinian nationalist Mr Faisal al-Husseini and Arab Journalists Association head Mr Radwan Abu Ayash urged Israel to recognise that Palestinians had a right to a state of their own and to start talks with the PLO.

The event was sponsored by the non-partisan Peace Now movement and organisers said the event was a triumph for moderates on both sides.

— Sapa-Reuter-AP
Consumer bodies slate bank move

Higher interest rate 'will boost inflation'

By Melanie Gosling

The SA Consumer Council has expressed its concern about a possible increase in bank lending rates and has warned the public to be very cautious when signing finance agreements.

"According to reports, large amounts of money have been lent to the private sector at relatively low rates. Banks are now looking to increase interest rates to enable them to show favourable profits," Mr Roos said.

He said increased rates would have a negative effect on the inflation rate, consumers would have less money to spend and the economy would undoubtedly suffer.

"The council is aware of talks to be held between the Reserve Bank and commercial banks tomorrow and appeals to these organisations to keep in mind the precarious state of the economy and the State President's appeal earlier this year that everyone should co-operate to combat inflation," Mr Roos said.

The National President of the Housewives League, Mrs Lyn Morris, said if the banks had not been discerning in lending money, it was wrong to get back money from the small man.

"Already we have an imbalance in the tax system where the small man is contributing more than the big companies," Mrs Morris said.

She said the league had warned people when the interest rate dropped to around 12.5 percent last year that people buying houses should realise the rate would go up and calculate if they could afford it.

Home loan rates, which dropped in the war between banks and building societies last year, have been rising ever since. In May this year First National increased its bond rate by 1.5 percent to 15 percent. Allied Building Society increased this year from 13 to 14.5 to 15.5 percent.

Mr Kobus Jooste, president of the South African Agricultural Union, said a further increase in interest rates would seriously hamper the economic recovery of a large percentage of farmers and to a great extent "neutralise Government assistance to farmers."

In a statement issued to Sapa in Pretoria, Mr Jooste said a rise in interest rates to raise the banks' profit margins was totally unacceptable to his union.

"With a debt load of approximately R14 billion, interest payments still constitute the greatest single cost item for the farming community. An increase in interest rates would, therefore, seriously hamper the economic recovery process," he said.

See Page 13.
INFLATION (123) 2M

Headed two ways

Are inflationary pressures building up, out of sight and unrecorded by official statistics? Or has the link between producer prices and consumer prices unexpectedly broken, cushioning the latter from the rising prices of imported goods which have been driving up the producer price index (PPI) since the rand started depreciating early this year?

These are questions economists are asking after last week's figures from Central Statistical Service (CSS) which show the official inflation rate, based on the consumer price index (CPI), and the rate of change in PPI are headed in different directions. While PPI is increasing sharply, CPI continues to fall from a high of 17.3% in May last year.

CPI for June shows year-on-year inflation of 12.4% (compared with 12.9% in May), and a seasonally adjusted monthly increase of only 0.1% (0.6%). This means annualised CPI growth from December to June was 10.4%, while PPI to May rose 17.8%.

In a summary published with the figures, CSS head Teurnacht du Toit says this is out of line with past experience "of a relatively high correlation" between the two indices. He points out, however, that the basis on which the indices are compiled is different PPI "comprises various products, prices of which are not directly or immediately reflected in the basket of consumer goods."

He cites relatively large price increases for stock bricks, face bricks, sand, glass, insulation board, coal, "other mining" non-metallic minerals, electrical machinery, transport equipment, wool, synthetic rubber and transformer oil as components which fired the rate of change in PPI without affecting CPI.

Food prices, on the other hand, which have a major impact on CPI, tended to fall, rising only 15.6% year on year — less than 16% for the first time since November 1985.

Components which fell on a monthly basis were: meat by 0.5%; milk, cheese and eggs 0.8%; coffee, tea and cocoa 4.2%; grain products 2.1%, fats and oils 2.5%, and "other foods" 3.9%.

Lower prices of these were not the result of a price war in the retail industry, says Checkers group deputy MD Sergio Martinengo, but rather reflect a fall in prices asked by suppliers. "There, for instance, has been an impact on a whole range of food products."

Some confirmation comes from the slight decline in May in the PPI component Manufacturing, Food.

Monthly declines in food prices more than compensated for a 2.1% increase in the price of fish and 3.4% in sugar, as well as increases in prices of non-food items like clothing and footwear (1.4%), furniture (2%), and medical (2.7%) and personal care (1.6%)

As in the two previous months, the higher-income group was hardest hit by inflation. The seasonally adjusted monthly rate of increase in prices for lower- middle- and higher-income groups was 0.3%, 0.3% and 0.8%, and the year-on-year rate was 11.9%, 12.3% and 12.7%. This was due to the higher weighting of food in the basket of the lower-income group. And, on a geographical basis, lowest annual inflation rate (9.8%) was recorded in Bloemfontein and highest in the Klerksdorp, Stilfontein and Orkney area (14.5%)

A CPI for pensioners, released for the first time, shows a year-on-year rise of 12.3%

The conflicting signals provided by the two price indicators has led to questions about their validity.

However, Old Mutual economist Ruan le Roux, who conducted a study on CPI in 1985, believes they are valid. "We found that over a 10-year period, CPI accurately reflected actual changes in prices and no meaningful discrepancies were found."

That weightings have subsequently been altered does not modify this view as "marginally inaccurate weightings would be relatively unimportant, it is the accuracy of prices that really matters." He is convinced also that PPI figures are accurate.

Rand Merchant Bank economist Rudolf Gouws predicts CPI will remain at present levels or decline slightly for about three months. "We should then see a climb back towards 14%, followed by further falls as the economy slackens."

Others, however, are less optimistic. Deputy Motlou & Kitshoff economist Leon Steenkamp points out that 1989 year-on-year increases will be off a low base and for technical reasons alone are likely to be high.
Inflation worse than sanctions

INFLATION is a bigger threat to SA's R2.3-billion-a-year coal exports than sanctions.

That is the view of David Horstfall, who has been appointed to the Shell chair of coal technology and Wits University's Department of Metallurgy.

His research will be largely directed at containing the industry's costs.

Professor Horstfall says, "With inflation running at 15%, we could be out of our foreign markets in five years. We need solutions to the problems of cost containment."

Professor Horstfall, who came to SA from Britain in 1964, is the process engineer who was instrumental in putting SA coal exports on the world map in the 1970s.

He was a technologist with Anglo American Corporation when his team of researchers started the beneficiation processes that produced low-ash coal acceptable to foreign buyers.

Professor Horstfall says that although sanctions are a cause for concern, "people will buy if the coal is cheap enough and if it works in their appliances. But we must get costs under control."

Professor Horstfall has been particularly interested in projects that extract as much of coal's energy as practicable.

He devised the "coalcom" scheme as a combined power, coke and oil-from-coal concept.
Support for inflationary accounting in SA firms

AH JACOBSON

COMPANIES are overlooking the distorting effects of inflation on company results and the value of assets in the balance sheet, says SA Institute of Chartered Accountants (SAICA) technical director Graham Terry.

Terry said the SAICA welcomed the statement by JSE president Tony Norton that muscle would be used to persuade companies to indicate the effects of inflation on their results.

While the importance of inflationary accounting had diminished in the Western world as the need for inflation adjustments diminished, this was not so in SA where inflation was much higher, Terry said.

SAICA, in conjunction with the JSE, would attempt to find a reasonable method of accounting for inflation.

Cash-flow

Ten years ago SAICA published a guideline on "Disclosure of effects of changing prices on financial results". This was followed in 1993 with a draft for the disclosure of effects on the current values of assets.

Terry said the Accounting Practices Board recently issued a statement requiring companies to present cash-flow information in their financial statements. By comparing cash generated from operations with reported income, inflationary effects on businesses could be gauged.

Companies had been reluctant to divulge inflation-adjusted figures because users of financial statements showed a lack of interest. Other reasons were that the information was not required, was costly to prepare and companies did not use these figures in their management accounts.
Prices set to soar again

SA’s relief from soaring prices appears to be over

Three financial institutions warned this week that inflation was rising again.

The United group and Volkskas predict an inflation rate increase of 14% by the end of the year and Sanlam’s economic survey forecasts 15.5%.

United and Sanlam say next year’s rate could be 16%.

The United’s Economic Monitor says the inflation rate has hit its cyclical turning point and prices are under upward pressure. Volkskas Economic Spotlight says the achievement of the psychologically important single-digit rate is improbable.

Reasons

The reduction in the inflation rate increase, singled out by Volkskas as the best economic news of the year, has been marked. After hitting 17.2% in June last year and 15.5% in October, the rate slowed to 12.9% in May and 12.4% in June.

The lower inflation rate was mainly due to the rand’s stability last year and low increases in administered prices.

But, the Monitor says, the rate of increase in the production price has accelerated to 14% after reaching its low turning point of 11% last December.

The main reasons were renewed exchange-rate weakness and strong credit demand.

Depreciation of the rand and new surcharges will lift import prices. In addition, says the Monitor, the Government is expected to allow administered prices, including food, to reflect increases in production costs in 1989.

Volkskas says the weaker rand has not had its full impact on the production price index and has had even less effect on the consumer price index.

“Thus, favourable situation no longer exists and although food prices increased more slowly in the past few months, the CPI increase rate is expected to be higher in the coming months.”

The one bright spot is that Sanlam does not expect a large rise in short-term interest rates after the Government’s new steps to stem the pace of general economic activity and improve the foreign trade account.
Profits overstated as firms ignore inflation

Two Stellenbosch University Business School researchers have found that by failing to provide for inflation in their accounts, listed industrial companies have exaggerated their earnings on average by 2.6 times.

In other words, on average for every R100 of taxed profit they reported, they should actually have paid dividends out of capital increased from 29% in 1982 to 60% in 1986.

Mr Gevers and Professor Hamman provided additional depreciation and added a cost of sales adjustment. From this they deducted the effect of diminished debt to discover the extent of exaggeration.

For the sample of 200 companies, the average additional depreciation was 43.1% and the average cost of sales adjustment was 41.2%. From this 22.2% leverage effect was deducted. The upshot, they found, was that earnings had been overstated by 61.1%.

A profit of R10-million therefore should have been stated as R4.8-million.

Sectors in which inflation had the most marked effect were furniture and household (122.5%), clothing (106.9%), motors (80.9%), engineering (88.7%), electronics (84.1%) and printers and publishers (61.1%).

The most inflation-proof sectors were beverages and hotels (24.1%), steel and allied (33%) and fishing (30.1%).

The number of companies that paid dividends out of capital rose from 60 in 1982 to 124 in 1986.

Another finding was that many companies that paid dividends out of capital either had to reduce or cut payments in subsequent years.

The study will be updated to incorporate 1987, taking in the economic upturn. The researchers will investigate whether companies that have paid dividends out of capital have had to hold more ready cash as the effect of dividend policy on share prices will also be looked at.

The findings will be received with considerable interest because Tony Norton, president of the JSE, and the SA Institute of Chartered Accountants are putting pressure on listed companies to conform to guidelines AC 201.

Coincidentally, in his inaugural speech at the University of Cape Town, accounting professor G K Everingham, was also critical of accounting conventions which were "escaping reality".

Professor Everingham says the Accounting Practices Board has not been forthright enough in treatment of rising prices.

"The fact that less than a dozen of SA's top 100 companies provide inflation-adjusted information is appalling. Furthermore, those that do provide the information do not do so in a consistent manner."

Barlows

He says Barlows statement that it will refrain from inflation accounting until a method is developed which is meaningful, standardised and normally accepted is "an extraordinary apology for practice."

Professor Everingham applied AC 201 rules to Barlows after-tax income from operations amounted to R677-million in its most recent financial year.

"If one deducts its depreciation charge by 33% and its average stocks by 12%, profits would be reduced by R131-million and R272-million respectively. The gearing adjustment amounting to some R18-million in the other direction leaves a net reduction of profit of R284-million, some 42% of profits. One is surely entitled to suggest this is non-trivial information."

Because inflation accounting reduces profits and increases equity return on shareholders' funds falls even more.

Professor Everingham doubts that companies that provide inflation-adjusted figures will be downrated on the JSE. He believes the market values companies efficiently and itself adjusts for inflation and other information. He appeals to Mr Norton to press companies to make inflation adjustments.

Nettle

Professor Everingham criticises the Accounting Practices Committee for failing to grasp the nettle on contentious issues.

"Instead of prescribing what it regards as the correct accounting treatment of a particular item, it has tended to allow alternatives."

Examples are those statements dealing with deferred tax (AC 102), finance leases (AC 105), depreciation of buildings (AC 106), dispositions of associated companies (AC 110), foreign losses (AC 112), capitalised interest (AC 114) and provision of segmental information (AC 115).

Scathing

Professor Everingham is particularly scathing about the practice of writing off foreign-currency losses over several years and the way companies going for a listing on the JSE are permitted to adjust their profit histories on an "as if" basis.
Much blame placed on Government 'bungles'

Inflation, exchange rate blues

By Michael Chester

Warning has been sounded by the Econometrix think-tank that the inflation rate, claimed to be at its lowest level in four years at the last official count, now confronts new pressures that will force it back into orbit — pushing the rand even lower on foreign exchange markets.

New studies by the research unit contend that the annual rate of increases in the consumer price index, quoted as down to 12.4 percent in June, will swing back upwards to above 15 percent in the next few months and up to at least 16.5 percent inside the next three years.

The boost in inflation from the shock increases in petrol prices and the cost of basic food items might prove only the forerunners of worse to come, according to the researchers.

On the currency markets, it is argued in the studies, the rand is threatened with even faster erosion.

The cost of buying one dollar, likely to work out at a 16.5 average of about R2.20, looks set to climb to more than R2.25 by the early 1990s.

Worse, it is predicted that the rand exchange rate versus the West German mark, on which a large volume of trade is conducted, will plunge from about 7.6 to below 4.5c down by 70 percent.

Dr Azar Jammie, director and chief economist at Econometrix, says all the blame cannot be placed on successive governments with monetary and fiscal policies.

"South Africans now face the inevitability of paying the penalties for mistakes that were made over the past two years when the Government resorted to the printing presses to turn out more and more rands to fuel the wild spending spree," he says.

The fundamental error made by the Government was in not bringing up the money supply to hopelessly excessive levels rather than exercising discipline, not only on consumer spending but even more so on its own spending levels," he says.

Dr Jammie believes inflation and exchange rates are influenced largely by the tempo of money supply, allowing for a time lag of about two years.

Thus, he allocates the credit for the decline of the inflation rate to 10 percent in 1983/84, accounted for by a strengthening of the rand, to the decline in monetary growth in 1983/82.

Conversely, the rise in inflation to its worst on record — 22 percent in early 1986 — is blamed on excessive use of Government printing presses.

Econometrix sees the same time-lag theory at work in the reduction of inflation to about 12 percent in recent months — in the wake of the drastic cuts in money supply to negative levels in 1985.

