INFLATION - 1989

Conclusion

The current situation and also the prospects for the South African economy can be seen to be anything but optimistic, with the debt crisis casting its shadow over future developments. As high interest rates continue, the economy will continue to fluctuate but that the short term upturn will be insufficient to reverse a long term trend of decay.

Exchange earners.

Serious with the fall in the price of gold, South Africa’s major foreign exchange earner, severely stimulate the economy. The situation has become even more serious with the spread of the shadow over future developments. The high risk of a reoccurrence of the South African economy.
Up and up go taxes and inflation, down goes the rand

Gloomy economic forecast

By Michael Chester

Sharp increases in the size of tax bills seem likely to add to the burden of higher inflation and a weaker rand exchange rate in 1989, according to forecasts by the Econometrix research unit.

And Dr Azar Jammie, director and chief economist of the think tank, blames the bleak outlook on the penalties now to be paid for the artificial boost given the economy by the National Party as a political sweetener before the October municipal elections.

He predicts the rate of sales tax will soar from 12 percent to at least 15 percent when the Government switches from the GST system to VAT (value-added tax), scheduled to be announced in the 1989 Budget.

The taxman will also take bigger bites out of pay packets as wage and salary increases force taxpayers into higher tax brackets.

Dr Jammie fears the harder tax squeeze looks inevitable as the Government becomes even more hard pressed to foot the bill of State expenditure, worsened by the civil service pay rises.

The heavier taxes — with the VAT net widened to cover even basic foodstuffs — look bound to put a brake on consumer demand as the credit boom comes to an end, he adds.

BLAME LAID ON AUTHORITIES

The Econometrix researchers lay the blame on the efforts of the authorities to generate an artificial boost to the economy as a political ploy at election time — the trigger to the credit boom that led to a surge in consumer spending on borrowed money.

"The result of the massive creation of credit out of thin air, as the Reserve Bank pumped vast amounts of liquidity into the banking system, was that a spending spree on imports had stripped the country's foreign exchange reserves to precariously low levels," he said.

That now threatened a renewed significant decline in the rand exchange rate, which would worsen inflation trends.

Still to be felt was the full impact of the successive waves of measures the Government was compelled to introduce to counter the false boom — more stringent hire-purchase rules, harsh import surcharges and sharp rises in interest rates.

The spending spree was prolonged, according to Dr Jammie, only because consumers were determined to buy ahead of inevitable new price increases as fresh fuel was added to inflation.

Now a slowdown in demand was unavoidable, especially for non-essentials such as new cars, household appliances, TV and video sets and furniture, which had benefited most from the credit splurge.

TWO WILD CARDS IN THE GAME

There were no wild cards that could alter the scenario — first the gold price, which heavily influenced the South African economy, and second the possibility of a 1989 general election. Neither, however, should cause undue optimism, cautions Dr Jammie.

The gold price looked likely to remain subdued in the face of strict monetary policies used overseas as inflation safeguards.

And even if a general election was held, one had to be sceptical about whether the Government any longer had its power to continue with artificial boosts to the economy by printing more and more money when the national reserves had been reduced to such parlous state.

Longer term, the Angola-Namibia peace initiatives, the deregulation of business activities and moves to privatise more State-owned enterprises provided rays of hope for the mid-1990s.

But the benefits would take time to filter through and would not be in time to alter the economic outlook for 1989 and next year.

"In retrospect," says Dr Jammie, "one can only bemoan the fact that the Government induced the economy to overheat so much in 1988 for political ends.

"There need not have been any reason for a reduction of economic activity whatever in 1989 had the authorities ignored political expediency and acted more responsibly.

"Instead the country may once more be faced with an increase in unemployment and a corresponding escalation of social unrest."
Union wage rises beat inflation

By Dick Usher

CAPE TOWN — Unionsised wages, on average increased above the rate of inflation for the second half of 1998, says an analysis by the Labour Research Service.

Only 24 companies gave increases below 13 percent, approximately the inflation rate. These included several where wages were already quite high.

The average wage increase was R120,65 a week for labourers.

The survey covers agreements negotiated between unions and management, industrial council agreements and wage determinations.

"After a first-half increase of 22.8 percent, the second-half average of 20.6 percent is highly creditable, given poorer economic conditions, tougher bargaining and increased anti-union activities by employers and government," the survey says.

It says the inclusion of mining wage settlements at 16.5 percent contributed to the lower average increase for the second half.

Only four of the companies in the survey gave increases lower than 10 percent, 60 awarded 10 to 19 percent, 59 awarded 20 to 29 percent and 18 awarded 30 to 49 percent.

There were six companies where wages increased by more than 50 percent.

The best increase — nearly 73 percent — was negotiated by the National Union of Mineworkers (NUM) at Cullinan Minerals.

But the minimum weekly wage is still only R71.55 at Minelco. NUM negotiated a 72 percent increase to R138.46 in 1999.

Only four companies paid labourers more than R200 a week, 72 paid less than R100 a week, 56 between R100 and R150, and 40 paid between R150 and R200.

Of gazetted wages, the Cape clothing industry had the highest percentage increase, negotiated by the Garment & Allied Workers Union at 50.7 percent, bringing the minimum to R113 a week.

Bottom of the log was a wage determination for rural labourers, with a 10 percent increase, raising the minimum to R55 a week.

Industrial council and wage determination increases were 25.1 percent on average.

But many were well over a year old, so these are not comparable with the private sector's average of 20.6 percent over a year.

Only nine agreements, of those which provided figures, had a 40-hour week.
Smoke not, drink not — and avoid the inflation trap

The latest review of inflation trends shows that eating and drinking habits may have a lot to do with the steepness of increases in the cost of living. Teetotallers, vegetarians, especially non-smokers and those who use buses and trains rather than their own cars, have suffered least from the price spiral of the past year.

The roasting from inflation has also worsened in line with the fatness of the pay packets going into family budgets.

And the rate of inflation may also depend heavily on where you live. Many of the mysteries of why almost everybody has a different version of how rising prices better their own family budgets are answered by a deep delve into the mass of graphs and tables compiled at regular intervals by the mandarins in the Central Statistical Service.

Worst culprits

First, the food basket, which has been one of the worst culprits of all since 1985, and which on average costs 13.2 percent more than a year ago.

Families with a craving for meat — say bacon or boerewors for breakfast, pork or lamb for lunch, roast beef or steak for dinner — have paid dearly for their tastes.

Meat prices, on average, have shot up as much as 18.4 percent. A change of pace to put fish dishes on the dining table has been no escape from inflation. Average fish prices have soared by 20 percent.

A far better idea at breakfast time has been cereal and toast. Grain product prices have gone up by only 11.3 percent. Better still, cheese or eggs, only 9.5 percent dearer.

This is where vegetarians have already started the day at an advantage — all the more so as vegetable prices on average have increased by only 11.4 percent.

And the really strict vegetarians have had a bonanza. Prices of fruit and nuts, taken on average, have actually dropped — by 1.6 percent.

If inflation has made you down at heel, grin and bear it. Footwear costs 17.6 percent more.

And if you want to save wear and tear on your shoes by buying a new car — beware. On average, vehicle prices have soared less than 23.5 percent this year.

All in all, though, if you are an average South African, your overall cost of living has gone up about 12.4 percent, say the CSS mandarins.

But that may vary a bit, depending on the size of your pay packet.

For example, if you belong to the lower income group, inflation has swiped a slightly more modest 11.5 percent.

For the middle-income group, prices rose 12.2 percent.

In the higher-income bracket, the inflation rate was 12.8 percent.

And recapping on all the damage wreaked by inflation since the start of 1985, the year used as the base of the current crop of statistics — the CSS finds that the extent of the devastation also depends on where you live.

Worst hit has been Klerksdorp, where the consumption price index has soared 72.6 percent.

Bloemfontein somehow found the best shelter, with the climb in prices held at 53.5 percent.
Your house is NOT always a sensible way to beat inflation

It will surprise many that house prices over the long run have NOT kept pace with the rate of inflation.

But that’s impossible, you may say, depending on the general impression that house prices are the average man’s best protection against inflation.

An impression, no doubt, fuelled by over-eager property agents who use this line as a marketing ploy.

But, sad to say, this is not true. Research by property economist Erwin Rode has just undermined another piece of conventional wisdom.

Residential property prices, in the long run, generally follow the inflation rate, but do not outstrip it. In fact, due to a combination of several factors, residential properties have a tendency to depreciate at an alarming rate, especially houses older than 20 years.

According to the Rode House Price Index, house prices tend to move in very long cycles, which means there are periods when house prices outperform or underperform the average inflation rate.

As can be seen from the accompanying graph house prices (deflated by the CPI), on average, easily outpaced the inflation rate between 1978 and 1982, but since then houses have not been such a good investment.

Many people who entered the property market at its peak in 1992, especially in the case of townhouses and duplexes, are still licking their wounds.

But these findings only reveal one side of the coin. They happen to be true for the few investors who bought properties for cash, but not true for homeowners who, unwittingly or unwillingly, used a factor known as gearing to build up substantial capital sums.

Gearing is a well-known practice used in business, but few people actually realise this is precisely what they are doing when they apply for a mortgage bond on a house or property.

In essence this boils down to using someone else’s money to make a capital gain for oneself.

It is this factor, together with subsidies on home mortgage bonds, that has made lots of money for salaried people in the residential property market.

Anyone purchasing a R100 000 property with a bond of say R80 000 only invests R20 000 (apart from the legal and transfer costs) of his own money into the property.

But when the property appreciates (which it will in line with the inflation rate) the entire capital appreciation accrues to him, and not the institution that gave him the loan.

This capital profit then creates the impression that property far outstrips the inflation rate.

But like all other investment areas, timing is of the utmost importance. Referring to the table again, property investors who purchased properties during 1978 and sold out at the top in 1982, made astronomical profit which was mostly untaxed.

However, people who bought into the market at the top in 1982, actually suffered a decline in capital values at the end of 1984.

This brings us to a question I’m often asked when is a good time to buy or build a house? My answer to this is it is always a good time to acquire property, but some times are better than others.

It seems as if interest, and also mortgage rates, are close to their peak and could start declining in mid-year.

With the market still soft and sellers more negotiable than six months ago, the time could be ripe.
CAPE TOWN — Old Mutual chief economist David Mohr does not believe a widely forecast recession for this year will be as deep as that of three years ago.

He agrees with economic colleagues, however, that a slump is on the horizon.

Mohr, comparing conditions running up to the two periods, does not see repetition of several coincidental developments which added to the downswing three years ago.

One difference is that he does not foresee a repeat of the strong contraction in final demand of about 10% in 1983-86.

Mohr says that, in view of the less vigorous rise in spending on durables, and an absence of such harsh measures as those introduced in August 1984, private consumption expenditure was not expected to decline to the same extent as in the previous downswing.

The sluggish conditions are also not expected to be materially influenced by another major decline in fixed investment activity. Mohr maintains that, while a major recovery in public sector fixed investment is not foreseen, it is unlikely

the 1986 cutbacks will be repeated. Mohr also does not foresee severe inventory depletions this year.

He also believes there are several major differences between the current balance of payments position and that of three years ago.

**Optimistic**

The rebound then, contrary to the traditional export-led upswing in the economy, was not based on any improvement in export volumes. This has occurred since then.

Mohr notes, however, there are still factors which could worsen the slightly more optimistic scenario he has for the economy.

These include a sharp decline in the price of gold and other commodities, a stronger-than-expected downturn in the world economy, misbalance in domestic economic policies that could be inappropriate to the country's balance of payments and inflationary problems and lead to another exchange rate crisis.
INFLATIONARY pressure quickened in November last year, with the rate of increase in producer prices jumping to 14.1% from 13.1% in October.

Economists said the acceleration in producer price increases would have an impact on consumer price inflation after a few months.

Central Statistical Service (CSS) figures showed the Producer Price Index (PPI) jumped by 15.6% between October and November. Nedbank economist Edward Osborn pointed out this yielded an annualised rate of 19.6%.

"The increase is not unexpected given the weaker rand and domestic cost pressures. These will eventually filter through to the CPI, and the correlation that normally exists between the PPI and the CPI will be restored."

Last year was an aberration in that the rates of increase of the PPI and CPI were moving in opposite directions.

The imported component of the PPI rose by 4.9% in November while domestic prices jumped by 17.7%.

Osborn expected the rate of increase of the PPI to reach 15% to 16% in 2008.

Relatively large monthly increases were recorded in the sectors of basic metals (5.0%), non-ferrous metals (11.3%), electrical machinery (5.7%) and transport equipment (4.8%).
LLOYD'S NAME DRAIN

After losing 1,750 names last year, Lloyd's of London has announced that only 970 new members will start underwriting this year. This net loss in membership of 780, together with deaths of existing names, reduced total membership to 31,300 from 33,600 a year ago. A total of 3,800 members have increased underwriting commitments so capacity to underwrite business remains unchanged at £11,000. Thus, however, represents a real shrinkage with inflation in Britain in the year to November running at 6.4%.

The number of syndicates is up from 376 in 1985 to 387 in 1986 with non-marine, 135 marine, 44 aviation, 57 motor and eight short-term life.

The British magazine The Economist attributes the decline, in part, to falling personal tax rates in Britain which reduce the value of tax relief offered by Lloyd's investments. And adverse publicity surrounding the projected £500m losses facing members of the Outwrite syndicate may also have diminished the attractions of being a Lloyd's name.

Budget deficit was replaced as the top legislative item before the 101st session of Congress, by the collapse of the American savings and loan (S&L) industry.

Congress must first decide whether or not to appropriate US$100bn in new money to inject into the savings and loan sector (assets of $3 trillion). Up to 500 of the 3,000 S&Ls are judged to be bankrupt, largely because of disastrous flights into Texas real estate and energy loans. Since most Americans believe savings accounts are fully insured by the government (this is not strictly true), voters told their senators and congressmen over the holidays to take care of the thrift industry problem first.

The problem thus becomes one of how to come up with $100bn in new spending for the savings and loan rescue and then how to cut an estimated $100bn in current spending of the budget. In the past week President-elect Bush has signalled he will agree to raise some government fees (airport landing rights, health inspections, canal fees, etc.) but remains adamantly opposed to personal or corporate income tax increases.

What that means, in turn, is that the Fed is once again the only power in Washington able to move against inflationary pressures. And despite wishes of thinking of economists, the recession everyone has been predicting since early in 1988 shows no signs of slowing down either the economy or the impending threat of inflation at home that worries economists even more than the dollar's problems abroad.

Christmas proved a booming sales period for America's retailers and consumer manufacturers, and durable goods makers such as Detroit's car-makers reported a banner year.

Unemployment in December dropped another tenth of a percentage point to 5.3% of the available work force. Joblessness is at a 14-year low and the economy during the least year created nearly 3.5m new jobs. For the moment, the Fed's chief target has been the Federal funds' rate banks charge each other for overnight reserve lending. Since November, the central bank has allowed the Federal funds' rate to creep over 9%.

Thus, in turning up the pressure on the banks' own prime loan rate to favoured corporate borrowers, which stands at 10.5%. While the discount loan rate is largely symbolic these days, an increase of that rate over its present 6.5% level would be a clear signal from Washington to restrict business and consumer credit.

The bad news is that every percentage point rise in general interest rates adds $5bn to the budget deficit financing problems. George Bush will face after January 20.

Also, the last time the Fed hiked the discount rate, Wall Street blamed it for the October 19, 1987 stock market crash. Yet with Congress and the White House in their traditional stalemate, what choice does the Fed have?

INTERNATIONAL BANKING

Deflecting default

In 1987, major UK, US and Canadian banks acknowledged for the first time, in published results, that exposure to problem countries had to be provided for. "In May 1987, Citicorp of the US broke ranks and set up a 25% reserve," says a report on banking profitability, recently released by the London and New York-based IBCA Banking Analysis, "and other major banks followed suit in some disorder."

The result was a dramatic fall in average return on equity.

- The UK, from 14.5% in 1986 to 2.24% in 1987.
- Canada, from 11.78% to minus 5.13%, and
- The US, from 11.2% to minus 15.45%.

"Banks in other developed banking systems had long before accepted the irrefutable evidence of this truth by setting up sizeable problem country reserves."

The result was that average returns for banks in Spain (19.1%), Belgium (17.35%), Finland (13.38%), Japan (12.24%) and Sweden (11.24%) actually improved — despite the world stock exchange crash.

One explanation of the report offers for the unexpectedly favourable performance is that averages on which calculations were based generally reflect the results of the principal banks in the banking systems, whose cash-related losses in capital markets were easily absorbed by profits of the banking sections.

Another explanation, for universal banks in Switzerland and Germany, is "that the perversities of public reporting allow major banks to disguise the impact of the crash."

A survey of the world's top 100 banks established that, in the six years since the less-developed-countries' (LDCs) debt crisis started, strides have been made in insulating banks from default by principal borrowers. "Capital has grown, reserves have increased and exposure as a percentage of capital has fallen dramatically."

Lending to LDCs, however, rose more than 30% between 1982 and 1987, as "an integral part of the Baker Plan aimed at allowing underdeveloped countries to grow their way out of problems."

Through this new money, technically, allowed most to avoid default, it's increasingly clear that, with few exceptions, sovereign borrowers cannot or will not be able to service their debts.

As a result, bankers are now looking at debt reduction either LDCs buy back their debt at substantial discounts, or they are granted some form debt forgiveness. Though forgiveness is a term banks will strenuously avoid, for its embarrassing implications for both borrower and lender, IBCA expects many billions of dollars of country borrowing to be forgiven one way or another.

INFORMAL SECTOR

Diverging views

Should SA seek salvation in the much-vaunted informal sector? Volkists economist Adam Jacobs says, emphatically, no.

"The problem we have is that some individuals and organisations are asking that the informal sector be 'promoted' as it would help to solve the grave problem of unemployment, " writes in the latest Economic Spotlight. "This is a little difficult to understand — especially when one considers growth in the informal sector is 'promoted' by insufficient growth in the formal or quantifiable sector of the economy. In fact, the informal sector grows precisely because there is nothing better. This implies a subsistence economy, lack of specialisation and a very low level of technology. Is that what we should be promoting officially? Surely not.

And he adds "It must be borne in mind that strong growth in the informal sector is only the second best that can be achieved."

This sector is a ready refuge for the unemployed as its importance grows as people grow poorer. It is a myth, therefore, to suggest the per capita wealth of the nation can be raised by promoting the informal sector. That is a contradiction in terms which hails all economic laws and the whole history of economic development.

Others are not so quick to run down the informal sector — saying that it can quite clearly make people better off. As Senbank
The richer we get, the poorer we become

DEMPHY

SOUTH AFRICA is a world leader in gold mining. According to the latest IMF figure which presents in this country the past five years have seen a growth in New Zealand, the world's biggest producer, a 24% increase in Spain and 25% in Australia and Sweden. In the United Kingdom, the increase has been 42% and in France less than 5%. In Germany and Japan, the increase has been 24% and 10% respectively. In South Africa, the increase has been 68% and in Britain 24%.

Since 1980, prices in South Africa have risen by 100%. In New Zealand the rate has been 78% and in France 65%. In Japan, the rate has been 10%.

South Africa has grown so accustomed to steadily rising prices that they have stopped asking why it is happening, but that they should start asking why the rate of inflation is keeping pace with their pay, and if so, how could possibly build on them.

Inflation is "public enemy number one" in most Western countries because it affects every individual in the long term.

Inflation can certainly be blamed for much of the country's extremely poor growth record in recent years. Between 1980 and 1985 South Africa's economic growth averaged 7.3% a year. IMF figures show that, in contrast, the British and New Zealand growth rates were 2% higher at 22% and 24% respectively, while Japan's were more than four times higher at 37%.

Inflation also destroys competition between firms. The steep rise in the price of assets makes it extremely costly and also risky for new companies to try to compete with the old-established ones, so they don't do it.

Inflation also destroys competition between firms. The steep rise in the price of assets makes it extremely costly and also risky for new companies to try to compete with the old-established ones, so they don't do it.

Imposition

Inflation destroys the value of money and impoverishes people. It is a sure blessing to keep people from the highest prices, and it also keeps the government from the lowest and most extreme necessities. This means that American goods to South Africa costs more than double what they did five years ago, British goods two-and-a-half times more, German goods three times more and Japanese goods four times more. Although individuals may not buy goods from those countries, the fact remains that commerce, industry and the service industries still have to do so. This raises the country's costs which all pay in the end.

The chart above shows the price increases between 1983 and 1988 for the main components of the consumer price index (CPI). The chart shows that the price increases for food, clothing, and housing have been the highest, followed by transportation and communication.

To stop inflation, the government must take action to control the money supply and to reduce government spending. This will require a major shift in policy, but it is necessary to ensure a strong and stable economy for the future.
DP staff's salary rises beat inflation

Salary increases for data processing (DP) staff in SA kept ahead of the CPI for the first time in four years, with overall increases for the year to end-June rising by 18.9%.

In spite of advances made against the CPI, DP increases were brought more into line with those for general staff for the first time in many years.

These findings emerge from the annual DP salary survey conducted by the Remuneration Division of P-E Corporate Services, one of SA's leading management consultancy and training companies.

P-E Remuneration Division manager Naomi Brehm says while overall increases were down on the previous year's 18.7%, DP staff received increases that were 4.5% ahead of the official CPI of 12.4% at the end of June.

"The narrowing of the gap between the increases granted to DP people and all other categories of staff is based on a strong trend emerging among companies, where remuneration for all levels of staff is linked to incentive or performance schemes and based on the bottom-line fortunes of the company.

"This trend is being experienced worldwide and is based on a concern for productivity, quality and improvements in the utilisation of resources," says Brehm.

Salary increases commanded by analysts and programmers moved ahead of those for DP managers during 1988. In this category increases averaged 18.4%, compared to 17% in 1987, while for managers increases of 17.4% were granted, compared to 1987's 21.2%. Operations and off-line staff received increases of 15%.

Brehm says the increases underscore the strong demand for skilled people.

"The improved economic climate increased job mobility with the overall average for staff turnover rising to 25% as against 15% in 1987. The last time a turnover of this proportion was experienced was in 1984 when the average was 29%.

"The average turnover among technical support programmers was highest at 38%.

She says the reasons for turnover among programmers included better career prospects, which accounted for 24%, improved pay, 21% and emigration, 16%.

"The most alarming statistic to emerge from our study is that 31% of management staff turnover is because of emigration. This figure, which is by far the most common reason for job mobility among DP managers, illustrates the serious drain on management skills," says Brehm.

The survey also showed that more than 90% of all DP staff received bonuses at least equal to a double cheque, and 16% received bonuses of more than a double cheque.
Steep surge in CPI expected

Inflation rate rises by 0.9%

By AUDREY D'ANGELO
Financial Editor

The inflation rate rose by only 0.9% between November and December, according to figures released yesterday by the Central Statistics Office.

The consumer price index (CPI) for December showed a year-on-year rise of only 12.5% compared with 12.4% in November.

But economists predict a steep surge in prices which will send the CPI up to 15.5% or 16% in the next few months.

They say imported inflation caused by the weakness of the rand, and the effect of the 60% import surcharge, has not yet filtered through to the economy and that raising bond rates, the higher petrol price and expected rises in administered prices will have a snowball effect.

Sanlam chief economist Johann Louw predicted: "We are in for cost-push inflation and the man in the street will have to struggle."

It was worrying that a slow-down in growth would be accompanied by a higher inflation rate.

Old Mutual's David Mohr said he thought consumers were already suffering from the rise in the CPI.

"The commodities section of the index has been increasing at a rate of 16% and I think the public have been experiencing that rather than the official CPI figure."

Inflationary pressures were building up which were not yet reflected in the CPI. And once the CPI began to move up, he thought people would be surprised by the speed at which it did so."

Factors which had been holding it down in the past year were the low housing component and low transport costs. Administered prices had been frozen but this could not continue. Higher bond costs were only beginning to be felt and flat rents had not yet started to move up. But a surge in rents was bound to come.

"The CPI has been creeping up slowly and that is going to be the trend. The question is - how fast is it going to rise?"

Southern Life economist Mike Daly said he was surprised the CPI had not yet risen above 13%.

"The lower rate of food price inflation is the key to this."

But he expected the year-on-year inflation rate for this month to be above 13%.

"It will gradually go up from there and will be between 15% and 16% by the end of the year."

Standard Bank economist Nico Cypionka said the CPI figure was exactly what he had expected, but that it would accelerate to reach 15% or 15.5% by the year-end.

The official figures show that a low rise in the food price index - which went up by only 0.3% between November and December and by 12.2% year-on-year, was a major factor in keeping the CPI down.

It seems likely that most increases in food prices in the first half of this year at least will remain below the inflation rate.

Alan Baxter, GM, food, for Pick n Pay said: "We always get a spate of price increases in January. So far we have had two of 15% but must have been less than 10%.

"That is very encouraging and I hope it continues."

Foschini MD retires

FOSCHINI MD Hugh Mathew will retire in March, it was announced yesterday. He will be succeeded by two joint MDs, Clive Hirschsohn - who is already an executive director of the group - and Brian Belcher.

They will share responsibility for the total operations of the group. But Hirschsohn will have specific responsibility for Foschini Services, Foschini Data, Foschini Finance, American Swiss Jewellers and Markhams. Belcher will head Foschini Stores, Burnita and Pages Stores.

Mathew will continue to serve as a non-executive director and becomes vice-chairman of the group.

He will remain chairman of the recently constituted executive committee, formed to interface between the directors and management. Another member of the executive committee, Neville Goodwin, will join the main board.
Inflation rate holds steady

By Derek Tommey

The inflation rate showed little change in December.

- The consumer price index (CPI) for 1985 equals 100 — rose 0.62 percent to 164.2, after rising 0.56 percent in November.
- This brought the increase in the index for the 12 months to December to 12.5 percent, compared with 12.4 percent in the year to November and 12.3 percent in the year to October.

However, while the year-on-year inflation rate appears to be levelling off, a look at the index on a monthly basis suggests that inflation in the past few months has actually been declining, though extremely hesitantly.

In July, August and September, prices were rising at an annual rate of more than 15 percent.

In the past three months the annual rate of price increases has ranged between 10.4 percent and 12.8 percent.

Unfortunately, this lower rate of inflation is unlikely to continue.

This month's 10c-a-litre increase in the petrol price must give inflation another boost.

At the same time, the effects of the lower rand, the normal annual increases in statutory and other charges and the recent increases in mortgage rates, will also affect the index.

Fruit and nuts

The food index rose by only 0.23 percent in December, despite a 3.3 percent rise in the cost of fruit and nuts.

The jump in these foodstuffs was offset by a 5.8 percent drop in the prices of vegetables and a fractional drop in the price of meat, fats and oils. Milk, cheese and eggs rose 1.5 percent.

Other commodities showing significant increases in November were housing (1.29 percent), furniture (5.0 percent), appliances (2.3 percent), medical care and expenses (2.3 percent) and personal care (3.3 percent).
Inflation lower than expected — experts

Inflation at the end of 1988 was lower than most economists expected, but above the single digits hoped for by the government.

Inflation as measured by the Consumer Price Index (CPI) rose 13.5% in December from a year earlier. This was marginally up on the 12.4% year-on-year increase recorded in November.

Central Statistical Service (CSS) figures show a jump of 1.1% between November and December, with higher mortgage bonds as the largest contributory factor.

The average inflation rate for the year was 12.9%, which is lower than the corresponding rates for the preceding three years — 15.1% for 1987, 18.8% for 1986 and 16.2% for 1985.

The lower inflation rate was helped by a declining trend in the increase of food prices which was 16.6% last year against 22.9% for 1987.

However, although food prices are expected to continue to moderate general inflation this year, a weak rand, a higher petrol price and import surcharges are expected to outweigh this, and economists expect inflation to reach 15%.

This month’s petrol price increase is expected to be reflected in the February rate, thereafter having a snowball effect on the index.

Trust Bank economist Nick Barnardt said he expected inflation to peak at 15% in June before it began falling back to around 14% at the year-end as the economy cooled. But he said this tapering off in inflation towards the end of the year would only occur if the rand held firm and if government spending was strictly controlled.

The financing of higher government spending through increased indirect taxation would impact on the overall inflation rate, he warned.
Professor claims inflation is double the official rate

CAPE TOWN — A battle is raging over the accuracy of official figures for inflation, which the government says is 12.5 percent and a mathematics professor says is nearer 26 percent.

Dr Karl Posei, a retired professor of applied mathematics, claimed this week that inflation could be at least double the rate calculated by the government's Central Statistical Service.

"Calculation of the Inflation rate is an applied mathematical procedure, not a statistical exercise or an economic project," he said.

He said the CSS erred in offering no mathematical model for its calculation of the country's inflation rate. And it did not use a model of a family with children for its detailed breakdown of monthly disposable income.

"I was stunned to find they did not work on the basis of a family with children. They merely worked on the figures revealed in the thousands of questionnaires they sent out.

The CSS calculated a family spent 22.72 percent of income on food but Dr Posei said his calculations showed 49 percent was nearer the true figure.

Few housewives would disagree that groceries were rising 10 percent every three months, meaning a 40 percent annual increase in food items.

A 40 percent hike in a component which took 40 percent of the monthly disposable income already meant 16 percentage points towards the inflation rate figure.

Bond repayments had risen 25 percent in the past two months — an item which took 15 percent of the budget and added another 3.75 percentage points to the inflation calculation.

Education had risen 20 percent a year, which added 1.6 percentage points to the inflation figure.

But in a broadside reply, Dr Reinhardt du Toit, head of CSS, dismissed Dr Posei's claim as a "distraction."

"The CSS is satisfied the index is in line with comparable data of its own and that of many reliable external sources."

He said the definition of the inflation rate was the percentage change in the average cost of a representative "basket" of goods and services.

"The basket is not based on assumptions of a hypothetical case (like that of Posei) but on averages derived from a sample of 10,000 real, live South African households.

"The prices used to calculate the changing cost of the basket are also derived in a scientific manner from a large sample of shops and service providers — about 250,000 price quotations serve as input to the model each year."

A former British businessman told The Star that when inflation was officially 25 percent in Britain a few years ago, some companies used that figure in calculating how much profits should go into reserves.

But they ran into trouble because not enough was being transferred to the reserves and so began to doubt the official figure.

One marketing department did its own research and told the company to allow for inflation nearer 40 percent than 25.
Inflation raging at ‘twice official rate’ — claim

by TOM HOOD
Business Editor

A BATTLE is raging over the accuracy of official figures for inflation, which a mathematics professor says is 26 percent — more than double the government’s claimed 12.5 percent.

The first salvos were fired by Dr Karl Posel, a retired professor of applied mathematics, who claimed this week that inflation could be at least double the rate calculated by the government’s Central Statistical Service (CSS).

“If my calculations are right it could mean a tremendous economic upheaval, with unions negotiating for salary increases equal to the rate of inflation,” he said. “I am concerned with the political implications. I am only interested in scientific calculations,” he told Weekend Argus.

Dr Treurnicht du Toit, head of CSS, dismissed Dr Posel’s claim as a “disturbance”.

“The accuracy of the index is sometimes questioned,” he said.

“The CSS index is satistified [sic] the index is in line with comparable data of its own and those of many reliable external sources.”

However, Dr Posel, author of books on investment and the share market, retaliated. “The CSS has not refuted my prime argument. I have investigated the methods the CSS uses and the end product does not conform to reality.”

And he said he would ask the SABC to arrange a Network debate “head to head” to discuss this matter of major importance.

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**Averages**

In a counter-attack Dr du Toit said the definition of the inflation rate was the percentage change in the average cost of a representative “basket” of goods and services.

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“The prices used to calculate the changing costs of the basket are also derived in a scientific manner from a large sample of shops and service providers — about 250 000 price quotations serve as input to the model each year.”
Trust Bank stresses savings

BALANCE of payments problems and rising interest rates reflect an acute savings shortage, Trust Bank says in its latest Econvision review.

And it adds the situation is aggravated by the falling gold price.

Trust Bank says increased savings is a national priority together with better utilisation of saving funds. It advocates, in view of last year’s record low in personal savings, a national saving campaign related to virtually all economic activity.

“Privatisation and disciplined government spending are essential to reduce the claims of government borrowing on the existing pool of saving.

“The rapid normalisation of international relations is equally essential to relieve the burden of debt repayment. It would terminate the large-scale outflow of capital through the balance of payments, freeing the entire pool of domestic saving for use in domestic investment.”

Trust Bank also says tax on personal interest income should be phased out.

“The consequent revenue loss of about R500m to the fiscal would probably be compensated by lower government spending but, if necessary, it could be financed by higher indirect taxation.”

“Trust Bank says there are indications the economy could perform above average this year with an expected increase in gold and agricultural output.

“A good reaction by other exports to the low rand exchange rate, and continued economic growth, would also contribute to a real growth rate of 3% in total exports and 2.5% in GDP. Trust Bank says higher exports, coupled with lower imports and a smaller capital outflow, could produce a net surplus of R23bn on the balance of payments.

“Consequently, the exchange rate and interest rates will remain relatively stable and inflation will not get out of hand. If the gold price stays close to $400 we foresee a year-end rate of R2.5 to the dollar, a prime rate of 17% and a CPI inflation rate of 14.5%.”

Inflation and secrecy are blamed for bribery wave

Business Day Reporter

HIGH inflation and official secrecy were prime causes of the wave of bribery and corruption, Nasionale Pers MD Ton Vosloo said.

Vosloo, speaking at the Consumer Council’s media award ceremony in Pretoria on Friday night, said “hard questions” had to be asked if SA was to address the causes of corruption and not merely the effects.

“Unhealthy high inflation and unhealthy secrecy are a fertile breeding ground for unhealthy practices.”

Inflation was an active agent in the corruption in public life. Government did not take inflation seriously and it should be given a priority similar to security action as it fed instability.

Vosloo said inflation led to irregularities by debauching the currency.

Sanctions and boycotts had led to the statutory protection of information about strategic supplies such as oil and nuclear material, and a veil of secrecy had been drawn over foreign trade. The flow of information was further restricted by legislation against terror and unrest, and by the emergency regulations.

“Such circumstances have led to officials and political leaders being given exceptional powers and this has increased the potential for corruption. It also serves as a smokescreen behind which dishonest businessmen can hide their activities.”

Vosloo suggested SA adopt a law similar to New Zealand’s Official Information Act of 1982. This was aimed at promoting good government through the progressive increase of official information available to the public.

SA-Mozambique meeting

PRETORIA — A plenary meeting of the Joint SA-Mozambique Economic Affairs Commission would take place in Cape Town today, a Foreign Affairs spokesman said yesterday.

The commission’s establishment was agreed to by President P W Botha and President Joaquim Chissano at their Songo meeting last September.

Foreign Affairs Deputy Minister Kobus Meiring and Mozambique’s Labour Minister Aguar Mazda are joint chairmen of the commission.

The spokesman said closer economic co-operation was of the utmost importance to SA and Mozambique.

If decentral office acco isn’t central corporate
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Lawson endorses G-7 strategy to contain inflation

WASHINGTON — British Chancellor of the Exchequer Nigel Lawson endorsed monetary moves to contain inflation on Friday, telling them central to Group of Seven (G-7) understandings on policy co-ordination.

Lawson said after the meeting there was an understanding among the G-7 partners that if particular nations felt the need to tighten monetary policy to control inflation, they should do so.

He said whether such tightening affected exchange rates depended on other factors and he indicated no distress with current exchange rate movements.

The G-7 meeting ended with pledges to continue close economic policy co-ordination and to seek expanded ways to solve the world's huge international debt problem.

The gathering of finance ministers was originally billed as a get-acquainted meeting with new US and Japanese officials. Although participants generally lauded the prospects of continued close co-operation, some downplayed the importance of the meeting, which did not produce a final communique.

A senior US official said the G-7 decided against issuing a statement because the group did not intend to signal any policy shifts.

One G-7 finance minister said the whole meeting had not been essential.

The foreign exchange market had all but closed by the time the finance officials began talking about the meeting. One forex trader said the comments were neutral, but he added that when the market re-opened today, it might still treat the general show of agreement as bullish for the dollar.

The finance ministers expressed general agreement that economic policy co-operation had been successful in stabilizing the dollar in the past two years.

US Treasury Secretary Nicholas Brady said co-operation was working and would be continued. He also said the G-7 talks involved no changes in the commitments of the major industrial nations to co-operate on exchange-rate policy.

Acceptable

Japanese officials said dollar and interest-rate levels were within an acceptable range.

However, German officials said if the dollar moved to DM1.98 from its current level around DM1.87, it could cause worries about the adjustment process in international trade imbalances.

The $161.4bn US budget deficit in the current fiscal year ranked high on the agenda, but officials from the other G-7 countries generally expressed satisfaction with plans outlined by US officials to reduce the budget gap as required under a US congressional mandate.

West German Finance Minister Gerhard Stoltenberg said Brady had developed a good concept that was well thought out. He said there was a good chance Brady's deficit reduction plan would be approved by the US Congress in a few months time. — AP-DJ
Industry still riding the crest of a wave

By Magnus Heystek, Finance Editor

If the economy is heading for a recession, this danger has not yet been grasped by manufacturers who are showing remarkable optimism in the face of gloomy forecasts made by some economists.

This emerges from the latest findings of the Federated Chambers of Industry (FCI) which, in its monthly Industry Outlook, shows a continuation of the buoyant conditions experienced by the manufacturing sector.

As the largest contributor to gross domestic product (GDP), this is bound to have a positive effect on economic performance this year.

According to Industry Outlook, which was released yesterday, the manufacturing sales index rose to 144, the second-highest level since the beginning of the survey last July.

Monthly basis

The survey is conducted by the FCI on a monthly basis, and gauges members' views on both current and expected economic conditions.

As the survey is done with the help of modern communications technology, it probably represents the most teneus information available on trends in the volume of sales, orders received, capacity utilisation and other key indicators.

The survey was done in the last week of January and is considered by the FCI to be an up-to-date assessment of the current mood among manufacturers. In January the index for future manufacturing sales reached 144, compared with 142 in December, and is only two points below the peak of last August.

This remarkable level of business optimism among manufacturers is ascribed by Mr. Roelof Botha, economist for the FCI, to a surge in import replacements and to an increase in gross domestic fixed investment (GDFI), which was rising by an annualised eight percent in the final quarter of last year.
Inflation rate set to reach at least 15 percent soon

By Michael Chester

New warning signals have flashed over the outlook for inflation with Central Statistical Services (CSS) evidence that the producer price index (PPI) now stands almost 200 percent higher than in 1989.

The index, on the latest count taken in December, was perched at 208.9 points when measured on all commodities turned out for consumption inside South Africa. The annual rate of increase accelerated from 14.1 percent to 14.6 percent.

Since the PPI spells out what new price trends are in the pipeline for buyers at the end of the sales chain, the upswing has ominous implications for the consumer price index.

The CPI at the moment still stands below 13 percent but economists are now in almost universal agreement that South Africans need to brace themselves for an overall inflation rate of 15 percent or even higher within the next few months.

The Econometrix research unit fears that inflation looks set to reach as high as 18 percent next year.

What has made economists especially treeful are figures showing that the price index for imported commodities—despite the decline in the rand and the obvious higher cost of bringing in goods from overseas—has still stayed behind the rise in price tags on locally produced commodities.

The rise in the PPI for imported items held steady at 14.2 percent. Commodities produced on the home market reached 14.6 percent.

Worries deepened when it was noted that the inflation rate on goods produced by the industrial sector in particular went ahead at an even faster 15.7 percent— the biggest climb since April 1987.

WORST OFFENDERS

The CSS was the first to admit that the main blame in the upwards curve in the overall PPI had to be shouldered by local producers.

Taking 1987 as a whole, the average increase in prices on locally produced goods worked out at 13.8 percent. Imported goods rose at a far slower 11 percent.

The worst offenders, according to the CSS, were fresh meat producers, with prices climbing at no less than 5 percent a month, and producers of textiles and made-up goods, showing monthly price increases of more than 4 percent.
The performance of the inflation rate last year was better than mutually expected, says Volkskas. In its latest Economic Spotlight, Volkskas said the two main reasons for this were that food prices advanced at a lower-than-expected rate and certain administered prices such as rail tariffs and postal rates were subject to a temporary and partial price freeze and therefore showed no or very small increases.

It said the total inflation rate as measured by the CPI in December was 12.5% compared with December 1987. The figure for the year before was 12.9%.

The figures showed the December-on-December increase for lower income groups was 11.6% compared with December last year (10.3% for 1986/87), 12.1% for the middle income groups (15.0%) and 13.1% for the higher income groups (14.8%).

The food sector declined dramatically for 1987/88 to 12.2% increase compared with the previous 20.7%.

However, the lowest level of increases in food prices was registered in November, where the annualised seasonally adjusted figure was 0.7%.

It then moved up to 1.4% in December.

It was 12.4% in August.

The bank pointed out the CPI was lowest last October, when the year-on-year figure was 12.5%, and then moved up to 12.6% in December.

Volkskas said recent claims that inflation had been as high as 24% were unfounded.

The bank predicted an inflation level of between 15% and 16% for 1989, which could go higher if domestic demand was not curbed — Sapa.
JOHANNESBURG — if the Minister of Finance can succeed in keeping the rate of increase in Government expenditure within reasonable limits, it should not be necessary for him to raise taxes, states Sanlam's latest economic survey.

The company's chief economist, Johan Louw, says that in view of the poor performance of personal savings effort, steps to make saving more attractive for the individual would be welcomed.

He expects the general financial situation to mellow in the second half of the year and forecasts that the prime bank lending rate will gradually come down to about 16%.

In its latest Economic Spotlight, Volkskas notes that the performance of the inflation rate last year was better than initially expected.

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The bank predicts an inflation level of between 15% and 16% for 1989 with the proviso it could go higher if domestic demand is not curbed — Sapa.
Spending spree hoists inflation

By Sven Lönnel

Inflation in January felt the impact of last year’s prolonged spending spree.

As measured by the consumer price index (CPI), it rose by 0.6 percent in January to 13.3 percent, Central Statistical Services (CSS) said in Pretoria yesterday.

The monthly rate of increase in January was 1.6 percent (0.9 percent in January 1983) and was the largest monthly rate of increase since March 1987.

Last year, inflation showed a decline from an average of 18.6 percent in 1986 and 16.1 percent in 1987 to 12.9 percent in January’s rise was fuelled by increases in the prices of food, housing, medical care and new vehicles.

The marked deceleration in food prices last year prevented the total index from rising more rapidly in the second half of 1988.

But in January food prices were 13.2 percent up on the same month last year and 1.6 percent higher than in December.

Low point

Non-food items have reached a low point and could increase strongly in the near future, says Sanlam economist Johan Louw.

"We expect this trend to continue in the coming year and, at this stage, foresee an average inflation rate in the order of 15 percent for 1989," he said yesterday.

"This rate is much higher than those of our major trading partners and will place further pressure on the external value of the rand," Mr Louw said.

Last year’s 20 percent decline in the value of the rand exchanged against the dollar made a substantial contribution to higher consumer prices, via higher import costs for producers.

Major reason

But analysts regard demand-pull factors as the major reason for the rise in consumer prices.

They link the increase to factors such as the growth in money supply, an increased demand for credit and the public sector’s pay hikes.

"The buoyant nature of the economy impacted on the higher inflation rate," Simpson-McKie economist John Baios said.

The increase is seen as a timely reminder to the authorities that government and consumer expenditure will have to be curbed in order to restrain not only the rate of increase in consumer goods prices, but to protect the current account of the balance of payments.
Inflation on upward path

The inflation rate as measured by the CPI has turned the corner and is on a definite upward path having jumped steeply to 13.3% in January from an annual rate of 12.5% in December.

This higher annual rate of increase is a result of the sharp monthly rise of 1.6% for January 1989 against 0.8% for the previous year, the latest figures released by Central Statistical Services indicate.

The largest contributors to the monthly non-seasonally adjusted change were made by food, housing, medical and health expenses and transport.

However, economists still view the distinct rise as the turning point expected over the past six months when inflation moved persistently downwards, encouraged by a slower rate of increase in...
Inflation 'distorting reports'

FINANCIAL reports could be sending a "warped message" to shareholders as the impact of double-digit inflation on reported earnings of companies was so severe.

Arthur & Peat partner Ian Thompson, speaking at a PwC seminar earlier this week, said inflation was a significant factor distorting reported results.

"To ignore this impact is misleading and, on the evidence 98.5% of all company reports, could be said to be misleading."

Only nine companies listed on the JSE presented meaningful inflation-adjusted results, he said. However, no method of accounting for inflation would solve the problem as the effects of inflation on different businesses were not the same.

Yet to translate conventionally determined profits into current cost-adjusted profit one could take account of three factors which could reduce reported earnings by 20% to 50%. These were:

- Additional depreciation of fixed assets, recognising they would cost more to replace at current prices,
- An additional charge for cost of sales, recognising it was the replacement and not the historic cost of goods sold which would be matched against revenue, and
- Gearing adjustments, noting that in the funding of most enterprises debtors and creditors usually bore part of the inflation burden.

Thompson said as an alternative to current cost accounting, the comparison of historic cost earnings with the CPI over a representative period provided some measure as to whether the enterprise was winning or losing the battle against inflation.
If it’s a boom why all this?

By IRAJ ABEDIAN

THE current economic situation in the country seems to be confusing the mind of a man in the street.

The economic conditions as well as the authoritative view of an economic boom, but really prove difficult.

Peter is becoming harder to make ends meet. Prices keep going up, salaries don’t seem to keep pace with inflation, and the government seems to raise the rate of interest.

For instance, in February the prime overdraft rate was 15 percent, but it is now over 18 percent. At the same time, the mortgage bond rate was 13 percent as opposed to more than 17 percent previously.

Such drastic rates on the interest rates have a serious impact on the well-being of all, especially the middle and lower income groups.

In terms of mortgage payments, it has caused those to average 45 percent increase in the monthly bond payments.

For the average income range, it is almost unbearable. Financial consequences are devastating.

Not only must a larger portion of the disposable income be set aside for housing (if the cost of less can amount of anything else), but families are left wondering if interest rates will rise again.

The uncertainty forces many to sell their properties, often to a depressed housing market with falling prices.

Such uncertainty could hardly be associated with a boom.

Generally, an economic boom implies more employment, higher income, a higher standard of living, or, in essence, a better life for the average South African.

But South Africa’s situation is different. The country faces a dilemma. On the one hand, the country needs economic growth to help raise the standard of living in general. On the other hand, it cannot afford growth because of the developed country’s economic requirements.

Ordinarily it would not have been possible, but with the above factors, the situation is quite different.

Not only can we not rely on foreign loans to provide bridging finance, but we are also forced to pay back our previous loans.

The means that from the proceeds of the country’s resources, we have to take our debts, and then raise the balance on necessary imports.

For example, our 1990 debt repayment requirements, in terms of the debt moratorium, is R731 million.

Outside the debt moratorium arrangements, a further R2.812 million is required for 1990.
g point!

Trapped in a vortex of spiralling rates and prices, many families are battling to keep up their mortgage repayments. And for some families facing "breaking point", the only option is to abandon their homes.

HENRY LUDSKI reports:

A LEADING economist has issued a dire warning to all consumers staggering under the weight of soaring interest rates, fuel, transport and food price hikes.

"Brace yourself, he says — there are even tougher times ahead with more shock increases expected in the next few months.

Dr Ockier Stott, director of the Naldersbach Bureau for Economic Research, views the latest round of price increases as the start of a new upward inflation cycle.

Stott expects the crunch to come towards the end of 1989 when the economy will be in "very bad shape" and inflation will set on even bigger track and out of control.

In excess of $30 million in debt, South Africans have generally become poorer with each interest hike that has forced quantities to decline.

A survey of cost increases over the past few years reveals a grim picture showing how a majority of South Africans have been affected.

Thousands have been pushed below the poverty level and food subsidies are now costing about R75 a year and 50% percent more.

The consumer has taken a battering from all sides with fuel and food prices and housing costs by an average of more than 30 percent since 1986.

A fact-finding trip to Cape Town in Mitchell Plan has put food prices to 1986 to R7.90 in January 1989 and food prices are now 50% percent more than in January.

The consumer has also experienced across the entire spectrum, but the biggest blow to the consumer came last last year when the price of petrol went up 27% and food prices rose like never before — unleashing a wave of general panic.

In particular, the fact that the consumer has been hit from all sides with fuel, food and housing costs is so steep that the consumer has been forced to abandon their homes and seek more affordable options.

In short, the situation is dire and the economy's drag on the domestic market to reduce the impact of the gold price volatility. The trend has now been reversed and the economic situation is improving.

Two factors have been further exacerbated by the recent sign of the (Reserve Bank) authorities that a high level of foreign asset holdings is not necessary to safeguard the economy.}

(Abrahamia in a recent lecture at the University of South Town's School of Economics)
**Managed portfolio beats inflation**

TOM BOARDMAN, senior GM at the Board of Executors, believes that a well-managed equity portfolio is still the best way to counteract high inflation.

![Chart 1: Total Return on the Equity Indices](chart1.png)

**Chart 1:**
- **Total Return on the Equity Indices:**
- **AVERAGE RETURN PER ANNUM:**
- **ANNUAL COMBINED RETURNS:**
- **10 YEAR EXPERIENCE:**

To keep pace with re-inflation, your $1,000,000 in 1960 at 10% ROE will be worth only $2,389 by 1980 and $9,890 in 2000. A well-managed portfolio would have locked $228,000 in a well-managed portfolio. The stock market has remained strong through the stock depression of 1973-1974 and the 1980-1982 depression through the 1980-1982 depression and the 1982-1983 depression.

![Chart 2: Average Return Per Annum](chart2.png)

**Chart 2:**
- **AVERAGE RETURN PER ANNUM:**
- **ANNUAL COMBINED RETURNS:**
- **10 YEAR EXPERIENCE:**

The stock market is currently at 10% ROE, but the index is still at 8%. The market has remained strong through the stock depression of 1973-1974 and the 1980-1982 depression through the 1980-1982 depression and the 1982-1983 depression.

![Chart 3: Annual Combined Returns](chart3.png)

**Chart 3:**
- **ANNUAL COMBINED RETURNS:**
- **10 YEAR EXPERIENCE:**

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**Packages for senior executives**

Wages and salaries now approximately 10% of total compensation. More and more company officials and senior executives are discovering that a well-managed portfolio can provide a valuable retirement package. The new company's mega打包员工，使得业绩和激励机制更高效。特别是大型机构的高管，他们越来越重视退休计划。他们发现，一个良好的退休计划，如福利和分红，可以大大增加他们的退休保障。他们也希望获得更好的退休福利和分红。

The new company's mega打包员工，使得业绩和激励机制更高效。特别是大型机构的高管，他们越来越重视退休计划。他们发现，一个良好的退休计划，如福利和分红，可以大大增加他们的退休保障。他们也希望获得更好的退休福利和分红。
INFLATION is one of the most serious problems facing people planning their retirement.

Unbridled inflation has persisted for five years and forced those making financial arrangements for their later years to re-plan their retirement needs.

AA Life has devoted in-depth attention to the problem.

A retirement annuity (RA) investment could be the answer for retirement planners, according to Mr Bruce Howard, deputy general manager (marketing) at AA Life.

Said Mr Howard "Generally, the person retiring goes on a fixed pension, with perhaps a 5 to 7 percent annual increase as provision for inflation. Often a retired person can initially manage on less than his full pension and try to save the surplus, as well as his retirement capital, to provide additional income in future when his pension's buying power falls".

An example illustrates one scenario.

A company manager retires at 63, receiving a R100,000 pension fund lump sum and a R3,000 monthly pension.

Previously, he did not consider investing in an RA, or, if he had, his investment was probably R1,750 a year (maximum tax deduction being the greater of R3,500 less deductible pension contributions, or R1,750). Said Mr Howard "His pension is now 'non-retirement funding income' and qualifies for the 15 percent retirement annuity deduction. Therefore, he can deduct a retirement annuity contribution of up to 15 percent of his pension (R36,000 a year) At least R5,400 will qualify for tax deduction, perhaps more if he also invests 15 percent of his other investment income under the 1989/90 tax tables. "Marginal tax rate is about 38 percent and he can invest his retirement annuity contribution annually or monthly, with a 38 percent subsidy from the Receiver."

He added "He will be building up a 'reserve pension' fund until he is 69 last birthday (latest retirement age under retirement annuity fund rules) or earlier, if needed, to supplement his pension when inflation eats into it. "The investment returns on this 'reserve pension fund' will probably be much greater than any alternative."

Or, if the person needs all his pension income, he or she can make the retirement annuity investment through an annual contribution from retirement capital.

So, the person funds the retirement annuity out of his capital and for every R62 invested, the Receiver invests R38.

Said Mr Howard "The retired person will be building up a much greater amount of capital than otherwise and, as tax rates tend to reduce over time, the rate of tax saved on the deduction of retirement annuity contributions can be expected to be greater than the rate of tax paid in future when the person draws a pension from the retirement annuity fund he has built up."
Tripling costs

Producer prices kicked off the year with a robust 1.3% monthly increase, in line with predictions of higher price inflation in 1989. The production price index (PPI) rose to 299.8 in January from 298.9 in December (1990=100) — up 1.3% in the month and 14.6% over the past year. This means a basket of commodities that cost R100 in mid-1980 cost just a shade under R300 in January, tripling in less than nine years.

January's monthly increase was higher than the monthly increase in all but three months of 1988, it follows rises of 0.9% (December), 1.5% (November), 1% (October), 0.9% (September), 1.1% (August) and 0.8% (July).

January's 14.6% producer price inflation rate — that is, the running 12-month increase in PPI — follows 14.6% (December), 14.1% (November), 13.1% (October), 13.4% (September), 13.5% (August) and 13.6% (July).

In January, the price of locally produced commodities — which make up three-quarters of the index — showed more strength than imported commodities. Local goods rose 1.5% in the month, while imports were up just 0.6%.

- Central Statistical Service reports large monthly increases in sulphuric acid (13.2%), forestry (11.9%), plastic bulk forms (9.6%),
- electricity, gas and water (7.5%), tobacco products (5.4%), paper and printing (4.1%), cement (4%), and chemicals (3.5%).
- Decreases were reported in natural rubber (22.6%), synthetic rubber (5.4%), scientific and optical equipment (1.9%), glycercine (1.1%) and fresh meat (0.5%).
Slower M3 growth holds little hope for inflation

By Sven Linsche

Money supply growth in February was contained within stipulated targets for the first time in over a year, the Reserve Bank reported yesterday.

Provisional estimates showed that the broad money supply measure, M3, at a seasonally adjusted R120.86 billion, was within the 14 to 18 percent tunnel set by the Bank early this month.

The base for this “tunnel” is the fourth quarter of last year, when money supply increased by 26.5 percent on the fourth quarter of 1987, and given this high base, economists expect M3 to maintain monthly year-on-year increases of between 14 to 18 percent during 1989.

However, there is little good news in this for consumer prices, which during 1989 are expected to bear the full brunt of last year’s money supply explosion.

The first evidence of this was given in January, when inflation, as measured by the Consumer Price Index increased to 13.3 percent, 0.8 percentage points higher than December’s 12.5 percent.

This trend continued in February, albeit at a slower rate — the Central Statistical Services (CSS) reported yesterday that the year-on-year inflation was 13.5 percent last month.

But the monthly increase of 0.8 percent was the major cause for concern, as it followed on a large 1.6 percent rise in consumer prices from December 1988 to January 1989.

By raising its M3 target range by two percentage points above last year’s target, the Reserve Bank tacitly admitted that inflation would rise substantially this year.

It provided an estimate of 15 percent growth in consumer prices this year, which, given the M3 target range of 14 to 18 percent, allows for nominal GDP growth of between 16 to 18 percent.

“If lower inflation had been the only objective, we would have lowered the targets,” Reserve Bank Governor Gerhard de Kock said earlier this month.

In its monthly inflation report, the CSS noted that the largest contributions to the 0.8 percent monthly rise were made by transport costs — mainly due to the increase in the price of new vehicles, higher running costs, as a result of the rise in fuel prices, and public transport fare increases.

The national percentage change in the price index for food for February 1989 was 13.8 percent, its lowest annual increase since June 1985, when it was 9.7 percent.
WORLD EQUITIES

Shockwaves from US

US inflation and interest rate jitters have jolted big equity markets just when investors were beginning to believe that action to cool economic overheating is taking effect. Even though at least half February’s US producer price index climb of 1% derives from more expensive oil and fresh food (snow in California), the Wall Street Journal’s headline was almost alarmist “US Inflation Surge Shows That Campaign by Fed So Far as a Flop.”

With pundits forecasting the need for another full point rise in US short-term interest rates (taking prime to 12.5%) and warming of possible recession, the news wiped 48,6, or 2%, off the Dow Jones Industrial Average in the biggest one-day fall for 11 months. Matters were not helped by Friday being one of those “triple witching hours” when all stock-related futures and options contracts had to be settled for the month.

As the dollar climbed in anticipation of better returns the drop echoed in bond markets, where the indicator yield on 30-year Treasuries edged up to 9.3% from 9.1%

The next nail was expected with the consumer price data due after the FM went to press. But the effect of last Friday’s news was almost universal.

London matched Wall Street’s dip already waiting for a well-flagged climb to 8% (from 7.5%) in the rate of inflation in February, the FT-Stock Exchange index was down 2.4% in sympathy at the start of the week. And in Tokyo the dollar’s climb towards Y132 (up 2.2%) combined with oil prices rising to 24-month highs to wipe 1.1% off the Nikkei Dow. The 366 point fall on Monday was the biggest so far this year.

The dollar’s improvement was less impressive elsewhere (up 0.7% in D-mark and sterling), but none of the big equity markets was immune. The fall of 1.4% in the FT-Actuaries world index was set to be followed by more weakness this week. Hong Kong, for example, followed Tokyo with a 3% loss.

The question facing markets is to what extent the US Federal Reserve (having increased the discount rate by half a point to 7% last month) will adjudge the need for further tightening and whether the West German Bundesbank and Bank of Japan will at last feel constrained to follow suit.

The Fed’s gradualist policy is now being so quickly discounted by market analysts that the central bank governors must get out in front before the economy gets caught in the stop-go cycles of eight years ago. The Fed had raised its discount loan rates by 50 bazis points in January and again last month.

Oil prices seem crucial. Both market leaders, North Sea Brent blend and West Texas Intermediate (WTI), accelerated last week. Breaking through US$20.35 a barrel, WTI is 38% above the average for the 1988 fourth-quarter and 56% over the October low, at $18.80 a barrel Brent is showing similar increases. The dollar’s strength worsens the impact on D-mark and yen prices. Shorn of oil and fresh food, PPI was up by 0.5% — but even that could lift US inflation from last year’s 4.1% average to 6%

Fresh food problems may be seasonally temporary. Crude is less certain. Three factors are underpinning it: falling non-Opec output, better discipline by Opec in creeping toward its 18.5m BPD quota ceiling, and the failure of surplus output in the second half of last year to show up in Western stocks, which are still down on 1988 levels.

Non-Opec co-operation with the cartel is manifested in a series of production cuts of 5%, which total only 300,000 BPD (FM March 3). But the effect on the margin has been heightened by production problems (unquantified) in the North Sea and one-off factors raising demand outside the US.

Electricity generating problems in Russia, France (nuclear), Spain and Italy (hydroelectric) generation have increased the “burn” in oil-fired stations.

Opec, however, is showing signs that it will accommodate shortfalls by increasing quotas. Production of 19.4m BPD in February, while down from 20.2m in January, has been maintained without depressing prices. And on the basis of International Energy Agency forecasts of a 2% rise in consumption this year, Opec is talking of being able to raise quotas to 19.5m barrels without endangering the $18 a barrel price target.

Energy price inflation, thus, could level off, but at levels 20% higher than last year’s average cost of North Sea Brent Forward prices on the New York Mercantile Exchange crude futures contracts certainly indicate a drop the mean of August-November delivery quotations for WTI is $17.80, some 12.5% below spot levels.
While Western industrial countries have been experiencing a generally low level of inflation since 1983, South Africans had to deal with double digit inflation for 14 successive years.

Inflation has recently shown a slight upward trend in industrial nations, but since the early Eighties they have been fairly successful in keeping the year-on-year increases to reasonable levels.

The economic policies were concentrated on monetary discipline, which in most cases was adequately supported by fiscal discipline. Their success in combating inflation is demonstrated in the graph (source Volkskas Economic Spotlight). South Africa has been unable to shake off the burden of a high inflation rate, especially since the early Seventies. In fact inflation continued to spiral upward at a fast rate in the Eighties.

For this year Volkskas expects an average increase in the inflation rate of about 15 to 16 percent. Should attempts fail to arrest the growth in domestic expenditure sufficiently — and there is cause for concern in this respect — the inflation rate could reach for higher levels.
FISCAL DRAG AND THE BUDGET

Hitting us when we're down

In the 1989-1990 Budget year, government will continue to allow inflation to do its dirty work: raising personal income taxes without it having to overtly raise tax rates. The trick, of course, is fiscal drag, by which taxpayers are thrown into higher tax brackets through nominal salary increases that simply keep pace with inflation.

Hardest hit will be those who earn R20 000-R50 000, since tax brackets are steep around those earnings. For some workers, the tax jump will be astonishing.

Consider a married man (with three children and standard deductions) who earned R20 000 last year and R23 000 this year, a 15% rise in line with inflation. Econometrics chief economist Azar Jammie calculates the man's tax payment would rise fully 35%, to R2 640 from R1 960 — with his average tax rate increasing to 11.5% from 9.8%.

The man whose salary “rises” to R57 500 from R50 000 sees income tax rising 22%, to R13 960 from R12 560 — his average tax rate increasing to 27.8% from 25.9%

The longer-term picture has also been bleak. Jammie says a man who earned R10 000 in 1980 needs R35 000 this year simply to keep pace with inflation — not considering taxes. But, meanwhile, the slice of his salary going to income tax would have risen to 19.2% — from 2.5% in 1980 and 17.2% last year. “He will therefore be 2% poorer this coming year compared to last purely on account of fiscal drag and 16.7% poorer over the decade. This is having a debilitating effect on disposable income.”

Government has made minor concessions, such as increasing the standard rebate for economy from 1972 on, increases in GDP and personal spending slowed down. This can be seen in the annual averages in those same three periods.

- Increases in private consumption expenditure fell from 4.3% to 3.2% to 2.3%.
- GDP growth from 4.9% to 3.7% to 1.4%.
- Money supply (M1) growth rose from

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Source Econometrics

married taxpayers to R1 250 from R1 100 and for unmarieds to R850 from R750. This is wise politically as it will prevent hundreds of thousands of low-wage earners — mostly black — from being propelled on to the tax rolls. But the concessions do little to alleviate fiscal drag without them, personal income tax collection would have risen 22.5%; with them, it will still rise 19.6%, substantially above the forecast 15% inflation rate.

Overall, revenue is set to increase 16% — the problem with fiscal drag and other tax increases is that SA — whatever your view on short-term constraints — desperately needs less government, more prosperity, and greater reward for investment, saving, and entrepreneurship in an economy with strong demand, ever-rising taxes are dimmishing the prospects of unleashing production.

Jammie thinks Finance Minister Barend du Plessis has gone far enough in attacking the spiral of rising spending, raising taxes and slower growth.

At a Budget conference last week, Jammie said firmer steps are needed to break SA out of a historically deteriorating pattern. Comparing 1946-1971, 1972-1979, and 1980-1988, he reported that average annual increases in real government consumption spending have moved from 4.4% to a whopping 12.3% to a still-hug 3.5%. As government took a significantly larger chunk of the economy from 1972 on, increases in GDP and personal spending slowed down. This can be seen in the annual averages in those same three periods.

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Slight Uptick in CPI

February consumer prices rose a modest 0.8% — enough to push the 12-month rate to 13.5% from January’s 13.3%.

February’s increase was the lowest monthly rise since June’s 0.3%, but economists believe the trend is still up. January’s increase was a strong 1.6% and followed 0.9% (December and November) and 1.1% in October.

The inflation rate, now on a rebound, is at its highest since last February’s 13.7%. In December it was 12.5% and in the previous six months varied between 12.3%-12.4%. The index rose to 168.2 from January’s 166.8 (mid-1985=100)

SA’s Economic History

Average annual growth %

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<tr>
<td>Govt Consumption</td>
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<td>Money Supply (M1)</td>
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<td>Inflation (CPI)</td>
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Source Econometrics

P. T. O.
High and rising

After sticking at 12.3%-12.5% for seven months, inflation has shot up with a vengeance. January's leap in consumer prices...

April 1, Sats will increase domestic air fares (9%-13.7%), rail rates (8.6%-10%) and the tariff on transporting crude oil by pipeline (12%).

Volkssk's latest Economic Spotlight sees inflation rising to 15%-16% this year. "Money supply growth accelerated sharply in the past year. The exchange rate declined 16% on average against other currencies (December 1988 vs December 1987), and the advantage of the partial, temporary freeing of certain administered prices -- including telephone and postal rates -- will not be repeated. Higher price impulses will for some time emanate from levies on imports and the higher petrol tax. Higher GST is also possible."

The upshot of high and rising inflation is that the rand remains fundamentally weak. Gold booms in 1974 and 1980 pushed the rand unusually high. The 1985 foreign debt crisis made it plummet temporarily. But, Volkssk says, one factor has been keeping it on a steady, downward path: the high inflation differential between SA and the West.

The outlook isn't bright, with economists predicting a rate as high as 17% by year-end. State price rises are coming through. On the industrial countries tightened money supply growth andcurbed government borrowing. The result: their inflation rates fell fast.

But "we have been unable to shake off the stranglehold of a high inflation rate, especially since the early Seventies!"

Comparing US-SA inflation and exchange rates since 1970, Volkssk estimates the rand would have averaged about US$3.15 last year based strictly on purchasing-power parity (see graph). In fact, it averaged US$4.40, 14% less.

Last week, Federal Reserve chairman Alan Greenspan told Congress he expects US consumer prices to rise 4.5%-6% in 1989. Assuming a continuing US-SA inflation differential of 10 percentage points this year, parity would fall to US$4.50. So if the rand remains slightly below parity, expect an average exchange rate near US$3.85 (about R2.65/$) -- lower if there are no political, gold or debt shocks.

Hours after CPI's release -- and just two days after targeted money supply growth was reported up 28.5% in a year -- the Reserve Bank increased Bank rate to 16% from 14.5%. Though a welcome step in curbing money creation and shoring up the rand, don't expect instant results.

Economix, for example, has found the lag between excess money growth and price inflation can be as long as 32 months. So we still have plenty of monetary indulgence to pay for. As for the long-term outlook, who knows whether the Bank will be allowed to keep monetary policy tight or be forced to ease it to meet short-term political interests? January's increase brings CPI to 166.8 from December's 164.2 (1985=100). The last time it jumped 1.6% in a month was March 1987.
The Information Age

Weekend

The incredible rise in the higher education sector as well as the workforce, has brought about a new wave of opportunities. With the advent of digital technologies, traditional methods of learning and work have been transformed. The Information Age represents a significant shift in the way we acquire and utilize knowledge.

The rise of e-learning platforms and online courses has made education more accessible than ever before. Students from around the world can now access quality education from the comfort of their homes. This has not only expanded the reach of education but also altered the landscape of traditional education systems.

On the professional front, the Information Age has brought about a revolution in the workplace. The ability to work remotely and collaborate across geographical boundaries has opened up new avenues for career growth. The use of digital tools and software has transformed work processes, making them more efficient and productive.

The Information Age has also had a profound impact on social and cultural spheres. The spread of information through social media and digital platforms has facilitated the exchange of ideas, knowledge, and culture on a global scale. It has empowered individuals to connect with others from different backgrounds and perspectives, fostering a sense of unity and collaboration.

However, this transformation has also raised several challenges. The digital divide, concerns over privacy and security, and the need for lifelong learning are some of the critical issues that need to be addressed. The Information Age requires a balanced approach to ensure that the benefits are realized equitably and responsibly.

In conclusion, the Information Age has ushered in a new era of growth, opportunity, and challenge. It is up to us to harness its potential to create a better future for all.
Call to halt interest rates spiral

WASHINGTON — Industrial nations have called a halt for now to the spiral in worldwide interest rates, but officials are braced for new, painful increases unless inflationary pressures ease in the weeks ahead.

Dearer money would not only slow and possibly jeopardize economic growth in rich countries but also add billions of dollars to the interest bill of developing countries, blunting the benefit of the new US plan to slash Third World debt.

This nexus of problems will preoccupy the world's finance ministers when they gather here from March 31 to April 4 for the regular spring meeting of the 151-nation International Monetary Fund (IMF) and World Bank.

Although US Treasury Secretary Nicholas Brady's March 10 debt initiative will dominate the talks, officials recognize that the plan will not count for much if they cannot keep world trade growing and stop interest rates rising.

The 15 biggest debtors alone paid $163-billion more in interest in the past year, according to IMF managing director Michel Camdessus.

"Let us not lose sight of the contribution that industrial country governments could make to the recovery prospects of the indebted countries by progressively dismantling barriers to international trade and by adopting a more balanced mix of anti-inflationary financial policies," he said last week.

The big culprit in the eyes of most economists is the United States, which is likely to come under pressure yet again from its allies to cut its huge budget deficit.

"The foreign ministers who come to this country are more than interested in what we do about this problem," Brady says "I tell them, we're going to get there one way or another."