"Now we face the inevitable consequences of the sharp climb in monetary growth in 1987 — and the Government printing presses have still been thundering on with the production of bank notes to finance the spending boom," the unit says economists warned.

The unit says the Government is now trying to mop up the mess with belated credit restrictions plus import curbs that could have been far less severe had action been taken earlier.

"Now it is business and the consumer who must suffer from the scaling," one economist said.

"Meanwhile, excessive Government expenditure carries on regardless. The mind boggles as to the future course of Budget deficits when the brakes are taken off wage increases in the civil service and the whole public sector.

Two poisoned
July inflation bottoms out as higher rate is predicted

By Sven Lamsche

After falling steadily over the past eight months, the inflation rate seems to have bottomed out in July this year, when it maintained its June level of 12.4 percent.

And economists are unanimous that a steeper year-on-year increase in the consumer price index (CPI) will follow in months to come.

First evidence of this was provided by the large monthly increase from June to July, when the CPI rose by a seasonally adjusted 1.3 percent, compared with 0.4 percent from May to June.

Food prices had even greater shocks in store for the consumer. After falling by 0.8 percent during June, they rose by 1.9 percent in July on an annualised basis. Food prices rose by 16.8 percent compared with 15.5 percent in June.

But, according to the Central Statistical Services (CSS) which released the inflation figures yesterday, the largest contribution to the overall monthly increase was made by housing, which included increases in black house rents, rates and taxes and sanitary fees.

This was confirmed by the UBS in its latest Housing Review, which shows that it costs 22 percent more to build a medium-size house today than to buy an existing dwelling.

It stated: "This substantial price differential between new and existing housing can be attributed to the combined effect of sharply rising building costs and an oversupply of existing housing in white residential areas."

"Building costs are increasing by an estimated 10 percent on a year-on-year basis in the first quarter and by 17 percent in the second quarter of this year."

The UBS went on to say: "During the second quarter of the year the increase in house prices was only 11 percent on a year-on-year basis compared with a 13 percent increase in the first."

The months to come are likely to see further substantial rises in the rate of inflation, originating from a lower rand exchange rate, higher petrol prices and most importantly, the introduction of import surcharges.

The surcharge is bound to make a significant impact on price levels of mostly durable goods. In addition, as manufacturing output declines, so do unit costs of production increase.

Against this, the expected fall in demand is likely to eliminate whatever demand-pull inflation pressures might be present in the economy.

However, as one economist puts it: "These pressures are minor at present and the inflationary effects of the latest measures are likely to outweigh the deflationary effects."

Trust Bank economists say that the course of inflation would largely be mapped by the balance of payments situation.

If the balance of payments recovers significantly during the remainder of the year, it would facilitate a recovery in the rand exchange rate, in which case the inflation rate would resume its downward trend after a brief rise in early 1989.

Vice versa, a balance of payments deficit would mean a continued decline in the rand exchange rate and subsequently a rise in inflation from end-1988 till well into 1989.
Old Mutual sets income record

OLD Mutual (OM) has produced a set of record results for the year ending June 1988 with total income from premiums and investments up 41% to R6,74bn on a total asset base which increased 12% to R31,4bn.

On the outflow side, benefits of R1,82bn (R1,37bn) were paid out — equivalent to around R1m every office hour.

Nevertheless, with total income comfortably exceeding total outflow, operating income was up 41% to R4,06bn (R2,93bn).

Describing the past financial year as one during which all cylinders were firing, a year "of the type insurers dream of", OM's GM Employee Benefits Gerhard van Niekerk said the increasing growth momentum firmly established OM as SA's leading and largest life assurer.

OM now had well over three million policy holders and members of pension funds and group schemes, he said.

The 12% growth in this R31,4bn asset base arose in spite of a 25% drop in the value of the all share index over the same period.

Equities represented the major portion of OM's total portfolio, accounting for some 43% — or R12bn.

Of the year's total income of R6,74bn (R4,81bn), R4,94bn (R3,59bn) came from premiums and R1,80bn (R1,22bn) from investments. Van Niekerk said premiums and contributions received during the past three years exceeded the total received in all the preceding years of the company's history.

FlexiProgram, the universal life policy introduced four years ago, accounted for the largest portion of new premiums. New individual policies reached over 566 000 — an average of 10 000 a week — the highest-ever figure reported in the local life industry.

Van Niekerk said OM was constantly meeting the challenge of the future with innovative policies and products. He quoted the example of OM's recently introduced Bridgebuilder employee benefits package, which he said was a milestone for the industry.
INFLATION

Monthly 1.1%

Food price rises, which slowed in recent months, have regained momentum. Year-on-year they increased 16.5% in July (up from 15.6% in June), according to a release from Central Statistical Service this week.

This pushed inflation relatively higher for the lower income groups, as food is a more important component of baskets of goods and services consumed, reversing the trend of the three previous months when the higher income group was hardest hit.

Year-on-year, the annual rate of increase in consumer price indices (CPI) for lower, middle and higher income groups was 12.7%, 12.4% and 12.2%, and for pensioners 11.3%.

Overall, CPI was up 12.4%, the same as in the previous month. The monthly increase in seasonally adjusted CPI was 1.3%, with the

Inflation pause

12-month increase in CPI

largest contribution to the 1.1% unadjusted monthly increase coming from housing — which includes rates and taxes, sanitary fees and refuse removal, and black house rent.

Other contributions came from: fish 1.5%, milk, cheese and eggs 2%; fruit and nuts 4.6%, vegetables 3.8%, alcoholic beverages 3.8%; cigarettes 3.3%, housing 2.7%, household operation 1.6%, and reading matter 1.4%.

Declines came in sugar 3.1% and non-alcoholic beverages 0.3%.
SA living above its means says bank

The BoP deficit of the past year and the declining exchange rate indicate an impending turn-about in the inflation-rate trend. Before the end of the year, a renewed rise in the CPI inflation rate is on the cards.

'WINDING Reserves are a precursor to a higher inflation rate, says Trust Bank in its latest economic report. It says a drop in reserves is a symptom of a country living above its means and implies a future rise in the rate of inflation.

SA gold and foreign exchange reserves have been on a downward trend because of balance of payments (BoP) difficulties. BoP has dropped by more than $1bn since September 1987. BoP deficits, exchange rate deprecation and domestic price rises are all simultaneous symptoms of a country living above its means, the bank says.

'A drop in the exchange rate usually reflects a BoP deficit, which, in turn, reflects the real cause of inflation — excessive financial demands and overspending relative to available resources.'

A rising inflation rate is a message that state spending, business profit margins, wage increases and credit expansion have grown at a more rapid pace than the country could afford. Demands on the economy often develop a momentum of their own, tending to exceed the country's financial resources.

'This forms the core of the inflation process together with the tendency of the monetary authorities to continuously accommodate these increasing financial demands via money creation.'

Since consumer prices usually react with a lag to macro-economic factors, a BoP trend can be seen as a precursor of inflation-rate movements.
Inflation over 12 months was 12.4 percent

The South African inflation rate for the 12 months up to July was 12.4 percent. This was the same as for the year up to June, but the monthly rate of increase in the seasonally adjusted consumer price index (that is the seasonally adjusted index for July 1988 compared with June 1988) was about 1.3 percent.

The largest contribution to the actual monthly increase of 1.1 percent was made by housing, which included increases in black housing rents, rates and taxes, sanitary fees and rubbish removal.

Relatively large monthly price increases were reflected for fish (1.3 percent), milk, milk products and eggs (2 percent), fruit (4.4 percent) and vegetables (3.8 percent). The price of sugar decreased by 3.1 percent and that of non-alcoholic beverages by 0.3 percent.

The price of alcoholic beverages rose by 3.8 percent. Cigarettes were up by 3.3 percent, housing costs by 2.7 percent, household operations by 1.6 percent and reading matter by 1.4 percent.

The consumer price index for pensioners showed an annual percentage change of 11.5 percent.
INFLATION

The advice P W needs

Don’t count on inflation being controlled soon. Government doesn’t understand the problem.

Just last Friday, State President P W Botha added to the confusion by endorsing his Economic Advisory Council’s flawed anti-inflation plan of last November, calling for 9% inflation by 1990.

Botha gets off to a bad start by agreeing with his advisers that “inflation is a complex and deep-seated problem for which there are no instant solutions, particularly not in a country such as SA with its open economy, relatively small domestic market, large Third World sector, extensive socio-economic problems, substantial unrest potential linked to large-scale unemployment and inflation which is obviously already institutionalised to a great extent”.

Typically, Pretoria says our problems are special and beyond the realm of orthodox economics. It blames black (the “Third World sector”, “socio-economic problems”) and foreigners (the “open economy”) instead of itself. Yet inflation here, as elsewhere, is government’s homegrown problem — and not “complex”. At all SA has high monetary inflation — the root of the problem — because the Reserve Bank, under political pressure, prints money to manipulate interest rates and pay government bills.

We have high price inflation because the over-regulated economy — with high taxes, overstuffed bureaucracy, restrictions on black property ownership, licensing laws, zoning — cannot grow fast enough to absorb the double-digit increases in money supply.

Monetary inflation is the problem, price inflation simply the market’s attempt to put prices back into line.

Neither Botha nor his advisers make this distinction — a fatal flaw. So when he says “government is strongly opposed to direct wage and price controls,” one remains suspicious. Given his threat of controls in April, it’s a welcome statement. But there’s no evidence that government understands why controls can’t work: that they do nothing about the real problem, runaway money supply growth.

Suspicion is confirmed when Botha says “The private sector also has the responsibility to apply stricter wage, salary and price discipline.” The private sector has no such responsibility. Businessmen can’t raise prices beyond what consumers will pay. If businessmen could set prices unilaterally, they’d double them tomorrow.

Botha makes other troubling comments, including one on interest rate rises. “Government has decided not to rely on monetary measures alone, as these would necessarily result in a high interest rate structure.”

If the Bank cuts money supply growth, it will eventually have to, rates need rise only temporarily. We have the high interest rate structure Botha worries about because government won’t take the necessary monetary steps. Inflation and inflationary expectations cause high rates.

If Botha would allow the Bank to take credible steps to curb money supply, inflationary expectations would fade. We’d have sharply lower nominal rates, higher real rates and a balance between the supply of and demand for credit. By refusing to control money supply, Pretoria guarantees we’ll be stuck with high inflation, high interest rates — and continued pressure for more controls.

So what’s Botha’s anti-inflation plan?

☐ Tax reform.

☐ Privatisation and deregulation to reduce the public sector’s share of the economy.

☐ Slower increases in taxes, spending and the Budget deficit.

☐ Distribution of a “cost-benefit manual” within government, and

☐ Higher productivity (“it will be afforded a high priority”).

Botha wants a more competitive economy — except where vested interests, including farmers, object. He says “There are limits to the extent to which deregulation will serve the national interest in the case of the marketing of agricultural products, as well as the combating of inflation.” During this period of inflation, the prices received by farmers for their products not only lagged CPI, but also agricultural requirements. It appears the farmer is making his contribution towards combating inflation.

Increased competition also doesn’t include imports. Last month’s 60% surcharges will make the economy less efficient by restricting foreign trade and transferring spending power from the private sector to government. Yet Botha mysteriously says “we could contribute towards a continuation of the downward trend of the inflation rate in the longer term.”

Agriculture and imports aside, Botha’s proposed steps could bring about a more competitive, faster-growing economy. The trouble is that this has little to do with the issue at hand. The steps should be taken whether money supply growth is 0% or 50%.

And even if Botha does take them (this year, next year?), they’re not sufficient. It’s naive to believe the Bank can fire up money supply 12%-16% a year, as targeted — let

UNCERTAIN OUTLOOK FOR GOLD

With the price of gold falling to a low of $416.50 on Tuesday morning before rebounding to $420 by lunch time — the lowest since March 1987 — it would seem both short- and medium-term prospects are bearish. Most major governments have an anti-inflation bias in the economic policies, the price of oil is in a downward trend and other commodity prices have come off their peaks. Moreover, there are an increasing number of producers coming on to the market and, though the Far East is buying more gold, it is not as much as the increased supply.

The gold price has been gradually falling this year and could test $400 by year-end.

While the contribution of gold mining to GDP is less than it used to be, the gold price is still vital to economic prospects. A falling price puts upward pressure on interest rates and when the authorities are desperately trying to keep them down, and downward pressure on the rand at a time when it is already vulnerable.

Longer term, one analyst thinks that if the world economy keeps growing at 2%-3%, gold could reach $500 within two years.

FINANCIAL MAIL SEPTEMBER 16 1988
South Africa's interest rate hike is likely to be one of the only moves that has been considered by central banks around the world. The hike of 0.5 percentage points to 8.5% is expected to help curb inflation, which has been rising in recent months.

The hike follows a series of rate increases by the South African Reserve Bank (SARB) in recent years. The bank has been raising rates to try to control inflation, which has been driven by rising fuel and food prices.

As a result of the hike, the country's currency, the rand, has strengthened against the dollar and euro, boosting the competitiveness of South African exports. However, the hike has also increased the cost of borrowing for businesses and households, which could slow economic growth.

The hike is part of a broader strategy to reduce inflation and bring it closer to the target range of 3% to 6%. The bank has been under pressure from the government and the public to act on inflation, which has been rising at a rate of 7.5% in the year to June.

The hike also comes as the country is facing a challenging economic environment, with low growth and high unemployment. The government has been trying to implement structural reforms to boost growth, but progress has been slow.

The hike is likely to be welcomed by investors, who view it as a sign of the government's commitment to controlling inflation. However, it could lead to higher interest rates on loans and mortgages, which could affect the housing market.
Little comfort in a lower inflation rate

Finance Staff

Inflation continues to confound the critics with yet another year-on-year fall — to 12.3 percent in August, its lowest level for four years.

In the prior two months it was 12.4 percent and it has not shown an increase since May last year when it was 17.3 percent.

The monthly increase in the price of food showed a marked decline, moving from a seasonally adjusted 1.9 percent in July to just one percent in August.

The annual increase of 16.2 percent was 0.3 percentage points lower than the year-on-year rise in July.

Critics may feel a falling rate of inflation is at odds with the reality of relentless price increases and with an upward movement in the last few months in the producer price index (PPI).

However, there are statistically sound reasons for the continuing drop.

The September 1 increase in the price of liquid fuels — expected to contribute about 0.5 percentage points to the cost of living — will only show up in the September figures, while the bond-rate rises of recent months will not be added in until they are measured later in the year.

At the same time, the low year-on-year rise is the result of the increases occurring 12 months beforehand.

Inflation in August 1987 was 16.3 percent, still fairly close to its high for the year of 17.2 percent.

All the economic evidence continues to point towards a higher annual rate in months to come.

According to Central Statistical Services, which released the CPI figures yesterday, the month-to-month increase this August of 1.4 percent is the highest this year (16.3 percent annualised) and suggests bigger price rises are coming through.

Contributing to the 1.4 percent were rises in the cost of housing and vehicles of 0.3 percent and meat prices of 0.2 percent.

Sanlam's chief economist Johan Louw says inflation will probably average about 13.5 percent this year and could rise to an average of over 15 percent in 1989, a prediction fuelled by yesterday's announcement that civil servants would be granted a salary increase of 15 percent next year.

The Bureau for Economic Research (BER) at Stellenbosch University warns the public to prepare for a period of more rapidly increasing inflation.

Reviewing the results of a recent survey, BER director Dr Ockie Stuart said yesterday the Government's recent package of demand-curbing measures had been justified, but they would inevitably cause inflation to increase at a faster pace.

"We estimate that by year-end the dollar will trade for R2.50 and it is possible that the rand could depreciate even further against the dollar in 1989," Dr Stuart said.

Although the increase in the petrol price had not been part of the Government's restraint package, it would also impact fairly dramatically on the economy, he said.

"A petrol price increase has an enormous psychological impact. Almost everybody associates a petrol-price increase with an overall increase in the price of goods."
Inflation — ‘Too early for cheers’

By Paula Fray

While inflation measured by the consumer price index is at its lowest level in four years, consumer bodies are adopting a “wait-and-see” attitude before celebrating.

The annual rate as 12.3 percent, the Central Statistical Services (CSS) in Pretoria said yesterday.

The lowest previous level was 12.2 percent in September 1984.

However the August figure also reflected the largest monthly increase since August last year — 1.4 percent.

Reacting to the news, Professor Leon Weyers, chairman of the Consumer Council, said several increases, including the petrol price, the new surcharge and interest rates, would not be reflected and he could not be optimistic about the September figures.

“Although the rate of inflation has decreased, it does not mean prices are going down. It just means prices are increasing at a slower rate.”

“However, if this was a trend, it would be very promising and important statistic,” he said.

Housewives’ League president Mrs Lyn Morris said it was good news that the inflation rate had come down, but was not cause for celebration at this stage: “We should wait for a few months and see what happens.”

Mrs Morris said the increased transport costs had not filtered through.

The higher petrol price and licences would soon affect the consumer and she was also concerned with the higher food prices which hit pensioners and the needy in particular.

FIGURE TOO LOW

Mr Eldridge Mathabula, executive director of the National Black Consumers’ Union, said today it regarded the 12.3 percent as incorrect, it was too low. “We believe the actual rate is about 18 percent,” he said.

Mr Mathabula referred to the substantial increases in basic commodities — meat, bread and milk — over the last year and said inflation had pushed these goods out of the reach of ordinary black families.

He was not optimistic about a reduction in inflation in the next few months: “At the rate the Government is spending, I don’t think they will be able to reduce inflation ... there are still worse things to come.”
Manufacturers face lean times, rising inflation

CAPE TOWN — Manufacturers should prepare themselves for a lean period in 1989, with inflation increasing rapidly, the Bureau for Economic Research (BER) at Stellenbosch University has warned.

Reviewing the results of the bureau’s latest national survey of the manufacturing industry, BER director Ockie Stuart said government’s current package of demand-curbing measures had been justified, and should perhaps have been introduced a month earlier.

Unfortunately, an effect of these measures, together with other factors in the economy, was that inflation would increase at a faster pace.

“We estimate that by year-end the dollar will trade for R2.50 and it is possible the rand could depreciate even further against the dollar in 1989,” Stuart said.

Job creation in the manufacturing industry had not lived up to expectations in the third quarter of 1988. Stuart said a net 15% of the firms polled had reported an increase in the number of factory workers employed, compared to a year ago.

At the same time, 21% of manufacturers were experiencing a shortage of skilled labour as a very serious constraint, with the most vulnerable firms being in the clothing, paper and rubber sectors.

The motor industry was facing a sharp drop in demand for vehicles.

Noting that new import duties came after a period in which the rand had depreciated by about 24% against the yen over 10 months, Stuart said the price of passenger vehicles had to increase substantially.

“Because most motor parts are imported, it is safe to assume the price of these goods will increase by the same percentage,” Stuart said.

Faced with an expected fall-off in domestic demand, manufacturers were looking overseas for new business.

Stuart said South African exporters were constrained by difficulties in obtaining cheap raw materials and intermediate inputs. They also had to cope with the prospect of further sanctions.

“In spite of this, an encouraging feature to emerge from our latest survey is that manufacturers intend to increase their volume of export during the next 13 months, as a result of the expected deterioration in domestic business conditions,” Stuart said.

The study involved 1000 firms in 20 sectors of industry, from food and beverages to textiles, clothing, footwear, wood, machinery and plastics. — Sapa
CONSUMER PRICE INDEX

How much higher?

Consumer prices surged 1.4% in August and the inflation rate is set to take off after an almost three-year decline.

"The August increase is ominously high," says Senekal, Mouton & Kitshoff economist Leon Steenkamp, who had expected a big jump only when petrol and bread price hikes showed up in September. He predicts the 12-month increase in CPI will rise to 15% at the end of this year and 16% in December 1989.

"The inflation rate is just going to keep rising from now on," says Econometrica economist Azar Jammie. "The reason is rapid money supply growth, which is going to filter through with a lag of 1-2 years. The inflation rate will pick up, just as it was falling over the past two years, because of low money supply growth in 1986." The narrowest measure of money supply, M0, increased a huge 36% in the year to August (see P44)

How fast will consumer prices rise?

The official inflation rate — the increase in CPI over the previous 12 months — was 12.3% in August.

Economists surveyed by the FM say the figure will rise to about 14.2% in December 1988 and 15.2% in December 1989 (see table) The December 1987 rate was 14.7%.

Sanlam economist Johan Louw, like several others, expects higher post and rate tariffs next year. Steenkamp, predicting a sustained upswing in inflation, cites "higher unit costs of production as the economy slows down, further depreciation of the rand, the prospect of further increases in petrol and other administered prices, the lagged impact of recent strong money supply growth and renewed growth in government spending from increases in civil service pay."

The inflation rate — as high as 20.7% in January 1986 — was 12.4% in July and June, 12.9% in May and 13.3% in April.

The August increase brings CPI to 157.40 (base 1985=100). This means a basket of goods, which cost R100 in mid-1985, cost R157.40 last month. Based on average predictions, this will rise to R167 at end-1988 and R192 at end-1989.

Central Statistical Service reports large monthly increases in August for sugar (7.6%), vehicles (6%), cigarettes and tobacco (4.9%), fuel and power (4.4%), footwear (2.9%) and meat (2.3%). Vegetables fell 3.1% and non-alcoholic beverages 0.7%.

INFLATION OUTLOOK

Predictions of year-to-December increase in CPI

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1989
Common Centrs

How to avoid the snakes and climb the ladders during the economic slowdown
Inflation: Selective fight urged

By ANTHONY JOHNSON
Political Correspondent

GEORGE. — South Africa needed to take a far more selective approach in fighting the twin evils of inflation and price increases, the Minister of Economic Affairs and Technology, Mr Danie Steyn, said yesterday.

Rather than merely seeking global solutions to the problem of inflation, those sectors of the economy largely responsible for fuelling inflation should be targeted for special remedial action, he told delegates to the National Party's congress here.

Outlining what he called the government's "new approach" to fighting inflation, Mr Steyn said that though the overall inflation rate had declined during the past year, certain sectors of the economy continued to play a major role in fuelling levels upwards.

For example, foodstuffs in general contributed almost 23% towards the Consumer Price Index (CPI), housing about 21% and transport about 17%.

On the other hand, clothing contributed only 6% to the CPI and furniture about 5%, while fruit and vegetables had had a negative effect on prices of between 4% and 7%.

Mr Steyn said the reason why various elements contributed differentially to inflation needed to be investigated in order for the problem to be tackled selectively and hence more effectively.

The general consumer could also contribute significantly to the fight against inflation by adopting the following guidelines:

- Be discriminating when you shop
- Buy local products because this stimulates and contributes towards industry in South Africa.
- Always compare prices when shopping

No strings attached to privatization

Political Staff

GEORGE. — There would be no strings attached to the government's privatization, Dr Dawie de Villiers, the minister responsible for the scheme, said yesterday.

"Investors will not want shares when the government retains the majority say," he said.

Privatization had to be done properly and consumers had to be protected. The best protection was good management.

However, the government did not want to rush the issue and was still busy with in-depth investigations into such areas as SATS, Eskom, Iscor, Foscor and the postal services.

Britain had been in the fortunate position of being able to privatize some smaller institutions but even 10 years after starting privatization there were still investigations going on.

"We must go slowly because a wrong decision now could be extremely detrimental," he said.
Fight inflation plea by Steyn

GEORGE — SA needed a far more selective approach in fighting the twin evils of inflation and price increases, Economic Affairs and Technology Minister Dane Steyn said yesterday.

Rather than merely seeking global solutions to the problem of inflation, those sectors of the economy largely responsible for fuelling inflation should be targeted for special remedial action, he told the NP's congress here.

Outlining government's new approach to fighting inflation, Steyn said while overall inflation had declined during the past year, some economic sectors continued to force levels upwards.

For example, foodstuffs contributed almost 23% towards the Consumer Price Index, housing about 21% and transport about 17%, while clothing contributed only 6% and furniture about 5%. Fruit and vegetables had had a negative affect on prices of 4%-7%.

Steyn said the reason why various elements contributed differentially to inflation had to be investigated so the problem could be tackled effectively.

The consumer could also contribute to the fight against inflation by being discriminating while shopping, by buying local products and by comparing prices.
tions revenue increased more than 45%, to R1.21bn.

Furthermore, import surcharges as high as 60% were slapped on in August.

The only major fall was miscellaneous revenue — stamp duties and fees, transfer duties, interest, dividends and other inland revenue — which was down 43%, from R2,16bn in February-June 1986 to R1,24bn this year.

Overall, more revenue was collected in March, April, May and June than in each corresponding month last year. Revenue in the four months rose from R10,97bn last year to R12,78bn this year — an increase of 16.5%.

Botha also said, “Inflation impoverishes the housewife, the worker, the salary earner, the small businessman and the pensioner. Government is concerned about this.”

But not concerned enough to control the underlying problem: runaway money supply growth. In the six months after his speech, the monetary base and broad aggregate M3 increased at annualised rates of 47% and 29%, respectively.

Privatisation is not covered in the Bulletin, but a brochure distributed to Sats employees a few months after Botha’s speech puts the topic in perspective: “Privatisation is a long-term process which can take as long as 10 years to complete. It is possible that certain large units may never be privatised.”

Botha got one thing half-right in February: “We call it ‘capital and sacrifice’ by all. Government has shown little courage in facing up to vested interests: farmers, civil servants and inefficient State enterprises. But consumers and taxpayers will suffer plenty of sacrifice through soaring prices, an ever-higher tax burden, and rising interest payments on a burgeoning government debt.”

Also reported in the Bulletin:

- It wasn’t much of a boom GDP grew at a seasonally adjusted annual rate of just 1.5% in the second quarter. This follows rates of 5% in fourth-quarter 1987 and 3.5% in first-quarter 1988 (revised down from 4%).
- The Bank says growth has peaked and sees “a fading away of the upward momentum of economic activity and domestic demand in the middle quarters of 1988.”
- Second-quarter agriculture output was held back by smaller than expected maize crop. Production levels in manufacturing were hurt by strikes and the last number of public holidays. Furthermore, the 4.5% annualised growth in consumer expenditure in the quarter plus higher wholesale and retail sales in July “are likely to have contained significant pre-emptive buying in anticipation of price increases, a tightening of HP conditions, higher interest rates, or a possible increase in the (import) surcharge.”
- The Bank current account slipped into a R407m deficit in the second quarter, following a R839m surplus in the first quarter. However, seasonally adjusted and calculated at an annual rate, the current account posted a R600m surplus in the second quarter, after a R410m deficit in the first.
- The total outflow of capital not related to reserves jumped to R2.1bn in second-quarter 1988, after averaging R700m in the previous five quarters. The outflow of long-term capital not related to reserves rose from R300m in the first quarter to R600m, “mainly related to repayment of debts due June 15 and repayments on bearer bonds and notes which do not fall under the standstill.

"Foreigners, however, were net purchasers of R9m JSE securities in the second quarter, after being net sellers in 1987 (R1.2bn) and first-quarter 1988 (R35m). The outflow of short-term capital not related to reserves (but including unrecorded transactions) rose from R400m in the first quarter to R1.5bn. Heavy outflows in late June were related to ‘the upward trend in overseas interest rates and to leads and lags in foreign payments and receipts occasioned by years of progressive further declines in the exchange value of the rand.”

- The rand fell 13.3% on a weighted average in the first eight months of the year. It was down against the dollar (21.1%), sterling (12.8%), D-mark (6.9%), Swiss franc (2.6%), yen (13.1%), and French franc (6.7%). The finrand fell 13.5%.
- Gross domestic saving as a percentage of gross national disposable income edged up to 23% in second-quarter 1988 from 22.5% in the first. In 1982, the average was 24.5%.
- Personal saving remains low, at 2% of disposable income; and
- The volume of net gold exports in the second quarter returned to a long-term downward trend because of a further decline in the average grade of ore milled, from 5.28 g/t in 1987 to 5.17 g/t in first-quarter 1988 and 5.12 g/t in the second quarter.

FINANCIAL MAIL OCTOBER 7 1988
Credibility gap

Talk is cheap, but Pretoria's policies aren't. When State President P W Botha opened parliament in February, he called for bold privatisation, a leaner public service, low taxes, and the curbing of inflation. The latest Reserve Bank Quarterly Bulletin shows how wide the gap is between words and actions. "Discipline in government finances" apparently doesn't mean balancing the books. Central government debt, R55,85bn in February, had grown to R63,38bn by July — 17% higher than a year earlier.

Spending has stayed high after the speech and continues to outpace inflation. The Bulletin says total issues, excluding debt redemption, were R23,43bn in February-June, 14% more than in the same five months last year. The R4bn increase to civil servants and pensioners — of which some R1bn will be paid this fiscal year — will push spending even higher without cuts somewhere else.

Botha also called for the "smallest possible" level of taxes — which we haven't yet reached. Both GST and customs collections, for example, were far higher after his speech than a year before. Government took advantage of the upsurge in imports and retail sales to increase revenue rather than cut tariffs or the GST rate.

GST revenue in February-June was R4,49bn, nearly 16% above last year. Cus-
Lower cash targets could cut inflation

KAY TURVEY

SA could boast single-digit inflation in the early '90s, if the lowering of targets for monetary growth in the next few years is systematically continued with concerted action to adhere to these lower targets.

Trust Bank, in its latest economic review, says the main goal of targeting is that of combating inflation, while it serves as an advance signal concerning the prospective direction of monetary policy and interest rates.

However, the review says, a consequence of the "explosive rate" at which M3 has expanded in the past 12 months has been the questioning of the credibility and usefulness of monetary targets as a policy instrument.

The official target for M3 money stock is between 12% and 16%, yet in August money supply surged 27.58% over August last year, shattering the possibility of the average monetary target of 14% for the fourth quarter being achieved.

Yet, targeting should not be abandoned as an exercise in futility, as it is argued the gap between the target and actual M3 provides a useful guide to the authorities for the purposes of executing monetary policy decisions.