The red ink in the government's accounts, expected to rise to $163-billion dollars this year, is a root cause of inflation because it rooks up scarce resources and domestic savings at a time when the economy is running close to full capacity.

This means not only that the nation must import vast amounts of capital every year — the mirror image of the trade deficit — but also that the Federal Reserve has had to raise interest rates steadily to let some steam out of the economy.

With some, tentative signs emerging that US growth is finally slowing, the central bank's chairman, Alan Greenspan, has indicated that he would not push rates any higher for now.

West Germany's central bank also signalled a pause in its credit tightening recently by lowering a key interest rate.

"Whatever was exercising the Germans a few months ago has stopped. They don't seem too concerned at the moment," a senior US official said.

But central bankers, while crossing their fingers that the worst is over, are not declaring victory over inflation yet.

"Governments and central banks stand ready to respond promptly if further policy action turns out to be required," Bank of England governor Robin Leigh-Pemberton said last week.

Some economists say the threat of US inflation to the world economy is so severe that industrial nations should let the dollar rise. A higher dollar would make US imports cheaper and dampen growth by hurting American exporters.

"Having a higher dollar for a temporary period is preferable to ending up with higher interest rates later on," said Jim O'Neal, an economist with Swiss Bank Corp in London.

But the senior US official said he had not detected any support within the Group of Seven industrial nations — the United States, Japan, West Germany, Britain, France, Italy and Canada — for a change in the G-7's exchange-rate arrangements — Sap a Reuter
CAPE TOWN — SA is starting its fourth successive year of positive economic growth, say Standard Bank economists in their March review. Fundamental changes have taken place in the structure of the economy and, unlike short-term confidence, will not be reversed overnight.

But the review expresses concern about some aspects of short-term policy. "The recent Reserve Bank decision to raise money supply growth targets for 1989 and the Bank's apparent willingness to finance a rise in the average inflation rate to 15% in 1989 is disturbing."

"If the inflation rate is still rising at the end of 1989, will the money supply targets be raised once more, or will the Bank then act to check inflationary pressures?"

"It is important that the honest efforts of private individuals are not defeated by an eventual fierce fiscal and monetary squeeze needed to eliminate the consequence of past fiscal and monetary profligacy."

"This suggests that early, co-ordinated action by the Reserve Bank and Treasury, no matter how harsh this may appear, will be preferable to more harsh measures later to check a seriously deteriorated situation."

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“At this stage it is unclear to what extent the current economic strength may be illusory,” says the report.
How to track the rise and fall of prices

By FRANS ESTERHUYSE, Political Staff

CAPE TOWN — A man with a finger on the pulse of South Africa's fight against inflation has soothing advice for breadwinners and housewives who can't make ends meet. Don't panic — you may be better off than those in the higher income groups.

Dr Treurnicht du Toit, head of the Government's Central Statistical Service, says the latest price trends show inflation is hurting harder at people living in luxury and is easing its grip on poorer people.

There are individual people and groups hit by an inflation rate of more than 30 percent, compared to 13.5 percent for the "average" household.

From his office in Pretoria Dr Du Toit controls the activities of a team of experts who work out the Consumer Price Index (CPI), one of the country's key economic indicators showing changes in the prices of consumer goods and services from month to month and year to year.

In an interview, Dr Du Toit made it clear that the inflation rate was an average figure for the whole country and did not necessarily reflect the individual's experience of inflation and price rises.

This was because the individual's experience of inflation depended on the actual contents of his or her own "basket" of goods and services bought from month to month. This could differ considerably from the official basket for the average household.

In working out price trends, the statisticians also make provision for possible geographic differences in spending preferences, as well as the course of prices. To do this, a CPI is calculated for each of the 12 main urban areas in the country.

These indices do not show whether it is more expensive to live in one city than another, but indicate only the general prices changes in each urban area.

Changes in the CPI are calculated on a monthly basis. It represents the changes in prices of goods and services bought by the average urban household. The price changes are recorded during only the first seven days of the month.

To work out the consumer price index, the prices of all the goods and services in the basket are needed. The Central Statistical Service has chosen about 600 different goods and services for this purpose. The prices of these are regularly obtained by means of postal surveys from a representative sample of about 2,000 outlets in the 12 urban areas.

Additional information is obtained from municipalities (rates, water and electricity), Posts and Telecommunications, universities and other bodies that provide services to the public.

About 350,000 prices are collected in this way every year. All the indices have a value of 100 in the base year (1985) and this enables the user to make simple comparisons of how prices changed.

An index value of, say, 166.8 for January 1989 means goods and services which could be bought for R100 in 1985 — the base year — would have cost R166.80 during January this year. This means a price increase of 66.8 percent since 1985.

The index value of 166.8 for January 1989, when compared, for example, with 184.3 for the previous month, shows that prices increased by 1.6 percent since December.
Boost for black business

A private US foundation has launched a programme to boost formal and informal black business associations and to help them articulate their economic and political muscle.

Foundation for Africa's Future director Thor Honev said the Anglo American Chairman's Fund would support the project.

Peruvian free marketeer Hernando de Soto, whose pro-deregulation book The Other Path: The Invisible Revolution has revolutionised economic thinking in Latin America, is aware of the project.

Honev said the project aimed to demystify those engaged in the informal sector, giving them a voice and plot a strategy for rapid growth.

It would analyse existing black business associations and develop their resource bases, professional skills and other fundamental functions.

A foundation submission to the Anglo fund said structures had to be developed in the black community to stimulate growth and reward individual initiative if SA was to realise its potential as a market-oriented democracy.

The immediate goals of the black business association development programme were listed as analysing various associations, determining how to improve their ability to function "as advocates for reform and growth" and developing their resources, professional and administrative skills and community relations.

"The long-term goal is to enable the associations to perform increasingly sophisticated and necessary tasks typical of such structures."

These include:

- Micro-economic analysis of existing conditions. How legal structures and other practices and norms adversely affect market entry, market incentives and growth.
- Documenting the extent to which structures, practices and existing law result in systematic constraints on economic integration and to count the cost of "enforced informality" to the rest of the economy.
- Creating constituencies for growth and change by means of a "public education" process involving the dissemination of the above analyses.

US foundation to aid black business
Inflation is mining’s most pernicious enemy

THE South African mining industry was being subjected to "unprecedented pressure," Mr Colin Fenton, President of the Chamber of Mines, said yesterday.

He told the annual meeting of the Association of Mine managers that the fact that the gold price had been below $400 an ounce for some time, combined with rising costs, was having a negative impact on economic viability.

"Nowhere is this more starkly illustrated than in the fact that almost 8 000 employees on five gold mines have been retrenched in recent months."

He said milling costs had risen by 13 percent to R107 a ton during the past year "a substantial and crippling hike by anybody's standards."

Mr Fenton pointed out that while gold output rose from 604 tons in 1987 to 619 tons in 1988, profits decreased by 1.6 percent.

"It is clear to me that inflation is our most pernicious enemy. It is eroding profits and threatening livelihoods," he stated.

The industry would back any measures necessary to reverse the upward trend of inflation, but there was little cause for optimism in the recent Budget, with the Government seemingly prepared to accept an inflation rate of 15 percent, Mr Fenton said.

"This approach is contradictory to both the long and short term interests of the industry. Helping to devise the means to curtail ongoing double-digit inflation will become one of the major challenges we will need to confront in the immediate future." — Sapa.
Reserve Bank hopes to
hold inflation at 15%

Finance Staff
The continued high rate of credit demand is putting pressure on consumer prices and the inflation rate is likely to rise further during the coming months, the Reserve Bank states in its March Quarterly Bulletin.

However, the Bank expects a probable moderation in the consumer price index late in 1989.

Prospects of rising inflation and a weakening rand caused precautionary buying in anticipation of further price increases and for the early implementation of spending plans.

However, retailers of furniture and white goods noted a decline in sales towards the end of 1988.

There were few signs of a decline in the very high rates of increase in bank credit in the fourth quarter of last year and early 1989.

Total claims of all monetary institutions on the private sector jumped by R3.1 billion in the fourth quarter. Hire purchase and leasing rose by R425 million in the fourth quarter compared with R355 million in the previous nine months.

Mortgage bonds
Banks reported a slight fall of demand for mortgage bonds towards the end of the year. However, building societies registered increases of R1 billion during the third and fourth quarter.

The Bank also said the rate of private fixed investment during 1988 increased by nearly 6.5 percent over the figure for 1987 compared with declines of nearly 18 percent and three percent in the previous two years.

In the fourth quarter on an annualised, seasonally adjusted basis, salaries and wages rose by 29 percent compared with the same period in the previous year. The average for the year was 16.5 percent (17 percent).

The rise in credit demand was largely responsible for the satisfactory performance of the economy, which last year rose by just over three percent as measured by the gross domestic product.

While the primary sector - mining and agriculture - lagged behind the overall growth rate, growth in the secondary sector and in manufacturing reached impressive figures of 5.5 percent and six percent respectively.

However, the rise in expenditure also led to a significant increase in imports with the result that the current account of the balance of payments fell from R6.2 billion in December 1987 to R2.9 billion at the end of last year.

Reserves

The Reserve Bank pointed out that a strengthening of the surpluses on the current account and a markedly smaller outflow of non-reserve related capital in the fourth quarter helped arrest the decline in gold and foreign exchange holdings in December, January and February.

In January and February of this year, gold and foreign exchange reserves rose by R160 million from December's R6.7 billion.

Reserve Bank Governor Gerhard de Kock said in a separate article that fiscal and monetary policy had to recognise the existing short-term constraints.

"The mix of economic policy must be restrictive enough to bring about the required decline in the rate of increase of total demand in the economy - otherwise the desired scenario for 1989 will not be realised," Dr de Kock said.

This scenario provides for a GDP growth rate of two percent, an average inflation rate of 15 percent, a R4 billion surplus on the current account, the gradual rebuilding of gold and foreign reserves and the further repayment of foreign debt.
By BOB MALCOLMSESS

DESPITE, or maybe because of, their huge buying power, many of South Africa's largest corporations buy so badly that they can be said to contribute substantially to inflation.

This realization came to me after working actively in the field of purchasing and materials management consulting for many years. I have seen evidence to support my claim both from the inside and the outside of giant organizations and have come to the startling conclusion that the shrewd salesmen actually welcome the presence of these "leading" corporations.

There are two ways in which large corporations cause inflation. The first and more easily understood occurs in companies where the proportion of purchases to turnover is very low, in some cases 5% or less, and where consequently the importance of good buying to overall profitability is equally low and of little importance to management. However, where turnover is measured in billions, that small percentage is measured in hundreds of millions and the cost of inefficiencies in tens of millions.

List of offenders

In this category are those companies whose products are a service. They don't see themselves as "buyers" on a tangible scale even though their creditors expenditure runs into hundreds of millions. Because the bulk of that money is spent on services and not on material products, the latter include banks, building societies, insurance companies, investment houses, hospitals etc. The money they waste comfortably exceeds the GNP of a number of independent African countries.

Also high on the list of offenders are municipalities, government agencies, utilities and state-owned corporations. The red tape used over the years to unsuccessflly prevent misappropriation of funds has instead strangled any vestige of initiative that could have been applied to the procurement of materials and services. There is no doubt that if purchasing in these areas was left to fully-trained professionals, the risk of fraud would diminish tremendously.

The other category influences inflation in a more subtle and consequently more pernicious way. These are the industrial and mining giants who should wield tremendous purchasing power and, in many cases, attempt to do so with frightening results.

The trap they fell into would be obvious if they took the trouble to consult their own highly successful marketing divisions, and it arises from their very size.

'Preferred customer'

These companies negotiate many of their contracts on a corporate basis, good purchasing practice. The volume they offer the market is immense and delivery is required on a Southern Africa-wide basis, with the result that small and medium-size producers are automatically excluded and the field is left to the giants of that particular industry, which may include a subsidiary or associated company. These companies are fully capable of looking after themselves and normally end the day with a nicely profitable deal.

What is the point in this? Many of these companies operate in the same exempt brackets of the Inland Revenue and are subject to the same taxation. Therefore, the tax on the profit is the same. Therefore, the idea of charging the same price is the same. Therefore, if they are able to charge a price and make a profit, then the consumer pays the same price, and the government collects the same tax.

So what? You may say, so what? In closing the deal, they often establish an artificial "lowest possible price" for that product. After all, they say, that is their voice on the board of directors.

ABC Group pays that price, how can you expect better? But at the ranch, they have another great reluctance, allowed a "preferred customer" clause to be written into their contract with ABC. This means that the smaller companies are charged a lower price, but they cannot afford to sell at a lower price. And the "artificial" lowest price now becomes reality, as their smaller competitors are too happy to climb on the bandwagon.

Corporate incest

Apart from the previous examples, giant corporation buyers are often bullied into compliance, a compliance to which the seller happily contributes by feeding their egos. If the majority of the selling institutions are poorly trained and have management that pay little or no attention to purchasing, all of which leads to gross inefficiencies and ultimately inflation of their product prices.

So now that you have heard the bad buying is inflation and spiralling inefficiency. The small companies go bust for lack of support and the giants grow bigger and less cost effective daily. For the sake of South Africa our buyers must learn their trade and be given the leech to practice it.

Bob Malcolmess is director of group consulting services at Purchasing Management Services (Pty) Ltd.
Saambou chief calls for better inflation controls

Saambou chairman Hendrik Sloet says SA's decline will continue while only the symptoms of economic problems are treated.

He told the Afrikaanse Sakekamer at De Aar yesterday the rand's poor exchange rate against other currencies should not serve to retain competitiveness on foreign markets.

SA should rather combat inflation because this would in time lead to a better exchange rate.

Mr Sloet said it was a pity the economy did not follow the same course as the West in respect of inflation control.

Despite various studies on the causes of inflation and proposals to address the problem, the result was disappointing.

Mr Sloet said even the most uninformed consumer believed it was better to buy a product on credit now than to pay 15 percent more for it within a year.

This led to an overheated economy.

Interest rates were then raised to cool the economy.

However, without the support of sufficient fiscal discipline, interest rates were a blunt instrument.

Mr Sloet said that it was essential that the country take a serious look at the contribution of personal savings and higher productivity as a means of combating inflation.

Tax incentives should be applied to encourage the individual to save.

Steps to this end were required now.

He suggested that tax on personal income from interest be abolished.

The loss of R800 million should not be raised by way of alternative taxes, but rather through government expenditure.

The existing tax-free and partially tax-free investments offered by the Post Office, building societies and the Treasury should also be abolished because this kind of investment was to the advantage of the high-income group only.

Mr Sloet suggested the tax rebate currently applicable to pension fund contributions be repealed and that pension income be left untaxed.

Mr Sloet said that in future strong emphasis should be placed on increased productivity and improved training. — Sapa
PENSION & RETIREMENT PLANNING

Inflation hunting down retirees

A major proportion of South Africans have an outstanding chance of outliving their retirement provision for an expanding variety of reasons, says Old Mutual's (Natal) Steve Manning.

Behind the increase in one's chances of "dropping dead" financially before dying physically is a lifetime of sound nutrition and improving medical facilities.

"These factors combined have ushered a large proportion of retirees into a killing zone — where they are hunted down by inflation," says Iipa fellow Manning.

Most pensions funds provide the normal retirement date for male employees is 60 to 65 years. According to current life expectancy tables, a male is expected to live 74.6 years on average and a female 78.8 years.

At an average inflation rate of 8% a year, the value of money halves every four years, so by the time a man reaches the age of his life expectancy, the value of his pension would be about 10% of its original value.

Manning says the pension rules formula is the number of years of as a member of the fund multiplied by 2% of final salary, then a pension with 30 years service (ordinary) would retire on 60% (ie, R48 000) of his final salary (R80 000).

After only four years however, the R48 000 pension would only be worth R24 000, and at the end of eight years it would be worth R12 000.

"By the time life expectancy was reached the value of the pension would, in real terms, be worth only R4 347," he says.

In order to make adequate provision for those years of retirement one must take out additional investments to supplement a pension, he adds.

While most funds provide for pension increases, the majority do so on a de facto basis where increases are granted only if the fund can afford to do so.

Even in the good financial years where the company or pension fund can afford to grant pension increases seldom — if ever — are they anywhere near the rate of inflation.

Assuming a regular increase of 10% a year, however, the position is vastly improved. Using the previous example, at the age of 74 a pension of R14 400 a year will be received instead of R4 347 a year — an improvement of 309%.

"Additional investments are, therefore, a priority if one is to retire in a financially secure position."

Also noteworthy, says Manning, is that out of an average of 100 people aged 25 years today, by the time they reach retirement age (65 years)

- 34 will have died,
- 30 will depend on relatives,
- 20 will have to keep on working.

10 will be receiving a state pension (R185 a month), and

Most people will wake up to their predicament far too late.

"The earlier one starts making adequate provision for retirement, the less expensive the task will be," he says.
Underlying inflationary trends...

Strong rise of 1.9% in PPI

By BRUCE WILLAN

The producer price index (PPI) for February 1989 increased by 1.9% over January 1989 bringing the year-on-year figure to 14.9%, its highest level since May 1987.

This increase will intensify the upward pressure on inflation, say economists.

The increase in January this year was 1.0% with the year-on-year figure at 14.6%, which was the same as in December 1988.

Economists are of the opinion that the increase in world inflation coupled with the over depreciation of the rand against other currencies have been the major factors to influence the increasing PPI.

This is substantiated by the figures released yesterday by the Central Statistical Services (CSS).

The annual rate of increase for imported commodities for February 1989 was 13.2%, which is 1.3 percentage points up on the January figure and the highest recorded since November 1988, when the rate touched 14.2%.

Compared with the increase for locally produced commodities, which was 14.8% or 0.1 percentage points down from January 1989, adds to the belief that a large portion of inflation is either imported or a function of the depreciating rand.

Personal Trust economist Glenn Moore says this indicates that world inflation is having an effect on the SA rate of inflation.

"The rest of the world is going into an inflationary cycle and countries abroad are encouraged to use interest rates to counter inflation."

But Old Mutual economist Dave Mohr warns that the PPI can sometimes be misleading in that some of the constituents are only measured at three or four monthly intervals.

However, he does see the rise in PPI as confirmation of the underlying inflationary trends in the economy.

Although there is a time lag of some nine months before the consumer price index (CPI) will reflect the latest increase in the PPI, Moore expects the predictions that CPI will reach 16% towards the end of the year are not out of kilter.

Senior deputy governor of the Reserve Bank, Japie Jacobs points out that this is not impossible on a monthly basis.

But, he is confident the average rate for the year will be of the order of 15%.

Jacobs says that the latest increase will no doubt have some effect on inflation but must be seen in the light of the measures taken by government to slow down the economy such as the increase in interest rates, the introduction of import surcharges, fuel taxes and the depreciation of the rand.

"This will inevitably cause an increase in inflation and increases in prices."

While there has been mounting pressure to slow down the economy further and one possible way of doing this is to increase interest rates again, Jacobs says this is inflationary in itself and does not seem logical.

He adds that the available data received by the Reserve Bank indicates that the economy is slowing down...
PPI rise reinforces inflationary fears

By Sven Lunsche

February's rise in the producer price index (PPI) points to an inflation rate that could well exceed the 15 percent average generally forecast for 1989.

Figures released by Central Statistical Services (CSS) yesterday showed that the PPI for February grew by a year-on-year 14.9 percent over the corresponding month last year — 0.3 percentage points higher than the annual 14.6 percent rate recorded in January.

It is the monthly increases that are causing headaches. The rate of increase for February over January was 1.9 percent.

Given the monthly increases of 1.3 percent, 0.9 percent and 1.5 percent in January, December and November respectively, the annualised figure points to a producer-price inflation rate of 16.8 percent towards the end of this year.

The impetus largely derives from soaring prices of imports, which make up about 30 percent of the PPI.

The annual rate of increase for imported commodities for February was 15.2 percent — 1.3 percentage points up on the January figure and the highest since November 1986 when the rate touched 14.2 percent.

It appears that last year's lower rand exchange rate — the currency declined by over 20 percent against the dollar and by even more against other major currencies — is finally taking its toll on the price of imports.

The effect of last year's import surcharges is showing a delayed impact because many importers stockpiled goods before they were introduced.

The increase for locally produced commodities was 14.8 percent in February — 0.1 percentage points down on the January figure of 14.8 percent.

The index for total industrial output showed an annual increase of 15.5 percent.

A sectoral analysis showed that the largest monthly increases were recorded for petroleum and coal products (7.5 percent) after the rise in both the international and local price of oil.
Latest fuel price hike will worsen inflation

ASSOCOM president Syd Matus said the fuel price rise would have further serious inflationary consequences for SA.

He said the fuel price rise came at a time when the latest production price increase showed a sharp rise, which would inevitably be reflected in the consumer price index.

The price of 97 and 93 octane petrol for Reef consumers increased 5c and 8c/l respectively, while the price for 97 octane petrol and diesel increased 7c and 11.9c/l.

Matus said ASSOCOM acknowledged that cost factors were in the main responsible for the price increase, but the rise came just 12 weeks after the price of fuel was raised more than 15% for tax purposes.

He added that ASSOCOM was not convinced that comparative world standards the price of fuel in SA was too low.

FCI executive director Ron Haywood felt the recent comparisons of fuel prices in SA with, especially, Europe, were inappropriate

Insufficient

Haywood said considering SA's geographical structure differed substantially from that in European countries, and coupling that with the lack of public transport and dependence of the Third World component of the SA economy on the availability of liquid fuel, the transport sector should not be expected to bear such a high portion of taxation in SA.

The FCI believed the new increased fuel price was insufficient to cover the full cost of fuel in SA, and smaller, more regular fuel price adjustments were required. It urged government to investigate a streamlined process of price adjustments related to exchange rate variations and fluctuation in the crude oil price.

Bungling

Consumer Council director Jan Cronje said a further increase in fuel prices in the near future could not be excluded.

A CP spokesman for economic affairs said SA's consumers were once again being called on to pay the price for National Party bungling.

He said overseas reports indicated that SA produced more than 80% of its own fuel.

"How much longer will consumers allow government to hoodwink them by linking increases on locally-produced fuel prices to world crude oil prices and the weak rand exchange rate, as if we were importing all our fuel from overseas?"

NAFCEO public affairs manager Gabriel Mokoko said the hardest hit by fuel price hikes would be blacks.

He said the increase was going to cause rumbles as it would affect the costs of day-to-day essentials and its consequences would be "disastrous"
If nearly all your cash goes to food and rent, it helps to have a small appetite

When the old folk feel the pinch

Many of South Africa's aged people battle in silence for survival

That was the response of a National Council for the Aged director, Mr. Sadie Hackett, when asked to comment on the fact that the cost of living (COL) has increased by more than 100 percent over the past 10 years.

Housewives League president, Mrs. Lynne Morris, has said the most worrying aspect of the COL rate was how the aged coped with soaring prices of basic items like food - which are going up on a daily basis.

Together with increased taxes through general sales tax and "basket creep" - higher taxation through salary increases - the average income would have needed to grow more than fourfold since 1975 simply to keep pace with inflation.

Aged people on social pensions and those with fixed incomes needed most, she said.

Mr. Hackett said some aged persons still feel positive about life today, it is a miracle - and there are thousands of miracles.

"Despite the circumstances they live in, they continue with life and suffer in silence. We don't know how or why we can feel all the suffering," he said.

Social conscience

While social pensioners get R514 a month, Indians and coloureds get R600 and blacks R710. Five years ago it was R75. What could be a medicine for the sick of yesterday are not given to the sick of today.

But Mr. Laurie Sturkie, director of the Johannesburg Association for the Aged (JAAA), pointed out that there was still a great gap and that the cost of food was the same for all races - there was perhaps only a difference in rent paid.

Pensioners have not kept pace with the rising COL rate, he said, adding that to live well, aged persons should have a minimum of R500 plus interest.

In the city, the average pension is R75 - almost two-thirds of the same amount, but this is to do piece jobs to supplement an pension.

"I can't come out with the money. It's not enough. We live on meals and on the money and can't afford meat. My rent is R26 a month and the water costs between R23 and R78. Buying four bags of coal for a month costs R14. There is very little left over for other expenses," he said.

According to Mr. Hackett, research done in 1966 found that half of a pensioner's income was spent on accommodation and 20 percent on food, leaving 10 percent for contingencies and other expenses.

He said the position of blacks was becoming desperate.

Part of the reason for this was the developing trend for fewer old black people to live with their families.

Worse than animals

Mr. Hackett said there was growing concern about old people who could not afford the most basic health care. There had been a decline in the number of elderly visiting out-patient sections of hospitals.

"Some people get close to perishing. It is not for community organisations and the churches, they need a solution," he said.

The solution is, in the long term, planning. A national pension scheme, including medical care, should be set up to which all people contribute.

There should also be no differences in payments to different races.

A vice-president of one of the Meals on Wheels organisations, Mrs. Joanna Sillman, said the COL had severely affected the organisation.

Over the past 10 years, she said, the number of people who could not afford the service had increased. Many live in worse conditions than animals.

The solution, she said, is a national pension scheme, including medical care, that should be set up to which all people contribute.
The question this year is how many investors believe the economy will see a downturn before the election.

The words "business" and "Wall Street" appear in the text. The image shows a section of a page from a newspaper, with the top of the page visible but not entirely clear. The visible portion includes text discussing economic conditions and investor beliefs.

"STATE MAY OVERCOME BY D elimination?"

"Will the Markets Fade Despite Interest Rates For the 7th Consecutive Year?"

The text is not fully visible, but it appears to be discussing economic indicators and market trends, possibly related to interest rates and investor sentiment.

The page includes a section on "State May Overcome By D elimination?" and a heading "Will the Markets Fade Despite Interest Rates For the 7th Consecutive Year?" indicating a focus on economic conditions and market trends.
Inflation should ease by year-end

By Derek Tomney

Some easing in the rate of inflation was possible before the end of the year, said Dr Org Marais, the deputy minister of Finance in an interview in Johannesburg yesterday.

Dr Marais said that at present a number of factors were pushing up prices, including the rise in the petrol price, the sharp fall last year in the exchange rate of the rand and the increase in the money supply.

But the large maize crop, the decision by Citibank to extend its South African loans, the strong rise in exports, and the possibility that Government could end its fiscal year with a larger surplus than it had budgeted so reducing state borrowing, could together lead to a slow-down in the rate of increase in inflation.

Earlier, addressing an FCI conference on economic growth, Dr Marais said the Government should not be engaged in drawing up plans for economic growth — but in removing the obstacles that hindered economic growth.

Among obstacles to be removed in the short-term were:

- A money supply which was rising too quickly;
- A too large a 'Treasury deficit before borrowing;
- Taxes which are relatively too high;
- State expenditure which was also relatively too high;
- A capital outflow;
- The repayment of foreign debts;
- Declining gold and foreign exchange reserves and;
- Rising interest rates and rising inflation.

However, plus factors were the notable growth in the gross national product, the rise in exports, a surplus on the current account and a fall in unemployment.

Obstacles the Government had to tackle in the long-term included the shortage of skilled and professional manpower, a state sector which was too directly involved in the production sector, the imbalanced in the flow of savings, the over-regulation of the South African economy and balance of payments problems.

The state was too greatly involved in the economy and intended during 1989 to proceed quickly with the privatization of state assets.

This would make a most important contribution to reducing the state's debt. As result the Treasury would have to pay less interest which would lessen pressure on the State to raise income from other sources. It would also lead to a reduction in personnel, because certain functions would be eliminated.

Dr Marais said the Government would have to give serious attention to fiscal federalism and determine which of its functions could be delegated to second and third levels of Government.

"A smaller public service, a more decentralised public service, a better paid public service — must be the end result.

South Africa was being strangled by regulations. However, although Government restrictions on the efficient functioning of the free market must be removed, some state intervention in the country's industrial development is required, especially in the beneficiation of minerals, he said.
RM's gold mines reel from inflation and sagging prices

By Derek Tommey

The parlous state of part of the gold mining industry as a result of inflation and a falling gold price is highlighted by the disappointing Rand Mines March gold quarterly releases released yesterday.

The profits/losses of all four mines in the group showed a serious deterioration from the December quarter figures.

The Free State mine, Harmony, reported a net profit for the quarter of R10.8 million, which was only 45.6 percent of the R23.1 million it earned in December.

After paying the capital expenditure bill, net earnings were 13c a share or 22.8 percent of the December earnings of 57c.

Blyvooruitzicht, which is on the West Wits line, fared slightly better. Its net earnings dropped by only 35 percent from R12.2 million to R7.8 million.

But earnings a share after capital expenditure slumped to 16c from 40c in December.

So much for the good news. The bad news is that Durban Deep, which made a profit of R84.0 million in the December quarter, is back in the red, reporting a loss of R2.5 million for the March quarter.

However, the loss was after capital expenditure was contracted slightly from 100c to 75c in December.

Finally, ERPM, which is in the throes of reorganisation, almost doubled its loss to R27.0 million from R13.9 million in December.

But the loss was after capital expenditure widened to only 179c a share from 161c.

Slightly more encouraging for investors in Rand Mines is the increase in Withbank Colliery's profit from R2.5 million to R3.0 million thanks to increased export sales and higher tonnages going to Easton.

Another mine issuing a quarterly report was Barbrook, which is developing a gold mine in the Barberton area.

It reported that construction and development were going to plan. The metallurgical plant will be commissioned in the March quarter and the mine should reach a production rate of 25,000 tons early next year.

Capital expenditure was R18.3 million (R15.2 million). Total capital expenditure for the rest of the year is R31.4 million.

Blyvooruitzicht increased its mulling rate, but the grade milled and gold production declined.

An increase in working costs and lower gold revenue contributed to the lower profits.

Durban Deep's mulling rate dropped and although grade rose slightly, production dropped from 1,521 kg to 1,447 kg. However, the price received for gold showed a small increase.

The tonnage of sands treated was more than doubled and made a significant contribution to earnings, even though the profit a ton from sands fell from R17.35 to R12.50.

Harmony's mulling rate was virtually unchanged and grade milled rose slightly.

But profits were hit by a jump in working costs from R91.25 to R95.88 a ton and a drop in gold price received.

Tons milled at ERPM dropped to 420,000 from 535,000 in the December quarter, reflecting the withdrawal of operations from the west section.

Grade improved from 3.56 to 3.67 a ton. Costs rose from R13.34 to R15.91 a ton, resulting in a loss of R74.81 (R33.59 a ton).

Sand treated rose to 355,000 tons (260,000) and made a significant contribution to profits.

ERPM's directors say production from the Far Eastern Section is building up, and the tonnage milled for the quarter in line with projections.

At the end of March the mine had utilised loans of R31.8 million (December R22.9 million).

However, as a result of the restructuring of the loans, interest paid was R5.1 million (R3.2 million).
Inflation increases to 13.8% mark in March

The inflation rate, as measured by changes in the consumer price index (CPI), climbed to 13.8% in March this year from 13.5% in February. Central Statistical Service figures released yesterday show.

Largest contributors to the monthly changes were made by housing (interest rates on mortgage bonds), furniture and equipment and university fees, which each contributed 0.2% of the 1.3% increase.

Nedcor chief economist Edward Osborn said the annualised CPI figure of 21.1% was significantly higher than last year's
THE impact which inflation has on investments plays a large part in effective tax planning.

Tax savings planning in SA is not just a simple exercise of investing as much as legally possible in tax free buildings society and post office investments, says First Personal Asset Management (Persam) MD Ken Burgess.

"Naturally there is still a role for traditional fixed interest tax free investments. However, wise investors are still investing only enough to guarantee their minimum income requirements in such investments. "Shrewd investors, who look at the long-term scenario, are generally far happier with a lower dividend producing investment with the potential for capital growth."

"For example, today's investors should compare the 9% tax free which they can earn in building society and post office investments, with quoted company shares. The dividend yield over the past five years has averaged at just over 4.5%, based on the Johannesburg Stock Exchange overall index," adds Burgess.

"Of this dividend, one third would be tax free, and at the maximum marginal tax rate, would yield an after tax rate of just over 3%."

"To this income should be added the tax free capital gain of 20% per annum, which investors could have obtained via the overall index. These returns are naturally well in excess of those provided for by traditional fixed interest investments."

"The caveat, of course, is that if investors were to regularly sell their investments, the Commissioner for Inland Revenue could regard them as traders, and any capital gains made would be subject to tax."

"These figures include the 'crash' of October 1987, and naturally investors will be subjected to the vagaries of the stock market."

"It is therefore imperative that investors obtain asset management guidance from experts," Burgess concludes.
Inflation increases to 13.8% mark in March

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Nedcor chief economist Edward Osborn said the annualised CPI figure of 21.1% was significantly higher than last year.
Town planners seen as a key to urbanisation

Town planners have a key role to play in an orderly urbanisation scenario, says Christo Kenneberg, newly elected president of the SA Institute of Town & Regional Planners (SAITRP).

"Town planners are in a position to take a holistic and objective view of the urbanisation process.

"By virtue of their training and experience, they are able to focus on a wide spectrum of issues and understand the inter-relationships between the physical, sociological, economic and environmental factors."

Town planners are also trained to take a pragmatic approach to issues that are often politically charged.

Their role includes facilitating the development of four new cities, the size of Soweto in the PWV area by the year 2000 and at least 10 new cities the size of Mitchell's Plain or Khayelitsha in the Western Cape by 2010.

Developments in the Western Cape after the scrapping of influx control highlights the need to incorporate the informal sector in the planning of towns and cities.

He says "It is common cause that unemployment in South Africa is extremely high and that the economy has shown an increasing inability to provide employment opportunities for the growing labour force in the formal sector."

OPPORTUNITIES

"The informal sector, on the other hand, has demonstrated that low-key income-generating opportunities can be created and is evident from the growing number of grassroots entrepreneurs in this sector."

Town planners are exploring new ways to stimulate employment and provide affordable housing.

Informal trading areas, relaxation of zoning controls, core housing and site and service schemes are a few examples.

He urges the public to become more actively involved in the planning of the urban environment, stating "it is not widely known that the man-in-the-street has a legal right to comment on proposed projects that affect him."

SOFTWARE CONNECTION

From 10 am to 12 noon

Turbo Mouse
Mouse, pad, software
Serial Bus
WAS 149 169
Special 110 125

NEWSMASTER II
Desk Top Publishing
Columns, fonts
WAS R299
Special R199

From 12 noon to 2 pm

Multimate Advantage II
Wordprocessor, editing, formatting, dictionary, mail merge
WAS R1 590
Special R945

Draw Applause
Business and graphic art
WAS R1 525
Special R315

BOOKS

From 2 pm to 4 pm

Using Harvard Graphics
Basic, fundamentals, and so on
WAS R89,95
Special R55,95

Using Multimate Advantage
Special features, tutorial format
WAS R89,95
Special R55,95

From 4 pm to 6 pm

Children's Education programs & games
When the old took feel the pinch
"We cannot afford to live."
That was the message from unions this week as consumers reeled under the news of a rise in the price of maize and bread — both staple foods.
The increase raised the price of white bread by five cents to 90 cents and that of brown bread by seven cents to 76 cents.
A Cosatu pamphlet distributed in the Western Cape this week said workers were celebrating Mayday at a time when they faced "many attacks on their standard of living and the majority of people were living in poverty."
National Council of Trade Unions vice-president Patricia De Lille said the increases meant workers were faced with a desperate situation.
"It means we cannot afford to compromise at wage negotiations. We have to demand wages that we can live on," she said.
A Garment and Allied Workers' Union spokesperson said the increases represented an attack on the Living Wage campaign and workers would have to take the increases into account when formulating wage demands at negotiations.
The price spiral began with a 10 percent fuel hike in January this year, followed by a second increase earlier this month.
The rise in fuel costs led to a spate of increases in the price of consumer goods and transport.
In Cape Town, bus fares are to go up this week by an average of 10 cents a ride.
The increase from 12 to 13 percent in general sales tax in the budget was another blow for consumers.
INFLATION

Missing the point

Though monetary policy did not reduce inflation to a low single digit in 1985-1987, despite the recession for much of the period, this does not mean it did not work, says Reserve Bank Governor Gerhard de Kock.

The main objective was not to reduce the inflation rate but to protect reserves and counter domestic recession, he told a press conference in Pretoria last week. Given that SA chose to conserve a current account surplus in the face of credit sanctions — through depreciation of the rand — inflation couldn’t decline at the same time, he argues.

Fortunately, the crisis came when SA had a substantial current account surplus, following tight monetary policy in 1984-1985. This policy “came in for severe criticism” but “made up for deficiencies in fiscal policy” and eliminated excess spending.

So the decision to let the rand depreciate was made when demand was exceptionally flat and real wages and salaries were falling.

This reduced the danger of a dangerous inflationary spiral. How close we came is seen in annualised inflation of 24.9% in first-quarter 1986 — a rate which could trigger hyperinflation.

With the reversal of the economic cycle since early 1988, demand is now playing a critical part in inflation.

De Kock concedes it’s still not certain that measures taken have slowed demand growth sufficiently.

This admission must be seen in conjunction with one conclusion in his case study (see “A fighting chance”), that eliminating excess demand “by monetary and fiscal policy, even if this means significantly higher interest rates, reduced government spending and/or increased taxes” is a pre-condition for an effective BOP adjustment. On the record of the past year, the only one of these that politicians wholeheartedly support is a tax increase — and this alone cannot support the burden of economic policy.
Inflation index rises to 13.8 pc

Staff Reporter

The South African annual inflation rate as measured by the Consumer Price Index (CPI) in March 1989 was 13.8 percent — 0.3 percent higher than February 1989.

The percentage change in the price index for food for March 1989 compared with March 1988 was 10.8 percent.

President of the Housewives League, Mrs. Lynn Morris, said yesterday the increase was lower than she had expected.

Recent increases, like petrol, could be felt in June or July.

"The price increases have slowed down but the inflation rate cannot go down because the standard of living is going up," Mrs. Morris added.

EDUCATION FEES

Relatively large increases occurred in the price of milk, cheese and eggs (1.1 percent), fruit and nuts (0.3 percent) and vegetables (2.4 percent). There were also large increases in the prices of alcoholic beverages (5.4 percent), clothing and footwear (2.4 percent), fuel and power (2.5 percent), furniture and equipment (3.3 percent), household operation (2.3 percent), personal care (4.1 percent) and "other goods and services" (2.4 percent).

The price of education (mainly university fees), which is determined once a year, increased by 20.2 percent.

Of the various urban areas, the Vaal Triangle area experienced the largest monthly increase (1.6 percent) which, annualised, exceeds 21 percent.

The CPI for pensioners for March 1989 indicated an annual increase of 11.4 percent. This was 2.4 percentage points lower than the inflation rate of 13.8 percent for all income groups for March 1989.
Inflation

Income spent on a certain type of goods — differ markedly from those used by the CSS. For example, the CSS gives food and household supplies as making up 22.72% of expenditure, while Dr. Posel calculates a minimum 32%.

He also says observation has led him to believe that food increases by as much as 40% a year.

The CSS figures are based on a five-yearly survey of thousands of households in various income groups in 12 areas of the country. It also receives monthly price updates from more than 3,000 suppliers of goods and services.

The Housewives League, though, believes the CSS figures are not anywhere near reality. National president Mrs. Lynn Morris said yesterday: “The latest CSS release says that food increased in price only 10.8% in March, showing a continued downward trend. This is nonsense, as any regular shopper can tell you.”

She said the league’s surveys showed a minimum increase of 14% in the price of a basket of household goods over the past year.

However, Checkers deputy managing director Mr. Soge Martinengo said observation led him to believe food and household prices in the group’s stores had risen by an average of only 12 to 13% in the past year.

Meanwhile, the likelihood is that Dr. Posel’s figures will be noted by those seeking wage increases.

He said that matching the 31% inflation rate would not help: “It will simply contribute to the inflationary spiral. Hopefully, what will happen now is that government’s eyes will be opened to the urgency of the situation and the need for a drastic solution.”

He predicted that, if the government were immediately to freeze wages and prices, the rate might drop to 28 to 29% by the end of the year.

“But it is questionable whether they will, given that there is an election in September.”
Inflation Rate: Over 30%
What is the current inflation rate in South Africa? The Central Statistical Service is said to put it at 13.8 percent while a professor in Natal says that 31.6 percent is nearer the mark. In fact both could be right.

Much depends on what figures you take and how you interpret them. Actually if you look hard at the CSS figures for March—the last month for which figures are available—you will find that inflation in that month was running at 19.26 percent.

Therefore it is clear that the figure of 13.8 percent does not reflect the current inflation rate. But to be fair to the CSS it has never in so many words claimed that this is the case.

It has always made clear that its inflation figure was based on the increase in the consumer price index during the past 12 months. It is therefore fairly obvious this figure is influenced not just by current price increases but also by those of almost a year ago.

The difficulty here is that if prices last year suddenly took off, the year-on-year rise in the consumer price index is likely to overstate the current inflation rate. But if price increases last year were smaller than this year, the year-on-year change in the consumer price index would underslate the prevailing inflation rate, which is happening.

An analysis of the CSS's consumer price index for March showed that prices in that month rose 1.6 percent—the greatest monthly increase since September 1986. It also indicates that inflation could currently be running at an annual rate of more than 19 percent. However, economists do not like paying too much attention to one month's figures as they could be inflated or deflated by special non-recurring factors.

They regard the average increase in prices over the past three months, calculated on an annual basis as a more realistic indicator of the inflation rate. This is what has been done in the accompanying table. But even these figures have to be treated with caution as this method can produce some aberrations.

For example, the 10 percent rise in liquor prices in the first quarter becomes a 40 percent annualised rate which is probably much too high. The same can be said about the 12.47 percent rise in medical costs in the quarter which translates into an annual increase of 40 percent, and the 28 percent increase in education and training fees which becomes 80.9 percent on an annual basis.

The increase for the lower income groups was estimated at 11.9 percent and at 14.9 percent for the middle income groups.

But for the higher income groups, who presumably have to cope with increased mortgages and higher transport costs, inflation was running at almost 19 percent, the figures show.

It is rather mind-numbing to realise that clothing prices were up 20 percent a year in the first quarter, that vehicle running costs were rising at a rate of 26.8 percent and that vehicle prices were rising at a rate of 28.1 percent.

### Table: Price Increases

<table>
<thead>
<tr>
<th>Category</th>
<th>1988 Annualised Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>All items</td>
<td>15.3</td>
</tr>
<tr>
<td>Lower income groups</td>
<td>11.9</td>
</tr>
<tr>
<td>Middle income groups</td>
<td>14.0</td>
</tr>
<tr>
<td>High income groups</td>
<td>16.6</td>
</tr>
<tr>
<td>Commodities</td>
<td>15.8</td>
</tr>
<tr>
<td>Services</td>
<td>16.9</td>
</tr>
<tr>
<td>All items and housing</td>
<td>17.1</td>
</tr>
<tr>
<td>All items and food</td>
<td>18.4</td>
</tr>
<tr>
<td>Food</td>
<td>6.7</td>
</tr>
<tr>
<td>Low income</td>
<td>6.3</td>
</tr>
<tr>
<td>Middle income</td>
<td>1.3</td>
</tr>
<tr>
<td>Higher income</td>
<td>10.9</td>
</tr>
<tr>
<td>Goods</td>
<td>6.6</td>
</tr>
<tr>
<td>Meat</td>
<td>4.6</td>
</tr>
<tr>
<td>Fish</td>
<td>4.9</td>
</tr>
<tr>
<td>Meat</td>
<td>15.3</td>
</tr>
<tr>
<td>Fats</td>
<td>9.6</td>
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<tr>
<td>Fruit</td>
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<td>Vegetables</td>
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<td>Sugar</td>
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<td>Coffee, tea, cocoa</td>
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<tr>
<td>Dairy</td>
<td>20.7</td>
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<tr>
<td>Non alcoholic beverages</td>
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<tr>
<td>Alcoholic beverages</td>
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<tr>
<td>Cigarettes, tobacco</td>
<td>8.4</td>
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<tr>
<td>Clothing, footwear</td>
<td>20.8</td>
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<tr>
<td>Clothing</td>
<td>21.0</td>
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<tr>
<td>Footwear</td>
<td>16.5</td>
</tr>
<tr>
<td>Housing</td>
<td>13.7</td>
</tr>
<tr>
<td>Fuel and Power</td>
<td>12.2</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>15.4</td>
</tr>
<tr>
<td>Furniture</td>
<td>19.2</td>
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<tr>
<td>Appliances</td>
<td>10.8</td>
</tr>
<tr>
<td>Other</td>
<td>12.8</td>
</tr>
<tr>
<td>Household operation</td>
<td>13.4</td>
</tr>
<tr>
<td>Consumables goods</td>
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<tr>
<td>Domestic services</td>
<td>12.8</td>
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<tr>
<td>Other</td>
<td>17.2</td>
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<tr>
<td>Medical care and health expenses</td>
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<tr>
<td>Transport and Travel</td>
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<tr>
<td>Vehicles</td>
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<tr>
<td>Running costs</td>
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<tr>
<td>Public &amp; l. transport</td>
<td>5.7</td>
</tr>
<tr>
<td>Communication</td>
<td>9.7</td>
</tr>
<tr>
<td>Recreation</td>
<td>2.9</td>
</tr>
<tr>
<td>Education &amp; training</td>
<td>8.0</td>
</tr>
<tr>
<td>Personal care</td>
<td>19.2</td>
</tr>
<tr>
<td>Other</td>
<td>16.9</td>
</tr>
</tbody>
</table>
Schwarz calls for inflation probe

By RENG BRNTS

Mr Harry Schwarz, finance spokesman for the Democratic Party, has called for an immediate scientific investigation to establish the credibility of the official inflation index prepared by the Central Statistical Services (CSS).

He said yesterday that the accuracy of the Consumer Price Index had been a long-standing question, and that a scientific inquiry was needed to establish whether the prices used as base data were correct and whether the weighting of items of expenditure was up to date.

He was referring to reports on the investigations of Dr Karl Posel, author of books on investment and the stock exchange and former professor of applied mathematics at the University of Durban (Westville).

Dr Posel has compiled figures for three model families which show that the real inflation rate—the increase in expenditure of disposable income—is closer to 31% than the official 14%.

His theory is backed with raw data obtained by pricing actual items in supermarkets.

Meanwhile Mr Inoy Goldberg, chairman of the Shareholders' Association, said yesterday that groundwork done by volunteers of the organisation indicated that the 31% inflation rate postulated by Dr Posel was accurate.
Substantial economic growth seen... 

Inflation expected to "skyrocket"

By AUDREY D'ANGELO
Financial Editor

SA will achieve substantial economic growth in 1989 — but inflation will "skyrocket," according to the latest forecast by the Stellenbosch Bureau for Economic Research (BER).

BER director Ockie Stuart and economist BA Mocke expect average pay increases of 17.5%. But they also expect an increase in direct taxation, due to fiscal drag.

As a result of this and rising prices, they expect real disposable income to go up by only 0.7% this year and to fall by 1.2% in 1990.

Consumer demand

They expect income from property to rise more rapidly this year and consumer demand to slow down.

But although private consumption expenditure is expected to increase by only 1.9% in real terms compared with 4.9% last year, they think the "propensity to save will average out at a mere 0.6% in 1989.

They forecast that interest rates will remain high and the rand will depreciate further.

They expect the inflation rate, for 1989 to average 15.5% and the inflation rate for 1990 to average at least 14.5%.

This is the first time that the BER’s Economic Prospects report has given a detailed forecast of trends for the next two years.

Pointing out that exports increased in the first quarter of this year, the report says economic growth towards the end of last year was stronger than most people expected.

"The buoyancy of the year is reflected in the fact that gross domestic expenditure achieved a high growth rate of over 7%,” they state.

Stuart and Mocke expect domestic demand to taper off substantially in the third quarter of 1989.

"This outlook, together with an expected depreciating exchange rate throughout the year, ought to boost export performance from the third quarter onwards.

They expect merchandise exports at current prices to grow by an average of 20% in the current year and 9.5% in 1990.

"In value terms merchandise export earnings are expected to increase from R31.4bn in 1988 to an estimated R37.8bn in the current year.

"Merchandise and non-factor services export volumes are likely to increase by an estimated 4%.”

World trade is expected to grow at a slower pace “and with lower expected commodity prices it is important to export larger volumes to benefit from the lower anticipated exchange rate.”

Stuart and Mocke expect a current account surplus of R2.9bn for 1989 and R0.7bn for 1990.

"It is thus anticipated that the performance of the current account will improve as the year progresses and that the trend is due to continue in 1990.

Capital inflows of approximately R3bn are expected for 1989 and R5.3bn for 1990.

"Short-term capital inflows will amount to about R1.8bn and long-term inflows to around R2.1bn for the current year.

"The implication of this is some increase in reserves with capital outflows exceeding the surplus on the current account.”

Stuart and Mocke think policy measures will remain restrictive until the first quarter of 1990.

"The current account may not perform as desired and this will put strong pressure on foreign exchange reserves.

"Sustained strong policy measures such as positive real interest rates could help to accumulate reserves to effect large debt repayments due in 1990.”

Direct taxation

They say that, since no provision was made in the last budget for fiscal drag, growth in direct taxation could be as high as 22.4% on average.

"Mention should also be made of the fact that the Minister of Finance recently announced that taxation on fringe benefits — cars in particular — will become more stringent from June 1.

"The net outcome of the above trends is a projected increase of 16.2% in nominal disposable income in 1989.”

Stuart and Mocke expect 1990 to be "a difficult year" with higher unemployment and lower pay rises and an increase of 13.1% in direct taxation.

Stressing that inflation in 1990 could be higher than the 14.5% they forecast now, Stuart and Mocke say the nominal increase in disposable income of 13.1% which they expect "will convert into minus 2.2% in real terms.

"After provision has been made for population growth we find that in per capita terms real disposable income will decrease by 1.8% in 1989 and by a hefty 3.6% in 1990.”
Even more punishing inflation ahead — BER

CAPE TOWN — South Africa should prepare for substantial economic growth during 1989 — but also for punishing inflation.

This two-edged forecast was spelled out by Dr Ockie Stuart, Director of the Bureau for Economic Research at Stellenbosch University yesterday.

Interest rates would remain high and the rand could be expected to depreciate further, he said.

Dr Stuart's comments follow the BER's completion and analysis of its latest survey of key economic trends.

Dr Stuart said that in the opening months of this year exports increased sharply — "the March trade surplus was the highest in many months".

However, a continuation of the trends currently at work will have a negative impact on reserves.

Dr Stuart said that most forecasters initially predicted low economic growth for 1989 — a conclusion arrived at on the basis of factors such as slow growth in manufacturing production towards the end of last year, the decline in the value of building plans, the thickening of demand for credit and a drop in real wholesale and retail sales.

However, conditions changed swiftly in the wake of the non-budgeted rise in public-sector salaries, increased government spending at the close of the fiscal year, the prospect of a bumper farm crop and a surge in capital spending.

Economic activity in 1988 as a whole was also more lively than most people expected.

"The buoyancy of the year is reflected in the fact that gross domestic expenditure achieved a high growth rate of over seven percent," Dr Stuart said.

At one stage in 1988, the BER's forecast for the rate of expansion of gross domestic product (GDP) was scaled down from an initial 3.8 percent to as low as 2.5 percent.

There had thus been some surprise at the Government's preliminary official estimate of 3.2 percent.

Inflation was expected to accelerate throughout the year, but peak in 1990, while long-term interest rates would remain at relatively high levels throughout the year.

Last year the average inflation rate declined from 14.2 percent in January to 12.5 percent in December, with an average rate of 12.9 percent.

For the current year the Bureau forecasts an average inflation rate of 15.5 percent, dropping to 14.5 percent for 1990.

The remuneration of employees is projected to increase by 17.5 percent — a percentage point higher than last year.

Income from property is expected to increase more rapidly, resulting in a 1989 personal current income growth of 14.9 percent, which is 2.4 percentage points higher than the previous year's growth rate.

Direct taxes are, however, projected to increase very rapidly this year, while consumer prices should increase at a faster pace.

The combined net result of these trends is a slow growth of 0.7 percent in real disposable income, which is half a percentage point lower than last year's figure.

As a result, private consumption expenditure was expected to increase by 1.9 percent in real terms, compared with the 4.8 percent recorded in 1988, the Bureau said — Sapa.
New challenge to statistics

ANOTHER private sector report has contradicted figures from Central Statistical Service (CSS), which has come under attack for allegedly reflecting an inaccurate inflation rate.

This time the subject is building activity in SA, with particular reference to home improvements.

The first challenge to CSS came from Karl Fose, former professor of applied mathematics. He claims that SA's inflation rate is more than 30% a year instead of the 13.8% calculated by CSS.

The report on building activity by Business & Marketing Intelligence (BMI) says CSS reflects only home improvements for which municipal approval has been requested. It ignores the "tremendous" increase in home improvements for which no plans have been passed.

Potential

Jan Strauss, director of building studies at BMI says: "The potential of the home improvement market for building materials suppliers has been underestimated due to a severe underreading of the market by CSS."

BMI is a leader in business and industrial research. It is a member of the Information Transfer Group, SA's largest

Misleading

His study, entitled Prospects for building materials and fittings in SA — 1988-1993, found that the home improvement market is worth about R3.5-billion a year.

It also found that South Africans spent more on extensions to their homes than on new houses in 1988. This says the report, contradicts official figures which are misleading.

"Official statistics show that non-residential building activity has a much higher proportion of additions than residential activity. This is not true in the real situation because non-residential alterations are usually executed with approved plans and are therefore likely to be reflected in the official statistics."

Economic

Mr Strauss says that almost half of improvement expenditure is on economic housing and more than a quarter on luxury houses. The balance is spent on improving low-cost houses.

Official figures show that the building industry has suffered real negative growth in the past three years. The BMI, however, reports that in 1988 there was positive growth, although it was small.

It says SA spent R12.5-billion on all types of building in 1987. This represents a 30% increase compared with 1985, or 5% in real terms, allowing for cost increases.

Negative

It warns, however, that the industry faces real negative growth for the next two years and that recovery is likely only in 1991-1992.

The survey also found that the private sector's contribution to building activity grew by 37% between 1985 and 1987. This is 75% of all building activity. Public spending rose by 15% in the same time, but its share of the market fell from 35% to 25%.
Estimate of rise in food prices 'low'

Own Correspondent

DURBAN — The government's estimate that food prices rose by just 10.8% in the past year is "just not feasible," says a former professor of applied mathematics.

Dr Karl Posel has compiled figures for three model families which show that the real inflation rate is not 14% as the Central Statistical Services would have the public believe, but closer to 31%.

Speaking at his Kloof home, the author of books on investment and the stock exchange said he was stunned to discover that instead of working out similar mathematical "models" in calculating the inflation rate, the CSS merely went on the figures revealed in thousands of questionnaires they send out.

It was "conceptually incorrect" to average out everything, he said.

"Take a man who has one foot on a red-hot plate and another in a bucket of cold water — according to the law of averages, he is feeling very comfortable."

Regarding the 10.8% suggested as the increase in the price of food from March '88 to '89, Dr Posel said this was possibly calculated by comparing two identical baskets of foodstuffs.

"This would explain the error, but that doesn't excuse it — they (the CSS) should know better," he said, explaining that the average person would consume one tube of toothpaste and 15 litres of milk in the same period.

Dr Posel is after "an honest admission" from the CSS that their methods of establishing the inflation rate are incorrect.

"Once the government knows what the real inflation rate is they can act on it. This won't happen if they believe it's 14%," he said.

People are beginning to sit up and take notice of Dr Posel, as evidenced by the numerous media calls he answered yesterday.

When he appeared live on an SABC radio programme last week, dozens of listeners phoned in, many saying they believed the inflation rate was even higher than 31%.

Democratic Party finance spokesman Mr Harry Schwarz last week called for an immediate scientific investigation to establish the credibility of the official CSS inflation index, having referred to Dr Posel's reports.

And Mr Isny Goldberg, chairman of the Shareholders' Association, said his organisation's research indicated that Dr Posel's 31% inflation rate was accurate.

- Dr Posel's family models' rates of inflation range from 31.5% for a non-working wife, middle-management husband and two primary-school-going children to 33.5% for a retired couple living in a bond-free home.

Yesterday he calculated rates for two single reporters in their mid-twenties, neither of whom paid the car instalments, bond repayments or education costs of the average family.

The first, who paid a monthly rental of R250 and R250 for petrol, had an inflation rate of 25.7%, while for the other, who cut down on expenses by living in a commune, it worked out at 20.8%.

Although they did not have some of the most inflationary expenses, Dr Posel said, the reporters' inflation rates, indicative of many young single South Africans, were still way above the official figure.
PE director pleads for sounder statistics on rate of inflation

KAY TURVEY

Central Statistical Service's inflation figures should be scrapped if they were not an accurate guide for companies as a basis for pay structures, PE Corporate Services director Jon Cole said on Friday.

"If the figures have no practical application in wage and salary planning, then the service is a total waste of the taxpayers' money and should be scrapped," he added.

He was reacting to studies by Prof Karl Posel which put inflation at about 31% and not the official 13.3%.

Cole and CSS head Trommell du Toit had admitted the consumer price index was not an accurate guide for salary negotiations. He argued the CPI should be turned into a meaningful measure for economists and others who needed a reliable indicator.
Employers left without ‘yardstick’

By AUDREY D'ANGELO
Financial Editor

DOUBTS about the accuracy of the consumer price index (CPI) have left employers without any yardstick for deciding on annual wage and salary increases, says a leading firm of management consultants.

A director of F-E Corporate Services, Jon Cole, said that all employers in the country used the CPI "as a basis on which to begin remuneration planning and negotiations".

Economist Adriaan Moocke of the Stellenbosch Bureau for Economic Research said the CPI had been used as the basis for its recent forecast that wages and salaries would rise by an average of 17.5% this year.

"Adding 2% to the CPI enables staff to maintain their purchasing power. They are at least then standing still and not going backwards."

But, the Director of the Cape Chamber of Industries, Colin McCarthy, said the CPI was never intended to be used for this purpose but was only a short-term measure to show the movement of a basket of prices.

McCarthy said that paying wage and salary rises to the CPI without any equivalent rise in productivity was inflationary.

He thought the PPI a more realistic basis for pay rises. But he thought the best way was a comparative survey among employers "to show what the market will bear."

Cole said he thought an admission by the head of the Central Statistical Services, Treurnicht du Tont, that the CPI was not an accurate guide for companies to use as a basis for pay structures or to conduct wage and salary negotiations "has made a strong case for the service to be closed down."

Cole added that if the figures had no practical application in wage and salary planning the service was a total waste of taxpayers' money and should be stopped.

"In 13 years of being involved with organizations as a consultant in wage and salary structuring and negotiations we have always used the CPI as an official guide to the rate of inflation."

"This policy continued even after the CSS changed the shopping baskets a year ago and it was widely accepted that the CPI presented a conservative view of inflation."

Now, Cole said "Du Tont has wiped out the only indicator by which standards are set in this country."

It would be almost impossible for individual businesses to construct their own index and have meaningful results without a common approach. It would mean taking on extra staff and at the end of the day the measure would be challenged by unions and possibly even the industrial court.

"Surely the CPI must be turned into a meaningful measure."

Cole said that while inflation was obviously running well ahead of the CSS estimate of 13.9% there were other factors undermining the relative wealth of all South Africans.

"Account must be taken of factors such as increased taxation and fiscal drag."

McCarthy said "The CPI is not reliable enough over the long term to be used as a guide when fixing pay rises. It was never intended to be that."

"Very often when there is a massive hike in the CPI the ability of the employer to give a large pay rise goes down. It is at such times, when people should be tightening their belts, that they say they want more money."

"To peg pay rises to the CPI is to fuel inflation. It is market forces, not the CPI, that should decide pay levels."

\[\text{}\]
WHITES living in Johannesburg see inflation as the primary problem facing SA rather than such issues as meeting black demands for political participation, a survey conducted for the American Chamber of Commerce in SA (Amcham) has found.

The survey of 1,672 respondents on perceptions of civil liberties, sanctions and the economy — undertaken for Amcham by Wits University senior political science lecturer Dr Philip Frankel also found:

- White reaction to the political system is largely determined by economic conditions.
- There is widespread apprehension over the "quality of life" under a controlled economy.
- The white public is sensitive to violations of civil liberties but largely unyielding on the issue of maintaining state security as a primary concern.
- While there is limited support for the release of Nelson Mandela and other political prisoners, a significant proportion of whites identify with a conditional release process as a stimulant for political negotiation.
- The overwhelming majority have difficulty comprehending a political settlement embracing actors outside establishment politics.

Security

In this category, respondents are largely concerned with the economic consequences of political developments rather than political developments as such.

- There is strong support for dialogue to resolve the political crisis but equally strong aversion to political communication with groups which utilise violence.

"What we are dealing with here is the epitome of the problem facing the State: an immovable and largely conservative electorate," Frankel said.
ECONOMIC OUTLOOK

Tears or cheers?

First significant indicator of an economic slowdown has come in the quarterly GDP figure released by Central Statistical Service (CSS) this week. First-quarter GDP was only 1.6% up on the previous quarter, at a seasonally adjusted annual rate. This follows growth of 2.3% and 3.5% in quarters four and three of 1988.

A breakdown, based on factor incomes, shows that agriculture grew by 16.4%, at constant 1985 prices. This seems to have been the result of the seasonal adjustment, as Department of Agriculture figures show a quarter-on-quarter annualised but unadjusted decline of 24% in nominal terms. In the agronomic context, a more realistic picture is provided by comparing the same quarters and a comparison with the first quarter of last year shows a 10.1% increase.

Whatever figure is used, 16.4% seems hard to reconcile. CSS's Helene Coetzee explains that a new method introduced last quarter of calculating growth is responsible.

Sectors hit hardest were mining, which registered negative growth of 4.4%, and manufacturing, with negative growth of 0.7%. It is a reversal of the pattern of the second half of 1988, when agricultural growth was sharply negative and mining and manufacturing were comfortably up.

The figures, released 45 days after the end of the quarter, are preliminary, based on incomplete information, says Coetzee, and may be revised. Moreover, they are based on production, so do not necessarily establish that spending slowed. It is known that government outlays accelerated towards the end of the fiscal year in March. Reserve Bank Governor Gerhard De Kock has already spoken of a provisional estimated 6% annualised growth in GDP in the first quarter.

However, Coetzee points out that government shows CSS's provisional estimate is a reliable indicator of a trend. And deceleration in production growth and, consequently, income, will inevitably lead to a reduction in demand — unless constrained by substantial future spending in the public sector.

This should reduce inflationary pressures and ease anxieties about the current account.

A sign of our troubles is that it has become difficult to tell good news from bad. De Kock has pointed out on several occasions that last year's GDP growth was bad news in some ways, bad news. Unlike most major industrial countries which in the past six years managed to grow without uncontrollable inflationary pressures or other adverse side effects, SA has to count the cost of growth carefully.

So the deceleration in GDP growth must be counted as good news. The really bad news is that we find ourselves in an anomalous position buying time at the expense of growth is the best we can hope for.

A fundamental problem is that so many people in positions of power need the spectre of a vanishing balance on the current account to force them into action. If we could rely on capital inflows, as in the past, politicians would presumably be content to allow expenditure levels to run on unchecked as we head for hyper-inflation.

Quarter-to-quarter growth of 48% in credit extended to the private sector in the last quarter of 1988 is awesome. Had it been supplemented by substantial inflows of foreign exchange, money supply growth would have exceeded its 28.3% final-quarter growth — a frightening prospect.

So even our precarious balance of payments could be looked on as good news, as it concentrates politicians' minds on the need for fiscal and monetary restraint.

HOME BUYERS' BURDEN

The Usury Amendment Bill, tabled in parliament last Friday, opens the way for additional charges to home buyers. It will allow institutions granting credit against the security of property to charge a valuation fee. It will have retroactive effect, thereby legalising valuation fees charged in the past by banks and building societies.

In recent years these fees have escalated sharply. According to deputy registrar Financial Institutions Chris Mostert, tariffs now vary from R50 to over R1 000.

The Bill, which will allow the minister to lay down a maximum tariff from time to time, was referred to the Joint Committee on Finance. It should be passed next week.

The tariff is likely to be a percentage of the loan advanced, with a higher percentage for building loans. The maximum is likely to be about R1 000.

FINANCIAL REPORTING

Falling into line

The biggest package of proposed changes in the history of financial reporting is being visited on 'accountants and businessmen worldwide. The International Accounting Standards Committee (IASC) is on a world tour with its Exposure Draft (ED) on the comparability of financial statements.
Inflation rate soars as root cause is ignored

By REVELATION NTOLA

SOUTH Africa has become one of the most expensive countries in the world to live in — and the situation is deteriorating daily.

Worst hit are those who live on or under the breadline, which includes the vast majority of blacks in this country.

The average family requires a minimum of R850 a month to survive, but many black families earn less than half that amount.

A former professor of applied mathematics, Dr Karl Posel, recently alleged that inflation in South Africa has been running at no less than 31 percent.

Posel’s finding, which contradicts the official 14 percent inflation rate, has found widespread support among senior economists.

Ironically, employers tend to base the re-adjustment of their workers’ salaries on the official figure, which many economists and analysts now believe to be false.

The price of basic foodstuffs, such as mealie meal, bread and milk rose sharply this year. So did sugar, petrol, electricity, interest rates, bond repayments and hire purchase interest rates.

The soaring cost of almost all consumer commodities, rampant inflation, unemployment and general economic misery have become a feature of everyday life in the country.

What has gone wrong when only a decade ago Pretoria boasted that South African blacks were the best fed and best clothed in Africa, despite their political deprivation? What can be done to return South Africans to the good old days?

There are many contributing factors, but apartheid has led to:

- Reluctance by international banks to make funds available to South African business,
- Sanctions, which have meant the reduction of the export market and a consequent shortage of foreign exchange,
- Disinvestment — particularly by some of the large American multinationals; and
- The collapsing value of the rand.

Economists predict that in two years time the rand will only be worth 25 US cents.

If and when that happens, SA exports will be worthless in terms of international trade and it will be almost impossible for us to buy or import goods from Western countries.

Our only solution lies in scrapping apartheid — and if this does not happen soon the country is headed for a major financial disaster.

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Economists defend inflation figures

By JACOB MOKANA

DESPITE sharp criticism from some quarters against what Central Statistical Services (CSS) consider to be the official rate of inflation, economists say there can be no doubt these figures represent the best that can be expected.

None of the seven economists approached said the official figures were out of touch with reality.

Dr Karl Posel, former professor of applied mathematics at Durban Westville University, alleged recently that the inflation rate was 31 percent, compared with the CSS rate of 13.5 percent.

One economist, however, criticised the CSS for not taking more trouble to promote the reliability and credibility of its inflation rate figures among ordinary citizens and participants in the financial markets.

Posel alleged the method by which the inflation rate was being determined was unscientific and unreliable. That is not true, say the economists.

"The methods of measuring the inflation rate meet international standards and the test sample is big. I am therefore completely satisfied with the figure offered as being the inflation rate, as measured by the CSS," says Rand Merchant Bank chief economist Rudolf Gouws.
BLOEMFONTEIN — The disruptive effect of unstable interest rates, speculation on the inflation rate, the inability of the Government to stay within its budget and the treatment of teachers were highlighted as matters of great concern by Henri Lerm after his induction as president of the Chamber of Commerce OFS in Bloemfontein at the weekend.

Mr Lerm said unstable interest rates had a disruptive effect on both individuals and businesses, while the Government’s inability to stay within its budget affected everyone.

Speculation on the inflation rate should be avoided, he said.

Mr Lerm said the poor treatment of teachers was a major worry because these were the people who had to shape the leaders of the future.

Mr Lerm drew attention to the tourism potential of the Free State.

While this was not as great as that of other regions, the Free State nevertheless had much to offer the tourist.

Greater efforts should be made to promote tourism in the region, he said.

Raoul Cilliers, outgoing president, said the industrial climate had improved in Bloemfontein.

The factories being erected at Bloemindustrie would eventually provide better opportunities for jobs and satellite industries for the population of Bloemfontein.

The city should never be negative about any industry, he said.

There should not be an attitude that because an industry was “dirty”, it was not wanted.

Ways should be found to accommodate such industries.

Mr Cilliers said the Government should be asked to try to persuade the outside world to change perceptions.

Perceptions were all-important, while the facts were irrelevant, he said. — Sapa.
CAPE TOWN — A small car will cost R150 000 and a “very, modest” house R300 000 by the year 2000 if inflation continued to rise by 15% annually, DP co-leader Zach de Beer said last night.

Inflation would produce price increases in the coming years that were “frightening,” he said.

The price of a kilogram of chicken — R4.25 in 1987 — would increase 15-fold to R24.60 by the year 2000 if inflation increased by 15% annually.

The price of half-a-kilogram of filleted stockfish had jumped from 115c in 1979 to 493c in 1987.

The cost of a 397g can of condensed milk jumped from 48c in 1979 to 144c in 1987.

Medical care and health services had increased by 223% from 1979 and 1987.

De Beer said government had exceeded its budget every year in the present decade.

It is soaring government expenditure more than anything else which fuels the fires of inflation.

“It is the government more than anyone else which is systematically debasing our country,” he said.

De Beer said SA needed a government which would manage the financial affairs of the country “as though it were a proper business and not a gravy train careering down a steep slope, with no brakes.”

Experts had predicted that inflation would climb even faster, he added.
Poverty buck stops in Pretoria, says DP adviser

By REHANA ROSSOUW
Staff Reporter

Dr Org Marais, Deputy-Minister of Finance, must have used “the gravy train between Pretoria and Johannesburg” for figures to back his controversial remark that white South Africans were not worse off than 20 years ago.

This was said by Professor Sampe Terreblanche, economics adviser to the Democratic Party.

“The buck stops in Pretoria”, said Professor Terreblanche, reacting to attempts by Dr Marais to defuse the row that has exploded over his recent statement.

Explaining his remark yesterday, Dr Marais referred to a survey of 5,000 white families whose salaries were lower but whose fringe benefits had increased.

“That sample must have been taken on the gravy train between Pretoria and Johannesburg,” Professor Terreblanche said.

The National Party government was living in a “fool’s paradise” if it believed it could cure South Africa’s economic problems without addressing political issues.

Professor Terreblanche said it was not realistic to examine the standard of living of the “fringe benefit” society.

Poverty had been shifted onto the shoulders of blacks since the National Party rose to power and it was “unfortunate” to brag that whites were better off.

“It’s a shocking miracle that by way of favouritism to whites they could keep their standard of living where it is.”

Org Marais silent as opposition anger grows

By ALAN DUNN
Political Staff

THE Deputy Minister of Finance, Dr Org Marais, fell silent today as opposition MPs and economists tore into his assertion that white South Africans were no worse off than 20 years ago.

“People were furious at the statement,” said the Democratic Party spokesman on finance, Mr Harry Schwartz, “when so many are struggling to maintain reasonable standards.”

DP co-leader Dr Zac de Beer said last night at a fund-raising function in Port Elizabeth that ordinary South Africans were growing tired of government excuses and prevarications about the economy.

“We are all getting poorer because of apartheid,” he said.

An official at Dr Marais’ office said today he had decided commenting further on the row his comments stirred would not advance matters.

Addressing the plight of pensioners, Mr Mike Ellis (DP Durban North) said Dr Marais’ statement again revealed “the government’s insensitivity towards the senior citizens of this country.”

Qualifying his controversial remarks last week, Dr Marais said this week pensioners who did not have the help of fringe benefits had suffered reductions in real income.

“If the State has any money available,” he pledged, “I will fight to improve their pensions and circumstances.”

Since the beginning of 1974 the growth rate had been less than seven percent and the per capita income had dropped by 18 percent.

Professor Terreblanche said the economy had gone into decline after Soweto 1976, when disinvestment had begun because of political instability.

Capital

He said R35,000 million had left South Africa since the Rubicon speech, half through disinvestment and the rest as payment on foreign debt.

The government was forced to cool down the economy to “extraordinary” levels to produce capital to pay back its foreign debt.

“The buck stops in Pretoria. They are responsible for the dismal state of the economy. It is because of the National Party government that the rest of the world has a poor perception of South Africa.”

Professor Terreblanche said it was no use waiting for any miracle to happen. There would not be a higher growth rate without a government more acceptable to the international community.

See page 6.
He's out of touch, says bureau
Marais is 'out of touch'

(Cont from page 1)

From 1982 to 1987 per capita GDP decreased by 1.5 percent a year.

Another measurement was the growth in direct taxation of individuals.

In the 1960s the annual growth in taxes was 12.2 percent, in the 1970s this increased to 16.2 percent and in the 1980s swelled to 22.8 percent.

Yet another way of illustrating how much worse off South Africans were today compared to 20 years ago was to compare local trends with what had happened in other countries.

Since 1983 prices in South Africa had risen 100 percent. In New Zealand they had increased by 48 percent, in Great Britain by 27 percent, in West Germany by 6 percent and in Japan by 5 percent.

QUESTIONS

One commentator said that to find price increases comparable to those experienced in this country one would have to go to the banana republics of South America.

"South Africans have grown so accustomed to rapidly rising prices that they have stopped asking why this is happening to them. However, they should ask questions because the high rate of inflation is keeping them poor and, if continued, could possibly bankrupt them," he said.

In contrast to South Africa, Britain was becoming one of the cheapest countries in the world, according to a survey published to guide international companies on cost of living allowances for employees sent overseas.

The survey by Employment Conditions Abroad Ltd showed that between 1980 and 1986 the cost of a shopping basket of essential items had increased by about 60 percent in Britain, opposed to 92 percent in Western Europe as a whole.

In South Africa, the cost of food had escalated by 1000 percent in 17 years. Motoring costs were on a par and property and rent were not far behind. These figures were based on statistics supplied by the government's Department of Statistics.

According to the Automobile Association, in 1972 it cost 1.3c a kilometre to run the smallest car. Today it costs 50c a kilometre.

While in 1972 there were at least half a dozen cars that sold for less than R2,000, today the cheapest car cost a little under R20,000.

BREAD

A few basic statistics supplied by the Central Statistics Services illustrate again how much the cost of living has rocketed.

According to the CSS, the basket of essential food that cost R5.31 in 1980 cost R17.90 in 1986, an increase of 222 percent.

White bread cost 29.7c in 1980, 77c in 1987 and now costs 85c, an increase of 102 percent.

Ninety-three octane petrol was 55.6c a litre in February 1984, jumped to 96c by February 1989 and was recently increased again to 110.3c, representing an increase of about 85 percent in five years.

Org concedes poor timing

(Cont from page 1)

1986, but his indirect income, largely through fringe benefits such as company cars, house subsidies and better contributions to pensions and medical and funds and other benefits, had on average increased by 71.6 percent.

The basic point he wanted to make in his speech was that the average South African had not gone under as a result of the onslaughts against the country, but that he was in fact still keeping his head above water.

He described the way in which his recent remarks about the economy had been quoted in some cases as a transparent stunt aimed at the election.

Dr Marais said there were opposition-minded critics who tried to create the impression that he had said that the average South African had become richer in the past 20 years while this was not what he had said.
Revolt

over cost of living

By MEG BRITS, Political Staff and Finance Staff

THE revolt against the government’s economic policies came to a head last night with:

- Mr. Colin Eglin (DP Sea Point) accusing the government of becoming so obsessed with power it no longer “gives a damn” about the economic hardships being suffered by millions of ordinary people.
- The Conservative Party saying it was “a national scandal” that white pensioners would have to survive on “the monthly pittance” of R200 which the government allotted to them.
- City tax expert Mr. David Clegg revealing that the average employee was much worse off than in 1970 and would be in an even worse situation next year.

Figures released by the Cape Town Chamber of Commerce showed that, using 1970 as a base year and the official consumer price index (CPI), personal disposable income in 1980 would not keep up with inflation.

- DP finance spokesman Mr. Harry Schwartz saying consumers were furious at being told by Deputy Finance Minister Dr. Org Marais that they were no worse off than they were 20 years ago.

The public was convinced inadequate measures had been adopted to control the inflation which, to a considerable extent, was due to the mismanagement of the economy last year, he added.

Yesterday’s outcry over the state of the economy came as figures were released by the Central Statistics Services revealing that the cost of living had risen by 14% in the 12 months to April.

And yesterday the Bureau for Economic Research showed that the average South African was poorer than 20 years ago — and has continued to get poorer over the past 10 years.

The BER figures show that real disposable income — that portion of individual earnings left after tax — has fallen by 7.5% in the years 1980 to 1989.

In real terms, the average South African can now afford 7.5% less goods each month than in 1980.
We’re far poorer than 20 years ago

By BRUCE WALKER

CITY tax expert Mr David Clegg says that the Income Tax Board’s 2019 tax estimate was much worse off than in 1979 and would be in an even worse situation next year if the current policies remained the same. The statement was a response to recent statements by the Deputy Minister of Finance and subsequently by the Finance Minister, Mr Tito Mboweni, that the current economic conditions were better than in 1979.

Mr Clegg’s statements are expected to cause a storm in Parliament, where the Finance Minister and the Deputy Finance Minister are due to appear. Mr Clegg’s statements will be taken as a challenge by the two ministers, who are expected to respond with counterattack.

Mr Clegg’s statements are expected to have a significant impact on the stock market and the general public, who are already concerned about the state of the economy.

Individual tax payments ‘have doubled’

The tax contribution to the state has increased by more than 20% in the past 10 years, the Democratic Alliance said on Thursday.

DSA economy: ‘Govt doesn’t give a damn’

The government had become so arrogant that it no longer gave a damn about the economy, the head of the Democratic Alliance in the Cape Town, Mr Ivan Pillay, said. He added that the government was not doing enough to address the economic challenges facing the country.

The DA said that the government was not doing enough to address the economic challenges facing the country.

Pensions a national scandal, says CP

Political correspondent

The Conservative Party last night said it was a national scandal that the opposition was not raising the issue of pensions on a national scale.

The party leader, Mr John Steenhuisen, said that the government had been neglecting the issue of pensions for too long and that the opposition was not doing enough to raise the issue on a national scale.

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Effect of fiscal drag on personal incomes

According to the DA, the government was not doing enough to address the economic challenges facing the country.

Schwarz: Reasons for public anger at govt

Political correspondent

There are many reasons for public anger at the government, the DA said.

The DA said that the government was not doing enough to address the economic challenges facing the country.

SA economy: Mr Clegg’s ‘arrogance’

Mr Clegg’s arrogance was an indication of the government’s lack of concern for the economy, the DA said.

He added that the government was not doing enough to address the economic challenges facing the country.

Cost of living

The cost of living has increased by more than 20% in the past 10 years, the DA said.

The DA said that the government was not doing enough to address the economic challenges facing the country.

Low-income families spend an even bigger percentage on food, which makes it harder for them to eat.

A major indicator of the economic shock is the high unemployment rate.

The unemployment rate is currently at 6.5%.

The DA said that the government was not doing enough to address the economic challenges facing the country.

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Inflation rate now stands at 14%

STABLE food prices moderated the increase in SA’s inflation rate, which moved up by only 0.2 percentage points in April to 14.6%.

Food prices on average remained unchanged from March, in sharp contrast to the situation a year ago when the prices of food soared. As a result, the percentage change in the food price index for April 1988 was only 7.8% — the lowest annual increase in this index since October 1976.

Because food represents 22% of the total basket of goods, the positive developments on that front countered the negative movements in other areas, notably, transport, clothing and footwear.

The overall consumer price index (CPI) advanced to 173.1 in April — which means a consumer now needs R173.10 to buy what he could with R100 in 1985. In March the index stood at 170.9. The monthly increase in the CPI was 1.3%.

Economists said the figures were better than expected, especially given the last increase in GST. Some economists suspected the GST hike had not yet been included and would only appear in the figures next month. They agreed inflation could only accelerate, possibly reaching 16.5% by year-end.

Rand Merchant Bank economist Rudolf Gouws noted that, on a non-seasonally adjusted basis, the CPI had risen by 17% in four months.

The release of April’s inflation figures comes at a time when the official rate is hotly disputed by retired mathematics professor Karl Poel. However, economists are adamant the Central Statistical Services (CSS) figures are acceptable.
1988, Sanlam predicts a higher inflation rate

Sanlam predicts still higher inflation rate

By Steven Lamore
Inflation rises by 425 pc in 14 years

PRETORIA CORRESPONDENT

INFLATION, as measured by the Consumer Price Index (CPI), has rocketed by 425 percent in the past 14 years.

An adviser to the Reserve Bank Dr Basie Kleu told a meeting of the SA Consumer Union in Pretoria yesterday that inflation undermined saving as investments with fixed interest rates becoming unattractive.

To have any hope of successfully insulating themselves against the effects of inflation, consumers should invest in assets that increased in value in tandem with rising inflation, such as fixed property and shares.
CAPE TOWN — Consumers will pay about 50 percent more in tax if GST is replaced next year by a value added tax (VAT) based at 13 or 15 percent, says Raymond Ackerman, chairman of Pick 'n Pay.

He told the company's annual meeting in Cape Town yesterday: "I appeal to the Government not to introduce VAT at 13 or 15 percent, but to bring it down substantially because VAT will include foodstuffs." He said Pick 'n Pay wanted to be able to lobby the Government to bring VAT down to nine or 10 percent.

"VAT works out at only about 8 percent because many foods are excluded. To bring VAT on at these rates will be roughly 50 percent more.

"It would be highly inflationary and absolutely wrong," he said.

Mr Ackerman said as part of the fight against inflation, he had called for a Supermarket Institute like the Food Marketing Institute of the US to fight on four fronts:

- To lobby the Government on anything affecting the consumer
- To fight any collusion by monopolies or cartels
- To share knowledge with other supermarket companies of their operations to try and improve efficiency and technology
- As a supermarket industry, to try and prevent international manufacturers from disinvesting.

Inflation was really getting serious, he said. "If we hammer these four areas, we will play a significant role in the country.

But as competitors we will continue fighting each other tooth and nail on prices." This year had already shown it was tough.

"Consumers are definitely spending less and spending more selectively," he said.

"You cannot have interest rates of 20 percent and not be affected."

Sapa
50% tax leap if VAT replaces GST

CAPE TOWN — Consumers will pay about 50% more in tax if GST is replaced next year by a value added tax (VAT) based at 13% or 15%. Pick 'n Pay chairman Raymond Ackerman said yesterday.

At the company's annual meeting here he appealed to government not to introduce VAT at those levels, but to reduce it substantially, as VAT would be added on to foodstuffs.

Ackerman said Pick 'n Pay wanted to be able to lobby government to bring VAT down to 9% or 10%.

"GST works out at only about 9% because many foods are excluded. To bring VAT at these levels will add roughly 50% more," he said.

Ackerman said, as part of the fight against inflation he had called for a Supermarket Institute, like the US Food Marketing Institute, to fight primarily on four fronts:

- Lobbying government on anything that affected the consumer;
- Aggressively fighting collusion by monopolies or cartels;
- Sharing knowledge with other supermarket companies of their operations to try and improve efficiency and technology, and
- As a supermarket industry, to try and prevent international manufacturers from disinvesting as a collective voice — "and not just myself talking to American companies."

Inflation was really getting serious, he added. "If we hammer these four areas we will play a significant role in the country."

"But as competitors we will continue fighting each other tooth and nail on prices."

This year had shown it was tough. "Consumers are definitely spending less, more selectively." — Sapa
More to come

April's solid 1.3% rise in consumer prices pushed the inflation rate to 14%. It seems on track to hit, if not beat, the 16.5% predicted for year-end by 12 economists (Leaders May 19).

The running 12-month increase in CPI bottomed at 12.3%-12.5% in July-December and has since moved up steadily:
- January, to 13.3% (on a 0.8% monthly increase),
- February, to 13.5% (0.8%);
- March, to 13.8% (1.6%), and
- April, to 14% (1.3%).

Smart money is preparing for a jump in inflation in the next two months—if only for technical reasons. Last year, prices increased just 0.8% and 0.3% in May and June, providing a low base on which the 12-month increase will be calculated this year.

Specifically, muted increases (by 1980 standards) of 1% a month in both May and June would push the rate to 14.2% and 14.9%. In fact, monthly rises have averaged 1.3% so far this year, if that keeps up, the rate will soar to 14.6% and 15.6%—embarrassingly large in the run-up to an election.

April's increase brings the index to 173.1 from 170.9 in March (end-1985=100).

Still going up

12-month increase in CPI, reported monthly.
More to come

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Specifically, modest increases (by 1989 standards) of 1% a month in both May and June would push the rate to 14.2% and 14.9%. In fact, monthly rises have averaged 1.3% so far this year; if that keeps up, the rate will soar to 14.6% and 15.6% — embarrassingly large in the run-up to an election.

April's increase brings the index to 173.1 from 170.9 in March (mid-1985 = 100).
Inflation: A Rape of Dignity and
Hard-Earned Savings

By A. indiscernible

1/3

1/3

1/3

1/3

1/3
Inflation an ally of life assured

By David Cade

The effect of inflation on interest rates in the golden years of retirement is well known. But is it also helping to boost the value of your life assurance policies?
Wilson warns on hyper-inflation

CAPE TOWN — South Africa could be pushed into hyper-inflation by factors such as capital outflows and expenditure on infrastructure, former Shell chairman John Wilson warned last week.

He said large corporations, the major employers in South Africa, had to take a lead in pushing society into accepting an education system geared to preparing people for work, rather than an almost exclusively academically based system.

The large corporations had to play a leadership role by working towards a co-operative effort with unions, educational leaders and the black community. — Sapa
Economists expect further increases

CPI rises to 14.9%

By AUDREY D'ANGELO
Financial Editor

Higher food prices, fuel prices and GST helped push the official consumer price index (CPI) for the 12 months to May to 14.9% compared with 14% in April. The monthly rise was 1.6% compared with 1.2% in April.

Economists said yesterday that they expected the rise to continue, reaching 16% or 17% by the end of this year.

Old Mutual chief economist David Mohr said he thought there was little chance of a soft landing for the economy — "it will probably be rather hard".

He said the steep monthly rise "again underlines the fact that inflationary pressures are accelerating".

He expected this to continue into 1990. He thought the CPI would reach 16% by the end of this year and average 15% for 1990 and 16% for 1991.

At this stage in the business cycle, it was increasingly unlikely that pay rises this year would keep pace with inflation and it would be tougher for the consumer next year "Things will get worse before they get better".

Southern Life economist Mike Daly said the higher petrol price had made a big impact and there was almost certain to be another rise of about 10c a litre soon.

"I expect the CPI to rise to 16% or 17% by the end of the year — and there is a chance it might be higher."

Trust Bank economist Nick Barnardt commented "The rising inflation trend will continue and a rate of 15.5% is expected in June or July. "Thereafter a slight retreat could occur but a large fuel price after the September election would kick the inflation rate up to around 16% and keep it there into the first quarter of next year.

"The rising inflation rate will probably peak below 16.5% and begin to subside from about March next year."

Boland Bank economist Louis Fourie said the 2% month-on-month rise in food prices had been substantial. And although the year-on-year rise in food prices of 9.3% had been below the inflation rate it should be remembered that it was from a high base.

He expected the CPI to rise to 16% or 17% by the end of this year but thought it would stop short of 18%.

Pointing out that the rand was strengthening, Fourie said the balance of payments (BOP) would improve in the second half of this year.

He thought it encouraging that the pressure on interest rates was tapering off and he did not foresee any further rise in the prime rate.
Monetary threat

While the inflationary effects of excess money growth are generally recognised, Mat-then & Hollidge economist Jan Gerson told an Economic Society meeting this week that supply side factors are “less readily appreci-ated, especially by some academic econo-mists.” Flight of foreign capital or a deteriora-tion in the terms of trade, he said, can stimulate inflation “even in the face of relatively slow monetary growth, as in 1985-1986.”

In projecting inflation over the next five years, both must be taken into account. Whatever the origin of the problem,” he says, “inflation in SA always lags (and in a great extent cannot take place without) a depreciating rand.

“The task, therefore, is to predict how rapidly the rand will continue to depreciate in the years to come.”

On the supply side, he predicts the comparative recent stability of the gold price (against a basket of currencies) will continue as long as international inflation rates remain low and stable. “While the outflow of foreign capital will continue, it will probably be managed smoothly and without crises of the order of 1985.”

These factors, therefore, “should be fa-vourable for inflation.”

As to monetary policy, however, he per-ceives “much to worry about.” Excessive growth in money supply across the business cycle could produce a secular long-term increase in the average rate of inflation. “This remains a problem as long as interest rates are subject to political manipulation.”
Inflation rate surges ahead

By Sven Lunsche

Food prices surged by a monthly two percent in May as the recent rise in general sales tax to 13 percent and higher fuel costs impacted on consumer prices.

As a result of the surge in food items, which make up 22 percent of the basket of goods used to measure the Consumer Price Index (CPI), the inflation rate continued its steep climb in May, justifying recent forecasts that it could hit the 17 percent mark by the end of the year.

Inflation rose by a year-on-year 14.9 percent, compared with annual increases of 14 percent in April and 13.8 percent in March, the Central Statistical Services reported yesterday.

The monthly seasonally adjusted rise of 1.3 percent, following a 1.6 percent hike in April, indicates that further increases in the annual rate are on the cards.

Southern Life's Mike Daly earlier this month predicted a rate of 17 percent by year-end, citing the recent sharp increases in producer prices as a major reason.

From February to April producer prices rose by an annualised rate of about 20 percent and once these increases filter through to the CPI the consumer could end up paying substantially more.

Pressure on rand

Producer prices were largely pushed up by the rapid decline in the rand and since there is no immediate end in sight to the fall in the currency, pressure on prices from this quarter will continue to be substantial.

Trust Bank economist Nick Barnardt is less pessimistic.

He expects the rising inflation trend to continue to a rate of 15.5 percent in June/July, but thereafter a slight short-term retreat could occur.

Mr Barnardt, however, "A large fuel price increase after the September election would kick the inflation rate up to around 16 percent and keep it there into the first quarter of next year.

"The rising inflation cycle will probably peak below 16.5 percent and begin to subside from about March next year.

"The extent of the decline next year will depend largely on the behaviour of the rand exchange rate in coming months," Mr Barnardt says.

Another factor is the extent of the slowdown in consumer demand, which, judging from the continued decline in the broad money supply in May, is on its way to a soft landing and could help slow down the rate of increase in consumer prices.
Beating inflation car or allowance?

By

BRONWYN
ALLAN
Associate
Director
Coopers & Lybrand

The company car has for many years been a firm favourite as the executive only pays a fringe benefit tax on the private usage of the car which represents a certain amount every month, which is deducted from his salary (according to Government company car tables).

For example, the value of a car with a determined value of R90 000 and a 3 000cc engine, is R341 per month (according to the 1989 tables). This amount is subtracted from the executive's salary.

The Commission suggested that the fringe benefit tax should be increased every year, which makes this option less popular.

The value of private use of the same car increased to R352 a month on June 1, 1989, with the introduction of the amended company car tables. This represents a sizable increase of 3%. The following table demonstrates the difference in the fringe benefit tax between the 1989 and proposed 1989 tables.

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</tbody>
</table>

As can be seen from the above example, the increase is quite substantial. It has been argued that even with the additional costs in the annual company car tables that benefit still remains attractive, as it is cheaper to have the use of a company car than to purchase a car oneself.

The employer has had to look at the company's fringe benefit tax on his private vehicle on company business, taken into account the monthly payments in the bank, the amount paid for maintenance, petrol and maintenance.

The question facing many executives is whether the fringe benefit tax payable on company cars can be reduced in any way.

The answer is no, there are circumstances where it may be, for example, if the executive chooses to drive his own car, he will still pay less fringe benefit tax every month.

The question has to be raised as to whether the fringe benefit tax payable on company cars can be reduced in any way.

Generally, the answer is no, there are circumstances where it may be, for example, if the executive chooses to drive his own car, he will still pay less fringe benefit tax every month.

The question has to be raised as to whether the fringe benefit tax payable on company cars can be reduced in any way.

In our experience there is no prevailing attitude, as executives prefer to drive their own cars.

The allowance is granted to the executive for every month in which the business kilometres driven on company business, calculated at the rate per kilometre, multiplied by the distance travelled during the year but not exceeding the distance travelled between home and work.

A distance of 10,000 kilometres is deemed to be private use if no log book is kept.

The allowance is granted to the executive for every month in which the business kilometres undertaken every year, and the executive will therefore be taxed on the unspent portion of the allowance, as illustrated below.

Example: Value of vehicle | R90 000 | Annual kilometres | 50 000 |

Rent, tolls and other costs are included in the calculation of the allowance.

The allowance is granted to the executive for every month in which the business kilometres undertaken every year, and the executive will therefore be taxed on the unspent portion of the allowance, as illustrated below.

Example: Value of vehicle | R90 000 | Annual kilometres | 50 000 |

The allowance is granted to the executive for every month in which the business kilometres undertaken every year, and the executive will therefore be taxed on the unspent portion of the allowance, as illustrated below.

Example: Value of vehicle | R90 000 | Annual kilometres | 50 000 |
Snowball effect

Latest data on inflation indicates it is likely to reach 17% by December, even more if the recent acceleration continues. The seasonally adjusted consumer price index (CPI) grew at an annual 20% in the past three months.

Central Statistical Service (CSS) last week reported a leap of 2% in prices, seasonally adjusted, in May. This is the biggest seasonally adjusted monthly increase since July 1986, when it topped 2.5%, and January 1986, when it went over 3%.

The unadjusted rise in May was 1.6%, pushing the official inflation rate — the year-on-year increase in CPI — to 14.9%. Much of the impetus came from vehicle prices (which climbed 5.3% in the month and 29.2% in the year) and cost of running vehicles (5.4% and 28.3%)

Also contributing was food (2% up in the month but only 9.3% in the year) and housing (1.3% and 15.6%) which have heaviest weighting in the index. Clothing and footwear prices also climbed sharply (1.5% and 16.9%) but this category has a comparatively low weighting and therefore less impact.

While not too much can be made of one month’s figures, Old Mutual chief economist Dave Mohr points out that all recent figures reflect a sharp upward trend. “Inflation feeds on itself, so it is likely to build up momentum well into 1990.”

Certainly inflation has accelerated sharply. Rand Merchant Bank economist Rudolf Gouws calculates “Inflation, at an annual rate, rose 10.4% in the first half of 1988, 12.4% in the second half and 17.6% in the first five months of 1989. The same exercise with unadjusted rates reflects increases in those periods of 10.8%, 12.5% and 18%.”

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**Sharp upturn**

12-month increase in CPI, reported monthly

FINANCIAL MAIL JUNE 30 1989
Unit trusts, endowments and RAs beat inflation

All belong in the balanced portfolio

Although unit trusts had the best performance one has to consider the very different risk ratings. Unit trusts have a comparative higher risk profile with no guarantees of capital invested—you could over the short term receive less than your capital.

Endowments have a lower risk profile and guarantee more capital than was invested. The guarantee in the above example was R12,206—although only R10,000 was invested over the period. The proceeds after 10 years are completely tax-free and life cover, disability cover and other rider benefits can be added.

RA contributions are tax deductible but the proceeds are to some extent restricted. Only one-third of the proceeds may be taken in cash (in this case R9,497) and the balance must be used to purchase a lifelong pension. The pension in this instance yielded R20,16 a month after tax.
Calculate your own inflation rate

The argument currently raging concerning the magnitude of the inflation rate is quite surprisingly capable of extremely simple resolution. This is merely for each family to calculate its own inflation rate figure.

This is the prime aim of this article. There are two further aims, the first of which is to draw the reader that we do not need any recourse to the erudite and debatable concepts of the Consumer Price Index (CPI) to be in a position to calculate the inflation rate. More on this possibly surprising statement later.

The second is to commence thought on the aspect that the household does not in point of fact need to know the inflation rate (if such a figure is conceptually valid). He wants to know his own figures in order to make his own characteristic decisions regarding investment policies and savings techniques.

**Calculation**

There is one crucial characteristic to these calculations, best illustrated in the following. Imagine yourself on a train journey. You can either face the engine, or alternatively with your back to it. Inflation rate calculations are equivalent to sitting with your back to the engine. Thus in undertaking the required investigations we are concerned primarily with the path we have travelled, and not that which is still to face.

Thus for example our first concern in this matter is the percentage increase which has taken place by each successive term of expenditure over the past year. Please note the absolutely vital mode of expression here. It is for each term of expenditure listed in the table.

Should for example this item of expenditure comprise a multitude of individual components, such as the monthly monthly food expenditure, we must be extremely careful not to fall into an apparently common mathematical pitfall. Those families relying on a total payment to a supermarket, for example, will be using the correct figure. Those who rely on the apparently more erudite technique of the "trolley of foodstuffs" are in error, as has been discussed in a previous article.

In order to explain the method to be used yet again, I have been asked by a telephone caller to consider his real-life situation. As I have to take a mathematical model here in any case, I kill two birds with one stone by complying with his request.

He is in top management, with one of his two offspring at university. The other one is matric at a public school, still involves him in a "voluntary" levy of R1200 a year for computer after-school teaching facilities. He is only too happy to comply with this "request" since his son obviously benefits greatly by the facility. However, as opposed to my model 3 of May 22 7 article wherein the family analyst had completely liquidated its home bond, he upon his relatively recent promotion had moved into a larger, higher, apartment. In other words, bracket and is now paying a monthly bond figure of R1500.

This is his figure, as actually quoted by him, as shown in the table.

Since the prime aim of this article is to enable each family to calculate its own inflation rate, I now go over each step in the compilation of this table in some detail.

**Step 1**

The first step is to compile columns 1 & 2 of the table in sequence each item of expenditure incurred averaged over the period of one month. Some explanation may be necessary here. Take the item "car repairs". This should not occur each month, but conventionally twice a year for each car. The family being analysed has three cars. The new one replaces the old banger, which the university-going daughter now drives. Total repairs for the past year amounted to R200 which averaged out per month yields the figure of R200 shown.

**Step 2**

Determine the weighting factor for each item of expenditure. Having itemised the expenditures in column 2 of the table, obtain the total. For our family shown this is R6780. Now divide the expenditure for each item by this total to obtain what is everlastingly termed the "weighting factor". Taking the R1500 bond payment as an example, the weighting factor

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount spent per month</th>
<th>Weighting factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and household</td>
<td>R1200</td>
<td>17.7</td>
</tr>
<tr>
<td>Do, ex house</td>
<td>150</td>
<td>2.2</td>
</tr>
<tr>
<td>Entertainment</td>
<td>200</td>
<td>3.0</td>
</tr>
<tr>
<td>Bond repayment</td>
<td>350</td>
<td>5.1</td>
</tr>
<tr>
<td>Domestic servants</td>
<td>1500</td>
<td>22.1</td>
</tr>
<tr>
<td>Car repayment</td>
<td>500</td>
<td>7.3</td>
</tr>
<tr>
<td>Telephone TV</td>
<td>350</td>
<td>5.1</td>
</tr>
<tr>
<td>Petrol</td>
<td>350</td>
<td>5.1</td>
</tr>
<tr>
<td>Car repairs</td>
<td>200</td>
<td>2.9</td>
</tr>
<tr>
<td>Education, fees</td>
<td>450</td>
<td>6.6</td>
</tr>
<tr>
<td>Books</td>
<td>200</td>
<td>2.9</td>
</tr>
<tr>
<td>Personal care</td>
<td>350</td>
<td>5.1</td>
</tr>
<tr>
<td>Electricity, water</td>
<td>180</td>
<td>2.6</td>
</tr>
<tr>
<td>Clothes, footwear</td>
<td>350</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Total monthly expenditure R6780

Repeat this for each item of expenditure, then total up the figures emerging.

For the family shown, the final inflation rate emerges as 24.84%.

**Comments**

I have not mentioned the phrase "Consumer Price Index" once throughout the whole procedure involved.
Our own inflation rate

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount spent per month</th>
<th>Weighting factors %</th>
<th>Annual % Increase</th>
<th>Contribution to inflation rate points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and household</td>
<td>R1 200</td>
<td>17.7</td>
<td>40%</td>
<td>0.4 (\times) 17.7 = 7.08</td>
</tr>
<tr>
<td>Do, ex house</td>
<td>150</td>
<td>2.2</td>
<td>60%</td>
<td>0.6 (\times) 2.2 = 1.32</td>
</tr>
<tr>
<td></td>
<td>200</td>
<td>2.9</td>
<td>60%</td>
<td>0.6 (\times) 2.9 = 1.77</td>
</tr>
<tr>
<td></td>
<td>350</td>
<td>5.1</td>
<td>40%</td>
<td>0.4 (\times) 5.1 = 2.06</td>
</tr>
<tr>
<td>Bond repayment</td>
<td>1 500</td>
<td>22.1</td>
<td>45%</td>
<td>0.45 (\times) 22.1 = 9.95</td>
</tr>
<tr>
<td>Domestic servants</td>
<td>450</td>
<td>6.6</td>
<td>20%</td>
<td>0.2 (\times) 6.6 = 1.33</td>
</tr>
<tr>
<td>Car repayment</td>
<td>500</td>
<td>7.3</td>
<td>22%</td>
<td>0.22 (\times) 7.3 = 1.62</td>
</tr>
<tr>
<td>Telephone TV</td>
<td>350</td>
<td>5.1</td>
<td>15%</td>
<td>0.15 (\times) 5.1 = 0.77</td>
</tr>
<tr>
<td>Petrol</td>
<td>350</td>
<td>5.1</td>
<td>25%</td>
<td>0.25 (\times) 5.1 = 1.25</td>
</tr>
<tr>
<td>Cor repairs</td>
<td>200</td>
<td>2.9</td>
<td>40%</td>
<td>0.4 (\times) 2.9 = 1.18</td>
</tr>
<tr>
<td>Education, fees</td>
<td>450</td>
<td>6.6</td>
<td>25%</td>
<td>0.25 (\times) 6.6 = 1.66</td>
</tr>
<tr>
<td>Books</td>
<td>200</td>
<td>2.9</td>
<td>60%</td>
<td>0.6 (\times) 2.9 = 1.77</td>
</tr>
<tr>
<td>Personal care</td>
<td>350</td>
<td>5.1</td>
<td>20%</td>
<td>0.2 (\times) 5.1 = 1.03</td>
</tr>
<tr>
<td>Electricity, water</td>
<td>180</td>
<td>2.4</td>
<td>10%</td>
<td>0.1 (\times) 2.4 = 0.265</td>
</tr>
<tr>
<td>Clothes, footwear</td>
<td>350</td>
<td>5.1</td>
<td>30%</td>
<td>0.3 (\times) 5.1 = 1.55</td>
</tr>
</tbody>
</table>

Total monthly ex    | R6 780                | 100.0%              |                  | 34.645%                                |

CPI diversion as follows

Let us assume you wish to find the difference in heights between your two sons. One method is to measure the height of each separately, and then to subtract these figures. Another, and more accurate procedure, is to place your sons back to back and to obtain the difference in height directly from the top of the one head to the top of the other. For example measurement reasons this direct-difference method is the more accurate in actual practice.

This is precisely what I have done in obtaining the inflation rate figure. This inflation rate is mathematically defined to be the difference in the CPI's one year apart. Instead of then calculating those individual CPI figures and then only subtracting those values to the procedure of subtraction, I have proceeded to the subtraction directly by using the figures for the annual increases experienced in each item of expenditure directly.

Conclusions

I request that each family which has calculated its own inflation rate please to send the final outcome to the Saturday Star. Only mathematical details of total monthly expenditure and weighting factors need be included.

This will then provide a vital service to those, such as myself, who are committed to disproving the ruling Central Statistical Services figure of some 14 percent.

Of particular interest are the inflation rate figures of groups other than the white families I have analysed to date. I have adopted the latter approach merely because of a lack of experimental data for the remaining groups. I hope this article will enable me to cure this lack.

Comments

I have not mentioned the phrase Consumer Price Index once throughout the whole procedure involved in arriving at the inflation rate of 34.645% for our family shown. Conventionally this calculation makes mention and use of nothing but this CPI concept. How have I then achieved my aim in the method shown?

Let me hasten to assure the reader that what I have done is completely correct. mathematically I have eliminated the unnecessary and complicated

Wealth Creator Plan
'NEED FOR INVESTMENT SELECTIVITY'

PROSPECTS of stagflation in the economy, over the next 12 to 18 months increase the need for selectivity in equity investment, says the portfolio manager of Syfrets' two growth trusts, Anthony Gibson, in his June quarter report.

The SA economy could, as a result of foreign exchange problems as well as lower international economic growth, go through a period of stagflation with little or no economic growth and stubbornly high inflation.

The fall in the gold price, coupled with the drain on our foreign reserves through foreign disinvestment and foreign debt repayment, and our need to import plant and machinery and consumer goods has resulted in the current high interest rates and the authorities' struggle to cool the economic growth rate to a level which these constraints will permit.

"SA is highly unlikely to be rescued from this difficult scenario by any significant rise in the gold price, as long as leading world economies continue their cycles of lower economic growth and deflation, and international stability prevails."

Syfrets Growth Fund maintained a nearly fully invested position during the June quarter. The net inflow of R7.1m was used to increase existing holdings with the introduction of Berzack Brothers Holdings. At June 30 the cash holding represented 11% of the portfolio.

Unit holders have received a total return of 33.4% over the 12 months ended June. Income distribution for the past quarter is 1,74c a unit, which gives a total income distribution of 5,74c a unit for the past 12 months, a 10% increase over the previous comparable period.

The Syfrets Income Fund has over 16,000 investors representing R34,6m.
Get something solid for your money

WHAT would you do with R100 000? Pay off your bond, buy a small plot at Magaliesburg, fill up with petrol, get a new set of farm gates or have a tea party?

Inflation has hit the South African currency pretty badly, but the news recently that a tea party for all the President’s women had cost the defence ministry R100 000 came as something of a shock. Was General Goldenhuys milked? You could throw a lunch, at least, for that price.

Gary Player was paid R100 000 for a hole-in-one not along ago and when his wife, Vivienne, was asked what she would like to buy with the pin money, she said “farm gates”.

Getting back to property and the value of the rand, there appears to be no better investment in South Africa than bricks and mortar. At least you are receiving something concrete for your money.

If you already own a home there is nothing wrong with buying another or putting money into commercial or industrial buildings.

There is no fixed deposit that will give you a real return against inflation at even 15 percent and the funds say that our rate is far higher than that.

Nest eggs are for the birds. The Receiver of Revenue will take a large slice of any interest paid by a financial institution and, unless you take your chances with the stock exchange, there are few worthwhile investments for the ordinary saver.

Unfortunately, inflation forces you to prepare for retirement at a young age and property — if you can afford it — offers the best hedge against this evil. Ownership offers the benefits of capital appreciation as well as an income.

Inflation has taken even some of the gilt out of golden handshakes, but none of the steam from the gravy train which still calls in at all government stations en route to retirement.

We all know the R5 note does not last long and the Reserve Bank is coming it with the new R5 piece.
Signs point to higher inflation

Finance Staff
Inflation is heading for a peak of 17.5 percent later this year, economists say after the release of the producer price index (PPI) figures.
Central Statistical Services (CSS) said yesterday the PPI rose 1.5 percent in May, equal to an annualised rate of 15.8 percent.
Main contributor to the large increase was the jump of 31 percent in the price of petroleum products, mostly diesel, petrol and coal.
But large increases were noted in meat (5.4 percent) and metal products (4.7 percent).

GOODS
The PPI reflects the price of raw materials used in the production of goods, but excludes the cost of services and GST.
It is generally considered a reliable guide to movements in the consumer price index (CPI), albeit with a time-lag of two to three months.
Economists believe that after the rise in the PPI, the upward movement in the inflation rate will be irreversible for at least the rest of the year.
The consensus is that as the PPI will be reflected in the CPI, it is inevitable that the inflation rate, indicated by the CPI, will show a corresponding increase which could touch 17.5 percent by the end of the year.
Norton pleas for real interest rates

By Frank Jean

A much healthier economic climate is on the horizon and “less politicised interest rate patterns” can be expected.

Tony Norton, president of the Johannesburg Stock Exchange, has little doubt that Minister of Finance Barend du Plessis and the Governor-elect of the Reserve Bank, Dr Chris Stals, are more objective in economic strategy than the policies of the day would indicate.

Speaking at a Property Writers Club lunch in Johannesburg yesterday, organised by architectural firm Steckie Harrison and Partners of Sandton, Mr Norton said “There is no substitute for good politics and good economics.”

“People are now revolting over the confusion in rates patterns, tax laws and inflation, but I believe the new leadership will create new opportunities.”

He saw the abolition of prescribed assets requirement as a landmark for South Africa and said it was certain there would be better fiscal and monetary policy co-ordination, which must eventually result in greater acceptance of real interest rates.

“We can therefore expect shorter-term interest rate patterns to fluctuate less widely than before, but above an axis higher than inflation,” he said.

“At the same time, the long bond market could well move shorter in average life and demonstrate similar but obviously smoother tendencies.”

“This does not mean that in future interest rates will not temporarily fall below inflation. But this will, over time, be more than corrected by extended periods of real rates.”

On the downside, Mr Norton referred to the disturbing drop in the productivity of capital because of relatively cheap loan capital — and “thus, in a society with an unemployment problem of serious and growing proportions.”

Referring to government intervention in the economy, the JSE president said “Just as government distorted the cost of long-term capital, so too there was an unacceptable mix of trying to use monetary policy to do too much white, at the same time, unduly politicising short-term interest rate patterns.”
Economists warn on further rise in price of petrol

By MALCOLM FRIED

ECONOMISTS and industrialists have warned that the pending petrol price rise will drive up the inflation rate, boost prices across the board and further weaken the economy.

The Minister of Mineral and Energy Affairs, Mr Danie Steyn, said this week that a price hike was imminent.

National Energy Council data show that at least 12c a litre extra will be needed to offset government subsidies from the equalisation fund, as the cost of petrol continues to be inflated by the drop in the rand's value.

South Africa has absorbed three price increases in the past nine months, the last in April.

A litre of petrol now costs up to R1.12 and a 10% price increase will mean a 0.6% rise in the inflation figure - running at more than 15% - according to economists.

"As the new price works its way through the economy, every sector will be hit," said Dr Ockie Stuart of the Stellenbosch Bureau for Economic Research yesterday.

Professor Brian Kantor, of UCT's school of economics, agreed with the estimated effect on inflation.

"Another point is that petrol actually costs far less than we pay - there is tax, the equalisation fund and other hidden costs."

He suggested the government cut its revenue taken from petrol to lessen the impact of the weaker rand.

The director of the Cape Chamber of Industries, Mr Colin McCarthy, was "deeply disappointed" with the announcement of a pending price rise.

"This is going to have a major impact on the cost of living index and will cascade over into every facet of the economy."

Retailers believed distributors would have to raise their prices through higher transport costs and these higher prices would eventually be passed on to consumers.

The managing director of OK Bazaars, Mr Gordon Hood, said an exacerbating factor was that such costs were passed on without adding value to services.
Rise ‘will push inflation up to 18 percent’

Fuel’s upward spiral condemned

By Sue Valentine

Consumer organisations have slammed the petrol price increase announced on Wednesday by the National Energy Council, which will raise the cost by 6c a litre.

The increase is the third this year.

In the PWV area 87 octane petrol will cost R1.15 a litre, while 93 octane will cost R1.18.

At the coast, 93 octane will cost R1.09, and 97 octane R1.12.

Diesel at the coast will be R1.04, and R1.11 in the PWV.

Preliminary calculations by the Federated Chamber of Industries and the Steel and Engineering Industries Federation of South Africa suggested the increase would raise the Consumer Price Index by 0.4 percent, but the indirect impact would make itself felt only in coming months.

NEC chief executive Mr Lourens van den Berg said the average exchange rate of the rand to the US dollar in June this year was R2.79 to one dollar, making the deficit on petrol more than 12c a litre.

Democratic Party

Democratic Party MP for Gardens Mr Ken Andrew said the present and recent increases were a direct result of the collapsing value of the rand, rampant inflation and excessive taxation on petrol.

"The tragedy is that most of these price increases would not be necessary if it were not for the gross mismanagement of our economy by Government."

Conservative Party spokesman on economic affairs and technology Mr Clive Derby-Lewis said the 44 percent increase in the petrol price in less than a year was an admission of defeat by the National Party — the type of gross inefficiency which would bring a government down in any civilised country.

Automobile Association managing director Mr Peter Elliott said the under-recovery on the fuel price arising from the deteriorating exchange rate was a factor no one had control over and the organisations supported the decision to impose smaller price increases when necessary.

Inflation rate

Checkers group managing director Mr Sergio Martinengo said the price rise would push the inflation rate up to about 18 percent.

OK Bazaar managing director Mr Gordon Hood said fuel price increases always had an inflationary effect as the costs had to be passed on to the consumer.

Dawn Barkhuizen reports that the Housewives League of South Africa slammed the latest petrol price rise, saying it was "disgraceful" that South Africans had to suffer increases while people in Europe enjoyed reduced fuel prices due to lower crude oil prices.

The Federated Chamber of Industries and the Steel and Engineering Industries Federation of South Africa said they were encouraged by the fact that the increase had been kept to 6c a litre.

They said the price of crude oil on international markets had increased since the beginning of September 1986 by approximately 30 percent.

Over the same period, the price of 93 octane petrol on the Witwatersrand had increased by over 24 percent, if tonight's increase was included.

Rhodes gets a woman professor

Religion Reporter

Dr Felicity Edwards, a senior lecturer in the faculty of divinity at Rhodes University, Grahamstown, has been promoted to associate professor, becoming the first woman professor in divinity in South Africa.

The faculty of divinity at Rhodes is the only official university training centre in South Africa for the ministry in the Anglican, Methodist, Presbyterian and Congregational churches.

Dr Edwards' appointment is therefore a major development in South African theology.
Import costs ‘to fuel inflation’

RISING inflation due largely to higher import costs could cut deeply into real living standards later this year and in 1995, much as it did in 1985 says Southern Life economist Mike Daly.

He said the high rate of real monetary growth, far in excess of what is required to support real growth in gross domestic expenditure (GDE), could power this inflation.

M3 has continued to grow at rates above 24% for the past 12 months to May 94, Daly in his latest economic review. It is this excess money which tends to flow out through the balance of payments and is reflected in acute exchange rate weakness and loss of reserves.

The rand has lost 15% against the dollar and is about 10% weaker in terms of the cost of a currency basket for the first half of the year.

This weak external value of the rand and gradually rising inflation among SA’s trading partners could keep the cost of imported goods rising strongly over the next few months, Daly said.

During the two previous import inflation peaks in this decade, world inflation has either been low or declining, thus tending to bring down the rate for imported goods.
Inflation points to colour TV costing R8 000 next decade

By Michael Chester

Prices of colour TV sets will soar as high as R8 000 inside the next 10 years if double-digit inflation trends stay on their present course.

Only five years from now, even a small black-and-white set will cost about R1 700.

HOLOGRAMS

The estimates were quoted by Mr Raymond Parsons, chief executive of the Association of Chambers of Commerce and Industry, when he opened the 1989 Consumer Electronics Trade Show in Johannesburg.

He said a major challenge facing the electronics sector households now had TV sets installed, with 2.2 million sets sold since television start in South Africa in 1975.

Yet while the white market was near saturation point, the number of black homes with TV was still only about 25 percent.

South African manufacturers still had a long way to go with overall penetration of the home market and also had huge opportunities to export monochrome sets still in demand in most poorer countries.

But the electronics industry, and indeed the entire business community, also needed to tackle the problems caused by inflation.

Though profit margins had been squeezed as a result of fierce competition, the pricing policies of suppliers and retailers remained under suspicion.

Because the businessman was the messenger of all the bad news on prices, he got all the blame for price increases, even though he was a victim of inflation, too.

CUSTOMER HOSTILITY

The hostility of customers towards higher prices was a problem the whole consumer electronics industry would have to address.

The solution was in collective action, not only on inflation, but also on such issues as import surcharges, taxation and industrial strategy.
Gold industry in vicious circle

The gold industry is caught in a vicious circle of stagnant rand gold prices and rising inflation, which has locked many mines into dependence on an ever-weakening rand.

Economists warn that SA finds itself in a similar position to that of the late 1960s, when miners’ rising working costs threatened to overtake the artificially fixed gold prices of the period.

At the same time, many South African mines faced the prospect of closure. Their rescue came in the form of subsequent liberalisation of gold markets, which allowed the price to rise above the artificially low $35 an ounce.

Today, many mines face the same crisis — in dollar terms, gold has been in a steady decline for the past 19 months, and officials remain pessimistic about its short-term to medium-term outlook.

Over the same 19 months, marginal mines have been rescued more than once by a weakening rand, which fell in response both to gold’s dollar decline and to political pressure, economists say.

The weaker rand has maintained mining income in rand terms, but brought with it rising inflation. Increased inflation has inevitably translated into higher working costs, so reducing the marginal mines bolstered by a weaker rand.

Economists have forecast an effective inflation rate of 17% by the end of this year, and warn it will probably rise to about 20% in 1980. The implications for gold mining are disturbing.

Working costs have been rising at 20% to 25% a year, and without a marked improvement in the dollar price, many mines will join the ranks of the marginal by next year.

The metal recently recovered some of the ground it lost earlier in June, when prices plunged to a three-year low of $355.50, but analysts say this does not mark the beginning of a prolonged upswing.

Technical analysis shows the price would have to climb well above $390 and stay there for about six weeks to mark an extended break-out of the decline, says one.

Gold industry officials this week also said they were not convinced the dollar gold price had bottomed out.

Andrew Budden
No end in sight to the galloping inflation rate.
Higher petrol price still to have an effect

CPI rises by 15.7% to 18-month high

By AUDREY D'ANGELO
Financial Editor

THE consumer price index (CPI) rose by 15.7% in the year to June 30 — the highest level for 18 months — after a jump to 14.9% in the year to May. The month-on-month increase was 1.4%.

The rise did not surprise economists, who say they expect it to accelerate in the last half of the year, to pass 17%. They pointed out last night that this month's rise in the petrol price, and the weaker rand, still had to affect the CPI.

Figures released by the Central Statistical Services (CSS) yesterday showed that the food only index rose to 186.1% from 186.5% in May and 169.2% in June. This means that the month-on-month rise in the food only index is 2%.

The CSS says 80% of the increase in the CPI was due to rises in the price of vegetables and fruit, housing (increases in bond rates), furniture and equipment, household running costs, medical care and health services and personal care.

Ockie Stuart, director of the Stellenbosch Bureau for Economic Research, said the rise in the CPI was "a little bit higher than I expected."

He thought the CPI would "possibly be above 17% by year end. And next year will be a very difficult year."

Alette de Vries, professor of economics at Stellenbosch Graduate School of Business, said he thought the CPI would reach 17.5% by the end of this year "and it will probably remain high for two or three months."

He pointed out "Given the depreciation of the rand, and the fact that higher food prices are beginning to come through, this type of acceleration in the cost of living is to be expected."

"It is likely to accelerate further in the months ahead and my feeling is that it will do so sharply," said Volkskas Bank economist Adam Jacob. He said he expected the CPI to be "between 17% and 18% by year end."

He added "It should come down slightly next year. But we can't expect single digit inflation for the next two or three years."

"That means it will remain high relative to the inflation rates of our major trading partners. The rand exchange rate will remain under pressure, leading inflation."

"It will be hard for SA to bring down its inflation rate, just as it is hard for an individual with financial troubles to get out of them."
No let up in high inflation rate

Figures released by the Reserve Bank yesterday showed that the broad money supply measure, M3, was rising at 24.68 percent in June, substantially above the targets set by the bank earlier in the year.

A third major impetus on consumer prices is coming from the rising money supply which the Government is allowing to persist.
Inflation rate
‘will hit 17.5%’

By MALCOLM FRIED

The inflation rate, rising steadily, will hit 17.5% by the end of the year — and government spending is a prime cause, say economists.

A statement by Deputy Minister of Finance Dr Owg Marais this week that there were signs inflation could have reached its peak at its present 15.7%, was yesterday dismissed as completely inaccurate by academics and bankers.

Used up more

The petrol price rise, the weak rand, a steady demand for credit and, particularly, untamed government expenditure would be working their way through the economy for some time, said the economists, and inflation would not peak before next year.

Government finance statistics show that the state has used up more of its budget this year than it had by the same time last year.

The economists also warned that South Africa would have to curb inflation to regain a stable position in world trading.

Experts blame govt spending

Dr Marais had reasoned that forecasts for good crops, a drop in interest rates and the effects of the government’s steps to cool the economy would soon have a positive impact.

But Assocom statistician Mr Ed Verburg did not expect a change in interest rates before next January. He said crop forecasts were too tentative and noted that the economy was still experiencing a demand for credit.

Mr Verburg cited official expenditure as the main cause for concern: “I think it’s gone too high and, if civil servants get what they want, could rise even more.”

Inflation had been going up strongly and “a figure of 17.5% is predicted for the year-end.”

Volkas economist Mr At Engelbrecht said bank projections showed a year-end rate of 17% to 17.5%.

“Of course, there are many reasons, but I’m also very worried about increasing government expenditure.”

The Stellenbosch Bureau for Economic Research believed the prime rate would remain unchanged until at least December, said Dr Ockie Stuart.

Keen demand

“And the economy will be feeling the effects of petrol-induced price increases and the unstable rand for many months.”

He said that the latest money supply figures, indicating a still fairly keen demand for credit, showed that government efforts to slow down the economy were taking a long time to bite.

“A lot has to happen before the economy turns.”
Don't be silly, Dilley, say Weil and Ackerman

Staff Reporter

LEADING retailers this week rebutted claims by Nationalist candidate for Simon's Town Mr Harry Dilley that supermarket "monopolies" were responsible for profiteering at the expense of consumers.

Mr Dilley, the NP MP for Simon's Town, said earlier this week at a meeting in Kommetjie that petrol price rises did not push up the price of food. He added "Ask Mr Raymond Ackerman who is a super-retailer."

Consumers were being hammered because of the monopoly among food suppliers and the big companies were making astronomical profits — but the government was being blamed, he said.

"That is nonsense because the government has not got a lot to do with the price of food," Mr Dilley said.

Approached for comment, Pick 'n Pay chairman Mr Raymond Ackerman said he agreed with Mr Dilley that the price of food was rising. A recent survey found staple food prices had risen 12%-13% from last year.

"But examples of where the government is at fault include the allocation of licences to sell wine, bake bread and sell petrol," he said.

Illustrating this, he said Pick 'n Pay had only 36 wine licences for its 108 stores, would "love to bake bread" and could "immediately" sell petrol between four and five cents cheaper than the fixed price.

"I urge the government to take the lead in implementing privatization and deregulation, and to be much stricter towards monopolies," he said.

And chairman of the Checkers chainstore group Mr Clive Weil said yesterday while it "did not help to point fingers at any one person" the government could not claim to be blameless in its contribution to inflation, price rises and concentration of economic activity.

"We are all responsible for inflation, but it's not fair to say supermarkets are making excessive profits. Checkers, for example, is making slightly less than 1% on pre-tax turnover. It does not help to be simplistic," he said.

Inflation was a reflection of the country's poor political image which, in turn, influenced the value of the rand and the gold price.

Likewise, low productivity was a function of inferior education.

Referring to Mr Dilley's remarks about the influence that petrol price increases had on the cost of food, Mr Ackerman said:

"The man in the street is being hammered by the petrol price, which does marginally bring up the price of food."
Botha's baby

South Africans, who have seen the official inflation rate remain stubbornly in double digits since 1974, must have been surprised to hear that State President P W Botha has been cast in the role of the country's economic saviour by Budget Minister Kent Durr. Durr told the Cape NP congress at the weekend that Botha had rescued the country from hyper-inflation.

There is much evidence to suggest the contrary.

The latest Reserve Bank Quarterly Bulletin shows:

- Government departmental Exchequer issues rose from 22% of GDP in the fiscal year ending March 1982 to 27.4% in 1989 — and in the first quarter of the 1989 fiscal year it went to 32.8%.
- Growth in the broad money supply aggregate M3 rose from 13.4% in 1982 to 27.6% in 1988 — and remains at 26.6% in the first quarter, and
- The consumer price index went from 59.8 in 1981 to 155.4 in 1988 — and reached 172.6 by April to rise to 177.7 in June according to Central Statistical Service figures released this week (see P39).

The sequence of events is clear, as is the role of politically malleable interest rates. As Reserve Bank Governor Gerhard de Kock pointed out in May last year, real interest rates have been abnormally low in SA in most years since the early Seventies with the exception of the 18 months between late 1983 and early 1985.

"Prime overdraft rates of the commercial banks and the home mortgage rate of the building societies have actually been negative in real terms in eight of the past 16 years," he said, while the commercial banks' 12-month deposit rate was negative in 11 years.

Whatever the external factors that may or may not have contributed to inflation, there is no doubt that all these factors were under the control of the head of government in the period.

That SA does not have hyper-inflation is due to the untiring efforts of governor De Kock to introduce the concept of fiscal restraint to Cabinet ministers and positive real interest rates to South Africans and their parliamentary representatives.

And we haven't even mentioned what happened after the Rubicon speech.
INFLATION

One swallow?

June's 0.2% increase in the US rate of inflation, after a 0.6% increase in May, could be a sign that the success story of the decade will have a happy ending.

For some time, it has seemed likely inflationary impulses would put an end to the period of high growth and low inflation which started in 1982-1983. And this remains very much on the cards. The US seasonally adjusted year-on-year inflation rate of 5.9% in June, is still accelerating. As reported to the IMF, annual inflation in the five previous months was 5.4%, 5.1%, 5%, 4.8% and 4.7%.

The continuing strength of world-wide inflationary forces is also reflected in IMF figures published this month. They show that, year-on-year, the world's consumer price index rose 14.8% in December 1988, 14.7% in January 1989, and 14.8% in February: latest figure available.

Because of their relatively high weighting in the index, the world's 21 largest industrial economies provided much of the impetus. After reaching a low of 2.3% year-on-year in 1986, average inflation of these countries was 2.9% in 1987 and 3.3% in 1988. In December 1988, the year-on-year increase was 3.3%, in January 3.9% and in February 4.1%. The world trend will continue up for a while is ensured by figures available for most of the industrial countries for March and April. These averaged 4.2% and 4.6%.

Countries, apart from the US, for which May figures are published are:
- Germany, 2.6% in January to 3.1%,
- Iceland, 18.3% to 22.3%, and
- Sweden, where inflation is down to 6.5% from 6.6%.

Prices in developing countries, where inflation rose from 26.8% in 1986, to 35.7% in 1987 and 57.9% in 1988, have been erratic in recent months. From 64.7% in December, average inflation in these developing countries which have reported, declined to 62.9% and 62.6% in the two months following. Much of this was due to the contribution of Asia which saw inflation fall from 11.6% in each of the last three months of 1988 to 5% in January before rising to 5.3% in February.

No average figure is available for Europe's developing countries this year. Last quarter of 1988, however, produced an inflation rate of 70.4%. Biggest contribution came from Yugoslavia which, in that quarter, saw prices rise 228.4%. The country's inflation is accelerating in December, January and February: it reached 240.5%, 276.4% and 327.9%.

The world's basket case, of course, is Nicaragua (in the category Western Hemisphere). Latest available figure remains that of December, when the annual inflation rate stood at 23,997.4%. The country's performance is a frightening example of the snowballing effect of hyperinflation. From 3.5% in 1985, it rose to 681.4% in 1986, 911.9% in 1987, and 10,205% in 1988.

Some relief was experienced by Brazil (Western Hemisphere), which has the world's second highest inflation rate. This fell from a peak of 1,170.2% in January, to 1,181.3% in February, 984.4% in March and 554.5% in April.

To put the current position in perspective, one must go back to the last decade when, in the aftermath of massive increases in the oil price, international inflation reached a peak of 15% in 1974 and 15.1%-15.2% in 1979/1980. The implementation of positive real interest rates from the start of the Eighties in most of the world's major industrial economies and in some of the developing ones (see "Development Link") accompanied by lower oil prices, put a stop to price surges that threatened the world's currencies.

But, having rescued the world from the ravages of inflation in the first half of the Eighties, policymakers failed the crucial test of keeping prices stable and low. World inflation bottomed in 1986 at 7.2% (the lowest rate of inflation for 14 years) and has been edging up ever since.

Fears are that, though still relatively low, inflation will soon be moving too swiftly to control with anything other than draconian rates of interest which will trigger a dreaded hard landing.

But if inflationary forces at work in the US have been contained by the series of interest rate increases (to a peak of 11.5% in the base rate between February and June), the next decade may see monetary policy continuing to triumph in the battle to keep price movements under control.

Whether the June CPI figure in the US, which indicates inflation is on the retreat, proves to be the first sign of summer remains to be seen. It may well be the one swallow that doesn't make a summer.

What is certain is that, if inflation is to be kept under control, policymakers can't afford to relax their vigilance. Their actions in the closing months of the decade will determine the strength of long-term growth in the Nineties.
Overdrive

Driving inflation to heights last seen in August 1987 is the cost of transport, which rose 24.1% in June compared to the same month a year ago. Transport costs were driven upwards by exorbitant rises in prices of vehicles (29.2%) and running costs (28.3%). However, these excessive rises were neutralised somewhat by the relatively slower rise in the cost of public and hired transport (9.1%).

FINANCIAL MAIL JULY 28 1987

Soaring upwards

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MAMJ JASON DMJF MAMJ
1988 Source: CSIR 1989

June’s inflation rate, as measured by the year-on-year increase in the consumer price index (CPI), rose from 14.9% in May to 15.7%. Further annual uptakes may be less sharp for technical reasons. Month-on-month increases in the second half of last year were higher, averaging about 1.2% compared to a May-June increase of only 0.4%. This means year-on-year figures in the second half of 1989 will be off a higher base.

However, the annualised rate of increase for the past three months is around 16.9%

The CPI rose to 177.7 (1985=100), a seasonally adjusted increase of 1.4% compared to May — slightly lower than May’s 2% rise on the previous month.

But where to from here? Will we see inflation galloping on uncontrollably or can the reins be pulled in time?

Trust Bank economist Nick Barnardt believes the rand’s recent relative stability against non-dollar currencies in the first half of this year will keep SA’s inflation rate from reaching the 20.6% peak of January 1986. Sharp decreases in the value of the rand against all major currencies last year helped push the inflation rate upwards in 1989 but recent relative stability is expected to keep inflation close to 16% until February next year, he says. But only if VAT isn’t introduced at a high rate to accommodate excessive government spending.

“The exchange rate is the best indicator of where inflation is going because it’s the fundamental barometer of domestic spending and tells us if this exceeds the country’s financial resources,” says Barnardt.

However, Econometrics economist Azar Jammim isn’t as optimistic. He believes damage already done by a sustained period of excessive credit growth from 1987 to the present, coupled with ongoing higher levels of government spending, has condemned SA to an increasing inflation rate for longer than is generally anticipated. “It could possibly hit 20%,” Jammim says. “The effects of money supply growth take two years to filter out of the inflation rate.”

Other components contributing to upward inflation in June were the cost of education (20.2% up) and reading matter (20.7%). And having a roof over one’s head was 15.4% more expensive — the result of steep bond rate increases in the past 12 months.

Food costs rose a more moderate 11.2%, pushed up by a 23% rise in fruit and nuts. Alcoholic drinks rose 22%, cigarettes, cigars and tobacco 21.4% and coffee, tea and cocoa 22.5%.

The last time annual inflation was over 15% was in November 1987 on its downward path from the January 1986 high of 20.6%. And once again transport costs made the major contribution — soaring by 37.3%, while housing rose 13.5% and food 18%.

Low transport costs helped produce the lowest inflation rate (10.1%) in recent years in February 1984. They rose only 5.4% while housing rose 17.4% and food 9%.

Inflation last dropped to single digits for four months in 1978. But to experience what most Western and other developed nations have mastered — average annual single-digit inflation — one would have to go back to 1973 when it stood at 9.6%.
MONEY SUPPLY

Tidal wave of inflation

Nothing seems to work for a Reserve Bank trying to clamp down on the money supply. Not higher money growth targets to make it easier to hit the mark, not higher nominal interest rates to dampen the demand for money.

In June, the money supply again exceeded the Bank's wildly liberal target of 14%-18% growth. And for May the Bank revised its figures upward, meaning that the Bank missed its target after first believing it had scored a hit. In fact, the Bank has overshot its own target every month this year except January and April, after missing nearly every month last year.

More disconcerting than Pretoria's inability to control the amount of money it prints is the vast inflation already unleashed that will surge through the economy over the next two years. Even if the Bank slammed the door shut on money creation tomorrow, inflation-weary shoppers are condemned to spiralling prices until at least mid-1991.

That's because it takes about 21 months for changes in the seasonally adjusted M3 measure — the broadest measure of money and the one the Bank targets — to show up in the consumer price index (CPI). And the increases built into the economy now are enormous. M3 rose 24.56% last month over June of last year. But the June figure was slightly lower than May's year-on-year increase of 24.66% and continued a four-month gradual reduction in the year-on-year growth rate. As recently as February the year-on-year growth was 27.35%, just below the recent peak rate of 27.85% last August.

Money supply growth like this, even if it's slipping a bit, means inflation could reach 22% next year, "certainly over 20% for a period of perhaps three to six months," says economist Tony Twine of Econometrix. With June's year-on-year increase in CPI only 15.7% (see "Overdrive"), inflation will be soaring in the months ahead.

But the inflation rate probably won't reach the peak rate of growth in the money supply. The difference, perhaps five percentage points or so, is the rate of real economic growth, about 2%-3% annually, plus the effects of the changing levels of imports and exports and the decisions Pretoria makes on the prices it sets for petrol, maize and other products, Twine says. "It's not a pure one-to-one relationship."

One month's figures can be misleading and are almost always revised, but the disappointing June numbers, 2.7% growth in M3 from May to June alone — postpone the day when inflation is reined in.

It's a lesson the major industrialised countries have learnt. Only Australia and the UK have money growth rates approaching SA's; the other countries have rates at half SA's or lower, with Belgium's the lowest at 3.9%. And all these countries have inflation rates in single digits. In SA, even meeting the bank's 14%-18% target will not mean a return to the single-digit inflation not enjoyed since 1973 "unless real growth is 9%-10% and that's unlikely," Twine says.

What can the Bank do? Without dramatic cuts in government spending, there's no weapon in the Bank's arsenal except raising interest rates again. With the prime rate already at 20% and an election six weeks away, this is unlikely. Twine doesn't believe a one- or two-point rise would tighten the money supply much anyway.

"If they decide to raise it, it would only punish homeowners without stopping the real demand for credit. They'd have to raise rates to 25% to cut the demand but that would kill the economy stone dead, as in late 1984 when prime went to 25%".

Twine surmises that the 6.9% year-on-year jump in real wholesale trade in June helps explain why the money supply continued to spurt last month. "People saw the rand dropping against the dollar and that had a huge psychological effect. So people got ahead of the expected price increases and bought things they probably would've bought later in the year."

June figures reported this week are:

- Seasonally adjusted M3 rose to R139.5bn, exceeding the upper limit of the
Tighten belts for all as curbs fail

By Ian Smith

EMERGENCY measures to cut the economy's "tem- porarily" earlier this year look set to remain in force — probably well into 1999.

Inflation is rampant, accelerating to 10% from May's 14.5%, and it is likely to hit 20% before the year-end.

Sun International, the company that owns Namibia's leading hotel, has been forced to implement cost-cutting measures.

The Namibian dollar is still trading at a discount against the US dollar, and Namibia's current account deficit is estimated at 15% of GDP.

"The economy is in a state of crisis," said Mr. Heisen, the chief executive of Sun International.

Opportunities

"We aim to make the Kalahari Sands a hotel that all the people of Namibia can be proud of," he said.

"Our long-term strategy is to become one of Africa's major tourism destinations.

"We also envisage Windhoek becoming an important regional capital and we will cater for the needs of the business and diplomatic community who travel there."

Ben Heisen, the chairman of Sun International, said the hotel's new facilities would be completed by December.

"The hotel will provide a much-needed boost to the local economy," he said.

Loan levy loophole for some companies

Business Times Reporter

COMPANIES and close corporations may still challenge their liability to pay loan levies — due tomorrow — if they believe they can claim a deduction on normal tax assessments.

Ben Rakine, a partner in Chartered Accountants Alten & Partners, says companies must be sure that the tax rate they are applying to or appealing against was applied and posted by the Receiver of Revenue before July 15.

A company must have a "reasonable prospect of success" before the taxman will consider allowing the loan levy to be based on a lower assessment.

Mr. Rakine says the possibility of relief is in cases where a company received an assessment which showed the Receiver had "adjudged back" a large sum, which had been assessed against the company in the previous year.

Rakine says the Receiver is "open to question. But before the Receiver would agree to the appeal, he would have to be satisfied that the company has a valid claim to a loan levy."

Danger

Standard Bank economist Nick Close predicts banks will also be affected by the new loan levy.

"The banks are currently in a state of panic," he said. "They are trying to raise as much money as possible to meet the new loan levy.

"This is a big challenge for the banks, but they will have to find a way to raise the money."

Thousands of trade unions will meet next month to protest against the Labour Relations Act.

"Go in shop" at the Cosatu national conference this month called for a vote of no confidence in the new Labour Relations Act, which was enacted in April.

"We want the act to be repealed," said Cosatu general secretary Ahmed Kathrada.

Underlined

In rand terms export fell by 1.6% in the first five months of the year compared with the same period last year.

"This is a sign of the economy's malaise," said Mr. Motseh.
Inflation: Aid for elderly

By TOM HOOD
Business Editor

INFLATION running at the current rate of 15 percent halves the value of money every five years with serious implications for senior citizens, says Mrs Shereen Walbeck, who is co-ordinating an Old Mutual programme to help the elderly fight inflation.

A rand in 1979 bought two litres of milk, three loaves of bread and a packet of cigarettes, she has calculated.

Today a rand buys a quarter litre of milk, a quarter loaf of bread and two cigarettes.

The company today launched a R1-million information programme to help senior citizens.
Inflation will simply continue to spiral

While the deputy finance minister claims the inflation level will drop from its 14,9 percent peak, the reality is that the inflation rate is likely to exceed 17 percent by December.

By KURT JENSEN

WHEN the Central Statistical Services announced recently that the inflation rate in June had soared to 13,7 percent, from 14,9 percent in May, deputy minister of finance Dr Org Marais commented that inflation had peaked.

Known for his controversial economic statements — Marais recently said South African whites were better off than they were 20 years ago — he was once again alone in his judgement.

Opposition spokesmen and representatives of both black and white consumer bodies described his claim as a farce and added that the “real” inflation rate was probably closer to 20 percent.

Certainly the underlying economic fundamentals do not justify Marais’ forecast.