"The credibility of the targets is determined much less by their accuracy or divergence than by the reaction of the monetary authorities."

The report says the high monetary growth of the past 12 months, with the corresponding rapid expenditure, balance of payments deficits and exchangerate depreciation, will probably be reflected in higher inflation by the end of the year. However, the recently introduced restrictive measures and higher interest rates should bring about slower growth in overall spending and in the money stock from the fourth quarter of this year. Thus will produce lower import levels, a balance of payments surplus and a slightly firmer rate of exchange and consequently inflation should start declining again from mid-1993.

It should then be possible to reduce the target growth rate in M3 for the fourth quarter of 1989, and it is likely both M3 growth and CPI inflation will be close to 13% by the end of 1989, the review says.

This will set the scene for a movement towards single digits in M3 and inflation in the early '90s.
Saudi Arabia causing panic in Opec

Oil price slump is good news on inflation front

LONDON — Two years ago Saudi Arabian oil minister, Sultan Ahmed Zaki Yamani, was sacked because he allowed a glut of oil to cause a market collapse.

Now Hisham Nazer, Sheikh Yamani's successor is following the exact same policy.

The result is that oil prices have tumbled by 29 percent since the end of July. The market has rallied to the end of the week, but traders expect quotes to slide further unless the 13-member Organisation of Petroleum Exporting Countries (Opec) stop squabbling and agree on production restraint.

"The panic in the market is being orchestrated by Saudi Arabia," says an oil trader.

"It is getting out of hand to try the same tactics twice.

Particularly since there are no basic weaknesses of Opec now. First, non-members of the cartel ranging from Mexico to North Sea producers such as the UK and Norway account for nearly 60 percent of total Western supplies.

Fifteen years ago when an Arab-Israeli war caused the first jump in Opec prices to $30 a barrel, it was the cartel which controlled that share.

Over and above the significant production of Opec Western producers, the Soviet Union can cause havoc in the market when it offloads oil.

Opec's second problem is that it is disunited.

For Opec to keep up the price of oil, it must act as a balancing factor; it must keep production at levels where it matches the demand for oil.

The slump in oil prices is keeping a lid on gold prices. Yet the good news is that the slump in oil prices will help reduce South Africa's high inflation rate and imports. Neil Behrmann explains what is happening in the huge $200 billion a year oil market.

Yet similar to other commodity cartels and agreements, ranging from tin and sugar to cocoa and coffee, producers are unwilling to bite the bullet.

The inevitable result is dismal failure, unless market forces favour the cartel's policies.

For Opec, prices tell the story. Using North Sea Brent oil, the most widely traded crude as a guideline, market prices are now standing at 37 percent discount to Opec's official price of $18 a barrel.

Opec's present problems mainly revolve around one disdentrusted member, Iraq. The nation has refused to join a quota system to restrict output.

As a result other members have increased production and have offered their oil at a discount.

Over and above this cheating, political forces are in play.

For about eight weeks three key Gulf producers, Saudi Arabia, Kuwait and the United Arab Emirates have steadily raised production and cut prices to show other members that they can wield power.

That game is out of control.

In the past fortnight, the market has been thrown into panic. Saudi Arabia, the world's key oil nation, said that it would not be the "swing producer" to help balance the market. Instead it raised output by 1.4 million barrels to 5.7 million barrels a day, or 11 percent of total Western supplies.

A marginal increase in output in a surplus market is sufficient to make traders nervous.

Particularly since it was Saudi Arabia which increased production steeply early in 1986 and drove prices down to $8 a barrel from $30 at the end of 1985.

Oil optimists contend that the events of 1986 illustrate that oil prices could bounce back, provided Opec members buckle down and slash production after all lower oil prices and a buoyant world economy has spurred an increase in the demand for oil.

Total demand, estimates Nick Antill of CountryNatWest Woodmac will rise to an 50.1 million barrels a day in 1989 from 48.1 million barrels a day in 1985.

Indeed a decline in Opec output has worked in the past.

When Saudi Arabia reduced production in 1980 soon after Sheikh Yamani was fired, prices swiftly rallied and even rose above $50 a barrel in 1987.

Yet the market has become increasingly sceptical about the discipline of Opec. Again history is an example.

After Opec members initially follow Saudi Arabia's example of production restraint in 1986, they soon began to argue again, raise production and cut prices.

From mid-1987 onwards prices began to slip. After Iraq refused to join an agreement to restrict production at around 17.3 million barrels a day, actual Opec production rose to 20 million barrels a day above this level and prices tumbled to $14 in March.

Yet again there were hopes of Opec unity, that Iraq would join the quota agreement. Prices rallied to $16 late July this year. But Iraq's peace with Iran made no difference. Since then, Opec's production has surged to 21 million barrels a day at a time when the oil market should be strong.

The Northern hemisphere winter, production exceeds consumption and buyers have more than sufficient stocks.

Not surprisingly, traders such as Christopher Bellows of Cambridge Energy are sceptical about Saudi Arabia's play.

Prices will be volatile, he says. There will be meetings of Gulf producers and Opec's strategic committees in the remaining weeks of October and then a major gathering towards the end of November. Traders who sold oil short, on expectations of further price declines are already covering their positions and an oversold market is rallying.

"But the longer term outlook is bleak," says Mr. Bellows, who predicts that it is possible for oil prices to fall below $10 again.

"It will be difficult to reconcile the conflicting ambitions and differing interests of individual Opec members," he says.

The lesson for participants in the oil market is a lesson in unity in a commodity cartel.

Never place bets on hopes of unity in a commodity cartel.
A novel way of licking inflation

"Reg thinks there may be steps afoot to ban the CPI."

It was early Wednesday morning and Myles was on the phone, a newspaper headline had just caught my eye. "De Klerk set to roast Sarb" and I was so busy trying to figure out why the Minister of Education would be roasting the Reserve Bank that I missed the drift of Reg's latest revelation. Unfortunately, Myles was willing to repeat it.

It seems that Reg reckons that the innumerate politicians ("The ones who aren't too good at sums and who tend to compromise the majority of politicians in any country") explains Myles) have spotted that the source of SA's high inflation rate is the CPI.

So Reg feels it can only be a matter of time before they persuade the Government to add the CPI to its banned list.

Myles didn't hold out too much hope for this scheme or for Reg's future with the company.

 Didn't seem to be too many highlights in the market this week.

Myles said that there was a lot of round-tripping in Elex shares yesterday. Apparently some investors who had picked up rights at 5c were selling shares in the market for 11c to 12c.

After this sort of trading is worked out of the system, analysts expect the share to settle at around 11c in the short term.

The improvements forecast from the new M&P management aren't expected to flow through to earnings until next year.

ANN CROTTY

The Rennes/Cargo rumour is back in circulation again and is still being denied by Cargo management.

Market talk is that a deal has been struck at 450c per Cargo share. But Myles says that the idea that negotiations could be conducted, without reference to the Cargo management, is a bit difficult to swallow.

Also doing the rounds again is talk that Blue Circle's UK parent wouldn't be averse to selling its 42.2 percent stake in the SA operation.

As Myles points out, this story has been around for years and every so often gets taken out, dusted and shaken around a bit. It is certainly unlikely that the UK parent is going to be an aggressive seller.

The local operation is providing a nice dividend income; the UK parent isn't subject to political pressure and anyone who has a major investment in Northern Ireland must be pretty mired in political hotspots.

But as Myles's Mum points out (she has family in that part of the world), it makes a lot of sense for a cement company to operate in an environment where buildings are getting blown down almost as fast as they're being put up.

Local management, which seems tired of so frequently having to deny this rumour, says it has no comment, but adds that if the UK guys were to sell out, then D&H, which currently also has 42.2 percent, would probably be buyers.

As Myle's sees it, pressure for any deal would probably come from the SA side.

There's talk that Clegg, which was jilted by Consol some weeks back, may be involved in another deal. Myles couldn't say whether it was Consol, back at a lower price, or another party.

Lourbo eased back before the end of the week, closing at R26.50, compared with a high of R28. Story is that Australian Alan Bond had bought up a 14 percent stake in the London market, which got investors very excited until they heard that Bond's outfit was carrying a lot of debt and might be forced to sell the Lourbo share.

Details of the Nedbank rights issue are unlikely to do the share price much good, although the group is expected to announce fairly good results next week.

Old Mutual is underwriting the offer, which could see it siting around 60 percent of Nedbank.

Myles says it should be quite a nice investment for Old Mutual in terms of dividend yield.

But he wonders why the insurance giant didn't just lend them the money, even in the form of redeemable preference shares, instead of going for this massive dilution and also leaving the market worried about Old Mutual having, at some stage, to cut back its stake to 30 percent.

Myles says there was some talk of a deal at Mintek...
Inflation robs small savers

SOMETHING needs to be done to help the small saver. In today's conditions where we have high inflation and heavy taxation there is absolutely no incentive for anyone to save.

Let us look at the plight of the average building society investor.

At the moment building societies are paying 13.5 percent on 12 months' fixed deposits. So at the end of the year, an investor will receive R13.50 for every R100 placed on fixed deposit.

Assuming he is in the 45 percent tax bracket, his net return will be R7.42 for every R100 invested.

But with inflation running at 12 percent, he now needs R112 to buy what R100 bought him a year ago.

However, with his R100 in the building society and R7.42 interest, he has only R107.42.

When theft is no crime

Therefore, despite investing his money for a year, he actually has R4.58 or 4.1 percent less in buying power than a year ago.

He has been robbed — by inflation. But it is no use complaining to the police. They can't do anything about it.

It would have been far more sensible for him to have bought a good second-hand car or electronic appliance as these probably could have been sold at a substantial profit today.

What we need is a tax system that recognises inflation, that allows inflationary losses on savings to be written off against taxable income.

Admittedly, it would cost the Treasury a great deal of money, but not anywhere near as much as the inflation-linked pay rises for public servants, and surely the Government also has a moral duty to look after savers as well.

Such a scheme would have another benefit in galvanising the Government to start fighting inflation.
Inflation rate has reached turning point — Sanlam

Finance Staff

Although the country’s inflation rate would probably accelerate markedly in the coming year, significant upward pressure on long-term interest rates was not expected, life assurer Sanlam says today in its October Economic Survey.

Commenting on the expected course of interest rates, Sanlam says few changes were seen in long-term rates while short interest rates were expected to rise in the next few months.

Increases in overseas interest rates were unlikely to impact locally, especially in view of signs that the South African economy would enter a downturn phase earlier than leading industrial countries, it says.

There was a good chance that real long-term interest rates would shrink as they frequently did during downswings in the economy.

"All in all, we believe that both short-term and long-term interest rates will drop in 1990 and that this tendency will become more prominent in the second half of the year," says chief economist Johan Louw in the survey.

According to Mr Louw, the year-on-year increase in the consumer price index had more or less reached its lower turning point.

It predicted an average inflation rate of 13.5 percent for this year, with an acceleration to more than 15 percent in 1990 as a result of the weaker rand, increased excise tariffs and the high indirect taxes which were likely to affect the recently announced general salary adjustment in the public sector.
Inflation rate stable despite higher petrol and bread prices

By Sven Lunsche

The official rate of inflation continues to confound econo-
mists. September's annual in-
crease in the Consumer Price
Index was 12.4 percent, the third
cconsecutive month the annual
rate had remained virtually
constant.

The rate for June and July
was 12.4 percent and inflation
hit a three-year low of 12.3 per-
cent in August.

The sideways trend in the
annual rate has astounded econ-
mists, who had generally fore-
cast a rise by July this year.

Last month in particular a
sharp increase was anticipated,
as the full effect of petrol price
increases and import surcharges
was expected to hit consumer
prices.

And, according to the Central
Statistical Services (CSS), half
of the monthly increase of 1.3 per-
cent from August to September
was attributable to the increase
in the price of fuel, with a fur-
ther fifth coming from the rise
in the price of bread during Sep-
tember.

But it was largely due to tech-
nical factors that the high
monthly 1.3 percent increase,
(annualised at 16.8 percent) did
not work itself through to the
year-on-year rate.

The CSS explains "In the light
of these increases, the question
of why the annual inflation rate
is not considerably higher, ar-
ises."

"The answer is contained in
the fact that the monthly rate
of increase is of the same mag-
nitude as that of a year ago, in
other words, certain price in-
creases occurred from August
to September 1987 which were
not repeated this year and were
virtually replaced mainly by the
higher bread and fuel prices.

"More specifically, for ex-
ample, the vegetable price in-
creases were responsible for al-
most 40 percent of the rate of
increase from August to Sep-
tember 1987, while a general de-
crease in these prices was ob-
served for September 1988, simu-
larly significant increases oc-
curred in the price of furniture
in September 1987. In general it
is not notable that food provides
a constantly decreasing driving
force to the increase in the
CPI," the CSS says.

The large monthly increase,
however, remains a worrying
factor, since it follows on Au-
gust's 1.4 percent rise, the high-
est in 18 months.

Says Southern Life's econo-
mist Mike Daley "In August
shorter term measures of price
pressures, for example over
three months, mirror the down-
ward trend of conventionally
measured inflation, but it looks
as though a change in this trend
is imminent."

Writing in the group's latest
edition of Economic Com-
ment, Mr Daley adds "The pet-
rol price rise will be a major
cost raising factor, import price
and general producer price in-
fation are rising already, higher
mortgage bond rates and rates of
general borrowing rates will
have an adverse effect on the
CPI and certain administered
prices, kept in tight rein in
March, will be increased at the
next budget reading."

He expects a year-end infla-
tion of around 15.5 percent, but
adds that inflation "will not run
away in 1989, if only because of
the expected slowing of the
economy in that period, during
which profit margins will have
to be reduced."

"Food price inflation will also
continue to fall from its current
level of 16 percent and at this
stage a tentative forecast of in-
fation at the end of next year is
15 to 16 percent." Mr Daley con-
cludes.
ECONOMIC POLICY

Planning for poverty

Rates have been artificially pegged since July — big leaps loom

Once again the National Party has reaffirmed its commitment to action Funding most of this year’s portion of the 15% increase in civil servants’ salaries will be covered by larger than expected revenue flows, says Finance Minister Barend du Plessis. And with this out of the way, he apparently sees no need for further action.

Existing credit demand and the potential impact the increase will have on additional spending power is apparently not a problem he is ready to address. Perhaps he plans to wait until a prime rate of 25% is unavoidable.

His announcement this week came as an anti-climax. With pressures mounting in the financial markets, rumors of a new economic package have been rife. They were fueled by a series of meetings of the Reserve Bank with bankers last Tuesday on increases in key lending rates; of the Cabinet last Wednesday at which the civil servants’ salary increase was doubtless discussed, of Du Plessis with representatives of Ascomcon on Monday to discuss economic policy.

Talk was of a combination of higher key interest rates, an increase in GST — ostensibly to help control demand but actually to fund the salary increase, and an element of direct control of the markets. At several points it seemed as if an announcement might be forthcoming — despite widespread predictions that bad news would be delayed until after the election.

In the event, however, original predictions were fulfilled and no announcement was made. There is still, however, the question of interest rates.

Bank and prime rates have been pegged since the end of July, despite a relentless rise in the cost of funds since the end of the second quarter. In that period, the benchmark liquid bankers’ acceptance rates climbed from just over 12% to 14.45% last week, while the RSA 2005 moved from 15.8% at mid-September to 16.77% this week.

Pressure on short-term rates came mainly from a further deterioration in the overall balance of payments position, say Old Mutual economists, writing in the latest edition of Economic Monitor. After adjusting for the weakening of the rand against a basket of currencies over the same period, the Reserve Bank’s holding of gold and foreign exchange reserves declined by 14% during the third quarter, after falling by some 19% during the first half of the year.

Measured in this way, the level of gold and foreign exchange reserves was at the end of September not only below 4% below the cyclical peak reached in July last year, but equalled less than 1.5 months of imports.

Fundamentally, the situation is even more serious says Nedbank’s chief economist Edward Oswald. “While officially gold and foreign exchange reserves of the country have declined by R1.3bn since the start of the year, the real decline in reserves was much worse than another R1.2bn, which was the extent of Reserve Bank borrowings abroad in June to assist in meeting the heavy June debt payments. Net reserves are only half of what they were in June last year. This is not because we have been selling gold and foreign exchange, but because we have been repatriating debt payments and selling gold to pay for non-tariff payments.”

The government has in fact declined by R2.5bn this year.”

Yet, with our reserves imperilled, Pretoria dragged its feet.

Problems of economic perceptions in SA are rooted in a fundamental misunderstanding about the role of interest rates and whether we have any choice as to their direction and velocity. An increase in interest rates is too often seen as optional — a remedy which may be applied or not — and from this premise flow arguments over whether an increase in Bank rate is desirable and/or effective.

What politicians need to understand is that interest rates are an indirect signalling either that demand for money is outstripping supply, or that supply is outstripping demand. What they tell us, if they are allowed to respond to these forces, is what to expect from the immediate future, giving governments, business and individuals some guidelines for decision-making.

When they are not allowed to move with the market, the pressures flow over into inflation — because to “keep interest rates artificially low, the Bank has to meet demand for money and expand money supply — which effectively dilutes the value of existing money.” Furthermore, their role of disseminating information is eliminated. Decisions can then no longer be made in relation to what is really happening in the economy and can be based only on guesses and wishful thinking which, though not unpopular among politicians, is disastrous for policy-makers.

So delaying Bank and prime rate increases has both fed inflation and masked it. And with appropriate increases so long delayed there is now no knowing where rates will eventually go. Certainly they are more likely to reach the much-feared 25% level than would have been the case if rates had risen at the appropriate time.

Wishful thinking has been very much in evidence this year. This was despite the recogition by the Bank (according to Governor Gerhard de Kock in his annual August address to stockholders), as early as December, that the upswing in domestic spending, output and income accompanied by excessive increases in bank credit and money supply “clearly called for a tightening of monetary policy.”

Against this background, the Bank allowed an increase in prime from 12.5% to 13% in January. However it delayed increasing Bank rate from 9.5% to 10.5% until March, when prime was allowed to go to 14%. Further increases, to 11.5% and 12.5%, in May and July and accompanying increases in prime to 15% and 16%, also came long after they had been discounted in the market.

“In retrospect,” said De Kock in his August report, “there can be little doubt that monetary policy should have been tightened earlier and that interest rates should have been allowed to rise sooner. In its attempts to moderate the rise in interest rates in order to promote economic growth and to assist farmers, small businesses and home-owners, the Reserve Bank initially created too much central bank credit and in this way facilitated the excessive increases in bank credit, the money supply, total spending and imports.”

The result of course, is money supply...
Doc Craven ... will it be thumbs-up for him?

pelled to resign and it’s been speculated, wildly perhaps, that unions which do not back Craven will end up not hosting future international teams. Imagine the All Blacks touring - and not playing in, say, Bloemfontein or Pretoria. The effect on sponsorships and the absence of revenue from luxury suite holders would be devastating.

Such complications put the November meeting in a different light. It’s been argued by those who know the old man that Craven may somehow be able to achieve a compromise, or at least buy time. But such a deal would test even his remarkable capacity for wheeler-dealing and brinkmanship. He would have to deliver renewed contact, in the form of lucrative tours in the near future by the All Blacks, the British Lions — a World XV at the very least. At the same time, he would have to avoid giving any impression of betraying the commitment he made in Harare, because in a sense he has already burnt his bridges.

Which raises another intriguing issue: the role of the ANC. There is justified scepticism of its sincerity in meeting Craven. Despite the Harare statement, the ANC is clearly keeping its options open. It may want to polish its image among whites while simultaneously confusing and dividing them; it is no doubt delighted at the fuss the talks have caused.

But, if it is indeed changing its strategy, the ANC cannot ride two horses at once. If it really wants Craven to have any success at home, the bombs will have to stop (or, if they are being planted by mavericks, unequivocally condemned). As Craven was returning to SA, a massive bomb exploded in Witbank, killing two people and injuring many others. Such incidents give force to arguments that Craven has been naive and is simply being used; every bomb that goes off progressively undermines his position.

Even if the ANC is sincere it may find that it does not have the clout to influence the range of constituencies which oppose any links with SA. The anti-apartheid cottage industry in Britain, African leaders like Robert Mugabe, the Third World bloc at the UN and in the Commonwealth, and a generation of domestic activists and churchmen (such as) for 20 years on boycott as the only option — all would have to be persuaded that it is time for a radical change in tactics.

This shift is unlikely, at least in the short term. We can expect the ANC to go for cover on this one, while saving face with the familiar argument that, while apartheid exists, contact is undesirable.

By the beginning of this week, the silence of most local rugby people seemed to indicate that they were reserving judgment — put another way, giving Craven and Luyt the benefit of the doubt.

Some important figures have publicly supported them: former Bok captains Morne du Plessis, Wynand Claassen and Tommy Bedford and two provincial captains, Naas Botha and Carel du Plessis. Former Northern star Thys Louw has condemned them. How do the other players feel? They desperately want tours — but by courtesy of the ANC? How apolitical are they?

No doubt the provincial presidents are now anxiously testing the wind in their own backyards — it would be foolish for them to attend the November meeting without some kind of mandate from their own officials and players.

That mandate is likely to be a conservative one — crushingly so, if more bombs go off.

In the end, even rugby is not that important.

It may turn out that Craven has been used by the ANC, and he has risked much, he could fall far and hard. But there is no doubting his sincerity. In recent years he has had much contact with blacks and coloureds, sources say that he has been deeply moved by the ravages their communities have suffered under apartheid.

And he is reputedly of the view that it is absurd to attack him for talking to the ANC when that organisation has so much sympathy, if not support, within SA. Louis Luyt was reported as asking why rugby people should not talk to the ANC when the government is itself negotiating with another enemy, the Cubans.

After all, if the ANC were non-violent and on our side in the first place, there would be no need for talks. One way of stopping a war is by trying to achieve a truce.

Ironically, our rugby isolation is unlikely to end as a result of the Luyt-Craven initiative. There are far too many other factors to consider. But two important political issues have been raised.

One is that government has put Craven and Luyt in the dock, but has done nothing itself to help sports administrators. Rugby apartheid still exists at school level and Group Areas laws remain firmly in place. It cannot have been easy for Craven and Luyt to go to Lusaka, which shows just how desperate they (like their counterparts in business and academia) have become as a result of apartheid.

The other issue is one of leadership. Craven has demonstrated that nothing can be achieved without risk. In this sense, rugby is an emblem of politics.

There comes a time when the man in charge must move without looking over his shoulder, must take a leap into the dark and have faith in the future. Can we blame a rugby administrator for taking political action, if the politicians themselves refuse to do so?
SEEKING THE POLITICAL KINGDOM

This year, only two men have stood up to a government that increasingly covers its reform paralysis — if not retreat — with political bluster and personal demagoguery. Their offence had been that they had taken political initiatives which have proved to be an embarrassment to an inert administration.

The man of the moment is Danie Craven. And it remains to be seen whether his defiance will be sustained and what the outcome will be. But Labour Party leader Allan Hendrickse, too, has had to withstand, among other things, a whithering castigation over SABC television delivered by the meddlesome State President himself. And he faced it with great dignity and turned it to his advantage.

Hendrickse has used the parliamentary system to great effect. At least he has achieved a standoff over the tightening of group area legislation. If he adheres to his standpoint, he probably has the potential to achieve much more.

He will address this year’s FM Investment conference in Johannesburg on November 10 on the role of the Labour Party in SA politics in a session chaired by Race Relation’s director John Kane-Berman.

Hendrickse will be followed by another politician who has made a quiet but telling contribution to the thinking behind political reform in this country. He is Pat Poovalingam who will talk on strategies for reform and who is no stranger to this forum.

Both these speakers will follow a lunchtime address by Pick ‘n Pay chairman Raymond Ackerman on what business expects of government and an assessment by the Chamber of Mines labour negotiations chief Johann Liebenberg on what the unions have achieved this year.

The development of the political economy has always been important for business as it determines the environment in which it trades. How it will and how it should develop are of critical importance to those facing investment decisions.

The views of these practical men will be an interesting precursor to British historian and author Paul Johnson, who will address the conference the next day on the morality of capitalism.

dy to ignore.

De Kock, of course, understands the implications of not allowing interest rates to rise when markets dictate that they should. In the report of the De Kock Commission of Inquiry into Monetary Policy (1985), he concluded that SA has, over a period of years, had lax monetary and fiscal policies which have led to an unacceptable rate of inflation. This in turn led to the erosion of the country’s living standards and caused additional problems to the BoP.

And the major reason for monetary indiscipline, he said, has been the reluctance to let interest rates rise enough to curb credit and subsequently money creation.

In a speech in April to the Kaapstadse Afrikaanse Sakekamer, De Kock pointed out that inflation is harmful for real economic growth over the longer term “because it leads to malinvestment and the inefficient allocation of scarce labour and other resources, discourages saving and promotes speculation.”

SA’s savings ratio has been one of the most serious casualties of rates which were negative for nearly two years and even now yield small real returns on savings. Real interest rates, after being negative for a period, are still inappropriately low compared with those of major industrialised countries (see graph). This at a time when desperately needed to generate our own resources to compensate for the almost complete cut-off in capital flows from the rest of the world.

Surely the authorities don’t need much more in the way of bad news to press them into action? With the municipal elections safely out of the way, the Bank must be allowed to eliminate a degree of distortion in the markets.

Whatever steps are taken, however, are unlikely to be adequate. With SA in a state of chronic instability, no sooner has one election passed than another looms — and Cabinet ministers tend to operate with one eye constantly on the political horizon. So economic policy will presumably continue on its present path — strewn with political promises and crisis packages. In the end, it will founder on its own indecision and plunge us all into poverty.
Build-up in world inflation pressures

NEW YORK — Interest rate pressures are building up for the world’s major central banks.

In spite of the perceived unchanged monetary policy stance recently in the US, Britain and West Germany, analysts see inflationary pressures brewing which could force rates higher worldwide by the end of the year.

Analysts point to a number of latent worries that underscore inflation growth worldwide.

In spite of a narrower-than-expected British trade deficit in September, that should have allayed inflationary fears, some analysts are still concerned.

Drexel Burnham Lambert vice-president and senior international economist Colin Lawrence says Britain is “under severe pressure” to increase base rates, maybe to 13% by the end of the year. Base rates in the UK now stand at 12% after jumping during the summer from 7.5%.

Kleinwort Benson Securities economist David Owen says the “pressure for higher rates may have eased but they have not been eradicated.”

On Thursday, it was reported that Britain’s current account deficit for September narrowed to £560m from £1.31bn on a seasonally adjusted basis.

Smith New Court economist Paul Turnbull says “imports are still high. There is no downturn in demand.”

Lawrence says the UK is definitely in an “overheating phase and will continue its tough monetary stance.”

Analysts note the spectra of inflation also haunts West Germany and Japan.

While economists say the Bundesbank has not tightened monetary policy recently, a moving up of rates is possible during the last quarter of 1988 and into next year.

Falling

Lawrence says “The only one playing the international game right now is Japan.” He says the Bank of Japan is the only major central bank to lower rates during the past three weeks. But analysts contend that a possible firming of rates may be necessary in Japan by year-end.

In Tokyo, Sumitomo Bank treasury department senior manager Hiroshi Shimotakahara says this is the beginning of the end “for falling interest rates.”

— AP-DJ
Investors put off by 'Third World smell'

Rand closes at record low to UK pound

GRETASTEYN

LARGE capital outflows during the final quarter of this year are already taking their toll on the rand, fuelling bearish sentiment and driving the rand further down against major currencies.

Yesterday, the rand closed at a record low of R4.83 against the British pound, continuing Friday's dismal performance when it slumped to R4.37 to the pound. Against the German mark, the rand eased to DM0.7102 at the close yesterday from Friday's close of DM0.7199. It ended the day against the dollar as well, to close at R2,4918 against the dollar from Friday's R2,4893.

Dealers said foreign debt commitments looming in the face of scarce foreign exchange reserves had fuelled bearish sentiment towards the rand. However, economists also mentioned other capital outflows such as dividend payments by foreigners, short-term capital movements triggered by increases in overseas interest rates, as well as leads and lags as important factors.

Dealers pegged a shortage of foreign exchange, which was pushing up the price of hard currencies in rand terms.

Davis Borkhurm Hare economist Mike Brown said the shortage of currency could be the result of dividend payments to foreign investors in SA mining companies. He also believed there was a possibility that some foreign debt outside the standstill net was being repaid.

Brown said: "The size of SA's foreign debt commitments, given its precarious low level of reserves, will continue to affect foreign exchange markets until the reserves situation improves."

SA has to repay about $400m in foreign debt, inside and outside the standstill net, in the last quarter. The country's gold and foreign exchange reserves have fallen from a peak

off R6,7bn in August 1986 to R5,1bn in September this year.

Economists said the Reserve Bank did not intervene to prop up the rand, because it could not afford to waste precious foreign exchange reserves.

Sapa reports Trust Bank MD Chris van Wyk said certain short-term capital outflows could be ascribed to the low level of SA interest rates in relation to foreign rates. Artificially low interest rates coupled with high inflation had made the rand an unpopular currency.

Van Wyk said: "Overseas investors are being frightened off by the Third World stench of our currency."

Leads and lags added to foreign capital outflows, with exporters keen to collect their money quickly but importers trying to settle as slowly as possible.

On the current account, Van Wyk saw it as a bad sign that the Minister of Finance had said the inflow from the import surcharge was looking healthy. This implied the surcharge was not doing its job — imports were still too high.

The rand is now only 12% above its all-time low of R2,30 against the dollar reached in August 1985.
More emphasis on savings advocated

By Derek Tomney

Consumers are currently facing another rise in their bond repayments. On yesterday's announcement of a two percentage point rise in the Bank rate, homeowners could face substantially higher bond rates in months to come, but economists feel that they should also be offered higher interest on their savings.