Inflation, as measured by increases in the consumer price index has risen ever since it touched a low of 12,3 percent eight months ago.

As the South African economy is not characterised at present by excessive demand for goods and services, the current sharp rise in the CPI is largely caused by cost-push inflation. In other words, price increases of inputs on the supply side of the economy, like indirect taxation, high salaries and wages and the rising costs of imported products because of the weaker rand.

Simple statistical calculations confirm that this trend is likely to continue and push inflation to even higher levels by the end of the year.

For example, if the monthly increases in the CPI continue at the rate evident during the first six months of the year, inflation will equal 18 percent by year-end.

In a recent report, Sebnbank economist Emile van Zyl also points out that the increase in general sales tax from 12 to 13 percent implies a monthly rise of 0,9 percent in the price of goods and services taxable under GST. More than half of the goods and services in the CPI are taxable which means that increases in GST have a significant impact on it.

Van Zyl adds:

“Much more telling is his analysis of the three components which make up almost two-thirds of the CPI, namely food, with a weighting of 22,7 percent, housing (21,2 percent) and transport (17,3 percent).

The annual increase in the CPI for housing was 15,4 percent in June this year. Taking into account that interest rates represent 44,6 percent of the housing component, it is inevitable that the recent increases in mortgage bond costs will have a negative impact on inflation.

The annual increase in the CPI for housing was 15,4 percent in June this year. Taking into account that interest rates represent 44,6 percent of the housing component, it is inevitable that the recent increases in mortgage bond costs will have a negative impact on inflation.

Sebnbank’s Van Zyl says this trend is likely to continue. “It can be assumed that the rand will weaken further against major currencies and that the authorities may introduce further import control measures to protect South Africa’s foreign exchange — all factors that make imports expensive and therefore contribute to inflation.”

Org Marais, in justifying his claim that inflation had reached its peak, pinned his hopes on the steps the government had taken to “cool the economy.”

But as Old Mutual’s economist Dave Moir points out in the life assurer’s latest Economic Monitor:

“The tighter monetary and fiscal policy is unlikely to exert a positive influence on the inflation rate in the short run.

“The restrictive policies followed by the authorities are mostly market-related and influence economic activity via the route of higher prices, for example the lower currency, higher mortgage rates and increased indirect taxes.

“These measures, designed to deflate effective demand and encourage switching of consumption to local goods away from imported goods, should contribute to the cooling down of the economy but with the normal lags involved, and in the interim will raise the inflation rate,” Moir comments.

Given this set of circumstances most economists predict that consumer prices will continue to rise over the next few months and anticipate that the inflation rate will exceed 17 percent by the end of the year.
Set vote over negative stable interest rates
Inflation runs riot

Cost increases are occurring at a scale unknown in previous decades and the inflation outlook for SA is worsenng, says Raymond Parsons, chief executive of Melacom.

Opening the Consumer Electronics Trade Show of Southern Africa in Sandton in 1983, he said inflation eroded profit margins and made pricing policies suspect.

'This is the decade of the big squeeze on profit margins.'

The consumer electronics industry, like many others, was finding its cost structure changed beyond its control.
AID FOR SMALL TRADER

AN organisation which aims to improve the financial position of hundreds of small entrepreneurs in the townships is to be launched in Soweto today.

Organiser of the South African Small and Informal Businesses Association Mr Ntsiki Mhundu yesterday said the organisation would bring the informal sector under an umbrella that will protect their rights and shield them from harassment by local authorities.

He said the aim was to bring all spaza shops, street vendors, shoe repairers, panel beaters, dressmakers and other informal businesses under one wing.

Organisations such as the African Council of Hawkers and Informal Businesses, Get Ahead Foundation, Business Challenge, Small Business Development Corporation and chambers of commerce, have been invited to participate and give advice to the emerging black business.

He said “We want to assist in developing and stimulating a sound, efficient and balanced small business sector with the aim of maintaining it as one cornerstone of a free market economy and it is vital that its presence should be appreciated by the formal business sector.

The association will help the informal sector acquire money.”

By JOSHUA RABOROKO
World first for inflation

With SA's high inflation rate, reading the average balance sheet and income statement has become like piloting a Concord with all instruments down. Not adjusting for inflation in- evitably boosts profits artificially and this filters through into earnings, yields and the counter's rating, if it's listed.

Unless users (investors, creditors, analysts and bankers) make considerable mental adjustments to financial statements, they get anything but the truth.

This is amazing in a financial market which prides itself on being disclosure-based. There is no legal obligation on companies to disclose the impact of inflation on their accounts, though it could be argued that this is covered in the general stewardship concept of being a director or corporate officer.

The problem may be on its way out. In a world first, SA is set to have obligatory inflation accounting, within a year.

The idea has been downgraded in the West, this decade, as inflation dropped and remained low. But, with inflation now up to 8%-9% in the UK, it is resuming its deserved place "Standard setters in the UK," says Graham Terry of the SA Institute of CAs (Sacca), "are scurrying around like a nest of ants invaded by an anteater.

The winds blew stronger here. With CPI inflation of 16% (and rising), the effects become exponential in a few years. Inflation accounting will revolutionise behaviour in boardrooms across commerce and industry.

The eyes of users of financial statements will be opened wider than by any other accounting standard. And corporate raiders will have ready, accurate access to the failings of weak management. Unproductive assets will be helplessly exposed as management buyouts become more common.

Support for Exposure Draft (ED) 77 is strong. Says the JSE's Tony Norton "if ED 77 is adopted, it will probably be made compulsory for listed companies."

Inflation accounting will change the face of financial statements more significantly than any other advance in accounting standards. For a host of reasons, it is imperative that ED 77 is adopted and becomes law.

ED 77 has emerged from Sacca's Accounting Practices Committee, under Rob Barrow of Coopers & Lybrand. It is seen as the brainchild of Twinn Pharmaceuticals' Bob Garnett. Though ingenious, the ED's technical workings are anything but complicated. It addresses three main areas.

- Balance sheet. All items must be revalued, using appropriate measures for current value.
- Income Statement. ED 77 introduces the concept of comprehensive income, the "recognised change in equity during a period except for investments by owners and distributions to owners," and
- Maintenance of capital. A deduction from comprehensive income, calculated by multiplying owners' equity by the CPI, is transferred to a capital maintenance reserve. (This ensures that the purchasing power of owners' equity is maintained and dividends are not paid out of capital).

The central mechanism in computing inflation account is present value (PV). Says the ED "Present value of an asset or liability is determined by discounting estimated future cash flows using (an appropriate) rate." The PV concept is already widely used in commerce, industry and banking.

PV is ED 77's preferred treatment for all balance sheet items. Other methods of computing inflation accounts relate to market value, replacement cost, indexed historical cost and recent transaction value.

The profession has been trying for years to produce a comprehensive, meaningful standard on inflation accounting. Even today, little international guidance is available. Supplementary statements required by the US Securities & Exchange Commission, for example, are not easy to understand. SA's first attempt was made in 1978 with AC 201, Disclosure of Effects of Changing Prices. This was a complex and costly exercise. In many cases, only the negative effects of inflation were shown "AC 201's not dead, but it smells funny," says a wag.

In 1986, ED 66 on Current Value Accounting was issued. Addressing only the balance sheet, it did not find much favour, and was seen as not going far enough. Those involved in formulating ED 77 particularly Sacca and the JSE - reckon they've come up with the goods this time.

Unfortunately, the biggest likely obstacle is management. Directors and corporate officers are wary of learning new things. ED 77 will certainly need a learning process. It may become essential learning if SA goes into hyperinflation. The International Accounting Standards Board's IAS 29, Financial Reporting in Hyperinflationary Economies, became effective last month.

SA, a member of the board, should note that hyperinflation is defined as where "eu-

RESERVES: BRIGHTER IN DOLLARS

Publication this week of Reserve Bank end-July holdings of gold and foreign exchange confirms what the healthier rand has been signalling for a while: the surplus on the current account has improved and capital outflows could be subsiding for the moment.

The improvement is masked by the lower value of gold holdings - due mainly to a cut in valuation as the gold price dipped to R886,11/oz from R936,76 the previous month. While the value of gold holdings fell to R3,4bn from R3,6bn, physical holdings eased only marginally - to 3.8m oz from 3.9m oz in June.

The non-gold component, on the other hand, improved by R200m to R1.8bn.

Total reserves declined to R5,1bn from R5,2bn, but, in a welcome change, conversion to dollars presents a more favourable picture.

- Gold US$1,28bn ($1,29bn in June).
- Non-gold $679,1m ($573,9m), and
- Total $1,9bn ($1,85bn).

Even more important is an entry on the other side of the balance sheet - a fall in other liabilities to R7,7bn from R8,4bn in June. These include the Bank's foreign liabilities. If the reduction is due to a drop in these, the ratio on net reserves (gross reserves minus foreign liabilities) in dollar terms is even more promising.

Up or down

Value of gold and forex reserves

Total Gold

Rbn

1986 1989

M J A S O N D 1 9 M M a M J

Financial Mail August 11 1989

41
Outlook for inflation is worsening, says Investec

THE inflation rate will rise above 16% this year, but worse still, the exorbitant money growth over the past 15 months will keep inflation stubbornly high.

Investec Bank comments in its first monthly newsletter, Focus on the Economy, that the outlook for inflation has been deteriorating for many months, as evidenced by the unacceptably high growth of the money supply which has yet to show significant signs of decelerating.

The weakness of the rand against all major currencies in 1988 also set the scene for unfavourable domestic repercussions arising from imported inflation.

The long bond market also acts as a leading indicator of inflationary trends and this market has been suggesting bad news on the inflation front for the last 12 months.

The rising trend in building costs, bond finance, fuel and imported consumer goods in recent months must be curbing the spending power of the average household.

Investec comments that a major cause of concern for the SA economy remains the weak recovery of the current account of the BoP.

A healthy current account balance is required for several reasons, the main being that SA has to make capital repayments of up to $1.6bn in 1989 and a further maximum payment of $4.8bn in 1990 and 1991.

Over and above capital outflows (made and outside the net) the gold and foreign exchange reserves are at an unacceptably low level. A rising level of reserves would inject liquidity into the domestic economy, which would then provide an environment conducive to falling interest rates.

Expenditure

"Nor will a low gold price aid the recovery in the level of reserves — a fall of $10 an ounce in the average price of gold received by the mining industry reduces SA’s annual export receipts by about $200m. This is a significant sum when placed in the context of possible debt repayment schedules."

The long-term outlook for the rand remains negative. In the near term, should the current account of the BoP show a meaningful recovery, the bank would anticipate no more than a broad consolidation in the level of the rand against a basket of currencies.

"Unfortunately, the drain of capital leaving our shores has displayed a tendency to offset foreign exchange earned from SA’s trading activities."

Consumer expenditure patterns appear to have peaked and the slowdown will be accelerated by the hikes in overdraft and bond rates, the more stringent hire purchase conditions and the blow to confidence dealt by the weakening gold price and rand/dollar exchange.

Further, the strong role of the corporate sector in the long-overdue resurgence in gross domestic fixed investment spending will weaken later this year as pipeline orders are not replaced.

However, Investec does not envisage a “crunch landing” for the economy of the magnitude seen in 1985/1986, for several reasons.

Interest rate levels are not as penal now as they were in 1985, when the overdraft rate peaked at 26%.

Corporate balance sheets are in better shape. The average ratio of debt to shareholders’ funds has fallen from more than 66% to below 35% in the past five years, and inventory control is much better.

Finally, political upheaval and foreign withdrawal of access to capital in 1985/1986 led to a severe crisis of confidence and many instances of cutbacks in public and private sector projects.

Investec expects the economy will still record growth of more than 2% this year.
US ECONOMIC OUTLOOK

Intimations of success

Overall, the prognosis is good — though the trade deficit remains worrying.

In the first half of 1989, the US economy has turned out unexpectedly well for George Bush. Excluding drought effects, real GNP growth has decelerated to a non-inflationary rate of under 2%. The areas with the greatest strength have been business fixed investment (up about 7% since the first quarter of 1988) and exports (up more than 12%). Consumption has been quite weak, growing only at about 1.5% in real terms.

For a country facing a large external deficit, this pattern is just what is needed. For the rest of this year and into 1990 it is likely to continue, with overall GNP expanding at an average annual rate of 1.5%-2%.

Inflation, instead of accelerating toward 6% or higher, as many expected, appears to have plateaued in midyear. Wage rates grew at a little over 4% in the first half of the year and the rise in total employee wage compensation has settled at about 4.5%, a modest pace amid low unemployment. Consumer prices, excluding food and energy, rose at an annual rate of about 3% in the first quarter and 4% in the second.

The outlook for overall consumer price inflation looks encouraging for the rest of the year. It most likely will remain below 5%, helped by lower oil prices.

The federal government budget deficit for the fiscal year is shaping up at about US$145bn, or $15bn below earlier projections. It now appears that the Tax Reform Act of 1986 was less "revenue neutral" than intended. The reduction of many shelters and loopholes has led to much higher individual income tax revenues. Lower marginal income tax rates also may have increased compliance and have reduced incentives to shelter income.

The 1990 budget deficit will be kept within the Gramm-Rudman ceilings without significant new taxes, though there will be many small revenue enhancements. The hope is that a multi-year budget reduction agreement may be reached for 1991 and beyond over the next six to nine months. Of course, even if the Gramm-Rudman targets are met, there will continue to be fiscal...
period, monetary policy should be eased to sustain moderate economic growth. This policy mix would allow a depreciation of the dollar and transfer domestic resources into the external sector without straining the economy.

Also, if the budget deficit is pruned at a faster rate than the trade and current account deficits, capital inflows are more likely to benefit private-sector investment and help strengthen the industrial base.

The third leg of US economic strategy should be to encourage the inflow of direct investment from abroad. This type of investment has been rising sharply in recent years. In 1988, it amounted to nearly $60bn, or about one third of gross private capital inflows into the US. The long-term trade benefits of foreign direct investment should eventually be quite substantial.

The fourth leg in the trade adjustment strategy is the contribution of foreign markets. One of the achievements of the international policy co-ordination effort of 1987 was to convince the large surplus countries to accelerate their domestic growth and agree, at least philosophically, to lower import barriers.

Growth in both Japan and Western Europe should stay close to the high rates of the last two years for some time to come. Political developments in Japan and Germany probably will argue for keeping growth high. In Germany, fiscal policy is becoming much more expensive as a result of both the last phase of the tax reform and the planned boost of government spending. In Japan, there is ample scope for investment in housing and infrastructure and for higher consumption to lift standards of living.

This macro policy trend needs to be reinforced by changes in trade policy and in the micro aspects of the economy. In the last year, academic research has shifted away from attributing the US trade deficit almost entirely to incorrect macro policy and increasingly emphasized impediments embedded in economic structure and corporate behaviour.

Reducing the US trade deficit will probably prove the tougher part of the twin deficit problem. It requires international co-operative action and involves changes in both macro and micro policies. In general, the burden to deliver macro policy changes will lie heaviest on the US — cutting the budget deficit and lowering inflation. But foreign countries will face equally difficult changes in micro aspects of their economies.

If either the US, foreign countries, or both, fail to deliver in these matters, the risk of intensified US import restrictions — possibly including some form of surcharge — will clearly climb.

"The article was written especially for the P.M. by Ramon de Vries, chief economist at Morgan Guaranty Trust"
The banana league

Fortunately new Reserve Bank Governor Chris Stals has undertaken to give policy priority to inflation. He told the SABC in an interview last week, that lower inflation is a prerequisite for good growth. Now he has to explain this to Finance Minister Barend du Plessis, who a few days earlier told a political meeting in Krugersdorp that 15% inflation is not "not too high for our own comfort."

The minister is incorrect on two scores. The latest available figure (13.7% year-on-year increase in the CPI to June) is historic. Inflation is now generally considered to "be running several percentage points higher than the rate for a while still."

Moreover, even 15% is unacceptable. Du Plessis tried to compare this rate with those of "banana republics" and congratulate himself that SA does not see prices rising a few hundred percent each month.

However, a comparison with neighbouring countries places the matter in a different perspective. In the years 1985-1988, SA's inflation rate was 16.3%, 18.6%, 16.1% and 12.8%. In the same period, weighted average inflation in all 40 African countries reporting to the IMF was only 11.9%, 12.1%, 12.6% and 18.6%. Only in one of these years did SA do better than the average of its continental neighbours.

Better performances were recorded in Asia, over the four years, with inflation of 7.3%, 5.7%, 7.3% and 11.8%, and in the major industrial countries 4%, 2.3%, 2.5% and 3.3%. With figures for the Middle East not yet compiled by the IMF, the only region which have reported worse inflation than SA's are the developing economies of Europe (mainly Iron Curtain) and those of the Western hemisphere (Central and South America), which include astronomical inflation in war-torn Nicaragua.
Since 1991 industrial share

Made a nice profit

So you think you

[Graph or Chart Image]
No end in sight to inflation havoc

R1 note of 1970 now worth less than 12c

By Michael Chester

The R1 note of 1970 is now worth less than 12c, thanks to inflation's ravages.

The remorseless stripping away of the buying power of the rand has been officially documented by Central Statistical Services.

Shopping expeditions now cost more than eight times what they did less than 20 years ago.

The CCS lays out the extent of the devastation in an annual exercise to spell out the track record of the rand back to the start of the century.

Going back that far — when R1 was a 10-bob note — it shows that the cash in pockets or purses is today worth 3% of its value in 1910.

Into Mom and Dad's generation, compared with 1950, the rand has plunged in actual purchasing power to a mere 6c.

Blow softened

If the computers slip in up-dates to keep restoring the R1 back to a theoretical 100 cents from time to time, it may soften the blow a little.

The CCS did it to prop the rand back to where it stood at R1 again in 1970, for instance. And still its value by 1989 collapses to 12c.

Even compared with 1989, its buying power by today drops down to 33c.

Dr Azar Jamnum, director of the Econometrix research unit, says there is no sign of an end to the havoc as inflation pounds away at the rand.

He forecasts that the consumer price index will accelerate to a yet worse average of 17.6% next year and stay wedged at around 16 percent a year; or worse, in 1991 and 1992, too.
US unease at Afghan’s over-rebellious rebels

With their goal of defeating the Soviet-backed government now in sight, the Afghan rebels — and one faction in particular — have turned to fighting each other. STEVE COLL reports

The Afghan rebel leader who has long received the largest share of United States weapons, is becoming an increasing embarrassment to Washington. US officials have said they intend to counter Soviet arms supplies to the government of Afghan President Najibullah by providing the rebels with Spanish 120-mm mortars and other sophisticated weapons that might help them break a continuing military deadlock around Afghanistan’s cities.

But the rebel faction best trained to use high-technology weapons has been lashing out publicly in recent days at rival rebel groups, and at the US and Iran, raising questions about whether it would be advisable to provide it with more firepower.

Gulbuddin Hekmatyar, a fundamentalist Muslim revolutionary with anti-Western views, leads the Islamic Party (Hezb-i-Islami) which has been at the centre of increased infighting this summer among the main rebel groups based in Peshawar, Pakistan. Hekmatyar has accused a rival military commander, Ahmed Shah Masoud, of conspiring with Kabul’s Soviet-backed government. He has warned the government of Iran not to negotiate with the Soviet Union and threatened to leave the mujahedeen coalition. Hekmatyar also hinted that he might attempt to promote an independent coup in Kabul by working with certain officers of the government army.

For much of the 1980s, Hekmatyar’s group received the largest share of weapons supplied to the Afghan rebels by the US and Pakistan. The former military leader of Pakistan, General Zia ul-Haq, favoured Hekmatyar for several reasons: his party is well organised and disciplined, it has ties to important political and religious groups in Pakistan, and Hekmatyar shared Zia’s conservative views about the role of Islam in society.

The US decision to channel new and more sophisticated weapons to the rebels comes at a time when Hekmatyar faces growing political isolation within the mujahedeen resistance. Rival leaders charge him with excessive ambition and ruthlessness, saying he has endorsed attacks on other mujahedeen groups, such as the massacre of 30 military leaders of the Islamic Society faction in northern Afghanistan last month.

The US government, too, is moving to isolate Hekmatyar — the Islamic Party has been told that Hekmatyar would not be welcomed on an official visit to the US this summer, say guerrilla leaders and diplomats.

Following Zia’s death last August and the election of Prime Minister Benazir Bhutto, the US and Pakistan moved to diminish Hekmatyar’s share of military and financial resources Washington hoped to channel arms and money through a united Afghan “interim government” based in Pakistan that would distribute supplies more evenly among the seven main rebel groups.

But the interim government has been plagued by squabbling and its defence ministry has yet to become a significant conduit for weapons.

Opinion is divided about whether it is possible for the mujahedeen to break the military stalemate soon by capturing a major city or negotiating massive defections by government troops. But even those who believe the victory of the mujahedeen is possible acknowledge that it will be more difficult if Hekmatyar’s army-trained units are not supplied with the more complex weapons. Still, the US is unlikely to reverse its move away from Hekmatyar, and some senior US officials believe a victory is possible even if Hekmatyar’s group plays a relatively small role — The Washington Post
Contrary to expectations, the rate of inflation slowed in July. The year-on-year increase in the consumer price index (CPI) was 15.5% (June, 15.7%), the seasonally adjusted monthly increase was 0.8% (1%). This is CPI’s first deceleration since October. In November it rose to 12.4% — from 12.3% in October — and continued to move up each month until June.

Slower momentum came despite a steep unadjusted increase in the cost of housing (2.4% in the month, 15.1% year-on-year) after rises in municipal service levies. It is due, says an official from Central Statistical Service, to a relatively small unadjusted increase in the price of food (0.2% in the month, 9.9% in the year).

Food has a 22.72 weighting in the index and housing 21.21.

**Sudden pause**

Most benefit was felt by the lower-income group, for whom prices in the year rose only 12.4% (June, 13.4%), and the middle-income group with 14.3% (14.7%). For the top income group, the increase was 17.3% (17.2%).

Largest annual increases were in the Pretoria-Verwoerdburg-Akasia area (16.5%) and the lowest in Kimberley (13.2%).

Projecting seasonally adjusted CPI in the past seven months gives an inflation rate of over 16% by December.

However, growth in the next few months may be slower, because it will be off a very high base.

Says Old Mutual economist Rian le Roux:

“Last August and September saw a rise of 1.4% each month. So a rise in year-on-year growth in the next two months, higher than this month’s 15.5%, will need monthly increases in excess of 1.4% each month.

“This is not impossible. In the first seven months of this year, we had average monthly increases of 1.25% and increases of 1.6% in January, March and May. True, these included petrol price hikes, but increases and so on. But there is another petrol price hike in store next month.”

He believes underlying pressures are still strong; continued strong domestic demand, excessive money supply growth, the lagged effect of a depreciating rand, and secondary effects of past petrol price rises.

“The rate of inflation will continue to rise until sometime in the first half of 1990.”
Reserve Bank Policy

Fighting Public Enemy No 1

Chris Stals inherits “unfinished business” and an adverse political climate

The election campaign is proving a learning curve for politicians. Where once they depended on traditional loyalties and strong sentiments about group identity to provide a safe passage to parliament, they now have to persuade voters they can come to terms with bread and butter issues.

Says Reserve Bank Governor Chris Stals, “The electorate may get the message across much better than we can.”

For a newly appointed governor who has stated several times he is making the fight against inflation a policy priority, this will be helpful. But it will solve only part of the problem. The remaining part is educating the electorate which largely misunderstands the processes of inflation.

For instance, at a recent meeting of the South African Agricultural Union (to whom Stals later delivered a pre-dinner speech), it was noted there are two major problems facing agriculture: high inflation and high rates of interest. But the relationship between the two was not clarified and many members remained under the impression that high interest rates create inflation.

“Most people think this,” comments Stals. “And few think in terms of real interest rates, so they don’t realise our 20% prime rate of interest is at this stage being eroded by the rising rate of inflation.”

Because of misunderstandings about both cause and effects of inflation, Stals feels obliged to stress that making inflation a priority does not mean neglecting other issues. “If you pay attention to inflation, you automatically address other issues, like the balance of payments and the low rate of savings.” As to growth, which many would argue should be the priority in a time of political volatility, he says “It is not the Bank’s major responsibility at this juncture. Many other people and organisations rightly think continuously about stimulating growth. We, in the Bank, must worry about inflation and the value of the currency.”

But he believes the two objectives are not in conflict — “Especially not in the longer term. It is important for the Bank to create a climate for growth — through financial stability, which brings us back to inflation and the currency.”

He says the best way to fight inflation is to allow markets to allocate resources. However, he adds the sort of rider (“but markets must be orderly and disciplined”) that sometimes creates doubt about the course of his
future actions. He concedes "I am not dogmatic about markets and this has led people to think I am not that much of a free market man."

However, though he describes himself as "pragmatic," often a codeword for interventionist, his understanding of the efficacy of market policies may prove reliable, because he recognised it while managing direct controls on bank lending during the Seventies: "I know how difficult it is to apply direct controls and how inefficient they can be," he says.

He points out, for the record, that in recent years pressure for control has come not so much from government as from the private sector. "After we declared the debt standstill, there were a lot of supporters for more direct controls. The late Dr De Kock and I had to work very hard at the time to resist the pressures. And our support came from the minister of finance."

The authorities were rescued, on that occasion, by the success of the foreign debt negotiations and of exporters in finding new markets which improved the inflow on the trade account and relieved much of the anxiety about outflows on the capital account. This defused some of the pressure for measures such as the introduction of a fixed exchange rate.

However, the record of the authorities in the past 18 months in implementing monetary policy raises questions. Governor Gerhard de Kock was respected for his understanding of economic issues and known for his faith in market policies. But he was clearly not free to implement policy, something which continually raised the issue of the independence of the Central Bank.

In much the same vein as his predecessor, Stals says that the autonomy of the Bank is important, the Bank should be free to make decisions on money supply, interest rates and the availability of bank credit, but, "The minister bears the ultimate responsibility for economic policy."

"It's naive to think you can get autonomy through an Act of parliament. It has to come through cooperation with the cabinet because an Act is as good as the government wants it to be. Surely it would help to have the Act behind you, but if the minister doesn't like the Act he can change it."

He does not agree there would be a political advantage for government in distancing itself completely from the Bank and any unpalatable decisions it is obliged to take. "In the end, the voters will say to government, it's your responsibility." He defends the government's spending record in the past two years: "Growth in current expenditure of the public sector has grown at a much slower rate than expenditure in the private sector—though, it has still grown too fast."

The major problems, he says, came in 1984/85 when gross domestic expenditure declined while government expenditure continued to rise. "With growth in private-sector spending now declining again, it's important that the policy of letting government expenditure increase at a lower rate than total expenditure should be resolutely pursued."

Another important input into inflation in recent months has been the escalating bill on forward cover losses, which reached R15bn by the end of July. The build-up has been the result of three different factors, all related to the appreciation of the dollar against other currencies.

- Long-term contracts established three and four years ago are now coming to maturity. "We no longer provide special facilities to public-sector institutions on long-term loans, but those granted in the past have to be met."
- Big losses on short-term cover because of a 12% decline of the rand against the dollar in the first seven months of the year, and
- The appreciation of the dollar against third currencies which led to losses on third currency transactions.

Stals says "These are recorded as losses but actually they are a subsidy to exporters and importers to encourage them to raise credit from overseas. It is proving an expensive subsidy."

So he is eager to resume the phased withdrawal of markets started twice before—in 1983 until the debt standstill in 1985, and (actively) in December last year. "We will have to talk again to the dealers in the foreign exchange markets to see what we can do to develop a market outside the Bank." Despite Governor Jan Lombard and gold and forex GM James Cross have already been working on this project. It is, says Stals, "one of the unfinished tasks that Dr De Kock referred to several times in the weeks before his death."

Whatever the difficulties experienced in restraining credit creation, Stals is satisfied the economy is slowing: "I am lucky to take over when we are already moving in the right direction. But there is no question of any relaxation in monetary policy. Dr De Kock always used to explain the situation at this point in the economic cycle by comparing it with an aeroplane landing. The moment you start your descent you are still very high. Though you are going down for a landing you can't open the door at that stage."

However, he is satisfied the slowing in demand is enough to ensure SA will meet its long-term obligations to foreign creditors in terms of the interim agreement on repayment of debt inside the net. As chairman of the Debt Standstill Co-ordinating Committee since the original arrangements in 1986, he has lived closely with the problem for several years. "The major problem," he says, "has not been meeting commitments in terms of the debt standstill. It has been funding big outflows of short-term capital linked to trade transactions—the balancing item entered in the balance of payments as errors and omissions. The other payments you know about years ahead and, whatever happens, you can find a way to meet them. The short-term outflows—which are influenced by interest rate differentials, exchange rate expectations, the cost of forward cover and political developments—are unpredictable and uncontrollable and those often create more serious difficulties."

These he hopes will be more moderate in future, with the rand stabilising against other currencies "as the economy moves into a consolidation phase of the business cycle."

As to long-term commitments, Stals will retain his role as chief negotiator for the time being: "I will be negotiating at least until we have made some progress with the technical committee of the foreign creditor banks till we have reached some consensus."

His other role as chairman of the Taxation Standing Advisory Committee remains open for the moment. Stals is working on the report which the governore delivers to shareholders each August—it will be made on Tuesday (August 29). Thereafter, he will turn his attention to the International Monetary Fund meeting in September.

This will be his first opportunity to test international reaction to latest developments in the country. But he is not anticipating an early softening of opinion among potential lenders: "These are tough negotiations and even if things weren't so bad, they would use the situation to get better terms out of us. But they are under pressure not to lend to SA, and they will not be under any less pressure now than in the past."

The pressures, he says, "arise mainly from political sources and therefore need a political solution."

As to the economy, however, Stals's role is crucial in both the short and long term. His early pronouncements and actions will be awaited with great interest.

Governor Stals ... the politicians have to learn
Bank chief declares war on inflation

RESERVE Bank Governor Chris Stals has declared war on inflation, saying it is now opportune to launch a serious attack, spearheaded by restrictive monetary and fiscal policies.

In his first major policy statement since taking over at the helm of the Bank three weeks ago, Stals outlined a vital shift in emphasis. "The focus of monetary policy, which had been on balance of payments adjustment and growth, now switched to the battle against inflation."

Economists interpreted his address at the Bank's AGM yesterday as a signal that interest rates would remain at current levels at least until next year and possibly until mid-1990.

Greta Steyn

He stressed the need for sustained financial discipline and the maintenance of positive real rates of interest. The Bank would avoid abusing "the modern money printing press" — the central bank's accommodation of the banks' credit needs on interest rates, he said: "We should aim to maintain rates at an appropriate margin above the current rate of inflation. Positive real rates of interest are essential."

Any pressure for interest rates to decline at this stage had to be resisted, because "the rising rate of inflation is now eroding the level of real rates of interest."

Stals said: "Anti-inflationary monetary policy requires strict financial discipline, not only in times of expanding demand, but also in the recession phases of the business cycle. There is an essential need for interest rates to be durably positive in real or inflation-adjusted terms."

The time was over when inflation could be accepted as a consequence of balance of payments adjustment, coupled with economic growth. In the longer term, there was no sustainable trade-off between inflation and growth. It was no longer acceptable to accommodate price increases through large increases in Reserve Bank credit and the money supply."

"As far as monetary policy is concerned, it is imperative that increases in the money supply should be as soon as possible be brought within the declared target range of 14%-18% positive real interest rates should be maintained, and the country's foreign reserves should be strengthened to afford the authorities more freedom of action in the management of the exchange rate of the rand."

On the fiscal policy side, increases in government spending had to be strictly controlled; the deficit before borrowing had to be cut, the role of the public sector in the economy had to be reduced and the efficiency of public sector expenditure should be improved through privatisation and deregulation.

Another reason why fiscal and monetary policy had to remain tight was the "urgent need" to replenish SA's total gold and foreign exchange reserves.

The economy was in a consolidation phase, and factors such as inflation, foreign reserves and money supply growth needed further consolidation before any relaxation in policy could be considered. This phase, should continue "for the rest of 1989 and, if necessary, at least throughout the first half of 1990."
Hawkers licensed

THREE hundred members of the National Hawkers Association received trading licenses from the Pretoria City Council yesterday.

The licenses were presented to jubilant street vendors during a ceremony at the Orient cinema in Marabastad.

A city councillor, Mr Justus-van Zyl, told hawkers that he would try to get them and the council to establish a proper relationship.

He lauded them for the important role they are playing in the economy of the country.

Miss Winnie Mapo-kane, NHA secretary, said the organisation was proud to have realised its dream to have members licensed to earn a living.

She said of their 600 members, only 150 were still awaiting licenses to operate their businesses.
Stals: Serious attack on inflation needed

Own Correspondent

JOHANNESBURG — Reserve Bank Governor Chris Stals has declared war on inflation, saying it is now opportune to launch a serious attack spearheaded by restrictive monetary and fiscal policies.

In his first major policy statement since taking over the helm of the Bank three weeks ago, Stals outlined a vital shift in emphasis. The focus of monetary policy, which had been on balance of payments adjustment and growth, has now switched to the battle against inflation.

Economists interpreted his address at the Bank's annual meeting yesterday as a signal that interest rates would remain at current levels at least until next year and possibly until mid-1989.

He stressed the need for sustained financial discipline and the maintenance of positive real rates of interest. The Bank would avoid abusing "the modern money printing presses" — the central bank's accommodation of the banks' credit needs.

On interest rates, he said: "We should aim to maintain rates at an appropriate margin above the current rate of inflation. Positive real rates of interest are essential."

Any pressure for interest rates to decline at this stage had to be resisted, because "the rising rate of inflation is now eroding the level of real rates of interest in SA."

Stals said: "An anti-inflationary monetary policy requires strict financial discipline, not only in times of expanding demand, but also in the recession phases of the business cycle. There is an essential need for interest rates to be durably positive in real or inflation-adjusted terms." The time was over when inflation could be accepted as a consequence of balance of payments adjustment coupled with economic growth. In the longer term, there was no sustainable trade-off between inflation and growth.

It was no longer acceptable to accommodate price increases through large increases in Reserve Bank credit and the money supply. "As far as monetary policy is concerned, it is imperative that increases in the money supply should as soon as possible be brought within the declared target range of 14%–18%. Positive real interest rates should be maintained, and the country's foreign reserves should be strengthened to afford the authorities more freedom of action in the management of the exchange rate of the rand."

On the fiscal policy side, increases in government spending had to be strictly controlled. The deficit before borrowing had to be cut, the role of the public sector in the economy had to be reduced and the efficiency of public sector expenditure should be improved through privatization and deregulation.

Another reason why fiscal and monetary policy had to remain tight was the "urgent need" to replenish SA's total gold and foreign exchange reserves.

"The advantages to be gained from a higher level of foreign reserves are obvious. It will make the management of the economy, and in particular of the foreign exchange rate, more effective. These advantages make an investment in additional foreign reserves a logical option for the country at this stage."

The economy was in a consolidation phase and factors such as inflation, foreign reserves and money supply growth needed further consolidation before any relaxation in policy could be contemplated. "The Reserve Bank is therefore of the opinion that the consolidation phase in the economy should continue for the rest of 1988 and, if necessary, at least throughout the first half of 1989."
Desperate businesses defy council's laws

Petrus Nyal was desperate. The business he was running from his four-roomed home was growing very fast and he needed more space. But with parents, two sisters and two brothers sharing the house, he could not get any more.

But there was open land near his Zanbela home in the Orange Free State. He decided to build a shack on the land 100 yards away from his home.

"If the structure I was able to put more goods, I decided to sell many other products which included smileys, footcloths, cigarettes, groceries and blankets."

His turnover rose from R100 to R200 a day, shooting up to R500 during weekends and at the end of the mouth.

Another problem

Focus

By Joshua Raboroko

started when Letka Council inspectors raided his trading site and accused him of trading without a licence on the open land.

His goods were confiscated. He paid R100 in numerous attempts to avoid guilt.

"I defined the laws and continued to trade from my shack," he says.

The people who followed my example contributed to the country's economy mainstream," he added.

A large number of poors people are now breaching the town council's laws by erecting corrugated trading shacks in nearly every available open space in the municipality.

"Some shop owners at the bordum say they are prompted to build such new shopping centres - most of them are referred to as 'cum-market' on the open land because of lack of capital and facilities to start business.

They say that such enterprises are too few stores too far away.

The shop is a very popular spot selling all kinds of goods, especially black retails, to establish themselves.

This, however, is ongoing anxiety with already-established businesses which fear the threat posed by the shop's success.

Established businesses have adopted measures to increase market share of such shops, but no success.

Council inspectors have raided, confiscated goods and pronounced shop owners for trading without licences.

The press story says that people who followed my example contributed to the country's economic mainstream, 'A large number of poor people are now breaching the town council's laws by erecting corrugated trading shacks in nearly every available open space in the municipality. Shop owners at the bordum say they are prompted to build new shopping centres - most of them are referred to as 'cum-markets' on the open land because of lack of capital and facilities to start business. They say that such enterprises are too few stores too far away.

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Council inspectors have raided, confiscated goods and pronounced shop owners for trading without licences.
Barend backs Stals’ war on inflation

FINANCE Minister Barend du Plessis has “fully endorsed” Reserve Bank Governor Chris Stals’s war on inflation, and the tough monetary and fiscal policies to be used.

Du Plessis said yesterday he would put the full weight of the Finance Department behind Stals, who said yesterday bringing down the inflation rate would be achieved “by taking as much money as possible out of the system, and putting as little as possible back”.

Treasury’s bank account, the Exchequer, has emerged as the primary weapon to synchronise monetary and fiscal policy. Exchequer balances with the Bank now reflect a record R8bn-plus surplus, although about R3bn of this is in transit to allocated accounts.

This has been amassied by substantial mopping-up operations since March 1. The draining of liquidity has exerted upward pressure on interest rates, and given Stals a great platform to start an all-out attack on inflation.

“On the monetary front we will continue with a very restrictive policy,” Stals said.

Naming inflation as the No 1 economic problem in his maiden speech on Tuesday, Stals said it was not possible to spell out the details of the attack in fine print. “There is no magic formula or equation to cut inflation rapidly. But we are watching key economic indicators on an hourly basis. The battle will be managed in a proactive, day-to-day manner.”

This “live” approach to curtail inflation would be accompanied by recommendations to Du Plessis to synchronise action by the Bank and the Finance Ministry.

As Stals said, the causes of the high inflation rate are complicated. But in a nutshell, aggregate demand for goods and services has outstripped the flow of goods and services produced in the economy. Prices have been bid up by consumers, corporations and government.

The situation has been aggravated by excess money creation, administered prices and the depreciating rand. Stals has set a three-year timeframe to contain the inflation rate, now running at an average of three times the average Western industrial country.

In order of priority, Stals said the key economic indicators to be watched would be money supply and bank credit creation.

Other indicators included changes in gold and foreign exchange reserves, and trends in interest rates — implying a more managed approach to stabilising the value of the rand.

By following the recommendations of the De Kock Commission, which stressed working within the principles of a free economy, there will nevertheless be a preparedness to make adjustments.

While Stals says the Bank will be pursuing a “very” restrictive monetary policy, this does not imply interest rates will necessarily increase further.

Some private sector economists argue that with gross domestic expenditure running at a real 1%, added to other fundamentals, the scope for a cut in interest rates cannot be ruled out.

On the fiscal front, the need to “take as much money out of the system as possible” has ruled out a cut in tax, or any other impost, for the meantime.

The insistence on a restrictive policy, and the need to exercise military-type discipline, has not been lost on the Finance Department. The significance is that Stals will be exerting further pressure on government to cut spending.

“We are aware of applications for additional expenditures since the start of the fiscal year. Along with the Minister, we will be doing all we can to stem such flows of extra money into the economy.”

This implies that government spending, which was set on estimates on a pro rata basis for the first four months of the fiscal year, could be contained for the year as a whole — putting radical downward pressure on the inflation rate.
Flirting with runaway inflation

Business Staff

SOUTH Africa was flirting with hyperinflation, an economist warned leading Cape businessmen.

Mr R H Kaplan, chairman of the Cape Chamber of Industrial Economics committee, told inflation was at an unacceptable level and flaring with hyperinflation.

High inflation in South America, he said, had resulted in poor people losing their savings, rich people shifting money abroad and the destruction of the middle class. Investments shrank, misery increased, government revenues and political fortunes declined.

To correct the situation, governments needed to take a firmer hold over the money supply and match their expenditure with actual income. Initially that would result in a significant increase in interest rates which would eradicate unemployment but eventually inflation would come down with investment flowing back into the economy.

On the eve of the general election, the business community, represented by organised commerce and industry, should endeavour to obtain a commitment from political parties for a sound financial system that would reduce inflation, he said.

GDP measured against the population increase had declined by 1.8 percent a year from 1989 to 1992. The same pattern was observed in aggregate terms, he said.

Jt. Chari, the economic referee, said no detailed figures were available and that no root cause of the inflation was thought to have understood the nature of the opportunity that would come from low inflation.

Zero inflation - inflation was a monetary phenomenon which had severe negative real consequences and had nothing to do with productivity.

Real rate of interest - negative real interest rates discourage savings. This hindered a balance of trade problem as savings were discouraged thereby causing a decline in real investment, resulting in the country being unable to replace capital stock.

Money supply - the annual growth of the money supply should be less than 10 percent. Countries with a low money supply generally enjoyed low inflation.

Unitary exchange rate - different exchange rates were open to abuse and manipulation with little evidence to show that they resulted in a flow of funds into South Africa. The distortion created by the existence of two prices for the rand had already led to huge currency leaks.

It was easy for a government to deflate the currency as inflation was an attractive form of indirect taxation. Governments tended to use inflation and have over the centuries debased the value of currencies to pay for their excesses.

Do not regulate - government readily imposed controls but the administration was extremely costly, inefficient and inefficient and led to the build-up of an army of civil servants.

Confusion was caused by changing the rules under which the government and fiscal policy of the country operated.

The economic policy of the country did not promote efficiency as it was imposed on productive resources through general sales tax on capital investment, while on other hand subsidies were granted to farmers, exporters, decentralised industries, insurance companies, horse breeders, film producers, passenger transport and first-time home buyers.
BER sees inflation rate at 17 percent by end of year

Finance Staff

Inflation is beginning to lengthen its stride as the economy heads towards the last quarter with the Bureau for Economic Research (BER) of the University of Stellenbosch estimating a rate of 17 percent by year-end.

The bureau notes that in July the inflation rate for the high-income group of the Consumer Price Index (CPI) was already above 17 percent. The group is made up of people earning more than R20,000 a year.

It says short-term interest rates are not likely to fall within the next six months, despite the improvement in the balance of payments, mainly because of the low level of foreign currency reserves.

Reserve Bank governor Dr Chris Stals said at the annual meeting of the bank last week the UK, US and West Germany now had relatively high real rates of interest.

South Africa would not be able to draw much needed foreign finance, or even retain existing credit facilities, should real rates of interest remain below those abroad.

Dr Stals said that as it was, rising inflation was now eroding the level of real rates of interest in South Africa.

"Thus any pressure for nominal rates to decline at this stage will therefore have to be resisted."

Philip Kilroe, money market manager at Personal Trust, said last week: "We can only advise investors to keep funds short for the next month or so, to enable them to ride the rates up before fixing around the peak."

An alternative would be to invest in products linked to the prime rate, which would ensure that the investor's return did not lag behind the market.

He said it was still prudent to place a percentage of funds into gilts to obtain a high running yield and possible capital gain in years to come.

The Reserve Bank in its annual economic report said a two-way relationship existed between exchange rate movements and differences in inflation rates in South Africa and its principal international trading partners.

In 1988, the SA inflation rate, as measured by changes in the CPI, was still nearly four times as high as the weighted average inflation rate in SA's seven most important trading partners, after having been more than nine times as high in 1986.

The Bank said the price of imported goods in the first half of this year had risen 16.7 percent as calculated on a yearly basis.
When will bread cost R50?

It could be closer than you think

The election campaign is behind us — but its legacy lives on. Despite official statistics, which show that the rate of inflation is several percentage points lower now than it was three years ago, economic policy — and inflation in particular — has been one of the central issues in the electoral debate. There can be no return to our former state of wilful blissful ignorance, unless we are prepared to pay the price.

This new awareness comes none too soon. You have only to examine the options available after 15 years of double-digit inflation to see why.

There is very little that we as individuals can do about it. Indeed the best hedge against it may be to buy at current prices a lifetime's supply of groceries — or plough up the front garden and plant vegetables (According to Central Statistical Service, the price of a basket of consumer goods has increased 300% in 12 years).

Likewise, the businessman who operates in an inflation-ridden economy can do little else to protect his assets but keep on pushing up prices.

It's true that those with houses generally have an adequate hedge against rising prices — except in those recurring periods of civil unrest which regularly set off streams of emigration. The impact on the property market is dramatically illustrated in the graph.

It's also true that those with surplus wealth can increase it in the equity market — except in those periods when markets experience unexpected upheavals. And there are all sorts of other hard assets that may keep abreast or ahead of inflation — except that the greater the returns the higher usually is the attached risk. Insurance policies are bound to bring positive returns — but only at maturity. Thereafter the proceeds are once again money in search of a safe haven.

So you may make a killing in good times and, carefully invested, you may stay abreast of inflation in the long term. But right now there is no reliable prophylactic and the economic effects of prolonged inflation simply compound the problem of its eradication: the longer inflationary pressures persist.

Returns on savings accounts (or fixed-interest securities), even when adjusted for inflation, are usually negative even before tax, and have been for a long time. That means savers earn less than the prevailing rate of inflation and, in so doing, erode their own spending power.

Of course, there are beneficiaries of the process. Borrowers pay debts in devalued money and the State sees revenues rise as fiscal drag sucks more people into top marginal tax brackets. But this redistribution of wealth is not generally constructive. While the obvious victim is the retired person on a fixed income, damage is far more widespread.

When a currency loses its capacity to store value, the country in which it is circulated loses its yardstick of real economic growth. This leaves it vulnerable to a range of political and social pressures as continuously rising prices create uncertainty, insecurity and instability.

The longer inflation is left unchecked, the faster the currency starts to lose its role as a unit of exchange. And when it can no longer establish comparative values of goods and services to permit convenient exchange, economic distortions of inflation become the convulsions of hyper-inflation.

Best-known example of, course, is the expansion of money supply in Germany which (according to Chamber's Encyclopaedia) grew from about DM6bn in 1913 to about DM500 billion by 1923. The monetary problem was addressed at the end of that year by knocking 12 zeroes off the value of the mark. But the damage to Germany's social and political structures was more lasting — and its consequences for the rest of the world are well documented.

Ordinary folk know how devastating to their lives constantly rising prices can be. But most people are less clear, however, on what can be done about it. For not only are economists divided on how best (or whether) to contain it, there are also a variety of popular myths that obscure what needs to be done. This is because the ch...n of causation has no clear beginning — which allows most people to blame others for initiating the process and still appear to be sensible.

Economists accuse government of spending too much, government scolds consumers for borrowing too much, consumers claim business charges too much, business blames labour for demanding too much. And labour reproaches government for not legislating enough. (To be strictly accurate this is more common in Europe and North America where legislation would tend to favour rather than disadvantage the labour force because it has the vote.)

The fact is that only government creates inflation (or its converse which is shortages). So if any one group of South Africans is obliged to take the blame, it is those voters who for the most part have been either ignorant or inert — or simply wish to see tax revenues rising without the politically unpopular act of actually putting up taxes. Now a sliding gold price, a devalued currency and four years of credit sanctions and capital exports have compounded the problems and highlighted our economic crisis — which is that, even for the economically active, the economy is no longer able to grow fast enough to mitigate the impact of constantly rising prices. This has forced the electorate to make economic policy a political priority.

But voters are confused. Distinguishing cause from effect is not easy because often the direction of causation is
different in the short and long term. For instance, higher interest rates feed into the CPI to send up year-on-year inflation statistics, and they encourage people to place money in banks, causing an immediate increase in the money supply. But in the long term, if the interest rate increase is realistic (positive in real terms), it will prevent excessive creation of money or (depending on the economic interpretation) indicate that money supply growth is within reasonable parameters.

Equally confusing is that a depreciating rand pushes up prices as imports and imported inputs become more expensive, but in the long term, it is largely inflation differentials between trading partners which devalue the currency of countries with higher inflation rates.

Confusion aside, however, there is another more serious problem. Voters don't like to be told that you can't have your cake and eat it. Reared on periodic gold bonanzas and frenzied post-WW2 boom booms, the average white South African (the only person with a meaningful vote) can't accept there is a price for inflation. According to economic policy, while the question of which economic policy to follow is vital, more important still is recognising the various implications.

Says Jaap Mejer, head of the Reserve Bank economics department: "A once-popular view was that inflation is caused by cost-push which is divided into wage-push (as wage- and salary-earners demand more to compensate for inflation) and profit-push (which comes about when businesses charge more to compensate for inflation). This theory is extended by claims that concentration of control (through monopolies, oligopolies and cartels to overcompensate for inflation)

The remedy prescribed by proponents of this view is direct price and income control. Such regimes have been, until recently, standard practice in eastern Europe. They have also been tried in some of the major economies of the first world. And they are now being tried in many developing countries. They have never succeeded, except for a very short period.

In SA, there are still thoseinclined enough to want to try them. "In the mainstream," says Mejer, "are two major schools — monetarists and discretionary aggregate demand managers. If the latter are Keynesians, they would not necessarily attach much importance to the money supply as such, but may prefer management by fiscal means. Monetarists, however, have to accept temporarily high interest rates as they set about curbing the money supply. Aggregate demand managers may have to push up interest rates to curb aggregate demand. As they do so, growth of the money supply will eventually be contained.

**But essentially, whichever end you start, whether higher interest rates are the tool or the outcome, they will price money in relation to demand and supply.**

Each solution carries a cost.

To a point, price and income controls allow official statistics to reflect satisfactory results — witness Zimbabwe’s 7.4% for 1988 as reported to the IMF. However, in the real world outside official statistics, the policy causes misallocation of resources, bottlenecks in supply and debilitating shortages. Moreover, it is subverted in every market due to mankind’s innate ability to spot the main chance and its tendency to take it.

Says The Economist: "Incomes policies, wherever they were tried and in all their various forms, soon collapsed in a burst of inflation. Meanwhile, for as long as they operated, they did all sorts of damage to the micro-economic fabric of markets, distorting relative prices, reducing their efficiency and thus reducing each economy’s potential for long-term growth."

On the other hand, there is also a price for allowing interest rates to contain inflation. To do so they have to be brought positively, or exceed the inflation rate by about 2%. Given high rates of inflation this means nominal interest rates must be still higher. In the short term this may hold back economic growth and reduce employment opportunities. In the politically volatile SA climate this is not a consideration to be lightly laid aside. However, positive interest rates increase savings (investment funds) which in turn encourage continuous rather than sporadic capital investment. And capital investment creates employment.

So the trade-off between inflation and unemployment, in theory and in the short term, is debatable. Over a period it tends to disappear as stagflation sets in — and inflation and unemployment rise simultaneously. According to The Economist, "By early 1980 the average annual rate of inflation in the OECD countries had reached 14.5%, and the unemployment was nearly double its rate seven years before."

So we have to calculate carefully the consequences of regulating inflation as a policy priority.

On the political level, the problem is to persuade voters that interest rates should price money appropriately. Savers will work out the negative worth of a 16% return on a 12-month fixed deposit versus a 17% expected rate of inflation the following year. But borrowers asked to pay 20% nominal interest on their mortgage bonds, for instance, which means a real 3%, will feel aggrieved. In a community with more borrowers than savers (naturally, given the incentives) lobbying strength lies with the borrowers.

The crucial question for SA now is how far are we along the path to hyper-inflation? Are we in danger of seeing the price of a loaf of bread spiral to R50? With average inflation in 1988 of 12.8% we compare unfavourably with the 3.3% average inflation rate of the major industrial countries that year. As they are among our trading partners, this comparison is critical. For it means the value of the rand will decline by the extent of the inflation differential.

However, statistically, we still have some way to go before we reach hyper-inflation, variously defined as more than 20%, 25% or 50%.

But "even" at 15% a year, the value of money erodes rapidly. R1 in the first year is worth 85c the next in real terms, and 72c the year after that — and so on indefinitely. In this way, capital is halved in five years. The longer inflation remains at this level, the more difficult it is to alter inflationary expectations and get inflation down without severe pain. That is, if hyper-inflation does not take hold.

Hyper-inflation is the point at which inflation is out of control at ever-increasing rates. Argentina, 90.1% in 1986, 131.3% in 1987, 345.4% in 1988. Brazil’s inflation period reached 145.2%, 229.7%, 682.3%. Argentina has not yet reported for 1988, but Brazil’s figure for January-to-February shows consumer prices rose more than 1 000%.

Comparisons with these telephone figures mean little for SA, as we hardly trade with the economies concerned. They are only of limited interest, enabling our politicians to point a finger at those who are more arrogant elsewhere. We can draw no comfort from our relative restraint.

The plain fact is that if voters allow politicians to continue creating inflation, most politicians will do exactly that, especially in a country where apartheid on its own creates social tensions. Why aggravate them by the harsh measures necessary to stabilise prices?

The answer is simple: If we don’t do that, inflation will at a constantly rising cost bring about the adjustment between the economy’s ability to supply and aggregate demand. Price and income controls may delay the adjustment, but they will not eradicate it. And the longer the adjustment between supply and demand is delayed, the higher the price of the adjustment becomes.

But there is a further difficulty. No government has yet shown itself capable of managing its inflation rate at what it might consider a livable level. For inflation inevitably feeds upon itself and on public expectations of it rising. That is why Finance Minister Barend du Plessis’ observation that we seemed to be able to live with 15% inflation is at best astonishing. Over the past 20 years the Nats have got inflation at its highest point in living memory. They have shown no inclination or ability to stabilise prices, especially not over the past 10 years. If inflation runs at about 15%, the price of a loaf of bread which costs around R1 today will cost R50 in the year 2017. It will reach R50 by 2011 with inflation at 20% and by 2007 with inflation at 25%.

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INTEREST RATES

Psychological war

How much can new Reserve Bank Governor Chris Stals reduce the double-digit annual price rise without pushing interest rates up further? So far, his attempts to cool inflation have been confined to announcing he will make the fight against inflation his first objective.

But, as he himself has warned repeatedly, though economic growth is slowing, it may not be slowing enough. (Here he has in mind not only inflation, but the need to maintain a surplus on the current account of the balance of payments.)

Will his firm verbal stand do much to slow it further?

There is a view that a large measure of core inflation is due to expectations. "This means an important part of fighting inflation is convincing people you are," says Reserve Bank economist GM Jaap Meijer. In support, he points out that, by the end of 1987 — after three years of low demand and about 15 months of currency appreciation, at a time when the price of fuel internationally was low — inflation stayed stubbornly high.

Its low point was an annualised seasonally adjusted 9.2% in the first quarter of 1988, after peaking in the first quarter of 1986 at a seasonally adjusted annual 27.2%.

Inflationary expectations, says Meijer, undoubtedly played a part in preventing the

PROVIDENT FUNDS

Taxing decision

Inland Revenue is expected to level the playing fields between provident funds administered by insurers and those run in-house by companies or institutions other than insurers. At the moment, returns on funds administered by the former are taxed, those administered by others are exempt.

The anomaly has always existed. But, when provident funds underwritten by insurance companies had to invest 33% of their funds in prescribed assets while self-administered had to invest 53% in prescribed assets, this offset the tax advantage.

With the abolition of prescribed asset requirements (see P40) and application of the same investment guidelines to all, insurer-administered funds will be disadvantaged.

Life companies have made representations to Inland Revenue to rectify the anomaly. Commissioner Hannes Hattingh says the matter is under consideration and an announcement will be made soon.

Says Southern Life GM Tony Davey: "There is a strong argument for untaxed provident funds as, like pensions and retirement annuities, they provide for retirement."

He adds that there is also a political argument: "There has been a move by trade unions to go the provident fund route because they get a lump sum on exit, instead of an annuity. So people could start saying provident funds are being discriminated against if they remain taxed while pension funds are not."

Revenue stands to lose if funds adminis-
Rampant inflation will keep interest rates high

By Magnus Heysek
Finance Editor

South Africans can brace themselves for a period of high interest rates — particularly real interest rates — until inflation shows signs of cooling off.

This was the message from economists, businessmen and central bankers at a seminar on financial markets hosted by stockbrokers Frankel, Kruger, Vinderne at Sabi Sabi over the weekend.

Economist Mike Brown of the sponsoring firm underlined the need for real interest rates to be maintained.

Citing World Bank studies, he said real interest rates — positive after allowing for inflation — were conducive to lower inflation and more stable economic growth.

Agreeing with Dr Chris Stals and Dr Japie Jacobs, respective- 
vbeing Governor and senior Deputy-Governor of the Reserve Bank, who were speakers at the conference, Mr Brown stressed the need for real interest rates in the downswing phase.

He said overseas studies showed a strong correlation between real interest rates and high economic growth rates.

Using a policy of real interest rates, coupled with strict monetary and fiscal discipline, the downswing period represented an excellent chance to wage an anti-inflation campaign, he said.

According to a prominent businessman, who declined to be identified, there could no longer be a trade-off between economic growth and a high inflation.

"The dismal performance of the economy in this decade is a testimony to the fact," he said.

But good news for investors and businessmen who feared an abrupt slowdown in growth was that all indicators pointed to a relatively "soft landing" next year.

Mr Brown said that contrasted with the propensity of the economy over the last two decades to overheat in times of upturn, necessitating harsh measures to cool it down again.

"Somewhat surprisingly, present trends point to a relatively smooth slowdown in the economy.

"The 'train smash' nature of previous downswings may now be superseded by a bumpy ride as the 'train negotiates the points', but forward progress in real growth will continue to be made," he said.

Among the reasons for the gradual cooling down, Mr Brown listed:
- Retail sales and total consumer expenditure were levelling off, rather than showing the sharp reversals of the past. The influence of the informal sector could be one of the reasons.
- Another was that employment was holding up far better in a slowing economy than in the past.
- The decision by the authorities to use a number of fiscal and monetary measures to slow down the economy.
- A good agricultural season was boosting growth during a period of consolidation.

Mr Brown, in what he called the 3-2-1 growth scenario, said the economy would record a two percent growth rate this year after growing at more than three percent in 1988. In 1990, the economy would slow down — brought on by the need to make further debt repayments in July — but would still record a positive growth rate of around one percent for the year as a whole.

Mr Brown and other speakers, including Dr Stals, underlined the need for SA to achieve a massive surplus on the current account on the balance of payments next year in order to meet foreign debt repayments.

Monetary and fiscal policy would be geared towards achieving a surplus of at least R8 billion on the current account because a similar amount of foreign debt fell due next year.

With the outlook still bleak for the possible inflow of capital, SA could not afford a deficit on the current account.

Any shortfall would have to be financed from foreign exchange reserves — already at very low levels — and it would also cause undue downward pressure on the foreign value of the rand.

Central to Mr Brown's forecast was that the gold price would start recovering to levels of $400, due to what he called increased central bank purchasing and the removal of forward sales, a factor that had depressed the price last year and for the most of this year.

This factor, together with the persistent under-supply in the gold market, would "push up the gold price as current holders of gold will require higher gold prices in order to be persuaded to sell into the market and balance the supply/demand equation."
Higher interest rates may soon become necessary to check the depreciation of the rand, states the United in its latest Economic Perspective.

The group says that from an economic point of view a relaxation of monetary policy would be possible - either through keeping interest rates constant as real interest rates are being eroded, or even through a decrease through the bank rate.

However, the United states "As far as the exchange rate is concerned, a relaxed monetary policy stance would not be prudent as it would cause further forward cover losses for the authorities and it would cause short-term capital outflows.

Therefore, should inflation not be curbed soon, or international interest rates not decline, higher domestic interest rates might be inevitable to check the depreciation of the rand".

HARD TIMES — interest rates getting out of hand.

The Economic Perspective states that unless there are policy changes the rand/dollar exchange rate could be at R3.10 by the end of the year.

It says the rand will appreciate against most currencies in the medium term.

It added. "First, South Africa's inflation differential with the US seems to be set to increase as US inflation is being curbed while South Africa's inflation seems to be testing the 1987 levels of over 15 percent again.

"Secondly, the US economy is slowing down (growth in the second quarter was the lowest since 1986 at 2.5 percent) resulting in reduced demand for SA produced goods.

"Export proceeds should also be hampered by sanctions and the low gold price and the only positive factor is a slow down in imports.

"Thirdly short-term capital outflows can be expected to increase rather than decrease - a R10.5 billion outflow is expected in 1989 and 1990 and debt repayment of R2 billion per annum still has to be reckoned with."

United concludes that in the current situation the Reserve Bank is not in a position to withdraw from the foreign exchange market as the resultant increase in forward cover rates will necessitate much higher interest rates. Therefore should policy not be tightened, taxpayers will have to continue bearing forward cover losses — Sapa
Shopping list shows how prices have risen

Few shoppers have followed the dismal saga of inflation as closely as Mrs Sheila Lord, vice-president of the Housewives' League, who heads a team of sleuths keeping a running record of price movements.

In a recent exercise to tabulate the havoc, she found that the average bill for 26 items at the top of many weekend shopping lists — toothpaste and toilet soap to margarine and cake flour — had more than trebled compared with 10 years ago. That was the average size of the prices spiral.

A few random items, selected as the cheapest on offer, make the gloom even deeper:

- Super grade fillet beef (1 kg) that it was possible to buy at R4,90 in 1980 now costs between R15,99 and R22,99, depending on the butcher — and luck.
- Pork chops (1 kg) to be found at R3 in 1980 are now from R7,49 to R15,69.
- Lamb chops, top of the pops at many braais, have rocketed from a low of R3,50 to a high of R16,59/kg.
- Frozen chicken (1 kg) has zoomed from about R1,40 to between R3,49 and R4,39.
- Fresh milk by the litre has gone up from 40 cents to between R1,19 and R1,25.
- Cheddar cheese (1 kg), rarely as much as R3 back in 1980, can now cost R9,69.
- Cornflakes (500 g) have jumped from 44c or so to between R2,15 and R3,25.
Don't just shrink there — do something.
No two ways about it. Growth (13)

If growth is to take place, it is essential that investment demand be increased. The dilemma, however, is that if growth is to be increased, then interest rates (which are also high) will have to be increased. Thus, the dilemma is whether to increase interest rates to induce investment or to keep interest rates low to reduce the cost of capital.

The Guide outlines the case for positive interest rates, arguing that low interest rates are a direct cause of inflation, and that high interest rates will reduce inflation. The Guide also argues that low interest rates will reduce investment, while high interest rates will encourage investment.

The Guide also points out that high interest rates will reduce consumption, while low interest rates will increase consumption. Thus, the dilemma is whether to increase interest rates to reduce inflation or to keep interest rates low to stimulate consumption.

The Guide concludes that the dilemma can be resolved by increasing interest rates to induce investment and low interest rates to reduce consumption. This will result in a balance between investment and consumption that is conducive to growth.

The Guide also points out that increasing interest rates to induce investment will reduce the amount of savings generated, and that the amount of savings generated is necessary to support investment. Thus, the dilemma is whether to increase interest rates to induce investment or to keep interest rates low to maintain the amount of savings generated.

The Guide concludes that the dilemma can be resolved by increasing interest rates to induce investment and low interest rates to maintain the amount of savings generated. This will result in a balance between investment and savings that is conducive to growth.

The Guide also points out that increasing interest rates to induce investment will reduce the amount of money available for consumption, and that the amount of money available for consumption is necessary to support consumption. Thus, the dilemma is whether to increase interest rates to induce investment or to keep interest rates low to maintain the amount of money available for consumption.

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The threat of recession hangs heavily in the air. It won't happen immediately, but in 1990 — if not voluntarily, then by inducement. The intensity, duration and spread of the coming downturn in domestic activity are likely to be less severe than the total onslaught of 1984/85, but it certainly be different from the recession of 1982. It could mainly be a consumer recession, which would be unusual.

Of course, few businesses will be entirely unaffected by such a downturn. Most companies will notice it, perhaps as to whether the policy foundation for an eventual recession, defined as two or more successive quarters of decline in economic activity, has already been put in place.

According to a preponderant view, one cannot expect to drastically raise interest rates, tighten credit conditions covering financial transactions and increase the tax burden without there being a major negative impact on the economy somewhere along the way.

**DRAG**

Such textbook predictability might be expected when the policy action is thoroughgoing, attacking all types of spending and all industrial sectors. However, the economy has acquired distinct structural weaknesses that cause widespread failure and maladjustment once the expansion has been stopped. At first glance, the policy action of the past 15 months appears anti-inflationary. Indeed, it has already been termed by some as “overkill.” Prime overdrafts up 7.5 percentage points to 20%, strangulation of hire purchase and leasing transactions by greatly increasing required deposits and shortening repayment periods, and the tax burden increased by way of fuel levy, import surcharge, SIT, spread capital gains and corporate loan levy. But the strength of the authorities' policy must be measured against the vigour of the economy: An economy whose strength has been undermined through a build-up of imbalances does not require heavy braking to be stalled. In contrast, a freeze does not imply a situation free of major flaws may require fairly harsh braking before policy action has the desired effect. It is easy to be concerned about the economy's inherent weaknesses. The consumer can be fragile and inclined to stop spending at the mere threat of uncertainty and hard times.

Similarly, businesses can be sensitive in their fixed investment decisions, pulling back at the first hint of adversity out of fear of involuntary stock building and slack capacities. However, not every economic recovery ends on such a basis.

Indeed, the international economy has been expected to go into recession for five consecutive springs and has not done so. Such durability in economic expansion is attributable to the absence of major problems, such as a rapid inflation build-up (indicative of excessive over-procurement) or large unsold stocks whose sudden correction can be highly destabilising.

**ROBUST**

The quality of sentiment among consumers, businesses and foreign trade partners is arguably as important. If their confidence levels are robust, for whatever reason, it will take a totoe to stop an expansion at the past eight years are bearing out internationally.

The economic growth cycle then tends to turn into a relay race, different sectors and participants at times carrying the baton, but their interplay prolonging it far beyond what the statistical average would call a normal business cycle. Because of balance of payment constraints and inflationary tendencies, the authorities have signaled for some months that they want the economy to slow down. Cees Bruggeman finds that strong growth abroad, abundant confidence and liquidity among consumers and the corporate sector mean that harder brakes are required to restrain the South African economy.

**VIVIDLY**

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Most analysts say recent fixed investment spending has been mainly for replacement and it will be easily absorbed into drying up. Such fashionable opinion is not borne out when one questions businesses directly. The phenomenon is not reflected by the national accounts, perhaps because the replacement cost of capacity has obliged fixed investment spending to take on the nature of debits and credits, a long-term process rather than immediate replacement. Modernization can be achieved along many different routes.

**EXPORTERS**

All this does not imply that fixed investment is expected. For all cyclical, but merely that it may be less sensitive for solid, positive reasons for the time being. That would make continuous winners out of the capital goods suppliers for as long as it lasts.

But sectorally, they are unlikely to be alone because there are the exporters and the farmers as well. It is an open question, but our economy is not as inherently weak as in the past three recessions. It has a weak party, it is the overtaxed and financially overburdened salaried individual.

But perhaps contrary to expectations, that does not include all of us. The focus on any economic adjustment may therefore be narrower than generally expected, and also less effective.

However, with a financial agenda inclined to call for more adjustment than achieved so far, the policy action promised date may not be enough to deliver a recession all by itself.

If it is recession that is desired, it may have to be induced, either through sharply reduced Government deficit financing or higher interest rates.
Pegging the rand to commodities basket would cut inflation

South Africa earns more than 40% of its foreign exchange income through the sale of gold bullion. Include the platinum group and base metals, and the figure is close to 60%. Last year exports accounted for 28% of GDP. Clearly, the price of internationally traded commodities is critical to SA's terms of trade. But what is the economic implication of this fact?

We intuitively appreciate a stronger gold and commodity price is good for the exchange rate. But is it merely through the mechanism of reserves and surpluses, or is it fundamental to a gold or commodity standard? It is the latter, and the benefit that a country derives from the relative price of gold or at least commodity standard country, and the sooner this fact is acknowledged the sooner the structures and benefits of commodity reserve currency will transpire.

Under a gold or commodity standard, the central bank supports the nominal price of a commodity or gold. The absolute price level is determined through the relative price of the reserve commodity. Although changes in the price of money to its commodity backing or shift in velocity can influence the price, the overall system possesses a "nominal" anchor in the fixed price of the reserve commodity.

In contrast, the price level and inflation under non-commodity backed money, better known as fiat money, is a function of the quantity of such currency. Through the equation of exchange, the value of money in terms of goods and services is determined.

Under a commodity standard, the price level and inflation are not subject to the whims of government policy. Some further implications of a commodity standard are worth noting. For one, changes in conditions of gold production (e.g., new gold discoveries, new mining technology) lead to changes in the price level. Increased gold production will lead to an increase in the price level. Holding the technology of gold production fixed, and the world price of gold, the price level will increase proportionately. And with a stronger gold price, we will have a stronger currency and, as such, promote economic distortions.

What do these observations imply for SA? For one thing, it is impossible to peg the rand to a gold standard. Another implication of a gold standard is that when its price level is fixed, the general price level will increase proportionately. And with a stronger gold price, we will have a stronger currency and, as such, promote economic distortions.