Economists argue that one of the major problems, aggravated by the lack of foreign capital, is a shortage of savings, which will not even be alleviated if deposit rates rise substantially over the next few weeks, as expected.

If real rates of interest could be increased to an increase in savings, it would help reduce interest rates on borrowings and help the economy to expand.

In line with this thinking, Alfred Group MD, Mr. Kevin de Villiers, has proposed a new deal for the small saver.

"I am confident that real rates are coming and that the small saver will at least get an inflation-beating return on his deposits with financial institutions." Mr. de Villiers said yesterday, the Alfred would shortly launch a savings scheme linked to the prime rate, to give the small saver a much better deal.

Small savers would be paid a rate between prime less 2.5 percent and prime less three percent, depending on the time period of the deposit.

The prime rate is set to be raised today by the banks from 16 percent to 18 percent. Building societies are paying 13.25 to 13.5 percent on deposits of less than R100,000.

Mr. de Villiers felt the authorities were becoming convinced of the need for real interest rates, both to curb inflation and to improve the balance of payments.

Real interest would also not hurt viable businesses. With inflation at 13 to 14 percent, it means they would be facing a real rate of interest of four to eight percent, which they could afford.

Building societies and banks have more than R30 billion invested in mortgages and every one percent rise in interest rates adds an extra R300 million a year to repayments.

Mortgage rates will have risen from between 12.5 percent and 13.5 percent by January this year to 16.75 percent to 17 percent by December — a rise of 3.5 to four percent. This will increase mortgage repayments by R1 billion to R1.2 billion — roughly R100 million a month.
Money, money, money

Inflation suits Pretoria — but it will rip apart the socio-economic fabric

No one should be lulled by last week’s two percentage point rise in Bank rate and prime. We still face the spectre of hyper-inflation and a depreciating rand that together will ensure greater poverty.

Though welcome, the tightening of monetary policy has come far too late, which means we are facing the certainty again of a prime rate of around 20% or higher. Money supply growth has been over target since February and the Reserve Bank does not expect to move it into range before year-end.

However measured, money supply is out of control. M0, the base on which the wider aggregates are built, was up 38% over the past year, along with M1A (up 22%), M1 (31%), M2 (38%) and M3 (28%).

And this growth isn’t just a once-off blip from a low base. M0 has increased 71% over the past three years rising from 6% annual growth to 17% and now to 38%.

It’s only a matter of time before this hyper-monetary-inflation becomes hyper-price-inflation. Already, the Consumer Price Index has started to hot up, rising at an annualised rate of nearly 17% in the past three months.

Meanwhile, the price of foreign exchange is shooting up as well, with the rand hitting record lows against the pound. That, curious though it may appear, is the good news it means we haven’t retreated to a controlled economy.

Price inflation is simply the market’s attempt to put prices back into line with demand boosted by excessive money creation. It should be allowed to do so freely if prices don’t rise now — because Pretoria slaps on wage and price controls — the economy will be crippled with distortions, shortages and attacks on black-marketeering — as has happened to our impoverished neighbours.

Likewise, the falling rand is the market’s attempt to put the right price on scarce forex, adjusting to a shortage. So applaud if the rand is allowed to sink, because this means forex is being allocated by the price mechanism, not by government fiat.

No economy can avoid adjusting to inflation. It will cope with rising prices and a falling rand only after distorted price relationships have been restored, and production, investment and spending disruptions will then reduce. But the damage goes much deeper.

Those begging government for more inflation — that is, artificially low interest rates and unending Reserve Bank accommodation — ignore the incalculable harm of such a policy. Among its effects:

- Boom-bust growth. New cash is pumped into the money market, pushing interest rates down and prompting businessmen to invest and consumers to spend.

- Speculation and low savings. With sound money, savings would be attractive: deposit your money at the bank and get paid a real rate of return. But with negative real interest rates, inflation and a depreciating rand, it doesn’t pay to postpone spending. In SA, personal savings has plummeted as people look for something — anything — on which to speculate: shares, stamps, property, antiques, cars, guns. Instead of healthy saving, we get booms and busts.

- Low foreign investment. There’s nothing like a debased currency to scare off foreign investment — nothing except exchange controls, which keep more money out of the country than in.

- The combination of boom-bust growth, negative rates of return, a depreciating currency and exchange controls makes sure little or no investment reaches our shores.

- Thus SA is left imposing sanctions on ourselves and must keep our enemies smiling.

- Long-term business planning becomes impossible. Rather than drawing up 15-year investment plans, businessmen are left to survive year to year, trying to guess the direction in which government will push interest rates, inflation and the rand. Forget about surviving a decade or two — we’re happy to survive another interest rate cycle.

- As Hysteria mounts, forex is debased, its external value declines, which makes forex seem precious. But there are forex and balance of payments “crises” only in countries with high inflation, because embarrassed governments won’t let the exchange rate reflect their inflationary policies. To “generate” forex, we get wasteful export subsidies (industrial welfare). To “protect” forex, we get tariffs, surcharges and controls.

Then there are grander plans like the harebrained “local content programme” for the auto industry, by which central planners in the Board of Trade and Industry dictate how cars should be built. All of these measures punish consumers and reward sloth, inefficiency and bureaucrats.

- Rising taxes. Government sets up steeply progressive income tax rates and then, to make sure everybody moves into higher brackets, fires up inflation as nominal wages soar, so do income taxes. Government believes this is a painless way to raise taxes. Actually it invites (a) social dissent, as more black workers are forced to pay income tax but have no say in how it’s spent, and (b) right-wing backlash, as black-collar workers are taxed into the Conservative Party.

- An excuse for government intervention and anti-capitalist consumer crusades. Inevitably, “free market forces” are blamed for inflation and wild swings in interest rates. Government uses this as an excuse to become more involved in the economy and...
Taking stock of the future

Worker shareholders — the concept is still in its infancy in SA. There have been problems — primarily black union opposition — but, nonetheless, over the past two years employers have, to varying degrees, implemented employee share ownership plans (Esops, as they have come to be called) have surmounted their first hurdle by piercing the psychological barrier of black exclusion.

Disregarding their union’s rejection, many members of Cyril Ramaphosa’s National Union of Mineworkers (NUM), for example, have opted to join Anglo American’s Esop, the largest and most significant, launched a year ago this week.

This breaking of ranks is not in itself a true yardstick by which to measure the success of the Anglo scheme. At this stage it is after all simply a gift of shares, and by no means all the workers among Anglo’s 250,000 eligible black workers are members of the NUM. Anglo itself observes “the main criteria of success will be how many workers not only retain their shares (after four years in trust) but decide to invest their own money in buying more.”

The overarching objective of the Esops is part of the longer-term goal of black inclusion in capitalist culture to ensure their support of it as the best system of wealth creation and economic management. So it is up against some heavyweight ideological preconceptions. Only last year, a survey claimed no less than 77% of urban blacks “favour a socialist vision” compared to 22% pro-capitalist — and this in the era of perestroika. Proper assessment of Esops’ teaching and ideological role in instilling the spirit of capitalism — understanding the profit motive, risk and reward alike — will therefore take a few years yet.

Significant, however, the idea dovetails with a new recognition among a growing number of blacks of the urgent need for black empowerment and expertise in financial, economic and other spheres, in order to be strategically placed to run the country in its post-apartheid era. Esops are one avenue towards this goal and even if they are presently few and far between, they’ve become reality unions have been forced to come to terms with.

De Beers’s Julian Ogilvie Thompson, wearing his hat as chairman of the employee trust which administers Anglo’s Employee Shareholder Scheme, reported in August that 114,485 eligible employees (64% acceptance rate) at 17 Anglo subsidiaries had joined the fledgling scheme.

Collectively they own 751,559 shares (less than 1% of the total) then worth about R33m. The final dividend at 162.5c per share netted each worker the princely sum of R8.13 — gratis, though. And this is set to increase. From next year these capitalists-in-training will receive both the interim and final dividends — based, moreover, on increased share allocations planned over the next four years, during which they will remain in trust. Over this period Anglo is expected to issue 1,26m shares to its employees amounting to no more than 1.65% of total issued equity.

In general, though, the number of hourly paid workers with some form of financial participation — either share options or through share trusts — in SA companies employing more than 100 workers remains almost negligible, according to a survey by the Labour and Economic Research Centre (LER). The number of smaller companies which have introduced such schemes is not known.

Among companies listed on the JSE, LER found that about 100 offer Esops, most introduced in the past two years and many by newly listed companies. Typical of these “share incentive schemes” is their offer of two ways of acquiring shares: outright purchase, or an option to buy which is usually valid for 10 years. Trust funds are generally established to facilitate share purchases in the employee’s name; the shares are pledged to the trust as loan security and released in batches. These schemes usually require a minimum service period before employees qualify for them, and they generally limit the share capital available to an Esop to 10% of issued equity.

Opposition to Esops is most acrimonious in Cosatu and the NUM really centres on their rejection of schemes which are offered without any form of prior consultation with the union or workers or co-participation in management. They are thus perceived as a threat to co-op workers and to blunt union militancy. Ramaphosa has described them as “political and economic blackmail to try to seduce workers away from socialism,” adding that “the stakeholding initiative on Anglo’s part is an attempt to induce workers to greater loyalty to the company which employs them. The share offer gives no meaningful participation to workers. They have no say in the appointment of the trustees who are supposed to be taking decisions on their behalf.”

Pick ‘n Pay’s scheme is similarly criticised for being tied to a management-controlled trust which bought the shares for resale to employees. Critics argue that the workers who buy the shares buy only into the trust, not the company.

It is in management’s interests and consistent with the declared objectives of Esops to address those substantive non-rhetorical criticisms if business is to realise what Ogilvie Thompson refers to as a “new partnership” between management, employees and shareholders. The partnership, he added, “will require new practices in the area of profit-sharing and participation in management.”

Consider the attitude of the other black union federation, Nactu. According to general secretary Phrophow Cawoy, equity participation is acceptable “if accompanied by a mechanism which allows participation in decision-making, planning and policy formulation.” Worker share options, he believes, must entail representation at board level, which is not a strange notion elsewhere in the West.

However, the unions have yet to formulate an unambiguous position regarding worker share trusts — an Esop variant apparently more attractive to them — if the experience of the metal workers’ union Numsa and the Samcor trust is anything to go by. And if more companies are to disinvest in SA by setting up similar worker trusts as part of their pullout, clarity is essential.

In the wake of Ford’s divestment two years ago, the company disposed of its 42% stake by selling 18% to Anglo and placing 24% in a trust for Samcor’s 4,500 employees. Against the union’s wishes, many workers wanted their stake liquidated and the proceeds distributed to them, others wanted the money to go into housing or the like for the members. After a great deal of wrangling, it was decided to hold the workers’ 24% in trust administered by worker representatives, with any dividends channelled to community
ANC and SACP and you'll get richer. Look no further than pre-Nazi Germany to see how inflation can be used to stir up hatred of capitalism and "other" people.

So, given inflation's dismal track record, why does government stick with it? Apparently because it believes inflation fuels growth. But growth comes from enterprise and production, not printing new money which devalues old money. From 1970-1987, the monetary base (on an annual average) increased almost 700%, consumer prices just a little bit less. And with money supply still soaring this year, the exchange rate continues to decline. You could buy six Swiss francs for a rand in 1970; today you can buy about 0.6. That's a 90% fall.

And what have we got to show for all this?
Growing poverty.

Personal disposable income—what's left after taxes and inflation—is lower today for the average South African than in 1971. And it's expected to fall to the 1970 level next year. Instead of moving us forward, inflation (in an over-regulated, over-taxed economy) is propelling us backward.

The persistent myth that inflation is good for growth stems from confusion about short-term booms and sustainable long-term growth. Yes, inflation can spark a mini-boom. But much of the "growth" stems from two things consumers buying sooner rather than later to avoid higher prices, and businessmen making investments that go bust when interest rates rise to reflect the real price of credit.

These mini-booms squander capital and disrupt the economy. To break out of the inflationary cycle, money supply must be brought firmly under control and rates allowed to rise (until inflation and inflationary expectations are curbed and nominal rates naturally fall). This could mean prime heads back toward 25%. That's not as high as it sounds.

Don't look at the 12.4% official inflation rate, which tells us how much prices have risen over the past year. One has to look ahead to judge whether today's rates are positive. Say prices rise 17% over the next 12 months. Today's 14.5% Bank rate is still negative. It could be pushed up to 20% (with prime up to 23.5%) and still barely be positive. High interest rates welcome if they are part of a determined plan to curb inflation once and for all—not just another roller-coaster ride.

It's not "belt-tightening" or "austerity" when interest rates rise as part of a policy to halt inflation and bring about a sound rand. Positive real rates aren't austere for savers, equal, yes. But all else doesn't need to be equal. We're calling for neither austerity nor a recession. A recession is not inevitable, and higher rates don't need to mean hard times for debt-strapped farmers, homeowners and businesses.

If government takes bold steps to free the economy, ordinary folk could generate real wealth to pay their bills. There's no better time than the crest of a false boom to bring about radical economic reform and sustainable growth.

Slash government spending and taxes to balance the Budget and leave hard-pressed businessmen and consumers with much more money to cover their debts. Get on with privatisation not just Iscor, Eskom, Sats and the Post Office, but land, housing, education and health, too. Use the proceeds to cut taxes.

Abolish agricultural boards. Grant full property rights to blacks. Abolish licensing laws, minimum wages, building restrictions and zoning codes that keep blacks poor, unemployed and homeless. Abolish export subsidies, tariffs and exchange controls, which distort and curb trade and investment.

By unleashing enterprise, government would unleash real, sustainable growth, which would allow us to avoid the mini-bust we otherwise face. Sound money and free enterprise growth aren't austere. Austerity is the status quo extortionary taxes, high inflation, too many regulations, too much government.

The people who should be tightening their belts are the planners, regulators and spenders in Pretoria. They should join those of us in the productive sector who have suffered from years and years of belt-tightening.

If an early general election is likely, Pretoria should remember voters reward a government that's clever enough to institute good economics. They'll eventually throw out a government that keeps making them poorer.

*Estimate

FINANCIAL MAIL NOVEMBER 11 1988
Ominously, 1988 is matching all the bad things of '84

Sven Lünsche

The economic recession of 1985/86 evokes memories of liquidations, unemployment, sky-high inflation and soaring interest rates.

It has been described as the worst economic period in South Africa's post-war history and was preceded by a spending boom, which shows an uncomfortable similarity with the country's spending patterns this year.

Economists are now asking whether 1988/89 will be a replay, with all its dire consequences, given the remarkable macroeconomic similarity between the two periods.

Before attempting to answer this question it is worthwhile pointing out the remarkable resemblance between the expenditure patterns in these two periods and subsequent economic developments.