We know from trade theory that the real marginal product of a given factor is the same across national boundaries. Moreover, under relative conditions of free trade, the price of input factors (in terms of output) is the same in every country. Given SA's endowments and capital/labour trade-offs, one would expect us to export labour intensive and raw material intensive commodities as we do, but trying to obtain even greater exports by devaluing (through inflation) the rand will ultimately have a cost. In particular, it distorts resource allocation away from the country's secondary and tertiary sectors.

This is occurring at a time when, in fact, these areas have been acknowledged as critical for the future. By exporting less and at a more efficient scale, we may in fact be able to afford greater imports. Using currency as an accounting device, in order to subsidise the unprofitable aspects of the mining sector, results in inflation as well as inefficiencies to the entire system.

Given the nature of our economy, the rand should be pegged to a basket of commodities, weighted accordingly to exports. Exporters' Inflation would be stopped dead in its tracks, and resource allocation distortions would be time be corrected. If the net result is, perhaps, a 20% reduction in gold exports...well, so be it. There is no such thing as a free lunch, anyway.

As a conclusion, the primary factor leading to an inflationary bias, we also have unusual conditions in the financial sector, in particular with how the banks are regulated. Under the SA Reserve Bank system, a variety of assets qualify as liquid assets, all of which may be used to satisfy reserve requirements. These include...

Cash;... BAs of other financial institutions; and... Public sector debt instruments... (up to three years in length)

The reserve requirements for these assets vary but for cash it is 8% and will soon be reduced to 3%. For short-term instruments it is 20%. For the total asset pool of a given bank, 8% must be kept in cash.

The implications of such a system, compared to one in which only cash or near money may be used as assets to meet liquidity are quite serious. Banks, actually created by financial institutions, can be used to expand the monetary base and the supply of credit. If two banks create BAs and discount them to each other, the monetary base can expand.

Finally, the discount window at the Reserve Bank provides ready access to financial institutions in need of funds to satisfy such requirements. The net result is that the main tool of monetary policy - market operations - is ineffectual. The analogy would be if the Reserve Bank attempted open market operations by buying all the banks in their R10 notes. It is replaced with half as many R20 notes.

It should be noted that SA reserve requirements are low by the standards of international countries, which means that a little money goes a long way in creating credit, making the monetary base quite unstable.

To reform our system, only cash reserves and treasury bills should be allowed to expand liabilities and create credit. Under the current system, monetary policy is much too weak and it is in need of fine-tuning and steadfast in its credit creation rules. Attempting, for example, short period adjustment processes to make up for a lack of a short burst of easy-money for counter-cyclical purposes is very difficult.
Inflation jolt
as Reserve Bank sums up

By DEREK TOMMEY
Weekend Argus Correspondent
JOHANNESBURG — The Reserve Bank has confirmed what housewives have said along the inflation rate is higher than the figure given officically.

The support for disgruntled housewives might be unexpected but it is weighty.

The Reserve Bank has expressed dissatisfaction with an acceleration in government spending and warns that it might have to impose further restrictions on the economy if spending is not curtailed.

In a survey of the economy, released yesterday, the bank said inflation had accelerated "markedly and disturbingly" in the first two quarters of this year from its already high levels in the last two quarters of 1989.

"The extent of this acceleration tends to be concealed by the generally more widespread practice of quoting percentage increases in the various price indices only on a 12-month or year-on-year basis."

Some people might be shocked by the rate of price increases reported by the bank, but they are much in line with what housewives have found in supermarkets.

Domestic products

The bank says the price of imported goods increased by 30,7 percent — calculated for an annual rate — in the second quarter of this year. This followed a 19,3 percent increase in the first quarter.

The bank blames the sharp increase in import prices in the June quarter on the fall in the rand's exchange rate and on the import surcharges imposed last year.

The prices of domestically produced goods did not rise so fast but the increases were still significant.

These prices, calculated at an annual rate, rose 11,6 percent in the fourth quarter of last year, 18,9 percent in the first and 17,2 percent in the second.

The consumer price index also showed a sharp acceleration. On an annual basis, this increased by 9,2 percent in the first quarter of last year, 13,9 percent in the third quarter, 14,3 percent in the first quarter of this year and 18,4 percent in the second.
Wages keep up with inflation

Labour Reporter 6/11/89

Wages increased by an average 16.7 percent during the third quarter of this year, slightly ahead of the inflation rate, according to the Institute for Industrial Relations (IRR).

This was less than last year when pay rises were more firmly ahead of inflation, the IRR said, adding that tougher management attitudes and trade union restraint could be responsible.

Leading the field were the paper, printing and wood industries, where third-quarter pay rises averaged 19.3 percent. Next came commerce (18.9 percent), services (18 percent) and clothing and textiles (16 percent). Minimum wage increases averaged 19.2 percent.
Union wage settlements run ahead of inflation

ALAN FINE

UNION-negotiated wage settlements for the first nine months of the year are running ahead of inflation, but the level of real increases has declined appreciably compared with the previous two years.

This was one of the findings of two surveys released yesterday by the Institute for Industrial Relations (IIR) and consultants Andrew Levy, Johan Fron and Associates respectively.

With the annual inflation rate — as measured by the CPI — running at 15.5% in August, Levy found this year's settlements averaged a 17.3% increase on payrolls, while the IIR put the figure at 16.7%.

The 1.2% (IIR) or 1.8% (Levy) percentage point differential between wage increases and inflation — the real increase — compares to 5.4% last year and 2.5% in 1987 (see graph).

But, IIR senior professional officer Adrian Hersch pointed out, workers in the lowest-paid job categories won increases averaging 19.2% — still firmly above the inflation rate.

In some instances, he said, workers above the lower grades had attained, or were in sight of attaining, "some form of moderately respectable standard of living for themselves and their families".

The pressure emanating from them for higher increases was therefore not as great as it was in respect of their counterparts at lower levels, and this had contributed to the lower average increases.

While wage rates had increased sharply in the post-Witwatersrand era, much pressure remained for fairly large increases to be made in the lower job categories, Hersch said.

Levy's survey found that the unions achieving the highest increases were Cosatu's Commercial, Catering and Allied Workers' Union and Nactu's Building, Construction and Allied Workers' Union. Both unions, which operate in traditionally low-wage sectors, won increases averaging 19.3%.

At the other end of the scale, the Food and Allied Workers' Union achieved 15.9% increases.

The IIR survey, which measured increases by sector rather than union, noted the highest increases in the paper/printing/wood sector (19.3%) and commerce (18.9%).

Of the sectors surveyed, which excluded agriculture, lowest increases were paid in the financial (15%) and food (15.2%) sectors.

The IIR found that the motor and pharmaceutical sectors paid the highest average minimum monthly wages of R1 012 and R1 018 respectively. The mining industry, at R417, and construction (R556) paid the lowest.
Shoprite ups earnings in spite of inflation

PEPKOR-controlled supermarket chain Shoprite Holdings has ups earnings by 35% to 22.5c (9.3c) a share in the six months to August against the backdrop of climbing inflation and higher interest rates.

Turnover for the retail and wholesale-listed group, which markets food and non-food products to the broad lower to middle income group, increased 33% to R268m (R200m)

This was in line with the increase in operating profit, which rose to R6.8m from the R4.4m recorded in the same period last year.

Following a marginal drop in interest paid to R47m, pre-tax profit was 33% up at R2.8m (R2.3m). After tax of R2.1m, this translated into a 35% rise in after-tax profit to R3.7m (R2.7m).

Dividends of 4.5c (2.75c) a share, covered 2.8 (3.5) times, have been declared.

A strong balance sheet reflects a hike in total group assets to R106m — far off 1987's R77.5m.

ID Wellwood Basson described the results as satisfactory and was confident of maintaining healthy growth.

He added that the group continued to increase market share, while maintaining profitability, in spite of highly competitive trading.

Four new branches were opened in the half-year and all had performed above expectations, while two additional branches would be opened soon.
Inflation psyche dominating SA business

By AUDREY D'ANGELO
Financial Editor

SA society is so dominated by "the inflation psyche" that both management and workers think putting up the price of their product is one of the best ways to increase profit, surveys carried out by Project Free Enterprise have shown.

Describing this as "horrifying", the research team say in their report "Management, its workforce and the consumer have grown so used to the reality of inflation in the national economy that by far the easiest route to guaranteeing further wealth is perceived to be increasing the price of products and services.

"The implications of this mindset and its impact on the economy are horrendous. It requires the most urgent attention from policymakers in both the public and private sectors.

"This disease must be eradicated from the system if the economy is to survive with any semblance of real growth."

Project Free Enterprise, backed by more than 80 of SA's leading companies, was started in 1984. Its statement of intent says that it identifies itself "with the creation of a South African society in which stability, wealth creation and economic freedom are realised for all its citizens".

It has carried out three surveys since 1984. Its latest report, on Strategies for Economic Freedom and Growth in the '90s, says that there is now more common ground between management and workers than many people suppose.

It finds the labour force better informed than in 1984 — when a majority of unskilled workers believed that managers' salaries were the main expense of running a business.

But it believes there is a need for business education for everyone, to increase understanding of how labour and management are interdependent and how the economy works.

It stresses the importance of participative management and of share option and profit-sharing schemes in helping the workforce to see the advantages of a free market economy and the need for increased productivity.

And it discloses that there is a need for business education in lower and middle management, where surveys have revealed surprising ignorance.

Its latest survey this year has shown big changes in perceptions. In 1984, most semiskilled and unskilled workers saw raw materials as fourth on the list of a company's operating expenses, employees' wages fifth and machinery and plant sixth.

They considered management salaries the biggest expense, followed by taxes and the repayment of loans.

This year, they saw raw materials as the biggest expense. Tax remained the second but wages had moved up to third place, with managers' salaries fourth followed by machinery and plant in fifth place and repaying loans sixth.

In the 1984 survey, their first suggestion for improving a firm's income was to "pay whites less". Improved sales and output came fourth on the list.

This year "pay whites less" had moved down to fifth and last place, with improved sales and output at the top. But "increase price of product" had moved up to second from third place, in line with the perceptions of management.

Discussing the need for business education, the report says "At national level, a concerted attempt should be made to upgrade the knowledge and capabilities of the entire population."

"In this sense business education is a vital support to the deregulation drive and the extension of business opportunities."

It points out that Venezuela made major economic progress by way of a national educational advancement programme using radio and TV. "Similar success has been achieved in such Pacific Rim countries as Taiwan and Singapore."

"There is no reason to believe that the same results cannot be achieved in SA. But our policy makers need to recognise that business education is a matter for coordinated national action."
THE price of bread will increase by between 10c and 12c a loaf from November 1, according to radio reports. The increase is expected to be announced on Friday.

This will be the second increase in the price of bread this year. In April, white bread went up 5c to 90c and brown bread 7c to 76c.

The final decision should be taken by the Cabinet on Wednesday.

The increase has been prompted by higher wheat prices, more expensive input costs for bakers and millers, a request by retailers for a greater margin of profit and gradual phasing out of the government bread subsidy.

The increase is in step with the government’s policy of reducing overheads.

The bread subsidy cost about R17-million per annum.

Meanwhile, the Wheat Board has confirmed that the drought which caused widespread damage in the western Free State is likely to result in the expected harvest of 2.7-million tons not being realised.

A crop of between 2.3-million tons and 2.5-million tons should be reaped.

This may mean that some wheat may have to be imported — Sapa.

**Small investors wary after latest crash**

**CP Correspondent**

THE small investor is not usually seen at the Johannesburg Stock Exchange, and the latest increase in share values could make him even more wary.

The tumble on Wall Street echoed throughout the Johannesburg Stock Exchange this week as panic selling of shares by small investors pushed the JSE overall index down 10.6 percent to close at 2,388 points.

JSE dealers said small investors appeared to be yielding to the maxim “if there is to be panic, be the first to panic”.

“But who can blame people for behaving like that?”, asked finance broker Willie Ramoshaba of WR Consultants in an interview with City Press.

Ramoshaba said patriotism must have played a big part when government, economists and some analysts congratulated each other on the “excellent economic development” of the country in 1988.

He said they had overlooked:

- The 20 percent increase in national debt, combined with dangerously high growth in money supply.
- The sharp rise in interest on credit, which looks likely to climb in 1989 and beyond.
- The long-term downward trend in the gold price due to an oversupply on world markets.

“The development of the country is overshadowed by many economic and political uncertainties,” said Ramoshaba.

“On the other hand, home loan foreclosures by lending institutions are 200 percent higher than they were this time last year, reflecting the squeeze of higher interest rates and living costs.”

The Perm’s senior finance and accounting general manager, Peter Hibbit, believes the increased foreclosure rate indicates a replay of recessionary conditions in 1984 and 1985.

“The squeeze will accelerate structural readjustments in the home loans market as institutions relate individual lending to individual risks.”

Now JSE dealers hope the Iacor offer, which gives the public the opportunity to apply for 150 million shares at R2 each, will infuse fresh blood into the market — in the form of the small investor.

This positive move could be off-set, however, by the threat of higher interest rates.
Inflation rate shows first signs of easing

By Sven Lünsche

The fight against inflation by Reserve Bank Governor Dr Chris Stals is beginning to have some effect.

M3 money supply figures released at the weekend showed a surprising plunge in annual growth rates from 24.6 percent in August to 21.97 percent last month.

Yesterday Central Statistical Services (CSS) said the inflation rate had fallen to 14.9 percent in September from 15.5 percent in August.

Economists are reluctant to see the declines as proof of a marked slowdown in economic growth.

"We have not seen enough evidence of a slowdown and a more stable situation on the balance of payments to drop our guard," says Old Mutual's Dave Mohr.

But signs are emerging that the economy, in particular credit expenditure, which has been the main driving force behind the recent boom, is stabilising.

The latest money supply figures were also evident of this slower trend in credit extension, but it will take some time before this works down to substantially decreased demand for consumer goods.

Economist expect the inflation rate to start rising towards the end of the year and early next year, to be followed by a downturn in mid-1990.

Monthly changes in the CPI.

Says economist Adam Jacobs of Volkskas: "Inflation will still average about 15 percent this year, up from 12.9 percent last year, but this could decline to just over 14 percent in 1990."

Sanlam echoes the sentiment in its latest Economic Survey.

"At this stage, we envisage that the average rate of increase in the total consumer price index (CPI) will be slightly lower than 15 percent for this year and that it could drop a bit in 1990 if food prices do not rise unusually sharply and the Reserve Bank Governor's proposed intensified action against inflation is carried out."

Mr Mohr is more pessimistic. He expects a rate of about 16 percent by year-end and only a slight decline in 1990.

The head of the CSS, Dr Treurnicht du Toit, says the latest fall in the inflation rate was achieved off a statistically high base at the same time last year.

"Last year's monthly increase from August to September was a high 1.4 percent and a similar monthly rise in September this year would have kept inflation at August's level of 15.5 percent.

"Instead, the monthly rise was only 0.9 percent and the annual rate naturally had to decline," he says.

Another slight decline could therefore occur in October if the monthly increase does not equal or exceed last year's 1.1 percent rise in consumer prices from September to October.

But he advances a more fundamental reason for the decline: price increases on most categories of goods have been limited, with food prices, in particular, showing more modest rises.

The more stable rand exchange rate is also beginning to filter through to the consumer level through lower increases in the price of imported products.

But the full effect will probably only be felt next year.

Benefits of the steps to cool down the economy will also only show results once the latest rise in interest rates fully impact on the economy in mid-1990.

In the meantime however, higher mortgage bond rates, the spate of recent petrol price increases and this month's hikes in the cost of some basic consumer goods will push the inflation rate up over the next few months.
Inflation? The official figure is vindicated by many tests

Perhaps like so many other people you also do believe that South Africa’s current inflation rate is only about 15 percent, but in fact much more.

Also, like Professor Karl Posel, professor in mathematics at the University of Durban-Westville, you would like to think that the inflation rate is higher than 30 percent, as Professor Posel has claimed in many controversial articles.

Well, the good news (or is it bad?) is that the current method of compiling the average increases in the cost of living using the Consumer Price Index (CPI) is fairly accurate and is accepted by most economists as being generally representative of the true cost of living increases.

Professor Posel has in recent months attacked the Central Statistical Services in Pretoria as being ‘unscientific’ and trying to mislead the public. In reality, Professor Posel’s claims can be dismissed as a bit of windmill-chasing and lack any real substance.

Quite often I hear people complaining about the fact that ‘the price of milled rice has jumped by 40 percent in one year’ or ‘the price of going to the theatre has more than doubled in two years’. From these individual experiences one tends to extrapolate and thereby the CPI figures, currently around 15 percent, as being wrong and misleading.

Much as I would like to sympathise, this is unscientifi
cal. Perfect the CSS’s system might not be, but in the absence of anything better one has to accept these figures as being fairly accurate. Insurance giant Old Mutual tested the validity of the CPI figures about two years ago and concluded that this measurement is generally accurate. Other economists agreed.

A great deal of confusion exists over the CPI figures and how they are calculated. Based on countrywide expenditure patterns in 1986 the CSS has calculated the various ‘weights’ of spending categories in the overall spending pattern.

Different ‘weightings’

According to the 1985 figures housing has an average weighting of 22.5 percent in the average South African household, transport 5.9 percent, food 23.2 percent, furniture and equipment 4.7 percent, clothing and footwear 6 percent, vehicles 5.5 percent, other transport 5.9 percent, beverages and tobacco 2.9 percent and other assorted items 11.1 percent.

Recognising that people from different walks of life have different spending patterns, the CPI divides people into four categories, namely upper income, middle income, lower income and pensioners.

It stands to reason that someone in the so-called upper income class is bound to have a different spending pattern than someone in the lower income class. People in the higher income group experienced a higher rate of inflation in recent years than other classes due to their exposure to goods affected by the sharp decline in the rand exchange rate.

A recent innovation by the CSS has been to calculate an inflation rate for pensioners. Retired people on average would spend more of their total income on medicine, for example, and less on transport and motor vehicles. And in many instances, retired people have paid off their mortgage bonds, leaving them free from the vagaries of volatile interest rates.

The CPI figures are often criticised on the basis of individual experiences. For example, in June the inflation rate for housing rose by only 1.5 percent on an annualised basis. But at the same time — and this is what many people fail to understand — mortgage rates had risen by 4.6 percent over the preceding 12 months.

To many people this means that housing rose by 46 percent. That might perhaps be true for the some 700,000 people with mortgage bonds, but there are many people who either have no bonds, or who rent their homes, and to expediently remove them from the calculation would be erroneous.

So while you might think that the inflation rate is, in fact, much higher than the official one, this is not true. It might just be that your spending pattern needs downward adjustment.
Hedging bets

While the economy has been crippled by inflation, the equity market has benefited. At the FM Investment Conference last week, stockbroker Ivor Jones noted that the higher the rate of inflation, the higher the concentration of investment in equities.

"Price performance (has been) driven by earnings and dividend growth which more than kept pace with inflation," he said. This is because, to an important extent, profits flow from price increases.

For this reason, Jones points out, growth companies which publish volume growth which grow in real terms, will prove better investments than those which rely on price increases to produce profit growth.

Companies which have benefited most from inflation are those in the industrial sector which pass on cost increases to consumers. Gold mining, which is a price taker and not a price maker, has lagged.

Gold mines have relied heavily on depreciation of the rand to produce profits. Now that the gold price in rand terms has flattened, "some bold and imaginative tax reform" could revitalise the industry.

A victim of rampant inflation has been the bond market. In 1972 terms, says Jones, Reserve Bank stock is today worth about 8c, compared with 132c that year.

Replacement of prescribed asset requirements for pension funds and life offices with prudent investment guidelines could be an acknowledgment by the authorities of the damage inflation has inflicted on savers. Now these organisations, which attract the bulk of savings, no longer have to invest so much in cash and government stock.

He suggests the odds favour inflation falling, which could hold some hope for improvement in bond prices.
Accounting for inflation

Peter Wilmot is a partner at PwC Goldby

The accounting profession has unwittingly contributed to inflation by failing to report, in unequivocal terms, the impact this disease has had on the financial health of corporate SA. In times of high inflation, historic cost financial statements are, at best, misleading. Profits reported are more illusory than real. This is because revenues are reported at current values whereas expenses, arising from the utilisation of fixed assets and the cost of goods sold, are reflected at historic costs which may or may not bear any relationship to current costs.

Furthermore, the balance sheet, often described as a graveyard of deferred costs, reflects an aggregation of net assets acquired over many years at varying costs which bear little relationship to current values. Despite these agreed shortcomings, the accounting profession and academics have been unable to devise an acceptable system which accounts for these distortions in the presentation of financial information.

In 1980, an attempt was made in the UK to introduce a mandatory system of current cost accounting for all significant entities. This accounting standard evoked considerable condemnation from preparers of financial statements and the profession and led to its withdrawal in June 1985. Reasons for the failure of this standard included:
- Complexity of calculations (accountants have a failure for being precisely wrong rather than approximately right),
- Subjectivity of information on which calculations were based,
- Assumption that all fixed assets would be replaced at current costs,
- Concern whether the information produced was meaningful to users, and
- Lack of demand from users for this type of information.

Withdrawal of this standard also concurred with a significant reduction in the inflation rate and the whole problem assumed a much lower significance. In SA, unfortunately, the option of being able to sweep the inflation bogey under the carpet is not available.

So the decision by the profession to issue a proposed statement of generally accepted accounting practice (GAAP), Exposure Draft 77, on the disclosure of current value information must be applauded as a bold and decisive step. The additional statement attempts to throw open supplementary disclosure, the impact inflation has on the operations of an entity through:
- A current value income statement allowing for current cost of sales and depreciation, recognised holding gains on non-monetary assets and recognised changes in value of monetary assets and liabilities, and
- A current value balance sheet.

This information — with suitable disclosure as to the basis on which current values have been estimated — should enable an investor to satisfy his two fundamental objectives, whether the real value of the investment is being maintained and whether the real return is acceptable.

The proposals are unique — in particular those relating to the comprehensive income approach, which requires that all value changes, realised or not, should be recognised.

It would be naive and foolish to believe this standard will be accepted with open arms. Financial analysts will undoubtedly argue that it is their task to assess the current values of an entity and not the purpose or function of the financial statements themselves.

Preparers will argue that the subjectivity of the exercise destroys its credibility and that it is not justified on a cost/benefit basis. Equally, they have a genuine concern that the use of replacement costs for fixed assets is unrealistic because major items of plant are not usually replaced but refurbished.

This prejudices current shareholders in favour of future shareholders because of higher-than-necessary depreciation charges, worsened by the use of unrealistically short asset lives, often based on periods acceptable to Inland Revenue rather than the genuine working life of the plant concerned.

These issues need to be addressed but,ironically, were Revenue to agree that tax be levied on inflation-adjusted profits, the resistance to disclosing inflation-adjusted financials would evaporate overnight.

Meanwhile, the proposed phasing out of various tax allowances will cause the average rate of tax paid by companies to rise substantially from the current level, which is still considerably lower than the statutory rate.

This could generate support for a fresh approach to Revenue to accept inflation-adjusted profits as the basis of taxation.

However, for this to succeed, inflation-adjusted financials must become the accepted way of presenting information to shareholders.

Whatever the perceived shortcomings of the proposals, we need a system of accounting which recognises the realities of inflation.

Critics must make suggestions for an alternative on how to tackle the problem rather than reject this initiative out of hand.
BUSINESS

Same numbers, same sums, but not the same answers.

Two different economists examine the foreign exchange drain and come to very different conclusions.

HILARY JOFFE reports

TWO economists who this week highlighted South Africa's losses on forward cover for foreign trade transactions have drawn some different policy conclusions from the figures.

Both Volkskas Bank's Adam Jacobs and the United Building Socierty's Hans Falkena highlighted the foreign exchange drain the country was experiencing as a result of losses on the forward cover (insurance) the Reserve Bank provides importers and exporters.

In Volkskas' latest Economic Spotlight, Jacobs estimates losses on forward cover, a result of the devaluation of the rand, amounted to more than R1.5-billion by the end of June. Falkena gives the figure as a special United report on foreign cover.

Falkena concludes from this that interest rates must go higher - he suggests a prime overnight of 324 per cent (compared to the current 21 per cent) would be needed to prevent South Africa losing about R60-million a year on import cover. Losses in the current year could be R1-billion. He also argues the Reserve Bank should stop providing the cheap forward cover it has offered until now.

But Jacobs suggests caution - the Reserve Bank could not withdraw from the foreign exchange market without the serious consequences resulting from a sharp hike in interest rates and the further deterioration of the rand. He stresses instead that the financial authorities must implement more change in the domestic economy in order to protect the balance of payments, rather than relying on the depreciation of the rand. In particular, he focussed on the need to cut government spending.

Both studies dovetail to some extent with Reserve Bank governor Chris Stals recent decision to raise interest rates in response primarily to interest rate crises across the world, in order to prevent capital outflows.

The Reserve Bank provides cheap forward cover for businesses to borrow foreign currency from foreign banks. Importers, for example, can buy cover from the Bank which will insure them against the possibility of the rand falling against the dollar between the date they agree to purchase foreign goods (in dollars) and the date they actually have to pay for them.

The Reserve Bank's losses on the forward cover of the rand falls - since it has to make up the original dollar price - but it is the Treasury, which actually foots the bill. And that can mean an outflow of capital reflected in the balance of payments.

Normally traders would borrow money in any country which was most payable, depending on relative interest rates in real terms (taking inflation into account). But through its forward cover system the Reserve Bank encourages importers to borrow overseas, even when real interest rates are higher there. This delays capital outflows because the importers borrow in foreign currencies, and only have to use South Africa's foreign exchange reserves to repay these loans later on.

As Falkena explains, "The Reserve Bank also encourages importers to obtain trade credits from foreign banks at local borrowing would simply add more pressure on the foreign exchange reserves, which are often at a critically low level."

"To make such foreign borrowing attractive, the cost of foreign funds

Inflation rate, % change

<table>
<thead>
<tr>
<th>Country</th>
<th>1982</th>
<th>1983</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
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<td>12.2</td>
<td>11.0</td>
<td>2.20</td>
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<tr>
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<td>5.0</td>
<td>3.75</td>
<td>4.25</td>
</tr>
<tr>
<td>Canada</td>
<td>4.4</td>
<td>4.5</td>
<td>4.1</td>
</tr>
</tbody>
</table>

(Total (GBC) 3.4  4.5  4.1)
Wage rises barely ahead of inflation

Weekly Mail Reporter

Wage increases were slightly ahead of inflation in the first three quarters of this year, with increases in minimum wages well above average, according to the Institute for Industrial Relations' latest Information Sheet.

The IIR found average wage increases to the end of the third quarter were 16.7 percent, moderately ahead of the 15.5 percent inflation rate for the period. This is a change from last year, when average wage increases were significantly ahead of inflation.

But average minimum wage increases were 19.2 percent, according to the IIR, "firmly above the rate of inflation".

Highest minimum wage increases were in paper, printing, wood (24.1 percent), services (22.3 percent) and commerce (21.9 percent).

Sectors in which average wage increases were highest — across the wage grades — included paper, printing, wood (19.3 percent), commerce (18.9 percent) and clothing/textiles (18 percent).

Some observers have attributed unions’ achievement of lower average increases this year than last to tougher management attitudes which have brought about "union restraint".

But, writes IIR senior professional officer Adrian Hersch, "workers above the lower grades have in some instances attained, and many are at least within sight of attaining, some form of moderately respectable standard of living for themselves and their families.

"Thus the pressure emanating from these union members for relatively large percentage increases is not as great as it is in respect of their counterparts at the lower levels."
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3-9/89
Inflation bites council
entertainment budget

INFLATION, with all its attendant ills, has caught up
with the Johannesburg City Council's entertainment
budget.

Soaring costs now had to be taken into account when
the mayor was asked to offer hospitality, city council
officials said last week.

Civic entertainment has been hit particularly by the
inflation rate.

Council officials have complained that since last year,
the rising inflation rate — from 13.9% in 1967 and 1968 to
15.6% at present — was the biggest factor in pushing up
the cost of official entertainment and making it an
expensive exercise.

They said a cocktail party for 40 or more guests, which
cost R28 a head a year ago, now cost more than R35 per
person.

"Lunches, dinners, buffets and braais then costing R35
a head are now close to R40 a head. This also includes
banquets."

Figures also showed that the cost of popular cheese
and wine parties, which worked out at R23 a head last
year, had shot up to more than R34 a head.

He said by cutting out alcoholic drinks at mayoral tea
parties, they managed to keep the cost to R16.50 a head.

"Drinks and mixers are estimated to account for R8 a
head at these civic functions, while a further R4 per
person is spent on flowers, the printing and posting of
invitations, transport to parties not held at the Civic
Centre, taxis to take staff home and overtime payments."
There are ways in which SA can beat inflation problems

MIKE DALY

There appears to be a renewed commitment at the Reserve Bank, and indeed at Cabinet level, to bring SA's inflation rate down to below 10%, and possibly even to the level of our major trading partners over the next few years. The key policy instrument in this regard will remain the "orthodox" one of maintaining a tight monetary policy, involving a high real level of Bank rate and resultant money supply growth within an appropriate target range.

This approach has been followed in the 1990s with considerable success in the US and Western Europe. The common experience, at least in the earlier phases of this orthodox anti-inflationary policy, was for these countries to suffer sharp falls in real output and rising unemployment, with the consequent scaling down of wage demands and, in fact, a severe weakening of the trade union movement generally.

In the US, workers had by 1982, three years after the start of the Federal Reserve's "monetarist experiment", been effectively scared out of seeking wage increases anywhere near the then 9% inflation rate.

As seen in some of the airline companies, target range management agreed to postpone wage increases to protect the viability of the company.

This did not prevent massive job destruction in general, however. By 1983 the unemployment rate had risen by 67% from four years earlier.

In effect, prolonged unemployment led to the forcing down of nominal wage increases without controls, ie official incomes policies. It appears that the real costs of disinflation achieved by monetary policy are inevitably high, in spite of monetary targets being pre-announced by a central authority enjoying more initial credibility than our own.

The question arises whether the South African authorities will maintain a tight monetary policy stance until inflation is beaten, in a situation of falling output and job destruction that could well prevail a year or two from now.

The black population is going through a stage of rapidly rising expectations which would be frustrated by a steep economic downturn. Social unrest could result, just when the government wishes to lift the state of emergency to get the negotiation process off the ground.

A largely different approach to that outlined above has been used in the mid-1980s by countries with admitted very severe inflation problems, namely Israel, Argentina and Brazil.

This is the so-called "heterodox" stabilisation programme, a central aim of which was to achieve a new low inflation equilibrium through significant budget cuts and a co-ordinated movement of the exchange rate and wages to new equilibrium levels, while minimising the adverse effects on output and employment.

The key aspects of the programme, as implemented in these countries, have included:

- Cuts in the budget deficit. Deficits were usually high and rising and financed largely by bank credit for a number of years preceding the acceleration in inflation.
- A suspension of wage contracts, which had been linked to the current inflation rate to protect real wage levels.
- A once-off devaluation of the general overvalued currency, followed by the targeting of the exchange rate to a stable external numeraire, the dollar. From then on the rate of depreciation of the currency was restricted as far as possible.
- To date only Israel has enjoyed significant success from its efforts, with the inflation rate falling from a peak of more than 400% a year in 1984 to between 1% and 2% a month as little as a year later.

Nevertheless there could be some pointers for SA in its renewed anti-inflation drive, in spite of some important differences with these countries, not least of which is our comparatively lower initial inflation rate.

Firstly, SA has not experienced significant budget deficits relative to GDP over an extended period, nor relied on bank credit for its financing to any unhealthy degree.

Mercifully we are spared the political nightmare of aggressive budget deficit reduction, which nearly unravelled the anti-inflationary programmes in Israel and Latin America.

Secondly, calls for wage restraint or a formal incomes policy are generally unpopular in SA, the largely unsuccessful experience in the 1970s in Britain and other developed countries being the main motivation.

This is in spite of the fact that government, because it sets remuneration rates for the 1.7-million strong public sector every year, is willfully engaged in an incomes policy all the time. There should be no a priori objection to an extension of this to the economy as a whole.

It is true that salary and wage increases in the 1980s in SA have usually been well in excess of the official inflation rate, and few would argue that the country is not on a remuneration system de facto linked to the current or expected inflation rate, whichever is higher.

Except in times of great economic stress, for example 1985 and 1986, the wage-inflation graph suggests that remuneration per worker has been "excessive" compared to the CPI inflation rate, and observation of the labour scene suggests that increases below the inflation rate are unlikely to be tolerated. This is not an environment conducive to significant progress against inflation.

While an explicit agreement between the public and private sectors may be indispensable to lowering the inflation rate in SA without a catastrophic rise in unemployment, it is probable that only acute inflation and a general acceptance that it must urgently be addressed, as in Israel in the mid-1980s, can make a wage restraint policy stick in a situation of rising prices. The absence of this condition makes a strict incomes policy in this country a probable non-starter for the foreseeable future.

The final planks in the heterodox programme, and the most uncertain in the stabilisation of the effective exchange rate of the rand, the exchange rate graph shows that the effective or trade-weighted rand has remained very steady after the lows reached in late 1985.

The question is, does significant appreciation or depreciation be a way to protect the rand's foreign exchange value would be to employ our gold and foreign exchange reserves in the foreign exchange market. The problem is, we do not have the reserves.

The answer, which depends on windfall rather than on policy action, is if the "effective" gold price is dominated in terms of a weighted basket of major currencies, were to rise strongly. The effective exchange rate would be pulled up along with it, and mean SA's openness to international trade and prices, our inflation rate would fall.

Without a rise in the "effective" gold price, facing a year with paper-thin foreign exchange reserves, a massive foreign debt repayment obligation and political uncertainty, the exchange rate may be far from stable in 1990 and make significant progress against inflation impossible.

The problem with the monetary authorities is that the exchange rate could conceivably fall in spite of even higher real interest rates than at present if the gold price does not co-operate. After all, the effective value of the rand fell by nearly a third during 1984, a year for gold, in spite of the prime rate reaching 25%.

A tight monetary policy, given an unconducive external environment, may not contain inflation and would be abandoned before the economic pain level reached that of 1985-86.

Reserve Bank Governor Chris Stals and his team are going to need all the luck they can get.

Daly is chief economist with Southern Life
Inflation causes high crime rate, Sergio

By MZIKAYISE EDOM

INFLATION is caused by all South Africans and there is no use pointing fingers or trying to attach the blame on any one specific body or person.

This was said yesterday by Checkers acting group managing director Mr Sergio Martinegro at the Checkers consumer award seminar held in Johannesburg.

Delivering a paper titled "Food Inflation," Martinegro said, "Inflation affects every one of us and we must nevertheless realise that the South African economy is in a very sorry state and that, as a country, we must do something about it."

He said the high rate of crime was also caused by inflation. "The more we steal from the Government by not collecting and paying over general sales tax and the more that is stolen from retailers and stores, the more we fuel inflation," he said.

Plans by the Government, he said, to introduce deregulation and privatisation will not necessarily reduce inflation in the short term. "In fact, privatisation may well cause prices to increase initially but it allowed to develop, it will certainly bring price benefits in the longer term."

Martinegro added that if the Government does not receive its full revenue from taxes and finds that it is unable to curb expenditure, all that happens is that tax rates are increased and the inflation rate goes up.
Inflation shrinks a further 0.01%  

INFLATION, as measured by the rate of increase over a year in the consumer price index (CPI), dropped 0.1 percentage point in October to 14.8%. This second successive monthly decline after a peak of 15.5% in August surprised economists. While they see it as an encouraging sign that inflation might not surge as high as initially feared, they warn a down-trend is not yet in place.

The CPI now stands at 185.1 (1988=161.3) — this means it now costs R185.10 to buy a basket of consumer goods which cost R161.30 a year ago and R100.00 in 1988.

Old Mutual's David Mohr notes the decline in the annual rate of increase in the CPI can be seen as technical. Last year's sharp increase in housing costs (2.2%) between September and October far exceeded this year's (0.4%).

"But this item in the basket is sure to rise in future months because of the last increase in mortgage rates."

Volkskas economist Adam Jacobs says the sharp rise in medical costs, a possible acceleration in food price increases and high growth in the money supply indicated the rate of increase would rise again.

Standard Bank's Nuo Czypionka is encouraged that SA will see a lower peak in the inflation rate than in previous cycles.
A little less momentum

A firmer rand suggests caution — but inflation remains a persistent factor

Rand-hedge shares have long been favourites on the JSE. They were in demand — and proved highly rewarding — during the market doldrums of 1988 and remained popular during much of this year. A strong dollar, SA's relatively high inflation rate and a soggy gold price meant that for much of that period the rand depreciated sharply. The result was that companies with substantial assets abroad, or which are major exporters, gained high ratings on the exchange.

But the rand has halted its slide. Now gold is looking more buoyant, the dollar is weakening and political sentiment on SA appears to have brightened. In June the rand reached a low of about US$34.8c but in recent weeks has been valued at around 38c.

As the graph shows, the rand has essentially been in a weak trend for more than five years — but it doesn't depreciate in a straight line. Like the dollar gold price, the currency fell fairly steadily during 1983 and 1984 but consolidation came in 1985 and bullion's recovery from mid-1986 saw a firmer trend for the rand through most of 1987.

When gold retreated from nearly US$500/oz at the end of 1987, the rand weakened too. Right now, as underlined by last week's bull run in gold shares, there is widespread optimism that gold will move higher — or at least remain above previous levels of around $360/oz. That raises the question of how the rand will behave now and what the implications are for rand-sensitive stocks.

Part of the reason why a recovery in gold tends to lift the rand lies in the resulting favourable effect on the balance of payments. And gold is not the only factor that has changed this outlook. A slowing economy should mean diminished demand for imports during next year and that, too, should benefit the current account.

Another influence on the rand is foreign sentiment towards SA. There are signs the gloom of the P W Botha era has eased and that should result — at least for a while — in less downward pressure on the commercial rand, and probably also a firmer financial rand with a narrower discount. If so, that will influence prices of internationally traded stocks such as De Beers.

Of course, previous trends are not necessarily repeated. Investors are now watching to see how closely the rand will retain its correlation with gold. But currency-sensitive stocks cannot now be bought simply on the assumption that they will do well because a weaker rand is expected. It should be assumed that the rand will remain roughly stable, or move a little firmer, and each share should be assessed on its merits.

Though fundamentals are still not encouraging, gold shares have responded vigorously...
to a more bullish bullion market. The seeming-
ly further prospects for precious metals have
helped underpin one of the JSE’s prime
rands-hedge sectors, mining houses and min-
ning financials Anglo American, at R106, is
close to its high of R108.50, GFSa, which
ranks some 80% of its income from gold,
trades at R93 compared with the high of
R95; and Generar, which is less exposed to
gold, is expanding elsewhere, has slipped to
975c from 1 157c.

In the diamond sector, De Beers officially
derived only 18% of last year’s after-tax
profits (excluding the share of retained profits
of associated companies) from SA, with
5% from Namibia. Apart from the firmer
date, the share could be adversely affected
by a stronger financial result as long as recent
market developments — which apparently
exclude consumer resistance to the better-
quality gem diamonds. The group should
increase earnings again next year but the
share has weakened to 5 750c from 6 760c on
June 26.

Many of the recognised rand-hedge shares
are exporters, particularly of commodities
Apart from precious metals and coal, the
dollar prices of most of these commodities have
softened (Leaders November 10). Fer-
rochrome and vanadium are sharply lower,
copper is off its peak and so is tin. At best,
the companies in these sectors have generally
gone ex-growth.

The recovery of the coal sector may not yet
have run its course. A recent last report of
fulfilled attributable earnings for the six months
to end-March of R129.4m (R75m), and is
forecasting similar earnings in the second half
on the strength of maintained US$ export
prices. According to Allen Cook, deputy
chairman of Rand Mines’ coal division, over-
seas buyers have been displaying greater
interest in SA coal. Some analysts think both
earnings and volumes will improve fur-
ther over the next six months.

Consolidated Metallurgical Industries, a
specialist ferrochrome producer, is directly
exposed to ferrochrome markets and its
share is trading around 1 400c compared
with the high of 2 200c in March.

Samancor is another ferrochrome produc-
er but also gains a sizeable portion of its
profit from ferromanganese, manganese ore
and ferroalloy, whose prices have so far
remained relatively firm. However, the
share, which is seen as a prime rand hedges
to 1 865c, some 25% below the high of
2 500c on September 8.

Vasco, with interests in platinum —
through a 24% stake in the new Barplats
mine — vanadium and chrome ore, has
slumped from 910c in April to 510c. Prices
of vanadium pentoxide have tumbled and
increased supplies in international markets
could presage further price falls next year,
but the company is forecasting improved
profits from vanadium as a result of higher
production and more cost-effective opera-
tions.

Highveld Steel, the major producer of va-
adium pentoxide, recently announced it had

cut production at its Vantra works and is
apparently using the softer market to carry
out essential maintenance. If present prices
persist the group’s profits must retreat from
the recent high base. Like most other com-
modity exporters, however, the stock was not
pushed to excessively high earnings multi-
plies. At 1 485c, down from the August peak
of 2 230c, the historical P/E is only 4.4 and
the dividend yield of 4.5%, so probably the
cost is not particularly brittle.

Palabora, primarily a copper producer,
has seen its share slip from 6 675c in August
to 6 150c. The copper price has shown more
moderate weakness and looks set to drop further,
though a few weeks ago there were concerns
that a copper shortage could develop.

Among industrialists, pulp and paper pro-
ducer Sappi has reported that dollar prices
of certain of its major export products have
topped out. However, CE Eugen van As
noted recently that its export markets were
diversified and it trades in other leading
currencies such as the pound, mark and yen.
The share has dropped to 4 100c from 5 150c
in early October.

Barlow’s Middel-
burg Steel & Alloys has had a tremendous run
over the past two years and become
an important con-
tributor to Barlows’ earn-
ings. Thanks partly to
Middelburg, but also to
a general effort to expand
exports and invest abroad,
well over 30% of Barlow’s
attributable earnings are
gained from exports or
earned in foreign curren-
cies by offshore subsidiar-
ies.

In the 1990 year, Mid-
elburg cannot come close to
maintaining its growth
pace of 1989, though pro-
mits may be cushioned by
a lower tax rate. The slow-
down there will happen at
the same time that interest
rates of 20%—plus exert a
righter clamp on the domes-
tic economy. However,
recovery in areas such as
cocoa will help ensure that
Barlows will maintain real
growth in 1990. The share
slipped from 6 625c on
September 30 to 4 150c.

With interests such as
Highveld Steel, Boart and
Mondi providing a large
chunk of the earnings, Amic is even more randsen-
sitive than Barlows. The share trades at 1 725c,
down from R1 40c on
August 29.

Sasol’s profits are linked to the ran-
d parity of international prices of oil and

petroleum products. Thanks largely to its
chemical operations, the group’s earnings
rose this year by more than 30% — but
uncertainty about the outlook for the synfu-
sel business saw the share slip from 1 370c in
August to 1 120c this week. If, as is expect-
ed, a more favourable form of “protection”
is announced for local synfuel production later
this year, that should help bolster the share.

Prices of the two big “pure” rand hedges,
First International Trust (FIT) and Rich-
mont, whose assets are wholly offshore,
have cracked sharply FIT trades at 1 050c
against 1 650c in March, while Richmont
stands at 1 600c, down from 1 785c during
September.

Even now FIT offers a demanding pre of
47.7 times — but with its three large property
developments around London still to come on
stream — and the first of these, Thurrrock
Lakeside, to open in 1990 — some analysts
believe FIT will become more interesting.
Richmont on the other hand has been buoyed
by expectations of its deal with Roth-
manz, announced on November 9. Rich-
mont’s long-term attractions have been en-
hanced but the share may not do much in the short
term.

While the recent weak-
ness of many rand-hedge
share prices suggests that
the market has been quick
to react, it is of course true
that the industrial sector as
a whole has retreated. The
JSE Actuaries Industrial
index fell last month to
2 306 and stands at 2 560,
nearly 10% below the all-
time high of 2 838 reached
on August 25.

But shares such as Rich-
chon, Sasol, Sappi, Bar-
low, Amic, Safren and
Rengro — all currency-
sensitive with large market
capitalisations — together
comprise a large part of the
index. The rand thus influ-
ences the index and, while
a firmer currency may re-
fect a healthier economy, it
may also help restrain
any upward movement in the
Industrial index.

At this stage, analysts
are generally suggesting that rand-hedge holdings be lightened rather than
sold out.

As long as SA’s inflation
rate remains substantially
higher than inflation in
leading Western economies, the reason is to
downplay the view that the rand will remain a rela-
tively weak currency over the longer term.

Andrew McNulty

FINANCIAL MAIL NOVEMBER 24 1989
Feeding inflation

Does the further decline in the inflation rate, experienced in October, signal the beginning of a drift? That month's rise of only 14.8%, as measured by CPI, again surprised economists — after increases of 15.5% in July and August and 14.9% in September. Growth in seasonally adjusted October CPI was 1%

Economists polled by the FM see the decline as a temporary respite and expect inflation to re-accelerate in the coming months. But they believe it won't reach the levels they had predicted earlier in the year. Most now see the top at 16%.

Predictions when the rate may fall, fundamentally range from early 1990 — Standard Bank chief economist Nico Czyponka — to early 1991 — Econometrix chief economist Azar Jammine.

Jammine attributes the comparatively low rise in CPI in recent months to "modest increases in food prices as a lagged consequence of the ending of the drought. Meat prices have risen only 6% in the past year and vegetable prices only 7%.

As the weighted average of food is 22.72% of CPI, it is crucial to overall inflation which, Jammine points out, stayed stubbornly high in 1986-1987 "despite very low monetary growth, as it was distorted by food price inflation — which hit a peak of 27% in the first half of 1987. Similarly, in the first half of 1989, when food fell to a low of around 8%, CPI increases were surprisingly low.

The downward trend in food price inflation seems to have ended. Non-adjusted, the monthly change in CPI was 0.9% and largest contribution — just over a third — came from food. It rose 1.7%, meat by 0.7%, fish 2.8%, milk, cheese and eggs 1.3%, fruit and nuts 6.2%, vegetables 2.9%, coffee and tea 2.1%, other food products 3.7%

Says Jammine: "Food CPI rose 10% year-on-year in October and this could accelerate to 14% or 15% by mid-1990." With the previously moderating effect of food eliminated, Jammine predicts monetary growth will drive inflation.

"We have not seen the end of the preceding upward trend because the effect of the high rate of monetary growth over the past two years has not finished filtering through."

Old Mutual economist Ruan le Roux expects the improvung rand to offset, to some extent, future rises in food prices. "There may be a small rebound in the rate but it is unlikely to exceed much the July peak of 15.7%" But he thinks there will be no marked or sustained decline for some time — "perhaps the second quarter of next year."

Most optimistic forecast comes from Trust Bank economist Jacques du Tert, who sees "a slight upturn until the end of this year to around 15.5% for a 1989 average of 14.7%. It will fall during 1990 to an average of 14.5% or lower, ending the year around 13%.

The index for the lower income group shot up by an unadjusted 1.4% in the month to 184.3 (13% year-on-year). Czyponka says this group is likely to experience an even sharper rise in coming months because of the higher bread prices, which affects low income earners most. Food has a 35.27% weighting in the lower income group, against 26.87% in the middle and 16.26% in the higher.

The higher income group at 185.8 in October 1989 rose 0.7% monthly and 15.8% year-on-year. Higher transport costs and mortgage rates are likely to hit inflation for them."

Another surprise

1-month increase in CPI

reported monthly

FINANCIAL MAIL DECEMBER 1, 1989
Business community will need strong nerves next year

By Jabulani Sikhakhane

Favourable business perceptions of recent political initiatives by State President FW de Klerk helped lift business confidence in November although short-term economic prospects are dim.

After a sharp decline in October to 93,6 points, Assocom’s business confidence index has recovered to 95,6. Assocom says the improvement in the business mood in November in the face of largely cheerless short-term economic prospects illustrates the significant role political developments and the gold price play in shaping business mood.

However, it warns that the underlying trend is likely to be one in which business mood continues to adjust to changing economic realities.

Assocom says the current economic policy stance is unlikely to be reviewed until the Budget in March 1990 and thus unwinding a negative impact on consumer demand, especially for durable goods.

New private fixed investment is likely to level off in response to tougher economic circumstances. Insolvencies may also rise further, but many companies should be entering the current business downturn in a sounder financial position than in 1984-5.

Summarising, Assocom says 1990 will be a year of much lower growth, slightly lower inflation and a larger surplus on the current account of the balance of payments. “It will be a year of strong nerves for the business community.”

Among positive factors that influenced the November BCI were a sharp advance in the JSE overall index, on the back of the firmer gold price, the strong recovery in merchandise imports and exports and a recovery in the volume of manufacturing production.

Inflation was also down from 14,8 percent in October to 13,8 percent, while the increase in the number of cars sold in November and a recovery in real retail sales were other positive factors.

Negative influences included the October increase in the prime rate to 21 percent and further rises in three months bankers’ acceptances rate in solvencies were still up and building plans passed showed a decline in value.
ICS call to help beat inflation

THE food industry can help lower inflation by increasing productivity and eliminating waste throughout the food chain, Imperial Cold Storage (ICS) chairman Robbie Williams says.

In the meat, poultry and dairy producers’ latest annual report, he says the availability of foodstuffs at affordable prices is “critical” to stability.

"Primary producers, processors, distributors and retailers must strive to improve efficiencies in the food industry," he says "effective privatization and deregulation will reduce government expenditure, provide new challenges and create opportunities for entrepreneurs.”

Williams says the role of control boards in a more market-oriented free enterprise economy will have to be carefully planned, bearing in mind the long-term viability of agricultural producers and health and quality standards.

ICS, an investment holding whose subsidiaries and associates produce and distribute perishable foods on a national basis, delivered a 20% increase in total dividends of 48c to shareholders in the year to September. This was despite slower growth reflected in a 14%
Corporate world at odds over inflation accounting

There seems little doubt that any attempt to deal with the impact of inflation on the real operating performance and financial strength of a company will be met by much dissonance in the corporate world.

Among the groups reporting for the September year-end there are obvious signs of disagreement on the front.

In his chief executive's statement, Tiger Oats' Clive Wolpert says the group does not publish inflation-adjusted financial statements. The effect of inflation on cash flows is monitored through the examination of operating results, budgets and plans in real terms and business objective are focused on the creation of wealth through the generation of cash profits.

From a minority shareholder's point of view this can hardly be described as the sort of rigorous treatment that could be justified, given SA's chronic inflationary environment.

Significantly, Adcock-Ingram, the health care subsidiary in the Tiger Oats group, takes a much more vigorous approach. Adcock management has responded promptly to ED 77 published in September by the SA Institute of Chartered Accountants on Disclosure of current value information in financial statements.

It has taken the trouble to provide (in line with the ED 77 requirements) a supplementary income statement and balance sheet, which attempt to take cognizance of the effects of changing prices from one accounting period to another.

However, the information provided in these supplementary financial statements differs radically from that provided in the historic statements and so may cause some confusion among shareholders.

The Nampak group takes a much more critical approach to ED 77. "If accurate current value information is to be published by the group, it will be necessary at the outset, and at intervals of say, five years, to obtain professional valuations of the group's fixed assets, with changes in the interum years being calculated by using relevant indices."

A preliminary assessment of the cost of such a valuation indicates an amount of approximately R1 million, which cost will, of course, effectively be borne by the shareholders.

Nampak publishes a bar chart showing the effects of inflation on reported operating profit.
Weighing up inflation

Brian Kantor is professor of economics at the University of Cape Town

Many have suggested that changes in the CPI do not provide an accurate measure of inflation. The index has all the strengths and weaknesses of any statistical average. There is no such thing as the average consumer. Our own basket of goods, whose prices we are so aware of, is not the basket reflected in the weights attached to the different items that go to make up the index.

Changing the weights, making some items more or less important than they are, would create a different index and so a different inflation rate.

A standard criticism of all such CPIs is that the weights are adapted too rarely and changes in consumers' spending patterns in response to changes in relative prices are not reflected. For example, a switch in consumption to chicken from red meat, because chicken has become cheaper, is only accounted for many years after the event.

There is another way of measuring changes in prices and that is via the so-called national income deflators. A deflator is simply the ratio between current prices of goods or services consumed and produced and the prices of the same goods, in some base year.

Weights attached to goods in these deflators have nothing to do with the average consumer. They simply reflect actual spending on different goods at a point in time. For example, weights for the consumption goods deflator are taken from the actual proportions of spending on non-durable goods and services, semi-durables and durables.

These weights change automatically as spending patterns change (see figure 1). Clearly, the weights are not constant because spending patterns change in response to changes in tastes and relative prices.

However, when one extracts the inflation rate from the consumption deflator, little difference is observed between this and the inflation rate taken from CPI (see figure 2).

In other words, changing the weights does not change the measure of inflation significantly. One would, therefore, conclude that CPI provides a perfectly adequate basis for measuring inflation.

The main differences in the inflation rates derived from the consumption deflator and the CPI could be attributed to the fact that interest rates, when they affect mortgage rates, directly influence CPI but do not influence the consumption deflator.
Inflation battle will be won — at a price

FINANCE STAFF

The new political and monetary leadership in South Africa has laid the groundwork for a reduction in inflation to about five percent by 1995.

However, the likely consequent deterioration in the economy in the next two years will generate more unemployment and, very probably, a renewed cycle of unrest and civil violence, says Trust Bank chief economist Nick Barnardt.

Writing in the bank's *Economic Review* report for November and December, he urges the Government to implement measures, such as job-creation programmes, to limit the adverse socio-political effects of the relatively austere monetary measures it has imposed.

He says too that the business sector would be well advised to limit wage, salary and price rises as far as possible to ease the inevitable pressure on their cash flows while the inflation bogy is being tackled.

Judging by recent pronouncements, it would appear that the authorities thoroughly appreciate the dangers of loosening monetary policy too soon and realize that interest rates will have to be kept high for a considerable period if a meaningful and lasting reduction in inflation is to be achieved in the 1990s," says Mr Barnardt.

He warns of the "real possibility" of the prime overdraft rate being raised to 22 percent in the new year and staying at that level until mid-year.

Thereafter it would be likely to fall "slowly and moderately" until the latter part of 1991.

The TrustBank economist says lower inflation is a prerequisite for sustained growth in the 1990s and beyond.

Fifteen years of double-digit inflation have undermined the local economy and knocked South Africa's ability to compete as an exporter.

Mr Barnardt illustrates the connection between low inflation and high economic growth — and the converse — with gross domestic product averages for the last three decades. Inflation averaged 2.7 percent in the Sixties and GDP grew at a real rate of 5.7 percent.

In the next decade, inflation peaked up to 10.7 percent while growth slipped to an average of 3.4 percent a year.

In the decade drawing to a close, the economy grew at an average of only 1.5 percent annually while inflation averaged 14.7 percent.

"The spiral of inflation, inflationary expectations, high wage demands, overspending, money-creation and currency depreciation must be decisively broken."

"It is indeed promising that the country's new political and monetary leaders have declared the battle against inflation to be a major priority".

Mr Barnardt predicts that the harsher fiscal and monetary measures taken this year will reduce inflation to 13.5 percent by the end of next year, with a likely further decline to 11.5 percent in 1991 and 10 percent the year after that.

The expectation of price increases continuously exceeding the cost of credit and the return on savings is being reversed by the high level of interest rates.

With it has come a firming of the rand, which contains the prospect of prices of cars and other consumer durable items with a fairly high imported content rising no more than 12 percent in 1990.

Mr Barnardt cautions that the whole programme could fall down if different sectors do not play their part. Discipline will be required from the Government to keep its own spending in check and to maintain real interest rates.

At the same time, the private sector must resist the temptation to give excessive wage and salary awards.

"The anti-inflation campaign would also require a considerable improvement in foreign and domestic political relations, as well as a reversal of the thinking that accepts double-digit inflation as normal and inevitable."
Extension granted on accounting plan

AT THE request of several large companies a two-month extension for responses to the SA Institute of Chartered Accountants' proposal that financial statements should adequately reflect the impact of inflation has been granted, the institute announced yesterday.

A statement said many submissions had already been received.

Several large companies had asked for more time to reply and the Accounting Practices Committee had decided to extend the original return date to invite further comment from its members and the financial community.

Saca technical director Graham Terry said it was premature to say whether there was sufficient support for the proposals to warrant the issue of a statement requiring disclosure of inflation-adjusted information in financial statements.

"However, the replies received so far have been encouraging," he added.
Timing takes economists by surprise

CHARLOTTE MATHEWS

THE timing of Sats's 13% across-the-board tariff increase announced on Tuesday was its most surprising feature, economists said yesterday, but they did not expect the rise itself to have a significant impact on the inflation rate in 1989.

"This is not earth-shattering news and it is not out of line with increases elsewhere, but it is surprising that they have chosen the time that they have," Standard Bank economist Nico Cypionka said. "They announce it in December is difficult to say it may be because they believe they are launching that kind of thing when nobody reads the newspapers."

"I think it will only affect the rate of inflation insofar as it has happened three months earlier than expected," Rand Merchant Bank economist Rudolf Gouws said. "The rise will have some impact but I don't think this is sufficient to make me change my view that inflation will be on a downward trend."

Conservative

Gouws said in the post-administered prices and tariffs had been kept artificially low and then had had to jump, which gave an impetus to further price rises. "I don't think it would be clever now of the authorities to hold specific prices back in the hope of fighting inflation. They should stick to a conservative monetary and fiscal policy but should not keep prices artificially low."

Trust Bank economist Jacques du Toit said they were forecasting an inflation rate of around 14.5% for 1989, which could be slightly higher after the Sats increase but was unlikely to exceed 14.7%. This compared with an average inflation rate of 14.9% in 1989. He expected inflation to decline in the second half of 1989 to around 13.5% by the end of the year.

"The rise in Sats costs and the resulting tariff increases is part of the whole infrastructure policy," UBS economist Christo Latus said. "Ideally at some stage one should try to break it but imposing price and income controls will lead to all sorts of distortions."

"This move is in apparent conflict with government policy of keeping down inflation," Nedbank economist Edward Osborne said. "But there is another policy which says all enterprises should be run on a profitable basis and should not involve state subsidy."
Inflation set to rise early next year

By AUDREY D'ANGELO
Financial Editor

SA's inflation rate will rise from the 14.9% reported by the Central Statistical Service (CSS) yesterday to 15% or 16% in the first few months of next year, economists warn.

But after that they expect it to fall, if the Government continues with its present fiscal and monetary policies, to reach 13% by the end of next year.

The inflation rate for the year to November, as measured by the consumer price index (CPI), rose to 14.9% — only 0.1% higher than the 14.8% reported for October. But the monthly month-on-month rate of increase was a fairly sharp 1.1%.

Food price increases were the main reason for the rise. The price of grain products soared by 6.6% and fruit and nuts by 6.1%. Fish and other seafood went up by 2.1% and fats and oils by 2.5%.

There were also large monthly increases in the prices of non-alcoholic beverages (1.8%), cigarettes, cigars and tobacco (4.1%), the cost of running a home (1.8%), and transport (1.5%).

Volkskas economist Adam Jacob said the higher CPI was "roughly in line with what we expected.

"There are a number of factors pushing the consumer price index (CPI) up in the short term, including the sharp increase in money supply figures.

"And for some time food prices increased at a low rate, holding back the CPI. Now food prices are increasing more sharply in the short term.

"The Government is expected to abolish subsidies in the short term, which will push up prices. So will the tariff increases announced by SA Transport Services (Sats)."

"I think the CPI will rise above 15% in the short term, but the underlying trend is downwards. So although we shall have some hiccups in the short term, I believe we shall see 13% by the end of next year.

"If the Government continues with sound fiscal and monetary policies we shall see the real benefits in 1991."

Standard Bank economist Nico Cypenka said: "We have projected a re-acceleration in inflation which will continue into next year.

"We expect it to reach higher levels still — probably just under 16% — in the first few months of next year, before coming down."

Glenn Moore of Personal Trust pointed out that at the beginning of this year many people expected the inflation rate to be 16% by now.

"It is much lower than most of us thought it would be, but I think it will rise again to the 15% level in January or February.

"But there are a lot of positive factors which will bring it down again. The money supply figures have slowed significantly. Growth in the money supply has slowed to 21% compared with 27% at the beginning of the year.

"The rate of depreciation of the rand has also slowed significantly. It is now relatively stable against the currencies of our major trading partners."

Moore said he thought SA could look forward to "significantly lower inflation two years down the line."

He thought it interesting that the JSE "has started to down-rate some of the rand hedge shares that did so well. That may be an indication that some big investors consider Sats' policies aimed at bringing down inflation have a fighting chance."
Money supply growth bodes ill for inflation

By Sven Lunsche

In a dramatic reversal of recent trends, money supply, as measured by growth in the broad measure, M3, surged by an annual 24.5 percent in the year to November.

The soaring figures could seriously thwart the intensified efforts by the financial authorities to bring inflation under control in the year ahead.

Reserve Bank figures released yesterday show that M3 rose by a provisionally estimated 24.55 percent to R143.68 billion.

This follows on increases of 24.7 percent in October; 22.87 percent in September and 25.55 percent in August.

Significantly, the October M3 figure was revised from the initial estimate of R138 billion to R142.07 billion — further evidence that credit extension by financial institutions is still proceeding at a high rate.

Further setback

In what could prove a further setback to the anti-inflation campaign, consumer price index (CPI) figures released yesterday indicate that food prices are once again escalating.

However, the lagged effect in the high growth rate of money supply is generally regarded as the most serious impediment to a lower inflation rate.

The extent to which money supply is running out of control is seen by the fact that the November M3 figure is 5.5 percent higher than the target set by the Reserve Bank for the month.

It already exceeds the December 1989 R137.7 billion value of the upper boundary of the target range.

The main factor underpinning the rise is credit spending.

Reserve Bank figures show total domestic credit extension rose from R137.19 billion in September to R140.1 billion in October, with both HP and leasing finance increasing moderately.

Other loans and advances by banks rose from R73.97 billion to R77 billion in October.

Latest BAZ returns by commercial banks show that credit extension on their balance sheets rose by nine percent from March to September, with Standard and Bankorp showing credit growth of over 15 percent.

While economists doubt that the continued surge in money supply will lead to a tighter monetary policy in the form of higher interest rates, they say it could rule out any easing of monetary measures in the months ahead.

The Reserve Bank also announced that M2 money supply in October increased 30.56 percent to R114.21 billion, while the narrowly defined M1 increased 18.15 percent to R47.24 billion. These compared with revised increases for September of 27.44 percent in M2 and 12.84 percent in M1.

A further, albeit less significant trend, which could undermine efforts to bring inflation under control has been the recent rise in food prices.

Central Statistical Services figures released yesterday show that inflation in November was running at 14.9 percent, slightly up on October's 14.8 percent.

But food prices once again increased at a steeper rate than in previous months.

After rising by an annual level of around 19 percent in each of the previous six months, the year-on-year increase in the CPI for food climbed to 12.1 percent in November.

On a monthly basis, food prices increased by 1.7 percent from October to November, contributing 40 percent to the overall one percent monthly rise of the CPI.

Over the four-month period from August to November, food prices rose by an annualised 17.5 percent — well ahead of increases in other sectors.

Food prices rose over a wide spectrum, led by the price of grain products, which soared by 38 percent in the month.

Milk prices rose by one percent, but indications are that, they will not increase sharply over the festive season.

While food prices could slow down the intensified efforts by the authorities to curb inflation, economists are still optimistic that price increases will be lower next year.

Stricter policies

Against the background of a declining growth rate and stricter fiscal policies, Volkskas' Adam Jacobs expects inflation to decline from 15 percent early 1990 to about 13.5 percent by the end of the year.

Samlan's Johan Louw concurs with this forecast, arguing that the recent strengthening of the rand will eventually lower producer price inflation for imported goods, which hit a peak of about 20 percent in June, but tend to be appreciably lower after

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov

Food Total

Annual percentage rises in the overall CPI and the CPI for food.
Inflation shows slight increase.

THE annual rate of increase in inflation, as measured by the consumer price index (CPI), was 14.9% in November, 0.1 percentage points higher than October's 14.8%.

Figures released by Central Statistical Services (CSS) yesterday showed the index rose 1% from 184.9 points in October to 186.0 points in November.

The annual rate of increase in the index for low, middle and high income groups for November, as compared with November 1989, were 14.1%, 14.3% and 15.8% respectively.

The food sector made the largest contribution to the monthly increase, with significant increases recorded by grain products (5.5%), fruit and nuts (6.1%), fats and oils (2.5%) and fish and other seafood (2.1%).

Prices of milk, cheese and eggs recorded a decrease of 0.2%.

Other large price increases included non-alcoholic beverages (3.5%) and cigarettes, cigars and tobacco (4.1%).

The Durban Pinetown area recorded the largest annual increase (16.6%) and the largest monthly increase (2.5%).

The lowest monthly increase was recorded by the Pretoria, Vereeniging, Akaas area.
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The lowest monthly increase was recorded by the Pretoria, Verwoerdburg, Akasia area.
Government Insignias in the new Fiscal Year
DAVID CANNING

IF you were prudent enough to have invested a "nest egg" of R100 in 1960 (which then was enough to buy a new double bedroom suite of furniture), you would have to stretch your inflation-eroded capital to buy just the bed linen today.

As the accompanying table illustrates, R100 in 1960 will buy only R7 worth of goods today.

A June 1968 newspaper shows several bedroom suites advertised for less than R100, or R50, a man’s shirt for R1.89 and a pair of shorts for R1.

This reflects the inroads which inflation has made on living standards — fueling wage demands and devastating the wealth of those who have had to live off dividends from capital in fixed interest investments.

The greatest impact has been felt since 1973 when South Africa reached double-digit inflation — a situation which has prevailed ever since. The 1973 rand is today "worth" a mere 12c.

The table shows, in cents, the degree to which the buying power of the rand was reduced by inflation each year since 1960.

Each vertical column traces the reduced buying power of R1 in subsequent years. For example, the buying power of the 1960 rand can be read off from the bottom of the first column — its buying power was just 7c in 1969.

Consumer price indices (all groups) for November were used in the calculations. Inflation was 14.9 percent in the 12 months to November 1969.
INFLATION - 1990

JANUARY — JUNE
Salary packages are under siege. 

Man in the street's earnings should be four times higher today than in 1980.
Salary pack

By Michael Chester

Pay packets in 1990 need to be nearly four times higher than a decade ago to stay abreast of the lowest estimates of inflation and avert a fall in living standards, say new studies.

A report by PE Corporate Services says that the take-home salary of R1 000 a month in 1980 now needs to be at least R4 500 to counterbalance inflation cuts.

Miss Naomi Brehm, head of remuneration services, finds that average pay packets have lost out in the battle with price increases. On official counts, the consumer price index bounded upwards between July 1978 and July 1989 by 285 percent. But average wages and salaries lagged behind with increases of 283 percent.

Miss Brehm believes the real picture might be much worse. The official rate of inflation is regarded with great suspicion," she said. "It is presently given at between 14 and 15 percent, but this is often challenged, and the real rate is believed in certain circles, to be between 25 and 30 percent."

In real terms, therefore, overall salaries in the 1980s lagged behind quite substantially. If one assumes the true rate of inflation over the past decade to be only 2 percentage points higher than the official figure, the cost of living has soared by 389 percent.

"This means that the employee who started in 1980 with R1 000 should now be earning R4 500 to match inflation, and he isn't."

In fact, the rise in basic pay should have been much steeper than that if account is taken of the heavy income tax burden generated by fiscal drag caused by inflation.

Pay for performance

But Miss Brehm cautions that employees should not expect pay increases to move higher in the 1990s unless earned from incentives linked tightly to better performance and productivity.

"Pay-for-performance is likely to be the catch phrase of the 1990s," she said. "Companies have come to realise they cannot afford continual increases in wage bills without a commensurate increase in productivity and profitability," says Miss Brehm. The economic downturn also threatened a number of retrenchments as companies were forced to re-examine their manpower structures.

Recent surveys found 14 percent of companies foresaw the likelihood of retrenchments on the horizon. They feared the trend could rise if the economic situation worsened over the next year.

Because of the chronic shortage of skilled manpower, the status and pay rates of skilled labour would stay at a premium.

In general, however, emphasis in the 1990s would be on remuneration strategies that placed more stress on incentives as rewards for performance.

"Aspects such as productivity and profitability took a back seat during the 1980s," says Miss Brehm. "The accent was on keeping wages and salaries in line with the inflation rate, even though companies were not always successful in periods of recession."

Fringe benefits were also used to the full as a tool to allow employees to structure their packages in a tax-effective way.

Into the 1990s, however, while the consumer price index will still be an important factor, the main accent will be on pay performance, linked with incentive schemes.

There will also be a lot more stress on the encouragement of the acquisition of skills to close the skilled manpower shortage, and recognition by labour of skill and performance.
Consumer spending heads for ‘soft landing’

EXPECTATIONS for retailing at the beginning of 1990 were bleak. Spiralling interest and inflation rates threatened to depress discretionary income and forecasts for the rise in private consumption expenditure averaged between nil and one percent.

Despite the increase in bond rates during the year and real interest rates rising from 4.7 percent to an estimated 5.5 percent by the end of the year, retail sales at the end of November had risen by 3.3 percent in constant terms over the comparable 11 months of the previous year.

Private consumption expenditure declined from a growth rate of 4.9 percent for 1988 to an average of 3.8 percent for the first three quarters 1989. This was well ahead of expectations.