In a recent economic report Trust Bank highlighted the following:

- In both cases real incomes rose substantially, reflecting declining inflation combined with accelerated wage and salary increases.
- Consequently real gross domestic expenditure in the first half of 1988 was 9.7 percent up on the same period in the previous year — almost exactly equaling the 9.4 percent figure of the first half of 1984.
- Respectively year-on-year rises in import volumes were 24.7 and 24.9 percent.
- Spending and imports produced a similar negative effect on the balance of payments in the first half of each year, with the current account declining by about $9 billion in both cases.
- South Africa's gross foreign exchange reserve holdings declined from $4.1 billion early in January 1984 to $3.2 billion in 1988. They fell from $4.1 billion to about $3 billion over a similar period.
- The trade weighted value of the rand in the first ten months this year fell by 11 percent. In 1984 it dropped by 13 percent.
- The trade weighted value of the rand in the first ten months this year fell by 11 percent. In 1984 it dropped by 13 percent.
- Credit creation, as reflected in M3 monetary growth, was 15.5 percent in the year to September 1984, which led to a six percent increase in the prime rate to 25 percent by November.
- This year, M3 in the first three quarters soared by 28.2 percent, and while prime has not yet reached 25 percent, further increases in the rate from its current level of 15 percent is on the cards.

Economists feel that in real terms prime should be about three percent higher anyway.

Finally, the announcement of special measures on August 12 this year was almost a spot-on anniversary of the drastic restructuring steps announced on August 3, 1984.

The virtually exact repetition of the economic trends of 1984 in 1988, and especially the fact that at present our foreign reserves are lower and domestic monetary expansion twice as high as four years ago, immediately prompts a wider range of negative trends on the cards.

The question of whether another severe depression is at hand?

Trust Bank writes:

In 1985/86 the extremely negative trends were largely a reflection of the extent to which the country had over-extended itself financially in 1984. The trends included a prime rate of 25 percent, real disposable income down by 4.6 percent in 1985 and by 5.0 percent in 1986, GDE fell by 8.8 percent in 1985 and manufacturing production fell by 5.1 percent, producing extremely high unemployment.

At present, says Trust Bank, 'it is clear that a wide range of negative trends are on the cards next year. Average interest rates will be higher than in 1988, the rand exchange rate lower, inflation higher and expenditure growth much lower.'

Trust Bank concludes nevertheless that the negative economic trends in 1989 will in fact be much less severe than in 1988, a conclusion that is shared by other economists.

In their argument Trust Bank stresses that official debt still stands at R3 billion as opposed to R10 billion, while the corporate sector is better geared to handle a negative situation as inventory levels and gearing ratios are much more conservatively managed than four years ago.

But Trust Bank stresses the need for a tighter monetary policy in order to bring private sector credit creation under control, indicating that the measures taken up to now could eventually bring the spending boom to a halt.

Addis Nedbank's Edward O'Brien "I don't think the scenario will repeat itself. What really hurt the economy in 1985 was the prime rate at 25 percent and the authorities will not allow that to happen again."

Trust Bank, however, sounds a warning "The one major factor which could upset the applecart by extending the boom is fiscal policy. If a repeat of 1985/86 is to be avoided in 1989/90 the maintenance of strict fiscal discipline is an absolute necessity."
SA must utilise informal sector more

PW blames inflation on poor productivity

By Claire Robertson,
Pretoria Bureau

South African business was yesterday urged by the President, Mr PW Botha, to increase productivity.

Addressing the Manpower 2000 conference held at Unasa yesterday, Mr Botha told the gathering of public and private sector and trade union representatives it was clear that in the face of foreign pressure — which had contributed to capital being even scarcer than in the past — South Africa “must particularly look to higher productivity to increase the economic growth potential”.

“In South Africa wages and salaries increased so much faster than labour productivity that unit labour costs in the manufacturing sector were 31.2 percent higher in 1987 than in 1985,” he said.

Mr Botha said this disparity was partly to blame for high inflation.

The competitiveness of South African industry came under heavy pressure because pay hikes showed little or no relation to increases in productivity.

He said everyone wanted more money, “but we can only get more by working harder.”

Japan’s unit labour costs for the same period had actually decreased, he said.

“We must place South Africa on the road of self-sufficiency, self-confidence and progress. There is no alternative,” he said.

Training was an important means of increasing productivity, and to this end the Government had set aside R365 million to train the unemployed. Almost one million had been trained for 720 types of job nationwide.

Mr Botha also said South Africa should make more of our informal sector. These people — or a high percentage of them — must eventually join the formal sector.”

And in addressing himself to trade unions — the leading unions apparently having failed to attend the meeting — he said the attempt in some sections to use the sphere of labour for political aims was regrettable, “but is a reality of which we must take note.”

The Government was aware of this strategy, and while it appeared that certain sections of the trade union movement occupied itself with pure politics, appropriate steps were being taken to resist this.
A warning has been sounded by the Econometrix research unit that a sharp climb in inflation and a steep fall in the rand exchange rate look set to start in the New Year and worsen over the next two years.

Dr Azar Jammie, director of the think tank, forecasts that the rate of annual increases in the consumer price index will soar from the present 12,4 percent to around 17,5 percent by the end of next year and upwards above 19 percent by mid-1990 before the next possible slowdown.

Renewed shrinking

And a renewed shrinking of the rand will mean the cost of buying one US dollar will climb from about R2,57 now to nearly R3 inside the next 12 months and on to more than R3,50 at the turn into the 1990s.

Compared with several other major international currencies, the rand may drop at an even steeper angle, its value against the West German D-mark plunging from a 1988 average of about 78c to below 40c in 1991.

Dr Jammie argues that the trends look likely to be the inevitable results of Government errors in allowing the rate of money supply to run far too high over the past 18 months.

He believes it has been growing suspicion about the economic outlook that has helped to fuel the pre-Christmas spending spree as consumers flock to buy now rather than risk encountering even worse price spirals in the New Year.

"The recent credit splurge — encouraged by the Government feeding too much liquidity into the banking system — virtually guarantees an increase in inflation," he said.

"The error was creating so much new money when it was not backed up by an increase in the goods and services being produced.

"Now South Africans must stand ready to pay the penalty for excessive government use of its printing presses to create more and more paper rands to pump into the economy when it has flagged.

Chain reactions

"The authorities seem to repeatedly ignore the inevitability of chain reactions from movements in the rate of monetary expansion after a time lag of one to two years.

"Thanks for the relatively low inflation rate of recent months must largely go to the discipline exercised in pushing down the rate of money supply in 1985/86.

"In turn, we are all now going to pay the penalty for the excessive surge in monetary expansion over the past 18 months or so."
Yet more gloom

The Standard Bank Review — projecting slow growth, higher inflation, lower car sales and higher government spending — warns businessmen to plan for a tough 1989. Standard expects real GDP growth to slip to 1.1%, from 2.7% this year.

Inflation is expected to average 13.2% this year and 15.1% next — rising towards end-1989.

Higher interest rates and stricter HP rules will cut consumer spending on items with substantial financing costs, such as cars, furniture and clothing. Car sales could fall to 205,000 next year from 226,000 this year.

Because of higher rates and more expensive imported capital equipment, Standard projects a fall in private investment across three main categories: inventories, plant and equipment, and construction. "After some inventory building during 1988, a much lower rate of inventory building, or even destocking, is likely to occur in 1989."

Other projections:
- Real government consumption expenditure will continue to rise briskly — 3.5% in 1988, 4.4% in 1989. Subsequent tax increases or higher borrowing (plus continued growth in private consumption expenditure) will curb saving and private investment.
- Import volumes will fall 5.5% in 1989, after a 16% rise this year, partly because investment in plant and machinery will fall.

The current account surplus will rise to R4.3bn next year; and
- Interest rates may not rise much more, but won't come down before mid-1989.

This is a good scenario — what Standard calls a "soft landing."

Growth may fall more sharply and interest rates shoot up if government overspends and boosts borrowing, the prices of gold and other exports plunge, or political and social reform is halted — or goes in reverse — and undermines confidence.

In its previous Review, Standard warned that soaring spending could cause government to borrow heavily to cover current spending. It said the Budget deficit could be a "dangerously high" R12.1bn this year (about 6% of GDP) and R17.4bn next (about 7.5% of GDP).

Given the current uncertainties, Standard warns with its latest forecast of 1.1% growth that "businessmen should be aware of the risk and ensure that they are prepared for a more serious recession, and greater financial and exchange rate pressures."
Inflation rate stable, but sharp rise likely

By Sven Lunsche

The inflation rate, as measured by the consumer price index (CPI), has remained virtually unchanged over the last four months. In October it was 12.3 percent, compared with September's 12.4 percent.

But actual price increases are higher because the inflation rate records only the percentage rise in the index over one year, without indicating recent increases in consumer prices.

This was confirmed yesterday by Dr. Treurnicht du Toit, head of Central Statistical Services, who said too much attention was being paid to year-on-year figures and not enough to month-on-month changes, which were a more accurate reflection of price alterations.

Annualised increase

He said if one compared the third quarter with the second, the annualised increase was actually 15 percent.

Mr. du Toit said the monthly change in the index in October from September came to a non-seasonally-adjusted 1.1 percent which, on a 12-month basis, showed an increase of 12.7 percent.

But given the volatility of one month's figures, they would not necessarily reflect the real trend.

Looking at the seasonally adjusted monthly increases since July provides a clearer picture.

In July, the figure was 1.1 percent, in August and September 1.4 percent and in October one percent. If this trend continues, the annual inflation rate from July this year to July 1989 will be 14.7 percent.

By the same token, food prices — based on the monthly rises since July of 1.9, one, 0.9 and one percent respectively — will rise by about 14.5 percent over the period to July next year, although in October 1988 they registered only a 13.9 percent year-on-year increase.

The higher monthly increases in consumer prices will eventually impact on the official inflation rate.

But, as Dr. du Toit, said "The price increases over the past month have definitely been more significant than the 12.3 percent registered by the CPI."

There is no doubt that the underlying direction of the inflation rate is, at present, upwards," he said.

This trend was confirmed yesterday by Sanlam's chief economist, Mr. Johan Louw, who expected an average inflation rate of 13 percent this year and 15 percent in 1989, which takes into account a forecast of a slightly slower rise in food prices.

Sharp decline

Apart from the sharp decline of the rand, a rise in unit costs, the impact of a higher fuel price and the soaring money supply, Mr. Louw listed cheaper home bonds and higher financing costs as major reasons for the expected rise in inflation.

The increase in bond rates was the largest contributor to the monthly percentage change in October, which could continue over the next few months.

The contribution of bond rates to the CPI is based on a weighted average interest rate calculated by weighting the respective rates of banks and building societies with the mortgage amount applicable. Thus the rate calculated for October amounts to about 16 percent.
Shares as inflation-beaters

Inflation has been one of the major problems facing investors worldwide since it hit high levels in the post-oil crisis era of the Seventies. While most Western economies have managed, since the early Eighties, to make some progress in bringing inflation under control, SA investors have had to cope with the inflationary ravages caused predominantly by a declining rand.

The effects of inflation have been so damaging that, for many investors, beating inflation has become as important as security when it comes to choosing investment opportunities.

In his speech to the recent Fmaneal Mail conference, Liberty Life's Mr Roy McAlpine took the investment decision further when he noted that in view of the 16.5% percent annualised return that could be earned on five-year government stock, investors in equities should be looking for an absolute minimum return of 19-20 percent per annum. This return would be earned through a combination of dividend income and share price appreciation.

For equity investors whose primary concern is beating inflation, a paper recently presented at the Economics, Business Economics and Manpower Research Conference at the University of Stellenbosch, may be instructive.

The paper, which was prepared by H Alant and F Mostert, found that in the 17 years to 1988 more than 60 percent of the listed companies used in their analysis were able to provide returns in excess of the inflation rate.

The downside of this, is that almost 40 percent of the companies were unable to produce real returns over that period.

Companies in the sugar, transport and tobacco sectors provided the highest returns over the 17 years — in excess of 17.5 percent, compared with the 12.2 percent inflation rate.

The authors found that more than 62 percent of the companies in the survey "had annual growth rates of the combination of share prices and dividends, which equaled or exceeded that of the consumer price index (CPI)."

They said: "It is important to note that almost 30 percent of the annual growth rates concerned were more than 5.3 percentage points above that of the CPI."

The authors believed the fact that approximately 75 percent of the companies concerned had annual growth rates which were not below the 10 percent limit (thus not more than 22 percentage points below the CPI) was an indication of their ability to counter the effects of inflation.

Other strong sector performers were liquor and hotels and food. The comparatively weak sector performers were electrical, industrial holdings and motors and textiles.

![Graph showing industrial index and SA annual inflation rate]
with a year-on-year change of 12.4% in September. The monthly seasonally adjusted increase is 1%, following increases of 1.3% in September, August and July.

However, both annual and monthly deceleration are deceptive.

Says CSS head Treurnicht du Toit “CPI is a short-term series subject to short-term influences. So figures for the past three months give a better indication. In the three months August-October, the index increased at an annualised rate of about 13% on the previous three months.”

CPI growth has been driven by rises in mortgage rates, which constitute 9.5% of CPI, a depreciating rand, import surcharges of up to 60% introduced in August, a bread price increase in August, a petrol price increase in September and increases in wages and salaries which Leon Steenkamp of Senekal Mouton & Kitshoff estimates are running above the inflation rate.

First to be felt are price-push factors. Still in the pipeline are cost factors “These are effectively countered when levels of capacity utilisation are increasing and relatively high,” says Steenkamp “But when capacity utilisation declines, the opposite applies.”

And when short- and medium-term influences have been absorbed, there will be the lagged response to this year’s excessive growth in money supply.

It is of interest to look back to the end of 1986, when the long tail of inflation was still lashing the country — though everything pointed the way to deceleration. That November, the FM reported that despite 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, inflation remained inexplicably high.

The report followed a year-on-year increase to October of 20.6% in the producer price index (PPI) and 19.3% in CPI.

Not until January 1987, when PPI fell to 14.9% and CPI 16.1%, did the pace of inflation show signs of decelerating. The rate of increase this year was volatile but CPI averaged 16.2% in 1987 and PPI 13.9% — against averages of 18.6% and 19% the previous year, 1988 is even more impressive, CPI sliding from 14.2% in January to 12.3% in October and PPI, which started at 11.8%
Costly petrol fuels inflation

THE Government’s inability to manage the Budget has been attacked by labour organisations, farmers and economists.

Their wrath was prompted by this week’s announcement that the price of fuel will be increased by 10c a litre from January 16.

The Bureau for Economic Research at the University of Stellenbosch warns that the higher fuel price will add 0.54 of a percentage point to the inflation rate. It will also have ripple effects. The BER has lifted its estimate of inflation in 1989 to 16%.

The increase comes after two months during which an overrecovery on the so-called state was experienced in the sale of petrol. In other words, motorists paid more petrol than they should have paid.

The September overrecovery was 1.53/7% and 2.25/7% in October. This was credited to the state.

For political reasons the Government supported the price of fuel to the tune of R661-million since last December.

R. du Toit, chief economist of the SA Agricultural Union says the farming fuel bill is about R800-million a year. Farmers will pay an additional R100-million next year.

Higher interest rates, increased licence fees and dearer imported machinery will add pressure to profit margins and could result in higher consumer prices.

The Federation of Industries (FIC) expresses concern at the fuel-price rise and attacks the use of administered prices as a fiscal instrument.

“This decision will undoubtedly exert an inflationary effect on the economy as fuel constitutes an important cost element in industry,” says executive director Ron Haywood.

Ascom questions whether a higher fuel price is the best way of keeping State financing sound.

“Ascom is particularly concerned at the persistent failure to control State spending effectively, as this can only mean a continued heavy tax burden and additional levies on the private sector.”

The Housewives League of SA says “fuel price ripple through the economy and affect every service and all goods purchased by the consumer.”

National president Lyn Morris says, “the Government is a lazy housekeeper, incapable of budgeting and managing the funds entrusted to it. Now it seems hell bent on bankrupting the rest of us.”
Pace of business is slowing

By IAN SMITH
INVESTMENT planners hoping for the same upthrust in the business cycle as the one that is ahead in the South African economy in the year ahead are in for a rough ride.

The range of risks facing the country is clear from the latest report that has been compiled by a group of economists for the National Business Council. The report is based on a survey of business confidence and is the latest in a series of quarterly reports that have been published by the council.

The report finds that the business community is generally optimistic about the prospects for the economy over the next six months. However, it also highlights a number of risks that could affect the business cycle, including the possibility of a slowdown in the growth of the economy, a rise in interest rates, and a decline in consumer confidence.

The report is based on a survey of 1,000 business executives, and it is the first time that the council has published such a report. The survey was conducted in the last quarter of 1989, and it found that 60% of the respondents expected the economy to grow by between 2% and 4% over the next six months.

The report also found that 40% of the respondents expected the economy to slow down, with the growth rate falling to between 1% and 2%. The survey also found that 30% of the respondents expected the economy to grow at a rate of between 5% and 7%.

The report concludes that the business community is generally optimistic about the prospects for the economy over the next six months, but that there are a number of risks that could affect the business cycle, including the possibility of a slowdown in the growth of the economy, a rise in interest rates, and a decline in consumer confidence.

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On course for recession

Economy now more adaptable to taking knocks

Projected trend


ASX Bond Flows (million)
Economy now more adaptable to taking knocks

**On Course for Recession**

Economy now more adaptable to taking knocks...
Pay rises outstrip inflation

PRETORIA — The Reserve Bank says salaries and wages have increased by more than the rate of inflation. If it adds in its latest monthly report the year-on-year increase for the third quarter averaged 17.8% which is well above the comparable increase in the consumer price index of 12.5%.

The Bank says "The annualised rate of increase in total nominal remuneration of employees rose from 14.5% in the first quarter to 15% in the second."

Pay rises remained at an annualised 15% in the third quarter.

The Bank points out, however, the rate of quarter-on-quarter increases has risen from 18.3% in the second quarter to just under 20% in the third quarter, while corporate savings rose slightly.

Individual savings declined in the third quarter compared to the first six months and 3% for the same period last year. — Sapa
Inflation remains at 12.3 pc

The South African inflation rate for October 1988, as measured by the consumer price index (CPI), was 12.3 percent—the same as for the previous four months.

The annual rate of increase in the indices for the lower, middle and higher-income groups for October 1988 was 11.9 percent, 12.3 percent and 12.3 percent respectively.

The monthly rate of increase in the seasonally adjusted CPI was about 1 percent and the monthly non-seasonally adjusted rate of increase was 1.1 percent.

According to Central Statistical Services, the largest contribution to the monthly percentage change was the increase in the interest rate on mortgage bonds.

The monthly rate of increase in food prices was 1.6 percent (seasonally adjusted 1 percent) in October.

Relatively large monthly increases occurred in the prices of meat (1.6 percent), fish and fish products (1.4 percent), fruit and nuts (4 percent), vegetables (1.8 percent), "other" foodstuffs (3.1 percent) and coffee, tea and cocoa (0.3 percent).

Slight decreases occurred in the prices of milk, cheese and eggs (minus 0.3 percent) and fats and oils (minus 1.1 percent).

In urban areas, the largest annual price increases occurred in the Klerksdorp/Stilfontein/Orkney area (13.1 percent) while the lowest occurred in the Bloemfontein area (9.7 percent).

The CPI for pensioners showed an annual percentage change of 11 percent. This is 1.3 percentage points lower than the 12.3 percent inflation rate for all income groups for October 1988.
"Stagflation' to continue

The overall impression of the most probable course of the economy over the next two years was one of continued stagflation," says Mr. Volksas, chief economist at the bank's latest economic report, which focuses on prospects for 1988.

Volksas says that given the developments that took place this year and the expected continued capital outflow, "it is difficult not to foresee a drop in the standard of living per capita of the population."

With the expected economic conditions in view, "the most pressing challenge remains improved utilisation of the production factors in the economy to bring about increased production at lower cost escalations."

"In this respect, the country's capital assets in particular must be applied more productively and the availability of capital is the most conspicuous problem in the economy," Mr. Jacobs writes.

"If we could succeed in achieving this, the performance of the economy may surpass expectations. We certainly hope that this will be the case."

The remaining period was one of consolidation.

"Reduced expenditure, enhanced savings and the ratification of the fact that the money supply increased much faster than was planned, that domestic expenditure, supported by bank credit, increased sharply and that imports increased considerably in the process."

"As a result, the surplus on the current account of the balance of payments will be much smaller than was expected, and that in the process interest rates rose sharply and the exchange rate of the rand deteriorated substantially."

"Added to this, we were very much under the impression last year that the authorities were determined to curtail the growth in government spending."

"Government spending did in fact show favourable signs for some time, but according to the latest information and statements it would seem that government expenditure is still not under control at all," Volksas writes.

"For instance, the growth rate will be slightly better than was anticipated, real domestic expenditure considerably higher and the average inflation rate will be lower than predicted."

"There were therefore certain issues about which one could be fairly satisfied."

"However, there were also certain developments in 1988 that cast a dark shadow over economic prospects for at least the next two years."

"This may be attributed to the fact that the money supply increased much faster than was planned; that domestic expenditure, supported by bank credit, increased sharply and that imports increased considerably in the process."

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Inflation indicator is accurate - CSS

Own Correspondent

Johannesburg — Questions over the accuracy of SA's inflation rate are unfounded, says Central Statistical Services head Treurnicht du Toit.

He was responding to persistent talk that the inflation rate, as measured by changes in the consumer price index (CPI), understated price increases. Capital market dealers say they do not believe the official inflation rate and some economists have also questioned the accuracy.

Critics of CSS say the weightings accorded the different items in the CPI basket do not reflect current spending patterns because they are based on a 1985 survey. Consumers also claim that price increases, in their own experience, often outstrip the official inflation rate.

Certain economists say CSS measures too many prices, so that there is an "equalising effect" with stable prices neutralising sharp increases in other prices. They also note that the rate of increase in the CPI has not responded to the upward trend in the PPI inflation rate.

However, Du Toit says many misconceptions exist over the CPI. Writing in the latest edition of The Securities Markets, Du Toit says the first point of fallacy concerns the basket of consumer goods and services used.

"It is a mistake rashly to describe the CPI as unreliable, simply because the weight structure is not based on today's actual spending patterns. Normally, the weight structure does not change significantly in the short term and, should a variation indeed arise, it will not necessarily have a meaningful effect on the CPI and the inflation rate."

On criticism that the price information gathered by the CSS surveys is not an exact indication of actual price variations, Du Toit said internal controls were adequate to ensure the accuracy of the surveys. This had been confirmed by the findings of external and independent investigations.

Consumers who saw prices increasing faster than the official rate should bear in mind that groceries only comprised about 27% of the average household's total monthly spending.

The accusation that the measurement of too many prices had an "equalising effect" indicated a failure to understand the application of weights to the different items in the basket.

Du Toit said there was nothing "sinister" in the divergence between the rates of increase of the CPI and PPI in the short term, but this was possible as not all products went directly to consumers.
CSS head defends accuracy of CPI inflation measure

QUESTIONS over the accuracy of SA's inflation rate are unfounded, says Central Statistical Services (CSS) head Fransvich du Toit. There has been persistent talk that the inflation rate, as measured by changes in the consumer price index (CPI), underestimates price increases. Capital market dealers say they do not believe the official inflation rate and some economists have also questioned its accuracy.

CSS critics say the weightings accorded the different items in the CPI basket do not reflect current spending patterns because they are based on a 1985 survey. Consumers also claim that price increases in their own experience, often outstrip the official inflation rate.

Certain economists say CSS measures too many prices, so there is an "equalising effect" with stable prices neutralising sharp increases in other prices. They also note that the rate of increase in the CPI has not responded to the upward trend in the PPI inflation rate.

However, Du Toit says many misconceptions exist over the CPI. Writing in the latest edition of The Securities Markets in South Africa, Du Toit says the first point of fallacy concerns the basket of consumer goods and services used.

"It is a mistake readily to describe the CPI as unreliable, simply because the weight structure is not based on today's actual spending patterns -- normally, the weight structure does not change significantly in the short term and, should a variation indeed arise, it will not necessarily have a meaningful effect on the CPI and the inflation rate."

On criticism that the price information gathered by the CSS surveys is not exact, Du Toit says internal controls are adequate to ensure the accuracy of the surveys. This has been confirmed by the findings of external and independent investigations, he says.

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Sinister

The accusation that the measurement process has many prices has an "equalising effect," which indicates a failure to understand the application of weights to the different items in the basket.

Du Toit says there is nothing "sinister" in the divergence between the rates of increase of the CPI and PPI -- in the short term, this was possible as not all products went directly to consumers. The only products which flowed directly to the retail trade were food, beverages, tobacco, clothing, footwear, textiles, furniture and domestic appliances.
Fears of boost to rate of inflation in 1989

By Michael Chester

Renewed fears of an upward swing in the inflation rate next year have been voiced by big business in a survey of economic forecasts carried out by the Bureau of Market Research at the University of South Africa.

Predictions inside the top 100 industrial corporations covered in the survey see the annual pace of inflation climbing to at least 14 percent and perhaps as high as 17 percent.

All executives pointed to uncertainties in the economic, social, political and business environment.

The 1989 outlook in general:
- Real economic growth of between 2.5 and 2.8 percent.
- Prime overdraft interest rates at 16 to 17 percent by the end of the year.
- The rand/dollar exchange rate ranging between R2.75 and R2.82.
- A medium gold price of $475 an ounce, with a spread of between $441 and $495 from one quarter to the next.

UNEMPLOYMENT

- More than seven out of every 10 corporate executives foresee an increase in total unemployment, with more labour unrest and more strikes.
- Almost all of them — 95 percent — predict that sanctions and disinvestment pressures will intensify next year.
- Two-thirds fear a deterioration in the overall political situation.

State enterprises:
- Almost as many, 82 percent, expect an acceleration in the privatization of State enterprises.
- A 46 percent majority are braced for increased pressure on the manufacturing sector, the Government and the media to be more responsive to consumer problems.
- As many as 88 percent of executives expect more pressure on manufacturers to assume greater social responsibility next year.
INFLATION

By Johan Louw, Sanlam chief economist

I believe that the year-on-year increase in the consumer price index — the general yardstick for measuring inflation in respect of consumer goods — has now reached a low point and that in the next 12 months the inflation rate will increase sharply, despite the expected marked slowing down in general economic activity.

My expectation that the pace of price rises will pick up significantly in 1989 is coupled with the following:

● The drastic increase in the fuel price from September 1 which has not yet taken full effect and which has now been followed by a further increase of 10c a litre as from the middle of January.

The total increase in fuel prices in six months amounts to almost 30 percent and if the international oil price rises, further increases can be expected.

● The sharp depreciation in the external value of the rand (The rand has depreciated by about 17 percent on a weighted basis in the past 12 months.) It has not yet had a noticable negative effect on consumer prices, but I expect that it will lead to markedly higher prices in 1989.

The increase in the surcharge on certain imported goods and the expected higher overseas inflation will reinforce this tendency further.

● Higher, but still restrained, adjustment in the administrated prices of some goods and services such as transport, electricity and communication.

● More expensive house bonds and higher financing costs which are not yet fully reflected in consumer prices.

● The past few years’ continued sharp increases in the money supply which will be reflected in higher prices after the usual time lag.

In contrast to this, normal climatic conditions should lead to a somewhat slower rise in food prices which should in turn place a damper on steep price rises in the total consumer price index (Food represents roughly 25 percent of the consumer price index).

It is obvious from the above that, in spite of a phase of considerably slower economic growth, in 1989 the country will still have continuing high inflation, particularly of a cost-push nature.

I estimate the average increase in the consumer price index for 1989 to be about 15.5 percent, a rate which compares most unfavourably with an expected average rate of about 4.5 percent in the major industrial countries.

This unacceptably high rate of inflation has negative implications:

● It does not foster a healthy personal savings effort.

● It means that interest rates will have to stay at fairly high levels, which is not beneficial for private fixed investment (which is the real driving force behind growth in the economy).

● It harms our international competitiveness, something that the country can hardly afford in view of the fact that we are compelled to maintain considerable surpluses on the current account of the balance of payments so that we can meet our foreign debt obligations.

● It places downward pressure on the external value of the rand which can in turn lead to higher inflation.

For the man in the street, 1989 will be a year when he will have to contend with continued sharp increases in the cost of living. Housewives in particular will have to count their pennies.

For the businessman, the curbing of cost rises will have to be a high priority, especially since he will not be able to pass on increased costs to the consumer so easily.

The Government will in turn have to ensure that monetary discipline is backed up by fiscal discipline, particularly in the form of strict control over government spending.
Higher inflation in 1989 feared

The sharp depreciation of the rand in 1988 and increased fuel prices will give a sharp boost to the inflationary spiral in 1989, economists believe.

Inflation, which has been on a down-trend since 1986, is expected to start rising next year, climbing from the current (November) Consumer Price Index of 12.4% to between 14.5% and 17%.

Standard Bank economist Nico Cypenka says the softness of the rand, resulting from the authorities' relaxed grip on monetary policy, will be the main cause of higher inflation next year.

Runaway money supply, showing a 35.6% year-on-year rise in November, is a concern since it debases the currency, intensifying inflationary pressures.

Unitec economist Hans Falkena agrees a lower rand exchange rate combined with import surcharges as well as the explosion in money supply will power inflation.

Bureau for Economic Research's Ciske Stuart estimates the depreciation of the rand could add as much as 17% to import prices during the next 12 months. This inflationary trend will be strengthened by the rise in fuel prices.

Fuel prices rose 15% in September and a further increase of 10.5% has been announced for January 16.

Kaplán and Stewart analyst Terry Conoguan says taking into account

Economists fear high inflation in 1989.

The outlook for food, which has a heavy weighting in the index, is more positive, as input costs for food in the form of raw materials are falling and at present the capital infrastructure of the wheat and maize industry requires no additional spending.

But economists are looking to the expected slowdown in economic growth to moderate the inflationary spiral.

Cypenka says high interest rates could well result in a smaller than feared rise in the inflation rate, and he predicts the average inflation rate for 1989 may not greatly exceed 15%.