Although Christmas sales figures have still to be issued, the general impression appears to be that sales rose on average between 16 and 20 percent compared with Christmas 1988.

It was noted that consumers tended to buy goods which offered value, with more expensive items moving more slowly than in previous years.

The strongest growth area was in semi-durables, especially in clothing, footwear and textiles. (Statistics are available only for the first nine months to September.)

In real terms, footwear sales rose by a staggering 10 percent, with women’s and babbies’ clothing and textiles showing similar increases.

Private consumption expenditure on non-durables is relatively non-cyclical.

Food sales, the largest component, rose by three percent for the nine months to end-September.

Looking to the 1990s, we believe South Africa will have real interest rates for some time and that until there is a decline the nominal rate of inflation will remain above 20 percent.

This is likely to dampen growth in spending. Our view is that private consumption expenditure is headed for a “soft landing” as opposed to a recession in 1990.

This is supported by three factors.

Firstly, levels of consumer confidence are now higher than they were before the recession of 1984-85.

This is to some extent a result of the reforms that have been implemented, which could lead to a softening of approach towards South Africa by the international community.

Secondly, the economic cloud of the informal sector continues to grow although estimates of its size vary. Latest studies suggest that it contributes as much as 30 percent towards GNP.

Lastly, unemployment appears to be still gaining momentum, with the rise in wages in the past year averaging 17.4 percent.

Earnings of workers have been increasing in real terms since the fourth quarter of 1987 and are expected to continue to improve.

Based on these factors, we forecast real growth of 2.5 percent in private consumption expenditure for 1991, dropping to 0.5 percent in 1992.

MARTINE HICKMAN
Industrial analyst,
Max Pollak & Freemantle

sales of appliances and audio equipment, showing a decline in real terms.

In the latter half of the Eighties, retailing became highly specialised. Those stores which became more focused in their approach benefited.

A few years ago price ranked as the main criterion when considering where to shop. With more women working (more than 40 percent in PWV area), time has become more of a constraint.

In addition, factors such as convenience, extended shopping hours, service, variety, health and environment have increased in importance for people choosing where to shop.

Chain stores are changing their image, concentrating on a “shop-within-a-shop” format, whereby shopping becomes an “outing” or an “experience.”

To help retailers maintain a highly specialised approach, good systems have become essential. In the Eighties more and more retailers invested money in this area.

Retail technology is not as widely implemented in South Africa as it is in the United States, but local retailers have the advantage of using systems which have been tried and tested in stores overseas.

Among the many systems now being implemented by retailers are scanning, the computerisation of inventory systems, such as receiving.
De Klerk orders probe into prices, inflation

CAPE TOWN — President F W de Klerk has asked the President's Council to find ways to ensure active co-operation from the consumer to curb price exploitation and contain inflation.

He has also asked the council to make recommendations on systems to promote consensus and resolve disputes.

In a statement from the council secretary yesterday, the committee for economic affairs said it had been asked to investigate ways to address sharp increases in the price of goods and services.

The committee for constitutional affairs will investigate and make recommendations on "decision-making and conflict resolution mechanisms." — Sapa
Inflation drives investors 'to JSE'

INFLATION was driving more private investors to the JSE, Stock Market Investors College MD Paul Still said in a statement yesterday.

Still said people realised they were "doomed to steady impoverishment" unless they established some protection against inflation.

However, they should not invest on the JSE unless they understood how it functioned.

Still said the advantage of shares was that their value appreciated and only two-thirds of dividends were taxed.

He said Robert McGregor claimed in his book Privatisation in SA that there were 157 state-owned companies, 310 hospitals, 16 municipal markets and 450 local authorities available for privatisation.

Government could reduce its debt by selling off more state assets such as Eskom. Iscor had made a profit after tax of R311.7m this year, after suffering heavy losses in the 1980s, he said.
Downturn gathering momentum

By Derek Temmey

South Africa's self-induced economic downturn is gathering momentum, says David Mohr, chief economist at Old Mutual.

He expects the process to continue this year, probably at an accelerating rate.

But unpleasant though Mr Mohr’s forecast may be, he believes the situation has resulted in some lessening in inflationary pressure and that it could lead to a drop in long-term interest rates.

Mr Mohr reports a sharp contraction in the value of goods and services, other than farm goods, produced between the second and third quarters.

“Manufacturing in particular, felt the cold wind of recession,” he says.

Output in the third quarter dropped at an annual rate of 6.5 percent.

On the other side of the coin, South Africans have been cutting down sharply on spending.

They spent 7.3 percent (annualised) less in the third quarter than in the second quarter of 1989. Spending on items such as cars, fridges, radios and TV sets dropped throughout the year.

Although spending on clothing and footwear rose slightly in the first half, it fell sharply in the third quarter.

Mr Mohr says that reduced spending is characteristic of the onset of a downturn and, in this instance, is the result of a tight-money policy, high inflation and smaller wage increases and salary adjustments.

This is necessary if South Africa is to be in a position to repay all its debts that fall due this year.

In the next 12 months South Africa will probably have to repay foreign debts amounting to $2.0 billion to $2.4 billion (R5.2 billion to R6.3 billion at current exchange rates).

In order to pay to its foreign creditors these huge sums South Africa will need to earn from overseas 2.5 billion more than it spends there.

This will require a special effort as in 1989 South Africa had a balance of payments surplus of $1.4 billion.

If South Africa is to achieve this $2.5 billion surplus, domestic spending has to be held down so as to limit imports and the amount of money being spent overseas.

However, year-on-year inflation as measured by the consumer price index moved downwards in the third quarter of 1989 after reaching a high of 15.7 percent in June. By November, the year-on-year rate had fallen to 14.9 percent.

Mr Mohr says this is partly the result of a slower rate of increase in food and housing costs. But other items in the consumer price index are showing reduced price increases.

However, there is a danger that food prices could accelerate in the first half of 1990, he warns. This could limit the downward trend in the inflation rate or even reverse it.

As the economy might require further cooling, and as little progress has been made in replenishing foreign exchange reserves, Mr Mohr says that monetary policy is likely to remain stringent for some time.

He does not expect a significant decline in the prime overdraft rate before the second half of 1990.

The long-term interest rate has dropped from around 17 percent to below 16 percent. This is the result of optimism in the capital markets arising from the rup in the gold price in the fourth quarter, clear signs that the real economy is cooling, the levelling off of the inflation rate, smaller government borrowing requirements and signs that government spending will be restricted.

Mr Mohr believes interest rates will decline further this year as the underlyinh bottlenecks in the economy - the current account, foreign exchange reserves and inflation - ease more.
STATE President F W de Klerk has asked the President's Council to find ways to get active cooperation from the consumer public to curb price exploitation and contain inflation.

In a statement from the council's secretariat this week, the Committee for Economic Affairs said it has been asked to investigate and make recommendations on suitable strategy, goals, and policy with regard to inflation.

The Committee for Constitutional Affairs will investigate and make recommendations about "decision-making and conflict resolution mechanisms and techniques in constitutional systems, including mechanisms and techniques for the furtherance of consensus and the resolution of disputes."

Those wishing to submit memoranda should do so before February 28 to PO Box 3001, Cape Town, 8000.

Mr J P Rossouw can be contacted at (021) 45.5541 in connection with the consumer inquiry and Mr J F Marx at the same number in connection with the constitutional inquiry.
Consumers ‘paying for Govt’s folly’

As South African consumers are being swamped by a new wave of price increases, the Government’s advice to them is simply “Reeat buying at excessively high prices.”

The director-general of finance, Mr. Garhard Crosser, said last week that in addition to measures taken by the State against inflation, the public, too, had an important contribution to make. Consumers should refuse to buy at excessively high prices and buy selectively.

“IT does not matter whether it is a cool-drink or a motor-car. It is not necessary always to have the shiniest car or the best of everything.”

Consumers were still not sufficiently cautious in spending their money. The result was that the “vicious circle” of inflation continued. There should be more resistance to higher prices. If this could result in smaller turnovers, manufacturers would be encouraged to look again at their prices.

30 percent

Inflation — according to the latest figures available from the Central Statistical Services in Pretoria — was running at 14.9 percent in November, but it was alleged last year that the CSS figures were greatly inaccurate and that the real inflation rate could be 30 percent.

And it was disclosed this week that major manufacturers of food and consumer goods were demanding an average of 15 percent more for their products while householders faced increased electricity charges following a 14 percent Eskom hike and parents will have to pay 20 percent more for their children’s school uniforms.

The Government has been accused of trying to pass the buck after calling on hard-pressed consumers to fight rocketing prices and inflation with selective spending. Reports political reporter FRANS ESTERHUYSJE.

Some time this year there will be another petrol price increase which will affect a wide range of commodities, and travel. At the end of last year, SAA increased domestic air fares by 13 percent. Food prices have soared to double their 1985 levels, outstripping the consumer price index by 13 points, according to the CSS.

Support for Mr. Crosser’s resistance call came from the director of the National Consumer Council, Mr. Jan Cronje, who had this message for consumers: “You don’t die if you were to abstain from a week from salting butter, margarine or meat that is priced too high. Yet if enough people take such action it can bring prices down.”

Inflation had conditioned people into anticipating and accepting price increases, no matter how high these were. The only way of breaking out of this psychosis was to refuse to buy goods if prices were excessive or quality poor, he said.

Their advice has stirred a hornet’s nest, drawing accusations from some consumer bodies, politicians and economists that the Government was trying to pass the buck after failing to curb inflation.

The sharpest criticism came from Mrs. Lyn Morris, president of the Housewives League, who said Mr. Crosser’s “don’t-buy” proposal was impossible.

“I wonder if he has ever taken a shopping list into a supermarket. Does he really know what it means to the housewife who finds prices all round are too high? How can he expect consumers not to buy when basic foods like bread, meat, meal, sugar, coffee, tea and essential protein foods like cheese are too high?

“Many consumers do shoo up prices of different brands, but they have very little choice in a lot of things. The key to the whole problem is that the Government must bring down inflation. It must bring down its own spending, and yet every year it increases its spending.”

Every time the Government increased fuel prices and transport costs this inevitably resulted in higher costs for farmers and a spate of price hikes for foodstuffs and other commodities.

The Democratic Party’s finance spokesman, Mr. Harry Schwarz, agreed with Mr. Crosser that there should be consumer resistance to excessively high prices, but expressed amazement that such a call should come from a Government spokesman.

He did not want to attack Mr. Crosser because he liked him and thought him able. But he should “keep out of politics and leave it to us, Muster, to make provocative political statements.”

“Here we have a Government which is a party to price increases, yet it is telling consumers to resist high prices. Should there be consumer resistance to increased rail and air tariffs and to higher prices resulting from the Government’s privatisation activities?”

“Money supply figures don’t indicate to me that enough is being done to fight inflation. The real test will be when the budget is presented. We need to deal with major cut-backs in state expenditure, and these need to be applied according to the correct priorities,” he said.

“We can do away with the whole machinery of the Group Areas Act and with duplication in separate ‘own affairs’ administrations, for example.”

Public sector

Professor Brian Kantor of the school of economics at the University of Cape Town said appeals to consumers not to spend were useless. Consumers were hard-pressed and did not easily waste their money.

One of the key steps Mr. Crosser himself could take was to encourage the Government to take a tough stand against public sector salary increases. This would provide a ‘bigtime’ for direct income tax relief on a significant scale. Salary increases should be limited to 10 percent, combined with income tax relief at 5 percent all the way through the scale.

Stellenbosch economist Professor Sampie Terreblanche said only drastic political and constitutional reforms would improve the economy. These actions would create confidence, attract foreign capital, create growth and bring down inflation.
Govt inflation advice ‘stupid’ — economist

IT was stupid of a senior government official to advise consumers to avoid buying highly-priced goods, because people were doing this “in any case”, Cosatu economist Mr Alec Erwin said yesterday.

Mr Erwin was asked to comment on remarks by director-general of Finance Mr Gerhard Crosser that consumers should help combat inflation by avoiding highly-priced goods and buying selectively.

“If that is the advice from the government on how to deal with inflation ... we need a new policy,” Mr Erwin said.

Problems faced by the government included capital outflow, the high cost of establishing industry and the “paradox” of the high costs of production against “very low” wage levels.

This was fuelling inflation by selling highly-priced products to a small market.

“Voters overseas would change the government, but the majority of South Africans cannot vote against central government’s economic policies,” Mr Erwin said.
Small business is losing out

BLACK ENTREPRENEURS manufacturing school uniforms from industrial parks or in the backyards of their homes in the townships are on the brink of collapse because of competition from white and Indian manufacturers.

According to several black uniform manufacturers, white and Indian operators have entered into agreements with black schools, sometimes with the tacit approval of officials. They supply uniforms to these schools and the school officials get donations for their schools or personal presents.

The Department of Education and Training said it did not have any policy on the purchasing of school uniforms by pupils. Mr. Richard Chuma, public relations officer, said "this is entirely a matter for individual schools." He said if proof could be produced that any official accepted bribes, the matter should be reported to the police.

Departmental action would be taken once the courts had found the culprits guilty.

The plight of backyard manufacturers has been worsened by the fact that a fledgling business and her staff of eight.

The first batch was produced and parents were excited with the uniforms and the price charged. She then placed an order and after being pushed around, material of an inferior quality was sent. Parents returned the uniforms as they were not what they expected. She has now reduced her staff to one person and her reputation is in tatters. Remarkably, a trader from outside Kwa Thema is now selling the uniforms in the required quality. The cloth manufacturer used to make the first batch of uniforms.

Another operator, Mrs. Sana Dladla, who manufactures uniforms and track suits from a garage in Kwa Thema, says she lost out on a contract to sell uniforms for a local school. On investigating she found that traders from town had given the teachers donations and they now had the rights to make and sell the uniforms.

She maintains that it is unfair for town operators to monopolise the uniform business and push the township manufacturer out. Instead these town operators should getting into contracts with blacks who would then sew some of their products.

Mrs. Elizabeth Nkandule, of Randens, says her 12-year-old school uniform manufacturing business was ailing because she was not getting support from local schools. She puts the blame on school authorities.

"When I started my business in 1978 I was optimistic and advertised myself at various schools, but gave up hope when teachers refused to support my venture," she said.

Mr. G. Cachalia, manager of Snapper Uniform Manufacturing Company, one of the biggest school uniform manufacturers in the PWN area, said his company had been in operation for the past 30 years and was supported by schools in black areas.

"But, he also added, "while we are prepared to plough part of the money we make back into the township, we will not stop as long as to bribe people to buy our products."

The managing director of Sales House, Mr. Donald Ethondwe, who also spoke on behalf of the Edgars Group, said they were prepared to contract small business people to manufacture school uniforms for them, but added, "on condition that they produced the high quality our customers want."
Retirement — How much will you need?

People who make investment plans for the future, especially for their retirement, have particular difficulty in grasping what inflation will do to the future value of their savings.

Few realize that if inflation continues at 15 percent for the next 25 years everything will cost 32 times more than it does today.

Just think of it: a loaf of bread at R2, a carton of cigarettes R1 152 and the smallest motor car R640 000.

The problem with these telephone-number figures is that it makes it very difficult for the ordinary man to calculate approximately how much he needs to save on a regular basis to enable him to maintain his standard of living when he retires.

It is obvious that a very large sum of money will be necessary to live in comfort. The big question is: how much?

To answer that question one needs to look at current expenditure on living and express that in future rands by using the following table.

Annual income adjusted for inflation

EXPECTED RATE OF INFLATION

<table>
<thead>
<tr>
<th>Years to Retirement</th>
<th>12%</th>
<th>14%</th>
<th>16%</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>R 2.11</td>
<td>R 2.37</td>
<td>R 4.41</td>
</tr>
<tr>
<td>15</td>
<td>R 5.47</td>
<td>R 7.14</td>
<td>R 9.27</td>
</tr>
<tr>
<td>20</td>
<td>R 9.65</td>
<td>R13.74</td>
<td>R19.27</td>
</tr>
<tr>
<td>25</td>
<td>R17.00</td>
<td>R24.46</td>
<td>R34.87</td>
</tr>
<tr>
<td>30</td>
<td>R29.86</td>
<td>R45.95</td>
<td>R68.85</td>
</tr>
<tr>
<td>35</td>
<td>R86.10</td>
<td>R120.31</td>
<td>R182.80</td>
</tr>
</tbody>
</table>

To determine how much is needed on retirement calculate the amount needed for each year, select the inflation rate that will be appropriate over the period to retirement and multiply it by the figure in the column. The answer is the yearly income required.

An example: A person who is 30 now and spends R30 000 a year to live, wants to retire at age 55. If inflation averages 12 percent over the next 25 years, his income on retirement to maintain his present standard of living is calculated as follows:

Run your eye down the 12 percent inflation column until you come to 25 year line. The figure is R17.00. Multiply that by the 30 000 a year spent on living costs now and the answer is R510 000. That is the potential yearly income needed 25 years from now.

The factor for a 14 percent inflation rate is R24.46 and the total jumps to R733 900 a year to equal the R30 000 needed now. (No allowance is made for tax).

These figures certainly sound like something out of a telephone directory but there is a solution.

The following table shows how to calculate the amount of money to be invested to return the sum required.

AMOUNT TO BE INVESTED TO RETURN

<table>
<thead>
<tr>
<th>Rate of return</th>
<th>4%</th>
<th>10%</th>
<th>12%</th>
<th>14%</th>
<th>16%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount to R100</td>
<td>R42.50</td>
<td>R100 000</td>
<td>R83.30</td>
<td>R715.00</td>
<td>R625.00</td>
</tr>
</tbody>
</table>

It is now a simple matter of estimating the amount of return, and multiplying the amount in that column by the annual amount required. This gives the amount to be invested to achieve the target. If inflation stays at 12 percent, with a reasonable rate of return of 15 percent on the R510 000, it is clear that R3 187 500 (R625 x 510 000) will be needed by retirement age.

To accumulate such a sum is not as impossible as it sounds. The next table shows how much is needed to be invested every year at a given rate of return to grow to the stated amount in a set time.

Amount to be Invested Every Year to Return R100 000 at Retirement

YEARS TO RETIREMENT

<table>
<thead>
<tr>
<th>Compound Rate</th>
<th>4%</th>
<th>10%</th>
<th>12%</th>
<th>14%</th>
<th>16%</th>
</tr>
</thead>
<tbody>
<tr>
<td>40</td>
<td>R20 553</td>
<td>R89 244</td>
<td>R1 587</td>
<td>R7 504</td>
<td>R37 074</td>
</tr>
<tr>
<td>30</td>
<td>R16 370</td>
<td>R80 700</td>
<td>R2 229</td>
<td>R5 804</td>
<td>R12 082</td>
</tr>
<tr>
<td>25</td>
<td>R13 744</td>
<td>R71 925</td>
<td>R1 927</td>
<td>R6 124</td>
<td>R7 954</td>
</tr>
<tr>
<td>20</td>
<td>R12 074</td>
<td>R65 486</td>
<td>R1 776</td>
<td>R5 643</td>
<td>R6 152</td>
</tr>
<tr>
<td>15</td>
<td>R11 460</td>
<td>R59 820</td>
<td>R1 650</td>
<td>R5 203</td>
<td>R5 103</td>
</tr>
<tr>
<td>10</td>
<td>R11 077</td>
<td>R54 660</td>
<td>R1 537</td>
<td>R4 804</td>
<td>R4 326</td>
</tr>
</tbody>
</table>

Now's go back to the problem of trying to acquire R3 187 500 in 25 years time.

The quickest way is by investing in growth-linked investments like retirement annuities, unit trusts, endowment policies or income producing properties.

Assume a rate of growth of 16 percent which is currently well within the reason for the average retirement annuity fund, endowment policy or unit trust fund. The table shows that R346 needs to be invested every year at 16 percent for each R100 000 required in 25 years time. Thus one way of achieving the objective would be to put R11 028.75 (R346 x 31.75) every year into the investment area of your choice.

This works out at under R200 per month. If that seems very high, bear in mind that the average person earning R2 500 a month (R30 000 a year) is paying approximately R625 a month off his bond, which forms part of his investment requirement. This leaves less than R200 a month to be found in additional savings.

In the case of retirement annuities the taxman will be paying up to 45 percent of the contributions, making the goal all the more attainable.

While the figures required do not seem unattainable, remember the old saying: even an ant can eat an elephant, it just takes a long time.
Inflation hits maize farms

PRETORIA — Farmers have completed the planting of what has become the costliest maize crop on record, says the National Maize Producers' Organisation (Nampo).

It says inflation played havoc with costs.

Last season, the estimated total cost of planting and growing a hectare of maize was R600. With an escalation conservatively estimated at between 12% and 15%, this figure could now rise to between R650 and R700/ha, says Nampo.

The total area of maize planted decreased as a result of farmers switching to production of sunflower and wheat crops.

Nampo estimates that producers will have spent about R270m on fertilisers, R210m on repairs and spare parts, R112m on pesticides and herbicides, R160m on labour and R180m on fuel this year.
It might not be enough to benefit the share price, but indications from Pretoria Portland Cement (PPC) that demand in the first three months of financial 1989 has been slightly better than expected should provide some comfort for shareholders who had braced themselves for a tough year or two.

But financial director Chris Wrogemann says that at this stage the general tone of the annual report still holds, namely that "at best a flat year for both cement and lime is forecast." For shareholders perhaps the more important factor is that "every effort will be made to increase dividends, at least in line with inflation." Assuming an inflation rate of 15 percent, this suggests a dividend of around 15c. And assuming a two-times dividend cover, which Mr Wrogemann says is appropriate for the industry, this suggests that earnings of around 30c are on the cards.

At its current level of R21,50, this puts the share on a prospective P/E ratio of 7.8 times and a prospective dividend yield of 6.3 percent. The historic P/E is 8.3 times and the historic dividend yield 5.5 percent. However, if the earnings figure is adjusted for inflation, the P/E rating would be closer to 24 times.

In its 1989 annual report PPC devoted a section to the impact of inflation on group business. Using 1982 as a base and applying the mid-year annual increase in the consumer price index, the group's earnings per share, instead of increasing from 124c to 253c (as it did in nominal terms between 1982 and 1989) actually fell from 124c to 69c in 1986 and from there increased in real terms to just 96c in 1989.

Applying the same exercise to the dividend stream over that period, the nominal figures show an increase from 32c in 1982 to 130c in 1989. The adjusted (real) figures take a much more erratic path, starting at 32c, dropping to 27c in 1988 and recovering to 50c in 1989. The important fact is that every year dividends are covered by real earnings.

In addition, the adjusted figures show the group's real operating cash flow is comfortably able to match a need to replace fixed assets. The exercise shows the considerable impact that inflation has on shareholders' real wealth.

But the PPC finance team does not go quite so far as the Adcock-Ingram team which, in its excellent 1989 annual report, included a supplementary consolidated current value income statement and balance sheet based on the ED 77 proposals.

This showed current value earnings per share at 69c - a sharp drop from the EPS of 143c reported in the "traditional" historic-cost income statement. It also showed comprehensive income per share of 273c and current value income per share of 70c.

All of which highlights the fact that shareholders should treat figures based on historic-cost accounts with considerable caution.

<table>
<thead>
<tr>
<th>Year</th>
<th>Earnings per share (cts)</th>
<th>Dividends per share (cts)</th>
<th>Operating cash flow (R million)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Adjusted</td>
<td>Actual</td>
</tr>
<tr>
<td>1989</td>
<td>124</td>
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<tr>
<td>1999</td>
<td>143</td>
<td>143</td>
<td>143</td>
</tr>
</tbody>
</table>

Effect of inflation on earnings, dividends and cash flow.
High hopes and rising inflation

The chief executives of the Top 100 industrial companies expect higher inflation and slower growth this year.

But the annual survey of leading company executives by Unisa's Bureau of Market Research — it produced remarkably accurate forecasts for 1989 — shows a marked improvement in confidence on the political front.

The number of executives expecting sanctions and disinvestment pressure to increase has fallen to 43% from the 55% predicting more difficult days this time last year.

The number of businessmen optimistic about the political outlook jumped from 13% to 53%.

The survey forecast inflation at 15.3% for 1989 and the latest figure from the Reserve Bank is 15.1%. It predicted real economic growth of 3.3% and the final figure is about 2%.

The survey forecast a dollar-rand exchange rate of R2.75 for last year and the average was about R2.62.

Okkie Lucas, who compiled the report, says: "We are pleased that our respondents' predictions proved so accurate last year. The survey has gathered considerable authority in the five years we have run it."

Professor Lucas says the new predictions indicate an uncertain climate.

"Businessmen forecast a decline in economic growth in 1990, but they are less pessimistic about social and political events."

The survey predicts inflation this year of 10.1% and that real economic growth will slip to 1.8%. There is also more downside for the rand, businessmen expecting a median rate of R2.74 to the dollar this year.

The executives are cautious about the gold price, giving an average of $400 an ounce this year. Individual predictions ranged from $300 to $413.

They foresee prime overdraft rate down to 18% next December from the current 21%.

Nearly three-quarters of the respondents expect rising unemployment. More than half believe labour unrest will increase.

The number of businessmen who foresee shortages of business resources, including capital and materials, has increased from 27% to 48%.

Most executives say consumer groups will intensify pressure on manufacturers, the Government and the media to be more responsive to their problems.

A total of 78% expect greater pressure on companies to assume increased social responsibility.

The report on the survey is available from the Bureau for Market Research, Unisa, Box 392, Pretoria 0001.
By Sven Liunder

Inflation is likely to drop to the 14 percent level this year, despite surging food prices.

Figures released by the Central Statistical Services (CSS) yesterday show that the Consumer Price Index (CPI) for food products rose by an annual rate of 14.7 percent in December, (2.1 percent in November). It contributed to an 8.4 percentage point rise in the overall CPI from a year-on-year level of 13.9 percent in November to 15.3 percent in December.

However, economists said yesterday that while the soaring cost of food would make it more difficult to lower inflation, the rate was likely to decline to an average of 14 percent this year.

According to CSS, inflation last year averaged 13.9 percent (12.9 percent in 1998 and 16.1 percent in 1997).

Rand Merchant Bank economist Rudolf Gouws forecasts a decline this year as economic growth declines and the rand exchange rate reduces the cost of imports.

The stronger rand has already contributed to a lower Producer Price Index (PPI), with imported price increases falling from a high of 30 percent last June to below 15 percent at year-end.

Slower growth is beginning to impact on the money supply figures, which were released yesterday.

Reserve Bank statistics show that the rate of increase in the broad-defined M3 money supply in December 1999 rose by 21.6 percent to R149.30 billion, compared with December 1998.

This was well below the rise recorded in November, when M3 surged by 23.35 percent to R148.90 billion.

M2 money supply in November reflected a year-on-year increase of 22.48 percent, while the narrowly defined M1 rose by 18.09 percent to R47.00 billion.

The drop in M2 in December shows that the rate of increase is moving towards the targeted 14 to 18 percent level for the year.

UBS economists comment on this trend in the group's latest Economic Monitor: "Money supply growth rates exceeding 20 percent are likely to remain the major source of inflationary pressure."

However, the current policy of positive real interest rates will be beneficial in two respects: it will check the "free" fall in the rand and encourage savings rather than expenditure.

"As long as South Africa's real interest rate is roughly in line with that of our trading partners, inflationary pressures will decline in the foreseeable future," the UBS says.

However, the brighter outlook holds little comfort for consumers, whose expenditure on food products makes up a large portion of overall outlays.

According to CSS figures, food prices between November and December rose 2.6 percent after a two percent rise from October to November.

Vegetables rose by a monthly 8.2 percent, fruit and nuts 4.8 percent, meat 1.7 percent and grain products 1.5 percent.
Govt cutbacks augur well for lower inflation

By Derek Tomney

The large cuts in military spending announced at the weekend are expected to have a major impact on inflation.

Coming at a time when other developments are leading to more stable prices, the outlook for lower inflation seems brighter than it has been for many years.

Although the year-on-year inflation rate rose from 14.9 percent in November last year to 15.4 percent in December, the increase is seen as the result of seasonal factors and should now start to fall.

The latest rise in inflation, in fact, is blamed mainly on the lack of rain in the Transvaal in the past two months, resulting in a sharp rise in food prices.

"With a little bit of luck the inflation rate could fall to single figures by the end of the year," says Dr G Jan Hupe, professor of Management Economics at Uitsa.

He cites the more stable rand, real rates of interest, the huge cuts being made in government expenditure, the stage reached in the inventory cycle and the increased opportunities arising from military cutbacks.

The 29 percent decline in the exchange rate of the rand from R2.93 to the dollar in November 1987 to R4.20 last June resulted in a sharp rise in inflation.

Balance of payments

Since then, however, the rand has recovered to R2.94. With the balance of payments in surplus, it seems more likely to firm than to weaken.

Real exchange rates have resulted in order cutbacks and the running down of inventories. This has reduced demand, both for local and imported goods.

However, the large reductions in military spending are expected to produce a sharp reduction in inflationary pressures.

The surge in military spending, which began in the 1970s, was highly inflationary. It reduced the flow of goods to the private sector, while the government, for political reasons, was unwilling equally to cut the money supply.

The result was that South Africa began to experience the classic situation of "too much money chasing too few goods".

However, increased military spending also had a more direct effect on prices.

As far as the military is concerned, the price of an item is of less importance than its availability, quality and reliability.

For example, no army catering is going to tell the troops that they are on short rations because the price of beef has jumped.

This reduced concern about prices applies not only to food. It applies to virtually everything the Defence Force needs: guns, ships, planes, construction materials, clothing — an endless list.

However, the good news is that reduced military spending should reverse inflationary pressures.

More goods should become available for ordinary consumers, thereby lessening inflationary pressures.

What will be particularly interesting in the months ahead is the behaviour of food prices.

With the Army laying off its manpower, its food requirements should also be halved. This should lead to a fall in prices.

Price-conscious

Admittedly, people still have to eat whether they are in the Army or Civvy Street — but they are far more price-conscious in Civvy Street.

With the military cutting spending, one ought to expect a general reduction in pressure on prices.

But the size of the reduction could depend on the Government's tax policy in the March budget.

Before Christmas there was talk of the Government utilizing some of the money saved on defence to cut taxes.

Were this to happen, the reduction in money supply and the downward pressure on prices would be limited.

However, there is a school of thought, believed to be led by the new Governor of the Reserve Bank, Dr Chris Stals, that South Africa has been given an outstanding and possibly its only chance of cutting inflation and it would be a pity to waste it by reducing taxes.

Instead, the money saved by cutting military spending should be taken out of circulation to reduce money supply. This could lead to a marked fall in business activity and an even more dramatic price decline.

However, were the Government to do this, it would risk causing a serious recession.

In the early 1980s, British Prime Minister Margaret Thatcher's fight against inflation put three million on the dole.

Can South Africa afford a similar price for a sharply lower inflation rate? We will have to wait for the answer in the budget.
Defence cost cuts expected to pull down inflation

From DEREK TOMMEY
JOHANNESBURG — The dramatic cuts in military spending announced at the weekend are expected to have a major impact on inflation.

Coming at a time when other developments are leading to more stable prices, the outlook for lower inflation seems brighter than it has been for many years.

Although the year-on-year inflation rate rose from 14.9 percent in November last year to 15.3 percent in December, the increase is seen as the result of seasonal factors and should now start to fall.

The latest rise in inflation, in fact, is blamed mainly on the lack of rain in the Transvaal in the past two months, resulting in a sharp rise in food prices.

"With a little luck the inflation rate could fall to single figures by the end of the year," said Dr G Jan Hupkes, professor of Management Economics at Unisa.

He cited the more stable rand, real rates of interest, the huge cuts being made in government expenditure, the stage reached in the inventory cycle and the increased opportunities arising from military cutbacks.

The 29 percent decline in the exchange rate of the rand from R2.63 to the US dollar in November 1997 to R2.09 last June resulted in a sharp rise in inflation.

But since then the rand has recovered to R2.55. With the balance of payments in surplus, it seems more likely to firm than to weaken.

Real exchange rates have resulted in order cutbacks and the running down of inventories. This has reduced demand for local and imported goods.

The big cuts in military spending are also expected to produce a sharp reduction in inflationary pressures.

The surge in military spending from the 1970s was highly inflationary. It reduced the flow of goods to the private sector, while the Government, for political reasons, was unwilling equally to curb the money supply.

The result was that South Africa began to experience the classic situation of too much money chasing too few goods.

Increased military spending also had a more direct effect on prices. The military view is that the price of an item is of less importance than its availability, quality and reliability.

No army caterer is going to tell the troops they are on short rations because the price of beef has jumped.

This attitude about prices applies not only to food, but to virtually everything the Defence Force needs.

Reduced military spending should reverse inflationary pressures. More goods should become available for ordinary consumers, thereby lessening inflationary pressures. With the Army halving its manpower, its food requirements should also be halved.

This should lead to a fall in prices.

But the extent of the fall could depend on the government's tax policy in the March Budget. Before Christmas there was talk of the government utilising some of the money saved on defence to cut taxes.

However there is a school of thought, believed to be led by the new Governor of the Reserve Bank, Dr Chris Stals, that South Africa has been given an outstanding and possibly its only chance of crushing inflation and it would be a pity to waste it by reducing taxes.
Rate of inflation boosted by food

The annual rate of inflation, as measured by the consumer price index (CPI), was 15.5% for December, 0.4 percentage points higher than November's 14.9%.

Central Statistical Service (CSS) figures released yesterday show the seasonally adjusted monthly rate of increase was 1.5%.

The annual rates of increase for the lower, middle and higher income groups were 15.0%, 14.9% and 15.7% respectively.

A significant contribution to the increase was made by food.

The seasonally adjusted CPI for food rose 2.5% in December, maintaining November's sharp 3% increase.

Inflation

Large monthly increases occurred in the prices of vegetables (8.2%), fruit and nuts (4.6%), and coffee and cocoa (3.3%).

Other relatively large increases were recorded in the cost of personal care (2.3%), furniture and equipment (2.0%), housing (1.5%) and clothing and footwear (1.4%).

At 17.2%, the Durban/Pinetown area recorded the largest annual increase.

The lowest annual increase (14.0%) was experienced by the Cape Peninsula and Bloemfontein areas.

The CPI for pensioners recorded a year-on-year percentage change of 13.3%.

The average inflation rate for 1989 was 14.7% compared with 12.9% for 1988, 10.1% for 1987 and 10.5% for 1986.
Feeding the surge

December’s unseasonal weather sent food prices soaring. And that meant a large jump in the CPI, which rose from 14.9% in November to 15.3% last month.

Food contributed nearly 50% to a 1.3% month-on-month increase. From November to December, vegetable prices rose 8.2%, fruit and nuts rose 4.8%, coffee and cocoa 3.6%, fats and oils 2%, meat 1.7%, and grain products 1.6%. For the full year, vegetable prices leaped by 34.2%, followed by fruit and nuts, which increased by 22.9%.

Old Mutual economist Rian le Roux says that during the first seven months of last year, food prices rose at an annualised 9.3%, but by 21.1% over the last five months.

The increased price of vegetables resulted from unseasonal weather in the Transvaal and OFS, say produce market observers. This reduced the supply of some vegetables and raised prices from June.

Provincial Department of Agriculture figures suggest that food prices may be rising faster than the index shows. Last month, the average price for vegetables at SA’s 14 markets was R571.04/t, compared with December 1988’s R370.23. Fruit was R908.29/t, against R690.79 a year earlier.

Nevertheless, the outlook for lower inflation may be brighter. “After a 14.7% average in 1989, inflation should follow a slow, jagged downward trend. I expect an average of 13.5% for 1990,” says Rand Merchant.

Bank economist Rudolf Gouws. “Interest rates will remain high for the rest of the year, so consumer demand will weaken, the rate of increase of wages and salaries will slow. The expected stability of the rand will help to slow the rate of increase in the prices of imported goods even further.”

Adds Le Roux. “The underlying rate of inflation (excluding food prices) has come off, probably reflecting some strength in the rand. As the economy slows one would expect underlying inflation to slow, but now food prices could rise further.”

Le Roux expects average inflation for this year as a whole to be between 14%-14.5%

Economist Tony Twine says, “The food index was held down by cheaper red meat. We believe this was caused by oversupply as farmers reduced herds because of rising interest rates and retail prices. When no longer cushioned by low red-meat prices, the food index jumped.”

He adds, “We believe the inflation rate will rise again in the short term and think the 16.1% expected by a recent survey of top 100 companies’ views is reasonable.”

The PPI for November, announced last week, benefited from the stronger rand. It was 14.6%, down from October’s 15.3%. The November index used a new base year, 1985.
How to cut high rates — economist

CAPE TOWN — Short-term interest rates and inflation would decline in the second half of the year, provided excessive growth in credit and the money supply was addressed, Southern Life economist Mike Daly said yesterday.

Daly, who projected in October last year that a lower dollar value would relieve the balance of payments (BoP), boost the value of the rand and reduce interest rates, confirmed the trend in his latest monthly Economic Comment.

Changes

He said that if the international value of the dollar remained low and the gold price maintained its current strength, the net gold and foreign reserves would begin to fill up again.

This and a number of other vital economic changes like a slower rate of growth in the money supply and a lower inflation rate would all place downward pressure on short-term interest rates.

If excessive growth in credit extended and the money supply were addressed during the first half of the year, it was possible that prime could shed two percentage points to 19% before the end of the year, he said.

Lesley Lambert

Daly projected an average year-on-year consumer price inflation rate of 13.3% this year, down from around 14.7% last year.

Inflation rates recorded over the past few months had left earlier forecasts looking too pessimistic, he said. While inflation could still peak in this quarter, it would do so at 15% rather than the expected 16% to 17% range, as the recent strength of the rand exchange rate took effect.

However, he cautioned that the real economy would begin to feel the cumulative effect of a tough monetary and fiscal policy as the year unfolded.

"The fact that private expenditure on durable consumer goods declined during the course of 1989 at an accelerating pace, reaching a fall of 9.5% in the third quarter, indicates that pressure on the consumer is starting to be felt," Daly believed.

He said real gross domestic expenditure was likely to show a small negative growth in 1990, after a small positive growth last year.

Only a further strong improvement in net exports in 1990 would keep real gross domestic product growing by a possible 1%.
Surprise, we’re growing

Brian Kantor is professor of economics at the University of Cape Town.

If money supply is anything to go by, the economic slowdown is over and the economy has entered another phase of accelerating growth.

December was a big trading month. Money supply, as shown by notes issued by the Reserve Bank, grew strongly enough to reverse the declining trend in economic growth. If this continues, corporate earnings will begin growing even more rapidly because note issues consistently and reliably predict corporate earnings (see graph).

This development has not gone unnoticed by Finance Minister Barend du Plessis and he is right to hold the Reserve Bank accountable. Earlier this month he said: "There is nothing more dangerous than to let inflation into the economy. If we let it, it will come back to bite us." He is also right to hold the Reserve Bank accountable. It has not done enough to bring inflation under control.

Money supply has been growing at a rate of 10% per annum, which is very high. If this continues, it will put pressure on interest rates and lead to higher inflation. The Reserve Bank must do more to bring inflation under control.

Notes and earnings

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The trend in corporate earnings follows the trend in notes issued by the Reserve Bank, so the recent growth in notes issued may mean the economy has bottomed out and a new growth phase has begun.

Source: University of Cape Town School of Economics
Brighter outlook for inflation rate

By Sven Liinsche

The government’s tight monetary and fiscal policy will continue over the next few months and interest rates are only likely to decline by between one and two percent towards the second half of this year.

However, a major positive result of the restrictive policy will be a lower rate of inflation — in the region of 13 percent by year-end — say two leading economists.

Tougher times

Southern Life’s Mike Daly and Dr Hans Falkena of the UBS argue in their group’s respective publications that the restrictive government policy of the last two years will not be eased appreciably over the next few months.

However, the adjustment process in the economy will be easier this time around and they expect some easing in policy towards the end of the year.

“The real economy has yet to feel any pain as we enter 1990,” Mr Daly writes in Southern’s last Economic Comment. “However, the cumulative effect of tight monetary and fiscal policy over the past 18 months will result in tougher times as the year unfolds.”

He forecasts a small decline in real gross domestic expenditure this year, while only a further improvement in exports will keep GDP growing at about one percent.

“The policy of high real short-term interest rates will be maintained until the second quarter, during which the first official cut in the Bank rate from its current level of 13 percent can be expected,” Dr Falkena states.

However, the tight monetary policy is sending signals about the authorities’ determination to reduce inflation, which Mr Daly estimates could average 13.5 percent this year compared with 14.7 percent in 1989.

“Inflation may peak at the 15 percent level in the first quarter, but consumer price increases will drop to below the 13 percent level by the end of this year.”

“It is also possible that the bottom of the inflation cycle, which will be within a year or two, will be below the previous bottom reached at the 12.3 percent level in late 1988,” Mr Daly comments.

Tax outlook

UBS economist Dr Hans Falkena largely echoes Southern’s sentiments.

“Provided the lid is kept firmly on government expenditure, no additional tax increases seem necessary, and interest rates ought to start decreasing gently from the middle of the year. By the end of this year, the Bank rate should be back to the 17 percent level.”

“Another positive influence of restrictive policy will be a lower rate of inflation, maybe around 13 percent at year-end, which will also help to stabilise, the exchange rate,” Dr Falkena states.

He adds, however, that much more emphasis will be placed on the government’s fiscal policy in order to achieve these goals.

Budget deficit

Providing a conservative estimate of the current fiscal year’s budget deficit, Dr Falkena says that the significant revenue windfall received could result in a deficit of R7.7 billion for the 1989/90 year (3.2 percent of GDP), well below the budgeted R9.55 billion (4.1 percent of GDP).

“An improvement of such magnitude is unlikely to be achieved again in the 1990/91 fiscal year, although the deficit will still fall as a percentage of GDP.”

“With a 16 percent growth in revenue, and a 15 percent growth in expenditure, the budget deficit is likely to be in the region of R8 billion, or around 2.9 percent of GDP.”

Ideally, Dr Falkena notes, the budget deficit should be much lower, preferably, around 2 percent of GDP.

“All, with monetary and fiscal policy stances simultaneous ly restrictive, the policy mix will South Africa will be in a far better shape than during 1989 an 1990.”
Planning to beat inflation

Many people don’t see inflation as a major problem until the day they find themselves removed from the “inflation treadmill”.

They might complain about the increases in the price of food or clothing but continue merely spending as if there was no tomorrow.

Latest figures on remuneration published by the Reserve Bank show that most people, especially skilled or semi-skilled, are fairly well-insulated from most of the effects of inflation.

Due to the high demand for their labour, salaries have on average risen by much faster than the inflation rate.

This is also particularly true of unskilled workers who, due to the aggressive wage-demands made by the trade unions, have seen average wages also rise at a much faster rates than inflation.

But inflation really starts hurting once one goes on pension. This effectively removes one from the “inflation treadmill”.

Let’s see how inflation can affect a typical retired person who leaves work with what appears to be a large sum of money. Bill leaves work at 60 with R200 000 which he invests in debentures or on fixed-deposit at 15 percent. The return is R30 000 a year of which tax takes R6 072 (which includes the primary rebate of R1 229 for persons over 60 as well as the first R1 000 in the form of interest which is tax-free), leaving just under R24 000 available to live on.

If inflation is running at 16 percent then, after four and a half years, the purchasing power of the capital is down to R100 000 and the purchasing power of the annual income is down to around R12 000 a year after another four and a half years the capital is worth only R50 000 and the income will buy about R6 000 worth of goods and services.

Certainly the face value of the debentures or any fixed-interest investment instrument will be still worth a nominal R200 000 but money is worth only what it can buy. In Bill’s case his purchasing power has been slashed by 25 percent in only nine years.

Contrast the position of Jim who retired at the same age and used the R200 000 to buy income-producing property. The return of 7 percent after all costs meant that Jim’s income was only R20 000 a year before tax, but due to inflation, grew year by year. After nine years the property was worth R300 000 and the income had risen to R80 000 a year.

Jim maintained his standard of living whereas the other hand, Bill was reduced to living on a decreasing (in real terms) income.

The lesson in all this is obvious: unless such a time that inflation is brought under control and/or investors earn after tax returns higher than inflation, pensioners will have to resort to inflation-beating techniques in order to maintain their standard of living.
High inflation, tax make them go it alone

By David Caro

HIGH inflation and taxation, together with increasing workloads, are making salaried employment unattractive. At the same time, the breakdown of the extended family system among urban blacks has made the consequence of unemployment harsher than ever.

These factors have meant the number of small businesses as a proportion of the business sector is rising, say two experts at the Centre for Developing Businesses at Wit Business School.

In a paper titled "Spurs to Small Businesses," Joe Clark and Eric Louis analyze the supply and demand for entrepreneurship.

An supportive environment has increased the number of small businesses prepared to go it alone. They say "small" businesses, whatever their size, are in the minority. Awareness of the failure of conventional avenues to all counterparts to a broader acceptance of self-employment as well.

Mr. Louis and Mr. Clark regard entrepreneurship for running businesses as being a prudential and wider range of risk, but the conditions for entrepreneurship are increasingly becoming unattractive. As more and more more are starting their own enterprises, risk and returns are increasing. On the demand side, Mr. Clark and Mr. Louis find that small businesses are well suited to changing environments.

The growing wealth of the black community, a feature of political reform, urbanization and spread household, has also influenced demand. More people spend more money on entertainment, housing, and education, leading to the concept of political reform, but more spending is found among the poor.

Small businesses are now in a position to do business in the market.

"The small busineses sector is the only sector that can compete with the large businesses in the market. They are in a position to do business in the market."

Mrs. Louis: "We run a small business and we are in a position to do business in the market. They are in a position to do business in the market."

"While retail remains the largest small business sector, business owners are expecting the greatest growth. That will be in the upper end of the spectrum. Manufacturing will be a large area of growth as people attempt to supplement their income. Finally, at the top end, will become increasingly sophisticated and succeed.

"More competition is likely to push down profits and the rate of return and therefore we will see an increase in the amount of small business."

Mr. Clark: "We need to establish a system of government that encourages small business as a policy. They argue that the costs as well as the benefits of small business should be recognized.

"We have devoted our energies to trying to explain to people why small business is so difficult and why we need strong laws against them. It is not difficult to explain the benefits of small business, but the public is often so skeptical of the small business as a policy."

"It will be a good opportunity for the country to try and take responsibility for the modern sector's structures and problems.

A danger is highlighted on "small business" by Mr. Clark and Mr. Louis. There are concerns about the growth of small businesses as a policy. They argue that the costs as well as the benefits of small business should be recognized.
Sanlam foresees a year of shifts in the gold price

CAPE TOWN — It would seem that 1990 will be a phase of consolidation for the world economy, with sustained low inflation, considerable fluctuations in the gold price and unstable stock exchanges.

This is the conclusion Sanlam’s chief economist, Johan Louw, arrives at in the first economic survey of his company for the year.

Interest rates in the leading industrial countries will probably show a falling trend this year and the gold price should perform firmly, inter alia because of strong industrial demand for the metal.

Other positive features for the gold price are the considerable investment demand for the metal in the Far East, political uncertainty in Eastern Europe, nervousness on stock exchanges, a decline in the importance of so-called gold loans — advance sales of gold — lower real interest rates and a weaker dollar.

"It is nevertheless debatable how permanent the higher gold price will be in view of expectations that inflation — an important determining factor of the investment demand for gold — will maintain fairly low levels in the world economy," says Mr Louw.

As regards the South African economy, Mr Louw says there are indications that the slowdown in general economic activity experienced in the past 12 months will not only continue this year, but intensify.

Although the higher gold price has given the authorities a breathing space, it seems unlikely that the restrictive government policy will be eased appreciably in the next few months.

South Africa’s foreign reserves are still far too low for that.

"John Citizen will have to be satisfied with a salary and wage adjustment this year which will probably barely keep pace with the inflation rate.

"Moreover, there is little chance of significant tax relief. This is the price that will have to be paid to make essential adjustments to the economy and so lay the foundation for a better future for all," says Mr Louw.

An average inflation rate of about 14 percent may be expected for 1990, compared with 14.7 percent in 1989.

As far as the balance of payments is concerned, the favourable trend in South Africa’s net foreign trade position continues, he says.

— Sapa
INFLATION was unlikely to fall significantly in the short term, but longer-term prospects were promising, economists said yesterday.

TrustBank's Nick Barnardt said positive factors would outweigh the negatives and result in significant inflation reductions by year-end.

"The positive exchange rate in recent months is a great plus and is always an important leading indicator of overall inflation," he said.

This would help offset strong food price inflation, which would result from a poor agricultural climate and reduced supply, he added.

Barnardt said interest rates were unlikely to rise further and would probably decline later in the year.

"Also, factors like expectations of import surcharge reductions in the next Budget, and lower wage cost increases, indicate an inflation slowdown," he added.

"We expect an annual inflation average of 13.8%, with 12.5% achieved at year-end and further declines next year."

Nedbank's Edward Osborne said a year-on-year inflation rate increase was unlikely in the short term but a downturn was expected in the second half of the year.

He said first-half increases would result from upward trends in food prices, which were likely to increase in coming months.

However, the stabilised rand in the second half of 1990 would bear fruit in the second half of this year.

"The trend towards lower average salaries and wages, combined with an overall slowdown in the economy will improve the inflation outlook," Osborne said.

Econometrix economist Azar Jammine said people were overly optimistic in predicting dramatic inflation decline this year.

"Far too much money has been printed. This means inflation will not fall as much as anticipated," he said.

The positive currency situation should not be over-emphasised.

"The rand has touched new lows against the Deutschmark and other European currencies in recent weeks. This is hardly an anti-inflationary environment," Jammine said.

Producer price inflation usually leads consumer price inflation by three to four months. The rate of increase for the November Producer Price Index (PPI) was 14.6%, 0.7 percentage points lower than the corresponding rate for October (15.3%).

However, economists said the lower rate of increase should not be seen as a strong indication that the economy was cooling or that inflation was slowing.
Reserve Bank to curb money supply growth

By Sven Linsebe

In line with its efforts to reduce inflation, the Reserve Bank is to set lower targets for growth in the money supply this year.

Reserve Bank Governor Dr Chris Stals says monetary policy will remain tight for some time and that the targets for growth in the broad measure of money supply, M3, are likely to reflect this policy.

"Given our efforts to bring inflation under control, it is reasonable to assume that the targets will be lower than last year's 14-18 percent level," Dr Stals said yesterday.

"Dr Stals has kept interest rates high and liquidity in the market tight, despite the improvement in the balance of payments," TrustBank economist Nick Barnardt said yesterday.

However, persistent growth in bank credit and money stock are forcing him to maintain a tight policy and I expect a target of 11 to 15 percent for 1990," he said.

Another bank economist predicted an even lower range of 10 to 14 percent, "as combating inflation involves breaking inflationary expectations, which a lower target would do."

However, a lower target itself creates numerous problems, not least the task of overcoming them.

Over the last few years growth in M3 has substantially exceeded targeted figures.

**Upper limit**

From the fourth quarter of 1988 to last year's fourth quarter M3 rose by 25 percent to R143.1 billion, against a targeted upper limit of R125.13 billion.

The Reserve Bank will release its target figures by the end of February, when the commercial banks have submitted their BAS figures.

But Dr Stals said the target was reached with flexibility and that there was no acceptance of a rigid and overriding "money rule."

"If we do not achieve the targets it is a good indication to us and the general public that we are still growing too strongly, as was the case last year."

However, we are receiving evidence that the economy is headed for a soft landing if the current level of interest rates is maintained for a while and no further adjustment in rates is necessary," Dr Stals said.

The target usually comprises the Bank's forecast for inflation plus economic growth as measured by gross domestic product (GDP).

While it is generally expected that GDP growth will not exceed 1.5 percent this year, the difficulty arises when predicting the inflation rate for the year.

Dr Stals said "Monetary and fiscal policy are making their contributions to lower price increases and will continue to do so, but whether inflation will fall further in the year ahead will depend largely on the level of wage increases."

"If wage increases fall in line with stricter monetary policy, the major impact of lower economic demand will be on prices.

"But if wages continue to rise at the high levels experienced over recent years, then not only will inflation decelerate at a much slower pace, but unemployment will increase," he said.

Many economists agree with him that economic demand is already slowing down credit demand, and hence money supply.

While corporate demand for credit is taking longer to taper off than consumer demand, the growth in money supply should fall well within an 11 to 15 percent target range by the second half of this year," Mr Barnardt said.

Nedbank MD Ron Rundle said "Corporate credit demand held up exceptionally well last year, but should decline as interest rates for corporate customers remain high and have even been raised over the last few weeks."
**Review**

In the fourth quarter of 1978, according to the Federal Reserve, real wages in the labor market rose. This suggests a potential problem for future inflation, as higher wages might lead to higher prices. The labor market is still tight, with unemployment rates remaining low. The Federal Reserve is expected to continue raising interest rates in the coming months to combat inflation.

**Great Sten**

1978: 1978

The labor market will become tight as wages rise, and the Federal Reserve will need to raise interest rates to prevent inflation from accelerating.

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THE best things in life are real — according to the dairy advertisements.

A real return on investment should bring cheese smiles to savers' faces. What exactly does real mean?

Real is a much-handled term to signify a return on investment higher than the rate at which the cost of living climbs.

Real rates of interest imply a higher rate of interest paid than the rate of inflation.

The intention of Government and the Reserve Bank is that real interest rates must prevail. With inflation for the year to December at 15.4%, one needs to earn 15.5% or more to get into the real bracket. Or is it?

**Taxable**

In the hands of most taxpayers, such return is but nominally real. Interest is regarded as fully taxable income by the Receiver of Revenue. Assuming he demands a maximum of 40% of interest earned, fixed-deposit savers are worse off than ever.

What does the inflation rate signal? Economists have many chicken-and-egg theories, but the outcome is that what cost R100 this time last year now costs R115.40. If you could afford it last year, but have not achieved a real return on investment, you cannot afford it this year.

Your standard of living falls, your capital is eroded, and is used merely to exist, not to earn income.

This is the crux of the matter facing all South Africans.

Fortunately, there are many investment opportunities. But only a few can claim to have outpaced inflation.

**Security**

Beating inflation through safe, institutional investments is no cakewalk.

Fixed deposits, such as those offered by banks, building societies and the Post Office, guarantee maximum security. But they are risky in the long term, in that your money becomes worthless. It will depreciate in real terms.

Consider for a moment what the borrower — the bank, for example — does with the money it borrows from you. It lends it to others and takes a margin of profit for itself.

**Emergency**

Do not be misled by advertisements guaranteeing a fixed rate of return offered by a no-name brand institution. A guarantee is only as good as the institution behind it. If someone offers a return of 25% when banks pay 15%, a high risk is being taken with your money.

Once you start to question the other party's objectives, you will make fewer investment mistakes.

So much for fixed deposits. They are okay for a short spell as a sort of parking place or emergency coffee, but in the long run, they are a no-no.

Happily, the JSE has provided real returns to investors. Those rich and informed enough to have their own portfolio of shares have only their own fortunes to consider.

For more than 500,000 South Africans, investing in shares through unit trusts has been extremely rewarding, in the past 12 years, the rate of inflation has averaged 14.2% annually, but the worst return from a general equity unit trust has exceeded 25% compound growth. The best funds topped 30%.

**Impartial**

A spread of investments is the best policy. How one's personal investment portfolio should look depends on dozens of factors — needs, objectives, means, taxation and age.

For these reasons, tailored professional advice is vital. Many people worry that they will not be given impartial advice if they go to a recognized financial institution.

They should better remember that they will not be given bad advice, that they are under no obligation to follow it, and that they can shop around if they so desire, and can spread their investments across several institutions.

Sound and professional advice is better than none.
Inflation tops pay rises

Inflation tops pay rises

SALARY increases have not only failed to keep pace with inflation, but have fallen markedly in certain white-collar sectors for the first time in four years.

The Kelly Personnel Salary Survey published this week says the cause is a cooling of the economy which affected commercial sectors in the latter part of last year.

Although the salaries of white-collar workers declined on average, there were increases in some areas but they were nominal in real terms.

The Kelly survey says front-office staff, such as receptionists-telephonists, received small pay increases and bookkeepers fared better than most.

"Companies are paying more and more attention to their receptionists and bookkeepers to ensure that the company image is projected in the most professional manner possible.

"The survey shows that starting salaries for executive secretaries are 12.5% lower in Cape Town, 20% lower in Port Elizabeth and 15% lower in Durban than in Johannesburg.

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"It shows that starting salaries for executive secretaries are 12.5% lower in Cape Town, 20% lower in Port Elizabeth and 15% lower in Durban than in Johannesburg.
Fight against inflation paying off, says Stals

By Sven Lunsche

The Reserve Bank's intensified efforts to bring inflation under control are beginning to show positive results, says its Governor, Dr Chris Stals.

He said on Friday, however, that it was premature to relax restrictive monetary policy until foreign exchange reserves had been built up to an adequate level.

Excessive bank lending needed further curbing, he said.

He told a seminar hosted by the EP Building Society in Port Elizabeth that the authorities were encouraged by recent statistics in their efforts to reduce inflationary pressures.

"Monetary policy on its own can eliminate inflation completely, but without the support of other macro-economic policies, especially fiscal policy, the social cost in terms of reduced output and lower employment will be too high."

"It is therefore essential that a serious anti-inflation drive should emanate from the Government itself. Perhaps the most encouraging feature of the drive against inflation is that the Government stands behind it," Dr Stals said.

He expected that government expenditure in the current fiscal year would be more or less in line with the Budget prediction, while revenue could exceed the estimates by a substantial margin.

"The deficit before borrowing will accordingly be much smaller than the R8.9 billion provided for in the Budget, and may indeed be very close to the magical three percent of GDP," Dr Stals said.

This assessment was supported by the Director General of Finance, Gerhard Croese, who in a separate speech at the conference said that containment of the deficit would take precedence over tax cuts in this year's Budget.

"The Government's resolve to control spending will limit the scope for tax cuts," he said.

Mr Croese said that expenditure would run pretty close to the budgeted figure of R65 billion in the current fiscal year, while the deficit before borrowing would be lower than three percent of GDP.

In the coming fiscal year the authorities would try and retain the deficit at these levels.

Other developments confirming progress in the fight against inflation, according to Dr Stals, included a substantial decline in the growth of gross domestic expenditure, which in 1988 rose by 7.5 percent, and a slowdown in the annual rate of increase of bank lending to the private sector to 20.8 percent in November last year to 30.8 percent at the end of 1988.

However, Dr Stals warned that despite these developments and the recent strengthening in foreign exchange reserves, particularly since the speech to Parliament by State President FW de Klerk, "it would be premature to relax monetary policy at this stage."

Taking account of the Bank's responsibility for the protection of the rand, Dr Stals said any relaxation of the policy could only be considered if a number of economic criteria were met.

- The balance of payments position should be consolidated and gold and foreign exchange reserves be built up to a much higher level
- The excessive increase in bank lending and in the money supply should be curtailed further
- The rate of inflation should decline further
Sección unfair, says building chief

Competition from Informal
Call for wage restraint to fight inflation

Own Correspondent

JOHANNESBURG — Reserve Bank Governor Chris Stals and Finance Minister Barend du Plessis yesterday called for wage restraint to help fight inflation.

Speaking at the Frankel Kruger Vinderme investment conference in Johannesburg, they emphasised the fight against inflation now needed the support of a restrictive policy on wages and salaries.

Stals said: "We need the support of employers and employees to ensure that excessive wage increases will not jeopardise the present well co-ordinated programme against inflation."

He noted monetary policy was beginning to show effect, fiscal policy was making a major contribution and domestic demand was not exerting any undue pressures on prices.

"One major further action is now required, and that is for wage and salary adjustments also to come in line."

Stals described as "disturbing" an increase of 17.9% in the average level of nominal wages per worker in the first three-quarters of 1989 compared with the same period in 1988.

While it could not be expected of wages and salaries to remain stable in an environment of inflation, and it was reasonable for workers to be compensated for the decline in the purchasing power of money, Stals said the only justification for increases in nominal wages above the current inflation rate must be higher productivity.

"The available information on labour productivity for 1989, however, does not justify any important increases in real wages."

"The aforementioned increases at rates well above the current rate of inflation can only fuel inflation."

Stals said the total environment, both in terms of financial conditions and as far as macroeconomic trends were concerned, was now extremely conducive to an important reduction in inflation.

"It will be a great pity if this opportunity should now be missed because of unreasonable demands for wage and salary increases."

But monetary policy still had to spearhead the fight against inflation.

Du Plessis said: "We do not support a policy of freezing or limiting to a certain maximum percentage the increase in wages and salaries. Employers and organised labour should, however, take note of the adverse long-term effects which excessive wages and salaries exert on SA's rate of inflation..."

Another spin-off was the use of capital-intensive production techniques, while the growth rate and export competitiveness also suffered. The danger also existed that substantial increases in real terms in wages and salaries might make it easier for workers to get credit from banks to finance consumer spending.

He told businessmen that control over costs was essential during a consolidation phase — implying that wages and salaries should rise at a slower rate in the year ahead.

He told trade unions they had a vested interest in a sound and growing economy. "Unmotivated strikes and intimidation do not serve the long-term interests of the economy and reduce labour productivity," he said.
Govt urges curb on inflationary wage rises

By Derek Tumney

The Government is urging the private sector not to grant inflationary pay rises.

Conditions are conducive to an important reduction in inflation, the Governor of the Reserve Bank, Dr Chris Stals, said yesterday.

"It will be a great pity if unreasonable demands for wage and salary increases prevent this from happening," he said.

Both the Minister of Finance, Dr Ben Swart, and Dr Stals used the Frankei Kruger Vundervine investment conference in Johannesburg yesterday to appeal to employers to keep wage and salary increases in line with the inflation rate.

Dr Stals said monetary and fiscal policy were making a major contribution to the fight against inflation.

"One further major action is now required, and that is for salary and wage adjustments to come into line," he said.

Wage increases in the first nine months of last year were 17.9 percent ahead of those of 1988.

Dr Stals said that workers could expect to be compensated for the decline in the buying power of the rand.

But pay increases greater than the inflation rate were themselves inflationary unless justified by higher productivity, which was not the case last year.

Inflation

Noting that the 17.9 percent increase in wages last year was on the high side, Mr du Plessis warned employers and organised labour about the adverse effects of excessive wage and salary increases on the rate of inflation, on economic growth and on the use of capital, instead of labour and export competitiveness.

Dr Stals said that although the consumer price index (CPI) in December was 15.3 percent higher than a year earlier, indications were that inflationary pressures had eased in recent months.

This was not entirely owing to anti-inflationary measures — in this game you also need a little bit of luck," Dr Stals admitted.

Among the indicators of lower inflation were the 4.2 percent appreciation in the weighted average of the rand in the past seven months and the fall in the growth of money supply.

Other important indicators were the estimated 0.5 percent decline last year in real gross domestic spending after it had increased by 7.5 percent in 1988, the drop in the annualised growth rate of the CPI from 18.4 percent in the second quarter of last year to 13.3 percent in the fourth quarter, and the drop in the growth rate of the producer price index (PPI) from an annualised 20.2 percent in the second quarter to 8.7 percent in the fourth quarter.

Dr Stals said it was policy to hold the rand at its present levels to help exporters maintain the markets they had developed.

"We do not mind if the rand is undervalued in terms of the foreign exchange rate," he said.

Reserve Bank

But for Reserve Bank intervention, the exchange rate would have been much higher.

It was also policy to keep the exchange rate stable, he said.

The Reserve Bank did not want the rand to appreciate and then depreciate again.

So far there had been no sign of any long-term investment by foreigners so the present upward pressure on the currency might only be temporary.

Dr Stals said the Reserve Bank had held the exchange rate by selling rands for dollars. Because the banks had used these rands to reduce their indebtedness with the Reserve Bank, there had been some increase in money supply.

To mop up these extra rands the Reserve Bank had from yesterday morning been offering the banks dollars in exchange for rands on condition that the dollars are invested abroad.

Bankers expect this to tighten conditions in the local money market where the shortage has fallen from R3.5 billion to around R2.4 billion in recent weeks.
Inflation inhibits role of life offices — Stals

CAPE TOWN — Reserve Bank governor Chris Stals reaffirmed government’s drive to eliminate inflation yesterday, saying that high inflation inhibited the role of life offices in mobilising and investing savings which were vital to economic development.

In his seconded address at Sanlam’s AGM, Stals said savings made a vital contribution to the financing of the net outflow of funds overseas and expansion of production capacity which created more job opportunities.

Life offices played an important role in ensuring that the total savings pool was as large as possible and that available funds were invested in a way that enhanced long-term economic growth.

But none of these objectives were attainable in an environment of high and increasing inflation, he said.

The elimination of inflation was also one of the best ways of removing economic distortions which upset the competitive environment of financial institutions and lead to uneven playing fields, Stals argued. He said it would lead to more equal and unprejudiced application of the tax system and liquidity requirements.

“Those who have the responsibility of encouraging the public to save even more, and who then also have to mobilise and invest those savings, can do so in the best interest of future economic development only in an environment of stable monetary values.

“In this way alone will we eventually be able to persuade those who doubt the benefits of the market economy that this system, where realistic prices and realistic interest rates reflect the underlying conditions of supply and demand, will ultimately provide us with the greatest possible prosperity,” he said.
Little chance of lower rates...

Inflation rate drops by 0,2%  

By Ari Jacobson

Latest consumer price index (CPI) and money supply (MS) figures released by the Central Statistical Services (CSS) yesterday indicate little chance of an early drop in interest rates as the government battles to smother inflation.

SA's inflation rate for January as measured by the CPI dropped by 0,2% from December, to 15,1%.

The Cape - helped by the influx of holiday-makers over this period - boasted the highest monthly increase of 1,6% compared to the Witwatersrand at 1,9%.

The largest contributors to the monthly non-seasonally adjusted increase of 1,4%, on a weighted average, were food at 0,4%, medical care and health expenses 0,3% and fuel and power 0,2%.

The monthly rate of increase in the seasonally adjusted CPI is 0,8%.

SA's broadly defined M3 growth on a year-on-year basis slowed to 21,9% in January against December's revised annualised figure of 27,1%.

This was significantly lower than the percentage change over 12 months to January 1990 of 37,7%.

Gad Aronovich, market strategist at Ferguson Bros, Hall, Stewart & Co said although inflation was high it would start trending down as lower economic activity dampened price rises.

Aravivch attributed the unremarkable drop in inflation to cost-push factors.

"The scrapping of food subsidies boosted product costs which producers passed on to consumers."

"Salaries and wages, based on companies' previous year's performance and with added impetus from trade unions, are expected to increase by 14% in the coming year."

He warned that the MS was still too excessive to reduce interest rates, especially as demand pull inflation generated from high monetary aggregates lagg'd the economy by between nine and 20 months.

"Tighter controls are the treatments required to realise the ultimate objective of improved living standards."

"Aronovich emphasised the importance of maintaining high real interest rates in line with developed countries."

"At present SA's real rate of about six percent matches the US and is roughly a percentage point behind Germany."

First National's economist Cees Bruggemans said he expected inflation to decline in the second half of the year to about 13%.

"To achieve this goal monetary curbs must remain in force," he said.

Bruggemans added that in line with this policy a tighter Budget and little tax relief could be expected.

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Keeping ahead of double-digit inflation rate

THE best hedge against inflation is provided by participation mortgage bonds, says property finance and investment specialist Owen Wiggins Trust (OWT).

Demand for commercial and industrial properties, into which part bond investors place their funds, has increased sharply, notes OWT marketing manager Barry Ferguson.

"Similarly, part bonds as a form of investment are growing in popularity and the market has grown dramatically," he says.

He says figures released recently (see chart) show higher rentals are available for a dwindling supply of suitable properties.

"When assessing the range of investments available to counter the effects of double-digit inflation, serious consideration should be given to part bonds," Ferguson says.

Originally devised as an investment vehicle for "widows and orphans" because of the inherent high levels of security and better-than-average returns, investors have placed about R2bn worth of trust in part bond managers.

The basis of the scheme is that the managing company acts as a central pool for investors and then lends the money to stringently evaluated commercial and industrial borrowers.

Interest to them, currently below the prime rate, is at a slightly higher rate than that paid to investors.

A managing company acts as a conduit allowing the smaller investor the opportunity to enjoy the rewards of large-scale investment in the commercial property field.

Yardstick

As a yardstick of the current performance of part bonds, OWT — one of the oldest part bond managers, with more than 25 years experience in the market — claims to offer one of the top investment rates.

"This is currently 19.26% with a guaranteed floor rate to protect the investor against dramatic falls in the interest rates," says Ferguson.

He says over the last five years, when the prime rate has been as low as 12%, OWT's part bond scheme has averaged 17.46%. Interest is paid monthly in advance.
Inflation rate decreases slightly in January

The annual rate of increase in inflation, as measured by the change in the Consumer Price Index (CPI), was 15.1% for January, 0.2 percentage points lower than December's 15.3%.

Central Statistical Service (CSS) figures released yesterday showed the monthly non-seasonally adjusted increase was 1.4% The increase raised the index from 199.4 in December to 199.9 in January.

This means it now costs R199.9 to buy the same bundle of consumer goods that cost R100 in 1965.

The annual rate of increase in the indices for the lower, middle and higher income groups were 15.0%, 14.7% and 15.4% respectively.

Large contributions to the monthly increase were by food (28.6%), medical care and health expenses (21.4%) and fuel and power (14.3%).

The food index showed a monthly rate of increase of 1.8% and an annual rate of 14.5%. Large contributions to high annual food price inflation were by price increases for grain products (17.8%), vegetables (17.3%) and fruit and nuts (20.1%).

Economists said the overall increase was in line with expectations and the economy was still on course for an inflation rate of 15% for the year.

TrustBank economist Nic Barnardt said the monthly increase of 1.4% was high, but attributed this to January being a month in which big increases were traditionally recorded.

FNB economist Cees Bruggemans said 'This year will see lower oil prices and interest rates relative to the base year — and this will have a positive effect on the rate of increase in the CPI.'
Inflation fears mount in US, UK

Food prices climbing again

Finance Staff

South Africa's inflation rate, as measured by the Consumer Price Index (CPI), dropped by 0.2 percentage points to 15.1 percent, according to figures released by the Central Statistical Services yesterday.

The inflation rate in December was 14.9 percent, while inflation averaged 14.7 percent for the whole of last year.

From December to January consumer prices rose by 1.4 percent, with the largest contributions coming from food prices and medical care and health expenses.

Food prices, in particular, are beginning to pick-up again. On a year-on-year basis they rose 14.9 percent and on a monthly basis by 1.8 percent.

But the statistics fail to reveal the real picture.

Over the last year vegetable prices have risen a staggering 47.8 percent, after surging by 12.8 percent in January alone.

Fruit and nuts have gone up 28.1 percent and grain products by 17.8 percent.

More detailed figures were also made available by the CSS recently which show the extent to which prices of certain products soared from November to December last year.

Vegetable and fruit prices again experienced the highest rises: The price of tomatoes in December increased by 18.4 percent, cabbage by 12.7 percent and lettuce by an incredible 59.6 percent. Bananas were up 20.9 percent and oranges by 11.8 percent.

Other product prices did not lag far behind. Tea (3.6 percent), coffee (4.9 percent) and marmalade (16 percent) also featured.
Beat inflation with shopping sacrifices

How the inflation rate differs from family to family.

The Smiths and the Jones family had identical incomes in 1989 and as well as similar living expenditures in 1988. However, while the Smiths paid more in 1989 to maintain their standard of living, the Jones family decided to be frugal.

The Smiths were able to save R400 in March 1989, the inflation rate was 12.5% per year. The Smith family was only approximately 12.5% percent more at the time of their family.

On the other hand, if for example the Jones family has bought a new car in 1989 but higher prices payments could well have resulted in the Jones family suffering an inflation rate of say 10% percent in spite of their sacrifices.

Those prices have been simplified to illustrate a point and all figures are hypothetical and will be different in actual costs or purchase increases.

Well, the culprit here is not inflation as such. It is an equally ominous word called taxation — aimed at obliterating what a benchmark called fiscal drag, that kills you by bumping you in a higher tax bracket at salary hike time. So, if you applied the same tax rate that was enjoyed years ago than you would be considerably better off than they were.

But, getting back to the inflation rate calculations. Perhaps this is the only way the average family can calculate whether or not they are making ends meet or being bled dry.

The data here is that whenever the expert believe the inflation rate to be, in practice it exists actually to be a lot different when one compiles one family with another. This alone is a before-and-after scenario involving the entire question.

Take two identical families, living next door to each other, earning the same salary and paying the same tax. Family A might have a higher income shopping list — the same list they have for the past ten years — and regularly every month they go out and buy everything on the list.

Their neighbours might have had the identical list ten years ago but year by year, as prices increased they have knocked a number of items off the list of selected cheaper substitutes. The two inflation rates would be completely different.

It is for this reason that any inflation rate calculation that is based on the official called basket of products cannot be all that accurate. Simply because it assumes that consumers are buying the same things and don't eat more or less.

The more the whole quantum of the inflation rate is investigated, the more forced to come to the conclusion that at best the official rate makes so many assumptions that it cannot be trusted as anything else but a rough guide at best. Which means that those who suggest it is a lot higher should not be scoffed at. Not those optimists who believe it is lower.

At the end of it all, the only accurate way of determining to what extent inflation is hitting your pocket is to apply a little DIY inflation accounting. It's quite simple — a question of making a note of what you buy and at what cost this time last year. At the end of the month, total those in salary increases at the appropriate moment and you will have your own instant inflation rate.
Ways of combating inflation sought

Scheme's provide relief

Deferred compensation

TAX PLANNING SURVEY
Savers' interest should be protected — Iscor chief

GREATER tax relief on interest earned by small savers would help fight inflation and aid the country's economic recovery, says a leading industrialist.

Mr Marius de Waal, chairman of Iscor, said at Old Mutual's annual meeting in Pinelands recently that the simple test to determine whether South Africa would make the grade in the coming decade lay in a recovery in people's capacity to save. The first step was to contain inflation.

The Government's strategy here should be based heavily on the curtailment of State spending. There must also be a strong focus on a policy of real interest rates (rates higher than inflation). Real interest rates should preferably be supported by tax relief on interest earned by individuals.
Inflation is what you make it

From CHRIS MOERDYK
JOHANNESBURG With
the Reserve Bank firmly
convinced it finally has the
measure of the inflation bo-
gey, there is the distinct
possibility that if it ever
drops to a manageable level
and consequently out of the
headlines, consensus would
probably still not have been
reached on what the infla-
tion rate was at any given
time.

The past year has seen an in-
crease in argument and
counter argument about the
real inflation rate, without any-
body being able to pin it down
anywhere near conclusively.

Highest bid

Government statistics this
week put the rate at 15.1 per-
cent. Myriad economists might
suggest it is a few points high-
er or lower, and last month
Durban mathematician Karl
Posel reiterated his "irref-
utable, quantitative evidence"
indicating an inflation rate of
30 percent plus.

All of which has left ordi-
nary South Africans confused
about whether annual pay in-
creases are leaving them effec-
tively richer or poorer. The
irony of it all is that on one hand
there seems to be convincing
argument the inflation rate
could not possibly be as high as
30 percent, but on the other
most consumers battle to think
of anything that hasn't gone up
by a lot more than 15 percent
in the past year.

And while argument rages
on whether inflation should be
calculated on consumer expen-
siture, the consumer price in-
dex or any number of other
factors, the facts don't seem to
help either.

For example if one takes the
prices of products as they were
30 years ago and relates them
to disposable income at the
time and then applies the same
arithmetic for today, it is more
often than not found that many
products are, in fact, relatively
cheaper now than they were in
the good old days, when the
word inflation was used solely
for pumping up car tyres.

This being the case, why
aren't South Africans living as
well as they were 30 years
ago? Why can one only manage
to take the family out to a
steakhouse once in a blue moon
these days and not once a week
as it was in the old days?

The culprit here is not infla-
tion as much. It's an equally
enormous bogey called taxtion,
added and abetted by a bunch
man called fiscal drag, that
killjoy who bumps you into a
higher tax bracket at salary
levels you applied the same
tax rate enjoyed 30 years
ago then everybody would be
a lot better off than they
were then.

Perhaps the best way the av-

erage family can calculate
whether it is making ends meet
is to its expenditure with that
of another family?

Take two identical families
living next door to each other,
earning the same salaries and
paying the same tax. Family A
might have a supermarket
shopping list, the same list it's
used for the past ten years, and
regularly every month buys ev-
erything on the list.

Items knocked off

Family B might have had
the identical list ten years ago,
but year by year as prices in-
creased it has knocked a num-
ber of items off the list, or se-
lected cheaper substitutes. The
two inflation rates would be
completely different.

It is for this reason that any
inflation rate calculation based
on a so-called "basket of pro-
ducts" cannot be all that accu-
rate. Simpily because it as-
sumes consumers stick to
buying the same things.

The more the whole question
of the inflation rate is investi-
gated, the more one is forced
to come to the conclusion that
at best the official rate makes
so many assumptions it cannot
be treated as anything else but
a rough stab at a true figure.

Which means that those who
suggest it is a lot higher should
not be scoffed at. Nor those op-
timists who believe it is lower.

The only accurate way of de-
termining personal inflation is
by making a note of what you
buy and at what cost this
month and then doing the same
next month. Toss in salary in-
creases at the appropriate mo-
mments and you will have your
own instant inflation rate.

If you can persuade your
neighbour to do the same and a
comparison is made you will
understand why some of the
finest economic brains in the
country haven't been able to
come up with anything but
guestimates.
Water board to seek interdict against union

Labour Reporter

Fearing a strike at major pumping stations, the Rand Water Board will today seek an Industrial Court interdict against a black trade union and more than 2,000 black employees.

In the event of a strike, threatened for Monday, the RWB would maintain its services, a board spokesman said.

The general secretary of the non-aligned Municipal, State, Farm and Allied Workers' Union, Mr Philip Masiya, confirmed that workers had threatened action to win the reinstatement of 300 colleagues fired after striking last year.

Hundreds of workers from the Swartkoppies pump station, near Johannesburg, last week staged a march to the RWB's Rietvlei head office to present their demands.

The board spokesman said that the RWB would argue that strike action would pre-empt a forthcoming Industrial Court case on the dismissals. And as water supply was an essential service, a strike would be illegal, he added.
The Rand

Coming up for air

Pretoria must grab what anti-inflationary advantage it can — while it can

There appears to be some ambivalence in official circles over what policy to adopt towards the rand. The dilemma is understandable. If the Reserve Bank allows its exchange rate to continue rising, inflationary pressures will be reduced, but disruptive volatility in the future is a risk if capital inflows are suddenly reversed.

On the other hand, if the Bank buys dollars to keep the rand relatively weak and thus ensure export earnings remain buoyant — which will help repay onerous foreign debts — inflation will be encouraged both by higher-than-otherwise import prices and difficulties in keeping down rampant growth in the money supply.

Yet again, the dilemma may soon disappear. For when the rand/dollar exchange rate moved below R2.60 on December 5, it seemed it would be only days before it reached the crucial psychological R2.50/$ — US$40c/R. However, though much has gone its way since then, the rate has stayed stubbornly above that.

Reserve Bank Governor Chris Stals leans towards not letting the external value of the rand rise too quickly. His reasons are that he would first like to see the elimination of the discount between the commercial rand and financial rand (the lower rate at which non-residents can buy the currency). He favours the incentive to exporters and deterrent to importers provided by a weak currency. As a central banker he tends towards a desire to maintain an element of stability in currency markets.

So it is not clear to what extent the rand's value is being determined by the market and how much by Central Bank "management."

Finance Minister Barend du Plessis says, "The value of the rand will be decided in the markets. What is not known, he points out, is what the markets will dictate. His uncertainty was reflected in a speech at the Frankel Kruger Vomderinge conference in Johannesburg last week.

"With restrictive fiscal and monetary policies firmly in place, we no longer have to rely extensively on the exchange rate as the additional mechanism to realise a surplus on the current account of the balance of payments. Adequate proportions to meet foreign commitments," he said. On the other hand, "A surplus (on current account) of R4.1bn was recorded during 1989, but the outflow of capital amounted to more than R3bn, so net foreign exchange reserves declined further." We guess he is reluctant to stop the accumulation of forex reserves the recent rise in the value of the rand has made possible.

The weight of opinion — whatever Central Bank misgivings there may be — seems to be that the rand will firm, despite the danger of the recent capital inflows turning into hot money vulnerable to flight. The rand's upward momentum since its R2.87/$ low point on June 15 seems to be rooted in fundamentals.

Much of the rand's positive performance against the dollar since September is due to the weakness of the dollar itself. Munich's Bayerische Vereinsbank says the dollar has fallen on average 5% against other currencies since then and about 14% against the D-mark.

"was far larger than expected, outperforming even our R13bn upper limit forecast and improving on 1988 by a massive 131%. This created an increasing surplus on current account during the year."

Politically, the route of the right within the National Party opened the way back from pariah status in the world. What secured the trend, however, was the rise in the gold price in November from below $360/oz to over $400 by year-end.

So the rand, having been overwhelmed by the strength of capital outflows in recent years (see graph), has now begun to surface with the help of tentative inflows. Fortunes in the following months will depend on the strength and direction of flows which, in turn, could also depend largely on political developments.

What the governor must keep in mind is that priorities have changed. Curbing inflation is much more important now than easing the debt repayment burden, which he himself has so skillfully negotiated to our substantial advantage since 1985.

Hindsight is always helpful. At a press briefing in April, the Reserve Bank Governor Gerhard de Kock conceded that, over the previous four years, the Bank had depended too heavily on the depreciation of the rand.

Referring to the need to build reserves to meet debt repayments, he said, "in retrospect, a somewhat less inflationary (balance of payments) adjustment would have been both possible and desirable."

There are two ways of measuring the value of a currency externally by the amount of foreign currency it can buy; and internally by the goods and services it can purchase.

The unit's international purchasing power declines, its external value depreciates. But the process goes further; the effect becomes a cause and the sliding external exchange rate further reduces purchasing power. So what De Kock was explaining was that, by failing to protect the currency with appropriate interest rates, he had allowed inflation its head.

Hopefully, if the positive inputs now feeding into the rand remain in place, the error will not be repeated. Both Finance Minister Barend du Plessis and Stals have stated the
There was another route to protecting reserves — what De Kock described as “Draconian deflationary fiscal and monetary measures which, among other things, would have meant decreases or very limited increases in nominal wages and salaries. But such a deflationary policy would have exacerbated unemployment which was already high and further undermined business confidence which was already very low.”

This option, he pointed out, was chosen by Romania, which reigned on restrictive monetary policy to enable it to pay off international debt. The policy ensured negative inflation but wiped out economic growth.

In SA’s case, said De Kock: “In the abnormal socio-political circumstances, the monetary authorities judge that adjustment purely via deflation would have been neither feasible nor in the country’s interest.”

De Kock was always very good at hindsight, always prepared to smear ash in his hair and rent his garments if he’d misjudged what was later seen to be a difficult and confusing situation. Noble though he might have been, it didn’t achieve very much and Stals would be wise not to emulate him.

Time to reassess:

In any event, the need to curb inflation has become more pressing. Foreign debt is beginning to look after itself. And every advantage must be taken — however short-lived — to use the buoyancy of the rand to curb inflationary pressures.

It is time to reassess the situation and look beyond US$40c. As Du Plessis says: “The depreciation of the rand played a major role in the acceleration of inflation during the past year — not only directly but also indirectly. Higher rand export prices were obviously passed on to local buyers of these products, whereas import prices often served as a yardstick for the upward adjustment of domestic prices, even if the products were not directly imported.”

Like any mispricing, an artificial valuation of the rand will create distortions and allow misallocation of resources. With the future providing endless and expensive challenges, we can’t afford this.

It is true there is uncertainty about future capital flows. Adverse circumstances may revive capital outflows and again threaten the rand.

But we are not in the happy position in this country that we can turn away from short-term gain in the dubious belief that stability in exchange markets is more important and that a growing balance of payments surplus is critical — though the need for some surplus is important.

Learn to manage volatility

The authorities must learn to manage volatility and crises as they occur. They must take advantage of favourable conditions whenever they can. For inflation at current levels will quickly erode the foreign trade advantages of keeping the rand artificially weak. And if, after a 40% currency deprecation, exporters cannot secure their positions and need further protection, they don’t deserve to be in business.

One benefit of allowing markets to price the currency is that no politician has to accept responsibility. A market-determined exchange rate is depoliticised.

So in present circumstances, the authorities should allow the rand to rise, until the market (for whatever reason) imposes its own restraint. If the capital inflows should be reversed because of silly things said by ANC leaders about nationalisation, not only will the country have had some advantage in the meantime, but the rest of the world will see precisely where the reluctance to restructure really lies.
GOVERNMENT'S investigation into fighting inflation through consumer resistance to "price exploitation" has drawn sharp criticism from the SA Chamber of Business (SACB).

The SACB, in a memorandum to the President's Council, Economic Affairs committee, described the words "price exploitation" in the terms of reference of the committee as "misleading and unfortunate".

Mistaken as it implies price exploitation causes inflation, and unfortunate as it implies exploitation is an established fact and would tend to "engender hostility between consumer and businessman".

The terms of reference suggested there was a misunderstanding as to the "real causes" of inflation.

The SACB said it rejected allegations of price exploitation. It was emphatic that effective competition, and not "consumerism", could be the only response to what is perceived to be "exploitative prices".

"No one can say what constitutes a reasonable or fair mark-up in relation to an exploitative mark-up, but one element of certainty is that competition drives down mark-ups."

To achieve effective competition, the active pursuit of deregulation, and privatization was necessary. In addition, the economy had to be opened up to participation by all.

"The best safeguard for consumers' interests lies in the appropriate level of warable competition," the SACB said. It added a number of bodies' watched over competition and there were also laws to protect the consumer.

Further regulations "could well have the opposite effect to what is actually sought".
350 strikers yield to Sappi

About 350 workers at Sappi Newbord in Port Elizabeth have accepted defeat in a month-long strike, by taking the company’s 16 percent wage offer. The company has not shifted on the size of the package offered, although it has been “restructured” — Labour Reporter.
Fewer strikes but more strikers in '89

More workers downed tools and more man days were lost through strikes last year than in 1988, in spite of a 16 percent drop in the number of strikes, the Minister of Manpower, Mr Ell Louw, said.

Speaking at a Johannesburg labour conference, Mr Louw said: in the year up to last November, the number of workers involved in strikes had risen from 162,000 to 177,000. Lost man days rose by 286,000 to 1.2 million.

Mr Louw said pay remained the main strike trigger and pay strikes tended to last longer — and more were legal. Employers were showing greater resolve to ride out strike action, he added.

Mr Louw said South Africa would see growing sophistication in wage demands, with a likely stress on an improvement in real earnings.
SA inflation figures soaring

Buying power of rand is shrinking

While South African inflation figures are soaring and the buying power of the rand is steadily eroded, Europeans and North Americans barely notice they have an inflation problem.

Average inflation in South Africa last year was 14.7 percent (16.6 percent in December), compared with 4.9 percent in the United States, 6 percent in Britain, 3 percent in West Germany, 3.6 percent in France and 2.7 percent in Japan.

Stellenbosch economist Mr. Aime Moke said that while disposable income had increased by an average 11 percent last year after inflation had been taken into account, the Bureau for Economic Research was predicting negative income growth in real terms this year. In other words, although you might be earning more, your spending power will decrease.

In affluent Europe the standard of living is much higher than here. In Britain 54 percent of nuclear families — man, woman and two children — have at least one car, 60 percent have a washing machine, 99 percent have a fridge, 66 percent have a television set, 66 percent have a telephone, and 67 percent have a video.

By contrast, only 34 percent of South Africans have electricity at home.

Bond rates higher

And by the time South Africans have had their taxes deducted and paid for their housing, electricity, food, insurance, transport, they have used up almost 70 percent of their income, leaving just 30 percent for medical bills, education, clothing and shoes, furniture and household equipment, servants, holidays, recreation, cigarettes and alcohol.

In Britain angry homeowners are squealing about the bond rate which has just risen to 15.4 percent. Meanwhile South Africans are struggling to pay back their bonds at about 20.5 percent. In the United States, bond rates vary between 8 percent and 10 percent, and in Australia the rate is about 12.25 percent.

A comparative study of figures for South Africa and abroad drawn up by Professor J.H. Martin of Unisa's Bureau of Market Research reveals that in the mid-1980s Britons spent about 14 percent of their income on food, compared with 15 percent by the Dutch, and 19 percent by Australians.

In South Africa by contrast whites spent about 15 percent on food, coloured people 20 percent, Indians 32 percent and blacks 47.5 percent. Blacks in the homelands and national states spent 49 percent of their incomes on food.

In the mid-1980s Australians spent 16 percent of their income on housing, electricity and fuel, compared with 10 percent for West Germans and Britons, and 20 percent for the Dutch.

In South Africa whites spent 20.5 percent, coloureds 19.5 percent, Indians 22.5 percent and blacks 11.5 percent. Homelands residents spent 32.5 percent.

When you're struggling to eat and keep a roof over your head, essentials like education may have to take a back seat.

In the mid-90s Canadians spent 11.4 of their incomes on education, the Dutch 8.5 percent, the French 8.5 percent, Australians 11.9 percent, West Germans 8 percent, the British 9.3 percent and the Japanese a whopping 14.3 percent.

By contrast in South Africa whites spent 5 percent of their income on education, coloureds 2.5 percent, Indians 2.5 percent and blacks 3.2 percent.

The amount of money spent on durable goods such as housing, cars and furniture indicates relative wealth. Says Mr. Mocke, "The percentage of income spent on non-durables such as food and clothes will remain more or less the same for a family as it gets poorer, while the proportion spent on durables will decrease."

Low savings

Analysing the current situation, Mr. Mocke said: "Remuneration of South African employees increased in nominal terms by 17.1 percent during last year, and the increase in disposable income after tax increased by 15.3 percent. But after provision is made for inflation, the increase in real disposable income was only 1.1 percent. And it is expected that this figure will show a negative growth rate this year."

"The savings ratio indicates that whereas 6.6 percent of income was saved in 1985, only 0.9 percent of income was saved last year."

Using Bureau for Economic Research tables, Mr. Mocke said only 0.3 percent of people's incomes was spent on durable goods in South Africa last year compared with 13.7 percent in 1980, while 75 percent was spent on non-durable goods, such as food and clothes and services compared with 69.9 percent in 1980.

He added: "The population grows at an average rate of 2.5 percent a year whereas employment in the formal sector increased by 0.9 percent in 1989."

"This indicates that a large portion of the total labour force must seek accommodation in the informal sector, as the economy is restricted through the balance of payments problem to grow by only 2.5 percent."

"All this implies that the average South African has been subjected to more and more financial strain during the past decade."
Goal posts are being moved in ongoing fight against inflation
Mr R M Burrows asked the Minister of Planning and Provincial Affairs:

(1) Whether he has received a report from the Commission for Administration on the remuneration of local authority councillors and committee members, if so, (a) when did he receive the report, (b) what were the main recommendations made in it and (c) what is the likely annual additional cost which would be incurred by local authorities in implementing the recommendations contained in the report,

(2) whether the Council for the Co-ordination of Local Government Affairs has considered the above report, if not, why not, if so, (a) to what extent and (b) what alternatives have been recommended?

Chairman of the management committee of a local authority, as well as to the position of persons in other relevant posts,

(iv) the Office of the Commission for Administration (convener) and the four provincial governments determine a formula, as well as finalise the objections raised.

It was also decided that after the conditions have been reconsidered and discussed, the Office of the Commission for Administration again submits the report as adapted to the Action Committee of the Co-ordinating Council for discussion.

In the meanwhile the Office of the Commission for Administration withdrew itself from the investigation. The Co-ordinating Council for Local Government Affairs convened a special meeting on 8 December to consider the matter. During the meeting it was decided—

that the four administrators, with Administrator D J Rough as convener, will consider the matter further and finally decide on the percentage of the proposed increase in the remuneration of councillors as well as the date of commencement.

that the Minister of Planning and Provincial Affairs will clear the matter of parity in the compensation of councillors of local governments with the Own Affairs Ministers.

The matter has thus not been finalised.

Mr M S Nkosi, L N Xaba, J Q Sithole and M S Ndiangamandla. The latter two did in fact turn up at court.

(b) I had enquiries made and it seems that the main state witness's evidence was in no way contradicted and that there were no challenged facts concerning the assault between the State and the defence. The District surgeon further testified, that the cause of death had absolutely no connection with the assault. In the light of these facts the prosecutor concerned decided not to call any further witness.

I would like to add that I do not agree with the sentence that was imposed and cannot defend it. It is an excellent example where the State should possibly have liked to appeal against the sentence. A proposal in this regard will be laid upon the table soon and I am of the opinion that I shall get support of Parliament.

My opinion, which I have repeatedly stated, is that the lower courts are under the control of the Supreme Court and the Supreme Court should give the necessary guidance to the lower courts. It would be inappropriate for politicians to try and play this role.

The development boards are taking over staff.

Mr H D K Van Der Merwe asked the Minister for Administration and Privatisation:

Whether all phases of the taking-over of staff of the former Development Boards have been completed, if not, why not?

The Minister for Finance

Mr H H Schwarz asked the Minister of Finance:

5. What action is being taken in order to reduce the level of inflation in South Africa?

The Minister of Finance

Mr V W H Rabie asked the Minister of Justice:

With reference to the case of The State v W H Rabie concluded in the Pretoria Regional Court on 12 February 1990, (a) for what offences was the accused (b) convicted and (c) what sentence was handed down.

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The MINISTER OF FOREIGN AFFAIRS

(1) During informal talks with designated members of the independence government of Namibia, they indicated that the people of Namibia would welcome it as a deed of great goodwill if Walvis Bay could be handed over to Namibia.

(2) The South African Government's position is that Walvis Bay forms part of South African territory. However, it is also realised that Walvis Bay is presently the only deep sea harbour available to Namibia. It is expected that discussions will be conducted between the South African Government and the future Government of Namibia about the use of Walvis Bay.

(3) Falls away.

Komatipoort/Maputo road assistance.

*7 Mr A GERBER asked the Minister of Foreign Affairs whether the Government (a) had decided to make available or (b) was considering making available financial and/or other assistance to Mozambique for the building of a road from Komatipoort to Maputo, if so, what amount has the Government contributed or does it intend to contribute towards it.

(1) (a) No

(2) (b) No

(2) Falls away.

Reserve Police Force: political activities.

*9 Mr A P OOSTHUIZEN asked the Minister of Law and Order whether any instructions to refrain from political activities were issued to members of the Reserve Police Force during the latest specified period of three years for which information is available, if so (a) on how many occasions (b) for what reasons (c) who issued these instructions.

The MINISTER OF LAW AND ORDER

I refer the honourable Member to interpellation number 1 of 14 April 1989 (Hansard Column 677), during which this matter was debated. I regard the information which was furnished during this interpellation to also be an adequate reply to this question.

RSA/Lesotho: inter-state border fence.

*10 Mr A P OOSTHUIZEN asked the Minister of Foreign Affairs whether there was a border fence between the Republic of South Africa and Lesotho over the inter-state border fence erected 13/1/90.

(1) Whether there is a delay in erecting the border fence concerned, if so, what is the reason for the delay.

(2) Whether there is a delay in erecting the border fence concerned, if so, what is the reason for the delay.

The MINISTER OF FOREIGN AFFAIRS

(a) Yes.

(b) No.

TUESDAY, 13 MARCH 1990

HOUSE OF ASSEMBLY
Strike ‘will force closure of mine’

Labour Reporter
The Marievale Gold Mine had a maximum life expectancy of a year and the National Union of Mineworkers knew that a strike could force its early closure, management said yesterday.

Gengold managing director Mr Gary Maude was reacting to Num complaints that because of the short notice given, it was not represented at an Industrial Court hearing over a strike at Marievale.

The court ordered a return to work on the unprecedented grounds that a strike could force the mine to close.

Mr Maude said Marievale was operating at break-even, and was vulnerable to small changes in profitability.

He stressed that if the mine closed during a strike, workers would not get retrenchment pay.

He added that the longer the mine continued to operate, the easier management would find it to relocate workers elsewhere in the group.

Doctor tells court

Caplan following an argument between her and her husband in December, he told me that on one occasion in 1988 he kicked his ex-father-in-law to remorse. I think Dr Caplan is a bad man. I don’t think he should use reasons are purely to protect my Armanda’s family and myself.” Dr...
Joining forces to get to grips with high inflation

INFLATION in building costs holds at around 18% overall — and is to be combated by the two main bodies representing the building and civil engineering industries.

The Building Industries Federation of SA (Bifsia) has joined forces with the SA Federation of Civil Engineering Contractors (Safsec), to look into areas where inflation is outstripping the general inflation rate.

Bifsia executive director Neil Fraser says: "It is still too early to say why the prices of such products as bricks, sand, crushed stone and ceiling materials should be subject to an annual inflation of more than 15% — but we will be looking for ways to slow the trend and productivity of the industry.

"Training to upgrade the skills of people in the industry is essential," he says. "It is estimated that formal building industry employs about 200 000 site workers.

"In the past 20 years, a mere 60 000 have passed through Bifsia’s training colleges, meaning that only about 15% of the people employed in the formal sector of the industry are trained to a reasonable level."

Bifsia is tackling the problem on two fronts. On the one hand, it is attempting to improve the training of newcomers to the industry, while on the other it has embarked on a drive to upgrade the skills of established workers.

"If we could raise productivity by only 10%, this would be a major force to counter inflation," Fraser says.

The informal sector is also a significant operator, comprising an estimated 40 000 self-employed builders — many of whom employ labourers.

The impact of this sector is borne out by the experience of leading brick manufacturers, who measure their average order in hundreds — as compared with the tens of thousands which was the norm in the past.

Recognising the importance of the informal sector, Bifsia is introducing courses to meet their needs at various levels.

Maintained

"We will also look into cases where price increases are maintained at around the official inflation rate.

"Increases should not be imposed as a matter of course merely because we operate in an inflationary environment and because there is no competition to control them."

"All the producers put general inflation forward as their reason for increases — but I am concerned that a lot of the increases could arise out of monopolies and cartels."

Labour costs to the industry are also increasing faster than the general rate of inflation, and the per capita cost of labour will continue to increase rapidly in the foreseeable future.

Fraser says the only way to cushion the effect of this is to increase the efficiency
Govt to unveil new strategy to counter inflation

By MIKE ROBERTSON

ON the eve of his Budget, Finance Minister Barend du Plessis yesterday promised to unveil details of a counter-inflationary strategy that encouraged both personal saving and the avoidance of dissaving on the part of government.

Replying to a question from Harry Schwartz (DP Yeoville) on what was being done to combat inflation, Du Plessis said the thrust of government's action plan for tackling inflation was fiscal and monetary discipline.

Government spending was under control and fiscal discipline would be maintained in the coming year as would be seen in the Budget.

"In the monetary field, a declining money supply growth reflects the Reserve Bank's tightened policy, which was achieved by raising the cost of accommodation to the banking sector, both by penalty rates at the discount window and by increases in the Bank rate."

"Positive real interest rates, together with disciplined public expenditure, have contributed to curtailing gross domestic expenditure growth successfully."

"These are important factors in the lowering of inflationary expectations. The more stable and even slight appreciation of the rand in recent months, was a further positive factor," Du Plessis said.

In the longer term government sought to strengthen the supply side of the economy, not least by tax reform that would reduce disincentives to labour and production. The taxation of married women was an example of this, he said.

"At a wider remove are the substantial Budget allocations to education and the provision of physical and social infrastructure, while small business promotion, deregulation and the scrapping of outmoded legislation are opening up opportunity on an increasing scale," he said.

As far as the actual process of price formation was concerned, he said, government was committed to the free play of competitive forces.

He added that inflation in SA could not be regarded as a problem in isolation with a solution of its own. "It was and is an integral part of the whole adjustment problem with which the SA economy had grappled since 1984."

"In this sense inflation will not be successfully combated unless structural adjustments are made that will improve the economic growth potential."

"The various elements of economic restructuring announced by the State President in his Parliamentary opening address on February 2, which will be referred to in today's Budget speech, are therefore very important in combating inflation," he concluded.
not be implemented before October 1 1991.
The TAC's task was to proceed with the reform.

**Inflation**

still high

The evil of inflation was still far from being solved and a gradual reduction in the rate would receive a high priority, Mr Barend du Plessis, said yesterday.

It was of extreme importance that the private sector supported the Government's measures to fight inflation, for example by way of salary negotiations.

Although inflation rate was still high, there were signs that the expansion rate had started to decelerate slightly.
Money supply target figure being revised

By Ian Glover

THE Reserve Bank is to announce its money supply target soon, having waited for the Budget before determining how much influence it needs to exercise on the economy.

Dr Chris Stals, Governor of the Reserve Bank, told businessmen during a debate on the Budget, organised by the Junior Chamber of Commerce and Industry, that he did not envisage a drop in interest rates in the near future.

The Reserve Bank is concerned about how soon the Government intends spending funds set aside from existing government cash surpluses for various capital funds.

Dr Stals said these funds were put in trust with the Reserve Bank last year, effectively taking them out of circulation, thereby helping to curb inflation by limiting government spending.

However, if these funds were put back into circulation too quickly it could be inflationary, he said.
Outlet chain for hawkers, spazas

THEO RAWANA (153)

WHOLESALE and distribution giant Metro Cash & Carry will open the first of a chain of outlets for hawkers and spaza shops in Johannesburg on April 5, 8.00am-2.45pm.

The chain, to be called Siyakhula — "we are growing" — was a response to the growing informal sector and the need by suppliers to find effective distribution channels, Metro informal sector manager Mike Solomon said yesterday.

"Launching was a calculated risk due to the lack of accurate information on the sector. But our research shows the market is growing. If the concept proves successful, we plan to launch in all major urban areas."

Informal traders, who were small-scale buyers with specialised product needs, were not being properly serviced by wholesalers and this limited distribution potential.

Siyakhula services would include special product lines, condition-free buying cards and year-round promotions. The smaller pack size concept Metro would introduce would go well with the informal sector.

Planned surveys and the monitoring of customers would provide the first accurate information on informal trade buying patterns and spending power.

Solomon said Siyakhula marked a victory of hawkers and spazas who had been ignored by the formal sector and harassed by the authorities.
Inflation declines, but food prices rise

The inflation rate is declining, but economists are concerned low income groups are bearing the brunt of price increases. This was disclosed in interviews yesterday, after the February consumer price index (CPI) figures were released.

The annual rate of increase in the CPI was 14,9% for February, 0,3 percentage points lower than January’s 15,1%.

Central Statistical Service (CSS) figures showed the monthly non-seasonally adjusted increase was 0,7% (1,4%).

The annual rate of increase in the indices for lower, middle and higher income groups for February were 16,6%, 14,8% and 14,7% respectively, compared with February last year.

The overall reduction is welcomed but it is worrying that low income groups are bearing the brunt of high price increases, especially for food products,” SA Chamber of Business economist Keith Lockwood said yesterday.

The price index for food was 15,7% higher than for the corresponding period last year. This was the index’s largest annual increase since August 1998.

TrustBank economist Nick Barnardt said the lower rate of increase confirmed views that inflation would continue to fall.

“We expect the rate of increase in the CPI to be 13,5% by the middle of the year and 12,5% by year-end,” he said.

Barnardt attributed the reduced rate of increase to the relative stability of the rand in recent months.

“The rate of increase in the producer price index has been falling recently, largely because of lower import price inflation,” he said.

The largest contribution to the monthly increase came from transport costs. This resulted from higher prices for new vehicles, increased running costs and higher prices for public and hired transport.

Other large increases were recorded for milk, cheese and eggs (1,7%) and coffee, tea and cocoa (2,2%).

The actual index increased to 193,3, meaning it now costs R105,30 to buy a basket of goods which cost R100 in 1985.
Food prices continue to rise

Inflation rate dips to 14.9%

By AUDREY D'ANGELO
Financial Editor

The inflation rate dipped to 14.9%, year on year, in February compared with 15.1% in January. The rise between January and February was only 0.7%.

But food prices are continuing to rise and Old Mutual economist Ursula Maritz warned that this was putting upward pressure on the inflation rate.

In spite of this, she expects the consumer price index (CPI) to fall to 13.3% by December and the average for the year to be about 14.5%.

Southern Life economist Mike Daly, who pointed out that the 15.5% year on year rise was from a high base in February 1998, expects the CPI to be down to 13% in December and the average for the year to be 13.5%.

He said the producer price index (PPI) had been dropping and this was having an effect on the CPI.

Volkskas Bank economist Adam Jacob said that although the underlying trend was still too high he expected the CPI to move gradually downwards with interest rates beginning to drop by the middle of the year.

Old Mutual economist Andre Roux said he too thought interest rates would start to come down by the middle of the year, in spite of recent warnings that they might stay at present levels for longer.

Figures issued by the Central Statistical Services yesterday showed that the food only index had risen by 15.7% in the 12 months to February. This is the highest annual increase since August 1998 when it was 16.8%.

The annual rate of increase in the food index for the lower income groups was 17.4%. It was 15.5% for the middle income group and 14.3% for the upper income group.

Ursula Maritz said she thought the total CPI for February presented "a fairly positive picture at this stage". There was a danger that food prices could continue to pick up "However, she expected the CPI to continue "falling back moderately".

Adam Jacob pointed out that the total CPI had been 15.5% in August, 14.9% in September, 14.8% in October, 14.9% in November, 15.3% in December and 15.1% in January.

However, he considered the index excluding food prices more important. This showed a gradual, steady decline from 17.3% in June and July and 17.2% in August to 15.3% in September, 15.2% in October, 15.2% in November, 15.6% in December, 15.2% in January and 14.6% in February.

"This is still too high, but we are moving in the right direction. We have always said that progress would be slow — the authorities cannot achieve miracles.

"They will have to carry on for some time with tight policies. The balance of payments is still not all that rosy and there is great concern about the fall in the gold price
Rein 'in extension of credit' or else

IN AN assault on inflation, Reserve Bank Governor Chris Stals has tightened the credit squeeze with tough monetary growth guidelines of 11%-15% for 1999.

Stals said in a statement at the weekend "The lowering of the target range by three percentage points signals the determination of the monetary authorities to make a contribution to the combating of inflation by reducing the rate of increase in the money supply."

The new range for growth in the broadly defined money supply, M-3, is lower than the 12%-16% expected by the markets and well below last year's 14%-18% target. The actual growth last year was 23.5%.

M-3 consists of cash in circulation and all deposits with banks, building societies and the Post Office.

Stals's statement is a clear signal to the banks to rein in credit extension -- or else.

He repeated the Reserve Bank's request that banks limit the monthly growth in credit to an average of about 1%, and added, "Not many banks complied with this request last year and discussions will be held with representatives of the banks shortly to explore ways of making this request more effective."

Asked whether the new targets for growth were not too ambitious, given the past two year's failure to come even within striking distance, Stals said: "The new range for growth in M-3 should not be seen as a target or a forecast. It is a guideline, an indication of what we regard as appropriate. As long as growth in the money supply far exceeds the desired range, we cannot contemplate easing monetary policy."

He acknowledged this view signified a change in style to accord even greater flexibility to the targeting exercise. In spite of the Reserve Bank's repeated claims in the past that targeting was a "low profile" policy instrument, the targets were centre stage in the De Kock era.

Stals's statement indicates that the maintenance of relatively high positive real rates of interest as part of a longer term economic strategy is now at centre stage of monetary policy.

He repeated his faith in the maintenance of positive real interest rates -- and indicated success in combating inflation was likely to be a precursor to lower nominal interest rates. Nominal interest rates "may well move in accordance with changes in the rate of inflation."

To ensure downward pressure on the inflation rate, a further reduction of the guidelines for M-3 growth may be called for in 1991, the statement said.

The lower guidelines were believed to be reconcilable with projected growth in real GDP of up to 1%, a surplus on the current account of the balance of payments of at least R6bn and a gradual rise in the official gold and other foreign reserves.

It is evidence of the low profile accorded to monetary targeting that Stals chose to release the new guidelines on a day when gilts dealers' train of thought was far away -- on Rand Merchant Bank's Gilt's Express to the Magaliesberg.
Inflation has become chronic, says BER

Stellenbosch — South Africa’s inflation is chronic, and throughout the economy “prices are feeding each other with no resistance to break the circuit”, says the Bureau for Economic Research (BER) at the University of Stellenbosch.

It says in a survey of the manufacturing sector that manufacturers expect prices to rise and that the political climate is still hampering normal business activities.

Shedding politically based restrictions would “take some time and was to a large extent out of the manufacturers’ hands”, even though certain economically motivated constraints “like the shortage of skilled labour, currently on a higher intensity level than sanctions” are to some extent “within the ambit of manufacturers’ capability”.

Political reform measures had not impacted positively with immediate effect on manufacturers, even though confidence was up a slender one percentage point (from 51 percent to 52 percent) since the previous BER survey.

In the longer run, however, recent political announcements had created more positive expectations.

This was borne out by the fact that in the previous BER survey, 28 percent of manufacturers expected general business conditions for the next 12 months to be lower.

In the current survey period, however, only five percent believed this would be the case.

Negative business conditions were foreseen for the immediate future, but the intensity of expectation had levelled off.

There was a realisation that solving political issues would not on its own create satisfactory economic growth.

Real fixed investments in machinery and equipment were expected to increase “to comply with expected rising domestic demand”.

Job creation in the manufacturing sector was decreasing, with some 15 percent of manufacturers having fewer employees than in 1989.

Higher production volumes had, however, been maintained through higher productivity.

Production had exceeded demand, however, and there was an increase in the numbers of manufacturers carrying greater stocks of raw materials and finished goods.

In general, the manufacturer was “locked between the conflicting gravitational forces of social responsibility and profit-making”.

This was in line with the experience of manufacturers elsewhere and due to “political ideologies and economic realities being in turmoil”, the BER says.

— Sapa
SA's inflation is chronic

The report said shortage of skills, one of the constraints in the economy, "currently on a higher intensity level than sanctions", was to some extent "within the ambit of manufacturers capability."

For the long run recent political announcements had created positive expectations. In the last survey period 38 percent of manufacturers had expected general business conditions for the next 12 months to be poor.

In the current survey period only five percent expect poor conditions.

SOUTH Africa's inflation is chronic, and throughout the economy "prices are feeding each other with no resistance to break the circuit", the Stellenbosch University's Bureau for Economic Research has said in its latest report on the manufacturing sector.

According to the report manufacturers expect prices to rise and that the political climate is still hampering normal business activities.

"Shedding politically based restrictions would take some time and was to a great extent out of the manufacturers' hands."

so the economic situation is expected to improve in the future. The report also noted that the sanctions imposed by the international community had a significant impact on the economy, as it was difficult for manufacturers to source raw materials and other inputs needed for production.
Inflation can make things go backward

RISK takes many forms, but one of the surest ways to lose money is to invest in something that does not give a return at least equal to the rate of inflation.

This is one point made by Prospur Portfolio Managers when suggesting everyone — not just the government — should have a five-year plan with professional input.

Succeeding in financial markets is like winning in any other field of endeavour. Sometimes it is false economy to blunder around the markets and it would be cheaper to entrust investments to a professional manager.

Backwards

Inflation, says Prospur director John van Zyl, is one of the least understood investment phenomena which makes most things go backwards. But risk cannot be avoided if one expects to beat it.

"There is no SA investment market without some form of risk," he says. "In order to earn a positive real return the risk should be fairly obvious to anyone who is reasonably aware of the investment market."

For the private investor, the realization has some very real implications, probably the most important being that unless he becomes competent at managing investments that carry risk he cannot afford to stop working, or his capital will decline.

Few investors calculate the real return on fixed interest investments.

This means that if inflation is 15% a year and one's investments earn 18.5%, the after-tax return may be as low as 16% net, depending on the individual's marginal tax rate.

That ends up as a negative real return of 5% a year and a steadily lower standard of living.

Thus, for example, he cautions that fixed interest investments may not seem risky, but they rank among the safest way to lose money, because they provide low interest rates which are mostly taxable.

"With double digit inflation here to stay we need to plan our future," he says.

For instance, many people think when they retire their pensions will be sufficient to live on, but most pensions do not make adjustment for inflation.

One may retire on R10,000 a month, yet with inflation at 15% in five years one will need R20,119 a month to maintain the standard of living at the same level as when retirement commenced.

"However, if inflation is higher — say 25% (some economists say 25% is closer to the real inflation rate) — then one would need R20,119 in five years to simply break even.

"It is therefore vital that all excess cash should be invested in growth assets, such as equities."

Thus in buying shares one should limit investments to quality counters, like companies that are professionally managed and have strong balance sheets, a solid history and a promising future.

Above all, the share price should represent good value when compared with the underlying assets one is purchasing, he says.

"Equities have historically yielded growth better than either cash or property. Recent declines in the JSE offer excellent opportunities to buy some good shares at reasonable prices."

Van Zyl suggests any good financial manager should be able to provide professional advice on such matters as

Adequato

- Retirement planning
  - Whether the client will have adequate proceeds to retire on and which will also ensure a continuation of their personal and family standard of living.
- Estate planning to minimize duty payable on large estates to ensure one's will is properly structured.
- Business planning, which includes buy and sell agreements that prevent a surviving partner from paying a large sum to the executor, action against serious financial problems arising from the death of key personnel and coverage against large liabilities on loan accounts.
- Investment planning, which is tax efficient and caters for the financial objectives of the individual and his family, including reasonable financial goals.
ECONOMISTS have revised upwards their forecasts for the prime interest rate at year-end — signalling their belief that monetary policy will have to bear most of the burden in the fight against inflation.

According to Firstbase, the monthly survey of economists' forecasts done by First National Bank, economists have raised their prediction of prime by about 0.5 percentage points.

At the same time, they have again slightly revised their inflation projections downward — a vote of confidence in Reserve Bank Governor Chris Stals.

The high range of projections for the prime rate at year-end averaged 18.4% — up from February's 18.5%. The median was at 18.5% (February 18.1%) and the low range averaged 17.6% (from 17.2%).

The median inflation rate for the year is now at 13.1%, which is well below the original forecasts of 14.5%-14% for 1990 made at the beginning of the year.

Old Mutual economist David Mohr said: “Clearly the burden of stabilisation policy is now falling squarely on the shoulders of monetary policy. With fiscal policy addressing longer term, structural issues, the authorities cannot afford to take chances by dropping interest rates too soon.

“Policy should rather err on the side of being too restrictive,” he said.
Redistribution of wealth ‘could be inflationary’

NEIL YORKE SMITH

ECONOMIC policy-makers would battle to curb inflation because of demands for high wage increases and the wealth redistribution problems, economists said at the weekend.

Commenting on Reserve Bank Governor Chris Stain’s anti-inflation policy, Econometrix economist Azar Jamnume said “Stains has expressed determination but so far the results have yet to be seen.”

“The potential redistribution of wealth could be inflationary, especially if wage increases for the masses are not matched by increases in productivity,” he said.

FNB economist Cece Böhmeme said “We expect inflation to reach 13% by the second half of this year, this should be obtainable given the positive inflationary impulses of the past few months.”

TristBank’s Nick Barnardt said “High wage increase demands make single-figure inflation unlikely in 1991.”

It was unlikely authorities would be able to contain the rate of increase to below 10%.

“If the authorities aim for single figures they will have to renew strict financial policy, tackling unemployment and social instability,” Barnardt said.

According to Böhmeme, the large number of unknown factors influencing the inflation rate made long-term predictions difficult.

Inflation indicators like the consumer price index (CPI) and the producer price index (PPI) had recorded reduced rates of increase recently, largely as a result of a more stable rand exchange rate.

Barnardt said “The stable exchange rate over the past nine months has been important in controlling import price inflation.”

Jamnume confirmed short-term indicators appeared positive, but stressed they did not mean an end to high inflation rates.

“Money supply growth remains a major problem. This combined with excessive wage demands could have a negative impact on the inflation rate,” he said.
High inflation and higher taxes depress SA savings

A sharp drop in the ratio of savings to disposable income is set to boost unemployment over the next few years, reports KURT JENSEN

The savings levels of South African consumers have hit alarmingly low levels and, coupled with a decline in gross domestic fixed investment, hold little hope for substantial employment creation in the near future.

The Reserve Bank's latest Quarterly Bulletin paints a dismal picture of the average South African's savings levels which have been hit by the high inflation rate and a substantial rise in tax payments.

According to the Bulletin, the ratio of net savings as a percentage of real disposable income last year declined to a record low of 1.5 percent compared with 2.5 percent in 1988 (see graph).

In the late 1970s this level was as high as 14 percent but has declined constantly since then as direct taxes paid by households have risen by over 150 percent since 1980.

In an attempt to address this problem, Finance Minister Barend du Plessis in the Budget lifted tax on dividends and raised the tax free portion on interest rates to R2 000.

While this could lift the ratio of savings to disposable income to 2.5 percent this year, it will not be sufficient to substitute for the anticipated decline in fixed investment.

Household savings levels have fallen steadily in recent years

After rising by 5.5 percent, 4.5 percent and 0.5 percent in the first, second and third quarters of last year respectively, gross domestic fixed investment dropped by three percent in the ensuing three months.

The lack of future investment potential either through the use of savings or new investments by the public and private corporate sectors is likely to boost official, not to mention unofficial, unemployment figures to even higher levels.

According to the Bulletin, the number last year was roughly equal to some 10.7 percent of the estimated labour force. This apparently is a record low, but belies other academic research which puts the figure closer to about 2.5-million.

A more reliable statistic is the number of registered "white, coloured and Asian" unemployed workers, which in December last year fell to a four-year low of 41 100, reflecting the demand for skilled labour.

On the broad economic front, the Bulletin says the most conspicuous feature was the quite remarkable softness of the cyclical "landing" in economic activity from late 1988.
War on inflation to be stepped up

By Magnus Heystek, Finance Editor

The Reserve Bank is expected to announce further measures this week to control money supply in order to bring down inflation.

These might include measures to curb mortgage finance and lead to a cooling off of the overheated residential property market.

Such measures would clearly rule out any relaxation in monetary policy until the fourth quarter, at the earliest.

Last week the Reserve Bank announced several measures to bring back about R8 billion of banking sector assets onto the balance sheet, thereby leading to higher cash and other asset requirements.

This was done to gain better control over growth in money supply, which has so far doggedly refused to decline to within Reserve Bank parameters.

All three classes of money supply are growing at well over 20 percent per annum — far higher than official targets of 11 to 13 percent.

While the economy is heading towards a soft landing, there is virtually no chance of any decrease in interest rates before at least the end of the year.

Unexpected upward pressure on international interest rates, however, could lead to another increase in the prime overdraft rate in South Africa, economists warn.

Dave Mohr, chief economist at Old Mutual, says the current recession could even last well into next year, with interest rates kept at current high levels in order to bring down inflation.

This is in contrast with earlier forecasts made by economists and analysts that interest rates could start easing from the middle of the year.

Several factors in recent weeks have contributed to this altered scenario, not the least the sudden and largely unforeseen drop in the gold price to below $380.

The key to any drop in interest rates, which would benefit hundreds of thousands of homeowners with mortgage bonds, lies in the inflation rate.

In an interview with Reuters last week, Dr Chris Stals, Governor of the Reserve Bank, made it clear that he intended to maintain real interest rates (i.e. after taking into account the inflation rate) at five to seven percent, much in line with international banking practices.

The prime overdraft rate is currently 21 percent, smack in the middle of that projected target range.

Any reduction in interest rates without any concomitant decrease in inflation, would lead to further outflows of capital, which SA can ill afford.

While the decline in growth of the production price index (PPI) in March this year to an annualised 12.3 percent has been welcomed, economists still doubt that the consumer price index (CPI) will decline substantially in the coming months.

Although there exists a close correlation between the CPI and PPI, the PPI excludes factors such as the costs of services, which have been rising at a rate far in excess of the PPI.

This could provide a dampener on prospects for substantially lower inflation in the near future.

Another factor preventing the monetary authorities from allowing interest rates to decline is the still-excessive growth in money supply.

It is widely expected in banking circles that Dr Stals will announce further measures to curb the current level of credit extension, which he feels is excessive and stimulatory, of banks and other financial institutions.

It is rumoured that steps may even be taken to contain home mortgage financing, a factor contributing greatly to the excessive rise in house prices.

Residential property prices have rocketed over the last twelve months, no doubt fuelled by easy access to mortgage finance.

This contrasts sharply with the provision of lower-cost housing, particularly for blacks, that is being hampered by a severe lack of funds and the unavailability of serviced stands.

Commercial banks have in recent weeks made representation to the Reserve Bank for an increase in the prime overdraft rate to enable them to increase mortgage rate and financing agreements tied to prime overdraft rates.

While many consumers are benefiting from the reluctance on the part of the Bank to bow to this pressure, they are nevertheless paying substantially higher interest rates for other types of finance, including revolving credit, personal loans and overdrafts.

The behaviour of the gold price is, as ever, crucial to monetary policy.

The sudden drop in the price in recent weeks has removed virtually all possibility of a relaxation in monetary policy.

While SA's balance of payments improved sharply in the first two months of this year, the decline in gold and other precious metals revenues in March will put pressure on the balance of payments.

But overall, the situation is not critical and most economists expect SA to maintain a surplus on the current account of roughly $2.5 billion for 1990, which leaves sufficient reserves to pay foreign creditors.
‘Strong rand needed to curb inflation’

AUDREY D'ANGELO
Financial Editor

A FALLING exchange rate results in higher inflation. The Reserve Bank should therefore allow the rand to strengthen, in spite of the need to promote exports and protect the balance of payments, Standard Bank economists advise.

They concede, in their Economic Review, that an under-valued rand encourages exports and penalises imports — resulting in bigger current account surpluses and improved gold and foreign exchange reserves — and stimulates growth through export promotion.

"However," they point out, "such a weak-rand policy inevitably raises the domestic cost of foreign debt servicing and repayment."

"It also increases domestic price pressures as the cost of importing goods rises when the exchange rate falls."

The 12.6% rise in the imported component of the producer price index (PPI) between January 1985 and January 1986, at a time when international prices rose only slightly, showed the effect of the weakening of the rand in this period.

Price escalation

But, the Standard warns, "a more insidious effect of a sustained fall in the exchange rate over time is that international competition ceases to act as a check on domestic costs and prices."

"Price escalation results from the undesirable practice of 'import parity pricing', where local manufacturers in an environment of limited domestic competition often set their prices, not in terms of cost, but according to the cost of importing similar products from overseas suppliers."

"Moreover, domestic producers will not resist rising costs resulting from higher wages or inefficient productive techniques if protection from international competition is automatically provided by a weakening exchange rate."

Even exporters, they continue, "have little incentive to enhance their global competitiveness by introducing cost saving techniques if increased competitiveness is gained anyway from exchange rate depreciations."

"Thus a weak and declining exchange rate impacts negatively on domestic productive efficiency and therefore on long-term inflationary pressures."

Urging the Reserve Bank to resist calls to stimulate exports by pushing the rand down further than is required by capital flows, the Standard points out that the "significant slowdown" is already reflected in falling imports.

Political climate

"A healthy trade surplus is already being achieved and it now seems likely that a current account surplus approximately equal to anticipated capital outflows will be recorded in 1986."

"Moreover, improved political perceptions of this country could result in actual net capital outflows being somewhat smaller than the R2.5bn originally estimated."

"Under such circumstances, downward pressures on the rand may not be as severe as was initially feared. This may act as a spur to greater domestic productive efficiency and, therefore, lower inflation."
Inflation is "our biggest headache"

Debt hurdle easy to clear, says Stals

THE balance of payments (BoP) is likely to continue defying expectations in the current quarter after a spectacular first three months, and SA is set to clear its foreign debt hurdle with unexpected ease.

Reserve Bank Governor Chris Stals said in an interview at the weekend it was unlikely SA would have to repay the full $2.2bn (R6bn) in foreign debt falling due this year. Most of the debt becomes payable in the second quarter.

"We are optimistic that many of the positive developments in the first quarter will continue into the second quarter. The BoP is not our major concern at the moment — inflation is," Stals said.

He was optimistic about the continuation of rollovers of debt and increased access to foreign credit in response to reform initiatives in SA.

In addition, Stals believed import volumes would drop considerably, as the economy appeared to be slowing down rapidly. Against a background of falling imports, the recent drop in the gold price was less worrying.

"Quite apart from politics, there are economic reasons why the turnaround in the BoP should continue. High interest rates and the squeeze on banks have made domestic credit increasingly scarce. At the same time, a stable exchange rate is helping the leads and lags situation."

Foreign creditors’ perceptions of SA, because of political developments, were more positive now than a year ago, in spite of recent outbursts of unrest.

"On balance, attitudes have improved since the release of ANC leader Nelson Mandela," said Stals.

It was this improvement in attitude that saw foreign banks increase the credit limits for SA trade-related finance, and arrange rollovers of existing foreign debt. Including a portion of Eskom’s debt, 98% of Eskom’s debt falling due in the first quarter had been rolled over.

"Early indications are that there was virtually no net capital outflow in the first quarter."

However, it was in the second quarter that SA would have to clear the hump. Stals remained optimistic policy could not be eased. The situation was volatile, and the country had to be careful not to count its chickens before they hatched.

He added: "Even if the BoP is a success story, we have to bring inflation down.

That is our biggest headache."

For the past two years, SA’s current account surplus has not been enough to cover total capital outflows. Last year’s current account balance of R4,1bn was extinguished by capital outflows of R5,6bn.

By far the greatest portion (80%) of this was short-term outflows (R4,5bn) — largely a reflection of negative “leads and lags”.

One of the reasons for the positive BoP in the first quarter was a decisive turnaround in the negative leads and lags situation of the past two years.

"A stable exchange rate and high interest rates in the first quarter should ensure these outflows are not a problem this year," Stals said.

A stable rand is a major weapon against negative leads and lags. Exporters “lag” when they believe the rand will depreciate by granting buyers extended payment periods. Those with foreign parent companies are able to keep proceeds in international bank accounts — especially popular when local interest rates are out of line with foreign rates. Importers “lead” payments, mainly when they believe the rand will depreciate.
Low gold price and inflation threaten mine

Gengold's Stillfontein mine in the western Transvaal faced closure if the gold price and inflation remained at current levels, MD Gary Maude said yesterday. At the release of the group's March quarterly results, Maude said Stillfontein's high-grade Vaal Reef had been mined out and Gengold was trying to keep it profitable by stopping the remaining low-grade Venterdorp Contact Reef.

He said a decision about the 58-year-old mine's future would be taken at the end of the current quarter and added that it was Gengold policy to close a mine if it had made losses for three consecutive months.

Gengold's Marievale gold mine on the East Rand will no longer publish separate results as the mine is winding down its operations.

The company said yesterday its Grootvlei mine had assumed management responsibility for Marievale with effect from April 1. The ore produced from the winding down of Marievale's operations is being treated at Grootvlei.

Gengold said the arrangement enabled the plant clean-up at Marievale to proceed.

Average taxed profit at the group's 11 mines fell by 3% to R11.5m. However, yields were up at seven of the mines.

Winkelhank was the star performer for the March quarter with an increase of 8.7% in taxed profit to R33.1m and a R706/kg reduction in cost.

Gengold's average working cost a kilogram increased by 5.8% for the March quarter, reflecting the cost squeeze in the industry due to a flat rand gold price and inflation.

Last year the group showed decreases in average cost per kilogram of 1.6% in the second quarter, a 1.9% increase in the third and a 1.9% drop in the December quarter.

Discussing the quarterly results, Maude said gold mines were caught up in political action by unions aimed at government and had suffered production losses during the quarter.

Maude said President F.W. De Klerk's speech on February 2 and the release of Nelson Mandela had heralded the start of a National Union of Mineworkers (NUM) campaign against "perceived discrimination" at some mines.
Sanlam calls for lid on pay rises

Business Times Reporter

INFLATION, named public enemy No 1 by the Reserve Bank early this year, is still top of the hit list.

So much so that one of South Africa's top economists suggests that wage and salary increases might have to be limited - as a short-term measure - to below the inflation rate.

Sanlam chief economist Johan Louw writes in the group's Economic Survey that the "unacceptably high" inflation rate can be lowered only if strong monetary and fiscal discipline is supported by a more stable rand, restrained pay increases and, and real efforts to increase productivity.

Unrest

"Everyone will have to make a contribution to lowering the high inflation rate to more acceptable levels."

"There is a growing realisation that a significant drop in the inflation rate can be effected only by a comprehensive strategy involving the public and private sectors."

There is no instant solution to the deep-rooted problem. Particularly for SA with its open economy, relatively small domestic market, extensive socio-economic problems and the strong unrest potential stemming from large-scale unemployment.

Mr Louw says it is generally appreciated that the maintenance of monetary and fiscal discipline must form the cornerstone of any anti-inflation policy.

In monetary policy, the Government has been trying hard to limit excessive credit and growth in the money supply for a long time. This has been joined by the maintenance of positive real interest rates. It is official policy not to lower interest rates until there is a significant fall in the inflation rate.

Indication

The Budget was an indication that fiscal discipline is being used to curb inflation. The Government was trying to maintain a fairly stable external value of the rand to limit increases in the cost of imports and to give domestic prices more stability.

"This could make a significant contribution to lowering the inflation rate," says Mr Louw.

"Salary and wages represent a large cost input for nearly all industries."

Adjustments - against a background of productivity changes - play an important role in cost and price levels of goods and services. The higher inflation rate, which consists of higher labour and other costs, is simply built into the next round of wage and salary adjustments to limit wage and salary increases to a rate even lower than the prevailing inflation rate.

"To achieve the desired results business will have to pass the 'savings' in labour costs on to consumers by means of smaller price increases."

"We are convinced that such action is essential to force the unacceptably high inflation rate down to lower levels."

Forceful promotion of productivity could also make an important contribution to lower inflation.

Competition

"An imaginative programme to achieve this can be postponed no longer. That includes better tuition and training of manpower and the greater involvement of management in productivity programmes," says Mr Louw.

The promotion of effective competition should also help to reduce inflationary pressure.

It would include the promotion of the small and small-business sector by accelerating the deregulation programme. Mr Louw says that in spite of steady progress in this direction, some laws, rules, regulations and practices hamper competition.

Privatisation, which could lead to more effective application of production factors and result in greater cost-effectiveness and price stability, could also help to contain inflation.

Finally, the Competition Board could do more to promote competition, says Mr Louw.

Liquidity

Persistently high inflations and rising interest rates are leading to pressure to maintain high interest rates. Mr Louw does not expect any decline in prime overdraft rate before the third quarter of the year. He believes prime will stand at 12% at the end of the year.

Other factors militating against any early reduction in prime are the upward trend in foreign interest rates, indications that demand for credit is still strong and the fact that foreign reserves are still too low for comfort.

"It can be expected that the Government will take steps, if necessary, to rid the system of excessive liquidity to prevent interest rates from dropping too rapidly," says Mr Louw.

"If the present poor performance of the gold price continues, it will obviously deter any decline in interest rates."

Sanlam envisages long-term interest rates fluctuating around current levels for the next few months.
MORE than 1,000 tons of pineapples lie rotting and hundreds of blacks are joining the unemployment queues in a pineapple-growing area of the Cape.

The inundation of East London's Premier Pineires last September put 1,400 people out of work in the economically depressed region and prospects for the pineapple industry in 1989 are not good.

In 1988 and 1989, SA producers lost the American market because of sanctions and Britons boycotted canned pineapples.

The loss of European Economic Community countries but large volumes of the fruit from the Far East, particularly Thailand, resulted in a very competitive and sharply lower price market.

**Scarce**

Former Premier Piiners managing director, Charles Exward, says the company decided in 1988 that it was time to get out of the rut race.

"Sanctions, boycotts, rapidly dwindling market and falling prices made it extremely difficult for us to operate," he says. "We decided that we would do much better investing our money elsewhere.

Premier has stopped production on all its farms and sold them. Within two years, these farms will produce no more pineapples.

Prefectural Western Province Preservation will buy the fruit this year and sell it in its designated region where employment is scarce for rural blacks.

Mr Elward says that a contributory factor in the closure of the company was the growing strength of trade unions, which are increasingly forcing their members in the border region.

In East London, employees refuse to work overtime, resulting in fruit being wasted. The quality of the produce is deteriorating because canners are having to work with very limited resources.

The pineapple industry probably employs about 6,000 people directly, and thousands more in subsidiary industries. Tens of thousands depend directly or indirectly on the pineapple industry.

Although prospects in 1990 look healthier in terms of improving world prices and winning competition from Thailand where crops are not as good as predicted, SA's scarce inflation is dampening hopes.

SA grew about 220,000 tons of the raw fruit, which gave a pack-out of 5 million basic cartons last year. Of this, 2.5 million cartons were exported and the rest sold in SA.

FUTURE increases in Eskom's electricity tariffs will be higher than in previous years.

But Eskom chairman John Maree tells Business Times price increases will be kept below the inflation rate for the foreseeable future. Mr Maree appears to have met most of the targets he set when he took over the utility in 1988. He has cut manpower by 15,000 and reduced costs so that on occasion price increases were two percentage points lower than inflation. But the balance sheet is still stretched.

**Balance**

Mr Maree says "We have taken a pragmatic approach to electricity prices in line with rising inflation. Instead we have focused on cost control and increased productivity."

"However, Eskom is unable consistently to absorb rising costs outside its control without impairing its financial health."

The real cost of electricity is declining because increases have lagged behind the inflation rate.

General manager, finance, Nick Davis says "There is a balance between internal cash generation and borrowings which is required."

The annual report says Eskom has had to absorb increases in the cost of coal, salaries and wages, and interest and finance charges. Eskom replaces a third of its operating expenditure with new borrowing.

Eskom's 1989 results show that operating income rose by 9.5% to R3.6 billion and revenue by 13.6% to R6.9 billion. Net operating expendi

By Dirk Tiermann

ture increased by 6.2% to R5.4 billion. Net interest and finance charges rose by a net 15.2% to R3.8 billion, leaving the surplus of R1 billion down at R7.8 billion.

Total cash generated for the year to December 31 last year was R7.9 billion. Capital employed amounted to R3.5 billion with accumulated reserves of R3.8 billion at the end of the year.

Mr Davis says Eskom is highly geared with a debt-equity ratio of 2.8:1, with net capital of only R8.9 billion. The ratio for similar companies abroad is only 1.5. Operating income covers finance charges 1.25 times, but an interest cover of between two and three times would be more appropriate.

Edson says it is essential for Eskom to reduce borrowings and increase reserves. Eskom has total borrowings of R2.1 billion including R580 million foreign debt, says Mr Davis.

This leaves Eskom in a vulnerable position as an important energy source.

Engineering manager, finance, Patrick Ward says a 1% rise in interest rates costs Eskom R90 million a year.

Mr Davis says that the cost of covering forward is becoming progressively expensive. A rise of R1 billion being budgeted for 1990.

Access to the European bond markets is difficult, but "We are talking to German and Swiss banks."

This year, R1.6 billion foreign debt will be repaid and Eskom hopes to refinance 50% of it.

Chief executive Ian McRae says physical sales have increased by 31% in spite of the economic slowdown. Sales to the mining sector, which takes 27% of the total, grew by only 6.9% last year.

Sales to industries and commerce fell by 2.5% from a previous growth of 3.7%. Bulk sales to municipalities and neighbouring states off
The cement industry, which has only recently recovered to 1984 levels, looks set to take another tumble.

Hit by the 1985/86 recession, demand fell, but it recovered to about 8 million tons during the period 1987-1989. Growth continued until December but since then demand has dropped

Pretoria Portland Cement (PPC) financial director Mr Chris Wrogemann says the company is hoping that the faltering demand may be caused by adverse weather conditions. However, he says market conditions in the building and construction industry seem to indicate the fall is market related.

But, he says: "During 1988 we experienced a 15 percent increase in demand but the gross domestic fixed investment only increased by seven to eight percent. This indicates an unrecorded demand for our product, either there is an error in the figures or there was a large call on cement from the informal sector. The same degree of difference did not show up in 1989," says Mr Wrogemann.

Plant replacement costs in the industry are high. The smallest new practical plant - starting from scratch as opposed to expanding an existing facility - would have a capacity of about 600,000 t a year and would cost about R500 million at today's prices.

However, PPC is not concerned. Mr Wrogemann says the company is operating at about 70 percent of its existing capacity.

"There would have to be a sizeable increase in demand before we need more capacity. We believe the existing plant will be sufficient for some years to come," he says.

Apart from one year cement prices have held to below the official inflation rate for the past eight years.

Cement is priced according to the buyer's nearest railway station. The cement producers PPC, Anglo Alpha and Blue Circle form a cartel and cement is delivered from the plant nearest to the buyer.
Sanlam call for lower wage increases in inflation fight

CAPE TOWN — Sanlam has focused on the fight against inflation in its latest economic report and has called for lower wage and salary increases, higher levels of productivity and the passing on of savings in labour costs to consumers.

Chief economist Johan Louw says there are no instant solutions to the deep-rooted inflation problem in countries like SA, which have open economies, relatively small domestic markets, extensive socio-economic problems and strong unrest potential rooted in large-scale unemployment.

Because wages and salaries are closely linked to inflation, a higher inflation rate — which consists of higher labour and other costs — is built into each round of remuneration adjustments and perpetuated by money supply increases.

To break this inflationary spiral, Louw says it may be necessary in the short-term to limit wage and salary increases to levels below the current inflation rate.

But this will only be effective if the savings are passed on to consumers by way of smaller price rises.

Lower, salary and wage increases should be accompanied by a programme to improve productivity with greater involvement by the public and private sectors and trade unions in the training and instruction of manpower, Louw says.

But employers will have to convince trade unions that an improvement in productivity will lead to the creation of new job opportunities rather than worker redundancy.

The promotion of competition by accelerating deregulation and privatisation programmes will also help decrease inflationary pressure, he says.

The financial authorities have applied fiscal and monetary discipline as the cornerstone of the anti-inflationary policy.

For some time, they have tried to limit the excessive granting of credit and the sharp growth in money supply and to maintain positive real interest rates as part of their monetary policy.

On the fiscal side, they have tried to curb inflation by strict control of government spending and a moderate budgetary deficit before borrowing.

In addition, they have been aiming at a fairly stable external rand value as a way of limiting increases in import prices and introducing greater price stability in domestic markets.

"SA's unacceptably high inflation rate can be lowered only if continued monetary and fiscal discipline is supported by a more stable rand, restrained increases in labour remuneration, real efforts to raise productivity and determined steps to effect greater competition in the economy," Louw says.
Plea to keep wages realistic

The inflation rate could be kept down only if demands for remuneration packages remained at realistic levels, the Minister of Finance, Mr Barend du Plessis, said yesterday.

Speaking in debate in the Extended Public Committee on Finance, he said it was a source of immense concern that productivity had decreased while the real salary per worker had increased.

“This has resulted in the real labour cost a unit produced increasing by 1.6 percent in the first nine months of 1989 in comparison to the same period in 1988.

“This definitely contributed to inflation, something which can only be effectively brought under control if negotiations for remuneration packages remain realistic.”

The authorities had done their part by monetary and fiscal discipline and wage restraints to reduce inflation, but this stood to be negated by inordinate wage increases.

The recent Budget would play an important role as an instrument in pursing more prolonged and stable economic growth, even if not at spectacular levels.

The immediate macro-economic objectives involved the balance of payments and inflation.

“The average monthly trade balance for the first quarter of 1990 is encouraging and indicates a current account surplus for the year of the targeted figure.

“Reserves of gold and foreign exchange at the end of February were R8.3 billion, which is the highest since October 1987. Even this level constitutes only about 1.5 months' import cover and we are looking to double this ratio.

“There can, therefore, still be no question now of relaxing exchange control.”

The cooling-down measures were working but not to the extent that a further period of consolidation was not indicated.

“We do not now contemplate any major change in our stabilisation package,” Mr du Plessis said. — Sapa.
Wage demands hold up slowdown in inflation

By Sven Lunsche

The inflation rate could well remain higher than originally anticipated, Southern Life's economist Mike Daly said yesterday.

Presenting Southern's latest Economic Comment, Mr Daly said that the lower gold price could push up the cost of imported goods and subsequently keep prices at high levels for longer than anticipated.

He estimated that inflation could reach about 13.5 percent by year-end, with an average rate for the year of about 14 percent, compared with last year's 14.7 percent.

Pressure on inflation is also likely to come from higher salary and wage demands by public sector servants, which are increasingly backed by strikes and go-slows.

"Food-price inflation also overtook the overall inflation rate for the first time since October 1988 and looks set to go higher," he said.

However, the main impetus for higher prices is from the rising cost of imported goods.

"Until February, the rand's strength was instrumental in bringing the producer price index down continuously, but I believe that the trade weighted exchange rate of the rand has peaked in February and will not improve substantially on this level for the remainder of the year," Mr Daly said.

However, some relief on inflation can be expected from an anticipated recovery of the gold price over the next few months.

"The fundamentals regarding gold are currently as bad as they are likely to get," Mr Daly said.

"The metal has been dented by inflationary fears in the developed economies throughout the world as the monetary authorities have responded with higher interest rates. The threat of eventual severe contractions in international output as a result of ongoing tight monetary policy makes for a high probability that the peak for international interest rates has been reached.

"Gold will benefit from the subsequent decline of those rates," Mr Daly said, adding, however, that the recovery will come off a lower base than the $410-plus of a month ago."
TrustBank sees drop in inflation rate by 1991

SOUTH Africans can expect a real GDP growth of below 1% and a 12.5% inflation rate — currently at a static 14.9% — by the end of the year, TrustBank’s latest issue of Econvision forecasts.

In its March/April issue, the bank said the GDP estimate would be a result of tight monetary policy; the lowest rise in consumer spending and the first fall in fixed investment in four years; a marked reduction in commercial and industrial inventories, lower agriculture production volumes, and slower export growth.

Inflation was expected to fall to 13.6% by July and 12.5% by year-end. This would be a major factor affecting interest rates, which Econvision expected to fall gradually over 1991.

The lag was expected because the authorities would not act immediately on the lower inflation rate but would wait until a clear declining trend had emerged. Other factors, such as monetary growth and foreign reserves, would also have to reach satisfactory levels.

High interest rates and limited credit creation this year would result in restricted spending into 1991, especially on fixed investment, which only reacted after a long time lag, the publication said.

TrustBank’s econometric models have suggested corporate profits would be hard-pressed over 1990/91, thus having a further downward effect on fixed investment and job creation.

Growth next year was expected to be retarded by further declines in fixed investment and a world slowdown in exports, resulting in a real GDP growth below 2%, the report said.

However, tax relief announced for this year and next — supported by lower inflation and interest rates — should result in consumer spending rising during the course of next year.
Pay rises stashed away to beat tax

NEARLY every investment house in SA boasts about its ability to do better with your money than the harm done by inflation.

The saver's two worst enemies are inflation and tax. So if inflation can be whipped, are there any good ways of minimising the effects of punitive tax rates?

Deferred compensation is one route by which your employer can save you money and keep you happily employed.

Loaded

It is exactly what its name suggests. When a pay rate is granted, you might not specifically want more cash every month.

By the time the taxman has had his slice and your pension fund contribution has risen according to a percentage of your gross salary, you probably feel that it was hardly worth getting the increase.

Company pension funds are often loaded against you in the first place.

Even if you work for your company for 25 years you are unlikely to receive more than 2% times 25, or 50%, of your final salary. Sometimes it is not even a fraction of your last month's salary - it could be averaged over your last three years' income.

Whatever the rules, hard and diligent service is not compensated for in any corporate or State pension fund.

The salary that is deferred - not paid straight away - is invested by your employer in an endowment policy. No tax is paid on the premium, which helps to build a cash lump sum on retirement.

Not only do you benefit from paying lower tax, but endowments have proved to be inflation beaters.

The tax benefits extend to when you retire. Currently R30 000 of the lump sum on maturity of the endowment is tax-free over and above any other tax-free lump sums, such as pension, provident or retirement annuity.

The surplus - subject to a ceiling of your total last three years' salary - is taxed at the average, not marginal rate.

The surplus does not have to be shown over one year for tax purposes, it can be spread over three equal instalments in consecutive years.

Cover

The deferred compensation must not be more than 10% of an employee's total remuneration package. Schemes such as the Old Mutual's allow contributions to be increased at up to 15% a year, and incorporate low-cost life cover.

The deferred compensation benefit may be taken at any time within five years of normal retirement age, but the lump-sum tax relief applies only where men have reached 55 and women 60.

The policy can also go with you if you leave. The company can cede it to you, although tax is payable and the amount is based on the Receiver's valuation of the policy.

The benefits can never be claimed by your creditors.
Inflation rate unchanged, say experts — but something doesn’t add up

The newest figure showing the annual rate of increase in the consumer price index has been queried by, among others, Mrs Lyn Morris, president of the South African Housewives League.

"The Central Statistics Service said the figure was unchanged in March from the February rate of 14.5 percent. They are pulling figures out of their computers and enjoying themselves, but all I understand is that it is costing me much more to live this year than it did last year," she said.

"I don't believe the inflation rate is the same, but I can't prove it."

Rubbing salt into the consumers' collective wounds, the CSI provided a graph which showed South Africans’ cost of living had dropped from a high of nearly 16 percent in June last year. There was also an expert projection that the CPI would be under 14 percent by mid-year.

What does it mean to the hard-pressed consumer?

Mrs Veronica August from Eldorado Park challenged the CSS to do the "housewives' test".

Speaking as a housewife and vice-president of the Black Housewives League, she said while the CSS regarded food as only 33 percent of the inflation component of the CPI makes up almost the same as the outlay on food," she asked.

"At the end of the day what cost of living means to me is that I am paying a lot more for my half sheep or ox now than I did a year ago.

"At the same time my salary as a nurse has not increased in two years," she said.

Glen Marais housewife Mrs Agla Joy said unless age groups and not only home groups were included in any cost survey, it would not be accurate since the emphasis in her own home had altered as the children had left home.

"It is hard to believe the price of clothing and footwear has gone up only about 17 percent. When one discards the figures, the reality for me is that I now make my own clothes because of the excessive price increase.

"It seems the authorities simply juggle figures while the man-in-the-street gets poorer."

"Judging by our own increase in expenditure over the year, I suggest a realistic inflation figure is between 20 and 30 percent," she said.

In Hillbrow, pensioners who were approached for comment were shocked to hear inflation remained the same.

One, Mrs Tilly Marais, who had just bought her daily rations at a local supermarket dismissed the latest official figures.

"I am spending the same amount of money this year but the groceries have really shrunk."
Battle against inflation will be lengthy

By Sven Lusche

The monetary authorities will be forced to steer a narrow line between reducing inflation and avoiding recession over the next few years, Standard Bank comments in its latest Economic Review.

The bank's economists say that as inflation has replaced debt repayment as the primary concern of monetary policy this year, the direction of economic policy has changed significantly.

"The battle against inflation will be a lengthy one and spectacular short-term success in reducing inflation to the levels of South Africa's major trading partners is unlikely," Standard

reducing the very high rates of growth of money supply and credit extension which have occurred in recent years," the economists write.

These shifts in policy will have important economic consequences, not least on interest rates "which will remain higher than was previously anticipated because significant declines in inflation are unlikely in the short-term".

The timing of the assault on inflation and historical socio-economic imbalance is opportune, as it will further strengthen the country's balance of payment at the time when the gold price is low and global commodity prices Standard Bank welcomes the assault on the inflationary spiral but adds that the recent restrictions on the availability of bank credit, rather than reducing its demand, amounted to informal rationing.

"Partly for political reasons, but possibly also for fear of inducing a recession, an increase in the cost of credit through higher interest rates has been avoided and the cost of funding to the bank has been raised instead."

"This represents a step backwards from the financial deregulation and increasingly market-oriented stance of monetary policy over the past decade." Standard Bank comments.
Inflation bites deep into old-age pensions

By Shirley Woodgate

The effects of inflation on retirement planning for people with limited means has been disastrous. Increasing numbers are now forced to depend on social old-age pensions, says the annual report of the Rand Aid Association.

“Pension payouts have risen dramatically, increasing more than tenfold from R153 million in 1973 to R1 069 million in 1986. More than 30 percent of whites aged over 64 now receive social old-age pensions, while the figure for the total population now stands at about 60 percent,” the report says.

“Generally speaking, people in the top or upper middle income groups whose earnings have kept pace with inflation, have been able to make adequate provision for retirement through membership of pension schemes or through individual arrangements.

“Even so, inflation is rapidly eroding the standard of living of many pensioners who once thought they were financially secure.”

The report added that over the past 20 years the cost of living had increased about nine times. In the case of people who started working in the late 1940s, the cost of living has increased more than 16 times.

An increasing tax burden will have to be borne by the economically active if the level of support for the aged is to be maintained.

The population of South Africa is increasing at the relatively high rate of 2.1 percent a year, mainly because of the high birthrate among the black population.

In 1980 the total economically active population aged between 20 and 64 was 13 million, and the number of people over 64 was 1.1 million — about 12 economically active people to each retired person.

In 1980 the ratio was just over six economically active whites to each white aged over 64. It is estimated that that ratio will be reduced by the year 2015 to 4.5-to-1.

“Thus the burden on economically active whites will increase considerably.”

The Government was well aware of the problems of providing a reasonable standard of living for retired people of limited means, and the increasing strains on the taxpayer. Although several investigations had been conducted in the past 25 years, no significant reforms had resulted, the report said.
Battle against inflation will keep interest rates high

BUSINESSES and individuals with high levels of credit should prepare to tighten their belts. Interest rates are likely to stay high for some time, concludes the Standard Bank in its latest Review.

This is a consequence of the switch in emphasis of economic policy from boosting the surplus on the current account of the balance of payments to combating inflation.

The main priorities in 1988 and last year were the short-term needs of slowing the real economy and boosting the current account surplus.

The government can change tack in the direction of economic policy, towards longer term objectives, because of an improvement in the current account surplus, to the point where gold and foreign exchange reserves rose in the first three months of this year, reversing the downward trend which began at the end of 1987.

The slowing of the economy in response to the progressive tightening of monetary conditions since the beginning of 1988 has reversed the growth of domestic demand and imports have fallen.

"Moreover," the Review continues, "more favourable political perceptions of South Africa abroad have resulted in improved access to foreign capital markets and it now seems probable that foreign debt repayments in 1990 will be met without undue difficulty."

Monetary policy is now directed at combating inflation and, to this end, reducing the high rates of growth in money supply and credit extension of recent years.

The emphasis of fiscal policy has also changed. "Thus, although the the 1990/91 Budget will attempt to maintain a pattern of government spending and income that is compatible with short-term economic stabilisation, new emphasis has been given towards attaining longer-term structural and socio-economic priorities."

"The shifts in policy will have important economic consequences. They will impact on both the level and direction of government spending, and interest rates will remain higher for longer than was previously anticipated because significant declines in inflation are unlikely in the short-term."

The good news is that the dampening effect on domestic demand of higher interest rates will continue to boost the current account surplus, the Review says. This is fortunate because the continuing weak gold price and weaker international commodity prices are likely to cut into export earnings this year. Also, big foreign debt repayments are due beyond 1990 and, despite recent increases, gold and foreign exchange reserves are still too low.

"Thus," the Review cautions, "while the prime policy objectives for the remainder of 1990 will be the reduction of inflation and the achievement of socio-economic goals, the authorities will be forced to steer a narrow line between reducing inflation and avoiding economic recession."
Economic growth rate expected to come to a halt this year
Tax fuels inflation — economist

Demands for higher pay increases were countered by similar demands for higher increases by managers who were reluctant to decrease the wage gap, he said. Union pressure was also an important factor.

"In effect, labour costs rise at a greater rate than productivity. This is inflationary, as cost increases are simply passed onto end users in the form of price hikes. "SA's uncompetitive economy and the ease with which money supply is increased makes it all too easy to pass costs on," he said.

In a more competitive environment companies would be forced to keep prices low and focus on efficiency, or accept lower profits, he said.

Osborn confirmed the problem was partially self-fulfilling, as people expected a certain inflation rate and consequently demanded higher pay increases.

This had the effect of pre-empting the type of inflation South Africans had become accustomed to, he added.

There was no easy solution to the problem, Osborn said.

"We need a stable currency to reduce external influences on inflation, a change in wage and salary structures and a different tax climate in which people are not constantly striving to maintain real incomes," he said.
As expected, the rise in the general level of prices for food and clothing, the Government price index (CPI), was 9.3 per cent in the six months, while the level for foods increased 8.5 per cent.

In contrast, the official index for the University of the Free State (URF) increased by 8.9 per cent, with a rise of 8.3 per cent for the last six months.

The rate of increase for the six months was an average of 2.8 per cent, while for the year to the end of September the rate was an increase of 1.1 per cent and in March the monthly increase was 0.9 per cent.

The household survey of the University of Port Elizabeth shows a need for an additional 7.1 per cent, for example, and the January figures, according to an independent survey, were an increase of 0.9 per cent.

The increase in the cost of living is particularly costly for low-income earners. The rise in the cost of living is also high for those earning less than R350 per month, while there is a need for an additional 0.9 per cent.

However, although the lowest income group cost of living is high, the real cost of living is considerably higher than the official inflation figures.

In the 12 months to the end of March, 1992, the cost of living for black and coloured families in Durban and its suburbs increased by 8.5 per cent, while those in the cheapest centres surveyed increased by 9.5 per cent.

In the six months to the end of March, 1992, the cost of living for black and coloured families in Durban and its suburbs increased by 9.5 per cent, while those in the cheapest centres surveyed increased by 10.3 per cent.
Escalating costs hit Southern Sun

A 92 percent rise in operating profits by hotel group Southern Sun reduced to a six percent increase at the attributable earnings level as a result of sharply escalating financing costs.

In the year to end-March Southern Sun's turnover rose by 21 percent to R471.9 million (R380.4 million) and operating profits surged by 92 percent to R26.4 million (R16.7 million).

But net financing costs virtually doubled to R34.4 million (R18.5 million) as interest bearing debt increased by R64.7 million to R323.5 million (R258.8 million).

The higher costs, which also pushed up gearing to 64 percent at the end of March, followed on further investments in the refurbishment and maintenance of the group's hotel properties and the higher level of interest rates.

The economic slowdown also resulted in a drop of local business related and holiday packaging occupancies, although the improvement in overseas tourism helped overall occupancies to increase marginally from 62 to 64 percent.

Attributable earnings were up by six percent to R26.5 million (R25.1 million), equivalent to earnings per share of 37.8c (35.7c). The final dividend was raised from 25c to 26c a share.
IN an inflationary climate as we have in South Africa today, it is important that you protect your hard earned savings. If you don't, you will find that the R1 000 you saved will be worth less than R500 in five years' time.

One sure way of protecting your capital against inflation is to invest in unit trusts.

A unit trust enables a large number of investors to pool their individual capital sums for investment on the stock exchange.

By doing this, these investors obtain a spread of investment which they could not achieve individually.

The unit holder's money, which can be as little as R20 a month, is invested by the unit trust managers, professionals whose job it is to watch the markets day in and day out.

Anyone who wants to build up a balanced savings programme aimed at accumulating capital for educating children, for building up or supplementing a pension, or as a savings mechanism.

Every financial "plan" for people who are determined to build real wealth should include a unit trust investment.

Effectively, for a small cost, you obtain a spread of investment and risk, professional management of your money, the provision of a full administration service and the ability to acquire and realise your investment at ruling prices without having to compete against other buyers and sellers and so force up (or down) share prices.

Depending on the fund in which you invest, income is distributed either quarterly or half-yearly and is made up of both dividends and interest.

The money that you receive at these times is the income which is generated by the trust after deducting the service fees.

If you do not require immediate income, you can select an investment plan that allows for the income that is generated to be re-invested.

This buys more units, and so speeds up your savings plan and is highly recommended.

As an investor you must recognise that a unit trust is a long-term investment (an investment which you can afford to leave for three to five years) which, over many years, has enabled unit holders to obtain a "real" return, that is a return which is over and above the rate of inflation.

Under no circumstances must an investment in a unit trust be regarded as a short-term investment.

There are now 33 unit trusts in South Africa - 14 general equity trusts investing in a balanced and diverse portfolio of companies, 10 specialist equity trusts which invest in a selected or focused area of the stock market, and nine high income trusts which seek an above-average level of current income for their unit holders.

Investors can obtain application forms from most financial institutions, financial advisors and stockbrokers.
Prospects for 1991

Average inflation rates of 14.2% in 1990 and 11.9% in 1991 are predicted by the University of Stellenbosch's Bureau for Economic Research (BER) in its April Economic Prospects. Inflation is expected to bottom at the end of 1991 and rise again because of wage and salary increases in the private sector, and an increase in government spending, after a conservative 1990-1991.

The rand exchange rate will also affect the inflation rate. This is expected to depreciate against the four major currencies in 1991 though roll-overs of foreign debt repayments are expected to keep the rand stable this year.

Because of these roll-overs, the report sees capital outflows in debt payments this year.

At about R1.5bn less than the R6.4bn commitment, debt commitments for 1991 are expected to be R6bn.
Low interest rates a thing of the past

Finance Staff

Low interest rates are a thing of the past — but this is healthy development for capital formation, says Johannesburg Stock Exchange president Mr Tony Norton.

Low and unrealistic interest rates had been a cancer in the economy, he told a meeting of the Burgerspark Business Club.

Mr Norton said interest rates below inflation encouraged people to misallocate capital and to invest in lower-return projects, while encouraging imports and boosting inflation.

Mr Norton said it was essential for good economies to have real interest rates to encourage savings, and to discourage the poor allocation of capital.

Government policy was to move towards making saving easier — such as tax treatment to encourage savings and through easier access to the sharemarket — "which was long overdue."

"There are enormous grounds for optimism with regard to the capital segment. Previously political considerations overrode the needs of the economy. Now that has changed," he said.

The four classic factors of capital production are land or resources, entrepreneurship, labour or skills, and capital.

With regard to capital, Mr Norton said South Africa was a capital-exporting country, which placed an enormous damper on the economy.

**Growth rate**

Keeping a surplus on the current account of the balance of payments had reduced South Africa's growth rate between four and five percent, to one or two percent, and the country needed to use capital better.

"The pattern and nature of saving in South Africa has swung in the last two decades from balance to total imbalance. The government has become a dissaver, and individual savings are pathetic," he said.

Turning to capital mobility, Mr Norton said if people could invest in the stock market and get out in quantity without disturbing the price, it resulted in premium marketability.

"If people are able to invest liquid capital in the stock market it lowers the cost of capital, and ultimately lowers the cost of products domestically and for export," he said.

He said the JSE had tried to pursue wider capital markets, but the volume of trade on the JSE represented only five percent of its capitalisation compared with a worldwide average of about 50 percent.

Mr Norton said there was no adequate capital mobility and the JSE did not have the resources to cope with increased volumes. At present the stock exchange was R50 million in debt.
Schwarz warns on GDP drop

LESLEY LAMBERT

CAPE TOWN — The 14% annualised drop in GDP in the first quarter of this year held serious implications for the economy and for stability in SA, DP finance spokesman Harry Schwarz said yesterday.

In per capita terms, the reduction meant a drop of almost 4%, Schwarz said. This was serious at a time when political change required stability and such stability was threatened by increasing unemployment and acute poverty among sections of the population, he said.

Schwarz confirmed reports that hopes for a soft landing for the economy were receding.

"That there is a need to control money supply and that this is necessary to combat inflation is accepted, but it was hoped that this would be managed in such a manner that there would be a soft landing," he said.

He said the economy was close to a recession and the authorities needed to ensure the delicate balance between fighting inflation and the need for job creation was maintained in the interests of maintaining stability in difficult political times.
No let-up in fight against inflation

By Sven Lunsche
The Reserve Bank will not ease its tough monetary stance in the months ahead, despite indications that the economy is heading for a prolonged slowdown.

Senior deputy general manager Professor Jan Lombard said yesterday: "We have no intention at this stage of changing our economic stance."

"We will obviously try to avoid any undue hardships, but the Bank has indicated before that the battle against inflation will demand substantial sacrifices," Professor Lombard said.

In the wake of the rough time the economy is currently experiencing, analysts fear the slowdown could last longer than originally expected.

Retailing sector

Central Statistical Services reported this week that seasonally adjusted total real gross domestic product (GDP) had dropped by 1.4 percent in the first quarter of this year after a 1.7 percent decline in the last quarter of 1989.

This is supported by some hard-hitting data from the retailing sector, where more and more companies are beginning to report substantial declines in earnings growth.

In addition, car sales are plummeting and the number of liquidations showed a worrying 40 percent increase in the first quarter of this year, compared with the same period in 1989.

Already some economists have downgraded their GDP growth forecasts for the year from the generally expected level of one percent.

Nedbank's Edward Osborn estimates that GDP will only rise by 0.5 percent for 1989, while Dr Hans Falkena of the UBS expects no growth at all.

The Reserve Bank itself has not yet adjusted its growth prospects for the year, sticking to its original estimate of about one percent and pointing out that most sectors of the economy are still on course for a soft landing.

Investment expenditure, however, is likely to take the brunt of the extended slowdown as companies scale down their capital expenditure plans to improve cash flow.

Both the Bureau for Economic Research at Stellenbosch University and Dr Falkena expect gross domestic fixed investment to fall by over five percent this year, leaving a gloomy picture for potential job creation.

Despite the urgent need to address socio-economic imbalances, most economists support the Reserve Bank in its tight monetary stance to bring inflation down to single-digit levels.

"To ease up now for political reasons could send the wrong signals to the market and would have disastrous long-term consequences," Dr Falkena says.

"If there is a real recession the authorities would have to ease up their tight stance. But we are not talking about a recession, even if the economy should decline slightly," says Mr Osborn.

Professor Jan Lombard says the disappointing performance of the gold price has added pressure to protect the balance of payments and foreign exchange reserves.

"While the foreign exchange reserves have shown significant improvements recently, we have to plan ahead and build up the reserves to guide the economy into a more stable growth phase," he says.
Cartels 'fuelling inflation'

South Africa provides a fertile ground for collusion and price-fixing with unofficial cartels providing more than 75 percent of the output in many sectors of the economy.

Robin McGregor, chairman of McGregor's On Line Information, says until this practice is stopped, the inflation rate will never be conquered.

'This system of cartels discourages improving productivity as a means of increasing profits as it is far simpler to raise prices.'

This concentration of control in the private and public sectors results in very significant inflationary factors.

Although cartels are illegal, Mr McGregor says, their detection is almost impossible.

What Mr McGregor advocates is the breaking down of the degree of concentration of financial and production control in the private sector. In support of this action, he cites the current world-wide trend towards hands-on manager-owned entrepreneurial control.

'What is happening here, however, is the exact opposite because of the bureaucracies it has to develop to control the financial empires that have been spawned.'

'Not only is the sum of the parts often greater than the whole but the diseconomy of scale, which often creeps in down the line, could result in the subsidiary supplying its parent with goods at higher prices than it could obtain if it was able to buy in a more competitive market.'

Mr McGregor feels it is true that major groups realised this and began selling off subsidiaries to management or other owner/managers and to get on with those activities which are their particular areas of expertise.

He points out that SA probably has about 200 000 operating companies, including corner cales and other small businesses. Only about 40 000 employ more than 30 people. There are 2236 companies listed in the 10th edition of "Who Owns Whom as subsidiaries or associates of companies listed on the JSE."

'It is unlikely that there are many listed company subsidiaries which employ fewer than 30 people, which means that 63 percent of the medium and large-sized companies are controlled by listed companies.'

'To aggravate this degree of concentration, four groups on the JSE control 80 percent of market capitalisation.'

Mr McGregor notes that as listed companies in 1990 only controlled about 13 000 companies, a great deal of concentration has taken place in the last 10 years.

Breaking down this concentration would be difficult, but could be achieved by studying legislation in other world markets, Mr McGregor says.
Outlook brightens for 1992 and beyond

By Michael Chester

The economic tempo is set to be locked in low gear for up to 18 months ahead, but the business outlook beyond next year has begun to appear a lot more promising, forecasts by the Econometrix research unit suggest.

With the political logjam now broken by the talks between President F W de Klerk and Nelson Mandela, two years from now sanctions may well have vanished, say the think-tank experts.

FRESH FLOWS

Econometrix director Dr Azar Jammun is confident that if political negotiations stay on track, new economic boosters may be provided as fresh flows of investment capital resume from overseas sources.

"Foreign perceptions of the government have improved and are likely to continue to do so," he says in a new review of the business outlook.

"In two years, South Africa could be in a position to roll over most of its overseas debt or alternatively gain access to new foreign loans.

"In such circumstances, South Africa might be in a position by 1992 where it no longer has to run a current account surplus.

"We feel confident that the 1990s will see an accelerated gross domestic product growth rate of some three percent a year — compared with the dismal 1.5 percent recorded for the 1980s."

Even then, however, the official growth may not be strong enough to alleviate the chronic unemployment. That in turn may mean an even faster spread of the informal sector in the next decade.

Dr Jammun says caution about predicting a growth rate of more than three percent is based on dangers of persistent high inflation in the 1990s — especially as the government launches massive but vital social upliftment programmes in education, housing and health services.

"Moreover, in an environment in which attempts are made at redistributing income from the rich to the poor, without there being commensurate increases in productivity, inflation is bound to be rife.

"Inflation is also likely to be spurred by a shortfall of skilled manpower which is bound to emerge once growth accelerates."

The government, whatever its political creed, was likely to find itself continuously called upon to cool off economic activity to prevent inflation getting out of hand.

Vast spending on social upliftment schemes could accelerate the economic tempo by three to five percent a year in the next few years.

But by the mid-1990s the authorities might well be forced to clamp down again with restrictive fiscal and monetary policies to counter the inflationary forces that could be unleashed.

"We might therefore have to endure another period of slow growth in the mid-to-late 1990s," says Dr Jammun.

"Perhaps by the end of the decade one can contemplate a sustained period of rapid non-inflationary growth, spurred on by the entry into the labour market by then of a vast pool of skilled black manpower."

"Recent political developments have provided a semblance of hope, where there was none before."

"However, many hurdles need to be overcome and it seems difficult to contemplate a sustained period of growth in the South African economy until the 21st century."

"In trying to paint scenarios for the future of South Africa it is apparent that one is delving into the unknown in which no historical precedent exists."

"South Africa is moving into uncharted waters, with political and economic history in the making."

""
Still too soon to ease constraints, says Jacobs

PRETORIA — Conclusive evidence that could justify a relaxation of monetary and fiscal constraints at this stage was lacking, the Finance Minister's special adviser, Japie Jacobs, said here yesterday.

Speaking at an Afrikaans Sakekamer lunch, he warned that great caution should be given to the view that the economy was no longer headed for a soft landing, but was already "beached" and moving into a recessionary phase.

He said it was correct that the economy and inflation had reacted to the fiscal and particularly the monetary constraints and that the economy had begun to cool off.

But he stressed there were no convincing indications at this stage to support a relaxation of existing policies.

Jacobs said it was argued that the price for the strategy was too high — taking into account the expectations associated with the initiatives for a new political dispensation. But this argument ignored the fundamental economic principles involved.

A relatively high inflation rate, he said, was a drag on economic growth and it was untenable to attempt to compromise.

"We must therefore remain alert not to repeat the blunders of the '80s by relaxing the limiting monetary and fiscal measures at the first signs that the economy is cooling off.

The economy was moving into a consolidation phase, which would be a basis for a restructuring programme aimed at raising the long-term growth potential.

Jacobs said the main aim of the monetary and fiscal measures remained the lowering of the inflation rate.

On monetary policy, he said that spending in SA, which depended to a greater or lesser extent on the state of the business cycle, the increase in real earnings, the inflation rate and inflationary expectations, was being financed through bank credit.

As a consequence, the economy had overheated and demanded the introduction of restraints.

The aim in such circumstances was to make credit less available and more expensive.

On complaints of unreasonable competition between financial institutions, Jacobs said: "If we succeed in materially lowering the inflation rate, many of these complaints will disappear."

If the fiscal policy failed to make its rightful contribution, this would indicate that the monetary policy, through the interest rate mechanism, had a greater role to play to slow down spending in the private sector as well as individual spending.

Jacobs said the rate of increase in the money supply — accepted as a guideline for monetary policy decisions for 1990 — varied between 11% and 13%.

Although it rose by 20% to 28.5% in March 1988, the rate of increase had begun to fall.

He pointed out that inflation and inflationary expectations had an important influence not only on total domestic savings, but also in the marshalling of savings and the way in which they flowed through the financial system and, eventually, into the economy.
Food holds back inflation decline

By Sten Linnache

The inflation rate is finally responding to the slowdown in the economy, but rapidly escalating food prices are holding back the rate of decline.

Latest Central Statistical Services (CSS) figures, released yesterday, show that while inflation fell to 16.8 percent in April, compared with 14.8 percent in March, food prices soared by a year-on-year 16.8 percent last month - the highest level in almost two years.

For most of last year food price increases were lower than the overall rate of consumer price rises.

But prices of these goods have been escalating rapidly over the last few months.

In January the consumer price index (CPI) for food rose by an annual 10.3 percent. In February it surged by 15.7 percent and in March by 16.1 percent before the higher rate of increase was repeated in April.

On a monthly basis, the food CPI was up by 1.6 percent last month.

Food prices were responsible for about 40 percent of the overall monthly CPI increase of one percent.

A detailed analysis of these increases makes worrying reading.

The CSS says vegetable prices alone rose by 44 percent over the year, with fruit and nuts not far behind at 28 percent.

Econometrix economist Tony Twine says a particularly dry season in the vegetable- and fruit-growing areas of the Eastern Cape was largely responsible for this, with the few quality goods that hit the market being sold at a premium.

On a monthly basis, relatively large increases occurred in the prices of grain products (17.7 percent), dairy products (7.1 percent), sugar (2 percent) and, once again, fruit and nuts (3.3 percent).

What effect will these increases have on consumer price inflation rate?

The weighting of food at 23 percent of the overall CPI is significant. Since many economists expect at most a slightly lower rate of increase for food over the next few months, they are revising their estimates for average inflation this year.

Sanlam, in its Economic Survey, forecasts a rate of about 14 percent for 1990, compared with an average of 14.7 percent last year, "which is slightly higher than previously expected."

Syfrets Elsien de Kock expects inflation to average out at just below 14 percent this year.

The Bureau for Economic Research at Stellenbosch predicts a rate of 14.2 percent.

However, most longer-term forecasts still sound optimistic and are supported by the recent substantial drop in the rate of increases in producer prices.

From a peak of 16 percent in mid-1989, the year-on-year increase in the producer price fell from 11.1 percent in January to 12.9 percent in February and again to 11.6 percent in March.

Consumer prices usually lag changes at the producer level by about six months.

Even if the weather continues to play havoc with agricultural conditions, these benefits will eventually filter through to the consumer level.
Inflation continued its downward trend in April

INFLATION — as measured by the year-on-year rate of change in the consumer price index (CPI) — continued its downward trend in April, falling by 0.3 percentage points to 14.6% from 14.9% in March.

The rate of increase in the CPI has been falling since December when it was at 16.5%. A peak of 16.6% was reached last year in June — much lower than the 1988 peak of almost 21%.

The fall in the consumer inflation rate was signalled by the decisive turnaround in inflation at the producer level, from more than 15% in mid-1989 to below 12% largely from food price increases.

"The lower rate of increase in April was expected and probably reflected recent reduced rates of increase in the producer price index (PPI)," Econometrician economist Tony Twine said.

Statistically, the decline in April was the result of a smaller month-on-month increase (1%) this year compared with last year's large 1.3% increase between March and April.

Contributions to the monthly (non-seasonally adjusted) increase of 1% came from food prices.

To Page 2

Inflation

Economists were concerned that the lowest income groups continued to bear the brunt of high price increases, especially for food.

The annual rate of increase in the food price index was 18% for the lower income group, 17.2% for the middle income group and 13.3% for the higher income group.

The year-on-year percentage change in the price index for food was 16.9%, the highest since May 1988.

Large monthly increases occurred in the prices for grain products (1.7%), milk, cheese and eggs (7.1%) and fruit and nuts (5.3%).

The largest annual increases occurred in the prices of fruit and nuts (29%) and vegetables (44.1%).

Other large increases were recorded for alcoholic beverages (2%), cigars and tobacco (7.5%) and communication (4.7%).

The actual index rose to 198.3. This means it now costs R168.3 to purchase the same basket of goods which cost R100 in 1985.
Inflation trend widens the gap between the rich and poor.

Weekly Mail Reporter

LOW-INCOME South Africans are suffering higher rates of inflation than higher income people, in contrast to the trend last year, when rising house and car prices were among the factors raising prices faster for the rich than for the poor.

The latest consumer price index figures, released this week, show inflation for the lower income group stood at 15.5 percent in April, for those with higher incomes at 14.2 percent and for the middle income group at 14.6 percent.

April's inflation rate was 14.6 percent, down slightly from the 14.9 percent recorded in the previous two months. But food inflation for April was running at 16.8 percent (18 percent for those with low incomes). Since the poor spend a higher proportion of their incomes on food, they have been experiencing inflation higher than the average.

Food price increases made the major contributions to the increase in the price level in April, accounting for half the 0.8 percent monthly rise in the consumer price index (CPI). The largest increases over the month were in the prices of grain products, milk, cheese and eggs, fruit and nuts and sugar, according to the Central Statistics Service.

Other commodities whose prices rose fairly sharply during the month were beverages — alcoholic and non-alcoholic — and cigarettes.

The latest figures suggest inflation is beginning to slow down. The monthly increase in the CPI in April was lower than in the previous couple of months. In the past two months economists have been encouraged by a lower rate of wholesale price increases (measured by the producer price index as opposed to the CPI, which reflects retail prices). Retail prices usually follow wholesale prices with a lag of two to three months.

But despite the government's and the Reserve Bank's efforts to curb it through tight monetary policy (high interest rates) and fiscal policy (limiting the increase of government spending), inflation has stubbornly refused this year to fall. At the beginning of the year some economists were predicting an average inflation rate for this year of as low as 13 percent. Now it seems the average will be closer to 14 percent, much the same as last year's.
Unemployment, inflation adding to SA's problems

SOUTHERN Africa was faced with a wide diversity of severe socioeconomic problems and constraints which included low economic growth rate; poor and inadequate housing in black areas, Nafoc president Dr Sam Moisiunyane, said this week.

Speaking at the diploma-day ceremony at the M.L. Sultan Technicon in Durban, he said the rampant inflation, escalating unemployment, shortage of skilled manpower, flight of capital from the region due to the imposition of international sanctions and disinvestment, had added to the problems.

The political, financial and other major constraints that must be overcome to enable blacks to become meaningfully integrated into South African economy did present the country with problems of momentous proportions.

On the political front, some hopeful signs of possible positive changes in the near future were already beginning to emerge. One such signal was the claimed acceptance, at long last by the South African Government, that apartheid was not only morally indefensible, but it also hung like "milestone..."
BUSINESSMEN are starting to ask when the Government is going to relax its current tight money policies. High interest rates, high tax rates and curbs on Government spending have begun to hurt many businesses.

The 20 percent drop in new vehicle sales in April compared with April last year, was just one sign that the Government’s policies are starting to bite.

But other areas of the economy are also suffering. April was a bad month for business generally and May is unlikely to be any better.

Businessmen say unless the Government eases its tight money policies, conditions for the rest of the year will be grim.

For this reason there is a keen debate about what will be needed to make the authorities relax their policies.

The aim of the tight money policies, the Government has made clear, is to reduce inflation and to increase the foreign exchange reserves. The Reserve Bank has stated its intention is to double the size of the reserves. But it has not stated any target inflation rate that must be achieved. However, an analysis of recent price increase suggest that the tight money policy could continue to be enforced for some time.

There is no doubt that the squeeze is having some effect. In the 12 months ended April consumer prices rose 14.5 percent. But in the past three months the annual rate of increase has been just over 13 percent and in April the annual rate was down to 12 percent.

But gratifying as these figures are, there is as yet no sign of the inflation rate dropping to anywhere near acceptable levels. Moreover, an analysis of the price increases since January shows that in spite of the Government’s measures, disturbing inflationary pressures still remain in the economy.

In February, March and April, the cost of education rose 18.6 percent, alcohol prices rose 12.7 percent, milk, butter and eggs by 12 percent, furniture prices 10.8 percent, non-alcoholic beverage prices (which do not include tea and coffee) 7.6 percent, household equipment 5.8 percent and household consumer goods 5.5 percent.

Multiply these figures by four to get an approximate annualised figure and the results are shattering. Admittedly, some of these increases may reflect a one-off annual price rise. The increase in the cost of education probably does. But even so the size of the single increase indicates that inflation pressures remain strong.

These and other price increases indicate that a tough monetary policy is still needed, and that it would be wishful thinking to expect any early relaxation in them.
Inflation beating increase in house prices, says bank

ANDREW GILL

R112 000 at the moment. To realise an inflation-linked growth, however, the house should fetch R180 000.

Property economist Neville Berkowitz said house price prospects were not expected to start realising real growth until at least late 1991. As soon as the Group Areas Act was abolished, he said, there would be a boom in the market.

"It is a case of increased demand and static supply which will obviously hike prices."

He said in the past 10 years real growth had been attained. With inflation running at 14.5% and a house price growth of 16.6%, a 2.1% real growth is realised.

His advice was to "hang in there" for a couple more years or even buy now if one had the money, as long as one was prepared to wait for a return.

UBS economics researcher Christo Luus said a negative real growth rate of about 3.5% was expected for 1990 and probably 1991 too, but an upturn was expected in late 1991.

He said a trend of 9% to 10% growth in the housing market was expected, against an average inflation rate of 13%.

Berkowitz said the exciting area of property investment was in gearing where one could write off certain charges and let out the property and eventually get good returns.

HOUSE price increases have been constantly outstripped by inflation since 1984, the latest issue of Boland Bank's property market focus has shown and, according to economists, short-term prospects for the market are not encouraging.

This is despite the market's economical revival of the past three years which saw house prices registering nominal growth but negative real growth.

Illustrating the trend Boland said a house bought for R70 000 in 1983 would fetch about
Outlook for foreign funding improving

By Derek Tommey

South Africa has done much to regain the confidence of foreign investors, says the Governor of the Reserve Bank, Dr Chris Stals.

But he warns that it still had more to do — including reducing the inflation rate to well below the present 14.5 percent — before it could expect an inflow of foreign funds.

Dr Stals said: “Re-access to the capital markets of the world will depend not only on the course of political negotiations but also on the state of the economy.”

“In the end, the bottom line is all that counts, and there is a new urgency for an economic policy based on the sound principles of financial discipline.”

Addressing the Sandton Chamber of Commerce and Industry last week he outlined South Africa’s successes in overcoming its foreign debt crisis, which he blamed partly on political factors.

He said that relative to most other countries with a foreign debt problem South Africa in 1983 had only a small amount of foreign debt outstanding. It also had the potential, given time and understanding of the normal business cycle developments, to meet all its international commitments.

The initial withdrawal of loan funds from South Africa and the disinvestment campaign and trade boycott actions were triggered by political motivations.

The situation had been exacerbated by the economic uncertainties surround-
Thousands face repossession threat

Homeowners' debt soars to new peak

By Michael Chester

Threats of house repossessions by banks and building societies have reached record levels as more homeowners are overwhelmed by inflation and high interest rate bond repayments.

The Information Trust Corporation, which runs a national network of computer systems to keep track of trends, reports that the number of debt judgments handed down by magistrates' courts over arrears on mortgage payments has almost doubled compared with only a year ago.

The May 1980 total of 872 soared to 1,577 last month, equal to an annual figure of almost 19,000. The mounting of debt to be settled from court actions last month alone climbed from R14 million to more than R22 million.

Debt judgments in the Supreme Court, the last before actual repossession by sales in execution notices, jumped from 268 to a record 392. Amounts to be cleared rose from R18.5 million to R24 million.

ITC chairman Paul Edwards said the toll of repossessions was now the worst on record.

Black families

"What is becoming of increasing concern," he said, "is the number of black families who purchased homes of their own for the first time in the past couple of years.

"They were encouraged into home ownership and now find they do not have the experience to cope with changes in interest rates and changes in circumstances with their personal finances.

"Black families in the lots of sales in execution announced every week were of particular concern.

"Mortgage lenders' association president Bob Tucker said the catastrophe was spread across high and low-income families alike.

"The association compiled no precise breakdown of repossession statistics, but there was grave concern about the scale of the problem.

"As we are seeing the tragic aftermath of the house-buying spree in the mid-1980s when thousands of families were tempted by low interest rates to buy houses far beyond their means," he said.

"The casualties are home-buyers who made the mistake of thinking that interest rates were going to stay down at 12.5 percent for the duration of their mortgages. The climb in rates to around 21 percent has crippled many budgets.

"Yet even when a salvo in execution goes out, it may still not be too late to mount a rescue operation. Battling homeowners should explain their plight to their bank or building society. It may still be possible to avert catastrophe with a package of compromises," said Mr. Tucker.

Gold's slump puts industry in crisis

By Magnus Heyste and Peter Fabrice

The crisis in the gold mining industry is deepening as the gold price continues to drop, pressuring operators on international markets.

Gold shares took a hammering on the Johannesburg Stock Exchange yesterday, with the all-gold index dropping by more than 5.3 percent (95 points) to 1,817.

Uncertainty over Soviet gold sales pushed the price down to an eight-month low of $355.55 yesterday afternoon in London, down from Friday's close of $363.45.

It recovered slightly in New York to close at $363 and opened at $359.78 in Hong Kong today.

The slide in gold share prices pulled down the overall index by 42 points to 3,120, but the industrial sector held firm as selected buying of blue chip shares pushed the index up 18 points to 3,978.

Gold's slide is placing the gold mining industry in severe jeopardy. Already the government has made a decision on whether to increase its aid to the troubled ERPM mine on the East Rand.

An announcement expected last night has been postponed for at least a week while additional contingency plans are considered.

ERPM has made a last-ditch effort to raise capital, listing its shares on the Botswana Stock Exchange.

Money raised by the company, however, not reduce R300 million debt, but operating capital for a without continued ERPM is faced with cash closure, with all leases. Once closed, it will not be reopened, that rapidly fill with water, between 11 and 16 also face uncertainty on price at current level they earned about R1 foreign exchange last
Average pension payouts devastated by inflation

WHILE close to 90% of SA's formal sector employees now enjoyed retirement fund membership, the average monthly pension payout has been ravaged by inflation — dropping by about 60% in real terms in the past 17 years.

These are among the findings released yesterday by the Mouton Committee investigating the retirement fund industry and charged with making recommendations on a future system.

Committee secretary Reg Munro told Business Day the committee was making public the results of its exhaustive research — with some initiating diagnoses of problems to open public debate on the matter.

The committee has been asked by Finance Minister Barend du Plessis to submit at least an interim report to him by November.

Committee research has disclosed that by 1963 more than 6 million South Africans were retirement fund members, more than four times the number in 1970.

The establishment of a provident fund for black mineworkers last year — with a potential membership of 500,000 — would have increased that figure substantially, Munro said.

Since the bulk of the formal sector work force was covered, a national contributory pension fund would not achieve much, Munro concluded.

He said there were serious problems in drawing the informal sector into the retirement benefit industry: "Incentives are tax-driven, and the informal sector does not pay tax," he pointed out. Another problem related to ensuring regular contributions.

Munro said committee research showed while the retirement fund industry had done a good job in drawing people into membership, and had achieved reasonable returns on investment despite the prescribed asset regulations, it had done poorly in ensuring pensioners' payouts kept pace with inflation.

After a steady climb in real average pension payouts until 1972 (about R500 a month when converted to 1980 prices), the figure had fallen to about R250 in 1980.

The average monthly retirement fund pension at 1980 prices was about R70 in 1980; the figure had fallen to R130 by last year.

Thus, said Munro, was a result of inflation and the first large group of unskilled, low-paid black workers reaching retirement age after a relatively short period of fund membership.

Inflation remained a problem. More recently black unions had initiated a trend towards provident, rather than pension, funds. "Provident funds expose beneficiaries to inflation badly. I do not know whether they have got to grips with the problem of using lump sum investments to provide returns which take account of inflation," Munro said.

A further problem, he said, was transferability. Today less than 10% of people changing jobs transferred accumulated benefits to new funds.

But, he added, his view was that imposing a law making transferability compulsory was not the answer.

"We are looking for a holistic solution," said Munro.

One positive development, as far as retirement fund contributions were seen as deferred pay, was that the interest payable on withdrawal benefits was increasing mostly, he believed, because of union pressure.

While in 1980 96% of people withdrawing from funds earned less than 6% on contributions, this figure had fallen to 54% by last year. In 1983, 12% earned more than 10% interest, the number last year had risen to 5%.
Wide discrepancies

A rapidly rising rate of inflation in developing countries conceals wide discrepancies between them. IMF statistics show the overall increase in their consumer prices, which

![Chart: Take off](image)

Developing country inflation
Average annual % change

have already been reported for 1989, was 86.3%. It was 59.5% in the previous year (see graph).

Largest increases were in eastern Europe and the western hemisphere (South America and the Caribbean). With Nicaragua still outstanding, the steepest rise was in Peru, nearly 3400%, followed by Argentina, more than 3000%, and Brazil, 1287%.

Yugoslavia achieved four-digit status with 1,240% after 1988's 1941%

At the other end of the scale was Chad with deflation of nearly 5%.

The rate in industrial countries was 4.3% (3.4% in 1988), while world inflation was 18% (13.4%).

Among developing countries inflation was down in Asia at 10.2% (11.8%), up in Europe at 232.3% (80.1%) and the western hemisphere at 350% (218%). A figure for Africa is not yet to hand.

The latest available for the Middle East is for 1986 when consumer prices rose 11.8% (1985: 14%)
The Golden Goose

Initiation Killings

DEERE TOWER

THE DROP IN THE DOLLAR GLENCORE
Bondholders hard hit by recession

The recession is a time when the economy is in a state of contraction. This can be caused by various factors, such as a decline in consumer spending, a decrease in business investment, or an increase in unemployment. The impact of a recession is often felt by those who have invested in the economy, particularly bondholders who may lose money if the value of their bonds decreases.

Bondholders are essentially lenders who provide capital to companies or governments in exchange for interest payments and the return of their principal. During a recession, the value of these bonds may decrease, as investors become more risk-averse and may demand a higher return to take on the risk of investing in bonds during a downturn.

The recession can also affect the economy in other ways. For example, businesses may reduce their spending on new investment, leading to slower economic growth. Additionally, unemployment rates may increase, further slowing the economy.

Overall, the recession can have a significant impact on the economy, affecting both the short-term and long-term outlook. It is important for individuals and businesses to be prepared for the potential impacts of a recession and to take steps to protect their financial well-being.
LATEST statistics show that year-on-year producer inflation is unchanged, but month-on-month there has been a sharp increase.

The annual rate of increase in the Producer Price Index (PPI) levelled off in April at 11.5%, the first time since October 1989 the rate has not fallen, Central Statistical Service (CSS) figures show.

But for the first time in six months the month-on-month increase was above 1% - at 1.6% - mainly as a result of locally produced commodities recording the highest month-on-month increase since May 1989 at 2.1%, compared to March's marginal 0.1% increase.

The largest monthly increases were in the coal sector, which shot up 14.3%, and alcoholic and non-alcoholic beverages, which were up 11.3%. Other increases included tobacco (6.3%), ferrous basic metals (5.4%) and wood products (5%).

The year-on-year increase of locally produced commodities was 12% compared to March's 11.5%.

Economists said the scenario could have been worse had it not been for actual deflation in the imported commodities sector. It fell 0.3% on a month-on-month basis and slowed to an annual 10.1% rate of increase compared to March's 12.3%.

Trust Bank economist Nic Barnardt said the high monthly increase in locally produced commodities was merely ahiccup and the overall trend was still downward.

He said the increase was probably technical after March's minimal increase and

said the consumer inflation rate would not suffer, predicting it would reach 14% by mid-year, 13% by year-end and 12% by mid-1991.

Nedbank's Edward Osborn agreed the import decrease was hopeful. However, he said the sharp local increase was "not pleasing" after the long string of marginal increases and said it

was an indication that inflation would remain at a fairly strong rate.

Economix chief economist Azar Jamme said the overall trend was still downward but admitted it was a significant rise in the local sector.

He said deflation in imported commodities was most likely due to the rand's relative strength against the yen and pound.
Benefits to be reaped in changing Bank's policy

ANDREW GILL

MODIFYING the Reserve Bank's current forward exchange arrangements would reap benefits in the form of more effective control over domestic money supply, the Bank of Lisbon said in its latest Economic Focus.

Other benefits would be more realistic exchange and interest rates, which, it added, could become exceedingly volatile if the Reserve Bank did not disengage from the forward cover market.

Real domestic interest rates were not unduly high by the standards of major industrial countries, and keeping them at suitably high rates would lead to the reduction of forward cover losses.

It said the "other assets" item on the Reserve Bank's balance sheet, which stood at R17.5bn in October 1998, mainly reflected losses incurred from forward exchange operations, which had increased from 21% of total assets in 1981 to 69% in October.

This was a major reason for the increase in the money supply last year, which in turn boosted the inflation rate and further depreciated the rand.

A "pernicious spiral of forward cover losses and currency depreciation" could be set in motion unless the Bank drained liquidity from the banking system, the report said.

The Bank's withdrawal from the market would lead to higher interest rates and stricter monetary policy. A combination of these would lead to successful control of the money supply and an improved budgetary position for government, the report said.

The rationale behind the Bank's present policy of gradually withdrawing from the forward market was that an abrupt withdrawal would lead to a sharp fall in the rand's external value, complicating the lowering of the rate of inflation. However, losses incurred by the Bank under present arrangements had inflationary implications, "and this impetus to inflation would be removed if the bank withdrew from the forward market."
Retail Giants Will Lose Cash Cushion With VAT
Inflation continues its downward trend

ANDREW GILL

INFLATION, as measured by the annual rate of change in the consumer price index, dived below 14% for the first time since March 1989 to 13.9% in May, latest Central Statistical Service figures show.

The drop in the year-on-year rate, from 14.6% in April to 13.9% in May, has exceeded many economists' expectations and has been welcomed as "good news" for the SA economy.

The monthly increase in the index was a relatively high 1.1%, up from April's 1%, and Sanlam economist Pieter Calitz warned the drop in the annual rate could be statistical as last May's monthly increase was an exceptionally high 1.8%.

He said the drop was nevertheless surprising and should remain at about 13.9% for June. He predicted a possible year-end figure of below 13%, well below many recent predictions that put the rate at above 14% until at least next year.

He said it was a sign the economy was slowing considerably and that many sectors were now showing recessionary tendencies.

The economy was expected to cool further until a turning point in the business cycle sometime next year, he said, and we would just have to "bite the bullet" until then.

Calitz said he did not expect interest rates to drop until the last quarter of the year and that single digit inflation in the near future did not seem likely.

Nedbank economist Edward Osborn said the drop was significant but the continuing high rate of food and low-income group inflation were disturbing.

Low-income group inflation was 14.3%, down from last month, but 0.9 percentage points higher than the all-income group inflation rate.

The annual rate of increase in the food price index was 15.6%, well down on April's 16.8% but registering a 1.8% monthly increase in the index.

The transport sector made the largest contribution to the 1.1% monthly increase with its highly weighted index increasing by 1.6% on a monthly basis.
'Govt has goal to bring down inflation to 10%'

THE government would have succeeded in its goal if the inflation rate was brought under 10% by the end of next year, the Minister of Administration and Economic Co-ordination, Dr Win de Villiers, said yesterday.

He told a special session of the President's Council that this was his personal view, but that there was a very strong determination in the government to make the fight against inflation a success.

It was only through this that jobs could be created for South Africa's fast-growing population. Circumstances in South Africa were highly favourable for combating inflation. The roll-over debt had been dealt with, and there was lessened sanctions pressure.

Asked by Mr Peter Marais (LP) whether the fight against inflation might not lead to a higher unemployment rate, he said that if one did not break inflation, the country would not be in a position to compete in international markets.

Combating inflation by monetary measures would lead to unemployment.

"But this is a short-term effect. The longer-term stability that results will encourage employment."

He also said the government was updating its economic development programme "right now".

"It will take some time to make it available, but work is going on at high speed so we can start making it available for people to know where they are going. Dr De Villiers said — Sapa
Despite higher food prices...

CPI drops to 13.9%

By ARI JACOBSON

MONETARY policies adopted to stabilise the economy have started to register significant gains on the authority's prime target, inflation, as measured by the consumer price index (CPI).

Inflation figures for May slowed to a 13.8% year-on-year increase against April's annual rise of 14.6%.

Economists welcomed the success of the stringent measures "as an ongoing process of progress" against a backdrop of declining money supply growth in a shrinking economy and aligned with a stable exchange rate.

At this pace said Trust Bank economist Nick Barnadt, the inflation rate should drop below 13% by the year-end.

Southern Life's economist Mike Daly said the declining trend in inflationary growth was motivated by the fall in producer price index (PPI) increases — a leading indicator of the future CPI path.

"However, May is a low inflation month, with the small 1.1% month-on-month rise between April and May — maintained over the last five years."

Daly pointed out that the food component of the CPI had prevented a sharper decline in the growth of the consumer-related index.

"Another negative factor halting progress, in the fight against inflation, was the low gold price which would force the rand to devalue moderately over the next few weeks."

But a slight weakening in its value would be insufficient to impact on local prices, although halting an accelerating drop in the growth rate, he said.

Old Mutual's economist Ursula Martin said food inflation has rocketed from a 7.7% year-on-year increase in April to an annual rise of 15.6% in May this year.

But the underlying momentum in food price rises had slowed, pointing to the average 1% monthly gains over the last three months — well down on the 1.6% average in the previous quarter.

"If food had been excluded from this month's CPI, the index would have dropped to 13.4% — a clear indication of the rapidity with which inflation can come off with the slowdown in food price rises."

Nick Barnadt enhancing the optimism surrounding the latest CPI figures said a continued decline in the growth of this index would help interest rates off its peak before the year-end.
Inflation rate drops

THE consumer price index (CPI) — a yardstick of yearly price rises in a bundle of consumer goods — came down from a 14.6% annual increase in April to register a 6.1% rise for May.

The CPI had been held back from a larger percentage price decline in May by the food component which dragged the index to 15.9% — excluding food, May’s CPI rise would have been 12.4%.

Economists welcomed the tell-tale signs of successful government policies which had brought this about, forecasting an inflation rate, at this pace, of under 13% by year-end.

Govt’s goal on inflation — Page 5
Economy is cooling faster than foreseen

CAPE TOWN — Some sectors of the economy are experiencing full-scale recessionary conditions, says Johan Louw, chief economist of Sanlam.

According to the latest available information the economy is cooling considerably faster than was foreseen just a few months ago.

As far as South Africa is concerned, he expects total real domestic spending on goods and services to decrease between 2 percent and 3 percent this year.

"Although this points to a marked weakening in general economic activity, the downturn will not be as severe as in 1985, when real gross domestic expenditure fell by almost 5 percent."

He also believes that the foreign sector (exports less imports) will perform quite well that 1990 should still yield a small positive real economic growth rate of approximately 0.5 percent.

He adds: "We expect the downturn in the economy to continue until about the middle of 1991."

As regards inflation, Mr Louw envisages that the year-on-year increase in the total consumer price index will gradually tend lower.

Changes in food prices could have a seriously disruptive effect on the inflation rate — mainly owing to the weight of food in the consumer price index and the large dependence of food on favourable climatic conditions.

"In our opinion, the inflation rate, with the exclusion of food, therefore, gives a more accurate indication of the underlying inflationary pressure in the economy. This rate has already declined from more than 17 percent in the middle of 1989 to 13.9 percent at present."

Mr Louw believes the inflation rate has further downward potential.

South Africa’s inflation rate is still about two and a half times that of countries of the OECD. This, he says, naturally has an adverse effect on the external value of the rand.

"We expect the scenario will improve gradually as South Africa’s inflation rate tends downward in the next year or so and those of the OECD countries rise slightly as a result of capacity problems, tighter labour markets, etc. At this stage we doubt, however, whether the ratio will be much lower than 2.1 in the foreseeable future.

In view of the high priority that the government and the South African Reserve Bank place on the reduction of the inflation rate and the current weakening of the gold price, it is clear that interest rates will probably be kept high longer than necessary simply to bring about the desired cooling of the economy — Sapa.

fund dilemma

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refunds perhaps, that tracing the beneficiaries of a pension...
Start of a new era for the part bond industry in SA?

The new era of real interest rates under the governorship of Dr. Chris Stals could herald a boom-time for the participation mortgage industry in South Africa.

Real interest rates, coupled with an absolute security in a stable investment environment, would be attractive to most investors.

Like all other fixed-income investments, the returns on part bond investments during the last ten years have been negative for most of the time.

The tax regime followed during this time was also highly in favour of life insurance companies, with most investment products being offered by such companies receiving favourable tax treatment.

This has led to a huge misallocation of investable funds during the 80's. With banks, building societies and other traditional investment offices losing out heavily to the life insurance industry.

But all this is about to change if the Stals proceeds with his current policy of high and real interest rates. Although many homeowners and businesses are hurting from the tough stance, savers are seeing real returns on their investments for a change.

Most part bond companies are currently paying interest varying between 15 and 20 percent. This provides a return difference of at least 5 and 6 percent on the current inflation rate of under 14 percent.

With the exception of the first R2,000, investors are still liable for tax on the interest earned, which places them at a disadvantage against dividends on equity investments. But this might change as rumours in financial circles are accurate.

According to these rumours, Government is considering far-reaching proposals regarding tax on investment income. This includes an upper cap of 10 percent withholding tax on all investment income from traditional investments, like fixed deposits and part bonds, with the rest tax-free in the hands of the investor.

Security

This will even more level the playing field between the various types of investments and is bound to increase the attractiveness of part bond investments.

Given real interest rates, part bonds are attractive investments for certain types of investors, notably pensioners and retired people who need absolute security and a steady income stream from their investments.

Part bond investments, which are tied up for at least five years and offer a floor rate (currently around 13 percent) offer great security and ease of handling.

With the choice of interest being earned either monthly, quarterly or half-yearly, it makes for sound financial planning for investors.

Believe it or not, but despite the obvious advantages of equity investments over the last fifteen years, there are still many people who prefer stable investments with guaranteed returns.

Many people basik at the prospect of tying up their money for five years, the current minimum period allowed by law.

But, in some instances, tying up your money with a guaranteed rate of return (coupled with a floor rate) when interest rates are high could work in your favor.

Your should interest rates drop during this period.

Investors in participation mortgage bonds are currently earning a real rate of interest on their investments which is comparable with the inflation rate.

This compares with long periods when inflation was higher than interest earnings. The introduction of an upfront withholding tax on savings will further increase the real rate of return on fixed investments.

Sharp drop in the buying power of the rand

If ever you had doubts about following an active investment programme to protect yourself against inflation, look at what the domestic purchasing power of the rand is today, compared with only two years ago.

Do you still remember what happened in 1979? The American dollar was the moon over more, petrol was R6 a litre and a medium-sized motor car cost about R3,000.

But, due to South Africa's high level of inflation since then, the rand's purchasing power has dropped from 105c in 1979 to a paltry 3c at the end of last year and is set to drop even further to 1c at the end of this year.

This 91 percent drop means that someone earning R420 a month in 1970 should now be earning at least R4,660 a month just to be "treading the water." In a survey of the rand's purchasing power, the Bureau for Economic Research at Stellenbosch found that in 1976, when a rand was still considered a rand but back before 1959, the researcher estimates that the rand's value dropped back from R8.50 to R1 in 1978.

As we all know, pensioners and people living off fixed-income have been hardest hit. An investment of R1,000 in 1970 would today be worth only R100 on the assumption that the interest was not reinvested. However, this excludes the effects of the diabetic taxation, depletion of the rand's purchasing power even further.

Despite a welcome drop in the inflation rate to its current levels, now under 14 percent, South Africa's inflation rate is still three times that of most major countries.

Not only will this serve to undermine the purchasing power of the rand even further, but if it is bound to lead to further downward pressure on the foreign exchange value of the rand which, in itself, is considered highly inflationary.

With inflation reaching towards the twenties again, South Africans will be hard-pressed to find investment avenues that outpace inflation.

While part bonds, like all other fixed-interest type investments, have not been able to provide investors with real rates of returns after tax and inflation, this is changing.

The monetary authorities have long been worried about the erosion in the purchasing power of the rand. In this survey, the Government is seriously considering a once-off repayment of tax, reported to be between 10 and 12 percent, on all bank, building society and other fixed investments, excluding part bonds.

The after-tax effect of such a move on overall returns will be startling, especially for investors paying a marginal rate of 44 percent on investments.
Pension funds make more provision for inflation

By Sven Linsche
Graver provision is being made by pension funds for inflation-related increases in payments.

This is one of the key findings of Sanlam's biennial survey of South Africa's pension funds, which also reflects a marked change in average retirement age.

The survey, released today, covers more than 250 funds in all major industry sectors. Since it was first run in 1981, Sanlam's senior general manager Walter Scheffler says increases received by pensioners have not kept pace with inflation.

However, the difference between the inflation rate and average pension increases has declined.

In 1985, with inflation running at 3.5 percent, pensioners received only 3.3 percent higher pension payments. In 1988, the respective figures were 12.5 percent and 10.4 percent (see graph).

Mr Scheffler says this is partially due to the decline in inflation but that it also reflects a general improvement in pension benefits.

Average provision

"Some 59 percent of the participants in the survey indicated that their funds provide for increases of three-quarters of the rise in the inflation rate.

The average provision was equal to 70 percent of the increases in the year-on-year inflation rate," Mr Scheffler says.

Sanlam's senior GM, group benefits Chris Benzenberg, says there has also been a noticeable trend to equalise the retirement ages of men and women.

"For example, in 1985 about 77 percent of the funds had a retirement age of 65 for males, while only 40 percent of the funds had this retirement age for females.

"By 1988, 46 percent had brought the retirement age from women in line with that for men.

"This has resulted in the average retirement age for females increasing from 61 in 1981 to 63 last year. By contrast the average age for males has decreased marginally from 64.5 in 1985, and 64.2 in 1987 to 64.1 in 1988," Mr Benzenberg says.

The increased participation of women in the workforce, the increasing recognition of women as self-sufficient individuals, their increased contributions to the family income and removal of some discriminatory work practices have resulted in this trend," he says.

According to Mr Scheffler, though, the most significant trend evidenced in the survey has been the interest addition to contributions payable on withdrawal from the fund.

"Almost 50 percent of the funds now provide compound interest payments of six percent or more, compared with only three percent in 1985 and 28 percent in 1987.

"Some funds add a percentage for each year of service at withdrawal," Mr Scheffler says.

Withdrawal benefits of provident funds and the interest payment are also markedly higher that the average benefit provided on withdrawal by pension funds.

The most popular averaging period on which pension fund payments are calculated remains the last three working years.

But, according to the survey, there is a significant trend towards shortening this period, with the averaging period reducing from 2.9 years in 1985 to 2.4 years in 1989.

Other important findings of the survey include:

- Surviving member pensions are becoming more popular
- Most funds now provide a two percent or better scale of benefits on retirement
- Most funds are now providing disability income benefits based on a percentage of salary, rather than past or potential service.
LOWER inflation and high interest rates could lend some support to the rand exchange rate, but the gold price and strength of the US dollar would remain crucial in determining the value of the rand, Senbank's latest currency review said.

The gold price was unlikely to strengthen in the short term, but "no dramatic weakening in the value of the rand is expected", it said.

"Notwithstanding clear signs of a sharp drop in economic growth and inflation, interest rates will remain high as a result of the low gold price and a relatively high level of imports."

The dollar, however, was likely to remain under pressure in the short term as American economic figures indicated slower economic growth and reduced inflation which removed upward pressure on interest rates, it added.

Continued firmness of the British pound would result from high interest rates, normalisation of the political situation and rumours that Britain would soon join the EMS, it added.

The Deutschmark (DM) was likely to maintain its recent strong performance, the review said. However, it cautioned that uncertainties surrounding a united Germany could still cause large fluctuations in the value of the DM in the short term.

Favourable Japanese economic factors continued to support the yen, the review said. "Either a softening in US interest rates or a possible increase in Japanese interest rates could contribute to a further firming in the value of the yen in the longer term," it added.
Inflation beats pension increases, says Sanlam

CAPE TOWN — Sanlam’s biennial survey of pension fund benefits shows that while benefits have improved over the past decade, annual increases received by pensioners have lagged behind inflation.

The survey also indicates that the benefits and interest payments provided by provident funds — which participated in the survey for the first time this year — were markedly higher than the average benefits provided by pension funds.

Parity

After analysing data provided by 95 funds of a targeted 765, it shows that over the past five years, annual increases in pensions moved closer to the rate of inflation. During the two-year survey period, the average annual increase amounted to 70% of the consumer price index, while 39% of funds provided for 75% or more of CPI.

But the trend towards parity with inflation had more to do with the decline in the rate of inflation than the growth of the annual increases.

The survey shows that while 81% of pension funds provided retirement benefits as a percentage of salaries paid in the final year of employment, provident funds were based largely on a defined contribution structure.

Salaries paid to employees during the last three years of employment remained the most popular basis for calculating their retirement pensions. But the number of funds which reduced this to the final year of service, doubled during the survey period. The average period was reduced from 2.9 years in 1985 to 2.4 years in 1990.

The survey also showed that most pension funds now provided a 2% or greater scale of benefits on retirement.

One of the most significant trends to emerge during the survey period was the addition of interest to contributions payable on withdrawal from a fund. The percentage of pension funds which provided compound interest of 6% or more increased from 3% to 49% between 1985 and 1990. There was also evidence that the percentage of interest increased. Most provident funds, on the other hand, provided interest of 12% and more.

Another significant trend was the shift in the basis for the provision of disability benefits from past or potential service to members’ salaries.

Popularity

According to the survey results, 92% of the participating funds provided retirement benefits based on a fixed formula. Most of the funds were administered in-house with 59% relying only on the investment services of life assurance offices.

The survey also showed an increasing trend towards parity between the benefits received by men and women and indicated increased popularity of spouses’ pensions.
The Ups and Downs of Business

Economists use all kinds of fancy words to explain what is going on in the economy.

One phrase that often crops up is the business cycle. Although the business cycle can be complicated in practice, the principle is simple. All economies experience a cycle which consists of an upswing phase and a downswing phase.

Why is there this cycle? The reason is that each upswing creates in itself a situation that leads to the next downswing, and vice versa.

During the upswing, business activity picks up, new jobs are created, people buy more goods, new factories are built, new shops open up.

In an upswing, confidence in the economy improves and both individuals and companies are more willing to borrow money from the banks.

Also, the increase in economic activity creates rising demand for goods from overseas.

Once the economy is really humming, certain shortages develop. Banks are forced to increase interest rates as the demand for bank loans rise and money becomes tight.

The exchange rate of the rand (against the dollar or other currencies) begins to weaken because imports have to pay in foreign currency.

Inflation

So far, I have not mentioned one critical factor that we all experience daily: inflation. When the economy swings up, inflationary pressures increase.

At first, people have more money so they are not too concerned about rising prices. But, as prices rise faster and faster, people are discouraged from buying. So, once again, the upswing sows the seed for the next downswing.

As the economy cools again, prices rise more slowly and inflation comes down.

Right now, the South African economy is in a downswing. It started slowly last year and is getting worse. It is only likely to hit bottom during the second half of next year. In the meantime, things are going to get tougher.

The business cycle in SA is affected a lot by movements in the gold price. It is unfortunate that the price of one single commodity can have such an important influence on us.

In the years ahead it will be very important to reduce our reliance on gold and produce a much wider range of goods.